



PART

1

ENHANCING ACCESS TO THE CAPITAL MARKET

INTRODUCTION

In 2019, the SC focused its efforts on broadening access to financing and investments. To drive greater capital market development and innovation, there is a need to further enhance accessibility to the capital market and facilitate efficient allocation of resources.

The capital market continues to be an enabler for sustained long-term growth across the spectrum of issuers, investors, intermediaries and enterprises through a holistic approach. Some of the measures undertaken include leveraging digital technology to broaden access to the capital market, expanding Islamic capital market capabilities, developing Malaysia's value proposition as a regional Sustainable and Responsible Investment (SRI) centre, facilitating vibrancy in the capital market and advocating investor protection.

LEVERAGING DIGITAL TECHNOLOGY TO BROADEN ACCESS TO THE CAPITAL MARKET

Alternative fundraising channels and new market operators

To address the unique requirements of businesses, particularly micro, small and medium enterprises (MSMEs), the SC facilitates the development of alternative financing avenues that connect issuers with traditionally untapped pools of investors through cheaper, faster and more convenient delivery channels. These channels also aim to meet the demands of underserved investors.

Equity crowdfunding (ECF) and peer-to-peer (P2P) financing platforms continue to provide alternative sources of capital to fund business activities of MSMEs. First introduced in 2015, there are now 21 market-based financing platform operators in Malaysia, including three new ECF and five P2P financing operators approved in 2019.

Given the success rate of over 8,000 fundraising campaigns, the crowdfunding framework continues to represent a structured and viable alternative access to capital for start-ups and MSMEs, while at the same time widening access for investors.

DID YOU KNOW?

As at end 2019, the ECF and P2P financing market has provided close to RM706 million of alternative financing for 1,943 Malaysian MSMEs.

The sustained growth of ECF and P2P financing in 2019 has largely benefitted the services sector. For the ECF market, key beneficiaries include the 'Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles' and 'Information and Communication' sectors comprising 20% and 11% of total funds raised respectively. The majority of P2P financing were directed to the 'Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles' sector, which accounted for 42% of the total funds raised.

In terms of investors, ECF and P2P financing platforms continued to attract strong participation of investors including retail and youth segments, in line with the SC's agenda to create a more inclusive capital market.

ECF*

P2P*

FINANCING PLATFORMS

10

PLATFORM OPERATORS

RM74 MIL

RAISED TO DATE
80 SUCCESSFUL CAMPAIGNS

77 MSMEs

51% ARE TECHNOLOGY-
FOCUSED PROJECTS

40%

BELOW
35 YEARS OLD

53%

RETAIL

96%

MALAYSIAN INVESTORS

20%

WHOLESALE AND
RETAIL TRADE;
REPAIR OF MOTOR
VEHICLES AND
MOTORCYCLES

11%

INFORMATION
AND
COMMUNICATION



OPERATORS



FUNDS



MSMEs



OVER 20,000
INVESTORS



SECTORS

11

PLATFORM OPERATORS

RM632 MIL

RAISED TO DATE
8,102 SUCCESSFUL CAMPAIGNS

1,866 MSMEs

75% ARE NON TECHNOLOGY-
FOCUSED PROJECTS

62%

BELOW
35 YEARS OLD

95%

RETAIL

98%

MALAYSIAN INVESTORS

42%

WHOLESALE AND RETAIL TRADE;
REPAIR OF MOTOR VEHICLES
AND MOTORCYCLES

* Data is cumulative since inception of ECF in 2015 and P2P in 2016.

CASE
STUDY:

Malaysia's First Equity Crowdfunding Exit

Skolafund is a digital platform that matches deserving undergraduates from less privileged backgrounds with various sources of funding through crowdfunding. To date, Skolafund has crowdsourced a total of RM1.6 million on its platform, benefitting 592 students from low-to-middle income families. With over 29,000 registered donors, Skolafund has launched 350 campaigns and 189 of them were fully funded.

In 2017, ECF helped Skolafund to successfully raise RM300,000 from 26 investors to expand its business. In particular, this fundraising campaign provided investors the opportunity to own equity in Skolafund's business via an investment entry size of as low as RM10, thus reflecting the inclusive nature of ECF.

On 9 October 2019, Skolafund was acquired by one of Asia's biggest donation crowdfunding platforms. This marked Malaysia's first successful ECF exit – a milestone in the country's ECF journey. Harnessing the power of digital technology and a socially conscious hyper-connected society, the exit deal rewarded investors with a 10% return on their investments, demonstrating that social impact enterprises are a fast growing and attractive segment.

1st ECF EXIT

10% return on investment
rewarded to investors



FINTECH

CONFERENCE 2019

22 - 23 OCTOBER

A Securities Commission Malaysia Initiative in collaboration with

Rakuten
Trade

MDEC

PNB
Permodalan Nasional Berhad

SCxSC is the SC's flagship event, a platform to discuss global and local fintech developments relevant to the capital market. In its 6th year, SCxSC 2019 placed a focus on growth and agility within the fintech ecosystem.

"A bit of history – the first SCxSC was held in 2014. Our initial objective was simply to build awareness on ECF and P2P as alternative means of fundraising for start-ups and SMEs.

Move the clock by 5 years to 2019, significant progress has been made. Early entrants have since expanded, with a corresponding increase in their client base and general public awareness."

SYED ZAID ALBAR
CHAIRMAN, SC

FINTECH ENTREPRENEURSHIP

FINTECH LITERACY

FOCUS

INNOVATIVE TECHNOLOGY

SC DIGITAL INITIATIVES



ATTENDEES

33%
FINANCIAL
INSTITUTIONS

17%
TECHNOLOGY
PROVIDERS

50%
OTHERS*

Note: *Others include government agencies, non-financial / technology companies and the academia.

7%↑
INCREASE
IN FEMALE PARTICIPATION

64
SPEAKERS

11 INTERNATIONAL

53 LOCAL



27
EXHIBITION
BOOTHS

ECF & P2P
PLATFORMS
DAX
OPERATORS

FINANCIAL
INSTITUTIONS
GOVERNMENT
AGENCIES

40%
OF PARTICIPANTS
AGED
35 AND
BELOW



33
SESSIONS

FIRESIDE CHAT
TECH TALK
CHILL CHAT

WORKSHOP
PANEL



JEFFREY CRUTTENDEN
CO-FOUNDER,
ACORNS



ELI BROVERMAN
CO-FOUNDER,
BETTERMENT



KAREEM TABBAA
CHIEF PRODUCT
OFFICER,
WAHED INVEST

#SCxSC19



Malaysia Co-investment Fund



During Budget 2019, the Government announced that RM50 million would be allocated to set up a co-investment fund, administered by the SC, to invest together with private investors on ECF and P2P platforms. The fund is intended to further catalyse access to financing for MSMEs through the use of ECF and P2P platforms as an alternative avenue for fundraising. It also seeks to serve as an efficient and transparent means to channel government funds to the intended MSME recipients.

Following this, the Malaysia Co-investment Fund (MyCIF) was established to facilitate financing for MSMEs and provide transparency on the disbursement of public funds for target enterprises. In October, MyCIF began co-investing in ECF and P2P financing campaigns.

In Budget 2020, a further RM50 million was allocated to the fund, with an additional RM10 million specifically assigned for social enterprises.

MyCIF co-invests on a 1:4 ratio alongside private investors, allowing public funds to benefit a wider number of MSMEs. Co-investment will only take place after sufficient funds have been raised from private investors, allowing MyCIF to leverage the 'wisdom of the crowd' in determining MSMEs eligible for co-investment.

MSMEs that receive co-investment from MyCIF are required to report their business performance to the MyCIF Committee, providing valuable data to measure outcomes of the fund. The MyCIF Committee comprises members from the SC, the Ministry of Finance and independent fund managers. As MyCIF invests on commercial terms similar to other private investors, the fund is expected to eventually become self-sustaining and will not rely on funds from the government.

MyCIF has benefited a diverse range of companies from traditional businesses to tech-enabled platforms. These include an online platform for confinement services, a sales lead management system provider, a distributor of high performance motorcycle parts and a digital merchant point-of-sale provider.

Establishment of Property Crowdfunding Framework

In Budget 2019, the Government proposed to explore new technology-enabled and innovative mechanisms to address home financing challenges in Malaysia, particularly in relation to homebuyers who are not able to obtain financing through traditional avenues.

One such initiative was the establishment of private-sector driven property crowdfunding (PCF) platforms, which offer an additional alternative avenue for Malaysian homebuyers to finance the

purchase of their first home, including through tailored financing options.

In March 2019, the SC published a public consultation paper to explore the appropriate regulatory framework for such PCF platform, which received strong interest and feedback from a number of stakeholders including property developers, valuers, banks and prospective house buyers.

Following the public consultation, the PCF framework was published on 17 May 2019. The framework sets out the requirements and

obligations of a PCF operator in facilitating a PCF campaign, including providing fair, clear and timely information to both homebuyers and investors prior to participating in the campaign as well as exit certainty at the end of the agreed tenure.

On 25 September 2019, the SC registered EdgeProp as the first PCF operator.

Introduction of Digital Assets Framework

The years from 2016 to 2018 saw the evolution and growth of the digital asset segment. In Malaysia, strong investor and issuer interest in this new asset class necessitated the formulation of clear regulations to govern such activities, including the offering of digital assets as an investment or fundraising instrument.

To enable innovation while also managing the risks associated with digital assets, the SC in January 2019 provided regulatory clarity on the status of digital assets in Malaysia through the introduction of regulatory requirements for the operation of Digital Asset Exchanges (DAX) as well as the prescription of digital assets as securities.

The framework provides a structure for the trading of digital assets and takes into account the growing interest of Malaysian investors in having exposure to this new asset class. The framework also ensures that integrity as well as fit and properness standards are met.

In June 2019, the SC registered three DAX operators. The first DAX operator, Luno, has commenced operations. Expected to follow suit in 2020 are two other operators, SINEGY and Tokenize.

SC FINTECH ROUNDTABLE

17 May 2019

The Minister of Finance, YB Tuan Lim Guan Eng met with representatives of the fintech industry at a roundtable organised by the SC. The discussion covered the progress of the fintech industry in fostering digital innovation to meet the financing needs of MSMEs and enable greater financial inclusion for Malaysian issuers and investors.

Focus was given to developmental topics, including efforts to expand the reach of digital services across sectors and locations, easy access to investment information, and the ability to attain capital market products and services at a lower cost.

Eight new registered market operators (RMOs) were announced at the roundtable, resulting in a total of 21 RMOs as at end 2019, comprising 10 ECF platforms and 11 P2P platforms. The SC also issued the PCF framework at the roundtable, following amendments made to the *Guidelines on Recognized Markets*.



Nurturing the Malaysian Fintech Ecosystem – aFINity

The 'Alliance of FinTech Community' or 'aFINity' launched by the SC in 2015 serves as a focal point for capital market development initiatives in the fintech sphere. To date, aFINity has 350 registered members across different groups of stakeholders, including innovators, entrepreneurs, investors and other regulatory authorities. In 2019, aFINity saw over 360 engagements involving more than 290 organisations and individuals.

Collaboration with Regional and Global Peer Regulators

As part of aFINity, the SC collaborated as a technical partner with the World Bank and the Cambridge Centre for Alternative Finance (CCAF) at the University of Cambridge Judge Business School to produce the 2019 report titled *Regulating Alternative Finance: Results from A Global Regulator Survey*.

This report provides empirical data from financial services regulators in 111 jurisdictions on the current landscape of alternative finance regulations. Focusing on P2P financing, ECF and initial coin offerings (ICOs), it aims to comprehensively analyse how regulators from both developing and developed economies are regulating and supervising these online alternative finance activities.

DID YOU KNOW?

Malaysia identified as one of the most benchmarked-against jurisdiction globally. Malaysia also stood out as a regional leader, particularly in ECF.

Source: *Regulating Alternative Finance: Results from A Global Regulator Survey*

MyFintech Week

Under the aFINity initiative, the SC also participated in Bank Negara Malaysia's (BNM) MyFintech Week in June 2019, where demonstration sessions on P2P financing and digital investment management (DIM) were conducted to enhance awareness on how fintech is enabling new financing and investment opportunities in the capital market.

As part of MyFintech Week, the SC also organised the ECF Investor Day to further educate the public on capital raising and investment mechanism. This was carried out through direct engagements with selected ECF fundraisers during pitch sessions.

DEMOCRATISING INVESTMENT MANAGEMENT



4 LICENSED
DIM
COMPANIES

1ST ISLAMIC DIGITAL
INVESTMENT MANAGER



AUM
RM74.69 MIL



23,083 CLIENTS

92% SOURCED LOCALLY

Facilitating digital investments

To democratise investment management, the SC launched the Digital Investment Management (DIM) framework in 2017. It allowed incumbent and prospective fund managers to incorporate innovative technologies in offering automated discretionary portfolio management services to a wider range of investors.

To enhance investor's access to flexible, transparent and diversified investments, the SC licensed three more digital investment companies in 2019. This year, Wahed Technologies Sdn Bhd became Malaysia's first licensed Islamic digital investment manager and UOB Asset Management Bhd became the first incumbent to vary its licence to include DIM activities. Three additional companies were also granted approval-in-principle status and are expected to be operational by early 2020.

The DIM industry continues to evolve, recording over RM74 million of total assets under management (AUM) in two years. Both start-ups and incumbent fund managers have been tapping into this segment and embracing innovation to

better engage with consumers, while at the same time making investments affordable and accessible to all.

EXPANDING ISLAMIC CAPITAL MARKET CAPABILITIES

Malaysia continues to maintain its leadership in the Islamic capital market (ICM), particularly in relation to the issuance of sukuk and Islamic funds – solidifying efforts to enhance its role as a prominent international centre for Islamic fund and wealth management. ICM represented 63.57% of Malaysia's capital market, with a market size of RM2,035.58 billion as at December 2019, a 8.23% growth over 2018.

The year has seen sukuk issuances valued at RM102.39 billion, representing 77.09% of total corporate issuances, while Islamic AUM stood at RM180.52 billion, making up 21.93% of the fund management industry. Shariah-compliant securities comprised 64.06% of total equity market capitalisation and was valued at RM1,096.62 billion.

Broadening Islamic social finance instruments through innovative products

Waqf is an Islamic concept of endowment that is typically linked with social development and public good objectives. By utilising funds tailored for *waqf* purposes, sustainable returns can be generated and channelled towards financing social-impact activities.

To facilitate the development of a *waqf* concept linked to the capital market, the SC explored leveraging investment products such as collective investment schemes (CIS), where returns generated would be channelled into *waqf* projects or initiatives.

Taking into account the results of extensive consultations with the industry, the SC is developing a *waqf* fund structure for the reference of fund managers interested in issuing such product.

DID YOU KNOW?

Islamic Fund and Wealth Management Blueprint

- In 2017, the SC launched a five-year *Islamic Fund and Wealth Management Blueprint* (IFWMB) to chart the strategic direction for Malaysia's Islamic fund and wealth management industry.
- The IFWMB comprised three strategic thrusts:
 - Strengthening Malaysia's position as a global hub for Islamic funds;
 - Establishing Malaysia as a regional centre for Shariah-compliant SRI; and
 - Developing Malaysia as an international provider of Islamic wealth management services.
- The Islamic fund management industry also witnessed new and innovative investment product offerings. These include Islamic ETF based on gold, SRI Islamic funds as well as social and green sukuk.
- As of December 2019, there are now 23 full-fledged Islamic fund management companies.

Tax incentives for management of Islamic funds



Tax exemption expiring in 2020 for fund management companies managing Islamic funds has been extended until 2023.

Malaysia's first Islamic DIM company

Following the IFWMB recommendation to facilitate new Islamic digital business models, products and services, the SC licensed Wahed Technologies as Malaysia's first Islamic DIM on 9 August 2019. This provides investors with access to a diversified Shariah-compliant portfolio in an efficient and transparent manner, and facilitates connectivity with international markets through its parent company, Wahed Invest which has presence in more than 130 countries.

SC-WORLD BANK-IOSCO ASIA PACIFIC HUB CONFERENCE 2019

29 – 30 April 2019

The 2019 conference is the second collaboration between the SC, World Bank Group (WBG) Global Knowledge and Research Hub in Malaysia, and IOSCO Asia Pacific Hub. The conference also marked the third collaboration between the SC and the WBG.

Themed 'Islamic Finance: A Catalyst for Financial Inclusion', more than 200 industry practitioners, policymakers and experts in Islamic finance gathered to deliberate the role of Islamic finance for greater financial inclusion, including the use of Islamic social finance instruments and financial technology.

Other key discussions:

The sustainable use of Islamic finance to address financial inclusion

The use of Islamic finance instruments (i.e. policy, regulatory and institutional elements) to foster shared prosperity

Enhancing access to financing for MSMEs

The use of technology to support Islamic finance in facilitating greater inclusion

Presentation of case studies on crowdfunding and blockchain

a Lumpur



“Islamic products and services for financial inclusion hold the promise for a shared and better future. Therefore, increased digitisation will certainly reduce costs and enhance speed, convenience and appeal. In this regard, the capital market provides entrepreneurs and MSMEs both conventional and Shariah-compliant avenues to access alternative sources of financing. Equity crowdfunding and peer-to-peer financing platforms, as well as venture capital and private equity, are available to meet their needs at different stages of their businesses.”

– SYED ZAID ALBAR, CHAIRMAN, SC

Revised SRI Sukuk Framework to Spur Issuances

Enhancement to the Revised SRI Sukuk Framework

It has been estimated that by 2030, up to US\$90 trillion¹ would be needed to finance infrastructure investments globally, presenting sustainable finance with the opportunity to be part of mainstream investment and financing solutions.

Leveraging Malaysia's leadership in ICM, and given the alignments in underlying principles between Islamic finance and SRI, Malaysia is well-positioned to strategically lead the development of the SRI agenda.

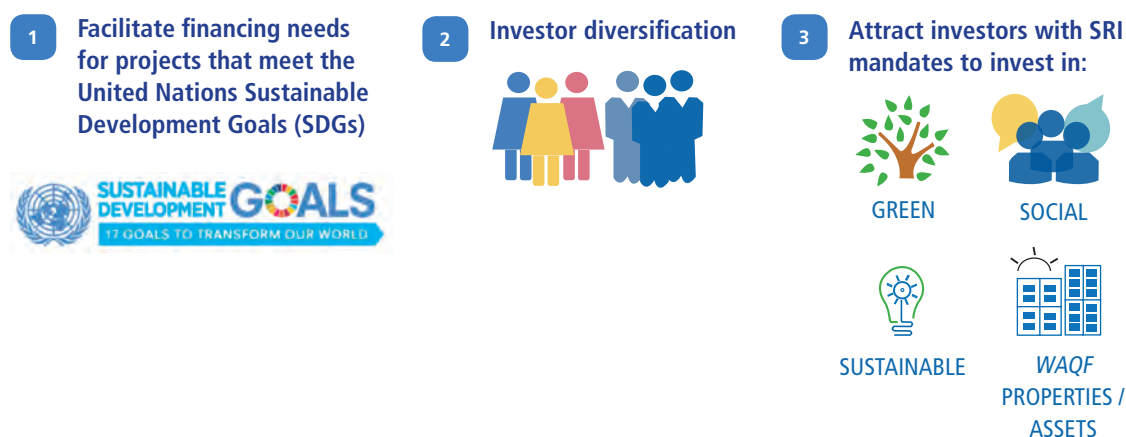
In 2014, the SC introduced the *SRI Sukuk Framework* (Framework), aimed at facilitating the creation of an SRI ecosystem for investors and issuers.

The Framework facilitated the issuance of the inaugural social SRI sukuk in 2015 as well as the world's first green sukuk in 2017.

In November 2019, the Framework was revised to further harmonise the SC's requirements with internationally accepted principles and best practices, and to enhance transparency in the disclosure of information. As at December 2019, 10 SRI sukuk have been issued amounting to RM4.77 billion.

The revision included expansion of eligible SRI projects, enhancement of disclosure and reporting requirements as well as clarification on the role of external reviewers. These amendments are expected to broaden the investor and issuer base.

Why SRI Sukuk?



¹ The Sustainable Infrastructure Imperative: Financing for Better Growth and Development, United Nations.

Revised SRI Sukuk Framework to Spur Issuances

(Continued)

Key components of the Revised SRI Sukuk Framework



UTILISATION OF PROCEEDS

Proceeds raised from the issuance of SRI sukuk are utilised only for the purpose of funding activities or transactions relating to eligible SRI projects.

Funding may include the following:

- Purchase of Shariah-compliant receivables arising from the financing of an eligible SRI project;
- Acquisition of an eligible SRI project;
- Refinancing of existing borrowings or financing facilities utilised to fund an eligible SRI project; or
- Other supporting expenditures such as research and development related to eligible SRI projects.



MANAGEMENT OF PROCEEDS

Proceeds allocated for the eligible SRI projects are credited into a designated account or otherwise tracked in an appropriate manner.



REPORTING

Annual reporting on the following:

- Original amount allocated for the eligible SRI projects;
- Amount utilised for the eligible SRI projects;
- Unutilised amount and where such amount is placed or invested pending utilisation; and
- List of the eligible SRI projects in which the proceeds have been allocated to, as well as brief description of the said eligible SRI projects and their impact or expected impact.



PROCESS FOR PROJECT EVALUATION AND SELECTION

Establish internal processes for evaluation and selection of the eligible SRI projects.

Source: Sustainable and Responsible Investment Sukuk Framework – An Overview, SC

Broadening funding avenues in the renewable energy sector through SRI sukuk

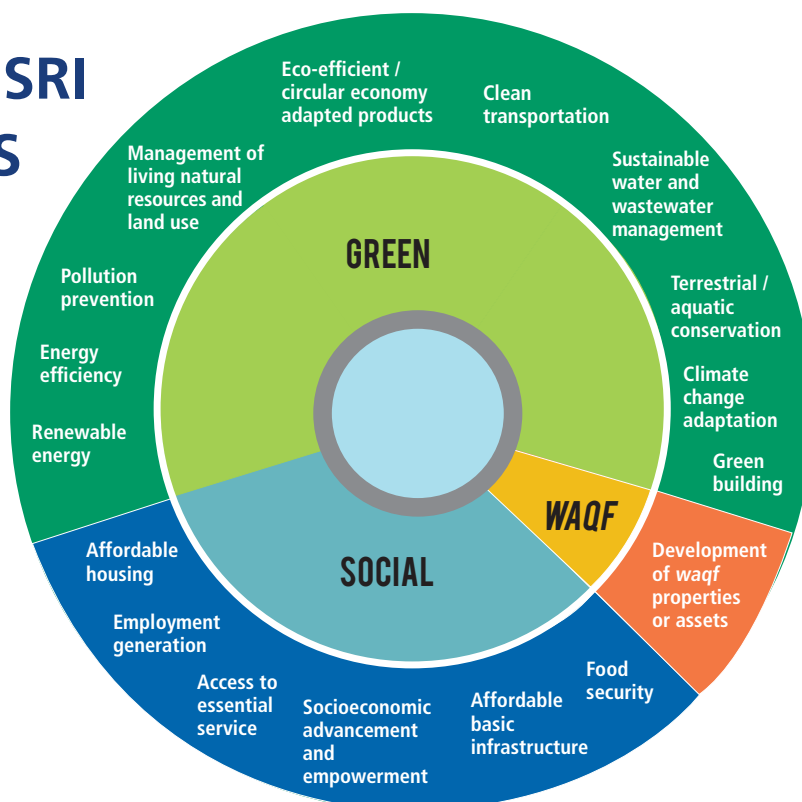
The sukuk market has played an important role in providing capital for infrastructure projects including those under public-private partnership models. With Malaysia aspiring to achieve a 20% renewable energy mix by 2025², SRI sukuk could play a pivotal role in allocating funds toward renewable energy projects.

Under the Framework, the year 2019 saw the issuance of the first hydro-power green sukuk by Pasukhas Green Assets in February as well as Malaysia's first ASEAN Sustainability SRI Sukuk by Edra Solar in October. Total SRI sukuk issued in 2019 for renewable energy projects amounted to RM1.28 billion, which was raised from four uniquely diverse issuers.

These progressive developments are evidence of Malaysia's strong proposition as an innovative centre for sustainable finance and investment, and reinforce the SC's commitment in driving the green agenda. This also demonstrates that the Framework is an incubator for product innovation that embraces both sustainability and sukuk agendas.

² Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC).

ELIGIBLE SRI PROJECTS



Source: Sustainable and Responsible Investment Sukuk Framework – An Overview, SC

Supporting measures to encourage growth

In line with the sustainability agenda, the SC has put in place supporting measures to further attract issuers to this segment. These incentives cover tax deductions for SRI sukuk issuances as well as a Green SRI Sukuk Grant Scheme.

SRI SUKUK FOR RENEWABLE ENERGY PROJECTS ISSUED IN 2019

RM17 MIL	RM470 MIL	RM550 MIL	RM245 MIL
PASUKHAS	TELEKOSANG	CYPARK REF	EDRA SOLAR
GREEN ASSETS	HYDRO ONE		
			

TOTAL SRI SUKUK APPROVED / LODGED*



* Data is cumulative since 2015.

DEVELOPING MALAYSIA'S VALUE PROPOSITION AS A REGIONAL SRI CENTRE

Accelerating SRI

To further accelerate development of the SRI ecosystem, the SC launched the *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market* (SRI Roadmap) on 26 November 2019. The SRI Roadmap is pivotal in charting the role of the capital market in driving Malaysia's sustainable development.

The five-year SRI Roadmap identified 20 strategic recommendations, which are mapped against the *5i-Strategy* introduced by the SC in 2014. The *5i-Strategy* was fundamental in driving the development of a facilitative SRI ecosystem in the Malaysian capital market, and focused on widening the range of SRI instruments, increasing SRI investor base, building a strong SRI issuer base, instilling strong internal governance culture, and designing information architecture in the SRI ecosystem.

The SRI Roadmap builds on the SC's initiatives to strengthen Malaysia's position as a regional leader in sustainable investment.

Concerted efforts on climate change

To further pursue collaborative efforts in building climate change resilience within the Malaysian financial sector, the Joint Committee on Climate Change (JC3) was set up on 27 September 2019, and is co-chaired by the SC and BNM. Members comprise Bursa Malaysia and 19 other industry participants.

5i-STRATEGY

Developing a facilitative SRI ecosystem in the Malaysian capital market



WIDENING THE RANGE OF SRI **INSTRUMENTS**

Facilitate the development of new SRI capital market products to widen and deepen the SRI asset classes

- ↓ Promote alignment to international standards and principles
- ↓ Encourage issuance of sovereign green, social or sustainability sukuk
- ↓ Develop SRI taxonomy for the capital market
- ↓ Facilitate the issuance of more SRI products



INCREASING SRI **INVESTOR** BASE

On the buy side, there is a need to attract institutional and individual investors to increase the SRI investor base and thus demand for SRI products

- ↓ Enhance the role of government-linked investment companies and institutional investors in SRI
- ↓ Attract international investors
- ↓ Encourage SRI investments by retail investors
- ↓ Enhance investment managers' SRI intermediation capabilities



BUILDING A STRONG SRI **ISSUER** BASE

On the supply side, efforts need to focus on building a strong and diversified issuer base consisting of listed and unlisted companies and multilateral organisations

- ↓ Widen access to SRI through alternative funding avenues
- ↓ Support the development of an initial public offering pipeline for green and social impact companies
- ↓ Enhance the roles of financial institutions in SRI
- ↓ Collaborate with multilateral development institutions



INSTILLING STRONG **INTERNAL GOVERNANCE** CULTURE

Development of metrics and disclosures to measure sustainability in facilitating investment decisions to inculcate good governance practices in the SRI space

- ↓ Strengthen sustainability disclosures of public-listed companies
- ↓ Promote the adoption of sustainable business practices, including disclosure among small and medium enterprises
- ↓ Enhance board governance on sustainability, including climate risks and opportunities
- ↓ Enhance risk assessment and supervisory approach on SRI



DESIGNING **INFORMATION ARCHITECTURE** IN THE SRI ECOSYSTEM

Development of platforms that provide SRI data to investors, thereby enabling better assessment of investment opportunities to ensure transparency and accessibility to the SRI market

- ↓ Enhance transparency of information on SRI products
- ↓ Develop ancillary services for SRI
- ↓ Incorporate sustainability in advisory services
- ↓ Accelerate promotion and profiling of Malaysia as a regional SRI centre

Illustration: The Edge, 14 December 2019.

LAUNCH OF THE SC'S SUSTAINABLE AND RESPONSIBLE INVESTMENT ROADMAP FOR THE MALAYSIAN CAPITAL MARKET

26 November 2019

The SC's SRI Roadmap was launched by YB Tuan Lim Guan Eng, Minister of Finance. The event gathered 200 industry practitioners, policymakers and experts from the sustainable investment space.



"The SRI emphasises not just financial returns, but also its positive impact on the environment, governance, culture and social development."

– YB TUAN LIM GUAN ENG, MINISTER OF FINANCE



"Sustainability is an important global agenda given the need to address real issues on the ground that are affecting society such as the eradication of poverty, providing access to education and healthcare, and addressing climate change."

– SYED ZAID ALBAR, CHAIRMAN, SC

An interactive panel discussion was organised which explored the role of the capital market in creating market-based solutions in meeting sustainable development and climate change funding needs, and the key drivers in positioning Malaysia as the regional SRI centre.

THE PANEL SESSION FEATURED:



Tan Sri Jemilah Mahmood

Under Secretary for Partnerships, International Federation of Red Cross and Red Crescent Societies
Founder, Mercy Malaysia

"Non-profit organisations are the link between government, business and people. For the SRI Roadmap to be successful, partnerships between government, the corporate sector and institutions like civil society are going to be very key."



Najmuddin Mohd Lutfi

CEO, BIMB Investments

"For Islamic finance, the features have a lot of commonality with SRI and the environmental, social and governance (ESG). As you know, Malaysia is among the leading Islamic finance centres in the world. We have a very robust and developed Islamic market and because of that, we have quite a head start when it comes to SRI and ESG."



Stefan Priesner
UN Resident Coordinator for Singapore, Malaysia and Brunei Darussalam

"The UN SDG goals aim to create a better world not only for this generation but also for the next generation by focusing on sustainable development. And we think the capital market can play a huge role in funding these goals."

At its inaugural meeting, JC3 recognised the urgent need to accelerate measures towards ensuring a smooth and orderly transition to a low-carbon economy. This includes managing exposures to climate risks and facilitating businesses to transition towards sustainable practices. The implementation will be pursued through the formation of four sub-committees, where each will focus on risk management, governance and disclosure, product and innovation, as well as engagement and awareness.

Championing the sustainable finance agenda globally

The SC's early efforts in promoting sustainable finance through its 5i-Strategy has enabled it to lead initiatives within the international arena, especially among emerging markets and its regional peers. Through leading sustainable finance efforts in fora such as the International Organization of Securities Commissions (IOSCO), the ASEAN Capital Markets Forum (ACMF), and the ASEAN Working Committee on Capital Market Development (WC-CMD), the SC was able to shape policies, standards and frameworks in this evolving area.

Within IOSCO, the SC and the National Securities Commission of Argentina co-chair the Growth and Emerging Markets (GEM) Committee Working Group on Sustainable Financing. The SC is also a member of IOSCO's Board-level initiative, the Sustainable Finance Network (SFN).

In June 2019, the GEM Working Group published a Report on *Sustainable Finance in Emerging Markets and the Role of Securities Regulators*. The Report provided recommendations for emerging market regulators to consider when issuing regulations or guidance concerning sustainable financial instruments, with a view to encourage adoption of sustainability practices by the market.

Following the publication of the Report, it was agreed that a GEM Sustainable Finance Outreach Programme be conducted to guide regulators in implementing such recommendations, particularly *vis-à-vis* domestic legal and regulatory regimes, and market conditions.

At the regional level, the SC's efforts on sustainable finance are undertaken through the ACMF – a high-level forum of ASEAN capital market regulators tasked with developing and implementing capital market integration initiatives within ASEAN, and the WC-CMD, which aims to build capacity and provide the infrastructure for development of ASEAN capital markets.

The SC and the Securities and Exchange Commission of the Philippines co-chair ACMF's Sustainable Finance Working Group. The year 2019 saw significant growth of bond issuances under the suite of ASEAN standards on sustainable financing developed by ACMF.

DID YOU KNOW?

ASEAN Bond Standards

- ACMF developed several bond standards to support ASEAN's sustainable development needs:
 - *ASEAN Green Bond Standards* (ASEAN GBS) launched in 2017.
 - *ASEAN Social Bond Standards* (ASEAN SBS) and *ASEAN Sustainability Bond Standards* (ASEAN SUS) launched in 2018.
- As at end 2019, bond issuances following ASEAN label amounted to US\$5 billion, with Malaysia accounting for US\$1.43 billion or 29% of total issuances.

NOTABLE SRI INITIATIVES IN THE MALAYSIAN CAPITAL MARKET

2019

- Launch of the SC's **SRI Roadmap**
- Issuance of the SC's revised **SRI Sukuk Framework**
- Establishment of the JC3

2018

- Establishment of **RM6 million Green SRI Sukuk Grant Scheme** which is **tax exempted**
- Issuance of **ASEAN SBS and ASEAN SUS**

2017

- Launch of the SC's **IFWMB**
- Issuance of **social impact sukuk** by Khazanah Nasional (2nd tranche) with retail portion
- Issuance of **world's first green sukuk under SRI Sukuk Framework**
- Issuance of the **ASEAN GBS** followed by **inaugural ASEAN Green Bond**
- Issuance of the SC's **Guidelines on SRI Funds**
- **Tax incentive for SRI funds** for three years from YA 2018 to YA 2020, and extended for another three years from YA 2021 to YA 2023 (2020 Budget)
- Launch of the SC's revised **Malaysian Code on Corporate Governance**

2016

- **Tax incentive for SRI Sukuk issuers** for five years from YA 2016 to YA 2020, and extended for another three years from YA 2021 to YA 2023 (2020 Budget)

2015

- Inaugural issuance of **social impact sukuk** by Khazanah Nasional under SRI Sukuk Framework
- Introduction of **Sustainability Reporting** through *Bursa Malaysia Listing Requirements*

2014

- Issuance of the SC's **SRI Sukuk Framework**
- Launch of **FTSE4Good Bursa Malaysia Index**
- Issuance of **Malaysian Code for Institutional Investors**

Source: Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market, SC

ENHANCING ACCESSIBILITY

THROUGH ISLAMIC AND SUSTAINABILITY INITIATIVES IN 2019

JAN - JULY

MALAYSIAN GREEN FINANCING TASKFORCE (MGFT)

The SC chaired the MGFT, which comprises nine other members representing financial regulators, institutional investors, banks, asset managers and government agencies involved in the renewable energy sector.

MGFT submitted its recommendations, which contained 21 action items under eight broad strategies to facilitate the estimated RM33 billion in renewable energy financing required to meet the national target of 20% renewable energy installed capacity by 2025.

SEP

SC-OCIS SCHOLAR IN RESIDENCE PROGRAMME

An annual initiative to further research contemporary issues in Islamic finance.

The 2019/2020 scholar is Tarik Akin, Senior Project Director at Department of Strategy and Coordination, Presidency of the Republic of Turkey, who is conducting research on 'Is Risk-Sharing Asset-Based Redistribution a Viable Solution to Tackle Wealth Inequality?'.
For further details, refer to page 12.

MAR

10TH SC-OXFORD CENTRE FOR ISLAMIC STUDIES (OCIS) ROUNDTABLE

An annual collaboration between the SC and OCIS to further enhance global thought leadership in Islamic finance. The theme for 2019 was 'Impact Investing as an Extension to the Islamic Economy'.

APR

SC-WORLD BANK-IOSCO ASIA PACIFIC HUB CONFERENCE 2019

Themed 'Islamic Finance: A Catalyst for Financial Inclusion', the conference explored key policies, regulatory and institutional opportunities and challenges, and focused on the role of Islamic finance in enhancing access to financing.

For further details, refer to page 12.

NOV

LAUNCH OF THE SUSTAINABLE AND RESPONSIBLE INVESTMENT ROADMAP FOR THE MALAYSIAN CAPITAL MARKET

The SRI Roadmap is aimed at creating a facilitative SRI ecosystem and charts the role of the capital market in driving Malaysia's sustainable development.

For further details, refer to page 17.

LAUNCH OF REVISED SRI SUKUK FRAMEWORK

Revised framework includes expansion of eligible SRI projects, enhanced disclosure and reporting requirements, and clarified role of external reviewers.

For further details, refer to pages 13 and 14.

In 2019, ACMF began developing a *Roadmap for ASEAN Sustainable Capital Markets*. The Roadmap, due to be completed in 2020, will provide a common vision and comprehensive direction to strengthen ASEAN's commitment to promote an ecosystem for sustainable capital market development.

ACMF's sustainable finance efforts in the region has been recognised by the International Capital Market Association (ICMA), which appointed ACMF as a member of its 2019/2020 Advisory Council of the Green Bond Principles and Social Bond Principles Executive Committee.

The WC-CMD, which is co-chaired by the SC and Ministry of Finance, Vietnam, is developing a report on sustainable finance in ASEAN, focusing on the government and quasi-government sectors.

FACILITATING VIBRANCY IN THE CAPITAL MARKET

Rising role of venture capital and private equity industries in supporting business growth

Venture capital (VC) and private equity (PE) are vital elements in the Malaysian entrepreneurship ecosystem. In addition to financial capital, VC and PE firms provide strategic guidance and business mentoring, as well as leverage their networks that support entrepreneurs in building successful and competitive enterprises. The growth of these enterprises contribute towards job creation, innovation and economic progress.

In 2019, the Malaysian VC and PE industry witnessed a total fund commitment of RM5,998.07 million and had a total of 122 corporations registered with the SC. Investments in 2019 amounted to RM566.37 million.

To ensure a holistic approach in formulating initiatives for the industry, new members

representing angel and institutional investors were appointed to the Malaysian Venture Capital and Private Equity Development Council (MVCDC) – in addition to existing representations from ministries, government agencies and regulators. Chaired by the SC, the MVCDC aims to facilitate more inclusive engagements between the government and the private sector in cultivating VC and PE developmental efforts.

Spurring innovation in the exchange-traded funds market

Exchange-traded funds (ETF) offer investors attractive benefits of instant diversification by passively tracking indices at a lower cost than actively managed funds. ETFs also provide investors easy access to a wide range of underlying assets, including alternative asset classes such as commodities and futures.

Following enhancements to the *Guidelines on Exchange-Traded Funds* in 2018, the SC approved six Leveraged and Inverse (L&I) ETFs in 2019, which were subsequently listed on Bursa Malaysia. As at end 2019, market capitalisation of the ETF industry stood at RM2.14 billion.

Leveraged ETFs aim to provide a multiple of the underlying index's returns, while Inverse ETFs are constructed with the aim of hedging against a downward market. Aside from providing a gateway to foreign markets, L&I ETFs also serve as a simple and convenient exposure to futures.

Greater accessibility to corporate bonds through the retail bond and sukuk framework

In 2018, the SC introduced a framework on bond and sukuk seasoning, which provided retail investors with greater access to corporate bonds and sukuk that were previously made available only to sophisticated investors.

MVCDC MEMBERSHIP

NEW MEMBERS		EXISTING MEMBERS		
ASSOCIATIONS	GLIC	REGULATOR	MINISTRIES	GOVERNMENT AGENCIES
				
				

Source: SC

Tax incentives for the venture capital industry



Tax incentives for the VC industry that were first announced in Budget 2018, received further extension until 2026.

These incentives include:

- Income tax exemption for registered Venture Capital Corporations (VCCs) on all sources of income other than interest income arising from savings or fixed deposits and profits from Shariah-based deposits;
- Income tax exemption for Venture Capital Management Corporations (VCMCs) on share of profits, performance bonus or carried interest, and management fees received from VCCs with certified tax exemption by the SC;
- Income tax deduction on the amount of investments made in qualified VCCs that are registered with the SC no later than 31 December 2023, up to RM20 million per annum; and
- Income tax deduction on the amount of investments made directly into qualified start-ups.

Following the introduction of the seasoning framework, revisions were made in 2019 to the relevant retail bonds guidelines. The revisions further enhanced investors' accessibility to corporate bonds and sukuk by making it easier for eligible distributors to participate.

Amendments were also made in relation to disclosure requirements for high net worth individuals. This included providing further clarity on how information on seasoned bonds is to be disseminated to investors.

Since the entry of the first distributor under the seasoning framework in 2019, there has been an increase in the number of corporate bonds and sukuk traded by retail investors. As at end

2019, 12 eligible seasoned bonds were available for trading.

Enhancing private retirement schemes to improve members' retirement well-being

Since its inception in 2012, the private retirement scheme (PRS) has continued to provide Malaysians with a platform to supplement their retirement savings. In complementing the mandatory scheme, investments in PRS serve as another source of income for members in their golden years as well as providing an avenue for those that are not mandatorily covered by other retirement schemes.

UNDERSTANDING

LEVERAGED AND INVERSE ETFs

LEVERAGED



- 1 Aims to **deliver up to twice** the daily performance of the underlying index.*
- 2 If the **underlying index gains 1%** in a day, the ETF aims to **deliver up to 2% gain**.
- 3 Which means **up to twice the performance and risk**.

INVERSE



- 1 Aims to **deliver at most inverse (-1x)** the daily performance of the underlying index.*
- 2 If the **underlying index loses 1%** in a day, the ETF aims to **deliver up to 1% gain**.
- 3 Which means you **profit when the underlying index is down**.



INVESTMENT STRATEGY

- Passively-managed
- Directly into nearest monthly/quarterly futures contracts of the underlying index

Note: * Guidelines on Exchange-Traded Funds, SC.

Sustained growth of the industry continued with total net asset value (NAV) reaching RM3.5 billion, driven by increased awareness of the PRS industry and its benefits. To date, there are 455,000 PRS members and more than 700 participating employers that make voluntary contributions for their employees under PRS.

To strengthen Malaysia's voluntary savings, the SC undertook a strategic review of the PRS landscape. The scope of review included liberalisation of asset allocation, greater flexibility in structuring both core and non-core funds as well as improvement of the default option for members.

The strategic review also catalysed the offering of more innovative and diverse investment options. Following the review, two new PRS funds were launched to provide insurance protection coverage for members. The funds offered free insurance policies covering injuries, disabilities or death.

In broadening investor understanding, the Private Pension Administrator Malaysia (PPA), the central administrator for PRS launched a new fund performance tool on its website to assist investors in comparing returns of the various PRS funds.

Ensuring access to the capital market through international trade

To facilitate access into the Malaysian market and safeguard interests of Malaysian investors and companies abroad, the SC has been continuously involved in various regional and international committees and trade agreements. Participation in these fora also supports and facilitates the Government's overall international trade and economic agenda.

Measures related to PRS



To ensure PRS members have access to their voluntary retirement savings in times of need as well as to ease their financial burden, Budget 2020 permits withdrawals for healthcare and housing without being subject to any tax penalty.

The SC's current involvement includes the Regional Comprehensive Economic Partnership (RCEP), Asian Bond Market Initiative (ABMI), and the ASEAN Working Committee on Financial Services Liberalisation (WC-FSL). These fora were established to enable efforts towards market development, greater integration and liberalisation of market access.

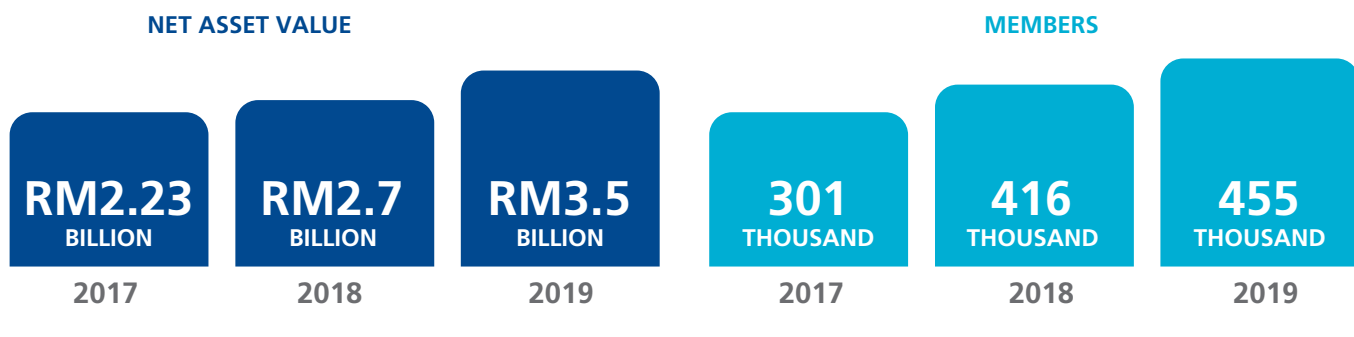
Under the WC-FSL, ASEAN completed the *Eighth Package of Financial Services Commitments* (Eighth Package), which was signed by the ASEAN Finance Ministers on 5 April 2019. To enhance access into the capital market via the Eighth Package, the SC committed to allow 100% ASEAN-owned credit rating agencies in Malaysia. This offer came into force on 7 October 2019.

ADVOCATING INVESTOR PROTECTION

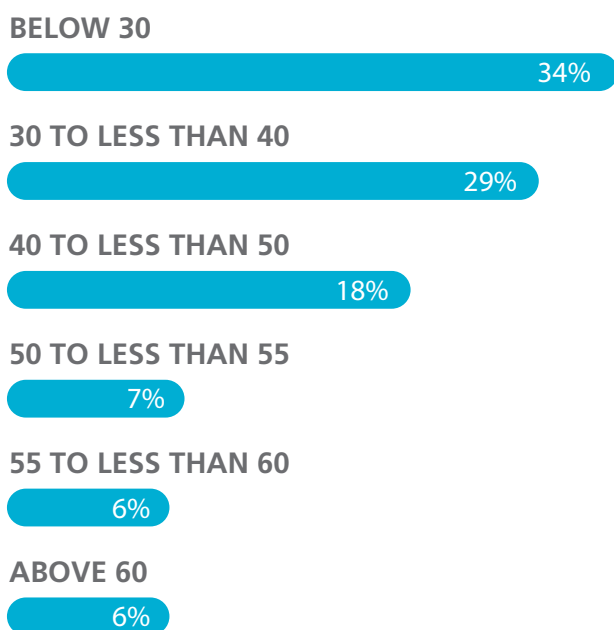
In tandem with ongoing efforts to enhance accessibility to the capital market, the SC has taken measures to further empower investors through education and awareness initiatives as well as ensure there is an avenue of recourse for investors in the event of a dispute with capital market intermediaries.

PRIVATE RETIREMENT SCHEMES

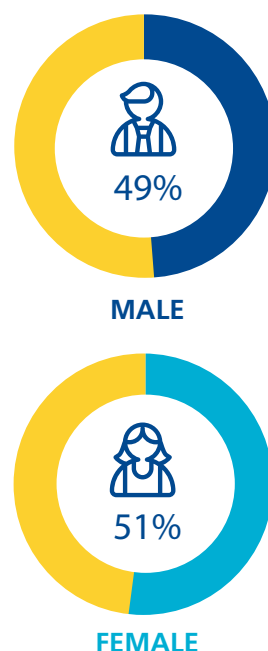
GROWTH OF ASSETS AND MEMBERS



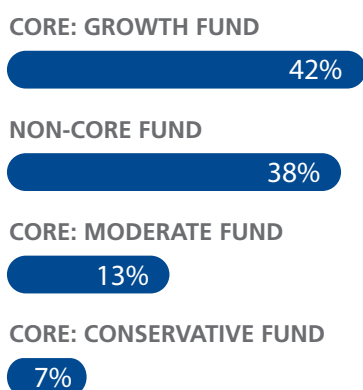
PRS MEMBERS BY AGE GROUP



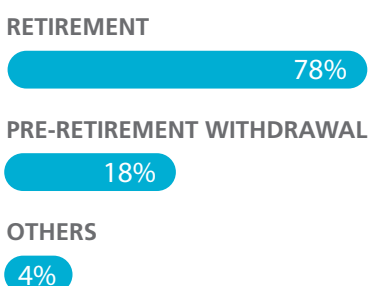
PRS MEMBERS BY GENDER



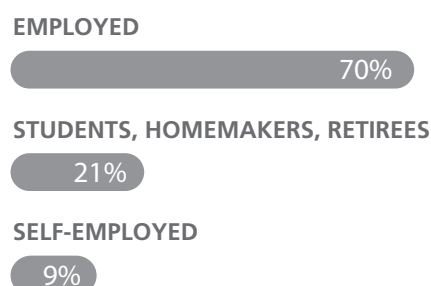
PRS MEMBERS' FUND PREFERENCE



WITHDRAWALS BY PRS MEMBERS



PRS MEMBERS BY TYPE OF EMPLOYMENT



Source: SC

Greater investor empowerment and continued anti-scam awareness

The SC's InvestSmart® platform established in 2014 continues to provide investors relevant investment knowledge to enable them to exercise better judgment in their investment decision-making. These efforts encourage the participation of informed investors in the capital market and protect them from falling prey to scams and illegal schemes.

The InvestSmart® initiative is also in line with the *Malaysia National Strategy for Financial Literacy*

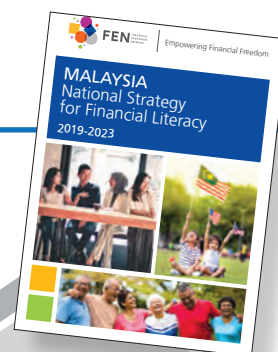
2019–2023 (National Strategy) developed by the Financial Education Network (FEN), which was launched in July 2019. FEN is co-chaired by BNM and the SC with five other members.

To provide investors an avenue to seek redress through an independent and impartial expert platform, the SC set up the Securities Industry Dispute Resolution Center (SIDREC) in 2010. In 2019, SIDREC received 290 claims and enquiries. About 91% of the eligible claims that went through SIDREC's dispute resolution process were resolved through case management and mediation, without having to progress to adjudication.

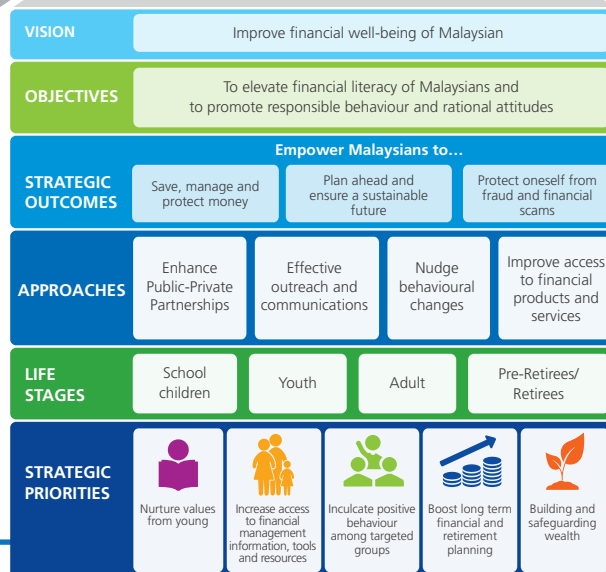
National Strategy for Financial Literacy 2019–2023

The National Strategy was launched by the Prime Minister, YAB Tun Dr Mahathir Mohamad on 23 July 2019 to elevate the levels of financial literacy and promote responsible financial behaviour and healthy attitudes towards financial management.

This National Strategy is a holistic 5-year roadmap that sets out the priorities and actionable plans.



NATIONAL STRATEGY



18 – 20 OCTOBER • INVESTSMART[®] FEST 2019

This year marks the 6th installment of the InvestSmart[®] Fest. Held at Mid Valley Exhibition Centre, the Fest was officiated by Datuk Seri Saifuddin Nasution Ismail, Minister of Domestic Trade and Consumer Affairs.



13,000+
VISITORS



50+
EXHIBITORS

FINANCIAL MARKET INSTITUTIONS
ASSOCIATIONS
INTERMEDIARIES
REGULATORY AND GOVERNMENT
AGENCIES



41
SPEAKERS



370 free consultations
with licensed financial planners
offered at #FinPlan4U financial
service desk

BIX MOBILE APP

Bonds and Sukuk
Information Exchange
Malaysia (BIX Malaysia)
launched the BIX Mobile App
to provide investors instant
access to personalised bonds
and sukuk information.



SCAMBUSTER WALK HUNT 2019

In conjunction with the InvestSmart[®] Fest 2019, the SC organised the 1st ScamBuster Walk Hunt on 20 October 2019. The ScamBuster Walk Hunt was held following the success of ScamBuster Runs in 2017 and 2018. All proceeds raised were channelled to SC HEART, its corporate and social responsibility initiative.



Fun educational activities aimed
at raising awareness on illegal
investment schemes:

- 4km trek for clues and riddles in the KL Golden Triangle
- Quiz on investing knowledge

29 – 30 JUNE • BERSAMA INVESTSMART[®] @ BORNEO – SABAH 2019

The SC's inaugural East Malaysia investor education initiative, InvestSmart[®] @ Borneo was held in Kota Kinabalu. Sabah's Assistant Minister of Finance, YB Tuan Sarifuddin Hata officiated the event on behalf of Chief Minister of Sabah, YAB Datuk Seri Panglima Haji Shafie Apdal.



9,000+
VISITORS



34
SPEAKERS



22
EXHIBITORS

ASSOCIATIONS
INTERMEDIARIES
REGULATORY AND
GOVERNMENT
AGENCIES

invest[®] smart[®] OUTREACH PROGRAMMES 2019

Throughout the year, InvestSmart[®] carried out and participated in 22 investor education initiatives, comprising 18 investor education events and four public service announcements (PSA) campaigns



* Event held from 30 September to 6 October 2019