

Chairman's Message

“It is my privilege to present the annual report for Securities Commission Malaysia, which provides an account of our initiatives in 2019.”



A well-developed and efficient capital market is essential in meeting a country's economic development objectives. As Malaysia transitions into a high-income economy, investments are required, especially in high value-added and sustainable industries. Consequent positive spillovers on job creation and household wealth can subsequently ensure that Malaysia's growth is inclusive and shared broadly.

Investments of this scale require a vibrant economy that is underpinned by a deep and liquid market. This would allow individuals, corporations and institutions to unlock value by mobilising funds to finance the real economy. In this regard, trust is essential to attract investor participation in the capital market.

To engender trust, the Securities Commission Malaysia (SC) is committed to build a market with clear and commercially sensible rules. To be credible, such rules must be fairly and consistently applied with due regard for the interests of all parties involved – including the public.

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To ensure the rules are observed, we do not rely on regulatory intensity alone. The first line of defence remains an organisation's own governance and internal controls, with additional discipline provided by an informed and vigilant public.

By placing accountability on market participants for their own behaviour, we recognise that growth cannot occur in an environment devoid of risk. The regulatory framework must therefore allow legitimate commercial risk-taking, subject to full and

timely disclosures, and effective risk management practices.

However, while we provide a facilitative environment for *bona fide* transactions, we are also wary of poor business conduct which may erode public trust and market integrity.

In this regard, the SC's supervisory, surveillance and enforcement role provides a hard backstop against behaviours by market participants that fall short of regulatory requirements.

Sustained growth amidst headwinds

With these safeguards in place, the Malaysian capital market remained resilient and orderly amidst a challenging external environment.

Crucially, the capital market continued to channel financing to the Malaysian economy in 2019, with RM139.4 billion raised through equity, bonds and sukuk (2018: RM114.6 billion). The number of initial public offerings on the Main, ACE and LEAP Markets also increased to 30, despite total equity issuance falling to RM6.6 billion (2018: RM9.2 billion).

Sustained issuances enabled the capital market to grow by 3% to RM3.2 trillion in 2019, with bonds and sukuk outstanding accounting for RM1.5 trillion and equity market capitalisation making up the remaining RM1.7 trillion.

The fund management industry remained an important source of liquidity, with total assets under management (AUM) rising to RM823.2 billion in 2019 (2018: RM743.6 billion). The 11% increase was driven by valuation gains in small and mid-cap equities as well as higher net injections from dividend reinvestment, and marked a welcome rebound from the -4% contraction in 2018.

The depth of domestic buy-side liquidity also enabled orderly intermediation of cross-border portfolio flows. In 2019, the bond and sukuk market recorded total non-resident portfolio inflows of RM19.9 billion while the equity market saw outflows of

-RM11.1 billion. This accumulated to a net inflow of RM8.7 billion into the capital market, compared to net outflows of -RM33.6 billion in the previous year.

Towards a AAA market

The market's resilience demonstrates the rigour of the SC's regulatory framework. This underpins my decision to focus my first full year as the Executive Chairman on improving the functionality of the market for its users, particularly issuers and investors.

The end goal I have in mind is to have a capital market which is Accessible to the widest possible demographic, including underserved segments such as small businesses; Agile in response to opportunities and shifts in the competitive landscape, while remaining Accountable to all relevant stakeholders.

A market with these attributes, Accessibility, Agility and Accountability, can accelerate Malaysia's economic development by serving a larger population of businesses and investors. It can also raise overall competitiveness and bolster trust by focusing on governance and accountability.

The SC's work programme for 2019 therefore comprised initiatives to broaden market access, promote greater agility and reinforce a culture of good conduct, governance and accountability.

Growing alternative financing channels

While financing businesses is a core function of the capital market, previously, various structural impediments limited access to investments in many private companies, hence excluding them from the capital market.

Today, however, technology provides a cost-effective way to mitigate such concerns through channels such as equity crowdfunding (ECF) and peer-to-peer (P2P) financing.

By providing a convenient electronic medium to invest in micro, small and medium enterprises (MSMEs), these financing platforms not only enabled underserved businesses to obtain capital but also attracted a new generation of digitally savvy investors.

Today, there are 10 ECF and 11 P2P financing platforms registered with the SC, with eight new operators approved in 2019 alone. Over the year, almost RM444 million in financing was disbursed to MSMEs – a significant increase from RM196 million raised in 2018. The ECF segment also saw the successful exit of three issuers, which allowed investors to realise their gains and will likely attract liquidity into this space.

Acknowledging the catalytic impact of financing emerging businesses, the Government has allocated RM100 million to the Malaysia Co-investment Fund (MyCIF) to co-invest on a 1:4 ratio alongside private investors. A further RM10 million was also allocated specifically for social enterprises.

Expanding the digital market ecosystem

Given strong public interest in digital assets as an investment instrument, in 2019, the SC formally prescribed these assets as securities and introduced a framework to regulate Digital Asset Exchanges (DAX). This framework provides clarity on the regulatory treatment of digital assets and specifies standards for integrity as well as fit and properness. Three operators have been approved to date.

During Budget 2018, the Government also proposed a technology-enabled mechanism to alleviate home financing constraints in Malaysia, particularly among first-time house buyers. Following a public consultation, the SC launched a regulatory framework for property crowdfunding (PCF) and registered its first operator in September 2019.

Greater investor awareness also translated into growth for Digital Investment Management (DIM), the provision of automated discretionary portfolio management services. Attractive for its easy access, flexibility and low entry costs, AUM grew to more than RM54 million, with three new firms licensed in 2019 – including the first Islamic DIM – and another three granted approval-in-principle.

Spearheading ICM development

With Shariah-compliant assets representing 64% of the capital market, Malaysia is not only a global leader in the Islamic capital market (ICM) but also a pioneer in innovation and thought leadership.

In March 2019, we hosted the 10th SC-OCIS Roundtable together with the Oxford Centre for Islamic Studies (OCIS), focusing on impact investing. In April, we also collaborated with the World Bank and IOSCO Asia Pacific Hub for a conference on the role of Islamic finance in promoting financial inclusion.

Insights from diverse participants are integrated into the SC's development efforts such as our work in designing a structure for *waqf* funds, which enable returns to be channelled towards social impact activities. This product innovation is guided by our *Islamic Fund and Wealth Management Blueprint* and is expected to be launched in 2020.

Recognising that Islamic finance may provide a solution for the world's sustainable financing needs, in 2014, the SC introduced the Sustainable and Responsible Investment (SRI) Sukuk Framework to attract investments into green, social and sustainable projects. To broaden the issuer and investor base, in 2019, we revised the framework to enhance disclosure standards and further align requirements with internationally accepted principles and best practices.

Financing sustainable development

Given the pressing need for the world to meet the UN's Sustainable Development Goals, our efforts to develop Malaysia as a regional SRI centre must be accelerated. To this end, in November 2019, the SC launched the *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market* (SRI Roadmap), a five-year plan which contains 20 strategic recommendations mapped against our existing 5i-strategy.

As sustainability is an overarching concern, co-operation is vital to align all stakeholders towards this objective. Domestically, the SC and Bank Negara Malaysia (BNM) have set up the Joint Committee on Climate Change (JC3) to pursue collaborative efforts to build climate resilience within the financial sector. Members of JC3 include Bursa Malaysia and 19 industry participants.

As an early mover in SRI, the SC also plays a leading role in sustainability-related efforts at the international level via platforms such as the International Organization of Securities Commissions (IOSCO), the ASEAN Capital Markets Forum (ACMF) and the Working Committee on Capital Market Development (WC-CMD).

Enhancing primary market efficiency

At the same time, the SC also focused on enhancing efficiencies within established segments of the capital market.

Topping the list are reforms to the primary equity market, specifically the approval process for initial public offerings (IPOs). Streamlining this area is crucial to provide greater certainty and cost-efficiency for companies listing in Malaysia, while not compromising the robustness of the due diligence and approval process.

After close consultation with practitioners and other stakeholders, the SC has committed to

liberalise the Approved Principal Adviser (APA) Framework by introducing the concept of Recognised Principal Advisers (RPA), Qualified Persons (QP) and Senior Officers (SO). The guidelines to this effect will be introduced in 2020.

These front-end liberalisation measures will be accompanied by more stringent post-hoc supervision. In 2019, the SC conducted a thematic review of selected APAs to gauge their readiness for this framework. These efforts will be expanded moving forward, with more rigorous assessment on RPAs' actual compliance with regulatory requirements during execution of corporate proposals.

Fostering competitiveness

As efficiency is key for intermediaries to remain competitive, the SC established the Brokerage Industry Digitisation Group (BRIDGe) whose members also comprise BNM, Bursa Malaysia and industry participants.

In 2019, the BRIDGe workstreams finalised measures for greater efficiency in the broking industry. These include digitising the client onboarding process through non-face-to-face verification and online CDS account opening, enabling seamless post-trade and settlement through higher settlement limits, and enabling investors to electronically participate in corporate actions such as rights issues and dividend reinvestment plans (DRP). These recommendations complement the SC's efforts to promote the use of e-prospectuses, e-contract notes and e-statements.

As collective investment schemes (CIS) remain a major channel for investors to access the capital market, in 2019, the SC concurrently conducted a review of the *Guidelines for Unit Trust Funds* (GUTF) and the private retirement schemes (PRS) landscape.

We also took steps to promote market vibrancy and broaden investor choices by approving six leveraged

and inverse exchange-traded funds (ETFs) while liberalising requirements for short selling and market making, as well as the retail bond and sukuk framework.

Raising the bar for corporate conduct

As the market's largest user of external financing, the SC demands high standards of conduct, accountability and governance from Malaysia's public-listed companies (PLCs). We undertake active surveillance on PLC activities, focusing on risk areas, corporate transactions and financial reporting, while also regularly querying statutory auditors and the issuers themselves.

To track the implementation of the SC's *Malaysian Code on Corporate Governance* (MCCG), in 2019, the SC released the inaugural *Corporate Governance Monitor* (CG Monitor), which noted positive levels of adoption across various MCCG best practices, particularly board responsibilities, audit committee as well as risk management and internal controls.

Encouragingly, mid-cap and small-cap companies are among early adopters of newly introduced practices such as remuneration disclosures and tenure limits on independent directors. We hope that the CG Monitor will be a useful reference for PLC boards and senior management in strengthening their governance arrangements as well as investors and other stakeholders.

Taking the cue from the *National Anti-Corruption Plan 2019-2023*, the SC reviewed the anti-corruption policies of PLCs and found that only 59% had such policies in place, with most requiring further enhancements. Arising from this finding, the Listing Requirements were amended to require all PLCs to have policies and procedures on anti-corruption and whistleblowing, and for anti-corruption risks to be included in issuers' annual risk assessment frameworks.

Heightening oversight on market participants

The SC deploys a comprehensive systemic risk and market surveillance programme, and regularly engages regulatory counterparts to ensure that authorities have a joined-up view of the market. In 2019, we undertook a macro stress test on liquidity risk of investment funds and released the *Guiding Principles on Business Continuity* to promote resilience of critical capital market services against disruptions.

The SC's oversight of the market is reinforced by our rigorous supervisory regime over licensed entities, financial market infrastructure providers and self-regulatory organisations (SROs). In addition to ongoing monitoring of compliance, supervisors also conduct on-site inspections and, where relevant, thematic reviews on key risks across a particular segment. Topics reviewed in 2019 included the treatment of material non-public information (MNPI) by fund management companies (FMC) and outsourcing to technology service providers.

Deterring misconduct through enforcement

In 2019, the SC continued to use the full range of our powers to pursue enforcement actions against those who committed offences under the securities law.

We secured an increase in civil penalties and greater disgorgement from insider trading and false disclosure cases amounting to RM33.8 million. This enabled the restitution of close to RM1.3 million to more than 600 affected investors. Greater focus was also placed on securities fraud, which accounted for 25% of active cases in 2019.

Our pursuit of criminal and civil actions through the courts is complemented by administrative

actions. In 2019, 99 sanctions including financial penalties, revocation of licences and reprimands were imposed against intermediaries, professional advisors, PLCs and their directors.

In addition to breaches detected by the SC's surveillance and supervisory activities, complaints from the public are an important channel for detecting transgressions, including those committed by unlicensed individuals.

To ensure the investing public is informed and vigilant against such misconduct, the SC conducted an extensive investor education and outreach programme, which included the InvestSmart® Fest 2019 in Kuala Lumpur, Bersama InvestSmart® Borneo in Kota Kinabalu as well as various events and media broadcasts. The SC also co-chairs the Financial Education Network (FEN), which released the *Malaysia National Strategy for Financial Literacy 2019–2023* in July 2019.

Priorities moving forward

The year 2020 marks an important economic milestone for Malaysia. As we continue to face a challenging external environment amidst modest growth prospects, the SC will intensify efforts to create an Accessible, Agile and Accountable domestic capital market. This includes initiatives to expand access to financing for underserved issuers, focusing on unlisted mid-tier corporations and facilitating debt issuances by investees of private equity and venture capital funds.

The SC will also broaden the range of alternative financing and investment opportunities, brought about by greater maturity in the digital market ecosystem. We will continue to facilitate development in new digital assets such as initial exchange offerings (IEOs), and enhance existing ECF, P2P financing and DIM segments, including the introduction of more innovative Islamic solutions.

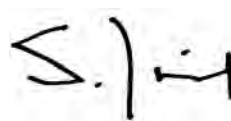
Efforts to expand the digital market ecosystem will be complemented by concurrent investment in strengthening the SC's own capabilities – particularly our expertise in supervising digital business models and asset classes as well as greater use of analytics to ensure we remain effective in an increasingly technology-driven market.

We also note rising international competition in the ICM, which necessitates a renewed focus by the SC to further develop this segment.

Equal emphasis will be placed on implementing the SRI Roadmap, to ensure that synergistic areas will remain a source of competitive advantage for the capital market. In particular, an environmental, social and governance (ESG) criteria will be included in the shariah screening methodology for PLCs. The objective is to encourage the creation of ESG-related indices and funds to provide diversity of investment options. The ESG screening criteria is also an important step towards encouraging PLCs to adopt more sustainable business practices.

Finally, having established an Anti-Corruption Committee and developed an Organisational Anti-Corruption Plan, the SC will continue to raise our own governance and accountability standards to ensure that the institution continues to operate with integrity and independence.

The achievements of the SC were made possible by the hard work of its employees and I unreservedly express my gratitude to my colleagues, particularly the Executive Team. The watchful oversight from our Board members is an important check and balance for the organisation and I thank them for their diligence.



DATUK SYED ZAID ALBAR