PART 3

ENABLING A MORE RELEVANT, EFFICIENT AND DIVERSIFIED MARKET

INTRODUCTION

Enabling a more relevant, efficient and diversified market is imperative to facilitate a competitive and inclusive capital market. In 2022, the SC continued to carry out initiatives to enhance the sustainability of the economy through efforts to grow the capital market in line with national goals and targets. The SC's developmental agenda also aims to further catalyse investments, expand the funding ecosystem, and empower investors for a better future, while embracing the digital age. In addition, the SC continued to enhance Malaysia's competitiveness in sustainable and responsible investment (SRI) as well as broaden and deepen the ICM to further strengthen its value proposition to solidify global leadership.

CATALYSING INVESTMENT AND FUNDING ECOSYSTEM

As digitalisation and democratisation reshape how capital markets operate, the SC is committed towards ensuring that the investment and funding ecosystem is in line with the market's changing needs. To this end, efforts have been undertaken to enhance the public and private fundraising ecosystem, strengthen the derivatives market, and embrace the digital age.

Enhancing Public and Private Fundraising Ecosystem

Expanding fundraising avenues for MSMEs

In line with efforts to enable an inclusive multi-layered capital market, the SC continues to look towards more diversified fundraising avenues for businesses, including expanding alternative fundraising platforms for MSMEs and mid-tier companies (MTCs) in particular. Given that MSMEs and MTCs collectively contribute more than half of the country's gross domestic product (GDP), it is essential to support their post-pandemic recovery journey in meeting their financing needs as they are integral to Malaysia's future growth, economic sustainability and continued innovation.

Since inception, ECF and P2P financing have been on a continued rise, with a growing number of MSMEs turning to digital platforms to secure capital. In total, ECF and P2P financing have facilitated 7,218 MSMEs to raise more than RM4.4 billion. Although there was a 36% decrease in total fundraising via ECF in 2022 to RM140.4 million (2021: RM220.7 million), campaign sizes were larger, with 21% of campaigns raising above RM3 million each (2021: 17% of campaigns). P2P financing continued to grow in 2022, with total fundraising amounting to RM1.6 billion, recording a 38% increase (2021: RM1.1 billion) which benefited 3,732 companies (2021: 1,986).

The SC has also seen traction in the ECF and P2P financing offerings in the agriculture sector – a sector of strategic importance to the local economy. Further, the launch of Malaysia Co-Investment Fund (MyCIF) special co-investment ratio of 1:2 in 2022, has encouraged more private investments into this sector via these alternative financing platforms. Since inception, ECF and P2P financing have fundraised over RM430 million benefitting more than 400 agri-related MSMEs across the entire value chain: upstream, midstream and downstream.

To promote the ECF and P2P financing market further, several initiatives had been successfully implemented to serve the needs of a wider range of businesses and spur higher market growth, such as the following efforts:

Widening access to Shariah-compliant financing in ECF and P2P financing

ECF and P2P financing have continued to broaden access to financing for MSMEs. Shariah-compliant offerings on these platforms have also gained traction, with a total of RM368.13 million funds raised as of 31 December 2022.

To further harness the potential of ECF and P2P financing platforms, the SC opened applications for registration of new ECF and P2P financing operators with Shariah-based solutions and value-propositions in 2022. This measure is expected to catalyse innovation in Shariah-compliant offerings to further facilitate access to funding needs of

MSMEs through alternative fundraising digital platforms, and promote greater recovery. It also aims to foster the growth of MSMEs in the halal economy while allowing greater access to investments for all capital market participants.

Catalysing growth in the underserved segments: SCxSC GROW

In October 2022, the SCxSC GROW, a new collaborative programme, was launched under the SC's fintech flagship initiative Synergistic Collaboration by the SC (SCxSC). The SCxSC GROW embodies a collaborative effort with partners in the fintech ecosystem to harness the potential of alternative fundraising digital platforms to meet the needs of underserved players in strategic sectors.

The first edition of the SCxSC GROW initiative focused on agriculture, a sector which remains at the forefront of Malaysia's growth priorities and is one of the backbone sectors in Malaysia's economic development. The inaugural launch of SCxSC GROW was supported by relevant ministries, agencies and key players in the agriculture ecosystem during a one-day workshop with the theme 'Unlocking Alternative Financing Potential for Agriculture'. The workshop explored the potential roles of alternative financing avenues that may contribute towards addressing some of the financial gaps that exist in the agriculture sector. It also garnered greater awareness on ECF and P2P financing and encouraged better co-ordination to move the agriculture sector forward and strengthen the country's food security.

Some 40 representatives, including senior officials from relevant ministries, agencies and key players attended the workshop. They include the Ministry of Agriculture and Food Industry (MAFI), Federal Agricultural Marketing Authority (FAMA) and Agrobank.

Read more on media release 'SC, Agro-based Agencies Eye Alternative Financing for Agriculture Sector'.
https://www.sc.com.my/resources/media/media-release/sc-agro-based-agencies-eye-alternative-financing-for-agriculture-sector

Helping MSMEs to regain footing in the economic recovery via MyCIF

MyCIF is an initiative set up by the Malaysian government to co-invest in MSMEs and social enterprises alongside private investors via ECF and P2P financing platforms. Since 2019, a total of RM230 million has been channeled to the MyCIF which was set up as part of Budget 2019. As at 31 December 2022, MyCIF has successfully co-invested over RM638 million in approximately 35,000 ECF and P2P financing campaigns, benefitting 3,635 MSMEs. The fund had co-invested alongside more than RM2.56 billion from private investors.

In 2022, MyCIF focused on the agriculture sector, an industry identified to be of strategic importance to the local economic recovery.

Expanding fundraising avenues for MTCs

While MTCs in Malaysia represent about 2% of total registered businesses, the SC recognises that they play a vital role in driving economic growth as they contributed 22.9% to the country's total GDP in 2021. It has been observed that only a small number have been able to tap into the corporate bond and sukuk market, relying instead on private funding and bank loans.

In this regard, the SC in October 2022 allowed the opening of new P2P financing operators, with priority granted to those able to show specific value proposition, including the ability to facilitate debt-based funding opportunities for MTCs. Supported by the SC's RMO framework, it provides a safe, secure and regulated private fundraising avenue which allows for quicker access to financing for MTCs in the capital market.

Through specialised P2P financing platforms, MTCs would have diversified options to raise debt-based financing directly from investors. MTCs would also stand to gain from wider visibility from investors as they will be able to go public through P2P financing platforms. This would also give the opportunity to retail investors who are largely equity-centric to invest in debt instruments issued by MTCs, further enriching Malaysia's capital markets.

The list of eligible issuers able to raise funds on P2P financing platforms has also been expanded to include PLCs and their subsidiaries. This allows PLCs and their subsidiaries to further broaden their funding channels and diversify their investor base.

Private Markets

The Malaysian private markets have shown steady growth with total committed funds of registered venture capital (VC) and private equity (PE) firms amounting to more than RM16.08 billion as at end 2022.

Given its importance to the engines of economic growth, efforts are required to build a more facilitative landscape for private market investments. With several master plans and initiatives introduced by various agencies, aligning these efforts through collaboration is key. To this end, the SC worked closely with key stakeholders including Penjana Kapital, MDEC, Cradle, Khazanah, Bursa Malaysia and supported by EY Malaysia, to carry out engagements to better understand the challenges faced by the industry, explore possible solutions to address these gaps, as well as work collectively to build a stronger start-up ecosystem in Malaysia.

Since November 2021, five engagement sessions were held to create opportunities for networking and strengthen the private market community in Malaysia, which included more than 200 participants from start-up founders, government representatives, institutional investors and VC/PE professionals.

16 November 2021
Ideation Workshop on Startups and Unicorns
The inaugural workshop organised by the SC identified broad challenges faced in the ecosystem such as listing issues, incentives and talent gaps.

1 April 2022
IPO Roundtable with Potential Unicorns
The session focused on understanding issues and gaps of listing avenues in Malaysia.

18 July 2022
Catalysing Malaysian High Growth Opportunities
The session focused on how the Malaysian investor community could be strengthened, as well as how the scale-up of homegrown unicorns and soonicorns could be accelerated.

11 August 2022
Ad-Venture Capital: Macro & Market
The session was organised by Penjana Kapital and held in the SC. Several local and Singapore-based private wealth managers and family offices were invited to discuss Malaysia as an investment destination, as well as to understand needs and considerations to encourage more inbound investment into Malaysian start-ups.

24 August 2022
Bursa IPO Briefing: From Idea to IPO
Organised by Bursa Malaysia to guide and encourage prospective pre-IPO start-ups on listing on the exchange.

Throughout the engagement process, several key gaps were highlighted, including issues on valuations relative to overseas markets, the need to deepen and increase vibrancy of the investor base in Malaysia, challenges in securing talent, as well as co-ordinating policies and support programmes across different agencies.

These sessions have provided valuable feedback to the SC and partnering organisations in identifying efforts that should be prioritised. This includes providing regulatory clarity on start-up fundraising and establishment of VC/PE fund management firms in Malaysia, capacity-building programmes to enhance talent pipeline, efforts to promote corporate venturing and increase investor vibrancy, explore possible tax and non-tax incentives, as well as promotional efforts to build a stronger start-up ecosystem in Malaysia.

In this regard, the SC has taken on board recommendations on needed reforms with the review of the VC/PE registration framework in November 2022. Amendments include the introduction of an additional investment test for investors to be eligible to invest in VC/PE funds, as well as simplifying registration requirements and process. These changes are aimed at strengthening capital formation in the VC/PE asset class, widening the investor base and enabling more investments to be channeled to the economy, particularly early-stage startups.

The SC, together with a growing list of partnering organisations, plan to continue these engagements in the near term, ensuring regular conversations with stakeholders towards strengthening the start-up ecosystem in Malaysia.

Read more on media release 'SC Revises Venture Capital and Private Equity Framework'.

https://www.sc.com.my/resources/media/media-release/sc-revises-venture-capital-and-private-equity-framework

THE JOURNEY STARTED IN OCTOBER 2021 – FIVE EVENTS SUCCESSFULLY ORGANISED

Ideation Workshop on Startups and Unicorns: ~30 participants from 19 organisations

NOV 2021 — 1

IPO Roundtable with Potential Unicorns: ~50 participants – startups, GLICs, investment banks

APR 2022 — 2

Catalysing High Growth Opportunities Roundtable: ~30 participants – startups, VCs, GLICs, agencies

JULY 2022 — 3

Ad-Venture Capital: Macro & Market: ~60 participants – local and foreign family offices and VCs

AUG 2022 — 4

IPO Briefing: From Idea to IPO at Bursa Malaysia ~50 participants – startups, investment banks, agencies

AUG 2022 — 5

SPECIAL FEATURE 2

REINVIGORATING CAPITAL FORMATION FOR SUSTAINABLE ECONOMIC DEVELOPMENT

Introduction

As Malaysia continues its transition towards being a high-income nation, the domestic capital market has increasingly grown in importance while catering to a more diverse economic structure. Reforms undertaken to improve access to the capital market over the years have helped to enable firms meet their funding needs more effectively and support economic development. From financing being predominantly bank-based in the 1990s, market-based financing of economic activities has seen tremendous growth, with the capital market now serving as the main source of financing for large-scale investment projects.

Improving capability and capacity of the capital market in directing capital towards productive economic activities has led to the continued rise in gross fixed capital formation (GFCF – henceforth investment) over the years[1]. This is key as continued growth in capital formation, facilitated by easier access to financing, is essential in raising productive capacity of the economy, accelerating technological progress, and creating employment opportunities.

Given the unprecedented impact of the pandemic, an assessment was undertaken to examine the latest trends in investment growth *vis-à-vis* the capital expenditure (CAPEX) and financial performance of PLCs, as well as to contextualise the future path of the investment landscape in the Malaysian economy.

Malaysia's recent economic recovery accompanied by subdued private investment momentum

As the Malaysian economy recovers from the pandemic, the momentum in private sector investment, however, has remained relatively subdued. Unlike in past economic crises, private investment growth continued to trail that of real GDP (Chart 1). While this can be attributed to the general increase in macroeconomic uncertainty affecting overall business sentiments, it also partly reflects the uneven and acute impact of the pandemic on Malaysian businesses, especially on smaller firms and contact-intensive industries.

In particular, the GDP of MSMEs grew by 1.0% y-o-y in 2021, while the overall Malaysian economy expanded by 3.1% y-o-y (non-MSMEs: 4.4% y-o-y). This marked the second consecutive year in which MSMEs' GDP growth lagged that of the Malaysian economy, and the first time since 2003 that MSMEs growth trailed that of the overall economy. Continued rise in input costs, alongside ongoing supply-chain imbalances also made the operating environment increasingly challenging and has likely affected the overall capacity of MSMEs to undertake meaningful expansion in capital expenditure.

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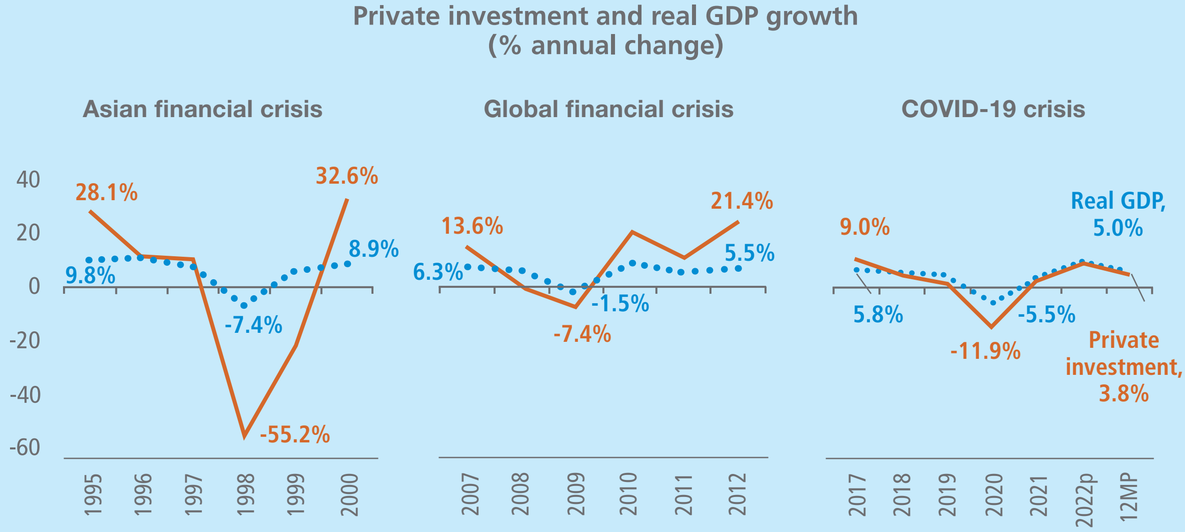
[1] *Growth of the Malaysian Capital Market in the Last 25 Years: Mobilising Financial Resources for Economic Development.* Feature article in Part 4, SC Annual Report 2018.

CHART 1
Recent recovery in private investment lagged that of recovery in past economic crises



Source: Department of Statistics Malaysia (DOSM); 12th Malaysia Plan; CEIC; the SC's calculations.

PLCs led investment recovery, underpinned by improving financial positions

Malaysia's PLCs showed tentative recovery in CAPEX in 2021, in contrast to the trend seen among MSMEs. Aggregate CAPEX growth of PLCs rebounded swiftly, reflecting increasing contributions of larger firms in driving domestic investment. This reversed the trend seen prior to the pandemic where total PLCs' CAPEX growth historically trailed that of total investment in the economy (Chart 2).

It is worth noting that CAPEX by PLCs is about 20% of the size of total investment in the economy, 70% of which are from FBMKLCI PLCs. Based on the constituents of FBM Indices, FBMKLCI PLCs demonstrated stronger CAPEX growth performance of 8.2% in 2021, outperforming their pre-pandemic trend and the rest of the economy. In comparison, CAPEX growth by non-FBMKLCI PLCs[2] was relatively slower at 2.3%, although overall growth remained faster than the 0.5% expansion for total investment (Chart 2).

From a sectoral perspective, the recovery in FBMKLCI PLCs' CAPEX growth was led by the utilities and telecommunication sectors, comprising 47% of FBMKLCI PLCs' CAPEX and 19% of FBMKLCI market capitalisation. Meanwhile, among the non-FBMKLCI PLCs, growth in CAPEX was led by the technology, telecommunication and healthcare sectors, which accounted for a combined 21% of non-FBMKLCI PLCs' CAPEX and 23% of non-FBMKLCI market capitalisation. This was in tandem with accelerated global demand in areas of technology and communication induced by the pandemic.

Overall, the improving trend in CAPEX growth was supported by stronger financial position of PLCs, which reflected the resilience of listed firms following the sharp contraction in activities in 2020. Both aggregate net income, and cash and equivalents of PLCs rose significantly to a new height in 2021, well beyond their pre-pandemic average (Chart 3).

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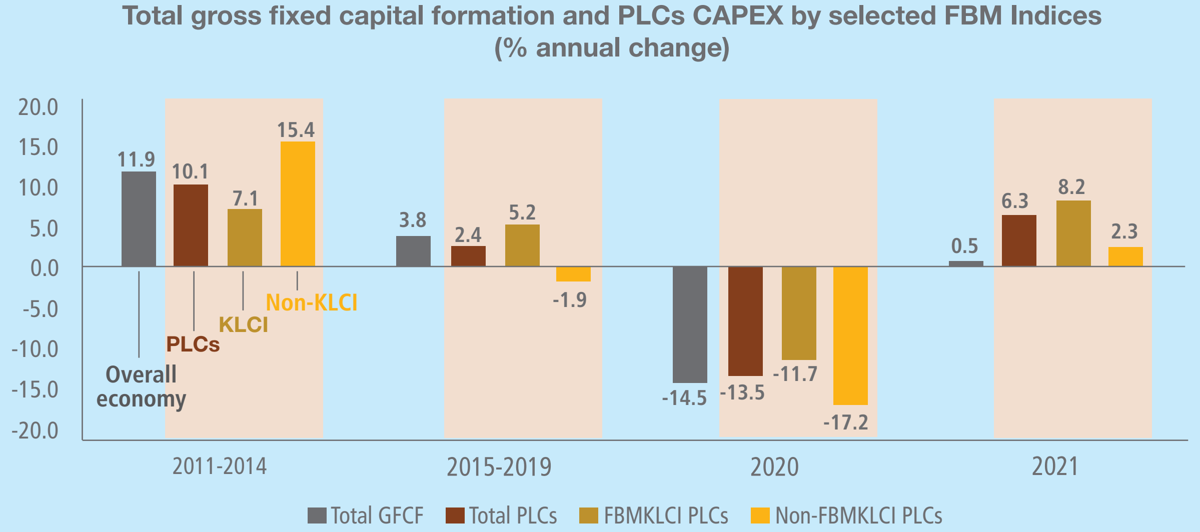
[2] Non-FBMKLCI PLCs comprise constituents of FBM 70, FBM Small Cap, FBM Fledgling and FBM ACE, which amounted to 741 PLCs.

CHART 2

PLCs posted stronger CAPEX growth in 2021 compared to the rest of the economy

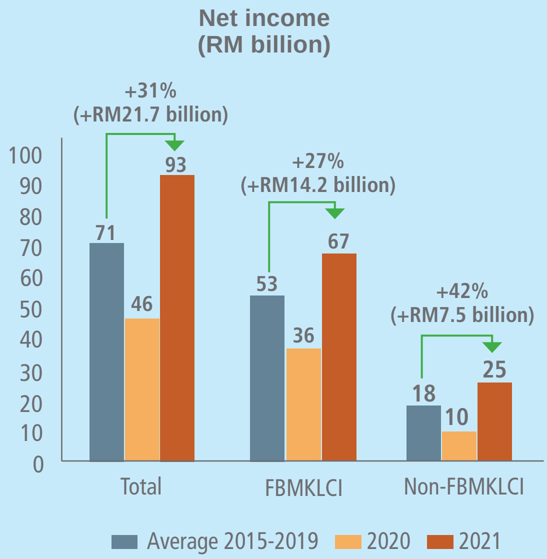


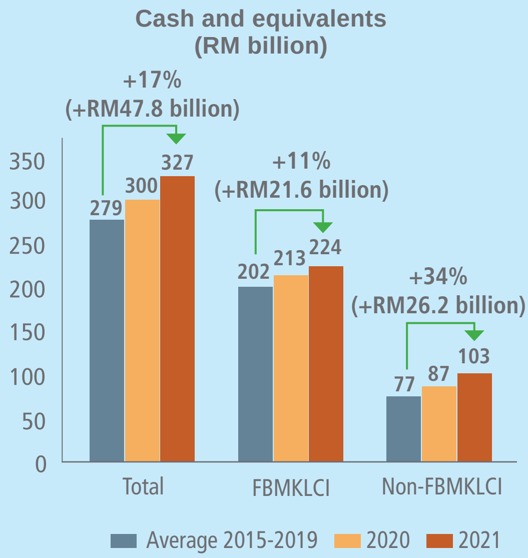
Note: Non-FBMKLCI comprise constituents of FBM 70, FBM Small Cap, FBM Fledgling and FBM ACE, which amounted to 741 PLCs.

Source: Department of Statistics Malaysia (DOSM), S&P Capital IQ, the SC's calculations.

CHART 3

Net income and cash balances of PLCs recovered above their pre-pandemic average





Source: S&P Capital IQ, the SC's calculations.

Going forward, reinvigorating private investment is key to unlocking future growth potential

Going forward, a sustained expansion in capital formation is essential for an entrenched economic recovery and to support economic development. Reinvigorating private investment is key to unlocking future growth potential, especially among smaller businesses and in new growth areas. This can lead to an acceleration in technological readiness and adoption, as well as the creation of high value jobs, all of which will lead to strengthening the economy's productive capacity and ensuring the sustainable growth of the Malaysian economy.

Against the backdrop of an increasingly competitive global environment, the future investment landscape in Malaysia will likely be shaped by three key underlying trends:

- **The changing nature of investment**

  Investment activity will likely witness a change in nature as we transition into a higher income and higher value-added economy, in which the focus will increasingly be on quality and its spill-over impacts on wider segments of the economy, rather than just the sheer size of investment. In recognition of this, the recently launched National Investment Aspiration (NIA) serves as a guide to Malaysia's New Investment Policy which will ensure prospective investments are focused on increasing economic complexity, creating high-value jobs, extending domestic linkages, developing new and existing economic clusters, and improving economic inclusivity. With ESG as a key overarching theme for the NIA, the new investment strategies also aim to strike a balance between economic development and sustainability.

- **Recovery of MSMEs will be vital**

  MSMEs are the backbone of the Malaysian economy and have become increasingly important for capital formation. MSMEs currently account for 37% of total fixed assets owned in the economy (2010: 25%), generating 37.2% of Malaysia's GDP and providing employment to nearly half of the country's workforce. The recovery of MSMEs will be key to unlocking a more robust and broad-based revival in private sector investment.

  In this aspect, the SC continues to facilitate the development of alternative financing avenues that connect issuers with traditionally untapped pools of investors through cheaper, faster, and more convenient delivery channels. This has allowed more Malaysian businesses to obtain access to financing to address their needs at various stages of development. Although still small, alternative fundraising avenues such as ECF and P2P financing have become an important source of financing for MSMEs, increasing their reach by fourfold since their inception.

- **PLCs to spearhead sustainable investment**

  The recovery in CAPEX by PLCs is anticipated to continue, increasing their importance in driving investment activities, and further underpinning the productive capacity of the economy. This will be in tandem with the recovery of the Malaysian economy.

  The emerging global developments in sustainability and social movements have resulted in increased expectations of corporate accountability to the environment and society. Indeed, increasing numbers of PLCs have initiatives or plans in place that are geared towards sustainability. Furthermore, a number of PLCs have increased CAPEX commitments towards research and development (R&D) especially in mechanisation and digitalisation, towards enabling the ESG transition. This is expected to continue to intensify going forward in line with the national aspirations and initiatives towards ESG, with PLCs spearheading private sector investment towards sustainability.

Conclusion

As Malaysia continues to undergo necessary structural reforms in its transition to a high-income and high value-added economy, the SC's development initiatives will continue to focus on capital formation by facilitating the relevant evolution of the capital market and enhancing access to financing, particularly in new growth areas. The introduction of various strategic initiatives and targeted policy support by the SC since the pandemic have helped underpin economic recovery, ensure business continuity, and maintain the orderliness of capital market activities. Importantly, continuous development of the wider capital market ecosystem will cultivate firms, especially smaller businesses with the potential to structurally upgrade the economy. These are necessary for a more modern economy while ensuring that it remains sustainable and inclusive.

Enhancing the Derivatives Market

Modification of Gold Futures on Bursa Malaysia Derivatives

Following a review, Bursa Malaysia Derivatives (BMD) launched its modified Gold Futures (FGLD) on 19 September 2022. With the SC's approval of the modified FGLD, investors are given opportunities to trade in gold beyond traditional methods such as buying and selling of physical gold, and with minimal exposure to foreign exchange movement.

The FGLD contract was originally launched in 2013. However, due to contract design issues such as contract sizing and exposure to foreign exchange risk, interest to trade the FGLD contract started to wane by 2018.

As gold remains an attractive trading instrument, BMD recently modified the FGLD contract and adopted the 'quanto' feature. The modified FGLD contract will be quoted in US dollar but settled in Ringgit Malaysia using a fixed multiplier, thus minimising exposure to foreign exchange rate.

Having aligned with global trading convention, the modified FGLD contract provides price transparency while trading as close as possible to the true price of gold. This is due to the fact that the FGLD contract is traded in US dollars and the contracts' final settlement price references the London AM Fix Price, an internationally recognised gold benchmark price.

Capturing ESG opportunities through the FTSE4Good Bursa Malaysia Index Futures on Bursa Malaysia Derivatives

On 28 September 2022, the SC granted BMD approval-in-principle (AIP) for the introduction of the FTSE4Good Bursa Malaysia Index Futures (F4GM) contract. This is in line with the clear shift to ESG investing globally and the growing acceptance of such investments in Malaysia.

The F4GM contract will be the first ESG-themed index futures contract available on the derivatives exchange. It is designed to help with the price discovery of ESG assets and caters to investors who have embraced sustainability and are seeking capital market products to match their values and convictions.

The contract is aligned to the nation's sustainability agenda and complements current initiatives such as the implementation of Malaysian Sustainable Palm Oil (MSPO) Certified Physical Delivery for palm oil on the exchange and the launch of Bursa Malaysia's voluntary carbon market in December 2022.

The F4GM contract was successfully launched in December 2022.

Enhancement to structured warrants framework

Since its introduction more than a decade ago, structured warrants (SW) have been a popular trading instrument among retail investors. SW are generally issued based on equity and equity-based indices to investors from a current pool of seven issuers in the market.

To facilitate a greater variety of SW issuances to meet investors' risk profiles, and to further augment the attractiveness of the Malaysian SW market, enhancements were made to the SW framework in 2022, focusing on the product parameters of SW.

The enhancements to the framework include:

- Expanding the underlying assets to include commodities, leveraging Malaysia's strength as a commodity producing country;
- Adjustment to market capitalisation criteria for shares and exchange-traded funds (ETFs) listed on Bursa Malaysia, where the market capitalisation criteria for shares listed on Bursa Malaysia will be lowered to RM500 million, and no market capitalisation criterion will apply on ETFs listed on Bursa Malaysia; and
- Shortening of the minimum tenure for index warrants from the current six months to three months.

With the aim to further improve market efficiency and liquidity, obligations imposed on market makers were also tightened. These market makers are required to be present in the market for at least 80% of the trading hours, provide narrower price spread of 10 bids and maintain the continuous bid-ask offer at a higher volume of at least 5,000 units of SW.

Relevant rules in Bursa Malaysia Securities were amended and came into effect in January 2022 to facilitate the tightening of market makers' obligations. For commodity-based SW, the SC is working towards getting a prescription order to facilitate the introduction of commodity-based SW in the market.

The SC had also revised the *Prospectus Guidelines* on the offering of SW in June 2022 to facilitate clear, balanced, fair and full disclosures to investors. Key amendments include the requirement to disclose the fees and charges involved and potential tax implications when investors exercise their SW as well as disclosure of the relationship between the issuer and the guarantor, where there is a performance guarantee. The revisions are also, aimed at increasing the functionality and ease of navigation in prospectuses for investors and minimising usage of technical and legal jargon to ease investors' comprehension and understanding.

Spurring Continued Growth by Embracing the Digital Age

Development in the digital offerings of the capital market

As the demand for digital services grew, the capital market continued to witness encouraging growth via digital innovation and the introduction of new business models.

Initial exchange offerings

Following the introduction of the regulatory framework governing digital token offering, the SC has registered two initial exchange offerings (IEOs) operators in March 2022. The registered IEO operators will provide an alternative avenue for eligible companies to raise funds via the issuance of digital tokens in Malaysia. These new operators will be required to carry out the necessary assessments to, among others, verify the issuer's digital value proposition, review the issuer's proposal and disclosures in its whitepaper, and undertake a comprehensive due diligence on the issuer and its token offering, prior to hosting the issuer's digital token on their platform. An issuer may raise funds of up to RM100 million from retail, sophisticated and angel investors, subject to the respective investment limits provided in the SC's *Guidelines on Digital Assets*.

Digital asset market

The local digital asset market has moved along with the global market trend in 2022, with an average daily transaction value of RM25.75 million in 2022, compared with RM57.29 million in 2021. Further, more than 128,000 accounts were created in 2022, which added 17% more accounts since end of 2021.

The SC continues to promote responsible innovation within the digital asset space and places a high priority on managing emerging risks and safeguarding the interests of investors. Recognising the strong appetite to operate new digital asset exchanges (DAX) in Malaysia, the SC has opened the application for RMO-DAX registration and enabled a new digital broker business model to operate on the RMO-DAX. This will facilitate the introduction of platforms with different value propositions.

As at 31 December 2022, there were four RMO-DAX operators registered with the SC. Allowing more players to enter the market increases capital market vibrancy by widening the number of regulated exchange platforms for investors to invest in.

Digital investment management

The digital investment management (DIM) segment continued to expand its capital market offerings to address the investment needs of the emerging digital generation of investors. The segment had grown in an upward trend over the years, with a total AUM of more than RM1.39 billion as at end 2022. The number of new accounts created has increased by 42%, since 2021, with the majority of accounts held by men younger than 35 years old. Women-held accounts have invested at least 57% more since December 2021, indicating a positive step towards closing the gender investment gap.

Digital-only brokerage

Digital brokers have enjoyed a dominant presence from retail investors using online brokerage accounts, particularly among millennial investors who comprised the majority (72%) of the clientele base. The increased retail interest in the equity market has peaked (33%) in 2022 during this economic recovery comparatively to 2021, with digital brokers gaining a retail market share of 4%[1] with total number of accounts having risen by more than 10% to approximately 276,000 in 2022 [2021: approximately 251,000].

Catalysing greater adoption of emerging tech

In the era of post-pandemic recovery, investments into technology has become crucial to sharpen the competitive edge for businesses. Malaysia's capital market players will only continue to grow with the help of innovative digital solutions such as the use of artificial intelligence, data analytics, and blockchain technology. To boost productivity and increase digitalisation in the capital market, the SC, in partnership with the Capital Market Development Fund (CMDF), established a RM30 million Digital Innovation Fund (DIGID). Through this fund, the SC will co-fund innovative projects that demonstrate the use of technology to allow new and competitive propositions to be brought into the Malaysian capital market. DIGID aims to encourage smaller capital market players to adopt innovative digital solutions and the development of industry-wide solutions impacting capital raising and investment activities.

Read more on media release 'SC Unveils Digital-related Initiatives to Bolster Capital Market'.

https://www.sc.com.my/resources/media/media-release/sc-unveils-digital-related-initiatives-to-bolster-capital-market

Facilitating cross-border access to ASEAN Collective Investment Schemes via Digital Repository

In October 2022, the ASEAN Collective Investment Schemes (CIS) Digital Repository was launched at the ASEAN Capital Markets Forum (ACMF) International Conference 2022. The ASEAN CIS Digital Repository is an extension to the ACMF's website and the objective is to provide a 'go to' site for the public to access information regarding the ASEAN CIS Framework. This includes access to information on CIS that have been approved as ASEAN CIS by respective signatories to the ASEAN CIS Framework as well as ASEAN CIS approved for cross-border offering. As the updated ACMF website now acts as a digital repository for the ASEAN CIS' offering and marketing documents, interested investors would only need to go the ACMF website to gain access to the latest information and documentation on ASEAN CIS.

[1] This refers to the year-to-date December 2022 digital brokers' retail trading value as a proportion of the entire brokerage industry's retail trading value.

DRIVING GREATER GROWTH IN SUSTAINABLE AND RESPONSIBLE INVESTMENT

Given the urgent need in meeting the sustainable development and climate goals, sustainable finance and investment continue to be on the growth trajectory globally. In line with the CMP3 and *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market* (SRI Roadmap), SRI continues to be one of the key priorities for the development of the Malaysian capital market. In 2022, the SC introduced several initiatives to support the development of a holistic SRI ecosystem, including facilitating a greater transition towards a low-carbon economy.

Shaping the Stakeholder Economy via the Capital Market

Sustainable and responsible investment (SRI) is a key strategy and priority for the development of the Malaysian capital market, as outlined in the SC's CMP3; published in 2021 and the SRI Roadmap; published in 2019.

The SC aspires to help shape a more stakeholder-based economy and strengthen Malaysia's position as a regional SRI hub in the next five years. In 2022, the SC continued to undertake initiatives to accelerate the growth of SRI in the Malaysian capital market.

Widening the range of instruments

The SRI-Linked Sukuk Framework **is aimed at facilitating more innovative Shariah-compliant financing avenues** for sustainability purposes and **encouraging Malaysian companies to transition into low-carbon or net-zero economy.**

FTSE4Good Bursa Malaysia Index Futures (F4GM), introduced by Bursa, will allow traders to gain exposure to **PLCs with leading ESG practices, offering investors a cost-effective avenue to align their financial goals with ESG values.**

The SC as the Co-Chair of the ACMF Sustainable Finance Working Group (SFWG) developed the *ASEAN Sustainability-Linked Bond Standards* (ASEAN SLBS) which will **enhance transparency, consistency and uniformity of ASEAN Sustainability-Linked Bonds and assist investors in making informed investment decisions**, while contributing to the development of a new sustainable asset class in ASEAN.

Expansion of Waqf-Featured Fund Framework to include listed ETFs and REITs to further grow the **Islamic social finance market**.

Increasing investor base

SRFS

The SC, as the Co-Chair of the ACMF SFWG, led the development of the *ASEAN Sustainable and Responsible Fund Standards* (ASEAN SRFS) to provide **disclosure and reporting requirements for qualified sustainable funds under the ASEAN SRFS and enhance transparency for investors**.

The SC, as the lead of *Perkukuh Pelaburan Rakyat* (PERKUKUH) #11 WG, spearheaded the development of Sustainable Investment Standards initiative to **enhance the role of GLICs in sustainable investments**.

Building a strong issuer base

The SC, with its engagements through SCxSC GROW and NaviGate: Capital Market Green Financing Series, helped to create **greater awareness and connectivity between green and sustainable companies and the various funding avenues in the capital market, to meet the needs of underserved SRI issuers**.

FTSE Bursa Malaysia Top 100 ESG Low Carbon Select Index (FBM100LC) and FTSE Bursa Malaysia Top 100 ESG Low Carbon Select Shariah Index (FBM100LS) were launched by Bursa Malaysia to further **encourage ESG and low-carbon adoption**.

Instilling strong governance culture

Enhanced sustainability reporting requirements in the public markets to **elevate the sustainability practices** and disclosures of listed issuers.

Broad principles of effective stewardship by institutional investors is provided through the MCII 2022.

Guidance Note on Managing ESG Risks for Fund Management Companies enabled FMCs to establish a **responsible investment framework**.

Leading for Impact Programme (LIP), a new mandatory onboarding programme on sustainability for PLC directors aimed at **strengthening ESG fitness of boards**.

Principles of Good Governance for GLICs **established governance baseline requirements and best practices for adoption by GLICs.**

Adoption of the **best corporate governance practices and quality of corporate governance disclosures** are outlined in the *Corporate Governance Monitor 2022* (CG Monitor 2022).

Designing information architecture

The Joint Committee on Climate Change (JC3) Data Catalogue serves as a **source of reference on climate and environmental data for the financial sector and represents a call to action for stakeholders** to collectively improve the availability and accessibility of climate data.

In alignment with the SRI Roadmap's recommendation on developing ancillary services for SRI, Bursa Malaysia's ESG Advisory Services were introduced to assist more **small-and medium-sized PLCs improve their ESG disclosures and credentials** to enhance the PLC's investability to institutional investors.

Moving forward, the SC will continue to widen the access to SRI for MSMEs, broaden the range of SRI products to facilitate sustainable and transition finance, and increase SRI awareness among businesses and investors – which are also aligned with the CMP3 and SRI Roadmap. These efforts are crucial to facilitate greater capital mobilisation to sustainable and responsible businesses which enables long-term value creation and caters to broader needs of the stakeholders of the economy, while strengthening Malaysia's position as a regional SRI hub.

Enabling Greater Access to Facilitate Sustainable and Transition Finance

As Malaysia transitions to a low-carbon economy, the role of the capital market can be further harnessed to mobilise private investments in enabling greater access to sustainable and transition financing needs. Towards this end, the SC has released the Sustainable and Responsible Investment-linked (SRI-linked) Sukuk Framework to facilitate companies including those in hard-to-abate sectors to tap into the capital market. The SRI-Linked Sukuk Framework, which was released on 30 June 2022, aims to facilitate fundraising by companies, addressing their sustainability concerns such as climate change or social agenda, with features that relate to the issuer's sustainability performance commitments. This will also cement further Malaysia's ICM position in driving the sustainability agenda.

Read more on media release 'SC Releases New Sukuk Framework to Facilitate Companies' Transition to Net Zero'.
https://www.sc.com.my/resources/media/media-release/sc-releases-new-sukuk-framework-to-facilitate-companies-transition-to-net-zero

The SC led the development of the ASEAN SLBS which was introduced by the ACMF. The ASEAN SLBS aims to facilitate the role of sustainability-linked bonds in funding companies that contribute to sustainability.

SRI-Linked Sukuk Framework

Background

With the accelerated shift towards building a climate-resilient future, high-emitting industries have a higher risk of being phased out if they are unable to manage an orderly and timely transition to low-carbon activities. However, a huge financing amount is required for these companies to transition, which cannot be met by green financing instruments. Globally, sustainability-linked bonds (SLB) and sustainability-linked sukuk (SLS) have proved to be useful financial instruments for issuers, mainly from the high emitting sectors to raise financing in meeting their transition needs.

In 2021, a total of 271 deals amounting to US$130.2 billion were issued given the growing interest in SLB and SLS globally.*

What is an SRI-linked sukuk?

An SRI-linked sukuk is sukuk where the financial and/ or structural characteristics vary depending on whether the issuer achieves its predefined sustainability objectives within a predefined timeline.

Key features of the framework

Characteristics
The financial and/or structural characteristics of the SRI-linked sukuk vary depending on whether the issuer achieves the KPIs

Key Performance Indicators (KPIs)
Sustainable commitments that the issuer would want to improve

Sustainable Performance Targets (SPTs)
Pre-defined targets against which the KPIs are assessed

External review
A report prepared by an independent third party to provide an opinion on the issuer's framework and a verification of the KPIs

Reporting
Issuer's obligation to report at least annually, on the performance of the KPIs

* *Source: Climate Bonds Initiative.*

The SC has further expanded the SRI Sukuk and Bond Grant Scheme (Grant) to include issuances under the SRI-Linked Sukuk Framework and the ASEAN SLBS accordingly. The Grant is aimed at lowering the cost of issuances as issuers are able to tap into the Grant to offset a portion of the external review costs incurred. The Grant, which was established in 2018, is also eligible for sukuk issued under the SRI Sukuk Framework and bonds issued under the ASEAN Standards.

SRI sukuk continues to play an important role in driving Malaysia's sustainability journey by mobilising financing for eligible green, social and sustainable projects. As of 31 December 2022, RM10.58 billion SRI sukuk was issued in 2022, bringing the cumulative issuances of SRI sukuk to RM18.92 billion, since the introduction of the SRI Sukuk Framework in 2014. Out of the total SRI sukuk issuances, RM16.58 billion were dually recognised under both the SRI Sukuk Framework and the ASEAN Standards. Issuances from Malaysia accounted for 24% of total issuances labelled under the ASEAN Standards.

Read more on media release 'Expansion of SRI Sukuk and Bond Grant Scheme to Facilitate Sustainable Finance'.

https://www.sc.com.my/resources/media/media-release/expansion-of-sri-sukuk-and-bond-grant-scheme-to-facilitate-sustainable-finance

Accelerating growth of sustainable investments for the capital market

The SC led the development of the ASEAN SRFS, which aims to enhance transparency as well as provide minimum disclosure and reporting requirements to be applied to CIS which seek to qualify under the ASEAN SRFS. Following the introduction of the ASEAN SRFS, a review of the *Guidelines on Sustainable and Responsible Investment Funds* (Guidelines on SRI Funds) was undertaken to enhance the disclosure and reporting requirements for SRI funds, as well as to facilitate SRI Funds to qualify as an ASEAN Sustainable and Responsible Fund. As of 31 December 2022, a total of 58 SRI funds with RM7.05 billion NAV were offered in Malaysia.

To enhance SRI intermediation capabilities for foreign and local fund managers, the SC had issued a *Guidance Note on Managing ESG Risks for Fund Management Companies* (Guidance Note) on 30 June 2022. The Guidance Note aims to provide clarity and outlines the SC's expectations on the development and implementation of practices, policies and procedures for effective analysis and management of material ESG risks and risk-related considerations that are present in the FMC's investment portfolios.

The SC also supported the development of several initiatives under the *Perkukuh Pelaburan Rakyat* (PERKUKUH) programme under the Ministry of Finance (MOF), aimed at prioritising good governance that enables sustainable growth, strengthened socio-economic inclusivity and environmental sustainability. The SC, as the lead of PERKUKUH #11 WG, spearheaded the development of the *Sustainable Investment Standards* initiative to enhance the role of GLICs in sustainable investments, by providing guidance in incorporating sustainability considerations into the investment process.

This is aligned with the role of GLICs towards creating long-term value and impact on the economy, as well as in supporting Malaysia's commitments in meeting the global climate ambitions and sustainability agenda.

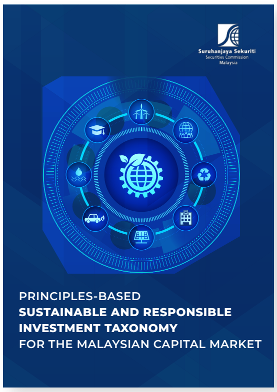
Broadening the spectrum of SRI through the introduction of SRI Taxonomy

In line with the recommendation of the SC's SRI Roadmap, the SC developed the *Principles-Based SRI Taxonomy for the Malaysian Capital Market* (SRI Taxonomy). The SRI Taxonomy, which was released on 12 December 2022, is aimed at enabling capital market participants to identify economic activities that are aligned with environment, social and sustainability objectives, thus facilitating a more informed and efficient decision-making for fundraising and investment for sustainability. The development of the SRI Taxonomy was undertaken through an Industry Working Group comprising the World Bank Group Inclusive Growth and Sustainable Finance Hub in Malaysia (World Bank) as the lead technical expert, and representatives from the local stock exchange, asset and fund management companies, investment bank, asset owner and other sustainable finance specialists.

Read more on media release 'SC Unveils Principles-based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market'.

https://www.sc.com.my/resources/media/media-release/sc-unveils-principles-based-sustainable-and-responsible-investment-taxonomy-for-the-malaysian-capital-market

Principles-Based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market



The *Principles-Based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market* (SRI Taxonomy) is aimed at reinforcing the capital market's role in accelerating national climate and sustainability goals.

The SRI Taxonomy provides universal guiding principles for the classification of economic activities that are aligned with environmental, social and sustainability objectives.

It aims to provide greater clarity towards enabling proper and consistent identification and classification of various types of economic activities as well as the definition of sustainable investments. It also seeks to address concerns on the need to mitigate and manage the risks of greenwashing.

Key components under the SRI Taxonomy

Environmental component: The SRI Taxonomy outlines four environmental objectives

- Climate change mitigation
- Climate change adaptation
- Protection of healthy ecosystems and biodiversity
- Promotion of resource resilience and transition to circular economy

Social component: The SRI Taxonomy outlines three social objectives

- Enhanced conduct towards workers
- Enhanced conduct towards consumers and end-users
- Enhanced conduct towards affected communities and wider society

Strengthening financial sector response to climate change

As Co-Chairs of the JC3, the SC and BNM continue to collaborate in strengthening the financial sector response to climate change.

Some of the key deliverables in 2022

- Implementation of *Climate Change and Principle-Based Taxonomy* through issuance of FAQ and due-diligence questionnaire
- Finalisation of a policy document on climate-risk management and scenario analysis
- Issuance of the *Task Force on Climate-related Financial Disclosures Application Guide for Malaysian Financial Institutions*
- Completion of JC3 Upskilling Sustainability Training programmes
- Publication of the Data Catalogue to address the data needs of the financial sector
- Publication on JC3 Report on the Sustainable Finance Landscape in Malaysia

The SC led the development of the *JC3 Report on the Sustainable Finance Landscape in Malaysia* (JC3 Report), given the SC's role as the Chair of the JC3 Sub-committee 3 (SC3) (Product and Innovation). The JC3 Report was published on 27 April 2022 and captured key insights from the extensive outreach programmes and a survey on sustainability practices among financial institutions in Malaysia, which was undertaken by the JC3 SC3 in 2021. JC3 had also conducted a series of engagements with government ministries and various agencies to bring greater clarity on the national plans and initiatives that both the financial sector and government can pursue and collaborate.

Read more on media release 'Joint Statement by Bank Negara Malaysia and Securities Commission Malaysia Accelerating the Financial Sector's Response to Climate Risk'.

https://www.sc.com.my/resources/media/media-release/joint-statement-by-bank-negara-malaysia-and-securities-commission-malaysia-accelerating-the-financial-sectors-response-to-climate-risk

Read more on media release 'Joint Statement by Bank Negara Malaysia and Securities Commission Malaysia Updates at the 8th Joint Committee on Climate Change (JC3) Meeting'.

https://www.sc.com.my/resources/media/media-release/joint-statement-by-bank-negara-malaysia-and-securities-commission-malaysia-updates-at-the-8th-joint-committee-on-climate-change-jc3-meeting

Read more on media release 'Joint Statement by Bank Negara Malaysia and Securities Commission Malaysia Updates at the 9th Joint Committee on Climate Change (JC3) Meeting'.

https://www.sc.com.my/resources/media/media-release/joint-statement-by-bank-negara-malaysia-and-securities-commission-malaysia-updates-at-the-9th-joint-committee-on-climate-change-jc3-meeting

Building SRI awareness through capacity-building initiatives

In 2022, the SC organised various awareness and capacity-building initiatives as well as participated as speakers for several external engagements to further develop the knowledge and enhance the profiling of SRI. These initiatives are crucial to further accelerate the growth and development of a facilitative SRI ecosystem in Malaysia.

For more details on the initiatives, kindly refer to *Part 4 – Strategic Engagements with Stakeholders.*

Facilitating International and Regional Sustainable Finance Initiatives

IOSCO Sustainability Task Force

Following the establishment of the International Sustainability Standards Board (ISSB) at the 26th United Nations Climate Change Conference of the Parties (COP26), the IOSCO's Sustainability Task Force (STF) has been focusing its efforts on reviewing the ISSB's Exposure Draft standards to ensure that the proposed standards can serve as an effective global baseline of sustainability disclosures for capital markets.

As a member of the STF's Climate Standards Working Group, the SC was involved in the review of the Exposure Draft on climate-related disclosure standards against a set of assessment criteria. Other areas the STF is focusing on include collaboration with international standard setters for audit and assurance, and capacity building as new reporting standards are emerging.

ACMF's Sustainable Finance Working Group

The SC's ASEAN-related work is primarily delivered through its membership of the ACMF. The ACMF is a high-level grouping of capital market regulators from all 10 ASEAN jurisdictions. Established in 2004 under the auspices of the ASEAN Finance Ministers, the primary responsibility of the ACMF is to develop a deep, liquid and integrated regional capital market.

In relation to the ACMF's efforts on sustainable finance, the SC co-chairs the ACMF's SFWG with the SEC Philippines. As Co-Chair of the SFWG, the SC led the development of the ASEAN SLBS, which were developed based on the internationally-recognised *Sustainability-Linked Bond Principles* (SLBP) published by the International Capital Market Association. The launch of the ASEAN SLBS completed ASEAN's suite of bond standards, which began with the publication of the *ASEAN Green Bond Standards* in 2017, and the *ASEAN Social and Sustainability Bond Standards* in 2018.

The SC also led the development of the ASEAN SRFS, which was identified as a key recommendation under the *ACMF Roadmap for ASEAN Sustainable Capital Markets* in 2020. The ASEAN SRFS and the ASEAN SLBS were launched together at the ASEAN International Capital Markets Conference in Phnom Penh, Cambodia, on 28 October 2022.

In line with the focus on ASEAN sustainable finance, the SC is also a member of the ASEAN Taxonomy Board (ATB), which is working to develop the *ASEAN Taxonomy for Sustainable Finance* (ASEAN Taxonomy) as a framework for classification of sustainable finance activities in the region. Following the launch of Version 1 of the ASEAN Taxonomy, which was used as a basis for stakeholder discussions, the SC was an active part of targeted stakeholder engagements, as well as engagements at various events throughout 2022, including at the ASEAN International Capital Markets Conference. These efforts will culminate in the publication of Version 2 of the ASEAN Taxonomy by the first quarter of 2023.

The SC is also a member of the ASEAN Working Committee on Capital Market Development (WC-CMD), a sectoral body which includes central banks and ministries of finance, in addition to capital market regulators. The SC chairs the WC-CMD's Infrastructure Finance Working Group, which published the *Sustainable Finance First for Sustainable Projects Conversation Pack* in April 2022, which aims to spur discussions with governments, project owners, and promoters to consider using sustainable finance as the first choice of financing for sustainable projects.

BROADENING AND DEEPENING THE ISLAMIC CAPITAL MARKET

The SC continues to chart its strategic direction to drive a broader and deeper ICM, expanding its reach and value proposition. This entails building on initiatives that focuses on developing the Islamic social finance landscape and enabling more diversified Shariah-compliant offerings. This is in line with the SC's CMP3, where the emphasis is to leverage the ICM to cater to the broader stakeholders of the economy through supporting the sustainable development agenda by enhancing the ICM ecosystem for Islamic social finance.

Shariah governance is also a key focus area for ICM. The SC will continue to undertake initiatives focusing on Shariah governance in various phases, to facilitate the orderly development in shaping a robust ICM products and services ecosystem.

Expansion of Waqf-Featured Fund Framework

Following the introduction of the Waqf-Featured Fund (WQ-FF Framework) for unlisted funds in 2020, the SC had, on 28 November 2022, expanded the framework to include listed funds – Islamic Real Estate Investment Trusts (REITs) and Islamic ETFs, to further grow the Islamic social finance space.

The expanded WQ-FF Framework is expected to broaden the range of innovative ICM products and provide investors with access to Islamic funds that allocate a whole or part of the fund's return towards socially impactful activities via *waqf*.

Under the existing WQ-FF Framework introduced in 2020, there are five unit trust funds and one wholesale fund as at end December 2022 with an aggregate NAV of RM46.7 million. The WQ-FF Framework has since promoted greater collaborations between Islamic Fund Management Companies (IFMCs) and State Islamic Religious Councils in broadening the potential of *waqf* assets in addressing socio-economic welfare, which have been proven to be instrumental for more than 1,400 years.

Enhancing the ICM Information Architecture

Issuance of Guidelines on Islamic Capital Market Products and Services

The SC had, in November 2022, issued the *Guidelines on Islamic Capital Market Products and Services* (ICMPS Guidelines) which serves as a single point of reference that provides a consolidated and distinctive aggregation of Shariah requirements. The ICMPS Guidelines consolidate all Shariah requirements for ICM products including sukuk, Islamic structured product and Islamic CIS, that were previously cited in the relevant chapters within respective guidelines.

Read more on media release on 'SC Issues Consolidated Guidelines on Islamic Capital Market Products and Services'.
https://www.sc.com.my/resources/media/mediarelease/sc-issues-consolidated-guidelines-onislamic-capital-market-products-and-services

Revision of Guidelines on Islamic Fund Management

In further ensuring the efforts of distinctive accessibility for Shariah compliance requirements and clear Shariah governance, the *Guidelines on Islamic Fund Management* had been revised for IFMCs and Islamic windows. Intermediaries will now be able to identify the different sets of requirements between a full-fledged Islamic fund management entity versus activities, respectively.

Spurring Continued Growth of Islamic ECF and P2P financing

Facilitating greater Shariah-compliant ECF and P2P financing offerings

In order to continue facilitating the development of innovative solutions that aim to address the funding needs of MSMEs through alternative fundraising digital platforms, interested parties with capability to operate ECF and P2P financing platforms focusing on Shariah-based solutions and value-propositions were invited to submit their applications.

The registration for new ECF and P2P financing operators with Shariah-based solutions and value proposition, is expected to encourage more solutions for MSMEs seeking market based funding options and promote greater growth of MSMEs in the *halal* economy while allowing greater access to investments for all participants in the capital market.

Thought Leadership and International Profiling

With Malaysia as the global leader in Islamic finance, the SC continues to advance the growth of ICM by leveraging its strength. Aligned to CMP3, the core focus areas are sustainable finance, inclusivity, Islamic social finance and fintech.

In sustaining and solidifying global thought leadership, the SC's efforts are encapsulated through two key platforms – the Royal Award for Islamic Finance (The Royal Award) and the SC – Oxford Centre for Islamic Studies Roundtable (SC-OCIS Roundtable). The former is jointly organised by SC and BNM, under the Malaysia International Islamic Financial Centre (MIFC) initiative, where it recognises individuals and entrepreneurial efforts who have excelled in advancing Islamic finance through longstanding contributions and achievements. Meanwhile, the SC-OCIS Roundtable and the Scholar in Residence (SIR) Fellowship programme, have continued to facilitate, for more than a decade, the developmental agenda of the SC in furthering efforts in growing the breadth and depth of ICM.

This has produced several innovative products and services which aim to generate a positive impact to the economy, community, and environment. This has been exemplified by the issuance of the Sustainable and Responsible Investment (SRI) Sukuk Framework, and the development of the WQ-FF Framework.

For more details on the programmes, kindly refer to *Part 4 – Strategic Engagements with Stakeholders.*

EMPOWERING INVESTORS FOR A BETTER FUTURE

As Malaysians accumulate wealth, there continues to be a need to develop an advice-centric approach to assist investors to navigate their financial futures. Towards this end, the SC has introduced flexibilities and measures to enable broader investment advisory models that would cater to a wider spectrum of advisory for the domestic investor base and help strengthen the role of the financial planning industry to provide quality advice.

Broadening Advisory Models to Cater to Varied Investor Needs

With increasing access and use of mobile devices, there is an observed emergence of mobile/app-based software providing investment advice. These apps employ algorithms to provide investment advice and are an increasingly popular way for retail investors to get access to advisory services and the market-at-large. These applications provide a convenient and alternative option to investors where there is no human adviser interaction in the advisory process.

Recognising this, the SC sought to provide flexibility and regulatory clarity on the key requirements in undertaking the business of investment advice using automated algorithm-based tools. The aim is to balance the need of attracting new entrants while ensuring quality of players. To this end, the SC issued a technical note in October 2022 to clarify the minimum financial, competency and technological-related ongoing conduct requirements expected for intermediaries interested in providing digital investment advice.

Read more on media release on 'SC Issues New Guidelines and Technical Note to Enhance the Quality and Diversity of Investment Advisory'.
https://www.sc.com.my/resources/media/media-release/sc-issues-new-guidelines-and-technical-note-to-enhance-the-quality-and-diversity-of-investment-advisory

Strengthening the Role of the Financial Planning Industry to Provide Quality Advice

Following the launch of the three-year joint action plan for the financial planning industry in 2020, the industry has witnessed a 5% growth in the number of licensed firms, and a 49% growth in the number of licensed financial planning representatives.

While this trend of growth is encouraging as it benefits investors with more accessibility to investment advice, initiatives to drive better advisory services and outcomes to more Malaysians continues to be an important consideration within the financial planning industry.

In line with the recommendations under the joint action plan, industry representatives and associations sought and received Capital Market Development Fund (CMDF) funding of RM7.5 million for 16 initiatives that will be implemented between 2023 to 2025 to enhance standards, attract talent and elevate the quality of advice.

These initiatives include:

- Enhancing talent pipeline through internships and scholarships
- Promoting the profession by improving investors' access to financial planners
- Creating awareness on unlicensed financial planning activities
- Strengthening professional standards by developing operating standards for financial planning firms

Ultimately, the measures introduced in 2022 would facilitate a move towards a wider spectrum of advisory models which increases accessibility and affordability of quality advice – in turn, empowering more Malaysians to participate in capital markets.

SPECIAL FEATURE 3

BEHAVIOURAL INSIGHTS TO ADDRESS RETIREMENT SAVINGS INADEQUACY

Overview – Retirement Issue in Malaysia

Malaysia is expected to become an aged nation by 2030, with 15% of the population aged 60 and above[1]. This poses a demographic challenge as well as an investment challenge for the Malaysian retirement savings landscape to finance old-age consumption that will increase continuously.

Malaysia has adopted a holistic and multi-faceted pension ecosystem that is equipped to mobilise savings and facilitate the *rakyat*'s retirement planning needs. This is anchored on a multi-pillar pension framework[2] and includes mandated public pension plans as well as voluntary private pension schemes through PRS that are regulated by the SC. There has been growing acceptance of PRS as an alternative vehicle to supplement and complement the mandatory public pension system. This is evidenced by an increase in the number of PRS contributors by 7.5% per annum from 416,913 members in 2018 to 557,000 members in 2022.

Despite the private and public avenues available for Malaysians to save and invest for their retirement, there are still gaps in the levels of savings most have available for retirement. The formal retirement system only covers approximately 60% of the labour workforce – most of which have insufficient retirement savings. This problem has been worsened by the recent early withdrawals of retirement savings to tide over cashflow needs through the pandemic. Meanwhile, the remaining 40% of the workforce are yet to be covered by mandatory savings – this could potentially grow as more workers enter self-employment and the gig economy.

The SC recognises that moving the needle on retirement security with respect to private sector solutions requires partnership and collaboration between retirement stakeholders on multiple fronts – including policy development, product innovation and investor education. The SC is also continuously in search of novel ways to address the adequacy of retirement savings. One such means involves approaching the problem through a behavioural lens and applying behavioural insights to encourage greater retirement planning among Malaysians.

Behavioural Insights to Encourage Retirement Planning

'Behavioural insights' is an approach to policymaking that incorporates behavioural sciences to understand how people make choices and subsequently, create effective solutions to encourage desired behaviour.

A key principle to behavioural insights is that people are influenced by subconscious factors (formally referred to as behavioural biases), when making decisions – this may result in decisions that are not in their best interests.

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1 Department of Statistics Malaysia. (2016, November 4). Malaysia population projection 2010-2040. Department of Statistics Malaysia Official Portal. Retrieved December 15, 2022.

2 As an example, the World Bank has outlined a 5-pillar pension framework covering universal social pension, mandated public or occupational pension and a voluntary pension scheme.

3 Estimates based on SC internal calculations. Similar analysis can also be found in work done by EPF (2021), World Bank (2020), and Khazanah Research Institute (2020).

Applying Behavioural Insights

Irrational behaviour	Behavioural science	Behavioural insights
	Understanding irrational economic behaviour through insights from behavioural sciences	Creating solutions that encourage better decisions by incorporating insights from behavioural science

Behavioural insights incorporates behavioural science to create effective solutions that encourage the desired behaviour.

This is especially relevant in the context of retirement. Globally, an increasing number of studies in behavioural economics show that financial and savings behaviour relates to psychological factors. For example, the OECD highlighted that while a certain percentage of people are dedicated savers who take responsibility for their retirement, a much larger percentage prefer to spend money than to save it, or would like to save more but lack the willpower or are overwhelmed by too much choice.

While there are structural factors behind Malaysians' retirement savings inadequacy, there are also behavioural barriers that need to be overcome to encourage better retirement planning among the broader population.

By incorporating behavioural insights into policymaking and product design, Malaysians can be nudged into making better decisions to prepare for their retirement.

Retirement Workshop: Exploring the Application of Behavioural Insights

Recognising the need for a collaborative approach and the potential behavioural insights offers to address Malaysia's retirement savings adequacy issues, the SC hosted a retirement workshop in August 2022 to explore potential applications of behavioural insights to enable the retirement agenda in Malaysia.

The workshop was attended by key stakeholders in the retirement ecosystem including fund managers, employers, digital services, and various agencies, and was jointly facilitated by the Behavioural Insights Team (Singapore), a social purpose company that generates and applies behavioural insights to inform policy and improve public services.

Workshop participants set out to determine actionable projects that could address behavioural biases and encourage greater retirement planning and saving among five different personas that represented the typical individuals within the Malaysian workforce – youth, middle-income, to-be retirees, gig workers and other small-to-medium sized business owners or freelancers who are self-employed.

At the workshop, participants were placed in breakout sessions to identify behavioural barriers and drive solutioning based on the above target segments. Among the behavioural barriers identified were:

- **Present bias**: Tendency to focus on what is needed to get through the present day and less emphasis on future payoffs such as ensuring a comfortable retirement.

- **Overconfidence**: An overestimation of one's knowledge, ability and preparedness when it comes to retirement planning and saving.

- **Social norms**: Unspoken set of rules and expectations from people around us that influence our decision-making. For example, the need to focus on immediate gratification at the expense of retirement planning if others are also doing so.

- **Limited cognitive bandwidth**: Limited cognitive capacity which is often taken up by decisions that demand our on a day-to-day basis, resulting in the deprioritisation of less immediate matters such as retirement.

These key behavioural insights, as they relate to each specific target segment, are being utilised to design pilot projects with the intention of nudging people to plan and save more for retirement.

The SC, together with relevant retirement stakeholders, are prioritising and will explore implementation based on outcomes evidenced at the pilot stage. Further to this, the SC has also published an in-depth discussion paper to share insights gained through the workshop and external research on behavioural applications to encourage retirement savings.

Read the discussion paper on the SC website.