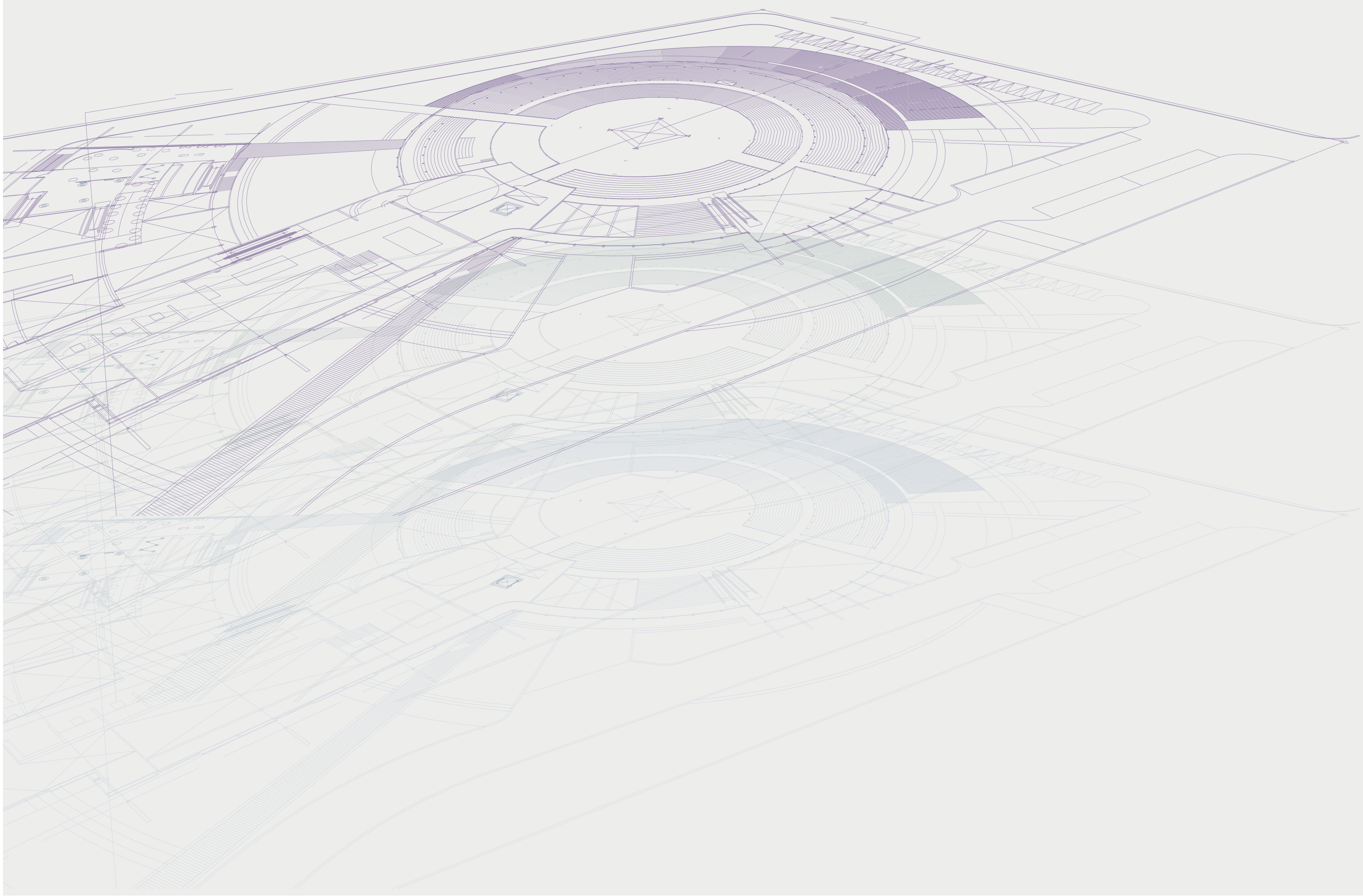
# CHAPTER 3

# ENABLING A MORE RELEVANT, EFFICIENT AND DIVERSIFIED MARKET



# CHAPTER SUMMARY

## 1 Catalysing competitive growth

- Enable funding to ***competitive*** businesses to push the frontiers of the economy
- Facilitate a multi-layered market to build a more ***competitive*** value proposition for market participants
- Facilitate diversity in the intermediation landscape for healthier ***competition*** in the market
- Expand risk intermediation for more ***competitive*** growth

## 2 Empowering investors for a better future

- ***Empower*** with more options to diversify, for wealth accumulation, preservation and decumulation
- ***Empower*** with higher quality and more accessible advisory, to complement varying levels of investment literacy
- ***Empower*** with efficiency, from ease of information to efficient processes, to augment the investor experience
- ***Empower*** for digitisation, to bring more investors along the digital journey

## 3 Shaping a stakeholder economy with SRI and ICM

- Enable greater capital mobilisation to businesses that create value for ***stakeholders*** of the economy
- Expand the reach of ICM to the broader ***stakeholders*** of the economy
- Collaborate and innovate with broader ***stakeholder*** groups for a more sustainable growth

## 3.1 CATALYSING COMPETITIVE GROWTH

Malaysia's transformation to become a high-income economy will need to be driven by dynamic entrepreneurs and companies with a strong presence in regional and global value chains. The capital market plays an integral role in providing tailored and effective funding options to catalyse the growth of such companies across every stage of their development. At the same time, efficient fundraising avenues need to be supported by deep secondary markets, to allow orderly exits and attract participation from investors. The SC envisions a multi-layered capital market with a competitive ecosystem of market institutions, intermediaries and other participants to meet the diverse needs of issuers and investors. This section outlines the development considerations and plans to enhance fundraising efficiency for Malaysian companies at various stages of growth, and enable the competitiveness of the markets and the intermediation landscape over the next five years.

### THE STATE OF PLAY

MSMEs form the current growth engine of the Malaysian economy, contributing ~60% of GDP.[1] However, they remain relatively underserved with regard to the availability of suitable financing options, with an estimated RM90 billion financing gap[2] for MSMEs alone.

The end of the last decade saw new alternative financing avenues, enabled by digital capabilities, stepping in to partially fill this gap. Complementing traditional VC and PE firms, new platform-based fundraising models, such as ECF and P2P financing, have emerged. While the size of these markets are still relatively small and fundraising activities remain concentrated around the Klang Valley, they have gained strong traction in catering to selected segments of MSMEs and look poised to broaden their reach to serve more issuers.

MTCs, on the other hand, have outgrown existing financing avenues for MSMEs, but are still too small for traditional public markets. Currently, MTCs are heavily reliant on banks, and to some extent, PE firms, but might require more sophisticated and bespoke financing options to make the leap to the next stage. This segment of companies will be a key development focus for the SC in the coming years to offer financing options that will enable them to accelerate their growth, including potential expansion to other business verticals or overseas markets.

Compared to the abovementioned alternative market segments, which still have considerable room to grow, the traditional public equity and corporate bond markets are ripe for transformation. In recent years, the declining value of IPOs in the public market has resulted in annual equity fundraising activities being primarily dominated by secondary issuances. Corporate bond issuances remain popular among banks, larger corporates and infrastructure project companies with credit ratings of AA and above, but have become too cost prohibitive for companies with smaller needs or of a higher-risk profile.

Apart from the COVID-19-driven rally and explosion of renewed interests from retail investors in 2020, trading activities on the secondary equity market have been largely subdued over the past decade. Long-only large institutional investors have helped maintain liquidity in the market and acted as a stabilising factor for price movements. Meanwhile, traditional market participants, operating through legacy infrastructure, serve investors with one-size-fits-all offerings. The secondary market for corporate bonds is in a similar state, remaining the realm of large institutional investors served by brokers, some of whom are still quoting prices and executing trades through traditional methods such as telephones.

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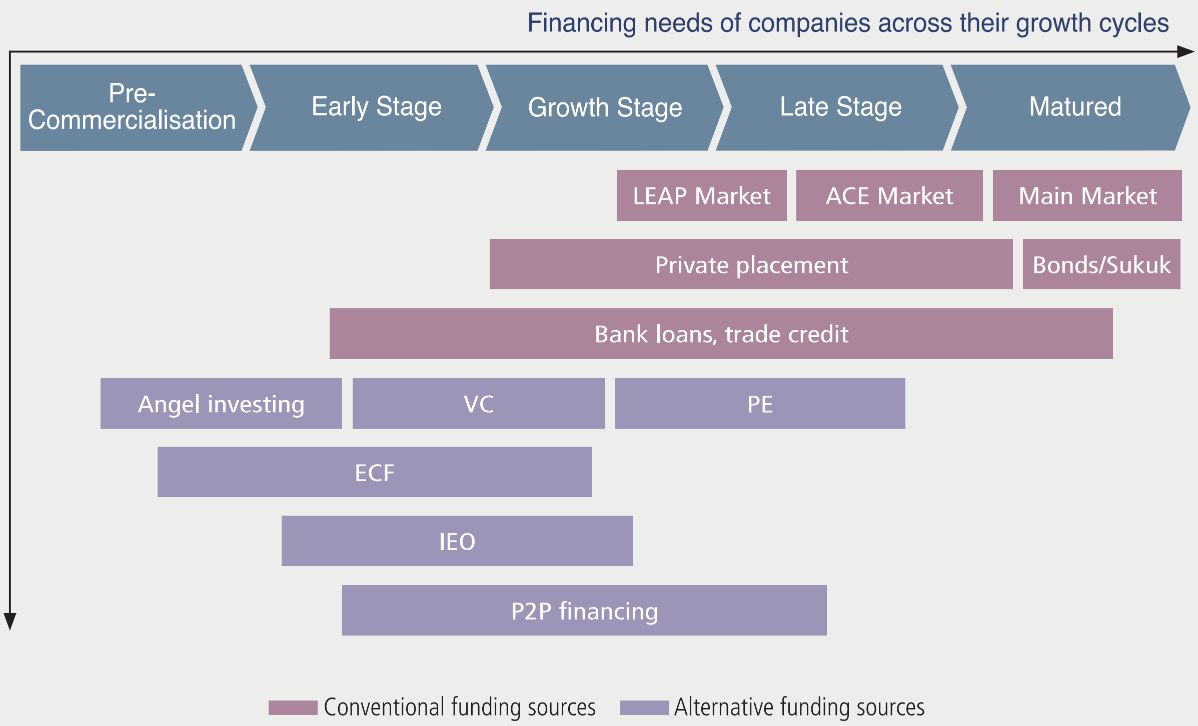
1 Internal analysis, SC, 2018.

2 *MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets*, International Finance Corporation, 2017.

While the trading volume on the derivatives exchange has more than doubled in the last decade, fuelled by increased foreign participation, this is largely attributed to the benchmark crude palm oil futures (FCPO) contract. Most other exchange-traded derivative contracts have not seen significant growth. OTC derivatives for hedging, predominantly in currency and interest rates, still remain almost exclusively the domain of banks with little transactional transparency to other capital market players.

**Diagram 3**
THE FUNDING ESCALATOR ACROSS THE GROWTH CYCLE OF COMPANIES




*Source: SC.*

## STAYING AHEAD OF THE CURVE

As the economy recovers from the effects of the pandemic, the emphasis now shifts towards 'building back better', where resources will be focused towards strategic sectors to reposition the nation for the future. Collectively, these present significant opportunities for domestic businesses to scale up, diversify and grow, with access to financing being crucial to their success.

For the capital market, the need to have more tailored financing options, appropriate for each stage of a company's growth cycle and suited to its specific needs, has never been greater. As such, it is imperative to develop a deeper understanding of issuers' needs, greater insights for each sector, better appreciation of pricing risks, and greater efficiency in completing fundraising exercises. While the SC has facilitated the introduction of innovations in financing models, markets and intermediaries, there is still a sizeable gap to be addressed collectively. Incumbent market participants should also re-examine their offerings and operating models to ensure that they remain dynamic and relevant when faced with fast-shifting market demands.

From a broader context, the success and competitiveness of the public equity and bond markets remain a bellwether for the overall health of the capital market. On the global stage, innovation in the public markets, whether in primary fundraising or secondary market trading, has continued, particularly amid the growing trend of private companies staying private for longer. However, the public markets still possess the deepest pools of liquidity for fundraising, and when tapped effectively, can benefit a wider segment of issuers beyond just the largest corporates.

At the same time, the race for global liquidity has become increasingly competitive. Investors domestically and abroad are becoming increasingly sophisticated, with access to more asset classes and investment options, and are armed with greater insights than ever before. The advent of digital age has also changed their expectations and behaviour. Secondary market trading venues, as well as their participants, need to evolve accordingly to remain relevant. Digital technologies have also enabled renewed innovation in all aspects of the secondary market value chain from market data, research and trading to post-trade processes, across all asset classes. It is vital that domestic intermediaries also keep pace to sustain the interest of investors and remain relevant in the face of competition.

## STRATEGIC CONSIDERATIONS

### 3.1.1 PUSHING THE FRONTIERS OF THE ECONOMY

#### A. SEEDING INNOVATION WITH EARLY-STAGE FINANCING

Early-stage financing is critical in providing funding for entrepreneurs to test and start their business. While traditionally these entrepreneurs would bootstrap themselves, or rely on friends, families and close contacts for funds, there are now other avenues available, such as angel investors, ECF and early-stage VC funds.

For companies seeking funding at the earliest stage, a typical challenge is the ability to estimate and mutually agree on a valuation for the company, particularly when there is little track record or the company may not be ready to commercialise its ideas. To enable deals to be completed faster and with less due diligence burden, entrepreneurs and investors may choose to use instruments such as simple agreement for future equity (SAFE) notes, which postpones the question on valuation to a future fundraising round. SAFE Notes as well as other similar instruments have become prevalent in global VC markets. The SC will continue to work with the early-stage fundraising community to provide greater regulatory clarity for such instruments as well as derive standards for the local market, which will protect the interests of both issuers and investors.

Secondly, given the high risks involved in early-stage financing, the presence of a credible cornerstone or lead investor willing to put up the initial share of capital in such deals strongly increases the confidence of other investors to also put in funds, thereby increasing the chances of success in fundraising. Investors in this segment also tend to act in groups in order to diversify their risk. To formalise such arrangements and provide incentives for more skilled angels, particularly those with an established investment track record, to act as lead investors, the SC may explore establishing a framework for Angel Funds and Angel Syndication Lists. These skilled lead investors may act akin to a General Partner in a VC fund and take the lead in vetting deals and nurturing investee businesses in exchange for a larger share of returns. Other investors can pool funds with the lead investor to build up a larger pool of capital for greater bargaining power. Through this, investors who are interested to invest in this segment, but may not have the necessary expertise or time to dedicate to research, would have an avenue to participate by leveraging the expertise of a credible lead.

## B. SCALING UP WITH GROWTH-STAGE FINANCING

As companies enter the next stage of growth, they may seek to scale up their businesses and operations, whether domestically or by expanding abroad into new markets. Ticket sizes of growth-stage funding rounds will be correspondingly larger as such companies begin to compete against larger incumbents or well-funded competitors from other markets. Of the top 20 Malaysian startups that have reached this stage in the last decade, most typically seek funding from foreign funds[3], as most domestic VC and PE management firms currently lack significant scale, fund size and risk appetite. The lack of market depth and appetite for riskier investments among local corporates and institutional investors handicap the ability to finance growth-stage companies domestically, or worse, result in deals being done at depressed valuations. As such, Malaysia sees reduced ownership of such businesses as they grow into regional or global champions.

To strengthen growth-stage financing in Malaysia, participation from institutional investors such as pension funds, insurance companies, investment institutions and corporates is key. To bridge this gap, co-investments may serve as a good mechanism for risk-sharing between institutional investors, and could crowd in further market participation. Various government-led co-investment models seen domestically and globally have been set up to catalyse public and private co-investments through private markets. Such models not only serve to align development to the country's growth thrusts, but also to develop the domestic VC and PE industries and their talent. In this respect, the SC will continue to work alongside relevant agencies and investment entities in Malaysia to develop VC and PE talent onshore and shape the growth of domestic VC and PE players. Larger institutional investors such as pension funds and insurance companies can also adopt similar co-investment models with partner VC and PE funds.

Large enterprises are essential ecosystem partners in spurring innovation. Corporate venturing is increasingly a common practice for businesses to stay abreast of technological developments and stay ahead of the competition. Such programmes do vary, ranging from vendor technology demonstrations to more structured incubation, partnerships and investment programmes. Successful corporate venture programmes benefit investee companies in many areas beyond funding. In most cases, these corporates become reference clients for investee companies, thereby providing strong credentials for investee companies to approach other potential clients or partners. Investee companies may also gain access to the corporates' wide network of clients and suppliers as well as a wealth of accumulated data. In return, corporates may gain access to new capabilities, market insights or technologies, instead of developing these organically. This symbiotic relationship can be an effective catalyst towards a more vibrant innovation ecosystem.

Educational programmes could be explored to promote awareness and educate business leaders on the approaches and benefits of corporate venturing. Existing incentives intended to promote VC and startup investments in general may be reviewed to enable corporate partnerships and co-investments. New incentives and promotional programmes may also be introduced to attract credible ecosystem partners such as incubators, accelerators and venture builders to build a bridge between startups and potential corporate partners. Programmes promoting FDI may also include a focus on creating business opportunities for startups through partnerships, investment or innovation programmes. This is an area that requires collaboration between stakeholders in the broader ecosystem. The SC will continue to work with relevant stakeholders and contribute towards a collective effort in building a more vibrant ecosystem.

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3 Crunchbase; Internal analysis, SC, 2020.

## C. ENABLING GREATER EFFICIENCY IN THE EQUITY MARKET FOR LATE-STAGE FINANCING

The public equity market provides an avenue for private companies in late-stage growth to fund their next stage of expansion and offer the option for private investors to exit. Although the overall value of IPOs has declined over the last decade, the number of late-stage growth companies that have listed on the LEAP and ACE markets have more than doubled over the same period and constitute 80-90% of the total IPOs. As the private market grows, there is potential for a much larger pipeline of late-stage growth companies that may seek to tap into the public market. To cater for this, there will be a need to increase the efficiency of the listing process and enable more listing options beyond IPOs.

Most late-stage growth companies entering the LEAP and ACE markets have been small to mid-cap in size. However, the pool of recognised principal advisors (PAs) which cater to this segment of companies is relatively small. To better enable Malaysia's profile of late-stage growth companies, there is a need to gradually expand the pool of PAs and approved advisors to include a variety of firms such as smaller advisory firms, specialised legal firms, and in the longer term, foreign-based PAs. This expansion of advisors will need to be accompanied by capability development programmes, to ensure that these advisors can play an effective role in gatekeeping due diligence for IPOs.

To enable greater listing efficiency moving forward, companies listing on the ACE market will see a more streamlined regulatory framework. Efforts are already underway to migrate the ACE market regulatory framework, including registration of prospectuses, to Bursa Malaysia. This will pave the way for Bursa Malaysia, as the single approving authority, to enable a more efficient approval process for companies listing on the ACE market.

Beyond IPOs, there are various alternatives for MSMEs and MTCs to benefit from the public markets. This can range from Special Purpose Acquisition Companies (SPACs) to listed closed-end fund structures such as business development companies (BDCs) in the US and investment trusts in the UK. Such structures will enable the broader public to participate in funding high-growth companies with the necessary measures for investor protection.

SPACs are special purpose entities led by experienced promoters to raise funds from the equity market in order to acquire businesses in their relevant areas of expertise. This provides target companies with a cheaper and faster route to the public market compared to IPOs. Against growing demand for such vehicles for high-growth companies, the current SPAC framework is being reviewed for greater efficiency.

BDC, Investment Trusts or other variants of listed closed-end funds are innovative structures that raise funds from the public market and channel them to a portfolio of private companies in the form of equity or debt-based financing. Such listed structures allow for greater transparency and governance over the management of these funds, while enabling retail investors access to an asset class which is currently only accessible to institutional and sophisticated investors. The SC will continue to evaluate these alternative options beyond the traditional IPO process to enhance the efficiency of the equity market for late-stage financing.

## D. FACILITATING BOND MARKET ACCESS FOR SMALL AND MID-SIZED ISSUERS

For the bond market to be more inclusive, there is a need to address various structural factors. The corporate bond market is dominated by large corporate issuers, primarily consisting of companies in the banking, property and infrastructure sectors. Participation by small and mid-sized issuers with an issuance size of less than RM250 million remains limited. Smaller bond issuances with a rating of A and below, face a higher cost relative to funds raised and a lack of appetite from institutional investors – most of which have mandates for bonds with higher creditworthiness. In addition, the bond market ecosystem has remained largely status quo over the last decade. To cater to small and mid-sized issuers, the bond market ecosystem will require disruptive innovations, including alternative venues or platforms with unconventional issuance processes and credit rating mechanisms. Such innovations may result in better cost efficiencies and eventually facilitate more issuers to tap into the bond market.

Besides relatively high fees *vis-à-vis* funds raised, smaller companies issuing bonds are subject to higher risk and liquidity premiums. These higher risk and liquidity premiums further add to the issuance cost as investors would demand higher yields for such bonds. This arises due to the small pool of investors with the appetite for higher-risk bonds. To encourage broader investor segments to participate in smaller bond issuances, there may be a need to consider different mechanisms in the market which allow credit enhancements for MTCs or credit hedging for investors. These mechanisms may allow investors to reduce their credit risks or ensure greater credit protection. This in turn may encourage greater liquidity for lower-rated bonds, thus unlocking access to more competitively priced liquidity premiums for lower-rated issuers.

Experience in other jurisdictions show that the availability of alternative bond marketplaces augurs well for the development of the deep and liquid secondary bond market. The modalities deployed by other jurisdictions include the 'electronification' of OTC trading to improve price discovery, as well as marketplaces that warehouse the bonds' credit risks and split them into tranches before distributing the risks to a broader group of investors. Such marketplaces can add diversity to the current bond market intermediation landscape and enable an ecosystem that is more inclusive for small and mid-sized companies.

## 3.1.2 ENABLING A MULTI-LAYERED MARKET

In recent years, there has been an emergence of alternative marketplaces with innovative business models and instruments, such as ECF, P2P financing, DAX and IEO platforms. Each of these provides new avenues for fundraising and investment. Such marketplaces were only made possible through advances in technology, which enables a platform-driven approach to serve issuers and investors. These marketplaces provide direct and swift market access as well as a more efficient cost structure for issuers and investors.

There are various types of marketplaces as outlined in Diagram 4 – each offering distinct value propositions to specific issuer and investor segments.

**Diagram 4**

ALTERNATIVE MARKETPLACES CAN ENABLE GREATER VALUE PROPOSITION FOR THE CAPITAL MARKET (*ILLUSTRATIVE*)

| | |
|---|---|
| **Alternative fundraising marketplaces**<br>Venues with both primary listing and secondary market trading | • Fundraising for specific segments, including technology or high-growth companies |
| **Alternative equity trading marketplaces**<br>Trading venues with cross-trading capabilities on existing listed equities | • Differentiated product offerings e.g. ETFs and depositary receipts<br>• Differentiated order types and pricing structure |
| **Alternative trading marketplaces for other asset classes**<br>Trading venues for asset classes beyond equities | • Electronification of OTC markets e.g. bonds, derivatives and repo<br>• Dedicated marketplaces by asset type<br>• Expansion of existing alternatives e.g. ECF, P2P financing and IEOs |

*Source: SC.*

Alternative fundraising marketplaces cater to specific issuer segments, such as early stage and growth stage companies. These companies have different business models and risk profiles, which may require seed capital, working capital or capital for growth. The current ECF and P2P financing platforms in Malaysia are examples of such marketplaces, with IEOs on the way to offer further options for innovative digital businesses. Within the region, some incumbent exchanges or alternative venues have already established dedicated marketplaces, which adopt a different regulatory approach and listing rules that cater to new issuer segments. One such example is Bursa Malaysia's launch of the LEAP market in 2017. The SC had taken a proportionate regulatory approach to this space, aiming to facilitate innovation while also managing any emerging risk. While the market has started with smaller-size fundraising to limit the investment risk, these platforms may scale to larger-size fundraising and cater to a wider range of issuers and investors as they become more familiar with these financing models and instruments.

Globally, public equity investors, whether institutional or retail, have become increasingly sophisticated, demanding faster and lower-cost access to data and markets as well as the ability to execute more sophisticated trading strategies. To cater to such investor needs, alternative equity trading marketplaces have emerged with differentiated equity-related product offerings, pricing structures and order types. Some specialise in offering low friction, no-frills and low latency proposition for cost-sensitive and speed-sensitive trading firms, while others have differentiated product offerings such as innovative ETFs and depository receipts – all of which allows investors broader access to adjacent or derivative equity products. The SC will explore with incumbents and new market operators to further enrich the domestic equity product range to cater to diverse investor needs.

Beyond equities, there are other marketplaces which offer broader trading opportunities in other asset classes, including bonds and derivatives, which are today largely OTC. In more developed markets, there are trading venues that facilitate 'electronification' of OTC trading, including the provision of multi-dealerto-client platforms, which improve price transparency and liquidity while enhancing trading efficiency through the digitisation of OTC trading workflow. The 'electronification' of these asset classes has also created new opportunities to broaden their appeal to new issuers and investors. At the same time, new instruments such as digital assets have also emerged, capturing the imagination of a new generation of investors. Moving forward, as trading platforms for alternative assets become more prevalent, the SC may continue to facilitate such platforms where there are proven value propositions for the Malaysian market.

### 3.1.3 FACILITATING DIVERSITY OF THE INTERMEDIATION LANDSCAPE

The intermediation landscape in both equity and bond markets in Malaysia has largely remained homogeneous over the last decade. In the equity market, a majority of securities brokers maintain the universal stockbroking model which provides research, trading as well as clearing and settlement services. Bond market intermediation has remained largely traditional and manual with the banks.

In comparison, markets globally have seen the emergence of new intermediary models and specialisation, which caters to changing investor needs. For example, demand for more independent and insightful equity research has resulted in the emergence of research marketplaces and non-traditional research providers. The increasingly complex trading needs, coupled with rapid changes in trading technology, have driven growth in algorithm and AI trading. Similarly, growing demand for no-frills and cost-efficient trading access has driven the growth of execution-only or digital-only equity brokers. Meanwhile, greater demand for post-trade efficiencies has driven the growth of clearing-only entities or utilities. In the bond market, demand for greater efficiencies and transparency has driven the growth of digital bond issuances, workflow digitisation platforms, e-OTC trading platforms, AI-based credit rating services and other new innovations.

In line with global trends, efforts are currently underway within the Malaysian landscape to allow for the separation of trading and clearing membership. This will pave the way for the entry of more specialised and capital-efficient intermediary models, including digital-only or execution-only brokers, algo-based brokers, multi-asset brokers and clearing-only institutions. Diversity in the intermediation landscape may spur capital market innovation and bring greater value to Malaysian investors. (Diagram 5)

Market makers are an integral part of the ecosystem to improve market efficiency and provide greater liquidity, especially for less traded and less liquid stocks. Efforts were made in the past to enhance this segment of the ecosystem, which includes the expansion of the qualifying criteria for the participation of foreign entities and the introduction of a new category of market makers. Further enhancement of the market making framework may be vital to drive greater liquidity and market vibrancy.

Market makers rely on the pool of Securities Borrowing and Lending (SBL) shares to hedge their positions, such as for structured warrants, single stock futures and ETF. However, the activities have been mostly nascent, with only 218 stocks available for SBL activities and total lending of RM3.3 billion as at December 2020. With a limited number of intermediaries offering the service and a small pool of available securities, the cost of lending and borrowing remains relatively high. Further evaluations may be conducted to expand the current SBL framework to enhance participation and market vibrancy. This can be achieved by expanding the pool of available securities and increasing the number of participants through the enhancement of the Central Lending Agency model. Greater awareness of the scheme's benefits will also need to be championed and marketed to the investing public.

**Diagram 5**

POTENTIAL FOR DIVERSIFICATION AND COMPETITION IN THE MALAYSIAN INTERMEDIATION LANDSCAPE (*ILLUSTRATIVE*)

| | Key considerations | Potential new intermediary models |
|---|---|---|
| Research | • Need for unbiased research<br>• Creating level playing field for possible independent research entrants | • Online research marketplaces<br>• Crowdsource research<br>• Direct corporate access |
| Advisory | • Cheaper corporate advisory and greater value-for-money for issuers<br>• Increasing variety of investor advisory – greater accessibility, affordability and quality | • Mirror/Social trading<br>• Robo-advisory*<br>• Discretionary trading*<br>• AI Trading |
| Fundraising | • Building private markets and surrounding ecosystem for pre-IPO / unlisted space<br>• Growing alternative fundraising space for early-stage fundraising | • Alternative fundraising*<br>• Syndicate funding |
| Secondary market | • Rise of execution-only brokers<br>• Growth of algo-based solutions | • Market makers*<br>• High-frequency traders*<br>• Algo-based execution providers*<br>• Retail algo-providers<br>• Multi-asset class brokers |
| Clearing & Settlement | • Allowance of third-party clearing<br>• Multi-asset clearing utility<br>• OTC clearing utility | • Third-party clearing house<br>• Clearing utilities for other asset classes |

* Present in the Malaysian market today.

*Source: SC.*

### 3.1.4 EXPANDING RISK INTERMEDIATION

#### A. BROADEN MARKET PARTICIPATION FOR GREATER MARKET DYNAMISM

Against the backdrop of global growth in commodities trading, foreign participation in exchange-traded FCPO has increased, with greater trading activities from non-traditional participants such as commodity funds and algo traders. As the global benchmark for crude palm oil (CPO) price, Malaysia continues to be the destination for most players to hedge against CPO price movements. Against the backdrop of greater competition from global derivatives markets, it is imperative that Malaysia remains competitive.

Global participants who demand greater trading speed and more efficient costs are increasingly looking for direct access to exchange-traded commodities, including FCPO. To cater to this, the SC will explore a framework to enable remote membership of the Malaysian derivatives market, starting with the trading participants. This will facilitate a broader range of global players licensed in identified jurisdictions, including liquidity providers, to have direct access to the derivatives market without the need for costly interbroker relationships and heavy capital outlay to set up operations in Malaysia.

Along with the expansion of foreign participation, there is also a need to diversify the local intermediation landscape to better enable investors to hedge or participate in the derivatives market. In addition to banks, the onshore presence of specialised interbroker-dealers can provide local corporates or investment institutions, who currently lack hedging familiarity or capabilities, with customised or hybrid hedging solutions that encompass both OTC and exchange-traded derivatives. Besides this, services such as discretionary futures trading can enable more investors to gain exposure to the derivatives market through brokers with the necessary expertise. Such services stand to benefit from the enhanced discretionary trading framework, which has been operationalised in 2021.

With greater investor sophistication in the derivatives market, there may be growth in other specialised services along the derivatives trading value chain, enabled by technology. This includes non-traditional data and analytics service providers, algo-based brokers, proprietary traders as well as digital services which automate back-office operations. In this regard, the SC will also embark on developing the talent pipeline to support the growth of the intermediation landscape. This includes facilitating training or development programmes and partnerships, including with the community of local trading participants (Locals).

Along with the intermediation landscape, marketplaces too are evolving. To keep up with investor demand for trading speed and efficiency, derivatives exchanges globally have invested in technology to enable 24-hour trading, digitise post-trade processes and more. Similarly, alternative marketplaces with niche technology or product propositions have emerged, and OTC derivatives markets have seen greater 'electronification', transparency and competitiveness. In this respect, the SC will continue to engage the industry to explore growth opportunities in the local marketplaces and attract a diverse range of market participants to enable a more vibrant derivatives market.

**Diagram 6**
STRENGTHENING THE ECOSYSTEM FOR RISK INTERMEDIATION

**Diversify participants and partnership**
- Facilitate foreign participation
- Facilitate partnerships

**Diversify product range and markets as well as strengthen infrastructure**
- Facilitate diversity in marketplace and product
- Facilitate efficient infrastructure
- Facilitate OTC trading and clearing efficiency

**Augment hedging know-how of businesses and investors**
- Facilitate new intermediation models with capabilities to hedge across markets
- Facilitate digital services for ease of hedging

**Develop industry talent and educate investors**
- Develop talent through close co-operation with industry participants
- Empower investors through ongoing awareness and education campaigns

*Source: SC.*

## B. DIVERSIFY SUITE OF PRODUCTS IN EXCHANGE-TRADED DERIVATIVES

Efforts to attract a broader range of market participants will need to be accompanied by greater diversification of derivatives product offerings onshore. This includes the need to broaden the suite of commodity derivatives products, such as agriculture-based products and currency hedging products, to become a trading destination for global commodity traders.

In addition, the SC sees opportunities to further expand the range of exchange-traded financial and equity derivatives, including cross-listed index futures and new interest rate futures, to complement the OTC market. Although most corporate hedging activities on currency and interest rates are predominantly conducted through banks in the OTC market today, exchange-traded derivatives can provide lower-cost alternatives and lower counterparty credit risk for corporates. In the future, as domestic corporates and investment institutions strengthen their risk management capabilities, more may tap into exchange-traded financial and equity derivatives to better manage risks.

Retail participation within the derivatives market is only a fraction of the pool of retail investors in the equity market. This is due to derivatives trading being more complex and would typically require investors to have a certain degree of knowledge and sophistication. Notwithstanding this, both foreign and local retail participation, excluding the Locals, make up between 20% and 30%[4] of the trading volume of the

4 Source: Bursa Malaysia, 2020.

Malaysian derivatives market annually. To cater to this segment of the market, there may be a need to enable products with relevant underlying assets and contract sizes, including mini futures contracts. This will also need to be accompanied by efforts to enhance awareness of retail investors about derivatives trading and drive greater digitisation for the derivatives industry as well as talent development programmes by SIDC.

## 3.2 EMPOWERING INVESTORS FOR A BETTER FUTURE

In addition to becoming a high-income economy, Malaysia is also edging into an ageing nation status in the coming decade. These are among the key factors that will shape the financial well-being and retirement needs of Malaysians. As such, Malaysians will need to be empowered as they look to accumulate wealth and prepare for retirement. This includes having the knowledge to invest, information to make decisions, access to products and services as well as options to compare and diversify – all of which are powerful components of the investor experience that will shape the future. Market intermediaries must offer a seamless, convenient and safe investing experience. This section looks at the development needs over the next five years to better empower Malaysian investors to invest for their future.

### STATE OF PLAY

A sizeable segment of the Malaysian population lacks adequate savings for retirement. Of the total labour force in Malaysia, only 48% rely on their EPF savings as the main source of income for retirement. Many self-employed Malaysians, constituting ~41% of the labour force are not covered by existing social protection programmes[5]. Of the active EPF members, ~68% do not have the minimum basic savings of RM240,000[6] for retirement, and 70% of those aged 54 and above have less than RM50,000[7]. This is the result of low levels of financial and investment literacy, the lack of retirement planning as well as various socio-economic factors. Some Malaysians have indicated the need for financial advice or assistance to prepare for retirement[8]. However, many still display short-sighted tendencies with regards to setting aside savings to meet future needs or emergency expenses[9].

The intermediation of savings in Malaysia is largely conducted through GLICs, followed by banks and the asset management industry. GLICs, which intermediated ~53% of private savings between 2013 and 2019[10], have undertaken various efforts to encourage greater retirement savings. This includes enabling retirement advisory services, broadening investment products and channels such as micro-investing and top-up options, as well as catering to the broader informal sector such as gig workers and housewives. With a large majority of Malaysians taking up deposit products compared to investment products, banks intermediate ~31% of private savings while the asset management industry[11] intermediates ~16% of private savings.

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5 Based on data from DOSM, EPF and Public Service Department, 2017.
6 RM240,000 is the recommended basic savings by EPF. This is equivalent to an income of RM1,000 a month for 20 years post-retirement, which is based on the current minimum monthly public pension of RM1,000 and the average life expectancy post-retirement.
7 *Social Protection Insight: A Better Tomorrow,* EPF, 2018.
8 *Retirement Preparedness and Productive Ageing Among Government Employees and Retires in Klang Valley*, Malaysia Institute of Ageing, Kumpulan Wang Persaraan (Diperbadankan) (KWAP), 2018.
9 *Financial Capability and Inclusion Demand Side Survey*, BNM, 2018.
10 BNM; SC; Annual reports of GLICs, including EPF, Permodalan Nasional Bhd (PNB), KWAP and Khazanah, 2013-2019.
11 Excluding figures from PNB.

The asset management industry is anchored by large banks and insurance-backed entities that are dominant in unit trust funds and are often backed by a strong agency workforce. Some market participants have partnerships in their distribution model to enable portfolio-based offerings for their clients, replacing established product-centric sales model. Platform-based fund distributions have also emerged in recent years along with robo-advisors or DIMs. While investors on such digital platforms have grown, for example, account opening on DIMs grew by more than eight times in 2020[12]; this remains a small segment of the overall market.

Within the industry, funds still mainly invest onshore (72% of industry assets), and in traditional asset classes such as equity, fixed income and money markets (89% of industry assets)[13]. Notwithstanding, growing investor demand for investment diversification has resulted in the growth of foreign funds and funds investing in alternative asset classes. Underpinned by liberalisation measures[14], industry assets allocated outside Malaysia have grown by a CAGR of 15.6% between 2012 and 2020, which is close to three times the growth in total assets over the same period[15]. Meanwhile, allocation to alternative assets such as private securities and unquoted securities have grown by 5.1% CAGR[16].

## STAYING AHEAD OF THE CURVE

The abovementioned observations of the asset management industry reflect the growing diversity and sophistication among Malaysian investors – from the perspective of financial and investment literacy, advisory needs, investment sophistication, income levels, risk appetite and preferences in investment channels. These emerging need will continue to change on the back of various shifts – domestic demographic changes, Malaysia moving into a high-income nation status[17], growing interest in SRI and the continued search for yield. This is further amplified by the advancement of data and technology, which reshapes how insights are derived, decisions are made and services are delivered. Moving forward, Malaysia needs an investment ecosystem that is diversified – one that caters to the different needs of Malaysian individuals and businesses.

As an individual ages, their wealth accumulation or preservation-centric portfolio might require recalibration to enable wealth decumulation for retirement – as outlined in Diagram 7. In the wealth accumulation phase, investors convert income into investment capital. Investments in this phase are growth-focused and emphasise on returns *vis-à-vis* one's risk appetite. In contrast, wealth decumulation – a concept that is still nascent in Malaysia – requires investors to convert a portion of their investments into fixed or regular

> *"Moving forward, Malaysia needs an investment ecosystem that is diversified – one that caters to the different needs of Malaysian individuals and businesses."*

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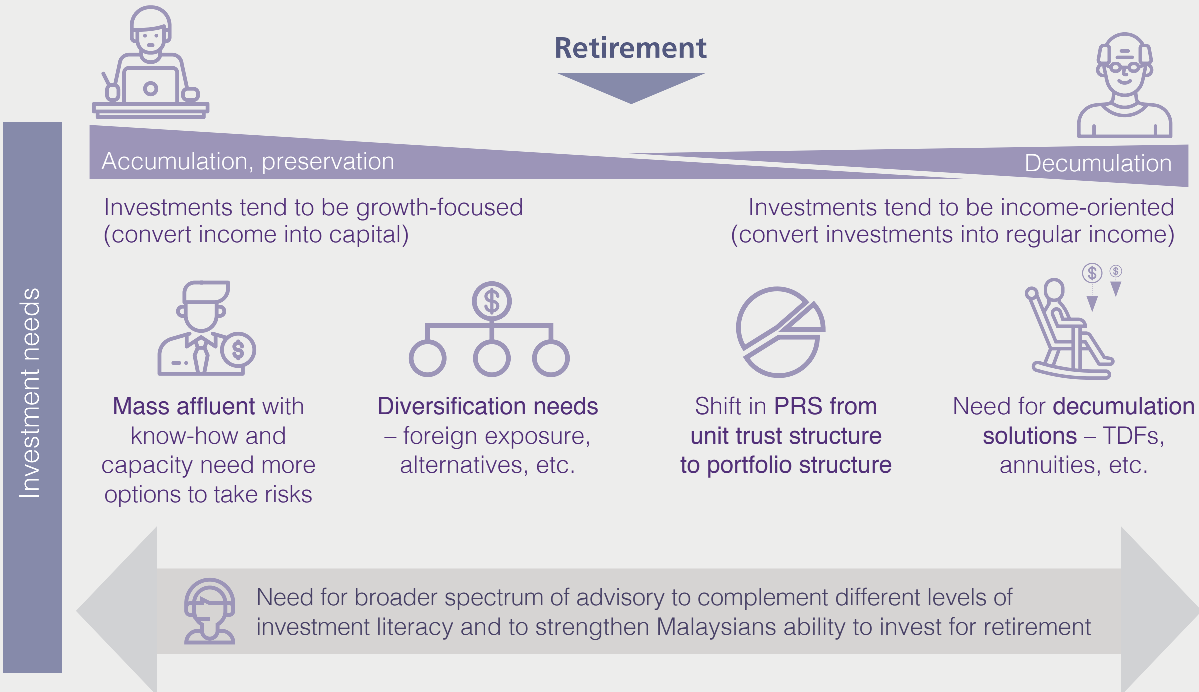
[12] Internal analysis, SC, 2019.
[13] Internal analysis, SC, 2020.
[14] This includes measures such as feeder fund structures, Mutual Recognition Agreements (MRAs) and ASEAN collective investment schemes to liberalise access to foreign funds.
[15] Internal analysis, SC, 2020.
[16] Internal analysis, SC, 2020.
[17] *Aiming High – Navigating the Next Stage of Malaysia's Development*, World Bank, 2021.

income to finance retirement. Investments in this phase tend to adopt more income-oriented investment strategies, with the aim of maximising portfolio durability to support the level of withdrawals needed during retirement. This requires investors to consider incorporating investment strategies with fixed income and annuity solutions, such as target date funds (TDFs), insurance and reverse-mortgage solutions, during the late stages of wealth accumulation. Moving forward, investors may benefit from a broader range of wealth decumulation solutions and greater flexibility in PRS to adopt different investment strategies and investment advice.

**Diagram 7**

INVESTMENT NEEDS RANGE FROM WEALTH ACCUMULATION, PRESERVATION TO DECUMULATION




*Source: SC.*

As income levels rise, Malaysia will see a growing pool of mass affluent investors. This segment includes, among others, younger working professionals with steady incomes who are digitally savvy and have varying financial needs. In light of this, investors will need wider access to investment options, services and delivery channels that allow them to pursue higher yields, such as investments into alternative asset classes and structured products. Further, as the country progresses, Malaysian investors will increasingly look for greater diversification and higher yields, which may require easier access to cross-border investment products and solutions beyond what is currently available in the market.

Despite the increasing sophistication of some investors, one in three Malaysians have low financial knowledge, particularly among the lower income households[18]. Accessible investment advice is thus important to support Malaysians with varying levels of financial and investment literacy. Those with low investment literacy and poor retirement planning discipline would require basic or automated advice to bolster investment literacy and help them better manage their retirement savings. Investors who are more sophisticated and equipped with knowledge may require a more holistic portfolio-level advice, whereas those entering retirement may require advice that incorporates elements of decumulation into their portfolio. While financial planners (FPs) and DIMs have made advisory services accessible to more Malaysians in recent years, more can be done to strengthen investment advice offerings to better empower Malaysians to make investment decisions for their future. This includes allowing investment advisory models to evolve and thrive in Malaysia, thus raising the bar on the quality of investment advice.

Access to information and ease of investing are important aspects of investor empowerment. This is driving the evolution of fund management market infrastructures. Across various jurisdictions, there is a variety of infrastructures, including one-stop fund information hub, e-Know Your Customer (KYC) infrastructure and centralised fund management processing infrastructure. Such infrastructures not only improve the investing experience, but also enable greater efficiencies for domestic market participants.

While digitisation has empowered investors with greater access to capital markets, there may be a risk that certain segments of the population could be excluded. Elderly and rural investors are most at risk of digital exclusion given the lack of digital access and know-how. As digitisation democratises financial services, it is crucial to bring the broader Malaysian population along the journey and ensure that no group gets left behind.

## STRATEGIC CONSIDERATIONS

### 3.2.1 WIDENING INVESTMENT OPTIONS ACROSS MORE INVESTOR SEGMENTS

### A. EMPOWERING FOR GREATER RETIREMENT SAVINGS

PRS has gained investor traction, particularly with the middle income group, with total AUM of RM3.7 billion across eight providers as at December 2020. About 71% of PRS members are employed, 19% consist of students, homemakers as well as retirees, and the remaining 10% are self-employed. PRS has also observed steady adoption by employers, with about 800 companies joining the scheme as at December 2020.

Nevertheless, PRS members still represent only a small proportion of working Malaysians, and most have low average savings – about 59% of members have account balance of less than RM5,000. While efforts have been made to liberalise asset allocation and flexibility to withdraw funds for health and medical reasons, there is still room to enhance the investment proposition of PRS. This includes the need to differentiate against the typical unit trust fund as well as enable innovative and low-cost PRS investments.

As investors near retirement, their investment strategies will need to include permutations of growth, steady long-term income and decumulation investments across a range of asset classes to better prepare for their short to long-term life changes. These needs may be served by the introduction of the portfolio account management schemes (PAMs) within PRS. PAMs will reflect a fundamental change in the current structure

[18] *Malaysia National Strategy for Financial Literacy 2019-2023*, FEN, 2019.

of PRS to a portfolio-based structure, allowing investors and intermediaries greater flexibility in investment strategies as well as enabling unbiased goal-based asset allocation. In contrast, the current unit trust structure limits investors to fund strategies adopted by the fund manager, and products carried by agencies and bank distributors. The structure of PAMs will enable a more holistic investor journey, with some customisations along the investment process based on investor's risk appetite and needs. This is currently limited to high-net worth individuals (HNWIs) and private banking clients. As contributions to PAMs will be enabled via various banking and payment methods, there is merit to enhance the seamlessness between PAMs and the banking sector moving forward.

The intermediation for retirement offerings has also evolved with technology. In some markets, pension asset managers and retirement schemes are increasingly collaborating with fintech players and robo-advisors to offer convenient, accessible and affordable solutions. Similarly, PAMs will liberalise for a broader set of PRS providers in Malaysia, extending beyond the current unit trust companies. This will allow DIMs and other providers to offer innovative and competitive PRS offerings onshore.

Another potential consideration is the creation of TDFs, which will provide a more optimal de-risking process for investors as they age. TDFs are designed to give investors a diversified portfolio that rebalances automatically according to their age and target retirement date. The existing default option framework offers an automatic glide path that switches PRS members' funds from a higher-risk growth asset allocation to a more conservative and lower-risk asset allocation when they hit the age limit. In comparison, the TDFs' glide path factors in long-term capital market and demographic assumptions in response to market conditions. This allows investment risk to be adjusted dynamically over the course of the investment period, thus offering a more comprehensive diversification model and smoother de-risking flow for investors.

Over the coming years, there is a need for retirement solutions in Malaysia to evolve holistically to better provide for accumulation and decumulation strategies. This entails enabling a greater range of capital market products such as fixed income and TDFs as well as products across the wider financial services sector, including annuities and reverse mortgages. Greater integration with the insurance and healthcare sectors may also be necessary to enable more effective decumulation products and strategies for the Malaysian market. Investment advisors would need to expand their breadth of products and solutions to better advise investors for retirement protection and investment. Various partnerships and engagements with stakeholders, including co-operatives and employers, will need to be formed to build greater awareness on retirement savings. At the national level, policy measures including tax incentives and matching contributions may also help shape the saving behaviour of investors for retirement.

> *"As investors near retirement, their investment strategies will need to include permutations of growth, steady long-term income and decumulation investments across a range of asset classes to better prepare for their short to long-term life changes."*

## B. EMPOWERING THE MASS AFFLUENT SEGMENT

The mass affluent investor segment is set to grow, yet it remains largely untapped by wealth managers[19]. Across Southeast Asia, the mass affluent segment is expected to account for 21% of the population by 2030[20]. They consist primarily of younger working professionals in the middle class segment and are typically more digitally savvy. While most have sizeable assets stored in cash or savings account, they remain generally hindered from accessing customised wealth services and products. Similarly, majority of the Malaysian mass affluent segment would also have sufficient capacity to invest. As they grow in sophistication and income, these investors are looking to be empowered with more investment options outside the scope of traditional products.

Within the current framework of investor classification, the mass affluent segment is categorised as retail investors. As retail investors, they may not be able to access investments with greater exposure to non-traditional asset classes and products with riskier profiles, despite having the means and risk appetite to do so. Moving forward, to further empower the mass affluent segment, more effort is needed to improve their access to products that are aligned to their risk appetite but are only available to high-net-worth individuals[21] (HNWIs) today.

Given the different levels of investor sophistication, there is a need to evaluate the current classification of accredited investors, taking into consideration the knowledge and experience of investing as well as their appreciation of associated risk that enables informed decision-making. Aside from assessing net worth, the level of investor knowledge and sophistication are also important considerations to enable greater investor participation. This can also cater to investors who are professionals in relevant industries within the financial services sector.

## C. EMPOWERING WITH MORE OPTIONS ON INVESTMENT FUNDS ONSHORE

Within the current unit trust industry in Malaysia, investors can access foreign funds that are recognised under the SC's *Guidelines for the Offering, Marketing and Distribution of Foreign Funds* (OMD Guidelines). This includes funds recognised through the ASEAN collective investment scheme regime and MRAs. In addition, foreign funds such as Undertakings for Collective Investment in Transferable Securities (UCITS), which are available through feeder structures, allow onshore access to foreign funds for Malaysian investors, but are often limited in product range. In this regard, efforts will be undertaken to increase the offering of investment funds to enable greater access to foreign funds and strategies, while ensuring a level playing field for domestic and foreign fund managers. This calls for an approach to enable the phased liberalisation of the unit trust industry, starting with a framework to allow the offering of foreign funds that are from within the group of companies of domestically licensed fund management entities to high-net-worth entities (HNWEs), such as institutional investors and listed companies. Over the medium to long term, this offering may be extended to HNWIs, and potentially, retail investors. Such liberalisation efforts may allow for more types of alternative assets and strategies to grow domestically through wholesale funds and other types of potential regimes. This will also enable new domestic asset classes, such as private credit, digital assets and renewable energy infrastructure investments.

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19 *Global Digital Wealth Management Report 2019-2020*, Boston Consulting Group (BCG) in collaboration with Lufax, March 2020.

20 *Beyond the "Crazy Rich": The Mass Affluent in Southeast Asia, BCG, 2018.*

21 HNWIs are investors with annual income of at least RM300,000 or a joint annual income with spouse of at least RM400,000.

Amendments to the *Guidelines on Unit Trust Funds* are currently underway to lay the foundations to narrow the gap between the requirements for domestic funds and funds in other major markets. A key outcome of this effort will be to increase the attractiveness of domestic funds to both domestic and foreign investors, which will further boost the growth of the unit trust industry. This entails broadening the definitions for permissible investments and eligible markets for domestic funds to invest, in line with other international fund centres. The liberalisation of investment strategies and asset classes, balanced with exposure limits, will enable investments into new asset classes, such as digital assets and commodity derivatives. Efforts will also be taken to further enhance the efficiency of portfolio management, including expanding the scope of securities lending and allowing repurchase transactions to include foreign markets.

### 3.2.2 FOSTERING ACCESSIBLE AND QUALITY INVESTMENT ADVICE

Malaysian investors today largely obtain investment advice from their own families, investment experts, bankers as well as unit trust consultants or agents[22]. In cases where advisors are unlicensed, investors risk getting poor advice and making uninformed investment decisions. Some advisors represent product manufacturers and tend to provide product-centric advice, which may not cater to investors that are seeking for more tailored advice. As the Malaysian investor landscape continues to mature, there will be a need for greater variety of investment advisory models in the market.

**Diagram 8**

BROADER TYPES OF ADVISORY MODELS TO CATER FOR SPECTRUM OF INVESTOR NEEDS (*ILLUSTRATIVE*)

| | | | |
|---|---|---|---|
| Investors' advisory needs | Investors who prefer self-directed investments and do not need advice | Investors who want general investment recommendation on products or asset classes, without considering personal circumstances | Investors who want tailored advice and solutions, based on their needs, risk appetite and investment goals |
| Types of investment intermediary models | **Execution-only**<br>Provision of execution-only services without advice<br>Example: online distribution platforms and stockbrokers | **Non-personal Advice**<br>Provision of investment recommendations without taking into account personal circumstances of the investor<br>Example: investment experts or advisors | **Personal Advice**<br>Provision of investment recommendations taking into account personal circumstances of the investor, which can be standardised or customised across range of asset classes<br>Example: robo-advisors, FPs and wealth advisors |

*Source: SC.*

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[22] *Nationwide Survey Report,* Federation of Investment Managers Malaysia (FIMM), 2019.

Savvier investors may see value in self-directed investments. The growth of this investor segment can spur the growth of low cost execution-only or distribution-only business models. EPF e-members investment scheme (e-MIS) is already paving the way for self-directed investments, by allowing its members to withdraw and invest their savings in private sector funds through its online platform. In addition, the introduction of e-services platforms in 2020 will also enable the growth of online distribution of capital market products.

Broad advice will be relevant to investors seeking general investment recommendations in selected industries, asset classes or products that may be considered for their overall investment portfolio. By enabling this category of advisory model, investors can benefit from qualified investment experts.

As the industry evolves in complexity, especially in aspects of retirement, there is greater demand for personal advice – one that prioritises outcomes for individual investors *vis-à-vis* their risk profile and helps them meet their investment goals. Although it is still small in size, there has been traction with DIMs and FPs who provide personal advice. DIMs adopt a more standardised and automated approach to personal advice in addition to managing one's portfolio, while FPs provide individually customised advice based on investor needs and risk appetite. There is also an emerging trend of hybrid advisory models that integrate human interaction with automated advisory. As the demand for wealth management advisory grows, there would be opportunities for more intermediaries to shift their focus towards providing personal advice. Growth in this category of advisory model can offer investors greater variety and quality of personal advice.

The SC will also conduct a joint review with BNM towards consolidating the licensing regime between FPs and financial advisers (FAs), which are regulated by the SC and BNM respectively. This takes into consideration that a sizeable number of FPs and FAs are dual-licensed today and are therefore subjected to dual regulations. This will enable the consolidated FPs and FAs to offer a wider range of financial advisory and planning services to consumers and investors, as well as reduce the regulatory costs for intermediaries.

To facilitate the spectrum of investment advisory models in Malaysia, the SC's regulatory framework will need to evolve. This entails a more streamlined and modularised licensing regime, complemented by regulations and regulatory expectations on the various types of advisory models that are clearer and more distinct. There are also various other factors to be considered, including the implications on current business models in the market, commercial viability and talent needs. Moving forward, an extensive regulator-industry collaboration will be fundamental to shape the investment advisory landscape.

### 3.2.3 ENABLING GREATER EFFICIENCIES THROUGH MARKET INFRASTRUCTURES

The ease of the investing process and ease of access to reliable investmest information are powerful components that contribute to investor empowerment. Technology has made investor empowerment more prominent. Globally, various types of fund management and information infrastructure that enhance both investor experience and efficiencies within the fund management industry have emerged.

The emergence of information infrastructures to centralise fund information in a repository for the fund management industry provides investors with greater awareness on available investments and enables better comparability of fund performance. This is similar in principle to the Bond+Sukuk Information Exchange (BIX) in Malaysia.

Across Asia, centralised infrastructures connecting various stakeholders across the fund management value chain have emerged that enables market participants to better serve investors. Some notable features across these market infrastructures include:

- Centralised e-KYC service, which facilitates easier onboarding for investors and market participants;
- Centralised repository of funds transacted, which gives investors a holistic view of their investments across different service providers;
- Standardised and automated interaction across asset management companies, distributors, trustees and banks to remove inefficiencies in manual and bilateral communication;
- Centralised back-office processing, which removes inefficiencies and allows market participants to focus on expanding their business and offerings. This will also drive competition by lowering setup cost for new players and fintech companies;
- Integration with global clearing platforms for cross-border distribution of domestic funds, which allows market participants to diversify into investments globally while ensuring safe custody of fund shares and transparent management of funds – enhancing investors' confidence in these markets; and
- Seamless and interactive sharing of information between market participants and regulators, which enhances efficiency for regulatory reporting and enables more robust regulatory development.

In the future, data sharing ecosystem, which is similar in concept to open banking, will be increasingly relevant as the domestic industry matures. Open application programme interfaces (APIs) by industry players that enable third-party access to investor-permissioned data will present opportunities for further growth in the investment advisory and wealth management space. Greater data sharing will not only benefit investors with easier account aggregation across multiple service providers, but also catalyse new service models and product innovation as well as enhance the effectiveness of investment advisory services.

Implementation of these infrastructure features vary across markets, depending on the nature and needs of the fund management industry – some are enabled by the private sector, while others are jointly undertaken by the regulator and the private sector. Similarly, as the Malaysian fund management industry grows, such features could become increasingly relevant. In line with this, the SC will conduct a feasibility study on relevant infrastructures that can enhance the efficiency of the Malaysian fund management industry and enable greater growth of cross-border fund distribution. The results of this study will help the SC and the industry to identify appropriate next steps to elevate the efficiency of the fund management industry.

### 3.2.4 FACILITATING GREATER DIGITAL INCLUSIVENESS ACROSS INVESTORS

Digital exclusion occurs when segments of a population have unequal access to digital services. Often, these vulnerable segments tend to be older, living in rural or remote locations with poor internet access, or are economically disadvantaged in employment status or educational qualification. In the future when digital services and products become more prevalent, these groups could be even more vulnerable and face the risk of missing out on opportunities and critical information that can affect timely decision-making. In addition to internet access and hardware constraints, most would face challenges in acquiring or keeping up with digital services and lack the motivation as well as confidence to use, understand or engage in digital services.

In recognition of such challenges, some markets have embarked on initiatives that are geared towards greater digital-inclusiveness. Some of these efforts are illustrated in Diagram 9. While the SC has embarked on efforts to increase the savviness of domestic elderly and rural investors on digital technology, the SC is cognisant that this journey would be more successful with greater collaboration with market participants.

**Diagram 9**
FACILITATING INDUSTRY DIGITISATION WITH DIGITAL INCLUSIVENESS

Investor segments that are at risk of digital exclusion

- Elderly investors that are not digitally adept
- Rural investors with limited internet access
- Economically disadvantaged investors
- Investors that are vulnerable from the perspective of investment and digital literacy

Efforts taken by other jurisdiction to promote digital inclusiveness

- **Digital support hubs** to enable investors to bridge the digital divide
- **Investor education programmes** to narrow the skills and information gap for investors at risk of digital exclusion
- **AgeTech for financial services** by using technology and innovation to help individuals manage their own health and financial wellness
- **Greater focus on vulnerable segment** by regulators for credible deterrence

*Source: SC.*

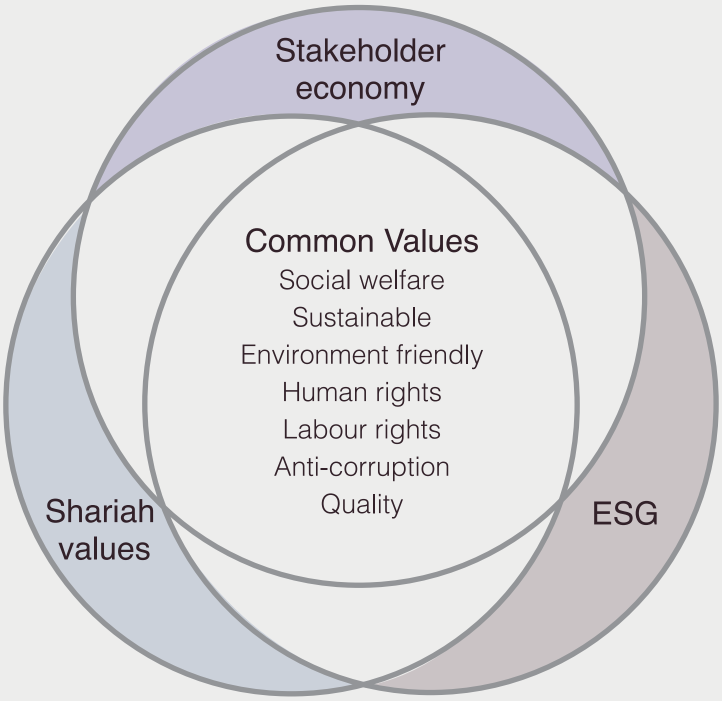
## 3.3 SHAPING A STAKEHOLDER ECONOMY WITH SRI AND ICM

The concept of the stakeholder economy emphasises long-term value creation – one where businesses assume greater responsibilities beyond short-term profits and account for the needs of stakeholders, ranging from shareholders, employees and business partners to the environment, society, and community. This concept is very much aligned to the principles of the Islamic economic system that accentuate the rights of stakeholders across risk sharing, property rights, sanctity of contracts as well as wealth accumulation and redistribution, for a balanced and sustainable socio-economic development. Within the capital market, the SC advocates long-term value creation by (1) promoting responsible businesses with good CG (outlined in Chapter 4.1) and (2) facilitating the intermediation of capital to sustainable and responsible businesses through SRI and ICM to cater to broader stakeholders' needs. This section outlines the development priorities for SRI and ICM in line with Malaysia's focus over the next five years.

### THE STATE OF PLAY

Efforts undertaken in the previous decade have laid the foundations for SRI offerings in Malaysia and facilitated greater advocacy of sustainability through the ICM. Both the SRI Sukuk Framework launched in 2014 and *Islamic Fund and Wealth Management Blueprint* launched in 2017, have positioned Malaysia as a regional centre for Shariah-compliant SRI. In addition, broad-ranging strategies identified in the SRI Roadmap, which was rolled out in 2019, are currently underway to further strengthen the SRI ecosystem.

**Diagram 10**
COMMONALITIES BETWEEN ESG, SHARIAH VALUES AND STAKEHOLDER ECONOMY




*Source: Adapted from the Halal Industry Masterplan 2030, Halal Development Corporation Bhd, 2020.*

While nascent, the SRI landscape has changed rapidly in recent years. Conducive regulatory policies and incentives, coupled with initiatives to scale industry capacity and awareness, have created traction in fundraising for green and sustainable objectives. Since the first SRI Sukuk in Malaysia was issued in 2015, the total value of outstanding SRI Sukuk and bonds issued under the ASEAN standards[23] has grown by 40.7% CAGR from RM2.14 billion in 2017 to RM5.96 billion in 2020. Several institutional investors and domestic fund managers have signed up with the PRI, a United Nation (UN)-supported network of investors, paving the way for growth in SRI funds and investments. All PLCs have sustainability statements as part of their annual report, and investors can access information on ringgit-denominated SRI bond and sukuk issuances through the dedicated SRI centre on the BIX website.

Ongoing work to establish a SRI taxonomy and broaden the spectrum of SRI products will pave the way for greater capital allocation to sustainable initiatives and climate-related disclosures that are aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)[24]. This will shape transparency on climate risk management and broaden stakeholder engagements, which together with technical capacity-building programmes, will cultivate the culture and adoption of ESG elements in Malaysia.

The ICM has been a strong catalyst for sustainable finance, given the commonalities of their underlying principles. Innovations such as SRI sukuk, *waqf* share offerings through an IPO, and *waqf*-featured funds have demonstrated how the ICM facilitates the intermediation of capital formation for commercial purposes while also contributing to positive outcomes for the environment and society. Notably, the SRI sukuk framework facilitated the inaugural SRI social sukuk issuance in 2015 to fund trust schools and the world's first green sukuk out of Malaysia in 2017. These were followed by the increased volume of SRI sukuk issuances, comprising projects that include solar photovoltaic power plants, green buildings, hydropower and affordable housing. For the *waqf* segment, the offering of *waqf* shares structured under a social enterprise model was the first of its kind globally. Dividends from the *waqf* shares were utilised to subsidise rental rates for selected tenants as well as for small shop lots for single mothers and lower income groups. These innovative instruments and initiatives under the ICM is consistent with the social aim of reducing inequality. The milestone Waqf-Featured Fund Framework launched in 2020 will broaden the range of innovative ICM products and provide the public with access to Islamic funds that allocate whole or part of the funds' returns to *waqf* projects.

While the sukuk market has been instrumental for Shariah-compliant fundraising, it predominantly caters to listed and/or large corporations. In reaching out to the broader stakeholders of the economy, there is a need to expand ICM beyond traditional assets and markets. As part of efforts to enhance financial inclusion for the economy, the expansion of ICM into alternative fundraising avenues via fintech will be crucial to create more opportunities for MSMEs and enable participation by more investors – both of which are significant stakeholders of the economy. Initial efforts have seen the emergence of Islamic alternative finance platforms and DIMs, as well as the recognition by the SC's SAC that the trading of digital assets is permissible.

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23 ASEAN Standards comprise of the *ASEAN Green Bond Standards*, *ASEAN Social Bond Standards* and *ASEAN Sustainability Bond Standards* issued by the ACMF.

24 TCFD was established by the Financial Stability Board to develop recommendations for more effective climate-related disclosures. In 2017, the TCFD released their disclosure recommendations for companies structured around four thematic areas – governance, strategy, risk management, and metrics and targets.

Both innovation and collaboration have been crucial to raise awareness and increase commitments to sustainability in the capital market, while enabling future scalability. The SC's extensive domestic and global collaboration network, coupled with an innovation-friendly ecosystem and facilitative regulatory policies, have facilitated greater synergies between SRI and ICM as well as global recognition of its advancement.

## STAYING AHEAD OF THE CURVE

The renewed momentum on climate action highlighted in Chapter 2 has seen growing commitments by countries, cities and companies towards a future with net-zero emissions. This means accelerating the reduction of greenhouse gas (GHG) emissions caused by human activities and offsetting any remaining GHG emissions from the atmosphere through carbon removal. This movement has seen continued investments in renewables and increasing calls for investments to transition emissions-intensive energy, heavy industrial and mobility sectors. The transition to net-zero emission for the global economy will require trillions of dollars in investments – accentuating the need for significantly more financing for the broader economy to achieve carbon neutrality.

As Malaysia transitions towards a low-carbon economy, it is important to recognise that assets from carbon-intensive activities are at risk of becoming prematurely obsolete or 'stranded' due to technological advancements, policy responses and regulatory developments. The degree of disruption to the capital market would depend, among others, on companies' ability to embrace change and mitigate the risk of 'stranded assets'. Investors and asset owners have started to integrate ESG into their investment strategies and are already taking the initiative to study the potential mispricing of climate risks within their portfolios.

The health pandemic in 2020 also brought the 'social' component of ESG to the forefront of investors' attention alongside the 'environmental' component, and raised the need for businesses to play a bigger role with respect to their broader stakeholders – consumers, community and suppliers. Investors and businesses are paying greater attention to societal issues ranging from employee protection to supporting vulnerable communities such as the economically disadvantaged and small-sized businesses.

These movements to preserve the interests of climate and society are in line with *maqasid al-Shariah* (objective of Shariah), which promotes the attainment of benefits and prevention of harm for the people. By promoting greater alignment with *maqasid al-Shariah*, ICM can foster a more sustainable and responsible capital market ecosystem. This will enable ICM to play a greater role in facilitating sustainable and equitable growth in the economy.

Box Article 1

## MAQASID AL-SHARIAH FOR THE STAKEHOLDER ECONOMY

It is crucial for Malaysia to provide leadership in shaping the future landscape of Islamic finance, and in particular, ICM, to find a balance between economic development and societal good. *Maqasid al-Shariah* underlines the essence of sustainable economic development – an agenda that has gained traction globally following the adoption of the UN SDGs by world leaders in 2015 – and encompasses key aspects of life and community. This includes inclusivity and facilitating investments for socially-beneficial outcomes, which can be achieved more efficiently with the advent of digital technology as enablers, contributing to long-term value creation – the essence of a stakeholder economy.

Achieving the higher intents and objectives of Shariah requires righteous behaviour and high standards of moral conduct in all dealings. It is not limited to just prohibitive rulings to discourage immoral conduct and actions harmful to stakeholders and the community. *Maqasid al-Shariah* emphasises a holistic view of life in Islam and has to be looked at as a foundation towards a righteous way of life with the aim to preserve and promote the five essentials of mankind – faith, life, intellect, lineage and wealth.

As an extension to the core objectives of the *maqasid al-Shariah*, the following outcomes can be achieved:

- Fulfilment of basic human needs
- Optimisation of natural resource consumption
- Promotion of economic well-being and social justice
- Poverty alleviation and reducing income disparities
- Adopting permissible and productive activities (*halal*) to promote public interest (*maslahah*) and to do what is right (*amal ma'ruf*)
- Rejecting prohibited and harmful activities (*haram*) to prevent what is reprehensible (*nahi munkar*) and prohibit evil (*mafsadah*)

## STRATEGIC CONSIDERATIONS

### 3.3.1 MOBILISING CAPITAL TO SUSTAINABLE AND RESPONSIBLE BUSINESSES

### A. ENABLING MORE COMPANIES TO TRANSITION TO A NET-ZERO FUTURE

Today, green projects in Malaysia are largely funded through bank loans and bonds or sukuk, including those issued under the SRI Sukuk Framework and the *ASEAN Green Bond Standards*. Green financing for smaller companies or green suppliers through alternative channels or private markets is still few and far between.

For the transition to a net-zero future to be successful, businesses across various sectors, including energy, manufacturing, construction and transportation will require significant financing to decarbonise. Businesses will not only need to invest in green or clean energy solutions like renewable energy or low-carbon transport, but also introduce measures to reduce or avoid GHG emissions – all of which will require investments into more advanced technology and innovation or to transform their operational processes. This includes investments in infrastructures, among others, to capture and store carbon dioxide wastes, improve energy efficiency and develop low-emission production methods for goods and services. As businesses embrace net-zero targets in the future, they will need to explore transition financing outside the parameters of green financing and from a much broader range of capital providers.

As such, there is a need for a Malaysian approach towards transition finance – one that is more inclusive of the broader economy to achieve net-zero emission, while minimising greenwashing risks. Although universally accepted transition principles have yet to be developed, there have been increasing considerations for transition finance by various organisations, including the International Capital Market Association and Climate Bonds Initiative. Most of these require greater clarity in issuer-level disclosures on their pathway to net-zero. For example, corporate strategies to transform business models to address climate risks, materiality of planned transition with science-based targets or transition milestones as well as implementation transparency are all key areas that issuers must consider and report using measurable and comparable metrics.[25] Some markets and financial institutions are exploring transition taxonomies as a way forward to bring the broader economy along the climate action journey. Such efforts are intended to provide investors with greater clarity that transition labels are not an attempt at greenwashing, but involve genuine activities that are contributing towards reducing global emissions.

To better enable pathways to net-zero targets, businesses will need to tap into different capital providers with varied risk appetites along the development lifecycle of green technology or infrastructure[26]. While broad funding options are available today, the SC will continue to work with businesses in Malaysia to facilitate greater efficiency in funding their journey towards net-zero. VC firms can be partners for investments in nascent decarbonisation technologies with inherently higher risks or in the earlier stages of development. PE firms, infrastructure debt funds and insurance companies can be capital providers for matured technologies or infrastructures that are in the construction or commission stage. In cases where operating assets are spun-out to be pure-play renewable infrastructure companies, real estate investment trusts (REITs) can also be viable avenues.

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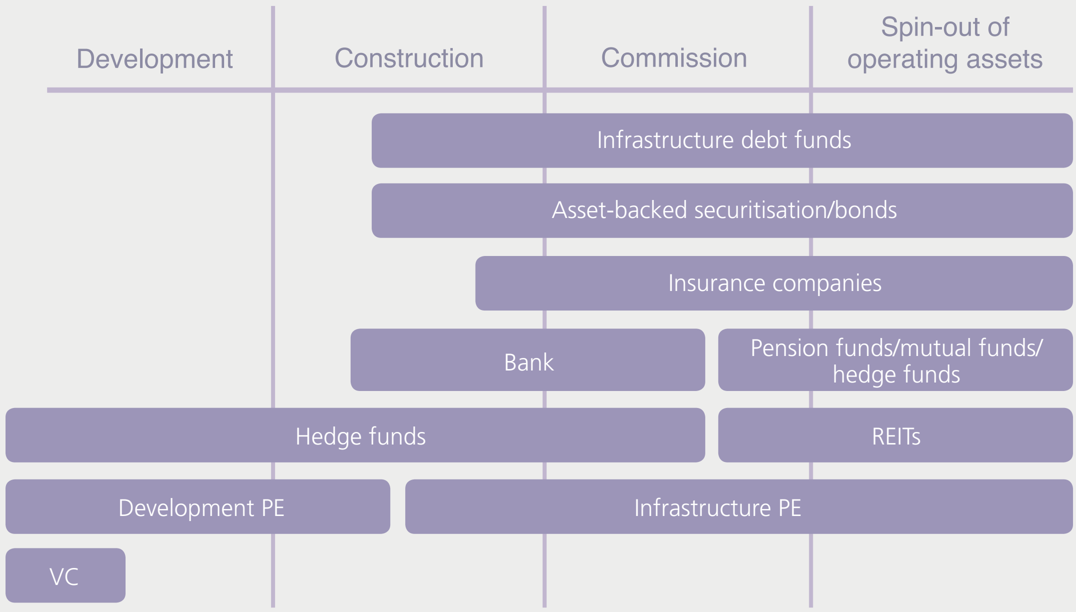
25 *Climate Transition Finance Handbook,* International Capital Market Association, December 2020.
26 *How to Finance Industry's Net-Zero Transition,* Oliver Wyman, 2020.

**Diagram 11**

BROADER FUNDING OPTIONS NEEDED TO FINANCE GREEN AND TRANSITION SOLUTIONS TOWARDS A NET-ZERO FUTURE




*Source: Adapted from How to Finance Industry's Net-Zero Transition, Oliver Wyman, 2021.*

## B. GREATER DISCLOSURES AND DATA AS GAME CHANGERS TO CAPITAL MOBILISATION

As climate risk becomes a significant consideration of investment risk, investors look to company disclosures and data to make informed decisions. This will become more pertinent as transition finance grows increasingly more mainstream. Disclosures of data are thus key indicators for investors to identify potential risks such as potentially stranded assets and to evaluate if a company intends to manage its carbon footprint going forward. Such disclosures can provide holistic information for investors to analyse the risk-reward trade-off of carbon projects initiated by businesses and the cost of capital. This can also encourage greater participation from a broader set of investors, unlocking more capital for businesses that are sustainable and responsible. Nonetheless, the availability and comparability of climate disclosures across companies today remain key challenges in many jurisdictions, against the backdrop of multiple reporting standards and frameworks.

In response to this, an approach to promote greater alignment towards the recommendations of the TCFD for climate disclosure will be explored for both corporations and capital market intermediaries in Malaysia. This is in line with actions taken by regulators in other jurisdictions. Some jurisdictions have committed to making TCFD-aligned disclosures mandatory by 2025, while others have adopted a 'comply-or-explain' approach for climate disclosures, requiring companies to either provide TCFD-aligned disclosures or explain why they failed to do so.

Greater availability of issuer-specific ESG data will enable the market to objectively measure the ESG risk and impact of companies through metrics such as GHG emissions, workers' pay and total green revenue[27], instead of just relying on sustainability statements and commitments by the companies. ESG data will become more granular, real-time and varied, spurred by technology and innovation. These trends will however come with issues in relation to the reliability and comparability of data, as well as risks of greenwashing – all of which could corrode the confidence and integrity of the market. In response to this, two key areas will be focused on moving forward:

- Promoting greater transparency in the market through disclosures; and

- Promoting investor protection in the context of greenwashing risks, asset managers' practices on the use of sustainability-related factors in investment decision processes, transparency of ESG data providers as well as disclosures and governance among credit and ESG rating agencies[28].

### 3.3.2 EXPANDING THE REACH OF ICM TO THE BROADER STAKEHOLDERS OF THE ECONOMY

Malaysia's ICM has experienced various stages of development since early 1990's. The initial stage was crucial to lay the foundations for the orderly growth of ICM. The key initiatives included the development of relevant frameworks to facilitate Islamic offerings, complemented by Shariah governance and tax frameworks. A combination of development initiatives by the SC and the industry have resulted in Malaysia being recognised as a global leader in ICM.

Today, the ICM accounts for more than 60% of the Malaysian capital market, and has evolved from largely focusing on basic Shariah-compliant products and services as alternatives to conventional products and services to offering more comprehensive financial solutions for different market segment needs. Moving forward, ICM offerings will continue to be expanded to better support the needs of stakeholders of the economy. One key area of focus will be the Shariah-compliant funding needs of MSMEs, especially in the *halal* sector, and Shariah-compliant SRI.

The *halal* economy, which comprises mostly MSMEs, contributes to approximately 7% of the national GDP[29]. Today, these MSMEs typically rely on the banking sector as well as funds from families and friends[30]. In this regard, ICM fundraising offerings in VC, PE, ECF and P2P financing can complement the banking sector and fill the funding gaps to support the growth of MSMEs in the *halal* sector. To facilitate this, the SC will collaborate with relevant stakeholders of the *halal* economy to establish and develop an ecosystem conducive to businesses in the *halal* economy, focusing on Shariah-compliant funding models and mechanisms. This includes developing broad Shariah guidance to facilitate assessments of the Shariah-compliant status of unlisted companies for industry reference. Ongoing efforts to raise awareness of alternative Islamic fundraising activities and efforts to broaden Islamic offerings through crowdfunding platforms will also be intensified. These initiatives are expected to expand and provide greater access to the full spectrum of the Islamic investment universe, including the unlisted markets, thus providing greater avenues for both retail and sophisticated investors to participate in both public and private markets. This will enable a more diversified Shariah-compliant investment portfolio across asset classes and economic sectors as well as facilitate greater mobilisation of funds towards the *halal* economy, promoting inclusivity.

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27 Green revenue are revenues generated from products and services that creates a positive impact to the environment.
28 *Sustainable Finance and the Role of Securities Regulators and IOSCO*, IOSCO, 2020.
29 *Halal Industry Master Plan 2030*, Halal Development Corporation Bhd, 2020.
30 *Understanding Financing through the Lens of Small and Medium Enterprises*, BNM, 2018.

Along with the growing interest to invest responsibly, efforts will be made to enhance investor access to Shariah-compliant companies with good ESG practices. This will encourage companies to take into greater consideration the needs of broader stakeholders, including people or communities and the environment. This is expected to further elevate the socially responsible and ethical values of Shariah-compliant companies. In this regard, guidance will be provided to incorporate Shariah requirements and ESG standards for investors seeking such investments as well as companies aspiring to adopt ESG practices. This guidance will leverage existing Shariah screening methodologies and internationally-recognised positive screening methodologies available in the market.

For greater impact to the socio-economic development in Malaysia, the SC will explore greater use of the ICM framework as a reference point and its products and services as funding sources for further development of the Islamic social finance sector. The key objective is to alleviate hardship among the underprivileged population within the Islamic wealth management and distribution system. Today, sources of funding for Islamic social finance are enabled by capital market instruments such as SRI sukuk and *waqf*-featured funds.

Moving forward, there are opportunities for impact assessments to be integrated with Islamic social finance instruments. This will enable measurable impact investments in the areas of socio-economic development – ensuring that investors will be able to measure whether the capital invested has achieved its desired impact objectives. In this regard, efforts will be focused on building an enabling ICM ecosystem for impact investing. This entails the sharing of knowledge, research capabilities, structured platforms for co-ordination and collaboration with impact stakeholders as well as a facilitative regulatory and development environment for innovation.

**Diagram 12**

ICM OFFERINGS CAN BE BROADENED TO BE MORE RELEVANT TO THE DIFFERENT STAKEHOLDERS OF THE ECONOMY


*Source: SC.*

### 3.3.3 EMBRACING COLLABORATION AND INNOVATION FOR GROWTH

#### A. POSITIONING MALAYSIA AS A HUB FOR SRI

The SRI landscape in Malaysia is rapidly evolving, even as nascent areas such as transition finance, performance-linked SRI instruments and taxonomies are being deliberated and developed. In such an environment, collaboration and innovation are key to remain in the forefront of development in the SRI space while bringing the broader economy along the journey.

Many jurisdictions have adopted a multi-stakeholder approach to facilitate innovation in their markets. In some jurisdictions, for example, the government, industry practitioners, academia and non-profit sectors have come together to develop capabilities in research, product development and technology innovation to enable the country to drive green finance and investment as a global centre.

In Malaysia, several COEs have been established by CMM, an SC-affiliate – the Malaysian Sustainable Finance Initiative to build capabilities of intermediaries in sustainable finance; the Centre for Sustainable Corporations to build up capabilities for sustainable practices among private sector companies; and the Sustainable Investment Platform to promote sustainable investment strategies among investors. Besides these, the SC has collaborated with BNM to set up JC3 in partnership with Bursa Malaysia and the industry to further climate action within Malaysia's financial sector.

Additionally, the SC also plays a significant role in driving the development of sustainable finance on the regional front through the ACMF and the ASEAN Working Committee on Capital Market Development. Internationally, the SC participates actively in IOSCO's sustainable finance initiatives, including managing capacity-building efforts through the IOSCO Asia Pacific Hub based in Malaysia. Furthermore, CMM is a member of the International Network of Financial Centres for Sustainability.

As the Malaysian capital market continues to grow with emerging global and regional SRI needs, the SC envisions Malaysia transforming into a regional SRI hub that aligns with the ICM agenda to establish Malaysia as a regional centre for Shariah-compliant SRI. By leveraging the SC's extensive collaboration network and bringing more domestic and regional stakeholders together, efforts will be made to develop thought leadership in sustainable finance, cater to regional capacity-building needs as well as champion innovation and research, while bringing the broader economy along a journey of long-term value creation. In addition, Malaysia seeks to attract global investments by leveraging its position as having an ever-growing list of Shariah and ESG-compliant companies, SRI funds and SRI sukuk.

#### B. ENHANCING ICM GLOBAL THOUGHT LEADERSHIP AND CAPACITY-BUILDING CAPABILITIES

Today, Malaysia is seen by many as a global thought leader in Islamic Finance. As the capital market embraces the emerging trends highlighted in Chapter 2, Malaysia's role as a thought leader in ICM will evolve accordingly. This includes harnessing the advancement in technology to collaborate and innovate to remain relevant on regional and global platforms as well as pave the way on how ICM can better enable the stakeholder economy and sustainable goals.

One key area of focus is on shaping the ICM landscape towards meeting *maqasid al-Shariah*, a concept which places value on advocating righteous behaviour, moral conduct and acts of goodness. In this regard, strategic thought leadership promoting greater ICM contribution towards *maqasid al-Shariah* will be developed, focusing on areas such as social finance, impact investing, SRI as well as Islamic fund and wealth management. Efforts to enhance Malaysia's position as a global centre for ICM will also be intensified, with the aim of providing a global reference platform for ICM.

Capacity building is another key area for the sustainable growth of ICM in Malaysia. Efforts to meet current and future capacity requirements will be strengthened through various upskilling and reskilling programmes to enable the development of professional expertise. There will be greater focus on strengthening capacity and enhancing the abilities of ICM practitioners in the area of Shariah governance via the orderly enhancement of the Shariah governance framework. This will include further strengthening entry requirements and dedicated learning programmes for Shariah advisors.

In the area of Islamic wealth management, growth opportunities exist globally, and Malaysia is well-positioned to capitalise on it given its stature as a leading ICM jurisdiction. Efforts will be intensified to develop capabilities and talents across the value chain of Islamic wealth management through collaborations with regulators, industry players, training and academic institutions, professional bodies as well as other relevant stakeholders. This will help to ensure Islamic wealth management capacity-building programmes continue to be relevant. Measures to establish infrastructure for various aspects of wealth creation, accumulation, preservation and distribution will also be explored. This will include efforts to expand *waqf*-featured fund modality as an effective platform for wealth management products.

## C. PROMOTING INNOVATION AND EFFICIENT DELIVERY OF ICM PRODUCTS AND SERVICES THROUGH FINANCIAL TECHNOLOGY

Technology and business innovation are key enablers for greater investment inclusion, which can benefit the broader society. While digital adoption in Malaysia's ICM has expanded across Islamic ECF, P2P financing and DIMs, Shariah-compliant fundraising and investment activities are still at the nascent stage on digital capital market platforms. The SC recognises the importance of digitisation in the capital market and its increasing adoption by market participants. To further the ICM agenda in the digital space, the SAC of the SC had resolved in July 2020 that it is permissible to invest and trade in digital currencies and digital assets on registered DAX that fulfil the requirements as specified in the SAC resolution. This SAC resolution marked a significant milestone for the ICM community to facilitate greater product innovation and the development of digital assets, which in turn, will attract broader participation and provide alternative channels for Shariah-compliant fundraising.

To enable further growth and expand ICM offerings, fintech will be leveraged as an enabler for innovative solutions, focusing on the *halal* economy, SRI and Islamic social finance. These digital solutions will facilitate connectivity by allowing issuers, investors and intermediaries to access existing and new markets in a more efficient and cost-effective manner, thus spurring the growth of the industry. Key initiatives include advancing innovation by capitalising on existing frameworks and through closer collaboration with relevant and key stakeholders.

Programmes to encourage innovation supported by appropriate regulatory guidance will also be considered to facilitate new digital business models, products and services. This will further advance Islamic fintech while creating an ecosystem that nurtures talent, innovation, ideas and solutions that can enable new offerings and improve accessibility.

# 3.1 CATALYSING COMPETITIVE GROWTH

## 3.1.1 PUSHING THE FRONTIERS OF THE ECONOMY

a. Explore new avenues such as SAFE notes, Angel Fund and Angel Syndication List for early-stage financing.
b. Collaborate with relevant government agencies and investment entities to facilitate greater use of market-based financing, and develop the domestic VC and PE industry as well as corporate venture landscape.
c. Streamline listing process and evaluate more options beyond IPOs to enhance the efficiency of the equity market for late-stage financing.
d. Introduce new intermediary models and evaluate mechanisms that will enable the bond market to be more inclusive for small to mid-cap companies.

## 3.1.2 ENABLING A MULTI-LAYERED MARKET

a. Enable differentiation in marketplaces for different segments of market participants.

## 3.1.3 FACILITATING DIVERSITY OF THE INTERMEDIATION LANDSCAPE

a. Facilitate healthy competition across the intermediation value chain.
b. Enhance the market-making framework and the SBL framework.

## 3.1.4 EXPANDING RISK INTERMEDIATION

a. Develop a framework to allow remote membership into the Malaysian derivatives market, starting with trading participants.
b. Enable the diversification of derivatives intermediaries onshore and develop talent pipelines to support the growth of the intermediation landscape.
c. Expand suite of commodities, financial and equity derivatives.
d. Expand derivatives products for retail investors, complemented with efforts to educate retail investors on derivatives trading.

## 3.2 EMPOWERING INVESTORS FOR A BETTER FUTURE

### 3.2.1 WIDENING INVESTMENT OPTIONS ACROSS MORE INVESTOR SEGMENTS

a. Review framework for investor categorisation by considering criterias such as level of investor knowledge, professional experience and sophistication to assess qualifications for the accredited investor segment, and consider measures to increase inclusivity for mass affluent segment.
b. Evaluate approach to liberalise access to non-traditional products for the mass affluent segment.
c. Facilitate the introduction of PAMs within PRS.
d. Facilitate for innovative and differentiated PRS service providers as well as retirement product offerings in the market.
e. Embark on a phased approach to allow the offering of a broader range of foreign funds to investors onshore.
f. Review liberalisation of alternative investment strategies and asset classes to enable development of new investment solutions.

### 3.2.2 FOSTERING ACCESSIBLE AND QUALITY INVESTMENT ADVICE

a. Develop a roadmap, together with market participants, towards a more diverse investment advisory landscape in Malaysia.
b. Conduct a joint review with BNM towards consolidating the licensing regime between FPs and FAs, which are regulated by the SC and BNM respectively.

### 3.2.3 ENABLING GREATER EFFICIENCIES THROUGH MARKET INFRASTRUCTURES

a. Conduct feasibility study on infrastructure needs for the Malaysian fund management industry. Appropriate next steps will be determined, together with the industry, based on the results of the study.

### 3.2.4 FACILITATING GREATER DIGITAL INCLUSIVENESS ACROSS INVESTORS

a. Facilitate greater collaboration with market participants on digital preparedness for investors at risk, starting with elderly and rural investors.

## 3.3 SHAPING A STAKEHOLDER ECONOMY WITH SRI AND ICM

### 3.3.1 MOBILISING CAPITAL TO SUSTAINABLE AND RESPONSIBLE BUSINESSES

a. Explore approach for transition financing in Malaysia.
b. Facilitate wider options across the funding escalator for companies embarking on net-zero commitments.
c. Promote greater transparency in the market through disclosures.
d. Evaluate approach for investor protection, in relation to the management of disclosures, data, ESG investment decision-making as well as green-washing risks.

### 3.3.2 EXPANDING THE REACH OF ICM TO THE BROADER STAKEHOLDERS OF THE ECONOMY

a. Enable greater access to Shariah-compliant fundraising for MSMEs, focusing on those in the *halal* economy.
b. Develop guidance to facilitate assessment of unlisted companies for Islamic fundraising activities.
c. Develop guidance to incorporate Shariah requirements and ESG best practices for PLCs.
d. Leverage and strengthen relevant ICM frameworks to enhance the Islamic social finance ecosystem.

### 3.3.3 EMBRACING COLLABORATION AND INNOVATION FOR GROWTH

a. Position Malaysia as a hub for SRI by developing thought leadership, catering to regional capacity-building needs as well as championing innovation and research.
b. Enhance ICM global thought leadership to promote greater alignment of capital market activities with *maqasid al-Shariah*.
c. Build capacity for ICM by strengthening the capabilities of practitioners in the area of Shariah governance and by developing talents for Islamic wealth management.
d. Facilitate innovation in Islamic fintech through regulatory guidance and accelerator programmes.