

**FULL TRANSCRIPT OF THE FIRESIDE CHAT SESSION  
“MALAYSIA’S CAPITAL MARKET – WHAT LIES AHEAD”  
HELD AT INVEST MALAYSIA 2020 ON 7 JULY 2020.**

**by Datuk Syed Zaid Albar, Chairman of the Securities Commission Malaysia  
and Fad’I Mohamed, CEO of Maybank Investment Bank.**

*(02:40)*

*Q1: To kick-start this morning’s chat, what is the thinking behind the recent measures and approaches undertaken by the SC in relation to Covid-19 challenges?*

*(02:52)*

Good morning Fad’I and thank you for having me here this morning. Before I answer this question, I think it is key to understand and appreciate the context and the enormity of the situation in which we are in. Years from now, we will likely be looking back at 2020 as a generational defining moment - of a health and economic crisis globally and also in Malaysia.

In rising to this occasion – it took, and will continue to take – all of government and the broader ecosystem of the public sector to mount a concerted action. It is within this broader context in which we should look at the measures that the Securities Commission has taken as part of the overall concerted response.

Broadly, the measures that we have taken are based on three outcomes we set to achieve. Firstly, to maintain market integrity and conduct, as well as fair and orderly market conditions. The aim was to ensure the continued functioning of the capital market through this volatile and uncertain period. Secondly, to facilitate relief for issuers, investors and intermediaries. It was certainly an unprecedented situation for all stakeholders that warranted easing of pressure points that were starting to build up. And lastly, to enable immediate opportunities, including market digitisation efforts.

In coming up with relevant measures, we were cognisant of the discussions taking place at the international regulatory arena given our active participation there. The operational capability and financial resilience of market infrastructure and participants were an important area of focus, as well as impact on market-based financing. Global regulators also continue to direct their attention to investor protection issues, market integrity and conduct risks, particularly those affecting retail investors.

From Malaysia's perspective, industry digitisation efforts have stepped up a notch as an immediate consequence of challenges posed by MCO. Through the collaborative efforts of the Brokerage Industry Digitisation Group or BRIDGE, online opening of trading and central depository accounts without the need for face-to-face interaction and wet signatures have been enabled. The SC has also facilitated higher daily online trade settlement limit of up to RM100,000 for industry players implementing necessary controls.

In addition, the SC has also facilitated various e-corporate actions, which includes enabling fully virtual and hybrid general meetings by PLCs and introducing flexibilities on take-over offer requirements to enable notification and acceptance of general offers digitally. Since the issuance of our guidance on the conduct of general meetings in April, listed issuers have conducted 122 fully virtual meetings. We had also granted time extensions for issuance of quarterly and annual reports. 941 PLCs' quarterly reports have benefited from this, while relief on annual report and audited financial statements covered a total of 652 PLCs.

The waiver of listing-related fees has benefitted 6 IPOs; 3 of which were listed on the ACE market and the remainder on the LEAP market.

Here, perhaps I should mention that under the Government's PENJANA initiative, funds have been set aside to build capabilities and provide jobs for

fresh graduates, youths and displaced workers in the capital market. So far, 52 companies have indicated interest to participate in the Capital Market Graduate Apprenticeship (CMGA) programme. As you may be aware, this programme is a co-investment between participating companies and the Securities Industry Development Corporation (SIDC) to provide a structured and pragmatic training programme to develop talent within the capital market during the recovery phase.

Further, 153 applications have been received from graduates for the Islamic Capital Market Graduate Training Scheme (ICMGTS). This, coupled with the Corporate Finance Training Scheme, will enhance the pool of young talent within the capital market. For the displaced workers, we have started a programme for them to be reskilled as Marketing Representatives through the Market Representatives Training Scheme.

Apart from providing support to individuals, another important area of focus for PENJANA is to provide financial support for SMEs adversely impacted by the pandemic. The capital market recognises that these enterprises are the backbone of the Malaysian economy and we continue to provide various avenues for them to access much-needed capital.

For example, the presence of the Malaysia Co-Investment Fund or MyCIF has supported the funding momentum in ECF during the MCO period with total funds raised increasing to RM6.9 million in April from RM600,000 in March; providing much-needed capital for businesses. In addition, the SC has also recently introduced flexibilities to enable businesses to issue convertible notes to registered venture capital and private equity firms. The objective is to provide an alternative fund raising avenue for businesses with growth potential.

(12:13)

Q2: *As we move towards recovery, what are some of the longer-term priorities for the SC and the Malaysian capital market?*

(12:24)

Certainly as the country moves into the recovery as well as the subsequent reform and restructuring phases, the capital market must be ready to support and finance this growth recovery. And more importantly, for the longer-term, at the current stage of economic development for Malaysia, it is my believe that the financial system will be a key enabler to our next leap in our economic transformation. More long-term and risk capital will need to be deployed to *'economic sectors of tomorrow'* that will move Malaysia towards high income status.

We will need a more dynamic corporate sector to drive us in this next stage of growth. This requires a healthy and thriving business ecosystem that places a premium on innovation. There is also a growing trend of corporate and business accountability towards the environment and society at large. Businesses will not only have to lead economic growth, but be exemplary corporate role models as well.

In terms of the capital market, investor behaviour is certainly evolving arising from the rapid innovation and technological advancement we see around us. This in turn will impact market intermediation models and distribution channels. To remain competitive, industry will need to keep up with the ever-increasing pace of innovation and evolution while managing and balancing emerging risks.

One major challenge for the capital market moving forward will be facilitating efficient intermediation of surplus savings in a low interest rate environment. More effective and targeted mobilisation of savings to meet the financing needs

of high growth companies will create a more diversified fund raising environment - both in the public and private space.

The sustainability of our growth stage and mid-tier companies depends on this. The entrepreneurial drive embedded within these companies will be crucial to elevate Malaysia to the next stage of economic development. Of course, established corporates and large-scale national projects will also enjoy the cost benefits of more vibrant market conditions.

Market stakeholders must also understand the role we all play in ensuring better intermediation and fund raising efficiency. We must remain steadfast and work together in our efforts to enhance the options available in our Malaysian capital market. Otherwise, we may end up with a limited range of available investible assets onshore; further pushing our domestic institutional funds abroad to obtain better returns.

(16:49)

*Q3: Looking ahead, what do you envision our future capital market to look like?*

(17:00)

Moving forward, the SC intends to position the capital market and its supporting ecosystem for a sustainable future. We want to enable investors to truly invest for the future by adopting a more targeted approach to meet investment goals with appropriate investor protection.

The capital market must also be able to provide funding for industries at the very frontier of the economy; the new growth sectors identified by the Government and businesses. Be competitive. We want to have a competitive market and intermediaries, not only domestically but regionally.

Finally, we must also look inwards at ourselves. I intend for the SC to be a future ready regulator; one that is comfortable operating in an increasingly complex market environment. It goes without saying that we will need to adapt to the *'new normal'*.

Fad'l, here I would like to take the opportunity to share with everyone a recent development on Digital Assets. Two weeks ago, the Shariah Advisory Council (SAC) of SC has resolved in principle that it is permissible to invest and trade in digital currency and digital tokens on registered Digital Asset Exchanges. This is a groundbreaking resolution by the SAC that could spur greater development and investments in Digital Assets. Further details will be announced once the resolution details are finalised.

(19:44)

*Q4: The Minister just announced measures to encourage more innovative intermediaries for the industry. Can you provide us with more insight on this?*

(20:00)

I think the key point here is to appreciate that the Malaysian investor population has grown to be a lot more diverse. At the same time, technological advancement has changed the way investors interact with the capital market.

This creates the need for more innovative intermediary models in the Malaysian securities market to meet the diverse needs of investors, such as digital-only brokers that can cater to investors looking for no-frills services. Or algo trading platforms or multi-asset brokers for more sophisticated investors. The market can also benefit from clearing-only brokers that provide post-trade services. These are but few examples of what is possible with more diverse and innovative intermediary models.

To enable this to happen, the market structure will need to evolve, and in fact, must evolve. The SC will facilitate changes to the stock broking licensing framework that will allow for entry of new players with differentiated value propositions. In tandem with this, Bursa Malaysia will also enable the separation of trading and clearing memberships.

We believe that this will enable more flexible business models with efficient capital structures, and attract a larger pool of specialised market participants, which we hope will spur greater capital market innovation and enhance value for our investors.

*(22:29)*

*Q5: You recently wrote that the challenges and risks brought about by the pandemic highlight the importance of boards and corporate governance. What are some of the issues that have come to the fore and any updates on the progress of corporate governance in Malaysia?*

*(22:55)*

Malaysia was one of the earliest countries in the region to develop a corporate governance framework. This stemmed from the aftermath of the Asian Financial Crisis in 1997-1998 and the corporate failures we witnessed during this period. The framework incentivises accountability, ethics and good governance, which in turn provides confidence to investors.

From my own personal experience since 2000, when I got appointed on my first PLC Board, the development of CG has been monumental. More professionals and people with the required skillsets are being appointed on PLC Boards.

And where we are today, more than 20 years later, Malaysia's corporate governance framework is well-recognised within the region. We rank fourth out of 12 Asia Pacific economies in the Asian Corporate Governance Association

(ACGA) 2018 CG Watch Report. The report recognised, among others, the regulators' consistent effort to promote good governance and the SC's strong enforcement culture. Our Audit Oversight Board was commended as one of the region's most effective audit regulator. At the last ASEAN CG Awards, Malaysia had 14 companies in the top 50 ASEAN list, the highest among participating jurisdictions.

In terms of board diversity, we continue to see a steady increase in the number of PLCs that have achieved the target of 30% women on boards. There are currently 162 PLCs from 134 at the end of 2018. More companies are also setting a 9-year tenure limit for independent directors without further extension. This will enable boards to infuse new blood with fresh viewpoints and ideas for the continued benefit of the company.

Shareholders also have a critical and influential role in corporate governance. They can keep boards on their toes and engage them on governance issues, for example, measures to mitigate corruption risks within the company, alignment between pay and performance, and the management of economic, environmental and social (EES) risks and opportunities.

The preparedness of boards to deal with crises was also tested during this pandemic. Boards also had to accustom themselves to the new normal, which includes greater use of digital tools for communication, in particular to conduct virtual AGMs.

Malaysia's CG framework can be best described as a successful combination of rules and best practices. And it continues to evolve, as we employ increased use of analytics and behavioural nudges to achieve better outcomes.



(28:15)

Q6: You earlier mentioned sustainability as an area of growth. Could you share some of the measures and initiatives SC has in the pipeline to take advantage of this emerging trend?

(28:30)

Sustainable and Responsible Investments or SRI is a key focus area in the development of our capital market. Its values are similar and have parallels to the principles that underpin our Islamic capital market.

In an effort to develop a vibrant SRI ecosystem for Malaysia and the region, an SRI Roadmap with five overarching strategies was launched - to expand the range of SRI instruments, issuers, investors and ancillary services, as well as strengthen information disclosures and governance.

The release of our five-year SRI Roadmap late last year appears to be timely given developments arising from Covid-19. This year, external pressures have increasingly brought to the fore the importance of managing social and governance risks. In fact, management of such risks have emerged as a form of operational resilience for companies.

In terms of sustainable finance initiatives, we are working closely with market intermediaries to facilitate an innovative structure and framework for *waqf* funds, where returns will be channelled to activities with social impact. Our underlying objective is enhance the diversity of fund offerings, and we hope these funds can be introduced this year.

Global regulators also recognise the significance of sustainable finance. I co-chaired an IOSCO Working Group, which culminated in a report in June last year on the role of emerging market regulators in sustainable finance. Similarly, ASEAN regulators are keen to develop a facilitative regional ecosystem for

sustainable finance to thrive. In April this year, the Roadmap for ASEAN Sustainable Capital Markets was published, with 15 recommendations to provide broad direction for sustainable initiatives.

**(32:03)**

*Q7: Still on sustainability – how does the SC see the knowledge or skill gaps in companies and how can the SC support to close these gaps?*

**(32:19)**

This is a very good question. For the SC, capacity building and information transparency are key elements towards developing SRI into a tangible asset class. In this regard, we continue to conduct technical workshops to develop understanding of regulatory requirements for SRI sukuk and ASEAN bond issuance. We are also working to establish a one-stop centre for market participants to build knowledge on sustainable finance.

While sustainability reporting frameworks and toolkits are important to guide disclosures, it can only be meaningful when company boards and management themselves see the benefits of doing what's right, not what's required. Every single one of us has a stake in this, and we have to work together to raise our standards and practices.

**(33:51)**

*Q8: Can you share with us the reasons behind the recent announcement by SC and Bursa to extend the suspension of short selling until December 2020? What would be the criteria used to decide on extending or lifting this suspension?*

**(34:18)**

While there are growing signs of recovery, we are not *'out of the woods'* yet in relation to the global economic situation as well as the domestic economy. The IMF described the period ahead as one of *"profound uncertainty"*.

Hence, the decision to extend the suspension on short selling until end of the year is aimed at providing market stability and confidence. We accounted for market conditions remaining volatile, continued weaknesses in the overall economic environment and re-escalation of geopolitical tensions.

The SC and Bursa Malaysia will continue to monitor developments affecting the capital market and evaluate the adequacy of existing measures to support an orderly market and to mitigate potential risks.

*(36:09)*

*Q9: How has COVID-19 impacted the capital market's digitalisation efforts?*

*(36:30)*

If there is a silver lining, it is the fact that it has forced companies and our intermediaries to ramp up their digital strategies and consider technological solutions to ensure compliance with their legal and regulatory obligations.

I earlier shared some updates with regards to our market digitisation efforts. Since March, there is certainly greater resolve and collaboration from all stakeholders to find workable solutions; with good buy-in for some initiatives.

The SC will continue to facilitate digital offerings and solutions for the capital market. We will press on with regulatory reforms that will facilitate business processes and regulatory reporting via digital means including submissions, advertising and service of notices by the SC.

*(38:10)*

*Q10: Individuals' deposit in the banking system has grown from MYR379 billion in early 2010 to MYR779 billion as of May 2020, about 1/2 of the market*

*capitalisation at Bursa Malaysia. What is the plan to capture some of this liquidity in the Malaysia capital market for the longer term?*

**(38:35)**

I have alluded earlier on the need to intermediate this surplus savings. We are certainly open to discussing with market participants on how the capital market can best serve investor needs as well as provide 'fit-for-purpose' solutions.

Much of the economic growth today is driven by smaller, innovative businesses that are outside the public markets. I believe investors recognise this, and that is why, increasingly, they are looking at the private markets for returns.

From a development perspective, our mid- to longer-term strategy will focus on widening the range of investment products and access points, including facilitating alternative investments in private markets.

**(39:51)**

*Closing remarks*

In closing, I would like to again emphasise the point that I made at the beginning: that we are currently likely living through a generational defining moment. The global health crisis and the economic dislocation that we are facing now has indeed led to significant hardship to many, including in Malaysia.

But this pandemic is also a moment of opportunity for us to reflect on the current landscape and systems that we have, and more importantly, for all us to consider how we can rebuild for a better tomorrow. In addition, how we can create and develop a new future that is more resilient, sustainable and inclusive.

This pandemic might be the defining crisis for this generation, but we have the opportunity to rebuild a better future for the next generation.