MALAYSIA

- **1930** — Singapore Stockbrokers' Association was established as the first formal securities business organization in then Malaya[1]
- **1937** — The Association was re-registered as the Malayan Stockbrokers' Association
- **1960** — Malayan Stock Exchange was established and public trading of shares commenced
- **1964** — Stock Exchange of Malaysia was established
- **1965** — Stock Exchange of Malaysia became the Stock Exchange of Malaysia and Singapore, with the secession of Singapore from Malaysia in 1965
- **1986** — Kuala Lumpur Stock Exchange (KLSE) Composite Index launched
- **1988** — KLSE Second Board launched
- **1997** — The Shariah-compliant securities list introduced
- **2002** — Launch of the MESDAQ market at KLSE
- **2004** — KLSE changed its name to Bursa Malaysia Berhad, following a demutualisation exercise
- **2005** — Bursa Malaysia listed on the Main Board of Bursa Malaysia Securities Berhad
- **2009** — New board structure comprising Main and ACE (Access, Certainty, Efficiency) Markets
- **2012** — ASEAN Trading Link was launched, connecting Bursa Malaysia and Singapore Exchange, and later joined by the Stock Exchange of Thailand
- **2017** — LEAP (Leading Entrepreneur Accelerator Platform) Market launched as an alternative platform for small and medium enterprises to raise capital

[1] *During the British colonial era, Singapore was part of the Straits Settlements, which were a group of British territories in Southeast Asia that included Penang and Malacca (states in Malaya and subsequently Malaysia).*

MALAYSIA

Jin Yoong Chong, CFA
Co-Founder, StudyLisa Education Platforms

Equity Market Capitalization (USD)	**369.06** Bn	**364.29** Bn	Debt Market Capitalization (USD)
Equity Market Cap/GDP	114%	114%	Domestic Debt Market Cap/GDP
Equity Market Share Volume Traded	**617,660** Mn	**158,070** Mn	Debt Market Instrument Volume Traded
Number of Listed Companies	932	75	Number of Issuers (Bonds)

As of June 2020

EQUITY CAPITAL MARKETS

Bursa Malaysia Berhad (formerly known as Kuala Lumpur Stock Exchange) traces its roots back to 1930 with the registration of the Singapore Stockbrokers' Association.[1] Securities were not traded until 1960, however, when the Malayan Stock Exchange was established to facilitate trading of public shares. The exchange had trading rooms in Singapore and Kuala Lumpur, linked by direct telephones lines into a single market. With the formation in 1963 of the Federation of Malaysia, which included Singapore, the Stock Exchange of Malaysia was established in 1964. Subsequently, following the secession of Singapore from Malaysia in 1965, the exchange was renamed the Stock Exchange of Malaysia and Singapore.[2] In 1973, the cessation of currency interchangeability between Malaysia and Singapore resulted in the split of the exchange into the Kuala Lumpur Stock Exchange and the Stock Exchange of Singapore. In 1989, the open outcry system in use at the Kuala Lumpur Stock Exchange was replaced by the implementation of SCORE (System on Computerised Order Routing and Execution).

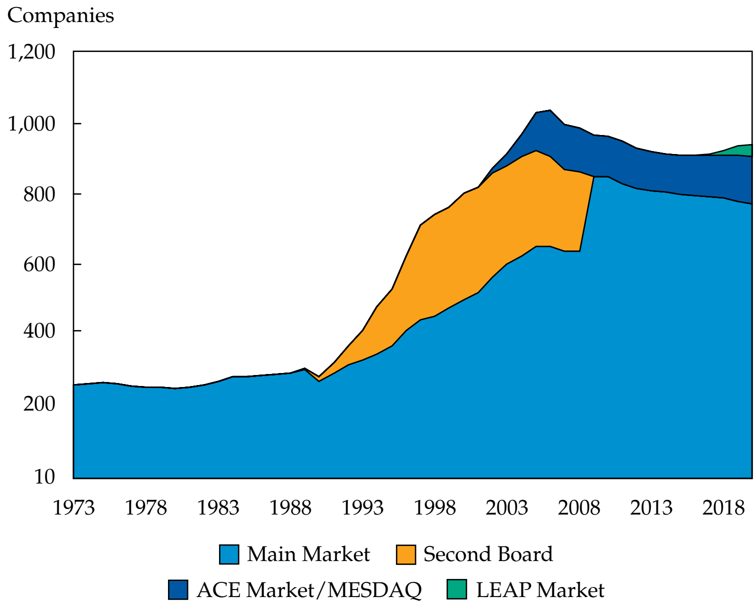
Malaysia boasts a prominent role in the field of Islamic finance, as demonstrated by the introduction in 1997 of the Shariah-compliant securities list by the Shariah Advisory Council (SAC) of the Securities Commission of Malaysia (SC).

Following a demutualisation exercise in 2004, the Kuala Lumpur Stock Exchange changed its name to Bursa Malaysia Berhad. And in 2005, Bursa Malaysia itself was listed on the Main Board of Bursa Malaysia.

As of 30 June 2020, the exchange lists 932 companies with the majority of the companies listed

[1]"Corporate History: A Brief Historical Background on the Exchange," Bursa Malaysia website: https://www.bursamalaysia.com/about_bursa/about_us/corporate_history.
[2]Effectively, the single exchange was serving two sovereign countries at this point.

FIGURE 1. NUMBER OF LISTED COMPANIES ON BURSA MALAYSIA (1973–2020)



on the Main Market. New listings via initial public offerings (IPOs) happen predominantly in the LEAP Market, which caters to smaller companies with a shorter track record of operations. The first half of 2020 saw a total of seven new listings, with all the IPOs occurring in the first three months of the year due to mid-March lockdowns imposed in response to the COVID-19 pandemic. The easing of these restrictions in late June resulted in a flurry of listing activity, with four IPOs in July alone.

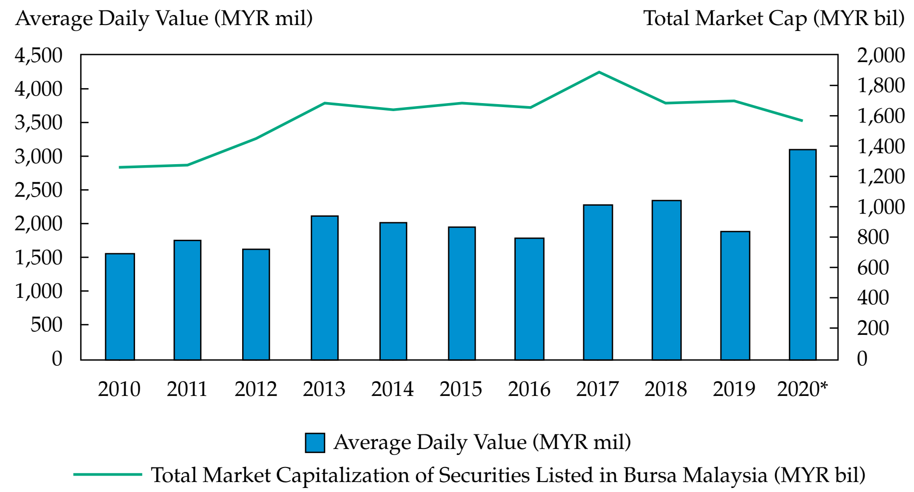
The total market capitalization for the exchange stands at USD369.06 billion as of 30 June 2020,[3] which is a drop of 9.9% in the local currency compared with a year ago, mostly attributed to the impact of the global pandemic that occurred in 2020.

The number of listed companies across the different markets in Bursa Malaysia between 1973 and 2020 is illustrated in **Figure 1**. In 2009, the Main and Second Boards were merged into the Main Market and the MESDAQ Market was reformulated into the alternative ACE (Access, Certainty, Efficiency) Market. The exchange was further complemented with the launch of the LEAP (Leading Entrepreneur Accelerator Platform) Market in 2017. The Main Market is the prime market for established companies that have met the standards in terms of quality, size, and operations. Potential issuers aiming to list on the Main Market must demonstrate operating and profit track records coupled with minimum size as measured by market capitalization. The Main Market also caters to listings for foreign companies including secondary listings.

The ACE Market is a sponsor-driven market designed for companies with growth prospects

[3]USD/MYR: 4.2800 on 30 June 2020 as per BNM's Exchange Rate page. Data from www.sc.com.my/analytics/equities.

FIGURE 2. TOTAL MARKET CAPITALIZATION OF SECURITIES LISTED IN BURSA MALAYSIA AND AVERAGE DAILY VALUE OF TRANSACTIONS



*As of 30 June 2020. All other figures are as of 31 December (average for a full year) of the indicated year.

but lacking an operating track record. Prior to 3 August 2009, it was known as the MESDAQ Market. Sponsors, which are typically investment banks or brokerage firms, perform the role of assessing the suitability of the potential issuers, taking into consideration such attributes as business prospects, corporate conduct, and adequacy of internal control. The ACE Market also facilitates listings for foreign companies but only for primary listings.

Finally, the LEAP Market is an adviser-driven market catering to emerging companies, including small- and medium-sized enterprises looking to tap the capital markets for fund raising. Shares listed on this market are accessible only to sophisticated investors. Hence the LEAP Market has a significantly lower secondary trading volume and liquidity due to the significantly smaller addressable investor base.

The volume of trading on Bursa Malaysia displayed an upward trend over the past 10 years as reflected in the Average Daily Value in **Figure 2**. A notable exception was observed in the year 2020, when nationwide lockdown measures introduced to combat the pandemic resulted in a huge influx of retail investors, causing an upward spike in trading activity.

DEBT CAPITAL MARKETS[4]

Public Debt

The Malaysian bond market started in the 1970s with the government issuing Malaysian

[4]For more information on the debt markets in Malaysia, see Muhammad bin Ibrahim and Adrian Wong, "The Corporate Bond Market in Malaysia," *BIS Papers*, No. 26, Part 16 (February 2016): https://www.bis.org/publ/bppdf/bispap26p.pdf. Also see Dato' Salleh Harun, "The Development of Debt Markets in Malaysia," *BIS Papers*,

Government Securities (MGS) to meet the funding needs of the country's public sector development expenditure at the time. MGS also served the purpose of meeting the investment needs of the Employees Provident Fund (EPF), local banks, and insurance companies in Malaysia. Between 1988 and 1997, however, MGS issuance slowed in line with the government's policy to increase the private sector's contribution towards economic growth.

The MGS issuance calendar outlines the timing, tenure, and issuance method (new issue/re-opening), which are announced at year-end for the following year to enhance market transparency. The actual issuance size is announced a week before the issuance date. Typical issuance sizes range from MYR1 billion to MYR4.5 billion, depending on government financing requirement. The government continuously issues 3-year, 5-year, 7-year, and 10-year MGS as benchmark (on-the-run) securities as part of its commitment to develop and maintain the benchmark yield curve. Benchmark securities are often reopened to enlarge outstanding size in order to improve market liquidity.

In addition, the government also offers the Government Investment Issues (GIIs), which is a type of Islamic security. GIIs are issued to facilitate Islamic banks' compliance with their statutory liquidity requirements. The issuance of these securities also enables banks to invest their liquid funds in instruments that adhere to Shariah principles, as Islamic banks cannot purchase or trade MGS, Malaysian Treasury Bills (MTB), or other interest-bearing instruments.

MGS and GII issuances are conducted on a competitive auction basis via the principal dealer (PD) system in Malaysia. The central bank, Bank Negara Malaysia (BNM), appoints selected banking institutions biannually as PDs based on a set of criteria. These criteria include the ability to handle large-volume transactions as measured by participation in primary auctions, secondary market trading volumes, and overall risk management capabilities. The PDs are obliged to bid for all government papers in the primary market, effectively underwriting all government issuance. PDs are also required to provide two-way price quotations for benchmark securities to ensure liquidity in the secondary market.

Private Debt

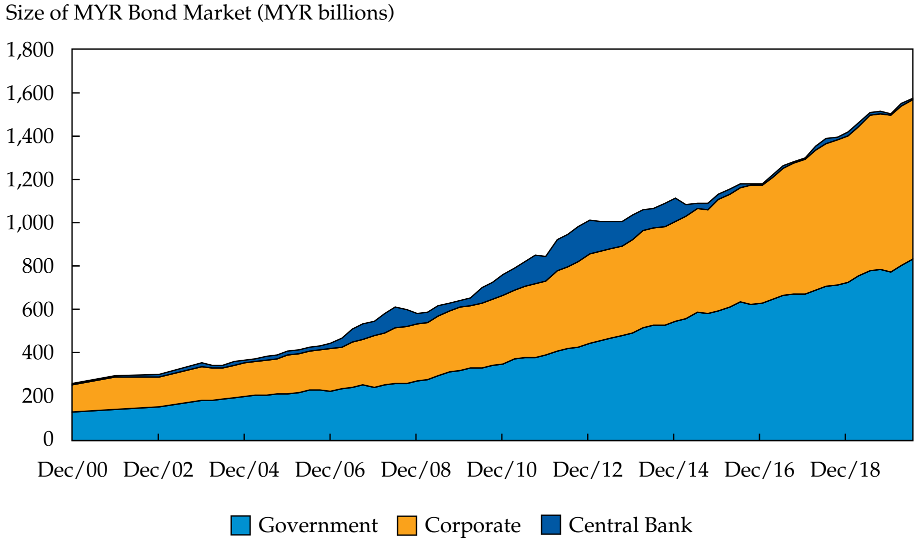
In the mid-1980s, the private sector started to play an increasingly important role in the development of the Malaysian economy. During that period, the corporate sector's primary source of financing was bank loans. This led the government to prioritize the development of the corporate bond market to diversify financing channels for the private sector. The Asian financial crisis that occurred in 1997–98 led the government to accelerate its efforts to develop the corporate bond market as an alternative source of finance for the private sector and to reduce funding mismatches.

Over the past 30 years, the government's effort to develop the Malaysian bond market have been a resounding success. The growth in the size of the bond market compared to domestic bank credit has been significant. The other notable achievement is the successful promotion of the Islamic bond market. Islamic bonds, which comply with Shariah principles, have played a major role in Malaysia's capital market development, contributing to the significant growth of the country's Islamic financial system.

The Malaysian corporate debt market has witnessed enormous growth, rising from

No. 11 (June–July 2002): https://www.bis.org/publ/bppdf/bispap11m.pdf.

FIGURE 3. SIZE OF BOND MARKET CATEGORIZED BY ISSUER



MYR4.1 billion in private debt securities (PDSs) outstanding in 1989 to approximately MYR698 billion in 2019,[5] a 170-fold increase, as illustrated in **Figure 3**. In addition, the Malaysian corporate bond market represents over 50% of the country's GDP in 2019. In stark contrast, corporate debt accounted for only 0.5% of the country's GDP in 1987.

ALTERNATIVE FUNDRAISING CHANNELS[6]

In 2015, the Securities Commission Malaysia (SC) introduced two alternative financing platforms via equity crowdfunding (ECF) and peer-to-peer (P2P) lending Both are essentially platforms that facilitate funding for companies or ventures by raising many small individual amounts of money from a large number of people. These platforms are set up to cater to the unique requirements of businesses, particularly micro, small, and medium enterprises (MSMEs), which traditionally have encountered challenges in raising capital. The ECF and P2P platforms were promoted as means to connect issuers with traditionally untapped pools of investors through cheaper, faster, and more convenient delivery channels. These alternative channels also aim to meet the demands of underserved investors.

Since the first license was awarded in 2015, the number of ECF platforms has grown to 10. These platforms have facilitated 106 successful fundraising (crowdfunding) campaigns, raising a total of MYR110.26 million via the issuance of equity (mostly in the form of preference shares) for 102 private limited companies.

[5]This total includes corporate bonds and sukuk. Data were retrieved from "Bonds & Sukuk Market Overall Statistics," SC Malaysia website: https://www.sc.com.my/analytics/bonds-sukuk-market.

[6]All numbers are cumulative (up to 30 June 2020) since inception and are based on data from the SC website Crowdfunding Statistics, Securities Commission Malaysia: https://www.sc.com.my/analytics/ecfp2p.

Conversely, P2P lending platforms have helped 2,231 issuers to raise MYR798.32 million of debt capital via the issuance of short-term notes. The P2P lending platforms also facilitate supply chain and invoice financing for their clients. The tenor of these borrowings typically ranges between 3 and 12 months. There are currently 11 licensed P2P platforms. Default rates across the platforms range from a low of 1.34% to a high of 10.42% as of September 2020.[7] The wide range of default rates could be attributed to the difference in size, credit risk, and concentration of loans across the platforms.

The largest group of investors in these platforms are those less than 35 years old. This group accounts for 46% of ECF investors and 63% of P2P lenders, which is consistent with the aim of reaching out to underserved investors. Naturally, retail participants form the bulk of the investor base with 60% and 88%, respectively, for ECF and P2P platforms. It should be noted that, at present, these platforms do not facilitate secondary trading of the securities issued.

ECF and P2P platforms are licensed under SC as Registered Recognized Market Operators. The other platforms are the Digital Asset Exchanges (DAX) and Property Crowdfunding (PCF). DAX are essentially cryptocurrency exchanges that operate in Malaysia.[8] All these alternative markets have only been formally introduced/regulated in the last five years, coinciding with the emergence and increasing prominence of FinTech in the traditional finance and banking sector.

DERIVATIVES

Palm oil is the most important commodity crop in Malaysia. This was a result of the government diversification program in the 1960s to reduce Malaysia's dependency on rubber and tin, which used to be core export commodities. Hence, crude palm oil (CPO) futures were one of the earliest derivatives to be traded when the Kuala Lumpur Commodity Exchange (KLCE) was launched in July 1980; the KLCE was the first futures exchange in southeast Asia.

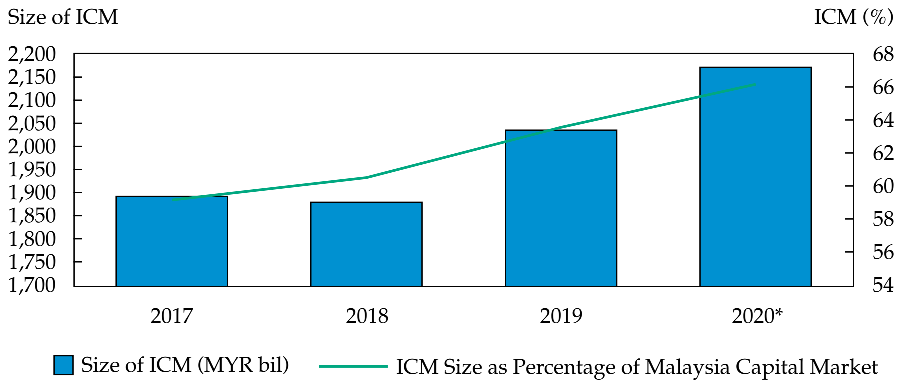
Stock index futures and stock index options were first traded on the Kuala Lumpur Options and Financial Futures Exchange (KLOFFE) on 15 December 1995 and 1 December 2000, respectively. Separately, in 1996, the three-month Kuala Lumpur Interbank Offered Rate (KLIBOR) futures contract was launched in Malaysia via the Malaysian Monetary Exchange (MME). By 2001, KLCE, MME, and KLOFFE were ultimately merged to form the Malaysia Derivatives Exchange Berhad (MDEX). Subsequently, in 2004, MDEX was renamed Bursa Malaysia Derivatives Berhad (BMD).

Bursa Malaysia Derivatives Berhad currently offers three categories of derivative products—namely, commodity derivatives, equity derivatives, and financial derivatives. The commodity derivatives space has the largest range of tradable contracts, consisting of six types of futures contracts and two types of option contracts. CPO and CPO-related contracts dominate this segment, given the importance of this commodity to Malaysia's economy. Currently, CPO futures constitute the bulk of the derivative trading volume in Malaysia. This CPO futures contract is now the global price benchmark for crude palm oil, for traders both in the physical edible oil industries or biodiesel energy and in the commodity futures trading markets.

[7]For more detailed information about P2P lending in Malaysia, see Jen-Li Lim, "What You Need to Know about P2P Lending in Malaysia," iMoney.my (10 September 2020): https://www.imoney.my/articles/p2p-lending-guide.

[8]Digital assets, such as Bitcoin and other cryptocurrencies, are prescribed as securities under Malaysia's Capital Markets and Services (Prescription of Securities) (Digital Currency and Digital Token) Order 2019.

FIGURE 4. SIZE OF MALAYSIAN ISLAMIC CAPITAL MARKETS



*2020 numbers as of June 2020.

Source: Securities Commission Malaysia. "Statistics for Islamic Capital Market in Malaysia" (30 November 2020): https://www.sc.com.my/analytics/islamic-capital-market.

The equity derivative space consists of three types of futures contracts (most notably the KLCI Futures) and one option contract. Finally, the financial derivatives consist of the three-month KLIBOR futures and MGS futures.[9]

Despite the breadth of derivative products offered on Bursa Malaysia, equity-linked derivatives are still predominantly traded in the form of warrants listed on the Bursa Malaysia Main Market, including single stock warrants as well as warrants with indices as the underlying.

ISLAMIC CAPITAL MARKETS

The world's first contemporary sukuk issuance originated from Malaysia in 1990. This USD125 million sukuk was issued by Shell MDS (Malaysia) Sdn Bhd. Since then, the Malaysian government and regulatory authorities have continuously introduced measures to position Malaysia as a hub for Islamic financial market activities.

Among the many firsts achieved by Malaysia are the world's first Islamic real estate investment trust (REIT), the Al-Aqar KPJ REIT (which was invested in six hospitals), and Khazanah's issuance of the world's first exchangeable sukuk, the Islamic equivalent of an exchangeable bond. Both of these innovative instruments were issued in 2006.

Today, Malaysia continues to maintain its leadership in the Islamic capital market (ICM), particularly in the area of sukuk and Islamic funds. **Figure 4** shows how, as of the end of 2019, the Islamic capital market represented 63.57% of Malaysia's capital market, with a market size of MYR2,035.58 billion as of December 2019.[10] Globally, within the domestic sukuk issuance space, the Malaysian market contributed more than 50% of the total USD107.26 billion issuance in 2019.[11]

[9]There are three contracts covering the 3-, 5-, and 10-year benchmark (on-the-run) MGS.

[10]Securities Commission Malaysia, *Annual Report 2019* (December 2019): https://www.sc.com.my/resources/publications-and-research/sc-ar2019.

[11] *IIFM Sukuk Report 2020: A Comprehensive Study of the Global Sukuk Market* (9th edition), International Islamic

Within the equity markets, the market capitalization of Shariah-compliant publicly listed companies continues to account for the majority of the listed companies. In June 2020, the market capitalization of these Shariah-compliant companies totalled MYR1,072.92 billion as compared with the total market capitalization of MYR1,579.59 billion.

THE ROAD AHEAD: CHALLENGES

Acceleration in Digitization Efforts

The COVID-19 pandemic in 2020 has affected every segment of the economy including the capital markets. However, one positive outcome is that the ongoing digitization initiatives have now been accelerated.

In 2018, the SC launched the Brokerage Industry Digitisation Group (BRIDGe) to improve the competitive position of the Malaysian stockbroking industry. BRIDGe is a multilateral partnership between the SC, Bank Negara Malaysia, Bursa Malaysia, and industry participants. The BRIDGe working group concluded in 2019 with recommendations to implement the following initiatives:

- digital client onboarding experience;
- seamless and efficient post-trade and settlement experience;
- e-corporate actions for greater adoption and transparency.

Return of Retail Participation in Equity Markets

The year 2020 witnessed a sharp increase in retail participation in the equity markets to levels not seen since the mid-1990s. The ease of online trading coupled with a robust flow of information in the age of social media have facilitated a change in the demographics of investors. The emergence of a younger generation of investors who are tech-savvy and less risk-averse has contributed to the increasing risk appetite seen in the markets. However, concern about these investors' level of financial literacy remains. There has been a significant increase in online blogs, discussion platforms, and social media channels that focus on listed stocks. All these information sources are outside the typical regulatory oversight, causing justifiable concerns. This is not unique to Malaysia alone but also is a concern in other countries.

Low-Yield Environment and Credit Concerns for Bond Markets

The onset of the pandemic in 2020 triggered massive monetary and fiscal stimulus measures in most economies. Malaysia is no different, leading to strains on the government fiscal condition and yields at all-time lows.

Secondary trading activity in the fixed income markets continues to be dominated by government-guaranteed bonds and AAA rated securities. The sheer size of issuance and outstanding amount of these high-quality papers will ensure that this remains the case for the foreseeable future.

Financial Market (July 2020): https://www.iifm.net/sukuk-reports.

With the central bank having cut policy rates aggressively in 2020,[12] coupled with expectations for an extended low interest rate environment, portfolio managers will have a challenge seeking meaningful returns in the bond markets. Defaults and downgrades are also expected to increase in sectors affected by the lockdown measures as credit risk concerns intensify.

[12] The overnight policy rate (OPR) was cut from 3.00% in January 2020 to 1.75% in July 2020.