

Chairman's Message



On behalf of my fellow board members of the Securities Commission Malaysia (SC), it is with great pleasure that I present the SC's *Annual Report* for the year 2020.

The Malaysian capital market weathered a tumultuous 2020, when a global health contagion had severe repercussions for the world's economic health. This unprecedented period brought forth trends that will likely alter the future landscape of the market. Events during the year underscored to the SC and all our stakeholders, the benefits of remaining accessible and open, and staying agile and resilient, as we navigated through a difficult, unfamiliar and treacherous environment.

In a year marked by business disruptions, the SC was able to respond swiftly to market and commercial needs and ensure the capital market remained accessible, agile and accountable (the '3As'). The SC channelled its resources in 2020 to focus on deploying sustained and facilitative regulatory actions to ease evolving market pressures, manage market and operational risks, protect vulnerable investors, accelerate digitisation of the capital market and widen opportunities in key and emerging market segments.

Facilitating Business and Market Continuity

As pandemic containment measures were imposed in March 2020, various regulatory reliefs were rolled out to facilitate business continuity and maintain market operations. This ensured the capital market continued to perform its fundamental role as an avenue for fundraising and mobilisation of savings.

Relief measures granted to public-listed companies (PLCs) include extension of time for ongoing corporate reporting obligations and revision of criteria for classification of affected listed issuers.

Waivers on listing related fees as well as flexibilities for rights issuances, corporate bonds and sukuk and structured products facilitated continued corporate and fundraising activities. Interest for equity and bond issuances remained encouraging in 2020 with total funds raised of RM114.6 billion.

In April 2020, the SC issued a guidance note to facilitate the conduct of fully virtual shareholders' meetings. Listed companies were also encouraged to use online or hybrid approaches when engaging in take-over and merger activities.

Brokers were given flexibility to provide temporary relaxations to investors on margin financing requirements and expansion of eligible collateral, while penalty-free early withdrawals from private retirement scheme (PRS) accounts was extended to PRS contributors under the Government's *PENJANA* initiative.

Maintaining Market Stability and Managing Risks

Volatile market movements in 2020 called for closer monitoring of potential systemic risks across markets and intermediaries. Risk mitigation efforts were enhanced through increased regulatory co-ordination and information sharing with Bank Negara Malaysia (BNM), Bursa Malaysia and our international counterparts.

To ensure that intermediaries remain resilient, our supervisory efforts were focused on the robustness of capital adequacy, risk management controls and contingency plans. This includes enhanced supervision of recognised market operators (RMOs) and liquidity risk management of investment funds. The resilience of the domestic fund management industry was reflected by the growth in total assets under management (AUM) to RM905.5 billion.

The SC also employed enhanced stress testing and heightened monitoring of PLCs and corporate bonds as asset price adjustments demanded more frequent risk assessments on the stability of market infrastructure and key market segments.

Despite higher volatility levels, our markets were kept open and operated as usual to support capital flows and the real economy. In order to ensure the stock market continued to operate in a fair and orderly manner, revisions were made to the exchange's dynamic and static price limits and circuit breakers, and short selling activities were suspended.

Overall, given the market environment, it is gratifying to note that the total capital market has expanded by 7.0% to RM3.4 trillion.

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Protecting Vulnerable Investors

Market uncertainties during the pandemic saw a rise in activities such as illegal investment schemes and clone firms, which if left unchecked, would cause harm to vulnerable investors. A special taskforce was established within the SC to focus resources in investigating these schemes and to take necessary enforcement actions. Various anti-scam awareness campaigns were launched under the SC's InvestSmart® platform, to constantly remind investors to exercise caution before investing in schemes offered on social media and messaging platforms.

Improved retail participation in the stock market was evident with local retail investors making up 32.4% of total value traded, significantly higher than the 5-year average. In order to ensure informed retail investing and given the circumstances, InvestSmart®'s initiatives continued online throughout 2020. Its flagship event, InvestSmart® Fest, was held virtually and attracted 9,000 visitors.

The SC continued to push ahead our efforts to promote good corporate governance with the issuance of guidelines that enabled the SC to enforce measures against breach of fiduciary duties by PLC directors. Intermediaries were also required to implement whistle-blowing and anti-corruption measures while auditors were reminded of the need to deliver high quality audit work and services.

Although there was some delay in investigation and ongoing court cases during the lockdown period, we continued to identify and sanction harmful conduct through proportionate and targeted enforcement actions. Criminal convictions were secured with fines totaling RM5.8 million. More than RM3.8 million was restituted to affected investors through civil action and 16 individuals were barred from becoming PLC directors.

Administrative sanctions were also imposed for various breaches of securities laws and guidelines.

Broadening the Capital Market's Digital Embrace

The SC's Digital Agenda for the capital market gained momentum as the necessity for reduced physical contact shifted many services and activities online. Digital Investment Management (DIMs), digital asset exchanges (DAX), and other online service providers and platforms attracted new investors with a corresponding increase in new account openings and transactions.

The roll-out of remaining measures under the Brokerage Industry Digitisation Group (BRIDGe) provided the much needed process enhancements for better online experience. The Fund Management Industry Digitisation Group (FMDG) identified client onboarding and provision of fund services as key areas for digitisation.

In 2020, guidelines to regulate Initial Exchange Offerings (IEO) and Digital Asset Custodians (DAC) were issued. An encouraging development for digital assets was the Shariah Advisory Council's (SAC) ruling on the permissibility of investment and trading of digital currency and digital tokens. A secondary trading framework for equity crowdfunding (ECF) and peer-to-peer financing (P2P) was also launched to provide investors with an exit mechanism, while Budget 2021 tax exemptions are expected to spur individual investor participation in ECF.

In terms of online channels, amended guidelines facilitated the wider distribution of capital market products through e-Services platforms. This complemented the release of guidelines that provided flexibilities to advertise capital market products and services through digital channels. An MOU with Indonesia's Otoritas Jasa Keuangan (OJK) was also sealed to expand the SC's regional collaboration on the development of financial technology (fintech).

Enhancing Market Diversity and Opportunities

Notwithstanding economic and operational disruptions, measures to enhance market diversity and resilience continued during the year to provide intermediaries greater opportunities in product and service offerings.

Fund liberalisation measures for wholesale funds and PRS were introduced to meet investor demand for greater diversity in fund structures and asset types. The government also extended the individual tax relief on PRS and stamp duty exemption for exchange-traded funds (ETFs) to facilitate further flows into investment funds.

The SC continued to expand the scope of advice that can be offered by financial planners to include stocks and bonds while licensed representatives were permitted to offer discretionary trading services.

Product approval processes were also streamlined to improve time and cost efficiencies for Main Market initial public offerings (IPOs) and retail feeder funds.

Strengthening SRI and the Islamic Capital Market Ecosystem

The sustainability agenda attained greater prominence in 2020, compelling businesses to re-examine their commitment to environmental, social and governance (ESG) values.

Implementation of the SC's *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market* (SRI Roadmap) centered on creating a facilitative ecosystem for SRI products and investments. This included the establishment of the Malaysian Sustainable Finance Initiative (MSFI), the Centre for Sustainable Corporations and a dedicated SRI Centre within the Bond+Sukuk Information Exchange (BIX).

The Grant Scheme that was set up to offset external review costs for issuers was expanded to cover all sukuk under the SRI Sukuk Framework, as well as all

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bonds under the three ASEAN Bond Standards. It was accordingly renamed, the SRI Sukuk and Bond Grant Scheme. The income tax exemption for grant recipients was also extended.

In order to advance social finance, especially through wider offerings of Shariah-compliant solutions, an innovative framework to facilitate funds with waqf features was issued.

Priorities for 2021

As we expect a prolonged post-pandemic recovery, the economic and market environment ahead will remain challenging. Perseverance and resilience are needed as we journey to a new normal, as uncertainties and risks to recovery will influence market sentiment.

In 2021, the SC will continue to focus on maintaining market integrity and promoting investor empowerment. This includes greater vigilance against any market misconduct and detection of unlicensed activities.

The SC's developmental priorities will include facilitating further market innovation and new business models, while enhancing the capital market's digital embrace and breadth of SRI and Islamic products and services. We will continue to widen access to alternative fundraising, to support emerging entrepreneurs and SMEs, including those in the halal and green industries.

The development of Islamic fintech is another area that the SC intends to explore with prospective market players.

In line with industry digitisation efforts, we will continue to strengthen our capabilities in the areas of advanced data analytics and machine learning, strategic communication and enforcement. Furthermore, as digital tools and services grow, promoting data governance and strengthening cyber resilience of licensed intermediaries will be another key area of focus for the SC.

Vulnerable investors, particularly the silver population and those in rural areas, will be at the core of our investor outreach programmes. We believe these initiatives will promote an inclusive capital market and reduce the impact of the digital divide.

The SC will also streamline conduct requirements for all market participants, which will include a review of the scope of investment advisory services and corporate governance practices for market intermediaries.

The commitment and unwavering support of the SC staff, my Executive Team, members of the SC Board and the SAC, have enabled the SC to continue its operations smoothly and fulfil its mandate, despite the challenges faced during the year. I would like to take this opportunity to thank them for their dedication and fortitude in discharging their duties. Equally pivotal was the commitment and co-operation from market intermediaries in ensuring the integrity and continued functioning of our capital market.

On a personal note, my heartfelt appreciation goes out to the many healthcare professionals and frontline personnel who have worked tirelessly to keep us safe during such an extraordinary period.



SYED ZAID ALBAR