OVERVIEW OF MALAYSIAN STOCK MARKET

This topic is intended as a brief introduction by way of providing an overview of the stock markets. We will examine the stock exchange which provides the market for trading securities, and the particular characteristics of the Malaysian stock Market, as well as look at the players who invest in the stock market.

DEVELOPMENT AND IMPACT OF TECHNOLOGY ON SECURITIES TRADING

Technology is a core enabler of securities trading as the modern-day stock exchanges no longer run on an open outcry system. Advances in technology have also helped reduce transaction costs for all participants and have also made trading more efficient, convenient and accessible.

Online Trading

Online trading is a process by which individual investors and traders buy and sell securities using an electronic network, typically with a brokerage firm. It first started in America in 1994 and subsequently grew in popularity globally along with the growth of the internet. Brokerage firms offer a lower trading commission through this medium of transaction, hence the term “discount brokerage”. Online trading got a further boost when smart mobile phones were invented in 2007. Today, online trading orders can be transmitted via a web-browser or mobile phone application offered by most brokerage firms.

Many Participating Organisations in Malaysia have been offering online trading via the web or mobile phone application to their customers for over a decade now. While the trading and settlement process remains the same as an offline transaction, online trading allows clients to check prices and transaction status in a convenient manner. Through online trading accounts, clients can execute their trades at a lower commission rate. Hitherto, Participating Organisations offered multiple channels for trading and allowed customers to trade on a “contra” basis. In May 2017, a fully online trading platform which required payment upfront was launched. Such platforms charge a flat fee that is lower than conventional online trading platforms.

Algorithmic Trading

Algorithmic trading (algo-trading) is the process of using computers programmed to follow a define set of instructions for placing a trade. The defined sets of rules may be based on timing, price, quantity or any mathematical model. Apart from profit opportunities for the trader, algo-trading makes markets more liquid and trading more systematic by ruling out emotional human impacts on trading activities. A subset of algo-trading is high frequency trading (HFT), where the set of instructions are carried out at a speed and frequency that is impossible for a human trader.

Besides short-term traders, algo-trading is also used by mid- to long-term institutional investors to transact a large block of securities without adversely affecting their position, by executing the trades with smaller and discreet transactions. Systematic traders also use algo-trading to operationalise their trading rules and allow the programme to trade for them automatically.

Algo-trading was mainly the domain of professional traders and institutional investors and has been in practice since online trading was made possible with the advent of the world-wide web. With improvements in technology, especially since the smartphone era and liberalisation of securities trading rules, retail traders have also got involved in algo-trading in the developed markets in the last decade. Algo-trading is limited to the markets and types of assets that can be traded. For instance, it is more likely to be available on platforms for trading in over-the-counter (OTC) products such as foreign exchange and OTC derivatives than for exchange traded stocks.

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Distributed Ledgers

A distributed ledger is a set of digital data which is replicated, shared, and synchronised, and geographically spread across multiple sites with no central administrator or centralised data storage. One form of the distributed ledger design is the blockchain system, which can be either public or private.

A blockchain is a list of records, called blocks, which are linked and secured using cryptography. Each block typically contains a hash pointer as a link to a previous block, a timestamp and transaction data. It is an open, distributed ledger that can record transactions between two parties in a verifiable way. Foruse as a distributed ledger, a blockchain is typically managed by a peer-to-peer network collectively adhering to a certain protocol for validating new blocks. Once recorded, the data in any given block cannot be altered retroactively without the alteration of all subsequent blocks, which requires collusion of the network majority. This makes blockchains inherently resistant to modification of the data.

Blockchains are secure by design and are an example of a distributed computing system with high resistance to Byzantine failures. Decentralised consensus has therefore been achieved with a blockchain. This makes blockchains suitable for the recording of events, medical records, and other records of management activities, such as contracts, currencies or voting. The first blockchain was conceptualised in 2008 by an anonymous person or group known as Satoshi Nakamoto and implemented in 2009 as the technology enabling the world's first cryptocurrency, Bitcoin. The Bitcoin design has been the inspiration for other crypto-currencies and applications.

The use of blockchain in Malaysia is still at its infancy and mostly involve or is associated with digital currencies. Many countries, including Malaysia, do not license, authorise or endorse any digital currency exchanges or any entities involved in providing services associated with digital currencies.

Digital currencies are not legal tender in Malaysia. Accordingly, digital currency businesses are not covered by prudential and market conduct standards or arrangements that are applicable to financial institutions regulated by Bank Negara Malaysia.

Crowd-funding

Crowdfunding is the practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet. It combines the best of crowdsourcing and microfinance and is an industry that is in excess of RM1 trillion globally as of early 2017. The following are some common types of crowdfunding.
(a) Reward-based - With reward-based crowdfunding, people can pledge money to a new creative project or a novel technology product in development. The persons providing the funds expect to receive the output of the project that is being funded.
(b) Donation-based - The persons providing the funds are just giving away their money outright and do not expect any reward or returns.
(c) Peer-to-peer (P2P) lending - This enables the borrower to get access to funds outside of traditional banking channels. The persons willing to take a little risk to lend out money to others can create portfolios consisting of microloans through these online P2P platforms. Companies licensed by the SC as at July 2018 include B2B Finpal Sdn Bhd, Ethis Kapital Sdn Bhd, FBM Crowdtech Sdn Bhd, Modalku Ventures Sdn Bhd, Peoplelender Sdn Bhd, and QuicKash Malaysia Sdn Bhd.

(d) Equity Crowdfunding - Equity crowdfunding enables real investments in private companies without investors having to transact through their stockbrokers. This is the smallest segment of the crowdfunding industry but can significantly change the way individuals invest their money. Companies licensed by the SC as at July 2018 are Ata Plus Sdn Bhd, Crowdo Malaysia Sdn Bhd, Eureeca SEA Sdn Bhd, FBM Crowdtech Sdn Bhd, Funnel Technologies Sdn Bhd, Pitch Platform Sdn Bhd, and CrowdPlus Sdn Bhd.

Robo-Advisors

Robo-advisors are digital platforms that provide automated, algorithm-driven financial planning and investing services with little to no human intervention. A typical robo-advisor collects information from clients about their financial situation and future goals through an online survey, and then uses the data to offer advice and could automatically invest client assets.

Initially developed to complement financial advisors at the institutional or high-net-worth client segments, these platforms are now available to retail investors. This is possible because of the smaller lot size for securities transactions, lower trading commissions, and availability of more ETFs to allocate the client assets to.

In May 2017, the SC introduced the Digital Investment Management framework, setting out licensing and conduct requirements for the offering of automated discretionary portfolio management services to investors. Although several fintech firms are reportedly seeking to be licensed to provide robo-advisory in Malaysia, as of July 2018 none has been issued such a licence by the SC.