PART 02

ENSURING STABILITY AND CONTINUITY DURING COVID-19

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INTRODUCTION

In the wake of the pandemic, the preventive measures under the MCO had impacted business operations and livelihood of Malaysians at large, which led to a period of increased market volatility. Amid this landscape, the SC took swift action across five key focus areas to help alleviate immediate challenges and risks faced by the capital market and its participants. Efforts were focused on maintaining continued orderly function of the market, providing relief measures to ease burdens faced by affected market participants, facilitating the continuity in operations of market institutions and intermediaries, monitoring of market and liquidity risks as well as ensuring investor protection.

FAIR AND ORDERLY MARKET

Smooth Functioning of the Market

The SC intensified its monitoring of trading activities in the equity and bond markets to manage the significant increase in volatility, pro-cyclical effects of rating downgrades and downstream effects of liquidity, among others. Similarly, the SC also monitored the impact of the pandemic on capital market infrastructure including the operations of the exchanges, resiliency of Central Counterparties (CCPs) and the trading engine capacity, all of which are fundamental components of a fair, orderly and efficient market.

To mitigate potential risk arising from exceptional levels of market volatility and global uncertainties, short selling activities covering intraday short selling (IDSS), regulated short selling (RSS) and intraday short selling by proprietary day traders (PDT) were temporarily suspended from March to end of April 2020. The suspension did not apply to permitted short selling (PSS), given that PSS is an important market operation tool *vis-à-vis* market-making activities for products such as exchange-traded funds (ETF).

Subsequent to the SC's continuous review of market conditions, the suspension of short selling was further extended to end of June 2020 and subsequently December 2020. The phased approach was undertaken to allow greater agility in responding to the uncertain and challenging environment. The extensions were to ensure that excessive speculative activities and downside risks in the marketplace were appropriately mitigated and managed.

To provide added stability and confidence in the market, the SC in July 2020, approved Bursa Malaysia's proposal to implement temporary revisions to its existing market management and control mechanisms. The revisions were applicable for a six-month period from 20 July 2020, as follows:

- The lower dynamic price limit narrowed from -8% to -5% for FBMKLCI Component Stocks (Index Stocks);

- The lower static limit tightened from -30% to -15% for Index Stocks;
- The Circuit Breaker threshold changed to two levels (-10% and -15%) from three levels (-10%, -15% and -20%); and
- The short selling price limit narrowed to -10% from -15% in line with the revised lower static price limit.

The temporary revised limits serve to moderate potentially excessive price movements while allowing investors time to rationalise investment decisions during periods of heightened uncertainty and market volatility.

Continuous Monitoring of Clearing and Settlement Capacity

CCPs form an integral part of stable and resilient market infrastructure. They ensure that trade settlement and clearing activities are carried out smoothly to safeguard stakeholders' interests in the event of failed trades. In this regard, the SC expects Bursa Malaysia Securities Clearing (BMSC) and Bursa Malaysia Derivatives Clearing (BMDC) to effectively manage settlement and clearing risks for the securities and derivatives markets respectively. Clearing funds, margins and security deposits posted by clearing participants serve as important layers of protection in the event of default.

In light of volatile market conditions, daily stress tests were conducted by BMSC on the clearing fund to ensure the sufficiency of coverage in the event of participants' default. To date, the results of the stress tests have not warranted any increase to the clearing fund. Meanwhile, revisions were made to the derivatives clearing fund and margin rates for futures products, after taking into consideration the fluctuating volatility in financial and commodity futures markets. For example, the derivatives clearing fund as at end December 2020 stood at RM37 million, arising from the recent increased contributions from BMDC and market participants. Margin rates for FTSE Bursa Malaysia KL Composite Index Future (FKLI) were gradually revised from RM2,500 to RM4,200 in Q1 2020. The margin for Crude Palm Oil Futures (FCPO) was also raised from RM4,500 to RM6,200 in the same quarter. However, in April and early May 2020, the margin for FCPO was gradually reduced from RM6,200 to RM5,000 in line with changes in market volatility for CPO.

REGULATORY RELIEF MEASURES

The Conduct of Fully Virtual General Meetings

The MCO necessitated limited movement of persons and gatherings for business, cultural, religious, sports, or social purposes. Consequently, this affected the ability of listed issuers to discharge their statutory obligations to conduct general meetings without breaching the MCO conditions.

As part of the relief and support measures for affected listed issuers, the SC and Bursa Malaysia allowed flexibility on the timing of annual general meetings (AGMs) and the issuance of quarterly and annual reports.

Listed issuers could apply to conduct their AGMs beyond the prescribed period as stipulated under the *Companies Act 2016*, through an application to the Companies Commission of Malaysia (SSM).

The SC also granted a–

- two-month extension for REIT managers of listed REITs with a financial year-end of 31 December 2019 to hold AGMs by 30 June 2020; and
- one-month extension for REIT managers of listed REITs with financial year-end of 31 March 2020 to hold AGMs by 31 August 2020.

On 18 April 2020, the SC issued a guidance note titled, *Guidance and FAQs on the Conduct of General Meetings for Listed Issuers* (Guidance Note). The Guidance Note addressed among others common questions on the conduct of fully virtual general meetings and meeting of unitholders. In a fully virtual meeting, a limited number of individuals are allowed to physically gather to conduct the general meeting at a broadcast venue. All other meeting participants, including shareholders may attend and participate in the meeting online.

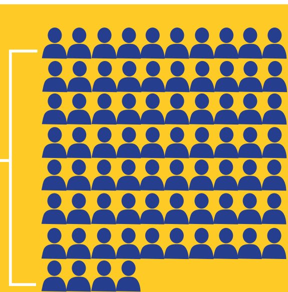
A total of 888 listed issuers conducted 1,017 general meetings since the issuance of the Guidance Note. Out of which, 824 were AGMs, 192 were Extraordinary General Meetings (EGMs) and one meeting of unitholders. A total of 541 of these meetings were fully virtual while three were hybrid.

Conduct of general meetings

Data as at 31 December 2020

MCO (18 March – 3 May 2020)	CMCO (4 May – 9 June 2020)	RMCO and CMCO (10 June – 31 December 2020)		
3	29	509	3	473

74%
of shareholders would like to continue having the option to participate online



- Fully virtual – Only essential individuals are present at the broadcast venue with all shareholders participating online.
- Hybrid – Shareholders have the option to be physically present at the meeting venue or to participate online.
- Physical – All participants are physically present at the meeting venue.

VIRTUAL GENERAL MEETINGS – MALAYSIA'S EXPERIENCE

The health crisis had accelerated the use of digital tools to facilitate the conduct of general meetings, leading to a growing number of fully virtual and hybrid meetings being held. This experience offers a good opportunity to learn and make improvements to this important part of corporate governance.

The SC carried out a survey on the conduct of fully virtual general meetings. Feedback was gathered from 29 listed issuers, which conducted fully virtual general meetings during the first MCO and CMCO period (18 April to June 2020). A total of 309 individual shareholders also responded to the survey.

KEY FINDINGS

Out of 29 listed issuers, 17 responded that they will continue to offer the option for remote shareholder participation in future general meetings.

Several listed issuers highlighted substantial cost-saving from conducting a fully virtual general meeting compared to a physical meeting as large venues are not required to conduct the meeting.

While shareholder participation was generally lower in fully virtual general meetings, 31% of listed issuers responded that shareholders posed more questions in a fully virtual general meeting compared to a physical meeting. Using the number of questions posed by shareholders as a gauge, we may conclude that the level of engagement between the board and shareholders at fully virtual general meetings has been encouraging.

Preference for remote participation was higher among shareholders in the younger age group, while majority of those in the senior age group preferred physical participation. Although more than half of the shareholders age 60 years and above preferred physical participation in AGMs, a significant number of them would still like to have the option to participate in the meeting remotely (online), as highlighted in Table 1.

TABLE 1

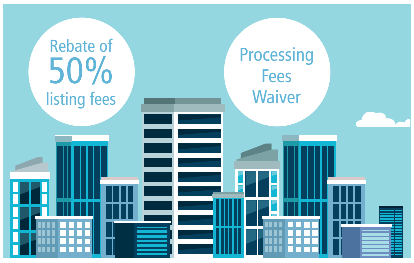
Preferred mode of participation in a general meeting

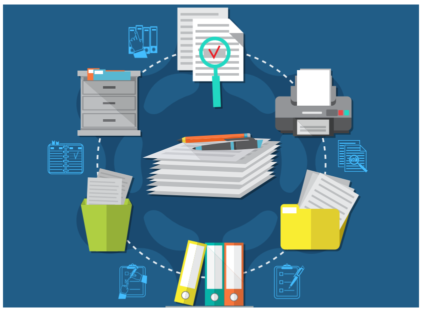
Participation preference / Age	30 and below	Between 31 and 40	Between 41 and 50	Between 51 and 60	Between 61 and 70	71 and above
Online	48%	45%	38%	40%	21%	30%
Physical	52%	55%	62%	60%	79%	70%
• Would like to also have the option to participate in the meeting remotely (online)	82%	65%	69%	71%	56%	43%

RELIEF MEASURES ON FUNDRAISING

The SC had, together with Bursa Malaysia, announced various regulatory relief measures to ease compliance by listed issuers and facilitate fundraising in a timely and cost effective manner. The relief measures include the following:

PLCs are granted a rebate of 50% annual listing fees for year 2020.





Issuers are allowed to issue Prospectus and Abridged Prospectus during MCO period without prior lodgement with Registrar of Companies.

Waiver of listing related fees for 12 months, which is applicable up to 26 February 2021 for companies seeking listing on LEAP or ACE Markets as well as those with market capitalisation of less than RM500 million on Main Market.

PLCs are allowed to seek general mandate from their shareholders in a general meeting to issue new securities up to 20% of total number of issued shares (excluding treasury shares) for issue of new securities. The increased limit from 10% to 20% is allowed until 31 December 2021.

Eligible listed issuers are allowed to seek mandate in a general meeting to issue new securities up to 50% of total number of issued shares (excluding treasury shares) or issued units, as the case may be, to their existing securities holders on a pro-rata basis, up to 31 December 2021. The rights issue exercises under this relief measure are subjected to certain conditions. Such conditions are, among others:

- The rights issue must be a ‘plain vanilla’ issuance based on ordinary shares or units.
- The eligible listed issuers must have controlling securities holders[1] who will provide an irrevocable undertaking to subscribe for their full entitlements.

A total of **389** companies have benefitted from the various listing fee waivers while **47** companies have announced fundraising exercises under the increased/new general mandates.

[1] This refers to either the controlling shareholders of the PLCs, or the controlling unitholders of the REITs, which mean any person who is, or a group of persons who together are entitled to exercise or control the exercise of more than 33% (or such other percentage as may be prescribed in the *Malaysian Code on Take-Overs and Mergers 2016* as being the level for triggering a mandatory general offer) of the voting shares in a company and voting units in a unit trust scheme, or who is or are in a position to control the composition of a majority of the board of directors of such company.

Compliance with Bursa Malaysia's Regulatory Requirements by PLCs

To aid and facilitate listed companies during this challenging period, Bursa Malaysia announced relief measures to allow flexibilities in terms of compliance with *Bursa Malaysia Listing Requirements* (Listing Requirements).

The regulatory relief measures announced by Bursa Malaysia on 26 March 2020 and 16 April 2020 are as follows:

Time Extension for the Submission of Quarterly and Annual Reports

Bursa Malaysia granted time extensions to listed companies that did not have sufficient time to prepare and issue their financial statements.

- An automatic 1-month extension for issuance of quarterly and annual reports for the Main and ACE Markets, as well as semi-annual and annual audited financial statements for the LEAP Market (collectively known as 'Financial Statements') that were due on 31 March 2020.
- An extension until 30 June 2020 for submission of the Financial Statements of Main, ACE and LEAP Markets, that were due on 30 April 2020 and 31 May 2020.

Notwithstanding the time extensions granted, listed companies were required to comply with their continuing disclosure obligations under the Listing Requirements. The requirements also include the obligation to make immediate announcements of any material information and to ensure prompt communications on latest information to shareholders and investors.

Listed Companies with Unsatisfactory Financial Conditions

Acknowledging the difficult economic environment businesses are operating in, Bursa Malaysia has provided temporary relief to affected listed issuer from being classified as a Practice Note 17 (PN17) Listed Issuer if any of the following criteria under PN17 of the *Main Market Listing Requirements* is triggered (Suspended Criteria):

- Its shareholders' equity on a consolidated basis is 25% or less of its share capital (excluding treasury shares) and such shareholders' equity is less than RM40 million.
- Auditors have highlighted a material uncertainty related to going concern or expressed a qualification on the listed issuer's ability to continue as a going concern in its latest audited financial statements and its shareholders' equity on a consolidated basis is 50% or less of its share capital (excluding treasury shares).
- Default in payment by the listed issuer, its major subsidiary or major associated company, as the case may be, as announced pursuant to paragraph 9.19A, of the *Main Market Listing Requirements*, which led to the listed issuer being unable to provide a solvency declaration to Bursa Malaysia.

Listed issuers that trigger the Suspended Criteria from 17 April 2020 to 30 June 2021 will not be classified as a PN17 Listed Issuer. They will be accorded relief from complying with the obligations under paragraph 8.04 and PN17 of the *Main Market Listing Requirements* for a period of 12 months from the date of triggering the specified criteria, and are only required to make an immediate announcement when the specified criteria are triggered and the relief provided. Similar temporary relief from *Guidance Note 3* (GN3) classification under the *ACE Market Listing Requirements* was also granted by Bursa Malaysia for companies listed on the ACE Market. As at 31 December 2020, 13 companies have benefitted from the relief measures.

In addition, for listed issuers that triggered PN17/GN3 criteria other than the Suspended Criteria, or did not have an adequate level of operations as set out in paragraph 8.03A (8.03A Listed Issuers) of the *Main Market Listing Requirements* between 2 January 2019 and 31 December 2020, Bursa Malaysia extended the timeframe for submission of the regularisation plan from the existing 12 months to 24 months from the date when they first announced that they are PN17/GN3 Listed Issuers, or 8.03A Listed Issuers. A total of 17 PN17/GN3/8.03A listed issuers have benefitted from the relief measures.

Take-Overs and Mergers Requirements

As a result of the containment measures under the MCO, the SC had expected that there would be challenges to comply with certain requirements under the take-over provisions.

To ensure that take-over activities are able to continue during a possibly protracted period of business interruptions, the SC introduced flexibilities for those involved in a take-over activity to comply with the relevant regulatory requirements. Such flexibilities included the expanded use of technology, which complements the SC's ongoing efforts to facilitate more offerings of online services by the industry to the market.

Advisers were also encouraged to engage with the SC at the earliest opportunity to consult on any other anticipated difficulty in complying with any of the requirements under the CMSA or the Rules[2].

Digitisation of requisite take-over processes and documentation

In view of the challenges to bulk print offer documents and delivering the hard copy of such documents to shareholders during the MCO period, the SC had encouraged and facilitated take-over offers to be conducted digitally. In this regard, the SC had allowed for a hybrid method of serving take-over notices and documentations via electronic publication on dedicated pages through either the SC or Bursa Malaysia websites. This was done concurrently with a physical Summary Notification sent to all offeree shareholders to inform them of the offer and the availability of the relevant notices and documents on the relevant websites. Shareholders were also allowed to accept an offer either electronically or by the conventional method of responding via post.

Propagate use of electronic communication to shareholders and encourage electronic payment of cash consideration

In addition, the SC took the opportunity to encourage shareholders to register their email addresses with Bursa Malaysia Depository Sdn Bhd (Bursa Malaysia Depository) to further facilitate the use of electronic documents as a form of service. The statement to shareholders to register their email addresses was required as part of the Summary Notification to be sent to offeree shareholders.

At the same time, with the support of share registrars, shareholders were also encouraged to register or update their bank account details with Bursa Malaysia Depository for the purpose of cash dividend or distribution. In doing so, shareholders would be able to receive the consideration pursuant to a take-over offer directly into their bank accounts. Shareholders may register or update their bank account details via Bursa Malaysia's website or the Bursa Anywhere application. The advice for shareholders to register their email addresses and bank account details is still included in offer documents, forms of acceptance and transfer, as well as independent advice circulars.

2 *Rules on Take-overs, Mergers and Compulsory Acquisitions*, SC, 2017.

Concession in accepting a declaration by Offerors in compulsory acquisitions due to unavailability of legal services

In terms of compulsory acquisition, regulatory relief was also granted particularly in relation to the requirement for a statutory declaration to be submitted under section 222(1)(B) of the CMSA. As the SC was cognisant of the uncertainty in terms of the availability of legal services during the early days of the MCO period, offerors instead were allowed to submit a declaration addressed to the SC, to confirm that all required conditions have been fulfilled.

Regulatory Relief Measures on Products

In 2020, the SC had allowed for flexibilities in complying with timelines of certain regulatory requirements in relation to the issuance of capital market products.

CORPORATE BONDS AND SUKUK

In relation to the Lodge and Launch (LOLA) Framework, flexibilities included the extension of implementation timeframe for issuance, extension of timeline to submit post-issuance notices, redemption notices and copies of Fully Automated System for Issuing / Tendering (FAST) announcements.

In addition, the SC also granted flexibilities to issuers in complying with the timeline of submission of quarterly reports to the trustee, SSM and the SC.

STRUCTURED WARRANTS

Under the CMSA, structured warrants issuers are required to lodge with the Registrar of Companies, a copy of the prospectus registered by the SC before the issuance date of the prospectus. The SC granted relief to issuers subject to the following conditions:

- Issuers to notify the SC after the launch of the structured warrants and its listing on Bursa Malaysia Securities.
- Issuers to lodge the registered base prospectus, the supplementary base prospectus and term sheets with the Registrar of Companies within 14 days from the date the MCO is uplifted.

STRUCTURED PRODUCTS

Additionally, structured product issuers were also granted various extensions of time for the submission of monthly post-issuance reports required under the *Guidelines on Unlisted Capital Market Products Under the LOLA Framework*.

REAL ESTATE INVESTMENT TRUSTS

On 12 August 2020, the SC announced a temporary increase in the gearing limit for Malaysia's real estate investment trusts (M-REITs) from 50% to 60%. The temporary increase was made available until 31 December 2022.

The temporary increase in gearing limit will provide M-REITs greater cash flow flexibility and allow M-REIT managers to manage their REITs' debt and capital structures more efficiently. Notwithstanding the temporary increase in gearing limit, the SC expects managers of M-REITs to consider sustainability of the REIT in the best interest of unitholders, before taking on any additional debt.

Easing Cost and Regulatory Burden

The negative impact of the COVID-19 pandemic on businesses also led the SC to introduce measures that would ease the cost burden on market participants. Specifically, the SC granted a waiver of annual licensing fees for 2020 on the core regulated activity of all Capital Markets Services Licence (CMSL) entities with a Profit Before Tax of RM5 million or less during Financial Year 2019.

A qualifying CMSL entity that had already paid for the annual licensing fee of RM2,000 per core activity prior to this relief measure was offered a credit to offset 2021's licensing fees. As at 31 December 2020, a total of 220 CMSL entities were eligible. The SC had already waived the annual licensing fee for 109 CMSLs at their respective anniversary dates.

The SC had also granted a waiver of the annual licensing fees for Capital Markets Services Representative's Licence (CMSRL) holders for the Year 2020. Similarly, qualifying CMSRL holders who had already made the annual payment of RM200 prior to this announcement were offered a credit to offset licensing fees for 2021. As at 31 December 2020, this programme has benefitted at least 9,710 eligible CMSRL holders.

Additionally, other flexibilities were given in terms of adherence to the Continuing Professional Education (CPE) points requirements and deadlines extended for regulatory filings and submissions to the SC.

Reduction of CPE points requirement for all CMSRL holders and ERPs

The annual minimum CPE points requirement was reduced from the current 20 CPE points to 10 CPE points, effective 1 July 2020 for 12 months for all CMSRL holders and Employees of Registered Persons (ERPs). This would benefit a total of approximately 9,734 CMSRL holders and 5,068 active ERPs in the market.

Reduced requirement for minimum training days

For the Trading Representatives (TR) and Marketing Representatives (MR), the SC reduced the requirement for minimum training days from the current five to three days, effective 1 July 2020 for 12 months. As at 31 December 2020, this benefitted approximately 107 TRs and 464 MRs.

Increased offering of online courses or web-based learning as an alternative avenue towards complying with training requirements

In facilitating licensed persons to meet their training needs, the SC had agreed for the Securities Industry Development Corporation (SIDC) to offer more online courses or web-based learning, and the recognition of the Competency Management System by CMSRL holders and ERPs as an alternative avenue towards securing the requisite CPE points. Additionally, recognition was given to CPE approved courses as equivalent to a one-day training for TRs and MRs until 30 June 2021. The SC also facilitated and recognised online Familiarisation Programmes for TRs and MRs (e-FPTR and e-FPMR) as part of the entry requirements to be registered with the SC.

Deadlines extended to fulfil requirements on regulatory filings

The SC took cognisance of the challenges that industry participants faced to fulfil the requirements on regulatory filings. The SC had granted flexibilities by extending deadlines, including those in relation to regulatory filings and submissions to the SC such as the quarterly, semi-annual and annual reports, auditor reports and activity reports, as well as compliance with training requirements.

To ensure continuity of registration activities in the unit trust industry, the SC had approved Federation of Investment Managers Malaysia's (FIMM) proposal for a temporary waiver to the requirements of FIMM's Registration Manual in May 2020. The waiver allowed for the dispensation of the requisite hard copy documents for registration matters until 14 business days after the MCO was lifted. Meanwhile, registrants were only required to submit duly executed statutory declarations when applying for re-registration as a unit trust scheme and/or private retirement scheme (PRS) consultants. Additional complementary measures included the allowance of online submissions of all registration related matters by Distributors. These flexibilities were extended until 31 December 2020, in response to the necessary containment measures imposed by the Malaysian Government throughout the year.

Flexibilities On Margin Financing Requirements

The SC continued to engage closely with the industry to better appreciate the challenges and concerns faced by investors and intermediaries during the pandemic. This allowed the SC and Bursa Malaysia to formulate and introduce appropriate regulatory relief measures to help market participants tide over this difficult period. The prevailing uncertainties surrounding the economy had directly affected investor sentiments, leading to selling pressure and in turn, adversely impacting share prices. Investors with margin accounts were at risk of force selling pressures, which would potentially lead to significant financial losses.

On 26 March 2020, the SC approved additional measures by Bursa Malaysia for the temporary easing of margin requirements. These measures were not only aimed to mitigate the force selling pressure on the market but also allowed margin clients to offer other types of collaterals to protect their investments. The above modifications took effect from 27 March to 30 September 2020, and has subsequently been extended to 30 June 2021. The waivers and modifications were subject to the stockbrokers' continuing obligations to comply with the minimum requirements on capital adequacy and shareholders' funds at all times.

RULE MODIFICATIONS ON MARGIN FINANCING REQUIREMENTS

Modifications were made to the rules, which enabled stockbrokers to apply appropriate discretion in managing their clients' margin positions, subject to stockbrokers' respective credit risk management framework.

Concession on PRS Withdrawals

In line with the Government's efforts to alleviate Malaysians from facing financial constraints due to the impact of the health crisis, PRS members were permitted to withdraw up to RM1,500 from their sub-account B with each PRS provider without incurring a tax penalty. The withdrawal was permitted from April to end December 2020, to provide short-term financial relief for its members during the challenging economic environment.

CONTINUITY OF INTERMEDIARIES' OPERATIONS

Uninterrupted Operations Through Business Continuity Preparedness

To ensure the operational resiliency of market intermediaries, the SC outlined expectations on business continuity through its *Guiding Principles of Business Continuity* issued in 2019. This document outlines six principles including one that requires capital market entities to identify potential risks that may result in major operational disruptions. Any adverse impacts and implications from such disruptions should be thoroughly assessed and analysed. Risk mitigation and management plans should also be embedded within the respective business continuity approaches adopted by capital market entities. In view of the preparedness by market participants, they were able to adapt swiftly and reorganise operations effectively during the pandemic.

The SC also took steps to protect investors by ensuring that market intermediaries continued to operate in an orderly manner. In doing so, the SC proactively reviewed the firms' contingency plans for dealing with such disruptions, including the continuity of the intermediaries' operations and their ability to communicate with and support employees working remotely. The SC expects intermediaries to conduct frequent testing to ensure that essential business activities and resources continue to function effectively without compromising investors' interests. Intermediaries were reminded to promptly notify the SC if business continuity plans were activated.

Affected intermediaries were also required to provide the SC with periodic progress reports until normality returns.

The disruptions from movement restrictions and physical distancing necessitated many businesses to facilitate remote working arrangements for their employees. Intermediaries operating under such conditions were expected to have in place adequate policies and procedures on record keeping as well as controls over the security and confidentiality of clients' data and information.

Guidance for Market Participants to Operate During MCO

On 8 May 2020, the SC issued the *Guidance for Standard Operating Procedures on Health and Safety Measures Against COVID-19 Pandemic for Capital Market Participants* (Guidance). It outlined the health and safety measures in line with the Government's efforts to curb the spread of the virus, in addition to the steps to be taken in planning and managing the return to operations at full capacity. The Guidance was issued after the Government imposed the CMCO from 4 May 2020, and it was subsequently updated following the RMCO phase on 10 June 2020.

Based on the Guidance provided, market participants are required to develop and communicate clear internal standard operating procedures (SOPs) on health and safety measures at the workplace, particularly with regards to dealing with employees, agents and external parties. The Guidance was in addition to the SOPs and directives issued by the Malaysian National Security Council (MKN).

In adhering to the SOPs issued by the relevant authorities, market participants were advised to apply appropriate health and safety measures commensurate with the complexity and size of their business operations, number of branches and customers, governance structure and workplace setting. The measures were premised on the need to observe physical distancing, good hygiene practices and proper record keeping for contact tracing. Market participants were advised to monitor the developments and guidance issued by the World Health Organisation, MKN, Ministry of Health and other authorities, and where appropriate to reflect these in their SOPs.

MANAGEMENT OF COVID-19 AT THE SC

When domestic COVID-19 cases first surfaced in late January 2020, the SC promptly activated its business continuity plan. A taskforce was formed to formulate and implement mitigating measures, provide advice to the SC management as well as keep staff and stakeholders informed of pertinent developments in a timely manner.

The taskforce aims to centrally co-ordinate the SC's operations under a safe environment for its staff and stakeholders. The taskforce is also responsible for the identification of emerging threats and development of best practices in response to the rapid changes in circumstances and environment. This included daily briefings to the management on the COVID-19 situation focusing on Risk Assessment, People and Premises as well as Technology.

RISK ASSESSMENT

The taskforce developed potential scenarios and corresponding responses in terms of working arrangements and related SOPs. Expanding from the SC's enterprise business continuity strategy, changes in responses will be commensurate with varying alert levels based on the gravity of the pandemic situation. The structured approach to the type of responses and alert parameters provided clarity, leading to swift application of SOPs by its staff in accordance with the prevailing conditions. Continuous risk assessments were also carried out to ensure that key health and safety risks were identified and mitigated with appropriate measures.

TECHNOLOGY

In order to complement work from home (WFH) arrangements, additional equipment and applications were deployed. Strict protocols and procedures to ensure integrity of data and information were also imposed. Periodic advisories were issued to increase staff awareness and vigilance towards potential cyber threats related to remote access work environments.

The technology infrastructure was further enhanced and upgraded to accommodate a greater need for remote access and collaboration tools such as video facilities to support online meetings, webinars and other virtual events.

PEOPLE AND PREMISES

In order to manage density at the workplace and ensure physical distancing between staff members, the SC initially adopted tiered-team working arrangements based on the criticality of business functions. As conditions evolve, the arrangements matured to a flexible split-team working structure, with priority to WFH given to staff with young children or staying with elderly parents. Policies on home quarantine and COVID-19 swab test protocols were also developed.

Additionally, the SC facilitated the return of the SC's scholars studying abroad during the pandemic. Support was also given to ensure the safety and well-being of those who were not able to return home.

A two-way communication channel was created for all SC staff to be kept informed of developments, raise concerns, seek advice or report cases of close contact with COVID-19 positive cases. To mitigate the risk of front-facing staff being exposed to the virus, the SC ensured that such staff were trained on best practices when dealing with external parties during a pandemic situation, while maintaining a high degree of professionalism.

A Return to Work Guide was developed to help staff adjust and familiarise themselves with the return-to-work arrangements, including recommendations on safe and conducive work space arrangements. Reminders to observe physical distancing were also posted at common areas.

MONITORING AND MANAGEMENT OF RISK

Intensified Surveillance of Systemic Risk in Ensuring Market Resilience

The GFC in 2007-2009 highlighted that systemic risk is an important concern given the complex inter-linkages and inter-connectedness of the financial system. Since then, the focus has been given to address the risk of failure of financial institutions within the system that could result in a severe systemic concern.

However, the COVID-19 situation at the beginning of 2020 has given rise to a new dimension of systemic risk concern. The pandemic has caused countries globally to resort to partial or full lockdown to contain the spread of the virus. It has drastically reduced the level of economic activities, subsequently causing a fall in asset prices and in turn, gradually leading to potential vulnerabilities in the capital market. Over the period of lockdowns, there has also been an increase in retail investors' participation in the stock market across the globe.

Against this backdrop, the SC enhanced its vigilance to monitor uncertainties and volatility in the capital market arising from geopolitical concerns and global responses to COVID-19. Early detection of emerging risks, trends and vulnerabilities is vital at this stage to prevent any build-up of systemic risks. The crisis simulation exercise carried out in 2019 had also equipped the SC with better preparedness to manage current market conditions.

Over this period, the SC's Systemic Risk Oversight Committee (SROC) met frequently to deliberate concerns emanating from various segments across the capital market, including identifying potential stress points and calibrating appropriate responses to manage or mitigate potential and emerging risks. Monitoring intensified for the domestic equity and bond markets, foreign fund flows, trade participants and commodities prices, while keeping watch on COVID-19-related specific regulatory interventions in other jurisdictions. Analysis and assessments also cut across other asset classes, which included the fall of oil prices due to shrinking demand caused by the lockdowns and the surge of alternatives assets such as gold and digital currencies.

Joint regulatory discussions continued to be conducted in 2020 with other authorities such as BNM and Labuan Financial Services Authority (Labuan FSA) through the Macro Risk Focus Group and Financial Stability Committee respectively. The SC also carried out regular engagements with market participants, taking into consideration the dynamic feedback mechanisms in identifying potential areas of systemic risk within the financial and capital markets in Malaysia.

These have enabled the SC to make proactive and measured decisions on appropriate regulatory and policy responses such as the temporary suspension of short selling and revision of price and circuit breaker limits. Pursuant to that, the capital market continued to operate in a stable, fair and orderly manner.

Assessment of Corporate Bond Market

Given the potential impact of COVID-19 on debt issuers, the SC proactively monitored corporate bond issues originating from vulnerable business sectors such as oil and gas, retail and hospitality as well as aviation.

Several corporate bond issuers had requested investors' indulgence for exemptions in either payment of coupon, profit or principal or extension of time to meet agreed upon financial ratios as well as other forms of refinancing. These corporate bond issues, however, make up a very small portion of the corporate bond and sukuk market, which demonstrated the overall strength and diversity of the bond market despite economic downturn.

Six rating downgrades were observed in 2020 compared to seven in 2019. Out of these downgraded issuers, three originated from the retail and hospitality industry, two from infrastructure and one asset-backed security. As for the rating outlook, there were 16 downward revisions in corporate bond outlook in 2020 compared to six in 2019. Of these revisions, five issuers were revised from positive to stable outlook, and 11 issuers revised from stable to negative outlook.

Risk Assessments on Various Components of the Capital Market

EQUITY MARKET AND INFRASTRUCTURE

- Sufficient domestic liquidity to facilitate efficient investment activities.
- Market-wide circuit breaker and price limit on equity are in place as part of the risk management mechanism to address excessive market volatility. In 2020, no circuit breaker was triggered.
- Securities and Derivatives Clearing Guarantee Funds are available to manage any sudden surge of stress.

BOND MARKET

- Yield movements were in line with other regional markets amid accommodative monetary policy.
- Corporate bond default rate remained low.

LISTED COMPANIES

- Corporate earnings in 2020 were significantly impacted by business disruptions due to the implementation of MCO, particularly in Q2 2020 where a year-on-year decline of over 70% in earnings was reported. In Q3 2020, PLCs' earnings recorded a quarter-on-quarter recovery exceeding 260%, mainly attributed to the resumption of businesses and continued demand for medical gloves.

INVESTMENT FLOWS

- Foreign equity holding fluctuated below its 5-year average amid continuous net outflows from the equity market.
- Foreign outflow in equity is consistent with other emerging markets. Ample domestic liquidity provided by local institutions and retail investors.
- Foreign holding in the bond market is below the 5-year average mainly due to the large volume of MGS that matured.

INVESTMENT MANAGEMENT

- Fund managers have measures in place to manage liquidity risk i.e. liquidity management framework to safeguard against any adverse market conditions.
- Cash and liquid assets held are sufficient to meet investors' redemption.
- The stress test results indicated that under various stress scenarios, funds are able to meet redemptions by investors.

STOCKBROKING INTERMEDIARIES

- Stockbrokers are well-capitalised, supported by sufficient liquidity buffers to address any realised or potential losses that may arise during times of stress.
- The current risk-based capital position remained above the prescribed minimum financial requirements.

Assessment of PLCs for Resiliency and Integrity

The pandemic containment measures gave rise to potential risks to the sustainability of businesses and operations of PLCs. Sudden business failures due to the challenging economic conditions may result in losses to investors in both the equity and bond markets. In addition, some listed companies sought business opportunities beyond their core principal activities and announced new ventures into health-related segments that support the fight against COVID-19. The increase in such activities and announcements may lead to disclosure risks in relation to the quality of information needed for investment decisions.

Accordingly, targeted surveillance and risk assessments were carried out on financial resilience and debt exposures of PLCs as well as the adequacy of disclosures to enable informed investment decisions.

Stress testing of financial resilience of PLCs

Monitoring of listed companies in high risk sectors such as hospitality and aviation were intensified, to assess their ability to withstand the financial stress. Listed companies' financial strength and agility were reviewed using financial modelling with a range of contractions in GDP for 2020. While the results of the stress test provided an early indication of the vulnerable listed companies, the SC noted that the market capitalisation of the affected companies did not form a significant portion of the overall market capitalisation of Bursa Malaysia Securities.

As part of the stress testing, the SC also evaluated PLCs' leverage positions and their ability to repay short-term debts. Based on the outcome of the evaluation, a number of listed companies with high debt exposures were identified for further risk assessment and monitoring.

Review of disclosures by listed companies venturing into health-related businesses

Given the increase in announcements by listed companies venturing into health-related businesses, the SC actively monitored and reviewed such announcements to ensure that timely, adequate and accurate information was disseminated to investors.

In June 2020, Bursa Malaysia issued an *Issuers Communication Note on Disclosure Guidance on COVID-19 Related Impacts and Investments* (Disclosure Guidance) to provide guidance and clarity to listed companies when making COVID-19 related disclosures. Furthermore, the Disclosure Guidance serves to aid and facilitate clear, balanced, fair and full disclosures to the public.

Intensified Supervisory Focus on Intermediary Risk

Supervisory focus was to ensure risks were being managed appropriately by intermediaries and that they are able to comply with their regulatory obligations despite the difficult operating environment. Accordingly, the SC adopted a more facilitative approach to better understand the operational challenges faced by the industry.

In doing so, data collection and analytics efforts were intensified. The increased frequency of data collection from intermediaries, led to swift and informed decisions on appropriate measures required to safeguard the stability of the capital market and importantly, investors' interests. For example, on 9 April 2020, the SC had issued a *Circular to Fund Management and Unit Trust Management Companies* to reiterate its expectations for intermediaries to observe among others, the principles of fair treatment of investors, practise clear and open communications, and maintain a robust client asset protection framework. Intermediaries were also reminded to properly manage the liquidity of their funds to ensure sufficiency in meeting investors' redemption requests.

Various scenarios were analysed to assess possible risk-induced events. Among others, a key area of concern was the vulnerability of the intermediaries and their clients to volatile swings in market conditions.

To that end, the SC remained in close contact with all the stockbroking intermediaries to ensure that margin financing exposures are in line with the intermediaries' risk appetite and collateral buffers.

LIQUIDITY RISK MANAGEMENT FOR FUNDS

- On 9 April 2020, the SC issued a circular to Fund Management Companies to highlight the **importance of managing funds' liquidity**, especially in mitigating potential mismatches between liquidity of the funds' underlying assets and redemption terms.
- Management companies were required to **alert the SC on any material issues or anticipated adverse circumstances** relating to the funds under their management.

The SC's key concerns focused on the **availability of liquid assets** in tandem with redemption patterns especially funds invested in thinly traded and riskier asset classes. Thus, the SC had intensified monitoring of funds liquidity risk since the beginning of MCO by:

- **Increasing reporting frequency to daily submissions** in order to receive up-to-date data on funds movements in investment holdings.
- Tighter scrutiny of funds by **setting stricter triggers** based on reported data.
- Requiring management companies to communicate with the SC in timely manner should there be **large redemption of funds and furnish the SC with relevant information** to demonstrate their capability in meeting redemption requests.

Based on the SC's continual monitoring:

- All funds have **proven to be resilient** through stressed market conditions.
- Systemically important financial institutions (SIFI) have shown that they **can readily conduct Fund Liquidity Test** with sets of mitigating actions to address the outcome of the test.
- Management companies were well aware of the best practices, Liquidity Risk Management (LRM) tools and contingency plans to ensure they were able to **meet redemption request in an orderly manner** while prioritisng fair treatment to all investors.

Capital Adequacy of Intermediaries

At the onset on the COVID-19 outbreak, the SC had promptly taken steps to assess the potential impact on intermediaries' financial positions. Throughout the period, the SC continued to perform enhanced stress testing on the financial position of stockbrokers as well as the adequacy of their action plans and risk management tools. The SC also assessed brokers' action plans to meet their capital needs should any of the stress scenarios materialise.

The SC expects stockbrokers to have in place adequate risk management controls, carry out prudent risk management measures, and maintain sufficient resources. Stockbrokers were found to have generally adopted dynamic risk parameters in line with heightened trading volume. In addition, they have continued to remain cautious in managing risk exposures in periods of high volatility.

Stockbrokers were also observed to have in place comprehensive risk management frameworks, which included the establishment of Risk Management Committees and functions. In this regard, stockbrokers had independently undertaken measures such as imposing security requirements against credit risks.

Towards this end, the industry average of risk weighted capital ratio (RWCR) of investment banks and capital adequacy ratio (CAR) of non-investment banks remained above the minimum requirement.

Ensured High Quality of Audit Conducted on PIEs

Mobility restrictions under the MCO had resulted in audit teams having limited or no access to their clients' books and records, thus, potentially affecting the progress, quality and completion of audit engagements within the planned timelines.

In April 2020, the SC's Audit Oversight Board (AOB) issued an Alert to auditors and public-interest entities (PIEs) regarding the importance of ensuring high quality audit on financial reports of PIEs under the prevailing challenging circumstances. The Alert also served to communicate the areas of focus that auditors and Audit Committees of PIEs may wish to pay particular attention to when discharging their responsibilities.

The AOB also faced its challenges of working under strict health and safety SOPs, which resulted in limited physical engagements with stakeholders and a reduction in time to complete the planned inspection programmes. Notwithstanding this, the AOB continued to discharge its regulatory functions by leveraging technology such as video conferencing for discussions or engagements with audit firms and adapting its inspection approach in 2020 to:

Increase the utilisation of data analytics to facilitate offsite monitoring of PLCs and their respective auditors; and

Incorporate thematic reviews in relation to the impact of COVID-19 and MCO to audited financial statements and auditor's reports.

A total of four audit firms and 242 audit engagements were scoped in the AOB's thematic reviews on the impact of COVID-19. The thematic reviews revealed gaps in a number of the auditors' verification of the PIE's going concern assumptions and impairment assessments, as well as the adequacy of subsequent event disclosures in the audited financial statements. Additionally, the AOB continued with inspections and covered 10 audit firms and 19 audit engagements.

GLOBAL CO-ORDINATION IN REGULATORY RESPONSE TO COVID-19

The COVID-19 pandemic caused the global financial system to experience its biggest stress event since the global financial crisis. While the cause did not emanate from the financial sector, the pandemic had created a tumultuous environment in the financial markets.

Members of the International Organization of Securities Commissions (IOSCO) including the SC co-operated to manage their responses to the risks and challenges faced by the capital markets. IOSCO is the leading international standard-setter for securities regulation, whose membership regulates more than 95% of the world's capital markets worth around US$140 trillion, in approximately 120 jurisdictions.

The pandemic highlighted the importance of global co-ordination in regulatory responses during times of market stress. Throughout extreme volatility, international regulators through IOSCO reinforced the importance of ensuring markets remain open and continue to function in an orderly manner to enable participants to price and transfer risks across asset classes. Global regulators also focused on ways to provide appropriate flexibility to help market participants address challenges arising from the pandemic. These included, among others, adjusting onsite inspections, oversight requirements, and providing flexibility on requirements related to AGMs, as well as ensuring high quality financial reporting and disclosure obligations are maintained.

As an elected member of the IOSCO Board, the SC participated in frequent information-sharing with its peers from both developed and emerging market jurisdictions to identify and mitigate issues arising from COVID-19. These included the development of IOSCO's COVID-19 repository of measures that global regulators have taken to mitigate risks to investor protection, market integrity and financial stability. The repository covered the types of measures, rationale and impact these measures have had on respective markets.

Among IOSCO's other priorities during the year were to address areas of market-based finance that are most exposed to heightened volatility, constrained liquidity and the potential for pro-cyclicality. These included examining investment funds as well as margin and other risk management aspects of central clearing for financial derivatives and other securities. Following the publication of the earlier *Report on Sustainable Finance and the Role of Securities Regulators and IOSCO*, IOSCO's newly established Board-level Sustainable Finance Task Force, which the SC is a member of, is also taking forward work on disclosure, greenwashing and ESG ratings, among others.

Substantial resources are also devoted to retail investor protection, particularly given the growing retail participation in global capital markets. To this end, the IOSCO Board's Retail Market Conduct Task Force is examining how the market turmoil caused by COVID-19 has given rise to increased misconduct in financial services for retail investors.

The SC's active participation in these areas has allowed the organisation to gain valuable insights on global regulatory developments and policy measures taken, including their effectiveness. It has helped shape its responses for the Malaysian capital market and ensured that its policies are in line with global practices.

The SC also continued to enhance its supervisory efforts through participation in regional supervisory colleges, and regular dialogues on strategic and thematic supervisory issues to keep abreast of supervisory developments across the region. In 2020, the SC with other international regulators conducted a follow-up review on market intermediaries' responses and action plans to the supervisory college feedback as well as the operational challenges arising from COVID-19 and emerging supervisory concerns.

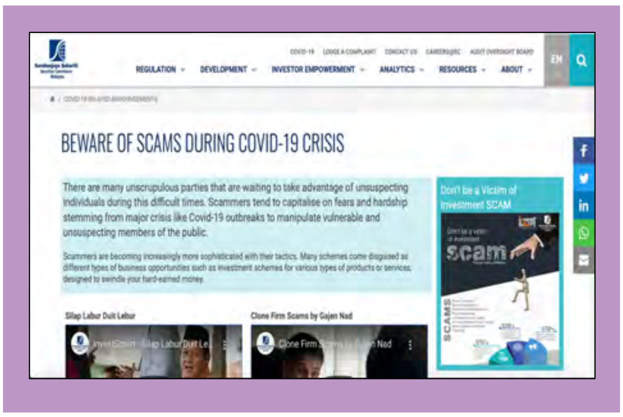
In 2020, to have the maximum reach, the IOSCO Asia Pacific Hub (The Hub) hosted by the SC in its premises, leveraged heavily on technology to undertake its capacity-building activities. The Hub produced a series of webcasts on the implications and various issues of COVID-19, including the outlook to regional financial markets, financial reporting and disclosures, cyber security, retail investor protection and sustainable finance.

INVESTOR PROTECTION AND MARKET INTEGRITY

Investor Protection Through Investor Alerts and Public Complaint Hotline

Complaints management remains a critical function in supporting the SC's investor protection mandate. Given the increase in potential scams perpetrated by those seeking to prey on vulnerabilities arising from the COVID-19 pandemic, it was important that the SC's complaints management process remain operational throughout the MCO period. This is to ensure that appropriate recourse channels are available to the investing community and public at large. Other than walk-in complainants, the SC continued to attend to public complaints or enquiries received through the *Aduan* telephone hotline or email.

Several initiatives were introduced to communicate anti-scam awareness messages to the public. These were conducted through television, radio, social media platforms and websites including the anti-scam dedicated page on the SC's website and a 3-week anti-scam awareness campaign on major television channels.



Refer to the full list of the SC's investor education initiatives in 2020 under InvestSmart® in Part 5 of this annual report.

Strengthening Oversight on Cyber Resilience

Given increasing cyber threats in the financial market globally, the SC continued to facilitate the cyber resiliency of capital market entities as well as safeguarding investors' interests. The SC stepped up its efforts to protect investors from those looking for gaps to exploit, particularly arising from operational disruptions and increased reliance on online investment activities due to remote working arrangements. An advisory was issued to all market participants to take the necessary counter-measures against the threat of malicious activities such as the creation of fake websites and malware. If left unmitigated, such cyber-related risks may potentially cause significant business disruptions, loss of sensitive data, financial losses to investors and reputational damage to market participants.

With employees returning to work and accessing corporate networks following the RMCO in June 2020, the SC continued to advise market participants to remain vigilant against potential risk of dormant malware that may have been unwittingly installed into personal devices or computers during remote working conditions. Such malware may be designed to activate upon connection to corporate networks, leading to cyber security incidents.

The SC undertook a review by way of a self-assessment questionnaire to assess capital market entities' level of compliance to the SC's *Guidelines on Management of Cyber Risk* (Cyber Risk Guidelines). Pursuant to the review, the SC continues to engage the relevant capital market entities to ensure they comply with the SC's Cyber Risk Guidelines.

Assessments were also conducted on new entrants to the capital market in terms of their levels of maturity towards cyber resilience. The assessment enables such entities to identify any vulnerabilities and formulate new controls and mitigation measures. In relation to the cyber resilience of regulated digital asset exchanges (DAX), the SC's oversight efforts are focused on their management of digital asset key encryption. Cyber incident reports are continually received and monitored by the SC, resulting in issuance of thematic advisories and communication to capital market intermediaries such as cyber hygiene best practices.

The SC will continue to engage and work closely with capital market entities to assess their risk management, and IT policies and practices to ensure that crucial systems are able to deal with potential cyber risks.

Capital Market Cyber Simulation 2020

The SC hosted the third annual Capital Market Cyber Simulation (CMCS) exercise for the capital market entities in collaboration with Cyber Security Malaysia (CSM) and National Cyber Security Agency (NACSA). Several simulation incidents were conducted with a focus on real-life WFH scenarios to ensure participants' capability to respond and remediate cyber security incidents.

Selected participants were invited to take part in the CMCS 2020. The exercise provided participants an opportunity to experience real-life cyber threats, test out internal procedures, deploy technical capabilities to analyse and resolve the incidents.

Overall the SC has observed year-to-year improvement in the participants' performance despite increasingly challenging simulated scenarios. The participants have learned the importance of communication and prompt actions to mitigate the incidents.

CYBER HYGIENE BEST PRACTICES

CREATING GREATER PROSPERITY FOR THE REGION AND FACILITATING ECONOMIC RECOVERY POST COVID-19

In 2020, Malaysia served as the Chair of the Asia-Pacific Economic Cooperation (APEC) – the co-operative economic and trade forum with 21 members aimed at creating greater prosperity for the region.

Themed 'Optimising Human Potential towards a Resilient Future of Shared Prosperity: Pivot. Prioritise. Progress.', the APEC Finance Ministers' Meeting 2020 (APEC FMM 2020) was held virtually on 25 September 2020. The APEC FMM 2020 focused on the economic implications of COVID-19 and policy responses taken by APEC economies in mitigation and recovery, as well as the enhanced role of digitisation to address the impact of the pandemic. Chaired by Malaysia's Minister of Finance, attendees included Ministers of Finance and senior policymakers from all APEC economies as well as international organisations. The SC formed part of the Malaysian delegation.

Within the context of the Malaysian capital market, initiatives highlighted were measures taken during the pandemic to ensure the capital market continued to function effectively and support the real economy.

In the Virtual Finance Ministerial Statement, APEC economies emphasised the need to continue exchanging experiences and good practices. It also encouraged co-ordinated multilateral co-operation towards ensuring a strong and sustainable economic recovery. APEC economies reiterated their determination to continue using available policy tools to support immediate responses to the pandemic, including for those in vulnerable segments of society. APEC economies also recognised that the pandemic had accelerated the digitisation of economies. Measures with digitisation elements aimed to help businesses, especially SMEs, navigate the impact of COVID-19 were also underscored.

The APEC FMM 2020 focused on the economic implications of COVID-19 and policy responses taken by APEC economies in mitigation and recovery, as well as the enhanced role of digitisation to address the impact of the pandemic

ENSURING STABILITY AND CONTINUITY DURING COVID-19

The SC took swift action to help alleviate immediate challenges and risks faced by the capital market and its participants, focusing on continued orderly function of the market, regulatory relief measures, continuity in operations of market institutions and intermediaries, market and liquidity risks as well as investor protection.