The Malaysian Capital Market: Connected, Vibrant, Innovative

Malaysia’s capital market is an attractive venue for investors looking to tap into the potential of emerging markets. It caters to both sophisticated and retail investors by facilitating investment activity through a range of avenues, underpinned by a strong and facilitative regulatory framework under the purview of the Securities Commission Malaysia (SC), Malaysia’s capital market regulator.

Malaysia is home to ASEAN’s largest bond market and the world’s biggest sukuk centre, which demonstrates that the market has the depth to provide long term financing across different maturities and infrastructure needs. The stability of the Malaysian bond market is proven as established institutions such as Bank of Tokyo-Mitsubishi UFJ have floated their bonds in Malaysia. In 2015, Malaysia was the leader in ASEAN for local and foreign currency bond issuances valued at US$299 billion (2015).

The development of Malaysia’s bond market was accelerated on the back of the 1997 Asian financial crisis, which saw the banking sector being more prudent in its lending to the private sector. The SC took on the role of single regulator for the corporate bond market when it moved towards a full disclosure-based regulatory approach. This led to the dynamism of the Malaysian bond market with increasing market size, active issuance and trading of government and corporate issues. Bursa Malaysia’s Main Market is populated mainly by the largest and most established companies in Malaysia and covers a wide spectrum of economic sectors, while the ACE Market is aimed at growth companies with a strong product or service portfolio. Investors looking to buy and sell stocks can do so through the stock market by picking stocks from either one of these markets.

To ensure that the Malaysian capital market remains competitive, the SC continues to work with the industry to transform the market, and ensures alignment with market trends such as financial innovation, digital disruption, sustainability and inclusiveness.

In line with the introduction of newer technologies, the SC as the capital market regulator, introduced several ini-

**Figure 1: Size of Malaysian Capital Markets**

- Total Capital Market: RM2.8 trillion
- Islamic Capital Market: RM1.7 trillion (60%)

Source: Securities Commission Malaysia

Malaysia’s Islamic capital market continues to be the global leader and record strong growth.
tatives to further increase inclusiveness. The Alliance of FinTech Community or better known as the aFINity@SC was formed in 2015 and is aimed at catalysing greater interest towards the development of financial technology (fintech). Its establishment seeks to raise awareness, leverage on a network of fintech stakeholders to spur growth and innovation in this industry, and assist firms in navigating the regulatory environment by providing policy and regulatory clarity.

Investors wishing to diversify their portfolios can opt to add another asset class through equity crowdfunding (ECF) platforms. Malaysia became the first country in Asia-Pacific to introduce a regulatory framework to facilitate ECF, with six registered platforms ready in the first half of 2016. The regulatory framework introduced efforts to protect all market participants, including investors, by ensuring that the operators are fit and proper and have the ability to operate in an orderly, fair and transparent market. ECF is a new form of fundraising which allows start-ups or other smaller enterprises to obtain capital through small equity investments from a relatively large number of investors. Online portals are used to publicise and facilitate such offers. Investors who would like to ride on the wave for ‘the next big thing’ in the start-up industry of Malaysia can now do so through the registered ECF platforms, namely, Alix Global, Ata Plus, Crowndo, CrowdPlus.asia, Eureeca and pitchIN.

Early in 2016, the SC introduced the framework for peer-to-peer (P2P) financing, setting out requirements for the registration of a P2P platform as stipulated in the amended Guidelines on Recognized Markets. This will enable small and medium-sized companies to access market-based financing to fund projects or businesses through the application of technology solutions and provide investors with alternative investment opportunities.

In addition, on 15 June 2015, SC liberalised the wholesale product approval process as part of a multi-year regulatory reform process to enhance market competitiveness and efficiencies. This new framework forms part of SC’s commitment towards an appropriate balance in regulation, recognising that sophisticated investors generally have greater ability to protect their own interests and absorb investment risks, as opposed to retail investors. The SC also introduced other regulatory requirements to provide the appropriate level of protection for investors, including ensuring better sales practices, guided by the principles of ‘Treating Investors Fairly’. This requires distributors to ensure that the product is suitable for the targeted investors, taking into consideration their risk profile, and provide clear and adequate information to allow them to make an informed investment decision.

Recently, the SC released a consultation paper seeking public feedback on proposed enhancements to the Guidelines on Real Estate Investment Trusts (REITs) Guidelines. The proposals are part of the SC’s efforts to facilitate growth of the maturing REITs market in a manner that promotes stronger governance practices and enhances market confidence.

Leading Global Islamic Capital Market

The establishment of the Malaysian Islamic Capital Market (ICM) in the early 1990s provided the foundation for the country to be a leader in the global Islamic Capital Market. The Islamic Capital Market today is an integral part of the overall capital market development agenda.

Malaysia’s ICM has more than tripled between 2005 and 2015, reflecting a compounded annual growth rate of 11.7%. The market size reached RM1.7 trillion by end-2015, representing 60% of the entire Malaysian capital market. Malaysia continues to be the global leader in the sukuk market, commanding 54.3% of the global sukuk outstanding as at end-2015. In the Islamic fund management industry, as at end-2015, Malaysia is home to the largest number of Islamic funds globally with 25% global market share; it also ranks as the second largest country for Islamic assets under management (AUM) globally, accounting for nearly a third of global Islamic funds under management of US$58 billion. Based on these solid foundations, Malaysia will continue to pursue collaborative efforts to further widen ICM’s international base and seize new growth opportunities. This includes tapping new growth segments, notably in Islamic fund and wealth management and waqf, as well as enhancing existing capacity and capability.
The Association of Southeast Asian Nations (ASEAN) was established in 1967 with the signing of the ASEAN Declaration (Bangkok Declaration) by the founding members of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand (also known as the ASEAN-5 countries). Brunei Darussalam, Vietnam, Laos, Myanmar and Cambodia later joined ASEAN, making up what is today known as the ten members of ASEAN.

ASEAN, a major global hub of manufacturing and trade has an immense growth potential which led to the establishment of the ASEAN Economic Community (AEC) in 2015. The AEC offers opportunities in the form of a huge market of US$2.6 trillion with a total population of 622 million people – larger than the European Union or North America – and has the third-largest labour force in the world, behind China and India. Collectively, the AEC is the third largest economy in Asia and the seventh largest in the world (2014).

ASEAN’s GDP growth has been rapid and relatively stable since 2000 with a real GDP growth of 4.6% in 2015 and is projected to reach an average of 5.2% from 2016-2020. Malaysia, being one of the five founding members of ASEAN, has the largest number of companies listed on its stock exchange compared to its regional counterparts, with 903 listed companies (2015) cutting across major sectors including finance, media & publishing, telecommunications, plantations, real estate, conglomerate, healthcare, shipping, energy & utilities, and food & beverages.

As Chair of the ASEAN Capital Markets Forum (ACMF), the SC is spearheading several initiatives to increase the connectivity of the region’s capital markets and facilitate the efficient aggregation and mobilisation of capital for regional growth. As a grouping of capital market regulators in the region, the ACMF plays an important role in creating an enabling environment for facilitating regional integration, as well as the development of the requisite market infrastructure and regionally focussed products. Through these efforts, ASEAN issuers and intermediaries are able to operate in a more seamless cross-border regulatory environment, including lower friction costs and reduced time to market.

The ACMF has established a Streamlined Review Framework for the ASEAN Common Prospectus to shorten the time-to-market for cross-border offerings of equity and plain debt securities, thereby enhancing ASEAN’s attractiveness as a fundraising centre. In addition, the ASEAN Collective Investment Schemes (CIS) Framework was rolled out in 2015 to increase the cross-border product range and enhance ASEAN as an asset class. To date, 13 funds have been approved by their respective home regulators as Qualifying Collective Investment Schemes under the ASEAN CIS Framework.

Clearly, with the amount of potential talent the country has, along with the possibility to tap into the ASEAN market using Malaysia as the gateway, for investors looking to ride on the positive developments in the region, there is no better time than now.

Figure 3: % of Sukuk outstanding

Note: As of 30 June 2016
Source: ISRA & Zawya

Malaysia continues to be the global leader in the sukuk market, with 53% of USD321 bil total sukuk outstanding globally.

Gateway to ASEAN

As we embrace the advent of financial innovation, Malaysia continues to identify opportunities to grow its capital market through innovative market-based financing solutions. More recently, the role of sukuk in public good and social impact initiatives is gaining greater attention. In order to further promote inclusiveness in the capital market, we have widened the product range to include sustainable and responsible investment (SRI) instruments. The market has embraced this development positively, which resulted in the inaugural issuance of SRI sukuk in 2015 under a specially dedicated framework. This has opened doors of opportunities for philanthropists and CSR investors to participate in the sukuk market, thus further broadening the investor base for the industry. The underlying principles of the Islamic capital market encompass fairness, equality and ethics that lead to social well-being. SRI itself is an investment strategy which seeks to consider both financial return and social good by applying both positive and negative screens to include or exclude companies in a portfolio based on social, moral and ethical criteria.

Forging Ahead
Given that ICM echoes the principles of SRI, expanding the Malaysian capital market towards this emerging segment is a natural, forward progression. In creating a facilitative ecosystem for SRI, a holistic approach has been adopted to broaden the investor portfolio, build a strong SRI issuer base, widen the range of SRI instruments, as well as instil an internal culture, governance practices and information architecture.