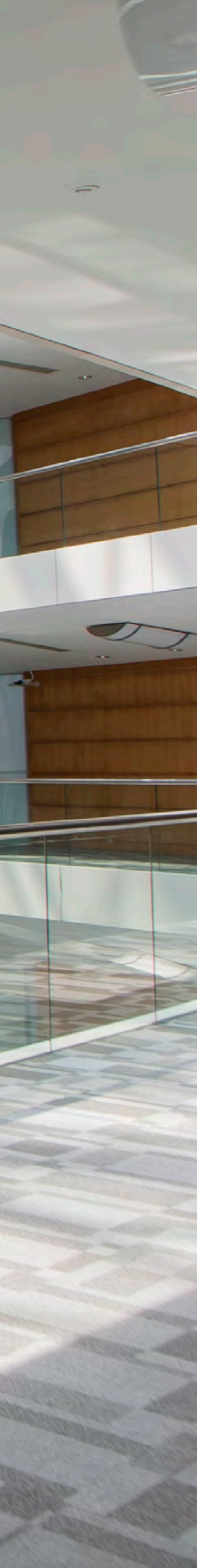

PART 04

ENABLING IMMEDIATE OPPORTUNITIES AND FACILITATING RECOVERY

PART 04 ENABLING IMMEDIATE OPPORTUNITIES AND FACILITATING RECOVERY

INTRODUCTION

The capital market continued to play an important role in supporting the Malaysian economy amid a challenging and turbulent environment. The SC had focused its efforts on enabling immediate opportunities and facilitating recovery across the spectrum of issuers, investors, intermediaries and companies by enhancing accessibility to the capital market both in terms of financing as well as investments.

Measures undertaken include enabling wider adoption of digital technology, facilitating new opportunities to spur continued growth and vibrancy of the capital market, accelerating the development of an ecosystem that promotes sustainable and responsible investments (SRI) as well as building capabilities and opportunities within the capital market.

BROADENING ACCESS TO THE CAPITAL MARKET VIA TECHNOLOGY

The year 2020 brought significant acceleration to digital adoption in the capital market, particularly towards ECF and P2P financing, DIMs and DAX as investors, issuers and intermediaries adapted to the new normal. At the onset of the implementation of the MCO, the SC took immediate action to manage the impact of the MCO on fundraising activities by micro, small and medium enterprises (MSMEs) on the ECF and P2P financing markets. Appropriate steps were taken to mitigate the lower demand from investors due to uncertainties seen in the alternative market, especially on the ECF and P2P financing platforms.

Sustaining MSME Fundraising via ECF and P2P Financing Markets

When the ECF market was introduced in 2015, a fundraising limit of RM3 million per campaign and a RM5 million lifetime limit for each issuer were put in place to protect investors from excessive exposure.

However, as the ECF market continues to mature, as evidenced by the steady increase in the size of fundraising rounds and growing interest from issuers, further liberalisation measures were introduced. This involved raising the single lifetime fundraising limit from RM5 million to RM10 million per issuer and widening the scope of eligible ECF issuers to companies with up to RM10 million in paid-up capital from the initial RM5 million in paid-up capital.

SUSTAINING MSME FUNDRAISING VIA ECF AND P2P FINANCING MARKETS

2020

1,403 issuers have raised funding on ECF and P2P financing platforms amounting to **RM631.04 million** (2019: RM441.56 million)

60% of ECF issuers and **36% of P2P financing issuers** are technology-focused

57% of ECF issuers fundraised for business expansion and **97% of P2P financing issuers** fundraised for working capital

While there was an initial reduction in retail investors' participation in the first quarter of 2020, retail investors have since returned to the market with the easing of lockdowns in April – May 2020. More encouragingly, there was an increase in the participation from angel and sophisticated investors during the year.

ECF and **P2P financing markets** had initially experienced a decline in fundraising activities during the MCO, in line with a slowdown in economic activities. As businesses resumed operations, both markets have subsequently recovered, with ECF platforms experiencing steady growth. As for P2P financing platforms, due to their proactive restructuring and rescheduling (R&R) strategies, they have helped issuers remain afloat during this challenging period and limited any significant increase in defaults.

To enhance the value proposition of ECF and P2P financing markets for investors, the SC introduced a framework for secondary markets to facilitate a more structured and orderly exit mechanism for investors. This enabled early investors to exit from deals, which they had earlier invested in and also provided an opportunity for new investors to invest in deals that they might have missed earlier.

Facilitating Alternative Fundraising Through Issuance of Digital Tokens

Recognising the need for fundraising for early-stage entrepreneurs with innovative business proposals through the digital token offering in Malaysia, the SC introduced the *Guidelines on Digital Assets* on 15 January 2020. The digital token offering is a form of alternative fundraising where an issuer offers digital tokens using blockchain technology to raise funds for their business projects. Based on responses received through the SC's public consultation, there was overwhelming support from the industry with regards to the SC's proposal to leverage the expertise of a platform operator to review applications for the issuance of digital tokens for fundraising. This is also known as the initial exchange offering (IEO).

Under this framework, all offerings of digital tokens in Malaysia are to be carried out only through an IEO platform operator registered with the SC. IEO platform operators will be required to assess and conduct the necessary due diligence on an issuer, review the issuer's proposal and the disclosures in the whitepaper, and assess the issuer's ability to comply with the requirements of the *Guidelines on Digital Assets*, the *Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries* and the *Guidelines on Implementation of Targeted Financial Sanctions Relating to Proliferation Financing for Capital Market Intermediaries.*

Enhancing Access to Investments via Innovative Digital Solutions

The varying degrees of movement restrictions in 2020 had accelerated digital adoption among consumers and businesses. The introduction of the regulatory framework for e-Services Platforms within the *Guidelines on Recognised Markets* permit platforms such as e-payment platforms, e-commerce platforms and e-wallets to partner with CMSL holders to distribute capital market products, thus providing additional investment channels for investors. Partner CMSL holders can now tap the captive customer base of these digital platforms and provide a more seamless and convenient investment experience. Investments made via e-Services Platforms are executed on a pass-through basis to the partner CMSL holder. This allows both the platform and the CMSL holder to build and maintain relationships with investors while ensuring that the investors' monies and assets are properly safeguarded.

In 2020, the SC had also approved three additional DIM companies. The services offered by the new DIM companies provide more value-added options for investors such as spare change investing and differentiated investment strategies. By end December 2020, DIM have acquired 199,224 clients and RM466.20 million in total AUM [end 2019: 23,803 clients; RM74.7 million total AUM].

Shariah Advisory Council of the SC Resolution on Digital Currencies and Digital Tokens

Recognising the importance of digitisation in the capital market and its increasing adoption by market participants, the Shariah Advisory Council (SAC) of the SC had resolved in July 2020 that it is permissible to invest and trade in digital currencies and digital tokens (Digital Assets) on registered DAX that fulfil the requirements as specified in the SAC resolution. Under the resolution, the SAC had resolved that Digital Assets are recognised as asset (*mal*) from a Shariah perspective.

The scope of the SAC resolution on digital currencies provides the following aspects:

- Digital currencies that are based on technology without any underlying where such kind of digital currencies are not considered as currency and are not categorised as usurious (*ribawi*) items from a Shariah perspective. Therefore, the trading of such digital currencies is not subject to the principle of currency exchange (*bai` al-sarf*).

- Digital currencies that are backed by usurious items (i.e. gold, silver, currency and other usurious items) where such kind of digital currencies are categorised as usurious items (*amwal ribawiyyah*). Therefore, trading of such digital currencies is subject to the principle of currency exchange or other Shariah requirements of usurious items.

Meanwhile the scope of the SAC resolution on digital tokens provides that the following requirements must be fulfilled to determine the Shariah status of digital tokens:

- The utilisation of proceeds raised from the issuance of digital tokens must be for Shariah-compliant purposes, and the rights and benefits attached to digital tokens must be Shariah-compliant; and

- The existing SAC resolution on the utilisation of sukuk proceeds and the business activities benchmark under the Shariah screening methodology for listed companies are applicable in the event that the utilisation of proceeds and the entitlement of rights and benefits of digital tokens are for Shariah-compliant and Shariah non-compliant purposes.

If a digital token is backed by usurious items, the trading of such digital token is subject to the Shariah requirements for trading of usurious items.

This SAC resolution marked a significant milestone for the ICM community to facilitate greater product innovation and development in digital assets, and in turn, attract broader participation and provide alternative channels for Shariah-compliant fundraising.

Promoting Fintech Developments and Innovations

The SC continued to enhance awareness of new fintech developments and innovations by holding its seventh SCxSC Annual Fintech Conference (SCxSC) from 5 to 7 October 2020. Held virtually for the first time, SCxSC expanded its reach to a wider audience, attracting more than 7,000 registered participants from diverse backgrounds and locations. Through the digital platform, participants could engage in panel discussions and interact with exhibitors and other participants. Moving forward, the SC will continue to explore other innovative channels to help broaden its engagement and educational efforts across the investor and issuer community.

Collaborating with Regional Regulators on Fintech Initiatives

As part of the SC's ongoing efforts to collaborate with other regional and global peer regulators through Fintech Co-operation Agreements, the SC entered into a new Fintech Bridge agreement with the Indonesian financial regulator, Otoritas Jasa Keuangan (OJK) on 24 August 2020. The agreement sets out a mechanism between both regulators to refer innovative businesses that wish to operate in the other's jurisdiction. It also covers any future joint-innovation projects and regular information sharing between both regulators on any emerging developments or regulatory issues in the fintech space.

DIGITISING THE CAPITAL MARKET AS AN ENGINE FOR GROWTH

The adoption of digitisation has emerged as one of the main themes for the capital market in 2020. This was evident during the SC's engagements with the capital market industry, specifically the Brokerage Industry Digitisation Group (BRIDGe) and the Fund Management Industry Digitisation Group (FMDG).

Accelerating Digitisation in the Broking Industry

In 2020, BRIDGe, the multi-stakeholder working group chaired by the SC to accelerate digitisation in the broking industry, completed most of the initiatives to facilitate the recommendations outlined by the working group in 2019. Table 1 summarises the implementation efforts since its inception in August 2018.

TABLE 1

BRIDGe implementation efforts since its inception in August 2018

Focus areas	2019	2020
BRIDGe recommendations	• Finalised working group recommendations • Engaged brokerage industry associations and leaders	• BRIDGe website went live, outlining recommendations and implementation progress updates
Digitising onboarding	• Enabled Participating Organisations (POs) to offer non-face-to-face verification for online trading and CDS account opening	• Enabled Bursa to remove wet signature for CDS account opening • Bursa Malaysia implemented CDS account opening feature
Digitising post-trade and settlement	• Mandated email addresses for new and online investors • Issued a consultation paper on the proposed way forward to enable higher online settlement limits	• PayNet completed enhancements to enable higher settlement limit
Digitising corporate actions	• Mandated issuers to provide shareholders with electronic options to convert shares, subscribe to rights and dividend reinvestment plans (DRP)	• Enhanced collection of email addresses for investors and shareholders • Facilitated virtual and hybrid general meetings and digitised general offers • Enabled share registrars to offer e-dividend reinvestment plan (e-DRP) • Enabled online investors to continue trading shares undergoing share consolidation exercises

Digitising client onboarding

To provide investors with a fully digital onboarding experience, BRIDGe recommended for the industry to enable non-face-to-face verification mechanisms and the ability to facilitate the online opening of CDS accounts.

Following from the 2019 rule amendments in relation to non-face-to-face client verification mechanism, the SC has approved further amendments to the *Rules of Bursa Depositories Sdn Bhd*. The new amendments provided an alternative to wet signatures for CDS account opening by enabling application submissions through CDS e-Services. Additionally, in June 2020, Bursa Malaysia offered investors the avenue to open CDS accounts online through the Bursa Anywhere application.

Digitising post-trade and settlement

To reduce the use of cheques and further encourage cashless transactions by investors when settling trades, BRIDGe recommended for the industry to be enabled with higher online settlement limits.

Subsequent to the SC's consultation with the industry in 2019, which identified the need to increase the daily online settlement limit, Paynet enhanced its FPX Merchant Specific Higher Transaction Limit payment solution to facilitate the necessary controls required for stockbrokers to offer higher settlement limit up to RM100,000. To mitigate potential fraud risks, necessary regulatory guidelines and operating procedures will be amended in 2021, in close consultation with relevant industry associations.

The revision would include additional control requirements for both the banking and capital market participants.

Digitising corporate actions

BRIDGe also recognised the need for advancements in electronic processes surrounding corporate actions to encourage more investor participation. This entails efforts to strengthen e-notification, e-subscription and e-payment capabilities. It also enables online investors to continue trading shares undergoing share consolidation exercise through the cessation of online trading blocks by stockbrokers. The need for e-corporate actions became more apparent at the height of the movement control restrictions, which impeded share registrars' ability to effectively carry out the requisite processes through conventional means such as notifying investors of corporate actions, printing and delivering physical forms to investors, as well as holding physical AGMs.

The BRIDGe membership expanded in 2020 to include a broader pool of share registrars and the investment banking community following the MCO. The working group convened regularly to deliberate potential areas of corporate actions for digitisation and formulate measures including the regulatory guidance to ensure continuity of corporate actions during the operational disruptions and technological advancements in conventional processes moving forward.

Other initiatives and outcomes from efforts to digitise corporate actions include the following:

- Collective effort to update and register shareholders' email addresses. Bursa, stockbrokers and share registrars collectively stepped up campaigns to encourage shareholders to register their email addresses with Bursa Malaysia. As of end December 2020, a total of 1,117,105 CDS accounts have registered their email addresses with Bursa Malaysia, 53% of total CDS accounts to date. This is an increase from 45.3% as at end April 2020.

- Enabling share registrars and Bursa Malaysia to offer e-DRP. With the support of the Inland Revenue Board of Malaysia, the SC facilitated eight share registrars and authorised Bursa Malaysia to collect stamp duty as part of DRP offerings. Moving forward, investors can subscribe to e-DRP offerings and make online payments for stamp duty without the need to physically purchase revenue stamps at the post office. This is expected to improve the subscription rate of DRP exercises.

Accelerating Digitisation in the Fund Management Industry

The SC launched the Fund Management Industry Digitisation Group (FMDG) in November 2019 to accelerate the digitisation of the fund management industry to help enhance investors' digital experience and improve the overall operational efficiency of the industry. The FMDG working group comprises members from the SC, BNM and industry members representing fund distributors, fund managers and trustees. FMDG is made up of the digital onboarding workgroup and the fund management services workgroup.

Recommendations identified and implemented in 2020 included:

- Enabling higher online settlement limit for the fund management industry, in tandem with the brokerage industry.
- Increasing the use of electronic transfer for income distribution. Most firms in the fund management industry have reduced the use of cheques but a few have retained it. In this regard, the SC has engaged several fund management companies[1] (FMCs) with high usage of cheques, and have gathered their commitments to move towards e-distribution or auto-reinvestment from 2021 onwards.
- Enhancing information sharing for improved decision-making. FMDG has facilitated the publishing of NAV prices online via FIMM's amendments to its Investment Management Standard. This enabled current and relevant information to be hosted and updated on its website for access by relevant stakeholders.

FACILITATING GROWTH OPPORTUNITIES FOR MARKET INTERMEDIARIES

To strengthen the competitiveness of capital market intermediaries, the SC continues to develop regulatory frameworks that are facilitative and responsive to enable the intermediaries to grow beyond traditional product offerings and business models.

FUND MANAGEMENT INDUSTRY DIGITISATION GROUP

…aims to facilitate collaboration between regulators, industry associations, asset management companies, banks and other stakeholders to accelerate the digitisation of the fund management industry

Two working groups were created to achieve this objective

Digital Onboarding

- To improve retail investors' experience when investing in domestic collective investment schemes

Fund Management Services

- To increase convenience and ease of access for retail investors
- To digitise and streamline post-trade and settlement processes

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[1] The fund management companies engaged are Affin Hwang Asset Management, Eastspring Investments, Principal Asset Management and Saham Sabah.

MEMBERS OF FMDG

Regulators

Suruhanjaya Sekuriti Securities Commission Malaysia

BANK NEGARA MALAYSIA CENTRAL BANK OF MALAYSIA

Asset Management Companies & Distributors

iFAST

AFFIN HWANG CAPITAL Asset Management

ARECA CAPITAL INTERNATIONAL LIMITED

PNB Permodalan Nasional Berhad

Principal

StashAway

eastspring investments

Manulife

PUBLIC MUTUAL

Custodian Banks & Trustees

Maybank

CIMB BANK

Deutsche Bank

Industry Associations

FIMM Federation of Investment Managers Malaysia

PERSATUAN BANK BANK DALAM MALAYSIA THE ASSOCIATION OF BANKS IN MALAYSIA

Creating Opportunities Beyond Traditional Segments

In August 2020, the SC approved the expansion of fee models by securities and derivatives brokers by allowing licensed brokers to provide discretionary trading services to clients without solely relying on commission payments.

A discretionary trading account where remuneration is not dependent on the commission would allow for a more client-centric approach to securities and derivatives trading. Based on specific pre-agreed parameters, a dealer representative will be able to play a more active role in managing the clients' trading activities based on prior agreed mandate.

The ability to structure their fees based on the types of services offered would encourage dealer representatives to upskill themselves, enhance their competitiveness and optimise their core business. As 'specialists' in the securities and derivatives market, brokers could leverage their strengths in this particular segment *vis-a-vis* other intermediaries.

Discretionary trading services by dealer representatives addresses the needs of mass affluent investors who are looking for better personalised investment opportunities. In enabling dedicated products and services, the initiative would facilitate efforts by dealer representatives to maintain one-to-one relationships, which is key to retain existing clients and attract new ones.

The discretionary trading framework is currently being operationalised by Bursa Malaysia and is expected to come into effect in 2021.

Facilitating Diversity in Intermediary Models

The stockbroking segment is currently served by 31 stockbroking companies that undertake trading and clearing functions on Bursa Malaysia. In tandem with changing investor demands and technological innovation, the current market structure will need to evolve and provide opportunities beyond core intermediation areas.

Consequently, the SC is revising the stockbroking framework to allow for more flexible business models through the separation of trading and clearing memberships on the exchange. The new framework will not only provide opportunities for a more efficient capital structure but also for intermediaries to venture into specialised intermediation models and leverage their strengths in managing operational costs. It will also facilitate new entrants with differentiated value propositions such as digital-only brokers, execution-only brokers, multi-asset brokers and clearing-only brokers.

Enhancing Regulatory Requirements on the Issuance of Corporate Bonds and Sukuk

The SC had undertaken a review of the *Guidelines on Trust Deeds*, in line with recent market developments. As part of the review, various focus group sessions were conducted with key stakeholders such as investors, trustees, principal advisers and lawyers to gather detailed feedback on the proposed changes and enhancements.

As a result, the revised *Guidelines on Trust Deeds* were released on 23 July 2020. There were several enhancements aimed to facilitate operational efficiency and improve time-to-market for the industry, strengthen investor protection and increase trustees' ability to carry out their duties efficiently and effectively.

REVISED GUIDELINES ON TRUST DEEDS

Objectives

- Facilitate operational efficiency and improve time-to-market for industry
- Enhance investor protection
- Improve trustees' ability to carry out their duties more efficiently and effectively

Key updates

- To provide an exemption to perpetual corporate bonds or sukuk for certain events that constitute an event of default.
- To extend exemptions for events of default and covenants to licensed insurers, licensed takaful operators, holding companies of licensed banking institutions and any other institutions for issuances of corporate bonds or sukuk to meet BNM requirements for regulatory capital.
- To require issuers to seek the consent of bondholders or sukuk holders for any additions, variations, extensions or modifications to conditions subsequent.
- To increase the amount to be deposited in the Trustees' Reimbursement Account (TRA) and to vary the source of funds for the TRA.

Enhancing the Role of Capital Market Intermediaries

ENHANCE THE IPO/RTO FRAMEWORK TO ADDRESS CHALLENGES FACED

- To address material issues upfront to facilitate proper preparation of submissions to the SC
- To reinforce accountability standards of all advisers in order to promote quality submissions
- To encourage market feedback through longer prospectus exposure
- To address industry concern on small pool of corporate finance professionals who are able to make submissions to the SC

UPFRONT ENGAGEMENT WITH VARIOUS KEY STAKEHOLDERS ON MATERIAL ISSUES TO BE ADDRESSED TO SMOOTHEN REVIEW PROCESS

ENHANCED IPO/RTO APPROVAL PROCESS
Provide a platform for material issues to be discussed by applicant, principal advisers, lawyers, reporting accountants and other advisers, directly with the SC prior to submission

+

SC
sets out principle-based rules and regulations

+

PRINCIPAL ADVISERS
Granted flexibility with corresponding accountability reinforced

+

Industry-driven *Due Diligence Guide*

BUILD ACCESSIBLE AND AGILE CAPITAL MARKET FOR FUNDRAISING AND INVESTMENT

APPLICANT/ISSUER
Promote a more effective approval process for prospective issuers going to the public market

INVESTORS
Enable adequate, accurate and timely disclosures for public to make informed investment decisions

The SC issued the *Guidelines on Submission of Corporate and Capital Market Product Proposals* as well as revised the *Equity Guidelines* and *Prospectus Guidelines* in conjunction with the implementation of the new initial public offering (IPO) framework announced in July 2020. The new framework serves to promote shared responsibility among key stakeholders involved in the submission of an IPO for listing on the Main Market of Bursa Malaysia.

One of the key features of the new framework is the introduction of a mandatory pre-submission holistic consultation between the SC and key stakeholders including the applicant, principal advisers, lawyers, reporting accountants and valuers. This mandatory pre-submission session will facilitate discussions of any material issues and concerns prior to the submission of the IPO application.

The new framework also provides a longer exposure period of the draft prospectus until the date of registration of the prospectus, instead of the current 15-market-day exposure period. This will enable greater participation for the public to provide feedback on the draft prospectus.

In conjunction with the new IPO framework, the SC also announced the new Principal Adviser Framework, which encompasses a new Qualified Person (QP) regime and Senior Officer regime. Corporate finance advisers would no longer require the SC's approval to act as an Approved Principal Adviser to submit specific corporate proposals to the SC. Instead, qualified corporate finance advisers would only need the SC's recognition to act as Recognised Principal Advisers (RPA).

With the introduction of the new QP framework, which replaces the Qualified Senior Personnel (QSP), the RPA must have at least one QP working full time for each specific corporate proposal. Although the

SC's approval is not required for the appointment of a QP, the RPA must ensure that the QP fulfills the minimum criteria provided by the SC. In this respect, the SC has allowed all QSPs to be deemed qualified as QPs for the period up to 31 December 2021. This framework, which is also applicable for reverse take-over (RTO) submissions, will be effective from 1 January 2021.

To enhance the co-ordination and collaboration with the industry, the SC also engaged with capital market participants for them to develop a set of commonly accepted best practices for due diligence in the industry.

FACILITATING THE DEVELOPMENT OF THE UNIT TRUST FUND INDUSTRY

To facilitate the development of the unit trust fund industry, the SC embarked on a comprehensive review of the *Guidelines on Unit Trust Funds* at the end of 2019, which was followed by the issuance of a public consultation paper to seek feedback on proposals in November 2020. In tandem with its proportional and facilitative regulatory approach, the SC remains committed to foster innovation and competitiveness within a balanced and proactive oversight regime. The review takes into consideration the evolving needs of investors as well as the development and regulatory requirements in major fund jurisdictions.

Promoting a Faster Time to Market for Retail Feeder Funds

In 2020, the SC also enhanced the authorisation process for retail feeder funds. The improved process imposes responsibility on the management company to determine whether the target fund is suitable to be offered to the public via a feeder fund structure. In addition, it removes the need for a pre-submission consultation process, resulting in quicker time-to-market for management companies who have put in place robust processes to address investor needs and demands.

Expanding the Breadth and Range of Financial Advice

Given the critical role played by financial planners (FP) in the capital market, the SC has embarked on a 3-year joint action plan with the financial planning associations to align developmental efforts and areas for reform across the industry. It also aims to elevate the profile of the industry, attract new entrants and pave the way for the next generation of financial planners. The joint action plan identifies five strategic priorities and laid out 11 recommendations to grow and transform the financial planning industry into a holistic wealth advisory industry.

Recommendations under the Joint Action Plan (2020-2023) for financial planning industry

Increase competitiveness

1. Expansion of permitted FP services
2. Enhance product under advisory
3. Review regulatory streamlining
4. Enhancing regulatory efficiencies

Enhance talent pipeline

5. Enable mobility of financial professionals within a financial group to undertake FP services

Improve positioning

6. Strengthen enforcement effort over unlicensed persons
7. Develop programmes and initiatives to promote FP profession
8. Industry-wide technology digital committee

Strengthen professional standards

9. Elevate and harmonise industry best practices
10. Introduce baseline conduct requirements

Empower consumers

11. Enhance investor's access to financial planning

A key recommendation arising from the joint action plan was to enable financial planners to offer advice across a wider range of capital market products, including listed securities and unlisted debt securities. To that end, financial planners were required to meet enhanced competencies as well as conduct suitability asssessments in providing specific advice to clients.

The SC also allowed for collaboration between financial planners and other CMSL holders in executing the client's financial plan. This collaboration would allow for a more efficient and holistic execution of the financial plan as well as provide a greater value added service for investors. In the interest of investor protection, financial planners are required to be transparent on any fees charged and to secure clients' consent before entering into any arrangements.

ACMF PROFESSIONAL MOBILITY FRAMEWORK

The Professional Mobility Framework is an initiative under the ASEAN Capital Markets Forum (ACMF) to develop common standards for cross-border recognition of professionals and services, enabling the movements of professionals and services offered within participating ASEAN countries. The two measures covered under this framework are the ACMF Pass and the cross-border publication of research reports.

Under the ACMF Pass, qualified professionals adhering to a common standard are allowed to carry out investment advice activities in other ASEAN participating member countries. Complementing this, the cross-border publication of research reports issued by a licensed entity in a participating country can be made available in another ASEAN participating country through a hosting platform of a domestic-licensed entity.

A Memorandum of Understanding (MoU) to facilitate the implementation of this framework was signed by four participating countries i.e. Malaysia, the Philippines, Singapore and Thailand. As at December 2020, 14 investment advisers from participating countries were approved by the SC to carry out investment advice activity in Malaysia.

PROMOTING VIBRANCY IN THE CAPITAL MARKET

The SC has also introduced a number of initiatives to promote vibrancy within the capital market for both businesses and investors alike.

Providing Efficient Financing Solution for SMEs and MSMEs

The current economic situation has resulted in many small and medium enterprises (SMEs) facing difficulties in meeting their funding needs as well as in preparing for recovery beyond the pandemic-induced crisis. In this regard, convertible notes can serve as an alternative fundraising instrument, and are typically used by venture capital (VC) and private equity (PE) firms as a form of short-to medium-term bridge financing to investee companies.

Therefore, flexibilities were granted for businesses issuing convertible notes and Islamic convertible notes to VC and PE firms registered with the SC. Such flexibilities and improved efficiencies on the issuance of the convertible notes and Islamic convertible notes were provided through the *Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework (LOLA Guidelines)*, which was revised on 28 April 2020. The new provisions allow businesses to lodge the issuances directly with the SC without requiring the services of a principal adviser, which helped to reduce time-to-market. Lodgement fees were also waived, further lowering the fundraising cost and allowing the fundraising process to be more cost-effective.

New provisions in the LOLA Guidelines outline the criteria for eligible convertible notes, including requirements for these convertible notes to be issued to and transferable only between VC and PE firms registered with the SC. The lodgement process has also been simplified by enabling the electronic submission of the required information via email.

Liberalising Alternative Investments for Fund Management Industry

The SC introduced liberalisation measures for investment in foreign real estate for the wholesale fund segment to recognise the importance for fund managers to remain competitive and responsive to the growing investor demand for a wider range of investment products.

Specifically, permitted investments of wholesale funds via special purpose vehicle (SPV) structures were expanded to include investments in foreign real estate. The categories of foreign real estate investment and the valuation requirements are set out in the LOLA Guidelines. To ensure appropriate property management, the LOLA Guidelines specify that the underlying foreign real estate must be managed by a manager that is licensed, registered, approved or authorised to carry out the said activity by the relevant regulator in its home jurisdiction.

These measures will expand growth boundaries by tapping investment opportunities in foreign properties offered by portfolio managers that possess real estate expertise. The proposition of such funds will encourage product innovation and add more depth to the Malaysian capital market.

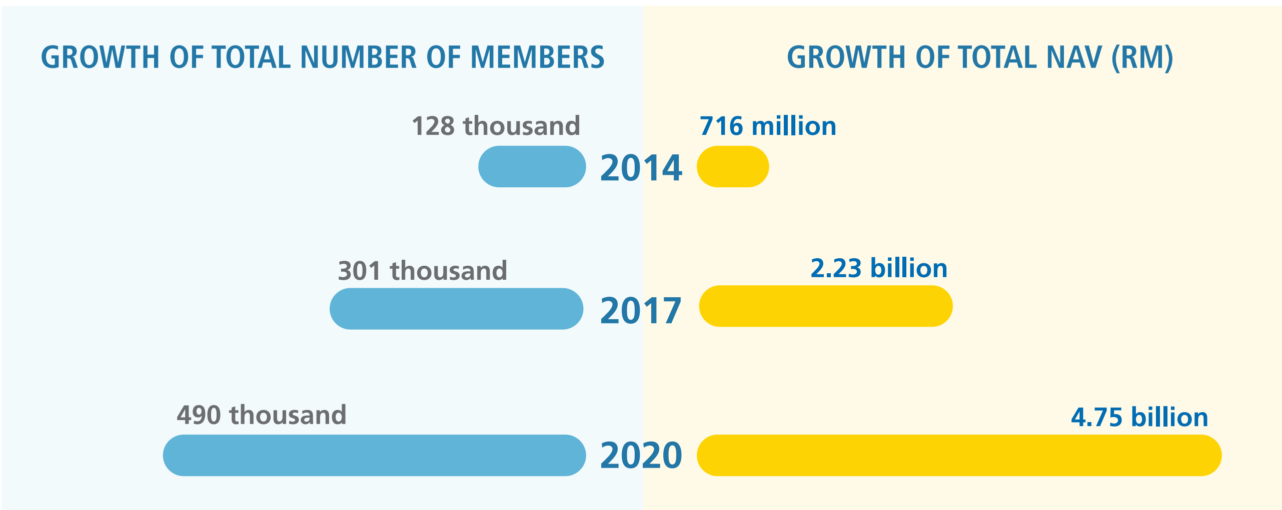
Strengthening Long-Term Growth for PRS Members

The SC recognises the instrumental role that PRS plays as an investment vehicle for retirement savings. It continuously undertakes initiatives to ensure that the PRS framework remains current and relevant. In the interest of long-term growth for PRS members and the competitiveness of the industry, the SC introduced liberalisation measures through the revised *Guidelines on Private Retirement Schemes* (Guidelines on PRS), which provides more flexibility in PRS fund structures and asset allocation for PRS funds. A key measure pursuant to this is the liberalisation of the default option in the core fund that enables the gradual transition of members to a less risky fund as they age.

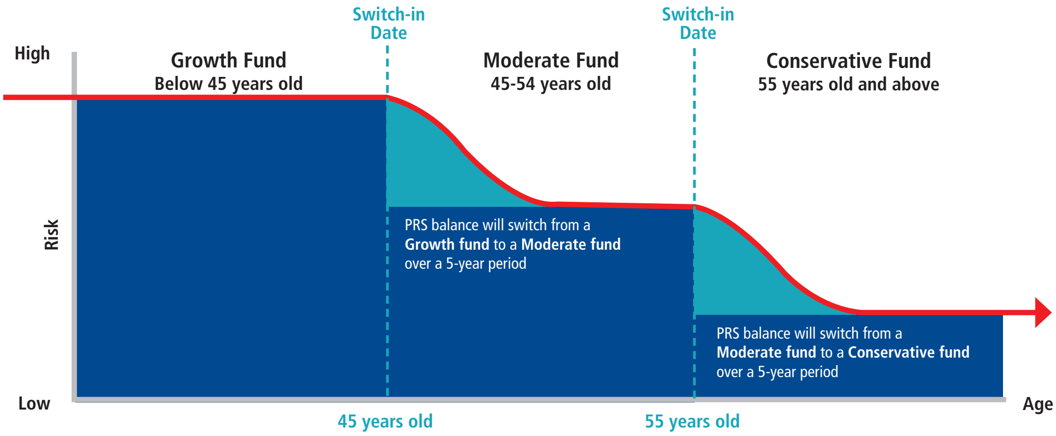
To further encourage retirement savings through PRS across different income levels, individual income tax relief of up to RM3,000 was extended for another four years under Budget 2021 from YA2022 to YA2025.

Despite the economic uncertainty, PRS continued to demonstrate positive growth in 2020 with total NAV reaching RM4.75 billion, which represents a growth of 35.7% compared to 2019. New members of PRS also increased by 7.6% from 2019.

Growth in PRS



New glide path design and age group for PRS members under default option



Source: Private Pension Administrator Malaysia

ALIGNING VALUES WITH SUSTAINABLE AND RESPONSIBLE INVESTMENTS

One of the key drivers propelling the interest and traction of SRI over the years is the growing demographics and introspection of socially responsible investors, focusing on climate change, green energy, health and safety of workforce. This became more apparent in 2020 following the impact of the health crisis. Given these trends, SRI continues to be one of the key priorities in the Malaysian capital market. In 2020, the SC embarked on several initiatives aimed at facilitating the advancement and development of the SRI ecosystem, including broadening the range of offerings for Shariah-compliant SRI products.

Enabling Greater Access to Capital for Companies with Green and Social Projects

In 2020, the SC had organised several technical workshops for bond market intermediaries to provide further clarity on regulatory requirements and technical aspects for the issuance of SRI sukuk as well as ASEAN green, social and sustainability bonds. These technical workshops were well-received by the intermediaries as they become more well-informed and are in a better position to advise their clients. In tandem with this, domestic credit rating agencies have offered climate and sustainability-related review services to boost confidence in such debt issuances, with one service provider obtaining international accreditation from a leading international climate bond certification body. As of December 2020, RM5.4 billion of SRI sukuk have been issued under the SRI Sukuk Framework since its introduction, out of which RM3.1 billion were dually recognised under the *ASEAN Green Bond Standards* and *ASEAN Sustainability Bond Standards.* In addition, a total of RM635 million ringgit-denominated bonds and a US$680 million foreign-currency denominated bond were issued under the *ASEAN Green Bond Standards* and *ASEAN Sustainability Bond Standards*, since the release of these standards.

To further accelerate the growth of SRI and promote more issuances of sukuk and bonds to finance the country's sustainable developmental needs, the Board of Trustees of the Capital Market Development Fund (CMDF) has approved on the expansion of the Green SRI Sukuk Grant Scheme to cover all sukuk issued under the SC's SRI Sukuk Framework as well as bonds issued under the ASEAN standards[2]. The grant provided by the CMDF is intended to incentivise issuers by offsetting up to 90% of external review costs incurred in the issuance process. Following the approval by the Board of Trustees of CMDF, the grant was subsequently rebranded as SRI Sukuk and Bond Grant Scheme. Accordingly, the tax exemption for the recipient of the grant has been extended for another five years from 2021 to 2025.

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[2] *ASEAN Green Bond Standards, ASEAN Social Bond Standards* and *ASEAN Sustainability Bond Standards.*

Enhancing the SRI Information Architecture for Greater Transparency and Accessibility

In designing a comprehensive information architecture within the capital market, particularly in promoting disclosure information on SRI sukuk and bond markets, the SC had collaborated with its affiliate, the Bond+Sukuk Information Exchange (BIX), to establish a dedicated SRI Centre.

The SRI Centre launched on 25 August 2020, provides enhanced transparency and access to information on ringgit-denominated SRI bond and sukuk issuances in the country. The one-stop hub was launched during the SRI Virtual Conference 2020 organised by the SIDC. Accessible via the BIX website, it provides comprehensive and up-to-date information from a single source to all market participants as well as the general public. The SRI Centre is part of the recommendation under the 5-year plan of the *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market* (SRI Roadmap).

Accelerating Climate Resilience Through the Financial Sector

The health crisis has highlighted the far-reaching impact of the pandemic on the global economy, with demand and supply shocks spreading across borders. This had raised a further sense of urgency to the work of the Joint Committee on Climate Change (JC3) in supporting efforts to build resilience against adverse climate and environmental-related events and secure an orderly transition to a more sustainable economy.

As Co-Chair of the JC3, the SC jointly hosted its third meeting on 14 September 2020. The meeting discussed the progress of initiatives under its four sub-committees as well as the focus of priorities for the next 12 months. This includes capacity building, creating awareness and developing measures to help bridge current gaps in climate and environment risk-related information needed to support risk management and solutions on products by financial service providers.

The SC also serves as the Chair of the Sub-Committee 3 on Product and Innovation. In 2020, this sub-committee completed a Gap Analysis and several recommendations were identified. This included accelerating the roll-out of existing financial and capital market products, and introducing new products to finance the transition to a sustainable economy.

Enhancing Social Finance and Impact Investing Through the Islamic Capital Market

Waqf-Featured Fund Framework

In November 2020, the SC released a *Waqf*-Featured Fund (WQ-FF) Framework to facilitate the offering of unit trusts and wholesale funds with *waqf* feature. The framework provides a platform for fund managers to launch products that integrate commercial with social objectives. Investors will also have the opportunity to invest and participate in products that could deliver sustainable benefits for society.

WAQF-FEATURED FUND FRAMEWORK

Contains new requirements for WQ-FF to facilitate the offering of Islamic unit trust funds and Islamic wholesale funds with *waqf* feature.

Only Islamic unit trust funds and Islamic wholesale funds that comply with the requirements under the new chapter of the *Guidelines on Unit Trust Funds* and LOLA Guidelines respectively, can consider themselves as a fund with *waqf* feature.

These requirements provide guidance and clarity in the areas of investment objective and distribution policy, eligible *waqf* recipients, disclosure documents, information memorandum and product highlights sheet (where applicable), and breakdown of total amount distributed in the fund report.

Growing and Strengthening the Impact Economy Ecosystem

Co-organised by the SC and the Oxford Centre for Islamic Studies (OCIS), the SC-OCIS Roundtable is a strategic platform for intellectual discourse among a diverse group of stakeholders to deliberate and bring about greater understanding on topical issues relating to Islamic finance globally.

The 11th SC-OCIS Roundtable was held virtually for the first time on 15 and 16 October 2020. The Roundtable, themed 'Repurposing Islamic Finance for Longer Term Opportunities' was graced by His Royal Highness Sultan Nazrin Muizzuddin Shah, Sultan of Perak and the Royal Patron for Malaysia's Islamic Finance Initiative, with a special keynote address.

Central to the discussions at the Roundtable was the role of ICM in leading the impact investing ecosystem, which would ultimately provide greater reach with sustainable impact towards beneficiaries. Close to 50 distinguished participants comprising local and international scholars, industry practitioners, regulators and intermediaries shared their perspectives and exchanged views on the subject matter.

The Impact Investment Roundtable 2020 was initiated following the proceedings of the 10th SC-OCIS Roundtable in 2019. The main objective was to gather subject matter experts to discuss the way forward and formulate requisite foundations to grow and strengthen the Impact Economy Ecosystem in Malaysia. There were three series segregating stakeholder groups based on corresponding themes:

- **Intermediaries** – 'Building an Impact Investment Ecosystem: The Role of Islamic Capital Market Intermediaries in Impact Capital Intermediation';
- **Demand** – 'Achieving Sustainability and Profitability: Businesses Driving the Demand for Impact Capital'; and
- **Supply** – 'What's Next for Sustainable and Responsible Investment: The Impact Imperative'.

Each session gathered approximately 40 local and international experts from various sectors including the government, regulators, corporate organisations, social enterprises, business incubators and accelerators, university-led entrepreneurship centres, intermediaries, capacity-building organisations and non-governmental organisations. The Roundtable discussions led to key findings and recommendations for strategic action plans for ICM moving forward.

Driving the Global Sustainable Finance Agenda

The emphasis on a resilient and inclusive economic recovery has provided the SC with the impetus to accelerate sustainable finance efforts internationally and regionally. The SC's efforts to lead and participate actively in the sustainable finance agenda has been through the IOSCO, ACMF, and ASEAN Working Committee on Capital Market Development (WC-CMD). The SC's participation in the work of sustainable finance raises Malaysia's position as a regional leader and further informs ongoing initiatives to promote SRI within the Malaysian capital market.

Regionally, the SC continues to drive the sustainable finance agenda through the ACMF, a high-level forum of ASEAN capital market regulators tasked with developing and implementing capital market integration and connectivity initiatives. The SC as the co-chair of the ACMF Sustainable Finance Working Group played a significant role in the issuances of the *ASEAN Green Bond Standards* (2017) as well as the *ASEAN Social Bond Standards* and *ASEAN Sustainability Bond Standards* (2018). Since then, labelled issuances under all three standards continued to gain traction, achieving US$8.35 billion as of 31 December 2020. Malaysian issuances accounted for 19% of this total.

In May 2020, the ACMF published the *Roadmap for ASEAN Sustainable Capital Markets* (ACMF Roadmap) whose development was facilitated by the SC. The ACMF Roadmap provides a broad strategic direction for sustainable finance in the region's capital markets.

The ACMF Roadmap charts the vision to develop an open ASEAN capital markets ecosystem that facilitates and mobilises private sector capital in the financing of sustainable projects. It also guides the development of relevant action plans and initiatives for the next five years.

On a parallel note, the WC-CMD comprising representatives of regional Ministries of Finance, Securities Regulators and Central Banks, published a *Report on Promoting Sustainable Finance in ASEAN* (WC-CMD Report) in October 2020. During its co-chairmanship of WC-CMD from July 2018 to June 2020, the SC with its co-chair (Ministry of Finance, Viet Nam) led the development of the WC-CMD Report, which identifies recommendations on areas for collaboration between regional policymakers to further the sustainable finance agenda in ASEAN. These recommendations focused on the role of government and quasi-government sectors.

Within IOSCO, the SC is a member of the Sustainable Finance Network (SFN) that comprises 42 global regulators from both developed and emerging markets. Following the publication of the *SFN Report on Sustainable Finance and the Role of Securities Regulators and IOSCO* (SFN Report) in April 2020, IOSCO established the Board-level Sustainable Finance Task Force (STF), of which the SC is also a member. The objectives of the STF include improving sustainability-related disclosures, addressing greenwashing and other investor protection concerns, collaborating with other international organisations and regulators to avoid duplicative efforts, and enhancing co-ordination of relevant regulatory and supervisory approaches.

The STF work stream that SC participates in identifies areas for improvement in sustainability-related disclosures. With regard to the effort among the global standard setters[3] and the International Financial Reporting Standards Foundation to formulate a unifying system for sustainability reporting, IOSCO plays an important role to ensure that public interest considerations are taken into account for the future system architecture.

The SC is also a member of the IOSCO Asia Pacific Regional Committee Working Group on Sustainable Finance, which seeks to facilitate information-sharing, capacity building and awareness on ESG and climate-related financial risks within the Asia Pacific region. The SC has been part of continual efforts to address these issues, including facilitating a more consistent approach to address ESG and/or climate-related risk disclosures in the region.

[3] *Global Reporting Initiative, Sustainability Accounting Standards Board, Task Force on Climate-Related Financial Disclosures, Climate Disclosure Standards Board and International Integrated Reporting Council*

BUILDING CAPABILITIES AND OPPORTUNITIES

The SC continues to be a strong advocate for the development of talent and capabilities within the Malaysian capital market. These efforts are particularly important to maintain the relevance and competitiveness of the capital market, given the changing landscape of global and domestic markets. The capital market is also an important sector that provides employment opportunities in support of the national economic recovery agenda.

Ensuring Undisrupted Learning and Development

As the training and development arm of the SC, SIDC had accelerated its enterprise-wide digital strategy through innovation and conversion of its products and services into online or digital modes of delivery such as e-learning and webinars, virtual conferences, online assessments and study guides.

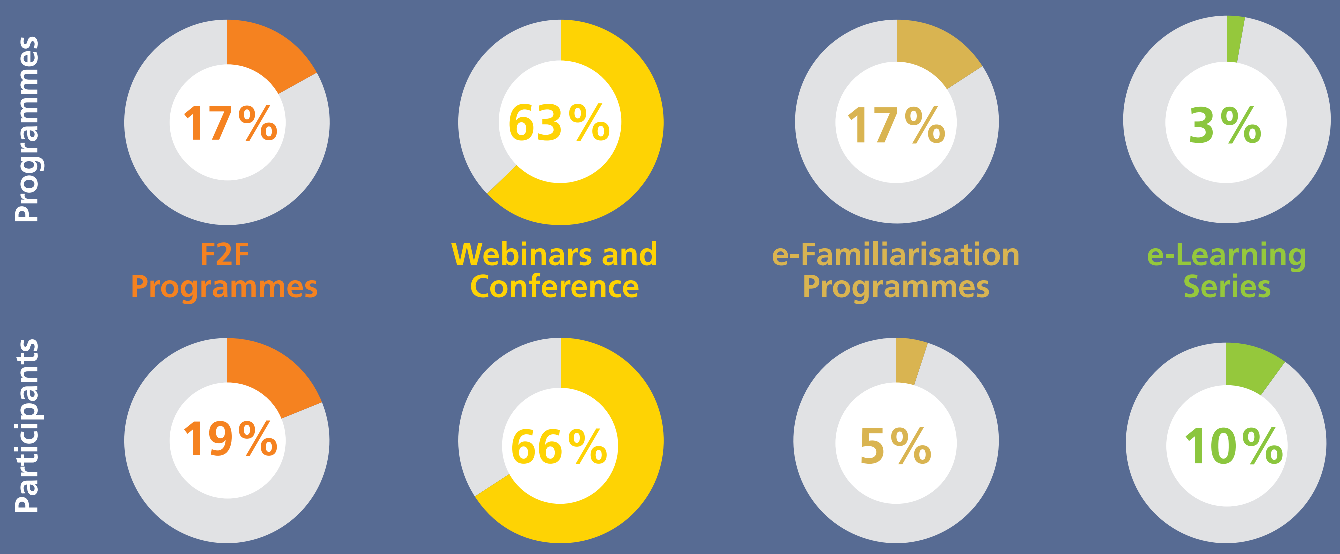
Following the announcement of the MCO in March 2020, SIDC had converted 20 webinars and three e-learning programmes for roll-out in April 2020 to ensure undisrupted learning and development for the industry.

With the pivot to digitisation, 83% of SIDC's programmes were made available in virtual or digital formats to address customer and client needs during the pandemic. This is unlike SIDC's previous delivery modes whereby programmes were carried out physically or face-to-face (F2F).

As of 31 December 2020, the range of digitised programmes, which included 79 webinars, two conferences, 22 e-Familiarisation Programmes, three e-learning series programmes, and 22 F2F in-house programmes, had served a total of 4,378 participants.

As part of its thought leadership programme, SIDC organised the first virtual conference on 'Sustainable and Responsible Investment' (SRI Conference 2020) in August 2020 with 424 participants. This was followed

SIDC'S VIRTUAL TRAINING PROGRAMMES IN 2020



Distribution of participants across SIDC programmes by the annual Business Foresight Forum (BFF 2020), which was held virtually in November 2020 with 484 participants. This is a positive indicator that participants have been receptive to the digitisation of learning and development, in comparison to an average of 226 participants who attended the SIDC's physical conferences in 2019.

Talent and Capacity Building Within the Capital Market

The Government's measures under the National Economic Recovery Plan (*PENJANA*) focuses on three key thrusts; namely Empower People, Propel Businesses and Stimulate the Economy. The SC and SIDC collaborated to develop three key initiatives centered on developing a steady pipeline of young and capable talent within the capital market while providing reskilling pathways to facilitate greater job opportunities in light of the challenges arising from the pandemic.

These initiatives, which began in June 2020, included structured training and familiarisation programmes for fresh graduates, youths and workers displaced from previous roles. Under these initiatives, approximately 60 entities within the capital market ecosystem have expressed interest to participate and 141 candidates have undergone the programmes as of December 2020.

SIDC SUSTAINABLE AND RESPONSIBLE INVESTMENT CONFERENCE 2020

The SRI Conference 2020 was not only SIDC's first virtual conference but was also its first foray into the area of sustainability. The conference was an example of SIDC's offerings that were successfully delivered in fully digital mode. Centred on the SC's SRI Roadmap launched in November 2019 including its *5-i* strategy, the inaugural virtual conference was met with positive response from various segments of the capital market.

"Tools of The Trade: How Fintech and Technology assist ESG development and digitalisation as an enabler of Sustainability"*

* *top-rated panel session* for SRI 2020

Positive feedback
- Informative and comprehensive
- Very good conversations and presentations
- Relevant topics to the current economic scenario
- Good format with a lot of panel Q&A
- Good overview of the subject

The purpose of this conference served to help business leaders and policymakers recognise the challenges and opportunities posed by unprecedented changes in global market developments and work together in responding to them, not just in terms of corporate profits and purpose, but more importantly now, how businesses could make a positive long-term impact on the society and the environment.

SIDC has also embarked on a collaboration with the Institute for Capital Market Research Malaysia (ICMR) to undertake studies on talent issues impacting overall capital market development. Several engagement sessions with capital market leaders and human resource practitioners in the industry were conducted to obtain feedback and insights into some of the challenges in developing and sustaining the talent pipeline, particularly during the pandemic and its effect on employment. Through consistent engagements, SIDC is able to provide more relevant and responsive programmes to increase market competitiveness.

STRUCTURED TRAINING AND FAMILIARISATION PROGRAMMES IN SUPPORT OF PENJANA

Capital Market Graduate Apprenticeship

The Capital Market Graduate Apprenticeship (CMGA) is a partnership programme between the industry and SC together with SIDC to coinvest in the talent development of fresh graduates and to strengthen their employability as they enter the workforce. This is achieved through a one-year structured training programme whereby participating companies will drive recruitment and training of fresh graduates, guided by SIDC's framework on training and development.

Participating companies were also provided **a training grant of RM12,000** per graduate to execute a training programme for fresh graduates employed from June 2020 and extended till June 2021, coupled with a capital market introductory training course for the graduates provided by SIDC.

Corporate Finance Training Scheme

The Corporate Finance Training Scheme (CFTS) support the professional development of youths and grow a pipeline of younger talents in the corporate finance sector. This Scheme is open to youths age 35 years and below, newly recruited into corporate finance departments, or existing employees in CMSL holders.

This initiative provides relevant participating companies **a grant of RM3,500 per youth** to cover the training and examination fees for Module 12: Investment Management and Corporate Finance and Module 19: Advisory Services (Rules and Regulations).

Marketing Representative Training Scheme

Marketing Representative Training Scheme (MRTS) aims to provide displaced workers from their jobs specifically with an opportunity to reskill and enhance their employability as they seek to pursue Marketing Representatives roles within the capital market.

This initiative will see **candidates receiving up to RM800** to cover the cost of training, including the Familiarisation Programme for Marketing Representatives (FPMR) and the subsequent training days required upon registering as Marketing Representatives.

Islamic Capital Market Graduate Training Scheme 2.0

First developed in 2009 by the SC and SIDC, the ICM Graduate Training Scheme (ICMGTS) is an eight-week intensive training programme aimed at creating a pool of capital market talent to facilitate the development of the ICM in Malaysia. The ICMGTS provides an avenue for learners to acquire the right and additional skillsets essential to the capital market industry, as well as fundamental knowledge of the ICM. This programme incorporates five main building blocks, namely Islamic Capital Market, General, Behavioural, Leadership and Fintech.

At the onset of the COVID-19 outbreak, the programme was revised to ICMGTS 2.0 to adapt and form part of the capacity-building initiatives offered by the SC and run by the SIDC under *PENJANA*. The new enhanced ICMGTS 2.0 now includes an internship programme for its trainees, geared towards enabling employment opportunities in the new normal as well as channelling fresh talents for the future development needs of the Malaysian ICM ecosystem. The two-month programme commenced in September 2020 and was conducted with 50 participants.

ENABLING IMMEDIATE OPPORTUNITIES AND FACILITATING RECOVERY

The SC had focused its efforts on enabling immediate opportunities and facilitating recovery by enhancing accessibility to the capital market, and accelerating the development of an ecosystem that promotes sustainable and responsible investment.