Suruhanjaya Sekuriti
Securities Commission
Malaysia

Annual Report 2016

MISSION STATEMENT

To promote and maintain fair, efficient, secure and transparent securities and derivatives markets and to facilitate the orderly development of an innovative and competitive capital market.

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CHAIRMAN'S MESSAGE

“Against this backdrop, the Malaysian capital market remained resilient and played a key role in sustained capital formation through its ability to provide long-term financing for corporate issuers.”

I am pleased to present the annual report of the Securities Commission Malaysia (SC), which provides an account of our initiatives and organisational performance in 2016. The overall capital market has grown to a size of RM2.84 trillion and continues to play a key role in the Malaysian financial system.

The SC’s overarching priorities focus on strengthening the capital market’s role in supporting economic expansion as well as facilitating market growth that is sustainable, inclusive and innovative, on the basis of good conduct and behaviour by all its participants.

Sustained capital formation and investments

In the year 2016, the global market environment faced challenges from several macro factors. While investors continued their search for yield, uncertainty over economic, monetary and political policy actions resulted in event-driven sentiment, impacting investment and fund flows. Combined with the sustained low interest rate environment, market volatility intensified pressure on returns for investors and profitability of firms.

Against this backdrop, the Malaysian capital market remained resilient and played a key role in sustained capital formation through its ability to provide long-term financing for corporate issuers. Total fundraising for 2016 in the capital market was RM98.5 billion. Approximately RM85.7 billion was raised through the corporate bond and sukuk market. RM12.8 billion was raised through the equity market, with primary issuance of RM1.0 billion and RM11.8 billion raised through the secondary equity market.

Growth was observed across most capital market segments. The bond market grew to RM1.17 trillion, while the stock market ended the year with market capitalisation of RM1.67 trillion. Despite periods of heightened global volatility, the depth of the domestic capital market provided absorptive capacity for portfolios to be rebalanced in an orderly manner, including the effects of external portfolio flows.

Domestic pools of liquidity continued to expand, with total assets under management of the fund management industry rising to RM696.3 billion from RM667.9 billion in December 2015. This growth was mainly supported by an expansion of the unit trust industry which saw net sales over redemption of RM26.0 billion in 2016, an increase from the RM17.8 billion net sales in 2015.

Key highlights of 2016

The key objectives underpinning the SC's ongoing efforts in 2016 were enhancing access to the capital market through implementation of our Digital Markets Strategy, pursuit of our multi-year regulatory reform programme, as well as maintaining market integrity with an emphasis on investor protection and instilling good conduct.

Facilitating market inclusiveness

Over the years, the SC has embarked on efforts to enable both investors and issuers to benefit from market-based financing avenues. The rise of the technology-savvy and connected generation of investors has necessitated innovative investment solutions which offer greater convenience, channel access, transparency and lower cost. As such, we have crafted a holistic digital strategy to facilitate wider accessibility to market-based financing as well as utilisation of technology to enable greater investor participation. Key initiatives from our digital strategy that will be implemented are further elaborated in this report.

Recognising the growing financing needs of businesses, the SC in 2016 introduced the region's first P2P financing guidelines which subsequently led to registration of six operators. This followed the 2015 release of the Equity Crowdfunding (ECF) framework, which helped facilitate early-stage financing. P2P financing platform will enable financing for working capital or capital for growth for the underserved micro, small and medium enterprises (MSMEs). I am also pleased to note that take up at the ECF platforms has so far been encouraging; in less than a year in operation in 2016, 14 issuers have collectively raised a total of RM10.4 million. We expect the ECF platforms to gain further momentum over the coming years and complement the P2P financing platforms which are expected to be fully operational by end of 2017.

To meet growing demands for the capability to manage investments through digital finance, the SC will also develop a facilitative framework to encourage the provision of digital investment services in Malaysia. The first phase, to be rolled out in 2017, will initially enable the offering of automated discretionary portfolio management services, providing investors accessible, convenient and cost-effective means to manage and grow their wealth.

Enhancing market efficiency

A key imperative for the SC is to ensure that the capital market regulatory framework remains proportionate and effective in addressing the needs of both industry and investors. Our work in achieving this outcome has, over the years, comprised of gradual liberalisation in target segments which includes the wholesale market, unit trust, venture capital and private equity, as well as financial planning.

Such liberalisation measures were further introduced in 2016 in relation to the unit trust industry, and were designed to shorten the time to market of non-complex retail funds while reducing business costs for issuers. The impact of these measures is aimed at allowing the industry greater headroom to pursue next stage of growth and better meet the needs of investors who will in turn benefit from greater access to professional portfolio diversification and management.

In addition, to further facilitate take-over and merger activities, the SC revised the framework for take-overs and mergers to allow greater flexibility while enhancing disclosure and conduct requirements. In view of the current competitive environment, take-over and merger activities allow businesses to pursue solutions and synergies to strengthen strategic positioning, boost commercial productivity and reduce costs.

Safeguarding market integrity and resilience

We believe that good conduct and prudent practices of market participants not only go a long way in earning the trust and confidence of investors, but also constitute central pillars in upholding the resilience of the capital market as a whole.

In this regard, we intensified efforts to reinforce proper standards of market conduct and ensure firms continue to put the interests of investors at the centre of their businesses. Among others, this included focused thematic assessments on governance, sales practices, third-party receipts and proprietary trading. In addition, continued surveillance of market and corporate activities allowed for early detection of market irregularities and pre-emptive actions. To enhance our surveillance and risk management efforts in line with emerging changes in investor behaviour and trading strategies, the SC has embarked on the development of a corporate analytics platform which will harness artificial intelligence to support a more data-based, insight-driven approach to regulating our capital market.

Effective enforcement is critical to preserving market integrity through credible deterrence. In 2016, several enforcement actions were taken for breaches of section 317A of the *Capital Markets and Services Act 2007* (CMSA), the provision in the law that deals with wrongful loss by directors and officers of listed companies. This signifies the importance we place on the role that directors play in safeguarding the interests of the companies that they oversee.

We continue to detect insider trading activities, which formed a large proportion of our investigations. The perception of fairness, with all participants having equal access to relevant information, is integral to sustaining investor and public trust in our market. We will actively pursue these breaches to achieve credible deterrence *vis-à-vis* the improper use of material non-public information. In the past year, several of our court based enforcement actions, including market manipulation, misleading disclosures and fraud, culminated in jail sentences. We see this as a testament to the seriousness assigned by our courts to these breaches and their impact to the market.

Our oversight of the capital market, which includes market infrastructure as well as key institutions and intermediaries, also focused on ensuring systemic stability. This is particularly important in view of the increasing interlinkages and exposure of markets and firms, both domestically as well as internationally, where vulnerability in one part of the financial system may trigger contagion effects to another. Several thematic assessments were conducted over the course of the year. In 2016, one particular area we increased our focus on was the interplay and risk transmission mechanisms between the equity, bond and currency markets. This included assessments on the appreciating US dollar and its impact on portfolio flows and investments, stress testing of firms as well as looking at risk mitigation, where necessary.

We also remain concerned about the escalating levels of cyber risk, as witnessed in the recent spike of incidents globally. The economic damage caused by these crimes has been large and significant. Achieving the common goal of cyber resilience requires timely and collective action by the SC, capital market entities and our national stakeholders. The SC solicited industry feedback and subsequently released the *Guidelines on Management of Cyber Risks*, which were intended to strengthen and prepare the entities we regulate against the risks of potential cyber threats and security breaches.

The SC's involvement in global policymaking informs and ensures our regulatory, supervisory and enforcement efforts continue to be closely aligned to global standards. International co-operation and cross-border exchange of information with other jurisdictions further strengthen our ability to discharge our regulatory responsibilities, particularly with the increasingly borderless nature of financial transactions.

In addition, the SC's involvement in international engagement and standard-setting allows for greater recognition of the role of emerging markets within the global financial landscape, as well as promotes more in-depth deliberations of emerging market developments and regulatory policies.

SC's capabilities

At the SC, we have a demanding and complex job with responsibility for the development and regulation of a wide range of firms and market segments against a dynamic and ever changing market environment. For the SC to deliver the outcomes we seek, while also safeguarding market resilience in this challenging environment, we must be equipped with the necessary organisational capabilities while optimising our resources.

This year, leveraging the strength of our people – a professional and committed workforce with a diverse range of experience and expertise – we implemented the first phase of our organisational development initiative to position ourselves as a future ready regulator. This was part of a careful review under the SC 2020 Project covering various aspects of our objectives, capabilities and structure. This effort is designed to strengthen the SC even further and ultimately deliver high quality regulatory outcomes for the overall capital market and the industry.

Several key initiatives have begun to be implemented following the aforementioned review. Recognising the value of digital technology in democratising finance, we established an Innovation, Digital and Strategy business group to enable the adoption of digital finance while continuing to set a broad-based direction for the growth and development of the capital market. We also established a Consumer and Investor Office with a wider scope to focus on the delivery of targeted and research-based investment literacy and outreach programmes. The setup of this office is intended to transform our approach to engaging investors and in gaining more in-depth understanding of investor behaviour and decision-making patterns. Additionally, we consolidated and strengthened our risk analytics and management functions to take a wider, more systemic perspective to risks.

Looking ahead

Key events at end 2016 are likely to influence the first half of 2017 and potentially the rest of the year. As markets navigate the new abnormal, monetary policy divergence between major advanced economies, a shift towards expansionary fiscal policies in several large economies as well as the rising role of geopolitics will be closely watched.

On balance, although mindful of the potential for volatility from tail risks surrounding global politics and monetary policy responses, sentiment towards emerging markets is expected to be more optimistic. As a whole, emerging markets remain the largest contributor to global growth and global consumer spending. In addition to expectations for continued macroeconomic advances, analysts are increasingly encouraged by steadier and more sustainable growth in emerging economies.

The Malaysian capital market is well positioned to leverage on the renewed interest in emerging markets. Underpinned by higher levels of corporate activity against a backdrop of sound economic fundamentals and higher earnings forecast consensus, the overall outlook for the capital market is positive. In addition, domestic financial conditions remain accommodative to support growth and ensure sufficient liquidity. As domestic businesses expand with expected revival in private investment and infrastructure spending, the capital market will continue to support the financing needs of the economy. Market-based fundraising is estimated to be approximately RM102 to RM105 billion for the year.

In the coming year, we will pursue our objectives and initiatives as identified in our Business Plan 2017. We will continue to develop and strengthen the positioning and competitiveness of key market segments as well as refine regulatory parameters of select market segments through our multi-year regulatory reform programme.

One such initiative is the deepening of our established bond and sukuk market. We continue to work closely with the industry to look at ways to further drive growth, scale, liquidity and access across the bond and sukuk product spectrum. We will introduce in 2017 a centralised information repository which will act as a point of consolidation for currently fragmented market information.

The information repository is intended to work in tandem with the removal of mandatory ratings, providing greater transparency for timely and informed decision-making and consequently, improved secondary market liquidity.

Recognising that there is room for growth in the exchange-traded funds (ETFs) segment, the SC will introduce measures intended to spur the long-term development of the ETF market, which will encompass facilitating lower entry costs, product innovation and improved liquidity. A key deliverable for 2017 is a targeted liberalisation of the regulatory framework that will allow greater efficiency.

As we pursue our developmental priorities, we continue to look for ways to further enhance market vibrancy. While we have taken steps to encourage greater liquidity in the market, there remain additional areas that can be enhanced and require co-ordination across multiple areas and stakeholders. As a step forward, the SC will be working with the industry and the exchange to operationalise the small and mid-cap public-listed companies (PLC) research scheme and the RM3 billion special fund, as announced in Budget 2017.

To continue strengthening the international positioning of our Islamic Capital Market, the SC has formulated the *Islamic Fund and Wealth Management Blueprint*. The operationalisation of the Blueprint entails a series of work programmes that will be rolled out progressively over a five-year period to support the three strategic thrusts of the Blueprint. Implementation of the Blueprint begins with the issuance of a framework for Shariah-compliant Sustainable and Responsible Investing (SRI) funds which will, amongst others, set out the requirements for eligible instruments, additional disclosure and reporting.

Another key priority is the strengthening of market conduct and governance, which will among others, reinforce the obligation of participants in maintaining market integrity.

The strength of our corporates is driven mainly by the stewardship role of Boards. In supporting Boards in carrying out their fiduciary duties, the SC will be incorporating a new Institute of Directors (IoD) for Malaysia. The new IoD is expected to elevate quality, standards and professionalism amongst Malaysian corporate directors. In addition, the IoD will serve as a platform for directors to provide their feedback on legislative, economic and other relevant matters affecting corporate Malaysia.

Alongside this, we will be launching the new *Malaysian Code of Corporate Governance.* The new Code will place emphasis on greater appreciation and internalisation of good corporate governance practices and culture by companies and their stakeholders, and enhanced disclosure of corporate governance practices.

Finally, let me express a note of appreciation to all my colleagues in the SC. Our achievements and aspirations are a product of the collective efforts contributed by the highly capable staff members of the SC, and I am proud of their dedication and commitment to strengthening the Malaysian capital market.

The SC's regulatory and developmental agenda has also benefitted tremendously from the insights from our consultations with the industry and the inputs from our advisory groups, and for this I am particularly grateful. I would also like to take the opportunity to express my deepest appreciation to the Members of the Board for the valuable role that they play and for their counsel, members of the Shariah Advisory Council and to our Executive Team for their contributions and support.

RANJIT AJIT SINGH

PART 1

EVOLVING MARKETS

INTRODUCTION

The Malaysian capital market plays a critical role in propelling the growth of the nation's economy. Over the years, the capital market has successfully financed national economic development by providing market-based solutions with more than RM1 trillion being raised through corporate bonds and initial public offerings since 2000. Today, Malaysia's capital market is home to the world's largest sukuk market, third largest bond market relative to gross domestic product (GDP) in Asia and our equity market has the largest number of listed companies in ASEAN.

The capital market also provides avenues and opportunities for wealth generation and preservation. The investment management industry is one of the fastest growing segments and Malaysia's Islamic fund management is the largest globally in number of funds and second largest in size.

Overall the capital market has become well balanced and diversified with strengths across all market segments. In 2016, despite global uncertainties and the impact of prolonged low commodity prices and structural slowdown in key economies, the Malaysian capital market continued to be resilient, registering growth from RM2.82 trillion (2015) to RM2.84 trillion (2016). Our developmental efforts in 2016 focused on six key thrusts.

1. Developing a facilitative ecosystem for digital innovation

The capital market has evolved significantly over the last decade with emerging technologies revolutionising various aspects of the capital market. We are embracing the Digital Revolution as an engine of growth for our capital market. We aim to introduce innovations to better serve the needs of our economy and participants, while at the same time safeguarding investor trust and confidence. In line with this, we crafted a holistic digital agenda, focused on enhancing access to finance, increasing investor participation, augmenting the institutional market and developing synergistic ecosystems.

2. Widening financing avenues to serve micro, small and medium enterprises

We focused efforts on developing alternative market-based financing avenues such as equity crowdfunding (ECF) and peer-to-peer (P2P) financing to serve the needs of the underserved or unserved segments of the economy. The six registered ECF operators are now fully operational with 14 successful issuers and RM10.41 million raised as at December 2016. On 3 November 2016, the SC announced six P2P financing operators to further broaden financing avenues for entrepreneurs and small business owners to obtain working capital or capital for growth. We also organised the third SCxSC Digital Finance Conference, which drew over 1,000 attendees, to socialise our digital initiatives.

The SC is also cognisant of the significance of the venture capital and private equity industry in bridging the funding gap for entrepreneurs and small businesses to grow to the next stage. We continue to provide leadership to the industry through our chairmanship of the Malaysian Venture Capital and Private Equity Development Council (MVCDC). To accelerate industry growth, MVCDC has formed a dedicated working group to formulate recommendations which will be tabled to the government.

3. Creating and preserving wealth

SC's efforts also focused on creating and preserving wealth through the unit trust industry and private retirement scheme. Unit trusts are a popular asset class and the industry's net asset value stands at RM358.47 billion. Process efficiencies were introduced to facilitate greater offering of funds to investors, strengthen competitiveness and better meet investors' needs. The SC also implemented targeted initiatives to grow youth and employer participation in the private retirement scheme, which have yielded positive results. The size of the private retirement scheme industry reached RM1.52 billion in 2016 with 221,000 members.

These efforts were complemented by initiatives to further grow the financial planning industry, allow greater investor access to foreign markets and widen breadth and depth by increasing the range of product offerings.

4. Facilitating industry evolution

A fundamental requirement for capital market advancement is to facilitate industry evolution while ensuring investor protection. In this changing environment, the SC continues to review the regulatory framework to ensure policies and requirements are responsive to the needs of the capital market while fostering market integrity, investor protection and adherence to global standards. Our laws and regulations remain aligned with our regulatory principle of proportionality where there should be no more regulations than necessary, taking into account the extent of risks.

An enhanced framework for take-overs and mergers was introduced which has been well received and acknowledged to better meet the needs of an increasingly sophisticated take-overs landscape. This is complemented by initiatives to inject greater market vibrancy through enhancing listing rules and providing greater flexibilities for product structures. Efforts also focused on facilitating re-engineering of business models, strengthening industry capabilities as well as greater stakeholder engagement and promotions.

5. Strengthening Malaysia's position in Islamic capital market

The Islamic capital market (ICM) is a key segment of the Malaysian capital market. Despite global challenges, Malaysia's ICM is able to sustain its leadership position given the strong ecosystem comprising an extensive and facilitative regulatory and tax framework, strong Shariah governance and diverse participation of service providers. The wide range of Shariah-compliant products and services which promotes good socio-economic values as an alternative to conventional finance has contributed to its greater appeal.

The growth in Muslim wealth and affluence and an increase in demand for Islamic funds and wealth products and services have created strong global demand for the Islamic wealth management market. Against this backdrop, the SC has developed and formulated strategies to augment our ICM ecosystem to help nurture and facilitate the development of Shariah-compliant wealth management solutions for domestic and international investors. We also embarked on several initiatives to further strengthen thought leadership, and focused on building capabilities to drive the industry forward.

6. Facilitating strategic linkages and international profiling

The SC's involvement in international engagement, standard-setting and policymaking continued through 2016 to facilitate strategic linkages and raise our international profile. It is also a reflection of our commitment towards ensuring that the Malaysian capital market's regulatory framework is internationally benchmarked and competitive. A significant milestone was achieved when the International Organization of Securities Commissions (IOSCO), the global standard setter for capital market regulation[1], selected Malaysia to establish its first Regional Hub in the Asia Pacific region. The SC's leadership and contribution to global policymaking in IOSCO was reaffirmed when the SC Chairman was re-elected for a second consecutive term as the Chair of IOSCO's Growth and Emerging Markets (GEM) Committee and appointed as Vice Chair of the governing Board of IOSCO. SC was also elected the Vice-Chair of IOSCO's Policy Committee on Secondary Market Regulation.

On the ASEAN front, the SC was re-elected as chair of the ASEAN Capital Markets Forum (ACMF) for the third consecutive year. As Chair, SC spearheaded the development of the ACMF Vision for 2025, which was endorsed by the ASEAN Finance Ministers, and continued to drive initiatives to foster greater connectivity, inclusiveness and resilience. An example is the ASEAN Framework for Collective Investment Schemes, which has now recognised 13 funds of which five funds have been successfully launched in host jurisdictions.

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1 IOSCO's membership regulates more than 95% of the world's capital markets worth approximately USD140 trillion, in more than 115 jurisdictions.

DEVELOPING A FACILITATIVE ECOSYSTEM FOR DIGITAL INNOVATION

The growth of Digital Finance is undoubtedly changing the face of the world's financial markets. Digital Finance has led to the introduction of new business models and solutions contributing to the enhancement of the financial market landscape through greater efficiency and better risk management.

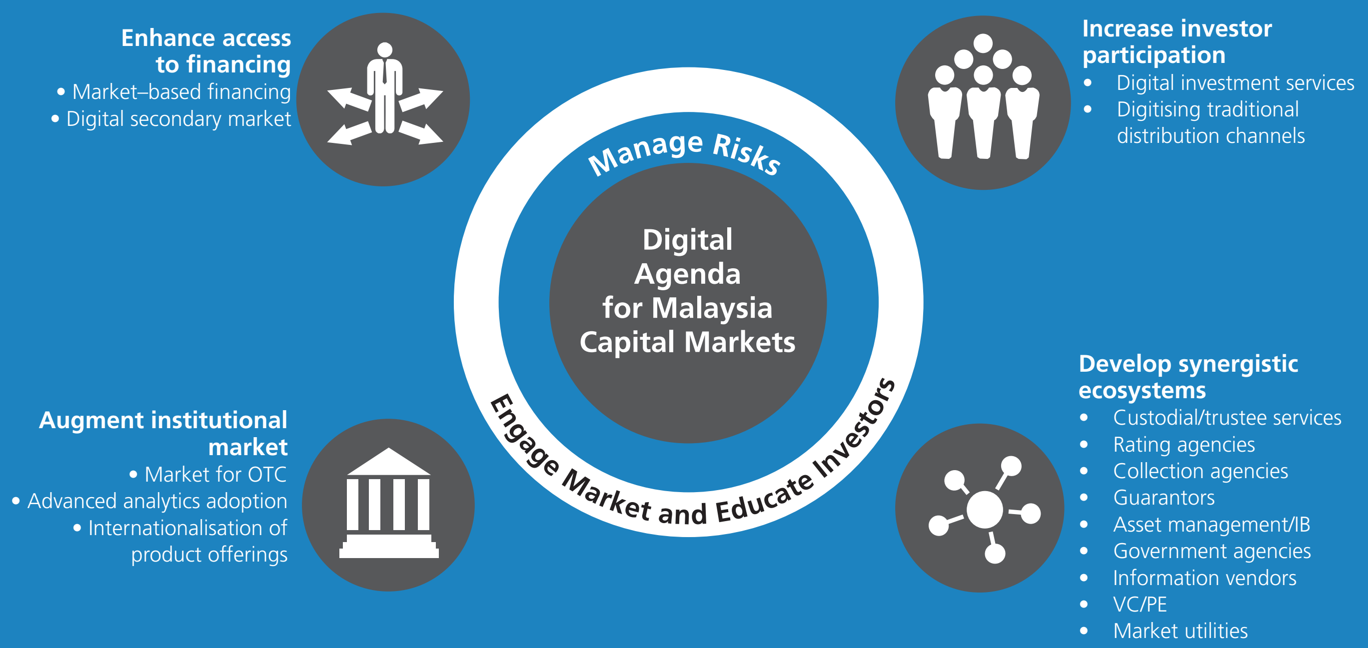
Potential effects can be profound for emerging markets. Digital Finance has brought about greater financial inclusion and democratised finance in a range of ways. Many emerging markets are now placing greater emphasis in this area. As part of the SC Chairman's special remarks at the SCxSC Digital Finance Conference 2016, he cited four key factors driving this development:

i. Strong demand for alternative financing for SMEs and new investment avenues for investors;
ii. Widespread adoption of internet devices and social media;
iii. Change in population demography towards a more technology savvy and connected generation of consumers; and
iv. Less burdensome legacy systems which hinder cutting-edge technologies.

It is estimated that since 2010, more than US$50 billion has been invested in Digital Finance startups, with US$22 billion in 2015[2]. This is not including internal investments made by major

[2] Accenture. *FinTech and the Evolving Landscape: Landing Points for the Industry.*

Digital Agenda



financial institutions and technology giants who are developing their own internal digital programmes.

Within the Malaysian capital market, there is increasingly strong awareness of the digital revolution. Approved Digital Finance start-ups have begun to operate within our market under new regulatory frameworks released by the SC, and traditional capital market players are also starting to look at adopting digital technologies. Some have set up their own digital units and market outreach programmes to understand and sometimes incubate or partner with Digital Finance start-ups.

To facilitate adoption of Digital Finance in our market, we crafted a holistic digital agenda designed to enhance access to financing, increase investor participation, augment institutional market and develop synergistic ecosystems.

Objective #1: Enhance access to financing

Today, many Malaysian micro, small and medium enterprises (MSMEs) face challenges in obtaining funding through traditional sources of funding to meet their financing needs. Traditional financial services institutions (FSIs) have been hesitant to extend credit due to poor consistency of financial/ credit reporting standards and lack of credit ratings, though some of these MSMEs may be credit worthy.

To address these issues, the SC has introduced different market-based financing models which will provide avenues for MSMEs to raise funds for their businesses. Both ECF and P2P Financing are expected to fill gaps in either early-stage capital or capital for growth for MSMEs. The efforts of developing these two new asset classes are detailed in the section on widening financing avenues to serve micro, small and medium enterprises.

With ECF, it is possible that investors will not receive any financial returns for an extended period of time. Based on changing conditions or other reasons, investors might wish to withdraw their investments earlier before `maturity'. Creating a secondary market becomes the natural next step of evolution to provide greater flexibility to investors to obtain financial returns from these asset classes. For issuers as well, having a secondary market is also beneficial as it provides liquidity for early shareholders or employees who own equity in the issuer, giving them an avenue to realise capital gains via a marketplace.

At the same time, we are also further exploring the digitisation of our existing exchanges and the end-to-end trading cycle. In conjunction with BNM's e-Payments initiative, there has also been a similar set of capital market-specific initiatives including e-Share payment, e-Dividend, e-IPO and e-IPO Refund, e-Unit Trust and e-Rights which have been implemented. We expect the market to adopt these e-payment schemes as the *de facto* choice and also continue to expand the use of digital throughout the entire trade cycle.

Objective #2: Increase investor participation

Our research shows that the average age of our investor is 45 years old, and out of those aged below 30, less than 5% have investments. While most people would associate the below-30 demographic as more digitally-inclined, further research has shown that the Digital Generation is not just limited to millennials, but extends across age demographics. This rapidly emerging investor segment demands convenience, simplicity, transparency, lower cost and an effective user experience. While they yearn for financial advice, they are largely self-sufficient when it comes to investments.

To meet the needs of this new segment of investors, the SC is working on a framework to facilitate the introduction of Digital Investment Services (DIS) to the Malaysian capital market. The term DIS is used to describe a new range of capital market products and services which have emerged due to digital innovation such as digital investment management (which includes robo-advisory), micro-investments, social trading/trade mimicking, etc. The SC is of the view that the digital investment space is clearly an area where intervention and facilitation by regulators could help the industry to develop new and more cost-effective ways of delivering investment services to consumers, making investments affordable and accessible to all.

The emergence of the Digital Generation is also forcing our traditional financial services institutions (FSIs) to re-think their distribution channels to remain relevant. As margins in equity trading continue to be squeezed and maintaining large remisier pools become unsustainable, our local brokers will need to approach investor segments via different channels, addressing their diverse needs including digital channels to offer lower-cost trading to retain existing investors and trade flow. While this phenomenon is most apparent in the equities market, we expect this to also impact other traditional asset classes which still retain relatively high fees.

It is important to note that even with the increase of digital distribution channels, the SC does not anticipate that human advisors will be completely eliminated from our markets. Hybrid human-digital models have emerged in other markets where some form of human advisor interaction is still used to complement digital offerings. Ultimately, the investors will decide which channels best suit their individual needs.

Objective #3: Augment institutional market

Today, information related to our OTC Markets, for example our secondary bond market, rates and credit market are highly fragmented among different sources and not easily accessible. Using bond and sukuk as an example, information on a new issuance is generally readily available to all potential investors via offering circulars. However, there is less transparency of bond and sukuk data post-issuance, especially in areas of credit risk and pricing as these bonds and sukuk are traded between different counterparties. These data, even if available today, are only accessible to large institutional investors and seldom, if at all, available to the smaller investors. To introduce greater transparency and spur further growth in these markets, we look to create a central information repository which would be readily accessible by market participants and investors.

With advancements in analytics capabilities, such as big data, machine learning and the improved scalability and commoditisation of computing power, leading buy-side and sell-side firms are increasingly adopting advanced analytics to facilitate quantitative research, investment decision-making, performance attribution and tracking. Moving towards a fact-based, insight-driven investment approach will also inspire greater confidence from investors who are often unclear of the rationale behind investment strategies designed by FSIs. These institutions with strong analytical capabilities can expect to rely on it to provide a competitive advantage to improve their investment decision-making, risk management and product development capabilities. In most cases even having some basic analytics can help FSIs identify incremental improvements to their businesses and operations, whether through improved modelling or process optimisation.

Objective #4: Develop synergistic ecosystems

While intermediaries, FSIs, start-ups and exchanges may be the main drivers of Digital Markets, there is still a need to develop the surrounding ecosystem service providers which are also key players in the value chain. These service providers include custodians and trustees, rating agencies and information vendors. `Digitising' these ecosystem players will allow faster, and more seamless access to these services, thereby creating a more transparent and efficient market. We are working closely with our capital market ecosystem service providers to build market-relevant digital services and offerings to meet the needs of the ecosystem.

As industry participants grapple with increasing cost of doing business, FSIs are looking to pool resources, expertise and capabilities to achieve economies of scale, reducing the average cost per trade. Globally, this has given rise to new industry participants known as 'market utilities' – multi-party, commercial co-operatives which fulfil a common need, frequently non-value adding tasks such as post-trade services, Know Your Client (KYC)/Anti-Money Laundering (AML) verification, data management and asset servicing. Beyond the economic benefits, market utilities can reduce the regulatory burden on its participants. By pooling capabilities and resources, utilities can ensure alignment to industry best practices as well as consistent data quality. The SC believes that such utilities, if it is to be formed, should be borne out of industry demand and collaboration. We can play a role in providing clarification on the regulatory requirements which will need to be met operationally for such utility.

Technology building blocks

While the SC remains technology agnostic, we are also closely evaluating emerging technology trends which could form the building blocks for our market in the future as part of our digital agenda. We invite interested parties to engage with us on such technologies to determine how best it can be utilised to benefit our market.

As we further leverage technology to run and manage all parts of our capital market, more data is being created, amassed and flowed through systems from various market participants. As the market becomes increasingly inter-connected, the overall cyber security of the market becomes only as strong as the weakest link. To enhance the cyber resilience of the Malaysian capital market, the SC has released *Guidelines on Management of Cyber Risk* in October 2016. To understand the details of these guidelines, please refer to Part 2.

Open Application Programming Interface (API) has become the *de facto* standard for apps communicating between each other in the digital age. Through an API `call', an app can either request for some data, trigger a specific service or functionality or both. As the SC moves towards making more data and information available to the public and to market participants, we are also exploring APIs as a channel for anyone to consume and request for certain sets of data in a machine-readable way. In the future, it is conceivable that certain services which are provided by the SC can also be exposed via an API to market participants. Payments, Reporting, Lodge and Launch (LOLA) type functions are prime examples. We will continue to explore this space and respond to any specific demands from the public or market participants to encourage further transparency and flow of information.

The emergence of cloud and `as-a-Service' (X-aaS) technologies have brought about radical changes in how companies think about not just how they build their IT infrastructure footprint, but also how they procure applications and manage their technology landscape. While financial services institutions have been slow to adopt the cloud largely due to information confidentiality issues, the benefits of cloud technologies – faster deployments, accessible anywhere, ability to share, greater resilience, easier maintenance and reduction in capital expenditure required is an attractive proposition at a time when FSIs are facing reduction in margins and pressures to keep cost down. Information security should still remain the number one key consideration as FSIs continue to explore avenues to migrate traditional applications and infrastructure to the cloud. Ensuring that proper security and access controls are in place for all levels of data, in accordance to the data protection rules and regulation or internal policies and procedures, should be the highest priority for financial services institutions.

Today, our capital market systems are built on multiple ledgers, or systems of record which require constant reconciliation. With distributed ledger technology (DLT), there could potentially be a single ledger which is distributed across all parties in the value chain and kept in sync near real time. DLT could be leveraged to build a more resilient financial infrastructure, more effective clearing, settlement and depository functions and new methods to encode legal agreements and obligations. In short, distributed ledger technology could be an enabler towards synergistic ecosystem development.

Through tokenisation of assets, registering and trading them on a distributed ledger, the ledger becomes an almost immutable, highly resilient system of record for the asset itself, enabling tracking the transfer of the assets from one party to another. Smart Contracts allow for `apps' to be built on or off the ledger, allowing for rules and checks to be set up from monitoring for Know Your Client (KYC)/Anti-Money Laundering (AML) to generating reports and enforcing certain real-life legal contracts based on a codified set of terms and conditions. This has obvious applications in the capital markets space, whether as a replacement of a traditional exchange, or as a more transparent system of record for OTC or other transferrable instruments. For instance, we believe that DLT could help evolve our infrastructure for the unlisted and OTC markets.

While this technology is still evolving and new cases are being experimented upon globally, the SC continues to monitor the progress of DLT in anticipation that it will finally bear fruit and transform our industry. We will be conceptualising our initial blueprint on distributed ledger technology for the market as a starting point for discussions with potential entrepreneurs and innovators who intend to tap on this technology.

WIDENING FINANCING AVENUES TO SERVE MICRO, SMALL AND MEDIUM ENTERPRISES

Market-based financing through ECF and P2P

Malaysia has been fast to recognise the benefits of such market-based financing avenues and is the first market in ASEAN to develop a facilitative regulatory framework for ECF and P2P financing.

The MSME segment is the backbone of the Malaysian economy and will be the engine for growth given the right set of support and enabling framework. In 2015, MSMEs contributed to 65.5% of Malaysia's total employment and 17.6% of total exports.

MSMEs' access to financial services will boost job creation, raise income, reduce vulnerability and increase investments in human capital.

Despite MSMEs' significant role in employment generation and contribution to the overall economy, their viability is often threatened by lack of access to funding. The challenge especially for micro and smaller enterprises is that they lack assets for collateral and track record, leaving them with limited options to access credit from mainstream funding. Furthermore, MSMEs often struggle with limited risk management, cash flow management or ability to monitor resources. When they have limited access to finance, the economy suffers as economic and social opportunities become restricted, while households and enterprises become more vulnerable to threats, all of which restrain enterprise creation and growth.

To address this funding problem, the capital market plays a pivotal role to help MSMEs grow until they achieve the necessary scale to obtain follow-on funding from mainstream financing. Through a multitude of financing avenues including ECF, P2P financing, venture capital, private equity and eventually the public markets, the capital market provides an enabling framework that facilitates and matches funders at different stages of the MSMEs' business development process. These alternative capital market funding avenues form part of the `funding escalator' which attracts funders with different risk appetites – from providers of seed capital at the highest risk stages of the MSMEs' business life, business angels and `providers of emotional capital' at medium risk stages to venture capital and private equity investors with relatively lower risk appetites.

One of the features of the entrepreneurial landscape of recent years has been the transformation of the early stage risk capital market through digital revolution. In this regard, digital technologies can provide solutions for MSMEs by lowering the costs of obtaining capital and increasing transparency, thus making them more attractive for potential funders. Through alternative market-based financing avenues such as ECF and P2P financing, we have seen how digital innovations have democratised financing by powering the connectivity between businesses and funders of businesses.

The SC has introduced the ECF and P2P financing framework to allow for alternative market-based financing avenues for MSMEs to raise funds. While ECF is targeted at MSMEs seeking early-stage financing, P2P financing is targeted to help MSMEs raise working capital or capital for growth.

In June 2015, the SC registered six ECF operators as Recognised Market Operators. ECF is a form of `patient capital' where investors take a stake in new companies and are expected to maintain that stake for an extended period of time. The low minimum investment threshold is also meant to attract participation from first-time investors who may choose this type of investment as their first asset class due to having a passion or interest in a particular business or venture. This category of investors falls within the providers of `emotional capital'. We hope that this gentle introduction to investing with less capital will appeal to a new generation of investors who will eventually expand into other asset classes in the capital markets.

In the few months since the ECF market was operationalised, there have been notable successes. To date, Kakitangan.com holds the record as the fastest to meet its minimum funding target. The Parenthood, through Crowdo's platform, raised RM2.65 million, surpassing its minimum threshold of RM1.05 million by 251%. This was also the largest amount raised through the ECF platform in Malaysia. Through the FundedbyMe platform, Halal Speed Dating managed to attract the largest investments by foreign investors in a particular deal, which amounted to 25%. Thus far, the Malaysian ECF market has managed to attract not only local investors but also foreign investors including those from Australia, Finland, Germany, Singapore, Sweden and Turkey. To date, a total of RM10.41 million was raised by 14 issuers in the ECF market in less than a year. We expect to witness continued growth as the investing public and potential MSME issuers become increasingly aware of this new innovative financing avenue. Further details on the fundraising campaign of each issuer is shown in Diagram 1.

Diagram 1

Growth of the equity crowdfunding segment in Malaysia in 2016

EDUGAT CONSULTANCY
Amount Raised: RM300,000
Equity: 30%
Raised in 21 days

GREEN LAGOON TECHNOLOGY
Amount Raised: RM800,000
Equity: 6.5%
Raised in 23 days

NUREN GROUP
Amount Raised: RM295,000
Equity: 1%
Raised in 1 day

THE PARENTHOOD
Amount Raised: RM2.65mil
Equity: 26%
Raised in 17 days

MAMMAM DELIVERIES
Amount Raised: RM300,000
Equity: 5%
Raised in 30 days

FRUITI KING
Amount Raised: RM1.5mil
Equity: 19.38%
Raised in 2 days

ITALENT
Amount Raised: RM1.2mil
Equity: 4.6%
Raised in 35 days

POLYSEED
Amount Raised: RM405,000
Equity: 2.07%
Raised in 30 days

TIME V
Amount Raised: RM450,000
Equity: 10%
Raised in 14 days

KAKITANGAN.COM
Amount Raised: RM1.55mil
Equity: 10%
Raised in 1 day

RUNNINGMAN.MY
Amount Raised: RM175,000
Equity: 14%
Raised in 2 days

KRU ACADEMY
Amount Raised: RM260,000
Equity: 1.27%
Raised in 45 days

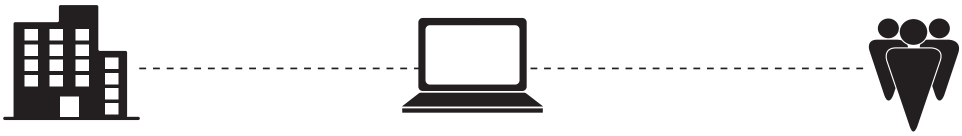
HALAL SPEED DATING
Amount Raised: RM200,000
Equity: 5.5%
Raised in 1 day

RE/MAX
Amount Raised: RM327,888
Equity: 4.6%
Raised in 24 days

Total of RM10.41 million raised for Malaysian businesses through ECF within a year of operationalisation

Continuing the momentum from ECF, the SC focused its efforts on P2P financing, a form of digital innovation which broadens the ability of entrepreneurs and small business owners to unlock capital from a pool of individual lenders in small amounts. It has a quick turnaround time to obtain financing which better suit the needs of MSMEs. The P2P financing market is targeted at more mature investors who have a better understanding of their own risk profile and are looking to diversify their investments. A snapshot of the P2P framework is provided in Diagram 2.

Diagram 2
Snapshot of Malaysia's P2P financing framework



ISSUERS

- No personal loan allowed
- Only for Malaysian-incorporated companies seeking financing
- Rate of financing not more than 18% per annum*
- No concurrent hosting on multiple P2P financing platforms for same purposes
- No maximum funding limit imposed by SC
- Issuers must raise at least 80% of the target financing amount
- Oversubscription is not allowed
- All info disclosed to operator must be true and accurate

* Otherwise require prior consultation with SC

P2P MARKET OPERATOR

- Registered with SC as a Recognized Market Operator (RMO)
- Malaysian-incorporated company with a minimum paid-up capital of RM5 million
- Conducts background checks and carries out risk scoring on each issuer before hosting on P2P website
- Engages the services of an approved third party trustee service to avoid any co-mingling of funds; for both capital raised for issuers and the periodic repayments to investors
- Appointment of Shariah Adviser registered with SC, where applicable
- Must disclose on P2P platform:
  - Info relating to the issuers
  - Info on risk scoring mechanism, methodology and parameters;
  - Default criteria, default management, statistics on late payment / default rate
  - Info on processes and contingency arrangement

INVESTORS

- 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
- SC does not prescribe any cooling-off period for investments through P2P financing platforms

In developing the P2P financing regulatory framework, the SC socialised and obtained feedback for its proposed framework via targeted focus group discussions involving industry participants who registered with the SC's alliance of FinTech community (aFINity) initiative. aFINity, launched at the World Capital Markets Symposium (WCMS) in 2015, is a network of both public and private sector stakeholders, aimed at catalysing greater interest and visibility towards nurturing development of Digital Finance. The underpinning objective is to provide policy and regulatory clarity on new Digital Finance areas to promote responsible financial innovation. To date, 80 industry participants have registered with aFINity and we have organised regular engagement sessions every quarter, either as a scheduled meetings or on an ad-hoc basis. The aFINity channel was useful in galvanising a network of stakeholders in syndicating SC's position on its Digital Finance initiatives and soliciting wider industry feedback for further deliberation.

On 13 April 2016, the SC introduced the P2P financing regulatory framework which sets out the requirements for the registration of a P2P platform as provided in the amended *Guidelines on Recognized Markets* (Guidelines). The introduction of the new Chapter 13 in the Guidelines provides for the duties and responsibilities of a P2P operator, and criteria for issuers and investors who can participate in P2P financing activities.

Parties interested to operate a P2P platform were invited to submit their applications to the SC between 2 May and 1 July 2016. Among others, interested applicants are required to be locally incorporated and have a minimum paid-up capital of RM5 million. Having carefully assessed all applications to ensure that they meet all requirements of the Guidelines and are able to operate the recognised market in a fair, orderly and transparent manner, the SC has registered six P2P operators on 3 November. The six registered operators are B2B FinPAL, Ethis Kapital, FundedByMe Malaysia, ManagePay Services, Modalku Ventures and Peoplender. They are expected to be fully operational in 2017.

Coinciding with the announcement of the P2P operators, the SC organised the SCxSC 2016 Digital Finance Conference. SCxSC is in its third year and focuses on socialising our digital initiatives to support MSME financing. (Box article, page 25).

Venture capital and private equity as providers of risk capital

As part of the funding escalator, venture capital and private equity continue to be important sources of capital market financing for MSMEs, particularly for emerging high-growth companies seeking business expansion. As long-term investors, venture capital or private equity firms not only provide equity financing but also expertise, strategic and governance advice leading to better business operations and value creation. (Box article, page 26)

Aligned to the Government's efforts in promoting the growth of start-ups and MSMEs, the SC has always supported efforts to promote capital formation by having a facilitative framework for the venture capital and private equity industry. This is further augmented through SC's role as the chair of the Malaysian Venture Capital and Private Equity Development Council (MVCDC), a one stop co-ordinating entity which provides strategic direction and advice to the Government on developmental initiatives for the industry.

SCxSC Digital Finance Conference

The SC organised the SCxSC Digital Finance Conference 2016 on 3 and 4 November. SCxSC, in its third year, is an awareness conference for those who would like to understand international developments in digital finance. The conference featured expert speakers on P2P finance, digital investment services and distributed ledger technology.

Conference attendees were also able to listen to business pitches by various SMEs and entrepreneurs that are raising capital through ECF platforms approved by SC in 2015.

Overall, the SCxSC 2016 conference was successful and attracted more than 1,000 attendees from among the general Malaysian public who were able to understand how entrepreneurs and MSMEs in Malaysia can raise the necessary capital to grow their business through digital initiatives that have been introduced by SC such as ECF and P2P financing.

To accelerate industry growth to the next level, the MVCDC has formed a dedicated working group co-chaired by the Malaysia Venture Capital Management Bhd (MAVCAP), the country's largest venture capital company, and Ekuiti Nasional Bhd (Ekuinas), a private equity company owned by the Government of Malaysia, to identify challenges and provide specific recommendations for industry development.

With all these enabling framework and alternative funding avenues in place, the capital market will continue to support businesses that are gearing up to deliver the right product, quality, solution and service at competitive prices, both in domestic and international markets.

CREATING AND PRESERVING WEALTH

Enhancing efficiency and investor experience in the unit trust industry

With a total of RM358.47 billion net asset value (NAV) as at end-2016, unit trust funds are a popular asset class among Malaysian households. Further growth of this industry, requires promoting effective competition and improving operational efficiency.

In July, we launched two new initiatives to enhance competitiveness and efficiency of the unit trust industry, namely an expedited authorisation process for non-complex retail unit trust funds and allowing for prospectuses without an expiry period.

Venture capital and private equity in Malaysia

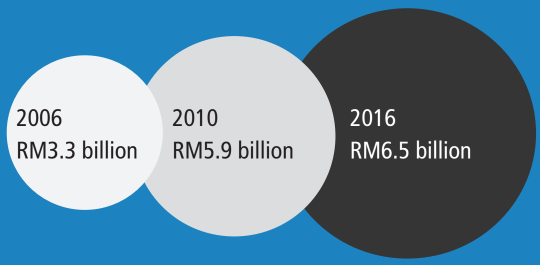
State of play

No. of registered corporations

+ 20%

No. of Registered VC and PE with the SC increased steadily from 91 (2006) to 109 (2016)

VC/PE Total Funds Commitment (2006–2016)



Venture capital (VC) is an essential source of funding for start-ups to achieve growth and create value through innovation. The economics of VC are often characterised by high risk and high returns, and are generally sector agnostic.

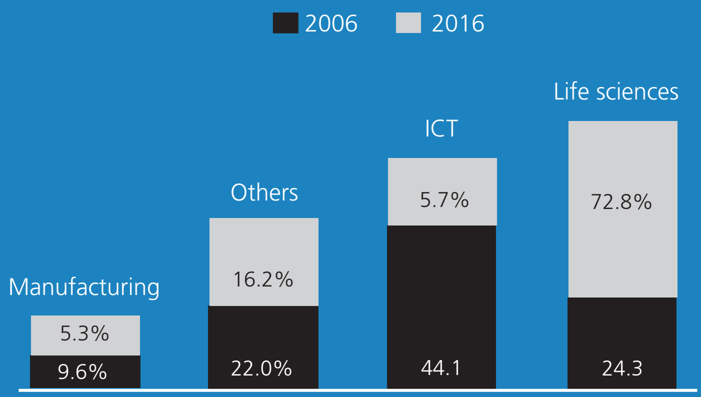
The Malaysian VC industry was established in 1984 with the formation of Malaysian Ventures Sdn Bhd. Gradually, various VC funds were formed and the total capital available grew substantially from RM3.3 billion (2006) to RM6.5 billion (2016).

VC/PE Investments (RM Million)

+237%

Amount of annual investments in investee companies grew vastly from RM169 million (2006) to RM570 million (2016)

Popular sectors for VC/PE investments



Popular sectors for VC investments include life sciences, ICT and manufacturing. In mid-1990s, the government launched a series of biotechnology initiatives including the establishment of Malaysian Life Sciences Capital fund.

Malaysia's VC/PE developments over the last decade

2005
Established MVCDC as a single agency to coordinate implementation of VC initiatives at national level

2007
Issued guidelines for Registration of VCC and VCMC

Includes registration criteria, fit and properness of designated persons and compliance obligations

2008
Issued guidelines and best practices on Islamic VCs

2009
Issued guidelines on VC tax incentives that detailed out qualifying criteria and application procedures for VCCs to submit tax application

10-year tax exemption or deductions for registered VCCs for investments made in qualified investee companies

2015
Enhanced registration procedures and expanded VC registration to accommodate Private Equity

Introduced Malaysia Equity crowdfunding (MyECF) framework and launched aFINity@SC

2016
Established VC/PE working group under MVCDC to further develop the industry

Continuing from the launch of the Lodge and Launch framework in 2015, the SC, in applying the same principle of regulatory proportionality, launched an expedited authorisation process for the establishment of non-complex retail unit trust funds.

The change will allow issuers greater flexibility in offering funds to investors, and empowers the industry to be more responsible through self and market discipline. Issuers are able to bring more products to the market more quickly.

The SC will authorise applications for non-complex retail funds within 10 business days after submission compared to up to three months previously as the 15-business-day authorisation process could only begin after complete information was received. Applicants are now, however, responsible for ensuring that applications are complete and accurate at the time of submission, and the SC will authorise their funds based on such representations. The existing authorisation framework will continue to apply to all other types of retail funds.

In addition, the SC has allowed the issuance of prospectuses without the previous expiry period of 12 months. There is no longer a need for issuers to reissue and reprint the prospectus on an annual basis which will result in savings on reissuance costs and resources.

Amendments made to the guidelines will allow issuers to only provide updates on changes in the prospectuses via notifications, supplementary prospectuses or where appropriate, replacement prospectuses. Also, the guidelines have clarified that:

(i) where there are significant changes to the prospectus which may affect a unit holders' decision to stay invested in fund, unit holders must be given at least 14 days' notice before the change is effected; and

(ii) unit holders' approval must be obtained for any changes to the deed which may materially prejudice the interests of unit holders.

This will ensure that information on changes is highlighted to investors expeditiously. Certain information previously disclosed in prospectuses such as fund performance will be reflected in the Product Highlights Sheets that are being provided to investors to enable them to make informed investment decisions.

In addition, the *Disclosure Guide* issued by Federation of Investment Managers Malaysia (FIMM) in November 2015 facilitate investors' understanding of prospectuses by making disclosures clearer and more standardised.

Encouraging retirement savings through Private Retirement Schemes

By 2035, Malaysia is expected to become an ageing population with 15% of its citizens aged 60 or older. In 2015, this proportion was 9.1%, already outnumbering the proportion of children younger than five years old by 0.6 percentage points. This gap between the two age groups is expected to widen continuously over the next two decades.

The private retirement scheme (PRS) provides a much needed solution to address the retirement saving needs of an ageing population and to close the existing savings gap by allowing individuals to voluntarily accumulate adequate savings for their future retirement. The SC has continued to advocate the importance of increasing PRS awareness and education and to encourage individuals to plan early for their financial independence in their retirement years.

In 2016, the SC has stressed on the need for greater collaboration among regulators, employers and PRS Providers to promote corporate PRS schemes as part of a holistic employee retention strategy. Employers should be facilitating discussions on retirement needs with their employees and encouraging them to set aside more than the currently mandated contribution. Collective efforts by the SC, PRS Providers and the Private Pension Administrator (PPA) in growing the employer segment through continuous engagements and promotions have led to a rise in the number of corporates or employers contributing to the PRS, on behalf of their employees, from 161 in 2015 to 477 in December 2016.

Another key segment which the SC is focusing on is the youth. Since the start of the PRS scheme in 2012, it has attracted the youth segment – those between 20 and 30 years old. The introduction of the youth incentive in 2014 – a government co-contribution on a 50% matching basis if there was an accumulated saving of RM1,000 within the year – has led to a significant increase in participation rate from 7% of total contributors at the end of 2013 to 18% as at the end of 2016. The Government has announced further enhancements to the youth incentive in Budget 2017 with an additional RM165 million allocated. Under this, the Government's co-contribution will be increased on a 1-to-1 matching basis i.e. the Government will match RM1,000 accumulated savings in youths' accounts with RM1,000 Government co-contribution during the two-year period of 2017–2018. It is envisioned that with this incentive, more Malaysian youths will participate early in PRS. PRS Providers should support this initiative by promoting PRS to the youth while employers should also capitalise on this incentive to package PRS as part of their employment benefits.

In line with PPA's objective of facilitating the growth of the PRS industry, the PRS Online Top-Up system was launched in September 2016 to enable members to make more regular and additional contributions in a convenient, efficient and secure way via PPA's website. The system allows members to top up their PRS funds directly from their smartphones, tablets or computers and is supported by the Financial Process Exchange (FPX) payment gateway.

To facilitate PRS members to make informed investment decisions while using the system, PPA will make available the necessary disclosures and relevant notices via the system. The SC's approval for the implementation of the Top-Up system placed emphasis on the need to protect members' interests, specifically that PPA's central administration system allows for secure transactions through its electronic facility that is equipped with adequate systems capacity, proper controls and remains resilient to risks. It is envisioned that this facility will nurture a regular savings habit among Malaysians.

As a means of enhancing business efficiency and facilitating communication to investors, the SC is making digital dissemination the default mode for all communication with members. Members would however still be able to receive documents in hard copies if they choose to.

The SC is also enhancing disclosure obligations on PRS providers by describing events constituting a substantial change to product disclosure documents.

It clarifies that the ability to withdraw an application to subscribe for PRS is limited to such events of substantial change. This however would not apply where the contributions have been funded by employers.

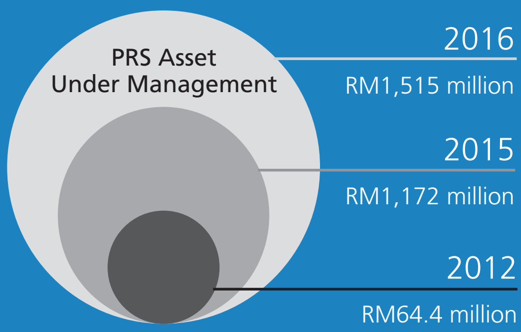
To provide business efficiency for PRS providers and a conducive environment to facilitate regular top-up, the SC will be removing the requirement to provide disclosure documents to members who make top-up contributions as the members would have received them upon making their first contribution. However, providers must ensure that the latest disclosure documents are available for download on their website and are provided to members upon request.

To provide choice for investors, PRS providers have also over the years offered a more diverse set of investment opportunities. This year, the PRS Providers have launched six new funds out of which five are Islamic funds.

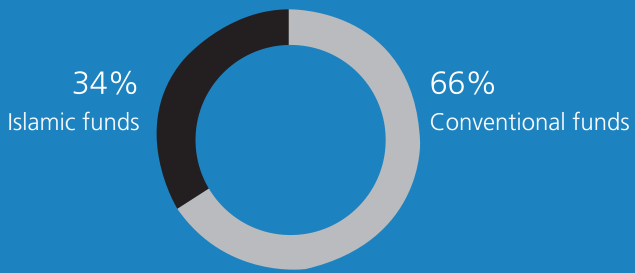
These positive enhancements and changes have resulted in the growth of members to 221,000 and total NAV reaching RM1.52 billion in 2016. The PRS has proven to be an important component in saving for one's retirement and continues to be a priority for the SC.

Private Retirement Scheme

Net asset value at RM1.52 billion



Islamic PRS funds accounted for 34% of the total NAV in 2016



Private Retirement Scheme *(continued)*

Total of 56 PRS funds are offered to the public

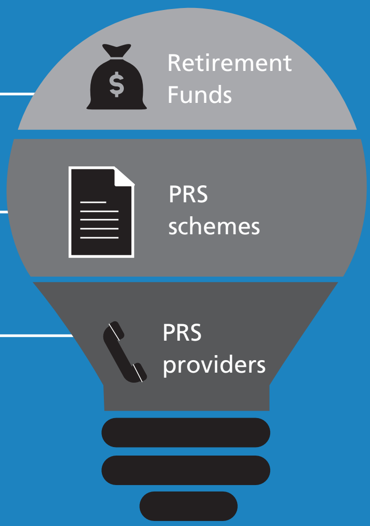
Since 2012, the number of members have been growing at a cumulative growth rate of 78%

221,000
members in 2016

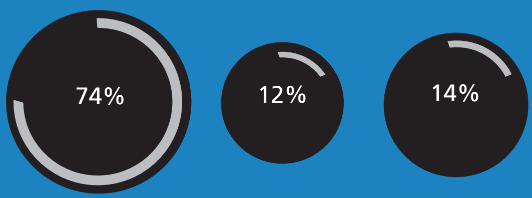
56
Approved Funds

12
Approved PRS schemes

8
Approved PRS providers



Breakdown of members

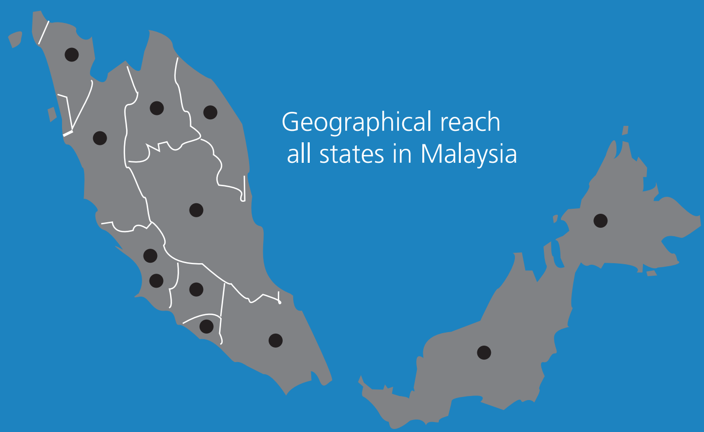


Participation from employed segment

Self-employed

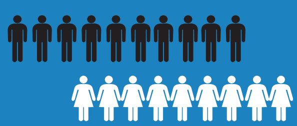
Students, homemakers & retirees

Geographical reach and balanced demographic of PRS contributors



Geographical reach all states in Malaysia

51% Male



49% Female

Growing the financial planning industry

With increased product and market innovation, the SC remains committed to helping investors make better investment decisions. In this respect, it is important that the financial planning industry provides investors with appropriate advice and maintains high standards of professionalism.

The SC has focused on efforts to facilitate the growth of financial planners not just in terms of numbers but also in terms of professional standards. We have continued to work collaboratively with the industry to address concerns relevant to both financial planners as well as investors. Since the launch of the three-year Joint Action Plan (Diagram 3) in 2015, significant progress has been achieved, with the industry implementing seven out of 10 recommendations under the Action Plan.

Among the key initiatives implemented during the year is the enhanced collaboration of financial planning associations in strengthening professional standards and increasing investor awareness of the financial planning profession. The SC also looked at steps to lower the cost of doing business and enhance business efficiencies by easing entry of financial planning intermediaries which relates to post registration audit and compliance requirements.

To further develop the industry, a total funding of RM5.95 million has been approved by the Capital Market Development Fund (CMDF). The fund will be utilised for initiatives aimed at encouraging new entrants into the financial planning industry as well as enhancing investor access and understanding of financial planners and their services via web portals and roadshows.

Diagram 3
3-Year Joint Action Plan

We are also taking proactive measures to deter individuals and companies from carrying out financial planning activity without being licensed. Towards this end, the SC has carried out engagements with five companies and issued notices to caution against marketing or promoting themselves as being able to offer financial planning services. We also published a public warning notification in national newspapers reminding the public to seek out financial planning services only from companies and persons licensed by the SC.

Enhancing access to foreign markets

Access to foreign markets for investments was further widened when Malaysia was granted the Renminbi Qualified Foreign Institutional Investor (RQFII) status in November 2015 with a quota allocation of RMB50 billion. With this, qualified Malaysian-based institutions can invest directly in the Chinese capital market, thus creating opportunities for them to offer a wider range of RMB investment products to their investors.

In supporting this, the SC organised a Capital Market Forum on RQFII on 22 January 2016 aimed at creating awareness and developing interest among potential market participants in the RQFII programme. A total of 150 invitees from the industry and government-linked companies attended the forum, sharing their views on the outlook for China's economy as well as the technicalities and experiences related to this programme.

In addition, a guidance to facilitate applications to the China Securities Regulatory Commission for the RQFII licence was jointly issued by the SC and Bank Negara Malaysia (BNM) on 8 March 2016.

The guidance sets out the criteria for institutions under the purview of the SC and BNM who wish to apply for the RQFII licence as well as additional requirements by SC and BNM respectively.

Widening the range of product offerings

Relaunch of the Malaysian Government Securities (MGS) futures contract

The contract specifications for 3-Year (FMG3), 5-Year (FMG5) and 10-Year (FMGA) Malaysia Government Securities Futures (collectively known as MGS futures contracts) were revised and the contracts were relaunched on 19 September 2016.

The revisions ensured that only the most relevant and liquid bonds are included in the eligible basket, which would be a better or 'true' reflection of the underlying/physical market. This also allows improved correlation between the futures contract and its underlying asset. This initiative ensures continued relevance of the contracts which can also be used as a good proxy for market players to replicate and hedge their exposure more efficiently.

Tin futures contract

The shift in tin consumption from Europe to Asia over the years have led to the calls for tin futures contract (FTIN) to be re-introduced to complement the physical market[3]. The FTIN, as the first base metal product, would broaden trading and investment opportunities for investors who also trade

[3] Tin futures contract was previously introduced by the Kuala Lumpur Commodity Exchange in October 1987. However, due to lacklustre trading and concentration of tin trading in the Eurozone at that time, the tin futures contract was removed.

precious metal contracts, namely the Gold Futures contract. The range of commodity derivatives allows investors to have a variety of products which may better meet their risk preferences and liquidity needs.

The Kuala Lumpur Tin Market (KLTM) which provides the reference pricing is recognised as the price benchmark for physical tin in Asia. The FTIN contract, denominated in US dollar, was launched on 31 October 2016.

Contract for Difference

Recognising that there is a demand for Contract for Difference (CFD), the SC is adopting a phased approach in allowing over-the-counter (OTC) CFDs. A CFD is a 'derivative' financial product which derives its value from another underlying asset (for example, share, commodity or market index). The product appeals to investors having a view on the future movement in the value of the underlying asset. A major distinction between the CFD and existing futures contracts is the fact that the CFD is traded privately OTC instead of on a regulated exchange platform.

This product, which will be launched in 2017, will be limited initially to sophisticated investors with restriction on the types of underlying assets to shares and indices. This phased approach will provide investors with the opportunity to better understand the intricacies of CFDs before investing and trading in the product.

Mobilising SRI funds to meet the world's sustainable development funding needs

Global developments impacting our market have been driven by technological advances, increased internationalisation and changing regulations as well as a shift in motivation behind investment objectives. The millennials are collectively demanding more products and services which conform to environmental standards and take into account social and governance factors. In addition, institutional investors are also demonstrating growing interest in sustainable and responsible investments by mobilising more capital into this segment. This has created a significant momentum in the growth of Sustainable and Responsible Investment (SRI).

As a new growth area in the fund management industry, the increasing demand for SRI has led to more fund managers and institutional investors becoming more committed towards this agenda. As at April 2016, there were 1,500 fund managers and asset owners with combined AUM of US$62 trillion who are committed towards responsible investments.[4]

This encouraging development is further fuelled by global policy changes such as the introduction of the Sustainable Development Goals 2030 (SDG) - 17 Goals to Transform Our World, by the United Nations, which identified goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. On 1 January 2016, SDG 2030 officially came into force and over the next 15 years, countries will mobilise

[4] United Nation's Principles for Responsible Investment.

efforts to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind. Malaysia has also expressed its commitment to support and implement the SDG 2030.

In addition, under the Paris Agreement on Climate Change (COP21) in December 2015, 195 countries adopted the first-ever universal, legally binding global climate agreement, which sets out a global action to limit global warming to below 2°C. The agreement, which is within the framework of the United Nations Framework Convention on Climate Change (UNFCCC) will come into effect in 2020. On 22 April 2016 (Earth Day), 177 UNFCCC members signed the treaty, 15 of which ratified it. Malaysia is also a signatory of the agreement. These global policy directions will require greater demand for capital to be mobilised towards sustainable development priorities.

Malaysia's capital market moved into the SRI space with the introduction of Islamic finance 30 years ago as the principles of Islamic finance mirror those of SRI. Malaysia is the largest SRI market in Asia with a 34% market share[5] by virtue of its Islamic funds industry being recognised as SRI-compliant. Today, Malaysia as a leading Islamic financial centre is well poised to drive the sustainability agenda further.

Bridging social finance and ICM remains an important agenda in promoting public good and pursuing the larger objectives of Shariah. The commonalities in the principles underlying both SRI and Islamic investing provide considerable opportunities for greater alignment between these two segments. Leveraging Malaysia's global position in the Islamic capital market will further drive the growth of this new segment.

In line with this, efforts are being undertaken to develop the ecosystem for SRI in the Malaysian capital market. To widen SRI asset classes, the SC started formulating a framework for SRI funds. The framework will, among others, lay out the requirements for eligible SRI investments, additional disclosure and reporting. The framework is expected to be issued in 2017.

As a market-based solution, SRI funds will mobilise private capital to be intermediated and channelled to activities which will bring positive impact on the environment and society. In addition, SRI funds will encourage good corporate governance and responsible corporate practices. More importantly, investors, both institutional as well as retail, will benefit from a combination of financial and social returns.

FACILITATING INDUSTRY EVOLUTION

Promoting greater market vibrancy

Revised framework for take-overs and mergers

On 15 August 2016, the SC introduced an enhanced framework for take-overs and mergers with the issuance of the *Malaysian Code on Take-overs and Mergers 2016* (TOM Code) and the *Rules on Take-overs, Mergers and Compulsory Acquisitions* (Rules) following extensive engagement with key stakeholders comprising take-over practitioners, shareholder groups and institutional players. The revised framework better meets the needs of an

[5] 2014 Association for Sustainable and Responsible Investment in Asia (AsRIA) Report.

increasingly sophisticated take-overs landscape and has been well received.

The TOM Code prescribes broad general principles that are to be adhered to by all parties engaged in any take-over or merger transaction, including the principle that all shareholders are treated equally and not disadvantaged by the treatment or conduct of any party relevant to the take-over.

The Rules, which are issued as guidelines under section 377 of the *Capital Markets and Services Act 2007* (CMSA), provide operational and conduct requirements in relation to take-over or merger transactions. This allows the SC to better address novel and unique cases not explicitly provided for in the TOM Code or Rules, while upholding the general principles set out in the TOM Code. This is consistent with our aim to improve our responsiveness to market changes, while keeping in mind the need for shareholder protection. (Box article, page 39).

Prior to the TOM Code and the Rules coming into effect, amendments have also been made to the take-over provisions contained within the CMSA which came into force on 15 September 2015, aimed at strengthening minority shareholder protection, among other things. The key changes made to the CMSA and the Rules are in Tables 1–3.

Table 1

Capital Markets and Services Act 2007
Division 2 Part VI of the CMSA

Previous provisions	Enhanced provisions
• Provides principles for take-over regulation including fair and equal treatment of shareholders and sufficiency of information.	• Principles on required conduct during a take-over offer transferred to the 2016 TOM Code and imposed on all parties involved in a take-over.
• Provides key definitions including on 'persons acting in concert'.	• Expansion of presumed persons acting in concert to include partners of a partnership, persons involved in financing arrangements and for individuals.
• Provision for administrative sanctions for non-compliance with the 2010 TOM Code or ruling; and statutory breach for failure to undertake mandatory offer and for false and misleading information.	• Enhanced administrative sanctions under section 220 of the CMSA to include cold shoulder and refusal to accept submission from adviser in breach. • Provides for SC's ability to appoint an independent adviser for offer, in the event of failure by target board.
• Provisions on compulsory acquisition and the rights of minority shareholders.	• Compulsory acquisition provisions expanded to include convertible securities.

Table 2
Malaysian Code on Take-overs and Mergers

2010 TOM Code	2016 TOM Code
• Prescribed timetable for take-over offers, conduct requirements during a take-over offer, and minimum disclosure requirements for offer documentations.	• Provides for broad General Principles (GP) that underpin the conduct of take-overs, mergers and compulsory acquisitions, which has been expanded from the previous section 217(5) of the CMSA. Operational and conduct requirements transferred to the Rules which was issued as an SC Guideline.
• Prescription of additional categories of presumed persons acting in concert.	• Prescription of persons acting in concert consolidated in the CMSA. Specification of persons acting in concert for entities other than a corporation (i.e. REITs and BTs) are now provided for in the Rules.

Table 3
SC Guidelines on Take-overs and Mergers

Practice Notes – Issued as an SC Guideline on 15 December 2010	Rules on Take-overs, Mergers and Compulsory Acquisitions (Rules) – Issued as an SC Guideline on 15 December 2010
• Provides expected practice and conduct pursuant to the 2010 TOM Code requirements.	• Provides operational and conduct requirements which are underpinned by the GPs.
• Listed situations where exemptions from mandatory offer may be sought.	• Notes are included to provide further clarity and understanding of provisions.

Research scheme for small and mid-cap companies

Small and mid-cap companies are an important segment of the listed equity asset class within the overall capital market. Although Malaysia's equity market has grown significantly over the years in line with the country's economic performance, there seems to be a relatively higher concentration of interest in select segments.

Recognising the important role of the small and mid-cap companies within the economy, efforts were made to nurture this segment. The small and mid-cap sector comprises many companies that can benefit from more research coverage and investor interest. As such, it was announced in the 2017 Federal Budget that a dedicated Small and Mid-Cap PLC Research Scheme would be introduced to provide independent analyst coverage on these companies to invigorate the equity capital market.

Complementing this, a special fund with a RM3 billion allocation from Government-Linked Investment Companies (GLICs) will be channelled towards this segment. In an effort to create a more vibrant and diverse pool of investment managers in the small and mid-cap segment, a significant portion

Malaysian Code on Take-overs and Mergers 2016 and Rules on Take-overs, Mergers and Compulsory Acquisitions

On 15 August 2016, the SC launched the revised take-overs and mergers framework with the issuance of the *Rules on Take-overs, Mergers and Compulsory Acquisitions* which came into effect together with the *Malaysian Code on Take-overs and Mergers 2016* (TOM Code). The revised framework complements the legislative amendments made to the take-over provisions of the CMSA which were effected earlier on 15 September 2015.

In defining the Rules and the 2016 TOM Code, the SC undertook an extensive consultative process with key stakeholders comprising take-over practitioners, shareholders' groups and institutional investors.

The enhanced framework reflects the SC's continuing efforts to move towards a proportionate regulatory regime and seeks to ensure that our take-over regulation facilitates market innovation while providing adequate protection to shareholders where required. While certain changes have been made to cater to a dynamic and evolving market landscape, other changes were also made to enhance disclosure requirements and bring about greater parity between the differing modes of take-over transactions. Since its introduction, the revised framework has received positive feedback.

Key highlights of the enhancements made in the Rules include the following:

<u>Introduction of general principles under the 2016 TOM Code and the issuance of operational and conduct requirements under the Rules as an SC Guideline</u>

The TOM Code houses 12 overarching general principles that are to be observed by all parties involved in a take-over or merger transaction including, among others, the principle that all shareholders are to be treated equally and not be disadvantaged by the treatment or conduct of any party relevant to a take-over transaction. Meanwhile the Rules, which is issued as an SC guideline under section 377 of the CMSA, sets out the conduct and operational requirements for take-over and merger transactions, to complement the general principles contained in the TOM Code, and the substantive take-over provisions in Division 2 Part VI of the CMSA.

This shift in regulatory regime, with the transfer of the operational and conduct requirements from the 2010 TOM Code to the Rules will enable a seamless consideration of novel and unique cases, keeping in mind the key precepts set out in the TOM Code. This will also strengthen market responsiveness and facilitate innovation in take-over transactions. The SC retains the ability to take necessary actions, both administrative and statutory, for non-compliances with the TOM Code or Rules, to ensure that the regulations are properly observed and the shareholders are adequately protected.

<u>Specification of companies that fall within the ambit of take-over regulation and persons acting in concert (Code company)</u>

In addition to public-listed companies, the Rules specify that the take-over regulations are applicable to unlisted public companies with more than 50 shareholders and net assets of RM15 million or more, listed business trusts (BTs) or listed real estate investment trust (REITs) in Malaysia. Previously, the

Malaysian Code on Take-overs and Mergers 2016 and Rules on Take-overs, Mergers and Compulsory Acquisitions *(continued)*

2010 TOM Code applied to all public companies, whether or not listed, and listed REITs.

The specification in relation to unlisted public companies allows for proportionate regulation as only sizeable companies in terms of asset value and number of shareholders will be subject to the take-overs framework. Meanwhile, the specification for REITs and BTs ensures that the TOM Code and Rules apply and remain neutral in relation to structures.

Consequential to the above, the Rules also provide specifications of presumed concert parties for REITs and BTs to provide clarity and complement the definition of presumed persons acting in concert under the CMSA which is 'corporation-centric'.

Introduction of the 'netting-off' Rule

With the new Rules, persons who hold more than 33% (i.e. >33% up to 50%) interest in a Code company may acquire and dispose of voting shares within a band of 2% above the greater of 33% or their lowest percentage holding within the previous six months without incurring a mandatory offer obligation. However, if the disposals result in their holdings falling to 33% or below and they subsequently increase their holdings to more than 33%, the mandatory take-over provisions are still applicable.

Given that disposals of voting shares may now be netted-off against acquisitions, shareholders may now trade within the 2% band. This liberalisation facilitates greater flexibility to trade in shares which may lead to better liquidity of these shares and better investment management options for shareholders.

Nevertheless, the change does not disadvantage minority shareholders as controlling shareholders will still be obliged to undertake a mandatory offer should they cross the 2% band.

Relaxing the requirements for take-overs effected through schemes

The Rules have removed the previous condition that the proposer of a scheme must have more than 50% interest in the offeree, affording potential offerors with an alternative option to take-over or privatise a company. At the same time, safeguards such as the requirement for any person undertaking a scheme to seek a ruling or direction from the SC on the application of the Rules are put in place to ensure adequate protection for shareholders of the offeree.

Further, the Rules now require scheme documents to comply with the timelines applicable in a take-over bid to align the timing for schemes as closely as possible to contractual take-over offers.

With the release of the new TOM Code and Rules, SC will be better positioned to take into account and address new developments in the capital markets and be more facilitative in a market which is constantly seeking out innovation and value for its stakeholders.

of this fund will be outsourced to external fund managers with a specific mandate to be invested entirely in this segment.

These efforts are expected to result in increased interest from a wider cross section of investors, enhanced diversity of investment strategies in the market, and create better value recognition of small and mid-cap companies. A working group has been set up, under the auspices of the SC, to operationalise these initiatives.

Framework for listing of mineral, oil and gas businesses

The SC has completed formulating the framework for the admission of companies involved in mineral, oil and gas (MOG) exploration or extraction businesses to the Main Market of Bursa Malaysia, either directly through initial public offerings or indirectly through acquisitions by listed companies. The framework, which will be introduced early 2017, was developed following a thorough review, jurisdictional benchmarking and stakeholder engagements, including the issuance of a public consultation paper in 2015.

The framework will introduce additional eligibility and disclosure requirements at admission by way of amendments to the *Equity Guidelines, Prospectus Guidelines – Equity* and *Asset Valuation Guidelines* issued by the SC. This will provide greater clarity on the types of MOG businesses considered suitable and eligible for listing, and the additional disclosures required of them, in view of the highly technical nature and specific risks of such businesses. It will facilitate such businesses in tapping the equity market. In conjunction with the introduction of the admission requirements by the SC, Bursa Malaysia will introduce additional post-listing obligations for listed MOG issuers, in addition to the requirements in the Listing Rules.

Real estate investment trusts

The real estate investment trust (REIT) market has seen steady growth over the past 10 years. As at December 2016, a total of 17 REITs (including four Islamic REITs) were listed on the Main Market of Bursa Malaysia with a market capitalisation of RM44.19 billion. Malaysian REITs own a wide range of real estate, including office buildings, retail malls, hotels, healthcare establishments and industrial properties.

In 2016, the SC undertook a comprehensive review of the *Guidelines on Real Estate Investment Trusts* (REITs Guidelines) to further facilitate the sustainable growth of the REITs market. In doing so, we have taken into consideration the evolving needs of the REITs and REIT investors as well as developments and regulatory requirements in the regional markets. The primary objectives of the SC's review were to (a) facilitate growth by expanding the scope of permitted activities that can be undertaken by REITs; (b) enhance governance requirements; and (c) improve efficiency through streamlining of post-listing requirements for listed REITs with those for listed corporations.

To give greater opportunities for REITS to expand their income base to create value for investors, we propose to liberalise the permitted activities that can be undertaken by REITs. This liberalisation will, among others, enable REITs to redevelop their existing properties or acquire vacant land for purposes of developing new properties to expand their portfolio of income-generating real estate. To manage the risks associated with such activities, these activities will be limited to a certain portion of the REIT's assets and REITs will be required to keep investors apprised as to the progress of development through its quarterly and annual reporting. The leverage limit for REITs will also now be fixed at 50% and the option for a REIT to increase the limit with the approval of its unit holders by way of an ordinary resolution will no longer be available. It will also allow REITs to enter into long term leases with registered proprietors of real estate.

While facilitating growth, we recognise the importance of fostering a strong governance culture to protect investors, maintain market integrity and promote long-term sustainability of Malaysia's REITs market. Measures proposed to enhance governance include, among others, requirements for REIT managers to establish an audit committee, to incorporate a statement in the annual report on the REIT's corporate governance practices and state of internal controls, and to undertake annual revaluation of the REIT's real estate by an independent valuer.

We also propose to streamline post-listing requirements between listed REITs and listed corporations in the REITs Guidelines with *Bursa Malaysia Securities Bhd Main Market Listing Requirements* to achieve parity in regulations between listed REITs and listed corporations and to promote greater efficiency in the regulatory framework for REITs in undertaking post-listing transactions. In this respect, all post-listing issuances of new units would only be subject to Bursa Malaysia's approval and *Bursa Malaysia Securities Bhd Main Market Listing Requirements* will also be amended to, among others, incorporate post-listing requirements on transactions by REITs.

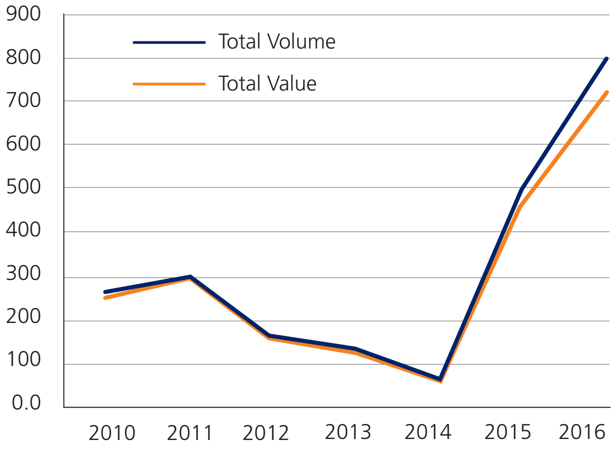
As part of our review, we held discussions with various stakeholders and had, on 14 July 2016, published a consultation paper to invite public feedback on our proposals. We received feedback from 37 respondents, including REIT managers, trustees, valuers, investment banks, regulatory bodies and investors. Overall, the feedback provided was supportive of the proposals, which we plan to introduce in the first quarter of 2017.

Exchange-traded funds

The SC continues to actively promote the development of Exchange-traded funds (ETFs) which provide investors with an opportunity to gain access to a portfolio of assets at a relatively low entry cost. By democratising access to a range of assets, sectors and markets, ETFs offer flexibility in terms of investment choices to serve the diverse needs of investors.

The Malaysian ETF market continued its upward trajectory in 2016 with the aggregate market capitalization of the 8 ETFs increasing to RM1.9 billion driven significantly by interest from investors in the local bond ETF. The positive interest in the domestic ETF market is also reflected by the surging total trading volume and trading value of ETFs which is depicted in Chart 1.

Chart 1
Malaysia's ETF trading volume and value (in millions)



Recognising the significant growth potential in this segment, the SC set up a taskforce comprising policymakers and industry participants (Taskforce) in 2016 to formulate strategies to spur the long-term development of the ETF market in Malaysia. A snapshot of the key themes and desired outcomes as outlined by the Taskforce is set out in Diagram 4.

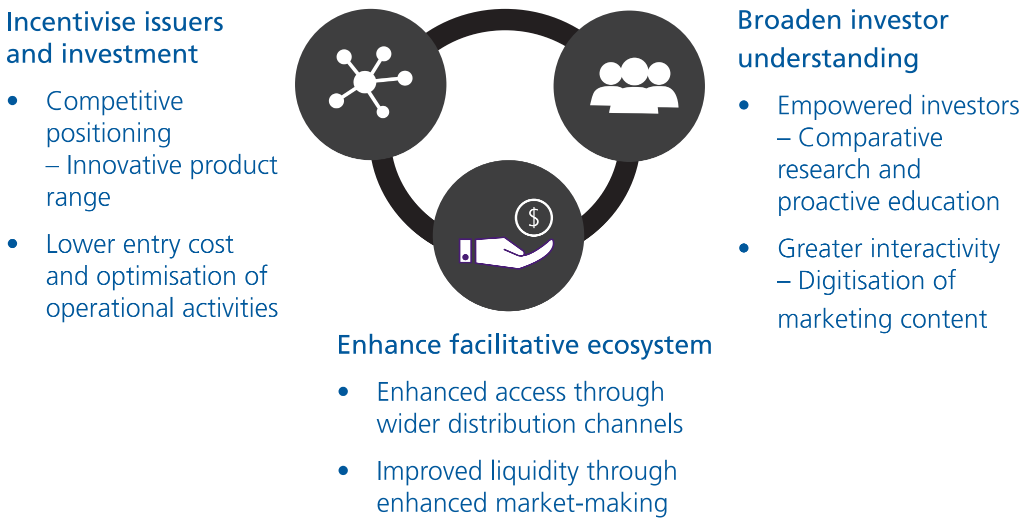
Based on close examination of existing limitations in the domestic ETF ecosystem and recent developments in the global ETF space, the Taskforce has identified a set of measures to enhance the vibrancy of the domestic ETF market. Working closely with Bursa Malaysia, the SC is revising the ETF framework which includes the *Exchange-traded Funds Guidelines* to foster innovation in the market and provide greater flexibility to potential issuers, while at the same time maintaining our resolve to ensure informed decision making by investors.

Facilitating re-engineering of business models

Introduction of the Marketing Representative framework

In 2016, the SC worked on introducing the Marketing Representative framework to address the disparity in roles of introducers and referrals for different regulated activities. The framework clarifies

Diagram 4
Key themes and desired outcomes



Source: ETF Taskforce

that mere introductions and referrals do not trigger any of the regulated activity definition.

A marketing representative can either be a corporation or an individual, and may carry out introductions and marketing activities within the permissible parameters on behalf of the principal, without the need to either hold a licence or be authorised by the SC.

The introduction of this new initiative is in line with SC's effort to enhance business opportunities of licensed intermediaries. The scope of activities that can be carried out by a marketing representative include introduction activities, such as arranging for a prospective client to meet with or speak to a representative of a licensed intermediary, forwarding a customer's particulars to the firm, and/or providing the prospective client with factual product information. The marketing representative is, however, prohibited from giving advice, making recommendations on capital market products and handling client's money.

The new framework will supersede the current framework for Introducing Representative for stockbrokers and Marketing Representative for fund management companies.

Introduction of clearing services for securities or derivatives as a new regulated activity

The activity of dealing in securities or derivatives envisages a full-service broker, which requires the broker to provide both trading and clearing services. To facilitate the decoupling of the trading and clearing participantship as recommended under the *Capital Market Masterplan 2* (CMP2), a new regulated activity termed as `clearing for securities or derivatives' will be introduced. This new regulated activity would enable a person/entity to be licensed to carry out the regulated activity of only clearing without having to provide trading and execution services. Decoupling of the trading and clearing participantship seeks to promote business efficacy and reduce operational cost, thereby enabling intermediaries to focus on their niche services.

Strengthening industry capabilities and capacity

Training and education for Bumiputera Dealer Representatives

The Bumiputera Dealer Representatives Education Fund (BDREF) established in 2003 received additional funding amounting to RM5 million from the Capital Market Development Fund (CMDF). The BDREF managed by a Board of Trustees comprising representatives from the SC, Bursa Malaysia, Association of Stockbroking Companies Malaysia (ASCM) and Persatuan Remisier Bumiputera Malaysia (PRIBUMI), was set up to increase the number of Bumiputera remisiers and dealer's representatives with professional qualifications, by providing them with financial assistance to pursue the relevant qualifications and/or short courses to improve their technical knowledge and skills.

Since the fund's inception, a total of 184 BDREF participants have benefited and successfully obtained various professional qualifications as part of their continuous development in the industry.

In addition, non-examination based programmes or short courses approved for BDREF funding in 2016 have benefited 794 Bumiputera remisiers and dealer's representatives.

Table 4
BDREF participants with professional qualifications

Courses	Participants with Professional Qualifications (2003 – 2016)
Certified Financial Planner (CFP)	40
Islamic Financial Planner Certificate (IFP)	7
Associate Financial Planner (AFPM)	17
Chartered Financial Analyst (CFA)	2
Diploma in Technical Analysis (MSTA)	110
Graduate Diploma in Applied Finance and Investment (GDAFI)	2
Chartered Islamic Finance Professional (CIFP)/ Masters in Islamic Finance Practice (MIFP)	6
TOTAL	**184**

Table 5
Non-examination-based BDREF programmes in 2016

Courses	Number of Participants
PRIBUMI – Technical Analysis (10 modules)	684
ASCM – Fundamental Analysis	110
TOTAL	**794**

Furthermore, the BDREF has funded 10 participants to the 2016 International Federation of Technical Analyst (IFTA) Conference in Sydney, Australia aimed at broadening their horizons with the exchange of new ideas and updates on technological advancements with world-leading technical analysts, international fund managers and investment bankers.

Capital Market Professionals Qualification

The Malaysian capital market is rapidly evolving. With complex products increasingly being introduced, consolidation among local intermediaries, blurred boundaries and talent outflow, there is a need to establish a structured capital market professional qualification for the industry. In this regard, the Securities Industry Development Corporation (SIDC) will be introducing the Capital Market Professionals Qualification (CMPQ). Its objective is to produce globally competent professionals with the required knowledge and skills in multiple asset classes, products, markets, portfolio management and risk management. The CMPQ also encourages knowledge-sharing in ethics and governance and promotes proficiency in technological innovation to nurture individuals to become more nimble in adapting to changes in the overall market environment.

The CMPQ aims to create sustainability within the human capital framework by providing a continuous stream of competent professionals into the capital market through a more structured and flexible capacity building pipeline. It fulfils the need for a professional development pathway for the market, which credentials can be mutually recognised globally, and facilitate the development of the capital market as a knowledge and skills-intensive industry to sustain Malaysia's long-term competitiveness as an investment destination.

The SIDC is tasked with the design and development of the CMPQ framework. The framework, which includes the structure and salient features of the qualification, is expected to be ready for launch in 2017. The specific contents of the CMPQ, including the curriculum and assessment details, will be developed in stages.

Further initiatives will also be identified in the professional development space through talent diagnostics, which will be undertaken to prepare the five-year Capital Market Professional Development Roadmap (CMDP).

Institute for Capital Market Research

To augment the role of the capital market in financing economic growth and providing investment opportunities in today's fast evolving environment, the establishment of an Institute for Capital Market Research has been announced as part of the 2017 Budget. The Institute will focus its research on identifying new growth areas, including facilitating the introduction of innovative products and services required by a changing demography as well as providing pragmatic and evidence-based solutions that can be tapped by both industry and policymakers.

The Institute, which is expected to be launched in 2017, will also be the central repository and reference point for capital market data, disseminating comprehensive statistics to facilitate in-depth and rigorous analysis. Emphasis will also be placed on deepening capital market capacity and expertise by developing researchers and analysts, attracting prominent experts through a distinguished visiting fellows programme and providing a platform for knowledge transfer between industry, academia, policymakers and international experts through strategic partnerships and networks.

Stakeholder engagements and promotions

SC's engagements with local stakeholders are critical to identify and address issues and explore potential opportunities. We continue to actively engage with market participants to ensure that our regulatory policies as well as market development strategies and initiatives take into consideration the perspective of key stakeholders and are aligned with market needs. The annual SC Industry Dialogue (SID), which began in 2012, serves as a key platform for us to engage with market participants and industry associations on developments, potential opportunities and emerging risks in the capital market. The SID 2016, held in August, was centred on the theme, `Digital and the Changing Landscape of Intermediation' where discussions focused on the changing industry dynamics, challenges faced by participants against current market uncertainty as well as the emergence of a more sophisticated and tech-savvy digital generation. Overall, the industry dialogue discussed measures to enable the industry to achieve greater cost efficiencies and leverage on emerging and potential business opportunities within a facilitative regulatory ecosystem.

Capital Markets Malaysia (CMM) focuses on identifying and facilitating business opportunities and undertaking holistic promotion of the Malaysian capital market. In 2016, promotional efforts were focused on creating awareness and promoting the concept of SRI. Engagements were centred on highlighting the similarities between the underlying principles of Islamic finance and those of SRI. Targeted engagements in Singapore during the annual UN PRI In Person event, a gathering of over 550 investors globally provided much traction in generating a high level of awareness. This was subsequently followed by direct engagements with investors in London in support of the Ministry of International Trade and Industry's (MITI) annual engagement on the promotion of Malaysia as an investment destination.

In addition to these efforts, CMM has also engaged foreign institutional investors who are interested to invest in corporate bond and equity issuances from Malaysia. In partnership with a leading Japanese investment house, select institutional investors were invited to come to Malaysia and engage with senior government officials and the regulators to gain an appreciation of the strong fundamentals underpinning the Malaysian economy and the regulatory framework of the capital market. Subsequently, direct engagements were held in Tokyo to follow up on investment interest in Malaysia. Similar engagements with institutional investors were held in countries and markets which have expressed interest to explore the Islamic capital market.

STRENGTHENING MALAYSIA'S POSITION IN ISLAMIC CAPITAL MARKET

Islamic fund and wealth management

The Islamic fund and wealth management as well as sustainable and responsible investment segments have been clearly identified as having significant potential to drive further growth of Malaysia's ICM and enhance its international competitiveness. In relation to this, an *Islamic Fund and Wealth Management Blueprint* has been developed to chart the medium and long-term strategic direction for the industry as well as map out strategies and recommendations to strengthen the country's competitive edge. It leverages the country's existing strength in Islamic finance and taps into global niche opportunities in underdeveloped and new market segments.

The Blueprint is embodied by three mutually-reinforcing strategies which act as the main strategic thrusts. The three strategic thrusts are strengthening Malaysia's positioning as a global hub for Islamic funds, establishing Malaysia as a regional centre for Shariah-compliant sustainable and responsible investment, and developing Malaysia as an international provider of Islamic wealth management services. Eleven core recommendations have been identified to drive initiatives towards achieving these strategic thrusts which will pave the way to enhance international connectivity and develop global capabilities of Malaysia's service providers and market intermediaries, including seize niche and new market opportunities.

The Blueprint also addresses three entry-point projects under the National Key Economic Area for financial services namely spurring the growth of the

Islamic Fund and Wealth Management Blueprint – Driving a new growth segment

Thrust #1
Strengthen Malaysia's positioning as a global hub for Islamic funds

The emphasis of this strategic thrust is to widen the international base of the Islamic fund management industry by accelerating efforts to scale up the size of operations and offerings as well as strengthening international distribution capabilities. Given the increasingly global nature of investing and more sophisticated requirements of investors, critical aspects of expanding scale and distribution include greater regulatory co-operation and market connectivity with other jurisdictions and participants as well as enhancing the ability to tap specialised skill sets and access global products.

Thrust #2
Establish Malaysia as a regional centre for Shariah-compliant sustainable and responsible investment (SRI)

In view of the commonalities in their underlying principles, there are opportunities for greater alignment between Islamic investing and SRI. However, both are at comparatively early stages of development and considerable effort will be required to unlock the substantial synergies between these two disciplines. Critically, this strategic thrust will focus on enhancing and strengthening the SRI ecosystem. Furthermore, it will mutually reinforce other strategies to promote Malaysia as a regional centre for sustainable investments. The development of the Shariah-compliant SRI market segment will therefore have the potential to attract greater domestic and international participation. This will broaden and deepen the Islamic fund and wealth management industry.

nascent wealth management industry, accelerating and sustaining a significant asset management industry, and becoming the global hub for Islamic finance. This alignment with Malaysia's Economic Transformation Programme further signifies the strategic importance of this Blueprint.

Thrust #3
Develop Malaysia as an international provider of Islamic wealth management services

The Islamic wealth management industry is still at a nascent stage of development compared with other segments of the Islamic capital market. Malaysia, with its comprehensive Islamic finance ecosystem and track record in innovation, is in an advantageous position to play a lead role in shaping the concept and driving the development of Islamic wealth management services. Hence, this strategic thrust will focus on efforts to deepen and broaden the suite of Shariah-compliant wealth management solutions while enhancing the supporting market infrastructure and creating a more conducive and enabling environment. In tandem with the second thrust, the provision of Islamic wealth management services will also aim to attract investors seeking SRI solutions. Efforts will be directed towards promoting and differentiating aspects of Islamic wealth management across the value chain of wealth generation, accumulation, preservation and distribution, including product and service innovation aligned to the tenets of the *maqasid al-Shariah* and utilisation of *waqf* assets and structures.

Eleven core recommendations have been identified to achieve these strategic thrusts as follows:

1. Provide enabling frameworks to support innovation in Islamic markets.
2. Enhance market access and international connectivity.
3. Develop a vibrant ecosystem to accelerate growth of Shariah-compliant SRI.
4. Promote the growth of private equity.
5. Facilitate new digital business models, products and services for Islamic fund and wealth management.
6. Advance Malaysia's positioning as a hub for investment support.
7. Spur institutional participation in Islamic funds.
8. Develop facilitative market infrastructure for Islamic wealth management.
9. Strengthen intermediation capabilities to support greater internationalisation.
10. Fortify talent pipeline for Islamic wealth management.
11. Provide targeted incentives to strengthen international competitiveness.

Under each core recommendation, specific work programmes will be implemented to achieve the outcomes.

ICM as a platform for waqf development

One of the focus areas in ICM is the promotion of social finance. Bridging social finance and the ICM remains an important agenda for the SC in pursuit of public good and the larger objective of Shariah *(maqasid al-Shariah)*. *Waqf* is an important tool and impactful platform to drive this social agenda. During the year, the SC's Shariah Advisory Council has designated Shariah-compliant status to a company for the issuance of new shares involving *waqf* for the development of a sustainable commercial undertaking incorporating social-impact objectives.

Strengthening thought leadership

SC-Oxford Centre for Islamic Studies (OCIS) Roundtable

The 7th SC-OCIS Roundtable, an annual flagship thought leadership programme, was held in March and themed, 'Influencing Change in Finance and Society: Public Policy and Legislative Priorities'.

The Roundtable deliberated on the impact of public policy towards influencing change in finance and society. Key highlights include models for infrastructure development and financing; and the impact of democratising capital in financing small and medium-sized enterprises through a risk-sharing financing model. The Roundtable also brought to the fore the agenda of supporting the achievement of the United Nation's 17 Sustainable Developmental Goals by the year 2030. This includes measures in shaping the right and appropriate public policies and laws to support effective mobilisation of capital and capabilities to eradicate poverty, address environmental and climate issues, as well as promote social equality and justice globally.

Scholar in Residence Programme

The programme is a collaborative effort between the SC and OCIS to undertake research on contemporary issues in Islamic Finance. The outcome is intended to motivate relevant stakeholders to implement the research recommendations for policy implementation or as industry practice. The fourth scholar for academic year 2015/16, Arshad Mohamed Ismail from Maybank Islamic has completed his term as Visiting Fellow at OCIS with his research titled, '*The Development of the Corporate Bond and Sukuk Market in Malaysia: Moving Down the Credit Curve*'. While the focus of the research is confined to an examination of Malaysia's debt capital market, the challenges within the lower grade and non-investment grade debt instruments reflect a broader challenge to the debt capital market in many emerging and developing markets. These challenges limit the access of productive long-term capital to finance small and medium size businesses and enterprises. The research provides recommendations for enhancing the credit profile of the market in Malaysia aimed at widening the investor base and reducing the cost borrowers face in accessing the debt capital market.

For the academic year 2016/17, the Visiting Fellow under this programme is Dr Salman Syed Ali, a Senior Economist at the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank, who would conduct research titled *'Promoting Equity-based Islamic Finance: Macro and Micro Considerations'.*

Recognising outstanding contribution to Islamic Finance – The Royal Award for Islamic Finance

The Royal Award for Islamic Finance (The Royal Award) recognises individuals who have excelled in advancing Islamic finance globally through their outstanding performance and contributions. Spearheaded by the SC and Bank Negara Malaysia (BNM), The Royal Award is unique as it focuses on the individual's outstanding contribution and its impact towards the global development of Islamic finance, beyond commercial achievements. The Royal Award is also intended to inspire personalities to contribute towards the Islamic finance industry by pioneering certain fields of Islamic finance either through policymaking, implementation, institutionalisation, standards setting, industry-building, education, Shariah, innovation, etc. Individuals of such quality would influence the development and growth of the Islamic finance industry. The Royal Award is given out biennially and is currently in its fourth series. The recipient for 2016 was Professor Datuk Rifaat Ahmed Abdel Karim.

Professor Datuk Rifaat was recognised for his instrumental role in the establishment of two international standards setting bodies namely the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) and his contribution towards the development of various international standards on Shariah and accounting as well as prudential and disclosure standards. In 2012, Professor Datuk Rifaat assumed the position of CEO of International Islamic Liquidity Management Corporation, an international institution established by central banks, monetary authorities and multilateral organisations to issue short-term Shariah-compliant tradable financial instruments facilitate cross-border liquidity management among Islamic banks.

OIC Capital Market Regulators Forum

To enhance collaboration and co-operation among the Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC) member countries, the SC, being the Chair of the Islamic Finance Task Force under the COMCEC Capital Market Regulators (CMR) Forum undertook an initiative to promote continuous professional development for Shariah scholars. A questionnaire was developed to seek feedback from the COMCEC member countries on the capacity building programme for Shariah scholars. A report based on the responses received was tabled at the COMCEC CMR forum general assembly held in October in Istanbul and a training programme has since been identified for the enhancement of Shariah scholars' skills and capacity. This initiative will be supported by an appropriate funding model.

Publication of a sukuk textbook

Subsequent to the publication of the ICM textbook in 2015, the SC together with the International Shari'ah Research Academy for Islamic Finance (ISRA) are collaborating to publish a sukuk textbook. The book provides in-depth knowledge on sukuk through detailed discussions on the theoretical and practical aspects of sukuk which is further explained through case studies. This textbook will serve as a reference for tertiary education institutions globally and strengthen domestic, regional and international initiatives aimed at facilitating product innovation and development of the sukuk market. The publication of the textbook demonstrates Malaysia's continued leadership in the global sukuk market and efforts to share its capabilities with others with the objective of promoting the development of market infrastructure to mobilise long-term capital to support the sustainable economic development of a country.

Preparing professionals to drive the industry forward

Recognising that talent is vital to sustain the leadership position of Malaysia's ICM, the SC continues to implement its capacity building programmes which are structured across various levels to meet the demands of the industry. Our programmes have been designed to meet the needs of ICM stakeholders.

The Islamic Markets Programme

The programme, which focused on contemporary topics typically discussed in advanced markets, was held for market practitioners comprising regulators, industry participants and Shariah professionals. Themed '*Enhancing Sustainability of Global Businesses*: Role of the Islamic Capital Market', the programme attracted 62 participants from Cambodia, Indonesia, Kenya, Maldives, Nigeria, Singapore, Taiwan as well as Malaysia. The participants explored business ideas and market best practices to promote the convergence of Environmental, Social and Governance (ESG) criteria with Islamic principles. The discussions, exchange of ideas and information were useful in efforts to promote market-based Islamic solutions to drive the agenda for sustainable development of global businesses, investments and financing.

Shariah programmes

The SC also organised two specific programmes during the year for Shariah professionals to enhance their knowledge in other disciplines of ICM. The Shariah Advisers Programme, themed, 'Sukuk: Driving Growth Through Innovation', attracted 92 participants. The programme provided a platform for registered Shariah advisers and Shariah officers of Islamic financial institutions to keep abreast with the latest developments in the sukuk market. The group discussions revolved around case studies, innovative sukuk structures, existing Shariah issues and challenges. The programme enhances the knowledge of Shariah scholars and practitioners and in turn helps to drive the international competitiveness of Malaysia's sukuk market.

The Shariah Professionals Programme for ICM was also held to provide participants with continuous professional development relating to ICM with an objective of identifying and addressing key issues as well as challenges in the market.

Islamic Capital Market Graduate Training Scheme (ICMGTS)

To prepare graduates with strong fundamental knowledge and skills for the ICM industry, we offered the ICMGTS which is a career-development programme. As Islamic finance is expanding globally, there is strong demand for qualified Islamic finance professionals. This programme serves as an important pipeline for the ICM industry as it prepares graduates to be forward-thinking ICM professionals. Since its inception in 2009, the programme has produced more than 600 graduates with 80% of them being employed in the financial services industry.

FACILITATING STRATEGIC LINKAGES AND INTERNATIONAL PROFILING

Global policy and regulation

Leadership at IOSCO

A significant achievement in 2016 was the decision by the IOSCO Board to select Malaysia as the location to establish its first Regional Hub in the Asia Pacific region. This is the first time that IOSCO will have a presence outside its headquarters in Madrid, Spain. The Asia Pacific Hub will play a key role for IOSCO initiatives associated with building regulatory capabilities within the Asia Pacific region, which covers both developed and emerging markets. The Hub will also facilitate stronger cross-border regulatory co-operation and contribute to the development of the region's capital markets through its initiatives. It is also expected to attract leading market and regulatory experts to Kuala Lumpur. The selection of Malaysia demonstrates international recognition of SC's efforts towards building a high quality and well-regulated capital market. The Asia Pacific Hub in Kuala Lumpur is expected to be operational by 2017.

The SC's leadership and contribution to global policymaking in IOSCO were reaffirmed when the SC Chairman was re-elected for the second consecutive term as Chair of IOSCO's Growth and Emerging Markets (GEM) Committee, and the Vice Chair of the governing Board of IOSCO during the 41st IOSCO Annual Conference in May 2016. This is a significant recognition of the SC's capabilities and expertise as well as the support and confidence that the IOSCO Board members have of the SC as an organisation.

The GEM Committee is the largest Committee within IOSCO with 104 members, representing close to 80% of the IOSCO membership, including 11 of the G20 members. The Committee brings together members from growth and emerging markets and communicates members' views and facilitates their contribution across IOSCO and at other global regulatory discussions. Given that the development agenda is high on the priority for many emerging market regulators, the GEM Committee remains an important focal point for emerging market regulators to discuss ways to broaden and deepen their markets as well as to foster the development of new growth areas.

As Chair of the GEM Committee, the SC is responsible for leading efforts to achieve the Committee's three strategic priorities in the areas of regulatory capacity building, international policy development and assessment of vulnerabilities affecting capital markets. For example, the Committee had at a very early stage identified systemic risks as a key objective for securities regulation, and has produced important technical policy work relating to the causes and effects of financial crisis, corporate bond markets, SME financing, market interventions and circuit breakers and factors influencing liquidity. Guidance and best practices emanating from the Committee have been instrumental in facilitating the regulatory efforts of many regulators, including the development of the SC's own regulatory framework for the Malaysian capital market.

Further, as part of the GEM Committee's efforts to strengthen regulatory capabilities to manage risks, the Committee held a world's first cyber-attack simulation exercise for securities regulators which focused specifically on the role of securities regulators when dealing with cyber-attacks on regulated entities. The simulation, which involved participants across more than 40 jurisdictions, provided an important platform to raise awareness on the consequences of emerging cyber-threats and to discuss effective responses. This exercise was particularly useful for the SC in developing its regulatory framework on cyber security resilience.

In 2016, the GEM Committee continued to monitor and review global market developments and their implications to emerging markets through regular engagements with leading international organisations and market players. These discussions have helped markets, including Malaysia to better understand the emerging risks to markets and feeds in to the decision making process of how, for example, the organisation can strengthen systemic resilience amid the growingly interconnected and challenging external environment.

With regards to international policy work, the GEM Committee completed two significant reports. The first in relation to FinTech, was led by the SC, and provided an overview of the state of FinTech in emerging markets, and the regulatory challenges and responses to facilitate the development of this segment. The report reviewed, among others, the impact of FinTech to financial inclusivity, new forms of risks and potential implications to capital markets. The SC's participation in the work also complements domestic initiatives in the pipeline in nurturing the domestic FinTech eco-system and providing greater regulatory clarity.

The second report, published in October, was in relation to Corporate Governance in Emerging Markets. The report, which benefitted significantly from the SC's contribution, aimed to better understand the role of securities regulators in the implementation of best corporate governance practices and identified measures to strengthen corporate governance in the areas of board composition, remuneration and incentive structures. Through our involvement, the SC is able to have a better understanding of the best practices across the different markets when enhancing its own corporate governance framework and addressing corporate governance risks.

Further in October 2016, the SC was elected the Vice-Chair of IOSCO's Policy Committee on Secondary Market Regulation. The Committee is one of IOSCO's key policy committees which reviews developments in the structure of global capital markets and financial market infrastructure, and their impact to the effectiveness and integrity of markets. This complements the SC's involvement in other IOSCO technical and policy work including efforts relating to market conduct, retail investors and the implementation of IOSCO standards.

The SC also holds leadership positions in various other international fora, placing Malaysia at the forefront of global regulatory discussions and increasing the visibility of the Malaysian capital market. The SC Chairman represents IOSCO emerging markets at the Financial Stability Board (FSB), which is the body established to co-ordinate at the international level, the work of national financial authorities and international standard setting bodies, and seeks to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies.

At the FSB's Annual Emerging Market Development Economies (EMDE) Forum held in March, the SC Chairman led discussions on issues surrounding liquidity in corporate bond markets in emerging markets. The Forum also discussed key challenges faced by emerging markets in the implementation of over-the-counter (OTC) derivatives reforms. As capital market activities become increasingly interconnected, the SC's participation in these meetings is important to strengthen the voice of emerging markets, and at the same time profile our domestic efforts in global regulatory discussions.

International co-operation for cross-border enforcement

Cross-border securities offences reinforce the significance of enforcement co-operation and exchange of information with our foreign counterparts. The SC has regular dialogues with international regulators on enforcement and supervisory matters, and continues to extend and rely on co-operation from foreign regulators via IOSCO's Multilateral Memorandum of Understanding (IOSCO MMoU).

In 2016, the SC received seven MMoU requests seeking information and assistance, including recording of witness statements, and obtaining documents including banking and transaction records. At the same time, we sought assistance from 25 foreign regulators to facilitate our own enforcement efforts. Strong co-ordination with international regulators through this global information sharing network has strengthened the SC's enforcement capabilities in dealing with cross-border market misconduct and raised the overall protection of our market.

Recognising the increased challenges of cross-border enforcement activity in more globalised and technologically enabled markets, IOSCO developed the enhanced MMoU in 2016. The enhanced MMoU provides for additional powers that are important for regulators to ensure their continued effectiveness in deterring cross-border misconduct and fraud in capital markets. It builds on the framework of the current IOSCO MMoU, while taking into account technological and regulatory developments.

International audit involvement

As in prior years, Malaysia continues to play an active role as a member of the International Forum of Independent Audit Regulators (IFIAR) and the ASEAN Audit Regulators Group (AARG). Leveraging established working relationships at international and regional levels, key individuals from the UK Financial Reporting Council (FRC) and the International Auditing and Assurance Standards Board (IAASB) were invited to share valuable insights, practical experience and implementation challenges in the early adoption of the new and revised standards to audiences in Malaysia. AARG are also in discussions with the World Bank on collaborating efforts to further raise the standards of audit quality in ASEAN. During 2016, the European Commission recognised the Audit Oversight Board's (AOB) requirements as comparable to that of its European Union counterparts. The recently published report on *CG Watch 2016* from the Asian Corporate Governance Association (ACGA) also highlighted that AOB has `a solid inspections programme'. The above recognition and observation represent international acknowledgement of the work done by the AOB over the past few years.

Cross-border collaboration

On the regional front, the SC also continued to strengthen its surveillance, supervision and co-operative efforts. The Asia Pacific Regulators' Group on Market Surveillance (ARMS), which the SC initiated in collaboration with the Australian Securities and Investments Commission (ASIC) four years ago, continues to be an active platform for discussions on market integrity issues and cross border surveillance among regulators in the Asia Pacific region and Middle East. This year, the SC shared its findings on its thematic review on structured warrants at the ARMS conference in line with policy considerations to strengthen the transparency and integrity of the structured warrants market.

The SC also actively participated in the Financial Statements Surveillance Group (FSSG) comprising of Malaysia and our counterparts from Singapore, Thailand and Hong Kong. At the annual meeting, the SC shared standard-specific applications and regulatory challenges faced in the course of monitoring non-compliance with certain approved accounting standards by our PLCs. We will be hosting the next FSSG event in February 2017.

The SC engages with regional regulatory counterparts through the Asia Pacific Take-overs Regulators Forum where the SC and the Securities and Futures Commission of Hong Kong (Hong Kong SFC) act as permanent co-secretariat. The Forum provides an effective platform for the exchange of ideas and views relating to take-overs and related regulatory matters among participating member countries. The Forum has increased its membership to 13 countries, having welcomed the Bangladesh Securities and Exchange Commission as its newest member. In May, the members of the Forum convened at a summit which was hosted by the Hong Kong SFC to discuss various take-over related issues which resulted in member countries gaining a better understanding of the different approaches taken in different jurisdictions, particularly on the more intricate issues in relation to take-overs and mergers regulation, and enhancing consistency of approach where practical and possible.

The introduction of the revised regulatory framework on take-overs and mergers, along with our participation in the Forum, demonstrate our continued efforts in becoming a more facilitative regulatory body in enabling market innovation to take place while maintaining an appropriate level of minority shareholder protection.

Leading efforts in ASEAN capital markets

Spearheading the vision for ASEAN capital market

As Chair of the ASEAN Capital Markets Forum (ACMF), the SC continues to support integration efforts under the ASEAN Economic Community (AEC) Blueprint 2025 which aims to achieve sustained regional growth and resilience. Towards this end, the SC spearheaded the development of the ACMF Vision 2025 towards an inter-connected, inclusive and resilient ASEAN capital market. The ACMF Vision 2025 will be realised through targeted efforts enabling greater cross-border fundraising and investments as well as movement of capital market professionals across jurisdictions, as espoused in the ACMF Action Plan 2016-2020 (Action Plan).

During the ASEAN Finance Ministers' meeting in April, the Finance Ministers commended the work of the ACMF given the important role of capital markets in mobilising market-based financing for economic development in the region. In addition, the Finance Ministers endorsed the ACMF Vision 2025 as well as the Action Plan.

Under the SC's stewardship, there has been continued progress in implementing the Action Plan. In September, members unanimously supported the continued leadership of the SC with its Chairman re-elected as the Chair of the ACMF for the third consecutive year.

New initiatives to foster greater connectivity, inclusiveness and resilience

Green finance has been identified by the ACMF as an area of focus to support sustainable growth in the region. The increasing amount of global capital seeking green investments further reinforces the need for ASEAN capital market regulators to establish the requisite regulatory framework to enable issuers to capitalise on investor interest in this emerging segment. The ACMF will drive the development of green finance standards which can be applied for the region, and has established a dedicated working group to undertake work in this area.

Ease of movement for skilled labour within the region has also been identified by the ACMF as another important element for greater regional integration, as set out in the ASEAN Economic Community (AEC) *Blueprint 2025*. Efforts are therefore being made by the ACMF to facilitate professional mobility within the region's capital markets. In 2016, the ACMF working group established to lead this work started a review of existing regulations in the different ASEAN jurisdictions to introduce rules that will facilitate cross-border movement of capital market professionals on a phased basis.

Prioritising capacity building programmes for greater inclusiveness

Active participation by all ACMF members in relevant integration initiatives regardless of the level of capital market development will promote greater inclusiveness. To enable such participation and in tandem with other efforts to promote greater regional connectivity, the ACMF also focuses on capacity building initiatives. The ACMF Market Development Programme (A-MDP) was therefore introduced in 2015 as a means to facilitate members' efforts in developing their respective domestic capital markets to achieve the depth and maturity required while building market and industry readiness through various capacity building programmes.

The ASEAN Young Regulators Programme was launched in March as the first initiative under A-MDP to build a continuous pipeline of talent and promote greater co-operation among ASEAN securities regulators through secondment opportunities. During the year, the SC was the first regulator to host secondees from another ASEAN jurisdiction to foster sharing and exchange of expertise and experiences.

In addition, the inaugural CLMV Bond Market Development Programme, a programme tailored for regulators from Cambodia, Lao PDR, Myanmar and Vietnam, was rolled out in September. The SC played an instrumental role in the development of the programme and in providing subject matter experts to support the programme.

Deepening collaboration with industry and dialogue partners

The ACMF recognises the value of closely engaging the private sector in the region to gather input and feedback to meet market needs. The cross-border initiatives introduced create value and are commercially viable. Towards this end, three ACMF Industry Consultative Panels on the ASEAN Trading Link, Fundraising and Investment Products respectively were established and had their inaugural meetings in February. The meetings which had participation from key industry players from member countries have further helped shape the ACMF's initiatives.

On the back of the successful dialogue between the ACMF delegation and the UK Government's representatives, capital market authorities and the private sector held in London in November 2015, the ACMF welcomed the UK Government as a formal dialogue partner early this year. The ACMF deepened its collaboration with the UK in May when high-level ASEAN capital market regulators participated in engagements with the Lord Mayor of London, the Economic Secretary to the Treasury, and the Prime Minister's Trade Envoy to the AEC at the invitation of the UK Foreign and Commonwealth Office. The meetings and in-depth technical discussions have paved the way for the development of mutually beneficial capital market initiatives between ASEAN and the UK.

Continuing work to enhance ACMF's initiatives

As the ACMF develops new initiatives, effort also continues to be directed at strengthening existing initiatives. The ACMF has partnered with the Asian Development Bank to initiate a holistic review of ASEAN stock exchange connectivity including the modality of associated post-trade infrastructure. Phase 1 of the review has been completed and was acknowledged by the ASEAN Finance Ministers in April.

In addition, the ACMF continues to place importance on corporate governance (CG) as a key component of its efforts in promoting the investment appeal of ASEAN PLCs. To strengthen the implementation of CG practices in substance, and to ensure the ASEAN CG Scorecard remains relevant against global principles and international best practices, a holistic review of the Scorecard is being undertaken. Work is also underway to refine the CG assessment methodology to enhance its robustness.

Furthermore, the ASEAN Framework for Collective Investment Schemes (CIS), which was operationalised in August 2014 to enable fund managers from signatory countries to offer funds under a streamlined authorisation process, has gained traction. To date, 13 funds have been recognised under this Framework as ASEAN Qualifying CIS, of which five funds have been successfully approved and launched in an ASEAN host jurisdiction. Recognising the widespread industry interest, the ACMF is working towards enhancing this framework to expand the number of signatories, review investment restrictions as well as harmonise disclosure standards. Further, the ACMF is collaborating with relevant ASEAN committees to address tax implementation issues.

ASEAN Framework Agreement on Services

Greater market openness remains at the heart of SC's efforts towards regional connectivity of the ASEAN capital market. The SC continues to participate in the negotiations for financial services liberalisation under the ASEAN Framework Agreement on Services (AFAS) which are conducted through the Working Committee on Financial Services Liberalization (WCFSL). Under the auspices of the WCFSL, ASEAN States completed negotiations and signed the Seventh Package of Financial Sector Commitments (Seventh Package) on 23 June 2016, another milestone reflecting the commitment of ASEAN States to integrate the region's banking, insurance and capital market sectors.

As part of initiatives to support greater integration, the SC continues to make meaningful commitments in the capital market under the Sixth and Seventh Package. Under the Seventh Package, the SC committed to allowing ASEAN wholly-owned locally incorporated unit trust management companies (UTMCs) to operate in Malaysia without any equity restrictions. This is consistent with Malaysia's current capital market regime with respect to foreign equity threshold in UTMCs, which was liberalised in June 2014 from its previous foreign equity threshold of 70%. This demonstrates our strong commitment to our ASEAN partners and to the growth and development of the ASEAN capital market.

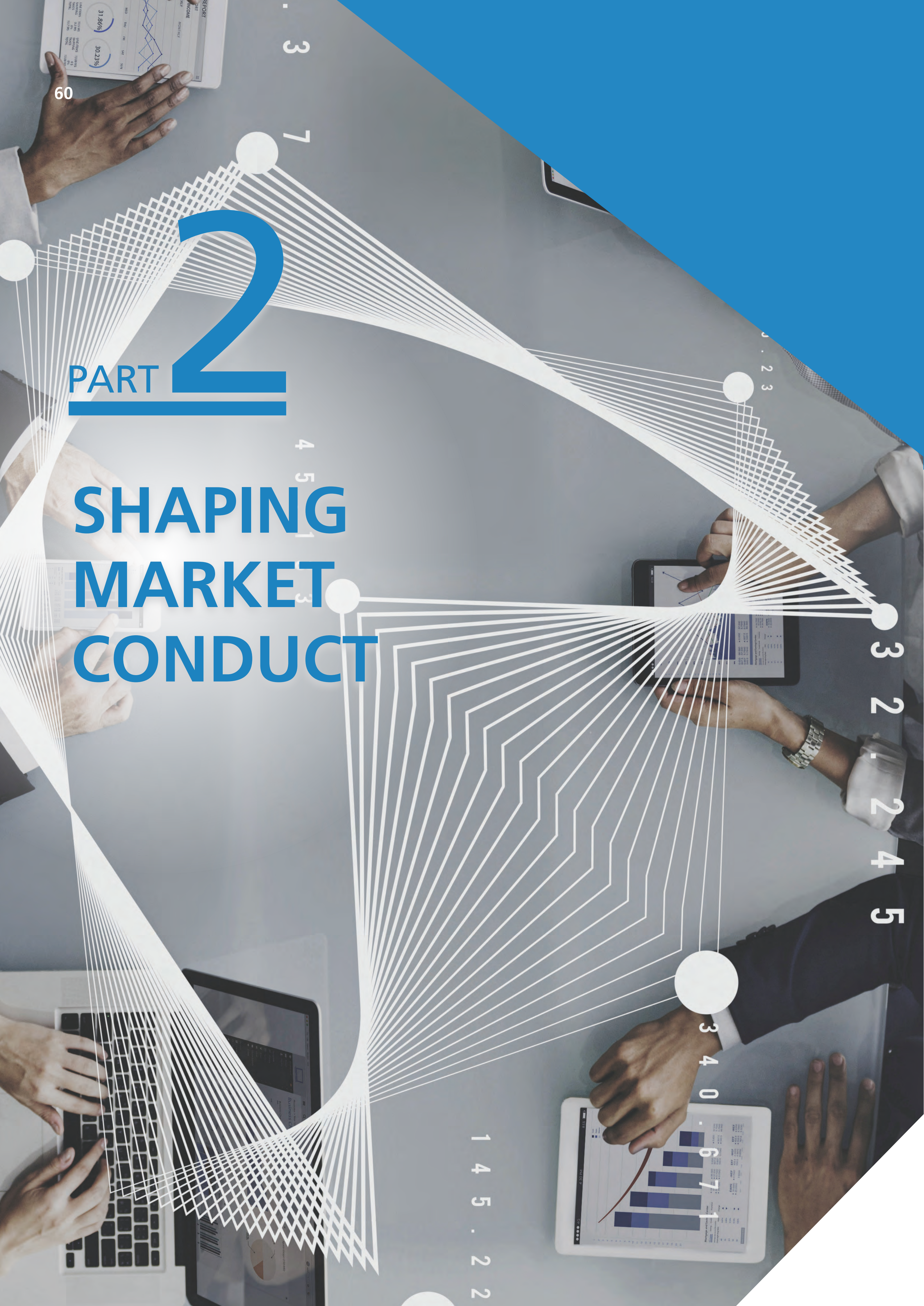
Facilitating free trade agreements

In support of the Ministry of International Trade and Industry (MITI)'s vision to make Malaysia the preferred investment destination and a global trading nation by 2020, the SC continues to be involved in financial services negotiations of Malaysia's trade agreements with key trading partners.

This includes participation in the Trans-Pacific Economic Partnership Agreement (TPPA), a multilateral trade agreement negotiated alongside 11 other member countries, which was approved by Dewan Rakyat and Dewan Negara in January 2016 and was signed on 4 February 2016 in Auckland, New Zealand.

Intended to be a 21st century agreement, the TPPA contains 30 chapters covering trade and trade-related issues, including provisions on rules, disciplines and dispute settlement mechanisms. The SC was involved in negotiations for the Financial Services Chapter of the TPPA. The Chapter preserves and protects each member country's right to regulate the financial market and facilitates expansion of trade and investment in financial services on a mutually advantageous basis. It also offers certainty of market access opportunities in TPPA member countries, as well as promotes enhanced regulatory transparency in financial services.

The SC also contributes towards Malaysia's ongoing trade negotiations, particularly the Regional Comprehensive Economic Partnership (RCEP) which comprises 10 ASEAN Member States and six of its trading partners namely Australia, China, India, Japan, Korea and New Zealand. The RCEP aims to deepen regional economic integration and equitable economic development for all participating countries. In addition to RCEP, the SC also participates in negotiations for the Malaysia – European Free Trade Area (EFTA) Economic Partnership Agreement (MEEPA).



PART 2

SHAPING MARKET CONDUCT

INTRODUCTION

The regulatory architecture of the Malaysian capital market today stands on foundations built and reinforced over the years. Besides the SC's proactive oversight in maintaining the integrity of the market, another strong imperative is ensuring that we respond with credible deterrence when securities laws are breached. These measures provide investors the confidence that our markets operate in a fair and orderly manner. This is complemented with effective governance systems and internal controls of market participants and SC's firm commitment in empowering and educating investors.

1. Enforcement for credible deterrence

In 2016, we took criminal action against 17 individuals, filed civil enforcement action against two individuals and imposed 37 administrative sanctions and a total of 177 Infringement Notices. A total sum of RM1,787,527.28 disgorged through civil enforcement action was restituted to 423 investors.

Our success in the case involving the manipulation of Repco shares saw the heaviest punishment meted out by the courts for market manipulation since the SC's inception. (Box article, page 67).

At the same time, our ability to seek injunctive relief from the courts has enabled us to respond nimbly to breaches by preventing dissipation of assets. A case in point was the injunction obtained from the High Court involving Stone Master Corporation Bhd. Also, the increase in the number of administrative actions taken this year underscored the growing role of non-court based actions complementing our powers to prosecute.

2. Fair and orderly markets through surveillance

The SC's active surveillance of market and corporate activities aims to achieve early detection of market irregularities. This has enabled SC to take pre-emptive remedial actions such as timely engagements with market participants and issuance of unusual market activity queries on questionable transactions. In 2016, more than 200 pre-emptive measures were taken against questionable transactions. (Box article, page 76).

We also monitor the conduct of public-listed companies (PLCs) through reviewing of corporate disclosures and ensuring compliance with *Financial Reporting Standards*. While our monitoring mechanisms are primed on pre-emptive measures, the SC will take targeted actions swiftly where breaches are detected. Our efforts in this area have resulted in formal investigation being initiated for four cases.

3. Strengthening culture and conduct of intermediaries

A key objective of supervision is to ensure compliance with rules and regulations, with the outcome being focused on stability of our intermediaries. The intensity of our supervision on licensed intermediaries depends on risks identified and potential impact of each intermediary to market stability, corresponding to its size, structure, business and existing controls.

In line with our risk-focused approach, the SC had looked beyond compliance to regulations, delving deeper into what drives the culture and conduct of licensed intermediaries.

We sought to improve compliance and promote industry risk management measures through continuous monitoring, examinations, and thematic reviews. In addition, dialogue and outreach initiatives with the industry were conducted. This year, we concluded thematic reviews, focusing on four key areas – governance, sales practices, third-party receipts and proprietary trading.

4. Ensuring strong market institutions

As the capital market becomes increasingly sophisticated, there is a need for all stakeholders within the industry to carry out their roles effectively. Our oversight of market institutions focuses on ensuring compliance with rules and regulations and the discharge of their statutory obligations.

Bursa Malaysia continues to perform its role as a front line regulator of our capital market. This year, we reviewed the adequacy of regulatory oversight and governance arrangements and practices of Bursa to ensure that there is an appropriate balance between its role as the operator of the securities and derivatives markets, provider of clearing, settlement and depository services and its role as the front-line regulator.

We also continued our regulatory oversight and supervision of other market institutions, namely the Federation of Investment Managers Malaysia (FIMM) and the Private Pension Administrator (PPA), assessing key areas such as governance and controls within their operations to ensure effective discharge of their respective roles.

5. Monitoring systemic risks

The SC continues to monitor and assess risks across markets, firms and products to identify emerging trends and challenges that can have systemic risk implications to the capital market. Our risk-focused approach enables us to allocate resources to firms, conduct and market segments which pose higher risks, to be more responsive to market conditions and to facilitate pre-emptive action where necessary.

Our priority over the past year was premised on three broad areas relating to interconnectedness, liquidity and prudential position. Given the prevailing uncertainties in the global market, we intensified our risk surveillance work and continued to monitor market stress levels and trade flows, the resilience of the market infrastructure, as well as vulnerabilities of firms and products. We also reinforced the SC's and industry's level of preparedness to deal with crisis situations.

6. Inculcating good corporate governance

Efforts in building and maintaining strong markets through regulatory and enforcement efforts are complemented by self-discipline that forms the core of our corporate governance (CG) framework. This year, the CG Code underwent an extensive review process. The proposed amendments were put up for public consultation with responses coming from a cross section of PLCs, local associations, accounting firms as well as international bodies and investors. The review also involved numerous engagements with key stakeholders, including directors, company auditors and CG advocates. The new CG Code is expected to be issued in the second quarter of 2017.

Our enforcement work in the area of insider trading, market manipulation and audit oversight received notable mention in the Asian Corporate Governance Association's 2016 *Corporate Governance Watch* (CG Watch) report.

As boards of directors play a critical role in establishing and maintaining the standard of corporate governance in a company, the SC is currently leading the establishment of an Institute of Directors (IoD) for Malaysia to support the continuous professionalisation of corporate directors and to enhance the effectiveness of boards.

7. Empowering investors

The SC's investor empowerment strategy is anchored on a strong regulatory framework that incorporates effective gatekeeping, supervision and enforcement; exemplary corporate governance practices as well as professional and ethical conduct on the part of intermediaries and issuers; comprehensive and clear disclosure of information and effective communication channels; and effective investor education by regulators, institutions and industry.

Our consumer and investor education initiatives are aimed at fostering an ecosystem that reaffirms investor faith and confidence in the integrity of the capital market. Our flagship retail investor event, InvestSmart® Fest attracted a total of 13,954 participants at the Mid Valley Exhibition Centre, in addition to a number of initiatives throughout the country.

Another important component of investor empowerment is providing investors with the information to make informed investment decisions. Several measures were taken including improving the quality of disclosures, reviewing the level of transparency in the domestic bond and sukuk market, and giving the industry more information through auditor's reports.

8. Reinforcing investor rights

An important feature of investor empowerment is the availability of an effective dispute resolution and redress mechanism for investors.

Since the broadening of the Securities Industry Dispute Resolution Center's (SIDREC) scope last year, with the increase in claim limit from RM100,000 to RM250,000, the SC continued to work with SIDREC to strengthen financial dispute resolution arrangements to meet the needs of investors and the evolving marketplace. One of the key areas of focus for 2016 was to consolidate dispute resolution involving a capital market product or service within SIDREC irrespective of the channel of distribution.

ENFORCEMENT FOR CREDIBLE DETERRENCE

Enforcement is an important priority for the SC and our enforcement actions during the year continued to yield positive results. Prosecutions for insider trading continued to form the largest proportion of the total number of individuals charged, making up 10 of the total 17 individuals.

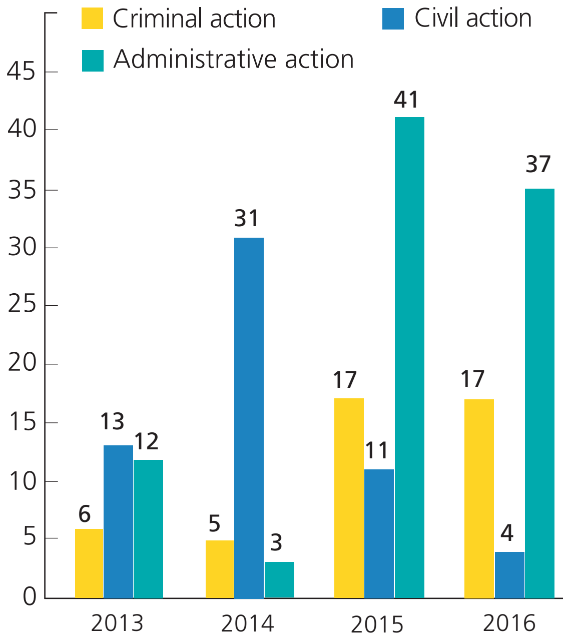
We charged four individuals under section 317A of the *Capital Markets and Services Act 2007* (CMSA) for causing wrongful loss to a PLC. The SC also applied for an injunction to prevent dissipation of a PLC's assets arising from a breach of section 317A of the CMSA.

The range of actions taken for breaches of securities laws demonstrates the wide range of enforcement tools available to the SC to address these breaches. Underscoring these efforts is our mandate to protect investors and maintain market integrity.

We take enforcement action by:

- Pursuing criminal prosecution for serious market misconduct including insider trading, false and misleading financial statements, and causing wrongful loss to PLCs;
- Seeking deterrent sentences when we mount actions in court;
- Seeking financial penalties including disgorgement of profits to restitute investors;
- Issuing administrative sanctions to persons who breach our guidelines or the securities laws; and
- Utilising non-formal enforcement channels to address non-compliances and to change the behaviour of intermediaries and participants in the capital market.

Chart 1
Types of enforcement actions taken from 2013–2016



Effective collaboration in addressing misconduct

Our enforcement success is largely contributed by the intensity and focus of our surveillance and supervision capabilities. In 2016, 13 new investigations initiated were the culmination of effective collaboration with local and foreign authorities as well as our proactive surveillance and supervision work, in part supported by state of the art technology and analytics tools. Out of 13 new investigations, five cases related to insider trading and four cases involved corporate governance transgressions, including conduct of directors which caused wrongful loss to PLCs.

Criminal charges for insider trading

The SC continued its pursuit of insider trading offences.

Out of 17 individuals charged in 2016, 10 were charged for insider trading. Enforcement actions were pursued not only against those who allegedly traded while in possession of inside information but those who were said to have communicated the information to other persons. In addition, we also pursued enforcement actions against those who abetted the commission of the insider trading offence.

- In June 2016, we charged Datuk Ishak Ismail for insider trading under section 188(2)(a) of the CMSA in relation to the disposal of Kenmark shares on 9 and 11 June 2010 while in possession of inside information that two of Kenmark's clients had been adjudged bankrupt and that EON Bank Bhd did not agree to uplift the receivership on Kenmark. He was also charged with one count of making a misleading statement under section 177(b) of the CMSA in relation to an article published in a newspaper on 5 June 2010.

- The SC charged three individuals Paulene Chee Yuet Fang, Tan Yee Chee and Yeow Kheng Chew in July 2016 for insider trading under section 188(2)(a) of the CMSA in relation to the acquisition of Kencana Petroleum Bhd (Kencana) shares on 8 July 2011 while in possession of inside information relating to the proposed merger of Kencana and SapuraCrest Petroleum Bhd.

- In October 2016, six individuals, Fang Chew Ham, Fang Siew Yee, Fong Chiew Hean, Tan Bee Geok, Chew Lian Foon and Ong Kok Aun, were charged for insider trading involving the shares of Three-A Resources Bhd (3A).

  Fang Chew Ham, the founder and Managing Director of 3A and Fang Siew Yee, the executive director of 3A were charged under section 188(3)(a) of the CMSA for communicating material non-public information to Fong Chiew Hean, a non-executive director of 3A. The offence was said to have been committed on 5 September 2009. Fong was also charged with 9 counts of insider trading under section 188(2)(a) of the CMSA. He was said to have acquired 891,000 units of 3A shares between 7 September and 5 October 2009 while in possession of non-public information. In a separate proceeding, Fang Siew Yee was also charged with eight counts of insider trading in the account of Tan Bee Geok. Fang Chew Ham, Tan Bee Geok and two dealer's representatives, Chew Lian Foon and Ong Kok Aun, were also charged for abetting her.

Enforcement against directors and officers of PLCs for causing wrongful loss

Officers of a PLC have a clear duty to ensure that they do not act to the detriment of the company. In this respect, section 317A of the CMSA makes it unlawful for an officer of a PLC or any of its related corporations to do anything with the intention of causing wrongful loss to the listed corporation or its related corporation.

On 29 September 2016, the SC charged four former directors of Patimas Computers Bhd (Patimas) with ten charges of causing wrongful loss to Patimas. Law Siew Ngoh, 55, former Managing Director, Dato' Yap Wee Hin, 58, former Deputy Executive Chairman, Robert Daniel Tan Kim Leng, 59, and Dato' Ng Back Heang, 62, both former executive directors of Patimas are said to have made payments totalling RM5.1 million between July to December 2010, for the purported development of various software for Patimas when in fact they were not used for such purpose. The offence carries a punishment of an imprisonment term not exceeding 10 years and a fine not exceeding RM10 million.

Securing criminal conviction for securities law offences

The year also saw some notable enforcement outcomes for the SC in relation to market manipulation cases. In January 2016, the Sessions Court convicted Low Thiam Hock for market manipulation under section 84(1) of the *Securities Industry Act 1983*. He was later sentenced to five years imprisonment and a fine of RM5 million (in default, five years imprisonment) on 29 February 2016.

In March 2016, the Court of Appeal upheld the convictions against Wong Chee Kheong (Wong CK) and Bun Lit Chun (Bun LC) and affirmed the sentence of 24 months imprisonment and RM3 million fine imposed on Wong CK and the sentence of three months imprisonment and RM2 million fine against Bun LC. Both Wong CK and Bun LC were charged in October 2005 for manipulating the price of Suremax Group Bhd shares.

Enforcement through pre-emptive actions

The SC has also adopted new approaches to support its mandate of investor protection by identifying emerging and hidden threats early to enable quick action and minimise harm to investors.

In January 2016, we issued a statement to express our concern over the take-over offer by Nexgram Holdings Bhd (Nexgram Holdings) to acquire the entire outstanding securities of Ire-Tex Corporation Bhd. The public statement was issued under section 217(4)(b) of the CMSA.

After the offer document was cleared by SC and despatched to the shareholders, it came to SC's attention that Nexgram Holdings had entered into agreements to dispose three of its subsidiaries, Nexgram Resources Sdn Bhd, Godynamic Investments Ltd and PT Semesta Tirta Antara Raya in January 2016 while Bursa Malaysia was in the process of seeking verification from Nexgram Holdings on the existence of certain assets belonging to these subsidiaries. The conduct of Nexgram Holdings in disposing the subsidiaries was seen as having obstructed ongoing enquiries by SC and Bursa Malaysia. The outcome of these enquiries may have had a material impact on the value of Nexgram Holdings shares which holders of Ire-Tex securities were to receive in exchange for accepting the offer.

Public Prosecutor vs Low Thiam Hock, also known as 'Repco Low' – A long running case resulting in a deterrent sentence

On 29 February 2016, the SC secured the longest jail term sentence ever imposed by our courts for the offence of market manipulation. Low Thiam Hock, often dubbed as 'Repco Low' was sentenced to five years imprisonment and a fine of RM5 million after he was convicted on 11 January 2016 for the manipulation of Repco Holdings Bhd (Repco) shares which took place in 1997.

The former Executive Chairman of Repco, Low, was found to have created a misleading appearance with respect to the price of Repco shares on the stock exchange by instructing a dealer's representative of Sime Securities Sdn Bhd to take up any price offered by sellers to buy Repco shares on 3 December 1997. Following his instructions, 227,000 units of Repco shares were purchased causing the share price of Repco to surge from RM108.50 to RM113 per share. The Sessions Court on 11 January 2016 found that Low's actions amounted to manipulation that interfered with genuine market forces.

Low was first charged on 18 September 1999 at the Sessions Court. The trial which commenced in 2000 involved the SC calling 25 witnesses including an expert witness to testify in its case. Six years later on 14 November 2006, the Sessions Court acquitted and discharged Low without ordering him to enter his defence. The appeal to the High Court against this decision was dismissed in 2010. The SC then made one last appeal against the said acquittal to the Court of Appeal. On 28 February 2013, the SC's perseverance paid off when the Court of Appeal reversed the decision to acquit Low and ordered him to defend the charge against him. The case was then remitted to the Sessions Court for trial.

Low entered his defence in October 2013 and called eight witnesses to testify, closing his case on 17 September 2014. The Sessions Court judge found that Low's defence was a bare denial and an afterthought to the prosecution's case.

The journey in court continues as Low has appealed to the High Court against his conviction and sentence. Pending this appeal, the Sessions Court has stayed the execution of the sentence against him and increased his bail from RM300,000 to RM1.3 million while his passport was ordered to be surrendered to the court.

Diagram 1

Timeline for the Repco Holdings Bhd case

1999
Sept
Charged for acts calculated to create a misleading appearance with respect to the price of Repco shares on 3 December 1997.

2000
Oct
Trial commenced.

2006
Nov
Sessions Court acquitted Low after 25 prosecution witnesses testified.

2010
Oct
High Court dismissed the prosecution's appeal.

2013
Feb
Court of Appeal reversed the decision and ordered Low to enter his defence – case reverted to the Sessions Court.

Oct
Low and 7 other defence witnesses were called to testify.

2016
Jan
Low convicted for market manipulation. Sessions Court ruled that Low failed to raise a reasonable doubt on the prosecution's case.

Feb
Low sentenced to RM5 million fine and jail of 5 years. Sentence stayed pending appeal. Sessions Court allowed prosecution's application to increase bail to RM1.3 million and have his passport surrendered to court.

In September 2016, the SC filed a suit against Datin Chan Chui Mei, Deputy Managing Director of Stone Master Corporation Bhd, for breaching sections 179 and 317A(1) of the CMSA. It was claimed that a sum of RM11.54 million was paid into Datin Chan's personal account from Stone Master. Among the orders sought in the suit were that Datin Chan pay the SC the said sum of RM11.54 million to be held in trust for Stone Master, that she be ordered not to deal with the RM11.54 million and that she be barred from being a director of a PLC for a period of five years. In addition, the SC is claiming a civil penalty for the sum of RM1 million against Datin Chan.

Pending the hearing of the suit, the SC had obtained an *ex parte* injunction from the High Court of Kuala Lumpur to preserve and prevent monies of up to RM11.54 million in Datin Chan's various bank accounts from being dissipated.

In January and February 2016, we issued RHB Investment Bank (RHB IB) a directive not to deal with monies and securities amounting to approximately RM766,626 in the trading accounts of Kahar Mohd Tahir (Kahar) and Muhammad Faizal Jamaludin (Faizal). Kahar and Faizal were suspected of carrying out the regulated activity of fund management without a licence. The directive was issued under section 125(2)(d)(A)(i) of the CMSA.

Kahar was reprimanded, directed to restitute the affected investors and imposed a fine of RM75,000. Administrative action was also taken against Afkariah Md Norani (Afkariah) and Gurdeep Kaur Nathi Singh (Gurdeep) for their role in abetting Kahar, and they were reprimanded and fined RM75,000 each.

Successful disgorgement through regulatory settlement

This year, a total of RM293,502 was successfully disgorged following regulatory settlements entered into with two individuals for breaches of insider trading provisions under section 89E(2) of the SIA.

Teng Choon Kwang (Teng CK) and Tan Boon Hwa (Tan BH) paid a sum of RM293,502 when they agreed to settle a civil claim that we instituted against them for insider trading relating to the shares of Inti Universal Holdings Bhd (Inti), between 13 September and 18 September 2007. Teng CK was at the time a non-executive director of Inti. The inside information in this case involved an offer by Laureate Education Inc. to Inti Supreme, the controlling shareholder of Inti, to acquire its interest in Inti for a sum of RM126.6 million. This information was subsequently announced by Inti to Bursa Malaysia on 19 September 2007.

The settlement which represents three times the illegal gains made from the insider trading activities was reached following the filing of a Statement of Claim against Teng CK and Tan BH in the Kuala Lumpur High Court on 30 December 2015. Earlier, six other individuals had also entered into regulatory settlements with the SC to settle claims that the SC was proposing to institute against them for insider trading in the shares of Inti while in possession of the same inside information.

Restitution to affected investors an important priority

In 2016, the SC restituted 423 investors with the sum of RM1,787,527.28.

A key objective of taking civil actions for insider trading breaches is to provide redress to investors who were affected by the breach.We restituted 400 investors with the sum of RM1,413,536.60. This restitution was made following the regulatory settlements entered into with potential defendants in cases involving insider trading of Inti Universal Holdings Bhd shares and Maxis Communication Bhd call warrants in 2014, 2015 and 2016.

In another case, 23 investors have been restituted a total sum of RM373,990.68 following a consent judgement entered into in 2012 with seven defendants who operated a futures trading scam.

Leveraging administrative actions as an important enforcement tool

In addition to criminal and civil actions, SC also utilises administrative sanctions to deal with regulatory breaches swiftly. Chart 2 tabulates the administrative sanctions imposed from year 2013 to 2016.

Throughout the year, we imposed 37 administrative sanctions against licensed persons, directors of PLCs and other individuals for various breaches of the securities laws. Where we imposed these sanctions, details are published on our website and through press releases.

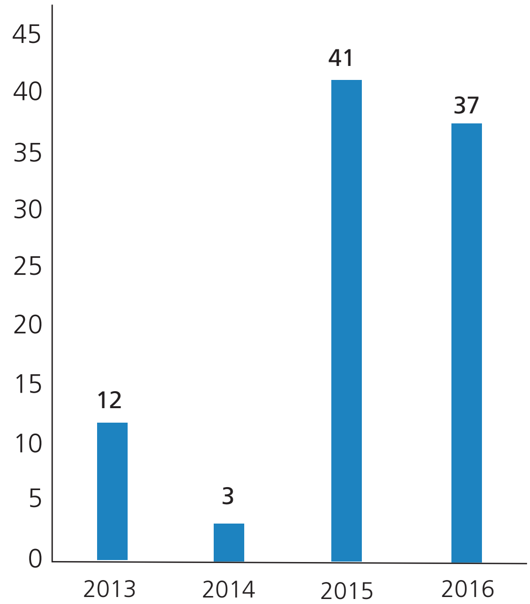
Addressed lapses in due diligence

Principal advisers and directors play a crucial role in ensuring that information in disclosure documents are prepared and finalised with due care and objectivity as investors rely on such documents to make informed investment decisions. Where a profit forecast is included in the disclosure document, such profit forecast must be realistic and achievable, and the corporation's prospects accurately reflected.

In February 2016, Ng Kok Heng (Ng) and Wong Yip Kee (Wong), the Executive Directors of XOX Bhd (XOX) were reprimanded in relation to the significant variance between the profit forecast in the prospectus of XOX, dated 24 May 2011, and its unaudited results for the financial year 31 December 2011. The significant variance was mainly attributable to inadequate consideration of the factors or risk present at the time the profit forecast was prepared. As such, the bases and assumption used in arriving at the profit forecast were not reasonable. In view of this, Ng and Wong had failed to ensure there was reasonable basis for the profit forecast and that the profit forecast was prepared with care, skill and objectivity, breaching the *Prospectus Guidelines – Equity and Debt* and the *Guidelines on Due Diligence Conduct for Corporate Proposals*.

We also took administrative action against the principal adviser and sponsor for the listing of XOX, AmInvestment Bank Bhd (AmInvestment) for failing to conduct sufficient due diligence to ensure that the listing application by XOX met the relevant requirements of SC. In this regard, AmInvestment had failed to take into account the concurrent realisation of multiple risk factors in the preparation of the profit forecast of XOX. We reprimanded and directed AmInvestment to conduct a comprehensive review and assessment for adequacy of all policies and processes relating to its role as principal adviser and/or sponsor for corporate proposals, and report its findings to SC.

Chart 2
Administrative sanctions imposed from 2013 to 2016



Reinforced conduct regulation

Post the global financial crisis, the Financial Stability Board has identified business conduct as a new risk category in its *Peer Review Report on Risk Governance* published in February 2013. Although not defined, conduct risk generally refers to risks in which a firm and its staff conduct themselves – how customers are treated, remuneration of staff and how firms deal with conflicts of interest. Conduct risk comprises a wide variety of activities and types of behaviour which fall outside the other main categories of risk, such as market, credit, liquidity and operational risk.

Conduct regulation is a key success factor in implementing SC's new proportionality approach and is applied across the entire spectrum of SC's regulatory process in maintaining market integrity, fair treatment of investors and systemic stability. SC's conduct regulation continuum covers assessment of among others, investor protection measures, corporate governance, fit and properness, behaviour and conduct, incentive structures and product governance.

In 2016, we took action against 11 Capital Markets Services Representative's Licence (CMSRL) holders for failing to remain fit and proper. The eight representatives whose licences were revoked are:

- Ong Kok Aun, Tan Kai Kiat and Low Lay Ai for engaging in manipulative activities involving various counters, in violation of the Pre-Revamped Rules of Bursa Malaysia.

- Syed Fahmi Syed Omar, Yap Yeng Chong and Ravindran Nair Vasudevan Nair after they were found to have been adjudged a bankrupt.

- Chan Yew Mun for engaging in business practices appearing to the SC to be deceitful or otherwise improper as he had allocated proceeds from 10 cheques amounting to RM2.5 million from four of his clients into the trading account of his wife. He had also issued fraudulent fixed deposits acknowledgment slips to these clients and the proceeds in his wife's trading account was subsequently used for personal use.

- Theng Boon Cheng @ Tan Boon Cheng, who was charged for abetting the commission of insider trading.

Sanctions were also meted out against three CMSRL holders for accepting and acting on instructions from a third party in relation to trading accounts of their clients without their authorisation. Zainol Azwan Mukhar and Nan Azazi Azman were both reprimanded and Lim Hung Chiang was reprimanded and imposed a fine of RM100,000.

Section 297(3) of the CMSA provides that a management company shall not make improper use of its position in managing a unit trust scheme to directly gain an advantage for itself. Public Mutual Bhd (PMB) was found to have breached section 356(1)(a), read together with section 297(3) of the CMSA, when it recognised RM3.2 million interest income earned from short-term placements of unit holders' monies in the main collection account in its financial statement for the year ended 31 December 2014, and management account for the three months ended 31 March 2015. As a consequence, PMB was directed to restitute to the affected funds the RM3.2 million interest earned for the period from 1 January 2014 to 31 March 2015, and any other interest recognised in PMB's subsequent financial statements from 1 April 2015 to 31 October 2016. It was also directed to implement rectification measures on its internal policies and procedures to ensure that the interest earned from investment of monies placed in the main collection account are credited into the affected funds and to submit a report to SC on the matter.

All persons making a submission to SC, including an application for a licence, must ensure that information provided with respect to the submission is not false or misleading. In July 2016, Ezral Ghazali Shahudin, director and shareholder of Isoquant Sdn Bhd, was reprimanded and fined RM50,000 for making false or misleading statements in relation to an application for a Capital Markets Services Licence (CMSL) for Isoquant Sdn Bhd.

Enforced Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) requirements

In the past decade, money laundering/terrorism financing (ML/TF) risks continued to be a major global concern. In response, regulators around the world are taking robust efforts to combat the threats of ML/TF by implementing the international standards set by the Financial Action Task Force (FATF). To this end, the SC has adopted these standards via SC's *Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries* (AML/CFT Guidelines).

A strong and robust AML/CFT compliance framework in a reporting institution is fundamental to prevent a reporting institution from being used as conduit for money laundering by criminals and to preserve the integrity of the capital market. SC views AML/CFT breaches involving failure of reporting institutions to implement Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD) measures, risk-based approach, reporting of suspicious transaction and TF obligations to be serious. This may warrant an enforcement action under the CMSA or the *Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001*.

On 15 August 2016, action was taken against SJ Securities Sdn Bhd (SJ) for failing to adopt a risk-based approach in identifying and assessing its ML/TF risks and implementing an effective internal control system to assess, profile and address ML/TF issues. SJ was reprimanded, fined a sum of RM270,000 and directed to appoint an external auditor to assess SJ's existing AML/CFT framework. SJ's Board of Directors and key management personnel were also directed to attend AML/CFT trainings.

A penalty of RM420,000 was also imposed on AmFunds Management Bhd for failing to sufficiently establish reasonable grounds for its decision not to lodge Suspicious Transaction Reports (STR) concerning transaction patterns that were deemed suspicious and record documentary evidence to support its decision not to lodge the STR to the Financial Intelligence and Enforcement Department of Bank Negara Malaysia (FIED).

All administrative fines imposed by the SC are paid to the Federal Consolidated Fund.

Defending SC's regulatory role

As a statutory body exercising functions under the securities laws, SC's decision is subject to judicial review and other legal proceedings by aggrieved parties.

In 2016, there were three judicial review applications filed against the SC:

- Lee Kok Wai and Crowe Horwath had filed an application for judicial review to challenge SC's decision in dismissing their appeal in relation to the sanctions imposed on Lee Kok Wai by the Audit Oversight Board. However on 14 November 2016, the Applicants filed a Notice of Discontinuance at the Kuala Lumpur High Court to withdraw their judicial review application against SC.

- Ahmad Ziyad Elias together with four others (Applicants) had filed an application for judicial review against SC and CLIQ Energy Bhd (CLIQ), among others to challenge SC's decision via a letter dated 7 January 2016 issued by Maybank Investment Bank Bhd, as the principal adviser of CLIQ that required Deloitte Corporate Advisory Services Sdn Bhd to conduct an independent technical assessment on the valuation report prepared by AGR TRACS Consult LLC. The High Court had dismissed the leave application by the Applicants on 6 May 2016 and the Applicants filed an appeal to the Court of Appeal. However on 8 November 2016, the Applicants withdrew their appeal.

- The third matter is still ongoing where an audit firm and its partners had filed a judicial review application to challenge SC's decision to dismiss their appeal against the Audit Oversight Board's decision to revoke their registration.

A civil suit was also filed by Lee Kok Wai and two others (Plaintiffs) against the SC which sought among others a declaration that the disclosures made by the Plaintiffs in relation to the financial irregularities of Silver Bird Group Bhd constituted disclosures of improper conduct under the *Whistleblower Protection Act 2010*. The Plaintiffs pleaded that they were immune from any civil, criminal and disciplinary proceedings. Although SC's application to strike out the civil suit was dismissed by the High Court, SC's appeal on the High Court's decision was allowed by the Court of Appeal. The Plaintiffs subsequently filed an appeal to the Federal Court but it was withdrawn on 16 November 2016.

The SC also strategically exercises its powers when necessary to intervene in legal proceedings where it has direct impact on the capital market framework and involves investor protection. To this end, SC has successfully applied to be an Intervener to defend a legal position along with its affiliate, Securities Industry Dispute Resolution Center (SIDREC). (Box article, page 74).

In performing our regulatory functions under the securities laws, SC ensures that due processes are consistently observed in arriving at a just and fair decision.

Infringement Notices

In addition to administrative sanctions, the SC also issues Infringement Notices which form an important component of our non-formal enforcement regime. We use this tool to communicate our concerns directly to those we regulate to address lapses in standards of conduct, controls and processes. Throughout 2016, we issued a total of 177 Infringement Notices. Of this, 15 constitute Warning Letters, 146 Non-Compliance Letters and 16 Supervisory Letters Involving Infringements.

FAIR AND ORDERLY MARKETS THROUGH SURVEILLANCE

Our surveillance activities continue to focus on ensuring good conduct as well as preserving the systemic stability of the Malaysian capital market.

SC's Intervention Application in relation to a Judicial Review against SC's Affiliate

In performing its functions as a dispute resolution centre, SIDREC's decision is subject to judicial review (JR). In this regard, two judicial reviews were filed by one of its members against SIDREC's award in 2013.

The judicial review applications were filed to challenge SIDREC's due process and the Mediator/ Adjudicator's finding that the Member was liable as a "principal", for the loss incurred by the misconduct of its representative.

As the challenge on the `principal-agent' relationship impacted the capital market framework and investor protection, SC applied to the High Court to intervene in the JR proceedings in 2014, to reinforce the agency relationship between the stockbroking company and its representative. SC's application was allowed in the High Court and upheld by the Court of Appeal on 26 February 2015.

In the JR proceedings, the High Court on 17 August 2015 dismissed the Member's JR applications and held that SIDREC had followed the due process. The High Court further held that the argument by the Member that its licensed representative was an agent of the client was contrary to the language of the *Standard Remisier's Agreement* which unambiguously and unequivocally created an agency relationship between the Member and its representative. The learned judge also held that the agency relationship is essential to SC's role as the regulator of the capital market with the ultimate aim to protect the investing public for losses arising from defalcated trades by representatives. Otherwise, the SC's licensing regime which creates accountability between the Member and its representative would be defeated.

The Member's subsequent appeal to the Court of Appeal was also dismissed on 9 November 2016. The matter is now pending before the Federal Court.

Table 1
Type of Infringement Notices issued by the SC

Type of Infringement Notice	When issued
Supervisory Letter	Issued in the discharge of SC's supervisory function, including the conduct of an examination of any person licensed, registered, approved, recognised or authorised under section 126 of the SCA. This would include licensed intermediaries, self-regulatory bodies and the stock exchange, among others.
Warning Letter	Issued pursuant to the discharge of SC's gate-keeping function such as the issuance of licenses, approval of corporate proposals and review of prospectuses. Warning letters may be issued to licensees, registered persons or other professionals or experts.
Non-Compliance Letter	Issued pursuant to the discharge of SC's gatekeeping function for minor breaches.
Cease and Desist Letter	Issued to stop or prevent violation of securities laws. Cease and Desist Letters may be issued to a person who is committing or about to commit an infringing act. Failure to comply with the cease and desist order may attract formal enforcement action by the SC.

Leveraging new surveillance tools and technology

Our surveillance efforts continue to evolve in line with changes in investor behaviour and trading strategies. We continue to strengthen our surveillance capabilities by leveraging on technology and scientific methodology, investing in surveillance R&D initiatives and undertaking research partnership with external parties. Our efforts have enabled us to dynamically identify and profile high-risk market groups, sharpen the detection of market irregularities, and curb abusive trading practices at the onset. This has enhanced the efficiency of our surveillance function and enabled us to apply swifter regulatory responses.

SC is also embarking on the development of a corporate analytics platform to innovate and automate risk-based surveillance using artificial intelligence. A memorandum of understanding (MoU) was signed between SC and MIMOS on 1 December 2016 to facilitate the development of this capability in SC.

Applying thematic market surveillance reviews in uncovering breaches

In 2016, thematic reviews continued to be an integral part of our risk-based surveillance in identifying potential risks from changing trends in trading, emergence of new participants, introduction of new products/asset classes and advancement in technology. Thematic market surveillance reviews have uncovered market trends and issues which require regulatory attention. To this end, the SC has carried out appropriate pre-emptive actions and proposed policy enhancements in areas of concern to preserve market integrity and enhance market efficiency.

During the year, the SC conducted a thematic review on Malaysia's derivatives market given

Pre-emptive actions to deal with questionable trading activities

In 2016, we increased our emphasis on pre-emptive measures such as timely engagements with market participants and the issuance of unusual market activity queries or market alerts to curb questionable transactions. More than 200 pre-emptive measures were taken against transactions which may impair a fair and orderly market, such as bait and switch, marking the close, raising the bid, cross trades, pre-arranged trades, layering and spoofing, among others.

Our pre-emptive surveillance efforts in 2016 have reduced the number of market abuse referral cases by 27% compared to the previous year.

Examples of questionable trading activities

Bait and switch
Order entries to entice other traders which are then either removed or changed

Marking the close
Attempt to influence the closing price of an instrument at or near close of the market

Raising the bid
Series of order entries with deliberate escalation in prices

Passing around
Trading involving passing around a specific group of accounts

Pre-arranged trades
Trading between few related parties, to create volume or to raise, maintain or lower the price to a specific target

Layering and spoofing
Order placement without the intention of having them executed - orders may be entered, cancelled and re-entered multiple times

the growth in the trading volume in this market segment. The review specifically focused on trading in Bursa Malaysia Derivatives' Crude Palm Oil Futures (FCPO), an international benchmark for the crude palm oil market. We utilised our derivatives surveillance system and trade visualisation tools to support deeper analysis on large and complex datasets extracted from the system. Our derivatives surveillance activities have uncovered questionable trading patterns in the FCPO market, for which appropriate regulatory actions were taken on the entities and parties involved.

Following from the 2015 thematic review on structured warrants, we undertook further analysis of the hedging and market making activities of issuers in the structured warrants market to identify and assess emerging risks in this area.

Monitoring corporate transactions to deter misconduct

In 2016, we continued to monitor corporate transactions and disclosures to detect corporate misconduct, ensure compliance with accounting standards, and timely and adequate disclosures of both financial and non-financial information to investors. In the past year, the SC has successfully taken pre-emptive action against PLCs, preventing them from implementing corporate transactions which SC views as detrimental to shareholders' interests. For cases where our pre-emptive actions could not be applied, further investigation is conducted with a view to take civil or criminal action. In this regard, four investigations were carried out in 2016.

Examples of outcomes achieved through pre-emptive actions are provided in Diagram 2.

Diagram 2
Examples of outcomes achieved through SC's pre-emptive actions

Preventing dissipation of assets

SC took court injunctions to:

- Freeze a PLC director's personal bank accounts to safeguard monies belonging to the PLC; and
- Prevent a PLC and its director from dealing with the proceeds of sales of the PLC's assets.

Restitution of monies to PLC

As a result of SC's inquiries, monies which were earlier paid by a PLC without proper justification and disclosure were refunded to the PLC.

Questionable transactions

STOP

- ✗ Asset acquisitions at inflated prices.
- ✗ Disposal of landed properties by PLCs at undervalued prices.
- ✗ Business disposals with unjustified sale consideration, benefiting certain parties at the expense of the PLC and shareholders.
- ✗ Fund raising exercise with the intention of siphoning out the proceeds from the PLC.
- ✗ Questionable take-over offers.

We also sought to promote compliance through engagements with PLCs, auditors and relevant stakeholders during the year. A total of 65 engagements were held to reinforce the roles and duties of directors in upholding their fiduciary duties and in driving good corporate governance.

Monitoring financial reporting by PLCs

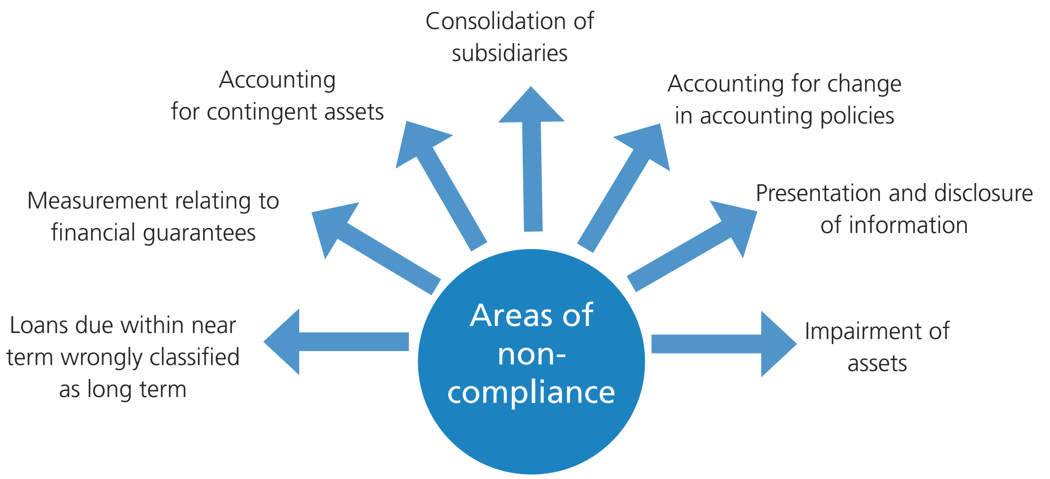
The SC continued to monitor PLCs' submissions of financial reports as well as compliance with approved accounting standards [as defined under our *Securities Industry (Compliance with Approved Accounting Standards) Regulations 1999*]. High quality financial reporting by PLCs is important for investors to make informed investment decisions and it is imperative that the board and senior management of PLCs exercise due care in preparing financial statements and ensure full compliance with approved accounting standards as mandated under the securities laws. The failure to comply with approved accounting standards is considered a serious breach as it impacts the quality and reliability of the financial statements.

In 2016, the SC issued 133 Infringement Notices to PLCs for non-compliance with requirements related to the submission of financial reports and approved accounting standards. Stricter sanctions will be imposed in the future against companies for repeated non-compliance. Some areas of non-compliance are highlighted in Diagram 3.

Although some of these non-compliances were addressed via a restatement of financial statements by the PLCs, there is still a need for investors and other stakeholders to be adequately apprised of these concerns.

In this respect, we communicate to the public and industry on a regular basis, the importance of quality financial reporting, and share common pitfalls relating to non-compliances with approved accounting standards. We also conveyed our key messages to

Diagram 3
Areas of non-compliance with approved accounting standards



directors and auditors through a series of engagements, to raise the bar on the quality of financial reporting among PLCs.

As a member of the Financial Reporting Foundation (FRF) and advisor to the Malaysian Accounting Standards Board (MASB), we continue to actively participate in reviewing issues relating to the development of accounting standards that may have a material impact on corporate reporting. The SC's efforts are targeted at ensuring coherent and consistent implementation of accounting standards.

STRENGTHENING CULTURE AND CONDUCT OF INTERMEDIARIES

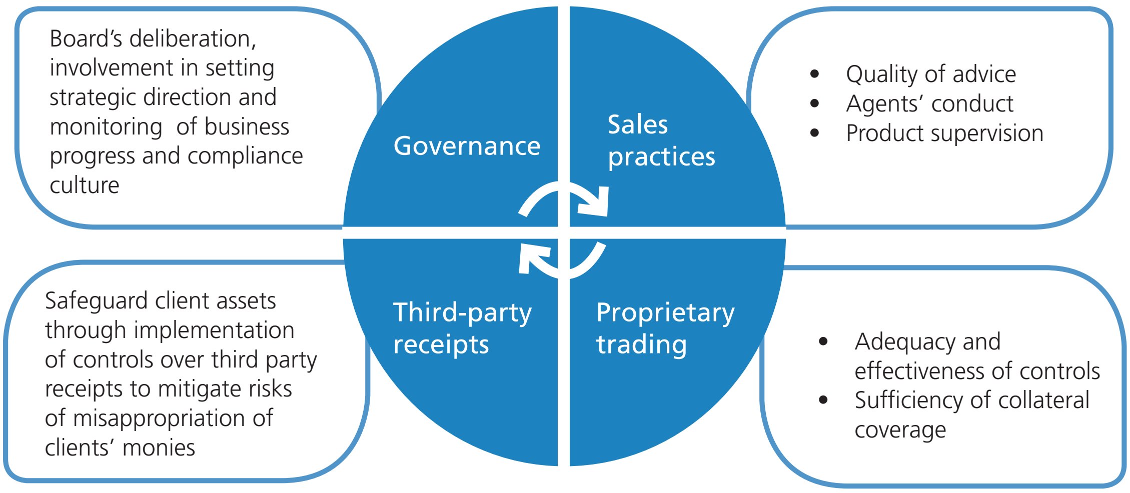
Throughout 2016, we intensified our supervisory focus on 17 licensed intermediaries identified to be systemically important. A 'systemically important market intermediary' is an intermediary whose distress or disorderly failure would cause significant disruption to the wider capital market, financial system and economic activity, because of their size, complexity and systemic interconnectedness.

Our supervisory coverage also extended to 47 assessments on stock and derivatives broking intermediaries as well as fund and unit trust management companies.

In addition, four thematic reviews (Diagram 4) were performed based on identified emerging risks which posed specific concerns in the evolving market environment. Thematic reviews serve as a useful supervisory tool to assess current or emerging risks relating to a specific area or product among a number of intermediaries within a segment of a regulated activity or the industry. It provides focused assessment of the risks identified and controls in place within the selected intermediary. Thematic reviews also help us to identify and differentiate between the good and poor practices which are then shared with the industry as guidance during periodic engagements.

The SC's progressive approach continues to yield positive response from licensed intermediaries. There is a realisation and understanding of the need to strengthen internal controls and processes, client asset protection and conflict of interest management beyond the confines of prescriptive regulatory sphere.

Diagram 4
Thematic reviews undertaken in 2016



Thematic review on third-party receipts

We continue to focus our efforts to effectively and promptly assess emerging issues that may pose investor protection risks. When intermediaries receive funds for the payment of securities transactions, it is critical that they remain vigilant in ensuring that the requirements of client asset protection and proper client identification are complied with at all times.

This year, the SC embarked on a three-pronged thematic review involving intermediaries licensed for the regulated activity of dealing in securities and derivatives:

(i) Engaging CEOs during the Supervisory Dialogue in July to raise awareness of the issues concerning third-party receipts;

(ii) Conducting an intensive industry engagement session with representatives from selected licensed intermediaries to identify practical and operational challenges in managing and mitigating risks arising from third-party receipts; and

(iii) Issuing a self-assessment compliance checklist for feedback as well as assessment on the status and timeliness in adopting measures recommended following the `Dear CEO'[2] letter in 2015.

Since then, our review found that a majority of the intermediaries undertook steps to improve their policies to manage incoming funds. Several good practices put in place by intermediaries are included in Table 2.

However, we noted that the above measures can be further enhanced by putting in place a verification

Table 2
Good practices put in place by intermediaries

Identification of depositor's identity	• Checking depositor's Identification Card (IC) upon receiving payments over-the-counter. • Obtaining supporting documents i.e. cheque image, TT form. • Matching cheque owner's signature to accountholder's. • Matching details (i.e. name) on intermediary's online statement to accountholder's.
Policy on acceptance of deposits from third party other than the accountholder (client)	• Prohibits acceptance of third-party receipts. • Prohibits acceptance of cash over intermediaries' collection counter. • Allowing third-party receipts if consent obtained from the depositor, accountholder and the CMSRL holder. • Third-party receipts restricted to family members only. • Escalating to compliance for further checks via internal STR if found that the depositor is not a family member of the accountholder. • Payment using more than five payment modes (i.e. cheque, transfer, cash, etc.) to settle one transaction will be rejected.

[2] The 'Dear CEO' letter is a pre-emptive supervisory tool which enables the SC to have a uniformed message communicated to intermediaries on areas of interest and concern which require their immediate attention.

process to ensure veracity of information obtained, instead of the current practice of relying entirely on information provided by the accountholder, depositor and/or CMSRL holder.

Training sessions for employees, particularly those in front-line functions need to be enhanced, to increase awareness and understanding of the controls in place in relation to third-party receipts. Also, reviews on trust accounts activities and reasonableness of deposits made by third-parties are important to establish legitimacy of the transactions.

The oversight by middle office functions such as internal audit and compliance should be strengthened to include assessments on the adequacy of controls and monitoring mechanisms, and not be limited to compliance with internal policies and procedures. Intermediaries should also reassess their transactions monitoring capability and consider alternatives to the manual reviews performed given the voluminous transactions involved.

We also observed that there have been:

(i) More vigilant monitoring by intermediaries due to the increased awareness on the modus operandi of fraudsters or perpetrators using third-party receipts;

(ii) More self-reporting being made on potential fraud incidences due to heightened monitoring by intermediaries; and

(iii) Early detection of anomalies in third-party receipts which helped in curbing potential widespread of illegal investment schemes.

The SC remains committed in taking swift action to advance investor confidence in the securities market through fair and effective enforcement of our securities laws. In 2016, we ordered approximately RM600,000 in restitution to clients in connection with unlicensed activities.

Moving forward, we will share observations and findings with the intermediaries through industry dialogues, issuance of directives or circulars and on-site engagements.

Thematic review on sales practices

Our thematic review on sales practices focused on intermediaries' product distribution and client servicing framework and processes to assess compliance with our *Sales Practices Guidelines.*

Mystery shopping was carried out on randomly selected unit trust consultants (UTCs) from 13 unit trust management companies (UTMCs) to gauge the manner in which UTCs conduct themselves when promoting unit trust funds. We focused on how UTCs carried out assessments to determine the suitability of products based on the investor's profile and risk appetite.

The result demonstrates varying conformance to regulatory expectations and some areas of concern were observed. These include consultants representing more than one principal at any one time and recommending products without completion of the suitability assessment process. In a bid to facilitate initial and additional investments, there were instances of UTCs advocating pre-signing of transaction forms or suggesting that cash be handed or deposited into the UTC's personal account. These observations, representing some key areas of possible misconduct and mis-selling by UTCs were communicated through our engagements with the industry. The SC will continue to take enforcement action against distributors and propagate investors' education and awareness to curb undesired sales practices.

Another area of coverage was on the oversight of wholesale funds following the launch of the 'Lodge and Launch' framework in 2015. To support this framework, our review for the year covered assessment of intermediaries' governance structure to ensure adequacy of system and controls at various stages of a fund development.

Our review showed that many funds' designing stage did not include an assessment of the fund's features and risks, the suitability and market demand in relation to the target market's investment objectives. This is particularly important for smaller sized intermediaries which tend to create funds merely based on deliberations with its fund distributor.

The fund approval process within an intermediary should also be enhanced to correspond with the complexity and risks of a fund. This includes post implementation review on a new product to enable the firm to assess the suitability of the fund, taking into account targeted investor needs and feedback from distributors and/or investors.

The outcome of our reviews was communicated to the industry during the CEO industry dialogue held on 18 July 2016. The engagement served to provide guidance and reference on improving the funds' governance in meeting the SC's expectations on sales practices of UTMCs and UTCs, as well as to communicate our intent to standardise industry practices in monitoring the conduct of registered agents. We issued five Supervisory Letters with Infringement to warn licensed intermediaries on the need to improve lapses in their internal controls.

The SC will continue to identify areas of improvement and proposed measures to be adopted by UTMCs and UTCs to strengthen the trust and confidence of investors in the unit trust industry.

Thematic review on Proprietary Day Traders and Investment Account Traders

The introduction of the regulatory framework governing Proprietary Day Traders (PDTs) and Investment Account Traders (IVTs) is aimed at improving secondary market liquidity via day trading in a controlled and regulated environment.

In 2016, PDT and IVT participation accounted for 2.16% and 5.12% (2015: 2.18% and 4.95%) of the market's trading volume respectively. Correspondingly, PDT and IVT participation took up 1.63% and 2.51% (2015: 1.73% and 2.25%) of the market trading value respectively.

Apart from working closely with Bursa Malaysia in monitoring trade surveillance functions of intermediaries, this year, we undertook our own review of the PDT and IVT business as part of our supervisory efforts to raise the standard across intermediaries' practices, operations and culture.

This thematic review sought to assess the adequacy and effectiveness of the prudential and conduct controls employed over PDT and IVT activities as their trading activities have become an important aspect of the development of the market and the licensed intermediaries' business. A stress test conducted on the PDT and IVT trading activities of selected licensed intermediaries concluded that they are able to weather a downturn or stress event. Some licensed intermediaries have placed additional safeguards to manage their prudential risk by requiring security deposits and retained earnings to offset any potential trading losses.

In assessing the governance and trade surveillance environment, we found that oversight and controls environment of intermediaries are generally in place but can be strengthened through a more proactive involvement at the board of directors and senior management level in addressing matters related to trading misconduct and other regulatory concerns. This includes putting in place effective policies, procedures and processes. Since most intermediaries are at an early stage of establishing and implementing a trade surveillance system, they should use this opportunity to enhance and recalibrate their system to be able to proactively detect, assess and reduce transgression at an early stage.

Having skilled human resources to be able to undertake pattern recognition and behaviour analysis in detecting and assessing potential transgression is an industry-wide challenge. Our engagement with several intermediaries revealed that compliance and operational risks emanating from this business segment, from risk identification to reporting, need to be addressed.

We are happy to note that several good practices have been implemented by intermediaries to complement internal controls surrounding PDT and IVT trading activities, for example, pre-trade control on concentration, unusual order size placing and withdrawal, cut loss policy, independent assessment by compliance officer to support trade surveillance and monitoring efforts, and having a full-time surveillance officer and a dedicated working group or governance committee to undertake surveillance, monitoring and assessment of trading activities.

This thematic review revealed that the industry is facing a shortage of skilled personnel to undertake functional trade surveillance monitoring and a fit-for-purpose operating model to govern its trading activities.

The SC will share observations and recommendations from this review to facilitate improvements in internal controls.

Thematic review on governance

We undertook a thematic review of the state of governance at selected licensed intermediaries to gauge the standard of the intermediaries' business conduct.

Part of the review focused on formal structures and representations on boards, as well as the manner in which the board discharged its oversight responsibility, particularly in the three key internal control functions of compliance, risk management and internal audit.

In discharging its stewardship role, we observed that boards took responsibility and participated in setting the strategic direction of the company. While some of the boards assessed were involved in deliberating significant business decisions, others have taken steps towards greater involvement at the early stage of formulating corporate strategy for their companies, including risk management oversight and managing reputational and regulatory non-compliance risks.

We see room for improvement in the areas of:

(i) Clarity on the roles and responsibilities of the board;

(ii) Board performance review; and

(iii) Escalation process to the board by board committees for matters requiring deliberation, and inadequate oversight by the board.

We observed that in a larger setup, specific board committees were established to increase efficiency in decision-making, and enhance boards' oversight as well as accountability. The outcome of our review shows significant varying board governance practices across the industry especially in the area of strategy formulation, policymaking, accountability and oversight of senior management.

Arising from these observations, SC will engage with licensed intermediaries to ensure greater clarity of our expectations with regards to governance as part of its broader focus on culture, conduct and fair treatment of investors.

"...the success of any component of the capital market relies on investor trust and confidence. This in turn requiries industry participants to not lose sight of the importance of having good conduct and high standards of governance."

Special Address by
Tan Sri Dato' Seri Ranjit Ajit Singh
Chairman, Securities Commission Malaysia at the RAM League Awards 2016

ENSURING STRONG MARKET INSTITUTIONS

Oversight of Bursa Malaysia

As the market continues to face new challenges from market volatility, disruptive technology and the ever-demanding client base, it is important that the regulatory responsibilities of Bursa Malaysia are discharged efficiently and effectively. In this regard, we need to continuously ensure that there is appropriate balance between the role of Bursa Malaysia as the operator of the securities and derivatives markets, provider of clearing, settlement and depository services and its role as the front-line regulator.

The SC developed the *Guidelines on Governance of Market Institutions* (Guidelines on Governance) to enhance alignment between practices of market institutions and regulatory expectations. The Guidelines on Governance will apply to the stock exchange, derivatives exchange, exchange holding company, and clearing house approved under the CMSA. These guidelines set out the minimum governance standards that the SC expects of these institutions and their board.

We continued our monitoring and risk assessment of the stock and derivatives exchanges and the clearing houses through several measures which included the annual regulatory assessment on Bursa Malaysia's financial risk management framework and practices. We also reviewed and assessed all reporting submissions imposed on the institutions.

The amendments to the Rules of Bursa Malaysia Derivatives, Rules of Bursa Malaysia Derivatives Clearing, Rules of Bursa Malaysia Securities Clearing and Rules of Bursa Malaysia Depository were also approved to enhance Bursa Malaysia's powers to:

i. Conduct inspections and investigations to monitor compliance by participants;

ii. Improve, expedite and enhance transparency on enforcement related processes; and

iii. Broaden the range of enforcement approaches.

Rules related to internal audit, compliance, risk management and conflicts of interest relating to clearing participants have been ammended to strengthen governance of a clearing participant's operations. Obligations to carry out Know Your Client (KYC) and safeguarding clients' assets have been imposed on clearing participants in the new decoupled environment.

Regular dialogue and engagement sessions are held with Bursa Malaysia's board members and senior management to ensure that its development and regulatory objectives are aligned to the SC's business plans for the capital market.

Governance of market institutions

To ensure that sufficient safeguards and conflict-mitigating measures are incorporated into the exchange's governance, organisation structure, and resources allocation, the Guidelines on Governance emphasises the Board's roles and responsibilities to ensure among others, that the Institution discharges its duties under securities laws, maintains an appropriate balance of focus and resources on regulatory, developmental and commercial roles, and manages conflict of interest that may arise at all levels.

Risk management, compliance, internal audit and conflicts management are some of the key internal control functions within the Institution. The Guidelines on Governance formalises SC's requirements on the responsibilities and independence of these functions.

Trends in the changing market landscape driven by technology and internationalisation are making markets more complex with the availability of multiple trading venues, advancement of trading technology and greater access to a wider array of products. This shift has encouraged consolidation, linkages, cost structure changes and innovative growth in exchanges. Bursa Malaysia is therefore faced with the pressures of competition from regional exchanges, as well as the increasing growth in private markets.

In response to intensified competition, conflicting pressures on meeting "for-profit" objectives at the expense of regulatory objectives could potentially have an impact on the regulatory independence of Bursa Malaysia in discharging its role as the front-line regulator. Additionally, Bursa Malaysia, as the operator of markets and post trade services, would need the flexibility to evolve its business and focus on implementation of business strategies which are needed to further grow its business and to compete effectively.

In ensuring greater independence of the self-regulatory function within Bursa Malaysia as an Institution, the Guidelines on Governance requires for the Institution to discharge its regulatory function, through a subsidiary or related entity that is independent from its commercial and developmental functions.

A joint task force between the SC and Bursa Malaysia has been established to work out an implementation plan for the establishment of this subsidiary.

Prior to the establishment of the regulatory subsidiary, Bursa Malaysia has enhanced the scope of its existing Regulatory and Conflicts Committee to enable greater independence and adequate allocation of resources to the regulatory function of Bursa Malaysia.

Annual Regulatory Assessment of Bursa Malaysia

The SC conducted its annual regulatory assessment on Bursa Malaysia's financial risk management framework and practices in line with our emphasis on Bursa Malaysia's compliance with the *CPMI-IOSCO Principles for Financial Market Infrastructures*. In our assessment, we reviewed Bursa Malaysia's financial risk management practices as well as its current financial resources and risk exposures. Bursa Malaysia is expected to enhance clarity in its group governance policies and procedures on financial risk while ensuring consistency where relevant between practices across the securities and derivatives financial risk operations.

Oversight of Federation of Investment Managers Malaysia (FIMM)

Strong governance and controls within FIMM's operations and regulatory functions are critical success factors for FIMM to continue discharging its role as an effective self-regulatory organisation (SRO).
As part of the SC's continuous oversight and supervision over FIMM, we conducted:

- A regulatory assessment on FIMM's operational framework to ensure adequacy of resources for the effective discharge of its delegated duties as a SRO, and to ascertain that necessary controls are in place to support the optimum utilisation of resources for operational effectiveness. Our assessment focused on FIMM's financial management, human capital management and development, system infrastructure and capability, including its standards of compliance with internal governance and controls as well as mechanisms for decision-making.

  While this assessment focused on the operational framework of FIMM, we observed concerns pertaining to the monitoring mechanism of its budget planning process, governance within the value chain for procurement of services and products, implementation of its human resource framework and standards of compliance to relevant controls as well as the robustness of FIMM's IT system infrastructure. Engagements were held with the Board to ensure that gaps identified were quickly addressed.

- A holistic review of FIMM's guidelines, by-laws, guidance notes and circulars was conducted, resulting in consolidation and streamlining of requirements into a single document and refining existing requirements for clarification and consistency with SC's policy direction and initiatives. As a result, the SC approved new rules to allow for the expansion of distribution channels for unit trusts and Private Retirement Schemes (PRS) and to encourage transition of unit trust and PRS consultants into qualified financial planners to support the growth of the financial planning industry.

Oversight of Private Pension Administrator

Our regulatory oversight of the Private Pension Administrator (PPA) as the central administrator of the PRS industry comprises a supervisory framework that covers areas such as governance, operations, sustainability and business continuity. The objective of this framework is to ensure proper management of financial resources within PPA, and that PPA undertakes its PRS administration function effectively.

We carried out engagements with the board and management of PPA to communicate our supervisory objectives and expectations. These engagements serve as an important feedback mechanism into SC's strategic planning exercise for the development of the PRS industry. Further, we reviewed the progress of recommendations made during the 2015 regulatory assessment on PPA which include developing a risk and compliance framework, and enhancing its business continuity plan and cyber security policies.

Supervision of equity crowdfunding and peer-to-peer financing operators

The SC has facilitated technological innovations in the capital market such as the introduction of a regulatory framework for equity crowdfunding (ECF)[3] and peer-to-peer financing (P2P)[4] to enable SMEs and start-ups obtain market-based financing but at the same time comply with safeguards to ensure that risks are appropriately managed and investors enjoy some level of protection.

The SC adopts a disclosure based regime where operators are required to ensure that all communications disclosed by the operators are fair, clear and not misleading.

We also take a consultative and pragmatic approach to develop better understanding of the issues and risks of this nascent sector to support our policymaking and supervisory objectives. We maintained regular dialogue with our ECF platform operators to discuss challenges, and have facilitated greater collaboration between the operators and the SC to resolve some of these challenges. The SC also approves the business rules of ECF platform operators.

Enhancing cyber resilience of the capital market

Increased adoption of technology in capital market activities, operations of market intermediaries, market infrastructure and market-based financing platforms call for vigilant management of cyber security risk to minimise disruption to the capital market, protect investors' confidential data and preserve market confidence. This is more imperative given the global increase in cyber security breaches.

In response to this, SC issued the *Guidelines on Management of Cyber Risk* (Guidelines on Cyber Risk) in October 2016 to enhance the cyber resilience of Malaysia's capital market.

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3 ECF is the online offering of private company securities via the SC-registered ECF platforms that enable many people (or the 'crowd') to invest small sums of money in exchange for equity.

4 P2P enables businesses or companies to raise funds through an SC-registered P2P platform, by issuing an investment note or Islamic investment note for a specified tenure where investors expect a predetermined financial return.

The Guidelines on Cyber Risk require capital market entities to have in place a risk management framework to minimise cyber security threats, implement adequate measures to identify potential vulnerabilities in their operating environment, and ensure timely response and recovery in the event of a cyber-security breach. The involvement of the board and senior management is paramount to ensure that the capital market entities puts adequate focus on cyber security issues, determines risk tolerance and priorities, and allocates sufficient resources to manage cyber security. As such, the Guidelines on Cyber Risk clearly outline the roles and responsibilities of the board, and the appointment of a responsible person accountable for managing cyber security risk.

To enable the SC to engage effectively with capital market entities and to share information on cyber security breaches and potential cyber threats, capital market entities are required to report cyber security incidents to the SC. This engagement will enhance industry's awareness on and preparedness in dealing with cyber risk. It will also provide a platform for SC to collaborate with capital market entities and stakeholders to enhance cyber resilience.

MONITORING SYSTEMIC RISK

Overview

In managing and mitigating risk concerns in the capital market, the SC monitors and assesses risks across markets, firms and products to identify emerging trends and challenges that can pose systemic risk implications. Our priority over the past year was premised on three broad areas relating to interconnectedness, liquidity and prudential position. These activities are overseen by our Systemic Risk Oversight Committee.

Managing risks of markets and infrastructure

From a macro perspective, we continuously review market stress levels and vulnerabilities as well as trade flows. We also looked at market movements and sentiments, level of trading activities and investors' participation in our risk assessment. Our risk surveillance work intensified the most in the fourth quarter of the year following geopolitical events that resulted in higher volatility in our stock and bond markets. We also observed a sharp increase in foreign funds outflow, particularly in our bond market, which could impact market liquidity. While there is no immediate systemic risk concern observed from these geopolitical events, we continued to monitor the ongoing risk situation given the prevailing uncertainties in the global market.

Maintaining the resilience of the market infrastructure is also a key focus area of our systemic risk monitoring. We require Bursa Malaysia to carry out regular stress tests on its clearing guarantee funds to ensure stability of the clearing and settlement system. The results of the stress test conducted on Bursa Malaysia clearing guarantee funds indicated that it can withstand adverse default risks.

Managing vulnerabilities of firms and products

At the firm level, corporate earnings and leverage of PLCs were closely monitored, with detailed analysis on sector vulnerabilities and companies' ability to meet their financial obligations. We undertook sectoral assessments on the performance of our PLCs that may be affected by external developments and events. We observed that generally, the impact on our PLCs was manageable. However, companies in the oil and gas, steel and automobile sectors were more vulnerable to uncertainties in the global market.

Within the broking industry, capital adequacy and liquidity positions were closely monitored by the SC. At year-end, all intermediaries were well capitalised with high margins of buffer against the prescribed minimum financial requirements. In our assessment of market intermediaries, we also focused on client concentrations as well as the quality of collateral. Although there was large exposure of certain clients and collateral to the broking industry, the collective exposure is within the acceptable range.

Utilising our internal bond-at-risk model, we carried out potential default monitoring of issuers with deteriorating credit strength and those who are vulnerable to the weakening of specific industry sectors. This assessment was undertaken across different sectors and credit ratings. The potential default risk within the domestic corporate bond market was minimal and there was no significant increase in default stress level observed.

The sale and redemption patterns of funds within the investment management industry were reviewed to detect abnormality or pressure points. Changes to the assets allocation, level of liquid assets and source of funds were regularly assessed to identify possible risk and vulnerabilities. We observed that the redemption pattern remained stable and there was no significant liquidity stress in the investment management industry.

To encourage wider application of stress test as a monitoring tool for assessing liquidity and redemption risk of funds, the SC organised two roundtable discussions with selected UTMCs to discuss and exchange opinions on managing liquidity and redemption risks. Views were shared concerning the type of funds, investors and investments which should be given priority for stress testing; parameters and scenarios, as well as challenges in conducting the stress test. These engagements have given participants an insight into current industry practices for fund stress tests to effectively manage liquidity and redemption concerns.

Managing interconnectedness risks

To assess systemic vulnerabilities and concerns, we engage other regulators and market participants to complement our intelligence work for systemic risk oversight. Based on information obtained, we analysed the different market segments to identify specific risks posed, including concentration risk. In relation to this, we have established an internal framework to assess the interconnectedness level of our intermediaries to other segments of the market to identify concentration risk and areas of vulnerabilities. This has provided the SC with insights to enhance our systemic risk analysis and assessment of the different risk transmission channels.

This year, we also undertook assessments of the potential impact of major global events to the domestic capital market such as the China stock market sell down, the Brexit referendum, the US presidential election and the US rate hike. These assessments have enabled us to anticipate and plan suitable and timely interventions, including crafting appropriate communication to market participants.

Enhancing crisis management capability

We have further embarked on an initiative to enhance the SC's and industry's level of preparedness in managing crisis situations. As markets and intermediaries grow in size and become more interlinked and exposed to higher level cross border offering of products and services, it is imperative that a strong crisis management capability is in place. As such, the SC, in collaboration with the Toronto Centre, initiated the *Crisis Preparedness Series* in 2015. Toronto Centre is a nonprofit capacity building organisation specialising in programmes for financial sector regulators and supervisors. In 2016, two programmes were organised to deepen the crisis management skills and capability of the SC, the industry and the exchange.

INCULCATING GOOD CORPORATE GOVERNANCE

Review of the Malaysian Code on Corporate Governance

The Malaysian Code on Corporate Governance (Code) which was first introduced in 2000 was revised in 2007 and 2012 to ensure that its principles and recommendations were aligned with evolving business practices, market development and international best practices. In 2016, the Code was reviewed to enhance the internalisation of good CG practices in corporate Malaysia and improve disclosures in the annual report. The review process was extensive and involved numerous engagements with key stakeholders in the ecosystem, including directors, company auditors and corporate governance advocates.

The public consultation which ended on 8 June 2016 saw 86 responses from a cross-section of listed companies, local associations, accounting firms as well as international bodies and investors including the World Bank, the Asian Corporate Governance Association (ACGA), and the International Corporate Governance Network (ICGN). The feedback was encouraging, constructive and provided critical points to further strengthen the Code. Each response was carefully reviewed and considered and where necessary, face-to-face engagements were held with respondents to obtain further clarity on their responses. The CG Code is expected to be issued in the second quarter of 2017.

CG Watch 2016 recognises enforcement efforts and success

The *Corporate Governance Watch* (CG Watch) report is the result of a regional survey undertaken every two years by the ACGA in collaboration with CLSA Asia Pacific Markets. The survey looks into five key areas, namely CG rules and practices, CG culture, accounting and auditing, enforcement, and the political and regulatory environment.

Malaysia has, in the past, been recognised for being unique in showing consistent improvement in its overall score in the last four CG Watch surveys (2014, 2012, 2010 and 2008).

In CG Watch 2016, despite the fall from fourth to sixth position in the 2016 ranking, Malaysia's scores for enforcement and corporate governance rules and practices were upgraded in recognition of our successes in enforcing breaches of securities laws and regulatory and policy changes. Malaysia's score on enforcement increased significantly, and the SC was recognised particularly for its enforcement actions on insider trading, market manipulation and auditing standards. The ACGA viewed it positively that capital market offences are attracting prison sentences in Malaysia, citing a number of successes including longer imprisonment terms imposed on directors and auditors.

In relation to regulatory and policy changes, the report highlighted the recent amendments to the Listing Requirements introducing the requirement for mandatory poll voting for all resolutions, disclosure requirements for Management Discussion and Analysis, sustainability reporting and legislative amendments to the CMSA and the *Securities Commission Malaysia Act 1993* (SCMA) that enhanced the SC's ability to take enforcement action and protect minority shareholders and investors.

Promoting self-governance among directors

The board of directors plays a critical role in establishing and maintaining the standard of corporate governance in a company. To support the continuous professionalisation of corporate directors and enhance the effectiveness of boards, the SC is currently leading the establishment of an Institute of Directors (IoD) for Malaysia which will be launched in 2017.

An IoD is critical to support boards and individual directors in keeping pace with a constantly shifting business landscape. To support the objective of enhancing board effectiveness, the IoD will among others offer an extensive suite of quality programmes and maintain a registry of members to assist companies in sourcing for candidates for their board.

Continued support for international development on corporate governance

The SC continues to support and participate in the Organisation for Economic Co-operation and Development (OECD) - Southeast Asia Corporate Governance Initiative. At its 3rd meeting in Vientianne, Lao People's Democratic Republic in June 2016, key policy options for the Lao authorities to improve the corporate governance of state owned enterprises, spur capital market development and enhance the country's attractiveness to foreign investment were identified and discussed, taking into consideration the regional move towards greater capital market integration.

The SC also participated in the OECD Asian Roundtable on Corporate Governance in Seoul, Korea in October 2016 which discussed the medium to long-term outlook for corporate governance in Asia, and the application of the new G20/OECD Principles of Corporate Governance in the Asian context.

EMPOWERING INVESTORS

Our investor empowerment strategy is anchored on:

i. A strong regulatory framework that incorporates effective gatekeeping, supervision and enforcement;
ii. Exemplary corporate governance as well as professional and ethical conduct on the part of intermediaries and issuers;
iii. Comprehensive and clear disclosure of information and effective communication channels; and
iv. Effective investor education by regulators, institutions and industry.

Investor education

This year, we continued to focus on InvestSmart®, our flagship initiative for investor education, and through our 'SC in the Community' programme, we reached out to all segments of the Malaysian investing public on a face-to-face basis. The InvestSmart® team garnered feedback on issues faced by investors, analysed behaviour through surveys, and consistently spread the message of smart investing.

InvestSmart® Fest 2016, the third iteration of SC's biggest retail investor event was held from 23 to 25 September 2016 at Mid Valley Exhibition Centre, Kuala Lumpur. It brought together capital market industry members, associations, institutions and Government agencies under one roof to raise awareness on wise investing in the capital market. To attract all levels of the general public, the Fest was imbued with a carnival theme and corresponding games that imparted messages of smart investing. In addition to the booths manned by 48 exhibitors, we incorporated a Digital section to introduce the public to various aspects of digitisation of finance. Seminars helmed by industry speakers explored more intermediate to advanced level topics of investment.

A total of 13,954 visitors attended this year's event, the largest turnout out of the previous three InvestSmart® Fests held so far.

Programmes in a classroom setting have succeeded in reaching out to a wide spectrum of people, from students to investors, educating them on a range of investment related issues. This year, 102 InvestSmart® seminars were conducted involving 14,389 participants nationwide.

A new segment of our 'SC in the Community' outreach efforts this year was targeted towards minority shareholders of PLCs to raise awareness among shareholders of their rights and responsibilities, and equipping them with knowledge on how to exercise their rights. We engaged with 3,191 shareholders at eight AGMs by setting up InvestSmart® Kiosks at these events.

A total of 13,954 visitors attended this year's InvestSmart® Fest at Mid Valley Exhibition Centre.

102 InvestSmart® seminars were conducted, reaching out to 14,389 participants nationwide.

In urban areas outside Kuala Lumpur, we set up InvestSmart® Kiosks at seven Urban Transformation Centres (UTC) throughout the country, reaching out to members of the public. We also participated in the Ministry of Finance's Mobile Community Transformation Centre (CTC) roadshows to engage with investors living in more rural areas.

Through our InvestSmart® initiatives, we were able to gain insight into investment behaviour, which included existing investors in the market and also those who have yet to embark on their investing journey. Collaboration with industry has also allowed us to tap the 215,000 visitors at the Permodalan Nasional Bhd's annual Minggu Saham Amanah in Tapah, Perak.

Mass and digital media have enabled us to connect with a wider audience through media articles in English, Bahasa Malaysia and Chinese, third-party publications, our website, Facebook page and Instagram postings.

Enhancing quality of information and disclosures

Our efforts in this past year were marked by a continued commitment to provide investors with information they need to make informed investment decisions and avoid falling victims to fraudulent schemes. The availability of information on potential investments that is both accurate and easy to understand lies at the heart of efforts to empower investors.

Prospectuses and disclosure documents which are prepared using clear and concise language will encourage investors to use these documents for investment decisions.

In this regard, SC has tasked FIMM to form and lead a working group to improve the quality of disclosures in the prospectuses of unit trust schemes. This culminated in FIMM's issuance of the *Guidance on Simple Language and Effective Drafting Practices for Prospectus* in November 2015, which provided guidance on three key areas, namely general principles on simple language and effective drafting, standardised *Glossary of Financial/Investment Terminology* and standard risk disclosures.

Increasing transparency in the bond and sukuk market through a centralised platform

The Malaysian bond and sukuk market has over the years proven to be an efficient source of funding for the public and private sectors, while providing investment opportunities for a wide range of investors. As market and investor sophistication evolves, the SC continues to pursue developmental initiatives to ensure that the regulatory framework caters to the needs of the industry and that the operating environment remains conducive.

This year, the SC reviewed the level of transparency in the domestic bond and sukuk market and identified opportunities for further development. While information in relation to corporate bonds and sukuk are available domestically, they are fragmented across multiple channels operated by both public and private entities, and access is largely limited to institutional and sophisticated investors. The SC had therefore commenced work towards the establishment of a centralised bond and sukuk platform that will serve the informational needs of investors from a single access point.

The SC's effort to centralise price and credit information will also bring about increased transparency in both the primary and secondary markets, and further strengthen Malaysia's position as the leading bond and sukuk hub in the region.

Giving industry more information through auditor's reports

In recent years, there have been calls from various stakeholders for more relevant information to be provided based on audits performed on PLCs. In response to this demand, the International Auditing and Assurance Standards Board (IAASB) issued the *New and Revised Auditor Reporting Standards* in early 2015.

Fully adopted by the Malaysian Institute of Accountants (MIA), these standards apply to audits of financial statements with financial periods ending on or after 15 December 2016. Of the various changes introduced, Key Audit Matters (KAM) received the most attention internationally.

Diagram 5 outlines several other key changes in the content of the audit report.

As these standards are expected to impact the wider financial reporting ecosystem (rather than restricted to just auditors), a Steering Committee consisting of regulators, industry and the accounting profession was established to co-ordinate efforts to support smooth implementation of the new and revised standards in Malaysia.

Implementation of these new standards will help drive the flow of useful and relevant information to the capital market, reduce speculation and promote understanding of financial statements.

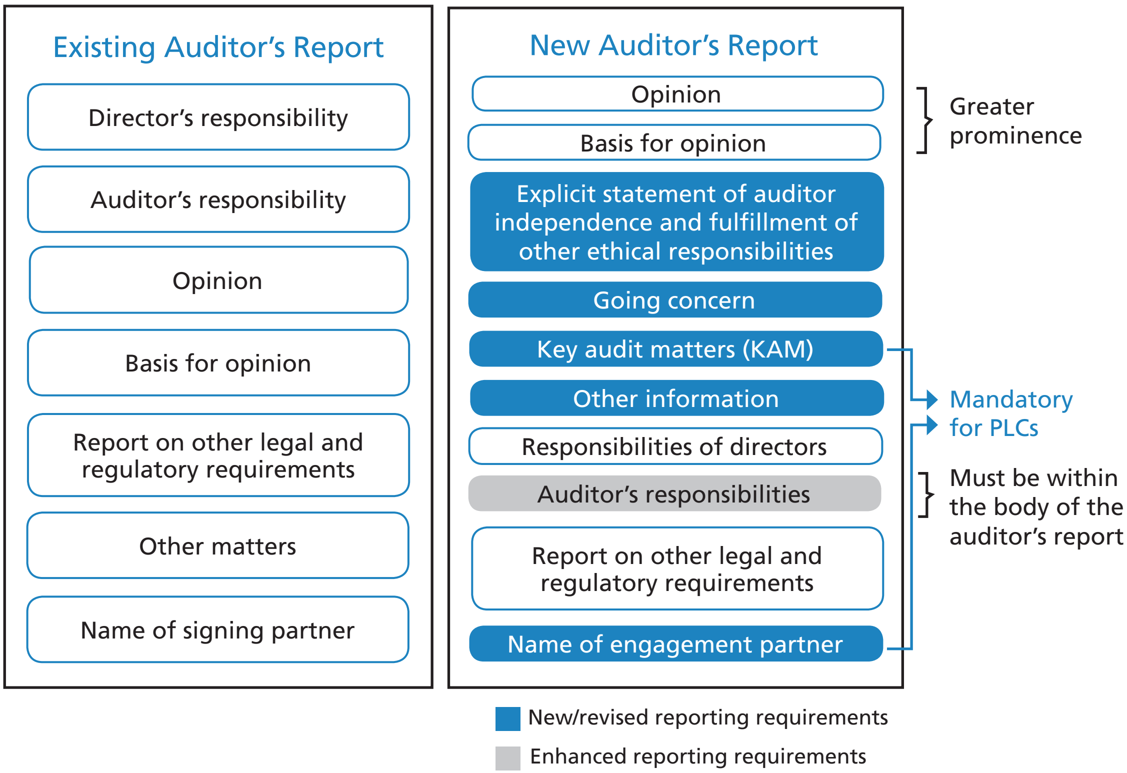
This will empower investors and help structure more relevant and meaningful discussions on financial statements among stakeholders.

The new standards will have the benefit of increased transparency and enhanced informational value, including:

Enhanced communications among investors, auditors and those charged with governance (TCWG)	Increased attention by management and TCWG to disclosures in financial statements	Renewed focus by auditors on matters to be communicated in the auditor's report

Diagram 5

The Auditor's Report – A Content Comparison



REINFORCING INVESTOR RIGHTS

Managing complaints and handling enquiries

Besides receiving and managing complaints from investors and members of the public, we also handle enquiries seeking clarification and information on many issues relating to the capital market. Information analysed from both complaints and enquiries is an important source of market intelligence to inform our policy and supervisory work.

Table 3
Statistics on complaints and enquiries from 2014 to 2016

	2014	2015	2016
Complaints	516	349	433
Enquiries	729	446	609
TOTAL	1,245	795	1,042

A total of 433 complaints were received in 2016. Of the 433, 52% were resolved immediately while the remainder needed further fact-finding and analysis.

Of the complaints received during the year, the majority of complaints related to investment schemes not under the SC's purview (32%), improper conduct by PLCs and/or their directors/ officers (26%), and allegations of improper practices in securities/derivatives dealing (18%). (Chart 3)

In terms of complaints received against PLCs and/ or their directors, 35% were related to alleged misconduct by company officials, while 21% were related to poor or misleading disclosures of information by the company. (Chart 4)

Complaints received relating to improper, unfair or prohibited practices in securities dealing is an indication of the public's awareness of their rights.

Chart 3
Categories of complaints received in 2016

Chart 4
Issues on improper conduct by PLCs and/ or its directors/officers

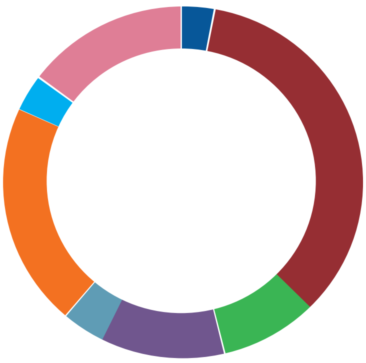
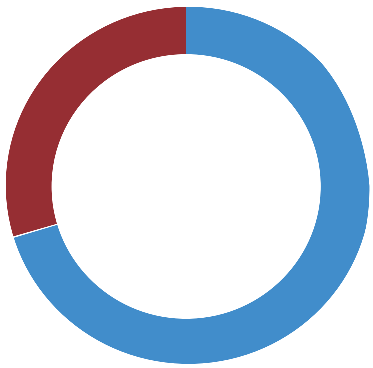


Chart 5
Issues of improper, unfair or prohibited practices in securities dealings

Chart 6
Enquiries received in 2016



Some 25% of the complaints were related to unfair practices by intermediaries when carrying out their business activities, which may not necessarily result in breaches of laws, while unlicensed or possible fraudulent activities made up 19% of the complaints received. (Chart 5)

In 2016, 66% of the enquiries received were in respect of the licensing status or legality of schemes, up from 52% in 2015. Their willingness to seek information from authorities when in doubt shows to a large extent, the increase in investors' awareness.

Enquiries that do not fall under the SC's purview are directed to the appropriate enforcement authority. Schemes that may involve the jurisdiction of several agencies are escalated to the relevant working group which includes Bank Negara Malaysia (BNM), the Ministry of Domestic Trade, Co-operatives and Consumerism, the Companies Commission Malaysia, and the Royal Malaysian Police.

Strengthening financial dispute resolution arrangements

The Securities Industry Dispute Resolution Center (SIDREC) provides an alternative dispute resolution channel for investors seeking redress involving capital market products.

The redress afforded by SIDREC is twofold. In the first instance, it mediates a resolution through case management and mediation sessions to arrive at a settlement acceptable to both parties. Where this is not successful, SIDREC will conduct an adjudication of the matter and make a ruling that is binding on SIDREC's member, if the investor accepts the ruling.

In this context, the SC recognised that while ensuring the smaller investor has access to free and fair redress, there is also a need to allow access to SIDREC's specialist dispute resolution services to investors with higher claims. It was to this end that SIDREC was empowered last year to accept claims exceeding RM250,000, submitted with the agreement of both parties for mediation only. With this, SIDREC may accept claims for mediation where both parties have mutually agreed to use its services.

One of the key areas of focus for 2016 has been to ensure that recourse for any dispute involving a capital market product or service is available irrespective of the channel of distribution.

Through the efforts of the *Working Group on Improving Effectiveness of Dispute Resolution Mechanisms* (Working Group on Dispute Resolution) comprising the SC, BNM, SIDREC and the Ombudsman for Financial Services (OFS, previously known as the Financial Mediation Bureau), the *Capital Markets and Services (Dispute Resolution) (Amendment) Regulations 2010* were issued on 5 September 2016 to include banks and development financial institutions (DFIs) which deal in or distribute capital market products to be members of SIDREC.

This new development will enable investors to have access to SIDREC regardless of whether they have invested through an entity licensed by the SC or BNM. This will afford parity among all entities dealing in capital market products and services, and subject intermediaries to the same standards and assessment of monetary claims that come through the dispute resolution process.

To enhance awareness of the services offered by SIDREC, it intensified its awareness campaign in 2016. This has resulted in an increase in the number of enquiries and claims received by SIDREC from 21 in 2011 to 345 in 2016.

Capital Market Compensation Fund Corporation (CMC) – Contributing to the investor compensation landscape

The CMC contributes to the investor compensation framework through its administration of the Capital Market Compensation Fund (CMC Fund). The CMC Fund is the compensation fund for customers of Capital Market Services Licence (CMSL) holders such as licensed brokers, derivatives dealers, fund managers, unit trust management companies and PRS providers.

In September 2016, the *Capital Markets and Services (Capital Market Compensation Fund) (Contribution) (Amendment) Regulations 2016* (Amended Contribution Regulations) came into force, enabling the SC to expand the categories of persons that are required to make contributions to the CMC Fund. In this regard, given the interconnectedness of dispute resolution and investor compensation, new categories of members of SIDREC who are CMSL holders for the regulated activities of dealing in securities or dealing in derivatives, but who are not Participating Organisations or Trading Participants of Bursa Malaysia, will also be required to contribute to the CMC Fund.

PART 3

OPTIMISING PEOPLE PERFORMANCE

INTRODUCTION

The SC's ability to fulfill its mandate firmly hinges on its capability to attract, develop and retain the best talent. We believe it is important for employees to feel valued and appreciated so that they are able to contribute their best to the organisation.

We continued to invest in our employees by providing learning and development programmes that help them grow in their roles. We also implemented various initiatives to keep our employees engaged; motivating them to perform to their fullest potential.

While the SC thrives on collaborative teams of people, we also leverage technology to enable us to keep pace with an increasingly complex market. Since the digital revolution is changing the way we think and work, as well as the skills we require, we continue to develop our systems and capabilities to achieve greater efficiency and to be successful at what we do.

Apart from discharging our duties efficiently and effectively, our conduct also affects how we are perceived by our stakeholders. As such, we have strengthened our internal governance practices and continued to emphasise a culture of compliance and ethical conduct.

ENRICHING OUR VALUE PROPOSITION

Becoming a Future Ready Regulator

In 2016, we embarked on the SC2020 Project to plan our journey to become a Future Ready Regulator by strengthening our core functions, harnessing and growing our talent pool and equipping ourselves for the future.

The SC's role has continuously evolved in tandem with the growth of the Malaysian capital market, and it is important that SC continues to be configured and its resources strengthened, to enable it to deliver on its mandate. This journey towards becoming a Future Ready Regulator will see the implementation of initiatives over a 3-year period. Beginning this year, SC will be organised and configured to enable the right operating model to be put in place including having an efficient structure and people with specialised skills required to anticipate and understand emerging trends and to effectively respond to changing market needs.

To achieve our objectives, we are developing an Organisation Development Blueprint which is anchored on strengthening our culture of excellence and formulating the broad strategy to implement human capital related initiatives that will drive SC's aspirations.

Recruiting and nurturing talent

In line with the Organisation Development Blueprint, this year, the SC channelled its efforts towards increasing the pool of talented and diverse workforce to keep pace with the evolving market landscape. More than 75% of our employees are graduates and professionals, with many holding multiple qualifications relevant to the functions of the SC. We continue to leverage social media and conventional recruitment channels, and utilise a combination of assessment tools to make the selection process more incisive and ensure that the people we recruit have the potential to become effective regulators. Our efforts have resulted in 43 new hires, including a senior individual to spearhead our innovation and digitisation initiatives.

The younger generation is an integral component of our talent pipeline and we embrace the fresh ideas they bring into the SC. In 2016, we welcomed 11 bright young people into our enhanced Graduate Management Executive Model Regulator (MORE@SC) Programme. In addition, we awarded 12 scholarships to deserving candidates to further their education in undergraduate programmes, in either local institutions or abroad.

Nadia Zainuddin

I've really seen myself grow (I mean professionally, not physically) at the SC. This is possible because of the mutually enriching relationship between the SC and myself, where I am able to contribute to the goals of the organisation and the SC supports my personal development. I've been with the SC for 10 years, starting off as a Graduate Management Executive and now leading a team in the Market Development Division which focuses on corporate governance standards and practices of listed companies. As part of the SC's talent development program, I was seconded for one year to the Organisation for Economic Co-operation and Development (OECD) in Paris, France. At the OECD, I was a Consultant in the Asia-Corporate Governance team, using the Malaysian experience to support corporate governance reform efforts in Asian markets. Over the years, the SC has implemented various corporate governance measures, where I've had the opportunity to contribute in the formulation stages, responsible for the execution and witness its impact on the culture and conduct of companies. Today, the team and I continue our work with passion because we've seen how our work makes a difference, how the SC makes a difference. That to me is a strong motivation and a very fulfilling outcome.

Opportunities for continuous learning

The SC continues to invest in various learning and development initiatives. This year saw almost 70% of our employees attending training programmes, both locally and internationally.

As a strong advocate of skills development, particularly specialised skills, the SC supports employees who wish to develop their knowledge and capability in areas relating to the SC's work. In 2016, two employees were awarded a full SC scholarship and assistance under the Financial Scheme for Continuous Professional Development (PROFOUND) and are currently pursuing post-graduate qualifications at institutions of higher learning. In addition, two employees were granted

leave with full pay to pursue post-graduate qualifications under the prestigious Chevening Scholarship Programme. During the year, eight employees completed the Certificate in Islamic Finance programme, offered by the International Centre for Education in Islamic Finance (INCEIF) as part of the SC's efforts to increase its pool of Islamic finance professionals within the organisation.

Opportunities to broaden work experience

During the year, we offered selected employees the chance to participate in secondment programmes with Japan Financial Services Agency (JFSA) and the World Bank Group. Employees who are legally qualified were allowed to undergo a 9-month pupillage training at legal firms of their choice to eventually be admitted as an advocate or solicitor of the High Court. This training allows them to have a broader view of legal practice, equipping them as better legal officers of the SC.

At the same time, we also actively share our experiences and practices with our foreign counterparts. In 2016, the SC hosted officers from JFSA and the Securities and Exchange Commission of Cambodia under the ASEAN Young Regulator Programme. We also provided opportunities for 9 undergraduates to undergo internships at the SC, offering them valuable insights of the Malaysian capital market.

Recognising our people's capabilities

The SC gives due recognition to employees who have achieved excellence and demonstrated their readiness to take on bigger roles. While 58 people were promoted throughout the year, many others were mobilised within the organisation. The movements were designed not only for the employees to contribute their technical abilities to other functions but also to enable them to advance their careers by acquiring new skills.

To ensure that our employees keep pace with global markets and regulatory developments, we intensified efforts to enhance leadership skills at every level, in line with the Organisation Development Blueprint which is anchored on strengthening our culture of excellence, and which features better alignment of functions. Three new senior leadership positions were introduced through internal promotions i.e. Chief Regulatory Officer, to undertake the portfolios of General Counsel, Corporate Governance and Consumer and Investor Office; a Managing Director, to oversee the functions of Development and Islamic Markets; and another Managing Director to lead the functions of Corporate Finance and Investments and oversee accounting matters.

Enhancing work practices

The SC's workforce dynamics is undergoing a shift, with over 60% of our people comprise those below the age of 40. To this group, family, friends and making a difference in the community are more central to them than they are to previous generations. Meanwhile, our senior demographic is likely to be personally involved in caring for their parents as they age. Given all this, demands on our employees' personal time are bound to increase as they balance work with personal commitments.

As we are determined to keep our employees engaged, we have begun to adopt newer workplace tenets. Our working hours have been made even more flexible and we have also piloted a work from home concept for senior members of the workforce. We believe the introduction of these flexible arrangements to accommodate each generation's expectations will improve not only our employee's quality of life, but also their productivity at the workplace.

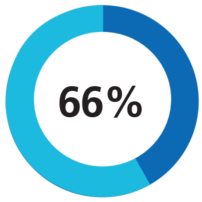
Maizura Abdul Razak

I have been with the SC for 16 years. What has kept me here for so long? For starters, I enjoy the work that I do. I feel I am making a meaningful contribution to the organisation. And being able to work alongside people I can laugh and collaborate with is icing on the cake. I also love the work environment in the SC and how it allows me to balance both my career and family. I started out as a clerk and worked my way up to become a manager in one of the key departments, thanks to the many development opportunities the SC has given me.

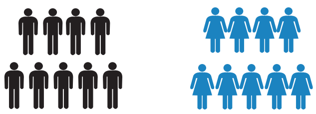
SC WORKFORCE PROFILE

NUMBER OF EMPLOYEES

753



Executives



48%
Male

52%
Female

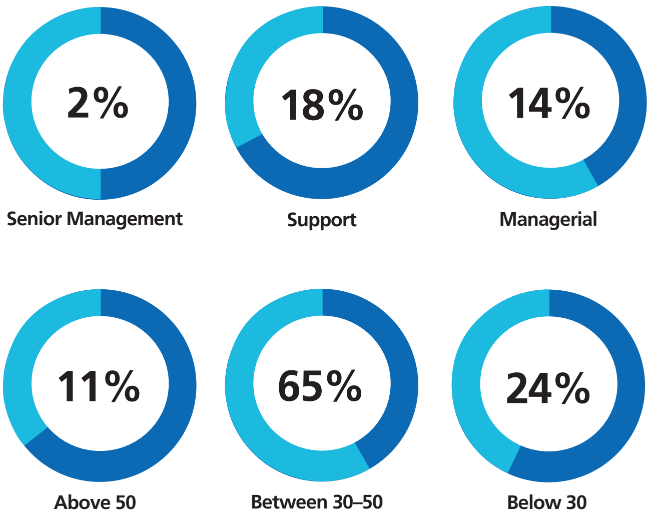
Reinventing our workplace

Since our employees spend a significant portion of their day at work, we are increasingly focused on creating a workplace that encourages greater psychological well-being, physical health and social connectivity among our people. This year, we reviewed our office space standards to incorporate a more contemporary look, with employee wellness as a core consideration. The new design will inject more natural daylight and vibrancy into the workplace environment to keep our employees engaged, so that they can go the extra mile in giving their best. It will also enable the SC to eventually accommodate all employees in one building and bring them closer, leading to a more cohesive and collaborative work environment and greater efficiency.

Promoting wellness among our people

We know that improving diet and activity levels will enhance the things our employees already do well, which is why we have made a concerted effort to implement measures to promote a healthy lifestyle and help our employees better manage the challenges they face.

Our employees are encouraged to make full use of sporting facilities provided at the workplace. They are also encouraged to participate in the various physical activities organised by the SC's Sports and Recreation Club and external events representing the SC.



Noraiza Kamarudin

When I was informed that I would be seconded to the United States Securities and Exchange Commission, my first reaction was one of apprehension. Although it was a temporary stint, it still required me to get out of my comfort zone and leave behind the place and the people I had grown accustomed to. I went anyway, and that experience really opened my eyes to a lot of things. I believe I am a better person now, on both personal and professional levels. Looking back, I am forever grateful to the SC for the opportunity and proud to have risen to the challenge.

Additionally, the SC provides a variety of healthy food options at the office cafeteria. We are also looking to improve the cafeteria's ambience and raise standards of service.

INTERNAL EFFECTIVENESS AND EFFICIENCY

While we acknowledge that our people are our strength, we also recognise the expansive landscape of possibilities that technology can offer. From communication to resourcing, information and data management, technology has become an integral tool in enhancing our efficiency.

In the SC, we have formalised an enterprise digital strategy to revolutionise our workplace and workforce. A key focus of this strategy is harnessing the effective use of data, enabling the SC to become a more insight-driven institution with a strong culture of continuous improvement. We are also focused on developing a digital workplace which drives engagement and collaboration, at the same time meeting the needs of our employees on being able to work and access information remotely and securely.

Enhancements in digital infrastructure and systems during the year include:

- Implementing a new and much improved InvestSmart® mobile application to replace an existing version in our continuous effort to reach out to investors. This new application enables investors to access investment-related information or assistance directly from their mobile devices.

- Augmenting our equities surveillance systems to enable us to detect emergence of new group of manipulators and changes in typologies that manipulators use. The enhancement includes a recalibration of surveillance alerts to reflect changes in market behaviour and the introduction of new surveillance reports to enable us to identify recurring market misconduct and gauge the intensity of such behaviour.

- Enhancing our derivatives surveillance system to efficiently support the extraction, analysis and reporting of trade and order data of the derivatives market, making available more comprehensive data on transactions and market behaviour and allowing us to be able to respond more effectively to emerging risks.

- Upgrading of HR Avenue, our human resource (HR) information system, to include more modules on employee management. Automation not only empowers our employees to perform routine HR-related transactions themselves, it also relieves our Human Capital Management Department of these tasks, allowing them to focus more on the strategic elements of HR.

- Implementation of the Records Management System (RMS) by more departments in the SC. RMS improves the management of our records and information, a valuable corporate asset, protecting and storing them securely and making them accessible when needed.

To better support our corporate surveillance function, we augmented a tool used to harvest information from private and public data sources. We also enhanced our Financial Reporting Submission Hub (FRESH), the online platform for PLCs to submit their annual audited accounts and periodic financial reports.

Additionally, we are expanding our capabilities by embracing technological innovations to create market intelligence. Strategic initiatives were introduced during the year to strengthen information governance and architecture in the big data implementation. We aim to promote a data driven culture, using analytics as a means to improve operational efficiency as well as the ability to respond to rapid changes in the capital market. Among the initiatives carried out include:

- Implementation of Data Governance to address the internal and industry data disparity. Data policies and procedures, among others, in the management of data will be introduced to provide consistent interpretation of the data across the organisation as well as the industry.

- Launch of a single submission platform which leverages the eXtensible Business Reporting Language (XBRL) as a means of filing with the SC to improve the efficiency and quality of digital data collection. The submission platform enables reporting of information such as financial statements, performance business reports and any other compliance reports. The implementation continues from the successful XBRL filings by the private retirement scheme (PRS) providers introduced in 2015.

- Implementation of data exchange programme with government agencies for better operational efficiency.

- Development of data harvesting capability to mine data from the internet and the exploration of advanced analytics technology to create insight through the application of artificial intelligence.

Enhancing SC's Big Data Capability

To enhance SC's risk assessment, surveillance and supervision capabilities, we set out to develop and adopt RegTech, or technology to enhance regulatory effectiveness, to meet the regulatory challenges and deliver on regulatory outcomes. We are collaborating with institutions that possess the skills and expertise to help the SC achieve this objective.

On 28 November, the SC signed a memorandum of understanding (MoU) with the Department of Statistics (DOSM) which sets out collaborative efforts between the institutions to:

- Continuously strengthen the quality and effectiveness of information sharing and collection between SC and DOSM.

- Build up SC's capital market Big Data capability.

- Provide a robust and reliable platform for regulation and market development of the capital market.

- Ensure insightful analytics to support and facilitate decision-making and policy formulation.

- Provide initial steps in digitising SC, in terms of automating information gathering and sharing.

On 1 December, SC signed another MoU, this time with MIMOS, the country's research and development centre in ICT to jointly develop a capital market advanced analytics platform. By collaborating with MIMOS, SC will be able to leverage new technology to process a higher volume of data from a variety of sources beyond the traditional data sets, facilitate the usage of RegTech, and build Malaysia's

Philbert Tiki Yong

I am where I am today because of the SC's human capital initiatives. At 16, I received a full SC scholarship to pursue a degree in Economics in the UK. Back then, the global financial crisis was at its peak. I remember just wanting to make the capital market work better for society. Today, I put theory to practice. I study market trends and activities to preserve the systemic stability and integrity of the capital market. I am proud that my work contributes to far-reaching regulatory and policymaking outcomes. The SC made all this possible and continues to inspire me to contribute in shaping fairer and more efficient capital markets.

Big Data capability in the capital market. The SC is one of the first among its peers in the ASEAN region to develop and implement advance analytics to aid and complement its regulatory work.

Enhancements to the SC's cyber defence

The increasing need for mobility, information collaboration and digital enablement may inadvertently open up our infrastructure to new risks and exposure. We strengthened the infrastructure's resilience and stayed ahead of the evolving threats by fortifying our cyber security parameter defence, its proactive surveillance, threat analytics and alerts.

We also ensured continuous compliance with global standards, one of which is the newly revised Information Security and Management Standards ISMS/ISO 27001:2013. Apart from the ISMS, we continued to maintain our overall IT security posture by undertaking periodic infrastructure and vulnerability assessments.

Preserving institutional memory

Our institutional knowledge is invaluable and an important aspect in ensuring business continuity, which is why we take great measures to protect this intangible asset just as we do with our physical ones.

In line with the knowledge management roadmap we established in 2014, we initiated a knowledge mapping exercise in 2016, facilitated by our Knowledge Management Department. During the year, 18 pilot departments participated in the exercise, which was a combination of fact gathering, analysis and engagement sessions. Through this exercise, we are able to create an inventory of knowledge assets within the SC on a single enterprise platform and where possible, make them available to our people to assist them in carrying out their functions. We are also able to map the flow of knowledge between the various departments and identify the gaps and needs as well as knowledge risks, pain points and cultural issues that may affect the respective departments' business activities.

SAFEGUARDING OUR CORE VALUES

High performing organisations thrive on a strong values-driven culture, and we continually strive to provide an engaging environment that promotes a strong sense of integrity and responsibility; encourages giving back to our communities, and doing our part to preserve the environment.

Upholding organisational integrity

As a statutory body entrusted to regulate and develop the Malaysian capital market, we are committed to ensuring that all our employees maintain the highest level of integrity when discharging their roles and responsibilities. We know that to instil trust and confidence in the market, we must be the benchmark for accountability, credibility and effectiveness. Accordingly, the internal governance standards we have adopted provide a clear framework within which our employees are expected to conduct themselves.

During the year, we implemented initiatives to enhance protection of our data and confidential information.

We rolled out our *Compliance Management Guidelines*, providing a structured approach in ensuring compliance with laws, regulations and internal governance standards which impact the day-to-day operations of the SC.

We enhanced our risk management practices by requiring key departments within the SC to assess and periodically report the effectiveness of their controls in managing information confidentiality, ensuring compliance with business processes and managing conflicts of interest.

A series of education programmes were executed throughout the year to deepen our employees' awareness on ethics and internal compliance. One of the highlights was a session to share best practices with a senior person from the Australian Securities and Investments Commission responsible for risk management, compliance and security services.

Developing highly engaged employees

Today's workforce is one of the smartest and most self-aware in decades, and how they acquire job satisfaction has quickly evolved. While salary and benefits are still fundamentally driving employee retention, other avenues of motivation and engagement are also important drivers. As companies search for ways to engage their workforce, employee volunteer programmes regularly appear as an effective measure to keep employees engaged over the long term.

We encourage our people to volunteer for community service not only because we believe it allows them to make a noticeable and measurable impact, but also because as a public institution, we are mindful of our civic duties towards the community that we serve. Volunteering also enables our people to feel connected to our organisation-wide mission, resulting in a stronger sense of unity within the SC.

Giving back to our community

This year, Treasure Trove, the SC's very own charity shop managed by a group of volunteers among our employees, successfully organised the annual Bazaar to raise funds for Majlis Kanser Nasional (MAKNA). Since its inception in 2011, close to RM60,000 has been raised and given to various charities.

As in previous years, we continued to participate in the Bursa Bull Charge, Bursa Malaysia's initiative in helping the community.

Reuben Varughese Philip

My SC experience can be summed up quite simply as exciting, enriching and interestingly challenging. Currently, one of my roles requires me to implement career development initiatives for the SC's employees. As one of Malaysia's employer of choice, the SC is extremely supportive of its people's development. I have personally benefited from this, having completed a master's degree in Management Psychology, participated in a six-month certification programme by the Australian Human Resources Institute, and selected to undergo a leadership development programme at the Indian Institute of Management in New Delhi. At the SC, the opportunities for growth are plentiful. You just need to continuously challenge yourself to be the best you can be!

The SC also continued to extend bursary awards to financially deserving students pursuing tertiary education at top local institutions. A total of 87 students have benefited from this scheme since 2011.

Minimising impact on the environment

We continued our efforts towards achieving a greener workplace by being energy and resource efficient as much as possible. We are mindful that adopting sustainable consumption practices not only improves the health and well-being of the work environment but also reduces our operating costs.

The SC's average electricity consumption in 2016 is well within the threshold for low energy buildings as stated in the *Code of Practice for Energy Efficiency and Use of Renewable Energy for Nonresidential Buildings* (Malaysian Standard MS 1525:2001). As such, we are still considered as being energy efficient.

In addition, the SC's water consumption has marginally reduced in 2016 despite the warmer climate and lesser rainfall experienced.

As a responsible corporate citizen, we are committed to minimising the impact of our operations on the environment and continually remind our employees on the responsible use of resources.

PART 4

CAPITAL MARKETS REVIEW AND OUTLOOK

INTRODUCTION

Capital markets globally experienced fluctuations in risk-on risk-off mode in 2016, driven by several global macro factors, including economic, monetary and geopolitical developments. Emerging market stocks outperformed developed market peers due to improving fundamentals and higher yields. Expectations of economic reflation in select advanced markets and a stronger US dollar led to renewal of investor interest in developed market stocks in the second half of the year. Global bonds saw a divergence in yield between developed and emerging markets in the first half of 2016, but experienced a general sell-down across markets towards the end of the year over increased prospects of higher bond yields in the US.

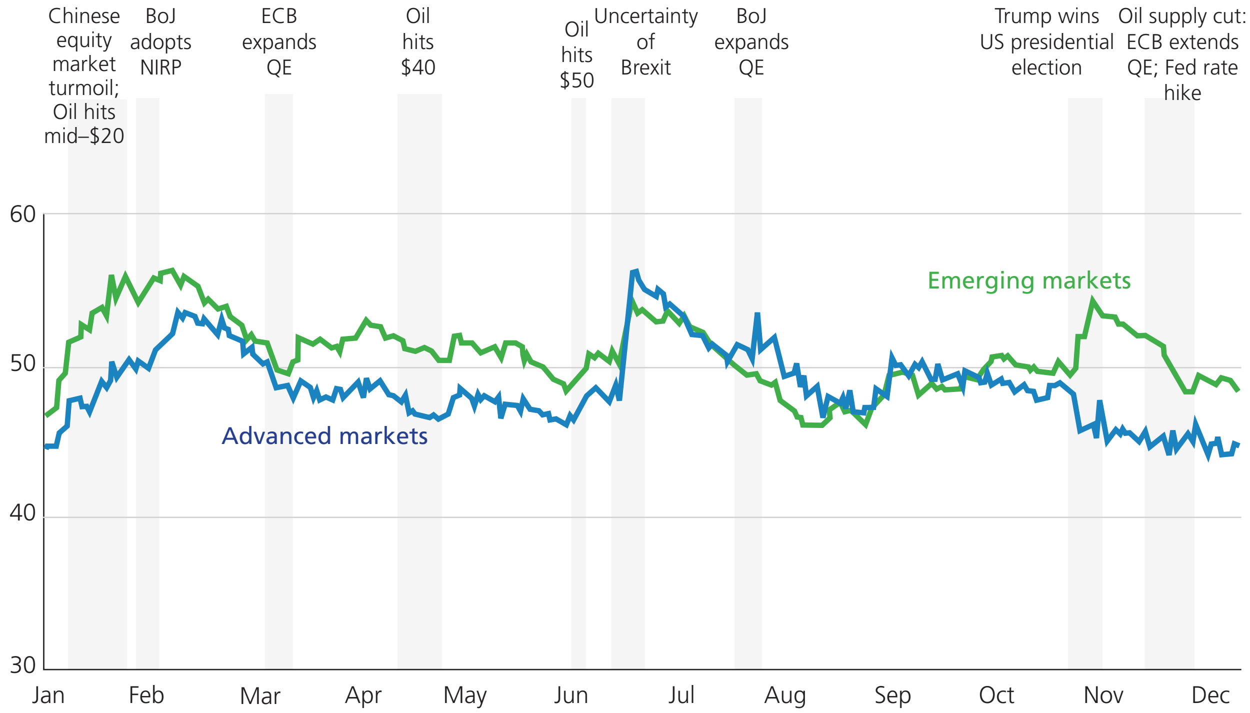
Amid prevailing uncertainties and cautious investor sentiment, the Malaysian capital market continued to grow and play a role in financing the domestic economy. Despite subdued global fundraising, the Malaysian capital market saw total fundraising of RM98.5 billion. The Malaysian stock market ended the year with market capitalisation of RM1.67 trillion, while the bond market grew 4.5% to close at RM1.17 trillion at the end 2016. The fund management industry also maintain its upward growth trajectory, expanding to RM696.3 billion. Sufficient domestic liquidity allowed for orderly market and price adjustments during the year.

MARKET ENVIRONMENT IN 2016

The year 2016 began with subdued growth expectations, with downward revision of global growth from 3.4% to 3.2% by the IMF in January. Emerging economies in particular faced challenges due to low commodity prices, weak global demand and headwinds from the economic rebalancing in China. As the year progressed, economic fundamentals of emerging economies generally improved, with stabilising commodity prices and tapering of downside risks emanating from China.

Against a backdrop of subdued growth outlook and low inflation, several major and regional central banks increased the degree of monetary easing. Following the lead of select central banks in Europe, the Bank of Japan (BOJ) adopted a negative interest rate policy early in the year. This was followed by expanded stimulus measures by the European Central Bank (ECB) and BOJ to deter deflationary pressures. The Bank of England (BoE) also cut interest rates to a record low of 0.25% and delivered a substantial stimulus package to cushion possible

Chart 1
Capital market conditions (min=0, max=100)



Source: SC using Thomson Reuters Datastream

Note:
Capital market conditions (for emerging markets) measured by average of financial sector beta, stock index volatility, negative stock index returns and international bond yield spread against US treasuries; and (for advanced economies) by financial sector beta, TED spread, slope of benchmark yield curve, AAA corporate bond spread against risk free rate, (negative) stock index returns and stock index volatility. Higher index indicates more stress in capital markets.

economic shocks as a result of Britain's vote to leave the European Union (EU). In contrast, the US Fed raised interest rates in December, following almost a year of uncertainties over the number and timing of rate hikes. The various stimulus packages in Europe and Japan eased monetary and financial conditions, which in turn increased investor risk appetite.

The year witnessed several political events in advanced economies playing a role in the movement of capital markets globally. Key among these were the UK national referendum to leave the EU and the US presidential election. The UK referendum resulted in a surprising "leave" outcome which saw substantial reassessments of growth prospects and asset prices in both the UK and EU. This resulted in immediate volatility in financial markets coupled with risk-off sentiment, which reversed quickly as central banks provided liquidity assurance. The unexpected outcome of the US presidential election also saw markets globally enter a period of high volatility over uncertainties on future US economic policies and their impact on global trade. Investors however turned bullish promptly over the prospect of US economic reflation which saw a rebalancing of portfolios towards US-based assets and appreciation of the US dollar.

In tandem with economic and political developments, oil prices also affected investor sentiment in 2016, particularly in regards to oil-exporting economies. Amid optimism on a possible agreement on production targets, oil prices hovered around US$40 per barrel for most of the year. An agreement was reached in December between OPEC and non-OPEC countries to cut production, which saw oil prices close the year above US$55 per barrel. Generally, stabilising commodity prices improved prospects for commodity-exporting emerging markets.

Over the course of 2016, growing macroeconomic and policy divergence across countries increased dispersion between markets globally, resulting in markets being seen as individual units with risks and merits of their own. Improving economic conditions and expectations for higher rates in the US further amplified fundamental differences between healthy and vulnerable economies across the world.

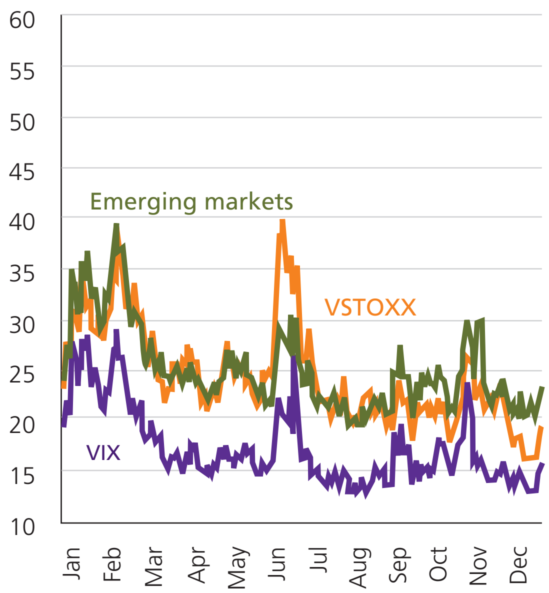
GLOBAL CAPITAL MARKET SENTIMENT

The overall investment climate for 2016 witnessed episodes of event-driven volatility spikes in capital markets globally throughout the year (Chart 2).

Volatility levels rose during the start of the year amid uncertainties over China's economy and equity markets. Chinese equities grabbed headlines when both Shanghai Composite Index and Shenzen Composite Index triggered the new circuit breaker rule on 4 January 2016[1] following release of weaker PMI data in China. Investor sentiment was further influenced by devaluation of the Chinese Yuan[2], which renewed concerns of a more pronounced slowdown in China than initially expected. In addition, oil prices fell below US$30 per barrel for the first time in 12 years. Against these factors, increased deflationary pressures saw a short-term shift in investor sentiment towards safe-haven buying which resulted in sharp movements in the bond market. This trend reversed as central banks in advanced economies intensified accommodative monetary policies which saw improved investor sentiment towards perceived riskier assets.

1 Shanghai Composite Index and Shenzen Composite Index slumped 6.9% and 8.1% respectively.
2 The People's Bank of China (PBOC) set the onshore yuan midpoint rate at 6.5314 per dollar on 7 January 2016, the weakest fixing since 2011.

Chart 2
Investor risk aversion



Source: SC using Thomson Reuters Datastream

Note:
Volatility in equity market is measured by VIX volatility index (US), VSTOXX volatility index (Europe) and CBOE EM Volatility Index (Emerging Markets). Volatility in bond market is measured by Merrill Lynch Option Volatility Estimate (US).

Towards the end of second quarter of 2016, Britain's surprise vote to leave the EU led to heightened risk aversion and wider sell-offs in capital markets globally. During the period, the VIX and VSTOXX volatility indices peaked to 25.8 and almost 40.0 relative to their averages of 15.9 and 23.6 respectively for 2016. Volatility levels fell as investors looked past potential adverse impacts of Brexit over expectations of fiscal and monetary policy expansion.

The last quarter of the year saw volatility once again rising in the period leading up to the US Presidential election as uncertainties loomed over US trade and economic policies. The flight-to-safety response in November was quickly tempered in view of potential fiscal stimulus from the US. Volatility levels fluctuated marginally in early December as investors positioned themselves for the imminent US Fed's interest rate hike.

The year ended with risk aversion rising marginally as investors braced for more uncertainties in 2017, including fiscal and monetary policy developments in advanced markets.

GLOBAL STOCK MARKET

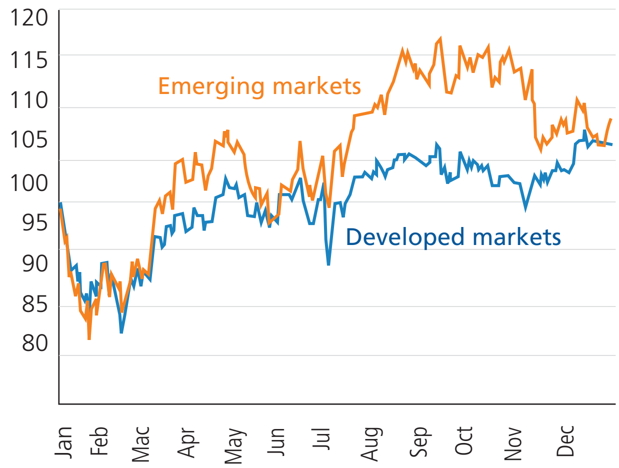
In 2016, stock markets globally opened on a note of heightened caution amid turmoil in the Chinese stock market and weak oil prices. Markets subsequently improved towards the end of the first quarter, with investors exhibiting preference for emerging market stocks against a low interest rate environment. Britain's referendum saw emerging and developed stock markets decline briefly, before rebounding quickly over expectations of an environment of accommodative monetary policy.

Stock markets globally exhibited a general uptrend in the first half of the year. Emerging market stocks outperformed developed market peers in the third quarter as improving fundamentals and higher yields led to portfolio inflows into emerging markets.

In late 2016, expectations of US economic reflation and a stronger US dollar led to a renewal of investor interest in developed market stocks. The US stock market in particular trended positively in the second half of 2016 with improving earnings growth and overall strong performance of key counters. Strong economic activity in advanced economies contributed to further improvement in the performance of developed markets, particularly at year end. Following a year of generally positive performance, emerging markets experienced portfolio outflows towards the end of the year as concerns over the future prospects of emerging economies increased simultaneously with expectations of higher rates in the US. Emerging market performance improved and closed on a positive note, supported by positive sentiments on stabilising commodity prices.

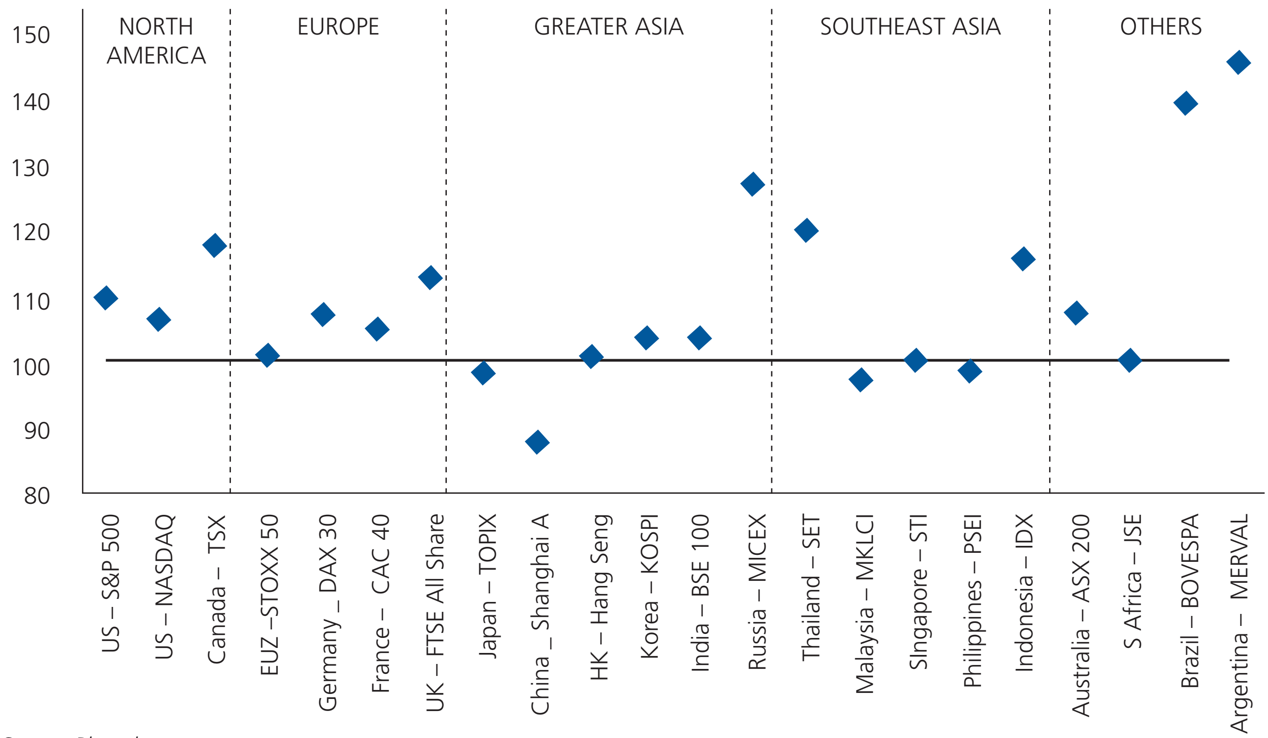
At year end, the MSCI World and MSCI Emerging Markets indices closed 5.3% and 8.6% higher respectively (Chart 3).

Chart 3
MSCI Indices (1 Jan 2016 = 100)



Source: Thomson Reuters Datastream

Chart 4
Stock market performance in 2016 (31 Dec 2015 = 100)

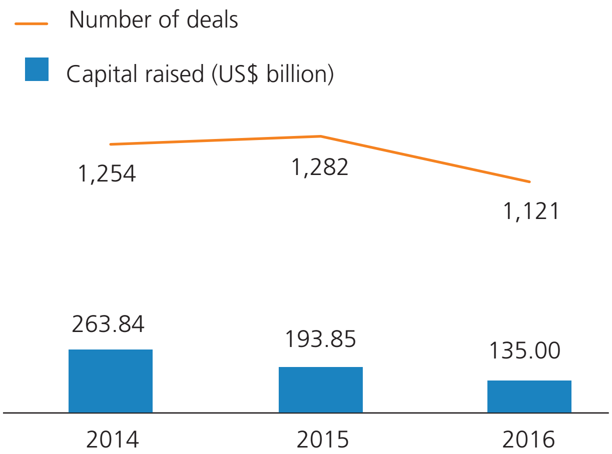


Source: Bloomberg

Among developed markets, the S&P500 rose 9.5% as investor appetite was buoyed by prospects of an infrastructure programme, tax cuts and liberalisation of certain Wall Street regulations under a new administration in the US. In line with projections of a future positive trajectory of Europe's economic recovery, the performance of the main bourses broadly remained in positive territory – Germany's DAX and France's CAC 40 rose by 6.9% and 4.9%, while UK's FTSE All Share increased by 12.5%. Japan's Topix declined 1.9% as monetary easing measures were observed by analysts to have fallen short of market expectations.

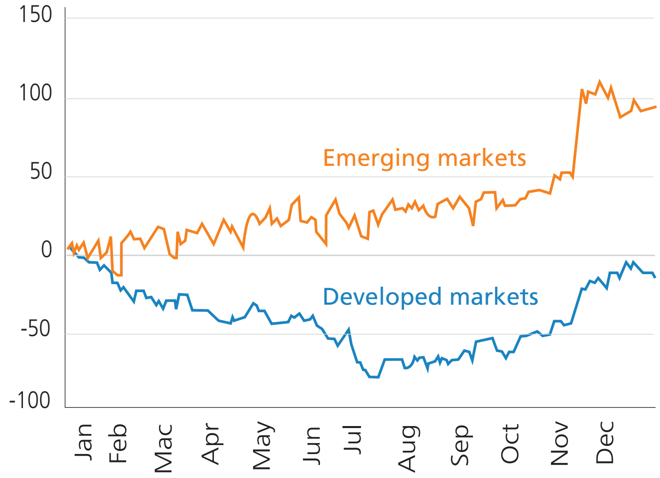
Among emerging markets, the Argentinian Merval and the Brazilian BOVESPA indices performed strongly, closing 44.9% and 38.9% higher respectively. Contrastingly, China's Shanghai A Shares Index was one of the worst performing, closing at -12.3%. Emerging market indices closed with mixed performance in view of more idiosyncratic developments among individual emerging economies resulting from varying macroeconomic conditions and geopolitical risks, even among those from the same region.

Chart 5
Global IPOs (US$ billion and number of deals)



Source: Dealogic

Chart 6
Government bond yields (1 Jan 2016 = 100)



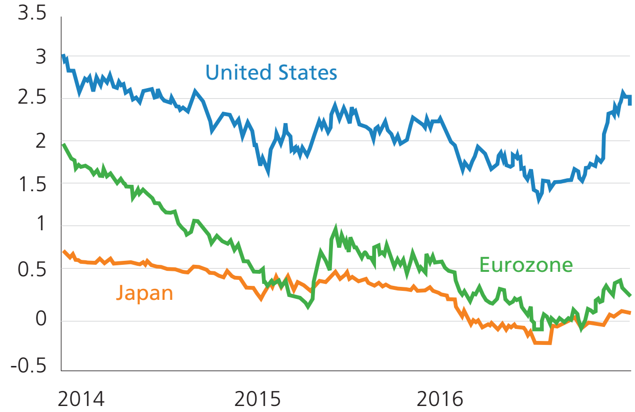
Source: Thomson Reuters Datastream

As a result of cautious investor sentiment, initial public offering (IPO) deals fell globally in 2016. Global IPOs declined 30.4% in value of capital raised while the number of IPO deals decreased by 12.6% to 1,121 in 2016 (Chart 5).

GLOBAL BOND MARKET

Global bonds saw a divergence in yield movements between developed and emerging markets in the first half of 2016 (Chart 6). Developed market bonds exhibited a downtrend in yields as a result of monetary easing measures, with the notable policy of negative interest rates in Eurozone and Japan (Chart 7). In contrast, emerging market bonds saw a gradual sell-down over the year in view of uncertainties surrounding the US Fed rate hike.

Chart 7
10-year developed economies government bond yields (percentage)

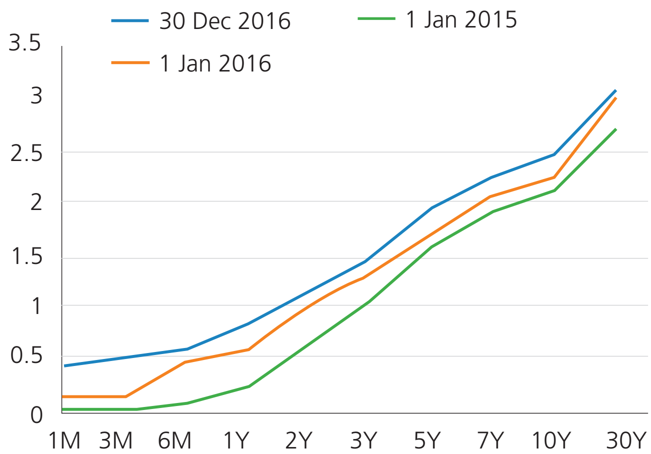


Source: Thomson Reuters Datastream

Towards the end of the year, both developed and emerging market bonds experienced a sell-down over increased prospects of a stronger US dollar and higher bond yields in the US.

The upward movement in the US treasury yield curve was fairly modest as investors discerned clearer indications of an imminent rate hike in December from the US Fed's forward guidance in the last quarter and adjusted investment positions prior to the official announcement of higher interest rates (Chart 8).

Chart 8
US Treasury yield curve (percentage)



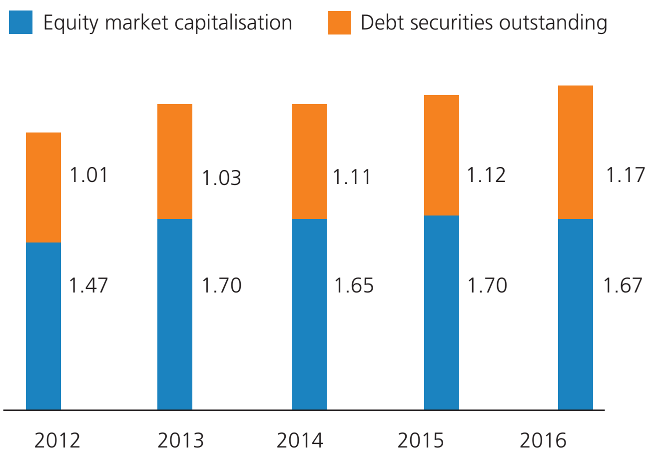
Source: US Treasury

MALAYSIAN CAPITAL MARKET

Amid prevailing uncertainties and cautious investor sentiment, the Malaysian capital market continued to grow and play a role in financing the domestic economy. The overall size of the capital market grew to RM2.84 trillion at end 2016 (Chart 9).

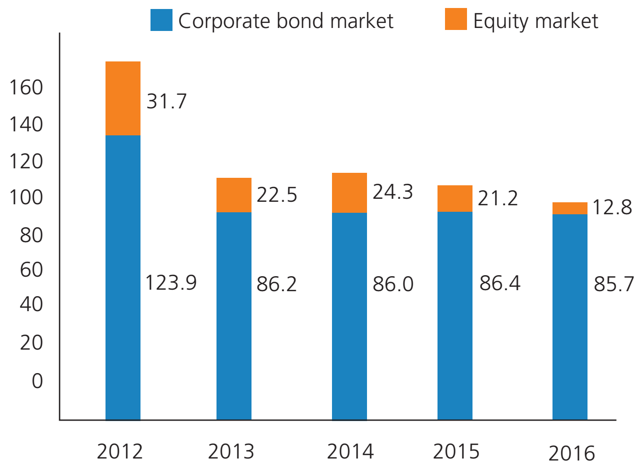
Despite subdued global fundraising, the Malaysian capital market saw total fundraising of RM98.5 billion (Chart 10). Primary market issuances amounted to RM86.7 billion. A total of RM85.7 billion was raised in the corporate bond and sukuk market, while approximately RM1.0 billion was raised via new equity listings with 11 IPOs and 1 reverse takeover. There were 7 companies which sought listing on the Main Market, with the remaining on the ACE market. In addition, RM11.8 billion of equity fundraising was raised via the secondary market.

Chart 9
Malaysian capital market (RM trillion)



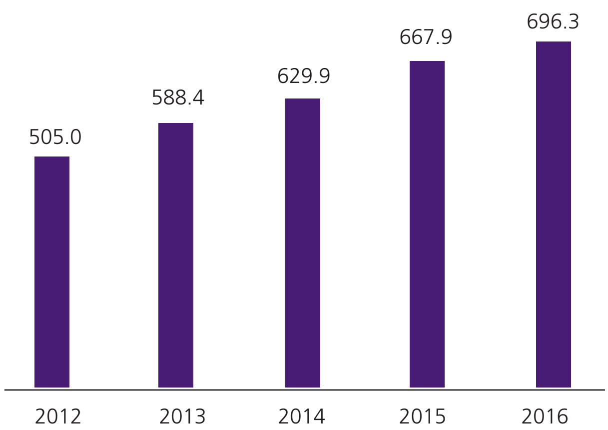
Source: SC, BNM

Chart 10
Total funds raised via capital market (RM billion)



Source: SC, Bursa Malaysia, BNM

Chart 11
Asset under management (RM billion)



Source: SC

The fund management industry maintained its upward growth trajectory in 2016. Total asset under management (AUM) increased by 4.3% from RM667.9 billion in December 2015 to RM696.3 billion as at end December 2016 (Chart 11). This growth in the fund management industry was supported by, among others, an expansion of the unit trust industry.

Domestic capital market performance in 2016 was driven by cautious investor sentiment, influenced by a variety of domestic and external factors. Trends of outflow and negative performance, followed by inflows and improving market performance were observed for the most part. Expectations of fiscal stimulus and tighter monetary policy in the US towards the end of the year however saw a sell-down of assets across emerging markets, with sharp declines in bond and currency markets. In Malaysia, the interplay between currency as well as equity and bond markets saw portfolio outflows alongside ringgit depreciation. Signs of stabilisation were observed at year end with policy actions and improving commodity prices.

MALAYSIAN STOCK MARKET

The Malaysian stock market ended the year with market capitalisation of RM1.67 trillion.
Against a backdrop of global uncertainties, the domestic stock market opened under selling pressure, in line with other major markets. Subsequent monetary easing measures and improving oil prices saw investor sentiments improve, resulting in the FBMKLCI rising above the 1,700 points threshold by end of the first quarter. The upward trajectory of the FBMKLCI was reversed in the second quarter, alongside depreciation of the ringgit beyond the RM4 per US dollar psychological

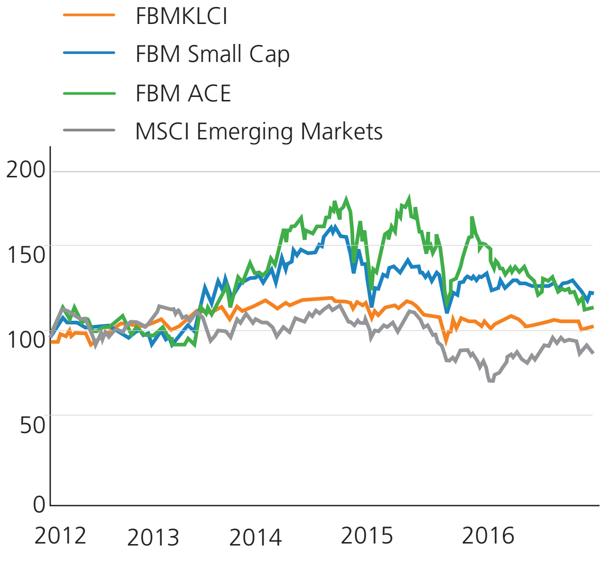
level in April and reduction of Malaysia's country weight in a rebalanced MSCI Emerging Market index in May. Notwithstanding the cautious investing climate immediately post-Brexit, the FBMKLCI recovered on news of accommodative domestic monetary policy and rating affirmation from Fitch at the start of the second half of 2016. This was further supported by risk-on sentiment globally.

The FBMKLCI however fell as expectations increased over a possible September Fed rate hike, while a shift in investor preference for US-based assets in the last quarter saw a general sell-down of emerging market stocks including Malaysia. Following a year of event-driven fluctuations in sentiments, the FBMKLCI declined 3.0% to close at 1641.73 on the last day of trading. The Small Cap and ACE Market indices ended the year lower by 7.7% and 25.2% respectively on profit taking. In the medium term, performance of the FBMKLCI, Small Cap and ACE Market indices remain positive with 5-year growth of 7.3%, 26.1% and 17.5% respectively, exhibiting resilience of the market (Chart 12).

The aforementioned event-driven fluctuations resulted in shifts in foreign investing positions throughout the year. From a peak of +RM6.4 billion in April, foreign investors swapped to a more conservative investing position and registered net outflow at the end of the year amounting to RM3.2 billion (Chart 13). It is noteworthy that foreign portfolio outflow in 2016 moderated relative to the amount of RM19.7 billion in 2015. Institutional investors cushioned foreign equity outflows with net buying of RM3.1 billion for the year, with the remaining taken up by retail investors. Sufficient domestic liquidity allowed for orderly market adjustments.

Chart 12

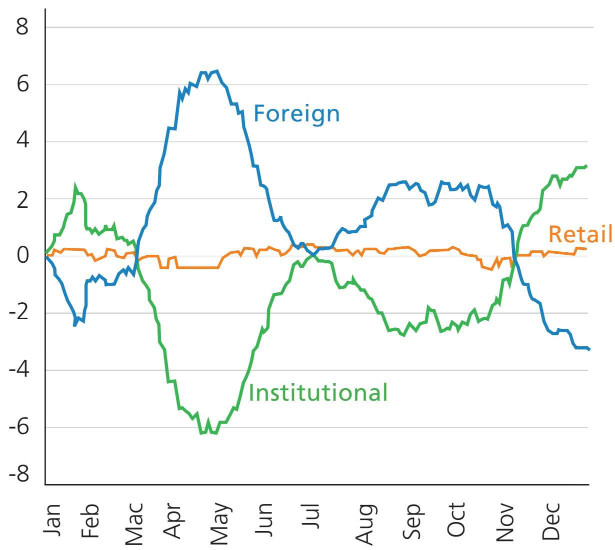
Performance of FBMKLCI, Small Cap and ACE Market Indices (1 Jan 2012 = 100)



Source: SC

Chart 13

Net cumulative equity market participation (RM billion)



Source: Bursa Malaysia

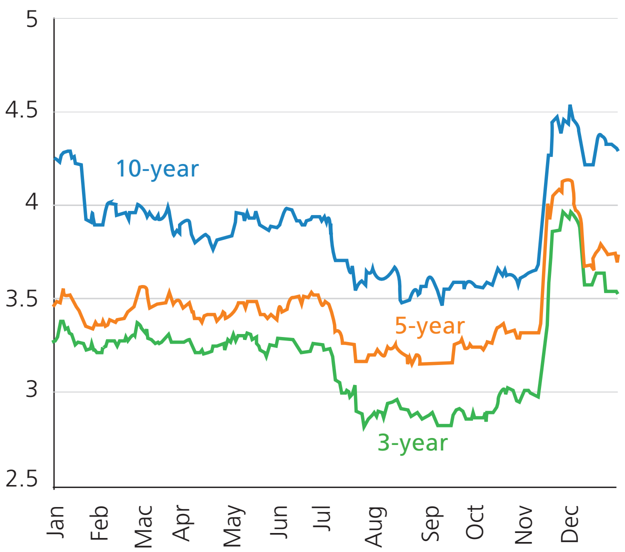
MALAYSIAN BOND MARKET

The Malaysian bond market grew 4.5% from RM1.12 trillion in 2015 to close at RM1.17 trillion at end 2016. Malaysia continued to maintain its position as the third largest local currency bond market as a percentage of GDP in Asia, after Japan and South Korea.

The bond market opened on a positive note, as Bank Negara Malaysia's (BNM) cut in the statutory reserve requirement saw bond yields fall, particularly the 10-year Malaysian Government Securities (MGS). Amid lower expectations of a US Fed rate hike and an unexpected policy rate cut by BNM at the start of the third quarter, the bond market saw increased buying interest and a fall in yields across all tenors. However, this downward trend in yields was reversed amid a global bond sell-off in November over expectations of reflation of the US economy and the subsequent Fed rate hike at year end (Chart 14). A notable differentiation of investors' preference for yields on shorter papers was observed while the impact of tighter US monetary policy was priced into MGS instruments with longer maturities (Chart 15).

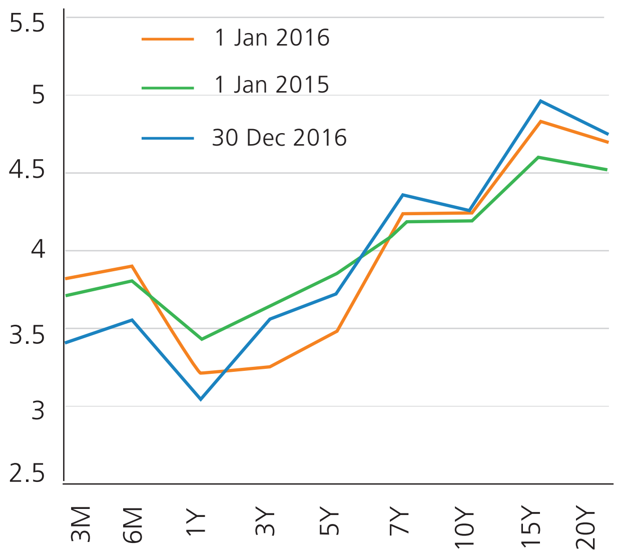
Against a stronger US dollar and higher US treasury rates, foreign holdings in domestic bonds eased in line with regional peers in the fourth quarter. Foreign outflows were however relatively well absorbed by strong domestic liquidity. Notwithstanding the

Chart 14
MGS benchmark yields (percentage)



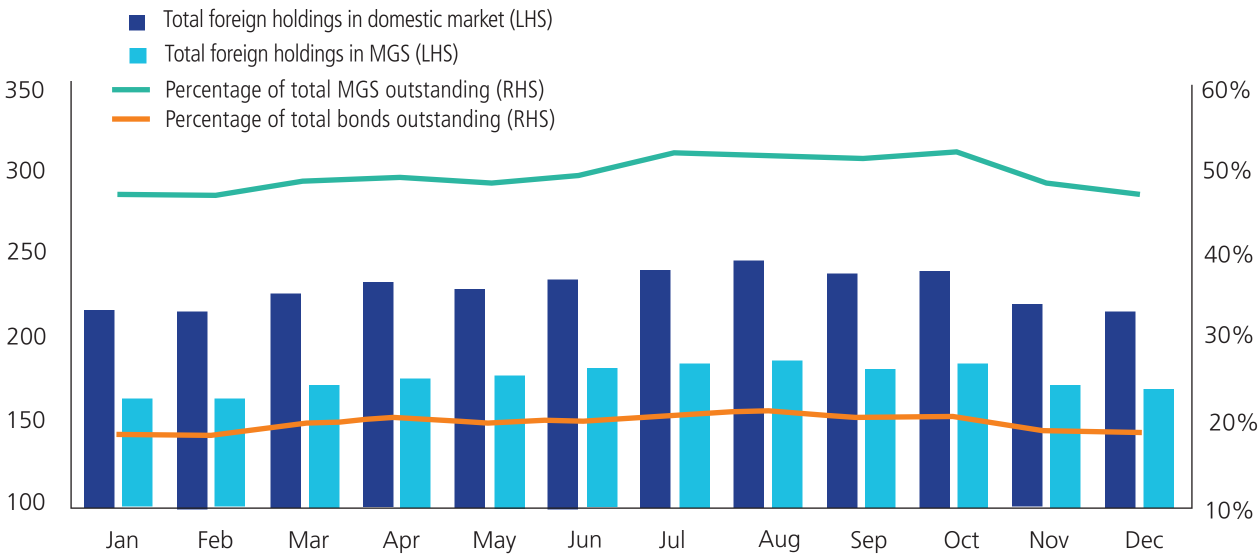
Source: Thomson Reuters Datastream

Chart 15
MGS benchmark yield curve (percentage)



Source: Thomson Reuters Datastream

Chart 16
Foreign holding in ringgit bonds (RM billion)

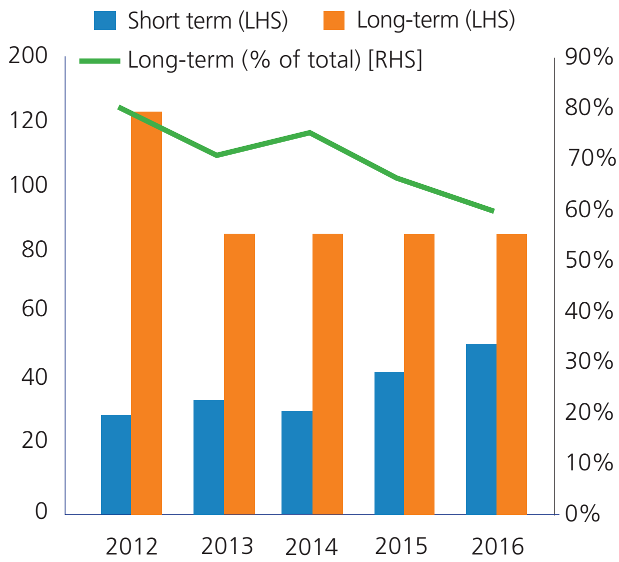


Source: BNM

sell-down towards the end of the year, total foreign ownership of domestic bonds increased by 0.4% to RM215.6 billion in December 2016 from RM214.8 billion in 2015 (Chart 16). Foreign ownership accounted for 18.4% of total bonds outstanding. Foreign holdings in MGS remained fairly stable, representing 47.1% of total MGS outstanding as at end December 2016, reflecting investors' long-term positive outlook on Malaysia.

In line with the wider bond market, foreign ownership in corporate bonds increased for most of 2016 before a slight reversal at year end. Foreign ownership of corporate bonds remained mostly concentrated on AAA papers ranging from mid to long-term tenures. The maturity profile of local corporate bond issuances shortened for the year due to higher demand for more liquid papers in the face of uncertain market conditions (Chart 17).

Chart 17
PDS issuance by maturity (RM billion)



Source: SC

2017 OUTLOOK

Investor sentiment globally is expected to be influenced by several key events in 2017. A potential shift in US towards expansionary fiscal policy, continued Fed interest rate normalisation, Brexit negotiations, several major general elections in Europe with rising "Euro-sceptic" sentiment and Chinese government leadership transition will be closely watched by markets. In addition to developments in US and Europe, there are also signs that the crude oil market could rebalance as OPEC and non-OPEC nations have agreed to production cuts.

Fiscal policy in the US and UK is expected to turn expansionary which in turn could mean higher inflation for the global economy in 2017. Prospects of tax cuts and infrastructure spending to boost productivity has lifted long-term inflation expectations, causing the US Treasury yield curve to steepen and US equities to perform strongly[3]. However, a sustained bull run in US equities hinges on effective delivery of promised fiscal stimulus. The US Fed also surprised the market by signalling a faster than anticipated trajectory for rate hikes in 2017 after raising rates for the second time since the Global Financial Crisis in December 2016. The actual pace and timing of subsequent US Fed rate increases will as such pose uncertainty for financial markets globally.

Meanwhile, the UK government has also pledged to increase infrastructure spending up to 2022. UK inflation is expected to be higher in 2017, compounded by the weaker pound, resulting in higher prices for imported goods. Global investors though will be more attuned to political developments in Europe starting with Brexit negotiations. The negotiations are likely to take place over two years but early indication of a hard Brexit stance could exacerbate volatility in the global market. Investors will also pay close attention to general elections in Netherlands, France, Germany and Hungary in 2017 as rising populism could threaten the future of the Eurozone.

Overall outlook for the global economy is more positive for 2017. Improving PMI in the US, Euro area and China, reflective of expanding global manufacturing, bodes well for global economic output. Furthermore, the expansionary fiscal stance by the US government should provide a timely boost to productivity, setting the tone for higher GDP growth in the US beyond 2017. Led by India, analysts' expect emerging economies to continue driving global growth in 2017. The Indian economy is on a steady growth path due to structural reforms by the government which has reduced red tape and boosted potential economic growth. Russia and Brazil are meanwhile on an improving trajectory and forecasted to return to positive economic growth in 2017. Intra emerging market trade has also grown in importance, further improving the outlook for emerging economies.

Nevertheless, downside risks remain to the global economy. China's growth has shown signs of stability and remains at a strong level relative to many other large economies, but could taper further as efforts

3 The Dow Jones Industrial Average index reached a record high of 19,982 on 20 December 2016.

continue to set the country on a more sustainable growth path. Furthermore, policymakers' priorities are expected to centre on ensuring a smooth government leadership transition over perceived risky economic reforms.

The outlook for the crude oil market remains bright in the first half of 2017, as demand will likely continue to rise, while production will be curbed after OPEC and non-OPEC nations agreed to cut production from January. However, long-term uncertainty in the world energy market persists as the production cuts measure was only agreed for a short-term period of six months with a review in May 2017. Palm oil prices meanwhile have been on an increasing trend since early 2016 and are forecasted to continue on this trajectory in 2017. Healthy supply outlook from Malaysia and Indonesia is expected to be balanced by demand growth particularly from India.

The prospects for emerging market portfolio flows have improved from 2016, given stronger and more diversified economic growth and lower current account deficits. Valuations of emerging market assets are also considered attractive with improving earnings growth trends. In particular, the MSCI Emerging Market Index is observed to be trading at a discount to the MSCI World Index. Nevertheless, hawkish policy by the US Fed and global political uncertainty could provide volatility to emerging market portfolio flows in 2017. The US tightening cycle will likely be countered by continuation of quantitative easing programmes by the European Central Bank and BOJ which might mitigate the levels of capital outflows from emerging market economies. In general, sentiment towards emerging markets is expected to be positive with a rebound in economic activity and potential returns.

Despite the challenging global macroeconomic environment, the Malaysian economy is expected to remain on a steady growth path based on Government GDP forecast between 4.0%–5.0% in 2017, higher than the global average of 2.8% projected by the World Bank[4]. Growth is expected to be supported by sustained private domestic demand, and exports supported by a turnaround in commodity prices. Furthermore, the government's strong commitment to enhance revenue, curb expenditure and trim the fiscal deficit augurs well for the country's economic fundamentals in the long run which will further boost investor sentiment. With the OPR cut in July 2016, financial conditions remain accommodative to support growth and ensure sufficient liquidity.

The domestic capital market will continue to play a major role in supporting economic growth through financing of business expansion and infrastructure development. In 2016, a total of RM98.5 billion was raised through the capital market. Based on our current assessments, it is estimated that total capital raising through primary and secondary markets is expected to improve to around RM102 billion–RM105 billion in 2017.

Domestic fundraising is expected to be mainly driven by capital raising in the corporate bond and sukuk market for infrastructure financing as well as refinancing of bonds and sukuk. Fundraising through the corporate bond and sukuk market in 2017 is expected to approximate the sum raised in 2016, and amount to about RM85 billion. Equity fundraising is expected to be higher in 2017, and it is expected that approximately RM7 billion–RM9 billion will be raised via IPOs while RM10 billion–RM11 billion will be raised through the secondary market.

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[4] World Bank forecast as at 7 June 2016.

The overall outlook for the Malaysian capital market is positive, with higher levels of growth expected across key market segments. This is underpinned by higher levels of corporate activity within a backdrop of sound economic fundamentals in place to support a consistent growth outlook.

Against prevailing global uncertainties, the low beta nature of the equity market coupled with better dividend yields relative to regional peers represents an attractive portfolio diversification opportunity. In addition, over the course of 2016, valuation of the FBMKLCI has reverted to its long-term mean (Chart 18). Earnings growth is meanwhile expected to regain a positive momentum in 2017, in line with the roll-out of more infrastructure projects, better economic fundamentals such as an improving fiscal deficit and current account surplus as well as improving liquefied natural gas prices in tandem with higher crude oil prices. In particular, market consensus is positive for the oil and gas, plantation as well as construction sectors. Foreign shareholding in the equity market is at present in line with its long-term averages, with expectations of some inflows, assuming clarity in the global policy environment and an improvement in emerging market interest on the part of global investors.

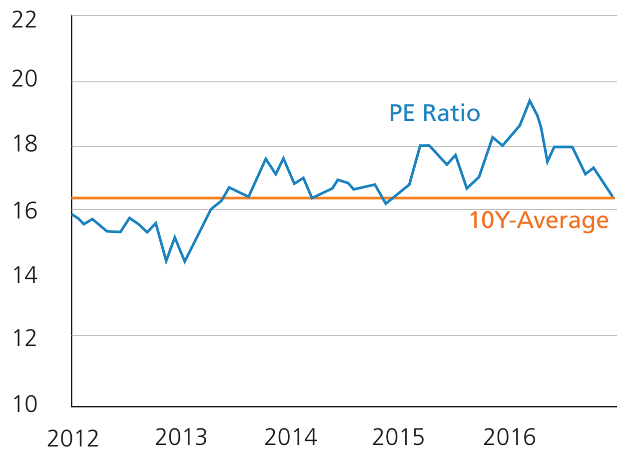
The current level of the ringgit, widely perceived to be undervalued, also presents an opportune time for foreign investment in the domestic equity market.

The bond market on the other hand may see some fund outflows in line with the overall performance of global emerging market bonds given external factors but it should be mitigated by sound domestic economic fundamentals and domestic liquidity. Despite having relatively high levels of foreign ownership, the profile of a majority of investors in the bond market suggest holdings are by long-term investors and thus should provide stability to foreign ownership levels.

The capital market is expected to be on a positive growth trajectory despite, like all emerging markets, being affected by periodic episodes of volatility emanating from external factors. The capital market will continue to remain resilient with strong fundamentals in place and significant pools of domestic institutional liquidity. Underpinned by a robust regulatory architecture and strong market infrastructure, the Malaysian capital market will provide long-term value and growth potential for all participants.

Chart 18

FBMKLCI price to earnings (ratio)



Source: Bloomberg

PART 5

STATEMENTS, STATISTICS AND ACTIVITIES

- Board Members
- Executive Team
- Organisation Structure
- Statement on Governance
- Audit Committee Report
- Financial Statements
- Corporate Proposals
- Investment Management
- Islamic Capital Market
- Venture Capital and Private Equity Industry
- Authorisation and Licensing
- Enforcement
- Investor Education Programmes
- Publications
- 2016 At a Glance
- Acronyms and Abbreviations

BOARD MEMBERS

Left to right: Tan Sri Dato' Hasmah Abdullah, Datuk Fazlur Rahman Ebrahim, Datuk Francis Tan Leh Kiah, Tan Sri Dato' Seri Ranjit Ajit Singh, Dato' Ahmad Fairuz Zainol Abidin, Tan Sri Dato' Seri Mohamed Jawhar Hassan, Dato' Dr Mohd Isa Hussain, Tan Sri Madinah Mohamad, Emeritus Professor Dato' Dr Hassan Said

TAN SRI DATO' SERI RANJIT AJIT SINGH
Appointed 1 April 2012

Tan Sri Dato' Seri Ranjit Ajit Singh is the Executive Chairman of the SC. He was previously Managing Director of the SC and has extensive experience in the field of finance and securities market regulation and has spearheaded many key initiatives in the development and reform of Malaysia's capital market.

Tan Sri Dato' Seri Ranjit was appointed the Vice-Chairman of the governing Board of the International Organization of Securities Commissions (IOSCO), the global body of capital market regulators and was elected as the Chairman of IOSCO's Growth and Emerging Markets Committee (GEM) which represents 94 countries. In 2014, Tan Sri Dato' Seri Ranjit was appointed Chairman of the ASEAN Capital Markets Forum (ACMF), a body tasked to spearhead market integration efforts within the region and comprises capital market authorities from ASEAN.

Tan Sri Dato' Seri Ranjit chairs the Securities Industry Development Corporation (SIDC), the Malaysian Venture Capital and Private Equity Development Council (MVCDC) and the Capital Market Development Fund (CMDF). He is also the Vice-Chairman of the Asian Institute of Finance and a member of the Board of the Labuan Financial Services Authority and the Financial Reporting Foundation as well as a board member of the Malaysian Institute of Integrity (IIM).

Tan Sri Dato' Seri Ranjit is trained as a financial economist and accountant. He holds a Bachelor of Economics (Honours) degree and a Master of Economics degree in Finance from Monash University, Melbourne. He was also conferred the degree of Doctor of Laws *honoris causa* by Monash University Melbourne. He is a fellow of CPA Australia and has worked in academia, consulting and accounting in Australia and Malaysia.

DATO' AHMAD FAIRUZ ZAINOL ABIDIN
Appointed 1 April 2016

Dato' Ahmad Fairuz Zainol Abidin started his career with the Malaysian Judicial and Legal Service as a Deputy Public Prosecutor. In 2008, he resigned from government service and joined the oil and gas sector as a Legal Advisor to ExxonMobil Exploration and Production Malaysia Inc (ExxonMobil). Upon the completion of the downstream business sale in Malaysia by ExxonMobil Corporation to Petron Corporation of the Philippines, Dato' Ahmad Fairuz then joined Petron Malaysia. In October 2012, he joined the SC as Executive Director of Enforcement.

He holds postgraduate qualifications namely Master of Criminal Justice from University of Malaya as well as Master of Prosecutions from University of Wollongong, Australia. Under the auspices of the UK Government, he is also a Chevening Fellow having attended a fellowship at the University of Birmingham, UK. Dato' Ahmad Fairuz is also an Advocate and Solicitor of the High Court of Malaya.

After obtaining his Bachelor of Laws with Honours degree from University of Wales College of Cardiff, UK, Dato' Ahmad Fairuz went on to qualify as a Barrister-at-law from Lincoln's Inn, London, UK.

DATUK FRANCIS TAN LEH KIAH
Appointed 18 May 1999

Datuk Francis Tan Leh Kiah is a consultant with Azman, Davidson & Co Advocates and Solicitors. He was the Managing Partner from 1986 to 2008. In addition to being an advocate and solicitor, he is a member of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) and the Chartered Tax Institute of Malaysia. He is also a solicitor of the Supreme Court of England and Wales.

DATUK FAZLUR RAHMAN EBRAHIM

Appointed 1 May 2006

Datuk Fazlur Rahman Ebrahim is currently the Corporate Advisor of Johor Corporation and sits on the Board of Pelaburan Hartanah Bhd, Permodalan Felcra Sdn Bhd, Credit Counselling and Debt Management Agency, Johawaki Holdings Sdn Bhd, DEMC Management Sdn Bhd, TLP Terminal Sdn Bhd, Aworldtec Engineering Sdn Bhd and Dana Amal Jariah.

He is also a member of the Shariah Council of BNP Paribas Malaysia Bhd, the Business Advisory Council of International Islamic University Malaysia, the Audit Committee of Razak School of Government, the Investment Committee of Lembaga Kemajuan Negeri Johor and the Investment Committee of Majlis Amanah Rakyat.

Datuk Fazlur holds a bachelor's degree in Business Administration from Ohio University, US and a master's degree in Business Administration (Finance) from Universiti Kebangsaan Malaysia.

TAN SRI DATO' SERI MOHAMED JAWHAR HASSAN

Appointed 15 May 2010

Tan Sri Dato' Seri Mohamed Jawhar Hassan was the Non-Executive Chairman of the New Straits Times Press (Malaysia) until August 2016. He was also previously the Chairman and Chief Executive of the Institute of Strategic and International Studies (ISIS) Malaysia.

He has served the Malaysian government in various senior leadership positions, Director-General, Department of National Unity; Under-Secretary, Ministry of Home Affairs; Director (Analysis) Research Division, Prime Minister's Department; and Principal Assistant Secretary, National Security Council. He also served as Counselor in the Malaysian Embassies in Indonesia and Thailand and was a member of the Advisory Board, Malaysian Anti-Corruption Commission.

He was also Co-chair, Network of East Asia Think-tanks (NEAT) 2005-2006 and Co-Chair, Council for Security Co-operation in the Asia Pacific (CSCAP) 2007-2009.

Tan Sri Jawhar is currently a Distinguished Fellow, Institute of Diplomacy and Foreign Relations; Distinguished Fellow, Malaysian Institute of Defence and Security; Fellow, Institute of Public Security of Malaysia, Ministry of Home Affairs; and Board Member, Institute of Advanced Islamic Studies, Malaysia. He is also Malaysia's Representative as Expert and Eminent Person to the ASEAN Regional Forum (ARF).

Tan Sri Hasmah is also on the Board of Trustees of the Malaysian Tax Research Foundation, the Board of Trustees of Dana Amal Jariah and a member of the Executive Council of the Selangor and Federal Territory Association for the Mentally Handicapped (SAMH). Tan Sri Hasmah graduated in 1973 with a bachelor's degree in Arts (Hons) from University of Malaya.

TAN SRI DATO' HASMAH ABDULLAH
Appointed 10 March 2011

Tan Sri Dato' Hasmah Abdullah was the former Director General and Chief Executive Officer of the Inland Revenue Board Malaysia (IRBM) and had served the agency for almost 38 years. After retirement, she joined PricewaterhouseCoopers Taxation Services Sdn Bhd as a Tax Advisor from 1 July 2011 until 30 September 2013. She is currently an independent and non-Executive Director of UMW Holdings Bhd since 1 September 2013 and Panasonic Manufacturing Malaysia Bhd from 1 October 2013.

TAN SRI DR MADINAH MOHAMAD
Appointed 15 February 2012

Tan Sri Dr Madinah Mohamad was the Secretary General, Ministry of Education Malaysia, a position she has held from June 2013 to September 2016. She was instrumental in leading policy formulation, guidance and implementation including the administration of the ministry pertaining to the education transformation agenda. Tan Sri Dr Madinah was also the Vice President of the Malaysian National Commission for UNESCO of which the Minister of Education is one of the Vice Presidents of the UNESCO Executive Board 2015-2019.

Tan Sri Dr Madinah has had vast working experience in various government agencies such as the Ministry of Foreign Affairs, Public Service Department, Ministry of National and Rural Development, Ministry of Works, and the National Unity and Integration Department of the Prime Minister's Department. She was also the former Secretary General, Ministry of Science, Technology and Innovation from April 2009 to June 2013.

Tan Sri Dr Madinah graduated with a bachelor's degree in Political Science from Universiti Sains Malaysia and a master's degree and a PhD in Human Resource Development from Universiti Putra Malaysia.

DATO' DR MOHD ISA HUSSAIN

Appointed 19 August 2015

Dato' Dr Mohd Isa Hussain currently serves as the Deputy Secretary General (Investment), Ministry of Finance. He was the Interim Head of the Public Land Transportation Commission (SPAD). Having been in the public services since 1983, Dato' Dr Mohd Isa started his career in the Prime Minister's Department as Assistant Director and was appointed as Assistant Director at the State Economic Planning Unit of Pahang in 1985. In Ministry of Finance, he has held various positions, including Assistant Secretary in the Government Procurement Division and Senior Assistant Director of the Budget Management Division. In 2004, he assumed the position of Deputy Undersecretary of Investment, MOF (Inc.) and Privatisation Division. Dato' Dr Mohd Isa was Deputy Secretary General (Operation), Ministry of Transport in 2008.

Dato' Dr Mohd Isa serves on the boards of Felcra Bhd, Permodalan Felcra Sdn Bhd, Felcra Properties, Felcra Cambodia, Lembaga Pembangunan Langkawi (LADA), Lembaga Pelaburan Kelang, Integrated Nautical Resort, Garuda Suci Sdn Bhd, Kuala Lumpur International Airport Bhd, Penang Port Holdings Bhd, Pelaburan Hartanah Bhd, Syarikat Jaminan Pembiayaan Perniagaan Bhd, Syarikat Jaminan Kredit Perumahan Bhd, Piramid Pertama Sdn Bhd, Danaharta Hartanah Sdn Bhd, Assets Global Network Sdn Bhd and EXIM Bank.

Dato' Dr Mohd Isa holds a PhD in Finance from Universiti Putra Malaysia and an MBA in Finance from University Kebangsaan Malaysia, Bachelor of Economics (Honours) (Applied Statistics) from University of Malaya and a Post-graduate Diploma in Public Management from National Institute of Public Administration.

EMERITUS PROFESSOR DATO' DR HASSAN SAID

Appointed 1 September 2016

Emeritus Professor Dato' Dr Hassan Said is currently the Vice-Chancellor of Universiti Teknologi MARA (UiTM). He is also Chairman of Kolej Universiti Islam Perlis and sits as a member of the Board of Directors of Asia e University (AeU) and Capital Market Development Fund (CMDF).

He has served in various capacities in the field of academia and education.

He was previously the Vice Chancellor and President of Taylor's University. Following his appointment as Director of the Department of Higher Education, Ministry of Education, a position he held since May 1998, he then became the Director General from January 2005 until April 2008.

He was a lecturer at the School of Mathematical Sciences, Universiti Sains Malaysia in 1984; and went on to become the Dean. Subsequently, in 1995, he was appointed as the Deputy Vice Chancellor (Academic), before being seconded to the Ministry of Education as the Director of the Department of Higher Education.

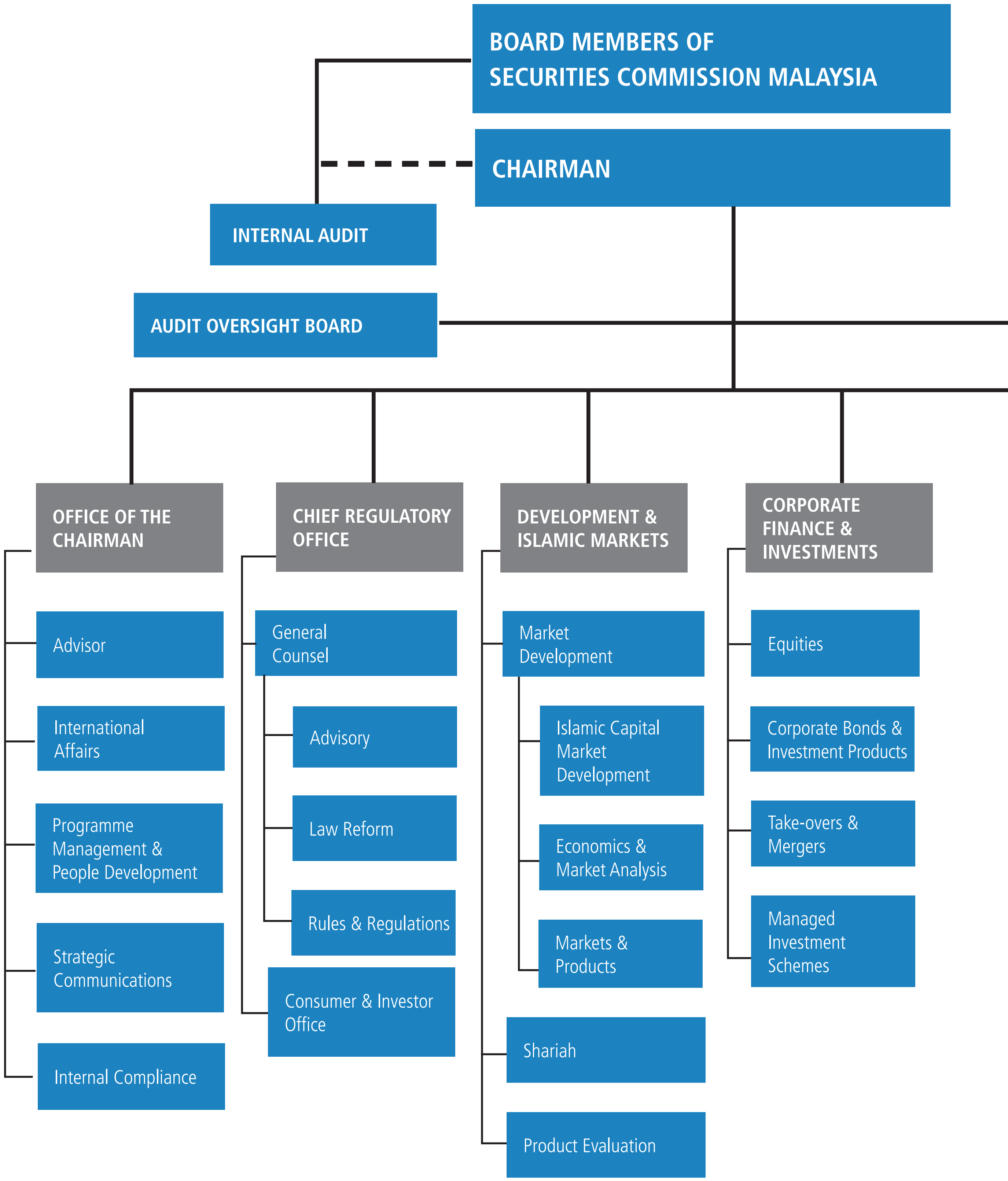
Dato' Dr Hassan has served as board member of various public and private universities, and council member of numerous local and international bodies.

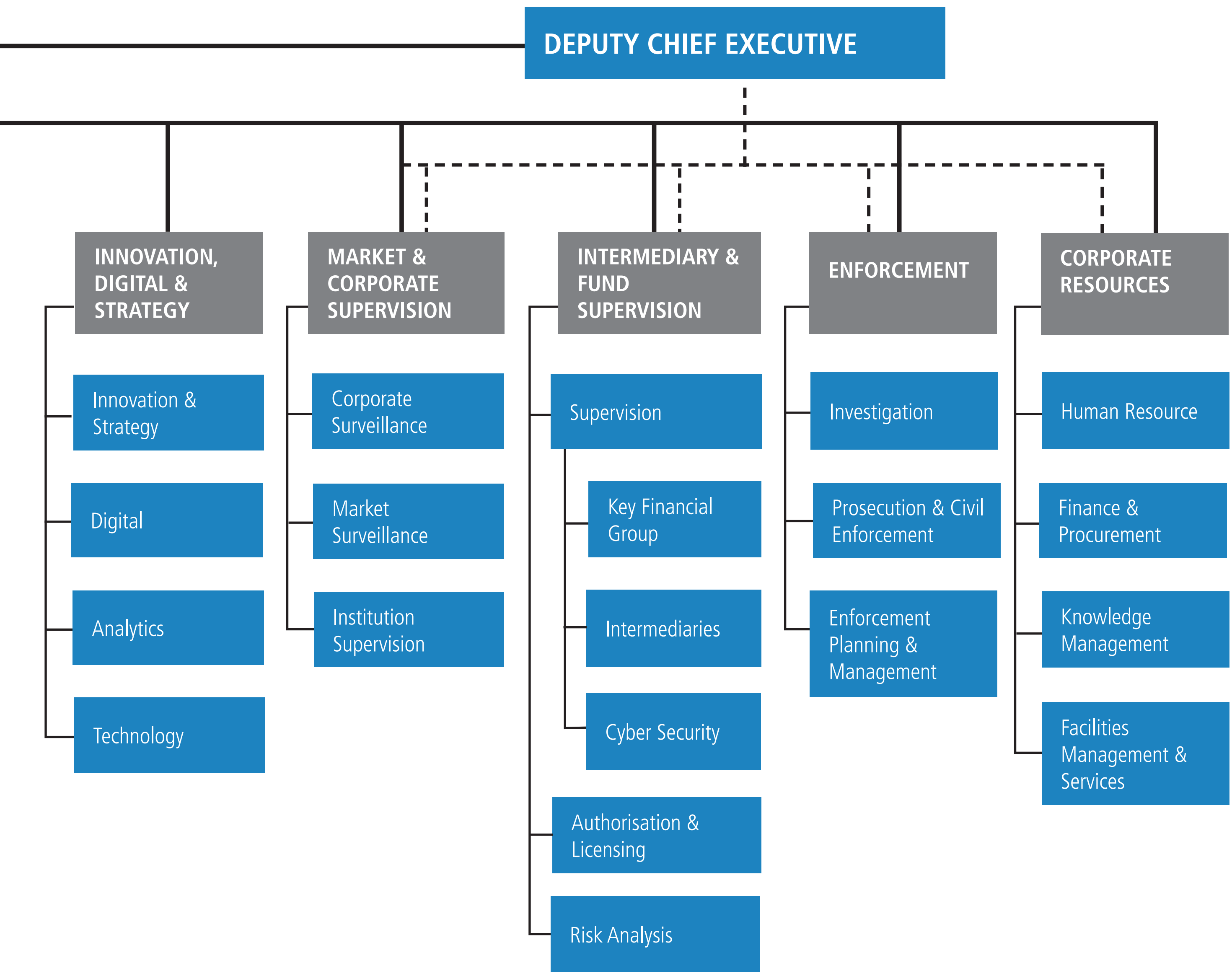
Dato' Dr Hassan is a fellow of the Malaysian Mathematical Society, fellow Institute of Mathematical and Its Applications, UK (FIMA) and fellow Academy Science of Malaysia (FASc). He obtained his Bachelor degree in Mathematics from the University of Manchester, UK, as well as Master of Science and PhD from Brunel University, UK, with a specialisation in Computer Aided Geometric Design.

EXECUTIVE TEAM

Left to right: Foo Lee Mei, Kamarudin Hashim, Eugene Wong Weng Soon;
Tan Sri Dato' Seri Ranjit Ajit Singh, Dato' Ahmad Fairuz Zainol Abidin,
Datin Teh Ija Mohd Jalil, Azman Hisham Che Doi, Chin Wei Min, Zainal Izlan Zainal Abidin

ORGANISATION STRUCTURE




DEPUTY CHIEF EXECUTIVE
INNOVATION, DIGITAL & STRATEGY
Innovation & Strategy
Digital
Analytics
Technology
MARKET & CORPORATE SUPERVISION
Corporate Surveillance
Market Surveillance
Institution Supervision
INTERMEDIARY & FUND SUPERVISION
Supervision
Key Financial Group
Intermediaries
Cyber Security
Authorisation & Licensing
Risk Analysis
ENFORCEMENT
Investigation
Prosecution & Civil Enforcement
Enforcement Planning & Management
CORPORATE RESOURCES
Human Resource
Finance & Procurement
Knowledge Management
Facilities Management & Services

STATEMENT ON GOVERNANCE

Securities Commission Malaysia (SC) is a statutory body established under the *Securities Commission Malaysia Act 1993* (SCMA) to regulate and develop the Malaysian capital market. SC's mission is to promote and maintain fair, efficient and transparent securities and derivatives markets and to facilitate the orderly development of an innovative and competitive capital market. It is committed to ensure investor protection, fair and orderly markets, and monitor, mitigate and manage systemic risks arising from the capital market. SC's responsibilities, powers and authorities are clearly defined and transparently set out in securities laws, namely SCMA, *Capital Markets and Services Act 2007* (CMSA) and *Securities Industry (Central Depositories) Act 1991* (SICDA).

ABOUT THE BOARD MEMBERS

The Board is responsible for the overall governance of the Commission. The Minister of Finance appoints Board members. The Board comprises a Chairman, a Deputy Chief Executive and 7 other members who may include persons representing the government and private sector. The Chairman is entrusted with the day-to-day administration of SC as provided by section 4B(1) of the SCMA.

Tan Sri Dato' Seri Ranjit Ajit Singh assumed the position of Chairman on 1 April 2012. A profile of Board members is featured on pages 130 to 135 and their involvement in the various committees established by the Board is provided on page 143 to 144.

The Chairman is appointed for a term of 3 years, and is eligible for reappointment upon completion of his or her term. Other Board members are appointed for a term of two years, and are eligible for reappointment upon completion of the term.

A person is disqualified from holding the office of a Board member if he or she holds a full time office in any public-listed company, becomes a member of either Houses of Parliament, or becomes an officer or director of an entity that is regulated by the Commission. Further, a Board member will also be disqualified if he or she:

- is convicted of an offence under the law involving fraud, dishonesty, corruption or violence;
- is declared a bankrupt;
- is not capable of discharging his or her duties;
- fails to attend three consecutive meetings of the Board without leave;
- conducts himself in such a way as to bring disrepute to the Commission;
- fails to disclose his or her interests; or
- becomes involved in any activity which may interfere with his or her independence in discharging his or her functions.

SCMA requires a Board member to manage conflicts of interest by disclosing his or her interest in any matter under discussion by the Board or any of its committees. Once a disclosure has been made, he or she:

- shall neither take part nor be present in any deliberation or decision of the Board or its committees; and
- shall be disregarded for the purposes of constituting quorum of the Board or its committees, relating to the matter.

FUNCTIONS OF THE COMMISSION

The Commission shall have the following functions:

- to advise the Minister on all matters relating to the capital market;
- to regulate all matters relating to the capital market;
- to ensure that the provisions of the securities laws are complied with;
- to regulate the take-overs and mergers of companies;
- to promote and regulate all matters relating to fund management, including unit trust schemes and private retirement schemes;
- to be responsible for supervising and monitoring the activities of any exchange holding company, stock exchange, derivatives exchange clearing house and central depository;
- to take all reasonable measures to maintain the confidence of investors in the capital market by ensuring adequate protection for such investors;
- to promote and encourage proper conduct among participating organisations, participants, affiliates, depository participants and all licensed or registered persons of an exchange, clearing house and central depository, as the case may be;
- to suppress illegal, dishonourable and improper practices in the capital market, and the provision of investment advice or other services relating to the capital market;
- to consider and make recommendations for the reform of the securities laws;
- to encourage and promote the development of the capital market in Malaysia including research and training in connection thereto;
- to encourage and promote self-regulation by professional associations or market institutions in the capital market;
- to license, register, authorise, approve and supervise all persons engaging in regulated activities or providing capital market services as may be provided for under any securities law;
- to promote and maintain the integrity of all licensed persons registered persons, approved persons and participants in the capital market;
- to register or recognise all auditors of public-interest entities (PIE) or schedule funds, and

to exercise oversight over any person who prepares a report in relation to financial information of PIE or schedule funds, in relation to capital market activities;

- to promote confidence in the quality and reliability of audited financial statements in Malaysia, and to promote and develop an effective and robust audit oversight framework in Malaysia;
- to take all reasonable measures to monitor, mitigate and manage systemic risks arising from the capital market;
- to promote and regulate corporate governance and approved accounting standards of listed corporations; and
- to set and approve standards for professional qualification for the capital market.

The Commission also has the functions and powers conferred upon it by or under the securities laws.

BOARD MEETINGS

Eleven Board meetings were held in 2016. The quorum required is 5. The attendance record is set out in Table 1.

The work of the Board in governing SC is facilitated by various board committees established under section 18 of SCMA, as listed in Table 2.

Table 1
Attendance at board meetings

Board member	Number of meetings attended
Tan Sri Dato' Seri Ranjit Ajit Singh	11/11
Dato Dr Nik Ramlah Nik Mahmood[1]	3/3
Dato' Ahmad Fairuz Zainol Abidin[2]	8/8
Datuk Francis Tan Leh Kiah	11/11
Dato' Gumuri Hussain[3]	7/7
Datuk Fazlur Rahman Ebrahim	10/11
Tan Sri Dato' Seri Mohamed Jawhar Hassan	9/11
Tan Sri Dato' Hasmah Abdullah	9/11
Tan Sri Dr Madinah Mohammad	9/11
Dato' Dr Mohd Isa Hussain	4/11
Emeritus Professor Dato' Dr Hassan Said[4]	2/3

Note:
1 Retired 31 March 2016
2 Appointed 1 April 2016
3 Retired 31 July 2016
4 Appointed 1 September 2016

The Shariah Advisory Council (SAC) is given the mandate to ensure that the implementation of Islamic capital market (ICM) complies with Shariah principles. It advises the Commission on all matters related to the development of ICM and functions as a reference centre for all ICM issues.

Table 2
Board committees

Committee	Key responsibility	Members
1. **Audit Committee**	Review effectiveness of SC's risk management and internal control systems and review the annual financial statements.	• Dato' Gumuri Hussain (Chairman)[1] • Tan Sri Dato' Hasmah Abdullah (Chairman)[2] • Datuk Francis Tan Leh Kiah • Datuk Fazlur Rahman Ebrahim • Emeritus Professor Dato' Dr Hassan Said[3]
2. **Issues Committee**	Evaluate any proposed issuance and listing of securities of a corporation on the main market; corporate proposals involving acquisition of asset which results in significant change in the business direction or policy of a corporation listed or to be listed on the main market; corporate proposals involving the issuance of securities for the amalgamation of 2 or more corporations listed on the main market; and registration of listing prospectus.	• Tan Sri Dato' Seri Ranjit Ajit Singh (Chairman) • Dato Dr Nik Ramlah Nik Mahmood[4] • Dato' Ahmad Fairuz Zainol Abidin[5] • Datuk Francis Tan Leh Kiah • Dato' Gumuri Hussain[1] • Datuk Fazlur Rahman Ebrahim • Emeritus Professor Dato' Dr Hassan Said[3]
3. **Take-overs and Mergers Committee**	Review take-over and merger related applications of a novel and/or complex nature and matters relating to national policy.	• Tan Sri Dato' Seri Ranjit Ajit Singh (Chairman) • Dato Dr Nik Ramlah Mahmood[4] • Dato' Ahmad Fairuz Zainol Abidin[5] • Datuk Francis Tan Leh Kiah • Dato' Gumuri Hussain[1] • Tan Sri Dato' Hasmah Abdullah • Dato' Dr Mohd Isa Hussain[6]
4. **Managed Investment Schemes Committee**	Approve the establishment of listed schemes.	• Tan Sri Dato' Seri Ranjit Ajit Singh (Chairman) • Dato Dr Nik Ramlah Mahmood[4] • Dato' Ahmad Fairuz Zainol Abidin[5] • Datuk Fazlur Rahman Ebrahim • Tan Sri Dato' Seri Mohamed Jawhar Hassan • Tan Sri Dato' Hasmah Abdullah
5. **Licensing Committee**	Evaluate and approve (or reject) application for the grant of a new Capital Markets Services Licence (CMSL), applications for new licensed representatives, directors, key management or compliance officers that are submitted together with the new CMSL application, application relating to private retirement scheme providers and consider any policy recommendations relating to licensing issues.	• Tan Sri Dato' Seri Ranjit Ajit Singh (Chairman) • Dato Dr Nik Ramlah Mahmood[4] • Dato' Ahmad Fairuz Zainol Abidin[5] • Tan Sri Dato' Seri Mohamed Jawhar Hassan • Tan Sri Dato' Hasmah Abdullah • Tan Sri Dr Madinah Mohamad

Table 2
Board committees (*continued*)

Committee	Key responsibility	Members
6. Nomination and Remuneration Committee	Assess and formulate the remuneration of the Chairman and Deputy Chief Executive and make appropriate recommendations to the Minister of Finance.	• Datuk Fazlur Rahman Ebrahim (Chairman) • Dato' Gumuri Hussain[1] • Datuk Francis Tan Leh Kiah • Tan Sri Dato' Seri Mohamed Jawhar Hassan • Emeritus Professor Dato' Dr Hassan Said[3]

Note:
[1] Retired 31 July 2016
[2] Appointed as Audit Committee Chairman 28 August 2016
[3] Appointed 27 October 2016
[4] Retired as Deputy Chief Executive 31 March 2016
[5] Appointed as Deputy Chief Executive 1 April 2016
[6] Appointed 25 August 2016

Members of SAC are appointed by DYMM Seri Paduka Baginda Yang di-Pertuan Agong, and are as in Table 3.

The Audit Oversight Board (AOB) was established under Part IIIA of the SCMA and its mandate is to assist the Commission in discharging its regulatory function in respect of developing an effective audit oversight framework, promoting confidence in the quality and reliability of audited financial statements, and regulating auditors of PIE and schedule funds.

In addition to this, AOB also exercises oversight over any person who prepares a report relating to financial information of PIE and schedule funds, in relation to capital market activities. AOB members are appointed by the Board, and are as in Table 4.

Table 3
Shariah Advisory Council members

	SAC Members
1.	Tun Abdul Hamid Haji Mohamad
2.	Tan Sri Sheikh Ghazali Haji Abdul Rahman
3.	Datuk Dr Mohd Daud Bakar
4.	Professor Dato' Mohamed Ismail Mohamed Shariff[1]
5.	Dato' Dr Abdul Halim Ismail
6.	Dato' Ahmad Tajudin Haji Abdul Rahman
7.	Professor Dr Ashraf Md Hashim
8.	Professor Dr Engku Rabiah Adawiah Engku Ali
9.	Associate Professor Dr Aznan Hasan
10.	Associate Professor Dr Asmadi Mohamed Naim
11.	Dr Shamsiah Mohamad

Note:
[1] The late Professor Dato' Mohamed Ismail Mohamed Shariff passed away 5 November 2016

Table 4
Audit Oversight Board members

AOB Members	
1.	Dato' Gumuri Hussain (Executive Chairman)[1]
2.	Goh Ching Yin[2]
3.	Datuk Nor Shamsiah Mohd Yunus[3]
4.	Cheong Kee Fong[3]
5.	Chok Kwee Bee[3]
6.	Dato' Zahrah Abd Wahab Fenner
7.	Eugene Wong Weng Soon[4]
8.	Wong Chong Wah[5]
9.	Darawati Hussain[5]
10.	Che Zakiah Che Din[5]

Note:

[1] *Appointed as Executive Chairman 18 November 2016 replacing Nik Mohd Hasyudeen Yusoff who retired 31 March 2016*
[2] *Retired 29 February 2016*
[3] *Retired 31 March 2016*
[4] *Appointed 1 March 2016*
[5] *Appointed 1 April 2016*

RISK MANAGEMENT AND INTERNAL CONTROLS

Accountability for management of risks in line with SC's mission, objectives and goals rests with the Executive Team, which is headed by the Chairman. The Audit Committee reviews the effectiveness and integrity of SC's risk management and internal control systems activity on behalf of the Board, while the Executive Team is responsible for providing strategic direction with regards to risk management throughout the organisation.

The Systemic Risk Oversight Committee (SROC) was established in line with SC's mandate and authority established under section 15(1)(p) of the SCMA, which empowers SC to take all reasonable measures to monitor, mitigate and manage systemic risks arising from activities in the securities and derivatives markets. SROC's primary functions include considering systemic risk issues and co-ordinating market crisis management issues, as well as deliberating and advising on relevant policies and pre-emptive regulatory action.

Key elements to ensure sound control environment for SC's operations include:

- An organisation structure with clearly defined responsibilities and delegation of responsibilities to its committees to assist the Commission in performing its key regulatory functions, which is also set out in this annual report;
- The annual Business Plan containing SC's business goals, strategies, key projects, resource needs and budget, which is approved by the Board;
- The *Code of Ethics* and the *Code of Conduct* (including the *Code of Practice on the Prevention and Eradication of Sexual Harassment*) which set out the expectations required of staff on ethical conduct and standards of behaviour;
- The *Compliance Management Guidelines*, providing a structured approach in ensuring compliance with laws, regulations and internal governance standards which impact the day-to-day operations of SC;
- The Internal Whistleblowing Procedure established as a safe channel of communication for individuals to expose or report internal wrongdoing or suspected breaches of law within the organisation;
- The Statement of SC's Principles and Standards established to facilitate efficient and ethical engagement between SC and

its external stakeholders, which include the suppliers, contractors, vendors and consultants. In relation to this, SC also expects its business stakeholders and all market participants engaging with SC to emulate similar ethical principles. The Statement of SC's Principles and Standards include the expected governance standards with regards to ethics and integrity, conflicts of interest, transparency and disclosure, adherence to client charters, maintenance of confidentiality, providing a safe environment and workplace, commitment to environmental and social responsibilities and SC's expectations of the people with whom SC does business with;

- The Conflict of Interest Declaration which is required of Board members and staff when faced with a conflict situation;

- SC Policymaking framework established to ensure greater accountability, more robust challenge and validation to improve consistency of policies and policy-actions;

- The Enterprise Risk Management (ERM) framework has been enhanced to integrate the ERM framework and control self-assessment framework into a single risk assessment platform to provide Management and the Board a holistic view of risks and controls to help them set priorities and make well-informed decisions;

- The Business Continuity Management framework which provides for arrangements in the event of incidences which may prevent SC from carrying out its regulatory and supervision functions, either due to natural disasters or man-made threats, and whether affecting just the market, SC, or both;

- The Policy and Guidelines on Procurement emphasises accountability, due diligence, fair evaluation and transparent decision-making throughout the procurement process. Implementation of Integrity Pacts was incorporated in the policy and all vendors are required to embrace the spirit of commitment to integrity as a preventive control measure to demonstrate and ensure arm's length transactions. Declaration on conflict of interest, non-disclosure agreement and *Vendor Code of Conduct* were introduced to further ensure accountability and integrity of the procurement process. In addition, the procurement policy encourages engagement with environmentally and socially responsible vendors;

- The *Asset Management Policy and Guidelines* which set out the conduct for the treatment of assets in SC, with the main purpose being to ensure that SC's fixed assets are safeguarded and properly accounted for, properly maintained and are in good working condition; ensuring the proper existence, valuation, ownership and condition of assets and to ensure that all fixed assets that are unaccounted for or those that are no longer in use, are disposed or written-off in accordance to procedures and guidelines;

- The IT User Policy was established to ensure the effective protection and proper usage of SC's computer systems. It is a guide for efficient and disciplined IT department management and provides unambiguous and precise reference for IT department personnel in carrying out their duties and for users in utilising the computer systems;

- The Records Management Policy which was established to give clear guidance of the standards and procedures that need to be put in place to ensure that records are fit to be used as evidence and/or information by SC, in carrying out business operations or legal obligations;

- SC Document Confidentiality Levels which were established to protect classified documents managed by SC;
- The Business Process Flows which are available on SC's intranet to serve as a guide to all staff, particularly new recruits, in understanding SC's operations;
- SC's internal audit function which is independent of line operations and functions, reports directly to the Audit Committee; and
- SC has a robust regulatory and supervisory framework to ensure observance of the International Organization of Securities Commissions (IOSCO) Principles to achieve the key objectives of capital market regulation. As a competent capital market regulator, SC had undertaken independent assessments under the various standards set by IOSCO, of which SC is an active member, as well as other international standard setting bodies.

EXTERNAL STAKEHOLDER AND PUBLIC COMMUNICATION

Consistent and constant communications with capital market participants is necessary to facilitate the effective discharge of SC's responsibilities. Regular meetings and discussions with our key stakeholders enable us to provide facilitative policies, a robust regulatory framework and encourage continuous growth and development of the capital market. All media releases, publications, guidelines, annual reports as well as consultation and response papers are posted on the official website – www.sc.com.my.

SC has a Consumer and Investor Office that acts as one of the key channels in engaging investors and the public. The office receives and handles public complaints and queries relating to the capital market. In addition, it is responsible for SC's investor empowerment strategy, and undertakes education and outreach initiatives throughout the country via various modalities, for the general public and investors at all levels.

Securities Industry Dispute Resolution Center (SIDREC) is a body approved by SC to handle capital market related disputes involving monetary claims by investors against its members. SIDREC's members comprise banks, stockbrokers, future brokers, fund managers, unit trust management companies, private retirement scheme (PRS) providers and distributors, among others, who are licensed under the CMSA to conduct regulated activities in Malaysia. SIDREC's scope has been significantly enlarged by the increase of its maximum claim limit from RM100,000 to RM250,000. It is also now able to accept claims exceeding RM250,000 for mediation where both parties agree to use SIDREC's services. Additionally, following the amendment of SIDREC's *Capital Markets and Services (Dispute Resolution) Regulations 2010* in September 2010, 43 commercial and Islamic banks and 2 Developmental Finance Institutions (DFI) are now deemed to be members of SIDREC.

This is a significant increase in SIDREC's scope and gives SIDREC purview over disputes involving capital market services and products between DFI, commercial and Islamic banks and their investor clients. Apart from engagement during the dispute resolution process with both SIDREC's members and the investor claimants, SIDREC engages the investing public through its awareness initiatives and also concurrently engages its members and other stakeholders, such as industry associations, and self-regulatory organisations to share and provide insight on positive observations as well as on any concerns that come through from its dispute resolution process. This provides valuable feed through to both the market and investors. SIDREC has an obligation to report to the Commission on issues of systemic concerns that may arise from disputes received.

AUDIT COMMITTEE REPORT

The Securities Commission Malaysia (SC) is pleased to present the Audit Committee Report for the financial year ended 31 December 2016.

MEMBERS AND MEETINGS

The Audit Committee comprises the following non-executive members of SC:

- Dato' Gumuri Hussain (Chairman) (retired 31 July 2016);
- Tan Sri Dato' Hasmah Abdullah (Chairman) (appointed as Chairman of the Audit Committee 28 August 2016);
- Datuk Francis Tan Leh Kiah;
- Datuk Fazlur Rahman Ebrahim; and
- Emeritus Professor Dato' Dr Hassan Said (appointed 27 October 2016).

The Committee convened 5 meetings, which were attended by the majority of its members, during the financial year. A member of senior management is invited to be in attendance at the Audit Committee meetings.

TERMS OF REFERENCE

The Audit Committee is a Board committee. The Board members determine the membership and appoint the Audit Committee members and the Chairman of the Committee.

The Committee meets at least 4 times a year or as frequently as required and needs a quorum of 2. The Committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. The proceedings of the Committee are recorded and the minutes of meetings are tabled at Board meetings. The purpose, authority and responsibility of the Audit Committee are set out in the Audit Committee Charter. The main responsibilities of the Audit Committee are to:

i. assist the Board in its review of the adequacy and effectiveness of SC's risk management and internal control systems;

ii. consider and recommend the appointment of the external auditor, their remuneration and any issues regarding their performance;

iii. review the external auditor's audit scope and plans of audit, including co-ordination of audit efforts with internal audit;

iv. review the accounting policies and practices adopted by SC in the preparation of its financial statements and integrity of the financial reporting processes;

v. review the annual financial statements and make appropriate recommendation(s) to the Board regarding the adoption of SC's annual financial statements and the level of disclosure, focusing in particular on:

- compliance with applicable accounting standards;
- changes in significant accounting policies and practices;
- significant adjustments arising from the audit; and
- significant unusual events.

vi. approve the Internal Audit Charter and support as well as provide direction to the Internal Audit Department to ensure its effectiveness;

vii. consider and review the findings arising from internal audit reports or other internal investigations and responses by management, and to determine appropriate corrective actions required of management;

viii. review the implementation of action plans to address key audit observations raised by the Internal Audit Department; and

ix. review the effectiveness of processes and procedures to ensure compliance with laws, regulations and contracts.

ACTIVITIES OF THE COMMITTEE

During the financial year, the main activities of the Audit Committee included the following:

Financial reporting

- Review of the financial statements for the financial year ended 31 December 2015 prior to presentation to the Board.

External audit

- Review of the audit findings, auditor's report and management letter and management's responses arising from the statutory audit for the financial year ended 31 December 2015.

- Review and approve the external audit plan for the financial year ended 31 December 2016. Various audit and accounting issues were discussed at the Audit Committee meetings.

- Recommendation to the Board to re-appoint the existing external auditors for the financial year ending 31 December 2016.

Internal audit

- Review of the internal audit reports and management's action plans to address the audit issues. The Audit Committee also monitored implementation of agreed actions and suggestions for improvements arising from the audits performed.

- Review of the achievement of the 2016 internal audit plan, which provided an overall indication of the performance of the internal audit function for the year.

- Consideration of the adequacy of scope and comprehensive coverage of internal audit's activities, and approved the internal audit plan for the financial year ending 31 December 2017.

- Review of Internal Audit Department's quality assurance and improvement initiatives including the internal quality assurance review performed by an internal review team.

- Review of the representation made on risk management and internal controls in the Statement on Governance for the 2016 Annual Report.

INTERNAL AUDIT

The Internal Audit Department assists the Audit Committee in the discharge of its duties and responsibilities. The internal audit function reports directly to the Audit Committee, which determines the adequacy of scope and function of the department. The internal audit function accomplishes its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control and governance processes. The Internal Audit Department carries out its responsibilities by conducting reviews based on the approved internal audit plan, which is developed using a risk-based methodology.

The main activities of the internal audit function for the year 2016 included performing predominantly risk-based audits for the areas identified in the internal audit plan. The result of the audits and activities performed by the internal audit function is presented to the Audit Committee for their review. Where applicable, the internal audit conducted follow-up audits to ensure that Management's corrective actions were implemented appropriately and provided updates on the status of the key actions to the Audit Committee. The Internal Audit Department was subjected to an internal quality assurance review during the year in preparation for an external quality assurance review in 2017. In addition, the Internal Audit Department played an advisory role in the course of performing its audit activities.

SECURITIES COMMISSION MALAYSIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Statement of financial position as at 31 December 2016

	Note	2016 RM'000	2015 RM'000
Non-current assets			
Property, plant and equipment	3	173,044	181,016
Long term receivables	4	9,517	10,705
Other investments	5	293,407	273,734
		475,968	465,455
Current assets			
Trade and other receivables	6	31,632	30,468
Other investments	5	436,386	466,775
Cash and cash equivalents	7	30,433	35,148
		498,451	532,391
Total assets		974,419	997,846
Reserves			
Accumulated surplus		773,826	796,711
Compensation fund reserve	8	100,000	100,000
Total reserves		873,826	896,711
Non-current liability			
Post-employment benefits	9	54,713	50,658
Current liability			
Other payables and accruals	10	45,880	50,477
		100,593	101,135
Total reserves and liabilities		974,419	997,846

The notes on pages 155 to 178 are an integral part of these financial statements.

SECURITIES COMMISSION MALAYSIA
Statement of profit or loss and other comprehensive income for the year ended 31 December 2016

	Note	2016 RM'000	2015 RM'000
Income			
Levies		116,164	125,830
Fees and charges		14,939	12,647
Finance income		31,216	30,157
License fees		3,327	3,265
Registration fees		1,900	1,905
Other income		5,004	4,060
		172,550	177,864
Less: Expenditure			
Staff costs	11	142,211	144,826
Administrative expenses		32,852	37,199
Depreciation of property, plant and equipment	3	12,276	11,699
Rental expenses		2,596	2,786
		189,935	196,510
Net operating deficit		(17,385)	(18,646)
Less: Grants		(5,500)	(4,900)
Deficit before tax	12	(22,885)	(23,546)
Tax expense	16	-	-
Deficit after tax		(22,885)	(23,546)
Other comprehensive expense, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability		-	(716)
Deficit and total comprehensive expense for the year		(22,885)	(24,262)

The notes on pages 155 to 178 are an integral part of these financial statements.

SECURITIES COMMISSION MALAYSIA
Statement of changes in equity for the year ended 31 December 2016

	Compensation fund reserve RM'000	Accumulated surplus RM'000	Total RM'000
At 1 January 2015	100,000	820,973	920,973
Remeasurement of defined benefit liability	-	(716)	(716)
Total other comprehensive expense for the year	-	(716)	(716)
Deficit for the year	-	(23,546)	(23,546)
Deficit/Total comprehensive expense for the year	-	(24,262)	(24,262)
At 31 December 2015/1 January 2016	100,000	796,711	896,711
Deficit/Total comprehensive expense for the year	-	(22,885)	(22,885)
At 31 December 2016	100,000	773,826	873,826
	Note 8		

The notes on pages 155 to 178 are an integral part of these financial statements.

SECURITIES COMMISSION MALAYSIA
Statement of cash flows for the year ended 31 December 2016

	Note	2016 RM'000	2015 RM'000
Cash flows from operating activities			
Deficit before tax		(22,885)	(23,546)
Adjustments for:			
Depreciation of property, plant and equipment	3	12,276	11,699
Finance income		(31,216)	(30,157)
Loss/(Gain) on disposal of plant and equipment		54	(101)
Provision for post-employment benefits		5,110	4,851
Reversal of impairment loss on property		-	(27)
Operating deficit before working capital changes		(36,661)	(37,281)
Changes in working capital:			
Trade and other receivables		955	(5,036)
Other payables and accruals		(4,597)	4,501
Net cash used in operating activities		(40,303)	(37,816)
Cash flows from investing activities			
(Acquisition)/Maturity of investments in Malaysian Government Securities and Government Guaranteed Bonds		(14,673)	28,163
Increase in restricted deposits		(3,569)	(1,751)
Decrease/(Increase) in investments in deposits placed with licensed banks and a scheduled institution		25,389	(32,201)
Finance income received		29,097	31,927
Post-employment benefits paid		(1,055)	(630)
Proceeds from disposal of plant and equipment		164	173
Purchase of plant and equipment		(4,522)	(7,412)
Repayment from long term receivables		1,188	1,641
Net cash from investing activities		32,019	19,910
Net decrease in cash and cash equivalents		(8,284)	(17,906)
Cash and cash equivalents at 1 January		16,836	34,742
Cash and cash equivalents at 31 December		8,552	16,836
Cash and cash equivalents comprise:			
Cash and bank balances	7	8,552	2,014
Deposits placed with licensed banks	7	21,881	33,134
		30,433	35,148
Less: Restricted deposits		(21,881)	(18,312)
		8,552	16,836

The notes on pages 155 to 178 are an integral part of these financial statements.

SECURITIES COMMISSION MALAYSIA
Notes to the financial statements

The Securities Commission Malaysia ('SC') is the regulatory agency for the regulation and development of capital markets. The SC has direct responsibility for supervising and monitoring the activities of market institutions including the exchanges and clearing houses and regulating all persons licensed under the *Capital Market and Services Act 2007*. The address of the SC is at:

3, Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur, Malaysia

These financial statements were approved by the Commission Members on 24 January 2017.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the SC have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board ('MASB') but have not been adopted by the SC:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to MFRS 12, *Disclosure of Interests in other Entities (Annual Improvements 2014-2016 Cycle)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- MFRS 15, *Revenue from Contracts with Customers - Clarifications to MFRS 15, Revenue from Contracts with Customers*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payments Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 , Insurance Contracts*

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2014-2016 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)*
- Amendments to MFRS 140, *Investment Property – Transfers of Investment Property*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The SC plans to apply the abovementioned standards, amendments and interpretations that are applicable and effective from its annual periods beginning on or after 1 January 2017, 1 January 2018 and 1 January 2019, respectively.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the SC except as mentioned below:

MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis other than as disclosed in Note 2.

(c) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the SC's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with MFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the SC, unless otherwise stated.

(a) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the SC becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

(ii) Financial instrument categories and subsequent measurement

The SC categorises financial instruments as follows:

Financial assets

(a) Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the SC has the positive intention and ability to hold them to maturity.

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

(b) Loans and receivables

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

All financial assets are subject to review for impairment (see Note 2(d)(i)).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost.

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(b) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts, if any, of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the SC and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the SC will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative year are as follows:

Leasehold land	Over the lease period of 99 years expiring in 2094
Buildings	50 years
Office equipment, furniture and fittings	5 – 10 years
Computer and application systems	3 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed at end of the reporting period and adjusted as appropriate.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks which have an insignificant risk of changes in fair value with original maturities of three months or less, and are used by the SC in the management of their short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of restricted deposits.

(d) Impairment

(i) Financial assets

All financial assets are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

If, in a subsequent period, the fair value of the financial asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Other assets

The carrying amounts of other assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the financial year in which the reversals are recognised.

(e) Revenue

(i) Levies and license fees

Levies and license fees income are recognised in profit or loss on an accrual basis.

(ii) Fees and charges

Fees and charges income are recognised in profit or loss when payments have been received.

(iii) Finance income

Finance income received from fixed deposits and other investments are recognised as it accrues using the effective interest method in profit or loss.

(f) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid if the SC has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The SCs contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Defined benefit plans

Post-employment benefits

The SC provides post-employment medical coverage to eligible employees engaged prior to 1 January 2003.

The SC's net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount.

The calculation of defined benefit obligations is performed by an independent qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the SC, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income. The SC determines the net interest expense or income on the net defined liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments.

Costs and expenses relating to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The SC recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(g) Grants

The SC provides grants to eligible entities to undertake capital market activities. Grants are recognised in profit or loss when payments have been made.

(h) Fair value measurement

Fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the SC uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the SC can access at the measurement date.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: unobservable inputs for the asset or liability.

The SC recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

3. Property, plant and equipment

	Leasehold land RM'000	Buildings RM'000	Office equipment, furniture and fittings RM'000	Computer and application systems RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000
Cost							
At 1 January 2015	9,154	232,162	106,008	68,528	3,746	1,623	421,221
Additions	-	-	1,089	1,630	9	4,684	7,412
Disposals	-	-	-	(6,616)	(743)	-	(7,359)
Transfer from/(to)	-	-	857	1,751	-	(2,608)	-
At 31 December 2015/ 1 January 2016	9,154	232,162	107,954	65,293	3,012	3,699	421,274
Additions	-	-	794	1,373	325	2,030	4,522
Disposals	-	-	-	-	(409)	-	(409)
Transfer from/(to)	-	-	633	4,490	-	(5,123)	-
At 31 December 2016	9,154	232,162	109,381	71,156	2,928	606	425,387

3. Property, plant and equipment *(continued)*

	Leasehold land RM'000	Buildings RM'000	Office equipment, furniture and fittings RM'000	Computer and application systems RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000
Depreciation and impairment loss							
At 1 January 2015							
Accumulated depreciation	1,849	72,068	96,666	63,280	1,874	-	235,737
Accumulated impairment loss	-	136	-	-	-	-	136
	1,849	72,204	96,666	63,280	1,874	-	235,873
Depreciation for the year	93	4,643	3,340	3,130	493	-	11,699
Disposals	-	-	-	(6,616)	(671)	-	(7,287)
Reversal of impairment loss	-	(27)	-	-	-	-	(27)
At 31 December 2015/ 1 January 2016							
Accumulated depreciation	1,942	76,711	100,006	59,794	1,696	-	240,149
Accumulated impairment loss	-	109	-	-	-	-	109
	1,942	76,820	100,006	59,794	1,696	-	240,258
Depreciation for the year	93	4,643	3,121	3,979	440	-	12,276
Disposals	-	-	-	-	(191)	-	(191)
At 31 December 2016							
Accumulated depreciation	2,035	81,354	103,127	63,773	1,945	-	252,234
Accumulated impairment loss	-	109	-	-	-	-	109
	2,035	81,463	103,127	63,773	1,945	-	252,343
Carrying amounts							
At 1 January 2015	7,305	159,958	9,342	5,248	1,872	1,623	185,348
At 31 December 2015/ 1 January 2016	7,212	155,342	7,948	5,499	1,316	3,699	181,016
At 31 December 2016	7,119	150,699	6,254	7,383	983	606	173,044

4. Long-term receivables

	2016 RM'000	2015 RM'000
Staff financing	11,757	13,298
Less: Unearned profit		
– Islamic financing on house and car	(601)	(887)
	11,156	12,411
Less: Amount due within 12 months (Note 6)	(1,639)	(1,706)
Amount due after 12 months	9,517	10,705

Staff financing relates to Islamic financing and conventional housing loans, Islamic financing and conventional motor vehicle loans, computer loans and study loans. The financing for housing and motor vehicle are secured over the properties and motor vehicle of the borrowers, respectively. The staff financing are repayable over a maximum period of 25 years, 7 years, 5 years and 4 years, respectively. The rate charged on these staff financing ranges from 2% to 4% per annum (2015: 2% to 4% per annum).

The maturity structures of the financing to staff as at the end of the financial year were as follows:

	2016 RM'000	2015 RM'000
Within 1 year	1,639	1,706
More than 1 year and up to 5 years	4,693	4,811
More than 5 years	4,824	5,894
	11,156	12,411

5. Other investments

	Non-current		Current		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Held-to-maturity investments:						
– Malaysian Government Securities and Government Guaranteed Bonds	275,407	260,734	-	-	275,407	260,734
Loans and receivables:						
- Deposits placed with licensed banks	18,000	13,000	436,386	466,775	454,386	479,775
	293,407	273,734	436,386	466,775	729,793	740,509

Fair value:						
- Malaysian Government Securities and Government Guaranteed Bonds	275,990	260,888	-	-	275,990	260,888

The carrying amount of fixed deposits is assumed to reasonably approximate their fair values.

6. Trade and other receivables

	2016 RM'000	**2015 RM'000**
Levies	11,822	12,882
Income receivable	11,549	9,430
Other receivables	2,761	2,613
Deposit and prepayments	3,861	3,837
Short term staff financing (Note 4)	1,639	1,706
	31,632	30,468

7. Cash and cash equivalents

	2016 RM'000	2015 RM'000
Cash and bank balances	8,552	2,014
Deposits placed with licensed banks	21,881	33,134
	30,433	35,148

The deposits placed with licensed banks earned income at rates ranging from 2.70% to 4.50% per annum (2015: 2.00% to 3.70% per annum).

Included in deposits placed with licensed banks are amounts restricted for brokers' security deposits of approximately RM1.2 million (2015: RM1.2 million), stockbroking industry development of approximately RM3.0 million (2015: RM2.0 million) and other miscellaneous deposits of approximately RM17.7 million (2015: RM15.1 million).

The cash and cash equivalents are placed with licensed banks.

8. Compensation fund reserve

This represents an amount allocated from the accumulated surplus for the Capital Market Compensation Fund Corporation.

9. Post-employment benefits

	2016 RM'000	2015 RM'000
Net defined benefit liability	50,658	45,721
Expense recognised in profit or loss	5,110	4,851
Expense recognised in other comprehensive income	-	716
Benefits paid	(1,055)	(630)
Total employee benefit liabilities	54,713	50,658

The defined benefit plan is an unfunded post-employment medical plan, which provides medical benefits for participants and their eligible dependants after retirement age until the death of the participant or spouse, or for child dependants up to age 18 or age 24, if they are still studying.

As such, the ultimate cost of the plan depends on the longevity of the retirees and their eligible dependants, the incidence and cost of events resulting in claims under the plan, and the inflation of such costs in the future.

Funding

The plan is unfunded. Employer contributions to the plan refer to the medical claim amounts paid directly by the SC. The SC expects to pay approximately RM731,000 in contributions to its defined benefit plans in 2017.

Movement in net defined benefit liability

	2016 RM'000	2015 RM'000
Net defined benefit liability at 1 January	50,658	45,721
Included in profit or loss		
Current service cost	1,932	1,941
Interest cost	3,178	2,910
	5,110	4,851
Included in other comprehensive income		
Actuarial (gain)/loss arising from:		
– Demographic assumptions	-	(5,943)
– Financial assumptions	-	4,948
– Experience adjustments	-	1,711
	-	716
Other		
Benefits paid	(1,055)	(630)
Net defined benefit liability at 31 December	54,713	50,658

Defined benefit obligation
Actuarial assumptions

Principal actuarial assumptions at the end of reporting period (expressed as weighted averages):

	2016	2015
Discount rate	6.3%	6.3%
Medical cost inflation	5.0%	5.0%
Normal retirement age	56 years	56 years

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 56 is 29 (2015: 56 is 29) for males and females at the end of the reporting date.

At 31 December 2016, the weighted-average duration of the defined benefit obligation was 21.5 years (2015: 21.5 years).

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amount shown below.

	Defined benefit obligation	
	Increase RM'000	Decrease RM'000
2016		
Discount rate (1% movement)	(9,520)	12,311
Medical cost inflation rate (1% movement)	11,927	(9,410)
Normal retirement age (+4 years movement)	(9,684)	*
2015		
Discount rate (1% movement)	(8,814)	11,398
Medical cost inflation rate (1% movement)	11,043	(8,713)
Normal retirement age (+4 years movement)	(8,966)	*

* Not applicable

10. Other payables and accruals

	2016 RM'000	2015 RM'000
Other payables	40,349	42,601
Accruals	4,300	6,645
Brokers' security deposits	1,231	1,231
	45,880	50,477

11. Staff costs

	2016 RM'000	2015 RM'000
Remuneration, bonus, staff medical, staff training and overtime	118,266	121,812
Employees Provident Fund	17,835	17,315
Private Retirement Scheme	1,000	848
Post-employment benefits	5,110	4,851
	142,211	144,826

12. Deficit before tax

	Note	2016 RM'000	2015 RM'000
Deficit before tax is arrived at after charging:			
Auditors' remuneration		100	100
Executive members' emoluments		4,307	4,469
Non-executive members' allowance		1,074	1,087
Rental expense:			
Property		2,298	2,293
Plant and equipment		298	493
Depreciation of property, plant and equipment	3	12,276	11,699
Loss on disposal of plant and equipment		54	-
and after crediting:			
Gain on disposal of plant and equipment		-	101
Reversal of impairment loss on property		-	27

13. Related parties

The Chairman of the SC is also the Chairman of Securities Industry Development Corporation ("SIDC") which is a company limited by guarantee. For the financial year ended 31 December 2016, the SIDC paid management fee of RM501,600 (2015: RM501,600) to the SC, of which RM41,800 (2015: RM41,800) is still outstanding from SIDC. In addition, the SC had made a grant of RM2.5 million to SIDC in 2016 (2015: RM3.0 million).

14. Capital commitments

	2016 RM'000	2015 RM'000
Capital expenditure commitments		
Plant and equipment		
Approved but not contracted for:		
Within one year	23,030	12,210

15. Financial instruments

15.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables ("L&R");
(b) Held-to-maturity investments ("HTM"); and
(c) Financial liabilities measured at amortised cost ("FL").

	Carrying amount RM'000	L&R/ (FL) RM'000	HTM RM'000
2016			
Financial assets			
Long term receivables	9,517	9,517	-
Other investments	729,793	454,386	275,407
Trade and other receivables*	28,688	28,688	-
Cash and cash equivalents	30,433	30,433	-
	798,431	523,024	275,407

Financial liabilities			
Other payables and accruals	(45,880)	(45,880)	-
2015			
Financial assets			
Long term receivables	10,705	10,705	-
Other investments	740,509	479,775	260,734
Trade and other receivables*	27,475	27,475	-
Cash and cash equivalents	35,148	35,148	-
	813,837	553,103	260,734
Financial liabilities			
Other payables and accruals	(50,477)	(50,477)	-

* Excludes prepayments

15.2 Gains arising from financial instruments

	2016 RM'000	2015 RM'000
Gains on:		
Held-to-maturity investments	10,559	10,458
Loan and receivables	20,657	19,699
	31,216	30,157

15.3 Financial risk management

The SC has policies and guidelines on the overall investment strategies and tolerance towards risk. Investments are managed in a prudent manner to ensure the preservation and conservation of the fund. The SC has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

15.4 Credit risk

Credit risk is the risk of a financial loss to the SC if a counterparty to a financial instrument fails to meet its contractual obligations. The SC has a formal credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The SC maintains an ageing analysis in respect of trade and other receivables only (excludes deposits and prepayments). The ageing of receivables as at the end of the reporting year was:

	Gross RM'000	Individual impairment RM'000	Net RM'000
2016			
Not past due	36,993	-	36,993
Past due 1 - 30 days	-	-	-
Past due 31 - 90 days	-	-	-
Past due 91 - 180 days	-	-	-
Past due more than 180 days	295	-	295
	37,288	-	37,288
2015			
Not past due	36,959	-	36,959
Past due 1 - 30 days	-	-	-
Past due 31 - 90 days	-	-	-
Past due 91 - 180 days	-	-	-
Past due more than 180 days	377	-	377
	37,336	-	37,336

The net receivables that are past due, are not being impaired as these receivables are secured over residential properties with fair values exceeds its outstanding debts.

The fair values of these collateralised properties are determined using the comparison method based on professional valuation.

Investments and other financial assets

Risk management objectives, policies and processes for managing the risk

Investments are allowed only in liquid securities and only with counterparties that have credit rating that are sovereign or near sovereign.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the SC has only invested in Malaysian government securities and government guaranteed bonds. The maximum exposure to credit risk is represented by the carrying amounts in the statement of financial position.

15.5 Liquidity risk

Liquidity risk is the risk that the SC will not be able to meet its financial obligations as they fall due. The SC monitors and maintains a level of cash and cash equivalents deemed necessary by the SC to finance its operations and to mitigate the effects of fluctuations in cash flows.

Maturity analysis

The table below summarises the maturity profile of the SC's financial liabilities as at the end of the reporting period based on undiscounted contractual cash flow.

	Carrying amount RM'000	Contractual cash flow RM'000	Under 1 year RM'000
2016			
Financial liabilities			
Other payables and accruals	45,880	45,880	45,880
2015			
Financial liabilities			
Other payables and accruals	50,477	50,477	50,477

15.6 Market risk

Market risk is the risk that changes in market prices, such as interest rates that will affect the SC's financial position or cash flows.

15.6.1 Interest rate risk

The interest rate profile of the SC's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2016 RM'000	2015 RM'000
Fixed rate instruments		
Financial assets	476,267	512,909

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The SC does not have any fixed rate financial assets at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

15.7 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The carrying amount of fixed deposits is assumed to reasonably approximate their fair values.

The table below analyses financial instruments not carried at fair value for which fair value is disclosed, together with their carrying amounts shown in the statement of financial position.

	Fair value of financial instruments not carried at fair value				
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair Value RM'000	Carrying amount RM'000
2016					
Non-current					
Financial assets					
Long term receivables	-	-	9,517	9,517	9,517
Malaysian Government Securities and Government Guaranteed Bonds	-	275,990	-	275,990	275,407
	-	275,990	9,517	285,507	284,924
2015					
Non-current					
Financial assets					
Long term receivables	-	-	10,705	10,705	10,705
Malaysian Government Securities and Government Guaranteed Bonds	-	260,888	-	260,888	260,734
	-	260,888	10,705	271,593	271,439

Level 1 fair value

Level 1 fair value is derived from unadjusted quoted price in active markets for identical financial assets that the entity can access at the measurement date.

Level 2 fair value

Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets, either directly or indirectly.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial year. (2015: no transfer in either directions)

Level 3 fair value

Level 3 fair value is estimated using unobservable inputs for the financial assets.

Financial instruments not carried at fair value

Type	Description of valuation technique and input used
Long term receivables	Discounted cash flows using a rate based on the current market rate of borrowing.

16. Tax expense

The SC was granted approval from the Minister of Finance to be exempted from taxation with effect from Year Assessment (YA) 2007 onwards.

17. Reserves management

The SC's financial management objective is to maintain adequate reserves to safeguard the SC's ability to perform its duties and functions independently and effectively. Management monitors the long term capital commitments to ensure that sufficient funds are available to meet the obligations. The SC's investments are managed in a prudent manner to ensure the preservation of the funds.

SECURITIES COMMISSION MALAYSIA
Statement by Commission Members

In the opinion of the Commission Members, the financial statements set out on pages 151 to 178 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Securities Commission Malaysia as at 31 December 2016 and of its financial performance and cash flows for the financial year then ended.

On behalf of the Commission Members:

....
Tan Sri Dato' Seri Ranjit Ajit Singh
Chairman

....
Tan Sri Dato' Hasmah Abdullah
Member

Kuala Lumpur

Date: 24 January 2017

SECURITIES COMMISSION MALAYSIA
Statutory Declaration

I, Vignaswaran A/L Kandiah, the officer primarily responsible for the financial management of Securities Commission Malaysia, do solemnly and sincerely declare that the financial statements set out on pages 151 to 178 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the *Statutory Declarations Act, 1960.*

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur on 24 January 2017.

……………………………………………..
Vignaswaran A/L Kandiah
Officer

Before me:

PESURUHJAYA SUMPAH
W641
MOHD IBRAHIM BIN YAAKOB
MALAYSIA

Unit 50-10-1, Tingkat 10
Wisma UOA Damansara
No. 50, Jalan Dungun
Bukit Damansara
50490 Kuala Lumpur.

INDEPENDENT AUDITORS' REPORT
To the Commission Members of Securities Commission Malaysia

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Securities Commission Malaysia ("SC"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 151 to 178.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the SC as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our auditors report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the SC in accordance with the By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws"), and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Responsibilities of Commission Members of the SC for the Financial Statements

The Commission Members are responsible for the preparation of financial statements of the SC that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Commission Members are also responsible for such internal control as the Commission Members determine is necessary to enable the preparation of financial statements of the SC that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the SC, the Commission Members are responsible for assessing the SC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Commission Members either intend to liquidate the SC or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the SC as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the SC, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the SC.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Commission Members.

- Conclude on the appropriateness of the Commission Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the SC to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of the SC or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the SC to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the SC, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the Commission Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matters

This report is made solely to the Commission Members, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants

Loh Kam Hian
Approval Number: 02941/09/2018 J
Chartered Accountant

Petaling Jaya, Malaysia

Date: 24 January 2017

CORPORATE PROPOSALS

EQUITY

The SC received 14 equity applications in 2016 (as compared to 12 in 2015), of which 5 were for initial public offerings (IPOs) (as compared to 6 in 2015). A total of 13 equity applications were considered in 2016, as compared to 20 in the previous year (Table 1).

In 2016, the SC approved 6 IPOs for the Main Market (as compared to 9 in 2015) which were expected to raise funds of approximately RM3.38 billion (Table 2). The approved IPOs were expected to have an aggregate market capitalisation of RM5.57 billion.

There were 12 new listings in 2016 (as compared to 10 new listings in 2015), comprising 11 IPOs and 1 reverse take-over (RTO). Of the 12 listings, 7 were for Main Market and 5 on the ACE Market. The total amount of funds raised from the 12 new listings in 2016 was RM1.03 billion (as compared to RM3.88 billion in 2015). The most notable new listing in 2016 was Ranhill Holdings Bhd, a company that specialised in the management and optimisation of water utility assets. Ranhill Holdings Bhd assumed the listing status of Symphony House Bhd, a company listed on the Main Market, via an RTO and raised funds of RM0.30 billion from its public offering.

The SC registered 43 equity prospectuses in 2016, comprising 14 prospectuses for IPOs and 29 abridged prospectuses (Table 3).

Table 1
Status of equity applications

Applications	2016	2015
Brought forward from the previous year	6	20
Received during the year	14	12
Total for consideration	**20**	**32**
Approved during the year	(11)	(14)
Not approved during the year	(-)	(4)
Returned during the year	(2)	(2)
Total considered during the year	**(13)**	**(20)**
Withdrawn during the year	(4)	(6)
Carried forward to the next year	**3**	**6**

Table 2
Equity applications approved by type of proposals

Type of proposals	2016		2015	
	No. of proposals approved	Amount to be raised (RM million)	No. of proposals approved	Amount to be raised (RM million)
IPO on Main Market:				
– Domestic companies	6	3,378.61	8	4,484.56
– Foreign companies	–	–	1	65.14
Subtotal	**6**	**3,378.61**	**9**	**4,549.70**
Restructuring/mergers and acquisitions	4	–	3	–
Transfer from ACE Market to Main Market	–	–	1	–
Secondary listing	1	–	–	–
Others	–	–	1*	–
TOTAL	**11**	**3,378.61**	**14**	**4,549.70**

Note:
* *Proposal for offering of securities approved for listing on a stock exchange outside Malaysia, to prescribed persons in Malaysia*

Table 3
Registration of equity prospectuses

Applications	2016	2015
Prospectus	14	12
Abridged prospectus	29	40
TOTAL	**43**	**52**

CORPORATE BONDS AND SUKUK

The Malaysian corporate bonds and sukuk market reported total issuances of RM85.65 billion in 2016, which is slightly lower than RM86.35 billion issued in 2015.

In 2016, the SC received 57 lodgements under the Lodge and Launch (LOLA) Framework and 2 applications for issuances of corporate bonds and sukuk, as compared to 23 lodgements and 38 applications received in the previous year (Table 4). Ringgit-denominated corporate bonds and

Table 4
Number of corporate bonds and sukuk applications and lodgements

(i) Lodgements[1]	2016	2015
Received during the year	57[2]	23[3]
(ii) Applications	**2016**	**2015**
Brought forward from the previous year	1	6
Received during the year	2	38
Total for consideration	**3**	**44**
Approved during the year	(2)[4]	(42)[5]
Not approved during the year	-	-
Returned during the year	-	-
Total considered during the year	**(2)**	**(42)**
Withdrawn during the year	-	(1)
Carried forward to the next year	**1**	**1**

Note:
[1] *Pursuant to the LOLA Framework which came into effect in June 2015*
[2] *Comprising 54 ringgit-denominated and 3 foreign currency-denominated corporate bonds and sukuk issues*
[3] *Comprising 19 ringgit-denominated and 4 foreign currency-denominated corporate bonds and sukuk issues*
[4] *Comprising 2 ringgit-denominated corporate bonds issues*
[5] *Comprising 31 ringgit-denominated and 11 foreign currency-denominated corporate bonds and sukuk issues*

sukuk issues continued to form the majority of the proposals approved and lodged with the SC with a total nominal value of RM140.99 billion, of which 54.80% were corporate bonds (Table 5).

The total number of ringgit-denominated corporate bonds and sukuk approved and lodged with the SC with tenures of 1 to 7 years and more than 15 years exhibited an upward trend with a 26.47% increase, which included 6 issuances with perpetual maturities. There was also 8.75% drop in the total number of ringgit-denominated corporate bonds and sukuk with tenures ranging from 8 to 15 years (Chart 1).

Table 5

Approved and lodged ringgit-denominated corporate bonds and sukuk issues

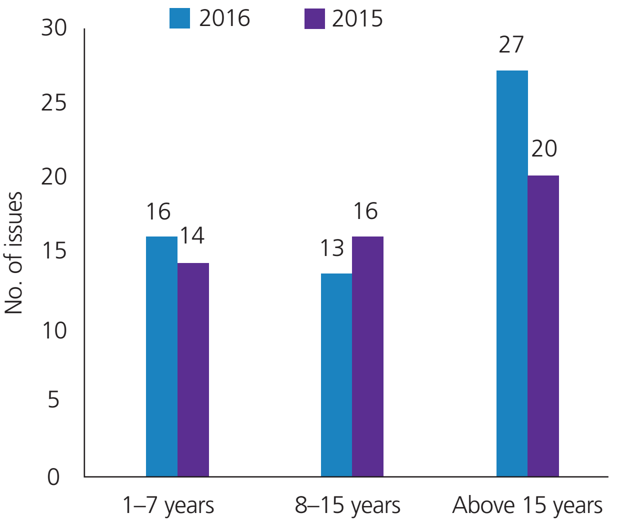
Type of issues	2016		2015	
	No. of issues	Nominal amount (RM million)	No. of issues	Nominal amount (RM million)
Corporate bonds				
– Commercial papers/ Medium-term notes	20	76,557.00	13	30,420.00
– Bonds	2	250.00	5	31,126.00
– Loan stocks	2	453.00	1	84.00
Subtotal	**24**	**77,260.00**	**19**	**61,630.00**
Sukuk				
– Islamic commercial papers/ Islamic medium-term notes	25	45,750.00	21	46,310.00
– Islamic bonds	6	16,989.00	4	2,024.00
– Islamic loan stocks	1	990.00	-	-
Subtotal	**32**	**63,729.00**	**25**	**48,334.00**
Combination of corporate bonds and sukuk				
– Commercial papers/ Medium-term notes	-	-	6	8,500.00
TOTAL	**56**	**140,989.00**	**50**	**118,464.00**

A total of 45 ratings (based on initial rating) were assigned by credit rating agencies to ringgit-denominated corporate bonds and sukuk issues approved and lodged with the SC. The number of unrated issues rose by 11.11% (Chart 2).

There were 3 foreign currency-denominated corporate bonds and sukuk lodged with the SC, comprising 1 corporate bond by a foreign issuer, as well as 1 corporate bond and 1 sukuk by Malaysian issuers.

Chart 1

Tenure of approved and lodged ringgit-denominated corporate bonds and sukuk issues



Note:
Tenure of facility, and not the respective notes or papers under the facility

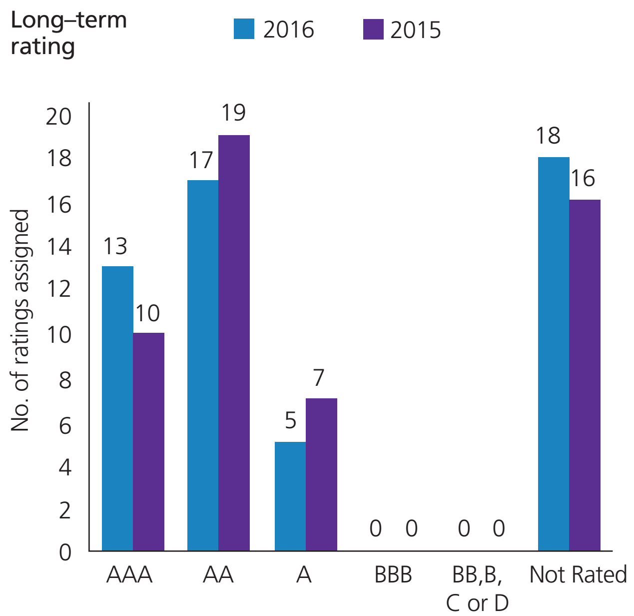
TAKE-OVERS AND MERGERS

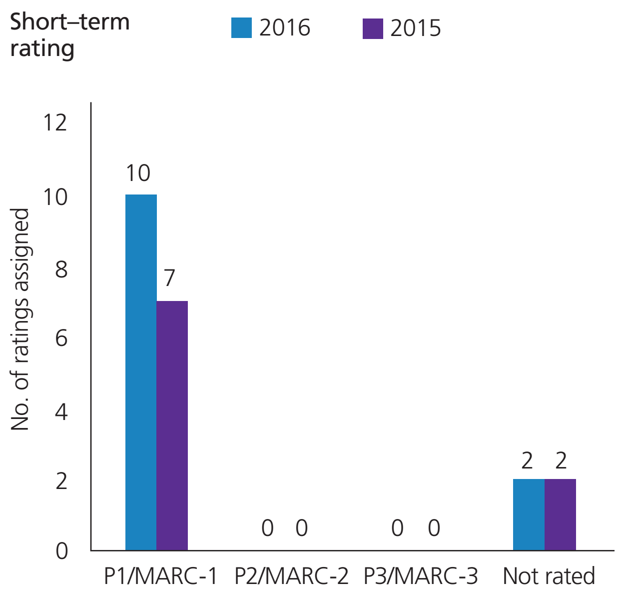
The SC had considered a total of 79 applications in 2016 relating to the *Malaysian Code on Take-overs and Mergers 2010* and the subsequent *Rules on Take-overs, Mergers and Compulsory Acquisitions,* which came into force on 15 August 2016. This is the same as the number of applications considered in 2015.

A total of 22 documents in relation to take-over offers (including by way of schemes) were cleared by the SC involving a total offer value of RM4.33 billion or an average of RM196.98 million each. The same number of offer documents were cleared in 2015, but involved a total offer value of RM6.52 billion or an average of RM293.33 million each.

Chart 2

Rating summary of approved and lodged ringgit-denominated corporate bonds and sukuk issues





Note: A corporate bond or sukuk issue may be assigned more than 1 credit rating (e.g. for commercial papers/medium-term notes programmes, both short-term rating accorded for commercial papers and long-term rating for medium-term notes are taken into account)

The industrial and trading/services sectors saw the most number of offers being made totaling 12 companies (6 companies under each sector), representing 55% in aggregate of the total number of offers. Notable offers in 2016 in terms of offer value included the offer by Johor Corporation for all remaining shares in Kulim (Malaysia) Bhd, which was effected by way of a scheme and valued at RM2,264.73 million; the offer by Hwang Enterprise Sdn Bhd and Hwang Lip Teik for all remaining shares in Hwang Capital (Malaysia) Bhd valued at RM469.31 million and the offer by HRH Tengku Abdullah Al-Haj Ibni Sultan Haji Ahmad Shah Al-Musta'in Billah for all remaining shares in Tanah Makmur Bhd valued at RM301.16 million, which was also effected by way of a scheme.

Out of 22 take-over offer documents cleared during the year, 64% or 14 offers involved proposed privatisations of listed companies (2015: 8). Three of these privatisation proposals involved subsequent offers by their respective major shareholders following earlier take-over offers in 2015, namely Kejuruteraan Samudra Timur Bhd, PJ Development Holdings Bhd and Stemlife Bhd.

The SC cleared 29 independent advice circulars (including a supplementary circular) whereby 23 circulars were in relation to take-over offers and the remaining were in relation to whitewash procedures for exemptions from the mandatory offer obligation. The SC also approved 10 applications for exemptions from having to undertake a mandatory take-over offer and 18 applications for various matters including approval to act as independent adviser for take-over proposals and other waivers or rulings (Table 6).

PROPERTY VALUATION

There were 8 corporate proposals that involved the review of disclosures of property asset valuations in 2016, as compared to 5 in 2015. The aggregate market value of the property assets and the number of valuation reports and certificates reviewed increased by 212.30% and 21.21% respectively i.e. from RM2.44 billion and 33 valuation reports and certificates in 2015 to RM7.62 billion and 40 valuation reports and certificates in 2016. Of the 8 corporate proposals where property valuations were

Table 6

Applications considered in relation to take-overs, mergers and compulsory acquisitions

Type of applications/documents cleared	2016	2015
Clearance of offer documents	22	22
Clearance of independent advice circulars	29	28
Applications for exemption from mandatory offer obligation	10	12
Other applications	18	17
TOTAL	**79**	**79**

reviewed, 3 were IPOs on the Main Market including an IPO for a real estate investment trust (REIT), 1 was an IPO on the ACE Market, 1 was an acquisition by a listed REIT, 1 was the restructuring of a listed corporation and the remaining 2 were the qualifying acquisitions of petroleum assets by special purpose acquisition companies (SPACs).

The proposed listing of Eco World International Bhd had the largest property asset valuation reviewed with a total market value of RM3.44 billion. Other notable valuations reviewed included the valuation of a petroleum asset in Kazakhstan for the qualifying acquisition by Reach Energy Bhd at RM1.68 billion and valuations of property assets for the proposed restructuring of Tekala Corporation Bhd at RM898.00 million.

The number of referrals by Bursa Malaysia of valuation reports and certificates prepared in compliance with the *Listing Requirements of Bursa Malaysia* was 46 compared to 63 in 2015, a reduction of 26.98%. The reviews involved 72 valuation reports and certificates. The total market value of the property assets under the valuation reports and certificates reviewed showed a 16.79% increase from RM17.21 billion in 2015 to RM20.10 billion in 2016.

Notable valuations for which the relevant valuation reports and certificates reviewed were the proposed acquisitions of development lands by IOI Properties Group Bhd and Land & General Bhd as well as the proposed acquisition of plantation asset by Sarawak Oil Palm Bhd.

Table 7
Valuation reviewed by type of proposals

Type of proposals	Number of corporate proposals (No. of reports)				Market value (RM million)	
	2016		2015		2016	2015
Initial public offering:						
– Main Market	3	(14)	1	(2)	4,046.86	36.32
– ACE Market	1	(3)	1	(5)	154.25	44.34
Acquisition by REIT	1	(1)	2	(4)	640.00	842.00
Restructuring/Mergers and acquisitions	3	(22)	1	(22)	2,774.63	1,521.05
	8	**(40)**	**5**	**(33)**	**7,615.74**	**2,443.71**
Cases referred by Bursa Malaysia						
– Main Market transactions	44	(70)	62	(121)	20,057.35	17,195.66
– ACE Market transactions	2	(2)	1	(1)	46.19	12.00
TOTAL	**46**	**(72)**	**63**	**(122)**	**20,103.54**	**17,207.66**

INVESTMENT MANAGEMENT

FUND MANAGEMENT

Total assets under management (AUM) of licensed fund management companies (FMCs) in Malaysia rose by 4.25% to RM696.27 billion as compared to RM667.88 billion in 2015. In 2016, top 5 FMCs contributed to 58.65% of total AUM as compared to 59.95% in 2015 (Chart 1).

Source of funds under management were largely from unit trust funds, corporate bodies, Employees Provident Fund and wholesale funds (Table 1). The funds were allocated in various asset classes and locations, of which, investment inside Malaysia by FMCs amounted to RM560.86 billion, representing 80.55% of the total AUM as at end of 2016 (Chart 2). The bulk of investment was allocated in equities with 48.33% at end of 2016, as compared to 49.23% in 2015 (Chart 3). Similar trend was observed on assets allocation inside and outside Malaysia (Chart 4).

Table 1
Source of clients' funds under management

Source of funds#	2016 (RM billion)	2015 (RM billion)
Unit trust funds*	358.81	346.41
Corporate bodies	79.53	79.06
Employees Provident Fund	107.75	97.80
Wholesale funds	91.16	84.99
Individual	8.36	9.45
Private pension funds	4.43	4.15
Charitable bodies	0.94	0.87
Others	45.29	45.15
TOTAL	**696.27**	**667.88**

Note:
 # Includes domestic and foreign source of funds
** Includes Islamic unit trust funds*

Chart 1
Assets managed by FMCs

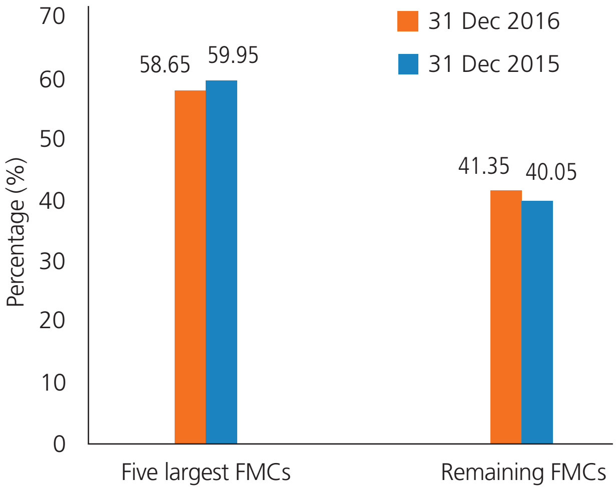


Chart 3
Assets allocation

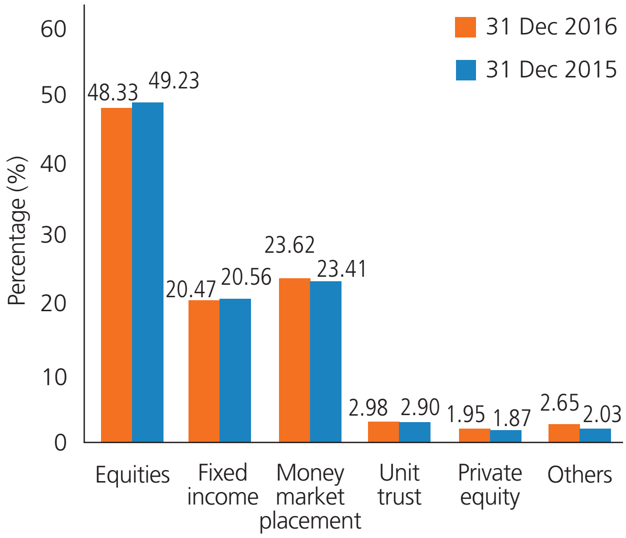


Chart 2
Assets invested inside and outside of Malaysia

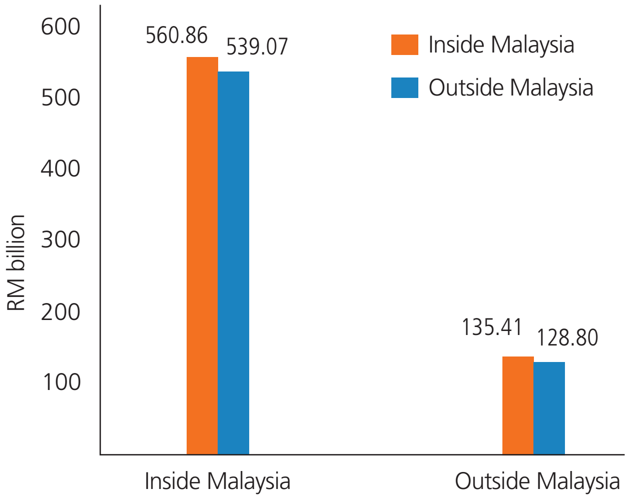
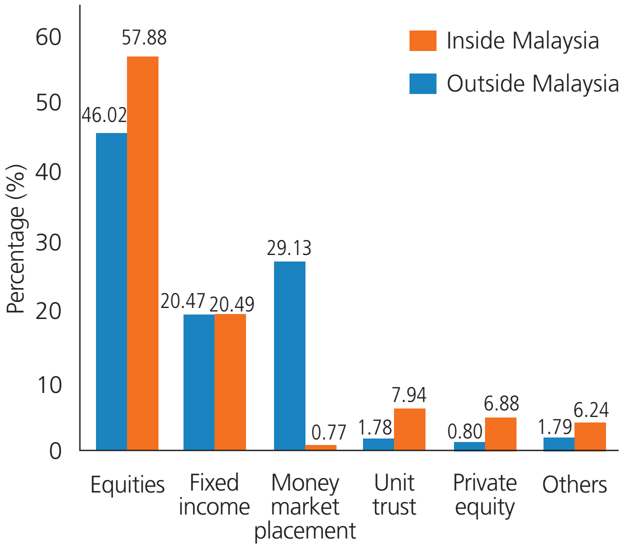


Chart 4
Assets allocation inside and outside of Malaysia as at 31 December 2016



COLLECTIVE INVESTMENT SCHEMES, PRIVATE RETIREMENT SCHEMES AND FOREIGN QUALIFYING CIS

In 2016, unit trust funds in Malaysia continued to make up the largest component of the Malaysian collective investment scheme (CIS) industry. A total net asset value (NAV) of RM358.47 billion was recorded as at 31 December 2016 for unit trust funds which represents an increase of 3.43% from RM346.58 billion as at end 2015. These funds are operated and administered by 35 locally-incorporated unit trust management companies. The percentage of the total NAV of unit trust funds industry against Bursa Malaysia's market capitalisation is 21.50% as at 31 December 2016, as compared to 20.45% as at 31 December 2015 (Table 2).

In the year under review, a total of 40 new unit trust funds were launched while 10 funds were terminated and 15 funds matured, bringing the total number of unit trust funds available to investors to 627 as at 31 December 2016. Of this, 429 funds represented conventional unit trust funds while 198 were Shariah-compliant unit trust funds.

Total sales valued at RM141.88 billion was recorded in 2016 for unit trust funds and institutional unit trust advisers continue to be the major distributors of units with sales amounting to RM55.55 billion (Table 3).

In the wholesale funds segment, 51 new funds were launched in 2016 for sophisticated investors while 31 funds were terminated or matured, raising the number of wholesale funds from 293 as at 31 December 2015 to 313 as at 31 December 2016. Out of 51 funds launched, 48 funds were lodged and launched under the Lodge and Launch (LOLA) Framework which was implemented in June 2015. The total NAV of wholesale funds grew by 7.46% from RM84.53 billion as at 31 December 2015 to RM90.84 billion as at 31 December 2016.

Table 2

Overall status of unit trust fund industry

	31 December 2016	31 December 2015
No. of funds launched	627	612
- Conventional	429	419
- Shariah-compliant	198	193
Units in circulation (billion units)	496.85	458.00
No. of accounts (million)*	19.34	18.70
Total NAV (RM billion)	358.47	346.58
- Conventional (RM billion)	297.56	294.46
- Shariah-compliant (RM billion)	60.91	52.12
% of NAV to Bursa Malaysia market capitalisation^	21.50	20.45

Note:

* *Including unit holders accounts with institutional unit trust advisers (IUTA) that operate nominee account system*

^ *The comparison made between the total NAV of the unit trust funds industry and Bursa Malaysia's market capitalisation is not an indication of the actual amount invested in Bursa Malaysia by the unit trust funds*

As at 31 December 2016, there were 17 real estate investment trusts (REITs) listed on Main Market of Bursa Malaysia with a total market capitalisation (including market capitalisation of a stapled group) of RM44.19 billion, which represented an increase of 17.90% from RM37.48 billion recorded as at 31 December 2015. The total asset size also grew from RM45.73 billion to RM48.76 billion for the same period.

There were 8 exchange-traded funds (ETFs) listed on the Main Market of Bursa Malaysia as at 31 December 2016 with a total market capitalisation of RM1.90 billion, as compared to a total market capitalisation of RM1.71 billion as at 31 December 2015.

As at 31 December 2016, there continued to be only 1 closed-end fund (CEF) listed on the Main Market of Bursa Malaysia with a market capitalisation of RM347.20 million compared to a market capitalisation of RM322.00 million as at 31 December 2015.

For private retirement schemes (PRS), the launch of a new PRS and 6 additional new retirement funds in 2016 increased the total number of PRS from 11 with 50 funds as at 31 December 2015 to 12 with 56 funds as at 31 December 2016. The total NAV of RM1.52 billion as at 31 December 2016 represented an increase of 29.91% compared to a total NAV of RM1.17 billion as at 31 December 2015.

In 2016, the SC has assessed 2 unit trust funds as suitable to be Qualifying CIS pursuant to the Standards of Qualifying CIS under the Memorandum of Understanding on Streamlined Authorisation Framework for Cross-Border Public Offers of ASEAN CIS.

For the year under review, the SC considered a total of 392 applications relating to CIS and PRS, comprising applications to establish new funds, increase in fund size and other ancillary matters (Table 4).

INVESTMENT PRODUCTS

Structured warrants

There were 7 eligible issuers of structured warrants in 2016. The SC received and registered 6 base prospectuses and 5 supplementary prospectuses from these issuers in 2016 (Table 5).

Table 3
Distribution channels

	31 December 2016 RM billion	31 December 2015 RM billion
Institutional unit trust advisers	55.55	61.57
Management company	54.10	48.60
Unit trust consultant	28.85	24.80
Corporate unit trust adviser	0.41	0.52
Others	2.97	2.98
TOTAL	**141.88**	**138.47**

Table 4

Number of applications and lodgments relating to collective investment schemes, private retirement schemes and recognition of foreign Qualifying CIS

(i) Lodgement	Lodged		Launched	
	2016	2015	2016	2015
Wholesale funds*	49	40	48	40

(ii) Applications	Considered		Approved		Pending consideration	
	2016	2015	2016	2015	As at 31 Dec 2016	As at 31 Dec 2015
Establishment of collective investment schemes	**35**	**91**	**35**	**91**	**7**	**7**
– Unit trust funds	34	44	34	44	7	7
– Real estate investment trusts	1	1	1	1	-	-
– Wholesale funds*	-	45	-	45	-	-
– Exchange-traded funds	-	1	-	1	-	-
Establishment of retirement funds	6	4	6	4	-	6
Recognition of foreign Qualifying CIS	-	1	-	1	-	-
Increase in fund size limit	**6**	**4**	**6**	**4**	-	-
– Unit trust funds	3	-	3	-	-	-
– Real estate investment trusts	2	2	2	2	-	-
– Exchange-traded funds	1	2	1	2	-	-
Exemption/variation from guidelines	37	18	37	17	5	1
Registration of prospectuses	182	234	182	234	16	12
Registration of deeds	78	338	78	338	17	11
Other applications	48	85	48	84	3	10
TOTAL	**392**	**775**	**392**	**773**	**48**	**47**

Note

* *The SC introduced the Lodge and Launch Framework in June 2015 for wholesale funds*

A total of 732 term sheets relating to the offering of structured warrants were registered in 2016, representing an increase of 12.27% compared to 652 term sheets registered in 2015. The year also saw a greater mix of underlying references for structured warrants, including 537 issuances of structured warrants based on shares compared to 475 in 2015 and 193 issuances of structured warrants based on indices compared to 166 in the previous year.

The term sheets registered in 2016 enabled the structured warrants issuers to offer up to a total of 43.51 billion structured warrants.

Structured products

In 2016, 12 issuers lodged 18 new structured product programmes with the SC under the LOLA Framework for unlisted capital market products. These programmes comprised a variety of underlying references and had an aggregate size of RM87.0 billion with each programme typically having a limit size of up to RM5.0 billion (Table 6).

Table 5
Structured warrants considered

Structured warrants	2016	2015
No. of eligible issuers	7	7
Base prospectuses registered	6*	6**
Supplementary prospectuses registered	5	10
Term sheets registered	732	652
Issue size (billion warrants)	**43.51**	**38.96**

Note:
** One issuer did not renew its base prospectus which had expired in 2016.*
*** One issuer did not renew its base prospectus which had expired in 2015.*

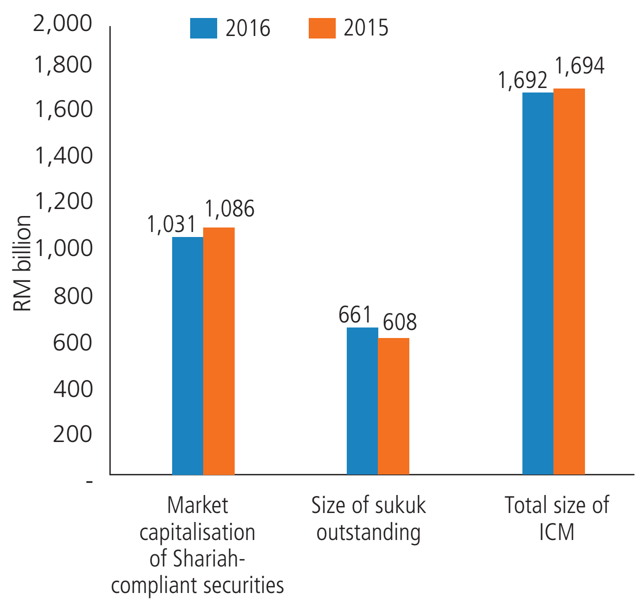
Table 6
Structured product programmes considered

Structured products	2016		2015	
No. of issuers lodged new programmes	12		10	
New programmes lodged	No. of programmes	Size (RM billion)	No. of programmes	Size (RM billion)
Principle				
- Conventional	17	82	15	75
- Islamic	1	5	1	5
TOTAL	**18**	**87**	**16**	**80**

ISLAMIC CAPITAL MARKET

The Islamic capital market (ICM) accounted for 59.56% of Malaysia's capital market. The market size stood at RM1,691.64 billion in 2016 comparable to RM1,694.11 billion in 2015. This encompasses total market capitalisation of Shariah-compliant equities of RM1,030.56 billion and total sukuk outstanding amounted to RM661.08 billion (Chart 1 and Table 1).

Chart 1
Size of Islamic capital market



SHARIAH-COMPLIANT SECURITIES

The SC released the updated list of Shariah-compliant securities approved by its Shariah Advisory Council (SAC) on 27 May and 25 November 2016 respectively. The updated list as at 25 November 2016 featured a total of 672 Shariah-compliant securities. The list included 34 newly-classified Shariah-compliant securities and excluded 30 from the previous list issued in May 2016.

As at end December, these securities constituted 74.23% of the 904 listed securities on Bursa Malaysia. The market capitalisation of Shariah-compliant securities stood at RM1.03 trillion or 61.81% of the total market capitalisation, a decrease of 5.12% as compared to end 2015 (Chart 2 and Table 2).

SUKUK

In 2016, a total of 56 corporate bonds and sukuk were approved and lodged with the SC amounting to RM140.99 billion, of which 32 were sukuk valued at RM63.73 billion (Chart 3). The sukuk value represented 45.20% of the total new corporate bonds and sukuk approved and lodged.

In terms of issuances, corporate sukuk represented 75.68% (2015: 66.67%) of total corporate bonds and sukuk issuances while sukuk outstanding accounted for 73.85% (2015: 71.65%) of total corporate bonds and sukuk outstanding (Table 3).

Overall, sukuk issuances by Government and corporates in 2016 represented 53.81% (2015: 43.57%) of total bond issuances whereas total sukuk outstanding represented 56.36% (2015: 54.05%) of total bonds outstanding (Table 4).

Chart 2
Percentage of number and market capitalisation of Shariah-compliant securities

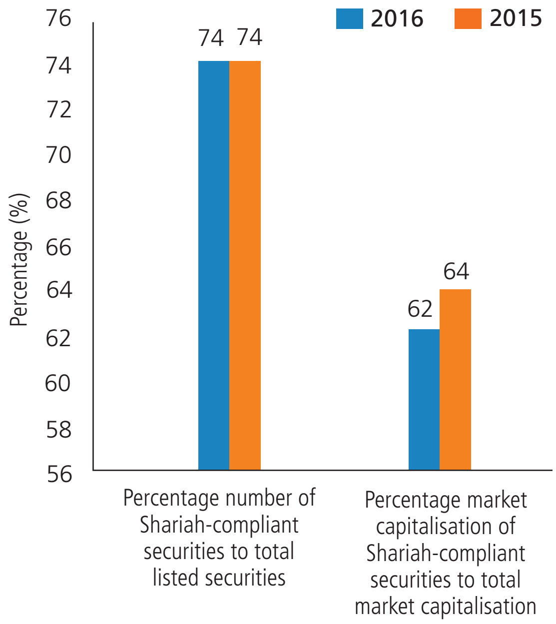
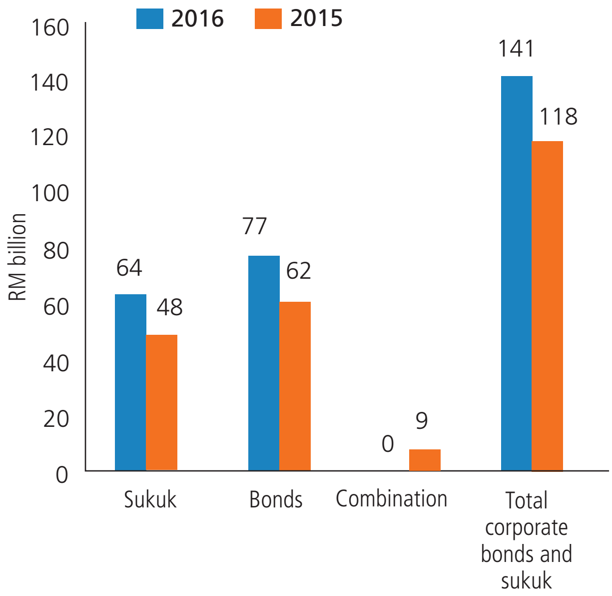


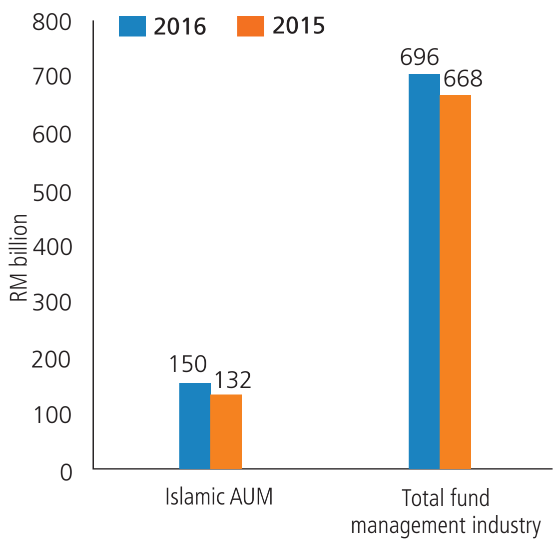
Chart 3
Corporate sukuk approved/lodged



ISLAMIC FUND MANAGEMENT

The Islamic AUM (CIS and private mandates) stood at RM149.64 billion registering 13.04% growth from RM132.38 billion as at end 2015 (Chart 4). The number of Islamic CIS also grew from 314 in 2015 to 328 as at end 2016, making it the world's largest in terms of number of fund, which stood at RM116.08 billion of AUM. As at end 2016, there were 20 full-fledged Islamic fund management companies operating in Malaysia, with 31 fund management companies offering Islamic windows.

Chart 4
AUM of Islamic fund management



KEY STATISTICS

Table 1
Size of ICM

Islamic capital market	2016 (RM Bil)	2015 (RM Bil)
Market capitalisation of Shariah-compliant securities	1,030.56	1,086.18
Size of sukuk outstanding	661.08	607.93
Total size of ICM	1,691.64	1,694.11
% of ICM to total capital market	59.56%	60.08%

Table 2
Shariah-compliant securities

	2016	2015
Number of securities:		
Shariah-compliant securities	671	667
Total listed securities	904	903
% of Shariah-compliant to total listed securities	74.23%	73.86%
Market capitalisation (RM billion):		
Shariah-compliant securities	1,030.56	1,086.18
Total market capitalisation	1,667.37	1,694.78
% of Shariah-compliant securities to total market capitalisation	61.81%	64.09%

Table 3
Corporate sukuk

Sukuk approved/lodged	2016	2015
Number of sukuk	32	25
Size of sukuk (RM billion)	63.73	48.33
Size of total corporate bonds and sukuk (RM billion)	140.99	118.46
% of sukuk to total corporate bonds and sukuk approved/ lodged	45.20%	40.80%
Total issuance (RM billion)	**2016**	**2015**
Sukuk issuance	64.82	57.57
Total corporate bonds and sukuk issuances	85.65	86.35
% of sukuk to total corporate bonds and sukuk issuances	75.68%	66.67%
Total sukuk outstanding (RM billion)	**2016**	**2015**
Sukuk outstanding	393.45	361.33
Total corporate bonds and sukuk outstanding	532.76	504.33
% of sukuk to total corporate bonds and sukuk outstanding	73.85%	71.65%

Table 4
Government and corporate sukuk

Total issuance (RM billion)	2016	2015
Sukuk issuance	129.45	117.70
Total bonds issuances	240.56	270.15
% of sukuk to total bonds issuances	53.81%	43.57%
Total sukuk outstanding (RM billion)	**2016**	**2015**
Sukuk outstanding	661.08	607.93
Total bonds outstanding	1,172.91	1,124.84
% of sukuk to total bonds outstanding	56.36%	54.05%

Table 5
Islamic assets under management

	2016	2015
Islamic AUM	149.64	132.38
Total fund management industry	696.27	667.88
% of Islamic AUM to total fund management industry	21.49%	19.82%

Table 6
Islamic unit trust funds

	2016	2015
Islamic UTF	198	193
Total industry	627	612
NAV of Islamic UTF (RM billion)	60.91	52.12
NAV of total industry (RM billion)	358.47	346.58
% NAV of Islamic UTF to total industry	16.99%	15.04%

Table 7
Islamic wholesale funds

	2016	2015
Islamic WF	97	93
Total industry	313	293
NAV of Islamic WF (RM billion)	35.71	31.66
NAV of total industry (RM billion)	90.84	84.53
% NAV of Islamic WF to total industry	39.31%	37.45%

Table 8
Islamic private retirement funds

Islamic Private Retirement Funds (PRF)	2016	2015
Islamic PRF	25	20
Total industry	56	50
NAV of Islamic PRF (RM billion)	0.51	0.38
NAV of total industry (RM billion)	1.52	1.17
% NAV of Islamic PRF to total industry	33.55%	32.25%

Table 9
Islamic exchange-traded funds

Islamic Exchange-Traded Funds (ETF)	2016	2015
Islamic ETF	4	4
Total industry	8	8
Market capitalisation of Islamic ETF (RM billion)	0.42	0.36
Market capitalisation of total industry (RM billion)	1.90	1.71
% market capitalisation of Islamic ETF to total industry	22.11%	21.05%

Table 10
Islamic real estate investment trusts

Islamic Real Estate Investment Trust (REIT)	2016	2015
Islamic REIT	4	4
Total industry	17	17
Market capitalisation of Islamic REIT (RM billion)	18.53	16.11
Market capitalisation of total industry (RM billion)	44.19	37.48
% market capitalisation of Islamic REIT to total industry	41.93%	42.98%

VENTURE CAPITAL AND PRIVATE EQUITY INDUSTRY

The total number of registered corporations stood at 109 as at 31 December 2016 (Table 1). The venture capital segment accounted for 103 registered corporations (VCMC and VCC), while the private equity space consist of 6 registered corporations (PEMC and PEC).

The year witnessed an increase of 71% in the number of investee companies from 220 in 2015 to 376 in 2016. As at end 2016, the number of VC and PE professionals employed in the industry with at least 4 years of experience stood at 198.

Table 1
Statistics on industry participants

	31 December 2016	31 December 2015
Number of registered corporations	109	121
Number of registered VCMCs and VCCs	103	119
Number of registered PEMCs and PECs	6	2
Number of investee companies	376	220
Number of VC and PE professionals[1]	198	229

[1] Professionals with more than 4 years of experience

Table 2
Industry key statistics

	31 December 2016 RM million	31 December 2015 RM million
Total committed funds under management [1]	6,510	7,154
Total drawn capital [2]	3,280	3,209
Estimated capital available for investment [3]=[1]-[2]	3,230	3,945
Total investment as at end of the period	2,923	2,221
	During 2016	**During 2015**
Investments in investee companies	570	365
Divestments	532	407

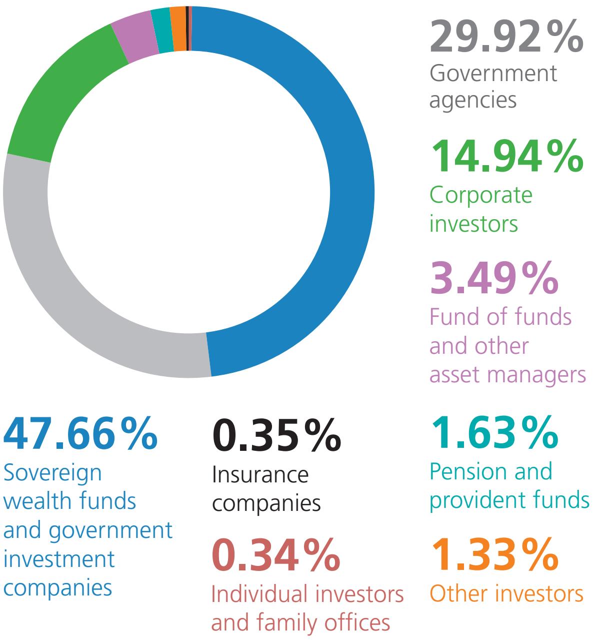
The total committed funds in the industry as at end 2016 stood at RM6.51 billion (Table 2). Within this total, the registered private equity (PE) corporations recorded a 261% increase in committed funds from RM205 million in 2015 to RM714 million at end 2016.

At the end of the year under review, the total cumulative investments increased by 31.6% to RM2.92 billion from RM2.22 billion as at end 2015. Investments made during 2016 stood at RM570 million as compared to RM365 million in 2015, representing an increase of 56.2% year-on-year.

As for divestments, there was an increase of 30.7% from RM407 million in 2015 to RM532 million in 2016. In this regard, the divestments, either partial or full, involved 276 investee companies. Divestments recorded during the year were mainly through trade sale and IPOs or sale to public markets.

Public funds remain the largest source of capital for the industry with sovereign wealth funds and government investment companies making up 47.66% while government agencies contributed 29.92%. Private sector contribution to the industry were led by corporate investors (14.94%) followed

Chart 1
Sources of funds (2016: RM6.51 billion)



Notes:
Government agencies: Ministries and agencies (other than government investment companies) under them. Includes Minister of Finance Inc and *Lembaga Tabung Haji* (Malaysian hajj pilgrims fund board).
SWFs and government investment companies: Includes statutory and incorporated bodies established for the purpose of managing investments of public funds. E.g. Khazanah Nasional, MAVCAP, Ekuinas.

Chart 2
Investments by financing stage (2016: RM 570 million)

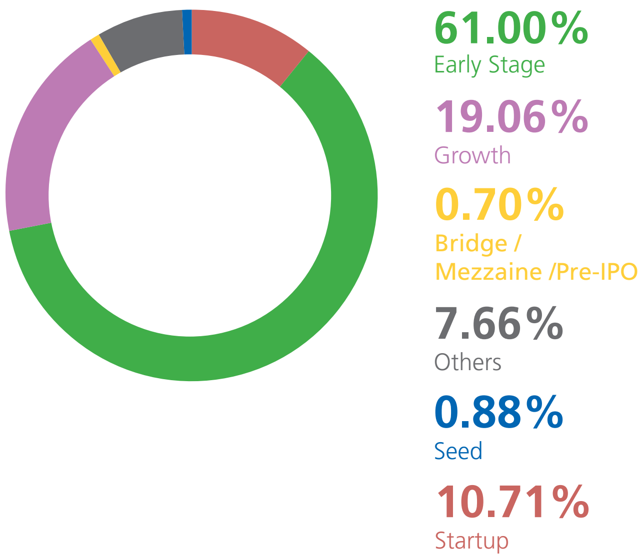


Table 3
Investments during 2016

Business stage	New investments (RM '000)	% of total	No. of companies	Avg. deal size (RM '000)
Seed	5,000	0.88	1	5,000
Startup	61,023	10.72	12	5,085
Early stage	347,157	60.96	29	11,971
Growth	108,635	19.08	39	2,786
Bridge/Mezzanine/Pre-IPO	4,000	0.70	1	4,000
Turnaround/Restructuring	–	0.00	–	–
Others	43,635	7.66	5	8,727
TOTAL	**569,450**	**100.00**	**87**	**6,210**

by asset managers (3.49%) and pension and provident funds (1.63%).

The top 3 registered corporations by amount of investor commitments as at end 2016 were Xeraya Capital, Malaysian Life Sciences Capital Fund and Malaysian Technology Development Corporation (MTDC).

Investee companies at the early-stage and growth stages received the bulk of the funding in 2016 where a total of 68 investee companies received funding amounting to RM426 million, representing 80.04% of total investments made during the year (Table 3).

Investments into seed and start-up stages collectively stood at 11.59% of total investments made during the year, where the investments were channelled into 13 investee companies.

Investments in 2016 showed a concentration towards the life sciences sector where 72.80% of investments during the year were made in this sector, an increase of 24.32 percentage points (ppt) from 2015 (Chart 3). Manufacturing as well as IT and communication saw decrease in share of investments by 5.31ppt and 11.78ppt respectively.

Other sectors recorded a share of 16.23%, a decrease of 7.22ppt from 2015. These sectors include investments in wholesale and retail trading, electricity and power generation, education as well as media production.

For divestments in 2016, trade sale accounted for the highest percentage with RM221 million divested via this route, representing 41.59% of the total. IPOs or sale to public markets represented 17.16% of the total divestments, amounting to RM91 million for the year. (Table 4)

Chart 3

Investments during year, percentage by sectors

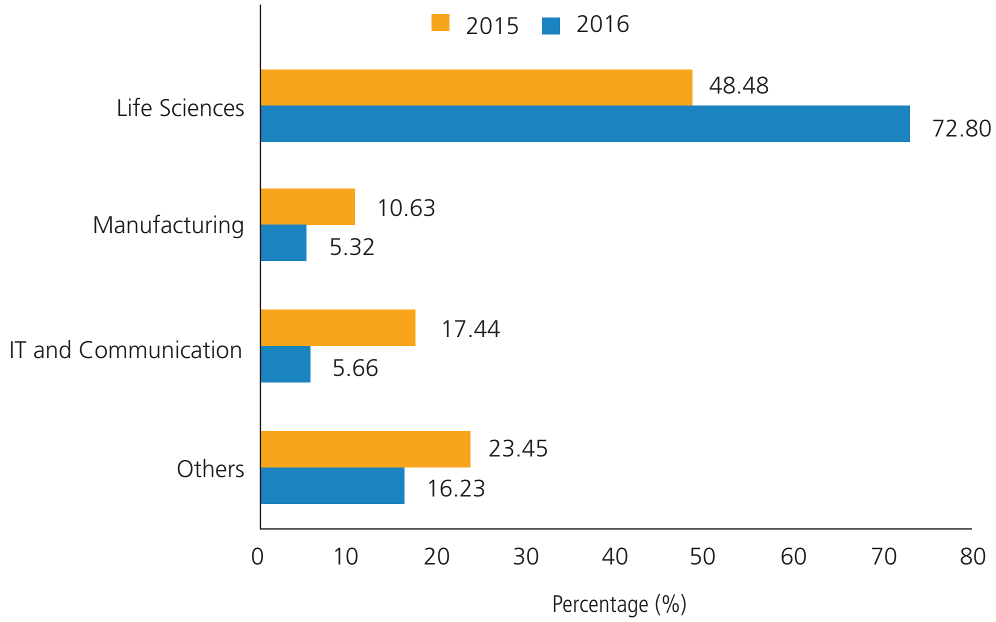


Table 4

Divestments during 2016

Exit method	Divestment (RM'000)	% of total	No. of companies
IPO/Sale to public markets	91,348	17.16	25
Redemption	21,669	4.07	7
Trade sale	221,425	41.59	5
Sale or distribution to limited partners	100	0.02	11
Write-off	184,199	34.60	24
Other means	13,699	2.57	204
TOTAL	**532,439**	**100.00**	**276**

AUTHORISATION AND LICENSING

The number of licensed intermediaries including individual licensees stood at 227 compared with 234 in previous year. The number of licensed representatives declined marginally to 9,632 compared with 9,768 in previous year. During the year, 784 new licences were issued to Capital Market Services Representative's Licence (CMSRLs) to undertake various regulated activities. It was noted that advisory segment continues to attract new entrants, particularly financial planning. Following the SC's liberalisation of marketing activities for fund management in 2015, 24 applicants were approved as Marketing Representatives. The SC also approved the registration of 23 Trading and Introducing Representatives, resulting in 226 registered representatives as at end 2016.

Two new licences were issued to companies to undertake fund management and financial planning activities. In respect of cessation of activities, 2 Capital Market Services Licence (CMSLs) were surrendered following the consolidation exercises while the remaining 7 ceased due to inability to sustain their businesses.

As at 31 December 2016, there were 227 CMSL holders carrying on various regulated activities as defined under Schedule 2 of the CMSA. The entities involved are as follows:

Table 1
Capital Markets Services Licence holders

By core activity	2016	2015
Dealing in securities[1]	38	38
Dealing in derivatives	8	9
Fund management	90	90
Advising on corporate finance	40	44
Investment advice	17	18
Investment advice (individual)	1	1
Financial planning	29	28
Financial planning (individual)	4	6
TOTAL	**227**	**234**

Note:
[1] *Includes 6 CMSLs for dealing in securities restricted to unit trust*

Table 1
Capital Markets Services Licence holders (*continued*)

By regulated activity	2016	2015
Dealing in securities		
Investment banks	10	10
Universal brokers	1	1
1+1 stockbroking companies	12	12
Special scheme foreign stockbroking companies	7	7
Issuing houses	2	2
	32	**32**
Dealing in derivatives		
Investment banks	5	4
1+1 stockbroking companies	3	3
Special scheme foreign stockbroking companies	2	2
Others	8	9
	18	**18**
Fund management		
Portfolio management		
Investment banks	1	1
Unit trust management companies	24	26
Special scheme foreign fund managers	5	5
Islamic fund managers	20	20
Boutique fund managers	1	1
Others	23	22
Asset management		
Real estate investment trusts	17	16
	91	**91**
Advising on corporate finance		
Investment banks	10	10
1+1 stockbroking companies	5	5
Special scheme foreign stockbroking companies	6	6
Others/standalone/boutique corporate finance companies	41	45
	62	**66**

Table 1
Capital Markets Services Licence holders (*continued*)

By regulated activity	2016	2015
Investment advice		
Investment banks	8	8
1+1 stockbroking companies	9	8
Special scheme foreign stockbroking companies	7	7
Unit trust management companies	2	2
Others/standalone/boutique investment advice companies	22	24
	48	**49**
Financial planning		
Unit trust management companies	3	3
Corporate unit trust advisers	10	9
Others/standalone/boutique financial planning companies	23	25
	36	**37**
Dealing in securities restricted to unit trusts		
Unit trust management companies	30	32
Islamic fund managers	6	6
Corporate unit trust advisers	10	9
Others	1	1
	47	**48**
Dealing in private retirement schemes		
Investment banks	1	1
Unit trust management companies	9	9
Islamic fund managers	–	1
Corporate private retirement scheme advisers	10	9
Others	2	2
	22	**22**
GRAND TOTAL	**356**	**363**

Table 2
Capital Markets Services Representative's Licence holders

By core activity	2016	2015
Dealing in securities	6,606	6,757
Dealing in derivatives	545	612
Fund management	811	812
Advising on corporate finance	769	759
Investment advice	275	261
Financial planning	626	567
GRAND TOTAL	**9,632**	**9,768**

Table 3
Application for new company licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Issued	-	-	-	-	1	-	-	3	-	-	1	-

Table 4
Application for new representatives' licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Issued	339	303	51	58	93	101	124	129	67	49	110	78
Withdrawn*	36	40	11	10	26	7	7	21	9	11	95	71
Returned*	244	196	48	41	86	86	60	65	52	26	146	96

Note:
* *By regulated activities*

Table 5

Cessation of company/individual licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning		Financial planning (Individual)	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Ceased	-	-	1	2	1	1	4	1	1	-	-	1	2	1
Revoked	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Suspended	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 6

Cessation of representatives' licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Ceased*	542	356	162	82	97	53	107	74	51	44	45	29
Revoked	7	3	-	-	-	-	-	1	-	-	1	-
Suspended	-	-	-	-	-	-	-	-	-	-	-	-

Note:

* *By regulated activities*

ENFORCEMENT

In 2016, SC received 27 referrals on possible violations of securities laws arising mainly from SC's internal surveillance activities as well as referrals from local and foreign authorities (Chart 1). One third of these referrals related to possible market misconduct involving insider trading and share market manipulation. Possible corporate governance transgressions involving conduct of PLC directors causing wrongful loss to the PLC as well as misreporting of PLC's financial statements also made up a significant portion of the referrals received for investigation. This is followed by referrals on carrying out regulated activities, such as dealing in securities and undertaking fund management activities, without a licence from SC.

As at 31 December 2016, there were 61 active investigations, made up substantially of cases involving possible insider trading (Chart 2).

In order to facilitate the evidence gathering process, the SC's Investigating officers utilise the full spectrum of their investigation powers under the SCA which include conducting searches, seizure of items and

Chart 1

Referrals received in 2016 by nature of offence

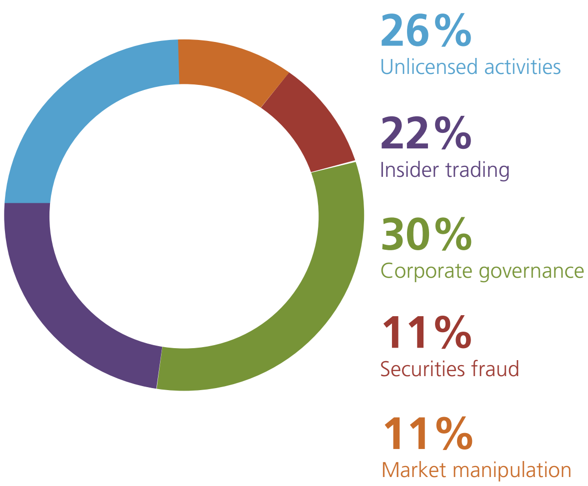
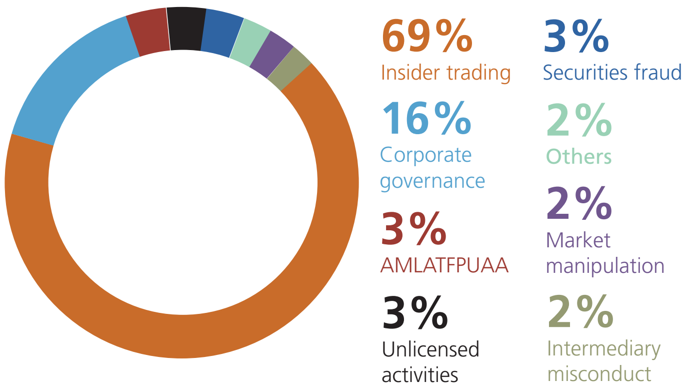


Chart 2

Active investigation by nature of offence



documents, recording statements from witnesses and seeking assistance from foreign supervisory authorities.

In 2016, the SC entered and searched 11 premises, which included offices of PLCs as well as residences of former PLC directors. These searches were carried out in connection with investigations into possible corporate governance offences.

During the year, witness statements were recorded from 484 individuals to assist in ongoing investigations (Chart 3). The majority of these individuals were professionals who are corporate advisors, accountants, lawyers, company secretaries, as well as, directors and senior management of PLCs, securities account holders and licensed persons.

Investigations involving cross-border financial transactions continued to increase during the year. In this regard, the SC relies on the assistance from foreign supervisory authorities under IOSCO's Multilateral Memorandum of Understanding on Consultation and Co-Operation and Exchange of Information (MMoU). In 2016, SC made 36 requests for investigation assistance from 10 foreign supervisory authorities (Table 1). Almost 80% of these requests were in relation to investigations involving possible insider trading. We sought assistance from foreign supervisory authorities to obtain, among others, records on securities transactions, banking records, information of the beneficial ownership of companies and telephone records. We have also received assistance to record statements from witnesses located abroad.

Chart 3

Witness statements recorded in 2016 by type of witness

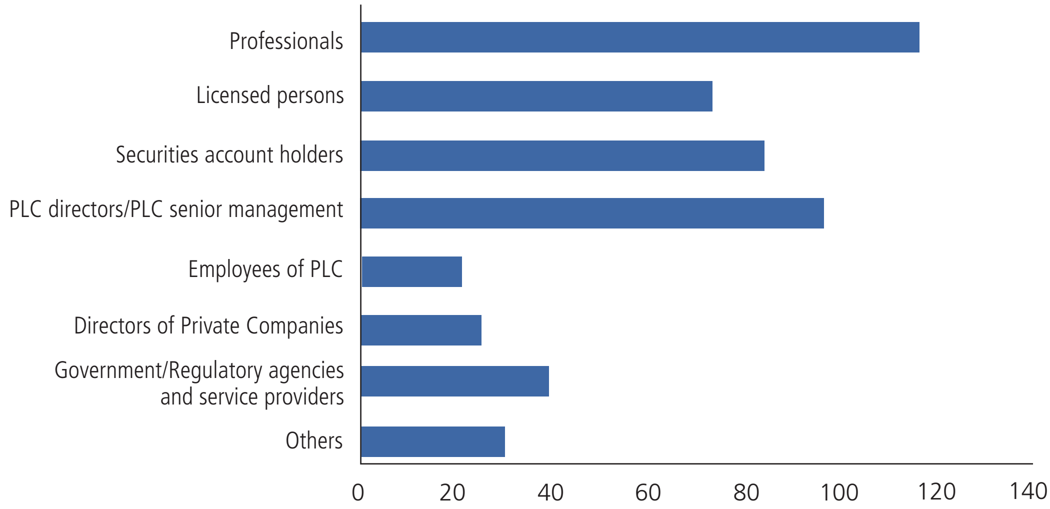


Table 1
Foreign assistance sought by SC in 2016 by jurisdiction

Jurisdictions	No. of requests
Singapore	14
Hong Kong	6
Australia	3
China	2
Mauritius	2
Switzerland	2
Indonesia	2
British Virgin Islands	3
UK	1
US	1
TOTAL	36

Similarly, we attended to 8 requests for assistance from foreign supervisory authorities of 5 jurisdictions. This included obtaining documents relating to securities transactions and related banking records as well as information on beneficial ownership of companies.

Administrative actions

In 2016, a total of 37 administrative sanctions were imposed by the SC for various misconducts and breaches of securities laws such as making false or misleading statements to the SC, breaches of licensing conditions and for late submission of documents under the Lodge and Launch (LOLA) Framework.

Sanctions imposed on the parties in breach comprised reprimands, revocation of licences and imposition of penalties and directives (Table 2).

Table 2
Administrative actions taken in 2016 by types of sanction and parties in breach

Parties in breach	Types of sanction			
	Directive	Reprimand	Penalty	Revocation of licence
Licensed persons	4	4	3	8
Directors of public-listed companies (PLC)	-	4	2	-
Principal advisers	1	1	-	-
Registered persons	-	-	1	-
Other individuals[1]	1	4	4	-
TOTAL	**6**	**13**	**10**	**8**

Note:
[1] *A director and shareholder of a company submitting a licensing application and 3 unit trust consultants registered with the Federation of Investment Managers Malaysia.*

During the year, a total of RM1.416 million in penalties were imposed against the following parties:

- An individual for making false or misleading statements in relation to a licensing application;
- A Capital Markets Services Representative's Licence holder for accepting and acting on instructions from a third party in relation to the trading accounts of a client without authorisation;
- A director of a PLC for causing wrongful loss to the PLC;
- A director of a PLC for abetting in causing the wrongful loss to the PLC;
- Two licensed intermediaries for breaching provisions in the *Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries*;
- An individual for carrying out the regulated activity of fund management without a licence;
- Two individuals for abetting in carrying out the regulated activity of fund management without a licence; and
- A registered person for delay in submitting a monthly post-issuance report for a structured product under the LOLA Framework.

All administrative penalties collected by SC are channelled to the Federal Consolidated Fund.

Infringement notices

Apart from administrative action under its statutory powers, the SC also utilises other forms of non-statutory enforcement tools in the exercise of its monitoring, gate-keeping and supervisory function.

Infringement notices are issued where breaches of securities laws or guidelines detected do not warrant the initiation of a formal enforcement action or the imposition of an administrative action.

Infringement notices issued by the SC include the following:

- Supervisory Letters Involving Infringements – issued pursuant to the exercise of a supervisory function or the conduct of an examination under section 126 of the SCMA.
- Warning Letters – issued pursuant to the discharge of SC's gate-keeping function such as the issuance of licences, approval of corporate proposals and review of prospectuses. Warning letters may be issued to licensed, registered persons or other professionals or experts.
- Non-compliance Letters – issued pursuant to the discharge of SC's gate-keeping function for minor breaches.

In 2016, 177 infringement notices were issued by the SC as detailed in Table 3.

Table 3
Type of Infringement Notices

Type of Infringement Notices	Total
Supervisory Letters Involving Infringements	16
Warning Letters	15
Non-compliance Letters	146
TOTAL	**177**

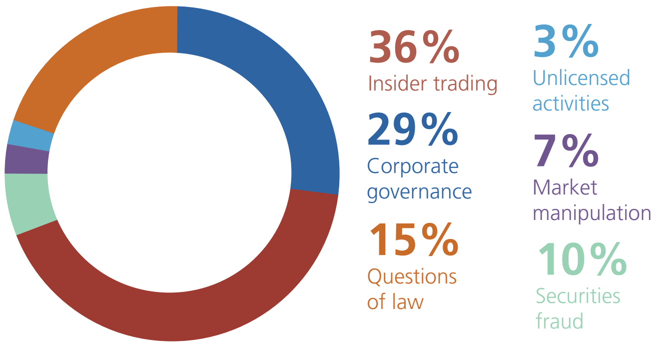
Table 4
Cases currently pending in courts

Courts	No. of cases
Sessions Court	26
High Court (Criminal)	16
High Court (Civil)	9
Court of Appeal	5
Federal Court	3
TOTAL	59

Ongoing court cases for 2016

In 2016, the SC had a total of 59 ongoing cases in the Sessions Court, High Court, Court of Appeal and Federal Court (Table 4). Of these cases, 36% related to insider trading while 29% of cases related to corporate governance breaches such as financial mis-statements and disclosure offences. Of the total number of ongoing cases, 15% of the cases involved questions of law and interlocutory applications in the superior courts. Cases relating to unlicensed activities, market manipulation and securities fraud made up the remaining 20% of the total number of cases (Chart 4).

Chart 4
Ongoing court cases for 2016 by nature of cases



Details of criminal prosecution in 2016

In 2016, the SC charged a total of 17 individuals in the Sessions Court. Of this number, 10 individuals were charged for insider trading, 4 individuals for causing wrongful loss while another 3 for offering and issuing securities without a prospectus (Table 5).

Table 5
Details of criminal prosecution in 2016

No.	Nature of offence	Offender(s)	Facts of charge(s)	Date charged
Criminal prosecution initiated – Persons charged				
1.	Insider trading	Fong Chiew Hean	Fong CH was charged with 9 counts of insider trading under section 188(2)(a) of the *Capital Markets and Services Act 2007* (CMSA). He is alleged to have acquired 891,000 units of Three-A Resources Bhd (3A) shares through 2 accounts between 7 September 2009 and 5 October 2009 while in possession of inside information relating to the proposed collective venture between the businesses of 3A and Wilmar International Limited (Wilmar).	25 October 2016
	Insider trading	Fang Siew Yee	Fang SY was charged under section 188(3)(a) of the CMSA for having communicated to Fong CH on 5 September 2009 inside information in relation to the proposed collective venture between the businesses of 3A and Wilmar. Fang SY was also charged with 8 counts of insider trading under section 188(2)(a) of the CMSA. She is alleged to have acquired 2,720,000 units of 3A shares through the account of Tan Bee Geok between 27 August 2009 and 5 October 2009 while in possession of inside information relating to the proposed collective venture between the businesses of 3A and Wilmar and information relating to the proposed private placement of up to 20% of the issued and paid-up share capital of 3A to Wilmar.	25 October 2016
	Insider trading	Fang Chew Ham	Fang CH was charged under section 188(3)(a) of the CMSA for having communicated to Fong CH on 5 September 2009 inside information in relation to the proposed collective venture between the businesses of 3A and Wilmar. Fang CH was also charged with 7 counts of abetting Fang SY in acquiring units of 2,600,000 3A shares between 27 August 2009 and 5 October 2009 while in possession of inside information relating to the proposed collective venture between the businesses of 3A and Wilmar and information relating to the proposed private placement of up to 20% of the issued and paid-up share capital of 3A to Wilmar.	25 October 2016

Table 5

Details of criminal prosecution in 2016 (*continued*)

No.	Nature of offence	Offender(s)	Facts of charge(s)	Date charged
Criminal prosecution initiated – Persons charged				
	Insider trading	Tan Bee Geok	Tan BG was charged with 8 counts of abetting Fang SY in acquiring 2,720,000 units of 3A shares between 27 August 2009 and 5 October 2009 while in possession of inside information relating to the proposed collective venture between the businesses of 3A and Wilmar and information relating to the proposed private placement of up to 20% of the issued and paid-up share capital of 3A to Wilmar.	25 October 2016
	Insider trading	Chew Lian Foon	Chew LF was charged with 7 counts of abetting Fang SY in acquiring 2,620,000 units of 3A shares between 27 August 2009 and 2 October 2009 while in possession of inside information relating to the proposed collective venture between the businesses of 3A and Wilmar and information relating to the proposed private placement of up to 20% of the issued and paid-up share capital of 3A to Wilmar.	25 October 2016
	Insider trading	Ong Kok Aun	Ong KA was charged with 1 count of abetting Fang SY in acquiring 100,000 units of 3A shares on 5 October 2009 while in possession of inside information relating to the proposed private placement of up to 20% of the issued and paid-up share capital of 3A to Wilmar.	25 October 2016
2.	Causing wrongful loss to a listed corporation	• Law Siew Ngoh • Robert Daniel Tan Kim Leng • Dato' Ng Back Heang • Dato' Yap Wee Hin	Law SN, Tan KL, Dato' Ng BH and Dato' Yap WH, former executive directors of Patimas Computers Bhd (Patimas) were charged with 10 counts of causing wrongful loss to Patimas under section 317A of the CMSA. They are alleged to have made payments totalling RM5.1 million between July 2010 and December 2010, for the purported development of various software for Patimas when in fact the payments were not used for such purpose.	29 September 2016

Table 5

Details of criminal prosecution in 2016 (*continued*)

No.	Nature of offence	Offender(s)	Facts of charge(s)	Date charged
Criminal prosecution initiated – Persons charged				
3.	Insider trading	Yeow Kheng Chew	Yeow KC was charged with 1 count of insider trading under section 188(2)(a) of the CMSA. He is alleged to have acquired 1,159,000 units of Kencana Petroleum Bhd (Kencana) shares through the account of Paulene Chee Yuet Fang on 8 July 2011 while in possession of inside information relating to the proposed merger of Kencana and SapuraCrest Petroleum Bhd.	29 July 2016
	Insider trading	Paulene Chee Yuet Fang	Chee YF was charged with 1 count of abetting Yeow KC in acquiring 1,159,000 units of Kencana shares on 8 July 2011 while in possession of inside information relating to the proposed merger of Kencana and SapuraCrest Petroleum Bhd.	29 July 2016
	Insider trading	Tan Yee Chee	Tan YC was charged with 1 count of abetting Yeow KC in acquiring 1,159,000 units of Kencana shares on 8 July 2011 while in possession of inside information relating to the proposed merger of Kencana and SapuraCrest Petroleum Bhd.	29 July 2016
4.	Misleading statement in a material particular	Datuk Ishak Ismail	Datuk Ishak was charged with 1 count of making a misleading statement under section 177(b) of the CMSA in an article which was published in The Star newspaper dated 5 June 2010.	13 June 2016
	Insider trading	Datuk Ishak Ismail	Datuk Ishak was charged with 2 counts of insider trading under section 188(2)(a) of the CMSA. He is alleged to have disposed of 58,691,900 Kenmark shares on 9 and 11 June 2010 while in possession of inside information that 2 of Kenmark's clients had been adjudged bankrupt and that EON Bank Bhd did not agree to uplift the receivership on Kenmark.	13 June 2016

Table 5

Details of criminal prosecution in 2016 (*continued*)

No.	Nature of offence	Offender(s)	Facts of charge(s)	Date charged
Criminal prosecution initiated – Persons charged				
5.	Offering securities without a prospectus registered by the SC	Raja Samsul Bahri Raja Muhammad[1]	Raja Samsul, the former chief executive officer of Astana Resources Bhd (formerly known as JPG Holdings Bhd) was charged with abetting the company to offer 6.9 million shares without a prospectus in relation to the said shares having been registered by the SC under section 233 of the CMSA. He was charged under section 232(1) read together with section 370(c) of the CMSA.	1 June 2016
	Issuing securities without a prospectus registered by the SC	• Noor Aida Abdullah[1] • Dato' Abdul Malek Yusof[1]	Noor Aida and Dato' Abdul Malek, former directors of Astana Resources Bhd (formerly known as JPG Holdings Bhd) were charged with abetting the company to issue 6.9 million shares without a prospectus in relation to the said shares having been registered by the SC under section 233 of the CMSA 2007. They were charged under section 232(1) read together with section 370(c) of the CMSA.	1 June 2016

Note:

[1] *On 16 January 2017, the Sessions Court discharged Raja Samsul, Noor Aida and Dato' Abdul Malek of the charges against them pursuant to section 173(g) of the Criminal Procedure Code. The prosecution has since filed an appeal against this decision to the High Court.*

Outcome of criminal trials and appeals in 2016

The year 2016 saw 3 cases where the High Court and Court of Appeal affirmed convictions and sentences meted out by the Sessions Court. In another case where the SC had appealed against an acquittal at the end of the prosecution's case, the Court of Appeal allowed SC's appeal and ordered for the defence to be entered. The SC also obtained a conviction and one of the longest imprisonment sentences for market manipulation in a case. Details of the outcome of cases in the various courts are set out in Table 6.

Table 6
Outcome of criminal trials and appeals in 2016

No.	Nature of offence	Offender(s)	Description
1.	Market manipulation	• Wong Chee Kheong • Bun Lit Chun	Both Wong CK and Bun LC were charged on 25 October 2005 for manipulating the price of Suremax Group Bhd (Suremax) shares through 153 accounts, in furtherance of their common intention with 1 Ng Chong Yeng under section 84(1) of the *Securities Industry Act 1983* (SIA). In the alternative, they were also charged for manipulating Suremax shares by creating a misleading appearance of active trading of Suremax shares through 9 accounts, in furtherance of their common intention with 1 Ng Chong Yeng under section 84(1) of the SIA. On 7 January 2011, Wong CK and Bun LC were convicted by the Sessions Court on the alternative charge. Wong CK was sentenced by the Sessions Court to 24 months imprisonment and a fine of RM3 million (in default, 6 months imprisonment) while Bun LC was sentenced to 3 months imprisonment and a fine of RM2 million (in default, 6 months imprisonment). On 18 March 2014, the High Court affirmed the convictions against Wong CK and Bun LC. On 27 March 2014, the High Court however allowed Bun LC's appeal against his sentence in part where the sentence of imprisonment was reduced from 3 months to 1 day. The fine of RM2 million imposed against Bun LC by the Sessions Court was affirmed. On 9 April 2014, the High Court dismissed Wong CK's appeal against his sentence and affirmed the sentence meted out by the Sessions Court earlier. Both Wong CK and Bun LC then filed their appeals to the Court of Appeal while the prosecution filed a cross-appeal against the reduced sentence of Bun LC. On 9 March 2016, the Court of Appeal unanimously allowed the prosecution's appeal and upheld the convictions against Wong CK and Bun LC. The Court of Appeal also affirmed the sentences meted out by the Sessions Court against Wong CK and Bun LC. The reduced sentence of 1-day imprisonment against Bun LC by the High Court was therefore overturned.

Table 6

Outcome of criminal trials and appeals in 2016 (*continued*)

No.	Nature of offence	Offender(s)	Description
2.	Misleading statements in connection with the purchase of securities	Wahid Ali Kassim Ali	Wahid Ali, a director of Aiwanna Manage Assets Sdn Bhd (Aiwanna) was charged on 10 October 2005 with 3 counts of omitting to state a material fact, pertaining to the investment of Aiwanna's client, Eastern Pacific Industrial Corporation Bhd (EPIC) whereby the material fact was necessary to make the statement of accounts issued to EPIC, not misleading. On 30 June 2009, the Sessions Court convicted and sentenced Wahid Ali to a 1-year imprisonment term and a fine of RM1 million (in default, 1-year imprisonment). He then appealed to the High Court against the conviction and sentence. The High Court had on 14 January 2013 dismissed Wahid Ali's appeal. He appealed to the Court of Appeal and on 14 May 2015, the Court of Appeal remitted the case to the High Court for a re-hearing of the appeal. On 27 May 2016 at the re-hearing of the appeal, the High Court confirmed the conviction and sentence of the Sessions Court. The High Court allowed for Wahid Ali's application to stay the execution of the sentences pending his appeal to the Court of Appeal.
3.	Knowingly permitting the submission of false information to Bursa Malaysia Securities Bhd	Alan Rajendram Jeya Rajendram	Alan Rajendram, former director of LFE Corporation Bhd (LFE), was charged on 24 June 2010 with 2 charges under section 122B(b)(bb) of the SIA and 2 charges under section 369(b)(B) of the CMSA 2007 for knowingly permitting the furnishing of false statements to Bursa Malaysia Securities Bhd in relation to LFE's unaudited financial results for 4 quarters of financial year ended 31 December 2007. On 10 October 2012, the Sessions Court convicted Alan Rajendram for all 4 charges and sentenced him to an imprisonment term of 12 months and a fine of RM300,000 for each charge. The jail term is to be served concurrently. Alan Rajendram filed an appeal against his conviction and sentence to the High Court. On 28 November 2016, the High Court dismissed Alan Rajendram's appeal and affirmed the conviction and sentence for all 4 charges. The High Court also allowed Alan Rajendram's application to stay the execution of the sentences pending his appeal to the Court of Appeal.

Table 6

Outcome of criminal trials and appeals in 2016 (*continued*)

No.	Nature of offence	Offender(s)	Description
4.	Criminal breach of trust	• Alan Rajendram Jeya Rajendram • Eswaramoorthy Pillay Amuther	Alan Rajendram was charged on 24 June 2010 with 2 counts of criminal breach of trust (CBT) under section 409 of the *Penal Code*. The CBT alleged involved the use of RM9 million and RM9.9 million of LFE's monies. The acts were alleged to have been committed on 4, 11 and 16 January 2007. Eswaramoorthy Pillay was charged on 29 June 2010 with 2 counts of abetting Alan Rajendram to commit the CBT offences. At the end of the prosecution's case, the Sessions Court acquitted Alan Rajendram and Eswaramoorthy Pillay. The prosecution had then appealed to the High Court which on 21 January 2016, affirmed the acquittals by the Sessions Court. The prosecution then appealed to the Court of Appeal. On 3 November 2016, the Court of Appeal overturned the acquittal and ordered for Alan Rajendram to enter his defence on the CBT charges. The case was reverted to the Sessions Court and the defence case is fixed for 20 April 2017. The Court of Appeal however affirmed the acquittal of Eswaramoorthy Pillay.
5.	Market manipulation	Low Thiam Hock	Low TH, former Executive Chairman of Repco Holdings Bhd (Repco) was charged on 18 September 1999 for manipulating the price of Repco shares under section 84(1) of the SIA. In 2006, the Sessions Court acquitted Low TH of the charge at the end of the prosecution's case. The High Court affirmed the acquittal in 2010. The prosecution then appealed to the Court of Appeal. The Court of Appeal on 28 February 2013 overturned the decision of the High Court and ordered Low TH to defend the charge against him, reverting the case to the Sessions Court. The defence case commenced on 18 October 2013. On 11 January 2016, the Sessions Court convicted Low TH of the market manipulation charge. On 29 February 2016, Low TH was sentenced to 5 years imprisonment and a fine of RM5 million (in default, 5 years imprisonment). Low TH has since filed an appeal to the High Court against his conviction and sentence.

Table 6
Outcome of criminal trials and appeals in 2016 (*continued*)

No.	Nature of offence	Offender(s)	Description
6.	Furnishing false statements to Bursa Malaysia Securities Bhd	• Dato' Norhamzah Nordin • Mohd Azham Mohd Noor • Lim Hai Loon	Dato' Norhamzah, former Group Managing Director of Kosmo Technology Industrial Bhd (Kosmo) and Mohd Azham, former executive director of Kosmo were charged with 8 charges under section 122B(a)(bb) of the SIA and section 369(a)(B) of the CMSA for furnishing false statements to Bursa Malaysia Securities Bhd in relation to Kosmo's 8 quarterly reports of Kosmo's unaudited consolidated results for the financial years 2006 and 2007. Lim HL, former Accounts Manager of Kosmo was charged for abetting Kosmo in furnishing the same false statements to Bursa Malaysia Securities Bhd. On 23 September 2016, the Sessions Court acquitted all the 3 individuals at the end of the prosecution's case. The prosecution has filed an appeal to the High Court against the acquittals.
7.	Furnishing misleading statements to SC and Bursa Malaysia Securities Bhd	• Ang Sun Beng • Ang Soon An	Ang SB and Ang SA, former Managing Director and executive director of Welli Multi Corporation Bhd (WMCB), were both charged on 15 April 2008 with 4 counts under section 122B(a)(bb) of the SIA read together with section 122(1) of the SIA for furnishing misleading statements in WMCB's annual report for financial year ended 2005 and the first 3 quarterly reports of financial year ended 2006 to SC and Bursa Malaysia Securities Bhd respectively. On 11 October 2010, both the accused pleaded guilty to the first charge and the other 3 charges were taken into consideration under section 171A of the *Criminal Procedure Code* for sentencing. The Sessions Court sentenced both of them to 1-day jail and a fine of RM400,000 each (in default, 1-year imprisonment). The prosecution appealed against the sentence but on 2 February 2016, the High Court dismissed the prosecution's appeal. The prosecution has filed an appeal against this decision to the Court of Appeal.

Table 6
Outcome of criminal trials and appeals in 2016 (*continued*)

No.	Nature of offence	Offender(s)	Description
8.	Engaging unlicensed persons to carry out the activities of a fund manager's representative	Dr Barjoyai Bardai	Dr Barjoyai, a director of a fund manager company, Perdana Technology Ventures Sdn Bhd (PTV), was charged on 27 September 2002 for breaching a condition of PTV's fund manager's licence by allowing 2 unlicensed persons to act as the company's fund manager's representative. The Sessions Court convicted Dr Barjoyai on 13 March 2008 and fined him with RM100,000 (in default, 8 months imprisonment). On 13 August 2010, the High Court affirmed the conviction and sentence meted out by the Sessions Court. Dr Barjoyai then appealed to the Court of Appeal against the conviction and the prosecution cross-appealed against the sentence of fine. On 21 October 2016, Dr Barjoyai withdrew his appeal and the prosecution withdrew its cross-appeal.
9.	• Causing the issuance of a prospectus containing misleading information • Furnishing false information to SC • Authorising the making of false statements in documents required to be kept under section 167(1) *Companies Act 1965*	• Dato' Chee Kok Wing • Shamsul Khalid Ismail • Mah Soon Chai	Dato' Chee KW, Shamsul and Mah SC were charged on 28 May 2007. Dato' Chee KW was charged with 3 charges for: 1. Causing the issuance of the prospectus of NasionCom Holdings Bhd (Nasioncom) dated 31 January 2005 which contained misleading information in relation to the top 10 customers of Nasioncom for the financial period ended 31 July 2004; 2. Furnishing false statements to SC in relation to Nasioncom's revenue in its Annual Report 2005; and 3. Authorising the making of false statements in documents which were required by section 167(1) of the *Companies Act 1965* to be submitted to the Companies Commission of Malaysia (CCM). Shamsul was charged for furnishing false statements to SC in relation to Nasioncom's revenue in its Annual Report 2005. Mah SC was charged for abetting Nasioncom to submit false information to SC in relation to Nasioncom's revenue in its Annual Report 2005. On 13 September 2013, the Sessions Court acquitted all 3 individuals at the end of the prosecution's case. The prosecution then filed an appeal to the High Court against the acquittals. On 19 August 2016, the High Court struck off the appeal with liberty to file afresh as Dato' Chee KW, Shamsul and Mah SC could not be found and failed to attend court for the prosecution's appeal.

Civil enforcement actions and regulatory settlements in 2016

In 2016, the SC instituted civil enforcement actions against 2 individuals for breaches of the securities laws. Two individuals entered into regulatory settlements with the SC during the course of the year for breaches relating to insider trading. The settlement recovered from the 2 individuals amounted to a sum of RM293,502. Further details are set out in Tables 7 and 8.

Table 7

Civil enforcement actions in 2016

No.	Nature of breach	Offender(s)	Description
1.	Insider trading	Dato' Sreesanthan Eliathamby	On 12 October 2016, the SC filed a civil suit against Dato' Sreesanthan. The SC is seeking, among others: • A declaration that Dato' Sreesanthan had engaged in insider trading in respect of Worldwide Holdings Bhd shares between 7 June 2006 and 11 July 2006; • A payment of the sum of RM1,989,402 which is equivalent to 3 times the amount of RM663,134 being the difference between the price at which the shares had been acquired by Dato' Sreesanthan and the price at which the shares would have been likely to have been acquired at the time of the acquisition, if the material non-public information had been generally available; • Civil penalty of RM1 million for the breach of section 89E of the SIA; • An order that Dato' Sreesanthan be barred from being a director of any public-listed company for a period of 10 years; • Interest; and • Costs.

Table 7
Civil enforcement actions in 2016 (*continued*)

No.	Nature of breach	Offender(s)	Description
2.	• Use of manipulative and deceptive devices • Causing wrongful loss to a listed corporation	Datin Chan Chui Mei	On 26 September 2016, the SC filed a civil suit against Datin Chan CM. The SC is seeking, among others: • A declaration that Datin Chan CM had contravened sections 179 and 317A of the CMSA; • An order that Datin Chan CM makes restitution to persons aggrieved by the contravention; • An order that Datin Chan CM pays the SC a sum of RM11.54 million, to be held in trust for Stone Master Corporation Bhd; • An order that Datin Chan CM be barred from being a director of a public-listed company for a period of 5 years; • Civil penalty of RM1 million for the contravention; • Interest; and • Costs. The SC has obtained an interim injunction from the Kuala Lumpur High Court to restrain Datin Chan CM from dealing with the monies in her bank accounts up to the amount of RM11.54 million.

Table 8

Regulatory settlements in 2016

No.	Nature of breach	Parties involved	Brief facts of the case
1.	Insider trading	• Teng Choon Kwang • Tan Boon Hwa	On 15 March 2016, Teng CK and Tan BH entered into a settlement with the SC in the sum of RM293,502 when they agreed to settle a claim that the SC had instituted against them for insider trading in the shares of Inti Universal Holdings Bhd (Inti) between 13 September and 18 September 2007, contrary to section 89E(2) of the SIA. The inside information was in relation to a proposal from Laureate Education, Inc. to acquire the controlling interest in Inti for an aggregate purchase consideration of RM126.6 million which translated to RM1.20 per Inti share. This information was subsequently set out in an announcement made by Inti to Bursa Malaysia Securities Bhd on 19 September 2007. The settlement was reached following the filing of a Statement of Claim by the SC against Teng CK and Tan BH in the Kuala Lumpur High Court on 30 December 2015 pursuant to its civil enforcement powers under the securities laws, where the sum they were required to disgorge was equivalent to 3 times the difference between the price at which the shares were acquired and the price at which the shares would have been likely to have been acquired at the time of the acquisition, if the information had been generally available. The monies recovered were applied in accordance with section 90A(7) of the SIA.

INVESTOR EDUCATION PROGRAMMES

InvestSmart®

13,954 visitors
35,598 engagements with various exhibitors

23–25 September 2016

InvestSmart® Fest 2016

Mid Valley Exhibition Centre, Kuala Lumpur

DESCRIPTION

The SC's largest annual retail investor event, InvestSmart® was held for the third year, gathering capital market industry members, associations, institutions and government agencies under one roof to raise awareness on wise investing in the capital market.

Apart from seminars and exhibitions from capital market stakeholders, other interactive activities such as quizzes and games were organised for visitors from all ages.

InvestSmart® engagement with and talk for students

338 students

9 November 2016
University Sains Islam Malaysia (USIM)
Nilai, Negeri Sembilan

DESCRIPTION

An InvestSmart® representative was invited as a panellist for forum "Revolusi Pelaburan Bijak Mahasiswa"

InvestSmart® talks for community leaders

200 Participants

23 March 2016
Session with Sibu community leaders organised by BNM

70 Participants

28 July 2016
Session with Kuantan community leaders with the Kuantan Land and District Office's support

200 Participants

27 October 2016
Session with Miri community leaders with the Resident Office's support

DESCRIPTION

The SC extended its investor educational programme further by engaging the community leaders via an InvestSmart® talk session

SC in the Community

MOF's Mobile CTC

2,500 visitors
7 February 2016
Permatang Pauh, Pulau Pinang

2,500 visitors
5 March 2016
Besut, Terengganu

1,000 visitors
14 May 2016
Bayan Lepas, Pulau Pinang

DESCRIPTION

The SC and other government agencies participated in MOF's annual Mobile CTC roadshows.

Talks and private engagement sessions with the public served as platforms to provide information on the capital market, raising awareness on smart investing in unlicensed investment schemes.

InvestSmart® Kiosk

240 visitors
13 February 2016
UTC, Melaka

150 visitors
20 February 2016
UTC Ipoh, Perak

250 visitors
27 March 2016
UTC JB, Johor

150 visitors
14 July 2016
UTC Kuching, Sarawak

150 visitors
30 July 2016
UTC Pudu, Kuala Lumpur

150 visitors
27 August 2016
UTC Kuantan, Pahang

210 visitors
3 September 2016
UTC Kota Kinabalu, Sabah

250 visitors
26 November 2016
UTC Kuala Terengganu, Terengganu

DESCRIPTION

The SC set up its 'InvestSmart®' Kiosk at Urban Transformation Centres (UTC) throughout the country, enabling one-to-one engagement with the various segments of the public. Collaterals, starter kits and various brochures were distributed.

InvestSmart® kiosk @ Annual General Meetings (AGMs) of Public-Listed Companies (PLCs)

550 individuals engaged
7 April 2016
Malayan Banking Bhd

500 individuals engaged
10 May 2016
MMC Corporation Bhd

250 individuals engaged
1 June 2016
ASTRO Malaysia Holdings

120 individuals engaged
24 August 2016
IJM Corporation

137 individuals engaged
29 September 2016
Sunway Real Estate Investment Trust

500 individuals engaged
26 October 2016
IOI Corporation Bhd

219 individuals engaged
22 October 2016
YTL Corporation Bhd

915 individuals engaged
15 December 2016
Tenaga Nasional Bhd

DESCRIPTION

One of the new targeted segments of our "SC in the Community" outreach efforts this year is minority shareholders of public-listed companies. We wanted to raise awareness of their rights and responsibilities as shareholders and investors in general, ultimately empowering them with the knowledge to become more informed and savvy participants in the capital market.

Collaborative Events

5,000 visitors to Investsmart® booth
215,000 visitors to MSAM

20-28 April 2016
Minggu Saham Amanah Malaysia (MSAM)
Tapah, Perak

DESCRIPTION

The SC's participation in the MSAM event is part of its initiative in supporting one of Permodalan Nasional Bhd's (PNB) efforts to educate the public on the importance of financial planning and investment for the future financial needs of the individual and family.

470 participants
17 October 2016
InvestSmart® MITI
Menara MITI, Kuala Lumpur

DESCRIPTION

InvestSmart®@ the Ministry of International Trade and Industry (MITI): Talks, panel sessions and exhibitions in conjunction with MITI Day.

220 participants

3 October 2016

Malaysian Financial Planning Council Events

Imperial Hotel, Kuching, Sarawak

DESCRIPTION

We spoke at the Malaysian Financial Planning Council (MFPC) seminar on "Empowering Women to Create and Preserve Wealth Through Investments in the Capital Market".

500 direct engagements

7–9 October 2016

Universiti Putra Malaysia, Serdang, Selangor

DESCRIPTION

Participation and endorsement by InvestSmart® of the 3rd MFPC National Financial Quiz Tournament.

150 participants

19 October 2016

Universiti Kebangsaan Malaysia, Serdang, Selangor

DESCRIPTION

Participation in the InvestSmart® and Personal Financial Planning Workshop.

Seminars and media

DESCRIPTION

- A total of 102 InvestSmart® seminars were conducted, reaching out to 14,389 participants nationwide:
  - 4,363 participants attended 41 sessions of the InvestSmart® Unit Trust Seminar.
  - 46 InvestSmart® Stock Market Seminars were delivered to 7,571 participants.
  - 4 InvestSmart® B.M.W. Seminars were conducted for 1,049 participants.
  - 9 sessions of InvestSmart® Cash@Campus Seminars benefited 1,166 university students.
  - 1 session of InvestSmart® Kids & Cash Programme benefited 80 primary school students.
  - 1 session of InvestSmart® Teens & Cash Programme benefited 160 secondary school students.
- Media articles: 69 articles were published in various digital and print media in English, Bahasa Malaysia and Chinese.
- InvestSmart® website: Average monthly hit rate was 7,286,505.
- Instagram: Average reach of 2.28 million followers per post. Total reach: 13.7 million.

PUBLICATIONS

ACTS, GUIDELINES AND CODES

Guidelines on Recognized Markets
Issued
13 April 2016

Guidelines on Sales Practices of Unlisted Capital Market Products
Amended
19 July 2016

Guidelines on Unit Trust Funds
Revised
19 July 2016

Malaysian Code on Take-Overs and Mergers 2016
Issued
15 August 2016

Rules on Take-Overs, Mergers and Compulsory Acquisitions
Issued
15 August 2016

Guidelines on Management of Cyber Risk
Issued
31 October 2016

Revised Anti-Money Laundering Guidelines
Issued
7 December 2016

Guidelines on Tax Exemption for Wholesale Money Market Funds
Issued
23 December 2016

BOOKS, REPORTS AND CONSULTATION PAPERS

Proceedings of the SC-OCIS Roundtable 2015
Issued
4 March 2016

Securities Commission Malaysia Act 1993
Issued
March 2016

Securities Commission Annual Report 2015 / Laporan Tahunan 2015 Suruhanjaya Sekuriti Malaysia
Issued
10 March 2016

Consultation Paper – Proposed Regulatory Framework on Cyber Security Resilience
Issued
21 March 2016

Consultation Paper – Proposed Draft of the Malaysian Code on Corporate Governance 2016
Issued
18 April 2016

Audit Oversight Board Annual Report 2015 / Laporan Tahunan 2015 Lembaga Pemantauan Audit
Issued
10 May 2016

Capital Markets and Services Act 2007 (As at 15 September 2015)
Issued
5 July 2016

Consultation Paper – Proposed Amendments to Guidelines on Real Estate Investment Trusts and Streamlining of Post-Listing Requirements for Listed Real Estate Investment Trusts with Listed Corporations
Issued
14 July 2016

Consultation Paper – Proposed Regulatory Framework for Trustees and Custodians Under Section 76A of CMSA 2007
Issued
12 October 2016

Response Paper – Regulatory Framework for Cyber Security Resilience
Issued
31 October 2016

BOOKLETS, BULLETINS AND PAMPHLETS

The Reporter
Issued
March and December 2016

Malaysian ICM
Issued
March and August 2016

List of Shariah-compliant Securities by the Shariah Advisory Council of the Securities Commission Malaysia / Senarai Sekuriti Patuh Syariah oleh Majlis Penasihat Syariah Suruhanjaya Sekuriti Malaysia
Issued
27 May and 25 November 2016

Resolutions of the Shariah Advisory Council of the Securities Commission Malaysia, 2016 / Keputusan Majlis Penasihat Shariah Suruhanjaya Sekuriti Malaysia 2016
Issued
30 December 2016

WEBSITES

www.sc.com.my
www.investsmart.my
www.worldcapitalmarketsymposium.org
www.theroyalaward.com

2016 AT A GLANCE

JANUARY

7 SC files suit against two individuals for insider trading

27 Federal Court Rules in favour of SC to protect witness statements

27 Court of Appeal allows SC to strike out suit by Crowe Horwath and two others

27 Lord Adair Turner, former Chair, UK Financial Service Authority shares insights at an SC event with key industry participants

FEBRUARY

23 IOSCO approves the establishment of its Asia-Pacific hub in Kuala Lumpur

24 SC Chairman meets Bank of England Govenor, Mark Carney to discuss global and emerging market issues

29 Low Thiam Hock jailed five years, fined RM5 million over Repco share manipulation

MARCH

4 Dato' Ahmad Fairuz Zainol Abidin appointed as the new Deputy Chief Executive

5-6 SC-OCIS 2016 Roundtable meeting in Kuala Lumpur

9 Court of Appeal jails former directors for market manipulation

10 SC Annual Report 2015 released

15 SC hosts regulators and industry leaders at the inaugural Global Emerging Markets Programme Conference 2016

25 ASEAN capital market regulators roll out initiatives under ACMF's new 5-year roadmap

APRIL

4 SC participates in the ASEAN Finance Ministers' and Central Bank Govenors' meeting, Vientiane, Laos

8 SC appoints two Executive Directors

13 SC introduces regulatory framework to facilitate peer-to-peer financing

20 InvestSmart® participates at PNB Minggu Saham Amanah Malaysia

MAY

10 AOB Annual Report 2015 released

17 Launch of MINDA 2.0 by Minister of Finance II at SC

25 SC revokes licence of Jason Chan Yew Mun

27 SC Chairman receives award for Contribution to ICM Regulation

27 Court confirms convictions and jail sentences of former Wahid Ali Kassim Ali for securities fraud

JUNE

1 SC charges former CEO and directors for illegal issuance of shares

7 SC warns public on bogus bond schemes

13 SC prosecutes Datuk Ishak Ismail over Kenmark's case

JULY

19 SC introduces initiatives to enhance competitiveness, improve efficiency of unit trust industry

26 SC Hari Raya Open House with Staff and Industry

28 SC warns public on unlicensed financial planning services

29 SC charges former executive director of Kencana Petroleum for insider trading

AUGUST

4 European Commission recognises SC's Audit Oversight Board Requirements

4 Familiarisation visit by Deputy Ministers of Finance, Dato' Othman Aziz (TMK I) and Dato' Lee Chee Leong (TMK II)

15 SC introduces Rule Book in revised framework on take-overs and mergers

22-26 SC Industry Dialogue 2016

26 SC Merdeka Leadership Talk Series with CEO PEMANDU, Dato' Sri Idris Jala, *'On the Road Less Travelled'*

29 12 outstanding students awarded SC Scholarship 2016

SEPTEMBER

5 Commercial and Islamic banks to join as SIDREC members under enhanced dispute resolution framework

8 SC Chairman chairs the ASEAN Capital Market Forum in Jakarta to promote ASEAN asset classes and re-elected as ACMF for 3rd consecutive term

8 SC participates in the annual Bursa Bull Charge 2016 to raise funds for the community

23-25 More than 40 capital market institutions participate in InvestSmart® Fest 2016

28 SC reprimands and fines executive directors for causing wrongful loss

29 SC charges former directors for causing wrongful loss to Patimas Computers Bhd

OCTOBER

12 SC invites public feedback on regulatory framework for trustees and custodians

12 SC sues deputy managing director of Stone Master for wrongful loss

19 SC files civil suit against Dato' Sreesanthan Elathamby for insider trading

25 SC charges founder of Three-A Resources Bhd and five others for insider trading

25-27 SC hosts IOSCO C2 meeting with participation from 25 member countries

26 SC restitutes victims of illegal futures trading scheme

31 SC releases *Guidelines on Management of Cyber Risk* to enhance cyber resilience of the capital market

NOVEMBER

3 SCxSC Digital Finance Conference 2016; announces six P2P operators

4 SC Annual Dinner themed `Magical Commission of Wizardry'

14 Professor Datuk Ahmed Rifaat Abdel Karim, CEO IILM named recepient of The Royal Award for Islamic Finance 2016

15 SC participate at ASEAN Finance Ministers Investor seminars

15 Chairman, DCE and Executive Team share updates with staff at SC Townhall 2016

28 SC inks MoU with the Department of Statistics Malaysia (DOSM) to strengthen quality and effectiveness of information sharing

29 SC and BNM Bilateral Meeting

DECEMBER

1 SC signs an MoU with MIMOS to jointly develop a capital market advanced analytics platform

14 SC revokes licence of Ravindran Nair Vasudevan Nair

21 SC revokes licences of Yap Yeng Chong

ACRONYMS AND ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AARG	ASEAN Audit Regulators Group
ACCA	Association of Chartered Certified Accountants
ACGA	Asian Corporate Governance Association
ACMF	ASEAN Capital Markets Forum
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AFPM	Associate Financial Planner
AML/CFT/PF	Anti-money laundering, countering financing of terrorism and proliferation financing
AOB	Audit Oversight Board
API	Application Programming Interface
APRC	Asia-Pacific Regional Committee
AQI	Audit Quality Indicator
ARMS	Asia Pacific Regulators' Group on Market Surveillance
ASCM	Association of Stockbroking Companies Malaysia
ASEAN	Association of South-East Asian Nations
BDREF	Bumiputera Dealer Representatives Education Fund
BMD	Bursa Malaysia Derivatives Bhd
BNM	Bank Negara Malaysia
BT	Business trust
Bursa Malaysia	Bursa Malaysia Securities Bhd
CFA	Chartered Financial Analyst
CFE	Certified Fraud Examiner
CFP	Certified Financial Planner
CG	Corporate Governance
CG Blueprint	*Corporate Governance Blueprint 2011*
CIFP	Chartered Islamic Finance Professional
CIS	Collective Investment Schemes
CMC	Capital Market Compensation Fund Corporation
CMCF	Capital Market Compensation Fund
CMDF	Capital Market Development Fund
CMDP	Capital Market Director Programme
CMM	Capital Markets Malaysia
CMP 2	*Capital Market Masterplan 2*

CMPI	Committee on Payments and Market Infrastructures
CMPQ	Capital Market Professionals Qualification
CMSA	*Capital Markets and Services Act 2007*
CMSL	Capital Market Services Licence
CMSRL	Capital Market Services Representative's Licence
COMCEC	Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation
CPA	Certified Public Accountant
CRA	Credit rating agency
CTC	Community Transformation Centre
DIS	Digital Investment Service
DLT	Distributed ledger technology
DOSM	Department of Statistics Malaysia
ECB	European Central Bank
ECF	Equity crowdfunding
Ekuinas	Ekuiti Nasional Bhd
EMDE	Annual Emerging Market Development Economies
EPF	Employees Provident Fund
ERM	Enterprise risk management
ESG	Environmental, Sustainable and Governance
ETF	Exchange-traded funds
EU	European Union
FATF	Financial Action Task Force
FBMKLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FIMM	Federation of Investment Managers Malaysia
FINRA	Financial Industry Regulator Authority International
FinTech	Financial technology
FKLI	Futures Kuala Lumpur Index
FOMCA	Federation of Malaysian Customers Associations
FRESH	Financial Reports Electronic Submission Hub
FRF	Financial Reporting Foundation
FSB	Financial Stability Board
FSI	Financial Services Institution
FSSG	Financial Statements Surveillance Group
GDP	Gross Domestic Product
GEM	Growth and Emerging Markets
GLIC	Government-linked Investment Companies
GMEP	Graduate Management Executive Programme
HCD	Human Capital Development
IAASB	International Auditing and Assurance Standards Board
ICAEW	Institute of Chartered Accountants in England and Wales
ICGN	International Corporate Governance Network
ICM	Islamic capital market

ICMGTS	Islamic Capital Market Graduate Training Scheme
IFIAR	International Forum of Independent Audit Regulators
IFSB	Islamic Financial Services Board
IFTA	International Federation of Technical Analyst
IIM	Malaysian Institute of Integrity
IIRC	International Integrated Reporting Council
IMD	International Institute for Management Development
IMF	International Monetary Fund
IMP	Islamic Markets Programme
INCEIF	International Centre for Education in Islamic Finance
IOSCO	International Organisation of Securities Commissions
IPO	Initial public offering
IRDA	Iskandar Regional Development Authority
ISA	International Standards on Auditing
ISRA	International Shari'ah Research Academy for Islamic Finance
IVT	Investment account traders
JR	Judicial review
KAM	Key Audit Matters
KYC	Know Your Client
LOLA	Lodge and Launch
LTFTF	Long-Term Financing Task Force
MAICSA	Malaysian Institute of Chartered Secretaries and Administrators
MAREF	Malaysian Accountancy Research and Education Foundation
MASB	Malaysia Accounting Standards Board
MASB	Malaysian Accounting Standards Board
MAVCAP	Malaysia Venture Capital Management Bhd
MBAN	Malaysian Business Angels Network
MCII	Malaysian Code for Institutional Investors
MEEPA	Malaysia-European Economic Partnership Agreement
MFPC	Malaysian Financial Planning Council
MFRS	Malaysian Financial Reporting Standard
MGS	Malaysian Government Securities
MIA	Malaysian Institute of Accountants
MICPA	Malaysian Institute of Certified Public Accountants
MIFC	Malaysia International Islamic Financial Centre
MITI	Ministry of International Trade and Industry
MoF	Ministry of Finance
MOG	Mineral, oil and gas
MORE@SC	Graduate Management Executive Model Regulator
MOSTI	Ministry of Science, Technology and Innovation
MoU	Memorandum of understanding
MSME	Micro, small and medium enterprises

MSWG	Minority Shareholder Watchdog Group
MVCA	Malaysian Venture Capital and Private Equity Association
MVCDC	Malaysian Venture Capital and Private Equity Development Council
NAV	Net asset value
OCIS	Oxford Centre for Islamic Studies
OECD	Organisation for Economic Co-operation and Development
OIC	Organisation of Islamic Co-operation
OTC	Over-the-counter
P2P	Peer-to-Peer
PDT	Proprietary day traders
PE	Private equity
PID	Public-interest director
PIE	Public-interest entities
PLC	Public-listed company
PPA	Private Pension Administrator
PROFOUND	Financial Scheme for Continuous Professional Development
PRS	Private retirement scheme
QCIS	Qualifying ASEAN CIS
QE	Quantitative easing
RAIF	Royal Award for Islamic Finance
RCEP	Regional Comprehensive Economic Partnership
REIT	Real estate investment trust
RMO	Recognised Market Operator
RQFII	Renminbi Qualified Foreign Institutional Investor
SAC	Shariah Advisory Council
SC	Securities Commission Malaysia
SCA	*Securities Commission Act 1993*
SCMA	*Securities Commission Malaysia Act 1993*
SCxSC	SC's Synergy and Crowdfunding Forum
SFC	Securities and Futures Commission of Hong Kong
SIA	*Securities Industry Act 1983*
SICDA	*Securities Industry Central Depositories Act 1991*
SIDC	Securities Industry Development Corporation
SIDREC	Securities Industry Dispute Resolution Center
SIFI	Systematically important financial institution
SIR	Scholar-in-Residence Programme
SPAC	Special Purpose Acquisition Company
SRI	Sustainable and Responsible Investment
SRO	Self-regulatory organisation
SROC	Systematic Risk Oversight Committee
TOM Code	*Malaysian Code on Take-overs and Mergers 2010*
TPPA	Trans-Pacific Economic Partnership Agreement

UAE	United Arab Emirates
UK	United Kingdom
UNESCO	United Nations Educational, Scientific, and Cultural Organisation
US	United States
US Fed	US Federal Reserve
UTC	Urban Transformation Centre
UTMC	Unit trust management company
VC	Venture capital
VCC/VCMC	Venture capital corporation/venture capital management corporation
WCFSL	Working Committee on Financial Services Liberalization
WCMS	World Capital Markets Symposium
WIEF	World Islamic Economic Forum
WTO	World Trade Organization
X-aaS	“As-a-Service”

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