

















Suruhanjaya Sekuriti
Securities Commission
Malaysia

BRIDGE

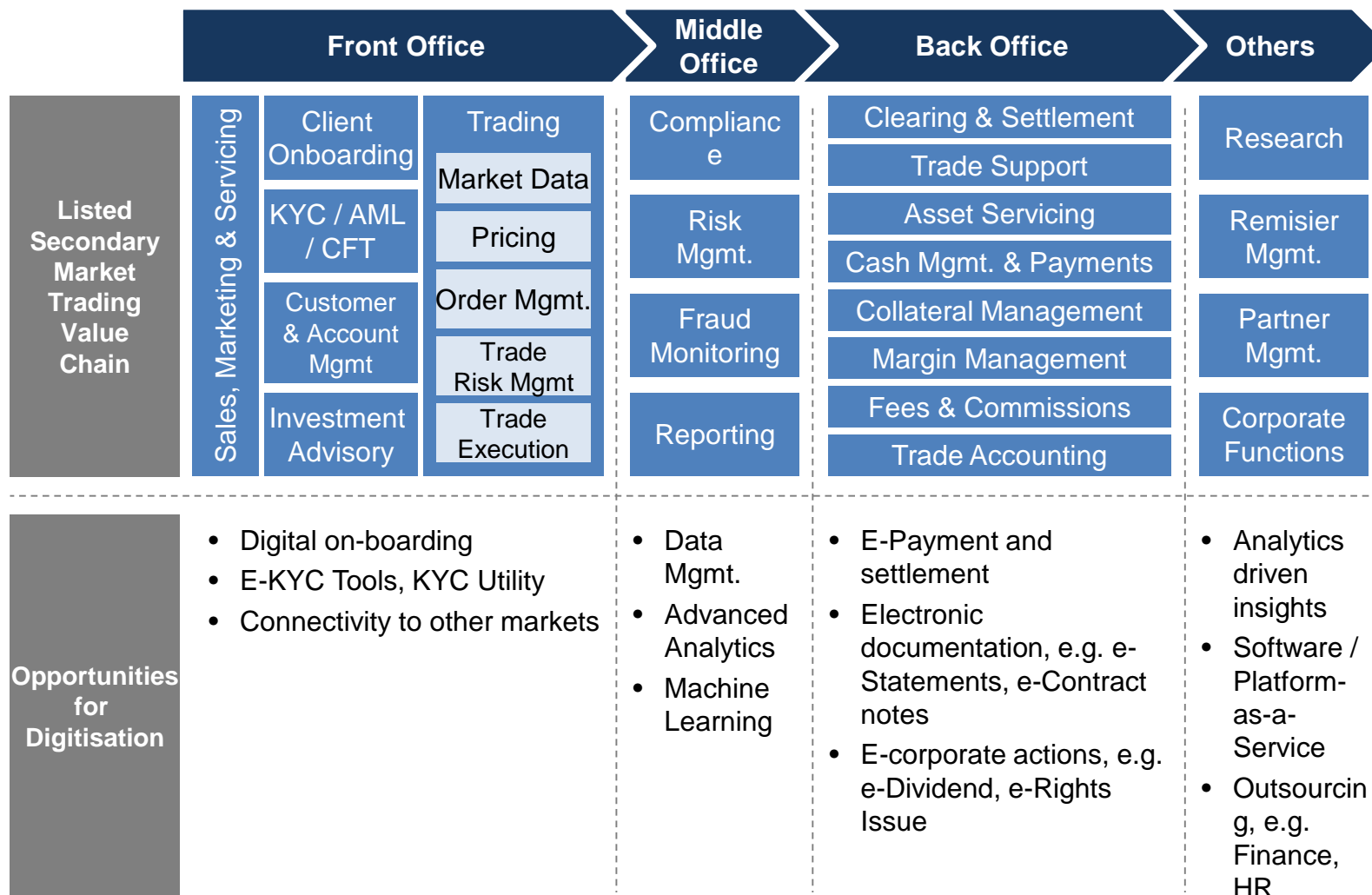
Digitising the broking industry

9 August 2018

There are several key trends driving the need for the brokerage industry to digitise in order to remain competitive and relevant

Industry Trends Driving Digitisation		Examples
Changing Customer Behaviour	<ul style="list-style-type: none"> ▪ Proliferation of digital devices in the hands of retail investors ▪ New customer experience driven by digital companies providing instant gratification at low or zero cost 	 
Emergence of New Models of Trading	<ul style="list-style-type: none"> ▪ Rise of algorithmic trading, social investing and trade mimicking as investors seek new forms of investment advice and greater returns ▪ Emergence of fractional investing as prices of stocks rise beyond the means of retail investors 	 
Alternative Venues of Liquidity	<ul style="list-style-type: none"> ▪ New trading venues, whether it be exchanges or alternative trading systems coming to market creating pockets of liquidity with specific order types and to benefit specific niche of investors 	 
Alternative Fundraising Avenues	<ul style="list-style-type: none"> ▪ Increase tendency for companies to remain private as VC/PE capital remain readily available ▪ New alternative avenues to fundraise such as ECF, P2P and ICOs 	 
Emergence of RegTech	<ul style="list-style-type: none"> ▪ Margin compression and rising cost of compliance driving brokers to turn to more sophisticated digital tools, market utilities and outsourcing to more efficiently manage regulatory burden 	 
Proliferation of Data Analytics	<ul style="list-style-type: none"> ▪ Specialised analytics companies providing insights as a service ▪ Providers of non-traditional sources of data gaining prominence as institutional investors become increasingly sophisticated 	 
Modernising post-trade	<ul style="list-style-type: none"> ▪ Exchanges beginning process to modernise old clearing and settlement systems and processes, including experimenting with distributed ledger technologies (DLT) 	 

Opportunities exist for digitisation across the value chain for industry transformation



Digitisation is expected to enable the brokerage industry to...



Improve the experience of customers who are in search of for more transparent services and instant information



Address rising costs and shrinking margins resulting from new entrants to the capital market landscape



Attract new and younger customers with different needs and preferences



Cater to the fluid nature of work today through the provision of more mobile services

Through BRIDGE we aim to accelerate the digitisation of the brokerage industry

What it is today

Target for New Industry Baseline

Front Office

- Manual account opening process
- Slow customer onboarding process (sometimes >1 day)
- Archaic digital trading experience with limited functionality

- Fully digital end-to-end customer onboarding process
- Use of digital marketing and social media channels
- Enhanced digital experience

Middle Office

- Manual reconciliation of data
- Creation of reports still frequently require human intervention
- Human monitoring of risk, fraud and compliance

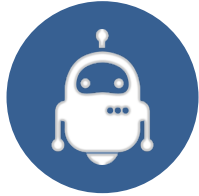
- Machine-generated reporting in machine-readable formats
- Use of analytics in risk management
- Tech-supported screening and monitoring

Back Office

- Sizable portion of trades still settled using cheques
- Customers still opting for physical contract notes and statements
- IPOs and Rights Issue still largely manual

- Electronic payment for settlement
- Complete electronic contract notes and statements
- Corporate actions offered digitally to investors and electronic processing

Objectives of BRIDGe



To accelerate the digitisation of the country's stockbroking business

- Fully digitise customer on-boarding to enhance user experience
- Provide seamless and efficient post trade and settlement experience
- Automate and digitise corporate actions to enhance transparency and efficiency



Facilitate for collaboration amongst regulators, exchange, brokers and banks to enhance the efficiency of the industry and resolve challenges to meet the overall goals

What we understand are the challenges

Key areas to address

Challenges

Digital onboarding and e-KYC

- CDS account opening process not fully digital. Some of the issues include:
 - Manual intervention to setup CDS account with investors providing a wet signature
 - KYC and CDD checks done manually by individual brokers
 - Lack of centralised information on defaulters

Post-trade and settlement

- Daily limit on inter-bank transfers encourages investors to write cheques to settle their trades
- Manual trade settlement by investors results in late settlement
- Retail investors generally reluctant to migrate to electronic means for trade and settlement

E-corporate action

- Automation and communications on corporate actions largely manual, resulting in inefficiencies
- Delay in share consolidation confirmation results in investors overselling their shares. Brokers are sometimes forced to absorb losses for their clients

Working group representatives are welcome to discuss further issues that are limiting the digitisation agenda of the industry, beyond those addressed by BRIDGE

As a start, common areas of concern were identified which the BRIDGE working groups should address (1/3)

Digital on-boarding issues

Issue of concern	Action Required
Fully Digital Account Opening Process and Maintenance of CDS Account	
<ul style="list-style-type: none">▪ Process of opening a CDS account remains largely manual - requiring a wet signature from clients which extends downwards to account maintenance activities.	<ul style="list-style-type: none">▪ To work with Bursa to facilitate web signature for CDS account opening and account maintenance activities.▪ To arrange for better information sharing between Bursa and brokers to promote digitise CDS account opening process.
Proposal for Common Industry e-KYC Platform	
<ul style="list-style-type: none">▪ KYC and CDD checks are handled individually and separately by each broker.	<ul style="list-style-type: none">▪ To work towards implementation of industry wide e-KYC platform.
Defaulters List	
<ul style="list-style-type: none">▪ Defaulters' List was previously maintained by Bursa but it has now since ceased	<ul style="list-style-type: none">▪ To determine the best course of action for the Defaulters' List to be re-published and maintained.

As a start, common areas of concern were identified which the BRIDGE working groups should address (2/3)

Post trade and settlement issues

Issue of concern	Action Required
Electronic Transfer Daily Limit	
<ul style="list-style-type: none">Daily limit on inter-bank electronic transfers limits trade settlement and forces investors to write cheques to settle their trades.	<ul style="list-style-type: none">To work with banks to arrive at a solution to uplift the limit so that investors are able to perform electronic transfer for settlement.
Proposal to Direct Debit of Bank Accounts for Settlement Amount	
<ul style="list-style-type: none">For settlement, an investor is required to trigger a transaction or write a cheque. There are cases where investors have put off settling their trades until morning of T+4	<ul style="list-style-type: none">To work with banks to provide a service where banks will direct debit the settlement amount from an investor's account at the end of settlement day,BRIDGE to study the feasibility of this proposal and work with banks and/or PayNet to arrive at an amenable solution for all parties
Electronic Settlement, Contract Notes and Statements	
<ul style="list-style-type: none">Resistance from certain segment of investors to migrate to electronic means	<ul style="list-style-type: none">BRIDGE to work towards increasing investor education to encourage investors to migrate to electronic means

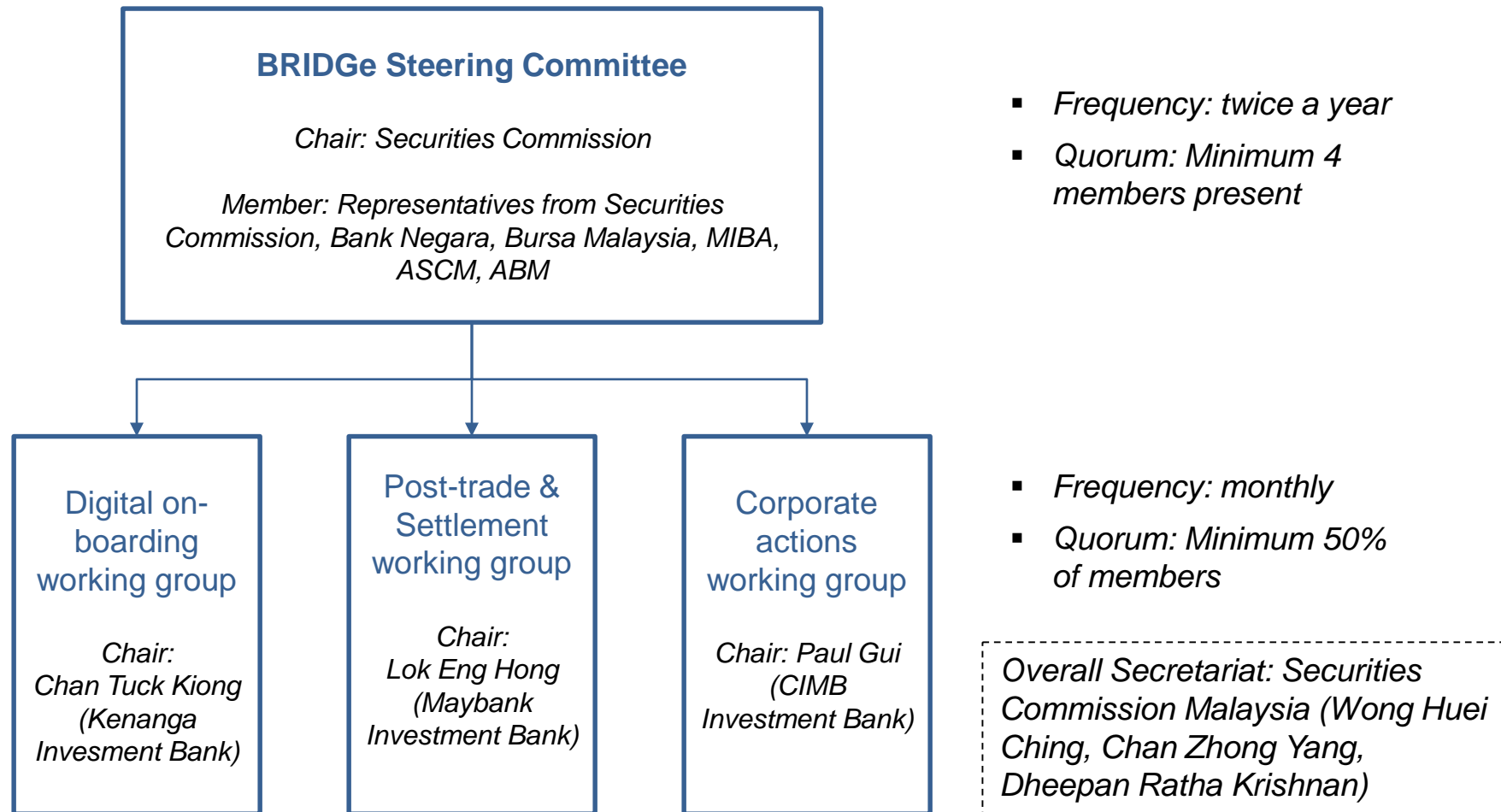
As a start, common areas of concern were identified which the BRIDGE working groups should address (3/3)

Corporate action issues

Issue of concern	Action Required
Weaknesses in Share Consolidation Exercise	
<ul style="list-style-type: none">▪ Delay in consolidation confirmation (3 days on average) may cause investors to oversell with brokers occasionally absorbing losses for investors	<ul style="list-style-type: none">▪ To work with Bursa Clearing to improve share consolidation confirmation process to reduce ambiguity for investors
Usage of eServices for client convenience	
<ul style="list-style-type: none">▪ Usage of eServices such as eStatements, and eRights remains low	<ul style="list-style-type: none">▪ BRIDGE to work towards increasing usage of eStatements and eRights by investors
Adoption of e-Voting to include broader base of investors, including minority investors	
<ul style="list-style-type: none">▪ Promotion and usage of e-Voting remains low	<ul style="list-style-type: none">▪ BRIDGE to work towards increasing the usage of e-Voting, especially for minority shareholders

BRIDGE comprises of one steering committee and 3 working groups

Governance Structure for BRIDGE



Timeline and Deliverables

Timeline

Deliverables

August 2018

BRIDGE working groups established

Aug

Sep

Oct

Nov

Dec

December 2018

Working groups to finalise solutions for BRIDGE

Deliverables should outline:

- Solution design
- Implementation approach and plan, including roles and responsibilities
- Regulatory changes required to facilitate solution, if necessary

Thank you