

# PART 04 ENABLING IMMEDIATE OPPORTUNITIES AND FACILITATING RECOVERY

## INTRODUCTION

The capital market continued to play an important role in supporting the Malaysian economy amid a challenging and turbulent environment. The SC had focused its efforts on enabling immediate opportunities and facilitating recovery across the spectrum of issuers, investors, intermediaries and companies by enhancing accessibility to the capital market both in terms of financing as well as investments.

Measures undertaken include enabling wider adoption of digital technology, facilitating new opportunities to spur continued growth and vibrancy of the capital market, accelerating the development of an ecosystem that promotes sustainable and responsible investments (SRI) as well as building capabilities and opportunities within the capital market.

### BROADENING ACCESS TO THE CAPITAL MARKET VIA TECHNOLOGY

The year 2020 brought significant acceleration to digital adoption in the capital market, particularly towards ECF and P2P financing, DIMs and DAX as investors, issuers and intermediaries adapted to the new normal. At the onset of the implementation of the MCO, the SC took immediate action to manage the impact of the MCO on fundraising activities by micro, small and medium enterprises (MSMEs) on the ECF and P2P financing markets. Appropriate steps were taken to mitigate the lower demand from investors due to uncertainties seen in the alternative market, especially on the ECF and P2P financing platforms.

### Sustaining MSME Fundraising via ECF and P2P Financing Markets

When the ECF market was introduced in 2015, a fundraising limit of RM3 million per campaign and a RM5 million lifetime limit for each issuer were put in place to protect investors from excessive exposure.

However, as the ECF market continues to mature, as evidenced by the steady increase in the size of fundraising rounds and growing interest from issuers, further liberalisation measures were introduced. This involved raising the single lifetime fundraising limit from RM5 million to RM10 million per issuer and widening the scope of eligible ECF issuers to companies with up to RM10 million in paid-up capital from the initial RM5 million in paid-up capital.

# SUSTAINING MSME FUNDRAISING VIA ECF AND P2P FINANCING MARKETS

2020



**1,403 issuers** have raised funding on ECF and P2P financing platforms amounting to **RM631.04 million** (2019: RM441.56 million)



**60% of ECF issuers** and **36% of P2P financing issuers** are technology-focused



**57% of ECF issuers** fundraised for business expansion and **97% of P2P financing issuers** fundraised for working capital

While there was an initial reduction in retail investors' participation in the first quarter of 2020, retail investors have since returned to the market with the easing of lockdowns in April – May 2020. More encouragingly, there was an increase in the participation from angel and sophisticated investors during the year.

**ECF** and **P2P financing markets** had initially experienced a decline in fundraising activities during the MCO, in line with a slowdown in economic activities. As businesses resumed operations, both markets have subsequently recovered, with ECF platforms experiencing steady growth. As for P2P financing platforms, due to their proactive restructuring and rescheduling (R&R) strategies, they have helped issuers remain afloat during this challenging period and limited any significant increase in defaults.

To enhance the value proposition of ECF and P2P financing markets for investors, the SC introduced a framework for secondary markets to facilitate a more structured and orderly exit mechanism for investors.

This enabled early investors to exit from deals, which they had earlier invested in and also provided an opportunity for new investors to invest in deals that they might have missed earlier.

## Facilitating Alternative Fundraising Through Issuance of Digital Tokens

Recognising the need for fundraising for early-stage entrepreneurs with innovative business proposals through the digital token offering in Malaysia, the SC introduced the *Guidelines on Digital Assets* on 15 January 2020. The digital token offering is a form of alternative fundraising where an issuer offers digital tokens using blockchain technology to raise funds for their business projects. Based on responses received through the SC's public consultation, there was overwhelming support from the industry with regards to the SC's proposal to leverage the expertise of a platform operator to review applications for the issuance of digital tokens for fundraising. This is also known as the initial exchange offering (IEO).

Under this framework, all offerings of digital tokens in Malaysia are to be carried out only through an IEO platform operator registered with the SC. IEO platform operators will be required to assess and conduct the necessary due diligence on an issuer, review the issuer's proposal and the disclosures in the whitepaper, and assess the issuer's ability to comply with the requirements of the *Guidelines on Digital Assets*, the *Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries* and the *Guidelines on Implementation of Targeted Financial Sanctions Relating to Proliferation Financing for Capital Market Intermediaries*.

## Enhancing Access to Investments via Innovative Digital Solutions

The varying degrees of movement restrictions in 2020 had accelerated digital adoption among consumers and businesses. The introduction of the regulatory framework for e-Services Platforms within the *Guidelines on Recognised Markets* permit platforms such as e-payment platforms, e-commerce platforms and e-wallets to partner with CMSL holders to distribute capital market products, thus providing additional investment channels for investors. Partner

CMSL holders can now tap the captive customer base of these digital platforms and provide a more seamless and convenient investment experience. Investments made via e-Services Platforms are executed on a pass-through basis to the partner CMSL holder. This allows both the platform and the CMSL holder to build and maintain relationships with investors while ensuring that the investors' monies and assets are properly safeguarded.

In 2020, the SC had also approved three additional DIM companies. The services offered by the new DIM companies provide more value-added options for investors such as spare change investing and differentiated investment strategies. By end December 2020, DIM have acquired 199,224 clients and RM466.20 million in total AUM [end 2019: 23,803 clients; RM74.7 million total AUM].

## Shariah Advisory Council of the SC Resolution on Digital Currencies and Digital Tokens

Recognising the importance of digitisation in the capital market and its increasing adoption by market participants, the Shariah Advisory Council (SAC) of the SC had resolved in July 2020 that it is permissible to invest and trade in digital currencies and digital tokens (Digital Assets) on registered DAX that fulfil the requirements as specified in the SAC resolution. Under the resolution, the SAC had resolved that Digital Assets are recognised as asset (*mal*) from a Shariah perspective.

The scope of the SAC resolution on digital currencies provides the following aspects:

- Digital currencies that are based on technology without any underlying where such kind of digital currencies are not considered as currency and are not categorised as usurious (*ribawi*) items from a Shariah perspective. Therefore, the trading of such digital currencies is not subject to the principle of currency exchange (*bai' al-sarf*).

- Digital currencies that are backed by usurious items (i.e. gold, silver, currency and other usurious items) where such kind of digital currencies are categorised as usurious items (*amwal ribawiyah*). Therefore, trading of such digital currencies is subject to the principle of currency exchange or other Shariah requirements of usurious items.

Meanwhile the scope of the SAC resolution on digital tokens provides that the following requirements must be fulfilled to determine the Shariah status of digital tokens:

- The utilisation of proceeds raised from the issuance of digital tokens must be for Shariah-compliant purposes, and the rights and benefits attached to digital tokens must be Shariah-compliant; and
- The existing SAC resolution on the utilisation of sukuk proceeds and the business activities benchmark under the Shariah screening methodology for listed companies are applicable in the event that the utilisation of proceeds and the entitlement of rights and benefits of digital tokens are for Shariah-compliant and Shariah non-compliant purposes.

If a digital token is backed by usurious items, the trading of such digital token is subject to the Shariah requirements for trading of usurious items.

This SAC resolution marked a significant milestone for the ICM community to facilitate greater product innovation and development in digital assets, and in turn, attract broader participation and provide alternative channels for Shariah-compliant fundraising.

## Promoting Fintech Developments and Innovations

The SC continued to enhance awareness of new fintech developments and innovations by holding its seventh SCxSC Annual Fintech Conference (SCxSC) from 5 to 7 October 2020. Held virtually for the first time, SCxSC expanded its reach to a wider audience,

attracting more than 7,000 registered participants from diverse backgrounds and locations. Through the digital platform, participants could engage in panel discussions and interact with exhibitors and other participants. Moving forward, the SC will continue to explore other innovative channels to help broaden its engagement and educational efforts across the investor and issuer community.

## Collaborating with Regional Regulators on Fintech Initiatives

As part of the SC's ongoing efforts to collaborate with other regional and global peer regulators through Fintech Co-operation Agreements, the SC entered into a new Fintech Bridge agreement with the Indonesian financial regulator, Otoritas Jasa Keuangan (OJK) on 24 August 2020. The agreement sets out a mechanism between both regulators to refer innovative businesses that wish to operate in the other's jurisdiction. It also covers any future joint-innovation projects and regular information sharing between both regulators on any emerging developments or regulatory issues in the fintech space.

## DIGITISING THE CAPITAL MARKET AS AN ENGINE FOR GROWTH

The adoption of digitisation has emerged as one of the main themes for the capital market in 2020. This was evident during the SC's engagements with the capital market industry, specifically the Brokerage Industry Digitisation Group (BRIDGe) and the Fund Management Industry Digitisation Group (FMDG).

## Accelerating Digitisation in the Broking Industry

In 2020, BRIDGe, the multi-stakeholder working group chaired by the SC to accelerate digitisation in the broking industry, completed most of the initiatives to facilitate the recommendations outlined by the working group in 2019. Table 1 summarises the implementation efforts since its inception in August 2018.