PART 02 ENSURING STABILITY AND CONTINUITY DURING COVID-19

INTRODUCTION

In the wake of the pandemic, the preventive measures under the MCO had impacted business operations and livelihood of Malaysians at large, which led to a period of increased market volatility. Amid this landscape, the SC took swift action across five key focus areas to help alleviate immediate challenges and risks faced by the capital market and its participants. Efforts were focused on maintaining continued orderly function of the market, providing relief measures to ease burdens faced by affected market participants, facilitating the continuity in operations of market institutions and intermediaries, monitoring of market and liquidity risks as well as ensuring investor protection.

FAIR AND ORDERLY MARKET

Smooth Functioning of the Market

The SC intensified its monitoring of trading activities in the equity and bond markets to manage the significant increase in volatility, pro-cyclical effects of rating downgrades and downstream effects of liquidity, among others. Similarly, the SC also monitored the impact of the pandemic on capital market infrastructure including the operations of the exchanges, resiliency of Central Counterparties (CCPs) and the trading engine capacity, all of which are fundamental components of a fair, orderly and efficient market.

To mitigate potential risk arising from exceptional levels of market volatility and global uncertainties, short selling activities covering intraday short selling (IDSS), regulated short selling (RSS) and intraday short selling by proprietary day traders (PDT) were temporarily suspended from March to end of April 2020. The suspension did not apply to permitted short selling (PSS), given that PSS is an important market operation tool *vis-à-vis* market-making activities for products such as exchange-traded funds (ETF).

Subsequent to the SC's continuous review of market conditions, the suspension of short selling was further extended to end of June 2020 and subsequently December 2020. The phased approach was undertaken to allow greater agility in responding to the uncertain and challenging environment. The extensions were to ensure that excessive speculative activities and downside risks in the marketplace were appropriately mitigated and managed.

To provide added stability and confidence in the market, the SC in July 2020, approved Bursa Malaysia's proposal to implement temporary revisions to its existing market management and control mechanisms. The revisions were applicable for a six-month period from 20 July 2020, as follows:

- The lower dynamic price limit narrowed from -8% to -5% for FBMKLCI Component Stocks (Index Stocks);

- The lower static limit tightened from -30% to -15% for Index Stocks;
- The Circuit Breaker threshold changed to two levels (-10% and -15%) from three levels (-10%, -15% and -20%); and
- The short selling price limit narrowed to -10% from -15% in line with the revised lower static price limit.

The temporary revised limits serve to moderate potentially excessive price movements while allowing investors time to rationalise investment decisions during periods of heightened uncertainty and market volatility.

Continuous Monitoring of Clearing and Settlement Capacity

CCPs form an integral part of stable and resilient market infrastructure. They ensure that trade settlement and clearing activities are carried out smoothly to safeguard stakeholders' interests in the event of failed trades. In this regard, the SC expects Bursa Malaysia Securities Clearing (BMSC) and Bursa Malaysia Derivatives Clearing (BMDC) to effectively manage settlement and clearing risks for the securities and derivatives markets respectively. Clearing funds, margins and security deposits posted by clearing participants serve as important layers of protection in the event of default.

In light of volatile market conditions, daily stress tests were conducted by BMSC on the clearing fund to ensure the sufficiency of coverage in the event of participants' default. To date, the results of the stress tests have not warranted any increase to the clearing fund. Meanwhile, revisions were made to the derivatives clearing fund and margin rates for futures products, after taking into consideration the fluctuating volatility in financial and commodity futures markets. For example, the derivatives clearing fund as at end December 2020 stood at RM37 million, arising from the recent increased contributions from BMDC and market participants. Margin rates for FTSE Bursa Malaysia KL Composite Index Future (FKLI) were gradually revised from RM2,500 to RM4,200 in Q1 2020. The margin for Crude Palm Oil Futures (FCPO) was also raised from RM4,500 to RM6,200 in the same quarter. However, in April and early May 2020, the margin for FCPO was gradually reduced from RM6,200 to RM5,000 in line with changes in market volatility for CPO.

REGULATORY RELIEF MEASURES

The Conduct of Fully Virtual General Meetings

The MCO necessitated limited movement of persons and gatherings for business, cultural, religious, sports, or social purposes. Consequently, this affected the ability of listed issuers to discharge their statutory obligations to conduct general meetings without breaching the MCO conditions.

As part of the relief and support measures for affected listed issuers, the SC and Bursa Malaysia allowed flexibility on the timing of annual general meetings (AGMs) and the issuance of quarterly and annual reports.

Listed issuers could apply to conduct their AGMs beyond the prescribed period as stipulated under the *Companies Act 2016*, through an application to the Companies Commission of Malaysia (SSM).

The SC also granted a–

- two-month extension for REIT managers of listed REITs with a financial year-end of 31 December 2019 to hold AGMs by 30 June 2020; and
- one-month extension for REIT managers of listed REITs with financial year-end of 31 March 2020 to hold AGMs by 31 August 2020.