

Digital Agenda for the Capital Market in Malaysia

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Malaysia's fintech sector continues to thrive on the back of a facilitative regulatory environment, enterprising entrepreneurs and a rapidly growing digital population.



Source: Malaysia FinTech Report 2022 (FinTech News Malaysia)

The SC had crafted a digital agenda for the capital market to achieve four specific objectives for the market and the Malaysian economy

1. Enhance Access to Financing

- Market-based Financing
 - i. ECF framework launched (2015) & 10 ECF operators registered
 - ii. P2P Financing framework launched (2016) & 11 operators registered
 - iii. PCF framework (2019) & IEO framework (2020) launched
- Secondary trading framework for ECF and P2P introduced (2020)

3. Augment Institutional Market

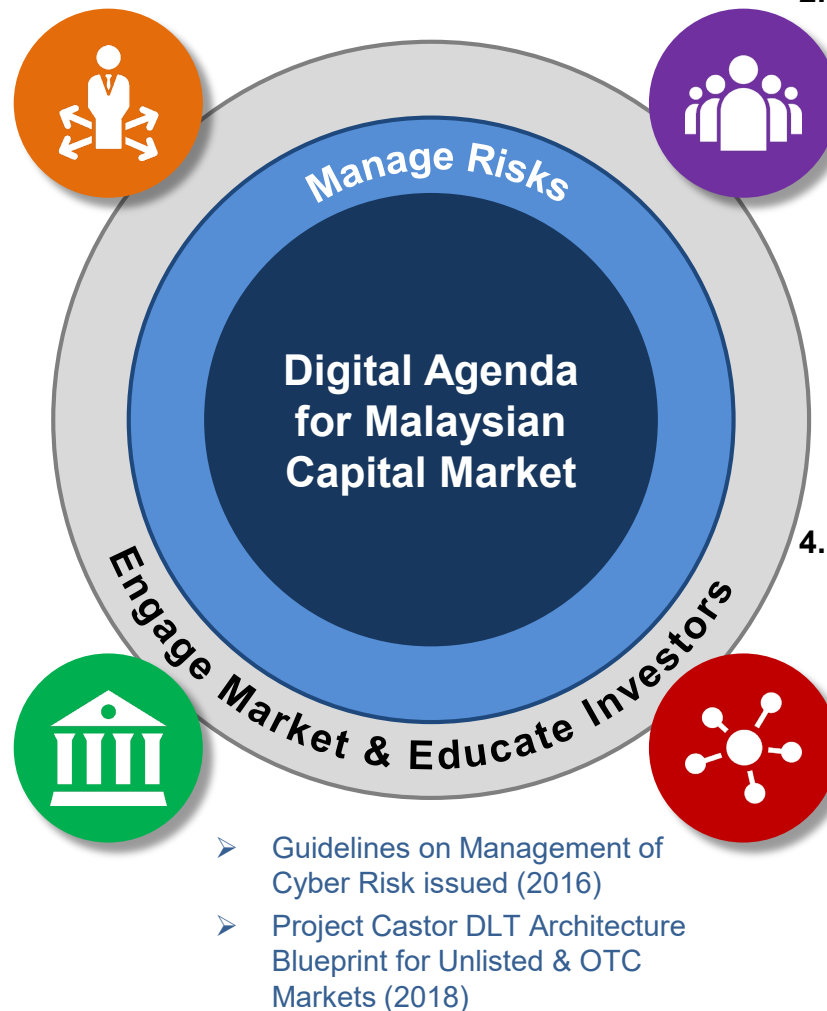
- Markets for OTC
 - i. Bond / Sukuk Information Exchange (BIX) launched (2017)
- Advanced Analytics adoption
- Internationalisation of Product Offerings

2. Increase Investor Participation

- Digital Investment Services
 - i. Digital Investment Management (DIM) framework launched (2017) and 8 players licensed
 - ii. Digitising Customer Experience and Traditional Distribution Channels
 - iii. Rakuten Trade licensed (2017)
 - iv. eServices Platform (eSP) framework launched (2020) and 2 operators registered
- Digital Assets
 - i. DAX framework launched (2019) and 4 operators registered

4. Develop Synergistic Ecosystems

- Custodial / Trustee Services, Rating Agencies, Guarantee Fund, Government Agencies, VC&PE, Industry Utilities
 - i. SC's aFINity program (Regular engagements with government agencies, incumbent players and techno-preneuers)
 - ii. Brokerage Industry Digitisation Group (BRIDGE) and Fund Management Digitisation Group (FMDG)
- Digital Assets
 - i. Digital Asset Custodian (DAC) framework launched (2020)



Equity Crowdfunding (ECF) regulatory framework was introduced in 2015



- Locally incorporated private companies and LLPs permitted as issuers
- Issuers are required to file a standardised disclosure document with the ECF platform operator providing key information on the issuer, the offering and the amount to be raised
- Fundraising capped at RM20 million in total per issuer

Issuer



- Platform operator registered as Registered Market Operator (RMO)
- Not allowed to conduct regulated activities unless licensed (CMSL)
- Disapplication of general solicitation rule under Companies Act 1965
- 3rd party (Trustee) to remit/handle monies

Platform



All-or-Nothing approach

Tiering of investors class:

- RM5k for retail investors for a single investment and, no more than RM50k within 12 months
- Up to RM500k for Angel investors within 12 months
- Unlimited amount for sophisticated investors

Investor

... followed by the Peer-to-Peer (P2P) Financing regulatory framework in 2016



Issuers



P2P operator



Investors

- Only for local businesses (No personal loan allowed)
- Rate of financing not more than 18% per annum*
- No concurrent hosting on multiple P2P platforms for same purposes
- No cap in funding sought
- Must raise at least 80% of the target amount
- Oversubscription not allowed
- All info disclosed to operator must be true and accurate

- Platform operator registered as RMO
- Minimum RM5 million paid-up capital
- Conduct background check and risk scoring
- Trust accounts for funds raised and repayments to investors
- Appoint Shariah Advisor (when applicable)
- Must disclose on platform:
 - Info relating to the issuers
 - Info on risk scoring mechanism, methodology and parameters adopted by the P2P operator
 - Default criteria, default management, statistics on late payment / default rate of issuers
 - info on processes / arrangement in the event the P2P operator is unable to continue its operations

- No investment limit for sophisticated and angel investors
- Retail investors are highly encouraged to limit P2P investment exposure at RM50,000 at any one time

In 2017, the Digital Investment Management framework was released as a new category of portfolio mgmt to support robo-advisory activities

Digital Investment Management is a fund management business incorporating innovative technologies into automated discretionary portfolio management services offered to client

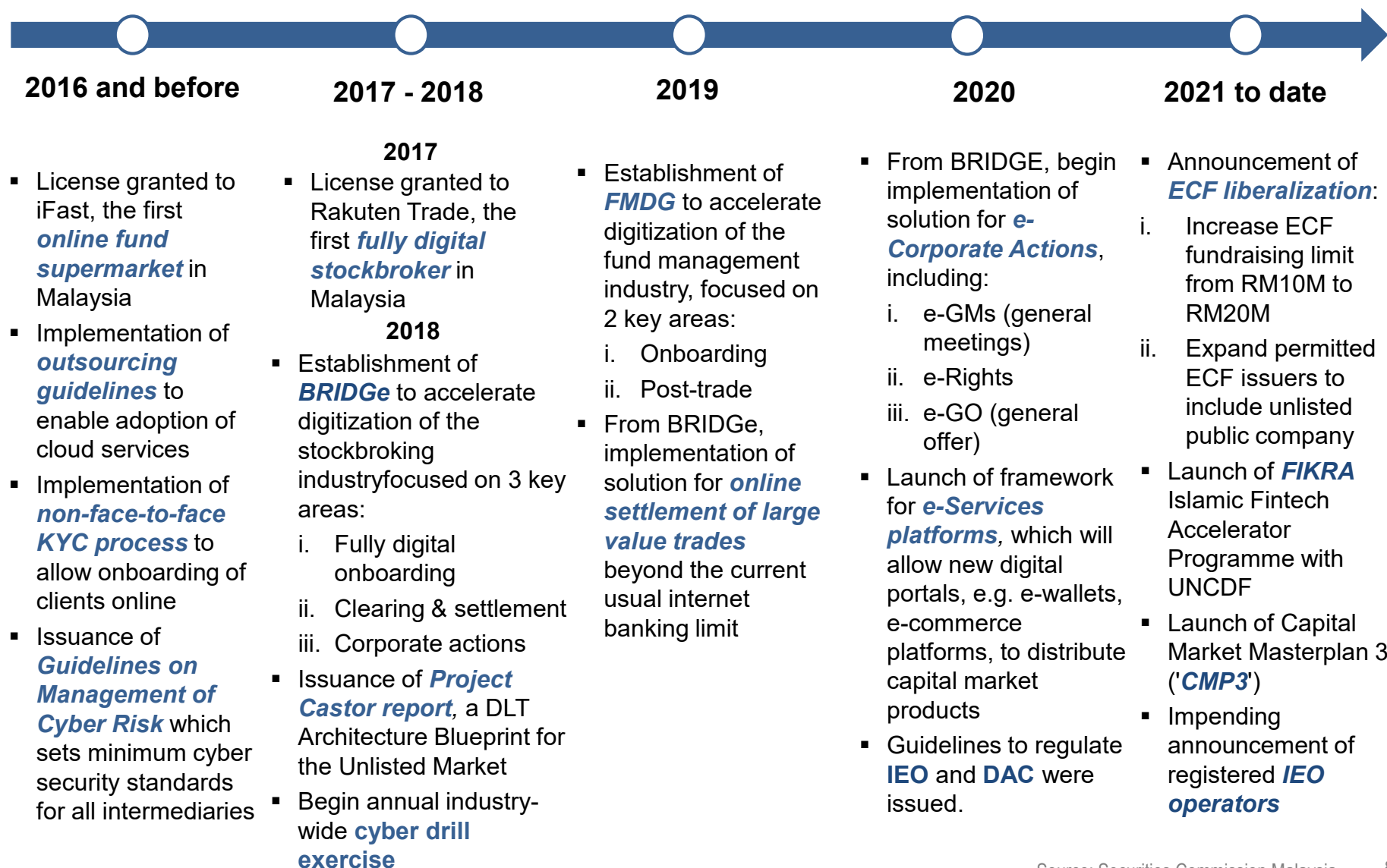
Key Fund Management Activities			
Understand Client Needs	Propose Solution	Implement Solutions	Monitor Results & Adjust Strategy
<ul style="list-style-type: none">▪ Gather client information▪ Understand needs & preference▪ Assess risk-tolerance	<ul style="list-style-type: none">▪ Select asset allocation▪ Select securities forming investment portfolio▪ Generate proposals	<ul style="list-style-type: none">▪ Persuade to action▪ Open accounts▪ Transfer funds▪ Execute & manage portfolio	<ul style="list-style-type: none">▪ Periodic performance review▪ Dashboards, status-alerts▪ Rebalancing of portfolio

The SC had in 2019 and 2020 implemented frameworks for DAXes, IEO fundraising platforms and DACs to regulate the DA ecosystem

Overview of regulatory framework for Digital Assets (DA)

Markets	Products	Activities
<ul style="list-style-type: none">▪ Any person who provides a platform for buying and selling of Digital Assets may be operating a market – including ATMs▪ Must be registered as a Digital Asset Exchange Operator (DAX) with the SC▪ SC had registered 4 DAX operators, with all 4 now live	<ul style="list-style-type: none">▪ The listing of new digital assets to be traded on DAXes is subject to SC approval. Currently there are 5 assets permitted for trade▪ Offering of digital assets to the public for fundraising is also a regulated activity▪ Such an offering can only be done via a SC-registered IEO platform, which will be responsible for due diligence and AMLA▪ Minimum disclosure requirements for whitepaper, as well as fundraising limits will be imposed	<ul style="list-style-type: none">▪ Any person providing services relating to Digital Assets will also be regulated▪ This now includes Digital Asset Custodians (DAC) which intend to provide custody for 3rd parties▪ Key requirements include AMLA, client asset protection and cyber security protections

In addition to introducing new digital business models, the SC has been working towards digitalizing traditional capital market sectors



Since inception, various capital market FinTech providers have achieved good early success in their respective areas

Alternative Financing through ECF & P2P Financing

21 Registered
ECF and P2P
operators

>48k

Successful
campaigns across
ECF and P2P

>6k MSMEs
successfully
raised funds

>3.9B

Total funds raised
thus far across ECF
and P2P (RM)

1.7M ECF Average
Fundraise
(RM42k – 18.9M)

55%

ECF Issuers
are tech
businesses

169k P2P Average
Fundraise (RM)
(Unsecured)
(RM38.6 – 17.2M)

63k

P2P Average
Fundraise (RM)
(Invoice)
(RM9 – 5.6M)

Data as at 30 Sep 2022

Source: Securities Commission Malaysia

Digital Investment Management

8 Licensed Digital
Investment
Managers

>1.3B Assets under
Management
(AUM) (RM)

>657k Accounts
opened

Data as at 30 Sep 2022

Digital Asset Exchanges

4 Registered DAX
operators

>2.9B Volume traded

Data as at 31 Dec 2022

Since inception, ECF and P2P financing have fundraised more than RM3.9 B benefitting 6,252 MSMEs

ECF and P2P markets as of 30 September 2022

3.9B

(2021: 2.7B)

total funds raised

ECF: 532.6M P2P: 3.4B

6,252

(2021: 4,556)

total MSMEs

ECF: 293 P2P: 5,959

48,442

(2021: 30,599)

successful campaigns

ECF: 315 P2P: 48,127

Increased participation from investors

>43k

(2021: >38k)

investors

79%

**of participating individual
investors are retailers**

ECF: 59% P2P: 87%

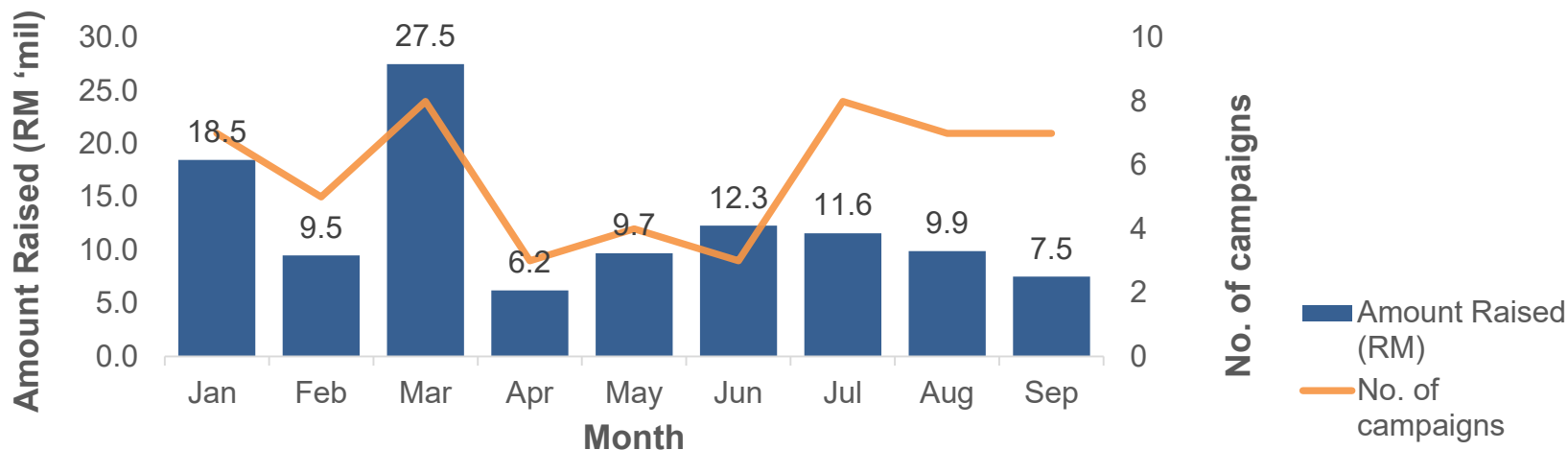
54%

investors are below 35 y.o

ECF: 44% P2P: 58%

After a phenomenal run in 2020-2021, ECF market witnessed some slowdown in 2022 YTD, with total funding raised decreased by 49% from 2021

ECF Market as of September 2022



Key Highlights (as of 30 September 2022)

52
MSMEs
successfully
raised via ECF
(2021: 104, -50%)

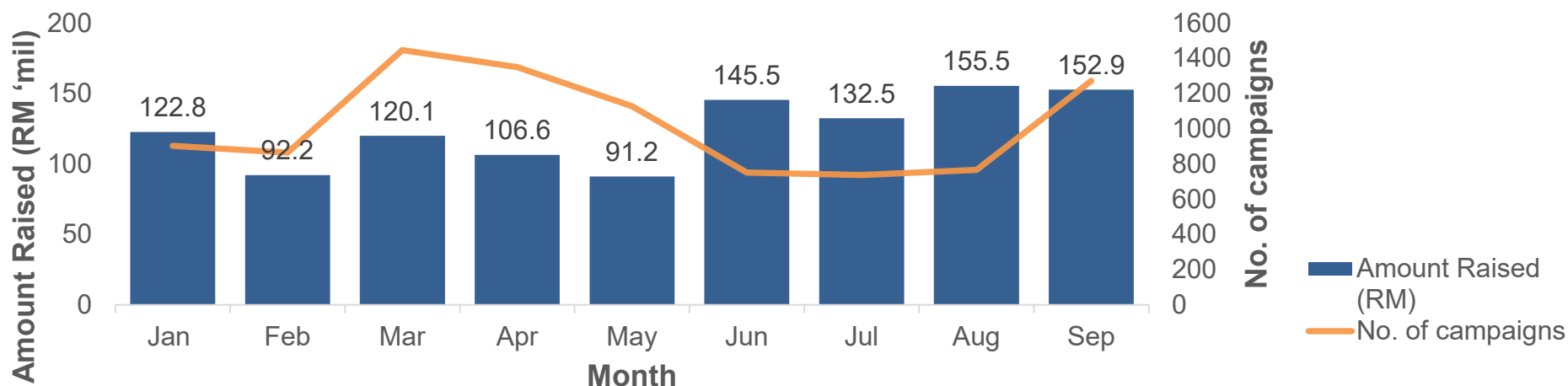
RM112.6M
total amount
raised (RM),
(2021: RM221.6M,
-49%)

RM1.7M
average fundraisi
ng amount
(2021: RM2.1M)

RM6.5k
average
investment
amount of retail
investors
(2021: RM8.2k)

P2P financing market has seen a slight decline in 2022 YTD, with total funding raised decreased by 2% from 2021

P2P Market as of September 2022



Key Highlights (as of 30 September 2022)

2,674
MSMEs
successfully
raised via P2P
(2021: 1,988
+34.5%)

1.12B
total amount
raised
(2021: RM 1.14B,
-1.8%)

73.5%
of notes issued are
short-term (tenure
of ≤ 3 moths);
RM63k is avg
amount raised for
short-term notes

RM560.6M
total investment
amount by
individual
investors
(2021: RM535M)

Risk and challenges of our FinTech industry

Cyber security and privacy protection

- As Fintech businesses are largely online, cyber security and more critically data privacy and confidentiality are of utmost importance.
- There is marked increase in cyber threat and incidents, resulting in data breach and consequential loss of business and reputation damages.

AML and cross-border transactions

- Convenience and fast transactions have been the main features of the new FinTech capabilities, especially in addressing specific industry issues eg cross-border transactions
- It is paramount that FinTech players adhere to the AML-CTF regulations. In specific instance, this applies not just to fiat money flow, but also underlying instrument (eg DA)

Investor education

- Investors need better education and constant reminders on the fundamental correlation between investment risk and returns so that they are not blinded by the appeal and shine of new technologies.

Food for further thoughts...

- ❑ How to regulate non traditional entrants like the big-techs which are venturing into the regulated FinTech domain? Do we regulate the whole entity or only parts?
- ❑ Who is accountable, should there be issues with regards to AI robo-advisors? (“Man vs Machine”)
- ❑ What if there is no specific legal entity directly tied to the FinTech entity (e.g. DAO)?
- ❑ Should there be a major incident which may systematically impact the ecosystem, do we terminate the one entity or ‘nuke’ the entire sector?
- ❑ How do regulators keep pace with emerging technology?