PART 2

CREATING A MORE AGILE CAPITAL MARKET

INTRODUCTION

The Malaysian capital market landscape has been undergoing continuous changes, driven by the evolving operating environment and technological advancements, necessitating the need to modernise the capital market for the benefit of investors and issuers.

In 2019, the SC undertook efforts to promote agility within the capital market. This included digitising the broking value chain to improve investor experience and operational efficiency; promoting liquidity in the capital market; strengthening the primary market ecosystem; and promoting competitiveness in the unit trust industry.

In doing so, the SC increased greater collaboration with its product and service providers as well as advisers. Continued and open engagement allowed these stakeholders to appreciate the objectives of the SC's regulatory stance, as well as enabled the SC to serve its stakeholders better and uphold market confidence.

DIGITISING TOWARDS BETTER INVESTOR EXPERIENCE AND OPERATIONAL EFFICIENCY

Globally, the proliferation of digital devices in the hands of retail investors and new customer experience driven by digital companies have provided investors with greater accessibility and convenience at low to zero cost. This is in addition to the emergence of new models of trading such as algorithmic trading and social investing, proliferation of data analytics, and modernisation of post-trade. To compete, incumbent players globally are looking to strengthen their investor proposition and service delivery through greater digitisation.

To enable the Malaysian stockbroking industry to have greater agility to compete, the SC launched the Brokerage Industry Digitisation Group (BRIDGe) in August 2018. BRIDGe is a multilateral partnership between the SC, BNM, Bursa Malaysia and industry participants, whose objective is to develop and implement solutions such as:

- Digital client onboarding experience;
- Seamless and efficient post-trade and settlement experience; and
- E-corporate actions for greater adoption and transparency.

BRIDGe

BROKERAGE INDUSTRY DIGITISATION GROUP

In 2019, the BRIDGe working group concluded its recommendations, following which these implementation efforts were initiated:

OBJECTIVES	RECOMMENDATIONS
DIGITAL CLIENT ONBOARDING EXPERIENCE	• Enable adoption of **digital onboarding** process with minimal human intervention • Create a **less rigid and onerous defaulters list** to support client credit assessment during the onboarding process
SEAMLESS AND EFFICIENT POST-TRADE AND SETTLEMENT EXPERIENCE	• Enable investors to **settle trades online in a single transaction** • Facilitate **full adoption of e-contract notes** and **greater adoption of e-statements**
DIGITISING CORPORATE ACTIONS	• Enable **greater e-notification** for all corporate actions • Enable **e-dividend reinvestment plans (DRP)**, **e-share conversion** as well as greater adoption of e-rights • Enable investors to **trade seamlessly** during a share consolidation exercise

Digitising client onboarding experience

Today, most brokers do not fully offer digital onboarding services, and the opening of new Central Depository System (CDS) accounts requires at least a face-to-face meeting with new investors. With investors looking for greater convenience to trade, there is a need to enable a fully digital onboarding experience. This includes enabling investors to open both trading and CDS accounts online with little human intervention.

The BRIDGe Digital Onboarding working group identified the need for brokers to conduct non-face-to-face client verification mechanisms efficiently, and for Bursa Malaysia to enable new investors to open CDS accounts online. Bursa Malaysia Rules were subsequently amended in 2019 to update the non-face-to-face verification mechanisms for participating organisations.

The online opening feature of CDS will be available in 2020 along with Bursa Malaysia's e-CDS initiative. The working group is also looking at setting up a database of defaulters to enhance the client onboarding process.

Enabling seamless post-trade and settlement experience

While online trade settlement is increasing in popularity, the use of cheques is still prevalent for large value securities transactions. A survey conducted by the BRIDGe Post Trade and Settlement working group identified that the current daily online transfer limits of RM30,000 to RM50,000 is one of the limiting factors in settling trades online. In reality, more than half of retail and small-business trades are valued above RM30,000, and more than two-thirds of frequent large value traders prefer a higher online transfer limit.

Diagram 1

BRIDGe survey results on retail settlement patterns

>50%

Retail individual transactions are valued above RM30,000

>40%

Retail individual transactions are valued above RM50,000

~70%

Frequent large value traders prefer limits higher than RM30,000 – RM50,000

To mitigate potential fraud risks associated with a higher online settlement limit, the working group together with the SC, BNM, banks, brokers and Paynet have identified necessary control measures. The finalisation of a higher online settlement limit by the banks for the broking sector and the proposed control measures will continue into 2020.

The working group also looked at greater adoption of e-contract notes and e-statements, in line with the issuance of *Technical Note No. 2/2017 - Clarification on Obtaining Client's Consent for the Purpose of Issuance and Delivery of Electronic Contract Notes by Capital Markets Services Licence (CMRSL) Holder* by the SC in 2017, mandating the phasing out of physical contract notes.

DID YOU KNOW?

Bursa Malaysia rules now mandate the provision of an electronic conversion facility to enable investors to convert warrants, irredeemable convertible unsecured loan stock (ICULS) and bond convertibles into shares electronically.

Digitising corporate actions

Today, several types of corporate actions in Malaysia are largely undertaken manually such as notifications by post, payment via a cheque, filling up physical forms, purchase of revenue stamps from the post office and physical submission of subscriptions. Such manual interventions often impact the subscription rates of corporate actions. For example, subscription of dividend reinvestment plans (DRP) is only 28% today.

To address this issue, the Corporate Actions working group under BRIDGe has recommended the following:

- Enhancing the ability for e-notification for corporate actions starting with the mandatory collection of email addresses for new and existing investors trading online. This was facilitated by a directive issued by the SC in July 2019;

- Enabling e-DRP to improve the subscription rate of DRPs. This involves ongoing collaboration with *Lembaga Hasil Dalam Negeri* (Inland Revenue Board of Malaysia) to enable a digital collection of stamp duty by share registrars and enablement of digital offerings by share registrars;

- Enabling e-share conversion for the conversion of warrants, ICULS and bond convertibles into shares. Bursa Malaysia has since undertaken amendments to their listing rules to mandate the provision of the option for electronic conversion to investors;
- Facilitating greater take up of e-rights by enabling higher limits for online settlement. This will encourage more digital offerings by share registrars; and
- Facilitating greater transparency to investors and the ability to trade during a share consolidation exercise. The SC has issued a directive, requiring brokers to allow online trading during a share consolidation exercise.

MEMBERS OF BRIDGe

Regulators and Exchange	Brokers	Industry Associations	Service Providers
Suruhanjaya Sekuriti Securities Commission Malaysia	AmInvestment Bank	Persatuan Bank Bank Dalam Malaysia / The Association of Banks in Malaysia	PayNet Payments Network Malaysia
Bank Negara Malaysia Central Bank of Malaysia	Affin Hwang Capital	ASCM Association Of Stockbroking Companies Malaysia	BoardRoom Smart Business Solutions
Bursa Malaysia	CGSCIMB	MIBA	tricor
	Citi		
	Kenanga		
	M&A		
	M+Online		
	Maybank Investment Bank		
	Public Bank		
	TA Securities		
	UOBKayHian securities		
	UBS		

PROMOTING LIQUIDITY IN THE CAPITAL MARKET

Market makers continue to be key in promoting liquidity and depth, given their readily available presence in the market as counterparties to investors. In 2019, the SC further liberalised the short selling and market making frameworks aimed at increasing market efficiency.

The liberalisation serves to expand the pool of market makers to include standalone foreign corporations to market make products on Bursa Malaysia. In addition, there will be an expanded range of Approved Securities for short selling to boost the liquidity of small and mid-cap shares.

To ensure that short-selling activities undertaken will be conducted in an orderly and controlled manner, the short-selling position limits on a particular security will now be combined for both Regulated Short Selling and Permitted Short Selling (PSS) framework.

STRENGTHENING THE PRIMARY MARKET ECOSYSTEM

In facilitating a conducive environment for issuers to tap the Malaysian capital market for fundraising and at the same time to further empower investors to make informed investment decisions, it is imperative to strengthen the fundamentals of the primary market in order to better serve the needs of a diverse pool of issuers and investors.

Sharing responsibilities in effective gatekeeping

In 2019, the SC collaborated with key stakeholders to further infuse market perspectives into the enhanced initial public offering (IPO) framework. This is targeted to reinforce the shared responsibilities between the SC and Approved Principal Advisers with a firm focus on enabling investors to make informed investment decisions based on adequate disclosures of the risks and returns.

PROVIDING FLEXIBILITY IN SHORT SELLING AND MARKET MAKING

BOOSTING LIQUIDITY

OF SMALL AND MID-CAP SHARES

- **Enhance the category of qualifie institutions** to include standalone foreign corporations to market make products on Bursa Malaysia Securities such as the new Leveraged and Inverse ETFs.
- **Expand the range of Approved Securities** for short selling to include all exchange-traded funds (ETFs) except for inverse ETF. In addition, the market capitalisation criterion will be lowered from the current RM500 million million to RM200 million.

ENHANCING AGILITY

OF MARKET MAKERS

- **Exempting market makers** for structured warrants, single stock futures and single stock options from the `At-Tick' rule when short selling underlying shares under the PSS framework.
- **Allow market makers of ETFs to short sell** without confirmed borrowings of the ET units or constituent securities.

ENHANCED INITIAL PUBLIC OFFERING FRAMEWORK

A robust due diligence process is the cornerstone of the primary market's regulatory framework as the SC relies on information submitted by the Approved Principal Advisers to perform their duties efficiently. Furthermore, targeted investors should be provided with information that is adequately disclosed in the offering documents to make informed investment decisions.

To this end, the SC is geared towards setting out principles-based rules and regulations while Approved Principal Advisers would be granted greater flexibility and the corresponding accountability to achieve the desired outcomes without compromising investors' interest.

The enhanced IPO framework is targeted to be rolled out in 2020.

Collaborating with key stakeholders

The SC has been actively engaging various stakeholders who play important roles in a typical IPO process such as Approved Principal Advisers, reporting accountants, due diligence lawyers, valuers and other stakeholders. These engagements have allowed the industry to have a better understanding of the SC's expectations of a proper due diligence process. In turn, the industry also provided diverse perspectives on building an agile IPO framework.

Liberalising the Approved Principal Adviser Framework

Approved Principal Advisers need to remain relevant and responsive in meeting the evolving needs of the issuers without compromising their standards of good governance and professionalism. Following focus group consultations with external stakeholders, the SC conducted a holistic review of the Qualified Senior Personnel (QSP) regime, which forms the backbone of the Approved Principal Adviser Framework. From the review, there are three broad directions to revamp the Approved Principal Adviser Framework:

1. Recognised Principal Advisers

   A corporate finance adviser would no longer require the SC's approval to act as an Approved Principal Adviser to submit specific corporate proposals to the SC such as applications to list on the Main Market of Bursa Malaysia. Instead, qualified corporate finance advisers would only need the SC's recognition to act as Recognised Principal Advisers (RPA). This liberalisation initiative aims to bring positive disruption and promote greater competition within the industry.

2. Qualified Person

   With the introduction of the new Qualified Person (QP) regime, which will replace the QSP, the RPA must have at least one QP working full time for each specific corporate proposal. Although the SC's approval would not be required for the appointment of a QP, the RPA must ensure that the QP fulfils the minimum criteria provided by the SC. It is envisioned that the RPA will be empowered to make decisions to achieve market-driven outcomes, which include selecting the QP from a wider talent pool of qualified corporate finance professionals to make submissions to the SC.

3. Senior Officer

   To reinforce the RPA's accountability as an effective gatekeeper for each specific corporate proposal submitted to the SC, the RPA must identify a Senior Officer (SO) who is of higher authority or rank than the QP. There will also be enhanced standards and obligations for the SO and QP to promote market discipline and uphold investors' interests.

The relevant guidelines are being finalised for issuance in 2020.

Enhancing the SC's supervisory role in the primary market

In 2019, the SC carried out a thematic review of selected Approved Principal Advisers to gauge the industry's readiness for the enhanced IPO framework. The thematic review was focused on identifying areas of improvement on due diligence processes and internal controls. The findings of the thematic review and recommended good practices will be shared with the industry in 2020.

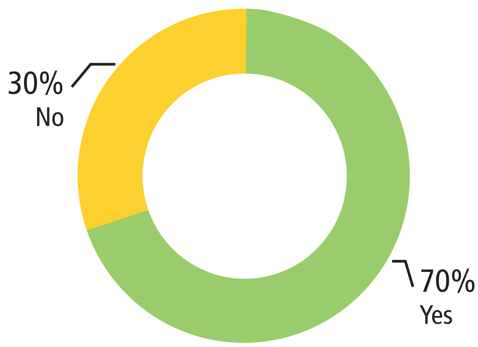
To ensure market effectiveness and preserve market confidence, the SC has also been working to strengthen its supervisory efforts and capabilities to proactively monitor actual, potential or perceived risks in the primary market. These proposed supervisory measures are targeted at assessing the RPA's compliance level of relevant regulatory requirements, including due diligence processes carried out during the RPA's execution or implementation of specific corporate proposals.

Making prospectuses more accessible and relevant for investors

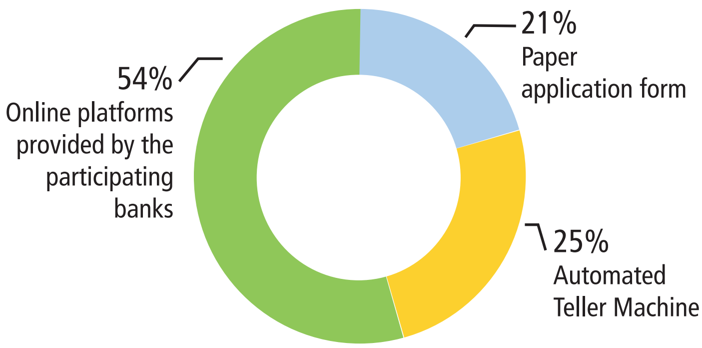
Easy and affordable access to technology has enabled investors to participate in the Malaysian

Survey Responses from Retail Investors 2019

Would you use an electronic prospectus for investment purposes?



How do you normally apply for shares?



Source: Malaysian Investment Banking Association

capital market such as investing in IPOs and rights issues. In 2019, a survey was carried out by the Malaysian Investment Banking Association's Stockbroking Committee to understand retail investors' risk appetite on the use of electronic prospectuses.

The survey reached out to 868 retail investors who have actively invested in IPOs. From the survey, 70% of retail investors would use an electronic prospectus as a tool to make investment decisions. In addition, 54% of retail investors apply for shares through online platforms provided by participating banks.

In 2019, the SC took proactive and responsive measures in making prospectuses more relevant to investors in an increasingly digitised capital market.

These measures are intended to increase functionality and ease of navigation in electronic prospectuses for investors. In addition, to further empower investors to make informed investment decisions, electronic prospectuses can include hyperlinks to educational materials issued by the SC or Bursa Malaysia. The enhanced guidelines are being finalised with the expected issuance in 2020.

PROMOTING COMPETITIVENESS IN THE UNIT TRUST INDUSTRY

Unit trust funds remain the largest component of the Malaysian CIS industry. Against a competitive investment landscape, continued wealth preservation and creation through the unit trust segment requires intermediaries to widen the breadth and depth of product and service offerings.

Regulatory harmonisation with major fund centres

In 2019, the SC embarked on efforts to enhance the unit trust regulatory framework to improve the competitiveness and efficiency of the industry. These efforts are intended to benefit investors by enabling issuers to refocus on bringing more diverse product offerings to the market in a more efficient manner.

The SC commenced a holistic review of the *Guidelines on Unit Trust Funds* to ensure that the requirements are aligned to international standards and major fund jurisdictions. It is envisaged that the review will enable more product innovation and internationalisation of funds while enhancing market competitiveness, thereby offering investors greater choice and access to investments appropriate to their financial goals.

As part of the review, the SC sought feedback from the unit trust industry through the Federation of Investment Managers Malaysia (FIMM) and carried out benchmarking studies. Following this, the SC held targeted consultations with focus groups comprising selected unit trust management companies. Subsequently in 2020, the SC will organise a public consultation, which will offer an opportunity for all stakeholders to provide comments.

Faster time to market for retail feeder funds

At the same time, the SC will be revising the authorisation process for retail feeder funds to improve efficiency and efficacy. For funds meeting certain parameters, management companies will now be able to submit applications without going through a pre-submission consultation process with the SC once they file documentations with the SC on their target fund selection and monitoring, as well as risk management process.

The approach outlines the SC's expectations in operationalising the requirements for retail feeder funds to provide clarity to management companies and reduce time to market. The enhanced process is targeted to be rolled out in 2020.

The Evolving Business of Asset Management: Malaysia's Perspective

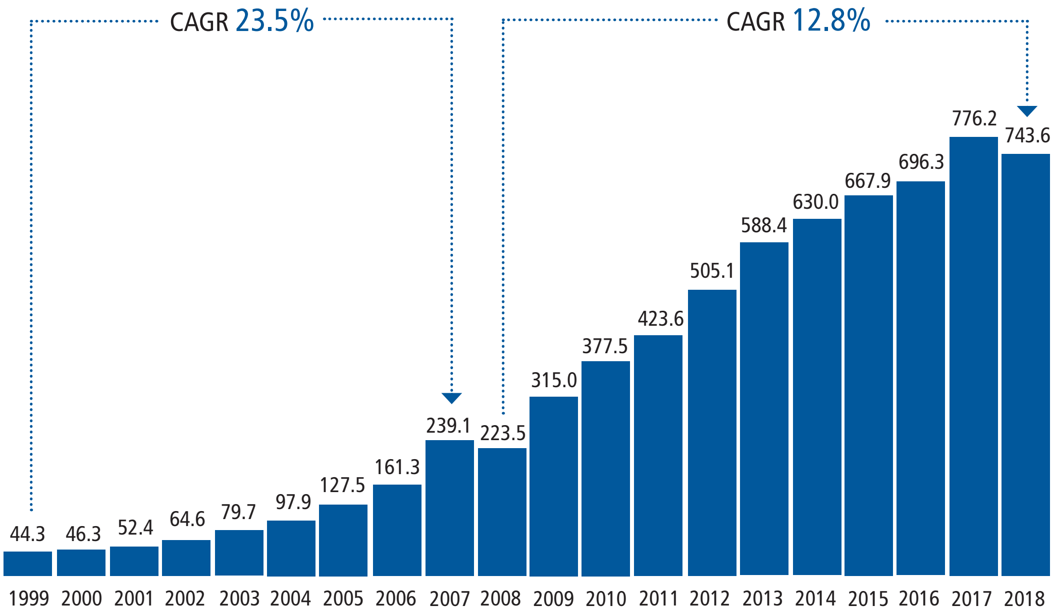
By the Institute for Capital Market Research Malaysia

The Changing Landscape

The Malaysian asset management industry has achieved strong growth over the last two decades, with total assets under management (AUM) experiencing double-digit compounded annual growth rate (CAGR). However, CAGR of AUM has started to taper following the Global Financial Crisis, indicating that the industry may have reached a point of inflection, particularly in the last five years which saw single digit year-on-year growth with a contraction in 2018.

Diagram 1

Malaysia assets under management from 1999 to 2018 (RM billion)



While AUM growth is a reflection of headline figures, numbers are only part of a bigger story concerning the fundamental shifts faced by the asset management industry globally that could bring far-reaching consequences. Apart from grappling with cyclical macroeconomic and market uncertainties, the industry has to also navigate the structural evolutions such as the advent of digitalisation, changing demographic trends and investors' preferences, talent shortages and tighter regulatory requirements that demand higher thresholds of accountability, governance and transparency.

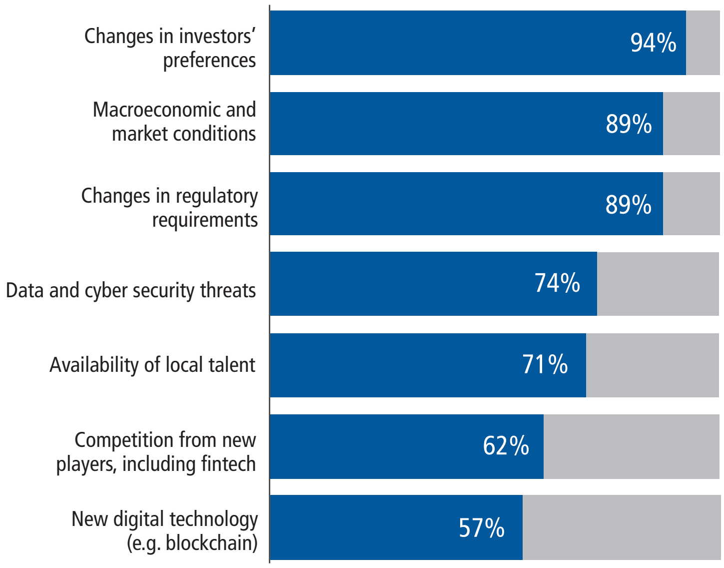
Globally, this has led to further industry consolidation, indicating that the global environment may disrupt existing business models of asset managers. Amidst these changes, it is important to remember that the asset management industry remains one of the core constituents of today's financial markets, and plays a vital role in the overall economy.

Insights from the Industry

In order to develop a comprehensive and holistic picture of the asset management industry, an online survey by the Institute for Capital Market Research Malaysia (ICMR) was rolled out to all licensed asset managers.

Diagram 2

Relevance of external shifts on business



94% of asset managers indicated that changing investors' preferences is the key factor affecting their business and strategic plans in the next 12-24 months.

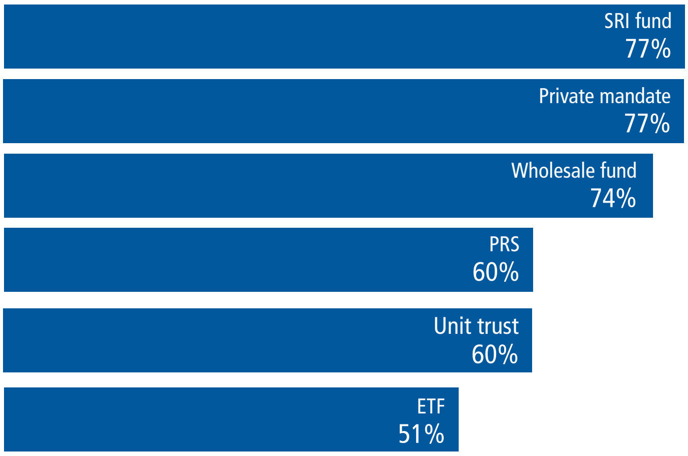
The Evolving Business of Asset Management: Malaysia's Perspective

By the Institute for Capital Market Research Malaysia

(Continued)

Diagram 3

Broad direction of investors' demand



Asset managers anticipate that in the next five years, investors' preferences will shift towards SRI funds and private mandates (77% respectively) followed by wholesale funds (74%). This shift towards SRI is in line with global trends.

Diagram 4

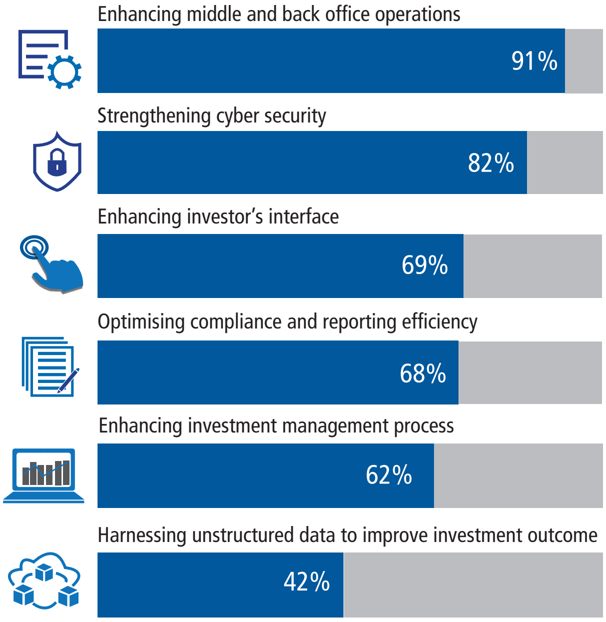
Shift in investors' demand and corresponding talent shortage across asset classes

	Increasing	Talent shortage
Regional equity	86%	88%
Global equity	83%	82%
Alternatives	83%	76%
Regional fixed income	80%	79%
Emerging market equity	69%	85%
Emerging market fixed income	57%	74%
Global fixed income	51%	76%
Local equity	31%	32%
Local fixed income	26%	42%

While the asset managers view that investors' preferences are moving towards non-domestic equities and alternatives, they also highlighted that there exist tremendous talent gap in these asset classes, which elevates concern that the asset managers may not be well prepared to meet the changing investors' needs.

Diagram 5

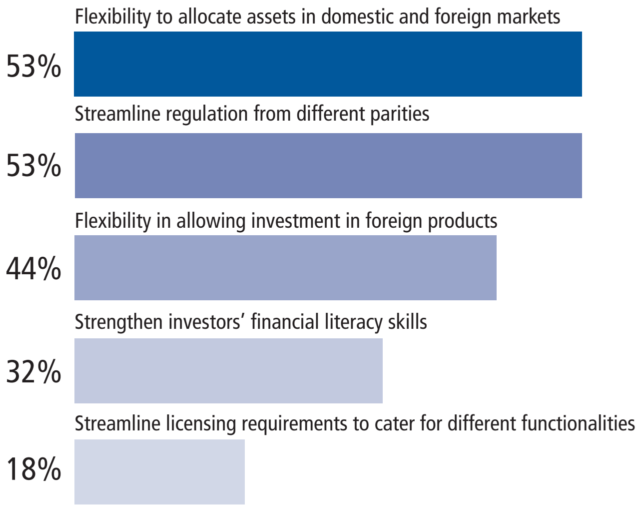
Level of priority for asset manager's digitalisation strategy



In terms of digitalisation, 91% responded that their strategy would focus on enhancing middle and back office operations. Malaysia's asset managers' digitalisation strategy seems more focused on enhancing day-to-day operations compared to global asset managers who are using digitalisation to capture a larger client base and enhance investment management process.

Diagram 6

Areas of facilitation to grow the asset management industry



More than 50% of asset managers ranked 'flexibility to allocate assets in domestic and foreign markets' and 'streamline regulation from different parities' as key areas to be reviewed to facilitate the growth of the industry.

The Evolving Business of Asset Management: Malaysia's Perspective

By the Institute for Capital Market Research Malaysia

(Continued)

Moving Forward

As part of the research, ICMR outlined a set of recommendations that address underlying structural issues that cut across broad industry concerns. These recommendations were designed to be considered by both policymakers and industry players in a holistic manner. In line with this, the recommendations were formulated with the overarching aim of strengthening the asset management industry across the value chain, while anchoring it with strategic outcomes that reflect core functions of the industry, namely promoting inclusive capital markets, strengthening the intermediation role and enhancing value creation. The recommendations can be broadly clustered into three key themes:

1. **Revitalisation of the industry** by facilitating diversification across asset classes and geographical markets and strengthening internationalisation efforts to broaden the investor base, gain economies of scale and harness synergies;

2. Adapt to changing markets by **incorporating innovation** and differentiated strategies via the adoption of a long-term approach. This could include bridging the gap between fintech and traditional players by tapping the start-up ecosystem e.g. partnerships with early-stage fintech start-ups via venture capital accelerators; and

3. **Prioritising human capital** as a cornerstone for development through cross-border partnerships to facilitate greater knowledge transfer and reciprocal relationships between asset managers and asset owners. Policymakers and industry players should also leverage behavioural economics for more targeted and effective investor outreach.

Extracted from *The Evolving Business of Asset Management: Malaysia's Perspective* that was launched in June 2019. This report presented findings from a joint research collaboration between ICMR and its research partner, Nomura Institute of Capital Market Research, Japan. The full report is available online at https://www.icmr.my/the-evolving-business-of-asset-management.

ICMR was established by the SC as an independent think-tank initiative that aims to promote sustainable development of the Malaysian capital market through providing focused, pragmatic and evidence-based research and solutions. ICMR undertakes research projects through a multi-stakeholder and collaborative approach, drawing insights and best practices from international experts as well as harnessing knowledge and experience of Malaysia's regulators, policymakers, industry players and academia.