

**Asian Strategy & Leadership Institute (ASLI) - The 21<sup>st</sup> Malaysian Capital Market Summit**

**“Beyond Boundaries, Soaring Higher”**

**1 November 2016**

**Opening Address**

**Dato’ Ahmad Fairuz Zainol Abidin**

**Deputy Chief Executive, Securities Commission Malaysia**

YBhg. Tan Sri Michael Yeoh, Chief Executive Officer of Asian Strategy & Leadership Institute (“ASLI”),

YBhg. Tan Sri Ramon Navaratnam, Director of ASLI and Chairman of ASLI’s Centre for Public Policy Studies,

Distinguished guests, ladies and gentlemen.

A very good morning.

1. It is a great pleasure to be here and I would like to thank ASLI for the invitation to deliver the opening address at today’s Malaysian Capital Market Summit. The summit, which is already on its 21<sup>st</sup> year, has been recognised as a useful platform to facilitate high level dialogues on key trends, opportunities and challenges in the market. I would like to commend ASLI for its continued commitment for driving leadership and strategic thinking in Asian and as well as for providing its support for the development of the capital market.

**Overview of the Malaysian capital market**

2. Globally, capital markets have experienced significant volatility due to greater mobility of portfolio flows, fluctuating commodity prices and slower global growth. As an emerging capital market, Malaysia has been similarly affected. However, over the medium term, the market will correct its over-exuberance.
3. The fundamentals in the Malaysian capital market placed us in a good position to weather the storm and hence, despite the challenges and volatility in global markets, the Malaysian capital market has remained relatively resilient. As at September 2016, the overall size of the capital market stood at RM2.85 trillion, a slight increase from RM2.82 trillion in December 2015. Equity market capitalisation stood at RM1.68 trillion whereas the bond and sukuk market expanded to RM1.17 trillion.

4. The capital market continues to play a major role in supporting economic growth through financing of business expansion and infrastructure development. This year up to September 2016, RM66.9 billion has been raised through the capital market, which is relatively reasonable in view of the market conditions.
5. As at September 2016, assets under management (AUM) increased by 4.8% to RM700 billion, whilst the unit trust net asset value (NAV) stood at RM356 billion, reflecting investors' sustained participation in the market.
6. To further develop the capital market, several initiatives were recently announced in the 2017 Budget. These include the introduction of Small and Mid-Cap PLC Research Scheme to promote more trading vibrancy and liquidity in this sector as well as the establishment of a special investment funds with RM3 billion allocations from Government-Linked Investment Companies to be managed by external fund managers for investment in the small and mid-cap segment. These initiatives are expected to increase greater investor interests, enhance diverse investment strategies in the capital market and create better value recognition of small and mid-cap companies.
7. In addition, to further complement the role of the capital market in financing economic growth and providing investment opportunities in today's fast evolving environment, the establishment of a Capital Market Research Institute as announced in the 2017 Budget, is timely. The institute will focus on identifying new growth areas and assist in facilitating the introduction of innovative market-based products and services as well deepen capital market capacity and expertise.

Ladies and Gentlemen,

8. The growth of the capital market is supported by a facilitative regulatory framework introduced by the Securities Commission Malaysia (SC). The introduction of the Lodge and Launch (LOLA) Framework for wholesale offerings of unlisted capital market products in 2015 represents a major regulatory reform in the product authorisation regime. Under this new framework, unlisted capital market products can be offered to sophisticated investors as soon as specified information and documents have been lodged with the SC.
9. In addition, several initiatives were also introduced last year to enhance the competitiveness and efficiency of the unit trust industry. These include the expedited approval process for non-complex retail unit trust funds to reduce time-to-market and removal of the requirement for annual renewal of prospectuses for greater operational efficiency.
10. As part of the SC's on-going efforts to foster greater innovation in the capital market through the use of technology, the SC had introduced a new recognised market regulatory framework in 2015 to facilitate the establishment of alternative fundraising channels including Equity Crowdfunding (ECF), which is the first in ASEAN. This new Recognised

Market Operator (RMO) framework allows the establishment of electronic platform to operate within a safe harbor environment and be subject to proportional regulatory oversight by the SC. Subsequently six ECF platform operators were registered and granted the status of RMO, allowing them to operate ECF platforms in Malaysia.

11. The SC has recently issued new guidelines to enhance cyber resilience of the capital market by requiring capital market entities to establish and implement effective governance measures to counter cyber risk and protect investors. The Guidelines on Management of Cyber Risk (Guidelines), amongst others, clearly stipulated the roles and responsibilities of the board and senior management in building cyber resilience of a capital market entity. The guidelines have also mandated the entity to identify a responsible person to be accountable for the effective management of cyber risk. These are aimed to ensure that cyber risk is managed in an optimised manner, in light of the changing landscape in the market.

### **Alternative Market-Based Financing**

Ladies and Gentlemen,

12. The SC's digital finance initiatives have provided alternative sources of funding to the Micro, Small and Medium Enterprises through its innovative market-based financing framework. As at September 2016, closed to RM6 million worth of equity has been successfully raised by these enterprises through the ECF platforms.
13. The ECF operators have garnered interest from 38 industry sectors for early-stage financing, with 45% being technology companies. 48% of their investors are 35-years old or younger, demonstrating that digital market-based solutions can be an exciting avenue to attract young investors.
14. At the SC World Capital Markets Symposium last year, the SC launched alliance of Fintech community (aFINity) which seeks to provide regulatory support and catalyse greater interest for development by entrepreneurs and investors into the Financial Technology (FinTech) sector. The network includes robo advisors, Peer-to-Peer (P2P) financing platforms and distributed ledger technology companies. Recently, the SC has released the P2P Financing Framework to enable entrepreneurs to raise capital through P2P web-based platforms. We have received an overwhelming response from parties interested to operate P2P platform and are currently reviewing all proposals.
15. Moving forward, the SC will continue to garner greater interest and drive digital finance initiatives in the Malaysian capital market, including the introduction of P2P Financing in 2016. As you aware, the SC will be organising its annual event, "SCxSC Digital Finance Conference" (SCxSC), and this year's event, with the theme "Capitalising Entrepreneurship" will be held on 3 and 4 November at the SC.

16. In addition, the SC continues to promote capital formation by having a facilitative framework to increase private sector participation and promote the development of Venture Capital (VC) and Private Equity (PE) industries in recognition of their role as alternative sources of financing for emerging high-growth companies and innovative businesses.
17. As these segments face challenges in their quest to scale up and access the mainstream financing, VC/PE financing provide an alternative funding avenue for this underserved segment. Similarly, VC/PE also represents an alternative investment avenue for investors seeking opportunities with different risk-return profile.
18. The SC, which chairs the Malaysia Venture Capital and Private Equity Development Council (MVCDC), coordinates and drives the developmental initiatives in the VC/PE industry. The MVCDC will be forming an industry-driven working group tasked to identify recommendations for improving and building capacity within the VC/PE ecosystem.
19. These efforts to further develop alternative market-based financing would augment the Startup and SME Promotion Year 2017 as well as complement the Government's initiatives to enhance digital connectivity, as announced in the 2017 Budget.

### **Islamic Capital Market and Sustainable and Responsible Investments**

Ladies and Gentlemen,

20. Islamic Capital Market (ICM) remains a key component of the overall capital market and has more than tripled in size between 2005 and 2015, reflecting a compounded annual growth rate of 12%. The market reached RM1.7 trillion as at September 2016, representing 61% of the entire Malaysia's capital market.
21. Malaysia continues to be the global leader in the sukuk market, commanding 54% of the global sukuk outstanding as at end-2015. Malaysia's Islamic funds industry is well-developed, holding approximately 35% of the global US\$58 billion of Islamic funds AUM as at March 2016<sup>1</sup>.
22. Malaysia has sustained its solid foundation to continue pursuing its aspirations to further widen its international base and seize new growth opportunities in ICM. This includes tapping new growth segments, notably in Islamic fund and wealth management and waqf as well as enhancing existing capacity and capability. The SC will continue its efforts towards greater internationalisation of the ICM, particularly the fund and wealth management segment.

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23. Bridging social finance and ICM remains an important agenda in promoting public good and pursuing the larger objective of Shariah. In line with this, efforts are also being undertaken to develop the ecosystem for sustainable and responsible investments (SRI) in the Malaysian capital market.
24. In view of the commonalities in the principles underlying both SRI and Islamic investing, where among others investments should provide not only commercial returns but also positive social outcomes, there are considerable opportunities for greater alignment between SRI and Islamic investing.
25. The SC had in 2015, introduced SRI Sukuk Framework which marked a milestone in our efforts to develop SRI. Combined with Malaysia's leading position in the global sukuk market, this framework enhances the country's value proposition as a centre for Islamic finance and sustainable investments. Subsequently Khazanah Nasional had in 2015, established RM1 billion inaugural SRI Sukuk programme to finance Yayasan Amir Trust School project.
26. Moving forward, the SC will continue its efforts to widen SRI asset classes and develop SRI ecosystem in the Malaysian capital market.

### **ASEAN Connectivity**

Ladies and Gentlemen,

27. As Chair of the ASEAN Capital Markets Forum (ACMF), the SC is leading several initiatives to increase the connectivity of the region's capital markets and facilitate efficient mobilisation of capital for regional growth. A more interconnected regional capital market would elevate the profile of ASEAN as an asset class.
28. Efforts have been dedicated to promote greater cross-border offering of funds through the ASEAN Framework for Collective Investment Schemes (CIS) which have been operationalized since August 2014 in Malaysia, Singapore and Thailand. With this framework, fund managers in participating countries have a direct and efficient route to offer authorised CIS in one jurisdiction to retail investors in other participating jurisdiction in ASEAN. To date, 15 funds have been recognised under this framework, of which five funds have been successfully approved and launched in an ASEAN host jurisdiction.
29. In order to drive the next phase of the regional integration agenda post-2015, the ACMF developed the ACMF Vision 2025 of being an inter-connected, inclusive and resilient ASEAN capital market. The ACMF Vision 2025 dovetails with aspirations of the ASEAN Economic Community (AEC) Blueprint 2025, and will be achieved in two phases over a 10-year period to 2025.

30. To drive the first phase, the SC spearheaded the development of the ACMF Action Plan 2016-2020 (Action Plan) in collaboration with the industry, market practitioners and other stakeholders. The Action Plan sets out ACMF's strategic objectives and key priorities to achieve greater connectivity among capital markets in ASEAN as well as increased cross-border fundraising and investments within the region.
31. A key component of the Action Plan is to facilitate capacity building for members. ACMF launched the ASEAN Young Regulators Programme as the first initiative to be rolled out under the ACMF Market Development Programme. This initiative aims to foster mutual sharing and exchange of expertise and experiences among ASEAN capital market regulators in building a continuous talent pipeline.
32. An important element of greater regional integration is the mobility of capital market professionals within the region. The ACMF will explore efforts towards facilitating the movement of capital market professionals in consultation with industry players in the region.
33. In addition, the growing interest in green investments is an opportunity for ASEAN companies to profile themselves to international investors and help distinguish ASEAN as an asset class. In line with one of the objectives of ACMF which is recognizing the importance of green finance in supporting sustainable growth in ASEAN and the increasing amount of global green capital, ACMF will take a leadership role in identifying green finance standards that can be applied for the region.

### **Concluding Remarks**

Ladies and Gentlemen,

34. As I conclude my remarks, it is pertinent to ensure that even though we must continue to be responsive and innovative in providing market-based solutions to investors, we will also ensure the current core segments of the capital market (equities and bonds & sukuk) continue to provide efficient and effective investment and fundraising opportunities.
35. The capital market industry players must also up the ante in meeting current challenges as capital markets become more interconnected.
36. Before I conclude, I would like to thank ASLI again for organising this summit and their continued commitment to drive strategic leadership in the region.
37. Thank you very much, and I hope you have a fruitful discussion for the rests of the summit.