

Thematic Review on the State of Compliance of Capital Market Intermediaries with the Guidelines on Market Conduct and Business Practices for Investment Analysts and their Analysts

Intermediaries licensed for investment advice play an integral role in the capital market industry as they keep investors informed on valuable investment opportunities and challenges, via their research services conducted.

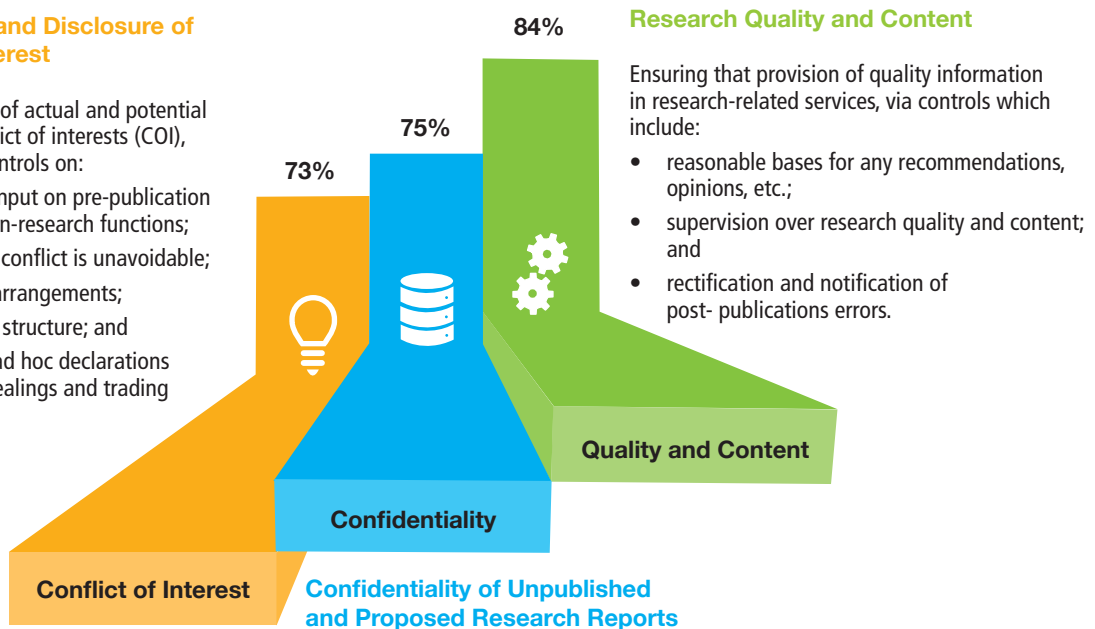
Considering their crucial role within the sector, the SC had issued *Guidelines on Market Conduct and Business Practices for Investment Analysts and their Analysts* (IA Guidelines) in December 2022 that detailed core principles and minimum standards to be observed by Investment Analysts (IA). Following up on the issuance of guidelines, an assessment was carried out to ascertain the current state of compliance of all CMSL IA holders with the requirements of the IA Guidelines.

The assessment which was carried out before the effective date of the IA Guidelines on 8 June 2023, revealed that the majority of CMSL IA holders have been working towards complying with the requirements of the IA Guidelines. However, compliance levels within the industry should be elevated further:

Management and Disclosure of Conflict of Interest

The management of actual and potential situations of conflict of interests (COI), which includes controls on:

- limitation of input on pre-publication reviews by non-research functions;
- events where conflict is unavoidable;
- chinese wall arrangements;
- remuneration structure; and
- periodic and ad hoc declarations of personal dealings and trading activities.



Research Quality and Content

Ensuring that provision of quality information in research-related services, via controls which include:

- reasonable bases for any recommendations, opinions, etc.;
- supervision over research quality and content; and
- rectification and notification of post-publications errors.

Confidentiality of Unpublished and Proposed Research Reports

Regulating the flow of information relating to unpublished and proposed research reports and recommendations, which include controls on:

- information and physical barriers;
- management of material non-public information;
- clear review and approval process; and
- fair dissemination of reports.

These intermediaries' level of compliance will continue to be monitored via ongoing oversight.

Thematic Review on the Adoption of Guidance Note on Managing Environmental, Social and Governance Risks for Fund Management Companies

In June 2022, the SC issued the *Guidance Note on Managing Environmental, Social and Governance Risks for Fund Management Companies* (FMCS) (ESG Guidance Note) which sets the SC's expectation on practices in managing environmental, social and governance (ESG) risks in investment portfolio as well as on stewardship of investee companies. To assess FMCs' adoption of the ESG Guidance Note, in June 2023, the SC issued a questionnaire to all the FMCs in the industry for them to self-assess their own practices against the key expectations in the ESG Guidance Note.

Generally, FMCs' progress on the adoption of the ESG Guidance Note are at differing stages. Most FMCs with AUM of more than RM10 billion (hereinafter referred to as 'Large FMCs') represented that they have considerably adopted the practices recommended in the ESG Guidance Note. Large FMCs contributed 84% of the fund management industry's AUM of RM945 billion as of 30 June 2023. Among others, most Large FMCs represented that:

Governance	Board of Directors set strategic direction for responsible investment framework and it is implemented by senior management.
Policies	Responsible investment frameworks are in place and ESG factors are incorporated in investment processes, decision-making and active ownership.
Risk Management	Material ESG risks in investment portfolio are monitored, assessed and managed on a continuous basis.
Communication with stakeholders	<ul style="list-style-type: none"> Engagements with investee companies and voting rights are exercised on material ESG issues. Inter FMC collaborative engagements on ESG-related matters are held.
Capacity building	ESG-related training provided across various levels of personnel.
Disclosure	FMCs disclose their responsible investment-related objectives, strategies, practices and activities and the disclosures are validated to curb greenwashing risks.

Access to SRI-related resources, data and stewardship as well as sound understanding of relevant complex methodologies would act as catalyst in advancing FMCs' progress in their SRI journey. The SC acknowledges the efforts undertaken by FMCs thus far and will adopt a multi-pronged compliance approach on key recommendations in the ESG Guidance Note which will be announced in 2024.