Suruhanjaya Sekuriti
Securities Commission
Malaysia

CAPITAL MARKET STABILITY REVIEW 2024

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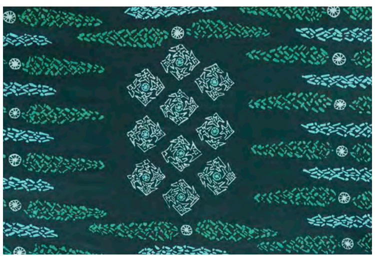

Preserving Indigenous Heritage by Puteh and Asikin Roslan

Batik design honors Malaysia's cultural heritage through a blend of traditional and contemporary textile art. Inspired by the Mah Meri 'Bunga Moyang' weaving patterns, the design incorporates motifs such as paku pakis (fern) and kha (fish), symbolising strength, resilience, and growth. The design showcases intricate craftsmanship with a blue and green colour palette representing serenity and wisdom. This project preserves and adapts Mah Meri artistry for both functional and decorative purposes.

Design was submitted for the Batik Lestari 2024 Showcase.

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PREAMBLE

The Securities Commission Malaysia (SC) is mandated to take all reasonable measures to monitor, mitigate and manage systemic risks arising from the capital market.

This *Capital Market Stability Review* 2024 outlines overall risk assessments on various components of the Malaysian capital market from 1 January to 31 December 2024 and discusses the relevant systemic risk drivers. The report also covers thematic review on prevailing risk areas.

KEY HIGHLIGHTS

In 2024, amidst a buoyant performance, the Malaysian capital market was influenced by external factors, including the interest rate adjustments by major central banks, fluctuations in foreign exchange rates, and rising geopolitical risks, among other developments.

During the period under review, there were no systemic risk concerns in the domestic capital market, and it remained resilient and orderly. The SC will continue to monitor capital market related developments, to mitigate any potential risk that may arise.

EQUITY MARKET

FTSE BURSA MALAYSIA KLCI (FBMKLCI) concluded the year with an increase of +12.90% (2023: -2.73%), primarily driven by strong domestic economic fundamentals.

CREDIT AND MARKET RISK MANAGEMENT mechanisms were in place and there was no circuit breaker triggered in 2024. Additionally, no utilisation of clearing guarantee fund in 2024.

DERIVATIVES MARKET

EXCHANGE TRADED DERIVATIVES (ETD) MARKET recorded a strong performance with a +14.04% increase in open interest from 2023.

CREDIT AND MARKET RISK MANAGEMENT mechanisms were in place, and no utilisation of clearing fund in 2024.

BOND MARKET

MALAYSIAN GOVERNMENT SECURITIES (MGS) YIELDS remained resilient in 2024, despite influenced by uncertainties over the Federal Reserve (Fed)'s monetary policy and the United States of America (US) presidential election.

NO DEFAULTS IN CORPORATE BONDS AND SUKUK were observed in 2024 (2023: one default) against a backdrop of a monetary policy stance that is accommodative and supportive of the economy.

INVESTMENT MANAGEMENT

ASSETS UNDER MANAGEMENT (AUM) OF FUND MANAGEMENT INDUSTRY AND NET ASSET VALUE (NAV) OF UNIT TRUST FUNDS (UTFs) recorded increases of +9.59% (2023: +7.61%) and +9.24% (2023: +2.45%) respectively, driven primarily by market valuation gains.

AUM ALLOCATION in foreign assets was relatively stable, accounting for 32.23% of total AUM (2023: 33.76%).

STRESS TEST RESULTS affirmed the resilience of investment funds to overcome potential redemption shocks, amid deteriorating asset prices. At total NAV liquidation of 44.22% under the extreme scenario, none of the tested funds utilise the theoretical liquidity buffer.

INVESTMENT FLOWS[1]

FOREIGN HOLDINGS in equities increased marginally to 19.69% (2023: 19.54%), while foreign holdings in bonds marginally decreased to 13.12% (2023: 13.45%).

FOREIGN SOURCE OF FUNDS remained relatively small in the fund management segment at 2.92% (2023: 3.73%).

FOREIGN INVESTORS' PARTICIPATION in the domestic equity market increased to 36.20% (2023: 29.51%) of the total trading activity in Malaysian equities.

DIGITAL ASSETS

TRADING ACTIVITY in the local digital asset exchanges (DAXs) has increased with average daily trading value recorded at RM38.06 million in 2024 (2023: RM14.88 million), as traded assets recorded positive performance.

DIGITAL ASSETS VALUE TRADED remained small at 1.64% compared to the domestic equity market trading value in 2024.

BROKING INTERMEDIARIES

STOCKBROKING COMPANIES (SBCs) AND INVESTMENT BANKS (IBs) remained resilient with SBCs' average capital adequacy ratio (CAR) at 8.80 times (2023: 11.53 times), while the IBs' average risk-weighted capital ratio (RWCR) was at 33.59% (2023: 34.10%), maintaining above the minimum requirements as at December 2024.

DERIVATIVE BROKING COMPANIES (DBCs) remained resilient with average adjusted net capital (ANC) ratio at 222.28% (2023: 304.20%), maintaining above the minimum requirement as at December 2024.

PUBLIC-LISTED COMPANIES

MALAYSIAN PUBLIC LISTED COMPANIES (PLCS) showed earnings improvement in 2024, mainly contributed by the energy (+184.21%), property (+75.25%), and construction (+71.03%) sectors.

[1] Equities, bonds, and fund management.

RISK OUTLOOK

RISK OUTLOOK

2024 witnessed the highest number of national elections, involving over 60 countries representing half of the world's population. Some elections have resulted in unexpected outcomes which could have an impact on policy stance and directions for that specific country and for some, may have bigger implications to the rest of the world in the coming years.

While central banks around the world began to cut rates in 2024, policy rates in developed markets are likely to remain higher for longer in 2025, albeit with divergence between the US and Europe. The world economy is expected to be stable yet underwhelming with projected global gross domestic product (GDP) growth of 3.3%[1]. Compounding these pressures with uncertain geopolitical landscape, this will create an increasingly fragmented market and therefore will cast a shadow over the prospects of strong economic recovery. Therein, sentiment-driven volatilities across equity and bond markets are expected in 2025 which could impact investment flow direction.

Given the above, in 2025, the Malaysian capital market would continue to be influenced by the following key risk factors:

UNCERTAINTY IN FINANCIAL CONDITIONS

Rising geopolitical conflicts are testing the resilience of global businesses given the intensity and duration of conflicts worldwide. The challenging geopolitical landscape will continue to pose threat to key global transportation routes and therefore triggering the disorderly of global supply chains, commodity market and food security.

The new US administration is set to heighten foreign policy risks for international businesses. Tariffs, investment restrictions, sanctions, and industrial policies will scale up to compete with geopolitical rivals, secure strategic supply chains and cultivate critical sectors. Thus, injecting geopolitical and financial risk into trade and investment.

The weaker economic growth in China, coupled with the highly likely forthcoming trade restrictions by the US, could have adverse international spillovers via global trade and commodity markets.

Policy rates in the developed market would likely set to remain higher for longer, albeit with divergence between the US and Europe.

The geopolitical scene remains volatile. Any heightening of geopolitical conflicts could lead to economic fragmentation which could spill over into domestic capital market, driving global investors to safe haven assets and potentially increasing volatility in the market. More frequent occurrences of market sentiment driven volatilities is expected, given the interconnectedness of the global markets.

[1] World Economic Outlook Update, International Monetary Fund, (2025).

EQUITY MARKET DEPTH, LIQUIDITY, AND CROWDEDNESS

Malaysian equity market continued to be resilient throughout 2024 despite global and local events such as the August panic sell down, interest rate cuts by the US Fed, and outcome of the US presidential election.

Trading in the Malaysian equity market remains concentrated with local institutional investors. Reduced investors diversity may result in crowded trades and overreactions as investors could have similar trading behaviour. This will consequently dampen liquidity, leading to inefficient price discovery.

Shortage of new large-cap PLCs, especially those eligible for inclusion in the FBMKLCI would limit investors' investment choices in the equity market which may then impact liquidity and attractiveness.

Bursa Malaysia Securities' market capitalisation continues to concentrate on FBMKLCI counters, leading to long-term market depth and liquidity risks. This concentration impacts the attractiveness of the Malaysian equity market particularly for value investors and affects its eligibility for inclusion in global indices, such as MSCI Emerging Markets Index.

With the new US administration, there are concerns that the underperforming trends in the Malaysian equity market may recur in view of the proposed restrictive foreign policies.[2] This in turn could adversely impact return on investment of investors and revenue stream of capital market entities (CMEs).

CYBER AND TECHNOLOGY RISK

Rapid growth in digital connectivity and financial innovation have enhanced the products and services offering in the capital market. Nevertheless, this increased level of sophistication has consequently led to significant increase in risk.

Increasing digitalisation and interconnectedness in the capital market have heightened the vulnerability of CMEs to cyber threats and operational glitches, including those from third-party service providers. Cyber incidents have shown that critical parts of technology supply chain could trigger cyber risks not just on an individual entity but could also expand to systemic threat to the overall market.

With firms outsourcing many segments of their services, concentration of service providers on common services or technologies across the capital market and the wider financial system could also expose multiple entities being affected by any disruptions at the same time. Loss, unavailability, and compromised essential data could also result in systemic disruption. The CrowdStrike incident has revealed that operational incident could cause potential cross-border impact due to common vulnerabilities.

Artificial intelligence (AI) and generative AI are getting more prevalent in the capital market as it improves efficiency. Certain risk exposures may reduce from the adoption of AI. However, new risks are emerging such as market manipulation across capital market activities, which warrant closer scrutiny.

[2] During the first term of Trump's administration in 2017 – 2021, the Malaysian equity market was lacklustre as seen from FBMKLCI's declining performance trend and the upward trend of foreign fund outflow from the equity market.

SUSTAINABILITY RISK

Climate-related risks[3] are becoming increasingly critical as the world transitions to a low-carbon economy[4]. Environmental, social and governance (ESG) transition could be costly for companies but failing to adopt would risks exclusion from ESG-focused investment funds and indices, thus reducing their attractiveness to investors.

The new US administration's approach to climate change may introduce nuance considerations for international regulatory frameworks. While potential variations in climate regulations could create temporary adaptation challenges, global commitment to sustainability appears resilient. Many countries continue demonstrating proactive environment strategies, suggesting ongoing momentum in climate engagement.

Stricter sustainability laws may force compliance, failing which would result in penalties and reputational damage to affected companies.

Requirements such as the Carbon Border Adjustment Mechanism are also raising expectations for companies to conduct more thorough due diligence on their supply chains and manage ESG risk accordingly.

In response to these challenges, particularly the disclosure aspect, the National Sustainability Reporting Framework (NSRF) was introduced to address the use of the International Financial Reporting Standards Sustainability Disclosure Standards issued by the International Sustainability Standards Board. These baseline sustainability disclosure standards adopt a phased implementation approach given the varying levels and maturity in sustainability practices and reporting of companies in Malaysia.

NSRF aims to transform sustainability disclosures from merely compliance driven to a comprehensive and meaningful ESG reporting. With effective implementation of the NSRF, PLCs are en route to becoming more attractive to investors. The progress and readiness of companies in adopting NSRF would therefore be a critical factor in delivering this objective.

3 Physical and transition risks.

4 Nationally determined contributions (NDC) is central to the Paris Agreement, whereby each country outlines their efforts to reduce national emissions and adapt to the impacts of climate change. Malaysia specifically aims to reduce its economy-wide carbon intensity (against GDP) by 45% in 2030, as part of its NDC.

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RISK ASSESSMENTS ON COMPONENTS OF THE CAPITAL MARKET

EQUITY MARKET

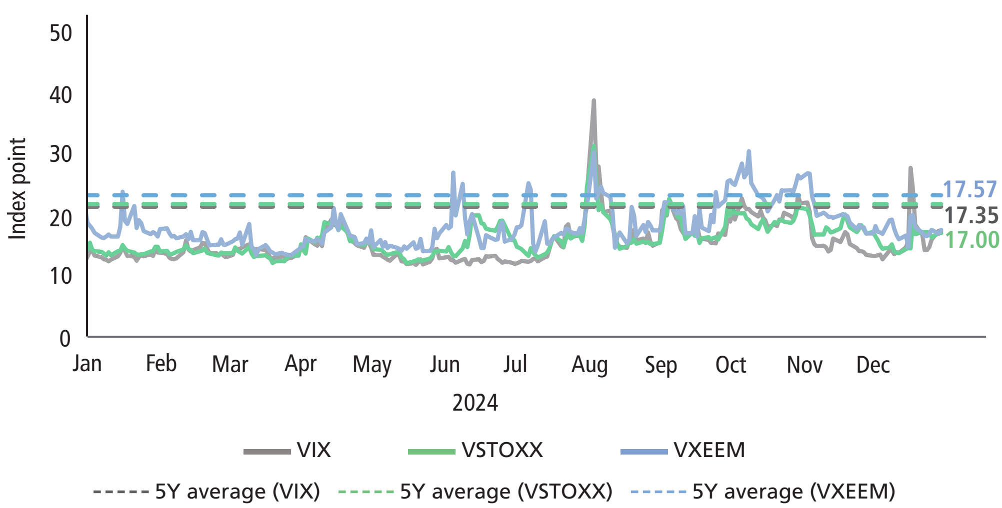
While global headwinds influenced the domestic market, robust domestic fundamentals provided resilience

Global equity market volatility remained largely low throughout the year.

In 2024, global equity market volatility remained largely low throughout the year (Chart 1), with the exception of a notable spike in August. This was driven by weaker-than-expected US macroeconomic indicators, which heightened concerns about a potential recession in the world's largest economy. These concerns briefly reverberated across the global equity markets, including Malaysia, causing sharp but short-lived declines in major tracked indices.

Volatility also surged slightly in October due to the US pre-election jitters but moderated following the elections results in November. The outcome of the US presidential election sparked a rally in US stocks while putting downward pressure on emerging market equities amid strengthening US dollar and investors' concerns on the potential impact arising from proposed restrictive foreign policies by the US.

CHART 1
Global equity market volatility indicators[1, 2]



Source: Bloomberg.

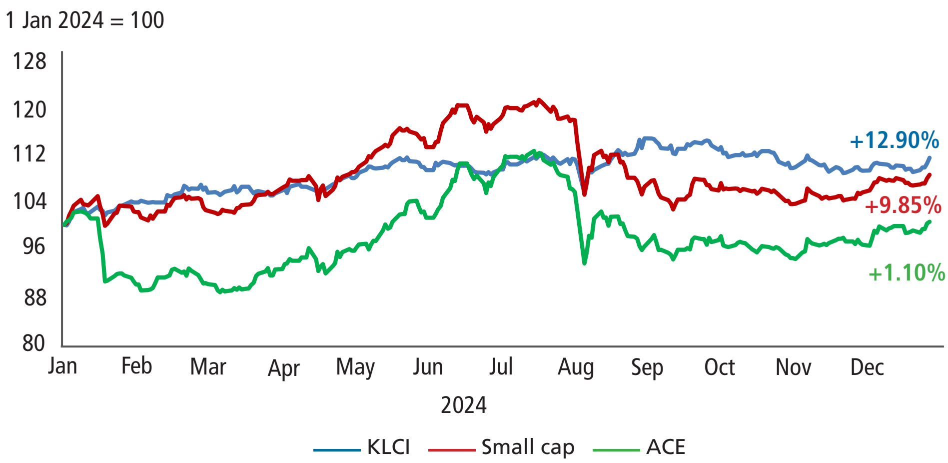
[1] VIX is the Chicago Board Options Exchange (CBOE) Volatility Index, which measures the expected volatility of the S&P 500 Index (SPX) over the next 30 days that is implied in the bid/ask quotations of SPX options. VSTOXX Index is based on EURO STOXX 50 real-time options prices and are designed to reflect the market expectations of near-term up to long-term volatility. VXEEM Index is the CBOE Emerging Markets Volatility Index, which estimates the expected 30-day volatility of returns on the MSCI Emerging Markets Index.
[2] A five-year average between 2019 and 2023.

Domestic factors boost investors' confidence.

The FBMKLCI ended 2024 with a +12.90% increase (Chart 2), closing at 1,642.33 points, positioning Bursa Malaysia Securities as one of the best performers among the Association of Southeast Asian Nations (ASEAN) countries. The local bourse surpassed the RM2 trillion market capitalisation milestone and recorded the highest number of listings since 2005 totalling 55. This performance was underpinned by favourable domestic factors, including positive GDP growth and the prospects of solid earnings of the financial services sector, which together helped boost investor confidence.

Trading activity on Bursa Malaysia Securities continued its upward momentum with total trading value and volume reaching RM848.70 billion and 1.06 trillion units, respectively, the highest since 2022.

CHART 2
Domestic equity market performance



Source: Bloomberg.

Market safeguards and controls remained robust, ensuring stability and resilience amid volatile conditions. There was no circuit breaker triggered and no utilisation of the clearing guarantee fund during the year.

Operationally, there were instances of FTSE Bursa Malaysia Index Series dissemination disruptions in 2024, but they had no material impact on trading activities.

Strong earnings of PLCs in the utilities and financial services sectors lifted FBMKLCI performance amid global headwinds

Malaysian PLCs' earnings rose, energy sector improved significantly while consumer products and services sector lagged.

Most Malaysian PLCs[3] showed improvement in their reported earnings, reaching RM90.14 billion as at Q3 2024, compared to RM73.15 billion as at Q3 2023 (Table 1). This fuelled positive investor sentiment and supported the rally in the domestic equity market.

[3] The write-up on the assessment of PLCs' earnings was based on the latest available financials up to Q3 2024.

Sectors with the highest improved earnings by percentage were energy (+RM4.67 billion, +184.21%), property (+RM2.66 billion, +75.25%) and construction (+RM0.77 billion, +71.03%). These sectors reported business-related improvements, where the energy sector benefited from robust demand for upstream service providers amid tightened supply conditions. Meanwhile, growth in earnings for the property sector was primarily driven by exceptional items on a fair value gain on investment properties located overseas. The construction sector remained resilient with strong orderbooks, anchored by private sector demand for data centre and property developments.

TABLE 1
Earnings by sector

Sector	As at Q3 2024 (RM billion)	As at Q3 2023 (RM billion)
Financial Services	32.29	29.24
Consumer Products & Services	12.48	12.67
Utilities	9.92	7.63
Property	6.19	3.53
Plantation	5.80	4.63
Industrial Products & Services	5.22	4.75
Telecommunications & Media	5.12	4.64
Transportation & Logistics	3.40	2.79
Health Care	2.47	1.72
Energy	2.14	(2.54)
Real Estate Investment Trusts	2.10	2.10
Construction	1.86	1.09
Technology	1.13	0.91
Closed End Fund	0.00	0.00
TOTAL	**90.14**	**73.15**

Note:
PLCs are classified according to Bursa Malaysia Securities' sector classification.
Values may not add up due to rounding.

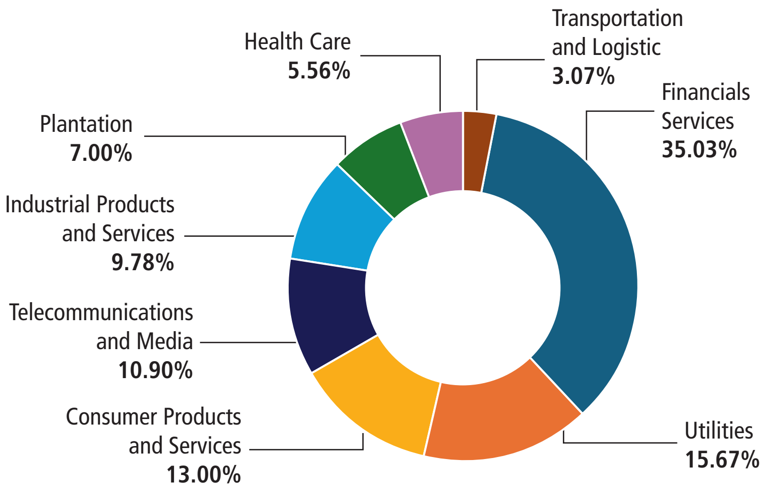
Source: Standard & Poor's.

The equity index was led by the growth in PLCs' performance in the financial services sector (+RM3.05 billion, +10.43%), which maintains the largest weight in the FBMKLCI at 35.03% (Chart 3). The continued growth of this sector has been a key contributor to the overall strength of the index, underscoring its crucial role in driving the domestic equity market performance.

The utilities sector (+RM2.29 billion, +30.03%), represented by the Bursa Utilities Index, also posted strong gains, underpinned by positive forex gains from the appreciation of the ringgit. As the second largest sector in the FBMKLCI, with a total market capitalisation of RM177.60 billion, the utilities sector holds significant weight of 15.67% in the FBMKLCI (Chart 3).

However, the concentration in the above two sectors exposes the market to sector-specific risks, potentially leading to increased volatility if any key sector faces challenges.

CHART 3
Sector breakdown in FBMKLCI by market capitalisation



Note:
Values may not add up due to rounding.

Source: The SC.

While most sectors reported earnings improvement as at Q3 2024, PLCs under the consumer products and services sector (-RM0.19 billion, -1.47%) underperformed slightly. The sector's performance was hindered by weaker sales of certain PLCs and rising operating costs, which collectively pressured the sector's earnings.

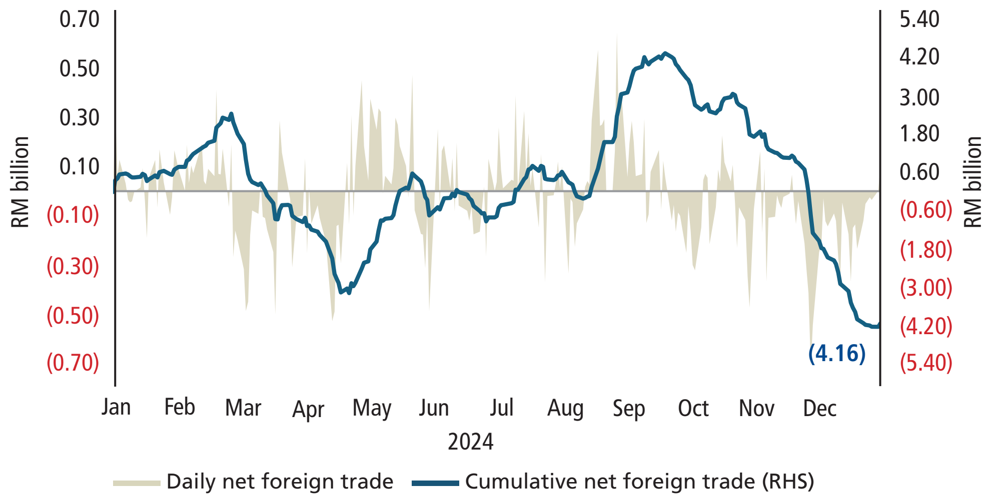
Strong domestic economic growth attracted inflow from foreign investors, though outflows occurred due to global factors

Foreign investors generally gravitate towards riskier assets, particularly emerging markets equities, during periods of lower interest rates. Additionally, domestic factors, such as a strong ringgit, would attract foreign investments into Malaysia. This trend was evident in the last week of August, when the domestic market recorded its highest weekly net inflows from foreign investors since 2016. It aligned with the period before the Fed began cutting interest rates, alongside the prospects of strong domestic growth and a stronger ringgit. However, foreign investors have turned net sellers from the local bourse since early October, with significant outflows observed in November, partly due to expectations of smaller interest rate cuts by the Fed in 2025 and concerns over potential US tariff hikes under the new US administration.

While large inflows were observed in August, foreign investors were net sellers for the year.

As at end of 2024, foreign investors were net sellers of the domestic equity market, recorded a cumulative net outflow of -RM4.16 billion (Chart 4). Despite these outflows, foreign investors' trading participation in the domestic market risen from 29.51% in 2023 to 36.20% of the total trading activity.

CHART 4
Equity foreign trading

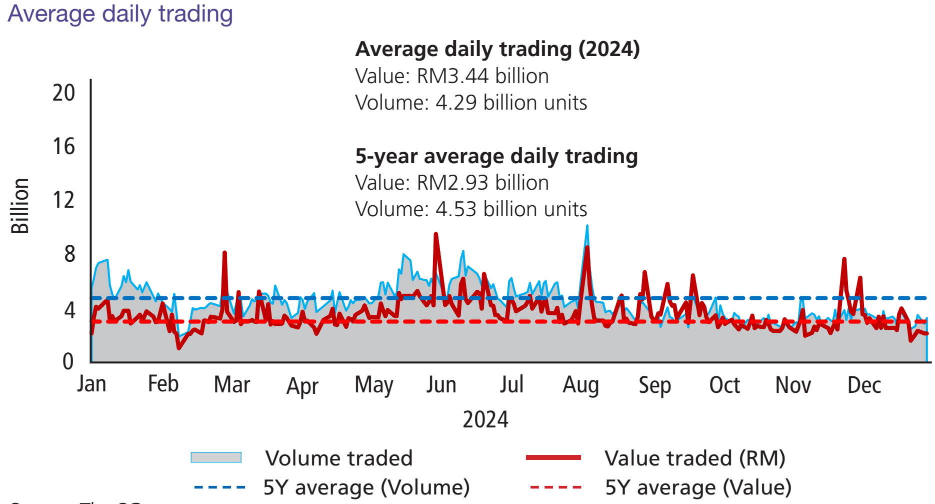


Source: The SC.

Liquidity improved, with trading volume averaging higher than 2023.

The increased participation observed among foreign investors coincided with the improved liquidity conditions in the local bourse as compared to the previous year. This improvement was reflected in increased overall average daily trading value and volume, which averaged to RM3.44 billion and 4.29 billion units, respectively, during the year (Chart 5). Over the same period, the average daily trading value by foreign investors was RM1.14 billion, and the average daily trading volume was 739.43 million units, both of which were considerably higher than the 5-year average[4] daily trading value of RM609.18 million and 5-year average[4] daily trading volume of 532.37 million units.

CHART 5
Average daily trading



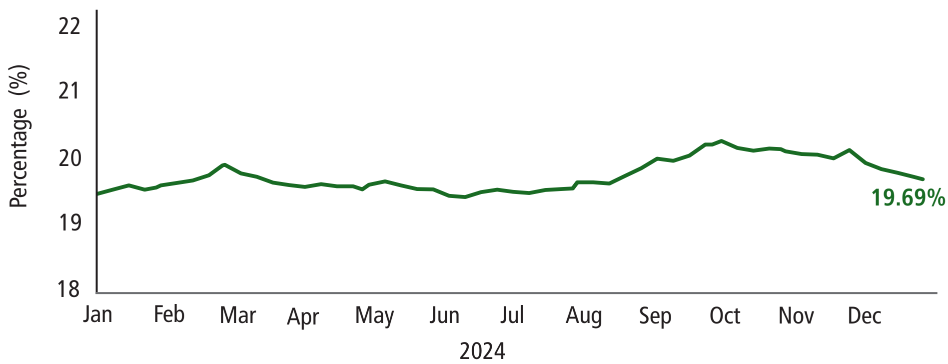
Source: The SC.

[4] A five-year average covering average daily trading between 2019 and 2023.

As at 31 December 2024, foreign holdings in Malaysian equities increased to 19.69% from the previous year's level of 19.54% (Chart 6). Out of the said percentage, 32.08% (RM131.22 billion) of the foreign holdings consist of holdings by non-strategic investors[5]. In the worst-case scenario, if all non-strategic investors were to exit the market, the level of foreign holdings would decrease from 19.69% to an estimated 14.46% (Chart 7). However, this is highly unlikely given that the highest outflow event which was during the COVID-19 exodus (from February to May 2020) only led to a total equity outflow of RM13.20 billion.

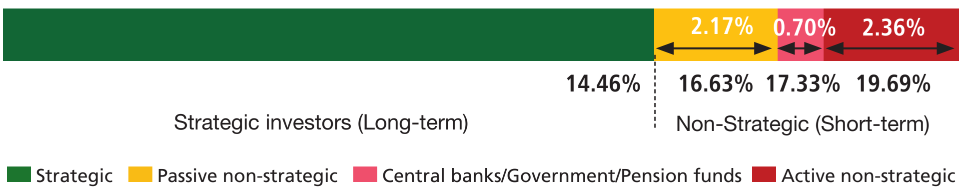
Foreign holdings in equities increased to 19.69%, out of which, 32.08% were held by non-strategic investors.

CHART 6
Foreign holdings in Malaysia equities



Source: The SC.

CHART 7
Scenarios if non-strategic foreign investors exit the equity market



Source: The SC.

Historical trends suggest that local institutional investors have been partially cushioning the impact of sell-off by foreign investors. In 2024, the trading participation of local institutional investors was 43.16%, slightly lower than 43.32% recorded in 2023. The average daily trading value in the domestic market by local institutions was RM1.38 billion, with an average daily trading volume of 1.80 billion units. Conversely, local retail investors recorded lower participation rate of 20.64% in 2024 as compared to 27.17% in 2023. The average daily trading value by local retail investors in the domestic market was RM640.22 million, with an average daily trading volume of 1.47 billion units.

Historically, sell-off by foreign investors has been cushioned by local institutional investors.

[5] Strategic investors consist of parent or holding companies that are based outside of Malaysia, e.g., Nestle, Telenor, Lotte and the likes. Non-strategic investors are investment managers that have shorter investment horizon. Movements are mainly based on demand or discretion of fund managers or clients.

Stockbroking intermediaries[6] benefited from the increased trading activities

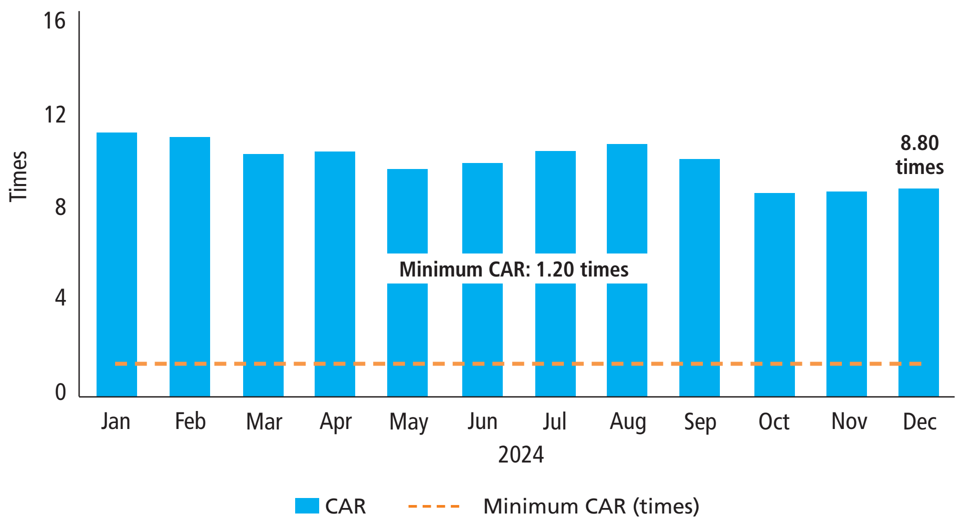
Revenue from equities brokerage for stockbroking intermediaries increased by more than half by the third quarter of 2024, compared to the same period of 2023[7]. Brokerage income contributed about one third of the total revenue.

The average SBCs' CAR decreased to 8.80 times (Chart 8) as at December 2024 due to the significant rise in total risk requirement of certain individual SBCs, a reduction from 11.53 times at the same time last year.

Revenue from equities brokerage increased by more than half during the first three quarters of 2024.

All stockbroking intermediaries met respective minimum financial requirements, albeit on a declining trend.

CHART 8
SBCs' average CAR

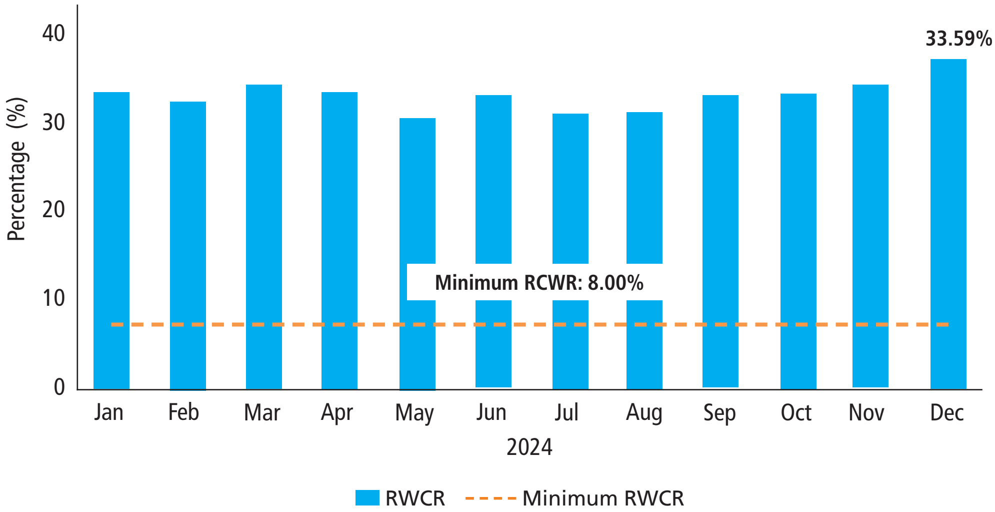


Source: The SC.

6 SBCs and IBs.
7 The write-up on the assessment of stockbroking intermediaries' revenue was based on the latest available financials up to Q3 2024.

Meanwhile, IBs' RWCR dropped to 33.59% (Chart 9) as at December 2024, compared to 34.10% at the same time last year.

CHART 9
IBs' average RWCR



Source: The SC.

All stockbroking intermediaries remained resilient and continued to meet their respective minimum financial requirements during the year, well above the minimum CAR of 1.20 times and RWCR of 8.00% in general.

Stockbroking intermediaries have put in place robust risk management controls to manage credit risk exposures arising from margin financing and contra trading. The margin financing collateral coverage ratio as at December 2024 stood at 3.06 times compared to 3.17 times in the previous corresponding period, relative to the minimum required level of 1.30 times.

Overall, stockbroking intermediaries have been managing their respective capital adequacy and liquidity positions prudently and adequately.

DERIVATIVES MARKET

ETD market continued to grow steadily

ETD contract volume surpassed the record of the past three years, amid uncertain global market dynamics.

Slowdown in global oil demand growth in 2024, primarily driven by the declining Chinese oil demand resulting from the growing adoption of electric vehicles and a deceleration in economic, has exerted pressure on global oil prices. Meanwhile, geopolitical conflicts in the Middle East have contributed to market volatility arising from the risk of disruption in oil production and transportation, further complicating global oil supply and demand dynamics. In the edible oils market, Indonesia, the world's largest palm oil exporter, implemented a new set of lower monthly levies aimed at enhancing the competitiveness of Indonesian palm oil against other edible oils in the global market. Additionally, the upcoming implementation of a mandatory 40.00% blend of palm oil in biodiesel in Indonesia, set to begin in January 2025, is expected to increase domestic palm oil demand, which will, in turn, tighten worldwide supply due to limited export availability and further influence the broader edible oils market.

Against the backdrop of these global and regional market shifts, the Malaysian ETD market delivered a strong performance, with the open interest at the end of December 2024 marking a +14.04% increase from 2023, the highest yearly growth since 2021, which underscored increased market participation and growing confidence. This was in line with the +27.91% rise in contract volume traded in 2024, recording a total of 22.75 million contracts. This new record was primarily driven by the performance of the Crude Palm Oil Futures (FCPO) and the FTSE Bursa Malaysia KLCI Futures (FKLI), highlighting the domestic derivative market's growing recognition as a robust platform for price discovery and risk management.

Commodity derivatives maintained their dominant position in the market

Heavy reliance on FCPO poses challenges in market diversification.

Palm oil remains the cornerstone of Malaysia's agricultural output and global trade, cementing the country's position as the world's second largest producer of the commodity after Indonesia. Palm oil exports increased in 2024, with 16.90 million metric tonnes shipped between January and December, compared to 15.14 million metric tonnes during the same period in 2023. Within the ETD market, the prices of the most popular contract, FCPO, rose by +23.56%[1], reaching a peak of RM5,029.00 per metric tonne in November 2024. Despite fluctuations throughout the year, FCPO traded at an average price of RM4,043.77 per metric tonne, with the year commencing at RM3,600.00 per metric tonne. The overall uptrend in futures prices can be attributed to several factors, including concerns over tight supply due to production struggles in major palm oil-producing regions, unsupportive weather conditions and ageing trees.

Additionally, rising Brent crude oil prices significantly enhanced the appeal of crude palm oil (CPO) as a biodiesel feedstock, given that the prices of Brent crude and CPO typically move in tandem. According to the financial results of the top 10 PLCs[2] in the plantation sector, positive earnings for Q3 2024[3] were supported by a combination of

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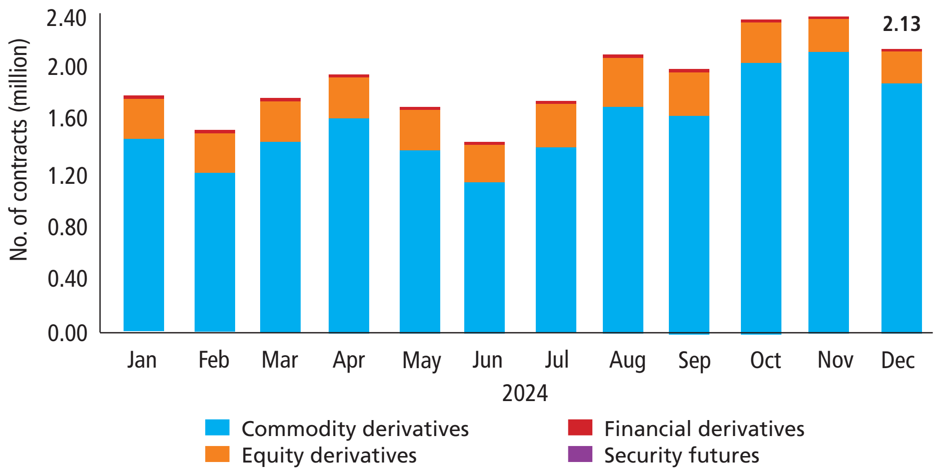
[1] The FCPO price performance is based on the most active and liquid futures contract.
[2] Top 10 is derived from the market capitalisation as at 31 December 2024.
[3] The Q3 reporting period covers July to September 2024, with the exception of one company, whose Q3 reporting period covers August to October 2024.

factors, including higher realised CPO selling prices amid weaker production outlook and lower production cost.

Nevertheless, the market's heavy reliance on a single product, the FCPO, presents a notable risk, as it accounted for around 83.28% of the total trading volume in 2024 (Chart 1). Foreign institutional investors contributed an average of 61.36% to this volume. The dominant foreign participation highlights FCPO's role in enabling participants to access the CPO market for risk management and trading purposes.

CHART 1
ETD trading volume



Source: Bursa Malaysia.

However, on the other hand, this concentration continues to pose challenges to market diversification, limiting the broader appeal and constraining the potential for sustainable growth, as the market's risk exposure remains heavily tilted towards a single segment.

Equity derivatives performance signalled resilient equity market

The second most actively traded ETD, the FKLI, demonstrated a notable uptrend since recovery from the COVID-19 pandemic. As at December 2024, the benchmark index futures exceeded 1,600.00 points, building on from January 2024 when the index futures surpassed the 1,500.00-point mark. This increase in FKLI reflected the confidence in the positive performance of the equity market benchmark index in Malaysia, FBMKLCI. Additionally, a significant +25.26% rise in trading volume further supports this trend, reflecting growing investor confidence and heightened market activity in the Malaysian equity market.

FKLI shown an overall upward trend since the start of the year, reflecting the confidence in the positive performance of the Malaysian equity market.

Top-traded derivatives performance aligned with the underlying assets

Both FCPO and FKLI traded in alignment with their physical markets, as demonstrated by the comparable trends between the derivatives prices and the underlying physical products. The observed spread remained stable, suggesting that there were no immediate risks of market divergence that could heighten volatility.

Market sentiments were aligned.

New product was launched in leading segment

In March 2024, Bursa Malaysia Derivatives launched the Bursa Malaysia DCE[4] Soybean Oil Futures (FSOY), the first non-palm-based edible oil futures contract, leveraging soybean oil's status as the second most consumed edible oil globally next to the palm oil, and its role as substitute for the latter. Having both commodities futures on Bursa Malaysia Derivatives offers investors with diversification to manage price risks and capture arbitrage opportunities. Since its launch, FSOY trading volume has shown an upward trend, reaching approximately 80,000 contracts as at December 2024, equivalent to around 2.00 million metric tonnes of soybean oil, with domestic retail investors emerging as the primary participants. However, overall participation in FSOY remains low compared to FCPO, which recorded 18.95 million contracts traded during the same period. The limited liquidity, as expected stemming from its status as a new contract offered at Bursa Malaysia Derivatives, along with the dominance of highly active traded soybean oil contracts on other exchanges, such as the DCE Soybean Oil Futures Contract[5], highlights the importance of cultivating market awareness to drive active participation in the contract moving forward.

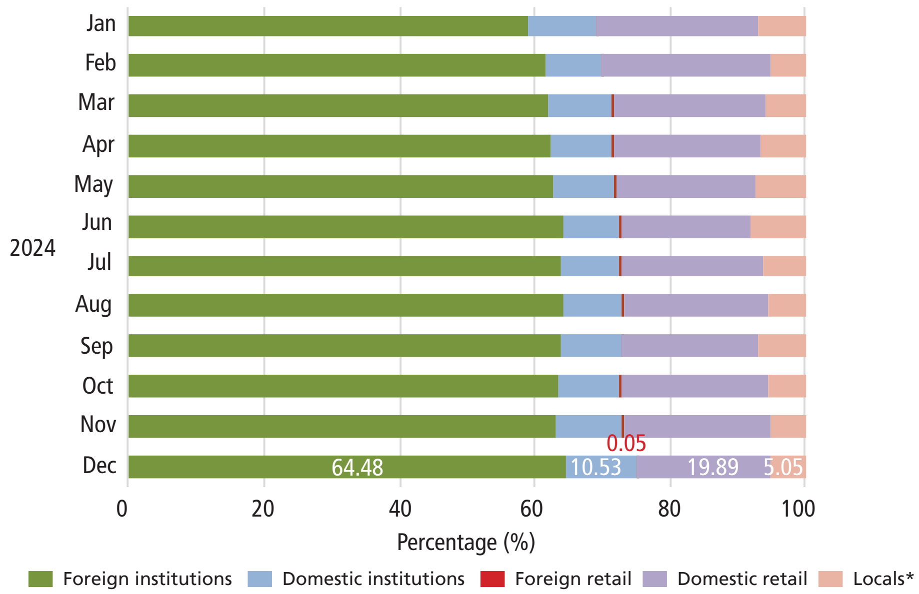
Commodities portfolio expanded into non-palm-based edible oil, but participation remained relatively low.

Foreign institutions drove dominance in ETD market

Foreign institutions dominated the market, consistently accounting nearly 65.00% of the total participants, while domestic retail investors maintained a steady presence hovering around 20.00% to 24.00% of the market (Chart 2). This reflects the sustained confidence of the global trading community in the Malaysian ETD' ability to meet market participants' demands.

Foreign institutions led as the top investors.

CHART 2
Participants of derivatives market



Note:
* A local is a professional derivatives trader who trades for his/her own account. In essence, a self-employed trader.

Source: Bursa Malaysia.

[4] DCE – Dalian Commodity Exchange.
[5] In 2024, DCE Soybean Oil Futures Contract recorded 148.95 million contracts traded, equivalent to 1,489.49 million metric tonnes of soybean oil.

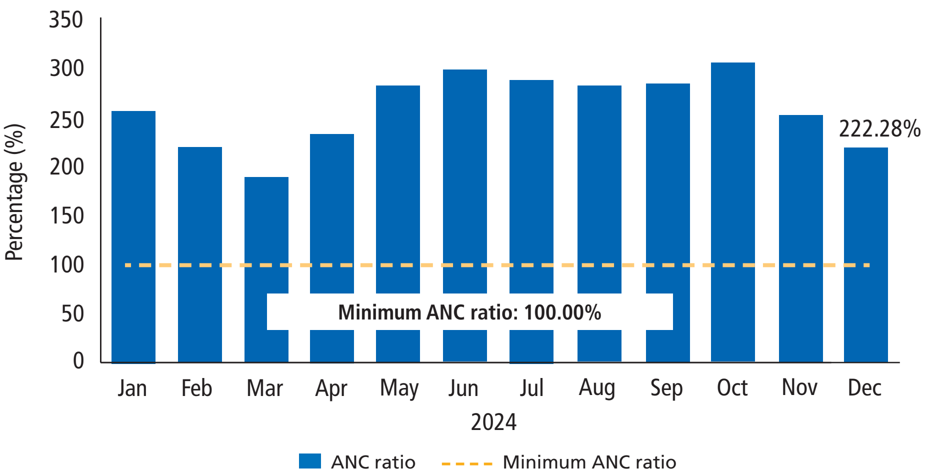
Growth in trading volume boosted DBCs' revenue

In 2024, DBCs' revenue from derivatives commission and brokerage experienced a notable increase of +28.78%. This significant rise in revenue aligned with the increased trading volume observed in 2024.

DBCs recorded nearly 29% revenue growth.

The DBCs' ANC ratio dropped to 222.28% (Chart 3) as at December 2024 compared to 304.20% at the same time last year.

CHART 3
DBCs' average ANC ratio



Note:
The ANC ratio of a DBC is calculated by dividing its ANC by the minimum requirement (the greater of RM0.50 million or 10% of aggregate margins required).

Source: The SC.

Nonetheless, throughout the year, all DBCs demonstrated resilience and consistently met their minimum financial requirements. Essential risk management tools were also in place to manage credit and market risk faced by the Bursa Malaysia Derivatives Clearing (BMDC). Overall, both DBCs and BMDC have been managing their respective liquidity positions prudently and adequately, with BMDC demonstrated its ability to adapt to changing market conditions, ensuring the continued safety and efficiency of the derivatives market. No utilisation of clearing fund in 2024, underscoring the effectiveness of market risk management mechanisms and the resilience of market infrastructure.

DBCs and BMDC have been managing their respective liquidity positions prudently and adequately.

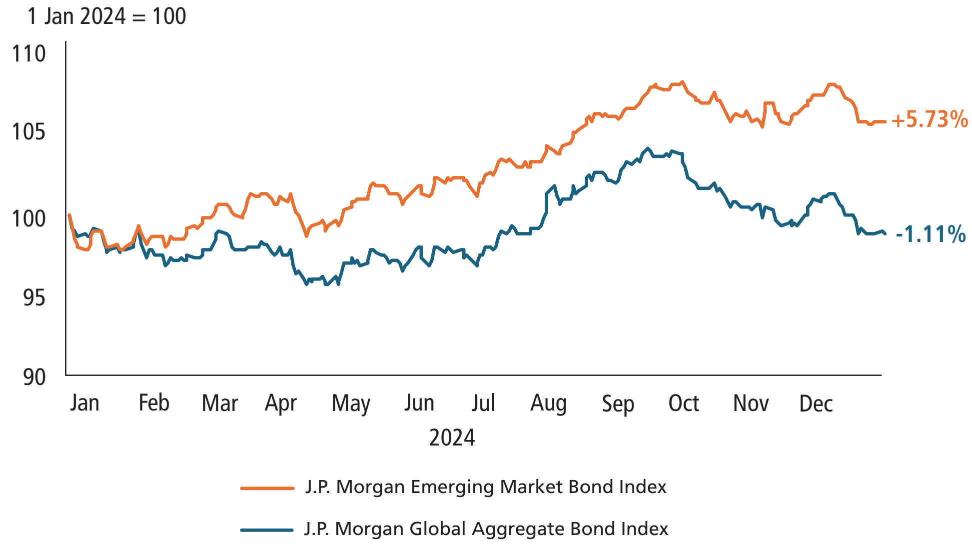
BOND MARKET

Domestic bond market tracked global performance closely

Global bond markets experienced a mixed performance in 2024, with varying outcomes across indices. The J.P. Morgan Global Aggregate Bond Index closed the year in negative territory, while gains in the J.P. Morgan Emerging Market Bond Index remained modest (Chart 1), constrained by increasing yields.

Global bond markets delivered varied performances in 2024.

CHART 1
Global and emerging markets bond indices



Source: Bloomberg.

Global bond market volatility (Chart 2) surged in April 2024, driven by rising tensions in the Middle East and a shift in investors' sentiment on the directions of the US interest rates. However, volatility subsided through the remainder of the first half of 2024 following the Fed's clear communication in signalling a gradual and measured approach to interest rate adjustments. As opposed to 2023, in 2024, the Fed implemented a series of interest rate cuts in 2024 to address persistent inflation and support economic growth. In September, the Fed reduced the federal funds rate by -0.50 percentage points, marking the first in a sequence of cuts aimed at recalibrating monetary policy. Subsequent meetings in October and December saw additional reductions of -0.25 percentage points each, bringing the target range to 4.25%–4.50% by year-end. Bond market volatility notably intensified in October, driven by uncertainties surrounding the US presidential election. Investors were particularly concerned about the potential for a contested election and its economic ramifications, leading to a heightened risk aversion in financial markets. However, volatility stabilised after the US electoral process was concluded.

Global bond volatility spiked before easing in 2024.

CHART 2
Bond market volatility indicator

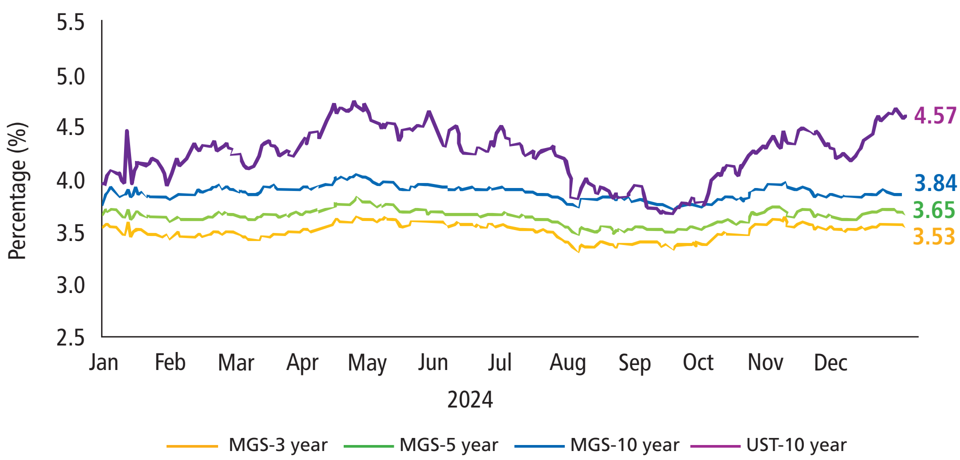
Source: Bloomberg.

MGS yields rose following UST yields.

Domestically, MGS yields mostly moved sideways in 2024, staying in the range of 3.7% to 4.0%, remaining resilient to the volatile 10Y US Treasury (UST) yield (Chart 3). The anticipation of increased fiscal activity under the new US administration fuelled further speculation of fewer rate cuts to counterbalance inflationary pressures, amplifying the upward trend in yields. This dynamic underscored the interconnectedness of global and domestic markets, as local bond performance remained highly sensitive to US policy signals and broader geopolitical developments.

Bank Negara Malaysia had indicated at its Monetary Policy Committee meeting in November that its current policy stance reflects confidence in Malaysia's stable economic performance and favourable growth and inflation outlook. The central bank highlighted its commitment to monitoring economic trends closely as 2025 approaches, ensuring that policies support sustainable economic progress. The overnight policy rate (OPR) remains at 3.00%, with no adjustments made throughout 2024. The 10Y MGS remained stable and in demand despite external pressures and global events, which attribute to the stable OPR rate of 3.00%.

CHART 3
MGS and UST yields



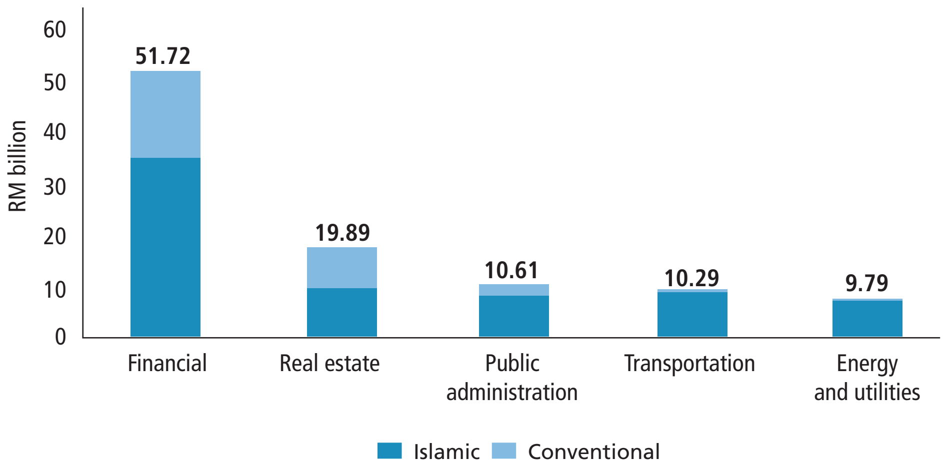
Source: Bond Pricing Agency Malaysia (BPAM).

Corporate bonds and sukuk remained steadfast

Corporate bonds and sukuk continued to show robustness against a backdrop of a monetary policy stance that is accommodative and supportive of the economy. Long-term corporate bonds and sukuk issuances remain robust at RM124.15 billion with key sectors leading the issuance including financial RM51.72 billion, real estate RM19.89 billion, and public administration (RM10.61 billion) (Chart 4).

CHART 4

Top 5 sectors in corporate bond and sukuk issuances[1]



Source: The SC.

No default in corporate bonds and sukuk.

There was no corporate bond default in 2024, as compared to only one default in 2023 while corporate bonds facing credit quality challenges represented a small portion of the market, at 1.43% of the overall corporate bond segment. Meanwhile, six corporate issuers with a total outstanding amount of RM5.20 billion had rating downgrades (2023: 8 downgrades worth RM4.00 billion) mainly due to cash flow weaknesses. About 80.00% of downgraded bonds consisted of issuers in the construction, highway, and industrial sectors. Generally, corporate bond issuers are expected to withstand short-term pressures, supported by strong capital levels, ample liquidity reserves, and stable cash flows, particularly among financial institutions and project finance companies that dominate the corporate bond landscape.

1 Sector classification is based on BPAM and Department of Statistics Malaysia.

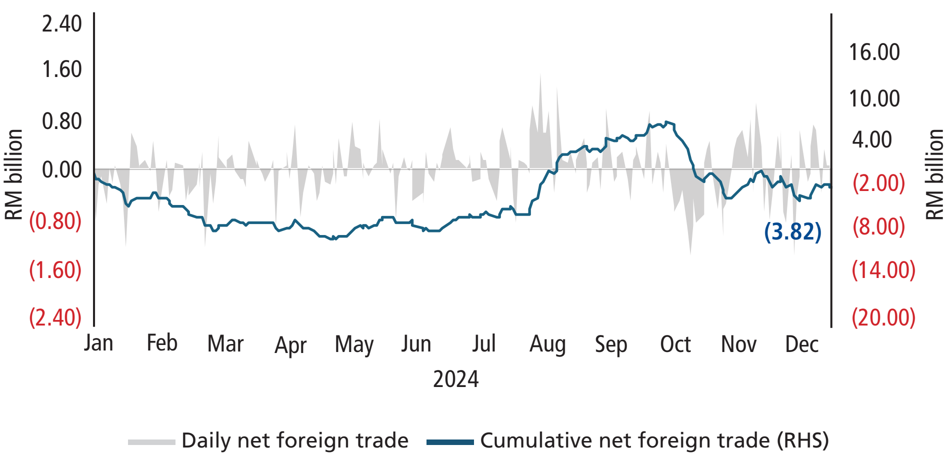
Foreign investors remained as net sellers for most of 2024

In the first half of 2024, foreign investors were net sellers in the domestic bond market as opposed to net buyer in 2023 (Chart 5). This was largely due to concerns over the weakening ringgit against the US dollar. By August, foreign investors shifted to net buyers of Malaysian bonds, encouraged by Fed's indication of a potential rate cut in September, which turned the 10-year MGS-UST yield differential positive. The trend was short-lived, as foreign investors returned to net selling from October onwards until end of the year driven by growing concerns over potential changes in US trade policies under the new US administration and a strengthening US dollar.

Foreign holdings marginally declined by -0.33%, future inflows may weaken amid stronger US dollar.

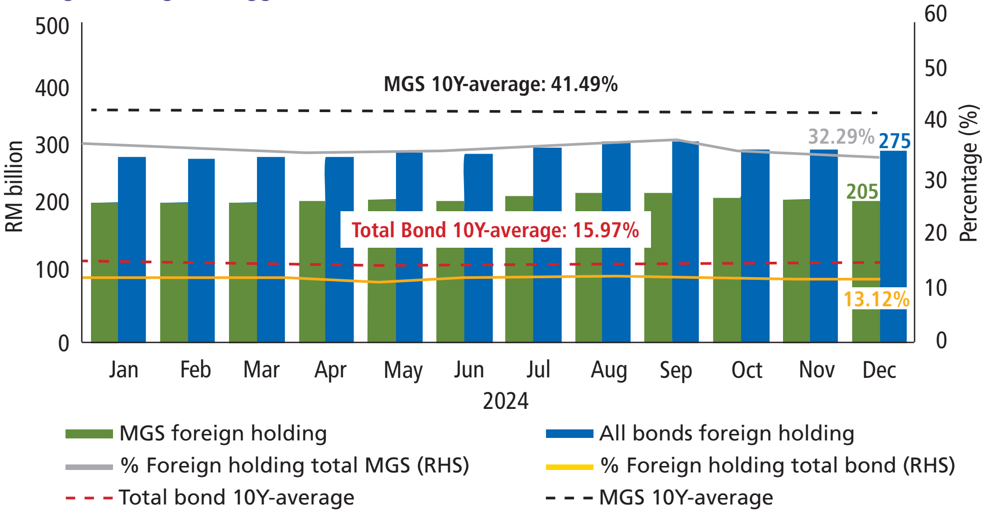
Foreign holdings in the Malaysian bond market marginally decreased to 13.12% in 2024 from 13.45% in the previous year, below its 10-year average of 15.97% (Chart 6). The foreign investors held mostly MGS (74.37%, 2023: 75.01%), followed by Government Investment Issue (GII) (18.26%, 2023: 18.76%), corporate bonds and sukuk (5.45%, 2023: 4.82%), and Malaysian Treasury Bills and Malaysian Islamic Treasury Bills (1.92%, 2023: 1.40%). Further analysis indicated that RM130.78 billion of the foreign holdings in government bonds (MGS, GII and Sukuk Perumahan Kerajaan) consist of holdings by short-term investors. In a worst-case scenario, if all short-term investors were to exit, the level of foreign holdings would decrease to an estimated 10.40% (Chart 7). Similar to the equity non-strategic foreign investor scenario, an exit of this magnitude is highly unlikely, given that the highest outflow was during Trump's first term, which happened from September 2016 to May 2017, and had only led to a total government bond outflow of RM31.1 billion from foreign investors.

CHART 5
Bond foreign trading



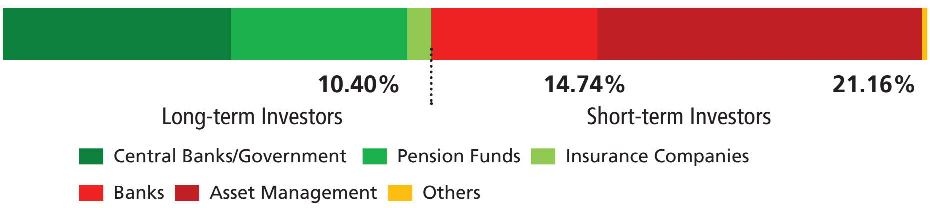
Source: The SC.

CHART 6
Foreign holdings in ringgit bonds



Source: The SC.

CHART 7
Scenarios if non-strategic foreign investors exit the bond market

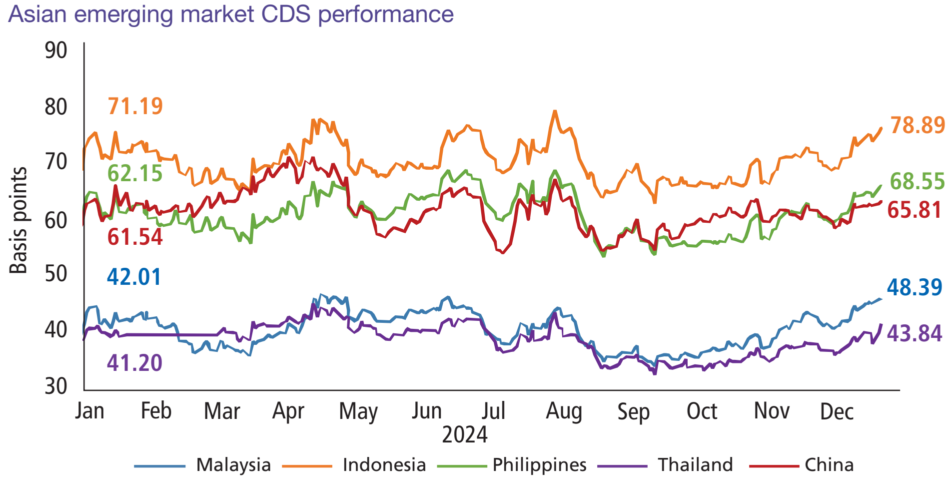


Source: The SC.

Credit default swap secured regional advantageous position

Throughout the year, Malaysia maintained a stable and favourable position among regional peers, with its position hovering between 35 and 50 basis points, and its ranking at times changing with Thailand (Chart 8). The competitiveness of the credit default swap (CDS) market underscores the country's economic fundamentals and suggests a lower perceived credit risk associated with the sovereign debts. This, in turn, reflects positive investors' sentiment towards Malaysian bond market and confidence in the creditworthiness of its entities, which contributes to the overall stability and attractiveness of the market for investors.

CHART 8
Asian emerging market CDS performance



Source: Bloomberg.

INVESTMENT MANAGEMENT

Asset size sustained upward trajectory, bolstered by favourable market valuations and net injection

AUM of the investment management industry continued its upward trajectory, reaching RM1.07 trillion as at 31 December 2024, up from RM975.48 billion in 2023. The growth reflects the combined effects of favourable performance across both regional and domestic markets alongside mild net injections during the year. Positive market valuation effects from equities have positioned UTF as one of the major drivers of AUM growth.

The investment management industry continued to expand, driven by the continuing uptrend in market valuation and mild net injections.

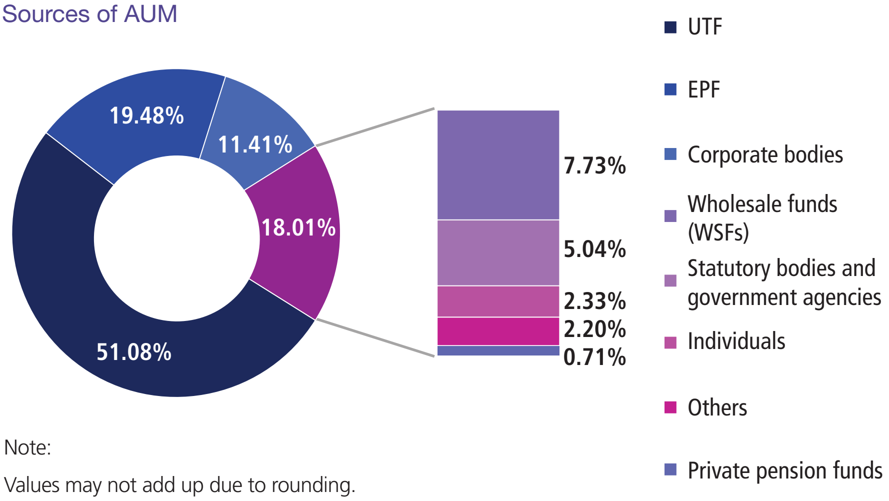
The composition of AUM sources also demonstrated stability throughout the year. Domestic sources continued to dominate, accounting for 97.08% of total AUM, with foreign sources making up the remaining 2.92%.

Among AUM categories, UTF retained its largest share of AUM at 51.08%, followed by Employees Provident Fund (EPF) at 19.48%, and Corporate Bodies at 11.41%. Together, these three categories accounted for over 80.00% of total AUM (Chart 1), mirroring observation in 2023. Contributions from other sources remained marginal, with each single-digit percentages, underscoring consistency in the structure of AUM sources.

Sources of AUM were consistently stable, with UTF maintaining the largest share of total AUM.

Despite the increase in AUM, asset allocation trends remained largely stable, with each component fluctuating by less than 1.00% year-to-date (YTD), except for equity which edged up 1.58% YTD indicating no material shift to the aggregate risk profile of AUM.

CHART 1
Sources of AUM



Note:
Values may not add up due to rounding.
Source: The SC.

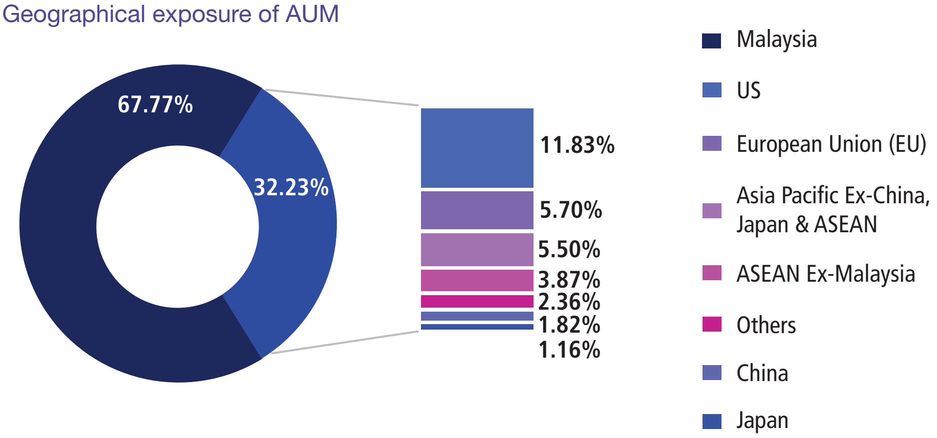
Domestic assets dominated AUM allocation

Mild decline across foreign assets except for a notable few.

Domestic assets dominated the geographic allocation of AUM, accounting for around two-thirds (67.77%) of total AUM (2023: 66.24%), while the remaining 32.23% (2023: 33.76%) was allocated to foreign assets comprising seven regional groups (Chart 2).

Geographical asset allocation was largely stable for the year with allocation into the domestic assets registering a minimal YTD increase of +1.53%. Foreign asset allocations experienced a mild decline, with only a few notable exceptions, which registered only marginal increases.

CHART 2
Geographical exposure of AUM



Note:
Values may not add up due to rounding.
Source: The SC.

Prudent liquidity risk management

UTF redemption coverage ratio signals adequate liquidity conditions.

Overall, liquidity conditions within UTFs remained stable, with aggregate holdings of cash and cash equivalents that comprise of cash, deposits, and money market placements, – hovering around 11.68% of NAV up to December 2024, consistent with liquidity conditions observed in the previous year (December 2023: 12.34%). At this level, the redemption coverage ratio, which measures the ability to meet redemption obligations, signal adequate liquidity to meet redemption. Money market UTFs which typically experience higher redemption rates due to their utility as cash management solution, were excluded from this analysis.

Effective liquidity risk management practices are imperative to mitigate potential mismatches between the liquidity of a fund's underlying assets and its redemption terms.

Stress test exercise affirmed the resilience of investment funds.

In support of its systemic risk oversight mandate, the SC conducts periodic, system-wide stress test on all investment funds[1], comprising of UTFs and WSFs. The most recent stress test exercise, as outlined in the Stress *Test on Funds* section of this report – affirmed the resilience of investment funds.

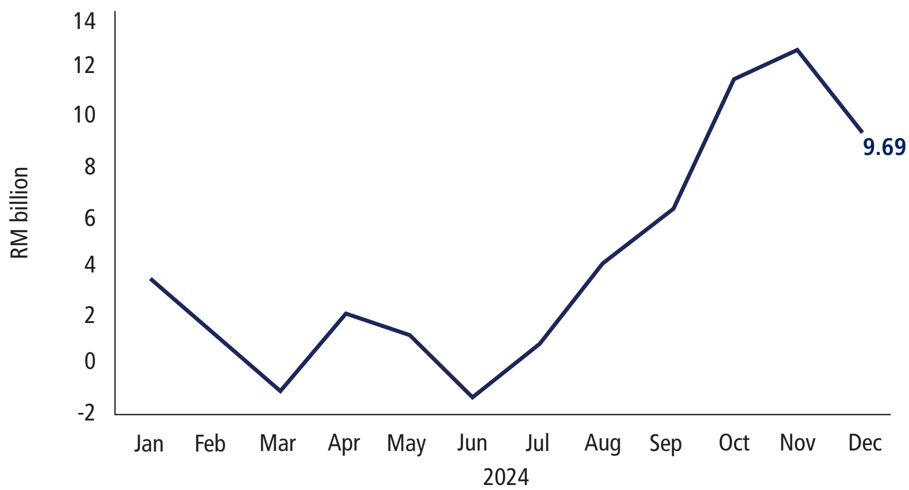
[1] Subject to eligibility.

Improvement in investor interests

The expansion of AUM was supported by strong UTF net sales.

A key contributor to AUM's net injection was the notable net sales in UTF (Chart 3), marking a trend reversal after two consecutive years of net redemption. UTF recorded +RM9.69 billion in net sales YTD,[2] driven primarily by mixed assets funds. A broad-based recovery in sales was observed at the start of the second half of 2024, which potentially reflects renewed investor interests, likely bolstered by favourable market conditions.

CHART 3
UTF cumulative net sales



Source: The SC.

[2] Include reinvestment of distribution.

DIGITAL ASSETS

Favourable environment drove cryptocurrencies to new all-time high

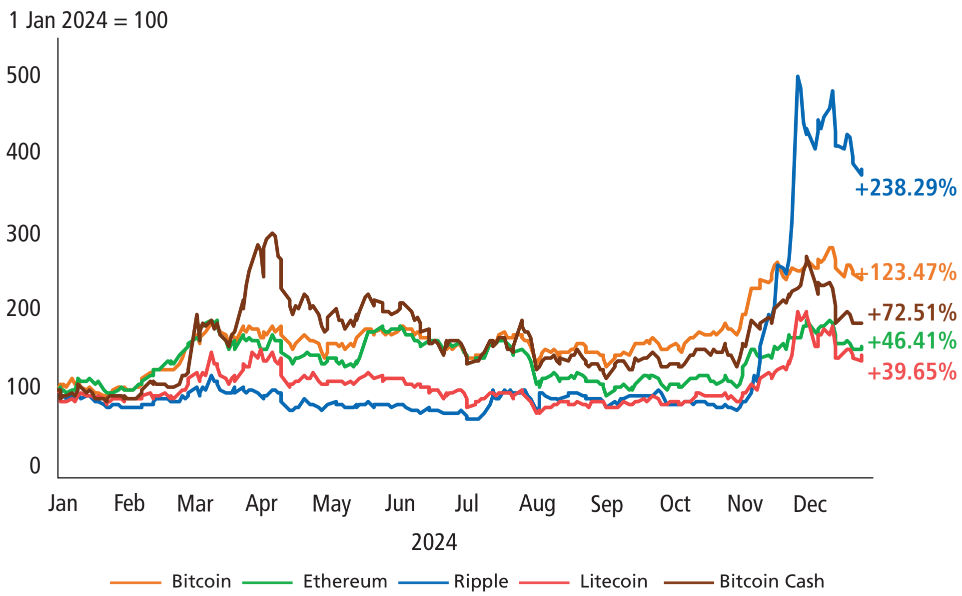
Cryptocurrencies market buoyed by mainstream adoption and crypto-friendly new administration.

In early 2024, the approval of US spot Bitcoin exchange-traded funds (ETFs) and the highly anticipated Bitcoin halving event[1] triggered a wave of positive sentiment in the cryptocurrencies market. By April, the US spot Bitcoin ETFs had held over US$55.1 billion in AUM collectively[2]. In the latter half of the year, cryptocurrencies continued its upward momentum following conclusion of the US presidential election result, due to the new US president's stance on cryptocurrencies.

Among the best performing cryptocurrencies was Ripple's cryptocurrency, XRP, whose performance far exceeded that of its peers (Chart 1), driven partially by expectations for a more crypto-friendly regulatory environment under the new administration. XRP investors saw this as a huge victory due to Ripple's long drawn-out legal battle[3] with the US Securities and Exchange Commission (SEC) potentially reaching a favourable legal resolution under a more crypto-friendly environment.

Against the backdrop of these global developments, cryptocurrencies performed strongly in 2024, with Bitcoin reaching the monumental level of US$100,000 for the first time on 4 December 2024.

CHART 1
Digital assets performance



Source: Bloomberg.

[1] Bitcoin halving event occurred on 20 April 2024, which saw Bitcoin block mining rewards cut in half from 6.25 Bitcoin to 3.125 Bitcoin.
[2] Q1 2024 Crypto Industry Report, CoinGecko, (2024).
[3] In 2020, the US SEC alleged that Ripple raised more than $1.3 billion in 2013 by selling XRP in an unregistered security offering to investors. Ripple argues that XRP should not be treated as a security.

Significant regulatory milestone brings more certainty to crypto market

Greater harmonisation of crypto regulations across jurisdictions will strengthen credibility and reliability of CASPs and investor protection globally.

In 2024, the EU has set a precedent in crypto market regulation through the full implementation of Markets in Crypto-Assets (MiCA) regulation, which was signed into law in 2023. This comprehensive regulations for crypto-asset service providers (CASPs) provided much-needed regulatory consistency, investor protection, and financial stability to the crypto market. Some of the regulations include imposing obligations for licensed exchanges to prevent market manipulation, insider trading, and to safeguard users' assets from cyber-attacks and financial mismanagement, which would increase CASPs' compliance cost while strengthening their credibility and reliability.

While MiCA is an EU-specific regulation, its principles set a foundation for other countries to consider when formulating requirements on crypto assets. This will likely lead to greater regulatory harmonisation between countries, and overall strengthen investor protection globally, if similar approach is being undertaken.

Trading value of local DAXs remained small compared to domestic equity market

Local digital asset market continued to be dominated by the same operator, though overall digital assets trading activity remained relatively small if compared to the domestic equity market.

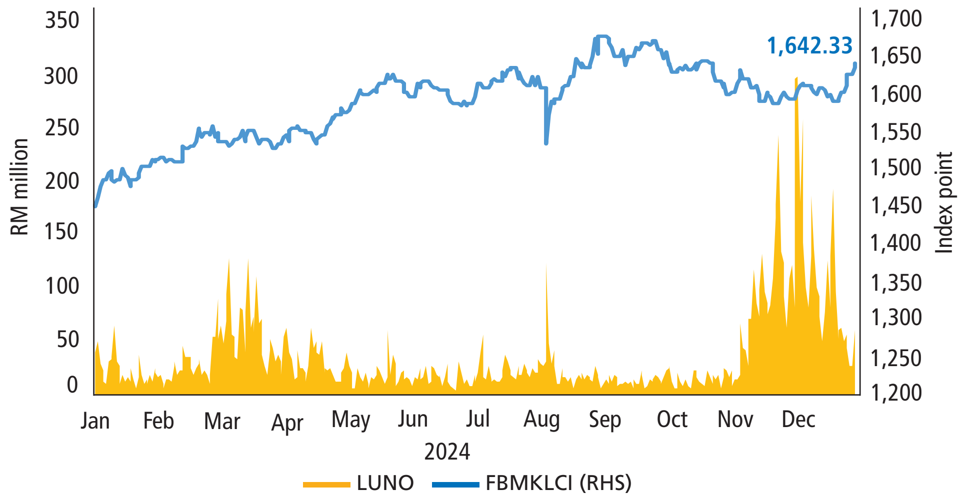
Domestically, trading activity of digital assets in registered DAXs was strong given the positive performance of traded assets. Across all DAXs, the largest daily trading value of RM300.39 million was recorded on 3 December 2024, coinciding with the days leading up to Bitcoin hitting the US$100,000 mark for the first time in its history. The aggregate average daily trading value of all DAXs significantly grew by +155.74% in 2024, primarily attributed to the end of year trading activity. Notwithstanding, trading value across all DAXs remained small at 1.64% compared to that of the domestic equity market in 2024. Meanwhile, Luno continued to be the dominant DAX in Malaysia, consistently contributing over 93% of the aggregate trading value on a daily basis (Chart 2).

In 2024, local DAXs trading value momentum was mainly driven by global market events, namely the US spot Bitcoin ETFs approval, global market meltdown in August 2024, and the US presidential election result. This again reflected the sensitivity of digital assets attractiveness to global development despite traders and investors being based in Malaysia.

In terms of digital asset holdings value across the registered DAXs, aggregate growth in 2024 was high, primarily driven by high holdings volume growth, price expansion of digital asset, and new listings of digital assets in local DAXs. Concentration of digital asset holdings value across the ecosystem was high with a Herfindahl-Hirschman Index (HHI) point of 2,551[4], mainly tilted to the high concentration of Bitcoin and XRP holdings value. Despite that, the concentration of the top three digital asset holdings value (Bitcoin, Ethereum, and XRP) had trended downwards year-on-year as local DAXs' offering on the platform became more diverse and mature with the emergence of new digital assets listings.

[4] According to the Malaysia Competition Commission, an HHI of less than 1,500 denotes an unconcentrated (competitive) market; between 1,500 and 2,500 denotes a moderate level of concentration; and over 2,500 denotes a highly concentrated market.

CHART 2
Luno's daily trading value



Note:
* Luno accounts for 98.7% of the overall DAX trading value in 2024, while other DAXs contributed marginally.

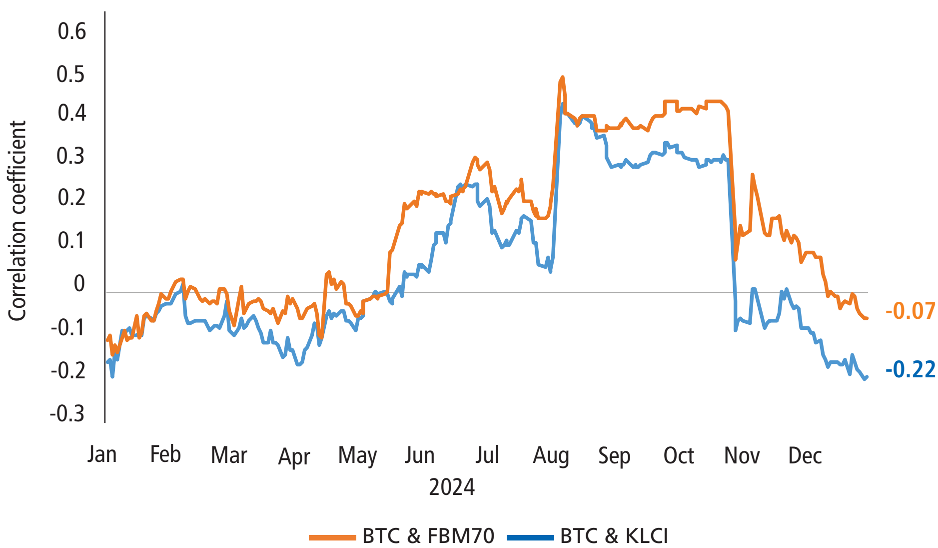
Source: The SC.

Evidence of weak interconnection with local equity market

The rolling 60-days correlation between the performance of digital assets and domestic equity markets fluctuated throughout the year (Chart 3), suggesting inconsistent relationship and distinct factors influencing the two markets. Notably, correlations increased sharply during the market meltdown in August 2024, as both asset classes experienced a similar fall. Subsequently, correlation fell into the negative territory as Bitcoin's price movement was increasingly influenced by post US presidential election euphoria while local market was influenced by domestic factors including positive GDP growth and the prospect of solid earnings of the financial services sector. As such, interconnection between the two markets was limited.

Distinct factors influencing the digital assets and domestic equity market.

CHART 3
Rolling 60-days correlation between Bitcoin and local indices



Source: Bloomberg.

Overall, trading activities in local DAXs remained stable and continued to benefit from global market events in 2024. However, any adverse development in the global market would influence the local DAXs. As at 2024, the digital asset space remained small relative to the traditional equity market, with limited interconnection with the traditional equity market. Given this, the risks in digital asset space remained contained with limited systemic impact to the domestic capital market.

STRESS TEST ON FUNDS

BACKGROUND

The UTF and WSF industry, collectively termed as investment funds, serves an alternative avenue for retail and institutional investors to invest in the domestic and global capital markets. As at 30 September 2024, the aggregate NAV of investment funds reached RM628 billion, approximately one-third of Bursa Malaysia's market capitalisation. Ensuring the industry's resilience, particularly its capacity to manage liquidity shocks, is paramount.

In this context, the SC conducts periodic macro stress test on investment funds to identify potential risks and vulnerabilities, as well as to assess the adequacy of their liquidity profile. The stress test applied a net redemption shock to a sample of 1,138 funds, simulating scenarios of high and sustained redemption pressures occurring alongside downward pressures on asset prices.

ASSESSING LIQUIDITY RISK IN INVESTMENT FUNDS

Effective liquidity risk management is important for investment funds to mitigate potential mismatches between their underlying assets and redemption terms. Such mismatches could lead to fund's inability to meet redemption requests, triggering a sell down of highly liquid assets. This, in turn, leaves the remaining investors with a portfolio concentrated in illiquid assets, and adversely alters the fund's risk profile.

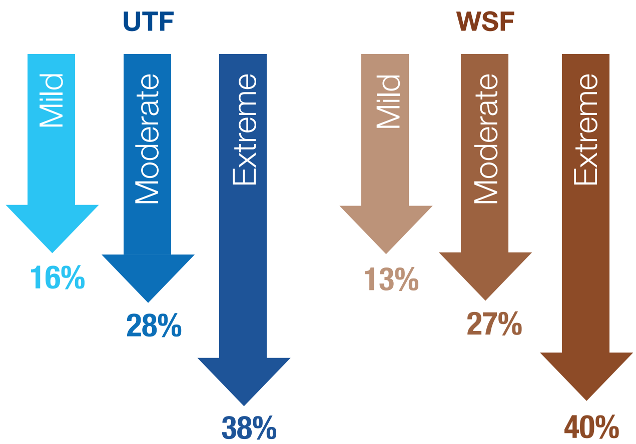
In line with its mandate to monitor, mitigate and manage systemic risk and promote capital market stability, the SC conducts macro stress tests on investment funds. These tests evaluate investment funds' ability to honour redemptions under both stressed and stable market conditions. With approximately 13.13% of investment funds' NAV allocated in FBMKLCI component stocks, a substantial sell down by investment funds could pose spillover risk to the benchmark index. To capture this, the SC assesses risk transmission impact between investment funds and the benchmark index.

SCENARIOS AND METHODOLOGY

The macro stress test simulated severe but plausible redemption shock to assess the resilience of investment funds. The simulation encompasses three scenarios reflecting the varying degrees of redemption pressures, i.e., mild, moderate, and extreme scenarios (Figure 1).

To calibrate severe redemption shocks, the model incorporates two adverse elements. The first element captures the worst single-day net redemption pressure derived from historical redemption data. The second element simulates a run-like dynamics, in which redemption pressures will sustain at high levels for a specified duration before gradually normalising[1].

FIGURE 1
Stress test scenarios based on redemption of investment funds



Source: The SC.

[1] The specified duration is in line with the redemption payout period stipulated in the SC's *Guidelines on Unit Trust Funds*, in order to capture additional redemption requests by unitholders which may occur prior to the initial redemption payout.

For each scenario, it is assumed that during periods of stress, investors would exhibit herding behaviour, resulting in sustained high redemption pressure. Individual investment funds were presumed to maintain liquidity buffers of at least 10% in all asset classes, with funds unable to meet this threshold classified as illiquid. To ensure the assessment focused on investment funds sans external intervention, the stress test assumed neither regulator nor the trustee would intervene to preserve the resilience of investment funds during periods of stress.

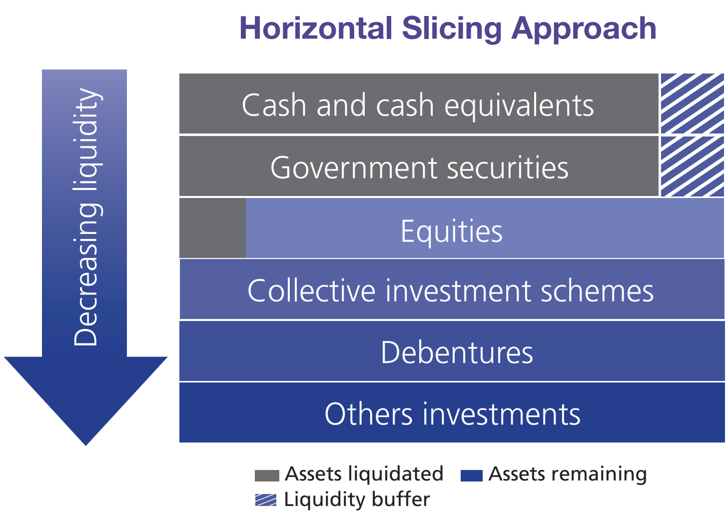
Leveraging on fund-level data, the stress test utilised a bottom-up sensitivity analysis:

- On the liability side, the model simulated high and sustained redemption pressures, replicating a run-like event on individual funds.[2]

- On the asset side, the model calibrated the liquidation of certain asset classes below their fair value to reflect heightened market risk during stress periods.

Two asset liquidation strategies were considered. The horizontal slicing (or waterfall) approach, involves sequential liquidation, beginning with the most liquid assets and progressing to less liquid ones. Conversely, the vertical slicing approach entails proportional liquidation across all portfolio assets to maintain the original portfolio structure. The choice of liquidation strategy influences stress test outcomes. Under the horizontal slicing approach, there is an elevated risk of first mover advantage, where remaining investors inherit a significantly less-liquid fund[3], potentially exacerbating run-like dynamics. Given this consideration, the macro stress test adopted the horizontal slicing approach as the primary liquidation strategy. Figure 2 illustrates in detail the sequence of liquidation by asset class.

FIGURE 2
Asset liquidation strategy based on horizontal slicing approach



Source: The SC.

[2] *Asset Managers and Financial Instability: Evidence of Run Behavior and Run Incentives in Corporate Bond Funds,* Harvard Kennedy School, (2015).

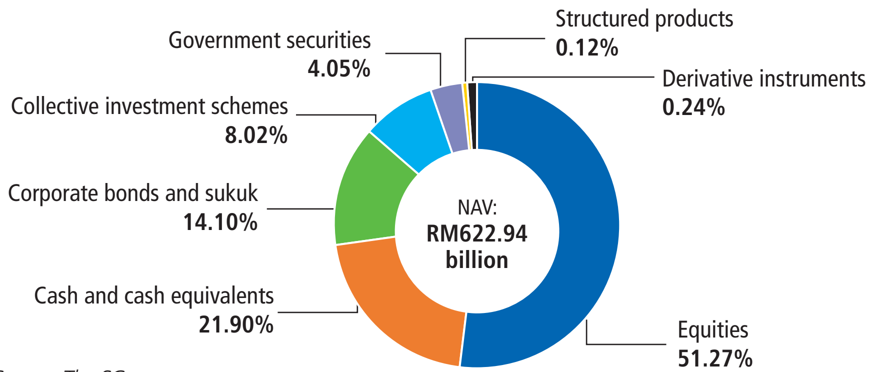
[3] *Simulating stress across the financial system: The resilience of corporate bond markets and the role of investment funds,* Bank of England, (2017).

INVESTMENT FUNDS SUBJECT TO THE STRESS TEST

As at 30 September 2024, a total of 1,138[1] investment funds with an aggregate NAV of RM622.94 billion were tested. The classification of these funds by type showed that majority comprised of mixed assets funds, followed by equity funds, and bond and sukuk funds. In terms of asset class, investment funds mainly allocated assets in equities (51.27%), cash and cash equivalents (21.90%) and corporate bonds and sukuk (14.10%). Meanwhile, collective investment schemes (CIS), government securities and other investments made up the remaining 12.44% of the allocation (Chart 1). Cash and cash equivalents, domestic equities, and government securities are considered key components of the overall asset allocation as they collectively command more than half of investment funds' total NAV and represent the highest utilisation under the stress test's liquidation strategy.

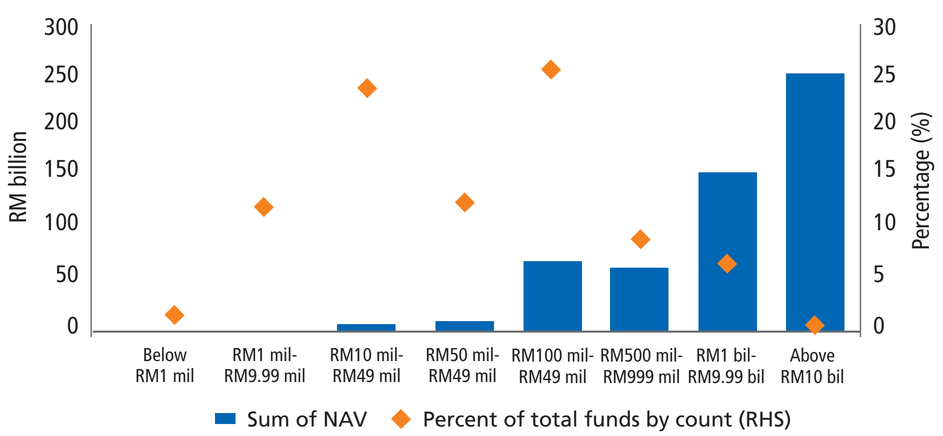
A cross-section analysis of fund sizes underscores the concentrated market share distribution within the investment fund industry. By count of funds, 0.70% of tested funds contributed to 46.86% of total NAV, where each managing assets exceeding RM10 billion. In contrast, a significant majority of around 55.62% of funds, maintain portfolios with NAV below RM100 million, representing 3.13% of total NAV. The other 43.67% of tested funds collectively represented about 50.00% of the remaining total NAV (Chart 2).

CHART 1
Asset allocation of investment funds



Source: The SC.

CHART 2
Distribution of investment funds size

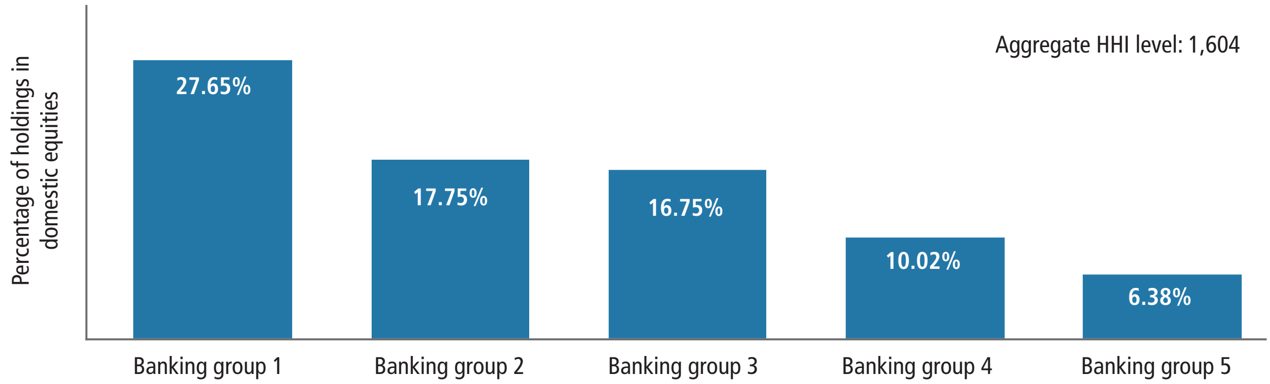


Source: The SC.

[1] Excluding funds with zero NAV, funds with no investable assets and funds which invest primarily in property assets.

A detailed analysis of cash and cash equivalents revealed that holdings were primarily in deposits, with three major domestic banking groups accounting for slightly more than half of the total holdings. With HHI score of 1,604, there was a moderate degree of concentration in deposit and placement activities with any one domestic banking group (Chart 3).

CHART 3
Holdings in cash and cash equivalents by domestic banking group



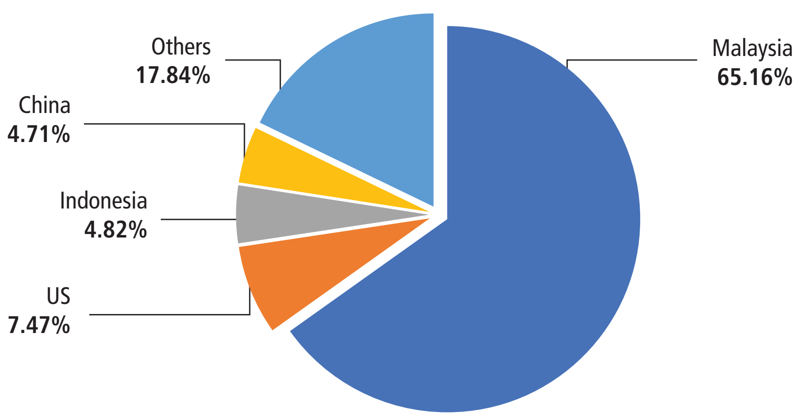
Source: The SC.

EQUITIES EXPOSURE

Landscape assessment of the equities asset class showed that 65.16% of NAV of equities were allocated domestically, with foreign allocations primarily in the US (7.47%), followed by Indonesia (4.82%), and China (4.71%), culminating a total of 17.00% (Chart 4).

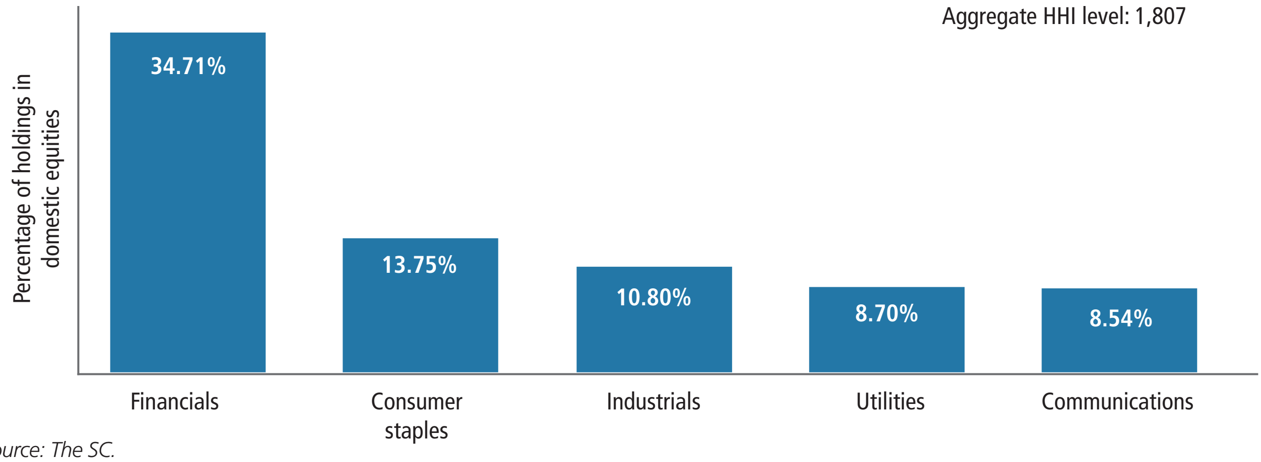
Within domestic equities, 34.71% were held in the financials sector, followed by consumer staples at 13.75% and industrials at 10.80%. There was a notable concentration in the five largest sectors, culminating over 76% of domestic equities holdings. With HHI score of 1,807 the sectoral concentration within this asset class is moderate – across 11 different sectors (Chart 5).

CHART 4
Holdings in equities by country of risk



Source: The SC.

CHART 5
Holdings in domestic equities by sector



Source: The SC.

BONDS AND SUKUK EXPOSURE

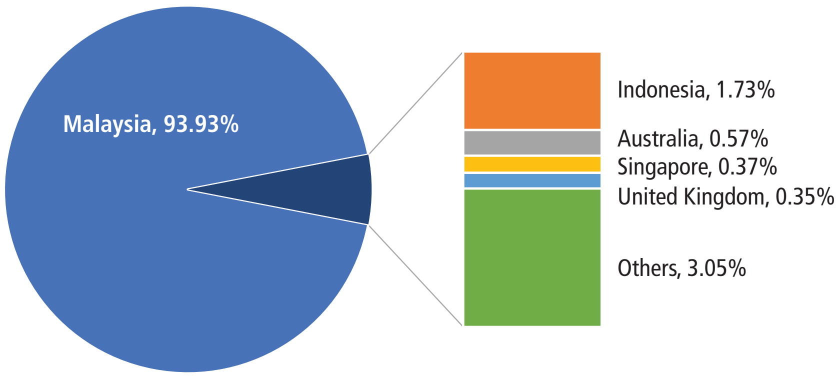
An analysis of bonds and sukuk[2] holdings by country showed Malaysia (93.93%) dominated the exposure, followed by Indonesia (1.73%), Australia (0.57%), Singapore (0.37%) and the United Kingdom (0.35%) (Chart 6). With regards to security type, investment funds allocated substantially higher in corporate bonds and sukuk over government securities, at a ratio of 80:20.

Within ringgit denominated corporate bonds and sukuk, those rated 'AA' constituted the largest rating segment of total corporate bonds and sukuk holdings at 51.81%, reflecting significant preference for papers within this rating segment. This was followed by those rated 'AAA', representing 27.83% of the portfolio, highlighting investments with the highest creditworthiness. Meanwhile, those rated 'A' made up 8.62% of the holdings, contributing to a moderate level of diversification within the investment-grade category. Non-ringgit denominated corporate bonds and sukuk primarily consisted of those rated 'BBB' at 35.51%, followed by those rated 'A' at 22.66% and 'BB' at 6.79% (Chart 7). Overall, holdings in both ringgit and non-ringgit denominated corporate bonds and sukuk are primarily those of investment grade[3].

Sector-wise, 43.44% of the ringgit denominated corporate bonds and sukuk held were in the financials sector, followed by utilities at 16.29% and industrials at 15.69%. With HHI score of 2,439 the sectoral concentration within this asset class is moderate – across 13 different sectors (Chart 8).

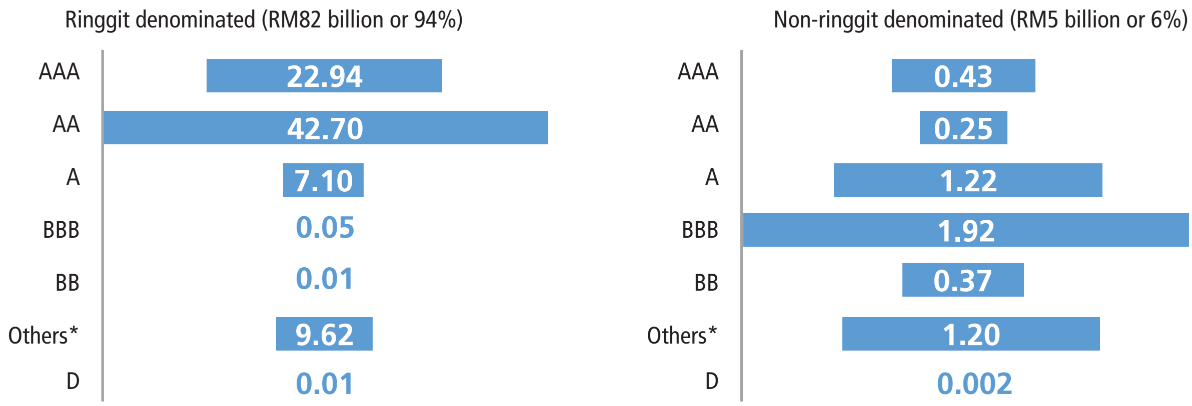
2 Corporate bonds and sukuk and government securities.
3 Investment grade ratings refer to ratings of BBB- and above.

CHART 6
Holdings in bonds and sukuk by country of risk



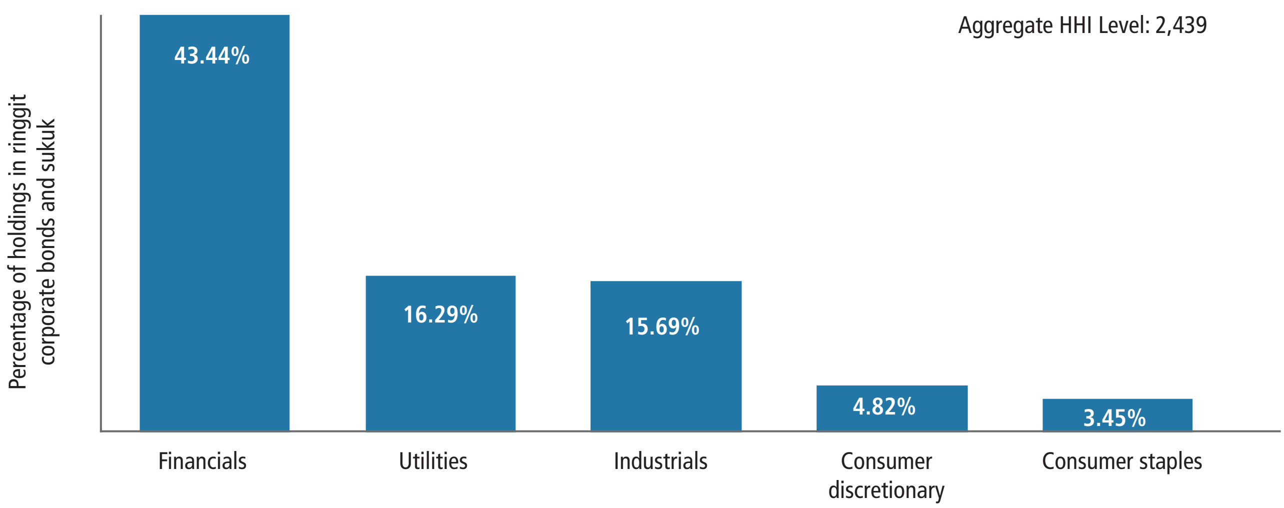
Source: The SC.

CHART 7
Credit ratings of ringgit and non-ringgit denominated bonds and sukuk



Note:
* Rating 'Others' consists of bonds and sukuk rated B and lower, short-term ratings and those undefined by fund management companies.
Source: The SC.

CHART 8
Holdings in ringgit denominated corporate bonds and sukuk by sector



Source: The SC.

STRESS TEST RESULTS

Results showed that under the extreme scenario, investment funds were estimated to liquidate an aggregate 44.22% of portfolio assets to satisfy redemption pressures. Importantly, liquidity buffers were not utilised under any scenario, indicating the robustness of the existing portfolio structure in providing sufficient liquidity. These findings highlighted the resilience of investment funds in responding to redemption shocks, even in the context of deteriorating asset prices.

In line with the horizontal slicing approach, asset liquidations were primarily concentrated in highly liquid assets. Relative to their total holdings, cash and cash equivalents and government securities were liquidated at 62.01% and 70.28% respectively. Equities experienced moderate liquidation at 44.34%. Meanwhile, CIS and corporate bonds and sukuk were liquidated at 28.17% and 19.79%, respectively, reflecting their lower liquidity standing relative to other asset classes.

POTENTIAL RISK TRANSMISSION

With a 13.13% representation in the FBMKLCI component stocks, any large-scale liquidation by fund managers could adversely impact the equity market. In assessing the single day price-impact, the macro stress test under the extreme scenario simulated a total of -RM6.04 billion sell down by investment funds across FBMKLCI counters, which is around two times of the average daily trading value of 2024[1]. Selling pressures of this magnitude, particularly involving illiquid shares, could significantly impact prices. There are two factors that will influence the magnitude of price-impact – the quantum of liquidation and the illiquidity of the underlying assets itself.[2] Based on the SC's estimates, a sell down of this scale would have a mild impact on FBMKLCI, resulting in a decline of -2.76%, to 1,603.40 points, -45.51 points below the actual index closing on 30 September 2024. Cross-section analysis of the index indicated that most counters would experience moderate impacts, with only one counter facing considerable price decline. Importantly, the aggregated decline remained within the acceptable level as it falls below the first-level circuit breaker trigger point[3] of Bursa Malaysia Securities.

CONCLUSION

The stress test results indicated that all tested investment funds would remain resilient to redemption shocks. Even under the extreme scenario, investment funds would liquidate up to 44.22% of the aggregate NAV. The liquidity profile of investment funds is robust enough to manage periods of sustained large redemptions without significant impact to liquidity buffers. In assessing spillover risk, sell down by investment funds under the extreme scenario is projected to result in a moderate decline in the FBMKLCI by -2.76%, well below the first-level circuit breaker threshold.

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1 Bursa Malaysia recorded average daily trading value of RM3.44 billion in 2024.
2 *Stress simulation for investment funds*, European Securities and Markets Authority, (2019).
3 Bursa Malaysia's 'Level 1' circuit breaker trigger is at -10%.

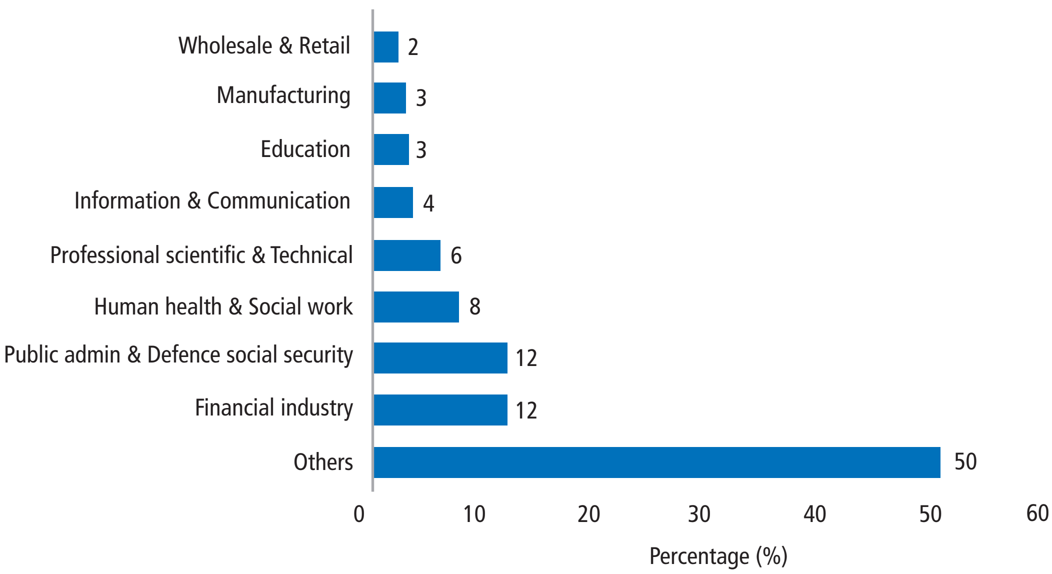
THEMATIC REVIEW OF CAPITAL MARKET SEGMENTS – TECH RESILIENCE: IMPORTANCE OF MANAGING CYBER AND TECHNOLOGY RISKS

BACKGROUND

The year saw continuous changes in the capital markets driven by technological advancements. The rise of financial technology had introduced solutions such as robo-advisors, blockchain-based platforms, and AI powered trading systems, making financial services more accessible and efficient. Blockchain technology has introduced new levels of security, transparency, and efficiency in specific areas, especially for cryptocurrency transactions, though its impact varies depending on its implementation. Meanwhile, AI is also being used for fraud detection and predictive analytics, helping institutions to serve their customers more efficiently.

However, these new technologies also brought challenges, particularly in managing cyber security and technology risks with the ultimate objective of ensuring technological resilience. Global observations indicated that financial industries continued to rank among the most frequently targeted sectors for reported cyber incidents (Chart 1).

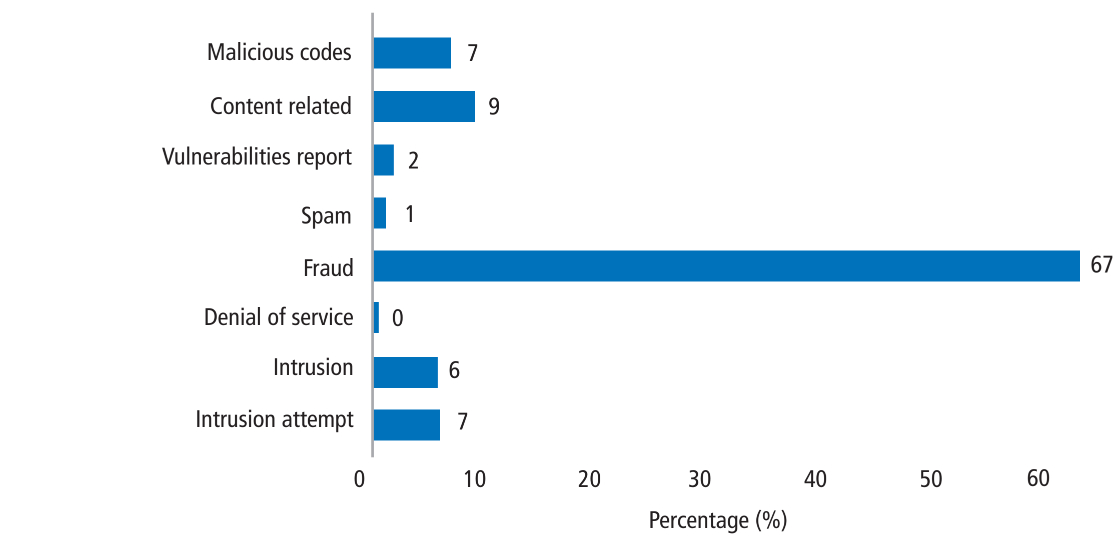
CHART 1
Global top cyber incidents by industry (January to September 2024)



Source: OSINT; Hackmaggedon.

In Malaysia, fraud cases continued to dominate the ecosystem. This highlighted the need for heightened vigilance against suspicious groups and individuals to mitigate the risk of financial losses. Other commonly observed incidents included intrusion attempts and malicious code attacks, underscoring the persistent and evolving threat landscape (Chart 2).

CHART 2
Reported cyber incidents in Malaysia in 2024



Source: CyberSecurity Malaysia (CSM).

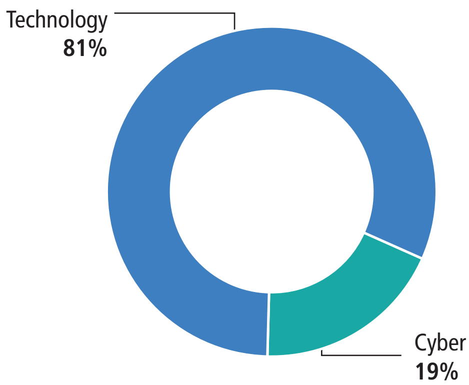
It is important for the CMEs to understand the SC's expectation in managing cyber and technology risks. The SC emphasises on the importance of resilience, whereby entities should be able to maintain the availability of critical operations during an incident. This involves having well-defined incident response plans and ensuring that all employees are trained and are aware of their roles in maintaining cyber security.

The SC Vault platform is a case management system designed for CMEs to report technology and cyber incidents. It also enables the SC to issue advisories and alerts to CMEs as and when needed. With the newly implemented Guidelines on Technology Risk Management (GTRM), CMEs are required to report technology-related incidents through the SC Vault platform upon detection. It is observed that technology-related incidents impact business operations as much as cyber incidents. As operations infrastructure becomes increasingly centralised, CMEs face a broader range of cyber and technology risks.

Prior to the implementation of the GTRM, CMEs were only required to report cyber incidents. Following the enforcement of GTRM on 19 August 2024, CMEs are required to notify the SC on both technology and cyber incidents. This had caused a sixfold increase in reported incidents in 2024 compared to 2023.

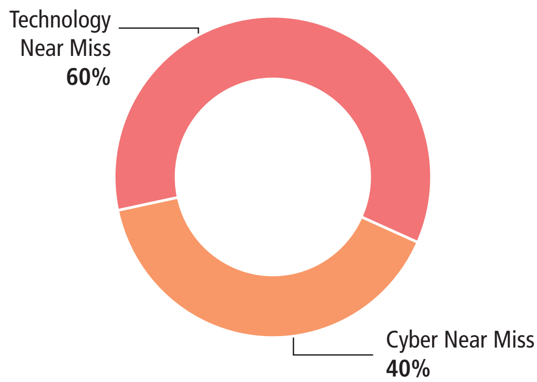
SC VAULT STATISTICS AND OBSERVATIONS

CHART 3
Incidents notification by classification in 2024



Source: The SC.

CHART 4
Events notification by classification in 2024



Source: The SC.

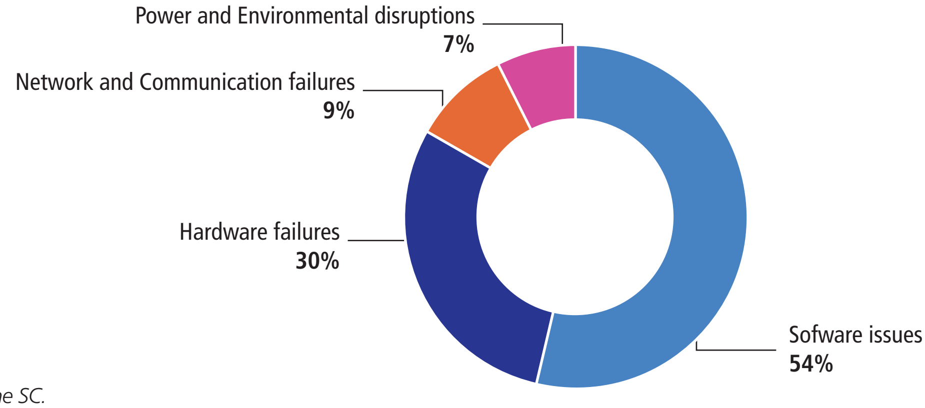
81% of incidents reported in 2024 were technology – related, highlighting the importance to maintain robust technological environment (Chart 3). **19%** of these reported incidents were due to the global CrowdStrike outage.

3% of the reported cyber incidents were categorised as high severity.

'Near Miss' refers to an event where a high potential threat is detected and mitigated before it causes any significant damages. Technology Near Miss constituted **60%** of the total reported events, reflecting the important role of proactive risk management, while Cyber Near Miss accounted for the remaining **40%**, underlining the persistent challenges in safeguarding technological environments (Chart 4).

Further analysis showed that technology incidents were mostly caused by hardware and software failures (Chart 5). These incidents, notably influenced by the global CrowdStrike outage, highlighted the critical role of significant third-party providers in maintaining the resilience of digitalised services, as well as causing significant spillover impact to the industry. Fortunately, the impact on Malaysian capital market was minimal, as the outage affected only a limited number of CMEs.

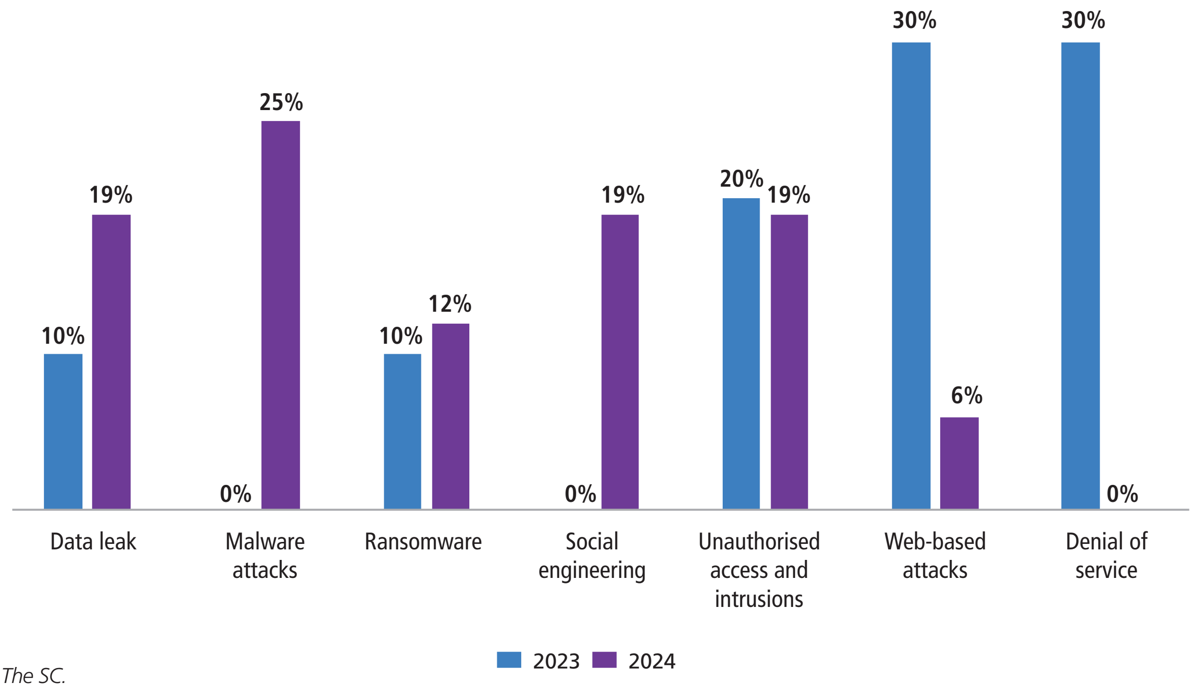
CHART 5
Technology incidents by category in 2024



Source: The SC.

Simultaneously, there was a rise in cyber related events as compared to 2023 (Chart 6). Among the notable cases are malware attacks, ransomware, and data leaks. These incidents were closely linked to inadequate cyber hygiene practices, emphasising the need for CMEs to adopt more stringent cyber security measures and aligning with industry best practices to mitigate these risks promptly.

CHART 6
Cyber incident and cyber near miss events category in 2023 vs 2024

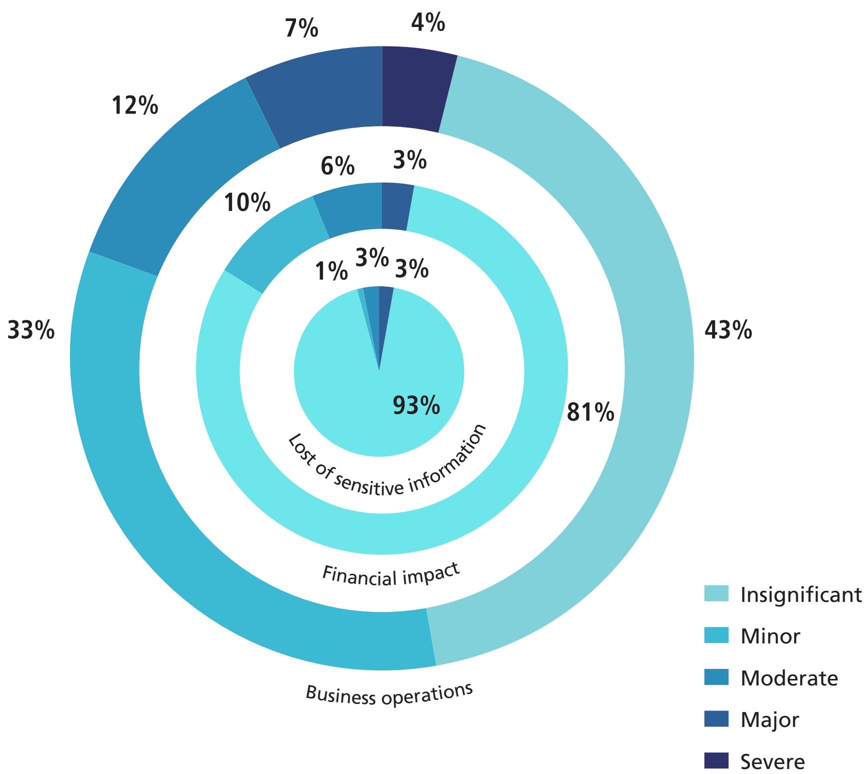


Source: The SC.

Cyber incidents could cause significant impact to organisations (Chart 7). Observations indicated that 11% of total reported cases in 2024 resulted in major to severe disruptions to business operations, impairing the delivery of critical services. Furthermore, 3% of reported incidents led to substantial data losses, compromising confidentiality, while another 3% of reported incidents caused major financial repercussions for the affected CMEs.

The analysis showed that there is room for improvement by the CMEs to enhance their ability in managing risks amidst rapidly evolving technology. The SC recommends CMEs to strengthen their cyber resilience, implementing proactive risk management strategies, and cultivate a culture of preparedness to effectively address evolving cyber risks.

CHART 7
Incidents impact analysis for both technology and cyber incidents in 2024



Source: The SC.

TECHNOLOGY SUPERVISORY RISK OBSERVATIONS

The SC conducts ongoing supervisory risk assessment on various CMEs, focusing on technology domain to ensure compliance and readiness in managing cyber and technology risks, and implementing the relevant technology controls. The technology supervisory risk assessments observed CMEs exhibited deficiencies in the following areas–

i. the establishment of strong and clear policies and procedures;
ii. comprehensive understanding of organisation's risk appetite, and
iii. non-adherence to internal policies and procedures.

In addressing these vulnerabilities, CMEs shall improve on–

i. **Cyber security assessment**
Timely resolution of security issues can further enhance overall resilience. CMEs could further improve their cyber assessment practices by increasing the frequency of periodic evaluations to strengthen defences against emerging threats. This highlights the SC's emphasis on aligning internal policy requirements.

ii. **Third-party service provider management**
CMEs could enhance their management of third-party service providers by establishing clear policies, implementing structured procedures, and conducting regular assessments. These measures not only help mitigate risks but also ensure consistent service quality and adherence to security standards. CMEs should also have robust business continuity arrangement as failure of third-party service providers may cause disruption to key business operations that could lead to financial loss.

iii. **Technology audit**
Conducting comprehensive technology audits is essential for ensuring regulatory compliance, enhancing data security, and maintaining operational efficiency. CMEs are encouraged to increase the depth, frequency, and alignment of these audits according to their risk appetite. This approach helps to avoid the shortcoming of narrower scope and less frequent assessments, effectively identifying and addressing critical gaps.

iv. **Technology risk management**
Technology risk management serves as an essential safeguard against cyber threats and operational disruptions. However, CMEs need to improve their implementation of robust technology risk management frameworks. With this strategy, organisations can significantly reduce their vulnerability to financial losses and reputational damage.

v. **Cyber hygiene**
Strong cyber hygiene is important for the protection against cyber threats. To achieve this, regular cyber security training for employees, strict access controls, and timely security updates are the few examples that can enhance the security posture within the organisation. While gaps persist in this area, CMEs should take priority in enhancing cyber hygiene practices to safeguard both their operations and reputation.

CME CAPACITY BUILDING AND AWARENESS

Continuous capacity building and awareness are important to create a deeper understanding of current cyber threats as well as to their ability to respond effectively to incidents. In this regard, the SC continues to conduct the following activities to promote a tech resilient capital market–

a. Capital Market Cyber Simulation (CMCS)

Over the past seven years, the SC, in collaboration with the National Cyber Security Agency and CSM, have taken steps to strengthen the resilience of our capital markets through the CMCS. This cyber simulation exercise has proven invaluable – not only in helping participants align with regulatory requirements but also in improving their ability to anticipate and respond effectively to cyber threats.

The SC has seen steady improvements in participants' performance over the years. Participants have demonstrated a stronger grasp of policy, better rules and technical compliance. Looking ahead to 2025, the SC aims to further strengthen the CMCS, equipping CMEs with clearer guidance on the critical actions needed during the response and recovery phases of an incident. Participation has already increased by at least 5% for the upcoming CMCS, reflecting a growing number of CMEs adopting digitalisation in their operations.

b. Industry Engagements

The SC established its first Cyber Risk Working Group (CRWG) in 2017, with its objective to strengthen the capital market industry's preparedness to mitigate cyber risk related challenges. Given the rapid advancement of technology, the SC took the initiative to expand its focus to include broader technology-related risks. As a result, in 2024, the CRWG was replaced by two new initiatives–

i. C-Suite engagements; and
ii. Technology and Cyber Webinar. These initiatives aim at strengthening leadership's involvement in managing technology and cyber risks, as well as promoting wider understanding of technology risks.

CONCLUSION

In 2024, the capital market had experienced both benefits and challenges related to technology dependence. The SC's assessments highlighted current key deficiencies in CMEs policies and risk management frameworks, stressing the need for stronger controls and proactive risk mitigation. The SC's recommendations for improving cyber security, third-party management, and technology risk practices are critical in addressing these challenges. Moving forward, continued capacity building and industry engagement would be held to equip CMEs to be better prepared in handling evolving technology and cyber risks, while maintaining the stability and security of the capital market.

ACRONYMS AND ABBREVIATIONS

AI	artificial intelligence
ANC	adjusted net capital
ASEAN	Association of Southeast Asian Nations
AUM	assets under management
BMDC	Bursa Malaysia Derivatives Clearing
BPAM	Bond Pricing Agency Malaysia
CAR	capital adequacy ratio
CASP	crypto-asset service provider
CBOE	Chicago Board Options Exchange
CDS	credit default swap
CIS	collective investment scheme
CMCS	Capital Market Cyber Simulation
CME	capital market entity
CMSR	Capital Market Stability Review
CPO	crude palm oil
CRWG	Cyber Risk Working Group
CSM	CyberSecurity Malaysia
DAX	digital asset exchange
DBC	derivative broking company
DCE	Dalian Commodity Exchange
EPF	Employees Provident Fund
ESG	environmental, social and governance
ETD	exchange-traded derivatives
ETF	exchange-traded fund
EU	European Union
FBMKLCI	FTSE Bursa Malaysia KLCI
FCPO	Crude Palm Oil Futures
Fed	Federal Reserve
FKLI	FTSE Bursa Malaysia KLCI Futures
FSOY	Bursa Malaysia DCE Soybean Oil Futures
GDP	gross domestic product
GII	Government Investment Issue
GTRM	Guidelines on Technology Risk Management
HHI	Herfindahl-Hirschman Index
IB	investment bank
MGS	Malaysian Government Securities
MiCA	Markets in Crypto-Assets
NAV	net asset value
NDC	nationally determined contribution
NSRF	National Sustainability Reporting Framework
OPR	overnight policy rate
PLC	public listed company
RWCR	risk-weighted capital ratio
SBC	stockbroking company
SC	Securities Commission Malaysia

SEC	Securities and Exchange Commission
SPX	S&P 500 Index
US	United States of America
UST	US Treasury
UTF	unit trust fund
WSF	wholesale fund
YTD	year-to-date

SECURITIES COMMISSION MALAYSIA 2025

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