MSWG
MINORITY SHAREHOLDERS WATCH GROUP

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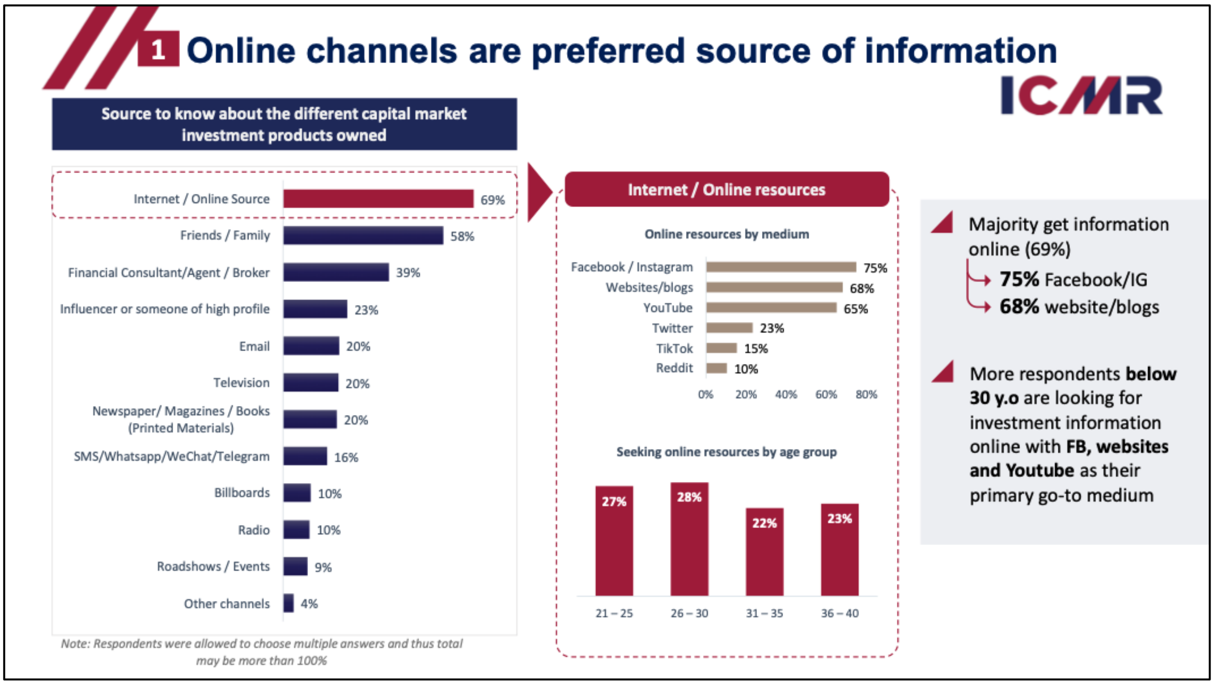
The rise of "Finfluencers" on social media has made financial advice more accessible and engaging, especially for Gen Z. However, concerns over misinformation, fraud, and unlicensed advice have prompted global regulatory crackdowns, including actions by SC Malaysia. As Finfluencing grows, public prudence and vigilant regulation are crucial.

Scroll, like, invest? Navigating the world of finfluencers

In an age where smartphones are ubiquitous and social media platforms are our daily companions, finding someone who has yet to be exposed to the digital world is almost impossible. From Instagram to TikTok, social media has seamlessly integrated into our lives, shaping how we communicate, consume information, and manage our finances. Among the many trends of this digital revolution is the rise of **"finfluencers"**—social media influencers who specialise in financial advice. These digital personalities have made learning about finance more accessible and engaging, especially for new retail investors. However, as with any trend, some pitfalls and challenges come with the territory.

Imagine scrolling through your favourite social media feed and stumbling upon a short, snappy video explaining the intricacies of stock markets or cryptocurrency investments using catchy memes and metaphors. It is fun and engaging and makes complex financial topics easy to digest. This is the magic of finfluencers. They break down daunting financial jargon into bite-sized, entertaining content that resonates with the layman. This has been a gateway to financial literacy for many, especially younger audiences.

A survey conducted by CreditCards.com in March 2021 revealed that Gen Z—those born between 1997 and 2012—are almost five times more likely to seek financial advice from social media platforms than those aged 41 and above. This is consistent with the findings of Malaysia's Institute of Capital Market Research (ICMR), where 69% of Gen Z rely on the internet or online sources such as Facebook, Instagram and blogs.



Source: The Rise of Millennial and Gen Z Investors: Trends, Opportunities and Challenges for Malaysia by the Institute of Capital Market Research (ICMR)

This trend may be attributed to the lack of formal financial education in schools and the relatively taboo nature of money conversations in many households. With its informal and engaging style, social media has filled this gap, making financial discussions more accessible and less intimidating.

However, the rise of finfluencers has also brought about challenges and risks. While these influencers have democratised access to financial knowledge, the quality of advice can vary significantly. Unlike traditional financial advisors bound by regulations and codes of ethics, many finfluencers operate in a grey area where the line between genuine advice and entertainment can be blurry. This lack of regulation has raised concerns about misinformation, fraud, and the potential exploitation of followers.

Disclaimers and legal accountability

Anyone who has spent time on finance-related social media content is familiar with disclaimers like *"This is not investment advice"* or *"This is not a buy or sell call"*. These statements are meant to protect finfluencers from legal liability. However, simply adding a disclaimer does not absolve them of responsibility under the law.

The Securities Commission Malaysia (SC Malaysia) has been particularly vigilant in addressing the growing influence of finfluencers in the financial space. Recognising the potential risks, SC Malaysia recently updated its Guidance Note on the Provision of Investment Advice, emphasising that investment advice is regulated under Malaysian securities laws and requires proper licensing. This move aims to protect market integrity and ensure the information being disseminated is reliable.

One of the key clarifications in the updated guidance is the distinction between general sharing of information and actual investment advice. Sharing factual information about an investment product, educational content, or personal experiences does not typically require a licence. However, if a finfluencer provides recommendations or opinions that could induce the public to take specific actions—such as buying, selling, or holding financial products—that activity could be considered investment advice and would require proper licensing.

Moreover, SC Malaysia highlighted that if finfluencers derive financial benefits from their activities, such as income from ad revenue, referral rewards, or affiliate marketing, they may be considered as carrying on a business. This would subject them to further regulatory scrutiny. The penalties for engaging in unlicensed regulated activities are severe, including fines of up to RM10 million, imprisonment of up to ten years, or both, under the Capital Markets and Services Act 2007 (CMSA 2007).

The impact of finfluencers on retail investors

The influence of finfluencers on retail investors cannot be overstated. The COVID-19 pandemic saw a significant surge in retail participation in financial markets. In Malaysia, retail participation in Bursa Malaysia increased by 236% compared to 2019, with a corresponding 167% increase in new Central Depository System (CDS) accounts. Many new investors, confined to their homes and seeking new ways to generate income, turned to social media for financial guidance.

However, not all guidance was created equal. Some unlicensed investment gurus began offering stock tips and investment advice through various channels, including seminars and private messaging groups. In many cases, these individuals charged subscription fees for access to exclusive content, including buy, sell, and cut-loss calls for specific stocks. This setup violated securities laws and exposed investors to the risk of market manipulation schemes, such as "pump and dump." In these schemes, influencers hype up certain stocks to inflate their prices, only to sell their shares at a profit, leaving their followers with worthless stocks.

SC Malaysia has been proactive in combating these illegal activities. Between 2020 and 2023, the commission issued 31 cease-and-desist notices, blocked 29 websites and added 53 names to its Investor Alert List. Last year, SC Malaysia reprimanded and fined three individuals RM808,516 for breach of section 58 of the CMSA 2007 for providing investment advice concerning securities without holding a CMSL. In another notable case in 2022, three individuals were reprimanded and fined RM9.07 million for the same breach.

These actions highlight the severe consequences of engaging in unlicensed financial advisory activities and underscore the importance of regulatory oversight.

Global crackdowns on finfluencers

Globally, regulatory bodies have been closely monitoring the activities of financial influencers, recognising the potential risks they pose to investors. In the UK, the Financial Conduct Authority (FCA) has been proactive in addressing these challenges. The FCA took significant action by charging nine social media influencers with promoting unauthorised foreign exchange trading schemes. These influencers, who had a combined Instagram following of 4.5 million, were accused of running unauthorised investment schemes and issuing unauthorised financial promotions.

This landmark case marked the first time the FCA prosecuted influencers for breaches related to financial promotions, underscoring the importance of regulatory frameworks in protecting investors from misleading and potentially harmful advice. To further address these issues, the FCA plans to extend its existing guidance to tackle the surge in non-compliant social media advertisements, particularly those targeting younger audiences.

In response to similar challenges, financial regulators in the European Union and the United States are also proposing new rules to regulate how financial products are promoted on social media platforms. The European Securities and Markets Authority (ESMA) has initiated a common supervisory action to ensure adherence to MiFID II requirements on marketing communications, focusing on transparency and protecting unsophisticated investors.

In the United States, the Securities and Exchange Commission (SEC) has taken notable actions against finfluencers promoting high-risk products, such as crypto assets. Cases like Kim Kardashian's US$1.26 million fine for promoting EMAX token without proper disclosure highlight the SEC's commitment to regulating this space. The SEC's updated marketing rule and the Federal Trade Commission's (FTC) endorsement guidelines reflect a broader effort to manage the growing trend of influencer marketing, ensuring investors are adequately informed of the material risks involved.

These global crackdowns serve as a stark reminder of the responsibilities tied to offering financial advice and the necessity for robust regulatory oversight.

The future of finfluencing: A call for prudence and vigilance

As the finfluencers industry grows, so does the need for greater oversight and accountability. While finfluencers can democratise financial advice and make complex topics more accessible, they also pose significant risks, particularly to inexperienced investors. SC Malaysia and other regulatory bodies worldwide increasingly focus on this space, aiming to balance innovation and investor protection.

The best approach for the public is one of prudence and vigilance. It's crucial to approach social media content with a critical eye and not take everything at face value. Individuals should consult multiple sources before making any financial decisions, seek professional advice, and conduct their own research.

The rise of finfluencers represents a fascinating intersection of finance and digital media. While they offer a new and engaging way to learn about money, they also present challenges that regulators and the public must navigate carefully. As this trend continues to evolve, the public should exercise prudence and vigilance when consuming financial-related content online. So, what is the rule of thumb? Always take what you see on social media with a pinch of salt.

References

https://www.sc.com.my/resources/media/media-release/sc-issues-guidance-for-finfluencers

https://www.ciro.ca/office-investor/avoiding-fraud-and-protecting-your-investments/finfluencers-investing

https://www.ft.com/content/0b2dec0f-992a-49ff-b8de-9f217b64d9c7

Securities Commission's Infographic on Fin-Fluencing
Source: https://cutt.ly/SC-finfluencer

5

Are you aware that posting, sharing or promoting cryptocurrencies may require the SC's authorisation?

Posting, sharing or promoting cryptocurrencies may require the SC's authorisation if you are giving investment advice on cryptocurrencies.

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Are you promoting a trading platform that offers attractive commissions and affiliate programmes?

Any trading platform promoting capital market products or services that targets Malaysians requires authorisation from the SC. Should you promote any scammers or unauthorised trading platforms, you could be facing legal action for aiding or abetting illegal activities.

Checklist for responsible promotions:

Ask! **Are you providing investment advice?**

Refer to the *Guidance Note on Provision of Investment Advice* issued by the SC.

Beware! **Have you verified the company who engages you for promotion?**

To verify whether an individual or entity is authorised by the SC, please refer to the SC's Investment Checker - https://www.sc.com.my/investment-checker. If you have any doubt, please contact the SC at 03 6204 8999 or email at aduan@seccom.com.my.

Check! **Does your posting, sharing or promotion comply with the advertising guidelines issued by the SC?**

Ensure your posting, sharing or promotion complies with the SC's *Guidelines on Advertising for Capital Market Products and Related Services.*

MSWG AGM/EGM Weekly Watch 5 – 9 August 2024

The following are the AGMs/EGMs of companies on the Minority Shareholders Watch Group's (MSWG) watch list for this week.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

Date & Time	Company	Quick-take
05.08.24 (Mon) 10.00 am	Sime Darby Property Berhad (CCM)	The Court Convened meeting is to seek shareholders' approval for the Proposed Internal Reorganisation of Sime Darby Property Berhad's Group to streamline its business structure into separate identifiable business streams.
08.08.24 (Thur) 10.00 am	ELK-Desa Resources Berhad (AGM)	For FY2024, ELK-Desa registered an 8% increase in revenue to RM167.78 million compared to RM155.24 million last year, due to higher contributions from the Group's hire purchase (HP) financing division. However, its PBT decreased by 23% to RM49.04 million from RM63.31 million previously while net profit decreased by 23% to RM36.66 million compared to RM47.74 million a year ago because of lower contributions from both HP financing and furniture divisions.

Points of interest:

Company	Points/Issues to Be Raised
ELK-Desa Resources Berhad (AGM)	1. In FY2024, ELK-Desa recorded a significantly higher impairment allowance at RM29.79 million compared to RM8.045 million previously (page 139 of AR2024). At the same time, a higher credit loss charge of 4.1% was recorded against 1.2% in FY2023. The higher impairment allowance and credit loss charge were mainly due to the higher losses incurred from sales of repossessed vehicles in contrast to exceptionally good collections in the first half of FY2023 (page 13 of AR2024).

Company	Points/Issues to Be Raised
	a) The impairment for HP receivables is recognised based on the general approach within MFRS 9 using the forward-looking expected credit loss (ECL) model (page 117, Note 8(e), AR2024). The ECL approach results in the early recognition of credit losses because it includes both incurred losses and expected future credit losses. How did the Group incur higher losses from the sale of repossessed vehicles when the ECL from high-risk customers should have been "frontloaded" in the provisioning of impairment allowances upon observing signs of delinquency in payments among borrowers? b) How different was their actual recovery value vis-à-vis management's estimation for repossessed vehicles? 2. The Furniture segment experienced a significant margin squeeze in FY2024, with the PBT margin almost halving to 5.5% from 10.08% earlier, because of higher imported goods purchases due to a weaker ringgit and stiffer competition. Segmental PBT declined by 46% to RM3 million from RM5.49 million earlier, though segmental revenue remained stable at RM54.55 million compared to RM54.48 million in FY2023. a) Why was the Furniture division unable to achieve a notable growth in revenue during FY2024? b) How different was the input cost structure in FY2024 compared to FY2023? Which input materials cost more to import than before? c) Has the Group been able to pass on the impact of higher input costs stemming from weaker forex to customers? If yes, what is the average quantum of price increase? d) Does the Group expect the elevated cost structure to persist in FY2025? Could shareholders expect a recovery in profit margin in FY2025?

Company	Points/Issues to Be Raised
	e) What measures will be taken to preserve the profit margin? Are proactive cost control initiatives required to improve profitability?

End of Newsletter

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FORUM for Minority Shareholders

UNDERSTANDING MPHB PRIVATISATION

MPHB Capital Berhad (MPHB) has recently announced a proposed selective capital reduction and repayment exercise (Proposed SCR), offering RM1.70 per share for the privatisation of the company by its major shareholder.

In response to numerous concerns and requests from minority shareholders, the Minority Shareholders Watch Group (MSWG) will organise a forum to provide a comprehensive overview and clarification of the Proposed SCR and the upcoming independent advice letter.

The date and venue of the forum will be announced soon.

Please stay tuned for our updates.

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DISCLOSURE OF INTERESTS
With regard to the companies mentioned, MSWG holds a minimum number of shares in all the companies covered in this newsletter.