PRIME NEWS

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SC forging ahead with reforms

CRITICAL AGENDA: Retaining investor trust, public confidence a priority

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SECURITIES Commission Malaysia (SC) is forging ahead with regulatory reforms and intensifying surveillance efforts to boost the efficiency of Malaysia's capital market, which has grown to RM2.82 trillion today, with the third largest bond market in Asia.

"Our objective is to preserve investor trust and public confidence, which form the bedrock of our capital market. This has always been a critical agenda for us," SC chairman Datuk Seri Ranjit Ajit Singh said in an exclusive interview with the New Straits Times Press recently.

Ranjit, who has more than 20 years' experience in finance and securities regulation, said SC's approach had always been to avoid having more regulation than necessary, and had embarked on a multi-year reform programme to rationalise the regulations where possible.

"An important outcome occurred last year when we freed up the approval regime for the wholesale market through the introduction of the Lodge and Launch framework (which allows much faster time-to-market)," added Ranjit, who was previously SC managing director.

"This framework is particularly important during challenging market conditions, where investors may

Commendable growth in 2015 despite challenges

EXCERPTS of an exclusive interview with Securities Commission Malaysia (SC) chairman Datuk Seri Ranjit Ajit Singh

Q: How was 2015 as far as SC is concerned?

A: 2015 was a challenging year globally, and emerging markets in particular came under a lot of stress. Weak global investor sentiment was a result of declining commodity prices, slowing global economic growth, currency volatility and uncertainty over the United States Federal Reserve's monetary policy.

Overall emerging equity markets fell about 17 per cent last year, while in comparison, the Malaysian benchmark index was down by 3.9 per cent. Our market performance relative to other emerging markets is indicative of its resilience, which enabled us to manage the foreign portfolio outflows that occurred during the course of the year.

This resilience was further demonstrated by the growth of the capital market and the level of fundraising observed last year, as the capital market continues to play a significant role in the financing of businesses and the Malaysian economy.

The size of the capital market grew 2.1 per cent to RM2.82 trillion last year. Despite the high volatility seen in global markets, domestic capital formation remained in line with previous years and RM90 billion worth of capital was raised through the primary equity and bond markets. In addition, secondary equity fundraising activity saw a further RM17 billion raised.

We also recorded commendable growth across various segments of the capital market.

Our equity and bond markets increased to RM1.70 trillion and RM1.12 trillion, respectively. The Islamic capital market itself recorded strong growth of 6.7 per cent and stood at RM1.7 trillion last year.

The fund management industry grew six per cent last year and is now RM668 billion in size. We view this positive growth trajectory as encouraging, as a well-developed asset management have a narrower window of opportunity to tap the market," said Ranjit, who is also vice-chairman of the governing Board of the International Organisation of Securities Commissions, the global body of capital market regulators.

Recognising the importance of secondary bond market liquidity, SC will be reviewing how the market infrastructure can be made more transparent and provide investors with greater access to information to enable more efficient and effective investment decision making.

"We will be looking at the trading, settlement and the custodian segments, as well as the securitisation market. From a retail perspective, we will review the requirements in the guidelines for bond issuance, including issuer eligibility, disclosure standards and permissible product structures, to encourage growth of the retail segment."

Ranjit, a fellow of CPA Australia, said the reforms were to ensure that Malaysia's regulatory framework was in line with global best practices and had sufficient safeguards for investors.

"We need to always ensure that investors get sufficient information and understand the risk profile of the product before they invest," said Ranjit, who was trained as a financial economist and accountant.

"One of our key focus areas is to realign all disclosure requirements to ensure that disclosures are simple, proportionate, clear and targeted."

Ranjit, who holds a Bachelor of Economics (Honours) degree and a Master of Economics in Finance from Monash University, Melbourne, said RM90 billion worth of capital was raised through the primary equity and bond markets last year. In addition, secondary equity fundraising activity saw a further RM17 billion raised.

Malaysia's equity and bond markets increased to RM1.70 trillion and RM1.12 trillion, respectively, last year, while Malaysia's Islamic capital market — the largest in the world — grew 6.7 per cent to RM1.70 trillion.

Ranjit, who also chairs the Securities Industry Development Corporation , said one example of the SC's initiative to increase diversification in Malaysia's capital market was the introduction of the Private Retirement Schemes (PRS).

"We are looking at how to further develop different segments of the industry, including financial technology, private equity and venture capital, as these are significant drivers of capital market growth.

"As for trades on the stock exchange, we believe that a certain amount of speculation is acceptable.

"But when the speculation becomes manipulation, then the regulators have to come in to protect investors and the integrity of the market," said Ranjit.

Additional reporting by Farah Adilla

Passionate, driven team behind organisation's success

KUALA LUMPUR: Regulating the capital market is a complex task, and Securities Commission Malaysia (SC) chairman Datuk Seri Ranjit Ajit Singh appreciates his team of professionals that rise to the challenge.

"People join us because they are committed to developing and regulating the capital market and they are in the SC to serve the public's interest," said Ranjit, who has more than 20 years' experience in finance and securities regulation.

Trained as a financial economist and accountant, he said as an employer, it was important for SC to ensure that it had a strong value proposition to acquire and keep staff.

"It's been challenging because given their deep expertise, they attract keen interest from the private sector and the regulatory community overseas," he said in an exclusive interview with the New Straits Times Press.

Ranjit, who was previously SC managing director, said SC refreshed its staff development strategies and made necessary improvements to get the right talent, develop them further, and retain them.

"A culture that encourages openness, innovation and management that cares for the well-being of staff are critical to these efforts.

"I am fortunate to have a supportive team that dedicate themselves to being the best in their field and who take pride in contributing to the success of the organisation," said Ranjit, who also chairs the Securities Industry Development Corporation.

Ranjit, who holds a Bachelor of Economics (Honours) degree and a Master of Economics in Finance from Monash University, Melbourne, said markets were more interconnected nowadays, where global developments and challenging market conditions invariably had an impact on domestic markets.

In response, SC has established coordination and cooperation with domestic and international regulatory counterparts, which allows for better monitoring of cross-border transmission channels and risk vulnerabilities.

Ranjit, who was appointed vice-chairman of the governing Board of the International Organisation of Securities Commissions, the global body of capital market regulators, said SC had put in place robust systems and processes, and the organisation had evolved in terms of regulatory tools and skill sets.

"SC has a highly-skilled team of committed individuals with a passion for public service and a strong desire to make the market better for investors and businesses."

"We have a good cross-section of staff with deep regulatory experience, as well as those with strong industry expertise. All this combined allows me to get a good night's sleep."

industry is essential for the effective mobilisation of funds in expanding the other segments of the capital market.

The unit trust industry, which is an important indicator of retail investor confidence, also continued to grow, and despite difficult market conditions, recorded a net sales position of RM17.8 billion.

Private Retirement Schemes (PRS) last year exceeded RM1 billion for the first time with more than 180 thousand people putting aside money for their retirement nest eggs. It is a significant segment that we believe must continue to be the focus of attention in order to develop the third pillar of Malaysia's retirement framework.

Q: What contributed to the growth in PRS to reach the RM1 billion threshold for the first time?

A: The net asset value (NAV) reached RM 1.2 billion after a period of three years. The offering of PRS funds increased gradually since the initial launch of 26 funds in November 2012 by five Providers. The remaining three Providers launched their PRS schemes in 2013, hence 2013 was the first year of real measure for the industry. By the end of 2014, the NAV had more than doubled to reach RM716 million. This was a substantial increase of 139 per cent.

We continue to see steady growth and greater investment choices, with the number of PRS funds offered to the public reaching 50 as at the end of last year. Since the launch of the government incentive of RM500 in 2014 to youths who have contributed RM1,000 to their PRS account, the percentage of youth participation in PRS has increased from seven per cent to 19 per cent.

We continue to encourage greater participation in PRS given its importance in deepening the retirement savings of Malaysian investors.

Q: Where are your hopes and expectations for this year?

A: For this year, we see an environment that continues to be influenced by uncertainties arising from weak commodity prices, restrained global growth, as well as asynchronous monetary policies in leading economies. Japan's venture into negative interest rates territory is a good example of an unanticipated policy decision that took markets by surprise. China's economic and market performance continues to be an area of concern to investors.

These uncertainties are expected to dominate sentiments, and will have implications on emerging markets. Looking at how markets fared earlier this year, increased levels of volatility has exerted a significant amount of downward pressure on equity markets globally. However, in the last few weeks, we have seen a gradual recovery.

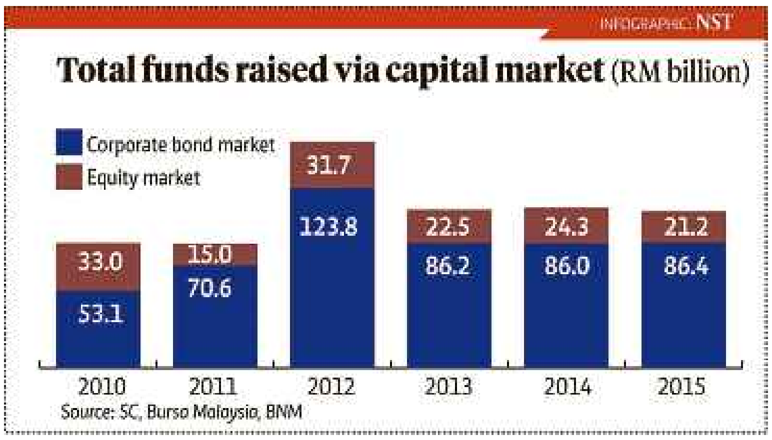
If you look at the context of how markets globally are performing, Malaysia has been relatively resilient, and this is due to the fact that our high savings rate has allowed us to build strong domestic pools of institutional liquidity and a strong domestic investor base.

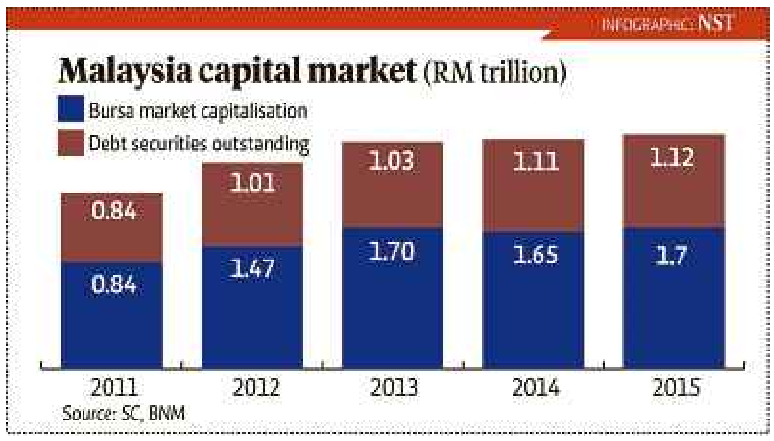
It is important for us to have these liquidity buffers in place as it reduces our dependence on foreign portfolio flows, and, by extension, our vulnerability to the resultant volatility that may arise from the reversal of such flows, a factor which has impacted many emerging markets.

In light of the outlook ahead, given the risks emerging markets face, we need to remain vigilant. But, we also need to focus on enhancing our core fundamentals. To do that, we have focused and will continue to focus on ensuring that our capital market's framework and institutions are strong and supported by strong standards of governance and safeguards for investor protection.

We will also continue with our efforts to boost market efficiency through regulatory reforms, while intensifying systemic surveillance efforts on risk transmissions and market vulnerabilities.

Our objective is to preserve investor trust and public confidence, which form the bedrock of our capital market. This has always been a critical agenda for us, and more so as investors begin to differentiate among individual emerging markets on the strength of their fundamentals.





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Ranjit: Good governance key to Malaysia's resilience

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Q: Because of uncertainties globally in the market, do you see the risks related to governance issues to be more of a concern this year?

A: Governance and market conduct are important issues across the world, and our commitment to strengthening good governance is what has allowed Malaysia to demonstrate resilience in times of global uncertainties. We are ranked 4th by the Asian Corporate Governance Association for Corporate Governance in the Asia-Pacific region and 4th for Investor Protection by the World Bank. In the last Financial Sector Assessment Programme that was done on the Malaysian capital market by the World Bank and the International Monetary Fund (IMF), we had a rating of 92 per cent compliance vis-à-vis international standards.

It is also clear from various engagements with leading investors that they are differentiating between the different markets based on, among others, the quality of regulation, high standards of corporate governance, strong commitment to investor protection, and the institutional structures in place.

As a long-standing champion of corporate governance in Malaysia, SC has put in a lot of effort in this area. SC recently concluded the implementation of the Corporate Governance Blueprint 2011 with 83 per cent of its recommendations fully implemented.

Another initiative that we have pursued is to strengthen the role of institutional investors, as we believe shareholder activism is critical in exerting influence over the governance and conduct of listed companies.

The Malaysian Code for Institutional Investors was introduced in June 2014 to promote greater leadership in governance and responsible ownership by institutional investors.

The adoption of this code by our largest institutional investors reflects the strong commitment of the private sector to promoting sound governance practices.

We believe that there is a need to strengthen the role of independent directors and other key players in the corporate governance ecosystem, such as directors, advisers, audit committees and auditors, to ensure that there is a strong, internally-driven culture towards good governance.

Moving forward, we are revising the Malaysian Code on Corporate Governance, as well as working on the release of the Corporate Governance Priorities 2020, which will outline our initiatives for the next five years. The objective is to ensure that we focus on enhancing corporate governance standards, and reviewing ways to create a stronger corporate governance environment and culture.

Q: There's a view that too many rules, or stringent controls, will be bad for the stock market and may scare away the players. What's your view on it?

A: Our general approach on regulation has been to have no more regulation than necessary. For the last few years, we embarked on a multi-year reform programme to rationalise regulation where possible. An important outcome occurred last year when we freed up the approval regime for the wholesale market through the introduction of the Lodge and Launch framework. Five product guidelines were consolidated to facilitate business efficiency and ease of reference in line with our proportionality approach.

We regularly review our regulatory framework to ensure that it is in line with global best practices. It's important to do that. In this context, we believe that the extent of regulation in the market is quite proportionate. You need to be able to ensure there are sufficient safeguards for investors, particularly retail investors. We need to always ensure that investors get sufficient information and understand the risk profile of the product before they invest. Thus, one of our key focus areas is to realign disclosure requirements to ensure disclosures are simple, proportionate, clear and targeted.

As for trades on the stock exchange, we believe a certain amount of speculation is acceptable, but when the speculation becomes manipulation, then the regulators have to come in to protect investors and the integrity of the market. That's very important.

Q: Can you explain what sort of reforms you are looking at? Are you looking at areas such as Collective Investment Schemes and developing the corporate bond market as well as derivatives?

A: Looking at the Malaysian capital market over the years, we have built a fairly broad and diversified capital market. Today, the size of the Malaysian capital market sits at RM2.82 trillion, with the third largest bond market in Asia, largest unit trust industry in Southeast Asia and a well-established Islamic capital market that is the largest in the world.

All these have been the result of structural reforms and collaborative efforts. We continue to take on board relevant feedback from the industry and stakeholders. For example, we have specific industry advisory groups consisting of leading domestic players and global market experts that we engage regularly.

In relation to the bond market, SC has introduced many initiatives towards building a more efficient market, including the Lodge and Launch framework that allows much faster time-to-market. This framework is particularly important during challenging market conditions, where investors may have a narrower window of opportunity to tap the market.

From a market perspective, there is avenue to grow the corporate bond market further by enhancing access for issuers across the credit spectrum, while also working with the industry to boost retail participation and widen the range of products available.

Recognising the importance of secondary bond market liquidity, we will be reviewing how the market infrastructure surrounding the bond market can be more transparent and provide investors greater access to information to enable more efficient and effective investment decision-making. We will be looking at the trading, settlement and custodian segments, as well as the securitisation market.

From a retail perspective, we will review the requirements in the guidelines for bond issuance, including issuer eligibility, disclosure standards and permissible product structures to encourage growth of the retail segment.

For the asset management industry, Malaysia has built up a large pool of savings that is in excess of RM1 trillion. It is, therefore, important to continue to develop ways to enable greater intermediation of this pool of savings to boost vibrancy in the capital market and provide investors and savers more investment choices.

A good example of an initiative by SC to increase diversification was the introduction of Private Retirement Schemes (PRS). We are also looking at how to further develop different segments of the industry, including financial technology, private equity and venture capital, as these are also significant drivers of capital market growth.

Q: What keeps you awake at night?

A: Regulation today is a very complex business. We are observing growing interconnectedness of markets where global developments and challenging market conditions invariably have an impact on domestic markets. There are new and emerging risks including cyber threats, which can have a detrimental impact on markets. We remain vigilant against these risks and adopt a pre-emptive, proactive and proportionate approach towards regulating and overseeing the market.

Over the years, we have established close coordination and cooperation with our domestic and international regulatory counterparts, which allow us to better monitor cross-border transmission channels and risk vulnerabilities.

We have put in place robust systems and processes, and the organisation has evolved in terms of regulatory tools and skill sets. SC has a highly-skilled team of committed individuals with a passion for public service and a strong desire to make the market better for investors and businesses. We have a good cross-section of staff with deep regulatory experience, as well as those with very strong industry expertise.

All this combined allows me to get a good night's sleep!

Q: Is it difficult to retain and acquire talent?

A: It is important to ensure that you have a strong value proposition to acquire and keep staff. People join us because they are committed to developing and regulating the capital market and they are in SC to serve the public's interest.

We put in place various initiatives and programmes to help our staff grow professionally and as individuals. It's been challenging because given their deep expertise, they do attract very keen interest from the private sector and the regulatory community overseas.

What we do is we continuously refresh our staff development strategies and make improvements as needed so that we get the outcomes we want in terms of getting the right talent, developing them further and retaining them.

A culture that encourages openness, innovation and management that cares for the well-being of staff is also critical to these efforts. I am fortunate that I have a supportive team who dedicate themselves to being the best in their field and who take pride in contributing to the success of the organisation.

Q: How would you like to be remembered? People have to trust SC because they have their entire life savings in the capital market.

A: The main impetus behind our regulatory and supervisory efforts is to ensure that we do not lose sight of the three key objectives that form the bedrock of a well-functioning capital market — protect and safeguard investors, ensure the integrity of markets, and maintain systemic stability. It is important to provide policy certainty and to facilitate an environment that allows investors to participate in the market with confidence.

We focus on promoting investor empowerment to encourage more informed and engaged participation among investors.

Our efforts include ensuring investors are equipped with sufficient information and awareness regarding their rights and responsibilities, as well as available avenues for engagement and redress, including a dispute resolution mechanism, compensation fund structure and regulatory safeguards.

It's about creating trust and confidence in the market, and ensuring institutional credibility and integrity.

The ***Securities Commission Malaysia building*** *in Bukit Kiara, Kuala Lumpur.* **Pic by Zulfadhli Zulkifli**

Tomorrow: PART 2 in 'Business Times'