

CHAIRMAN'S MESSAGE

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I am privileged to present my first annual report as Chairman of the Securities Commission Malaysia, a role which I assumed in November 2018.

It was a year of historic change on the domestic front, which coincided with the 25th anniversary of the SC's establishment. Though occasionally tempered by uncertainties stemming from rising trade tensions and tightening global financial conditions, all segments of the Malaysian capital market nevertheless remained resilient, which is a testament to the safeguards implemented by policymakers and market participants.

Structural forces also continued to reshape markets – both global and domestic – with technology transforming financial services in tandem with demographic trends which underscore the need for a more inclusive and sustainable development philosophy.

These factors paint a backdrop against which the SC pursued its 2018 work programme in line with its regulatory and development mandate, an account of which is provided in this annual report.

HIGHLIGHTS OF 2018

The overall capital market stood at RM3.1 trillion as at 31 December 2018, equivalent to 2.2 times the size of the domestic economy. This comprised domestic bonds and sukuk outstanding, which rose to RM1.4 trillion and equity market capitalisation of RM1.7 trillion. On the buy-side, the fund management industry with assets under management of RM743.6 billion continued to play a key role in savings intermediation.

The capital market sustained its role in financing for the real economy, with total funds raised through bond, sukuk and equity issuances amounting to RM114.6 billion. While relatively nascent, alternative fundraising channels for micro, small and medium enterprises (MSMEs) such as equity crowdfunding (ECF) and peer-to-peer (P2P) financing gained traction, with RM261.5 million raised by 693 issuers to-date.

Despite emerging competition, Malaysia remained a global leader in the Islamic capital market with RM1.9 trillion in Shariah-compliant equity and sukuk outstanding. Malaysia also continued to be the world's largest sukuk market.

In 2018, the SC focused on building an enabling ecosystem which provides accessibility while ensuring investor protection and intermediation efficiency. Our priorities therefore centred on facilitating inclusive and sustainable growth, raising standards of governance and conduct, as well as safeguarding integrity and resilience.

Facilitating inclusive and sustainable growth

The SC broadened retail access to the bond and sukuk market by liberalising regulatory requirements for primary issuances and introducing a seasoning framework to allow access to existing corporate bonds and sukuk. Disclosure requirements were revised to allow issuers who meet specific criteria to issue a product highlight sheet instead of a full prospectus, thus reducing cost to issuer.

Following the entry of a digital equity broker in the preceding year, in 2018 the SC continued to facilitate digitisation of capital market services by granting a licence to Malaysia's first digital investment manager – a new class of intermediaries which aim to offer an accessible and cost-effective channel for investors to manage and grow their wealth.

Building on our strength in the Islamic capital market, we pursued initiatives to establish Malaysia as a regional centre for sustainable finance. Following the internationally recognised issuance of the world's first green sukuk in Malaysia in 2017, the SC established a RM6 million Green SRI Sukuk Grant Scheme in 2018 to incentivise issuances of green SRI sukuk by defraying up to 90% of external review costs in relation to obtaining green certification. Four applications have since been approved, supporting RM2.2 billion in funds raised. Attesting to growing demand for SRI assets, the world's first ESG sukuk fund was also launched in Malaysia in 2018 under the SC's *Guidelines on SRI Funds*.

Recognising the need to stimulate equity market vibrancy – an issue which requires co-ordination across multiple factors and stakeholders – measures were rolled-out to encourage trading, which includes liberalising rules on margin financing and intraday short selling while also introducing new categories of traders.

Raising standards of governance and conduct

Efforts to promote growth were complemented by measures to strengthen discipline among market participants. In particular, cultivating a strong and internally-driven culture of corporate governance remained an important pursuit.

The SC's efforts culminated in an overall improvement in our corporate governance ranking, with Malaysia rising from sixth to fourth out of 12 Asia Pacific countries in the 2018 *CG Watch Report* published by the Asian Corporate Governance Association (ACGA) and CLSA. As the top mover in the survey, Malaysia was commended for the launch of the new *Malaysian Code on Corporate Governance* (MCCG) as well as market fairness and transparency.

Underpinned by the belief that investors themselves have an important role to play in exerting market discipline, the SC also organised programmes to empower investors with the ability to make informed decisions. Our investor outreach initiatives throughout the year engaged over 280,000 participants, while the InvestSmart® Fest 2018 alone received 14,000 visitors.

Safeguarding market integrity and resilience

Supervisory efforts focused on intermediary conduct, prudential soundness as well as effectiveness of control functions and governance, with entity-based audits complemented by thematic reviews on industry-wide issues identified through a forward-looking risk assessment. In 2018, thematic reviews were conducted on liquidity risk management, effectiveness of broker supervision over remisiers, suspicious transaction reporting and structured warrants. Observations indicated that firms generally meet expected standards of business conduct and controls, with some areas for improvement identified and communicated.

We also enhanced surveillance efforts in line with developments in the market, including increasingly sophisticated trading strategies, introduction of new

products and expansion of trading order types. Close monitoring of listed company activities and financial reporting remained an important component of corporate surveillance work, which aimed to deter potential transgressions and ensure compliance with approved accounting standards. As part of the SC's systemic risk oversight mandate, we assessed systemic implications of various drivers of risk including global monetary policy decisions, escalating trade tension and geopolitical developments. To strengthen market integrity against emerging threats, we conducted a cyber simulation and enhanced cyber risk management within the industry.

Where breaches were identified, the SC deployed a range of enforcement tools under its administrative, civil and criminal powers. As a result, 80 administrative sanctions were imposed, 14 criminal charges preferred, and over RM30 million in disgorgements and fines issued. Custodial sentences on six individuals also reflected increasing judicial recognition on the gravity of securities offences.

PRIORITIES FOR 2019

As a dual-mandate regulator, the SC's greatest challenge remains its ability to strike a balance between facilitating growth while safeguarding stakeholders and upholding discipline – particularly in the face of heightened competition and continual financial innovation.

Moving forward, the SC remains committed to a proportionate and facilitative regulatory approach – one which fosters innovation and competitiveness within a sensible and proactive oversight regime. This will be reinforced by efforts to galvanise the entire capital market ecosystem, including issuers, intermediaries and investors, into playing their respective roles to uphold market discipline. Supporting this will be greater openness and collaboration between the SC and industry, as well as other stakeholders in the Malaysian economy.

Fostering innovation and competitiveness

Access to financing is an important catalyst for private enterprise, which is critical for Malaysia's long-term growth. Recognising this, the SC will continue to expand pathways for market-based financing by facilitating fundraising by larger existing firms while enhancing access to capital from both traditional and alternative avenues for high-growth and innovative MSMEs.

Supply of capital, particularly to alternative financing avenues, will be augmented by efforts to grow Malaysia's venture capital and private equity industry. To this end, our efforts will focus on diversifying sources of funding beyond government-backed funds while also encouraging investments at different stages of investee companies' life cycle.

To facilitate equity fundraising, the SC will collaborate with intermediaries to infuse greater market perspectives into the IPO process and improve time-to-market for proposals that comply with requisite investor protection criteria. We will continue to place accountability on intermediaries, issuers and professionals for high standards of disclosure, professionalism and governance.

To enhance market vibrancy, the SC will also support changes in the trading landscape by allowing for varied trading strategies, including greater use of derivatives. Building on our efforts to facilitate digitisation while ensuring relevant safeguards for investors and the market at large, the SC will also introduce a framework to facilitate the trading of digital assets in Malaysia.

In relation to intermediaries, the SC remains supportive of new business models and efforts to reposition existing firms. Building on ongoing liberalisation efforts, the SC will review its authorisation and licensing framework to enable greater flexibility and responsiveness in recognising innovative intermediation models. Where appropriate, we will encourage greater competition to allow for a wider range of services, prices, products of a higher quality and ultimately, an expanded investor base.

Driving long-term value creation

Moving forward, the SC aims to foster growth which is premised on long-term value creation, with due consideration for social and environmental as well as financial returns. This pursuit should be aligned with principles of stewardship, shareholder activism and responsible intermediation.

Given the congruence of such ideals with the principles of Islamic finance, where Malaysia retains global competitive advantage, the SC will intensify efforts to further expand the Islamic capital market as well as the closely-linked sustainable finance segment. Among others, we will continue to broaden the SRI sukuk framework and introduce Islamic SRI positive screening for equity offerings. Another area of focus will be the development of social enterprises via the *waqf* model, where sustainable returns can be generated from endowments and channelled towards financing socially-beneficial endeavours.

Given directors' fiduciary responsibilities to drive corporate value creation and preservation, the SC will collaborate with stakeholders to strengthen board diversity and performance. Quality of corporate disclosure is also paramount, as issuers should articulate how they deliver value for all their stakeholders, not just the financial market. In tandem, we will promote greater demand for sustainable, long-term growth through channelled voices and shareholder activism.

We will also emphasise a culture of responsible intermediation, where firms pursue growth that is both financially profitable and instilled with a sense of shared responsibility to current and future generations. Ultimately, we want market participants to take greater responsibility - individually and collectively - for their own contributions to a sustainable and fair capital market.

Preserving trust and confidence

While the SC emphasises the need for an enabling market environment, we are cognisant that these measures bring both opportunities and risks. Hence, we will heighten efforts to monitor, mitigate and manage risks within the capital market.

We will continue to strengthen our proactive approach to supervision and surveillance, which will see us engaging more closely and frequently with market participants guided by forward-looking judgements on risks associated with their business models, strategies and governance structures. This will entail forming a view not just on where market participants are currently placed, but also where they may be in the future given prevailing business and market trends.

At the same time, we will further refine our enforcement strategy to ensure that our powers are holistically deployed against a broad range of capital market offences, thus achieving credible deterrence. This requires our enforcement resources to be effectively utilised with due regard for the impact of each case on a wide range of factors including market integrity as well as the confidence of market participants.

Strengthening regulatory capability and efficiency

Executing these strategies require a highly-skilled and motivated workforce, and the SC will continue to invest in attracting and retaining the best talent. As a statutory body, economy and efficiency govern our approach to resources, and the SC continuously reviews its internal processes to ensure that the organisation is efficient, effective and future-ready.

The SC also expects no less from ourselves than we do from our stakeholders, and will continue to meet the same standards of integrity, professionalism, transparency and accountability that we expect from market participants.

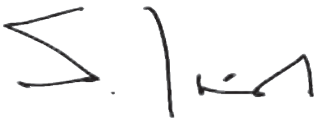
ACKNOWLEDGMENTS

The SC has come a long way since its establishment a quarter-century ago – both as a regulator and member of the wider Malaysian institutional framework. This is, to a large extent, due to the unwavering commitment of its staff and support from various stakeholders.

I wish to record my appreciation to my predecessor as well as retired members of the board for their contribution to the organisation.

It gives me great pleasure to welcome Tan Sri Noorul Ainur, Datuk Dr Khaw Lake Tee, Johan Mahmood Merican, Ahmad Faris Rabidin, Dato' Gooi Hoe Soon and Datuk D.P. Naban as board members to the Commission.

I am deeply honoured to have been appointed to this role. I am positive about the possibilities that lie ahead of us, and look forward to working with the capable staff members of the SC and the capital market community.



Syed Zaid Albar