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

[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	Key updates
Facilitate operational efficiency and improve time-to-market for industry	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.
Enhance investor protection	To require issuers to seek the consent of bondholders or sukuk holders for any additions, variations, extensions or modifications to conditions subsequent.
Improve trustees' ability to carry out their duties more efficiently and effectively	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