



**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia

Annual Report

**2017**

# 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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I am pleased to present the annual report of Securities Commission Malaysia, which provides an account of our initiatives and organisational performance throughout 2017.

– Tan Sri Dato' Seri  
Ranjit Ajit Singh

# Chairman's Message

**Tan Sri Dato' Seri Ranjit Ajit Singh**  
Chairman

As the SC's institutional journey continues to unfold, we have navigated the constant shifts of an evolving market landscape. In doing so, the SC remains anchored to a regulatory objective that focuses on investor protection and the orderly functioning of the capital market that allows it to be an efficient and effective conduit for the mobilisation of savings to finance the economy.

A key measure of success for any market is the extent to which it unlocks and facilitates opportunities for wealth creation as well as capital formation. In this regard, the SC's overarching priorities have centred on strengthening the capital market's role in supporting economic expansion as well as facilitating market growth that is sustainable, inclusive and innovative.

## **Strong market performance**

Capital markets globally saw a broad-based rally in asset prices in 2017, driven by improving global growth and accommodative monetary policies. Supported by better growth prospects, robust trade and commodity price stability, emerging markets in particular benefitted from strong net capital inflows.

Against this backdrop, the Malaysian capital market saw one of the strongest performance in recent years, with double-digit growth recorded across all market segments.

## Chairman's Message

The overall capital market grew 12.6%, reaching a size of RM3.2 trillion. At 2.4 times the size of the domestic economy, the Malaysian capital market is ranked fifth largest in Asia on a GDP adjusted basis. Growth in 2017 was driven by the equity market which expanded by 14.4% to RM1.9 trillion as well as the bond and sukuk market where the total outstanding value grew 10.1% to close at RM1.3 trillion.

The Islamic capital market grew 11.9% to RM1.9 trillion. This segment accounted for close to 60% of the overall capital market. The Islamic capital market maintained its leading position globally with 38% of global sukuk issuances.

Fundraising for 2017 totalled RM146.6 billion, surpassing the 5-year average of RM116 billion. This figure underscores the capital market's continuing ability to provide a facilitative and effective avenue for capital formation. A strong upward momentum in business activity was reflected in corporate bond and sukuk issuances, which at RM124.9 billion, exceeded the RM100 billion mark for the first time since 2012. With improvements in market fundamentals and valuations, fundraising through the equity market amounted to RM21.7 billion compared to RM12.8 billion the previous year.

The fund management industry continued to play a key role in savings intermediation. Total assets under management (AUM) grew steadily by 11.5% from RM696.3 billion in 2016 to RM776.2 billion in 2017. This was mainly supported by an expansion of the unit trust industry which saw net sales of RM45.2 billion, reflecting positive investor sentiment with more than double the figure recorded in the previous year.

The capital market attracted strong foreign investor interest with overall net trading inflows of RM17.6 billion for equity and bonds for the year.

### Preserving market trust and confidence

The Malaysian capital market's ability to register positive overall growth continues to hinge upon the crucial elements of trust and confidence. The preservation of this trust and confidence is a key focus for the SC. We strive to achieve a balance between protecting investors, maintaining fair and

orderly conduct among market participants, while concurrently facilitating sustainable development of the capital market. Therefore, throughout the process of articulating our regulatory philosophy, the SC internalises principles of pragmatism, differentiation and proportionality.

This underpins the rationale behind the SC's corporate governance agenda and in particular, is exemplified through the release of the latest *Malaysian Code on Corporate Governance* (MCCG) in 2017 intended to imbue a greater culture of transparency and accountability. Moving beyond pure compliance, the new code encourages listed companies to put more thought and consideration when adopting and reporting on corporate governance practices.

Furthermore, the SC advanced other corporate governance priorities within the overall ecosystem targeted to enhance board effectiveness and leadership. We led the establishment of a new Institute of Corporate Directors Malaysia to elevate the quality, standards and professionalism among corporate directors in carrying out their fiduciary duties. We also embarked on efforts to encourage greater diversity on boards as well as promote active shareholder participation.

Central to market integrity is a strong enforcement regime, premised on the tenets of effective and credible deterrence. Potential wrongdoers must perceive that transgressions and recalcitrant conduct will be held to account. To ensure impactful outcomes in a swift and effective manner, we employ a strategic approach encompassing a broad range of enforcement tools and options.

During the year, we focused on pursuing serious governance lapses, including the abuse of material, non-public information as well as disclosure of false and misleading information to the investing public. We are encouraged by the landmark custodial sentences assigned by our courts, which recognises the severity in breaches of securities laws.

In tandem with inculcating good conduct and behaviour, the SC prioritised the empowerment of investors to make informed financial and investment decisions through improved financial literacy. We implemented various investor outreach programmes



throughout the year under our *InvestSmart*® initiative, paying special attention to illegal investment schemes in collaboration with our regulatory counterparts. Our investor empowerment initiatives have also evolved to provide the public, particularly the next generation of investors, with valuable information, presented in a simplified format by utilising technology and multimedia platforms.

## Safeguarding market resilience

Our regulatory focus seeks to assess the effectiveness of firms' governance arrangements and internal practices in evaluating their potential implications on market integrity. We want market professionals to take greater responsibility for their own conduct, predicated on a strong culture of professionalism and ethics. Our efforts range from promoting best practices to more efficient overall compliance underpinned by less onerous requirements.

In 2017, we centred our assessments on conduct of analysts and stress testing practices of intermediaries. We also remained vigilant towards the quality of disclosures and financial reporting of public-listed companies, thus intensifying our surveillance functions in this area. We have continued to enhance our capabilities and leveraged technology and big data to improve the efficacy of our surveillance through the analysis of trading behaviour.

The SC's oversight of the capital market also includes ensuring systemic stability. Against an ever changing, complex and interconnected market environment, we have recognised the importance of taking a wider, more holistic assessment of risk areas. Therefore, the SC adopts a collaborative and multi-disciplinary approach to ensure comprehensiveness in our risk oversight.

Of the increasing risk areas that we have identified, cyber risk has undoubtedly increased in prominence. Responses to cyber risk have thus far been reactionary, and more pre-emptive detection, response and recovery measures across the capital market need to be emphasised to mitigate impact. It is vital for all market participants to comprehend the gravity of this risk, and take commensurate actions to strengthen cyber resilience across the capital market.

## Deepening market segments

In 2017, our developmental thrusts centred on deepening and enhancing the positioning of existing market segments, broadening participation in the capital market and driving equitable wealth creation. We worked closely with the industry to look at ways to further enable growth, scale and access across select segments, and established four task forces with industry in 2017 to assess and deliver on what needs to be done.

One such area is the bond and sukuk market, the third largest in Asia relative to GDP and world's largest sukuk market. To enable greater transparency and a single point of access to bond information, we enhanced the information infrastructure of the market through the introduction of the Bond+Sukuk Information Exchange. With a view to unlock additional prospects within this segment, we embarked on initiatives to liberalise regulatory requirements for primary issuances and introduce a seasoning framework to allow retail access to existing corporate bonds and sukuk, for implementation beginning 2018.

By working with industry participants, the SC continued to identify and develop areas with additional capacity for growth. Specifically, this focused on enhancing the profile of listed mid and small-cap companies for better value recognition through measures to improve investor awareness and liquidity with increased allocation of funds into this segment of the listed equity asset class.

At the same time, the SC recognised that the Venture Capital and Private Equity (VC/PE) industry will constitute a progressively substantial component of risk capital for early and growth stage companies. Building on a conducive regulatory framework, we focused efforts to further accelerate growth of the industry with new initiatives for the channeling of venture capital funds and expansion of incentives.

Emphasising the provision of more avenues for investment diversification, the SC worked to enhance the ecosystem and drive further growth of the ETF industry in Malaysia. In addition to a targeted liberalisation of the regulatory framework to allow greater efficiency, a series of measures

were implemented to facilitate issuances and investments, enable product innovation and intensify investor engagements.

### Fostering market inclusiveness

With the advent of technology ushering an age of rapid digitisation, capital markets are able to harness new capabilities to provide better access and convenience for issuers and investors.

To this end, the SC's holistic Digital Markets Strategy centres on facilitating innovative market-based solutions and developing a conducive digital finance ecosystem. The first phase of this strategy helped bridge financing gaps for micro, small and medium enterprises through introduction of regulatory frameworks for equity crowdfunding and P2P financing. In 2017, we developed a framework to pave the way for the offering of digital investment services, providing investors a convenient and cost-effective channel to grow their wealth. In tandem, we liberalised our licensing regime to introduce Malaysia's first digital-only equities broker.

### Promoting responsible investment

Malaysia's Islamic capital market is recognised as a pioneer on the global front. With Islamic AUM amounting to RM172.6 billion, Malaysia has a 36.5% share of global Islamic funds. To strengthen the country's leadership position in this segment, the SC launched the five-year *Islamic Fund and Wealth Management Blueprint*. The blueprint is intended to drive growth of the Islamic fund and wealth management industry through enhanced cross-border capabilities and connectivity, while promoting greater innovation in this segment.

Leveraging our strength in the Islamic capital market, we pursued initiatives to establish Malaysia as a regional centre for Sustainable and Responsible Investments (SRI). Sustainable development remains high on the SC's agenda, and in this regard, we prioritise a market ecosystem that enables value creation in the economy as well as positive social and environmental impact.

## Chairman's Message

In 2014, the SC released the SRI Sukuk Framework, leading to the internationally recognised issuance of the world's first green sukuk in Malaysia. This was complemented with the formation of the *Guidelines on SRI Funds* released in December, which provides the domestic SRI ecosystem with a more comprehensive suite of products and services. The SC, through its Chairmanship of the ASEAN Capital Markets Forum, also led the development of *ASEAN Green Bond Standards*.

### Driving regulatory co-operation

Our involvement at the global regulatory leadership level has allowed us to gain in-depth insight into key issues and risks affecting capital markets. This remains essential not only in informing our work in Malaysia, but has allowed us the ability to develop strong cross-border links with our regulatory counterparts, particularly in the areas of supervision and enforcement. Similar collaborations have also occurred at various other levels, including ASEAN, Organisation for Economic Co-operation and Development, World Bank and Islamic Financial Services Board.

In recognition of the role played by the SC, the International Organization of Securities Commissions (IOSCO) established its first ever regional hub outside its Madrid headquarters in Malaysia. The Asia Pacific Hub forms a platform to facilitate closer cross-border regulatory co-operation and capacity building to further drive development of the region's capital markets.

### Enhancing the SC's capabilities

The ethos for public service resonates strongly within our workforce, and we strive to be an institution that is collaborative and future ready. Continuing with our organisational development exercise, we carefully reviewed and began transforming the way we work and engage with our wider stakeholders to maximise our collective potential. We implemented a series of measures to make our structures more agile, our prioritisation more effective and our service delivery more efficient.

We have also embarked on shaping an internal culture of conscientiousness that inculcates sustainability practices while being active and responsible participants in our wider community.

## Looking forward

The continuation of global economic expansion is expected to have a positive influence on capital markets in 2018. Tightening of monetary policies by major central banks, as well as downside risks from geopolitical developments and trade protectionism will however be closely observed. Amid record high valuations and historically low volatility, convergence of these risks could induce some volatility in markets globally.

Notwithstanding the potential for volatility from tail risks, sentiment towards emerging markets is expected to remain optimistic. As a whole, emerging markets are the largest contributor to global growth and consumer spending. Therefore, it is encouraging to observe the commitment and reforms made towards a more sustainable development trajectory, especially among major emerging economies.

The Malaysian economy is expected to remain on a steady growth path, driven by resilient domestic demand and a favourable external sector. This is further reinforced by a fiscally responsible budget. Against a setting of sound economic fundamentals and higher earnings forecasts, the overall outlook for the Malaysian capital market is positive. Through the expected expansion in investment and infrastructure spending, market-based fundraising is estimated to remain strong at approximately RM120 billion.

Rightly harnessed, markets are one of the most important channels for delivering long-term economic progress as well as generating positive externalities for society as a whole. As such, the SC will emphasise an ecosystem that promotes a shift from traditional finance to sustainable finance – one which considers the need for long-term value creation. This will enable the pursuit of growth that is not only more inclusive, but also instilled with a sense of shared responsibility to society and the environment.

Our broad thrusts this year will be to consolidate and gain traction on several of the key initiatives emanating from the work that we did in 2017.

We will strengthen our efforts to stimulate greater vibrancy in the equity market and explore new opportunities for regional connectivity. The quest for deeper connectivity reaffirms our commitment towards building open markets as well as a more closely integrated ASEAN Economic Community.

Market vibrancy and integrity are inextricably linked. We will continue to look for ways to liberalise the market with a view to further enhance vibrancy and efficiency. In equal part, we will remain vigilant and continue focusing on developing our capabilities to monitor and pre-emptively manage the risks that may impact the integrity and orderly functioning of the capital market and the well-being of its investors.

Finally, let me express a note of appreciation to all my colleagues in the SC for their important contributions, commitment and professionalism. I would also like to take this opportunity to record my gratitude to the Members of the Board for the valuable role that they play and their counsel, members of the Shariah Advisory Council for their advice and to my management team for their support.

2018 will mark the 25<sup>th</sup> anniversary of the SC. We have come a long way, both as a capital market regulator and member of the wider Malaysian institutional framework. We take pride in our organisation as well as the nation building role that we play. The SC's regulatory and developmental agenda has benefitted tremendously from the collaborative partnerships that we have built with our regulatory counterparts, government ministries and agencies as well as industry participants. I am grateful for their support and look forward to this milestone year in recognition of our collective progress and achievements.








**Ranjit Ajit Singh**



Part 1

# Inclusive and Sustainable Markets



|  |   |   |  |   |
|--|---|---|--|---|
|  <p><b>Increasing Capital Market Financing Avenues</b></p>  |  <p><b>Facilitating Greater Investor Participation</b></p>   |  <p><b>Driving Sustainable Investments</b></p>   |  <p><b>Strengthening Malaysia's Leadership Position in the Islamic Capital Market</b></p>  |  <p><b>Facilitating Greater Cross-Border Co-operation and International Profiling</b></p>  |
| <ul style="list-style-type: none"> <li>• To make the Malaysian capital market more inclusive for all segments of issuers, efforts centred on providing a spectrum of alternative market-based financing avenues, bridging the funding pipeline between private and public markets and addressing gaps in early stage capital formation.</li> </ul> | <ul style="list-style-type: none"> <li>• To encourage greater participation, efforts focused on providing wider investment opportunities and expanding delivery channels for easier access. The introduction of a Digital Investment Management framework for the offering of more convenient, accessible, and affordable modes of investment.</li> </ul> | <ul style="list-style-type: none"> <li>• Building on our 5/ SRI approach, 2017 saw a series of launches, including the world's first green SRI sukuk, <i>ASEAN Green Bond Standards</i> (GBS), the first green sukuk that meets both the SRI Sukuk Framework and the ASEAN GBS as well as SRI funds guidelines to strengthen Malaysia's position as the largest SRI market in Asia ex-Japan.</li> </ul> | <ul style="list-style-type: none"> <li>• Leveraging Malaysia's leading position in the Islamic fund industry, the <i>Islamic Fund and Wealth Management Blueprint</i> was developed and launched to catalyse the next phase of growth for the Islamic capital market.</li> </ul> | <ul style="list-style-type: none"> <li>• To remain at the forefront of capital market developments, the SC helmed leadership roles at the IOSCO and ASEAN Capital Markets Forum.</li> <li>• 2017 witnessed significant milestones with the launch of IOSCO Asia Pacific Hub in Kuala Lumpur, and the establishment of Fintech bridges with peers in major financial markets.</li> </ul> |

## Introduction

The Malaysian capital market stands at RM3.2 trillion and is home to the world's largest sukuk market, the third largest bond market in Asia<sup>1</sup>, and an equity market that has the largest number of listed companies in ASEAN. The capital market also hosts an Islamic fund management industry which has the largest number of funds globally.

In developing our capital market, we have continuously focused our efforts on ensuring that it remains inclusive and benefits the widest spectrum of investors and issuers over the longer term. This is crucial as our national economy continues to evolve and both issuers and investors become increasingly diverse and have varying needs.

Our inclusive agenda serves to democratise the capital market by facilitating effective fundraising avenues to enable the growth of various businesses, as well as a wider range of investment products catering to the needs and risk assessment of various investors, all delivered through innovative channels.

<sup>1</sup> Relative to GDP.



The SC has consistently been a strong proponent of long-term value creation. Globally, there has been increasing importance on inculcating values into investments, leading to a growing number of Sustainable and Responsible Investments (SRI) segment incorporating social and environmental goals. These themes synergise well with Islamic principles, further deepening Malaysia's positioning in both the Islamic capital market (ICM) and SRI. We are driving the sustainability agenda by creating facilitative regulatory frameworks, building the supporting SRI ecosystem, providing thought leadership and engaging in global conversations. To drive our agenda of inclusivity and sustainability, our developmental efforts in 2017 centred around five key thrusts.

## 1. Increasing Capital Market Financing Avenues

To make the Malaysian capital market more inclusive for all segments of issuers, efforts were directed at developing a spectrum of alternative market-based financing avenues to meet various funding needs. Micro, Small and Medium Enterprises (MSMEs) in particular are a key growth driver for our national development but are currently facing funding challenges. Innovative start-ups and entrepreneurs are also experiencing similar challenges to raise funds for commercialisation and scaling up their businesses.

To bridge the funding pipeline between the private and public markets, the SC has developed initiatives to expand private sector funding for seed capital and growth financing through the venture capital (VC) and private equity (PE) sector. This has resulted in various proposals and incentives being announced in Budget 2018.

We continue to address gaps in early stage capital through equity crowdfunding (ECF) and working capital needs through peer-to-peer (P2P) financing platforms. These efforts were complemented with the launch of the Leading Entrepreneur Accelerator Platform (LEAP) market by Bursa Malaysia.

## Inclusive and Sustainable Markets

Bonds and sukuk continue to play a pivotal role in corporate fundraising. To augment the growth and bring greater transparency to the bond and sukuk market, the SC in collaboration with the industry implemented a centralised Bond+Sukuk Information Exchange, or BIX. BIX aims to be a one-stop platform for all information related to bonds and sukuk in Malaysia, equipped with innovative tools to help investors navigate our RM1.3 trillion bond and sukuk market.

## 2. Facilitating Greater Investor Participation

During the year, the SC's efforts focused on providing investors with a wider range of investment opportunities and expanding delivery channels for easier access. We continue to implement measures in the equities market to enhance its attractiveness for investors. Following the Budget 2017 announcement, the Mid- and Small-Cap (MidS) Research Scheme was operationalised to enhance investors' awareness and create better value recognition in small- and mid-cap public-listed companies (PLCs). The scheme is also complemented by commitment from government-linked investment companies (GLICs) to invest in this category of stocks.

As market structure and its inherent characteristics are important determinants of market resiliency, amendments to rules of Bursa Malaysia relating to securities borrowing and lending were also approved by the SC to enhance market efficiency and liquidity.

To invigorate the exchange-traded funds (ETFs) market, several measures were announced to further spur its growth. This year also witnessed the launch of Malaysia's first Shariah-compliant Gold ETF.

An inaugural Private Retirement Scheme (PRS) investor survey was conducted to better understand the drivers of investors' decision making behaviour and preferences. The survey

highlighted areas where members' knowledge was lacking, and this has enabled the Private Pension Administrator Malaysia (PPA) to carry out more targeted awareness and marketing, and informed the framing of the SC's policies. The PRS Guidelines were amended to facilitate digital communication with members, increase pre-retirement withdrawal options and ease documentation requirements when topping up.

The SC continues its digital agenda to offer investors more convenient, accessible, and affordable modes of investment. This year witnessed the introduction of the market's first digital-only equities broker as well as the introduction of the Digital Investment Management (DIM) framework, paving the way for automated discretionary portfolio management services to be offered in Malaysia.

### 3. Driving Sustainable Investments

In 2014, the SC introduced a holistic approach to develop the SRI ecosystem through the *5i* strategy, which encompasses *investors*, *issuers*, *instruments*, *internal culture* and *governance*, and *information architecture*.

Following the introduction of the SRI Sukuk Framework, we saw a series of launches this year which set the pace of growth for green financing. The *ASEAN Green Bond Standards* (GBS) was launched, followed by the release of Malaysia's *Guidelines on Sustainable and Responsible Investment Funds*. Tadau Energy issued the world's first green SRI sukuk in Malaysia, and Permodalan Nasional Bhd (PNB) also issued the first green sukuk that meets the criteria of both the SRI Sukuk Framework and the ASEAN GBS.

Malaysia is the largest SRI funds market in Asia ex-Japan, with a 30% share in the region. Our strong foothold in the global ICM, coupled with the commonalities between Islamic finance principles

and SRI, places Malaysia in a good position to pave the way for new SRI growth opportunities.

### 4. Strengthening Malaysia's Leadership Position in the Islamic Capital Market

Malaysia's Islamic fund industry continues to lead in terms of global Islamic assets under management (AUM), with 36.5%<sup>2</sup> share of global Islamic funds. This year, the SC launched its *Islamic Fund and Wealth Management Blueprint* to catalyse the next phase of growth for ICM. We have achieved early success in implementing the blueprint. This year witnessed the maiden public offering of *waqf* shares by Larkin Sentral, green sukuk issuances, as well as new players in the fund administration and fund management businesses in Malaysia.

To enhance market liquidity, risk management and hedging capabilities, the Islamic Securities Selling and Buying Negotiated Transaction (iSSB-NT) framework was introduced. The SC also continued efforts in building knowledge and skills for ICM professionals, and participated in global forums to develop ICM.

### 5. Facilitating Greater Cross-Border Co-operation and International Profiling

Participation in global engagements and leadership roles are essential to ensure that we remain at the forefront of international policy discussions.

The SC continues to helm leadership roles at the International Organization of Securities Commissions (IOSCO) and the ASEAN Capital Markets Forum (ACMF). The SC Chairman holds the position of the Vice Chair of the governing Board of IOSCO and has been a member of IOSCO's Management Team since 2014. He also chairs IOSCO's Growth and Emerging Markets (GEM) Committee, the largest committee within IOSCO.

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<sup>2</sup> Malaysia International Islamic Finance Centre.

A significant milestone was achieved with the launch of the IOSCO Asia Pacific Hub in Kuala Lumpur by the Prime Minister of Malaysia, Dato' Sri Mohd Najib Tun Abdul Razak. The selection of Malaysia as the host of the first ever regional hub reinforces the country's efforts in building a high quality and well-regulated capital market. The hub will strengthen regulatory capabilities in the region, and held its inaugural workshop on Leveraging Behavioural Economics for Investor Education and Investor Protection, in conjunction with IOSCO's World Investor Week 2017.

In 2017, we also signed a series of innovation co-operation agreements with our peer regulators in major financial markets. These 'Fintech bridges' provide a framework for information sharing and enhance the cross-pollination of digital finance concepts between the SC and our peer regulators.

On the ASEAN front, the SC Chairman's chair of the ACMF entered its fourth consecutive year in November. In 2017, the ACMF launched the *ASEAN Green Bond Standards* at the inaugural ASEAN Capital Market Conference held in Malaysia.

The Institute for Capital Market Research (ICMR) was also established and will work with strategic partners from academia and global experts to undertake in-depth research to support capital market development. As a start, ICMR has identified Alternative Investments Initiative, the Wharton School US, Nomura Institute of Capital Markets Research, Japan, and the Jeffrey Sachs Center on Sustainable Development, Sunway University as its first collaborative research partners.

## INCREASING CAPITAL MARKET FINANCING AVENUES

### Bridging the pipeline between private and public markets

Globally, venture capital and private equity (VC/PE) has gained prominence over the years, both in the real economy and investing community. From the investee company's perspective, venture capital is an essential funding source for start-ups to achieve growth

## Inclusive and Sustainable Markets

and create value through innovation which in turn drives the growth of the real economy. From the investor's perspective, the prevailing low-interest-rate environment globally has resulted in a growing appetite for diversification among investors. In their quest for higher returns beyond traditional asset classes, VC/PE has proved to be an asset class that helps to enhance their portfolio returns.

Malaysia has been an attractive destination for VC/PE investments, partly due to the abundance of SMEs and start-ups with creative scalable ideas. These SMEs and start-ups require financing to commercialise their innovative solutions but face challenges in obtaining funding from traditional financial institutions. Hence, there is a need to attract more venture capital and private equity corporations and management corporations to be set up in Malaysia to meet the needs of local SMEs and start-ups.

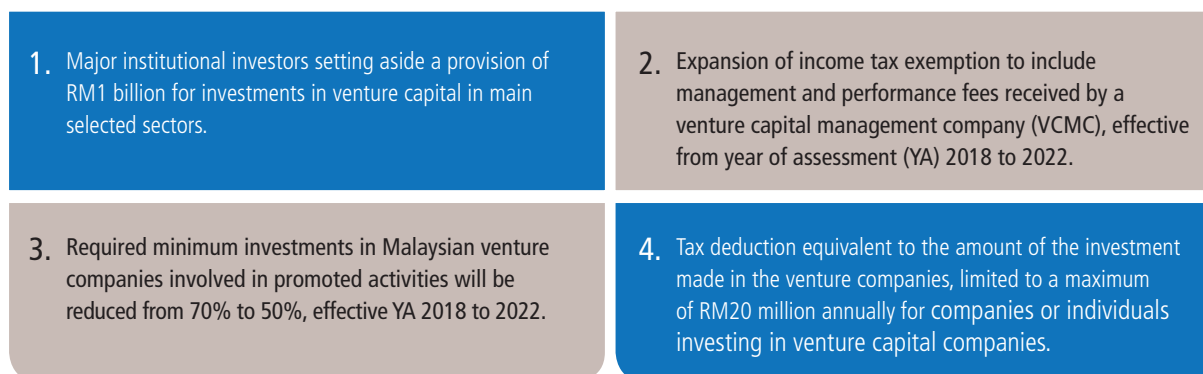
In addition to conventional VC/PE, Malaysia has also carved a niche in the Islamic VC/PE segment. Given that the nature and structure of VC/PE are consistent with the Shariah-compliant concepts of risk-sharing and participation in real business activity, Malaysia is well positioned to be a centre for Islamic VC/PE activities.

The Malaysian VC industry was established in 1984 with the formation of Malaysian Ventures Sdn Bhd. Between 2001 and 2008, various VC guidelines were introduced to facilitate industry growth. In 2005, the Malaysian Venture Capital and Private Equity Development Council (MVCDC) was established. Chaired by the SC, the council was set up to deliberate issues and formulate recommendations pertaining to the VC/PE ecosystem. Membership of the council includes both public and private sector representatives, which facilitates the development of holistic policy proposals.

Under the auspices of MVCDC, an industry-led VC/PE Task Force was set up in late 2016, with the SC as the secretariat. The task force explored various approaches to stimulate the mobilisation of the nation's savings pool in financing innovation via VC/PE investments. Recommendations from the task force and MVCDC which were adopted by the

Diagram 1

## Recommendations by VC/PE Taskforce announced in Budget 2018



Economic Council (EC) and announced in Budget 2018 include:

- i. Major institutional investors setting aside a provision of RM1 billion for investments in venture capital in main selected sectors;
- ii. Expansion of income tax exemption to include management and performance fees received by a venture capital management company (VCMC), effective from years of assessment (YA) 2018 to 2022;
- iii. Required minimum investments in Malaysian venture companies involved in promoted activities will be reduced from 70% to 50%, effective YA 2018 to 2022; and
- iv. Tax deduction equivalent to the amount of the investment made in the venture companies (limited to a maximum of RM20 million annually) for companies or individuals investing in venture capital companies.

Moving forward, the SC will continue to spearhead efforts in catalysing the growth of the VC/PE industry, in line with the government's efforts to spur innovation.

## Addressing gaps in early stage capital formation

The SC has embarked on efforts to enable businesses to benefit from wider accessibility to market-based financing avenues to meet their financing needs, as well as utilising technology to enable greater investor participation. We have six registered ECF operators and six P2P financing operators now fully operational.

Since the launch of ECF and P2P financing frameworks in February 2015 and April 2016 respectively, both avenues have shown good progress in meeting the financing needs of our micro, small and medium size enterprises (MSMEs). A total of 37 campaigns have been successfully funded on ECF platforms, with RM32.74 million raised. On the investor side, the six platforms have also recorded more than 800 investors, with 40% of those being under the age of 35.

In relation to P2P financing, despite its relatively short history in the market, 628 campaigns have been successfully completed across 120 issuers, with a total of RM37.15 million raised. Some campaigns have even been funded within an hour of being launched, reflecting the positive response.

For the SC, this clearly demonstrates that there is a segment in the market in which ECF and P2P financing are addressing: early-stage capital raising or capital for growth for MSMEs and attracting participation from young investors. Funding targets of less than RM500,000 for most of the ECF campaigns and less than RM200,000 for a majority of P2P financing campaigns reflect the inclusive nature of market-based financing.

### Enhancing public profile and visibility of MSMEs

The SC facilitated the implementation of the Leading Entrepreneur Accelerator Platform (LEAP) Market through the review and approval of the new LEAP Market Listing Requirements, as well as amendments to rules which govern the trading, clearing and depository framework. We undertook a thorough and holistic assessment of the rules which takes into consideration the needs of MSMEs, impact to the overall fundraising landscape, protection of investors, competitive positioning and potential emerging risks.

Introduced by Bursa Malaysia this year, the LEAP Market aims to provide an alternative fundraising platform for MSMEs. Investment in companies listed on the LEAP Market is limited to qualified investors<sup>3</sup>, according them the opportunity to broaden their investment options in MSMEs via a transparent and regulated environment.

The listing framework governing the LEAP Market facilitates fundraising for initial listings as well as secondary fundraisings.

In supporting and encouraging participation in the LEAP Market, the SC introduced a new permitted activity for Capital Market Services Licence (CMSL) holders licensed for advising on corporate finance, to carry out placement activities in the LEAP Market

<sup>3</sup> Those who fall within Part 1 of Schedule 6 or 7 of the CMSA.

## Inclusive and Sustainable Markets

subject to conditions which are set out in the *Licensing Handbook*.

### Augmenting the growth of our bonds and sukuk market

The Malaysian bond and sukuk market has, over the years, proven to be an efficient and effective source of financing for the public and private sectors while providing investment opportunities for various types of investors. From a nascent market of RM130 billion in 1997, the Malaysian bond and sukuk market has achieved significant growth over the past two decades to reach RM1.3 trillion in size. Today, it is the third largest market in Asia (relative to GDP) and the world's largest sukuk market.

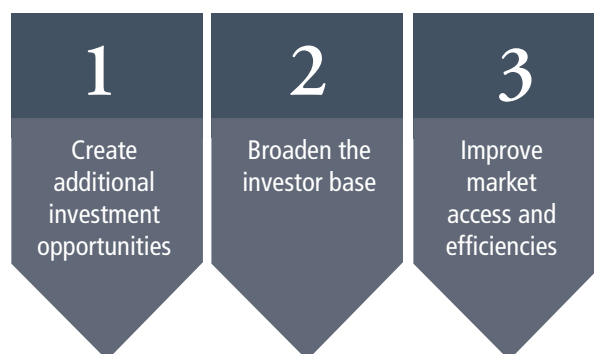
Corporate bond and sukuk issuances amounted to RM124.88 billion in 2017.

Key efforts undertaken in the bond market throughout the year have therefore, been developed around three strategic broad principles:

- i. create additional investment opportunities;
- ii. broaden the investor base; and
- iii. improve market access and efficiencies.

Diagram 2

### Three Strategic Broad Principles Driving Key Efforts in Bond Markets





To enhance market transparency, the SC in partnership with the industry, has created a centralised bond and sukuk information platform, known as the Bond+Sukuk Information Exchange, or BIX. In 2018, the SC will also facilitate greater retail investor access to the corporate bond and sukuk market. The relevant regulatory framework is being reviewed to create greater efficiencies in the primary market issuance processes and disclosure requirements.

In line with our efforts to further improve liquidity in the secondary market and enhance the development of the domestic bond market, new *Guidelines on Regulated Short-Selling of Corporate Bonds* were introduced. Under the new Guidelines, principal dealers are now permitted to conduct regulated short-selling of corporate bonds, expanding the range of bonds that can be short sold. To ensure market stability, the Guidelines also set out conditions on how regulated short-selling is to be conducted.

## Bond+Sukuk Information Exchange Levels the Playing Field

### Information landscape

While information on bonds and sukuk is generally available in Malaysia, it is fragmented across multiple channels operated by different public and private sector entities. This fragmentation has inevitably led to increased search costs particularly for small- and mid-sized corporations as well as retail investors unfamiliar with bonds and sukuk.

To widen access to this market segment, SC recognised that a centralised platform providing investors with information from a single access point is needed. This platform will be able to bridge existing knowledge gaps in bonds and sukuk.

### Bond+Sukuk Information Exchange

In 2017, the SC embarked on an initiative to consolidate all bond and sukuk information required by investors in making investment decisions. Named the Bond+Sukuk Information Exchange or 'BIX', this public and non-profit information platform was launched in November 2017.



BIX serves as a comprehensive platform with issuer, credit risk and price information, which will democratise the Malaysian bond and sukuk market. The availability of comprehensive bond and sukuk information, and ease of access through BIX will contribute towards transparency in both the primary and secondary markets.

The key feature of BIX is an advance search and filter function that enables users to select and view the entire universe of bonds and sukuk by yield to maturity, credit rating, tenure, issuer or a combination thereof. Other than that, BIX also offers tools such as a bond and sukuk selector, a calculator, and allows users to download a range of documents.

Users of BIX will also have access to articles and educational videos to enhance their knowledge on the bond and sukuk market.

## FACILITATING GREATER INVESTOR PARTICIPATION

### Enhancing the attractiveness of our equity market to investors

The SC has led initiatives to operationalise the MidS Research Scheme to create better value recognition and further spur the vibrancy of this high-growth market segment. A task force comprising the SC, Bursa Malaysia and industry representatives was established to oversee the implementation of the MidS Research Scheme, which was launched in May 2017. The Scheme will provide investors with information to explore diversification opportunities in small- and mid-cap stocks via free access to research reports, thus enhancing the tradability of small- and mid-cap companies.

Since its launch, the Scheme has covered 86 small- and mid-cap PLCs with more than 300 reports issued by 20 research firms. This coverage is expected to increase to around 130 qualified PLCs by the end of its three-year programme. Each selected PLC, whose market capitalisation ranges from RM200 million to less than RM2 billion, will receive independent analyst coverage from two participating licensed research houses for a duration of two years. An independent review panel comprising industry representatives will meet

## Inclusive and Sustainable Markets

periodically to rigorously review and ensure the quality of the research reports (Diagram 3). To complement the MidS Research Scheme, GLICs have committed to channel portions of their funds to licensed fund managers towards investing in these stocks. A total of RM2 billion has been pledged, which would be invested by GLICs. This is expected to continue to grow in the future as the small- and mid-cap PLCs gain greater visibility. The involvement of GLICs and fund managers in driving initial investment traction will spur the interest of a wider cross section of investors.

A holistic review of the *Prospectus Guidelines – Equity* was also carried out this year to guide issuers in preparing a more reader-friendly prospectus to aid investors' understanding. Changes made to the guidelines include prescribing the contents for a structured Prospectus Summary. Other amendments were made to reflect the SC's ongoing efforts to enhance and streamline disclosures in the prospectus, in line with our regulatory philosophy of proportionality and transparency. This includes inserting Guidance in the relevant sections to clarify the SC's expectations, and revising the procedural requirements for the registration of a prospectus. The revised *Prospectus Guidelines* were issued after extensive consultations with key stakeholders including principal advisers, legal advisers, reporting accountants, research analysts and investors. The guidelines will take effect in 2018.

Diagram 3

### SC initiatives to operationalise MidS Research Scheme



## Improving liquidity and efficiency of the securities market

A review of the short selling and securities borrowing and lending framework was conducted to broaden trading dynamics and improve liquidity, while ensuring fair and orderly trading in the securities market.

The amendments to the *Rules of Bursa Malaysia Securities* and the *Rules of Bursa Malaysia Securities Clearing* were approved by the SC to allow for securities borrowing under the Securities Borrowing and Lending Negotiated Transaction (SBL-NT) to be used for settlement of failed trades. The uptick rule was also revised to balance the need to promote liquidity and prevent short sellers from driving down the price of securities in declining market situations.

## Shaping long-term development of the exchange-traded funds industry

Exchange-traded funds (ETFs) provide investors with diversified exposure is cost-effective and tradeable like stocks on the exchange. To strengthen the ETF ecosystem and promote greater investor participation, an SC-led task force was established to pursue new drivers of growth. A set of recommendations were released by the task force to facilitate issuances and investments, enable product innovation and intensify investor engagements.

The task force recommendations implemented by the SC include:

- i. Liberalising the issuance process to improve the cost structures of domestic ETFs;
- ii. Removal of the requirement for submissions to be made by principal advisers;
- iii. The SC and Bursa Malaysia providing 100% clearing fee rebate to market makers; and
- iv. Stamp duty exemptions on contract notes for the trading of ETFs executed between 1 January 2018 and 31 December 2020.

To further strengthen the ETF ecosystem, the Capital Market Development Fund (CMDf) approved funding for several initiatives slated for 2018:

- i. A cost-sharing system will be procured for ETF managers to provide real-time pricing to investors;
- ii. Research reports on all ETFs will be made freely available for all retail investors; and
- iii. System costs for market makers will be defrayed by CMDf.

Product innovation has also resulted in the design and launch of Malaysia's first Shariah-compliant physical Gold ETF by Affin Hwang Asset Management Bhd. This ETF was launched in December 2017.

## Ensuring a dynamic private retirement savings infrastructure

The private retirement scheme (PRS) has made great strides since its inception five years ago. It continues to demonstrate sustained growth with net asset value totalling RM2.2 billion at the end of 2017 and membership reaching 301,000 (Chart 1).

PRS is an important pillar in our nation's pension framework. It enhances the choices available for Malaysians to meet their retirement saving needs. At the same time, the Malaysian labour force is evolving due to digitisation and changing demographics. Instead of having full-time employees, companies are looking towards hiring independent contractors and freelancers. Collectively, these types of workers along with other self-employed segments such as business owners or entrepreneurs account for about 13.7 million out of 22 million working adults in Malaysia. PRS can meet the needs of this growing segment of the population, which lack formal coverage under mandatory retirement schemes.

To understand members' behaviour and preferences better, the Private Pension Administrator Malaysia (PPA) conducted its first survey, involving nearly 6,000 of its members. The survey highlighted areas

where members' knowledge was lacking. The outcomes of the survey have enabled PPA to carry out more targeted marketing, and informed the framing of the SC's policies. Engagements were also held with all PRS providers to encourage dialogue and promote a sense of common purpose to achieve closer alignment of interests.

In August 2017, the PRS Guidelines were amended to:

- i. facilitate digital communication with members;
- ii. increase pre-retirement withdrawal options to include permanent total disablement, serious disease and mental disability; and
- iii. ease documentation requirements for members when topping up their contributions to PRS.

The introduction of the nomination facility also enables members to nominate an individual to receive their PRS contribution(s) upon their death, facilitating expeditious disbursement of the PRS fund(s) to their beneficiaries. A total of 14,128 members have completed the nomination process by the end of 2017.

### **Digitising investor experience and traditional distribution channels**

Today, technology has become an integral part of our daily lives. Convenience, accessibility and affordability are influencing the way products and services are consumed. Online shopping, e-movie bookings, car hailing, and even accommodation sharing have become mainstream. Inspired by the digital experience they encounter in their daily lives, consumers are beginning to demand a similar level of experience from their financial services providers. This takes the form of innovative investment solutions which offer greater convenience, access, transparency and lower cost.

## **Inclusive and Sustainable Markets**

The digital revolution has forced traditional financial services institutions to rethink their distribution channels in order to remain relevant. In April 2017, the SC approved the first digital only equities broker for the Malaysian market, Rakuten Trade. Since its launch, Rakuten Trade has received positive response from investors with more than 8,000 accounts opened, a big portion of these are new-to-market investors. While this phenomenon is most apparent in the equities market, we anticipate this to also impact other traditional asset classes.

### **Revitalising investment services for the digital era**

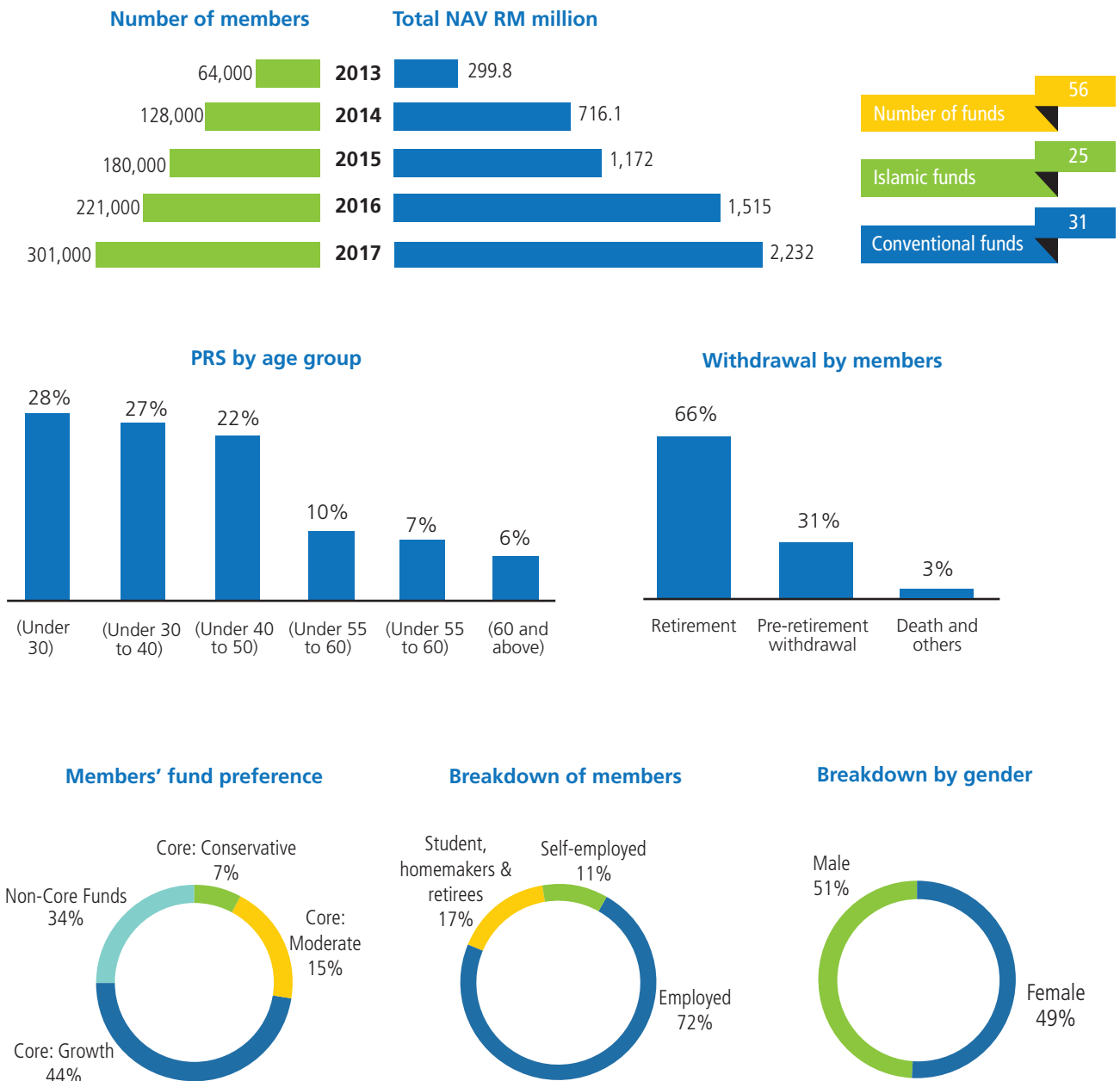
To promote greater inclusiveness, the SC continues to facilitate the introduction of digital investment services in Malaysia. The term 'digital investment services' encapsulates a new range of capital market products and services which have emerged due to digital innovation such as digital investment management (which includes robo-advisory), micro-investments, online broking and social trading, to name a few.

In May, the SC was the first in the region to launch a regulatory framework for Digital Investment Management (DIM), paving the way for affordable automated discretionary portfolio management services to be offered to Malaysian investors. Since the launch of the framework, we have received significant interest from both incumbent capital market players and start-ups, and expect the first digital investment manager to be licensed in 2018.

The DIM framework will provide investors with a more convenient, affordable and accessible channel to manage and grow their wealth. In operationalising this framework, the SC made amendments to the *Licensing Handbook* and the *Guidelines on Compliance Function for Fund Management Companies*, setting out licensing and conduct requirements for those interested to offer automated discretionary portfolio management services to investors.

Chart 1

## Growth of private retirement schemes





## Regulatory Framework to Facilitate Digital Investment Management

To facilitate the offering of digital investment management activities in Malaysia, a new category of portfolio management licence was introduced. Digital investment management is an online service that uses questionnaires to profile clients' risk appetite and assess their needs. Based on the customer's input, an appropriate investment portfolio is assigned to the investor and the digital investment manager conducts automated rebalancing and reallocation during the management period.

### Definition of Digital Investment Management

Digital Investment Management is a fund management business incorporating innovative technologies to offer automated discretionary portfolio management services to investors

| Key Fund Management Activities  |   |   |   |
|---|---|---|---|
| Understand client needs   | Propose solutions   | Implement solutions   | Monitor results and adjust strategy   |
| <ul style="list-style-type: none"> <li>Gather client information</li> <li>Understand needs and preference</li> <li>Assess risk-tolerance</li> </ul> | <ul style="list-style-type: none"> <li>Select asset allocation</li> <li>Select securities forming investment portfolio</li> <li>Generate proposals</li> </ul> | <ul style="list-style-type: none"> <li>Persuade to action</li> <li>Open accounts</li> <li>Transfer funds</li> <li>Execute and manage portfolio</li> </ul> | <ul style="list-style-type: none"> <li>Periodic performance reviews</li> <li>Dashboards, status-alerts</li> <li>Rebalancing of portfolio</li> </ul> |

A digital investment management company aims to replicate many of the key activities performed by traditional fund managers through online access

Given the unique features of the digital investment management business, one of the key licensing criteria is the requirement for applicants to satisfy a clear digital value proposition, which includes the following:

- **Digital business model** – The business model must have a clear value proposition that demonstrates how digital innovations can deliver positive outcomes for its target investors.
- **User-centric delivery** – Delivery of services to target investors must include user-centric interface and experience, integrated investor education on the services offered to create greater confidence, trust and engagement, and transparent fee structure.
- **Automated investment proposition** – Automated proposition must involve core components of portfolio management services including risk profiling, suitability assessment, asset allocation and rebalancing. Applicants will not be eligible if only limited parts or only non-core parts of the investment services are automated.

Further, applicants are required to comply with other key entry and competency requirements, including local incorporation, minimum financial requirements and requisite technology capabilities to run the digital investment management business. There are also requirements to comply with existing regulatory safeguards, including the *Guidelines on Management of Cyber Risk*, and investor protection provisions including maintaining custodial arrangements, membership with the Securities Industry Dispute Resolution Center (SIDREC) and contribution to the Capital Market Compensation Fund (CMCF).

To reinforce investor protection, specific conduct requirements and effective investor redress mechanisms are imposed on digital investment managers. These include requiring the board to be accountable for the governance of the business by ensuring that:

- requisite technology capabilities are in place including identification of competent person or persons within the company who has sufficient understanding of the risks and rules of the algorithm applied;
- outcomes produced by the algorithm are consistent with the digital investment manager's strategies and securities laws;
- risk management framework is sufficiently robust to manage risks associated with the offering of automated discretionary portfolio management services including cyber security resilience; and
- effective oversight on the overall compliance framework including reviewing the effectiveness of compliance programmes to take into account the unique and specific aspects of the digital investment management's business model.

In relation to the algorithm design and oversight, the SC requires the digital investment manager to have written policies in place to monitor and regularly test the algorithm employed. Any use of third-party technology and algorithm must entail ongoing due diligence by the digital investment manager.

## Monitoring the rise of cryptocurrencies and digital assets

Cryptocurrencies and digital assets carried their strong momentum from end of 2016 into 2017, reflecting the spike in interest of investors in these alternative asset classes.

Financial regulators globally have taken pro-active steps to guide investors on the potential use and associated risks of such investments. The SC issued a media statement on Initial Coin Offerings (ICO), cautioning investors as we noted the emergence of ICO schemes in Malaysia and elsewhere. Proponents of cryptocurrencies expound its potential for being more secure and transparent than traditional fiat

currencies, while allowing for faster transactions between users anywhere in the world. The emergence of ICOs, where an issuer creates digital assets on a distributed ledger and uses it to raise funds for a project, are being positioned as disruptors for traditional VC/PE and IPO activities. However, the fact that such cryptocurrencies and digital assets hold no intrinsic value, and are often not backed by any traditional assets, nor issued by a recognised authority have also attracted its fair share of detractors.

In our statement on ICOs, we warned investors that such schemes, in its current form, poses significant risks to investors, and strongly encouraged investor to fully understand the features of an ICO scheme,

and to carefully weigh the risks before parting with their monies. Investors should take note that:

- i. Scheme operators may not have a presence in Malaysia and it would be difficult to verify the authenticity of the scheme and the recovery of invested monies may be subject to foreign laws or regulations;
- ii. Some ICO schemes and the parties involved operate online and may not be regulated. As a result, investors may be exposed to heightened risks of fraud, money laundering and terrorism financing;
- iii. Digital assets traded on a secondary market may give rise to risks through insufficient liquidity, high volatility and opaque pricing; and
- iv. The structure of these ICO schemes might limit the legal protection and recourse against scheme operators.

The SC is reviewing relevant regulations and guidelines to facilitate functional and effective use of digital assets in the capital market. To ensure

## Inclusive and Sustainable Markets

that the interests of investors are safeguarded, we are collaborating closely with our peer regulators both locally and globally in formulating our policy position and regulations. The SC is also part of the global IOSCO ICO Consultation Network where participating regulators are discussing the latest developments in this space, including sharing information between jurisdictions on supervision and surveillance efforts.




### Enabling continued expansion of the financial planning industry

Recognising the importance of financial planners' role in providing professional advice for investors, we continue to facilitate the expansion of this industry.

In 2017, the industry witnessed positive growth and improved visibility, as well as closer collaboration between the SC and industry stakeholders. Eighty per cent of the recommendations in the 3-year action plan, originated in 2015, have been successfully implemented to meet its overall objectives of driving industry growth (Diagram 4).

Diagram 4

### Progress of the 3-year action plan

| Strategic Thrusts  | Recommendations   |
|--|---|
| <br><b>Strengthening Professional Standards</b> | <ul style="list-style-type: none"> <li>✓ Strengthen industry code of conduct.</li> <li>✓ Implement minimum standards for <i>Code of Ethics and Best Practice</i>.</li> <li>✓ Annual conference jointly organised by financial planning associations.</li> <li>✓ Mutual recognition of training programmes.</li> <li>• Joint association 'mystery shopping' to gauge financial planning's level of professionalism.</li> </ul> |
| <br><b>Striking Regulatory Balance</b>          | <ul style="list-style-type: none"> <li>✓ Alignment of compliance and audit requirements to recognise FP's various business models.</li> <li>✓ Liberalisation on the requirements for Compliance Officer and external audit.</li> </ul>  |
| <br><b>Empowering Consumers</b>                 | <ul style="list-style-type: none"> <li>✓ Consumer guide to boost knowledge on the features and benefits of FP services.</li> <li>✓ Collaboration between FP Associations with InvestSmart® to promote FP industry.</li> <li>• Consumer Financial Education Framework to enhance investor access and understanding of Financial Planner and their services.</li> </ul>   |

- ✓ Completed
- Ongoing

As at end of 2017, there were 679 licensed financial planners which represents a growth of 43% from the beginning of 2015. The remaining recommendations will be implemented in the coming year.

In promoting greater access to financial planners and engendering greater confidence in the profession, the SC held the #FinPlan4U programme in collaboration with the Financial Planning Association of Malaysia, Malaysian Financial Planning Council and Association of Financial Advisers during the InvestSmart® Fest 2017. During the Fest, complimentary initial assessments were provided through one-on-one sessions between financial planners and investors. The programme provided a good opportunity for investors to familiarise themselves with the services being offered by financial planners, with more than 450 participants throughout the Fest.

## Stakeholder engagements and promotions

During the year, the SC continued to engage the industry on a broad spectrum of issues relating to market development, compliance and emerging risks. The collaboration between the SC and the industry had enabled the roll-out of several key initiatives for the capital market which benefits the industry as a whole. The annual SC Industry Dialogue (SID) 2017 was held in August 2017.

The theme was 'Driving Growth and Efficiency in an Evolving Market' where discussions focused on enabling continued growth amidst evolving market dynamics and a shifting intermediation landscape. During the SID, the SC outlined key strategic growth initiatives, including implementation of the digital markets strategy, strengthening the positioning of the Islamic capital market, enhancing market-based financing and deepening existing market segments. Discussions were also focused on several compliance issues and the need for continued vigilance to

ensure trust and confidence in the market are sustained.

At the conclusion of the SID, capital market industry leaders agreed to explore the feasibility of developing shared services and common utilities, drive greater cost efficiency and address challenges in the digital era. These included the setting up of an industry-driven task force to explore initiatives that can be applied across the industry to enhance effectiveness of customer due diligence and address cyber security concerns, among others.

The 'alliance of Fintech community' or aFINity serves as the SC's outreach programme for the digital finance community. Since its launch in 2015, the programme has had over 100 industry participants registered with aFINity and we have conducted approximately 100 engagement sessions.

In addition to its outreach function, aFINity has also held 'Innovation Labs' to explore new digital innovations. Innovation Lab activities range from discussing business ideas and concepts which are powered digitally, to developing proof of concept of digital solutions to meet specific industry needs (Diagram 5).

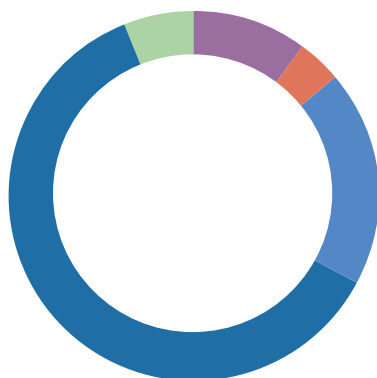
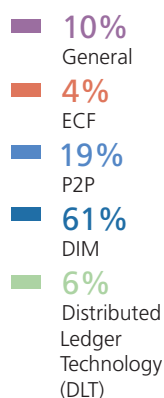
Notably in developing the P2P financing and digital investment management regulatory frameworks, the SC socialised and obtained feedback for its proposed framework via targeted focus group discussions and engagement labs with industry participants who have registered with aFINity. The aFINity community was pivotal in galvanising a network of stakeholders in syndicating the SC's digital markets initiatives and soliciting wider industry feedback for further deliberation.

Operationalised in 2012, Capital Markets Malaysia (CMM) focuses on international awareness campaigns and targeted business development endeavours aligned to the SC's priorities. CMM's activities help strengthen Malaysia's vibrancy and sustainability of its intermediaries, investors

Diagram 5  
Innovation Labs



Over 100 industry participants have registered with aFINity and 100 engagement sessions have taken place since its launch in 2015



aFINity engagements include:

1. **Community-wide sharing sessions** to provide guidance and clarity on the SC's regulations, guidelines and newly introduced digital markets initiatives.
2. **Targeted focus group discussions** to:
  - obtain feedback on the SC's proposed regulatory framework; and
  - explore new ideas and approaches.
3. **One-on-one engagement sessions** to:
  - delve into key aspects of digital business proposition and understand how it is intended to be deployed in the capital market; and
  - provide a platform for continuous interactions to prepare them meet readiness requirements.

and issuers. The year's efforts were centred on promoting the ICM and SRI segments, as well as market-based financing avenues for MSMEs.

Since the launch of the *Islamic Fund and Wealth Management (IFWM) Blueprint*, CMM has undertaken various initiatives towards meeting the objectives of the Blueprint. These include—

- i. Awareness campaigns with international media to showcase our expertise and depth of experience in ICM;
- ii. Technical workshops on financing of green projects in emerging regions to increase awareness on the growing demand for SRI products in global capital markets; and
- iii. Supporting international talents, such as an international fund administration service provider and a global VC firm in setting up offices locally to enhance the breadth of expertise residing in Malaysia.

CMM also drove programmes aligned to the SC's priorities to enhance participation in SRI, market-based financing, and the bond and sukuk market. These programmes serve to—

- i. Drive awareness of alternative funding solutions for MSMEs, through a 'Business Matching' platform which enabled MSMEs to meet ECF and P2P financing operators registered in Malaysia;
- ii. Facilitate greater growth for SRI, with the United Nations Principles for Responsible Investment (UN PRI)'s position paper on Islamic finance and responsible investment;
- iii. Facilitate awareness on SRI, through the Responsible Investment Forum together with UN PRI and Bursa Malaysia. This attracted an audience of 200 senior management staff of fund management companies, institutional investors and potential large cap PLC issuers; and
- iv. Enhance awareness of the financing of infrastructure projects through the Malaysian bond and sukuk market, by organising a business dialogue between the government and private sector players in East Malaysia. This was held in conjunction with the 13<sup>th</sup> World Islamic Economic Forum in Kuching, Sarawak.



## SCxSC Digital Finance Conference 2017

In November 2017, the SC organised the fourth Synergistic Collaborations by the SC (SCxSC) Digital Finance Conference, our flagship Fintech event. Aimed at increasing awareness on the emergence of new Fintech innovations globally, the annual event also serves to profile alternative and innovative mechanisms for MSMEs to raise capital through ECF and P2P financing.

The conference, which revolved around global developments within the Fintech and digital markets space, brought together international Fintech experts, financial services industry stakeholders, entrepreneurs, sophisticated investors and the general Malaysian public.

The SC Chairman, Tan Sri Dato' Seri Ranjit Ajit Singh in his speech outlined the progress made in digital markets since the SC revealed its Digital Markets Strategy, while Second Finance Minister, Datuk Seri Johari Abdul Ghani delivered the keynote address and announced plans to establish a Co-Investment Fund (CIF) worth RM50 million, co-invested in MSMEs with private investors through ECF and P2P platforms. The SC will assist in setting up the fund and define the co-investment criteria for both equity and debt-based financing.

SCxSC hosted various interactive panel sessions featuring internationally renowned experts within the relevant fields on topics such as digital investments services, digitising the financial services ecosystem, the growth of digital assets as well as cryptocurrency and venture investments into the Fintech industry. Rakuten Inc. (Japan) as the innovation partner for SCxSC held their very own Fintech track featuring expert speakers from within the Rakuten ecosystem touching on online lending, payments and creating better interaction with users.

As part of the two-day conference, various MSMEs and start-up entrepreneurs who intend to raise capital through the ECF platforms registered with the SC, were given the opportunity to pitch to potential investors. There were also workshops on P2P financing by registered platform operators. Attendees were also able to better understand the latest trends in digital finance as well as the SC's Digital Markets Strategy to support the growth of the thriving Fintech ecosystem in Malaysia.

SCxSC was an overall success, and attracted more than 1,500 participants.



*The SC Chairman, Tan Sri Dato' Seri Ranjit Ajit Singh and Second Minister of Finance, Datuk Seri Johari Abdul Ghani sharing a light moment at the conference.*



*Hiroshi Takasawa speaking on the 'Rakuten Ecosystem'.*



*(From left) Rejina Rahim (Nomura Asset Management), Yuji Kusunoki (Rakuten Securities), Shinichiro Kai (Folio Robo-advisory Fintech company) and George Lucas (Acorns micro-investments Fintech company) gathered for a photo session after the panel session on 'Towards a Digital-only Investment Mode'.*

### DRIVING SUSTAINABLE INVESTMENTS

The global movement of inculcating social and environmental values into investments – doing good while doing well – has led to a proliferation of SRI. The growth of SRI in Malaysia needs to be supported by a facilitative ecosystem – this is outlined within the SC's *5i* strategy which entails widening the range of SRI *instruments*, increasing the SRI investor base, building a broad SRI issuer base, instilling strong internal culture and governance and designing information architecture in the SRI ecosystem. The SC issued the SRI Sukuk Framework in 2014 to encourage sustainable investments. In 2015, Khazanah Nasional Bhd, issued the inaugural tranche of RM100 million to fund the development of trust schools under its RM1 billion SRI sukuk programme. In 2017, Khazanah issued the second tranche of RM100 million, a portion of which was allocated to retail investors for the first time.

The SRI Sukuk Framework is compatible with the International Capital Market Association (ICMA)<sup>4</sup> Green Bond Principles<sup>5</sup> (GBP), which are

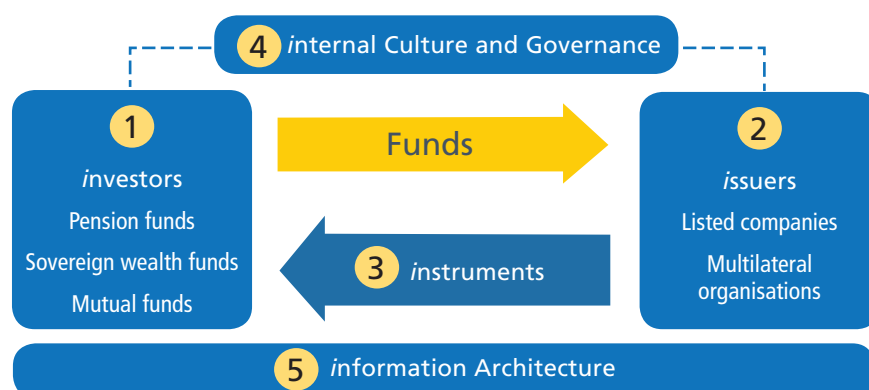
internationally recognised guidelines for issuances of green bonds. This year also saw traction on green-themed issuances. In July, the world's first green SRI sukuk was issued in Malaysia by Tadau Energy to finance a solar project. This issuance is the first in the world to formally integrate Shariah and green principles, made possible under the SC's SRI Sukuk Framework. Subsequently, two other green SRI sukuk were issued, bringing the total issuance size to RM1.94 billion for 2017. This has earned Malaysia the World Bank Group's recognition as a pioneer in harnessing the capital markets – in particular Islamic finance, for climate-friendly investments.

Stakeholder education and awareness are pertinent to expanding the growth of SRI. The SC, Bank Negara Malaysia (BNM) and World Bank Malaysia continue to collaborate to drive awareness programmes, stakeholders' engagements and technical assistance on green SRI sukuk. In addition, the SC established a RM6 million Green SRI Sukuk Grant Scheme to incentivise the issuers to seek green certification by offsetting external review costs. This will be operationalised in 2018.

Diagram 6

### 5i Strategies

Introduction of 5i Strategies to develop SRI ecosystem in the capital market



<sup>4</sup> ICMA's membership includes issuers, intermediaries, investors and capital market infrastructure providers. ICMA currently has over 530 members approximately 60 countries worldwide.

<sup>5</sup> Green Bond Principles (GBP) are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the green bond market by clarifying the approach for issuance of green bonds.

## Launching ASEAN Green Bond Standards to support sustainable growth in ASEAN

At the ASEAN level, ACMF has identified the development of green asset class as one of its key regional initiatives to support ASEAN's infrastructure needs.

In January 2017, the ACMF Green Finance Working Group, co-chaired by the SC and the Securities and Exchange Commission (SEC) Philippines, held its first meeting. In November 2017, the *ASEAN Green Bond Standards* (GBS) were endorsed during the ACMF Chairs Meeting and launched at the inaugural ASEAN Capital Market Conference.

The ASEAN GBS, while aligned with ICMA's internationally recognised GBP, aim to provide more specific guidance on how the GBP are to be applied across ASEAN, in order to promote transparency and consistency in the ASEAN green bond market framework. To ensure that ASEAN Green Bonds benefit the region, the eligible issuers of ASEAN Green Bonds are required to have a geographical or economic connection to the ASEAN region, and specifically excludes fossil fuel related projects.

At the launch of the ASEAN GBS, Permodalan Nasional Bhd (PNB), via its wholly-owned subsidiary PNB Merdeka Ventures Sdn Bhd, pledged to adopt the ASEAN GBS for its sukuk issuance to finance the construction of the Warisan Merdeka Tower; the first issuer in the region to do so. In December 2017, PNB issued the first tranche of RM690 million under its RM2 billion and 15-year Merdeka ASEAN Green SRI Sukuk Programme. This was the first green sukuk recognised under both the SC's SRI Sukuk Framework and the ASEAN GBS.

## Building the distinct SRI funds industry through SRI Funds Guidelines

SRI funds have gained substantial momentum globally, with an estimated US\$22.89 trillion of fund assets globally which are currently being managed under various SRI strategies<sup>6</sup>. This growth trend demonstrates the increasing demand for investment solutions that not only offer competitive returns but are also aligned with investors' desire to ensure their portfolios are managed in a sustainable and responsible manner. Malaysia is recognised as the largest market for SRI funds in Asia ex-Japan with an estimated 30% share of the region's US\$52 billion fund assets<sup>7</sup> which includes Islamic funds.



### Launch of the ASEAN Green Bond Standards

*(From left) I Made Bagus Tirtayatra, Deputy Director, Investment Management Licensing, Otoritas Jasa Keuangan; HE Sou Socheat, Director General, Securities and Exchange Commission of Cambodia; Mardini Haji Eddie, Acting Assistant Managing Director, Monetary and Investment, Autoriti Monetari Brunei Darussalam; Mushtaq Kapasi, Chief Representative, Asia Pacific, International Capital Market Association; Rapee Sucharitakul, Secretary-General, Securities and Exchange Commission, Thailand; Attorney Teresita Herbosa, Chairperson, Securities and Exchange Commission Philippines and Tan Sri Dato' Seri Ranjit Ajit Singh, Chair of ACMF and Chairman Securities Commission Malaysia.*

<sup>6</sup> Global Sustainable Investment Review 2016.

<sup>7</sup> *IBID.*

To broaden the range of SRI products in the Malaysian capital market and in line with the SC's strategy to develop the SRI ecosystem, the SC issued the *Guidelines on Sustainable and Responsible Investment Funds* in December 2017.

The guidelines provide for additional disclosure and reporting requirements which aim to encourage transparency on sustainability aspects in the management and investments of the fund, and accommodate the variety of investment approaches. This includes funds that incorporate environment, social and governance (ESG) factors or ethical norms in the investment criteria, as well as thematic funds that focus on social and environmental investments.

The issuances of these guidelines will support the SC's vision to create a distinct brand for SRI funds in the Malaysian capital market and establish Malaysia as a regional centre for Shariah-compliant SRI funds. An incentive to encourage fund managers to establish SRI funds was introduced in Budget 2018, where the management fee income of the fund managers will be tax exempted.

## STRENGTHENING MALAYSIA'S LEADERSHIP POSITION IN THE ISLAMIC CAPITAL MARKET

### Implementing the Islamic Fund and Wealth Management Blueprint

Global Islamic assets under management (AUM) reached US\$56 billion<sup>8</sup> in 2016, and Malaysia was recognised as the Islamic funds industry leader, with the largest number of Islamic funds. This has further paved the way for Malaysia to successfully tap into the latent demand for Shariah-compliant investment products globally. Given Malaysia's well-developed Islamic fund management industry, prominent international firms have been drawn to set up their Islamic capital market operations in the country, alongside domestic firms.

## Inclusive and Sustainable Markets

Diagram 7

### Three Main Strategic Thrusts



#### Thrust #1

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



#### Thrust #2

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



#### Thrust #3

Develop Malaysia as an international provider of Islamic wealth management services

Given the commonalities between SRI and Islamic finance principles, Malaysia, with its leadership position in ICM, is well positioned to drive the development of Islamic wealth management services and facilitate new growth opportunities for SRIs.

Recognising this, the SC launched the *Islamic Fund and Wealth Management Blueprint* in 2017. The Blueprint sets out three strategic thrusts with a vision to establish Malaysia as a leading international centre for Islamic fund and wealth management: strengthening Malaysia's position as a global hub for Islamic funds, establishing the country as a regional centre for Shariah-compliant SRI, and developing Malaysia as an international provider of Islamic wealth management services (Diagram 7).

The early implementation of the Blueprint saw the maiden public offering of *waqf* shares (a charitable endowment under Islamic law that is non-transferable), by a corporate entity. This was followed by several green sukuk issuances and the emergence of new players in fund administration and fund management in Malaysia.

<sup>8</sup> IFSB Islamic Financial Services Industry Stability Report 2017

In 2017, Malaysia witnessed the public offering of the world's first *waqf* shares, by Larkin Sentral. Up to 850 million new ordinary shares were offered at a subscription price of RM0.10 per share (worth RM85 million) both to institutions and individuals. The *waqf* shares are structured under a social enterprise model, reinforcing Malaysia's efforts to promote the development of the social economy. Proceeds from subscription of the *waqf* shares will be utilised to finance the upgrade of a transportation terminal and its facilities. Under the scheme, share subscribers will endow their shares and all its rights and entitlements to a trustee, and dividends from the *waqf* shares will be allocated among others to help single mothers and lower income groups pay minimal rental rates for the shop lots at the terminal. Subscribers of the *waqf* shares will be eligible for tax deductions.

The presence of established intermediaries operating in Malaysia augments the diversity, specialisation and offerings of its Islamic fund and wealth management services. This year, the SC granted a Capital Markets Services Licence to a regional fund manager, complementing the strong base of Islamic fund management companies in the country. We also facilitated the entry of an international fund administrator and service provider, which set up its operations in Malaysia in 2017.

### **Enhancing market liquidity and risk management capabilities**

To augment the growth of the Shariah-compliant securities market, in particular Islamic ETF, Bursa Malaysia introduced the Islamic Securities Selling and Buying Negotiated Transaction (ISSBNT) framework. This framework would be the first of its kind to allow further development of market infrastructure which is expected to enhance liquidity, as well as facilitate better hedging and risk management activities by Islamic fund and wealth managers.

### **Building knowledge and skills for ICM professionals**

To support the growth of ICM professionals, several capacity building programmes for industry practitioners and young graduates were organised.

#### **Green Sukuk Workshop**

To complement Malaysia's advancement in green sukuk, workshops were organised to develop greater understanding of international trends on green finance, and the current framework available in Malaysia for green initiatives. Workshops held in July and September 2017 catered to investment banks and PLCs, respectively.

#### **Islamic Market Programme, Shariah Professional Programmes for ICM and Islamic Capital Market Graduate Training Scheme**

The SC continues to work closely with the Securities Industry Development Corporation (SIDC) to conduct annual capacity building programmes such as the Islamic Market Programme (IMP), Shariah Professional Programmes for ICM (SPP) and Islamic Capital Market Graduate Training Scheme (ICMGTS).

In 2017, the IMP focused on 'Promoting Social Enterprise and Responsible Finance: A New Agenda for the Islamic Capital Market'. This offered investors an alternative approach to wealth management while addressing resource depletion, climate change and environmental degradation issues. It is an opportunity to connect socially-motivated investors with social enterprises. For the industry, it presents a different approach to doing business, harnessing the talents of entrepreneurs who want to create change, and enabling community organisations to achieve social goals with greater financial sustainability. Since its inception in 2016, a total of 176 industry practitioners have benefited from the programme, including 79 participants in 2017.



## Sukuk: Principles and Practices Textbook

The *Sukuk: Principles and Practices* textbook, launched by His Royal Highness Sultan Nazrin Muizzuddin Shah, Sultan of Perak, in October 2017, was the result of extensive collaboration between the SC and the International Shari'ah Research Academy for Islamic Finance (ISRA). Focusing on theories and practices governing sukuk across various jurisdictions while adopting global perspectives, this second collaboration follows from the success of our previous joint publication titled *Islamic Capital Markets: Principles & Practices* in 2015. The SC and Khazanah Nasional Bhd are co-sponsors of these two publications.

## Participating in global forums to develop ICM

The SC organised several thought leadership programmes, in collaboration with international organisations. These provide a platform for the SC to facilitate discussions, influence and exchange views with market practitioners, policymakers, regulators, as well as other stakeholders on the application of Islamic financial services and their relevance to the needs of society.

## The SC and World Bank Conference on Islamic Finance and Public-Private Partnership for Infrastructure Development

As part of a multi-year engagement, the SC and the World Bank convened the inaugural conference and roundtable on Islamic Finance and Public-Private Partnership (PPP) for Infrastructure Development. At the conference, the roles of PPP as effective agents of economic and societal change, as well as the use of Islamic finance were recognised as effective mechanisms for growth in the real economy and wealth creation. In particular, the extensive experience of Malaysia in using Islamic financial instruments to support infrastructure development proved how such partnerships can offer solutions for global infrastructure development needs.

## Inclusive and Sustainable Markets

Discussions centred on the ecosystem needed for the ICM, developments in PPP, and the identification of relevant policy, legal, regulatory and institutional interventions to attract and expand Islamic financing for infrastructure development. Following this conference, the SC and World Bank have published a report entitled *Islamic Finance and Public-Private Partnership: Viability, Opportunities and Recommendations*. This report aims to synthesise the essence of deliberations at the conference and provide key recommendations deemed vital for the growth and development of PPP using Islamic Finance.

## International Fund Forum 2017

The SC also organised the International Fund Forum (IFF) 2017, which featured prominent market strategists and senior representatives from leading international fund houses and financial institutions who shared their thoughts on the global economic and market outlook, as well as the development of the Islamic fund and wealth management industry. It also discussed the prospects for the investment management industry arising from shifts in international wealth trends and the growing emphasis on SRI.

## SC-Oxford Centre for Islamic Studies (OCIS) Roundtable

The eighth SC-OCIS Roundtable was held at Ditchley Park, Oxfordshire, United Kingdom in March 2017. Themed 'Creating Shared Values Through Risk Sharing', this year's Roundtable looked into the philosophy and economics of risk sharing and examined possible models, structures or platforms towards realising collective risk-sharing financing arrangements and thereby reducing debt reliance in Islamic finance. The Roundtable deliberated the need to incorporate shared values in the formulation of risk sharing in Islamic finance. Platforms such as partnership, co-operative partnership, limited liability partnership and mutual association for profit and loss sharing arrangements to thrive were examined. The membership bank



model was discussed, in particular its ability to self-sustain because members were attracted to the sharing of returns-costs with other members.

## Scholar in Residence Programme

The Scholar in Residence (SIR) Programme is a collaborative initiative between the SC and OCIS, introduced in 2012 for dedicated research on contemporary issues in Islamic finance. The recommendations and findings of the research projects will contribute towards policy implementation guides or serve as industry benchmarks. Dr Salman Syed Ali, the fifth visiting scholar for the academic year 2016/2017, completed his research titled 'Promoting Equity-Based Islamic Finance: Macro and Micro Considerations'. Dr Siti Raihana Hamzah, a Senior Lecturer at Universiti Sains Islam Malaysia (USIM) has been selected as the sixth SIR scholar for the academic year 2017/2018, with a proposal entitled, 'Empirical Analysis of Risk Shifting and Risk Sharing in Bonds and Sukuk: Application to Equity Crowdfunding'.

## FACILITATING GREATER CROSS-BORDER CO-OPERATION AND INTERNATIONAL PROFILING

### Participating in global engagements and thought leadership

Participation in global engagements and international leadership roles are essential to ensure that we remain at the forefront of international policy discussions.

The SC continues to be actively involved in the International Organization of Securities Commissions (IOSCO), the leading international standard-setter for securities regulation. IOSCO's membership regulates more than 95% of the world's capital markets worth around US\$140 trillion, in approximately 120 jurisdictions.

The SC Chairman is the Vice-Chairman of the governing Board of IOSCO and has been a member of IOSCO's management team for five years. He continues to chair IOSCO's Growth and Emerging Markets (GEM) Committee, the largest Committee within IOSCO with 107 members, representing 80% of IOSCO's membership. He also represents IOSCO at the meetings of the Financial Stability Board (FSB).

IOSCO's decision to establish its Asia Pacific Hub (Hub) in Kuala Lumpur bears testament to the SC's leadership at IOSCO and our commitment in shaping global regulatory developments. The Hub in Kuala Lumpur was launched by the Prime Minister, Dato' Sri Mohd Najib Tun Abdul Razak in March 2017 to further develop the region's capital markets and strengthen the region's regulatory capabilities.

In conjunction with IOSCO's World Investor Week 2017, the Hub held its inaugural two-day workshop on Leveraging Behavioural Economics for Investor Education and Investor Protection in October 2017. The workshop reviewed regulatory approaches on the application of behavioural insights to investor programmes and initiatives, and provided participants with a better understanding of behavioural insights and factors influencing investors' decision making process. Thirty-one regulators from across 18 jurisdictions participated in the workshop.

The GEM Committee stepped up its focus on sustainable financing this year – with a review, led by the SC and CNV Argentina, on the development and growth of green asset classes, such as green bonds, related funds and indices, and key imperatives to facilitate the development of these asset classes. The work will consider issues and challenges impacting the development of sustainable financing in capital markets, and the role of securities regulators in this area. Sustainability was also a key agenda during the GEM Committee's Annual Meeting and Conference held from 20 to 21 September in Sri Lanka, where a conference was held on Enhancing Sustainable and Innovative Market-Based Financing. Other

**“Future economic and development goals must be premised on long-termism and sustainability. This is critical as we continue to cope with limited resources within a climate-impacted world, and as globalisation impacts inclusivity and social inequalities.”**

– Tan Sri Dato’ Seri Ranjit Ajit Singh,  
Chairman, Securities Commission  
Malaysia

substantive areas discussed included issues regarding liquidity in emerging capital markets, the role of Fintech and the need to balance innovation with investor protection, particularly in areas such as cryptocurrencies and ICOs. The event attracted over 300 participants from close to 50 jurisdictions.

The GEM Committee also conducted a Regulatory Cyber Workshop which included a cyber-simulation exercise. The workshop, developed in collaboration with leading market experts, aimed to strengthen regulatory capabilities and preparedness in addressing cyber threats. The simulation exercise highlighted key cyber developments and risks such as emerging copycat attacks, as well as new technology and methods to breach and compromise information and financial systems.

Following the release of the GEM Committee’s Report on Corporate Governance in Emerging Markets last year, the GEM Committee held a Corporate Governance Dialogue with leading institutional investors in June 2017 in London. The Dialogue discussed key governance issues impacting capital markets relating to corporate governance - including misconduct risks, sustainability and ESG related matters.

In 2017, the SC Chairman also co-chaired the 2017 Salzburg Global Forum on Finance in A Changing World held in Salzburg, Austria, a significant

## **Inclusive and Sustainable Markets**

and influential annual gathering of high level policymakers, regulators and practitioners from the financial sector to engage on current developments in global markets. Participants included the Federal Reserve, Deutsche Bundesbank, Australian Securities and Investment Commission (ASIC) and the Dubai Financial Services Authority (DFSA). Discussions focused on emerging risks and potential solutions; obstacles to global efforts to address fragmentation; regulatory developments and key priority steps to strengthen the global financial system. This event attracted close to 60 financial leaders from 19 countries.

### **Establishing Fintech co-operation agreements with major financial centres**

In 2017, the SC entered into a series of innovation co-operation agreements, or ‘Fintech bridges’ with several regulators in major financial centres, to spur greater co-operation in facilitating information sharing on emerging trends and regulatory developments. It will also facilitate referrals of innovative businesses seeking to operate in each other’s jurisdictions and the exploration of potential joint innovation projects.

Fintech bridges were established with the Australian Securities and Investments Commission (ASIC), the Securities and Futures Commission of Hong Kong, the Dubai Financial Services Authority (DFSA), the Monetary Authority of Singapore and Abu Dhabi Global Market’s Financial Services Regulatory Authority. The co-operation agreements provide an important framework for information sharing between the SC and major markets in the Asia Pacific and Middle East, and enhance the cross-pollination of digital markets concepts which will benefit financial institutions, start-ups and investors.

### **Leading efforts in ASEAN capital markets**

The SC Chairman was elected unopposed to the chairmanship of the ACMF for the fourth

consecutive year, after obtaining unanimous support of ACMF members in the re-election process.

At its meeting in March in Kuala Lumpur, the ACMF endorsed key initiatives to be implemented in 2017 under the ACMF Action Plan 2016-2020 (Action Plan), to achieve the ACMF Vision 2025 which supports the vision of the ASEAN Economic Community.

### Promoting sustainable financing and corporate governance

The ACMF reinforced its commitment to develop green finance for the region and launched the *ASEAN Green Bond Standards* in November 2017. To strengthen the quality of assessment and expand insights on Corporate Governance (CG) practices of ASEAN PLCs, the ACMF also revised the ASEAN CG Scorecard – an initiative that was first led by the SC in 2011. The revised scorecard incorporates the new G20/OECD Principles and introduces independent validation to complement the existing peer-review process. The assessment of ASEAN public-listed companies using the revised CG Scorecard commenced in the second quarter of 2017, and the rankings will be announced at the Awards Ceremony in Kuala Lumpur in March 2018.

### Facilitating connectivity

To foster greater mobility of capital market professionals and services in the region, the ACMF has started engaging market participants in the region through the ACMF Industry Consultative Panels (AICP) to gather input. The AICP will continue engagements to introduce rules for professional mobility on a phased basis, starting with investment consultants, research analysts and entities who are licensed to carry out fund management activities. This initiative will allow professionals licensed by an ACMF member to provide designated services in another member's jurisdiction in a seamless manner.

The ACMF also discussed measures to enhance stock exchange connectivity and investor experience in regional investing, including feedback received from the AICP and recommendations put forward by the independent consultant commissioned by the Asian Development Bank (ADB).

To enable fund managers from signatory countries to offer funds under a streamlined authorisation process, efforts were undertaken by the ACMF to enhance the ASEAN Collective Investment Schemes (CIS) Framework. This includes harmonising disclosure standards, liberalising investment restrictions while expanding the range of ASEAN CIS to include real estate investment trusts. In November 2017, the ACMF endorsed revisions to the ASEAN Memorandum of Understanding (MoU) on CIS which seeks to provide greater flexibility for the fund management industry. In addition, the SEC Philippines committed in November to signing on to the MoU, joining Singapore, Malaysia and Thailand.

Under the ACMF Market Development Programme, the first phase of the regulatory programme in developing domestic bond markets in Cambodia, Lao PDR, Myanmar and Vietnam (CLMV) was successfully implemented. The second phase of the programme targeted at market participants of CLMV countries will be held in the first quarter of 2018.

On 8 November, the ACMF held its inaugural ASEAN Capital Market Conference in Kuala Lumpur. Themed 'Strengthening ASEAN Capital Market Connectivity', the conference highlighted the ACMF's concerted efforts towards regional collaboration for an interconnected, inclusive and resilient ASEAN capital market for sustainable regional growth, as set forth in the ACMF Vision 2025. The conference saw over 300 participants from the region and beyond, representing issuers, investors, intermediaries, regulators and experts from institutions such as the ADB, the Asian Infrastructure Investment Bank (AIIB), the International Capital Markets Association (ICMA) and the World Bank. The panel sessions at the conference discussed topics central to growth and opportunities in the region including infrastructure

and green financing, corporate governance and changing market dynamics in the age of digitisation. The ADB supported several ACMF initiatives including capacity building, the ASEAN Corporate Governance Scorecard, the ASEAN Capital Market Conference and the IOSCO application process for selected ACMF members.

### Fostering a collaborative environment for productive research

Given the significant and evolving role of capital markets in fostering economic growth, the Institute for Capital Market Research Malaysia (ICMR) was established to undertake research on a broad range of thematic issues relevant to capital markets.

## Inclusive and Sustainable Markets

As the capital markets become increasingly complex, catalysing growth and addressing the structural issues for domestic capital market development can only happen within the context of understanding the broader global and regional trends. ICMR serves to develop bridging platforms for the sharing of knowledge and build a network of strategic partners throughout the world to bring the relevant insights from a global and multi-disciplinary perspective. As a start, ICMR has identified the Alternative Investments Initiative, the Wharton School US; Nomura Institute of Capital Markets Research, Japan and the Jeffrey Sachs Center on Sustainable Development, Sunway University as its first collaborative research partners.

To further augment the research capabilities of the institute and to build its brand, profile and positioning, the ICMR will also introduce a visiting and senior fellowship programme.











Part 2

# Strengthening Market Integrity





|   |   |   |  |  |   |
|---|---|---|--|--|---|
|    |    |    |    |   |    |
| <b>Fostering Internalisation of Corporate Governance</b>  | <b>Enabling Fair and Orderly Markets Through Surveillance</b>   | <b>Reinforcing Good Conduct Among Institutions and Intermediaries</b>   | <b>Ensuring Systemic Resilience and Cyber Security</b>   | <b>Empowering Investors</b>  | <b>Achieving Credible Deterrence Through Enforcement</b>  |
| <ul style="list-style-type: none"> <li>To strengthen the corporate governance regulatory framework and ecosystem, the new <i>Malaysian Code of Corporate Governance</i> (MCCG) was launched and a 3-year priorities for strategic corporate governance were announced.</li> </ul> | <ul style="list-style-type: none"> <li>Surveillance activities centred on promptly addressing corporate irregularities and market abuse.</li> </ul> | <ul style="list-style-type: none"> <li>To ensure the resilience of market institutions, efforts focused on strengthening the governance structure of Bursa Malaysia and financial market infrastructures.</li> <li>Supervision activities focused on reinforcing good conduct within intermediaries.</li> </ul> | <ul style="list-style-type: none"> <li>In ensuring systemic stability, assessments focused on capital flows, liquidity, market interconnectedness and contagion risks.</li> <li>Cyber securities measures were also intensified across the capital market industry.</li> </ul> | <ul style="list-style-type: none"> <li>To increase the effectiveness of investor education, efforts centred on more outreach programme and improving insights on investors' behaviour.</li> <li>In 2017, anti-scam awareness campaign were intensified. The scope of SIDREC was also broadened to accept higher claims.</li> </ul> | <ul style="list-style-type: none"> <li>Enforcement actions serve as a means of credible deterrence.</li> <li>In 2017, there was greater judicial recognition of capital market offences, including a landmark criminal conviction for insider trading and a first ever High Court civil judgment against a PLC director for insider trading.</li> </ul> |

## Introduction

Market integrity is vital in promoting investor confidence and drives sustainable growth through capital formation and investments. The SC upholds integrity of the capital market by ensuring that it operates in a fair, orderly and transparent manner. This is achieved through proactive surveillance and supervision to detect and prevent misconducts. Appropriate enforcement action is taken for breaches of securities laws to achieve credible deterrence. The SC's regulatory efforts are complemented by its investor empowerment activities, which seek to equip investors with relevant knowledge and skills to make sound investment decisions.

To deliver on our commitment to strengthening market integrity, our regulatory efforts in 2017 centered around six key thrusts.

### 1. Fostering Internalisation of Corporate Governance

In the area of corporate governance, our efforts which started with strengthening the regulatory framework in the formative years, have now evolved to making and internalising good governance as an integral aspect of Malaysian corporate culture.

As part of this effort, we developed a strategic corporate governance plan for 2017 to 2020, with the first deliverable being the new *Malaysian Code of Corporate Governance* (MCCG) released this year. The 3-year strategic priorities range from embedding an appreciation for corporate governance early in the life cycle of companies to educating future leaders on the importance of good corporate governance through the integration of corporate governance modules into tertiary education. In addition, the priorities include leveraging technology for monitoring corporate governance applications and disclosures, and establishing an institute that will drive the professionalisation of corporate directors.

## **2. Enabling Fair and Orderly Markets Through Surveillance**

The SC's corporate and market surveillance activities continue to ensure that market abuse and corporate irregularities are promptly detected and effectively addressed through pre-emptive measures.

Corporate surveillance activities seek to achieve early detection of suspicious corporate transactions. This has led to affected PLCs aborting transactions worth RM873.5 million. In addition, possible securities laws breaches involving transactions valued up to RM823 million were referred for further investigation. There were 86 engagements carried out with directors of PLCs, auditors and relevant stakeholders in our efforts to promote awareness and good governance practices. We also conducted a survey to gauge industry readiness in applying new financial reporting standards.

Market surveillance continues to detect instances of market abuse such as stock market manipulation and insider trading. Referrals for further investigation were made on cases involving these activities.

## **Strengthening Market Integrity**

### **3. Reinforcing Good Conduct and Practices Among Institutions and Intermediaries**

Continuous regulatory oversight of the governance structure and arrangements of Bursa Malaysia is critical to ensure that its role as a frontline regulator remains effective and subject to high standards of governance. In relation to this, close and regular engagements were undertaken in these areas to further strengthen Bursa Malaysia's ability to discharge its regulatory function.

To establish an oversight framework for financial market infrastructures (FMIs), we issued *Guidelines on FMIs*, to ensure that key FMI services such as clearing, settlement and central depository are carried out in a safe and efficient manner in line with the CPMI-IOSCO – Principles for Financial Market Infrastructures.

The SC's supervision of intermediaries focused on shaping and reinforcing good conduct through culture and governance. The intensity of our supervision depends on the risks and potential systemic impact of the intermediary on the wider capital market. In addition to scheduled and thematic assessments, we carried out focused assessments of complaints or referrals against intermediaries, resulting in swift intervention and identification of control gaps and root causes.

In 2017, we concluded thematic assessments on governance issues relating to liquidity risk management, conflict management and handling of confidential information.

### **4. Ensuring Systemic Resilience and Cyber Security**

The SC continues to monitor and assess risks across markets, firms and products to identify emerging trends that may have systemic implications to the capital market. Our risk assessment allows us to understand potential threats and vulnerabilities in the capital market and to prioritise regulatory resources and attention to high-risk areas.

During the year, we collaborated closely with Bank Negara Malaysia (BNM) to address issues that may adversely impact Malaysia's overall financial stability, particularly in relation to interconnectedness, liquidity and prudential position of intermediaries. Amid the prevailing uncertainties in the global market, we continued to monitor market stress levels and capital flows, resilience of the market infrastructure, as well as vulnerabilities of firms and products. We are also reinforcing the industry's level of preparedness to deal with crisis situations through a phased implementation of industry-wide guidelines on business continuity management.

Managing cyber risk remains a key priority of the SC to ensure that markets and financial transactions are not disrupted by cyber attacks. The SC continues to monitor regulated entities' efforts to enhance their cyber security measures and resilience as required under the *Guidelines on Management of Cyber Risk*. We had also collaborated with the relevant agencies and experts to exchange information related to timely management of cyber threats.

Given the increased adoption of technology and the use of third-party service providers in market operations, the SC carried out a thematic regulatory assessment of Bursa Malaysia, focusing on its cyber and outsourcing risk management.

## 5. Empowering Investors

The SC's investor empowerment initiatives play an important role in driving investor protection. In 2017, the SC's initiatives involved approximately 300,000 members of the investing public through events such as SC in the Community, face-to-face engagement via seminars at InvestSmart® Day, InvestSmart® Fest and collaborative partnerships with BFM Radio 89.9 as well as other agencies.

Over the years, Behavioural Insights (BI) have helped regulators make consumer policies more evidence-based and effective. To ensure that BI continues to support the SC in developing informed investor empowerment initiatives, education programmes and regulatory policies, a dedicated Behavioural

Analysis Unit was established within the Consumer and Investor Office.

A key component of an investor protection framework is the availability of an effective alternative dispute resolution system and redress mechanism. In 2017 the Federal Court dismissed judicial review applications filed against the Securities Industry Dispute Resolution Center's (SIDREC) awards. This outcome reinforces the principal-agent relationship between SIDREC members and their representatives, making the former accountable for the conduct of the latter.

In 2017, the scope of SIDREC was broadened to allow it to accept higher claims where both parties agree to seek its services. The increased scope also caters for disputes involving SIDREC's members that are referred by courts for mediation, regardless of the amount of claim.

## 6. Achieving Credible Deterrence Through Enforcement

We continued to utilise our broad range of enforcement tools to achieve our enforcement objectives and desired outcomes. In 2017, there was greater judicial recognition of capital market offences including the landmark criminal conviction for insider trading after a full trial. In addition, jail terms ranging from six months to five years and fines up to RM5 million were meted out against directors and officers of PLCs following their convictions for various offences under the securities laws.

Criminal actions were also taken against 10 individuals who committed serious capital market offences. Civil actions were initiated against 20 individuals while regulatory settlements were entered with seven others. During the year, disgorgements of approximately RM8.9 million were recovered from the defendants through civil actions and regulatory settlements. For other breaches, 32 administrative actions were taken while 81 Infringement Notices were issued.

The strong enforcement outcomes reinforce our commitment to upholding market integrity and promoting good governance.

## FOSTERING INTERNALISATION OF CORPORATE GOVERNANCE

### Corporate Governance Priorities

The SC continues to prioritise its work on corporate governance and has, over the years, deployed various measures to continuously strengthen its legal and regulatory framework, efficacy of surveillance and enforcement, the quality of disclosures as well as adoption of best practices by companies.

The SC announced its 3-year corporate governance strategic priorities in April 2017 to strengthen the corporate governance framework in Malaysia and foster good governance, taking into account changes in market structures and needs of companies and stakeholders. The strategic priorities for 2017 to 2020 also take into account the growing need for companies to address the converging interest of

## Strengthening Market Integrity

corporate citizenship as well as social and environmental concerns.

Our corporate governance strategic priorities for 2017 to 2020 are:

### 1. Strengthening the corporate governance regulatory framework

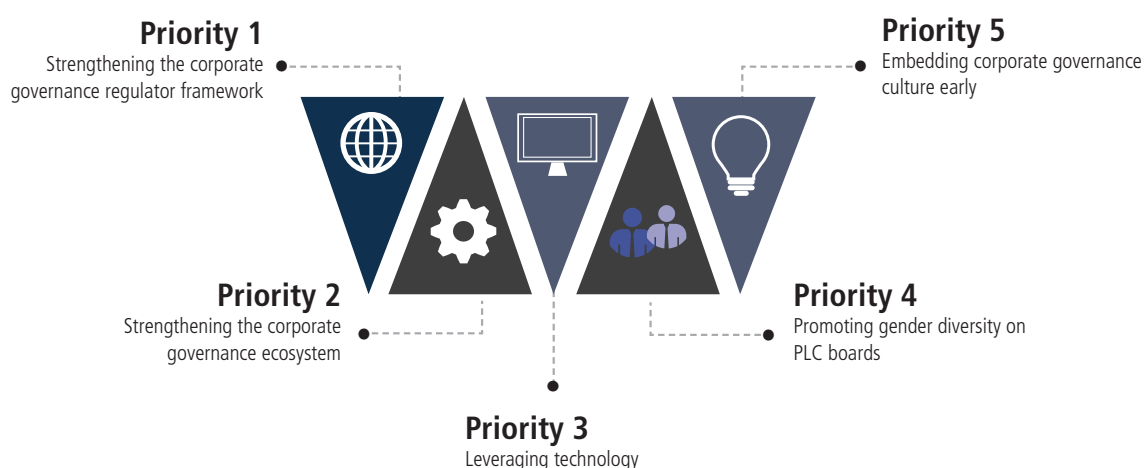
Introduction of an enhanced *Malaysian Code on Corporate Governance*, a corporate governance guideline for licensed intermediaries and enhancing the surveillance and enforcement framework for serious corporate governance breaches.

### 2. Strengthening the corporate governance ecosystem

Establishment of the Institute of Corporate Directors Malaysia (ICDM) to enhance the professionalism and effectiveness of corporate directors in Malaysia, and a Corporate Governance Council to co-ordinate corporate governance initiatives.

Diagram 1

### Corporate governance strategic priorities



Collaboration with corporate governance stakeholders to promote shareholder activism, integrated reporting and excellence in corporate governance.

### **3. Leveraging technology**

Deployment of big data and advanced analytics capabilities to strengthen our corporate surveillance and enforcement capabilities, including monitoring and gaining insights on corporate governance practices. The SC will also collaborate with the Fintech community to facilitate electronic voting and remote shareholder participation at shareholder meetings.

### **4. Promoting gender diversity on PLC boards**

The target is to have no all-male boards in the top 100 PLCs on Bursa Malaysia by the end of 2018, and achieve the national target of overall 30% women on the boards of all listed companies by 2020.

### **5. Embedding corporate governance culture early**

Development of a corporate governance toolkit for small and medium enterprises (SMEs) and capital market intermediaries to encourage and facilitate the embracing of good governance practices. Collaboration with tertiary institutions to introduce corporate governance in their curriculums to shape future corporate leaders with high ethical standards.

## **The Malaysian Code on Corporate Governance**

In April 2017, the new *Malaysian Code on Corporate Governance* (MCCG) was released. The structure and approach of the MCCG was enhanced to enable greater internalisation of corporate governance culture and more meaningful

disclosures to support investor confidence and companies' ability to deliver long-term value.

Among the key features of the new MCCG are the introduction of the Comprehend, Apply and Report (CARE) approach and the shift from 'comply or explain' to 'apply or explain an alternative'. This approach is intended to encourage PLCs to put greater thought and consideration in adopting and reporting their corporate governance practices. To address governance concerns, the practices in the MCCG have been enhanced through measures such as the introduction of the two-tier voting mechanism for the reappointment of independent directors who have served the same board for 12 years or more. This is in response to the growing concern on the negative impact that directors' long tenure may have on their independence and erosion of the board's objectivity.

The new MCCG also adopts a differentiated and proportional approach in its application, taking into account the differing size and complexity of listed companies. Certain practices and reporting expectations introduced in the new MCCG are applicable only to companies in the FTSE Bursa Malaysia Top 100 Index and those with a market capitalisation of RM2 billion or more (Large Companies). The practices identified for Large Companies include having a board comprising a majority of independent directors and having at least 30% women directors on the board. Large Companies are also expected to periodically engage independent experts to facilitate board evaluations, and to adopt integrated reporting based on a globally recognised framework.

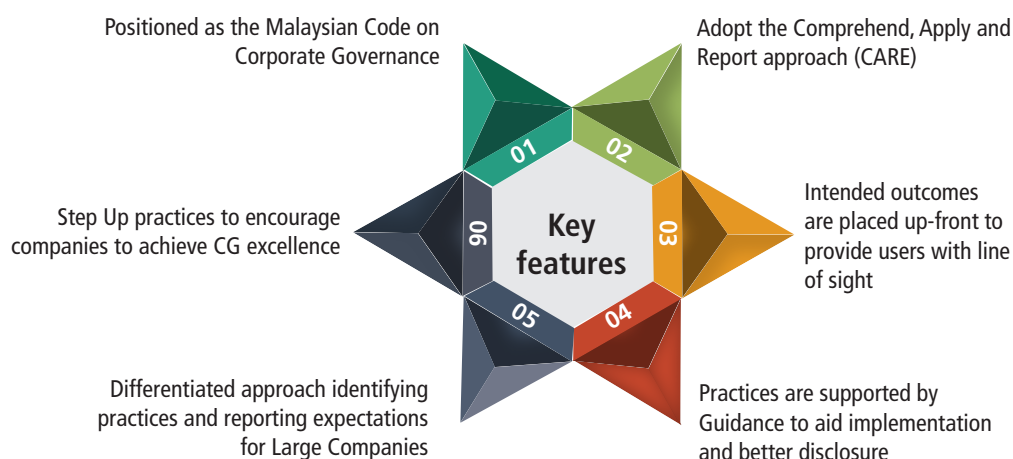
Another new dimension is the introduction of 'Step Up' practices to encourage companies to go further in achieving corporate governance excellence. This includes having a policy that limits the tenure of independent directors to nine years, disclosing the detailed remuneration of each member of senior management on a named basis, having an Audit Committee that comprises only independent directors and the establishment of a Risk Management Committee.



Diagram 2

## Key features of the MCCG

*focusing on driving internalisation of good corporate governance*



In August 2017, the MCG was translated to Bahasa Malaysia and Chinese to facilitate a wider understanding and adoption of the best practices in the MCG, and was well received by stakeholders.

### *Taking MCG on a roadshow*

During the year, the SC conducted 15 engagement sessions with various stakeholders to facilitate greater understanding of the enhancements in the current MCG and promote adoption of its corporate governance best practices.

Engagement sessions were conducted in Kuala Lumpur and other major cities, and attracted participation from a broad section of stakeholders including directors and senior management of PLCs, corporate finance advisers, and members of professional bodies including the Malaysian Association of Chartered Secretaries and Administrators, the Malaysian Institute of Accountants, the Bar Council, Jabatan Audit Negara and journalists. The sessions in Penang, Kota Kinabalu, Kuching and Johor Bahru were attended by 110 participants, 75% of whom were board members, senior management and company secretaries.

### **Promoting women's participation on the boards of PLCs**

As part of our efforts to promote greater women's participation on boards, the SC hosted and participated in four 30% Club Business Leaders Roundtable Meetings (Roundtables) in June, August, October and December 2017. Our collective efforts have resulted in significant progress in the participation of women on boards. The participation of women on the boards of the top 100 listed companies is 20% as at end of December 2017, up from 13.2% in 2014. The number of top 100 companies with all-male boards has also reduced significantly within months to seven companies, from 17 companies in September 2017.

### **Enhancing professionalism and effectiveness of directors**

The effectiveness of individual directors is a major influence on board performance and ultimately the long-term success of a company. The setting-up of an institute of directors is critical to support the continuous professional development of directors and promote the adoption of corporate governance best practices on boards and companies.

In July 2017, the SC spearheaded the establishment of the Institute of Corporate Directors Malaysia (ICDM) to enhance the professionalism and effectiveness of corporate directors in Malaysia. Similar institutes have been established in the US, UK, Hong Kong, Germany, Australia, New Zealand, Singapore and Thailand. ICDM is the only institute of directors in Malaysia that is recognised by both the SC and BNM.

The ICDM is led by an experienced and distinguished inaugural board, with Tan Sri Zarinah Anwar as Chairman and members comprising Dato' Seri Johan Raslan, Dato' Aziz Bakar, Dato' Azmi Ali, Sarena Cheah and Salleh Hassan. The board will oversee the implementation of ICDM's main objectives which include the introduction of a 'Directors Professional Development Pathway', comprising an extensive suite of programmes for both experienced and aspiring directors. It will also offer expertise to conduct board evaluations and house a registry from which companies can source for board candidates.

### Contribution to international developments on corporate governance

The SC continues to participate in and contribute to international forums and discussions on corporate governance. At the OECD Corporate Governance Committee Meeting held in March 2017, the SC made a presentation on the disclosure of beneficial ownership in Asian-listed companies and the roles of stock exchanges in corporate governance, which emanated from discussions at the 2016 OECD Asian Roundtable Meeting in South Korea.

At the OECD Corporate Governance Committee Meeting in November 2017, priority issues were discussed such as the use of flexibility and proportionality in corporate governance frameworks and current trends and observations on capital markets were discussed.

## ENABLING FAIR AND ORDERLY MARKETS THROUGH SURVEILLANCE

A robust corporate governance framework cultivates ethical behaviour, accountability, sustainability and transparency in PLCs. Companies that embrace good governance are also more likely to maximise value creation to shareholders. We continue to actively monitor governance practices, corporate transactions and PLC disclosures to detect and deter misconduct among directors and PLCs.

### Surveillance of listed companies

In 2017, suspicious corporate transactions with a total value of approximately RM823.0 million were referred for further investigation for possible breach of securities laws.

Where a swift response is necessary to preserve market integrity and minimise harm to investors, appropriate pre-emptive action will be taken. Corporate transactions that were detrimental to shareholders' interests with a total value of approximately RM873.5 million by the PLCs were aborted and potential losses to shareholders were averted.

The SC continues to actively advocate and promote compliance with our laws and regulations through engagements with PLCs, auditors and other relevant stakeholders. In 2017, we conducted a total of 86 engagements to reiterate the importance of discharging their fiduciary duties with care and ensuring quality disclosures.



#### 86 engagement

Conducted 86 engagements to reiterate the importance of discharging their fiduciary duties with care and ensuring quality disclosures.



#### RM823 million

Suspicious corporate transactions with a total value of approximately RM823 million were forwarded for investigation of possible breach of securities laws.

### *Advanced analytics capabilities*

In a rapidly changing digital economy and market landscape, the importance of leveraging technology and big data is critical in maintaining the efficacy of our corporate surveillance duties.

Following the signing of the Memorandum of Understanding with MIMOS Bhd in December 2016, an analytics platform that enables the automated processing and analysis of huge data sets is being developed. Scheduled for completion in 2018, the platform is expected to increase the efficiency and effectiveness of our surveillance and monitoring activities.

### *Cross-border collaboration*

The significance of cross-border collaboration with our regulatory counterparts has grown with the increasing number of PLCs operating in multiple jurisdictions. In this regard, we sought regulatory assistance from the China Securities Regulatory Commission (CSRC) in relation to our corporate surveillance efforts. The request was made under the IOSCO Multilateral Memorandum of Understanding, of which both the SC and CSRC are signatories. As part of the efforts to enhance our corporate surveillance activities and regulatory reach, we will continue to strengthen information sharing arrangements with our foreign counterparts.

The SC also hosted the Fourth Financial Statements Surveillance Group (FSSG) workshop that was attended by our peer regulators from Singapore, Thailand and Hong Kong. The workshop provided an active platform for sharing regulatory knowledge and experiences in the area of corporate financial reporting as well as strengthening co-operation and networking among regulators.

### *Promoting quality financial reporting*

High quality financial reporting by PLCs is important for investors to make informed investment decisions. Breaches of accounting standards are

## **Strengthening Market Integrity**

viewed seriously as it compromises the reliability and quality of financial statements.

During the year, 45 query letters were issued, seeking explanation from PLCs on various issues relating to their financial statements. Supervisory letters were also issued to PLCs for non-compliance with approved accounting standards. In addition, we reprimanded and imposed fines totalling RM2.6 million against directors of a PLC for failure to comply with approved accounting standards that led to the submission of false or misleading information to the SC.

### **Preserving market integrity through proactive surveillance of trading activities**

The SC uses advanced technology to conduct proactive surveillance to achieve early detection and pre-emption of market abuses in the securities and derivatives market. Our pre-emptive measures are undertaken in collaboration with the frontline market regulator. This includes timely engagements with market participants and the issuance of market alerts to curb trading anomalies that potentially threatens the integrity of our markets. Where necessary, unusual market activity queries will be issued to PLCs to ensure timely dissemination of material information to the public.

In 2017, 84 pre-emptive measures were taken to address undesirable trading practices that posed risks to a fair and orderly market. It is noteworthy that the number of pre-emptive measures this year reduced substantially by 65% compared to 2016 on the back of heightened governance standards and enhanced compliance framework within the capital market intermediaries. Intermediaries are increasingly aware of their governance responsibilities, which in turn prompted many to establish and implement in-house trade surveillance systems. This is underpinned by the SC's supervisory oversight of intermediaries aimed at strengthening the industry's culture and governance.

## Embracing New Financial Reporting Requirements

MFRS 9 Financial Instruments (MFRS 9) and MFRS 15 Revenue from Contracts with Customers (MFRS 15) are expected to come in force in year 2018.

In view of the impending effective date of MFRS 9 implementation which is in January 2018, the SC conducted a survey on 220 PLCs (non-financial institutions) to gauge the state of awareness and readiness to the new standard. Through this exercise, we provided clarity that the implementation of MFRS 9 will not only impact financial institutions but also all PLCs.

Based on the survey results as at September 2017, we observed that respondents are generally aware of the new financial reporting requirements but are not sufficiently prepared and ready for the implementation of MFRS 9. However, following the survey and through our engagements, we have created greater awareness of this requirement resulting in PLCs recognising the effort required to ensure compliance with the standards. They have since expedited their preparation for its implementation.

A dialogue with Audit Committees of 111 PLCs was held in November 2017 to underpin and reinforce the SC's expectations on their governance role particularly in relation to financial reporting matters, including the need to be involved in ensuring timely and effective implementation of new major accounting standards. To ensure the same messages reach all PLCs, in December 2017, we communicated our expectations on the implementation of MFRS 9 and MFRS 15 as well as the related disclosures.

### *Addressing emerging risks to preserve a fair and orderly market*

Building on our surveillance and analysis of securities and derivatives trading activities, we proactively detect issues that require regulatory attention. Thematic reviews are conducted on identified trading concerns or observable risks to support regulatory action and policy formulation.

Based on our detailed review and analysis of activities in the structured warrants market, we noted that market-making algorithms engage in large, frequent and rapid order withdrawals. As a result, structured warrants tend to have very low trade-to-order ratios and very short order-alive-times. In addition, we observed that issuer hedging activities could potentially amplify the volatility of the underlying share price and in some instances, may also affect the settlement amount of the warrants at expiry.

### *Vigilance with technology and innovation*

Amid market evolution, especially in terms of big data, we leverage technology to facilitate efficient surveillance and timely detection of market abuse activities as well as high risk areas impacting fair and orderly trading in the capital market. In this regard, we developed data analytics tools internally to complement our existing surveillance systems through, for instance, automation of data gathering, analysis and visualisation of trading behaviour for better reporting and decision making.

### *Intensified surveillance of internet and social media*

The wide adoption of Internet and social media is significantly reshaping how investors obtain information to make investment decisions. The anonymity of cyberspace presents opportunities for unscrupulous parties to engage in pump-and-dump activities. Such activities involve rapid dissemination

of false or misleading information to attract unsuspecting investors, allowing the perpetrators to dispose their own positions, leaving investors in a lurch once the hype eases.

Given this growing area of concern, we have intensified proactive surveillance of the internet and social media and have also undertaken countermeasures to protect investors from falling prey to pump-and-dump schemes. As part of the SC's multi-pronged strategy, surveillance observations are shared through various proposed educational and communication channels, including collaboration with the frontline market regulator.

### *Effective collaboration with counterparts*

A key success factor of the SC's surveillance activities lies largely on effective and mutual sharing of information with other regulatory bodies. In collaboration with the frontline market regulator, the SC's intervention led to the termination of suspected trading accounts by intermediaries and cessation of trading activities by suspicious entities. Co-ordination with our regulatory counterparts also resulted in early detection and effective disruption of trading activities by entities connected to suspected illegal investment schemes.

## **REINFORCING GOOD CONDUCT AMONG INSTITUTIONS AND INTERMEDIARIES**

### **Oversight of Bursa Malaysia**

#### *Reinforcing the regulatory framework for Bursa Malaysia*

In our continuing efforts to ensure Bursa Malaysia discharges its regulatory and market functions effectively, we undertake a comprehensive supervisory approach that include annual regulatory assessments, imposition of reporting requirements, and close and regular engagements with the board

## **Strengthening Market Integrity**

and senior management. The focus in 2017 was to further strengthen governance and independence of Bursa Malaysia as a front line regulator, as well as management of its operational and settlement services risks.

In this regard, the SC oversees four types of *Financial Market Infrastructures* (FMIs), namely the central counterparty (CCP), securities settlement system, central securities depository and trade repository, which are authorised to operate under the *Capital Markets and Services Act 2007* (CMSA) and *Securities Industry (Central Depositories) Act 1991* (SICDA) respectively. These FMIs collectively play a critical role in the functioning of the capital markets, particularly in ensuring that all transactions are successfully cleared and settled, and transactions and assets ownership are properly maintained.

In March 2017, we issued the *Guidelines on Financial Market Infrastructures* to ensure that FMIs operate in a safe and efficient manner and comply with the *CPMI-IOSCO – Principles for Financial Market Infrastructures*. The guidelines also set out the framework for the approval of CCP and requirements on compliance with risk management and governance to enhance the resiliency of FMIs.

Following our thematic assessment on CCP risk management practices in 2016, the SC continued its supervisory efforts to monitor measures undertaken by Bursa Malaysia Securities Clearing Sdn Bhd (BMSC) and Bursa Malaysia Derivatives Clearing Bhd (BMDC) to enhance its risk management framework and practices. Both BMSC and BMDC have been making progress in these areas, particularly in the area of risk framework, stress-testing model validation, collateral policy and participant supervision.

In addition to the existing monitoring of qualitative information reporting to the SC, a CCP quantitative risk reporting framework was developed to enable the SC to identify potential risk developments and transmissions in the clearing and settlement aspects of the securities and derivatives markets.



## Oversight of the Federation of Investment Managers Malaysia

As a self-regulatory organisation (SRO) recognised by the SC under the CMSA, the Federation of Investment Managers Malaysia (FIMM) is mandated to regulate the marketing and distribution as well as sales practices of unit trust and PRS agents. Robust governance and controls within FIMM are important to ensure that it is able to discharge its regulatory functions effectively.

As enforcement is one of the key functions of FIMM, the SC carried out a regulatory assessment on the effectiveness and robustness of FIMM's enforcement framework. Key areas of assessment included governance and controls within its enforcement and decision making process, adherence to internal policies and procedures, and allocation of resources to its regulatory functions. Additionally, FIMM was also assessed on the adequacy of its outreach and education activities to promote greater public awareness of its regulatory roles and to improve conduct culture of sales agents.

The SC continues to engage FIMM to ensure greater alignment of its supervisory and surveillance framework with the SC's expectations, and explore initiatives to promote the orderly development of the unit trust and private retirement schemes (PRS) industry.

## Oversight of the Private Pension Administrator Malaysia

As the central administrator for PRS, the Private Pension Administrator Malaysia (PPA) provides important utility functions for members and providers. Therefore, the SC's supervisory oversight on the PPA focuses on ensuring that its central administration function operates under a sound operational framework and good governance. The SC also ensures that the PPA continues to add value to its central administration function and facilitates growth of the PRS industry.

The introduction of the beneficiary nomination framework enabled the transfer of PRS assets in the event of death as well as withdrawals in the event of permanent total disablement, serious disease and mental disability. It also provides an important avenue for PRS members to pass on accumulated assets to nominated beneficiaries.

As part of the SC's approval for the implementation of the PRS Online Top-Up system, the PPA was required to undertake an independent system readiness assessment and a post-implementation review. The introduction of the PRS Online Top-up System as an additional utility is expected to facilitate members' contribution to their retirement savings.

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

The introduction of the regulatory frameworks for equity crowdfunding (ECF) and peer-to-peer (P2P) financing operators has encouraged growth in SMEs and start-ups, particularly the underserved and unserved segments, by providing greater access to financing alternatives to meet their funding and business needs. Our frameworks for ECF and P2P financing operators placed importance on adequacy of disclosures to investors.

The SC also requires operators to undertake investor awareness initiatives to promote understanding of ECF and P2P financing.

Since the registration of the six P2P financing operators in November 2016, all are now fully operational. The SC will continue to engage the operators to provide regulatory guidance and clarification on compliance issues under the *Guidelines on Recognized Markets*.

## Supervision of capital market intermediaries

Supervision of capital market intermediaries is carried out based on a risk-based framework that assesses intermediaries' governance, business

## Strengthening Market Integrity

operations, conduct and compliance with the law. Intermediaries are mapped against their corresponding risks and controls as well as the systemic impact posed to the wider capital market.

We also proactively monitor emerging trends and risks in the market to detect, prevent and intervene quickly where there are lapses in controls and conduct of intermediaries. In 2017, we carried out 135 assessments on intermediaries, an increase of 31% from the previous year. These assessments comprised 34 scheduled assessments on individual intermediaries and 63 thematic assessments on identified areas of risk involving multiple intermediaries.

Additionally, we have also carried out 38 focused assessments on specific lapses in intermediaries' conduct based on complaints and referrals received. These assessments have enabled us to swiftly identify root causes for the control or conduct failures.

We continue to closely supervise our intermediaries through on-site assessments and analysis of intermediaries' periodic and ad hoc submissions as well as media reports. We maintain dedicated supervisors for each intermediary to enable efficient communication, especially when urgent notification is necessary.

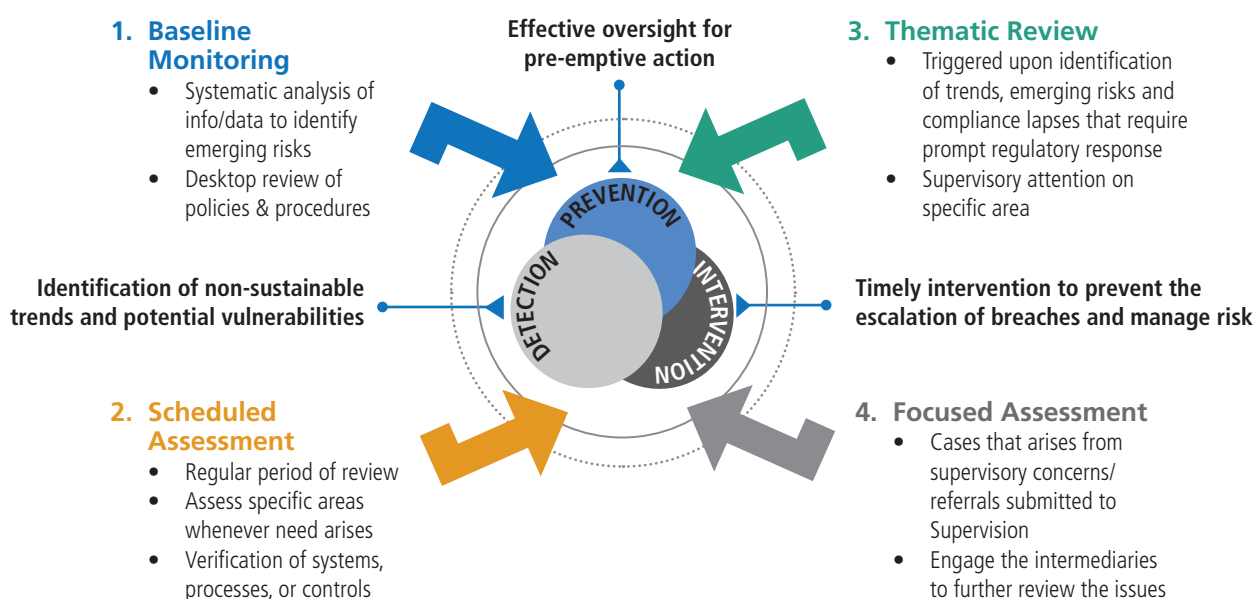
### *Thematic assessment on funds stress test*

Experience in other markets has shown that during periods of severe market stress, there is a risk of liquidity or redemption shock. Rapid cash outflows sparked by market uncertainties may also cause funds to suspend redemptions.

In January 2017, the Financial Stability Board (FSB) reiterated similar concerns regarding the potential liquidity mismatch of open-ended funds. The FSB recommended the use of robust fund stress testing as one of the measures to strengthen funds' overall liquidity risk management, and the available fund liquidity under periods of market stress.

Diagram 3

### Supervisory tools



In line with these developments, the SC conducted a thematic assessment on the fund stress test practices on selected fund management companies. We note that while there are certain good practices in fund management companies' assessment of liquidity under stress, there is room for further improvement and enhancement.

From a governance perspective, we note that there is a degree of independent oversight from the board and senior management, with functional separation between investment and risk management roles. However, existing controls can be strengthened with more proactive involvement of the board and senior management. A more integrated approach should also be adopted in the management of liquidity risks and escalation procedures when fund stress occurs. Further areas for improvement include reasonable contingency plans to ensure orderly management of the fund itself if liquidity risk crystallises. This includes consideration on operational capacity, procedural clarity and accountability of action. We continue to engage market intermediaries to ensure that these enhancements are addressed in a timely manner.

### *Thematic review on conflicts facing research analysts*

Research analysts may face conflicts arising within a firm due to possession of non-public price sensitive information and also potential conflicting duties to corporate issuers and investing clients. In 2017, we addressed intermediaries' management of these conflicts, by undertaking a review of these practices.

In January 2017, we communicated conduct requirements for investment analysts to the boards of directors of licensed intermediaries. Intermediaries are expected to review and strengthen the policy and control measures within the entity, covering the following areas:

- Governance structure and processes in relation to issuance of investment analyst reports

- Policies, procedures and training on:
  - i. the identification and handling of non-public price sensitive information, and measures to guard against improper communication of such information; and
  - ii. managing conflict-of-interest situations including disclosure of conflicts of interest.

Our thematic review shows that policies and control environments implemented by intermediaries are of varying degrees of effectiveness with enhancements needed in areas such as periodic review and update of policies and record keeping.

Subsequent to the thematic review, intermediaries have taken steps to refine and strengthen their internal policies and procedures, and control environment.

### **Other supervisory initiatives**

In July 2017, the SC held its annual supervisory dialogue with CEOs of stockbroking and fund management companies, where key concerns arising from the SC's supervisory assessments and findings were discussed. Among the concerns raised were lapses observed in areas of conduct, conflicts of interest, anti-money laundering and combating the financing of terrorism (AML/CFT) processes along with case studies. Intermediaries were also reminded to be vigilant and mitigate cyber risks that may potentially disrupt any functions within the firm.

We have reinforced conflict-of-interest provisions by requiring fund management companies to assess and identify situations where conflicts of interest may arise and manage these situations appropriately. This includes timely and meaningful disclosure about such conflicts.

The Board's oversight on compliance framework was also enhanced. The board is expected to be

more engaged in its stewardship role in promoting good governance within the company and ensure that the compliance function is fully empowered to carry out their duties.

## ENSURING SYSTEMIC RESILIENCE AND CYBER SECURITY

### Assessing emerging and systemic risks in the capital market

While markets around the globe including Malaysia continue to be on an uptrend, we remain focused on the need for continuous monitoring and assessment of risks across markets, firms and products. This is critical to ensure emerging trends, vulnerabilities and contagion risks are identified early, given the increasing interlinkages and exposure of markets globally. Within the SC in 2017, we refined our governance framework for the monitoring and management of risk under the Systemic Risk Oversight Committee (SROC) and the Market Risk Working Group (MRWG). This has continued to enable us to have a holistic view of the vulnerabilities and risks impacting systemic stability for early intervention efforts to be undertaken.

The SROC continues to be the overarching committee for the deliberation of risks and corresponding safeguards in ensuring the soundness, integrity and systemic resilience of the capital market. In 2017, discussions at SROC centred on the interplay and risk transmission mechanisms between the equity, bond and currency markets. In addition, institutional crisis management and disaster recovery arrangements were reviewed and updated.

The SROC is supported by the MRWG, for the exchange and deliberation of emerging trends, developments and risks. During the year, MRWG reviewed and assessed sectoral risk issues raised by various functions within the SC to form an integrated view on possible systemic risk concerns. Under this approach, risks that warranted co-ordinated responses or interventions are escalated for deliberation and decision by the SROC.

## Strengthening Market Integrity

We also worked with BNM to strengthen our analysis on concerns arising from the interconnectedness between markets. This enables effective monitoring, mitigation and management of systemic risk in the financial market as a whole, and facilitates early intervention when necessary.

### *Assessing and monitoring risks to systemic stability*

From a macro perspective, we continuously review stress levels and vulnerabilities in the capital market. In particular, we assess and analyse market movements, capital flows, trading activities as well as investors' sentiment and participation.

In 2017, our risk assessment focused on the potential impact of monetary policy normalisation by key central banks in developed markets. In this regard, the area of concern has been on the timing and pace of the normalisation, given the potential widespread impact of this measure on markets and economies at a global level. While relevant central banks have strived to provide timely communication as a forward guidance, the dynamics and complexity of market drivers may result in ambiguity and uncertainties in terms of market reactions. Given the increasing openness and interconnectedness of markets, an unexpected scale and timing of normalisation could result in volatility of global capital flows. Such an environment may be further aggravated given, the shift from a low interest rate regime amid record high asset prices and valuations that are driven by record low volatility levels.

In addition, we undertook assessments of the potential impact to the Malaysian capital market due to major geopolitical events in the Korean peninsula, Middle East and also elections in Europe. Changes in relevant Morgan Stanley Capital International (MSCI) index constituents, with focus on Malaysia's weightage shift, were also monitored.

Throughout the year, the Malaysian capital market remained resilient, with positive capital flows and foreign market participation in both equity and bond markets. The domestic capital market is

supported by well-capitalised capital market institutions and intermediaries as well as the necessary regulatory safeguards, including robust prudential and supervisory frameworks. Amid prevailing uncertainties in the global market environment however, we continue to remain vigilant towards any possible market correction and spill-over effect that may adversely impact the Malaysian capital market.

### *Assessing vulnerabilities of market participants and products*

In our continuous analysis of sector vulnerabilities, we monitor the financial performance of PLCs, particularly the degree of leverage level and ability to meet financial obligations. We undertook assessments on the performances of our PLCs that may be impacted by global and domestic economic and market conditions. While the impact on PLCs was generally manageable, we observed vulnerabilities in several sectors such as automobile, transportation, oil and gas, as well as real estate. These sectors remain under our close surveillance and monitoring.

Utilising our internal bond-at-risk model, we carried out potential default monitoring of issuers with deteriorating credit strength and those vulnerable to the weakening of specific sectors. Based on our assessment across different sectors and credit ratings, we observed that the potential risk of default within the domestic corporate bond market was minimal.

Within the broking industry, we observe sufficient capital adequacy and liquidity positions with sufficient buffer to absorb adverse market shocks. In 2017, assessments of capital market intermediaries were focused on concentration of clients as well as the quality of collateral used for margin financing. Despite the large exposure to specific clients, the risks remained low given the quality of the collaterals pledged to the brokers.

On the investment management industry, sale and redemption patterns of funds were reviewed to detect anomalies or pressure points by assessing and monitoring the movements of asset allocation with the level of liquid assets and source of funds. The redemption pattern remains stable with no significant stress in liquidity amid strong growth in assets under management and occasional market events.

### *Strengthening and Augmenting Market Participants' Business Continuity*

Following the Crisis Preparedness Series that was jointly organised with the Toronto Centre in 2015 and 2016, we have continued to strengthen the SC's and capital market participants' preparedness in managing crisis situations and ensuring business continuity. We are currently developing principles-based guidelines on Business Continuity Management (BCM) for the industry. The proposed phased implementation will enable market participants to proportionately adopt the guidelines based on the nature, size and complexity of their business operations. This will ensure continuation of critical functions and fulfilment of market participants' obligations in the event of disruptions.

Within the SC, an end-to-end review on preparedness in managing incidents arising from disruption of capital market participants or infrastructure was conducted. In the review, incident management procedures of various functions were measured against key elements of our incident management framework. The exercise detailed, among others, review of the governance arrangement, incidents trigger thresholds, escalation and communication processes, and maintenance of such documentations. Based on the review, processes are in place to manage and respond to incidents that may occur. The need to continuously improve organisational capacity and capability in this area has been identified as an area for enhancement. This is crucial to ensure effective and timely management and mitigation of risks that may adversely impact the orderly functioning of the capital market.



## Strengthening cyber resilience

Effective cyber security management is critical as cyber risk poses an increasingly significant threat to the integrity, efficiency and soundness of financial markets worldwide. Managing cyber risk is a key priority of the SC as cyber-attacks on market participants could potentially disrupt the orderly functioning of the capital markets.

The SC issued the *Guidelines on Management of Cyber Risk* in October 2016. The guidelines stipulate, among others, the roles and responsibilities of the board and senior management in building cyber resilience of a capital market entity and have also mandated the entity to identify a responsible person to be accountable for the effective management of cyber risk. These measures aim to ensure that cyber risk is managed in an optimised manner in light of the changing landscape in the market.

## Thematic regulatory assessment of Bursa Malaysia

A thematic assessment on Bursa Malaysia's cyber risk management was conducted to validate the adequacy and effectiveness of its cyber risk framework, compliance programme and cyber

## Strengthening Market Integrity

security practices. The assessment is measured against our regulatory expectations in the guidelines taking into consideration the significance of its role as an exchange, clearing house and central depository.

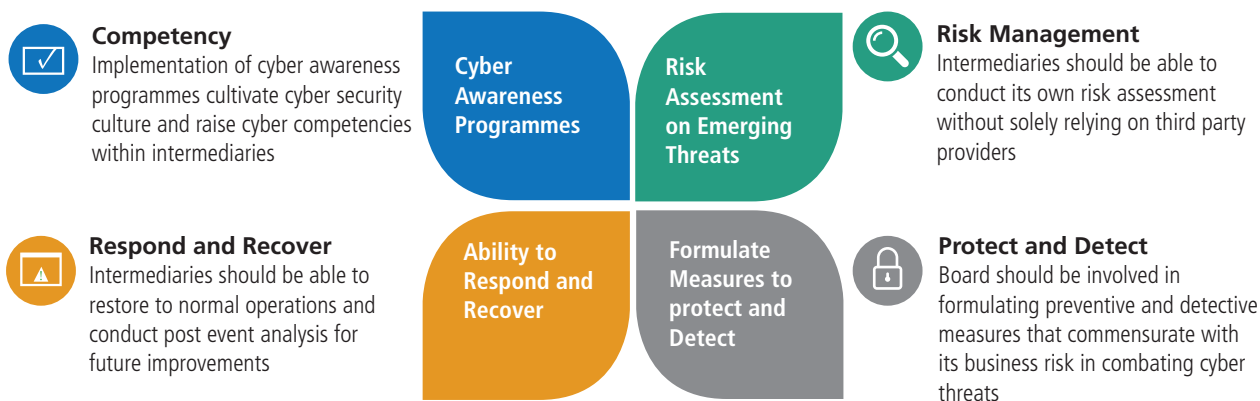
The use of third-party service providers in various aspects of market operations is becoming a common practice given the cost and efficiency benefits. Accordingly, the thematic assessment on Bursa Malaysia also focused on outsourcing risk management, a component of which is related to cyber risk management. This assessment takes into consideration the potential risk of outsourcing arrangements, such as financial failure of service providers, cyber security, as well as the adequacy and timeliness of support and business continuity capabilities.

## Thematic assessment of intermediaries

In 2017, we intensified the supervision of technology risk management by capital market intermediaries. We conducted a series of thematic reviews with selected capital market participants which included on-site examination of the resilience of their cyber risk management. The review comprised a fact-finding survey, discussions with system vendors and benchmarking against local and overseas regulatory requirements and market practices.

Diagram 4

### Expectations on Intermediaries



This review is a follow up on the compliance with the *Guidelines on Management of Cyber Risk* issued in 2016. The guidelines require board and senior management to take the lead in building cyber resilience with the intermediaries and to identify a responsible person to be accountable for the effective management of cyber risk.

### *International Co-operation*

At the international level, the SC is working closely with IOSCO in managing cyber risks. In June 2016, IOSCO issued the *Guidance on Cyber Resilience for Financial Market Infrastructures* to add momentum to the industry's ongoing efforts in enhancing financial market infrastructures' ability to pre-empt

cyber-attacks and achieve faster and safer target recovery objectives. The SC has also been involved in discussions globally through our role in IOSCO to design regulatory best practices and facilitate greater information sharing among regulators. During the IOSCO Global Emerging Markets (GEM) Committee meeting in 2017, a Regulatory Cyber Workshop was conducted. The workshop included an interactive cyber simulation exercise where participants reviewed case studies of actual cyber incidents.

At the national level, the SC is a member of the Cyber Crime Special Committee headed by the National Cyber Security Agency (NACSA). The NACSA was set up by the cabinet in January 2016 and comes under the purview of the National Security Council.

## **Cyber Security**

Technology has created huge business opportunities in the capital market while exposing the inherent threats and vulnerabilities in a networked world. As a result, cyber security has become an important consideration for intermediaries when integrating financial technology into their business operations.

In 2017, we witnessed several high profile cyber-attacks, including the WannaCry and NotPetya, Armada Collective DDoS as well as an attack on government agencies. In particular, in July 2017, several stockbroking companies came under a distributed denial of service (DDoS) attack, with intermediaries experiencing a lag in their trading systems during the pre-trading hours. The attack that began from 5 to 7 July was accompanied by ransom demands to be paid in Bitcoins. As a pre-emptive measure, an advisory alert on precautionary measures to be taken was issued by the SC to capital market participants.

During the DDoS incident, the SC activated its internal Computer Emergency Response Team (CERT) to better manage and co-ordinate efforts to counter the cyber incidences affecting the industry. Following the DDoS attack, a Capital Market Cyber Risk Working Group (CMCRWG) was also established with members comprising Bursa Malaysia Securities, industry associations, stockbroking companies and technology vendors.

The CMCRWG will address issues pertaining to cyber risk and facilitate collaboration between members when crisis occurs. The key objective of the CMCRWG is to strengthen industry readiness in combating cyber-attacks through strategising, formulating and implementing industry-wide cyber defence initiatives. The CMCRWG will also promote information sharing and strategic communication between key industry players to mitigate cyber-attacks in the market.

### Stakeholder Collaboration

Creating awareness of cyber threats is important as the cyber security landscape is always changing with perpetrators finding new ways to access and misuse information. The SC promotes cyber security culture within firms by requiring the board to be involved in key processes relating to cyber defences.

The SC continues to collaborate with market participants through educational activities and assessment of cyber security resilience and issue guidance on expected cyber security preparedness.

### EMPOWERING INVESTORS

Effective investor education is critical in achieving investor protection and creating a vibrant market. Thus, we continue to focus our efforts to ensure that investors are able to manage their financial well-being while safeguarding their interests. An informed investor is a protected investor, one who is empowered and aware of their rights and responsibilities as well as having the ability to assess risks and make informed investment decisions. In 2017, the SC's investor education campaigns were designed with targeted messages, directed at vulnerable segments of the public and focused on investment scams.

### Anti-Scam Awareness Campaign

In the 19 months leading up to August 2017, media reports stated that more than 500,000 Malaysians have become victims of scams. In 2017, the SC intensified efforts to raise awareness about scams and illegal investment schemes through various channels:

- Partnered with BFM Radio 89.9 to feature an 'edumercial' titled 'Bukan Free Money' to help investors identify and avoid scams. This programme ran for three weeks in May 2017.
- Screening of a 30-second public service message called T.I.P.U. (*Tidak akan rugi*,

*Indah khabar dari rupa, Peluang hanya sekali, Untung besar*) at TGV cinemas nationwide that highlights the modus operandi of scammers and advises the public to seek information or assistance, when in doubt. The video was screened at 15 TGV cinemas nationwide from 28 September to 11 October 2017.



- In August 2017, the SC launched an Anti-Scam Video Competition where contestants were required to produce and submit their creative entries that best deliver anti-scam messages. Prizes for the three winning contestants were presented during InvestSmart® Fest on 15 October 2017. The competition had enabled the SC to gauge the public's level of understanding of scams.



- On 15 October 2017, the SC organised its inaugural 'ScamBuster Run' around the Kuala Lumpur City Centre (KLCC) area to promote and reinforce its anti-scam messages. Over 3,000 runners registered for the charity fun run.



- In view of the proliferation of investments relating to initial coin offerings (ICO), the SC also issued an investor alert through a press release on 7 September 2017 to warn investors of the risks of investing in ICOs.
- The SC's InvestSmart® Series on BFM Radio 89.9 featured a three-minute episode focusing on scams. The episode which was aired on 16 November 2017 sought to highlight and warn the public on scams.

### *InvestSmart® Outreach*

In 2017, approximately 300,000 members of the public participated in our events. Our outreach to members of the public were through engagements via seminars at InvestSmart® Day, SC-in-the-Community, InvestSmart® Fest and events organised by other agencies.

Our InvestSmart® website is an effective platform through which investors are provided with information on capital market products, tools and calculators in relation to financial products, as well as articles and podcasts for a more interactive experience.

In order to extend our outreach to the younger generation, the SC leveraged the InvestSmart® Facebook (FB) and Instagram accounts to deliver instant messaging of our InvestSmart® events and other news. The InvestSmart® mobile application has allowed the public to obtain current information at their fingertips, particularly access to the SC's Public Register of Licence Holders and Investor Alert list.

### *InvestSmart® Fest*

InvestSmart® Fest is the SC's annual flagship investor outreach event. The event which was held from 13 to 15 October 2017, was officiated by Minister of Youth and Sports, Brig Jen Khairy Jamaluddin Abu Bakar and attended by a total of 19,482 visitors.

In line with the theme 'Invest For Your Future', InvestSmart® Fest 2017 showcased over 65 booths of capital market institutions, associations, industry players and relevant government agencies under one roof with the aim of promoting financial and investment literacy. For the first time, a financial service desk called #FinPlan4U was featured, where visitors were given the opportunity to engage with licensed financial planners and obtained complimentary initial assessments.

The event also hosted talks and seminars by leading industry experts, with key highlights on retirement planning, smart investing for women and topics that were inspired by the Transformasi Nasional 50 initiative.

In conjunction with InvestSmart® Fest 2017, the SC also organised the 'ScamBuster Run', an inaugural charity fun run that was graced and participated by Yang Amat Mulia Tengku Datin Paduka Setia Zatashah binti Sultan Sharafuddin Idris Shah. The charity fun run raised RM100,849 and the proceeds were channelled to the National Kidney Foundation Malaysia.



### *InvestSmart® Series – A Partnership with BFM Radio 89.9*

Between 17 August and 7 December 2017, we collaborated with BFM Radio 89.9 to produce an investor education and awareness radio series called

the “InvestSmart® Series”. Targeted at the ‘investment-ready’ urban segment, the series, with a total of 15 three-minute episodes, were featured on a weekly basis with relevant experts speaking on investment products such as unit trusts, stocks, private retirement schemes, bonds, exchange traded funds, warrants and options, equity crowdfunding and peer-to-peer lending.

### *SC-in-the-Community*

The ‘SC-in-the-Community’ is our initiative to reach out to members of the public through direct engagements across Malaysia. More than 3,000 participants attended the InvestSmart® Day, organised in major cities in Kuala Lumpur, Penang, Ipoh, Johor Bahru and Kuching.

The InvestSmart® Day featured key speakers delivering highly engaging and impactful sessions on the stock market, unit trusts and private retirement schemes. These events also featured mini exhibitions by the SC, Bursa Malaysia and FIMM.

### *Collaborative events with other agencies*

To extend our investor education reach, the SC also leverages consumer education efforts by other agencies. The SC has established strategic partnerships to participate in events organised by BNM, Permodalan Nasional Bhd (PNB), Ministry of Finance (MOF), Ministry of International Trade and Industry (MITI) and the Malaysian Financial Planning Council (MFPC).

### **Financial Education Network**

On the national front, the SC and BNM co-chair the Financial Education Network (FEN). FEN comprises six other members, namely Permodalan Nasional Bhd (PNB), the Employees’ Provident Fund (EPF), Agensi Kaunseling dan Pengurusan Kredit (AKPK), Perbadanan Insuran Deposit Malaysia (PIDM), Kementerian Pelajaran Malaysia (KPM) and

## **Strengthening Market Integrity**

Kementerian Pendidikan Tinggi (KPT). FEN was established to co-ordinate financial education efforts and develop Malaysia’s National Strategy for Financial Literacy which:

- i. aims to elevate financial literacy of Malaysians and to promote prudent behaviours and attitudes in improving the financial well-being of Malaysians; and
- ii. seeks to address financial literacy by nurturing values among young children, inculcating positive behaviour for adults and preparing Malaysians to retire comfortably.

The National Strategy is targeted to be launched in 2018.

### **World Investor Week**

In conjunction with IOSCO’s World Investor Week (WIW) from 2 to 8 October 2017, the SC hosted a Facebook live chat that featured a panel discussion on financial planning.

The theme of the Facebook live chat was ‘FinPlan4U – A Step Towards Financial Health And Wellness’. The panel session featured experts from the SC, the Financial Planning Association of Malaysia (FPAM) as well as an award-winning financial planner, on the benefits of engaging a financial planner. The 30-minute FB live chat session attracted more than 1,500 viewers.





## Establishment of the SC's Behavioural Analysis Unit to Catalyse Behavioural Change Among Investors

Behavioural economics is the study of psychology that relates to the economic decision-making processes of individuals and organisations. Traditionally, regulatory policies are designed on the assumption of rational human behaviour. Yet, individuals and organisations make many decisions that systematically depart from what is rational. By using insights obtained from behavioural economics, psychology and other social sciences, regulators can now design better policies that have more effective outcomes.

In 2017, we established a dedicated Behavioural Analysis Unit within the Consumer and Investor Office. The unit has been actively engaging the public through various forums and platforms to gain behavioural insights, which will influence our investor empowerment initiatives.

Periodic research and surveys have been conducted throughout the year and these provide important data points. These data will assist the SC in formulating necessary interventions either through investor education programmes or policy adjustments to advance investor protection.

The SC also embarked on an independent investor survey that focuses on areas including assessing the level of sophistication and investment literacy among high-net-worth investors and retail investors' reliance on disclosure documents. The findings of the report are targeted to be issued by the first quarter of 2018.

## Enhancing redress mechanisms

An important part of our investor protection mandate is to ensure that the investing public has meaningful access to an effective redress mechanism.

The Securities Industry Dispute Resolution Center (SIDREC), an independent body established by the SC in 2011, now has 182 members comprising stockbrokers, derivatives brokers, PRS providers and distributors, fund management companies, unit trust management companies, investment banks, commercial banks, Islamic banks and specified development financial institutions (DFIs). SIDREC received 628 claims and enquiries in 2017, compared to 345 in 2016. The effectiveness of its dispute resolution process is evident by the fact that over 90% of the eligible claims resolved in 2017 was through case management and mediation.

SIDREC as a dispute resolution forum is also an effective 'nudge' factor towards better conduct of both investors and members. Nudge management draws on the concept of changing behaviour, which can be effected through the process of dispute resolution. The process of resolving a dispute managed by SIDREC enables both parties with expert help, to examine the reasons behind the dispute and therefore identify steps that can be taken in future to prevent or mitigate such lapses. The goal is often to help both parties reach a mutual solution, and is expected to, in the longer run, encourage responsible behaviour among intermediaries and informed investing on the part of the investor.

SIDREC's Rules have also been amended to ensure SIDREC's services are made available to the broader investing public and to cater to the Practice Direction on mediation issued by the Chief Justice in 2016.

The Chief Justice had issued a direction to the courts in 2016 through Practice Direction No.4 of 2016, to encourage and facilitate the amicable settlement of civil cases through mediation without going through or completing a trial or appeal. The Practice Direction recognises the benefit of mediation as an effective mode of resolving disputes expeditiously. Investors in the capital market who are already involved in court proceedings are permitted to access SIDREC's dispute resolution services.

This development augurs well for SIDREC's vision to become a specialist independent dispute resolution body. Amendments have been made to SIDREC's Rules to enable the provision of this service by expanding its scope to include a voluntary component, for claims exceeding RM250,000 for both mediation and adjudication. SIDREC's scope under its mandatory component, currently is limited to claims up to RM250,000. The voluntary component was designed to manage cases arising from court referred mediation, as specified by the Practice Direction and to also allow for higher claims, where both parties wish to seek SIDREC's help. Under this component, lawyers for both parties are permitted to be present during the dispute resolution process to support their clients.

### *Outcome of judicial review against SIDREC's awards*

In 2017, judicial review (JR) applications against two of SIDREC's awards were dismissed by the Federal Court.

In filing the JR, the intermediary claimed that it was not responsible for the loss caused by the conduct of its representative. It also challenged SIDREC's due process. As the issue on the 'principal-agent' relationship impacted the capital market framework and investor protection, the SC applied to the High Court in 2014 to intervene in the JR proceedings.

In its decision, the court held that SIDREC had followed due process in the mediation and adjudication of the matters, and had also correctly applied the principal-agent relationship in the two

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The judgment emphasised that "this agency relationship is essential to the SC's role as the regulator in the capital market and services industry, with the ultimate aim to protect the investing public for losses arising from defalcated trades by the remisiers. Otherwise, the client of the stockbroking company will never be assured of recovering compensation for losses suffered due to defalcation of trades by the remisier".

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cases. The stockbroking company was held liable for losses caused by the misconduct of its agents.

This decision of the Federal Court validated the position of the SC and SIDREC that intermediaries are accountable for the acts and omissions of their agents or representatives who act within the actual or implied authority of the intermediary. The outcome of the judicial review also highlights the effectiveness of SIDREC's dispute resolution services in providing access to redress and contributing to market discipline.

### *Capital Market Compensation Fund Corporation*

The Capital Market Compensation Fund Corporation (CMC) is also an important component of the investor redress framework as it provides a source of funds to compensate clients of licensed intermediaries in the event of a default by any of those intermediaries.

During the year, proposed amendments were made to the *Capital Markets and Services (Capital Market Compensation Fund) (Contribution) Regulations 2012* to require digital investment managers to contribute to the compensation fund.

## ACHIEVING CREDIBLE DETERRENCE THROUGH ENFORCEMENT

In 2017, our enforcement efforts were focused on upholding market integrity and reinforcing governance standards of market participants, particularly those who hold fiduciary duties such as PLC directors, officers and professionals. In doing so, the action we take is wide ranging in support of our central aim of achieving credible deterrence. We have and will continue to use criminal, civil and administrative powers in seeking the desired enforcement outcomes. Several significant achievements were recorded in 2017 as we continue to pursue serious governance lapses that undermine the integrity of the capital market such as the abuse of material, non-public information as well as disclosure of false and misleading information to the investing public.

### *Judicial recognition of the seriousness of insider trading*

In 2017, the SC achieved a significant milestone in our efforts to combat insider trading by securing criminal convictions after full trial. Dato' Seri Stanley Thai Kim Sim (Thai KS), the former CEO of APL Industries Bhd (APLI), a PLC, was convicted for passing material non-public information to Tiong Kiong Choon (Tiong KC), a former remisier. The material information was in respect of APLI's proposed audit adjustments and its classification as a PN 17 company. Thai KS was sentenced to a five-year jail term and a fine of RM5 million, while Tiong KC was sentenced to five years' jail and a RM10 million fine.

This is the first time the courts have meted out a custodial sentence for insider trading after a full trial where witnesses for both the prosecution and

defence were called. In this regard, the SC will continue its push for credible deterrence for serious securities laws breaches.

In another landmark decision, a civil judgment from the High Court was obtained against Lim Chiew (Lim), a former independent director of Magnum Corporation Bhd (Magnum), for insider trading activities involving his acquisition of 590,000 Bolton Bhd (Bolton) shares on 12 July 1999 while in possession of material non-public information. In its decision, the Court agreed with the SC that Lim was in possession of information relating to Bolton's proposed acquisition of a 30.3% stake in Magnum from Multi-Purpose Holdings Bhd when he made the purchase. As a consequence of this High Court judgment, Lim was ordered to pay a sum of RM1.24 million which amounted to three-times the illegal gains made by him, in addition to costs and civil penalty of RM125,000.

### *Prosecuting insider trading committed by professionals and directors*

In our ongoing efforts to deter insider trading, we continue to investigate and prosecute professionals who breach insider trading provisions.

In March 2017, we charged a senior manager from the Corporate Finance Department of CIMB Investment Bank Bhd, Ewe Lay Peng (Ewe LP), with one count of communicating non-public information to Lim Bun Hwa (Lim BH), another senior manager at CIMB.

The material non-public information in this case relates to information contained in the announcement by PacificMas Bhd (PacificMas) concerning the proposed conditional take-over offer by OSPL Holdings Sdn Bhd (OHSB) to acquire all voting shares in PacificMas not already owned by OHSB. In connection with this case, five charges were also brought against Lim Boon Cheng (Lim BC), for acquiring 145,000 units of PacMas shares while in possession of the material non-public information. Lim BH was also charged with abetting Lim BC in committing the alleged offence.

In a separate matter, criminal action was also taken against Goh Keng Huat (Goh KH), who at the material time was the Head of Equity Markets, Aseambankers Malaysia Bhd (now known as Maybank Investment Bank Bhd), who was charged with 10 counts of insider trading when he acquired 851,600 units of Road Builder Holdings (M) Bhd (Road Builder) shares through the accounts of his wife, Wee Siew Ling (Wee SL). The inside information relates to the proposed acquisition of all assets and liabilities of Road Builder by IJM Corporation Bhd for approximately RM1.56 billion. Wee SL was also charged for abetting Goh KH in the commission of the offence.

In another case, we had also initiated criminal charges against Dato' Vincent Leong Jee Wai, the former Managing Director of Maxbiz Corporation Bhd (Maxbiz), for communicating inside information to Datuk Leong Wye Keong (Leong WK), the company's substantial shareholder. The material information relates to the decrease in Maxbiz's shareholders' equity which was close to Maxbiz being classified as financially distressed and the classification of Maxbiz as an affected listed issuer under Practice Note 17. Datuk Leong WK was also charged with four counts of insider trading where he is alleged to have disposed a total 10,231,400 Maxbiz shares in both his own and son's account while in possession of the inside information.

### **Disgorgement of illegal proceeds**

In 2017, the SC filed civil actions against PLC directors, officers and related persons with the aim of depriving them of illegal proceeds obtained from insider trading activities.

We sued three individuals, Koh Tee Jin (Koh TJ), Koh Thiam Seong (Koh TS) and Koh Hui Sim (Koh HS) for breaching insider trading provisions. Koh TJ, a director of Axis Incorporation Bhd (Axis) at the material time, was alleged to have communicated material non-public information to Koh TS and Koh HS, who both in turn sold Axis' shares ahead of the company's announcement containing material information. The material information was in

## **Strengthening Market Integrity**

respect of unresolved issues relating to Axis' financial statements for the financial year ended 31 March 2008.

The relief sought against the three defendants includes a civil penalty of RM1 million each, judgement sums totalling RM7,092,954 and that the defendants be barred from being a PLC director for a period of five years. In November 2017, the SC successfully obtained judgment from the High Court in its favour.

In another case, we sued Lim Kok Boon (Lim KB) and Cheah Mean Har (Cheah MH) for insider trading in GW Plastics Holding Bhd (GW Plastics) shares based on inside information about a proposed Share Sale Agreement between GW Plastics and Scientex Packaging Film Sdn Bhd and a proposed distribution of the cash proceeds arising from the Share Sale Agreement to the shareholders of GW Plastics. Lim Kok Boon (Lim KB) was the Chief Executive Officer and Non-Independent Executive Director of GW Plastics at the material time. We are seeking disgorgement amounting to RM142,500 and a civil penalty of RM1 million from each defendant.

### **Disclosure of false and misleading information**

In 2017, the SC achieved deterrent enforcement outcomes against directors who had undermined market integrity by disclosing financial information that is false and misleading. These outcomes are important as the accuracy and reliability of information disseminated by PLCs are vital for the public to make informed investment decisions.

In May 2017, after a full trial at the Sessions Court, we obtained a criminal conviction and an imprisonment sentence of 18 months against Dato' Dr Haji Mohd Adam Che Harun, the former Executive Chairman and Director of Megan Media Holdings Bhd (MMHB). Dato' Adam was found guilty for having furnished false information to Bursa Malaysia in relation to the revenue in MMHB's Quarterly Report on Consolidated Results for the Financial

## Landmark Enforcement Outcomes Against Insider Trading

In 2017, the SC successfully achieved landmark enforcement outcomes in two insider trading cases at both the criminal and civil courts. This is the first time the SC had secured court victories for insider trading after a full trial and custodial sentences were imposed.

In the criminal case, Dato' Seri Stanley Thai Kim Sim (Thai KS), former CEO of APL Industries Bhd (APLI) and former remisier Tiong Kiong Choon (Tiong KC), were found guilty by the Sessions Court for insider trading offences. On 24 November 2017, Thai KS was sentenced to a 5-year imprisonment and a fine of RM5 million while Tiong KC was sentenced to a 5-year imprisonment and RM10 million fine.

Thai KS was convicted for communicating material non-public information between 26 October 2007 and 29 October 2007 to Tiong KC. Tiong KC was convicted for two counts of disposing a total of 6,208,500 APLI shares while in possession of the same material non-public information through accounts belonging to his mother and mother-in-law.

The material non-public information relates to the audit adjustments proposed by APLI's auditors which resulted in APLI reporting a higher loss for the financial year ended 30 June 2007, as compared to the previously reported unaudited Q4 results for the same financial year, and that APLI would be classified as a PN 17 company. APLI made announcements to Bursa Malaysia Securities Bhd about the audit adjustments and its classification as a PN 17 company on 31 October 2007.

Sessions Court Judge Tuan Zulqarnain Hassan found that the defence had failed to raise a reasonable doubt in the prosecution's case and convicted Thai KS and Tiong KC under the insider trading provisions of the CMSA. In passing the criminal sentences, Sessions Court judge Tuan Zulqarnain Hassan ruled that a deterrent sentence was warranted given its far reaching effect on investor confidence and the public as a whole, stating that, "Insider trading is a modern white-collar economic crime. It is serious and is in a category or class of its own".

Meanwhile at the civil High Court, the Judge had, on 28 September 2017, found that the SC had successfully proven an insider trading case against Lim Chiew (Lim), a former independent director of Magnum Corporation Bhd.

The civil suit against Lim was in respect of insider trading activities committed when he acquired 590,000 shares of Bolton Bhd (Bolton) while in possession of material non-public information. The material information was in relation to Bolton's proposed acquisition of a 30.3% stake in Magnum Corporation from Multi-Purpose Holdings Bhd.

Justice Datin Hajah Azizah Haji Nawawi found that based on the evidence, Lim had knowledge of the inside information when he gave instructions to his remisier for the purchase of Bolton shares. The High Court ordered Lim to pay a sum of RM1,242,061.08, which amounted to three times the profits he earned as a result of the insider trading. In addition, the Court also ordered Lim to pay the SC a civil penalty of RM50,000 as well as RM75,000 in costs.

These two cases are significant milestones for the enforcement work of the SC to achieve effective enforcement outcomes.



## Strengthening Market Integrity

Period ended 31 January 2007. Dato' Adam was also fined RM300,000 (in default one year's imprisonment) and is appealing his conviction and sentence.

Judicial recognition was further given at the appellate courts on the seriousness of disclosure-based offences. In 2017, the Court of Appeal also upheld criminal convictions and sentences against former independent directors of Transmile Group Bhd, Shukri Sheikh Abdul Tawab and Jimmy Chin Keem Feung. Both individuals, who were members of the company's Audit Committee, were found guilty of knowingly authorising the furnishing of a misleading statement to Bursa Malaysia in Transmile Group Bhd's quarterly report on unaudited consolidated results for the financial year ended 31 December 2006. This is the first case where the appellate court had upheld custodial sentences imposed on Audit Committee members breaching securities laws. Both individuals were sentenced to a one-year imprisonment and a fine of RM300,000 (in default six months' imprisonment).

The Court of Appeal reversed the decision of the lower court in the SC's criminal case against Ang Sun Beng (Ang SB) and Ang Soon An (Ang SA), former Executive Directors of Welli Multi Corporation Bhd. Both individuals were earlier charged and convicted for furnishing misleading revenue figures in the company's annual report. They pleaded guilty at the Sessions Court and were respectively sentenced to a one-day imprisonment and fines of RM400,000 which were later upheld by the High Court. The SC had successfully appealed to the Court of Appeal in securing a heavier custodial sentence of six months' imprisonment for both individuals in addition to fines.

The seriousness and gravity of disclosure offences are further underscored by the imprisonment sentences meted out to Lee Han Boon (Lee HB) and Saipuddin Lim, former Executive Directors of Axis Incorporation Bhd (Axis). Both individuals had pleaded guilty to furnishing false statements to Bursa Malaysia Securities Bhd in Axis' quarterly report for the financial year ending 31 March 2008. The false statement relates to the inflation of Axis' revenue totalling RM51.5 million. Lee HB was

sentenced to seven months' imprisonment and a fine of RM200,000 while Saipuddin was sentenced to 12 months imprisonment.

The SC had also utilised its administrative powers to achieve swift enforcement outcomes in respect of disclosure-based transgressions. In July 2017, the SC reprimanded Telent Outdoor (Hong Kong) Technology Co. Ltd (Telent) for submitting false information to the SC in relation to the proposed listing of Telent on Bursa Malaysia. A permanent moratorium on two of the company's directors barring them for life from being a promoter and being involved in any submission for corporate proposals to the SC was also imposed.

Five directors of Trive Property Group Bhd (Trive) were also reprimanded and fined a total of RM2.55 million for knowingly furnishing false or misleading statements to the SC and Bursa Malaysia in relation to the company's development expenditure amounting to RM21.1 million. The SC's sanctions arose as a result of its findings that Trive had failed to perform an impairment assessment on the said development expenditure as at 31 July 2014 in accordance with approved accounting standards, thereby rendering the company's 2014 audited financial statements to be false or misleading. The SC also reprimanded Trive and directed the company to address its financial reporting function. The SC also directed Trive to appoint an external auditor to assess the adequacy of its financial reporting function.

## Other breaches of securities laws and regulations

### *Market manipulation*

Following a full trial at the Kuala Lumpur High Court, we had successfully obtained a declaration in our favour against Richard Benjamin Cohen, a former research analyst at Aeneas Capital Management L.P, for his role in the manipulation of Iris Corporation Bhd shares in 2006. Cohen was also ordered to pay the SC a sum of RM50,000 in costs. Further declarations were obtained against six foreign defendants. Aeneas Capital Management

L.P, Priam Holdings Limited, Aeneas Portfolio Company L.P, Acadian Worldwide Inc, Thomas R. Grossman and John Suglia for conspiring in the said manipulation. They are now permanently barred from trading in any securities on Bursa Malaysia.

The SC is also seeking court orders for disgorgement of profits and a civil penalty of RM1 million each against Ng Wai Hong, a dealer's representative at Hwang-DBS Securities Bhd, and six others for the manipulation of shares in APL Industries Bhd and barring the defendants from participating in the capital market.

### *Licensing breaches*

The SC's licensing regime seeks to ensure that regulated activities can only be conducted by those who are licensed or registered to ensure that investors are protected. Additionally, the regime seeks to protect investors by ascertaining the fitness and propriety of license holders and their representatives who serve the investing public. Therefore, we hold all licensees accountable to high standards of conduct and require them to treat investors fairly and always act in a manner that promotes a fair and orderly market.

This year, we initiated criminal enforcement action against Su Eng Koi and Yap Choong Seong for carrying on a business of dealing in derivatives through Jalatama Management Sdn Bhd, without holding a valid licence.

In another case, Mohd Faizal Jamaluddin, an unlicensed person, was found to have carried out fund management activities, whereby funds solicited from investors were utilised by him to trade in equities and futures products on behalf of those investors. A directive was issued against Mohd Faizal to reconstitute investors who had deposited monies with him.

The SC also took administrative action against nine licensed representatives for failing to remain fit and proper. Eight representatives had their licences revoked for being involved in misconduct such as

abetment of insider trading, manipulation and also, for being adjudged a bankrupt. Another representative was reprimanded for her misconduct.

A penalty of RM70,000 was also imposed against Kenanga Investors Bhd (KIB) for its failure to supervise its business to ensure fair and honest dealing, when two of its unit trust consultants (UTC) had allowed their identities to be used by UTCs from another company to solicit purchases of KIB's unit trust products and attributing such purchases to themselves.

### *Failure to adhere to notices issued*

Under the securities laws, an Investigating Officer of the SC (IO) may by notice in writing require any person to appear before such IO to give all reasonable assistance and provide a statement in connection with an investigation. In October 2017, we had charged Chok Chew Lan, a director at Tsunami Capital Sdn Bhd, for failure to comply with a notice issued by the IO for her to attend statement recording sessions at the SC; an offence that is punishable with an imprisonment term not exceeding five years or a fine not exceeding RM1 million, or both.

The SC's *Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries* requires a reporting institution to co-operate fully with the relevant law enforcement agencies. This includes taking appropriate measures to ensure timely disclosure of information by the reporting institution to BNM and relevant law enforcement agencies (LEAs). A fine of RM180,000 was imposed against TA Investment Management Bhd (TAIM) for failure to promptly respond to formal orders by LEAs to produce information under section 48(1) of the *Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001*. TAIM had submitted the requisite information to LEAs only after the SC's examination on TAIM in October 2016.

### *Late submissions under the Lodge and Launch Framework*

We fined OCBC Bank (Malaysia) Bhd when it failed to ensure timely submission of its monthly post-issuance reports for two of its structured products, as required by the SC's *Guidelines on Unlisted Capital Market Products Under the Lodge and Launch Framework*.

Fines were also imposed against Affin Hwang Asset Management Bhd and Fortress Capital Asset Management (M) Sdn Bhd for delay in submitting the monthly statistical returns of their respective wholesale funds.

### *Apex Court upholds the SC law as valid and constitutional*

In March 2017, the Federal Court upheld the validity of section 122(1) of the *Securities Industry Act 1983* (SIA). Justice Tan Sri Jeffrey Tan Kok Wha, in delivering the apex court's landmark decision, held that the provision did not violate the Federal Constitution.

Section 122(1) of the SIA deems a company director, chief executive officer, officer or representative of the company, to have committed an offence of the company, unless he can prove the lack of consent or connivance on his part and the exercise of diligence to prevent the commission of the offence.

The constitutionality of the provision arose from the ongoing criminal case against Gan Boon Aun (Gan BA), the former Chief Executive Officer of Transmile Group Bhd (Transmile), who was charged by the SC in 2007 for abetting Transmile in making a statement

that was misleading in a material particular relating to Transmile's revenue in its quarterly report on unaudited consolidated results for the financial year ended 31 December 2006. Gan BA was also charged in the alternative with having furnished a misleading statement to Bursa Malaysia Securities Bhd in the same financial statement.

In June 2011, Gan BA made an application to the High Court to refer a constitutional question on the validity of section 122(1) of the SIA arguing that the provision was inconsistent with Article 5(1) of the Federal Constitution. In 2016, the High Court referred the matter to the Federal Court for determination. The Federal Court ruled that the provision was valid and constitutional. The ruling has wide ranging ramifications as there are 32 provisions in other Acts that are akin to the said provision.

### *Instilling good governance through non-statutory enforcement tools*

Apart from administrative actions under its statutory powers, the SC also utilises other forms of non-statutory enforcement tools in the exercise of its supervisory function. Infringement Notices are issued where breaches of securities laws or guidelines do not warrant a formal enforcement action or imposition of an administrative sanction. It generally addresses concerns of unintended contraventions and aims to encourage good governance or conduct by providing an opportunity for the party in breach to enhance their compliance framework or rectify the breach. During the year, we issued a total of 81 Infringement Notices, out of which there were 16 Supervisory Letters Involving Infringements, 15 Warning Letters and 50 Non-Compliance Letters.

Table 1

**Good governance through non-statutory enforcement tools**

| <b>Type of Infringement Notice</b> | <b>When Issued</b>  |
|------------------------------------|---|
| <b>Supervisory Letter</b>          | Issued pursuant to the exercise of the SC's supervisory function of the conduct of an examination of any person licensed, registered, approved, recognised or authorised under section 126 of the SCMA. This would include among others licensed intermediaries, self-regulatory bodies and the stock exchange. |
| <b>Warning Letter</b>              | Issued pursuant to the discharge of the 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 persons, registered persons or other professionals or experts.                                       |
| <b>Non-Compliance Letter</b>       | Issued pursuant to the discharge of the SC's gatekeeping function for minor breaches.   |
| <b>Cease and Desist Letter</b>     | 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.   |

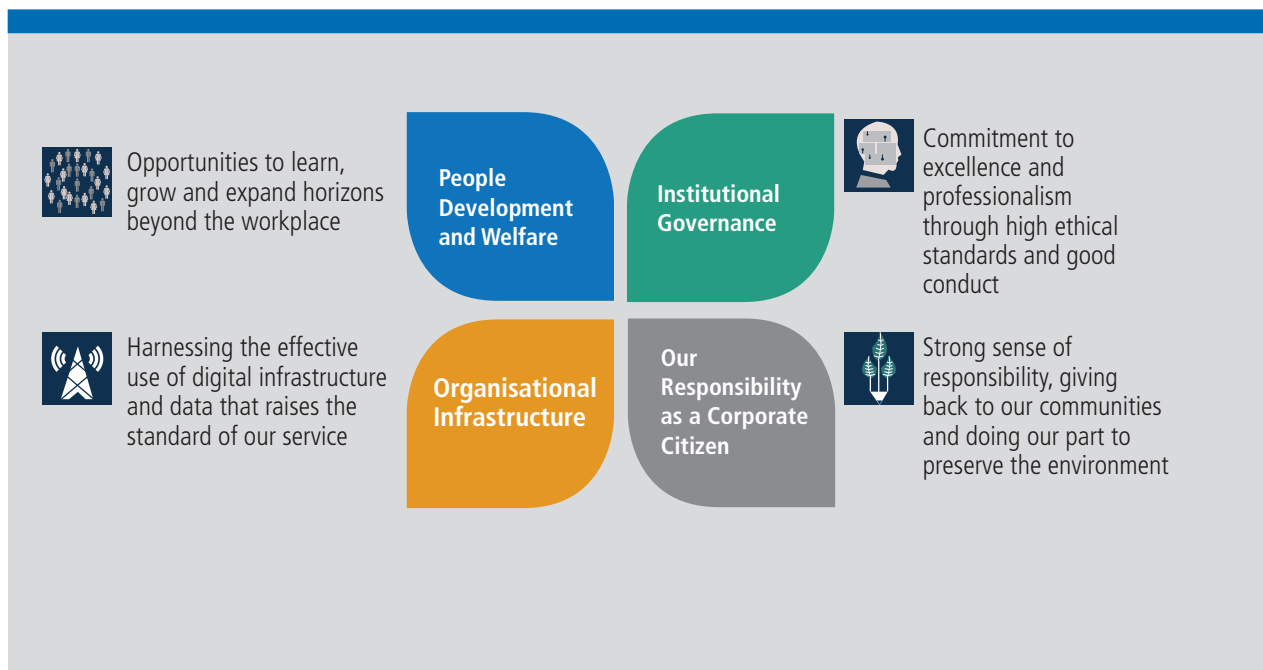


Part 3

# Optimising Performance in a Dynamic Organisation







## Introduction

Against the backdrop of rapid change and the emergence of increasingly sophisticated products and the rise of technology, there is a growing need for organisations to reskill their workforce to remain relevant and future ready. As the role of the SC evolves, along with the scale, complexity and dynamics of our markets, we emphasise the need to scale up the capabilities of our organisation. To this end, the SC 2020 Project, launched in 2016, sets out efforts to strengthen our core functions and capabilities. The sustainability of our effectiveness as a regulator hinges on our ability to adapt and add value in an ever-changing environment.

Since our establishment 25 years ago, we have achieved tremendous success in developing and regulating the Malaysian capital market. This is a testament to the dedication of the SC's employees. We believe that an organisation is the sum of its people, and its success is the outcome of the efforts and achievements of those within it.

We take pride in our institution and the role we play in all aspects of capital market regulation and development. In line with this, we strongly emphasise continuous improvements on people development and welfare, institutional governance and organisational infrastructure.

Our employees are given opportunities to learn, grow and expand their horizons beyond the

workplace. We have implemented various initiatives to enhance their overall experience to maintain a culture of developing engaged and high-performing employees.

We also continue to reinforce our institutional governance, and review the adequacy and integrity of our systems and internal controls. These efforts are aimed at ensuring our employees continue to discharge their responsibilities based on high ethical standards and good conduct. We believe that our commitment to excellence and the professionalism of our people are the bedrock of our success.

In addition, we are working on creating a more cohesive and collaborative work environment, one that is more contemporary and raises the standard of our service. Among others, we will increasingly harness the effective use of digital infrastructure and data.

Above and beyond these, we continually strive to be an institution that promotes a strong sense of responsibility, encouraging one and all in giving back to our communities and doing our part to preserve the environment.

In summary, while we celebrate the achievements of our past, we continue to march into the future, inspiring progress in our people and in the markets we oversee, forging strong relationships along the way, and being ready for the next 25 years and beyond.

## PEOPLE DEVELOPMENT AND WELFARE

The SC firmly believes that our employees are critical for us to fulfill our mandate effectively. Our people strategy revolves around recognising, nurturing and grooming individuals who understand our public service mandate.

## Optimising Performance in a Dynamic Organisation

### Talent development

#### *Young talent*

Our commitment to grow our pipeline of young talent continues with the awarding of the SC scholarship to aspiring and deserving students to further their education in undergraduate programmes at higher learning institutions, either locally or abroad.

Seven scholarships were awarded this year and upon completion of their studies, these scholars will have the opportunity to undergo a one-year Model Regulator (MORE@SC) programme. In this programme, these young graduates will rotate between different functions within the SC, with each rotation lasting up to three months. This allows them to gain practical experience in different aspects of the SC's regulatory and development functions before they are permanently placed in a function suited to their capabilities.

During the one year MORE@SC programme, these bright young people will also be supported by in-house mentors and assigned projects which include elements of corporate social responsibility. This structured, experiential learning will enable the young graduates to develop skills and competencies expected of a progressive regulator.

#### *Succession planning*

As we have built a strong workforce around a homegrown management team, we know how vital it is to develop a steady supply of candidates for leadership positions. We have put in place a succession management framework, designed to provide learning interventions and accelerated growth opportunities to talented employees who are committed to the SC's cause.

We also introduced the extended leadership team concept, where identified individuals from middle management who have demonstrated readiness

to take on bigger responsibilities are given the opportunity to participate in leadership team meetings, and take the lead on strategic initiatives within the SC.

To ensure strong leadership across the various functions of the organisation, we mobilised senior level employees through a phased rotation exercise. This has assisted in the expansion of their skills and competence, and provided fresh perspectives on the new roles taken on.

This year, we also welcomed 50 individuals into our fold, including several senior hires to support or drive the SC's ongoing work in capacity building and operational efficiency.

### *Personal and professional development*

We depend on the skills and competence of our employees to deliver outcomes to our stakeholders. As such, our employees' professional and personal development is integral to our people agenda. The learning and development initiatives we designed for our employees ensure that they are equipped with the know-how to effectively oversee the capital market, and at the same time nurture people to help sustain the SC's reputation as a credible and respected regulator.

The SC provides scholarships and loans to qualified employees who want to develop professional and specialised skills in areas related to the SC's functions. Many employees have benefited from these financial schemes, and have continued to serve the SC upon completion of their studies.

In addition to the SC's financial assistance, our employees also have access to funding for post-graduate studies offered by reputable external bodies. We are proud to say that over the years, the SC has had regular representation among the scholars of the UK government's prestigious Chevening award, indicating the recognition of the quality of our people. Two employees completed their programmes this year.

Apart from formal learning, we also have secondment and attachment opportunities for our people. This year, seven employees were selected to participate in secondment programmes with the World Bank, the International Organization of Securities Commissions (IOSCO) Asia Pacific Hub, the Prime Minister's Office, the Ministry of Finance and MIMOS Bhd respectively. Employees who are involved in these programmes return to the SC with wider breadth of work experience and exposure.

We also continue to host foreign counterparts, as part of our global thought leadership agenda. In 2017, we hosted five officers from the Japan Financial Services Agency, the Lao Securities Commission Office as well as the Capital Markets Authority of Saudi Arabia. These officers are placed in various functions within the SC, for a period of up to a year, giving them and our people the opportunity to improve regulatory co-operation, foster relations and promote mutually beneficial knowledge transfer among fellow regulators.

### **Continuously institutionalising knowledge management**

As our institutional knowledge is fundamental in ensuring the sustainability of our operations, initiatives have been carried out to preserve this invaluable asset. A knowledge-mapping exercise was undertaken in 2016, and much of our work on knowledge management this year was driven by results from that exercise.

### *Institutionalising knowledge*

Over the years, we have expanded our pool of homegrown talents, people whom we develop and who have accumulated a wealth of knowledge while serving in the SC, contributing to our growth and achievements along the way. As people pursue other opportunities or retire, we have made it a priority to retain these individuals' knowledge, such as personal insights and experiences.

### Cultivating Innovative Employees

Innovation is no longer an option but an absolute imperative, not just for the capital market but also for the SC, as we prepare ourselves as a future ready regulator.



With this in mind, EUREKA, the Chairman's Award for Innovation was introduced as an internal initiative which encourages our employees to seek solutions using technological innovation to deliver transformational value in our operations through savings in cost, time and resources.

First introduced in 2013, EUREKA has over the years produced notable initiatives which have generated positive contributions to our operations. It has also encouraged our employees to strive for high performance and work well together towards the effectiveness of the SC.

In 2017, our Market Surveillance Department was awarded the EUREKA Award for their internally-developed surveillance tool, the COBWEB. Data management, data mining and data analysis are corner stone to surveillance functions and the COBWEB was designed to address the challenges faced by the team in dealing with multiple data source in undertaking their function. Market surveillance is a critical function in ensuring a fair and orderly market and with COBWEB, the Market Surveillance Department is able to harness data to uncover hidden patterns in market transactions and develop insights for faster and better decision making.

The team has also developed this tool to be versatile and user-friendly, allowing for its use by other functions within the SC.

'In-Person' is an initiative which was designed to enable our internal experts to share their tacit knowledge with targeted audiences. Due to their nature, such knowledge is not easily captured using traditional methods, forcing us to turn to other approaches, such as having conversations, or story-telling.

During an 'In-Person' session, employees sit down with the expert, who will explain the rationale for key decisions which were made in various areas the expert worked on in the past. This effort is a positive move to further document institutional knowledge and experience of the SC personnel. To preserve the knowledge gained from these experts and make it reusable for future learning, each 'In-Person' session is recorded and made available to our employees.

While 'In-Person' sessions feature our internal experts, 'Conversations@SC' is a collection of exclusive interviews with industry experts

and business leaders, on topics ranging from economic, political and market developments to management and leadership trends. Like 'In-Person', 'Conversations@SC' sessions are also recorded. The recordings are shared not only with our employees, but with members of the public as well, through our corporate portal.

### *Enhancing management of explicit knowledge*

For purposes of efficiency, the SC has long relied on digital solutions in maintaining explicit knowledge. Our records management system facilitates retrieving and sharing of information within the institution as well as achieving business continuity. During the year, efforts were made to enhance the SC's processes on records management as well as align our policy to the requirements of the *National Archives Act 2003*.

## Staff welfare

In addition to helping our employees find fulfillment in their work, we strive to ensure a more conducive environment for work synergies and to facilitate participation in outside-work activities. Where appropriate, we encourage our employees to take up active involvement in various undertakings related to their passion and pursuits.

## Caring employer

Over the years, we have introduced various scheduling flexibility to accommodate the personal needs of our people, including the work from home concept for senior level employees.

We also recognise the different needs for parental leave, and have therefore enhanced our maternity leave provisions to include those with adopted infants. This is a reflection of our commitment to support all employees who are working parents, balancing the needs of work and family life.

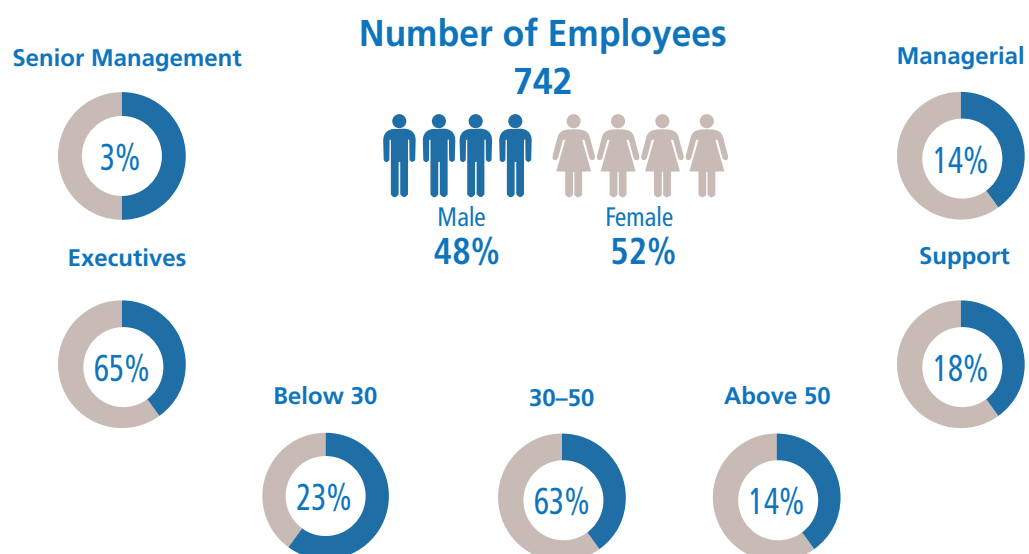
## Diversity

While the traditional notion of workplace diversity may refer to representations of various races, genders and religious backgrounds, today's concept of workplace diversity is all-encompassing. Aside from these variables, considerations include age, thinking styles, skill set, education, background, and much more.

We have long supported efforts for workplace diversity and acknowledge that each employee brings something different to the table. We take pride in having employees with varying backgrounds, and we leverage their different knowledge, talents, skills and experiences to strengthen team productivity and our responsiveness to changing conditions.

Diversity in terms of age permeates throughout the SC. Having a multi-generational workforce allows us to tap into a wider talent pool. We have recently extended our mandatory retirement age to 60 years, giving us more time to bridge the knowledge gap between younger employees and their experienced colleagues.

Diagram 1  
Employees statistics (Diversity)





## Activities beyond work

We believe that productivity correlates with a positive lifestyle. Whether it is taking time to connect with family and friends or monitoring their fitness and diet, great life habits beyond the workplace will create a positive outcome in terms of productivity.

Our Sports and Recreation Club (KSRSS) facilitates these efforts by organising various activities for our employees and their families, making it easier for them to achieve work/life integration. These highlights include the Annual Dinner and Family Day, both of which have always been well-received. In addition to the many other activities organised, KSRSS also hosted, for the first time, the Treasure Hunt Kewangan 2017, welcoming participants from agencies under the Ministry of Finance. All these efforts by KSRSS bring SC employees together, improving the overall team dynamics. To further encourage greater interaction and camaraderie among employees, the SC introduced 'Pens-Down Day' where employees are allowed the occasional early release from work to engage in any sporting or social activity of their choice with their colleagues.

Our people also took charge of their fitness and well-being by committing to the SC Warriors Fit Camp, a rigorous weekly physical fitness session with a certified instructor, over the course of three months. This is in addition to the regular and ongoing group fitness classes held at the SC premises.

## INSTITUTIONAL GOVERNANCE

The SC strives to provide an environment that promotes a strong sense of integrity, accountability and professionalism among our people.

### Upholding institutional integrity

During the year, we implemented initiatives to reinforce our internal governance standards. The organisational roll-out of our *Data Loss Mitigation Guidelines* earlier in the year was aimed

## Optimising Performance in a Dynamic Organisation

at enhancing internal controls for managing information confidentiality. Controls identified in the Guidelines were incorporated into our Enterprise Risk Management system and embedded into the quarterly assessment and reporting requirement of all departments within the SC.

We also undertook a revision of our *Code of Conduct*. We strengthened our policies on managing information confidentiality and conflict of interest, and enhanced our processes in relation to, among others, annual employee declarations, employee investment transactions and disclosure of gifts and hospitality.

A series of education programmes, mainly revolving around the themes of information confidentiality and conflict of interest, were executed throughout the year to deepen our employees' understanding of how these concerns should effectively be managed. This includes a sharing session with a governance expert from the World Bank, discussing global best practices on managing conflict of interest.

As a means to measure the effectiveness of our integrity programmes and identify interventions moving forward, we undertook an organisational ethics awareness survey. The survey enabled us to gauge the importance our employees place on internal governance practices, as well as areas of strengths and weaknesses; and formulate a plan of action to ensure our employees will always maintain the highest standards of ethical conduct when discharging their duties.

## ORGANISATIONAL INFRASTRUCTURE

### Workplace

We recognise the importance of having an office environment which encourages a positive mindset and attitude. Efforts to optimise our office space are ongoing, and this year we succeeded in creating space to accommodate employees who were previously located off-site. We also introduced a fresh new look for our cafeteria, a place where

our employees can go, not only to eat, relax and destress, but where they can interact, build relationships and generate ideas.

## Setting the digital pace

### *Enterprise digitisation*

A key agenda in the SC's enterprise digitisation strategy is to transform our workplace and workforce into an insight-driven, information-centric organisation, which will enable us to improve stakeholders' experience when dealing with us. In line with the strategy, initiatives to leverage digital technology have been undertaken to enable us to get closer towards achieving this goal.

Among the initial initiatives is to recognise the importance of the cloud as a key enabler to accelerate the organisation's digital transformation. An Enterprise Cloud Policy was established to govern cloud adoption in the SC. We have embarked on a phased approach to implement cloud computing. The Cloud Policy and the implementation approach were drawn up after careful consideration of information classifications and accessibility within the SC. We have placed relevant controls together with new and updated procedures to govern its administration, and learnt from experiences of similar implementations around the globe to equip us to better respond and resolve issues arising from the implementation and administration of cloud computing.

### *Cyber resilience*

Another important element of the digital strategy is putting in place and maintaining the necessary levels of cyber security on all implementations. We continuously enhance our internal cyber security against threats which put our corporate assets and operations at risk. We also continuously assess our cyber risk and retool and enhance our security capabilities where necessary to keep pace with today's cyber challenges.

Apart from efforts to improve the SC's overall cyber security position, we are also reinforcing our perimeter fencing for protection against potential threats. This is demonstrated by our ongoing compliance with global information security standards, Information Security Management System (ISMS) ISO 27001:2013, for which we have been certified since 2005. In 2017, we have been successfully recertified following an annual audit and a major recertification exercise.

As sector lead for the capital market, the SC is also collaborating with the relevant authorities to implement the National Cybersecurity Policy (NCSP) for all Critical National Information Infrastructure (CNII) entities. Earlier in the year, the SC together with identified CNIIs within the capital market participated in the National Cyber Drill, the X-Maya 6. The drill was designed to assess the CNIIs' cyber security emergency readiness and preparedness against cyber attacks. The outcome from the drill was used to improve the overall operating plan at both the NCSP and sector levels.

Additionally, we enhanced collaboration among capital market participants to improve the efficiency in handling cyber incidents and the sharing of information on cyber threats. The collaboration is aimed at improving response and resolution by providing an integrated cyber resilience platform for reporting, as well as facilitating sharing of information across the industry.

### *Enhancing industry user experience*

Improving our existing systems to better support the capital market is a continuous process, and one which we take seriously. In 2017, the Lodge and Launch Online Submission System (LOLA OSS), developed to streamline industry submissions, has been further enhanced, taking into consideration industry feedback which we have continually collated since the system's inception. The enhancements to the LOLA OSS are meant to improve user experience when interacting with the SC, and they include greater flexibility in the submission process as well as an improved process flow. In addition, new functions

to support the revised *Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework* (Guidelines) and the *Lodgment Kit*, which took effect earlier in the year, have also been included.

The Electronic Licensing Application (ELA) System has been enhanced to incorporate the process of applying for a standalone Clearing Participants (CP) license to reflect the facilitation of standalone Clearing Participants in the market. Other amendments to the system include the introduction of Digital Investment Manager (DIM) as a new Entity Type under Fund Management in relation to portfolio management. This is in response to the new Digital Investment Management framework launched in May 2017.

## OUR RESPONSIBILITY AS A CORPORATE CITIZEN

### Giving back to our community

The SC's commitment to give back to our community took a leap in 2017 as we saw a total of RM100,849 (of which about RM25,000 came from our employees together with their families

## Optimising Performance in a Dynamic Organisation

and friends) being channeled to the National Kidney Foundation Malaysia (NKF). This was made possible with the success of our very own 'ScamBuster Run' on 15 October 2017 – a 5-km fun run in conjunction with the annual InvestSmart® Fest 2017. We had the honour of having YAM Tengku Datin Paduka Setia Zatashah Sultan Sharafuddin Idris Shah grace the event and join over 3,000 runners, made up of the SC family as well as members of the public, for a good run around the Kuala Lumpur city centre.

While the run was aimed mainly to raise public awareness on illegal investment schemes, the SC was also able to play its part in contributing to the great work of NKF.

## Sustainability

### Shaping a culture

The SC's commitment towards sustaining a culture of high performance extends beyond delivering our mandate. We are also conscious of our environmental impact, and have advocated various eco-friendly practices among our employees in efforts to reduce our carbon footprint.





**#SCWeeklyEarthHour**  
Employees are required to power down electricity every Friday at lunch time

To inculcate the habit of reducing wastage, we invited a zero-waste activist to speak to our employees in the hope of inspiring them to adopt a zero-waste lifestyle. In line with this, we promoted recycling efforts by enhancing the accessibility of recycle bins throughout the building. The SC also continued to participate in HP's 'Go Green Rewards Program' to return and recycle used toner cartridges.

### ***Energy use and efficiency***

The SC building is already energy-efficient, with our average consumption consistently at levels within the threshold for low energy buildings as stated in



**#SayNotoPlastic**  
Employees to bring their own containers to pack their meals from the cafeteria

the *Code of Practice for Energy Efficiency and Use of Renewable Energy for Nonresidential Building* (Malaysian Standard MS 1525:2001).

Nevertheless, we still monitor our energy consumption diligently and optimise the operating time for high energy consumption electrical equipment used in the building. This practice has further reduced our energy consumption by 7.7% as compared to the previous year.

As a responsible corporate citizen, we are constantly on the lookout for sustainable consumption practices that would enable us to conduct our activities in a manner that is friendly to the environment.



Part 4

# Capital Markets Review and Outlook





## Introduction

Capital markets globally saw a broad-based rally in asset prices in 2017, driven by synchronised global growth, accommodative monetary policies and non-materialisation of major geopolitical risks. Risk assets performed well amidst historically low levels of volatility. Equities were the best performing asset class, while the risk-on environment also saw global high yield bonds ending the year positively.

Emerging markets outperformed developed markets, on a narrative of more favourable economic growth differentials, strong corporate earnings recovery and significant reform progress in major emerging economies. The rally in emerging markets was driven mostly by earnings growth rather than value-based investing, particularly in the technology and consumer discretionary sectors.

Against a positive global backdrop, the Malaysian capital market continued to grow and play a significant role in financing the domestic economy. The Malaysian capital market saw a year of exceptional fundraising of approximately RM146.6 billion. Stock market capitalisation expanded by 14.4% to RM1.9 trillion, while the bond market grew 10.1% to close at RM1.3 trillion as at end December. The fund management industry also maintained its upward growth trajectory, expanding 11.5% to RM776.2 billion.

The capital market attracted strong foreign investor interest with overall net trading inflows of RM17.6 billion. Sufficient domestic liquidity meanwhile allowed for orderly market and price adjustments during the year.

### MARKET ENVIRONMENT IN 2017

Global capital market conditions in 2017 were largely influenced by a synchronised recovery in economic growth in developed and emerging economies, with modest tightening of monetary policy by several central banks. In addition,

## Capital Markets Review and Outlook

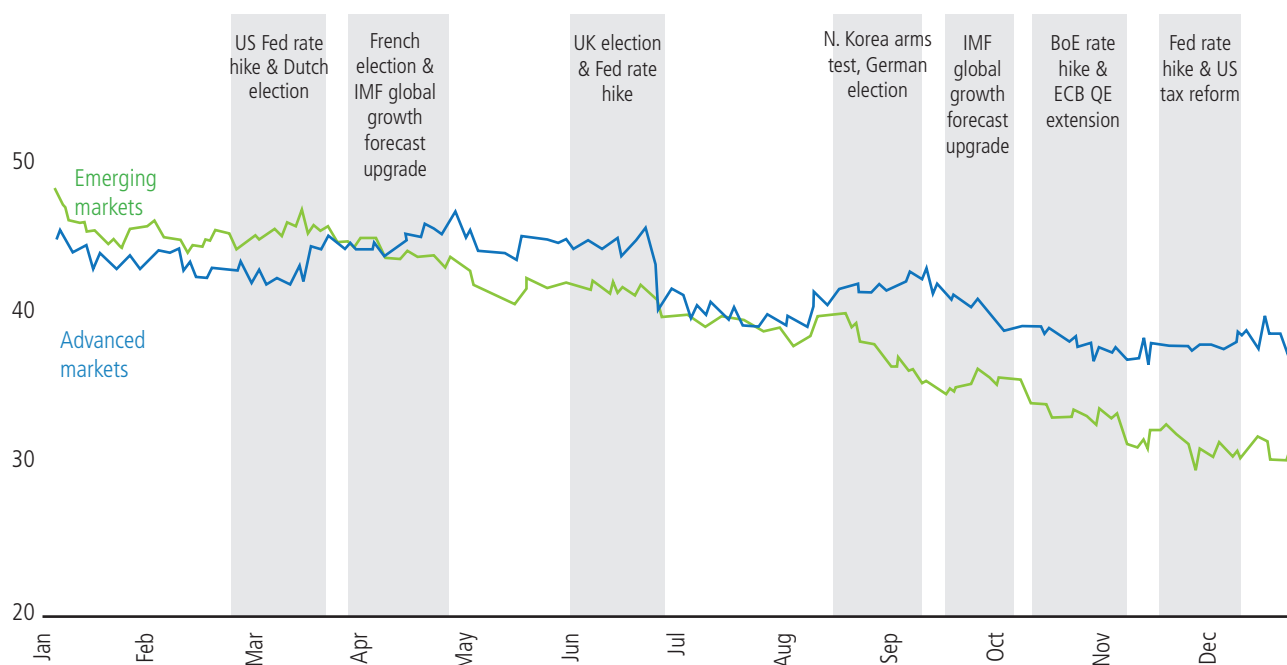
downside political risks that dominated the first quarter of the year failed to materialise, while a comprehensive tax reform was delivered in the US at year-end. The positive economic and political backdrop catalysed bullish performance in capital markets globally amid an increase in investors' appetite for risk (Chart 1).

During the year, the global economy saw the strongest growth rate in six years, boosted by a cyclical recovery in the US and Eurozone. Significantly, the International Monetary Fund noted that economic growth accelerated in about 75% of countries across the world, the highest share since 2010 and in turn boosted global demand. Growth in developed economies was catalysed by improving labour markets and generally accommodative monetary conditions which supported capital

investment. The UK economy was an exception due to Brexit related uncertainty, where UK-based firms delayed investment plans and consumers held back on major expenditure. In emerging economies, economic growth was supported by improvements in global trade and commodity prices as well as tapering of downside risks emanating from China.

Developed market monetary policy continued to be tightened over 2017, but still remained largely accommodative. The US Federal Reserve (US Fed) increased its benchmark interest rate three times in the year and started unwinding its US\$4.5 trillion balance sheet in October. The Bank of Canada and the Bank of England (BoE) also raised rates, for the first time in seven years and 10 years respectively. The European Central Bank (ECB) meanwhile kept its quantitative easing programme going, but

Chart 1  
**Capital market stress 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. Lower index indicates lower stress in capital market.

tapered its asset purchases during the year. The Bank of Japan maintained its policies on Quantitative Easing (QE) and yield curve control, but reduced its monthly purchases.

Geo-political developments received significant attention, but had relatively limited impact on financial markets as concerns abated over the year. In the Eurozone, general election outcomes alleviated preceding political uncertainty. As a result, firms and households in the Eurozone increased expenditure which in turn boosted economic growth and corporate earnings. Markets globally also experienced intermittent periods of risk-on risk-off in reaction to tensions in the Korean peninsula, as well as developments in the Middle East. Investors however, were observed to not have priced in probabilities of extreme tail events.

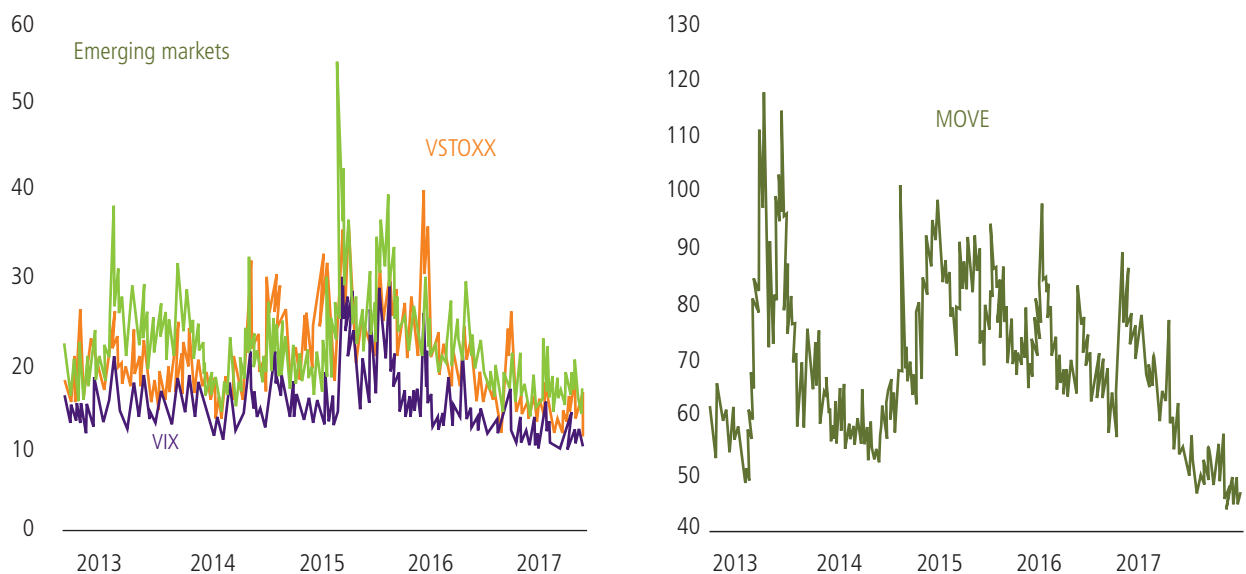
An increase in global economic activity as well as reduced production resulted in higher commodity prices in 2017. Prices for energy commodities,

namely crude oil, natural gas and coal climbed 12.4%. Crude oil prices, specifically, rose 17.7% on the back of steady demand, improved compliance by OPEC and non-OPEC oil producers to their production cut agreement as well as declining inventories in the second half of the year. Metals prices also rose strongly by 27.0% due to strong demand, particularly from China's property, infrastructure and manufacturing sectors.

## Global Capital Market Sentiment

2017 saw markets predominantly in risk-on mode, with short periods of risk-off investing. Against the backdrop of positive growth, accommodative monetary conditions and higher commodity prices, volatility in the capital market declined with VIX and VSTOXX volatility indices recording 10-year lows (Chart 2). Periods of short spikes in volatility, continued in 2017, but were not as pronounced as previous years as global macro conditions improved considerably both in developed and emerging economies.

Chart 2  
**Investor risk aversion**



Source: SC using Thomson Reuters Datastream

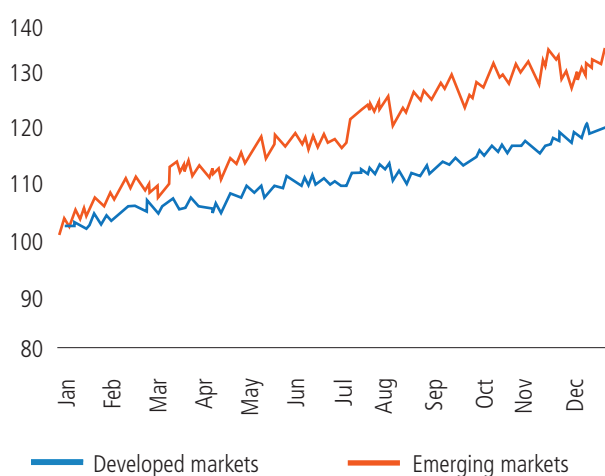
Note: US: VIX volatility index, Europe: VSTOXX volatility index, Emerging Markets: CBOE EM Volatility Index. Europe constitutes of the larger countries such as Belgium, Finland, France, Germany, Italy, Netherlands and Spain.

Amidst the overall positive sentiment, perceived riskier assets registered gains above their historical averages while price fluctuations were below average.

### GLOBAL STOCK MARKET

Stock markets globally ended 2017 on a bullish note, having reached multiple record highs throughout the year, supported by a synchronised recovery in economic growth. Both developed and emerging markets saw strong gains in 2017. Emerging markets outperformed developed markets, with the MSCI Emerging Market and MSCI World indices ending the year 34.4% and 20.1% higher respectively (Chart 3).

Chart 3  
MSCI Indices (1 Jan 2017 = 100)



Source: Thomson Reuters Datastream

Developed markets saw a strong start to the year as economic data showed that advanced economies were growing better than expected. In the US, the bullish sentiment from 2016 flowed into the first half of 2017, supported by strong PMI data and expectations of expansionary fiscal policy. The US equity markets continued to trend upwards notwithstanding the two rate hikes delivered by the US Fed in the first half of the year, as monetary

conditions were seen to be still accommodative and corporate earnings proved to be stronger than expected. Eurozone equities also delivered robust gains as economic growth proved to be more positive than in previous years and general elections saw favourable outcomes for the future of the bloc. The second half of the year saw developed markets continue to rise, driven by strong corporate earnings. US equity markets were particularly bullish, led by technology and small-cap stocks which sought to benefit from the tax reform plans by the US government. In the Eurozone, investors priced-in the ECB's plan to cut its quantitative easing programme in 2018, but remained optimistic about the bloc's prospects following positive economic assessments by the ECB and other supranational organisations.

Emerging markets also performed strongly in the first half of 2017 with earnings recovery that started in 2016 continuing into 2017. Improving global growth, robust trade and commodity price stability further supported investor appetite for emerging market stocks globally. A notable exception was the Russian equity market, which declined due to lower crude oil prices in July as well as reduced optimism towards improved relations with NATO. Emerging markets continued to outperform developed markets in the second half of the year with Argentina's equity market posting the most impressive gains amid progress on economic reform.

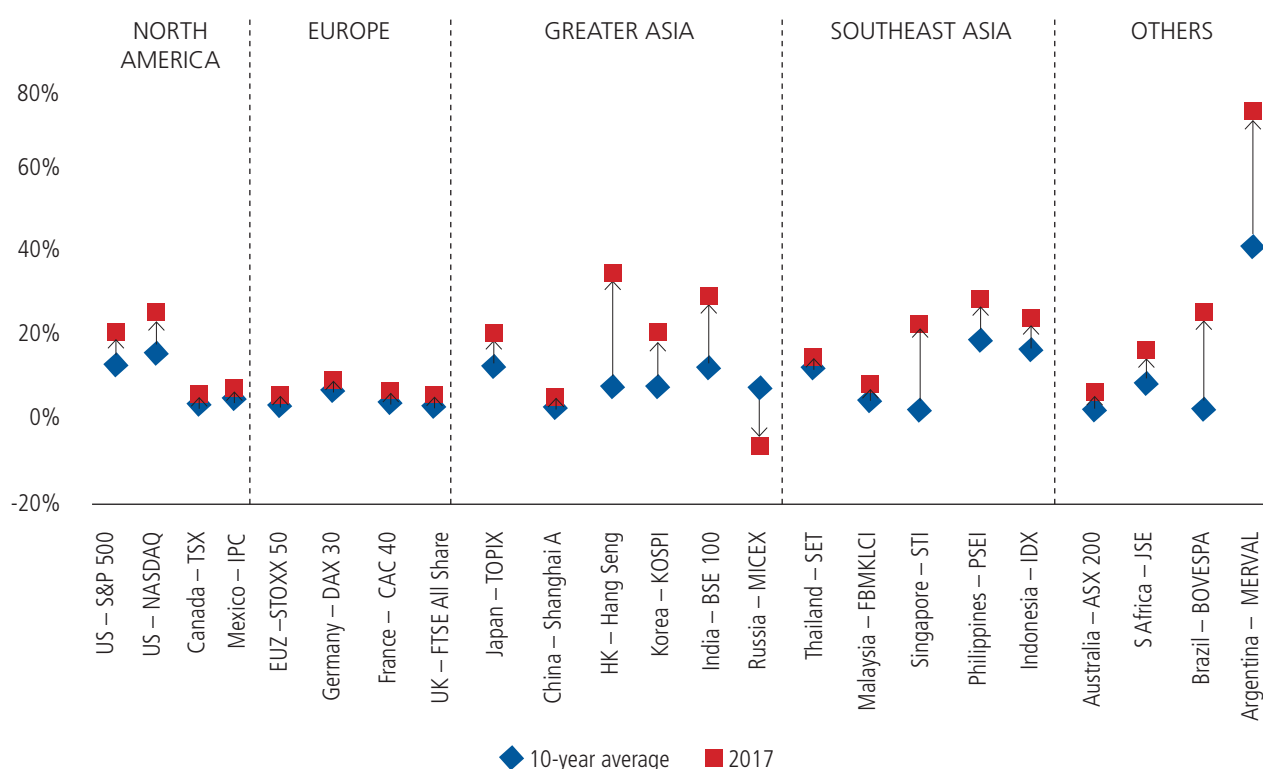
Throughout the year, growth stocks were observed to have outperformed value stocks. This was against the backdrop of strong global growth and trade, which precipitated investors' preference for companies with strong earnings potential. This in turn led to a broad preference for technology stocks, which became the largest sector in the MSCI Emerging Market index and second largest sector in the MSCI World index. This preference for growth over value investing was observed globally in 2017, but was particularly prevalent in the US where the S&P 500 Growth index rose 25.4% while the S&P 500 Value index rose 12.6%.

Amidst the trend of positive performance, Hong Kong's HSI was the best performer in 2017 among developed markets, rising 36.0% following strong earnings by firms in the technology and consumer discretionary sectors. Meanwhile, the S&P 500 rose 19.4% as investor appetite was buoyed by strong corporate earnings led by banking and technology stocks. Better than expected corporate earnings and diminished political risk also lifted European equity markets as the German DAX rose 12.5% and the French CAC rose 9.3%, while the UK's FTSE 100 rose 7.6% despite Brexit uncertainty. Canada's TSX meanwhile, saw the lowest gains, rising only 6.0%.

Among emerging market indices, the Argentinian Merval and Indian BSE100 indices were the best performing, closing 77.7% and 31.5% higher respectively. In contrast, China's Shanghai A-Shares Index underperformed other emerging market indices but remained higher for the year by 6.6%. Russia's MICEX Index on the other hand fell by 5.5%.

Over the longer term, major equity markets performed better than their 10-year averages in 2017, with the exception of the Russian equity market (Chart 4).

Chart 4  
**Stock market performance in 2017 against 10-year average**



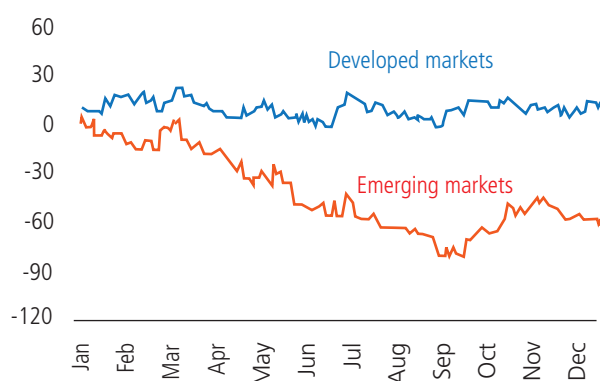
Source: Bloomberg



#### GLOBAL BOND MARKET

Global bonds saw a notable distinction between the movements of developed and emerging markets throughout 2017 (Chart 5). Developed market bonds generally traded in a narrow range due to low inflation in most developed economies despite improving labour market conditions. This was punctuated by periodic safe-haven buying in light of elections in Europe and geopolitical tensions in the Asia Pacific region.

Chart 5  
Government bond yields (basis points)

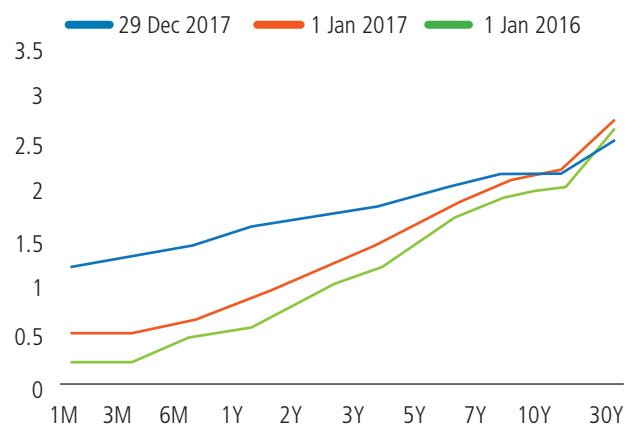


In contrast, emerging market bond yields exhibited a decline driven by improvement in fundamentals, economic growth and recovering currencies. This was further supported by low global yields and investors having considerably more clarity around the development of monetary policy in the US and Europe. Overall, there was an improvement of foreign capital flows into emerging market debt.

The US treasury yield curve flattened in 2017 as short-term yields rose more than long-term yields. Yields on short dated bonds rose in reaction to the three interest rate hikes by the US Fed. Longer dated yields on the other hand fell as inflation remained low in the US, which in turn reduced long term inflation expectations.

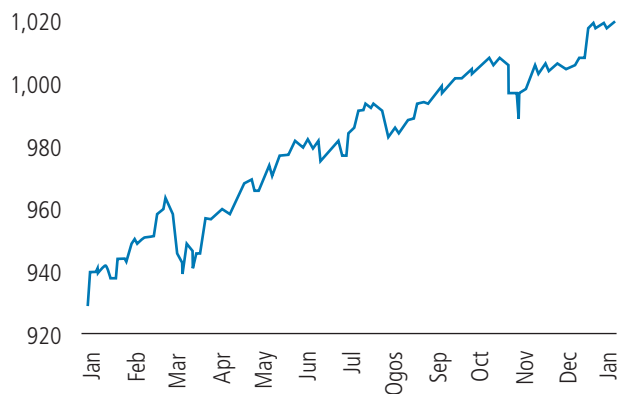
The US Fed's forward guidance at its last meeting in December was also viewed to be fairly dovish relative to market expectations, leading to further flattening of the yield curve (Chart 6). The Japanese yield curve also continued to remain flat in 2017, as the BOJ exercised its policy of yield curve control to reduce long term interest rates in the economy and stimulate investment. The German yield curve on the other hand was a notable exception, steepening from the start of the year as investors anticipated an interest rate hike by the ECB in mid-2019.

Chart 6  
US Treasury yield curve (percentage)



The high yield bond market meanwhile saw less volatility in 2017, generating steady returns for investors throughout the year with few corrections that were met with buying interest. Lower default rates, stronger economic growth and stable commodity prices were key drivers of the performance of the high yield bond market throughout the year. Notably, the Citigroup High Yield Bond index rose 7.0% in 2017, reflecting investors continued search for yield (Chart 7).

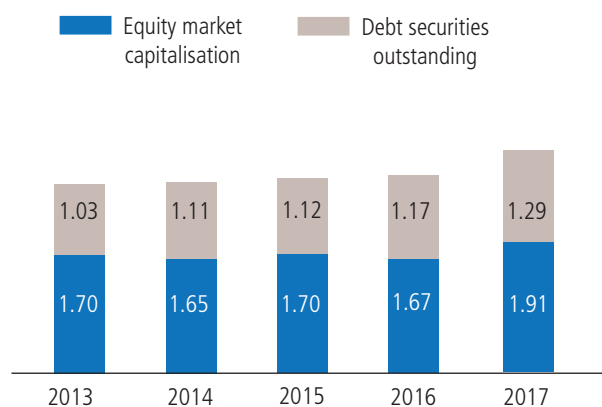
Chart 7  
Citigroup High Yield Bond Index



## MALAYSIAN CAPITAL MARKET

Against a positive global backdrop, the Malaysian capital market continued to grow and play a significant role in financing the domestic economy. The overall capital market grew by 12.6% to reach a size of RM3.2 trillion at end 2017 (Chart 8).

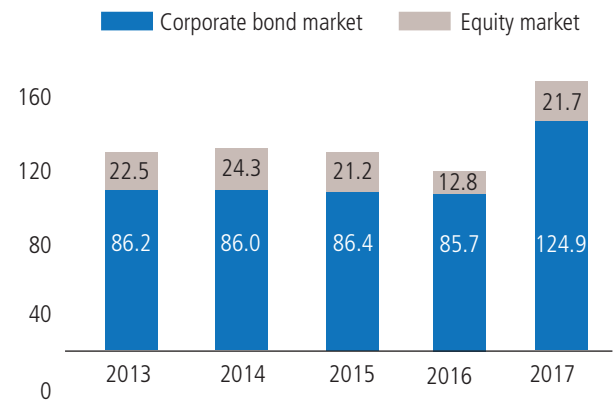
Chart 8  
Malaysian capital market (RM trillion)



Source: SC, BNM

<sup>1</sup> This excludes REITs primary issuance to RM234.2 million.

Chart 9  
Total funds raised via capital market (RM billion)



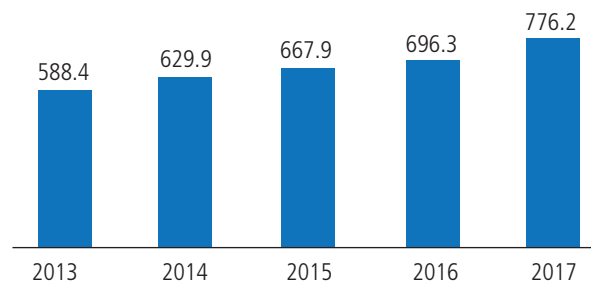
Source: SC, Bursa Malaysia, BNM

The expansion of domestic economic activities was facilitated by a robust capital market, with a year of strong fundraising of RM146.6 billion (Chart 9). Primary market issuances amounted to RM132.1<sup>1</sup> billion, exceeding primary fundraising of RM86.7 billion in 2016. A total of RM124.9 billion was raised in the corporate bond and sukuk market. A strong upward momentum in private investments was reflected in Malaysia's corporate bond and sukuk issuance in 2017, which surpassed the RM100 billion mark for the first time since 2012. Notably higher issuances were observed in 4Q 2017, as corporates sought to take advantage of the still favourable interest rate environment amid expectations of a rate hike in 2018 following the hawkish tone in Bank Negara Malaysia's forward guidance towards year end. Meanwhile, RM7.2 billion was raised via new equity listings with 12 IPOs.

Four companies were listed on the Main Market, six companies on the ACE Market and the remaining on the LEAP Market. The three biggest IPOs were Lotte Chemical Titan Holding Bhd (RM3.77 billion), Eco World International Bhd (RM2.58 billion) and Serba Dinamik Holdings Bhd (RM0.6 billion). RM14.5 billion was also raised via the secondary market through rights issues and private placements.

Chart 10

**Asset under management as at 31 Dec 2017  
(RM billion)**



Source: SC

The fund management industry maintained its upward growth trajectory during the year. Total assets under management (AUM) increased by 11.5% from RM696.3 billion in December 2016 to RM776.2 billion as at end December 2017 (Chart 10). This growth in the fund management industry was mainly contributed by an expansion of the unit trust industry, which saw a 19.1% increase in net asset value (NAV) to RM427.0 billion in 2017.

The unit trust industry also saw net sales of 45.2 billion, reflecting continued investor confidence in the capital market. Domestic capital market performance in 2017 was driven by improved investor sentiment, influenced by a variety of domestic and external factors. Trends of inflows and positive performance were observed for the most part across all market segments.

## MALAYSIAN STOCK MARKET

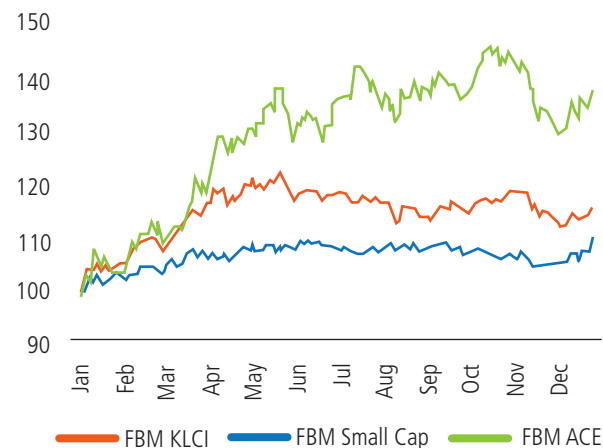
Stock market capitalisation expanded by 14.4% from RM1.67 trillion in 2016 to RM1.91 trillion in 2017.

Malaysian stocks performed positively across the board. Blue chip, small cap and ACE market stocks recorded strong gains in the first half of the year before seeing consolidation in the second half of the year. Overall, the FBMKLCI, FBMAACE and FBM Small Cap indices rose by 9.5%, rose by 38.1% and 15.9% respectively (Chart 11).

## Capital Markets Review and Outlook

Chart 11

**Performance of FBMKLCI, Small Cap and ACE Market  
Indices (31 Dec 2016 = 100)**

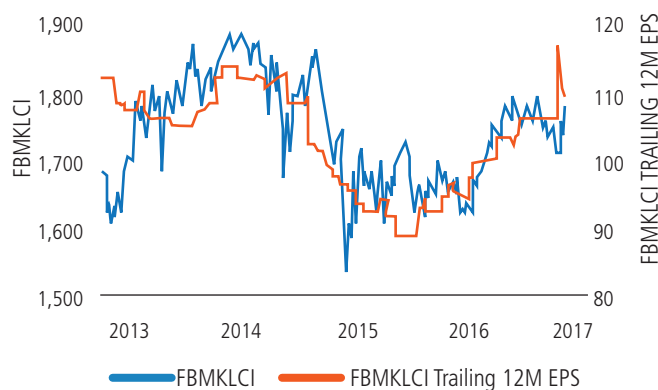


Source: SC

The FBMKLCI started the year on a bullish tone as valuations at end 2016 and the perceived weak ringgit presented buying opportunities for investors. Against a backdrop of strong global and domestic growth, the benchmark index rose throughout much of the first half of 2017. The continued recovery in corporate earnings and demand by foreign investors also catalysed the gains seen by the FBMKLCI (Chart 12).

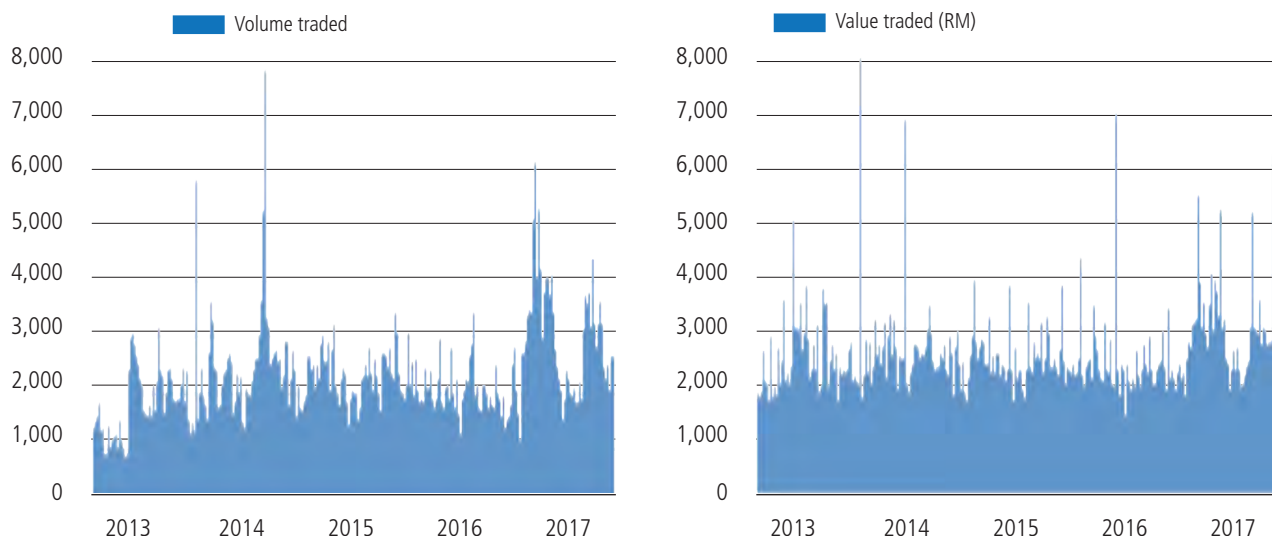
Chart 12

**FBMKLCI and FBMKLCI trailing 12M earnings per  
share (EPS)**



Source: Thomson Reuters Datastream

Chart 13  
Equity daily trading volume and value (million)



Source: Bursa Malaysia

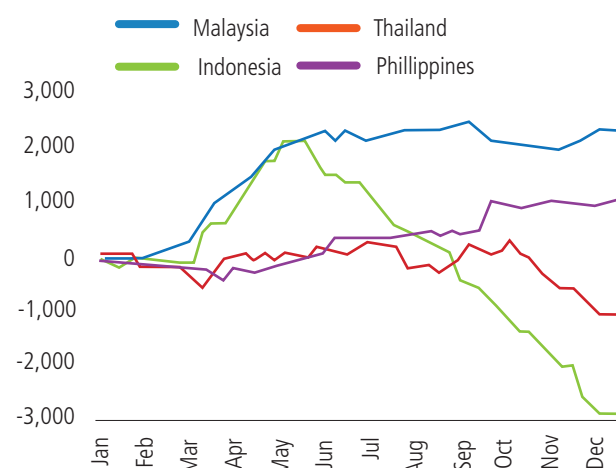
Blue chips subsequently consolidated between July and September before declining in October and November. The benchmark index closed the year on a bullish note at 1796.81, rising 4.6% in December alone.

Small Cap and ACE market stocks were the year's biggest gainers with the corresponding indices growing respectively following strong demand from the start of the year. The top performing sectors in the Small Cap and ACE market were the IT and consumer staples sectors. Stocks in the IT sector were seen tracking higher demand for semiconductors globally while stocks in the consumer staples sector benefitted from strong household consumption in 2017.

Overall equity market conditions in Malaysia were positive in 2017, with a recovery in both trading volume and value (Chart 13). Average daily trading volume of 2.6 billion units and average daily trading value of RM2.5 billion for the year exceeded the 5-year averages of 2.0 billion units and RM2.2 billion respectively. Average price per share traded was however lower, resulting from greater interests in lower-liners with growth potential.

The Malaysian equity market saw the strongest foreign demand relative to other markets in the region (Chart 14). Overall, foreigners were net buyers as the market registered cumulative net inflow of US\$2.4 billion or RM10.8 billion as at end 2017.

Chart 14  
Regional fund flow into equity (US\$ million)



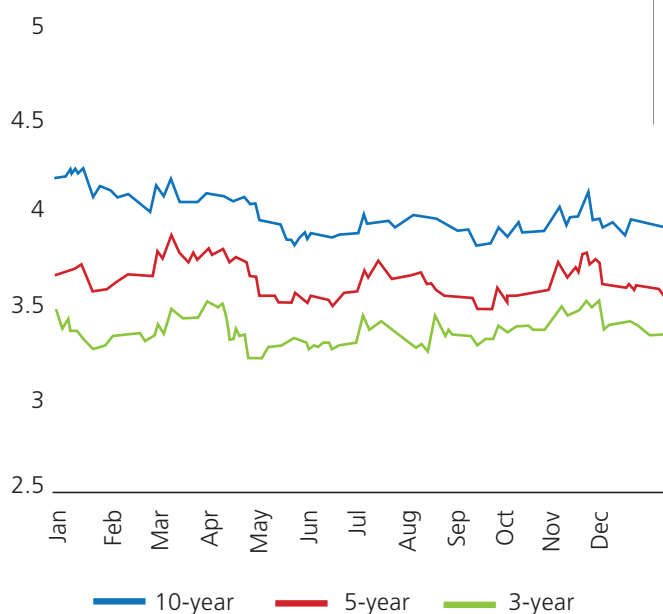
Source: MIDF

#### MALAYSIAN BOND MARKET

The Malaysian bond market grew 10.1% from RM1.17 trillion in 2016 to close at RM1.29 trillion as at end December. 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.

In the first quarter of the year, an unwinding of positions in the ringgit non-deliverable forward market led to a sell-off in Malaysian bonds. However, bond yields maintained a general downward trend in 2017 as investors' interest in the local bond market was buoyed by positive economic data as well as a strengthening ringgit throughout the year (Chart 15). While yields rose marginally in October in anticipation of the ECB's normalisation plans, sentiment recovered following news of an extension of the ECB's quantitative easing program up to September 2018.

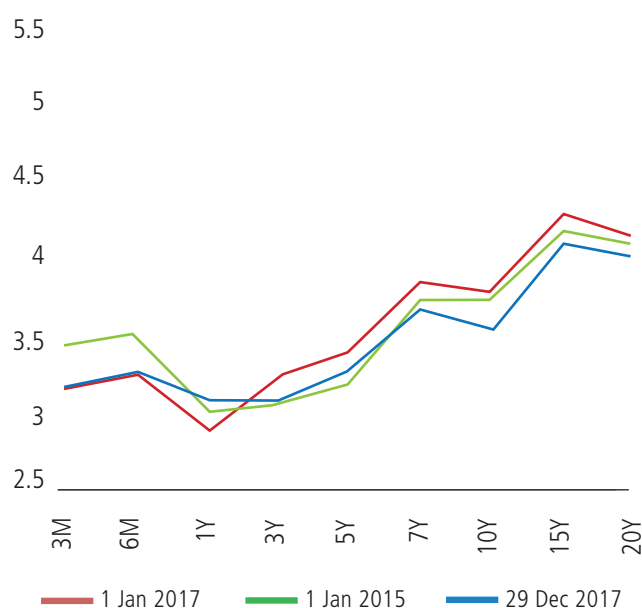
Chart 15  
MGS benchmark yields (percentage)



Source: Thomson Reuters Datastream

A flattening of the yield curve was observed, supported by the stronger ringgit and robust GDP data. Investors were also noted to have priced-in expectations for higher rates in 2018, but improving business sentiments moderated rising yields. (Chart 16).

Chart 16  
MGS benchmark yield curve (percentage)



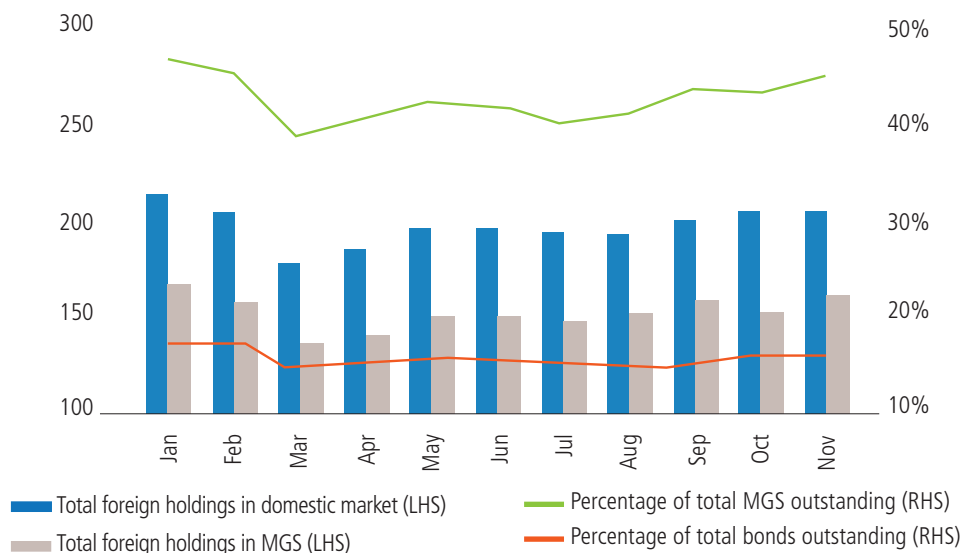
Source: Thomson Reuters Datastream

Foreign holdings in domestic bonds declined in the first quarter of the year, with sharp selling in March. Nonetheless, foreign outflows were relatively well absorbed by strong domestic market liquidity. Foreign investors gradually returned to the bond market in the beginning of second quarter following improved growth prospects and a stronger currency throughout the year. Consequently, total foreign ownership of domestic bonds increased from RM178.2 billion in March to RM206.7 billion by end December (Chart 17), accounting for 16.0% of total bonds outstanding. Foreign holdings in MGS recovered over the year, representing 45.1% of total MGS outstanding as at end December, reflecting investors' long-term positive outlook on Malaysia.



Chart 17

**Foreign holding in ringgit bonds (RM billion)**



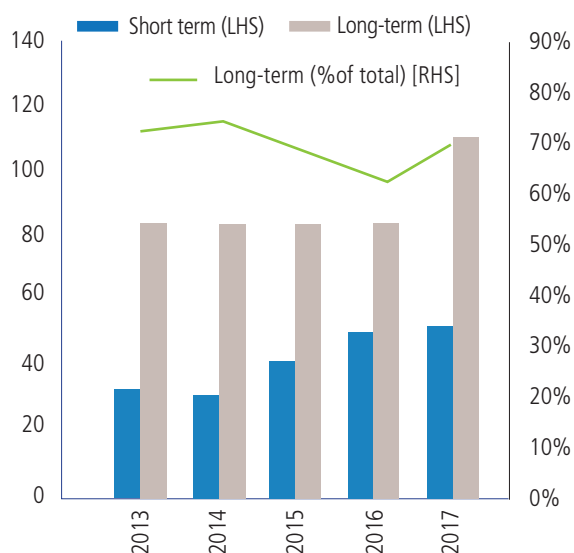
Source: BNM

In line with the total bond market, foreign ownership in corporate bonds also increased for most of 2017. 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 lengthened for the year, reflecting expectations for a rise in cost of borrowing (Chart 18).

Chart 18

**PDS issuance by maturity (RM billion)**



Source: SC

## 2018 OUTLOOK

A continuation of global economic expansion is likely to have a key influence on world capital market conditions in 2018. The timing and pace of the US Fed interest rate normalisation and changes to asset purchase programme from major central banks will also be closely watched by markets. Commodity prices are meanwhile anticipated to remain on the uptrend. Downside risks from geopolitical developments and trade protectionism could provide some headwinds, but investor sentiment is expected to remain generally optimistic for the year.

The ongoing recovery in developed economies is expected to continue in 2018 after recording positive growth in 2017. Labour markets in most developed economies are close to full employment while labour productivity has also picked up, indicating that the global economy's supply side performance is improving. Nevertheless, the IMF estimated that developed market economic output is still below potential, thus leaving room for positive economic outcomes in 2018. On the demand side, interest rates remain accommodative for firms to invest and build capacity while wage growth in labour markets should support household expenditure.

Led by China and India, analysts expect emerging economies to continue driving global growth in 2018. China's growth is expected to be delivered mostly by domestic economic activity, but retain some support from external trade. Measures taken to manage leverage levels in China could however slow down credit growth, leading to an acceptance of slower economic growth for the country in the medium term. Economic growth in India will meanwhile be supported by ongoing structural reforms, including a bank recapitalisation that should improve credit conditions. Intra emerging market trade has also grown in importance, further improving the outlook for emerging economies.

The prospect of protectionist trade policies remains a concern, notably in relation to renegotiation of the *North American Free Trade Agreement*. A tough US stance could see trade frictions with short term implications on market. Trade and market access disputes could also potentially strain an increasingly competitive US-China relationship.

Monetary policy normalisation is expected to continue in 2018 through higher interest rates and asset purchase tapering by major central banks. The US Fed is continuing with its policy interest rate hikes while the BoE has also indicated the possibility of further rate hikes during the year to fend off inflationary pressure in the British economy. Meanwhile, the ECB has committed to extending its asset purchase programme at least until September 2018 but will reduce the amount of monthly purchases. Continued strength in the EU economic bloc could see the ECB remove its asset purchase programme by October 2018 and prepare for a rate hike in 2019. Overall, global inflation is expected to rise modestly during the year.

While markets are observed to have priced-in the effect of these monetary policy measures, where the intention has been announced through forward guidance by the respective central banks, the key concern is the pace in which the measure will be implemented. This is a particular concern given that the low interest rate environment in previous years has increased the degree of financial leverage globally. Emerging economies with large amounts of

external debt remain vulnerable to risks posed by faster than expected monetary policy normalisation by major central banks.

The recovery in commodity prices that started in 2016 is expected to continue into 2018. Underlying supply and demand balances are positive for energy and metals as well as selected agriculture commodities. For energy markets, key risks are skewed to the upside as demand for crude oil and natural gas is expected to remain strong in 2018 while production should decline further on the back of the agreement between OPEC and non-OPEC nations. Prices of base metals such as copper, nickel and zinc are expected to continue rising in 2018 as the supply shortfall for these commodities continues in 2018. Crude palm oil prices meanwhile are forecasted to continue their uptrend into 2018 on the back of a weaker-than-expected recovery in production and depleting inventory levels. Indonesia's push for its B20 biodiesel mandate is also expected to lift global demand for crude palm oil.

Against this backdrop of improving global growth and modest inflation, emerging markets are expected to see positive portfolio flows in 2018. Valuations of emerging market assets are considered attractive with improving economic growth potential and earnings trends. In particular, the MSCI Emerging Market Index is observed to be trading at a discount to the MSCI World Index. Nonetheless, political developments, including an escalation of tensions in the Korean peninsula as well as in the Middle East could provide intermittent volatility to emerging market portfolio flows. General elections in several key emerging economies could also see investors be increasingly discerning between individual countries. In general, sentiment towards emerging markets is expected to be positive, driven by a strong economic growth story.

The Malaysian economy is expected to remain on a steady growth path based on Government GDP forecast between 5.0% and 5.5% in 2018, approximating growth rates in 2017 (2017e: 5.2% and 5.7%). Growth will be mainly driven by resilient domestic demand and a favourable external sector.

Household spending will continue to be the key source of growth amid stable employment conditions while the external sector should benefit from strong global demand for goods and services, which in turn is expected to widen the current account surplus. In addition to a strengthening current account surplus, the government's efforts to trim the fiscal deficit to 2.8% of GDP in 2018 bodes well for the country's economic fundamentals and should boost investor sentiment in the long run.

The Malaysian capital market is expected to benefit from the country's strong economic fundamentals. Furthermore, the sustained interest in emerging markets is expected to be advantageous to the Malaysian capital market as a whole.

The domestic capital market will continue to play a major role in supporting economic growth through financing of business expansion and infrastructure development. Based on our current estimates, total capital raising through primary and secondary markets is expected to remain resilient at approximately RM120 billion in 2018. 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 is expected to amount to about RM100 billion. Equity fundraising is expected to be approximately RM20 billion, with RM8 billion to be raised via IPOs and the remaining RM12 billion via the secondary market.

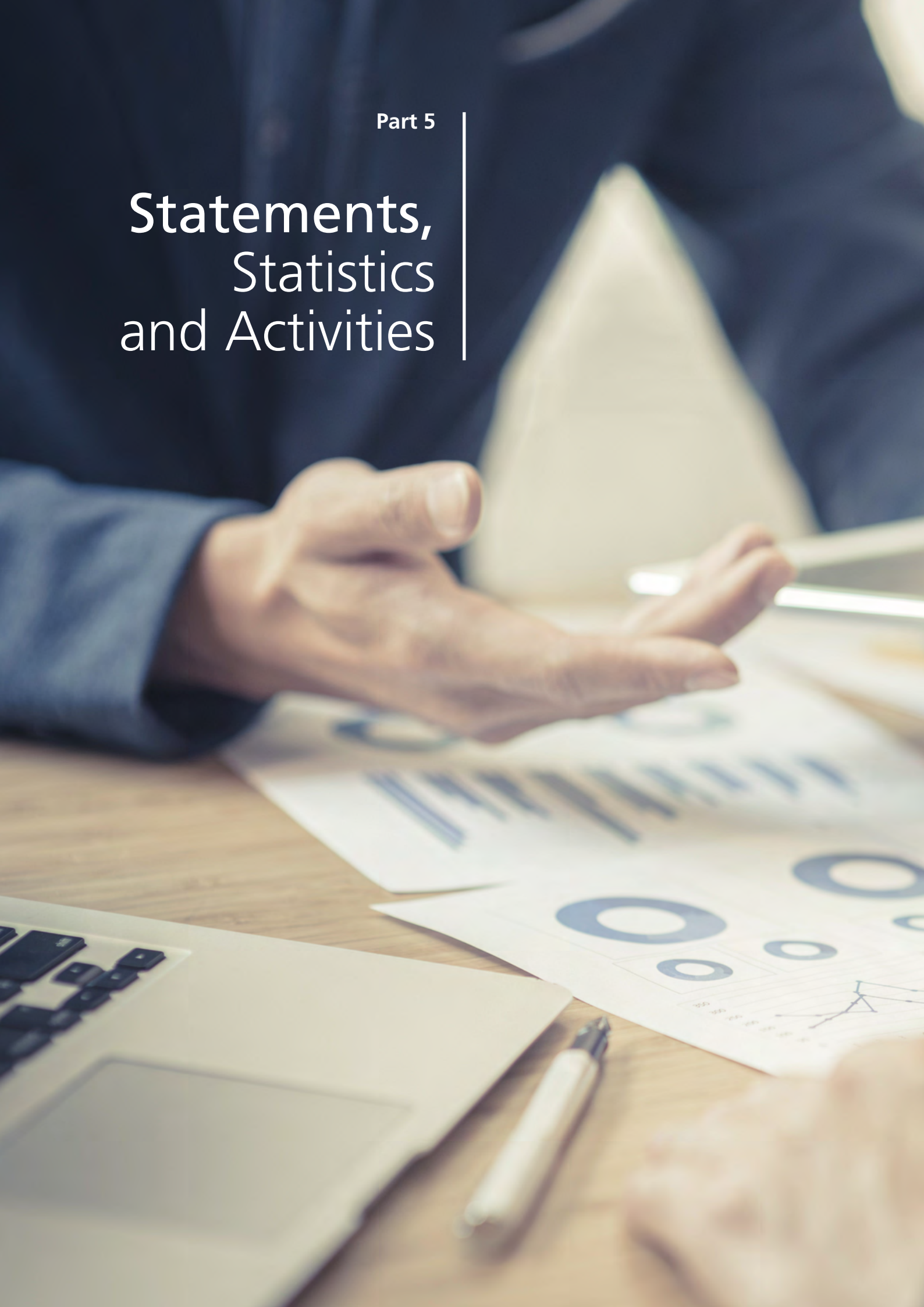
The overall outlook for the Malaysian capital market is positive, with higher levels of growth expected across key market segments. The impending 14<sup>th</sup> general election (GE14) is expected to drive investor sentiment in early 2018. However, post GE14, attention is expected to return to fundamentals of the capital market, which have been strong and are expected to continue improving. Malaysian public listed corporations (PLCs) are expected to see earnings recovery since 2016 to continue into 2018. Specific drivers of earnings growth include improving trade and exports, pick-up in commodity prices which support the plantations and oil and gas sectors, stable domestic household expenditure which should support consumer-related sectors and possible higher rates which should lend support to the finance sector.

The ringgit is meanwhile expected to strengthen further in 2018 underpinned by improving macro fundamentals and fiscal position. The current level of the ringgit, widely perceived to be undervalued, provides buying opportunity in the Malaysian capital market.

Given improving macro fundamentals as well as investor-friendly economic and social policies, investors' sentiment towards Malaysia are expected to be favourable. Coupled with strong domestic regulatory framework, indicators point to positive developments for the Malaysian capital market in the year 2018.

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
- Equity Crowdfunding and Peer-to-Peer Financing
- Authorisation and Licensing
- Enforcement
- Investor Education Initiatives
- Complaints and Enquiries
- Publications
- 2017 At a Glance
- Acronyms and Abbreviations



## Board Members





**Left to right:**

**Top row:**

Tan Sri Dato' Hasmah Abdullah

Datuk Fazlur Rahman Ebrahim

Datuk Francis Tan Leh Kiah

**Middle row:**

Tan Sri Dato' Seri Mohamed Jawhar Hassan

Dato' Sri Dr Mohd Isa Hussain

Emeritus Professor Dato' Dr Hassan Said

**Front row:**

Tan Sri Dato' Seri Ranjit Ajit Singh

Dato' Ahmad Fairuz Zainol Abidin

## Board Members



**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), the largest Committee within IOSCO, representing close to 80 per cent of the IOSCO membership. Tan Sri Dato' Seri Ranjit is also 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. He sits on the Board of Pelaburan Hartanah Bhd, Bank Simpanan Nasional, Permodalan Felcra Sdn Bhd, Credit Counselling and Debt Management Agency, Johawaki Holdings Sdn Bhd, DEMC Management 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 Johor Tenggara (KEJORA), the Investment Committee of Majlis Amanah Rakyat and the Advisory Council of Faculty of Economics and Management, Universiti Kebangsaan Malaysia.

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, including Director-General, Department of National Unity; Undersecretary, 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 Thinktanks (NEAT) 2005-2006 and Co-Chair, Council for Security Co-operation in the Asia Pacific (CSCAP) 2007-2009.

He is Malaysia's Expert and Eminent Person for the ASEAN Regional Forum.



**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 Hasmah also sits on the Board of Trustees of the Malaysian Tax Research Foundation, Dana Amal Jariah and Yayasan Allammiyyah, 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 (Honours) from University of Malaya.



**Dato' Sri Dr Mohd  
Isa Hussain**

**Appointed 19 August 2015**

Dato' Sri 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' Sri 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 the 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' Sri Dr Mohd Isa was Deputy Secretary General (Operation), Ministry of Transport in 2008.

Dato' Sri Dr Mohd Isa serves on the boards of Lembaga Pembangunan Langkawi (LADA), Perbadanan Kemajuan Negeri Pahang, Lembaga Tabung Angkatan Tentera (LTAT), Capital Market Development Fund (CMDf) and Malaysian Venture Capital Development Council (MVCDC). He also sits on the boards of PLCs, namely, Malaysian Airports Holdings Bhd (MAHB), Telekom Malaysia, Pos Malaysia and Destini Bhd as well as a few non-listed public companies and special purpose vehicle companies.

Dato' Sri 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 /President 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 (FIMA), UK 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:

Datuk Zainal Izlan Zainal Abidin

Chin Wei Min

Salmah Bee Mohd Mydin

Dato' Ahmad Fairuz Zainol Abidin

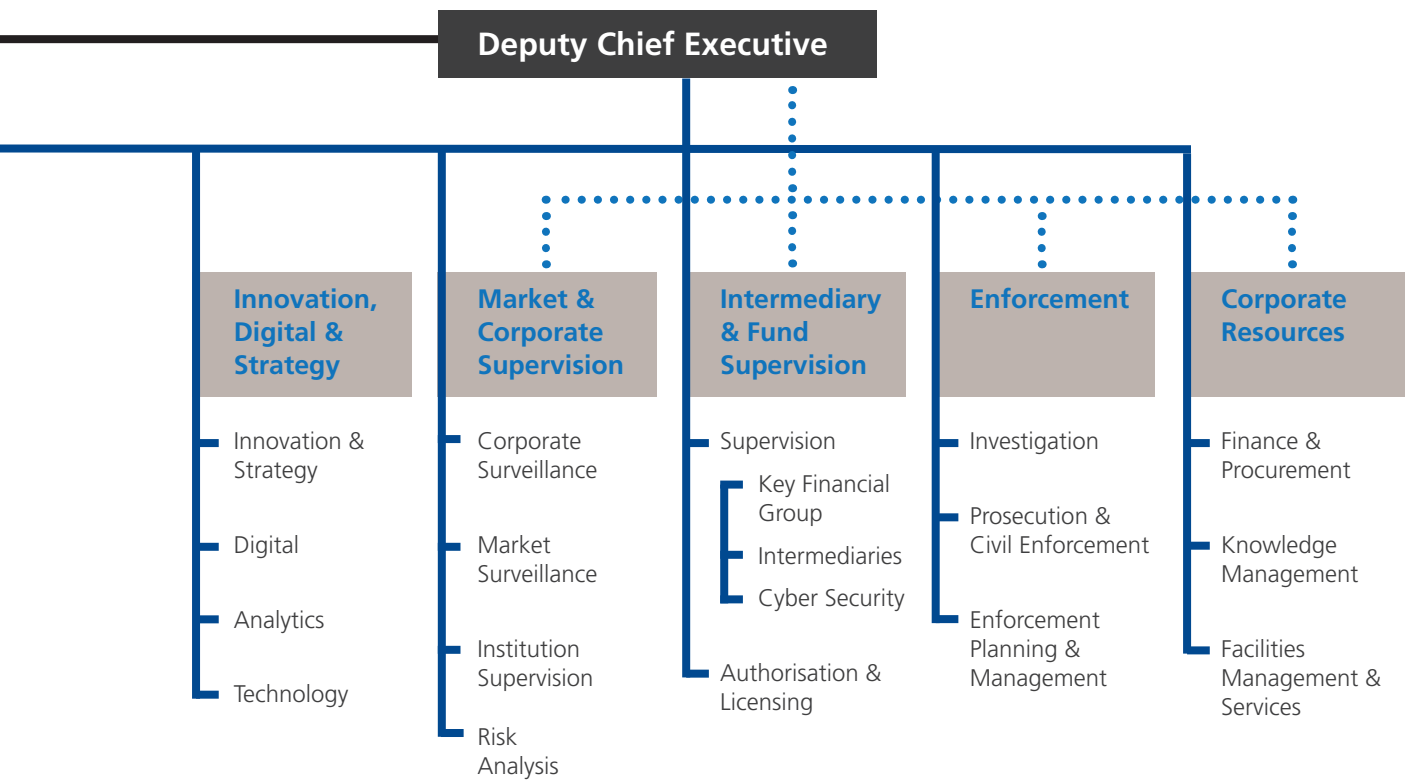
Kamarudin Hashim



Tan Sri Dato' Seri Ranjit Ajit Singh  
Tengku Zarina Tengku Chik  
Foo Lee Mei  
Eugene Wong Weng Soon

## Organisation Structure





# Statement on Governance

The 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. The 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. The SC's responsibilities, powers and authorities are clearly defined and transparently set out in securities laws, namely the SCMA, *Capital Markets & Services Act 2007* (CMSA) and *Securities Industry (Central Depositories) Act 1991* (SICDA).

## About the Commission

### 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 the 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 96 to 103 and their involvement in the various committees established by the Board is provided on page 110.

The Chairman is appointed for a term of 3 years, and is eligible for re-appointment upon completion of his or her term. Other Board members are appointed for a term of 2 years, and are eligible for re-appointment upon completion of the term.

## Statements, Statistics and Activities

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 3 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.

The 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 (PIES) or schedule funds, and to exercise oversight over any person who prepares a report in relation to financial information of PIEs 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

Ten Board meetings were held in 2017. The quorum required is 5. The attendance record is set out in Table 1.

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

Table 1  
**Attendance at Board meetings**

| Commission member                        | Number of meetings attended |
|--|-----------------------------|
| Tan Sri Dato' Seri Ranjit Ajit Singh     | 10/10                       |
| Dato' Ahmad Fairuz Zainol Abidin         | 10/10                       |
| Datuk Francis Tan Leh Kiah               | 10/10                       |
| Datuk Fazlur Rahman Ebrahim              | 9/10                        |
| Tan Sri Dato' Seri Mohamed Jawhar Hassan | 9/10                        |
| Tan Sri Dato' Hasmah Abdullah            | 8/10                        |
| Tan Sri Dr Madinah Mohammad <sup>1</sup> | 1/2                         |
| Dato' Sri Dr Mohd Isa Hussain            | 5/10                        |
| Emeritus Professor Dato' Dr Hassan Said  | 8/10                        |

Note:

<sup>1</sup> Resigned from the Board on 3 March 2017 given Tan Sri Madinah's appointment as Auditor General of Malaysia.



Table 2

**Board committees**

| Committee                                       | Key responsibility  | Members   |
|---|---|---|
| 1. <b>Audit Committee</b>                       | Review effectiveness of the SC's risk management and internal control systems and review the annual financial statements.   | <ul style="list-style-type: none"> <li>Tan Sri Dato' Hasmah Abdullah (Chairman)</li> <li>Datuk Francis Tan Leh Kiah</li> <li>Datuk Fazlur Rahman Ebrahim</li> <li>Emeritus Professor Dato' Dr Hassan Said</li> </ul>  |
| 2. <b>Issues Committee</b>                      | 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 two or more corporations listed on the main market; and registration of listing prospectus. | <ul style="list-style-type: none"> <li>Tan Sri Dato' Seri Ranjit Ajit Singh (Chairman)</li> <li>Dato' Ahmad Fairuz Zainol Abidin</li> <li>Datuk Francis Tan Leh Kiah</li> <li>Datuk Fazlur Rahman Ebrahim</li> <li>Emeritus Professor Dato' Dr Hassan Said</li> </ul>                 |
| 3. <b>Take-overs and Mergers Committee</b>      | Review take-over and merger related applications of a novel and/ or complex nature and matters relating to national policy.   | <ul style="list-style-type: none"> <li>Tan Sri Dato' Seri Ranjit Ajit Singh (Chairman)</li> <li>Dato' Ahmad Fairuz Zainol Abidin</li> <li>Datuk Francis Tan Leh Kiah</li> <li>Tan Sri Dato' Hasmah Abdullah</li> <li>Dato' Dr Mohd Isa Hussain</li> </ul>                             |
| 4. <b>Managed Investment Schemes Committee</b>  | Approve the establishment of listed schemes.  | <ul style="list-style-type: none"> <li>Tan Sri Dato' Seri Ranjit Ajit Singh (Chairman)</li> <li>Dato' Ahmad Fairuz Zainol Abidin</li> <li>Datuk Fazlur Rahman Ebrahim</li> <li>Tan Sri Dato' Seri Mohamed Jawhar Hassan</li> <li>Tan Sri Dato' Hasmah Abdullah</li> </ul>             |
| 5. <b>Licensing Committee</b>                   | 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.   | <ul style="list-style-type: none"> <li>Tan Sri Dato' Seri Ranjit Ajit Singh (Chairman)</li> <li>Dato' Ahmad Fairuz Zainol Abidin</li> <li>Tan Sri Dato' Seri Mohamed Jawhar Hassan</li> <li>Tan Sri Dato' Hasmah Abdullah</li> <li>Tan Sri Dr Madinah Mohammad<sup>1</sup></li> </ul> |
| 6. <b>Nomination and Remuneration Committee</b> | Assess and formulate the remuneration of the Chairman and Deputy Chief Executive (DCE) and make appropriate recommendations to the Minister of Finance.   | <ul style="list-style-type: none"> <li>Datuk Fazlur Rahman Ebrahim (Chairman)</li> <li>Datuk Francis Tan Leh Kiah</li> <li>Tan Sri Dato' Seri Mohamed Jawhar Hassan</li> <li>Emeritus Professor Dato' Dr Hassan Said</li> </ul>   |

Note:

<sup>1</sup> Resigned from the Board on 3 March 2017 given Tan Sri Madinah's appointment as Auditor General of Malaysia.

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.

Members of the SAC are appointed by DYMM Seri Paduka Baginda Yang di-Pertuan Agong. The 9 SAC members will serve for 3 years period commencing 1 July 2017, 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 scheduled funds.

In addition to this, the 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. The AOB members are appointed by the Board, and are as in Table 4.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Chairman assisted by the Executive Team is accountable for the SC's risk management and internal controls. The Audit Committee reviews the effectiveness and integrity of the SC's risk management and internal control systems on behalf of the Board. The Systemic Risk Oversight Committee (SROC), comprising all members of the Executive Team, is responsible for providing strategic direction with regards to risk management throughout the organisation. There are 3 main pillars in which risks are being reported to SROC; market-related risks, operational risks and cybersecurity risks. In addition, key elements to ensure sound control environment for the SC's operations include:

- A well-established system of risk oversight, risk management and internal control over all

Table 3

### Shariah Advisory Council members

| SAC Members |   |
|-------------|---|
| 1.          | Datuk Dr Mohd Daud Bakar                              |
| 2.          | Dato' Ahmad Tajudin Haji Abdul Rahman                 |
| 3.          | Professor Dr Ashraf Md Hashim                         |
| 4.          | Professor Dr Engku Rabiah Adawiah Engku Ali           |
| 5.          | Professor Dr Asmadi Mohamed Naim                      |
| 6.          | Associate Professor Dr Aznan Hasan                    |
| 7.          | Associate Professor Dr Syed Musa Syed Jaafar Alhabshi |
| 8.          | Associate Professor Dr Mohamed Fairouz Abdul Khir     |
| 9.          | Dr Shamsiah Mohamad                                   |

Table 4

### Audit Oversight Board members

| AOB Members |  |
|-------------|--|
| 1.          | Dato' Gumuri Hussain (Non-Executive Chairman) <sup>1</sup> |
| 2.          | Alex Ooi Thiam Poh (Executive Officer) <sup>2</sup>        |
| 3.          | Eugene Wong Weng Soon                                      |
| 4.          | Marzunisham Omar <sup>3</sup>                              |
| 5.          | Dato' Zahrah Abd Wahab Fenner                              |
| 6.          | Wong Chong Wah   |
| 7.          | Dato' Darawati Hussain                                     |
| 8.          | Che Zakiah Che Din <sup>4</sup>                            |

Note:

<sup>1</sup> Appointed as Non-Executive Chairman on 24 November 2017.

<sup>2</sup> Appointed as Executive Officer on 24 November 2017.

<sup>3</sup> Appointed 8 June 2017.

<sup>4</sup> Retired 30 April 2017.

operational functions, including the associated risks. This includes the *Integrated Risk Framework* which is designed to provide reasonable assurance in the management of operational risks, including the associated risks, within the management-approved risk appetite;

- Business Continuity Management (BCM) as a fundamental management tool to protect the SC's employees, its operations and to continue to fulfil its regulatory and supervisory responsibilities to its stakeholders during times of crisis. Crisis response and business recovery plans are in place to facilitate the management of any incident which has the potential to harm our employees, damage our premises or disrupt our business. The Executive Team is responsible for the oversight of the organisations' BCM programme, and is supported by the BCM team. In 2017, the SC undertook a holistic review and enhanced its business continuity arrangements, including cyber security measures, to allow the SC to better prepare for any incident either due to natural disaster or man-made threats;
- 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 the 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 *Statement of the SC's Principles and Standards* established to facilitate efficient and ethical engagement between the SC and

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

- Feedback channels for stakeholders to raise concerns on employee conduct. This includes 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. Another feedback channel is the Framework for Handling External Complaints Against SC Employees which sets out the process for handling complaints made by external parties against any employee of the SC in relation to the discharge of his functions;
- The *Conflict of Interest Declaration* which is required of Board members and staff when faced with a conflict situation;
- 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 the SC; The establishment of the Internal Compliance Department, to drive the SC's efforts to instil a strong culture of compliance and ethics, as well as to promote institutional integrity;
- The *Data Loss Mitigation Guidelines*; acting as a guide and reference point for employees in handling both physical and electronic records containing sensitive information.

These Guidelines ensure sensitive information is appropriately secured from unauthorised disclosure and protected from alteration, corruption, loss or misuse; preventing reputational damage and adversely impacting our stakeholders. Key controls identified in the Guidelines, which include classifying the SC documents based on the SC Document Confidentiality Levels, were incorporated into our ERM system and embedded into the quarterly assessment and reporting requirement of all departments within the SC.

- 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 the SC. The main purpose of this policy being, to ensure that the 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 no longer in use, are disposed and subsequently written-off in accordance to procedures and guidelines.
- The *IT User Policy* and *IT Policy* were established to ensure the effective protection and proper usage of the SC's computer systems. The policies are guides for efficient and disciplined Technology department management and provide unambiguous and

precise reference for Technology department personnel in carrying out their duties; while *IT User Policy* is used for Users' reference in utilising the computer systems. The recently established *Cloud Policy* will be incorporated into current policies to include the governance of cloud adoption and usage which is an important step in accelerating the organisation's digitisation transformation;

- 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 the SC, in carrying out business operations or legal obligations; and
- The Business Process Flows which are available on the SC's intranet to serve as a guide to all staff, particularly new recruits, in understanding the SC's operations.

## EXTERNAL STAKEHOLDER AND PUBLIC COMMUNICATION

Consistent and constant communications with capital market participants is necessary to facilitate the effective discharge of the 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](http://www.sc.com.my).

The SC's Consumer and Investor Office acts as one of the key channels in engaging investors and the public. The office receives and handles public complaints and enquiries relating to the capital market. In addition, it is responsible for the SC's investor empowerment strategy, under the InvestSmart® brand targeted towards the general public and investors of all life stages. Through InvestSmart®, the SC undertakes various initiatives via different modalities such as exhibitions, seminars, roadshows, digital and social media, on

the fundamentals of making sound investment decisions.

The Securities Industry Dispute Resolution Center (SIDREC) is a body approved by the SC to handle capital market related disputes involving monetary claims by investors against its members. SIDREC's members comprise banks, stockbrokers, futures 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)*

## Statements, Statistics and Activities

*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 engagements with both SIDREC's members and the investor claimants, SIDREC also engages the investing public through its awareness initiatives. It also shares and provide insight with the Commission, SROS and industry bodies on positive observations as well as on any concerns that come through from its dispute resolution process. SIDREC also has an obligation to report to the Commission on issues of systemic concerns that may arise from disputes received.

# Audit Committee Report

The SC is pleased to present the Audit Committee Report for the financial year ended 31 December 2017.

## MEMBERS AND MEETINGS

The Audit Committee comprises the following non-executive members of the SC:

- Tan Sri Dato' Hasmah Abdullah (Chairman);
- Datuk Francis Tan Leh Kiah;
- Datuk Fazlur Rahman Ebrahim; and
- Emeritus Professor Dato' Dr Hassan Said.

The Committee convened 6 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:

- assist the Board in its review of the adequacy and effectiveness of the SC's risk management and internal control systems;
- consider and recommend the appointment of the external auditor, their remuneration and

## Statements, Statistics and Activities

- any issues regarding their performance;
- review the external auditor's audit scope and plans of audit, including co-ordination of audit efforts with internal audit;
- review the accounting policies and practices adopted by SC in the preparation of its financial statements and integrity of the financial reporting processes;
- 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.
- approve the Internal Audit Charter and support as well as provide direction to the Internal Audit Department to ensure its effectiveness;
- 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;
- review the implementation of action plans to address key audit observations raised by the Internal Audit Department; and
- 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 2016 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 2016.
- Review and approve the external audit plan for the financial year ended 31 December 2017. 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 2017.

## 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 2017 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 2018.
- Review of Internal Audit Department's quality assurance and improvement initiatives including the external quality assurance review performed by The Institute of Internal Auditors Malaysia.
- Review of the representation made on risk management and internal controls in the Statement on Governance for the 2017 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 2017 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 remedial 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 external quality assurance review during the year in which a self-assessment was performed with independent validation conducted by The Institute of Internal Auditors Malaysia. The overall assessment was that the Internal Audit Department 'Generally Conforms' to The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. In addition, the Internal Audit Department had also played an advisory role in the course of performing its audit activities.

# Financial Statements

For the year ended 31 December 2017

## Statement of financial position as at 31 December 2017

|                                | Note | 2017<br>RM'000 | 2016<br>RM'000 |
|--------------------------------|------|----------------|----------------|
| <b>Non-current assets</b>      |      |                |                |
| Property, plant and equipment  | 3    | 167,414        | 173,044        |
| Other receivables              | 4    | 8,234          | 9,517          |
| Other investments              | 5    | 511,570        | 293,407        |
|                                |      | 687,218        | 475,968        |
| <b>Current assets</b>          |      |                |                |
| Other investments              | 5    | 213,741        | 436,386        |
| Trade and other receivables    | 6    | 32,098         | 31,632         |
| Cash and cash equivalents      | 7    | 62,101         | 30,433         |
|                                |      | 307,940        | 498,451        |
| <b>Total assets</b>            |      | 995,158        | 974,419        |
| <b>Reserves</b>                |      |                |                |
| Accumulated surplus            |      | 759,209        | 773,826        |
| Compensation fund reserve      | 8    | 100,000        | 100,000        |
| <b>Total reserves</b>          |      | 859,209        | 873,826        |
| <b>Non-current liabilities</b> |      |                |                |
| Post-employment benefits       | 9    | 70,758         | 54,713         |
| Deferred income                | 10   | 5,609          | –              |
|                                |      | 76,367         | 54,713         |
| <b>Current liabilities</b>     |      |                |                |
| Deferred income                | 10   | 210            | –              |
| Other payables and accruals    | 11   | 59,372         | 45,880         |
|                                |      | 59,582         | 45,880         |
| <b>Total liabilities</b>       |      | 135,949        | 100,593        |
| Total reserves and liabilities |      | 995,158        | 974,419        |

The notes on pages 121 to 140 are an integral part of these financial statements.

**Statement of profit or loss and  
other comprehensive income for  
the year ended 31 December 2017**

|   | Note | 2017<br>RM'000 | 2016<br>RM'000 |
|---|------|----------------|----------------|
| <b>Income</b>   |      |                |                |
| Levies  |      | 147,691        | 116,164        |
| Fees and charges  |      | 16,144         | 14,939         |
| Finance income  |      | 30,102         | 31,216         |
| Licence fees  |      | 3,187          | 3,327          |
| Registration fees   |      | 1,875          | 1,900          |
| Other income  |      | 5,315          | 5,004          |
|   |      | 204,314        | 172,550        |
| <b>Less: Expenditure</b>  |      |                |                |
| Staff costs   | 12   | 145,580        | 142,211        |
| Administrative expenses   |      | 34,904         | 32,852         |
| Depreciation of property, plant and equipment   | 3    | 11,176         | 12,276         |
| Rental expenses   |      | 2,542          | 2,596          |
|   |      | 194,202        | 189,935        |
| <b>Net operating surplus/(deficit)</b>  |      | 10,112         | (17,385)       |
| Less: Grants  |      | (8,000)        | (5,500)        |
| <b>Surplus/(Deficit) before tax</b>   | 13   | 2,112          | (22,885)       |
| Tax expense   | 17   | –              | –              |
| <b>Surplus/(Deficit) after tax</b>  |      | 2,112          | (22,885)       |
| <b>Other comprehensive expense, net of tax<br/>Items that will not be reclassified subsequently<br/>to profit or loss</b> |      |                |                |
| Remeasurement of defined benefit liability  | 9    | (16,729)       | –              |
| <b>Deficit and total comprehensive expense for the year</b>   |      | (14,617)       | (22,885)       |

The notes on pages 121 to 140 are an integral part of these financial statements.

## Statement of changes in equity for the year ended 31 December 2017

|  | Compensation<br>fund reserve<br>RM'000 | Accumulated<br>surplus<br>RM'000 | Total<br>RM'000 |
|--|--|----------------------------------|-----------------|
| <b>At 1 January 2016</b>                             | 100,000                                | 796,711                          | 896,711         |
| Deficit and total comprehensive expense for the year | –                                      | (22,885)                         | (22,885)        |
| <b>At 31 December 2016/1 January 2017</b>            | 100,000                                | 773,826                          | 873,826         |
| Remeasurement of defined benefit liability           | –                                      | (16,729)                         | (16,729)        |
| Total comprehensive expense for the year             | –                                      | (16,729)                         | (16,729)        |
| Surplus for the year                                 | –                                      | 2,112                            | 2,112           |
| <b>At 31 December 2017</b>                           | 100,000                                | 759,209                          | 859,209         |

Note 8

The notes on pages 121 to 140 are an integral part of these financial statements.

## Statement of cash flows for the year ended 31 December 2017

|  | Note | 2017<br>RM'000     | 2016<br>RM'000     |
|--|------|--------------------|--------------------|
| <b>Cash flows from operating activities</b>  |      |                    |                    |
| Surplus/(Deficit) before tax   |      | 2,112              | (22,885)           |
| Adjustments for:   |      |                    |                    |
| Depreciation of property, plant and equipment  | 3    | 11,176             | 12,276             |
| Finance income   |      | (30,102)           | (31,216)           |
| (Gain)/Loss on disposal of plant and equipment   |      | (10)               | 54                 |
| Operating deficit before working capital changes   |      | (16,824)           | (41,771)           |
| Changes in working capital:  |      |                    |                    |
| Deferred income  |      | 5,819              | –                  |
| Post-employment benefits   |      | (684)              | 4,055              |
| Trade and other receivables  |      | (2,530)            | 2,143              |
| Other payables and accruals  |      | 13,492             | (4,597)            |
| <b>Net cash used in operating activities</b>   |      | (727)              | (40,170)           |
| <b>Cash flows from investing activities</b>  |      |                    |                    |
| Maturity/(Acquisition) of investments in Malaysian Government Securities and Government Guaranteed Bonds |      | 1,402              | (14,673)           |
| Increase in restricted deposits  |      | (9,587)            | (3,569)            |
| Increase in investments in deposits placed with licensed banks   |      | 3,080              | 25,389             |
| Finance income received  |      | 33,449             | 29,097             |
| Proceeds from disposal of plant and equipment  |      | 156                | 164                |
| Acquisition of plant and equipment   |      | (5,692)            | (4,522)            |
| <b>Net cash from investing activities</b>  |      | 22,808             | 31,886             |
| <b>Net increase/(decrease) in cash and cash equivalents</b>  |      | 22,081             | (8,284)            |
| <b>Cash and cash equivalents at 1 January</b>  |      | 8,552              | 16,836             |
| <b>Cash and cash equivalents at 31 December</b>  |      | 30,633             | 8,552              |
| <b>Cash and cash equivalents comprise:</b>   |      |                    |                    |
| Cash and bank balances   | 7    | 20,128             | 8,552              |
| Deposits placed with licensed banks  | 7    | 41,973             | 21,881             |
| Less: Restricted deposits  |      | 62,101<br>(31,468) | 30,433<br>(21,881) |
|  |      | 30,633             | 8,552              |

The notes on pages 121 to 140 are an integral part of these financial statements.

# Securities Commission Malaysia

## Notes to the financial statements

The Securities Commission Malaysia (SC) is a statutory body established under the *Securities Commission Malaysia Act 1993* for the regulation and development of the Malaysian capital market. 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 Markets 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 Board Members on 30 January 2018.

### 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 2018***

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*
- Clarifications to MFRS 15, *Revenue from Contracts with Customers*
- IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014–2016 Cycle)*
- Amendments to MFRS 2, *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 4, *Insurance Contracts – Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- 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*

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019***

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*



(a) Statement of compliance (*continued*)

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019***

- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021***

- MFRS 17, *Insurance Contracts*

***MFRSs, Interpretations and amendments effective for annual periods beginning on or after 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 accounting standards, amendments and interpretations that are applicable and effective from its annual periods beginning on or after 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 16, Leases***

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The SC is currently assessing the financial impact that may arise from the adoption of MFRS 16.

(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 other than the following:

#### **Post-employment benefits**

The provision is determined using actuarial valuation prepared by an independent actuary. The actuarial valuation involved making assumptions about discount rate, medical inflation rate and retirement age. As such, this estimated provision amount is subject to significant uncertainty. The assumptions used to estimate the provision are as disclosed in Note 9.

## **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" or "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. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative year are as follows:

|  |   |
|--|---|
| Leasehold land                           | Over the lease period of 99 years<br>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 licence fees**

Levies and license fees income are recognised in profit or loss when rights to receive payment are established.

**(ii) Fees and charges**

Fees and charges income are recognised in profit or loss when rights to receive payment are established.

**(iii) Finance income**

Finance income received from fixed deposits and other investments is 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 SC's 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<br>land<br>RM'000 | Buildings<br>RM'000 | Office<br>equipment,<br>furniture<br>and fittings<br>RM'000 | Computer<br>and<br>application<br>systems<br>RM'000 | Motor<br>vehicles<br>RM'000 | Capital<br>work-in<br>progress<br>RM'000 | Total<br>RM'000 |
|--|-----------------------------|---------------------|---|---|-----------------------------|--|-----------------|
| <b>Cost</b>                            |                             |                     |   |   |                             |  |                 |
| At 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/<br>1 January 2017 | 9,154                       | 232,162             | 109,381   | 71,156  | 2,928                       | 606                                      | 425,387         |
| Additions                              | -                           | -                   | 482   | 1,790   | 339                         | 3,081                                    | 5,692           |
| Disposals                              | -                           | -                   | (516)   | (702)   | (632)                       | (129)                                    | (1,979)         |
| Transfer from/(to)                     | -                           | -                   | -   | 233   | -                           | (233)                                    | -               |
| At 31 December 2017                    | 9,154                       | 232,162             | 109,347   | 72,477  | 2,635                       | 3,325                                    | 429,100         |

### 3. Property, plant and equipment *(Continued)*

|   | Leasehold<br>land<br>RM'000 | Buildings<br>RM'000 | Office<br>equipment,<br>furniture<br>and fittings<br>RM'000 | Computer<br>and<br>application<br>systems<br>RM'000 | Motor<br>vehicles<br>RM'000 | Capital<br>work-in<br>progress<br>RM'000 | Total<br>RM'000 |
|---|-----------------------------|---------------------|---|---|-----------------------------|--|-----------------|
| <b>Depreciation and impairment loss</b> |                             |                     |   |   |                             |  |                 |
| At 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/<br>1 January 2017  |                             |                     |   |   |                             |  |                 |
| 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         |
| Depreciation for the year               | 92                          | 4,643               | 2,062   | 3,935   | 444                         | -  | 11,176          |
| Disposals                               | -                           | -                   | (506)   | (695)   | (632)                       | -  | (1,833)         |
| At 31 December 2017                     |                             |                     |   |   |                             |  |                 |
| Accumulated depreciation                | 2,127                       | 85,997              | 104,683   | 67,013  | 1,757                       | -  | 261,577         |
| Accumulated impairment loss             | -                           | 109                 | -   | -   | -                           | -  | 109             |
|   | 2,127                       | 86,106              | 104,683   | 67,013  | 1,757                       | -  | 261,686         |
| <b>Carrying amounts</b>                 |                             |                     |   |   |                             |  |                 |
| At 1 January 2016                       | 7,212                       | 155,342             | 7,948   | 5,499   | 1,316                       | 3,699                                    | 181,016         |
| At 31 December 2016/<br>1 January 2017  | 7,119                       | 150,699             | 6,254   | 7,383   | 983                         | 606                                      | 173,044         |
| At 31 December 2017                     | 7,027                       | 146,056             | 4,664   | 5,464   | 878                         | 3,325                                    | 167,414         |

#### 4. Other receivables

|  | 2017<br>RM'000 | 2016<br>RM'000 |
|--|----------------|----------------|
| Staff financing                            | 10,108         | 11,757         |
| Less: Unearned profit                      |                |                |
| – Islamic financing on house and car       | (538)          | (601)          |
|  | 9,570          | 11,156         |
| Less: Amount due within 12 months (Note 6) | (1,336)        | (1,639)        |
| Amount due after 12 months                 | 8,234          | 9,517          |

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. The rate charged on these staff financing ranges from 2.0% to 4.0% per annum (2016: 2.0% to 4.0% per annum).

The maturity structures of the financing to staff as at the end of the financial year were as follows:

|                                    | 2017<br>RM'000 | 2016<br>RM'000 |
|------------------------------------|----------------|----------------|
| Within 1 year                      | 1,336          | 1,639          |
| More than 1 year and up to 5 years | 4,345          | 4,693          |
| More than 5 years                  | 3,889          | 4,824          |
|                                    | 9,570          | 11,156         |

#### 5. Other investments

|   | Non-current    |                | Current        |                | Total          |                |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
|   | 2017<br>RM'000 | 2016<br>RM'000 | 2017<br>RM'000 | 2016<br>RM'000 | 2017<br>RM'000 | 2016<br>RM'000 |
| <b>Held-to-maturity investments:</b>                              |                |                |                |                |                |                |
| – Malaysian Government Securities and Government Guaranteed Bonds | 244,017        | 275,407        | 29,988         | -              | 274,005        | 275,407        |
| <b>Loans and receivables:</b>                                     |                |                |                |                |                |                |
| – Deposits placed with licensed banks                             | 267,553        | 18,000         | 183,753        | 436,386        | 451,306        | 454,386        |
|   | 511,570        | 293,407        | 213,741        | 436,386        | 725,311        | 729,793        |

Included in deposits placed with licensed banks are amounts restricted for stockbroking industry development of RM12.6 million (2016: RM10.0 million) and amount restricted for planning and implementing capacity building programmes in relation to the accounting and auditing profession of approximately RM0.2 million (2016: RM0.1 million).

## 6. Trade and other receivables

|                                     | 2017<br>RM'000 | 2016<br>RM'000 |
|-------------------------------------|----------------|----------------|
| Levies                              | 14,608         | 11,822         |
| Interest receivable                 | 8,202          | 11,549         |
| Other receivables                   | 2,787          | 2,761          |
| Deposit                             | 905            | 917            |
| Prepayments                         | 4,260          | 2,944          |
| Short-term staff financing (Note 4) | 1,336          | 1,639          |
|                                     | <u>32,098</u>  | <u>31,632</u>  |

## 7. Cash and cash equivalents

|                                     | 2017<br>RM'000 | 2016<br>RM'000 |
|-------------------------------------|----------------|----------------|
| Cash and bank balances              | 20,128         | 8,552          |
| Deposits placed with licensed banks | 41,973         | 21,881         |
|                                     | <u>62,101</u>  | <u>30,433</u>  |

The deposits placed with licensed banks earned income at rates ranging from 2.45% to 4.20% per annum (2016: 2.70% to 4.50% per annum).

Included in deposits placed with licensed banks are amounts restricted for brokers' security deposits of approximately RM1.2 million (2016: RM1.2 million), stockbroking industry development of approximately RM3.1 million (2016: RM3.0 million) and other miscellaneous deposits of approximately RM27.2 million (2016: RM17.7 million).

The bank balances 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

|   | 2017<br>RM'000 | 2016<br>RM'000 |
|---|----------------|----------------|
| Net defined benefit liability   | 54,713         | 50,658         |
| Expense recognised in profit or loss  | 657            | 5,110          |
| Remeasurement of defined benefit liability recognised in other comprehensive income | 16,729         | -              |
| Benefits paid   | (1,341)        | (1,055)        |
| Total employee benefit liabilities  | <u>70,758</u>  | <u>54,713</u>  |

## 9. Post-employment benefits *(Continued)*

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 RM912,000 in contributions to its defined benefit plans in 2018.

### Movement in net defined benefit liability

|   | 2017<br>RM'000 | 2016<br>RM'000 |
|---|----------------|----------------|
| Net defined benefit liability at 1 January    | 54,713         | 50,658         |
| <b>Included in profit or loss</b>             |                |                |
| Current service cost                          | 2,295          | 1,932          |
| Past service cost                             | (5,444)        | -              |
| Interest cost                                 | 3,806          | 3,178          |
|   | 657            | 5,110          |
| <b>Included in other comprehensive income</b> |                |                |
| Actuarial (gain)/loss arising from:           |                |                |
| – Financial assumptions                       | 13,390         | -              |
| – Experience adjustments                      | 3,339          | -              |
|   | 16,729         | -              |
| <b>Other</b>                                  |                |                |
| Benefits paid                                 | (1,341)        | (1,055)        |
| Net defined benefit liability at 31 December  | 70,758         | 54,713         |

### Defined benefit obligation Actuarial assumptions

Principal actuarial assumptions at the end of reporting period (expressed as weighted averages):

|                        | 2017                           | 2016     |
|------------------------|--------------------------------|----------|
| Discount rate          | 5.8%                           | 6.3%     |
| Medical cost inflation | 10%, reducing to 5% in 5 years | 5.0%     |
| Normal retirement age  | 60 years                       | 56 years |



## 9. Post-employment benefits *(Continued)*

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 60 is 25 (2016: 56 is 29) for males and females at the end of the reporting date.

At 31 December 2017, the weighted-average duration of the defined benefit obligation was 20.6 years (2016: 21.5 years).

### Change in estimates

During the year, the SC has appointed Willis Tower Watson (TW) to perform actuarial valuation report. There were changes in the assumptions used in the valuation and as a result, there is decrease in service cost recognised in profit or loss in 2017 by RM4.8 million.

### 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<br>Increase<br>RM'000 | Decrease<br>RM'000 |
|---|--|--------------------|
| <b>2017</b>                               |  |                    |
| Discount rate (1% movement)               | (12,052)   | 15,473             |
| Medical cost inflation rate (1% movement) | 14,937   | (11,888)           |
| <b>2016</b>                               |  |                    |
| Discount rate (1% movement)               | (9,520)  | 12,311             |
| Medical cost inflation rate (1% movement) | 11,927   | (9,410)            |

## 10. Deferred income

|  | Note | 2017<br>RM'000 | 2016<br>RM'000 |
|--|------|----------------|----------------|
| At 1 January 2017                                  |      | -              | -              |
| Proceeds during the year                           | 10.1 | 8,449          | -              |
| Less: recognised in profit or loss during the year |      | (2,630)        | -              |
| Deferred income                                    |      | 5,819          | -              |
| Current liabilities                                |      | 210            | -              |
| Non-current liabilities                            |      | 5,609          | -              |
|  |      | 5,819          | -              |

10.1 During the year the SC has received approval from Ministry of Finance to utilise the residual sum disgorged from individuals for breaches of insider trading and market manipulation provisions under the securities laws, amounted to RM8.4 million. This sum is to defray the cost of regulating the market in Malaysia.

## 11. Other payables and accruals

|                            | 2017<br>RM'000 | 2016<br>RM'000 |
|----------------------------|----------------|----------------|
| Other payables             | 52,731         | 40,349         |
| Accruals                   | 5,454          | 4,300          |
| Brokers' security deposits | 1,187          | 1,231          |
|                            | <u>59,372</u>  | <u>45,880</u>  |

## 12. Staff costs

|   | 2017<br>RM'000 | 2016<br>RM'000 |
|---|----------------|----------------|
| Remuneration, bonus, staff medical, staff training and overtime | 125,232        | 118,266        |
| Employees Provident Fund and SOCSO contribution                 | 18,420         | 17,835         |
| Private Retirement Scheme                                       | 1,271          | 1,000          |
| Post-employment benefits  | 657            | 5,110          |
|   | <u>145,580</u> | <u>142,211</u> |

## 13. Surplus/(Deficit) before tax

|   | Note | 2017<br>RM'000 | 2016<br>RM'000 |
|---|------|----------------|----------------|
| <b>Surplus/(Deficit) before tax is arrived at after charging:</b> |      |                |                |
| Auditors' remuneration  |      | 100            | 100            |
| Executive members' emoluments                                     |      | 4,901          | 4,307          |
| Non-executive members' allowance                                  |      | 993            | 1,074          |
| Rental expense:   |      |                |                |
| Property  |      | 2,260          | 2,298          |
| Plant and equipment   |      | 282            | 298            |
| Depreciation of property, plant and equipment                     | 3    | 11,176         | 12,276         |
| Loss on disposal of plant and equipment                           |      | -              | 54             |
|   |      | <u></u>        | <u></u>        |
| <b>and after crediting:</b>                                       |      |                |                |
| Gain on disposal of plant and equipment                           |      | 10             | -              |
|   |      | <u></u>        | <u></u>        |

## 14. Related parties

For the purpose of these financial statements, parties are considered to be related to the SC if the SC has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the SC and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the SC either directly or indirectly.

The SC has related party relationship with Securities Industry Development Corporation (SIDC), as the Chairman of the SC is also the Chairman of SIDC.

### Significant related party transaction

The significant related party transactions of the SC are shown below. The balances related to the below transactions are shown in Note 6 and Note 11.

|                        | 2017<br>RM'000 | 2016<br>RM'000 |
|------------------------|----------------|----------------|
| <b>Related company</b> |                |                |
| Management fee         | 502            | 502            |
| Disbursement of grant  | (2,500)        | (2,500)        |

## 15. Capital commitments

|   | 2017<br>RM'000 | 2016<br>RM'000 |
|---|----------------|----------------|
| <b>Capital expenditure commitments</b>  |                |                |
| <b>Plant and equipment</b>              |                |                |
| <i>Approved but not contracted for:</i> |                |                |
| Within one year                         | 13,110         | 23,030         |

## 16. Financial instruments

### 16.1 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<br>amount<br>RM'000 | L&R/<br>(FL)<br>RM'000 | HTM<br>RM'000 |
|------------------------------|------------------------------|------------------------|---------------|
| <b>2017</b>                  |                              |                        |               |
| <b>Financial assets</b>      |                              |                        |               |
| Other receivables            | 8,234                        | 8,234                  | -             |
| Other investments            | 725,311                      | 451,306                | 274,005       |
| Trade and other receivables* | 27,838                       | 27,838                 | -             |
| Cash and cash equivalents    | 62,101                       | 62,101                 | -             |
|                              | 823,484                      | 549,479                | 274,005       |
| <b>Financial liabilities</b> |                              |                        |               |
| Other payables and accruals  | (59,372)                     | (59,372)               | -             |
| <b>2016</b>                  |                              |                        |               |
| <b>Financial assets</b>      |                              |                        |               |
| Other 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       |
| <b>Financial liabilities</b> |                              |                        |               |
| Other payables and accruals  | (45,880)                     | (45,880)               | -             |

\* Exclude non-financial assets

## 16.2 Gains arising from financial instruments

|                              | 2017<br>RM'000 | 2016<br>RM'000 |
|------------------------------|----------------|----------------|
| <b>Gains on:</b>             |                |                |
| Held-to-maturity investments | 10,964         | 10,559         |
| Loan and receivables         | 19,138         | 20,657         |
|                              | <u>30,102</u>  | <u>31,216</u>  |

## 16.3 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

## 16.4 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). The ageing of receivables as at the end of the reporting year was:

|                             | Gross<br>RM'000 | Individual<br>impairment<br>RM'000 | Net<br>RM'000 |
|-----------------------------|-----------------|------------------------------------|---------------|
| <b>2017</b>                 |                 |                                    |               |
| Not past due                | 34,760          | -                                  | 34,760        |
| Past due 1 - 30 days        | -               | -                                  | -             |
| Past due 31 - 90 days       | -               | -                                  | -             |
| Past due 91 - 180 days      | 67              | -                                  | 67            |
| Past due more than 180 days | 340             | -                                  | 340           |
|                             | <u>35,167</u>   | <u>-</u>                           | <u>35,167</u> |
| <b>2016</b>                 |                 |                                    |               |
| 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           |
|                             | <u>37,288</u>   | <u>-</u>                           | <u>37,288</u> |

The receivables that are past due of RM407,000, are not being impaired as these receivables are secured over residential properties with respective fair value exceeding 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.

## 16.5 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. There is no contractual interest rate for other payables and accruals.

|                              | Carrying<br>amount<br>RM'000 | Contractual<br>cash flow<br>RM'000 | Under<br>1 year<br>RM'000 |
|------------------------------|------------------------------|------------------------------------|---------------------------|
| <b>2017</b>                  |                              |                                    |                           |
| <b>Financial liabilities</b> |                              |                                    |                           |
| Other payables and accruals  | 59,372                       | 59,372                             | 59,372                    |
| <b>2016</b>                  |                              |                                    |                           |
| <b>Financial liabilities</b> |                              |                                    |                           |
| Other payables and accruals  | 45,880                       | 45,880                             | 45,880                    |

## 16.6 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.

### 16.6.1 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:

|                               | 2017<br>RM'000 | 2016<br>RM'000 |
|-------------------------------|----------------|----------------|
| <b>Fixed rate instruments</b> |                |                |
| Financial assets              | 493,279        | 476,267        |

### **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.

### **16.7 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.

| <b>Fair value of financial instruments<br/>not carried at fair value</b> |                           |                           |                           |  |                                       |
|--|---------------------------|---------------------------|---------------------------|--|---------------------------------------|
|  | <b>Level 1<br/>RM'000</b> | <b>Level 2<br/>RM'000</b> | <b>Level 3<br/>RM'000</b> | <b>Total fair<br/>Value<br/>RM'000</b> | <b>Carrying<br/>amount<br/>RM'000</b> |
| <b>2017</b>  |                           |                           |                           |  |                                       |
| <b>Non-current</b>   |                           |                           |                           |  |                                       |
| <b>Financial assets</b>  |                           |                           |                           |  |                                       |
| Long term receivables  | -                         | -                         | 8,234                     | 8,234                                  | 8,234                                 |
| Malaysian Government Securities and<br>Government Guaranteed Bonds       | -                         | 245,831                   | -                         | 245,831                                | 244,017                               |
|  | -                         | 245,831                   | 8,234                     | 254,065                                | 252,251                               |

| <b>Fair value of financial instruments<br/>not carried at fair value</b> |                           |                           |                           |  |                                       |
|--|---------------------------|---------------------------|---------------------------|--|---------------------------------------|
|  | <b>Level 1<br/>RM'000</b> | <b>Level 2<br/>RM'000</b> | <b>Level 3<br/>RM'000</b> | <b>Total fair<br/>Value<br/>RM'000</b> | <b>Carrying<br/>amount<br/>RM'000</b> |
| <b>2016</b>  |                           |                           |                           |  |                                       |
| <b>Non-current</b>   |                           |                           |                           |  |                                       |
| <b>Financial assets</b>  |                           |                           |                           |  |                                       |
| Long term receivables  | -                         | -                         | 9,517                     | 9,517                                  | 9,517                                 |
| Malaysian Government Securities and<br>Government Guaranteed Bonds       | -                         | 275,990                   | -                         | 275,990                                | 275,407                               |
|  | -                         | 275,990                   | 9,517                     | 285,507                                | 284,924                               |



#### **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. (2016: 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**

Long term receivables

##### **Description of valuation technique and input used**

Discounted cash flows using a rate based on the current market rate of borrowing.

## **17. 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.

## **18. 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 Board Members**

In the opinion of the Board Members, the financial statements set out on pages 117 to 140 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 of 31 December 2017 and of its financial performance and cash flows for the financial year then ended.

On behalf of the Board Members:



.....  
**Tan Sri Dato' Seri Ranjit Ajit Singh**  
Chairman



.....  
**Tan Sri Dato' Hasmah Abdullah**  
Member

Kuala Lumpur

Date: 30 January 2018

## Securities Commission Malaysia

### Statutory Declaration

I, **Vignaswaran A/L Kandiah**, the officer primarily responsible for the financial management of the Securities Commission Malaysia, do solemnly and sincerely declare that the financial statements set out on pages 117 to 140 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the *Statutory Declarations Act, 1960*.

Subscribed and solemnly declared by the abovenamed **Vignaswaran A/L Kandiah**, NRIC No. 561128-10-6171, at Kuala Lumpur in the Federal Territory on 30 January 2018.



**Vignaswaran A/L Kandiah**  
Officer

Before me:



Unit 50-10-1, Tingkat 10  
Wisma UOA Damansara  
No. 50, Jalan Dungun  
Bukit Damansara  
50490 Kuala Lumpur.

## **INDEPENDENT AUDITORS' REPORT TO THE BOARD MEMBERS OF THE 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 2017, 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 117 to 140.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the SC as at 31 December 2017, 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 Board Members of the SC for the Financial Statements**

The Board 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 Board Members are also responsible for such internal control as the Board 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 Board 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 Board 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 scepticism 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 Board Members.
- Conclude on the appropriateness of the Board 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 Board 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 Board 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: 30 January 2018

## Corporate Proposals

### EQUITY

The SC received 8 equity applications in 2017 (as compared to 14 in 2016) of which 4 were for initial public offerings (IPOs) (as compared to 5 in 2016). A total of 6 equity applications were considered in 2017, as compared to 13 in the previous year (Table 1).

In 2017, the SC approved 3 IPOs for the Main Market (as compared to 6 in 2016) with expected total funds to be raised of RM3.77 billion and expected aggregate market capitalisation of RM63.22 billion (Table 2).

## Statements, Statistics and Activitives

There were 12<sup>1</sup> new listings for 2017, which were the same as in previous year. Of the 12 listings, 6<sup>2</sup> were for Main Market and the remaining on the ACE Market. The total amount of funds raised from the new listings in 2017 was approximately RM7.17 billion (as compared to RM1.03 billion in 2016).

Among the notable new listings in 2017 were Lotte Chemical Titan Holding Bhd, an integrated petrochemical producer which raised RM3.77 billion and ECO World International Bhd, an international property developer which raised RM2.58 billion.

The SC registered 42 equity prospectuses in 2017, comprising 10 prospectuses for IPOs, 1 for an unlisted company and 31 abridged prospectuses (Table 3).

Table 1

### Status of equity applications

| Applications                            | 2017       | 2016        |
|---|------------|-------------|
| Brought forward from the previous year  | 3          | 6           |
| Received during the year                | 8          | 14          |
| <b>Total for consideration</b>          | <b>11</b>  | <b>20</b>   |
| Approved during the year                | (6)        | (11)        |
| Not approved during the year            | –          | –           |
| Returned during the year                | –          | (2)         |
| <b>Total considered during the year</b> | <b>(6)</b> | <b>(13)</b> |
| Withdrawn during the year               | (2)        | (4)         |
| <b>Carried forward to the next year</b> | <b>3</b>   | <b>3</b>    |

<sup>1</sup> Excludes listing of REITs.

<sup>2</sup> Includes Sime Darby Plantation Bhd and Sime Darby Property Bhd.



Table 2

**Equity applications approved by type of proposals**

| Type of proposals                       | 2017                      |                                  | 2016                      |                                  |
|---|---------------------------|----------------------------------|---------------------------|----------------------------------|
|   | 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                    | 3                         | 3,770.00                         | 6                         | 3,378.61                         |
| – Foreign companies                     | –                         | –                                | –                         | –                                |
| <b>Subtotal</b>                         | <b>3</b>                  | <b>3,770.00</b>                  | <b>6</b>                  | <b>3,378.61</b>                  |
| Restructuring/Mergers and acquisitions  | 1                         | –                                | 4                         | –                                |
| Transfer from ACE Market to Main Market | 2                         | –                                | –                         | –                                |
| Secondary listing                       | –                         | –                                | 1                         | –                                |
| <b>Total</b>                            | <b>6</b>                  | <b>3,770.00</b>                  | <b>11</b>                 | <b>3,378.61</b>                  |

Table 3

**Registration of equity prospectuses**

|                     | 2017      | 2016      |
|---------------------|-----------|-----------|
| Prospectus          | 11        | 14        |
| Abridged Prospectus | 31        | 29        |
| <b>Total</b>        | <b>42</b> | <b>43</b> |

## CORPORATE BONDS AND SUKUK

The Malaysian corporate bonds and sukuk market reported the highest ever total issuances, amounting to RM124.88 billion in 2017, a 45.80% increase from RM85.65 billion issued in 2016.

In 2017, the SC received 79 lodgements under the *Lodge and Launch (LOLA) Framework* and 3 applications for issuances of corporate bonds and sukuk, as compared to 57 lodgements and 2

applications received in the previous year (Table 4). Ringgit-denominated corporate bonds and sukuk issues continued to form the majority of the proposals approved by/lodged with the SC with a total nominal value of RM187.91 billion, of which 50.11% were sukuk (Table 5).

The maturity profile of ringgit-denominated corporate bonds and sukuk approved by/lodged with the SC exhibited an upward trend with a 84.62% increase in the total number of issues that have tenures of 8 to 15 years, and a 31.25%

Table 4

**Number of corporate bonds and sukuk lodgements and applications**

| (i) Lodgements <sup>1</sup>             | 2017       | 2016       |
|---|------------|------------|
| Received during the year                | 79         | 57         |
| (ii) Applications                       | 2017       | 2016       |
| Brought forward from the previous year  | 1          | 1          |
| Received during the year                | 3          | 2          |
| <b>Total for consideration</b>          | <b>4</b>   | <b>3</b>   |
| Approved during the year                | (3)        | (2)        |
| Not approved during the year            | –          | –          |
| Returned during the year                | –          | –          |
| <b>Total considered during the year</b> | <b>(3)</b> | <b>(2)</b> |
| Withdrawn during the year               | –          | –          |
| <b>Carried forward to the next year</b> | <b>1</b>   | <b>1</b>   |

Note:

<sup>1</sup> Pursuant to the Lodge and Launch Framework.

Table 5

**Lodged/approved ringgit-denominated corporate bonds and sukuk issues**

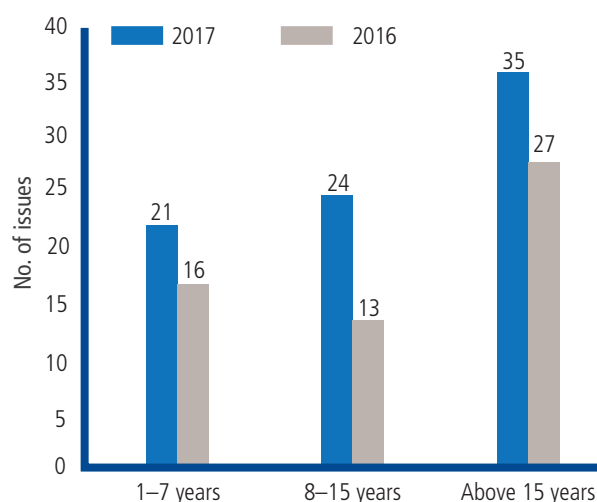
| Type of issues  | 2017          |                             | 2016          |                             |
|---|---------------|-----------------------------|---------------|-----------------------------|
|   | No. of issues | Nominal amount (RM million) | No. of issues | Nominal amount (RM million) |
| <b>Corporate bonds</b>                                |               |                             |               |                             |
| – Commercial papers/Medium-term notes                 | 27            | 91,004.00                   | 20            | 76,557.00                   |
| – Bonds   | 3             | 2,080.00                    | 2             | 250.00                      |
| – Loan stocks   | 3             | 674.92                      | 2             | 453.00                      |
| <b>Subtotal</b>                                       | <b>33</b>     | <b>93,758.92</b>            | <b>24</b>     | <b>77,260.00</b>            |
| <b>Sukuk</b>  |               |                             |               |                             |
| – Islamic commercial papers/Islamic medium-term notes | 45            | 93,004.00                   | 25            | 45,750.00                   |
| – Islamic bonds                                       | 2             | 1,150.00                    | 6             | 16,989.00                   |
| – Islamic loan stocks                                 | –             | –                           | 1             | 990.00                      |
| <b>Subtotal</b>                                       | <b>47</b>     | <b>94,154.00</b>            | <b>32</b>     | <b>63,729.00</b>            |
| <b>Combination of corporate bonds and sukuk</b>       |               |                             |               |                             |
| – Commercial papers/Medium-term notes                 | –             | –                           | –             | –                           |
| <b>Total</b>  | <b>80</b>     | <b>187,912.92</b>           | <b>56</b>     | <b>140,989.00</b>           |

increase in the total number of ringgit-denominated corporate bonds and sukuk with tenures of 1 to 7 years. There was also a 29.63% increase in the total number of ringgit-denominated corporate bonds and sukuk with tenures of more than 15 years which include 12 issuances with perpetual maturities (Chart 1).

A total of 54 ratings (based on initial rating) were assigned by credit rating agencies to ringgit-denominated corporate bonds and sukuk issues approved by/loved with the SC. After the removal of the mandatory rating requirement for corporate bonds and sukuk effective January 2017, the number of unrated issues rose by 125% (Chart 2).

There were 4 foreign currency-denominated corporate bonds and sukuk lodged with the SC, comprising 1 corporate bond by a Malaysian issuer, as well as 2 sukuk and 1 corporate bond by foreign issuers.

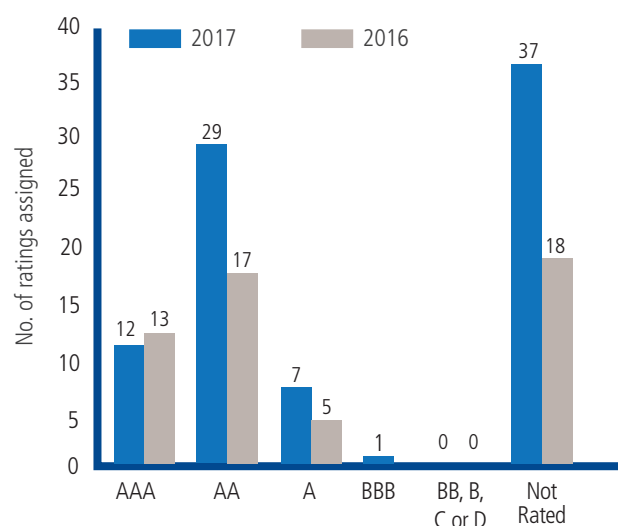
Chart 1  
**Tenure of lodged/approved ringgit-denominated corporate bonds and sukuk issues**



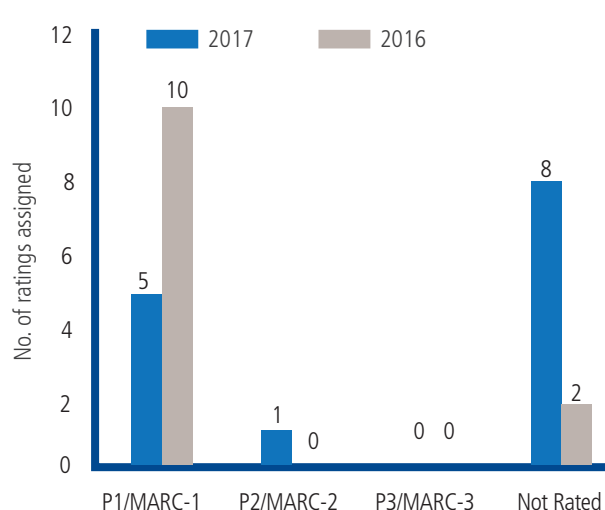
Note:  
Tenure of facility, and not the respective notes or papers under the facility.

Chart 2  
**Rating summary of lodged/approved ringgit-denominated corporate bonds and sukuk issues**

#### Long-term rating



#### Short-term rating



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).

## TAKE-OVERS AND MERGERS

The SC considered a total of 94 applications in 2017 under the *Rules on Take-overs, Mergers and Compulsory Acquisitions*, an increase of 15 applications compared to 79 applications in 2016.

A total of 25 documents<sup>1</sup> were cleared by the SC in 2017. These were in relation to 24 take-over offers (including by way of schemes) and involved a total offer value of RM3.48 billion or an average of RM145.17 million per offer. Notwithstanding the slightly higher volume of offer documents cleared as compared to 22 offer documents cleared in 2016, there was a decline of RM0.85 billion in total offer value in 2017 as compared to RM4.33 billion or an average of RM196.98 million per offer in 2016.

The largest offer for the year was in relation to IGB Corporation Bhd, which constituted RM1,137.08 million in offer value or 33% of the total offer value for 2017, and was effected by way of a scheme. Other notable offers in term of value were the offers for Wing Tai Malaysia Bhd, Shell Refining Company (Federation of Malaya) Bhd, Hwang Capital (Malaysia) Bhd, Hovid Bhd and GHL Systems Bhd with a total offer value of RM2.46 billion. In aggregate, these 6 offers represented 71% of total offer value in 2017.

The sector that saw the highest total offer value was the property sector with 3 companies representing 42% of total offer value in 2017, contributed mainly by the scheme in relation to IGB Corporation Bhd. On the other hand, the industrial products sector was the most active in terms of number of offers, with 9 companies representing 38% in aggregate of the total number of offers.

It was noted that more take-over offers were being undertaken by way of schemes in 2017, with 7 schemes representing 29% of the total number of offers (2016: 3 schemes or 14%). Meanwhile, there were fewer proposed privatisations of listed companies effected via take-over offers, with only 7 offers representing 29% of the total number of offers in 2017 (2016: 14 or 64%).

The SC also cleared 33 independent advice circulars where 25 circulars were in relation to take-over offers and the remaining 8 circulars were in relation to whitewashes for exemptions from mandatory offer obligations. Additionally, the SC approved 18 applications for exemptions from having to undertake a mandatory take-over offer and 18 applications for various matters including other waivers or rulings (Table 6).

Table 6

### Applications considered in relation to take-overs, mergers and compulsory acquisitions

| Type of applications/documents cleared                     | 2017      | 2016      |
|--|-----------|-----------|
| Clearance of offer/scheme documents                        | 25        | 22        |
| Clearance of independent advice circulars                  | 33        | 29        |
| Applications for exemption from mandatory offer obligation | 18        | 10        |
| Other applications   | 18        | 18        |
| <b>Total</b>   | <b>94</b> | <b>79</b> |

<sup>1</sup> One of the take-over offers in 2017 involved clearance of two documents by the SC for the same listed company.

## Investment Management

### FUND MANAGEMENT

Total assets under management (AUM) of licensed fund management companies (FMCs) in Malaysia rose by 11.48% to RM776.23 billion as compared to RM696.27 billion in 2016. In 2017, top 5 FMCs contributed to 57.27% of total AUM as compared to 58.65% in 2016 (Chart 1).

Source of funds under management were largely from unit trust funds, Employees Provident Fund, corporate bodies, and wholesale funds (Table 1). The funds were allocated in various asset classes and locations, of which, investment inside Malaysia by FMCs amounted to RM613.33 billion, representing 79.01% of the total AUM as at end of 2017 (Chart 2). The bulk of investment was allocated in equities with 51.03% at end of 2017, as compared to 48.33% in 2016 (Chart 3). Similar trend was observed on assets allocation inside and outside Malaysia (Chart 4).

Chart 1  
Assets managed by FMCs

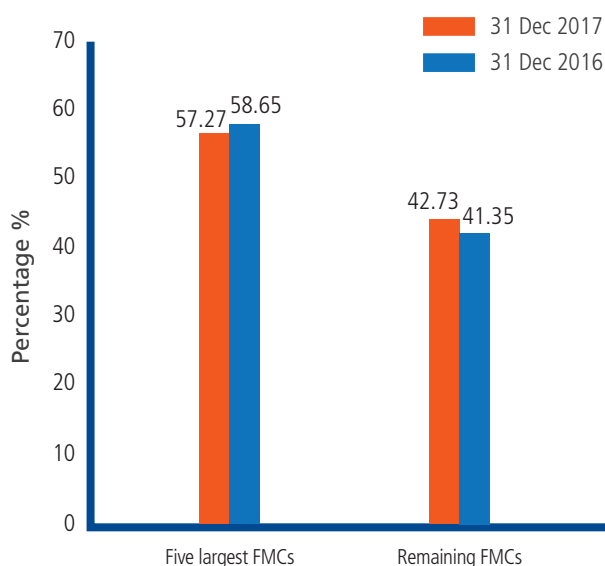


Table 1  
Source of clients' funds under management

| Source of funds                          | 2017<br>(RM billion) | 2016<br>(RM billion) |
|--|----------------------|----------------------|
| Unit trust funds                         | 426.98               | 358.47               |
| Employees Provident Fund                 | 118.50               | 107.75               |
| Wholesale funds                          | 84.68                | 90.84                |
| Corporate bodies                         | 84.30                | 79.53                |
| Statutory bodies and government agencies | 26.79                | 29.69                |
| Others                                   | 19.93                | 17.20                |
| Individuals                              | 9.66                 | 8.36                 |
| Private pension funds                    | 5.39                 | 4.43                 |
| <b>Total</b>                             | <b>776.23</b>        | <b>696.27</b>        |

Chart 2  
Assets invested inside and outside of Malaysia

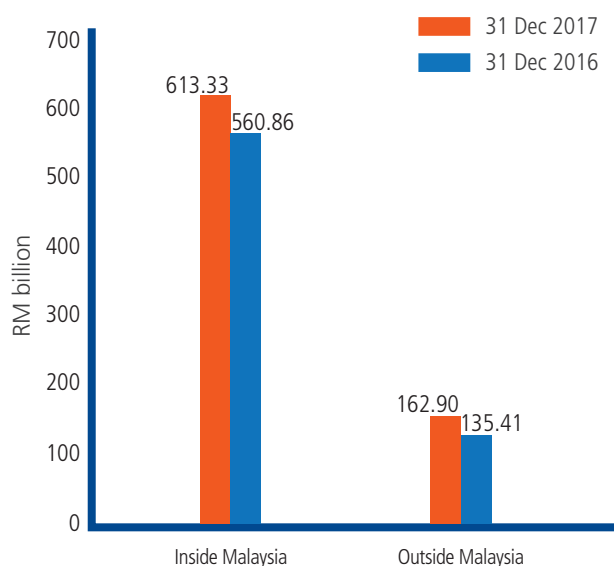


Chart 3  
Assets allocation

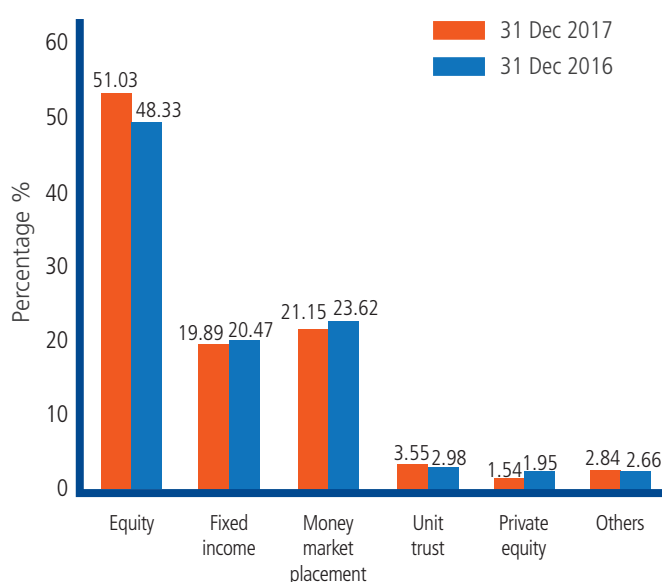
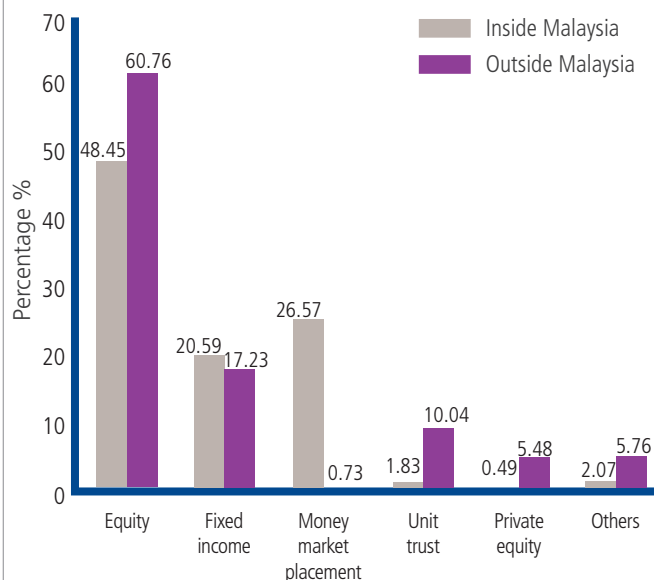


Chart 4  
Assets allocation inside and outside of Malaysia as 31 December 2017



### COLLECTIVE INVESTMENT SCHEMES, PRIVATE RETIREMENT SCHEMES AND FOREIGN QUALIFYING CIS

In 2017, unit trust funds remain as the largest component of the Malaysian collective investment schemes (CIS) industry with a total net asset value (NAV) of RM426.98 billion recorded as at 31 December 2017, an increase of 19.11% from RM358.47 billion as at end 2016. The percentage of the total NAV of unit trust funds industry against Bursa Malaysia's market capitalisation was 22.39% as at 31 December 2017 compared to 21.50% as at 31 December 2016 (Table 2). These funds are operated and administered by 36 locally-incorporated unit trust management companies.

In the year under review, a total of 40 new unit trust funds were launched while 9 funds were terminated and 14 funds matured, bringing the total number of unit trust funds available to investors to 644 as at 31 December 2017. Of this, 431 funds represented conventional unit trust funds while 213 were Shariah-compliant unit trust funds.



The unit trust funds industry recorded a total sales value of RM200.23 billion. Unit trust management companies are the major distributors of unit trust funds with sales amounting to RM81.95 billion (Table 3).

In the wholesale funds segment, 49 new funds were launched under the Lodge and Launch (LOLA) Framework to sophisticated investors while 67 funds were terminated or matured in 2017, which brought the total number of wholesale funds in operation to 295 as at 31 December 2017. Of this, 218 funds represented conventional wholesale funds while 77 were Shariah-compliant wholesale funds. The total NAV of wholesale funds as at 31 December 2017 was RM84.68 billion compared to RM90.84 billion as at 31 December 2016.

With the listing of KIP Real Estate Investment Trust on the Main Market of Bursa Malaysia on 6 February 2017, the total number of listed real estate investment trusts (REITs) was 18 (including a stapled group) as at 31 December 2017 with a total

market capitalisation of RM46.48 billion, an increase of 5.18% from RM44.19 billion recorded as at 31 December 2016. The total asset size also grew from RM48.76 billion to RM51.21 billion for the same period. In the same period, an unlisted REIT offered only to sophisticated investors, namely Alpha Real Estate Investment Trust, was launched on 30 June 2017.

The listing of a new Islamic exchange-traded fund (ETF), namely TradePlus Shariah Gold Tracker, on 6 December 2017 brings the total ETFs listed on the Main Market of Bursa Malaysia as at 31 December 2017 to 9 with a total market capitalisation of RM1.94 billion compared to a total market capitalisation of RM1.90 billion as at 31 December 2016.

As at 31 December 2017, there was still only 1 closed-end fund (CEF) listed on the Main Market of Bursa Malaysia with a market capitalisation of RM397.60 million (RM347.20 million as at 31 December 2016).

Table 2

**Overall status of unit trust fund industry**

|   | 31 December 2017 | 31 December 2016 |
|---|------------------|------------------|
| No. of funds launched                             | 644              | 627              |
| – Conventional                                    | 431              | 429              |
| – Shariah-compliant                               | 213              | 198              |
| Units in circulation (billion units)              | 562.39           | 496.85           |
| No. of accounts (million)*                        | 20.08            | 19.34            |
| Total NAV (RM billion)                            | 426.98           | 358.47           |
| – Conventional (RM billion)                       | 349.20           | 297.56           |
| – Shariah-compliant (RM billion)                  | 77.78            | 60.91            |
| % of NAV to Bursa Malaysia market capitalisation^ | 22.39            | 21.50            |

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.

There were 12 schemes with 56 funds in the private retirement scheme (PRS) industry as at 31 December 2017. The total industry NAV of RM2.23 billion as at 31 December 2017 represented an increase of 46.71% compared to a total NAV of RM1.52 billion as at 31 December 2016.

For the year under review, the SC has considered a total of 445 applications relating to CIS and PRS, comprising applications to establish new funds, register prospectuses, register deeds and other ancillary matters (Table 4).

## INVESTMENT PRODUCTS

### Structured warrants

There were 7 eligible issuers of structured warrants in 2017. The SC received and registered 5 base prospectuses and 12 supplementary prospectuses from these issuers in 2017 (Table 5).

A total of 925 term sheets for the offering of structured warrants were registered in 2017,

representing an increase of 26.37% compared to the 732 term sheets registered in 2016. The increase was attributable to the active issuance by issuers in meeting investor interest during the year. The year also saw an increase in issuances of structured warrants based on shares from 537 in 2016 to 788 in 2017. In addition, issuances of structured warrants based on ETFs increased to 17 in 2017 compared to 2 in the previous year.

The term sheets registered in 2017 enabled the structured warrants issuers to offer up to a total of 48.25 billion structured warrants.

### Structured products

In 2017, 9 issuers lodged 20 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 RM100.0 billion with each programme having a size limit of up to RM5.0 billion (Table 6).

Table 3

### Distribution channels

|                                  | 31 December 2017<br>RM billion | 31 December 2016<br>RM billion |
|----------------------------------|--------------------------------|--------------------------------|
| Unit trust management company    | 81.95                          | 54.10                          |
| Institutional unit trust adviser | 64.96                          | 55.55                          |
| Unit trust consultant            | 50.45                          | 28.85                          |
| Corporate unit trust adviser     | 0.36                           | 0.41                           |
| Others                           | 2.51                           | 2.97                           |
| <b>Total</b>                     | <b>200.23</b>                  | <b>141.88</b>                  |

Table 4

**Number of applications and lodgements relating to collective investment schemes, private retirement schemes and recognition of foreign Qualifying CIS**

| (i)  | Lodgement   | Lodged     |            | Launched   |            |                       |                      |
|------|---|------------|------------|------------|------------|-----------------------|----------------------|
|      |   | 2017       | 2016       | 2017       | 2016       |                       |                      |
|      | Wholesale funds                                       | 48         | 49         | 48         | 48         |                       |                      |
| (ii) | Applications  | Considered |            | Approved   |            | Pending consideration |                      |
|      |   | 2017       | 2016       | 2017       | 2016       | As at<br>31 Dec 2017  | As at<br>31 Dec 2016 |
|      | <b>Establishment of collective investment schemes</b> | <b>51</b>  | <b>35</b>  | <b>51</b>  | <b>35</b>  | <b>5</b>              | <b>7</b>             |
|      | – Unit trust funds                                    | 47         | 34         | 47         | 34         | 5                     | 7                    |
|      | – Real estate investment trusts                       | 2          | 1          | 2          | 1          | –                     | –                    |
|      | – Exchange-traded funds                               | 2          | –          | 2          | –          | –                     | –                    |
|      | Establishment of retirement funds                     | –          | 6          | –          | 6          | –                     | –                    |
|      | Recognition of foreign Qualifying CIS                 | –          | –          | –          | –          | –                     | –                    |
|      | <b>Increase in fund size limit</b>                    | <b>6</b>   | <b>6</b>   | <b>6</b>   | <b>6</b>   | -                     | -                    |
|      | – Unit trust funds                                    | 4          | 3          | 4          | 3          | -                     | -                    |
|      | – Real estate investment trusts                       | 2          | 2          | 2          | 2          | -                     | -                    |
|      | – Exchange-traded funds                               | –          | 1          | –          | 1          | -                     | -                    |
|      | Exemption/variation from guidelines                   | 34         | 37         | 33         | 37         | 1                     | 5                    |
|      | Registration of prospectuses                          | 207        | 182        | 207        | 182        | 9                     | 16                   |
|      | Registration of deeds                                 | 110        | 78         | 110        | 78         | 9                     | 17                   |
|      | Other applications                                    | 37         | 48         | 37         | 48         | 3                     | 3                    |
|      | <b>Total</b>  | <b>445</b> | <b>392</b> | <b>444</b> | <b>392</b> | <b>27</b>             | <b>48</b>            |

Table 5

**Structured warrants considered**

|                                       | 2017         | 2016         |
|---------------------------------------|--------------|--------------|
| No. of eligible issuers               | 7            | 7            |
| Base prospectuses registered          | 5*           | 6**          |
| Supplementary prospectuses registered | 12           | 5            |
| Term sheets registered                | 925          | 732          |
| <b>Issue size (billion warrants)</b>  | <b>48.25</b> | <b>43.51</b> |

Note:

\* 2 issuers did not renew their base prospectuses which had expired in 2017.

\*\* 1 issuer did not renew its base prospectus which had expired in 2016.

Table 6

**Structured product programmes considered**

|                                      | 2017              |                   | 2016              |                   |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|
| No. of issuers lodged new programmes | 9                 |                   | 12                |                   |
| New programmes lodged                | No. of programmes | Size (RM billion) | No. of programmes | Size (RM billion) |
| Principle                            |                   |                   |                   |                   |
| – Conventional                       | 20                | 100               | 17                | 82                |
| – Islamic                            | –                 | –                 | 1                 | 5                 |
| <b>Total</b>                         | <b>20</b>         | <b>100</b>        | <b>18</b>         | <b>87</b>         |

# Islamic Capital Market

The Islamic capital market (ICM) made up 59.19% of Malaysia's capital market. Its market size stood at RM1,893.47 billion in 2017 comparable to RM1,691.64 billion in 2016. This includes total market capitalisation of Shariah-compliant equities of RM1,133.83 billion and total sukuk outstanding amounted to RM759.64 billion (Chart 1 and Table 1).

## Shariah-compliant securities

The SC released the updated list of Shariah compliant securities approved by its Shariah Advisory Council (SAC) on May and November 2017, respectively. The latest updated list, which took effect on 24 November 2017, features a total of 686 Shariah-compliant securities.

The list included 33 newly-classified Shariah-compliant securities and excludes 22 from the previous list issued in May 2017.

As at end December, these securities increased to 688 Shariah-compliant securities, which constituted 76.19% of the 903 listed securities on Bursa Malaysia excluding LEAP market securities. The market capitalisation of Shariah compliant securities stood at RM1,133.83 billion or 59.46% of the total market capitalisation, an increase of 10.02% as compared to end 2016 (Chart 2 and Table 2).

## Sukuk

In 2017, a total of 79 corporate bonds and sukuk were approved, authorised and lodged with the SC, amounting to RM187.92 billion of which 47 were sukuk valued at RM94.15 billion (Chart 3). The sukuk value represented 50.11% of the total new corporate bonds and sukuk approved and lodged.

The market also saw the lodgement of the world's first green SRI sukuk in June, amounting to

## Statements, Statistics and Activities

Chart 1  
Size of Islamic capital market

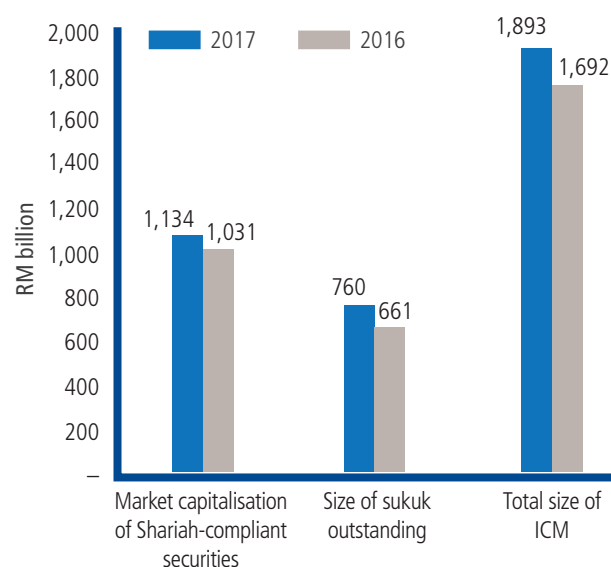


Chart 2  
Percentage of number and market capitalisation of Shariah-compliant securities

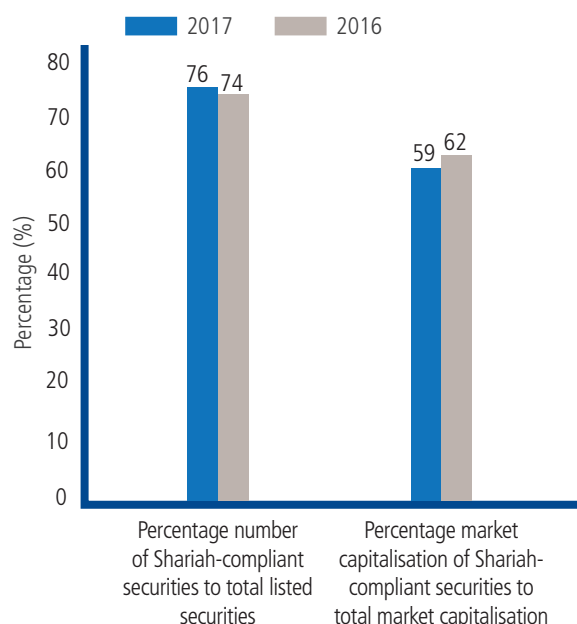
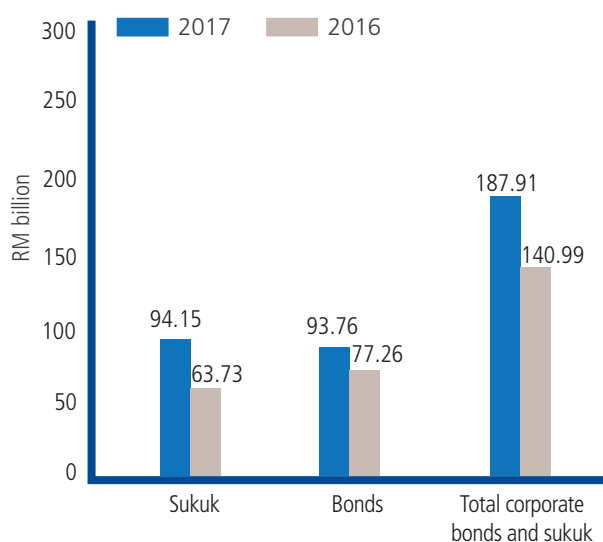


Chart 3  
Corporate sukuk approved and lodged with the SC

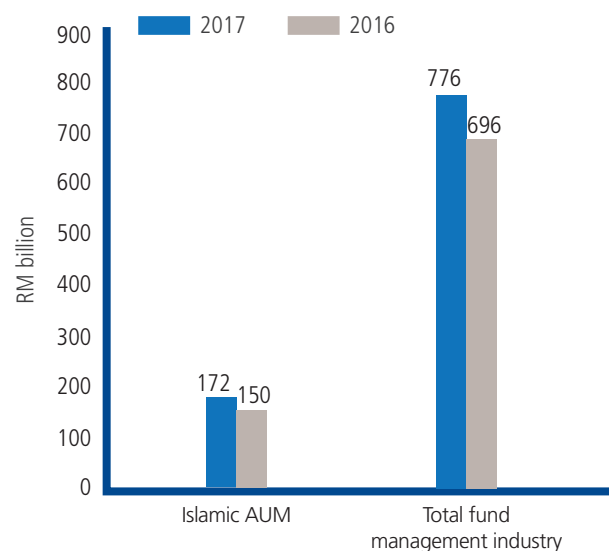


RM250 million. By end 2017, there had been four lodgements of green SRI sukuk totalling RM3.50 billion to finance solar projects and green buildings.

In terms of issuances, corporate sukuk represented 70.19% (2016: 75.68%) of total corporate bonds and sukuk issuances while sukuk outstanding accounted for 75.14% (2016: 73.85%) of total corporate bonds and sukuk outstanding (Table 3) including 3 green SRI sukuk.

Overall, sukuk issuances by Government and corporates in 2017 represented 53.05% (2016: 53.81%) of total bond issuances whereas total sukuk outstanding represented 58.80% (2016: 56.36%) of total bonds outstanding (Table 4).

Chart 4  
AUM of Islamic fund management



## Islamic fund management

The Islamic asset under management (AUM) (CIS and private mandates) stood at RM172.16 billion registering 15.05% growth from RM149.64 billion as at end 2016 (Chart 4). The number of Islamic CIS saw a decrease from 328 in 2016 to 324 as at end 2017. Despite this, it is still the world's largest in terms of number of funds. As at end 2017, there were 55 fund management companies managing Islamic funds, with 20 full-fledged Islamic fund management companies and 35 fund management companies offering Islamic windows.



## KEY STATISTICS

Table 1  
**Size of ICM**

| Islamic capital market                                | 2017<br>RM billion | 2016<br>RM billion |
|---|--------------------|--------------------|
| Market capitalisation of Shariah-compliant securities | 1,133.83           | 1,030.56           |
| Size of sukuk outstanding                             | 759.64             | 661.08             |
| Total size of ICM                                     | 1,893.47           | 1,691.64           |
| % of ICM to total capital market                      | 59.19%             | 59.56%             |

Table 2  
**Shariah-compliant securities**

|  | 2017     | 2016     |
|--|----------|----------|
| <b>Number of securities:</b>                                     |          |          |
| Shariah-compliant securities                                     | 688      | 671      |
| Total listed securities  | 903*     | 904      |
| % of Shariah-compliant to total listed securities                | 76.19%   | 74.23%   |
| <b>Market capitalisation (RM billion):</b>                       |          |          |
| Shariah-compliant securities                                     | 1,133.83 | 1,030.56 |
| Total market capitalisation                                      | 1,906.84 | 1,667.37 |
| % of Shariah-compliant securities to total market capitalisation | 59.46%   | 61.81%   |

\* excluding LEAP market securities.

Table 3

**Corporate sukuk**

| <b>Sukuk approved/lodged</b>                                      | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
| Number of sukuk   | 47          | 32          |
| Size of sukuk (RM billion)  | 94.15       | 63.73       |
| Size of total corporate bonds and sukuk (RM billion)              | 187.91      | 140.99      |
| % of sukuk to total corporate bonds and sukuk approved/<br>lodged | 50.11%      | 45.20%      |
| <b>Total issuance (RM billion)</b>                                | <b>2017</b> | <b>2016</b> |
| Sukuk issuance  | 87.65       | 64.82       |
| Total corporate bonds and sukuk issuances                         | 124.88      | 85.65       |
| % of sukuk to total corporate bonds and sukuk issuances           | 70.19%      | 75.68%      |
| <b>Total sukuk outstanding (RM billion)</b>                       | <b>2017</b> | <b>2016</b> |
| Sukuk outstanding   | 454.49      | 393.45      |
| Total corporate bonds and sukuk outstanding                       | 604.88      | 532.76      |
| % of sukuk to total corporate bonds and sukuk outstanding         | 75.14%      | 73.85%      |

Table 4

**Government and corporate sukuk**

| <b>Total issuance (RM billion)</b>          | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
| Sukuk issuance                              | 168.68      | 129.45      |
| Total bonds issuances                       | 317.94      | 240.56      |
| % of sukuk to total bonds issuances         | 53.05%      | 53.81%      |
| <b>Total sukuk outstanding (RM billion)</b> | <b>2017</b> | <b>2016</b> |
| Sukuk outstanding                           | 759.64      | 661.08      |
| Total bonds outstanding                     | 1,291.91    | 1,172.91    |
| % of sukuk to total bonds outstanding       | 58.80%      | 56.36%      |

Table 5

**Islamic assets under management (AUM)**

|  | 2017   | 2016   |
|--|--------|--------|
| Islamic AUM (RM billion)                           | 172.16 | 149.64 |
| Total fund management industry (RM billion)        | 776.23 | 696.27 |
| % of Islamic AUM to total fund management industry | 22.18% | 21.49% |

Table 6

**Islamic unit trust funds (UTF)**

|  | 2017   | 2016   |
|--|--------|--------|
| Islamic UTF                            | 213    | 198    |
| Total industry                         | 644    | 627    |
| NAV of Islamic UTF (RM billion)        | 77.78  | 60.91  |
| NAV of total industry (RM billion)     | 426.98 | 358.47 |
| % NAV of Islamic UTF to total industry | 18.22% | 16.99% |

Table 7

**Islamic wholesale funds (WF)**

|                                       | 2017   | 2016   |
|---------------------------------------|--------|--------|
| Islamic WF                            | 77     | 97     |
| Total industry                        | 295    | 313    |
| NAV of Islamic WF (RM billion)        | 37.72  | 35.71  |
| NAV of total industry (RM billion)    | 84.68  | 90.84  |
| % NAV of Islamic WF to total industry | 44.54% | 39.31% |

Table 8

**Islamic private retirement scheme (PRS) funds**

|  | 2017   | 2016   |
|--|--------|--------|
| Islamic PRS                            | 25     | 25     |
| Total industry                         | 56     | 56     |
| NAV of Islamic PRS (RM billion)        | 0.72   | 0.51   |
| NAV of total industry (RM billion)     | 2.23   | 1.52   |
| % NAV of Islamic PRS to total industry | 32.29% | 33.55% |

Table 9

**Islamic exchange-traded funds (ETF)**

|  | 2017   | 2016   |
|--|--------|--------|
| Islamic ETF  | 5      | 4      |
| Total industry   | 9      | 8      |
| Market capitalisation of Islamic ETF (RM billion)        | 0.47   | 0.42   |
| Market capitalisation of total industry (RM billion)     | 1.94   | 1.90   |
| % market capitalisation of Islamic ETF to total industry | 24.20% | 22.11% |

Table 10

**Islamic real estate investment trusts (REIT)**

|   | 2017   | 2016   |
|---|--------|--------|
| Islamic REIT  | 4      | 4      |
| Total industry  | 18     | 17     |
| Market capitalisation of Islamic REIT (RM billion)        | 19.07  | 18.53  |
| Market capitalisation of total industry (RM billion)      | 46.48  | 44.31  |
| % market capitalisation of Islamic REIT to total industry | 41.02% | 41.82% |

## Venture Capital and Private Equity

The total number of registered corporations stood at 110 as at 31 December 2017 (Table 1). The venture capital segment accounted for 101 registered corporations (VCMC and VCC), while the private equity segment consisted of 9 registered corporations (PEMC and PEC).

The year witnessed an increase in the number of investee companies from 376 in 2016 to 381 in 2017. As of end-2017, the number of VC & PE professionals employed in the industry with at least four years of experience stood at 182.

The total committed funds in the industry as at end of 2017 stood at RM 7.0 billion (Table 2). At the end of the year under review, the total cumulative investments stood at RM 2.5 billion. Investments made during 2017 amounted to RM 417.8 million as compared to RM 569.5 million in 2016.

Table 1  
**Statistics on industry participants**

|  | 31 December 2017 | 31 December 2016 |
|--|------------------|------------------|
| Number of registered corporations              | 110              | 109              |
| Number of registered VCMCs and VCCs            | 101              | 103              |
| Number of registered PEMCs and PECs            | 9                | 6                |
| Number of investee companies                   | 381              | 376              |
| Number of VC and PE professionals <sup>1</sup> | 182              | 194              |

<sup>1</sup> Professionals with more than 4 years of experience

Table 2  
**Key industry statistics**

|  | 31 December 2017<br>RM million | 31 December 2016<br>RM million |
|--|--------------------------------|--------------------------------|
| Total committed funds under management [1]             | 7,003.02                       | 6,509.51                       |
| Total drawn capital [2]                                | 3,651.62                       | 3,280.43                       |
| Estimated capital available for investment [3]=[1]-[2] | 3,351.40                       | 3,229.08                       |
| Total investment as at end of the period               | 2,454.37                       | 2,922.62                       |
|  | During 2017                    | During 2016                    |
| Investments in investee companies                      | 417.83                         | 569.45                         |
| Divestments  | 375.20                         | 532.44                         |

As for divestments, there was a decrease from RM532.4 million in 2016 to RM375.2 million in 2017. In this regard, the divestments, either partial or full, involved 59 investee companies. Divestments recorded during the year were mainly through initial public offerings (IPOs) or sale to public markets and redemption of investee company shares.

Public funds remain the largest source of capital for the industry with sovereign wealth funds and government investment companies making up 29.5% while government agencies contributed 29.9%. Private sector contribution to the industry were led by corporate investors (26.7%), followed by fund-of-funds and asset managers (7.3%) and financial institutions (2.4%).

The top three registered corporations by amount of investor commitments as at end 2017 were Xeraya Capital, Malaysia Venture Capital Management Berhad (MAVCAP) and Malaysian Life Sciences Capital Fund.

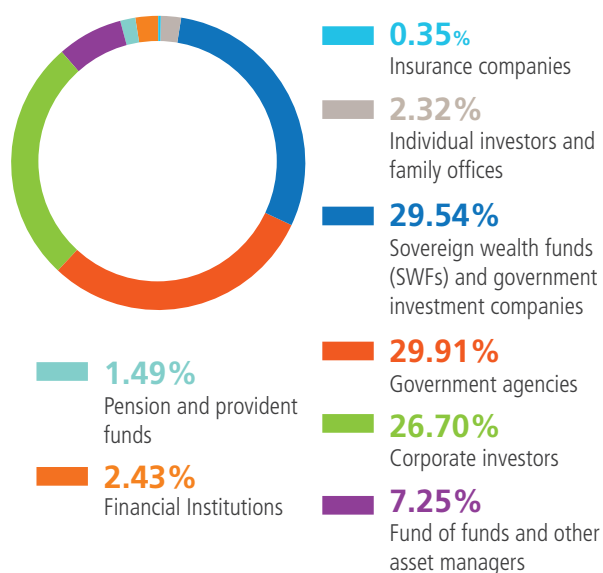
Investee companies at the early-stage and growth stages received the bulk of the funding in 2017 where a total of 62 investee companies received funding amounting to RM 280.6 million, representing 67.2% of total investments made during the year (Table 3).

Investments into the start-up stage stood at 0.89% of total investments made during the year, where the investments were channeled into 8 investee companies.

Investments in the life sciences sector accounted for approximately 52.7% of investments during the year 2017. Both the manufacturing sector and the IT and communication sector saw increases in share of investments, accounting for 24.6% and 14.0% of the total respectively.

Other sectors recorded a share of 8.7%. These sectors include wholesale and retail trading, electricity and power generation, education, as well as media production.

Chart 1  
**Sources of funds (2017: RM7.00 billion)**

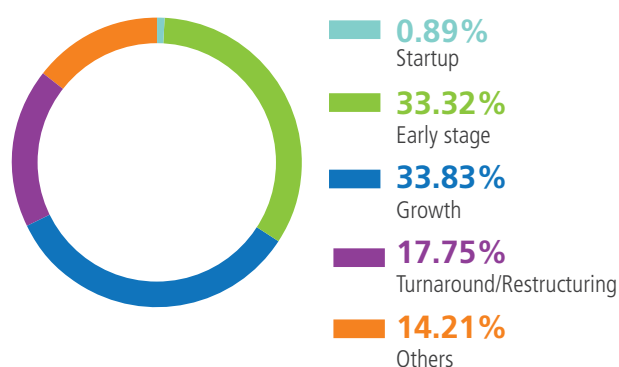


Notes:

**Government agencies:** Ministries and agencies. Includes Ministry of Finance and Ministry of Science, Technology and Innovation.

**SWFs and government investment companies:** Includes statutory and incorporated bodies established for the purpose of managing investments, e.g. Khazanah Nasional, PNB.

Chart 2  
**Investments by financing stage (2017: RM417.83 million)**



Divestments in 2017 were mainly in investee companies in early stage to growth business stages. Exits for companies at these stages amounted to approximately RM 281.9 million, representing 75.1% of divestments during the year. (Table 4)



Table 3  
Investments during 2017

| Business stage           | New investments (RM '000) | % of total    | No. of companies | Avg. deal size (RM '000) |
|--------------------------|---------------------------|---------------|------------------|--------------------------|
| Seed                     | –                         | –             | –                | –                        |
| Startup                  | 3,728.68                  | 0.89          | 8                | 466.09                   |
| Early stage              | 139,205.25                | 33.32         | 25               | 5,568.21                 |
| Growth                   | 141,360.82                | 33.83         | 37               | 3,820.56                 |
| Bridge/mezzanine/pre-IPO | –                         | –             | –                | –                        |
| Turnaround/restructuring | 74,175.65                 | 17.75         | 3                | 24,725.22                |
| Others                   | 59,361.97                 | 14.21         | 4                | 14,840.49                |
| <b>Total</b>             | <b>417,832.36</b>         | <b>100.00</b> | <b>77</b>        | <b>5,426.39</b>          |

Chart 3  
Investments during year, percentage by sectors

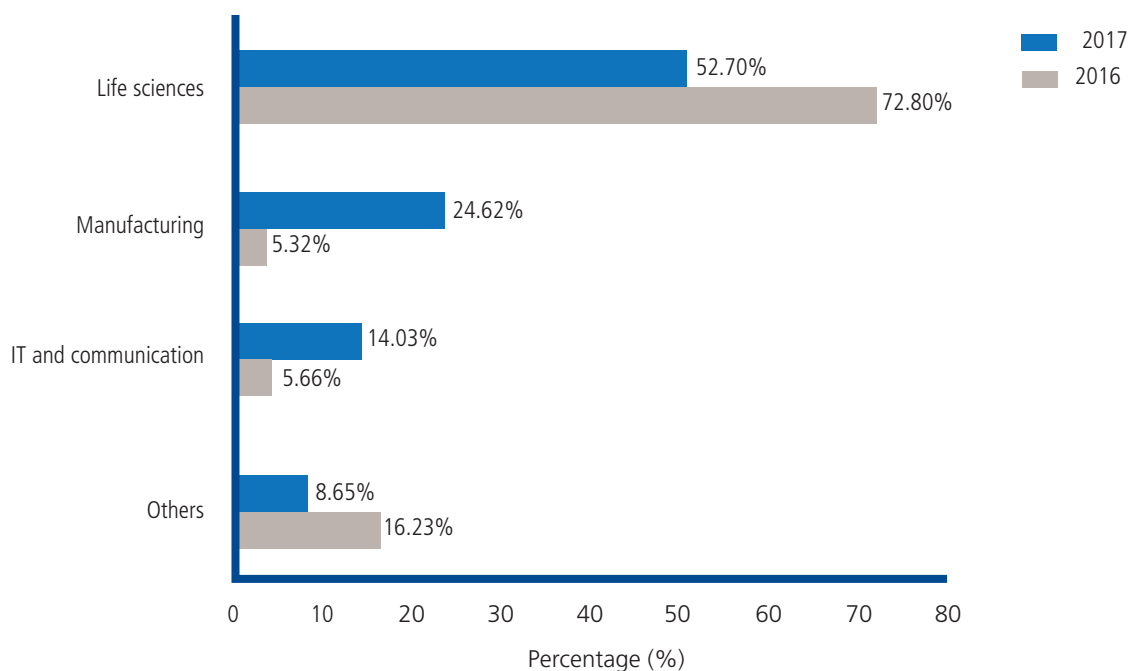


Table 4

**Divestments during 2017**

| Business stage           | Divestment (RM'000) | % of total    | No. of companies |
|--------------------------|---------------------|---------------|------------------|
| Seed                     | -                   | -             | -                |
| Startup                  | 2,266.63            | 0.60          | 7                |
| Early stage              | 211,060.10          | 56.25         | 10               |
| Growth                   | 70,839.43           | 18.88         | 26               |
| Bridge/mezzanine/pre-IPO | 38,986.62           | 10.39         | 6                |
| Turnaround/Restructuring | -                   | -             | -                |
| Others                   | 52,043.06           | 13.87         | 10               |
| <b>Total</b>             | <b>375,195.84</b>   | <b>100.00</b> | <b>59</b>        |

# Equity Crowdfunding and Peer-to-Peer Financing

The SC has introduced the equity crowdfunding (ECF) and peer-to-peer (P2P) financing frameworks in the capital market to allow for alternative market-based financing avenues for micro, small and medium enterprises (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. The SC has registered six ECF platform operators in 2015 and six P2P financing platform operators in 2016 as Recognized Market Operators. Cumulatively, a total of RM69.89 million has been raised by 157 issuers via both market-based financing avenues.

## EQUITY CROWDFUNDING

Since its inception, a total of RM32.74 million capital has been raised through 37 successful campaigns with an 86% campaign success rate. In 2017 alone, RM22.34 million has been raised by 23 issuers as compared to RM10.4 million raised by 14 issuers in 2016 (Chart 1 and Chart 2). This represents a 115% increase in funds raised and a 64% increase in number of issuers in 2017 as compared to 2016. The exponential growth of funds raised in the ECF market indicates a strong and growing demand for ECF as an alternative financing avenue for MSMEs and is in line with SC's digital agenda to enhance access to financing in the capital market.

The highest amount of capital raised as at end 2017 by a single fundraising campaign on an ECF platform amounted to RM3 million. Among the issuers with successful fundraising campaigns on ECF platforms, 57% sought funding of RM500,000 and below

## Statements, Statistics and Activities

Chart 1  
ECF: Capital raised

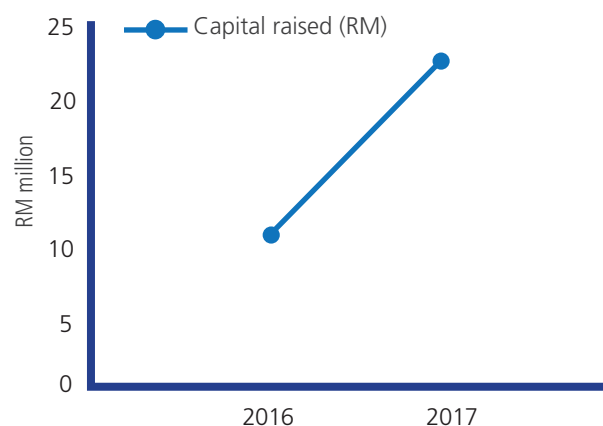
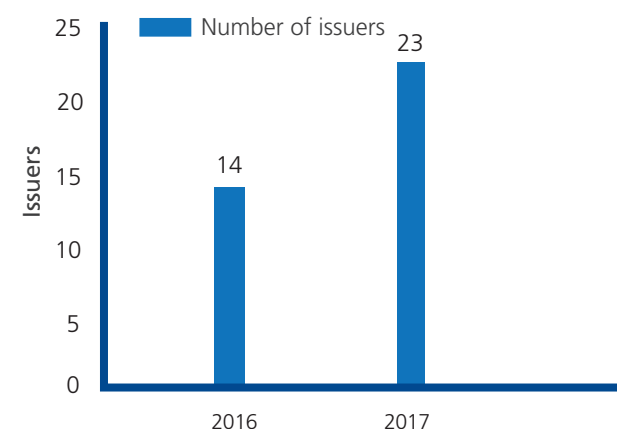


Chart 2  
ECF: Number of issuers with successful campaigns



(Chart 3). The ability for issuers to raise small amounts of capital from the crowd reflects the inclusive nature of ECF as an alternative market-based financing avenue. Technology-based companies received the bulk of ECF funding in 2017, accounting for 56% of issuers with successful campaigns (Chart 4).

Chart 3

**ECF: Distribution by fundraising amount**

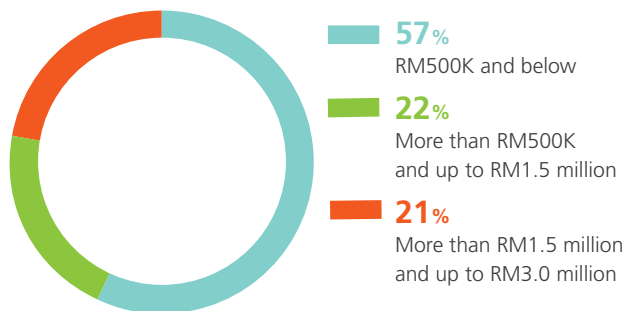


Chart 4

**ECF: Technology-based company vs non-technology company**

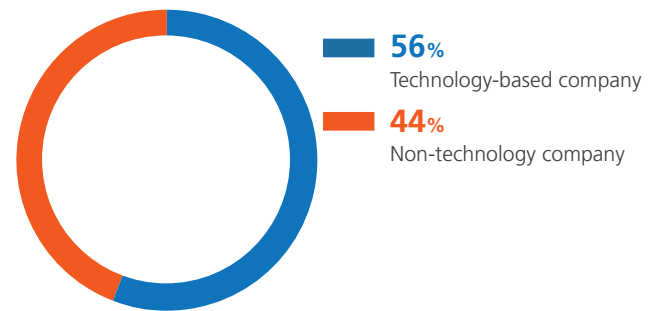
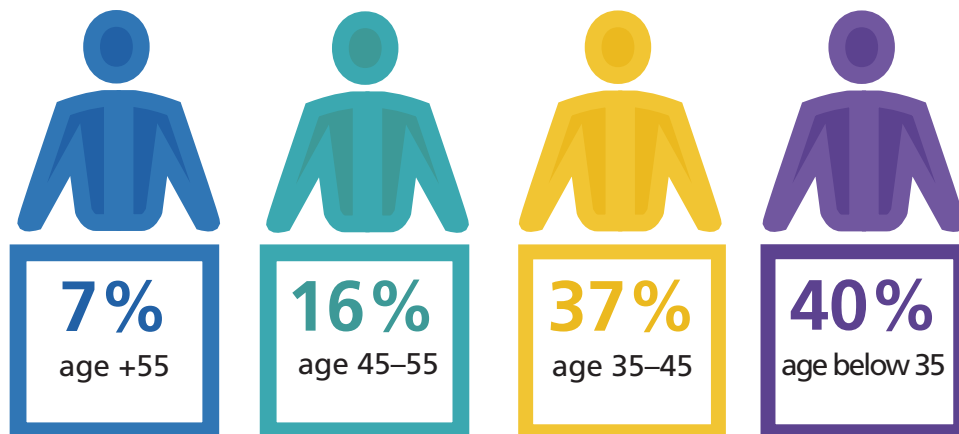


Diagram 1

**ECF: Investors age demographic**

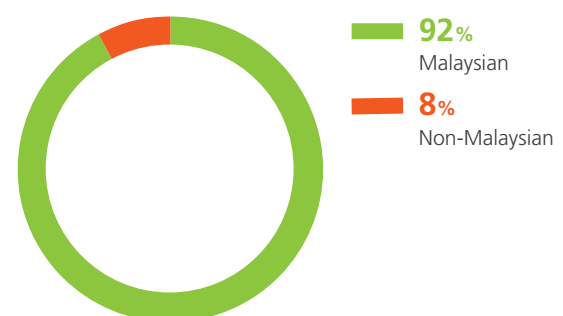


In relation to demographics based on individual investors' age, 40% of ECF investors were below the age of 35 years, reflecting that ECF is increasingly attracting participation from younger investors (Diagram 1).

Local investors accounted for 92% of total ECF investors, with foreign investors comprising the remaining 8% (Chart 5).

Chart 5

**ECF: Investor distribution by nationalities**



## PEER-TO-PEER FINANCING

In 2017 alone, there have been 628 successfully completed campaigns across 120 issuers, with a total of RM37.15 million raised. Notably, issuers raising funds on P2P financing platforms have recorded a campaign success rate of 99%.

The largest fundraising campaign which had been successfully completed on a P2P financing platform was for RM3 million. Among the successful fundraising campaigns, 69% sought funding below RM200,000 (Chart 6).

The majority of issuers with successful fundraising campaigns were in the wholesale, retail and consumer products sectors, accounting for 62% of total issuers, while the remaining 38% are from other industries. These sectors include F&B, real estate and hospitality industries (Chart 7).

In relation to demographics based on individual investors' age, the majority of P2P financing investors were under 35 years old, accounting for 56% of total individual investors (Diagram 2). Local investors formed the bulk of investors, representing 99% of total investors in P2P financing.

Chart 6

**P2P Financing: Distribution by fundraising amount**

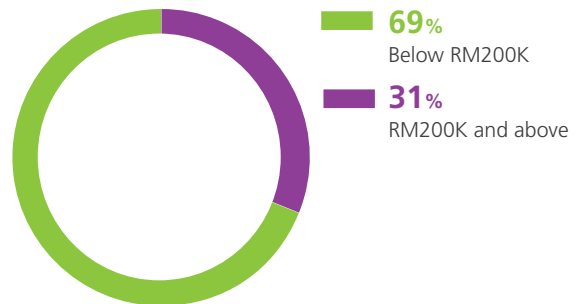


Chart 7

**P2P Financing: Fundraising distribution by sectors**

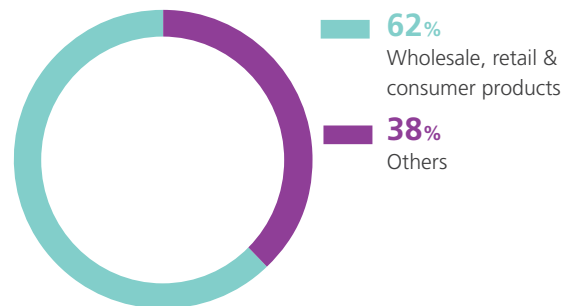
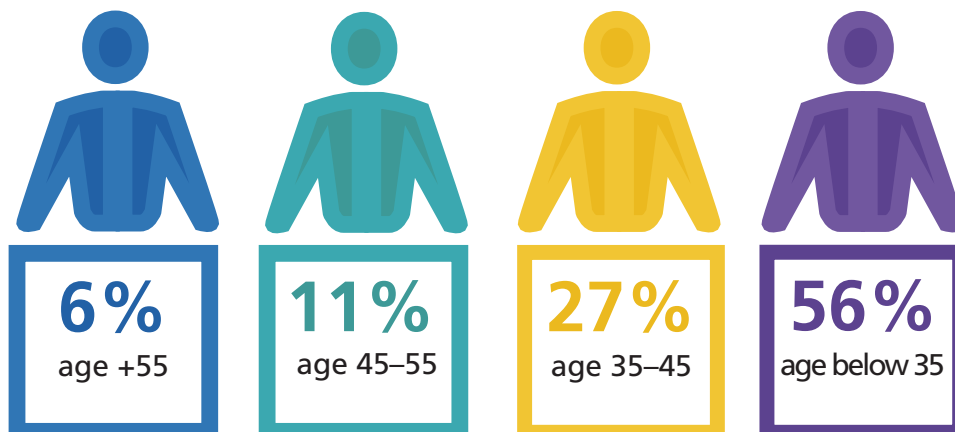


Diagram 2

**P2P Financing: Investors age demographic**



## Authorisation and Licensing

The number of licensed intermediaries including individual licensees stood at 236 compared with 227 in previous year. The number of licensed representatives declined marginally to 9,545 compared with 9,632 in previous year. During the year, 792 new licences were issued to Capital Markets Services Representative's Licence (CMSRLs) to undertake various regulated activities. It was noted that advisory segment continues to attract new entrants, particularly financial planning.

During the year, the SC also introduced amendments to its regulatory framework to include clearing for securities and derivatives as a new regulated activity. The new framework was introduced in a phase approach, starting with the derivatives market given the readiness of the market infrastructure to cater to a wider intermediary segment. As at end of 2017, 17 intermediaries from the derivatives segment were licensed for clearing for derivatives.

During the year, the *Guidelines for Marketing Representatives* was broadened for marketing representatives for all regulated activities. As at end of 2017, a total of 320 Marketing Representatives were registered. The number of registered Trading Representatives declined slightly to 139 compared to 153 in the previous year.

A total of 12 new licences were issued during the year of which 1 licence was issued to a company for dealing in securities restricted to listed securities, 3 were issued to companies for fund management, 4 were issued to companies for advising on corporate finance and another 4 to companies for financial planning activities. In respect of cessation of activities, 3 Capital Markets Services Licences (CMSLs) were ceased due to business realignment and inability to sustain their business.

As at 31 December 2017, there were 236 (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                   | 2017       | 2016       |
|------------------------------------|------------|------------|
| Dealing in securities <sup>1</sup> | 39         | 38         |
| Dealing in derivatives             | 8          | 8          |
| Fund management                    | 93         | 90         |
| Advising on corporate finance      | 43         | 40         |
| Investment advice                  | 16         | 17         |
| Investment advice (individual)     | 1          | 1          |
| Financial planning                 | 33         | 29         |
| Financial planning (individual)    | 3          | 4          |
| <b>Total</b>                       | <b>236</b> | <b>227</b> |

Note:

<sup>1</sup> Includes 6 CMSLs for dealing in securities restricted to unit trust and 1 CMSL for dealing in securities restricted to listed securities.

Table 1

**Capital Markets Services Licence holders** (*continued*)

| By regulated activity                         | 2017      | 2016      |
|---|-----------|-----------|
| <b>Dealing in securities</b>                  |           |           |
| 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         |
|   | <b>32</b> | <b>32</b> |
| <b>Dealing in derivatives</b>                 |           |           |
| Investment banks                              | 5         | 5         |
| 1+1 stockbroking companies                    | 3         | 3         |
| Special scheme foreign stockbroking companies | 2         | 2         |
| Others  | 8         | 8         |
|   | <b>18</b> | <b>18</b> |
| <b>Clearing</b>                               |           |           |
| Investment banks                              | 5         | –         |
| 1+1 stockbroking companies                    | 3         | –         |
| Special scheme foreign stockbroking companies | 2         | –         |
| Others  | 7         | –         |
|   | <b>17</b> | <b>–</b>  |
| <b>Fund management</b>                        |           |           |
| <i>Portfolio management</i>                   |           |           |
| Investment banks                              | 1         | 1         |
| Unit trust management companies               | 24        | 24        |
| Special scheme foreign fund managers          | 5         | 5         |
| Islamic fund managers                         | 20        | 20        |
| Boutique fund managers                        | 2         | 1         |
| Others  | 24        | 23        |



Table 1

**Capital Markets Services Licence holders** (*continued*)

| <b>Fund management</b>                                  | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
| <i>Asset management</i>                                 |             |             |
| Real estate investment trusts                           | 18          | 17          |
|   | <b>94</b>   | <b>91</b>   |
| <b>Advising on corporate finance</b>                    |             |             |
| Investment banks  | 10          | 10          |
| 1+1 stockbroking companies                              | 6           | 5           |
| Special scheme foreign stockbroking companies           | 6           | 6           |
| Others/standalone/boutique corporate finance companies  | 44          | 41          |
|   | <b>66</b>   | <b>62</b>   |
| <b>Investment advice</b>                                |             |             |
| Investment banks  | 8           | 8           |
| 1+1 stockbroking companies                              | 8           | 9           |
| Special scheme foreign stockbroking companies           | 7           | 7           |
| Unit trust management companies                         | 2           | 2           |
| Others/standalone/boutique investment advice companies  | 22          | 22          |
|   | <b>47</b>   | <b>48</b>   |
| <b>Financial planning</b>                               |             |             |
| Unit trust management companies                         | 4           | 3           |
| Corporate unit trust advisers                           | 15          | 10          |
| Others/standalone/boutique financial planning companies | 21          | 23          |
|   | <b>40</b>   | <b>36</b>   |
| <b>Dealing in securities restricted to unit trusts</b>  |             |             |
| Unit trust management companies                         | 30          | 30          |
| Islamic fund managers                                   | 7           | 6           |
| Corporate unit trust advisers                           | 15          | 10          |
| Others  | 1           | 1           |
|   | <b>53</b>   | <b>47</b>   |

Table 1

**Capital Markets Services Licence holders** (continued)

| Dealing in securities restricted to listed securities | 2017       | 2016       |
|---|------------|------------|
| Others  | 1          | –          |
|   | <b>1</b>   | <b>–</b>   |
| <b>Dealing in securities restricted to OTC bond</b>   |            |            |
| Others  | 1          | –          |
|   | <b>1</b>   | <b>–</b>   |
| <b>Dealing in private retirement schemes</b>          |            |            |
| Investment banks                                      | 1          | 1          |
| Unit trust management companies                       | 9          | 9          |
| Corporate private retirement scheme advisers          | 12         | 10         |
| Others  | 2          | 2          |
|   | <b>24</b>  | <b>22</b>  |
| <b>Grand total</b>                                    | <b>393</b> | <b>356</b> |

Table 2

**Capital Markets Services Representative's Licence holders**

| By core activity              | 2017         | 2016         |
|-------------------------------|--------------|--------------|
| Dealing in securities         | 6,431        | 6,606        |
| Dealing in derivatives        | 521          | 545          |
| Fund management               | 817          | 811          |
| Advising on corporate finance | 772          | 769          |
| Investment advice             | 293          | 275          |
| Financial planning            | 711          | 626          |
| <b>Grand total</b>            | <b>9,545</b> | <b>9,632</b> |

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 |      |
|----------------------|-----------------------|------|------------------------|------|-----------------|------|-------------------------------|------|-------------------|------|--------------------|------|
|                      | 2017                  | 2016 | 2017                   | 2016 | 2017            | 2016 | 2017                          | 2016 | 2017              | 2016 | 2017               | 2016 |
| Issued               | 1*                    | –    | –                      | –    | 3               | 1    | 4                             | –    | –                 | –    | 4                  | 1    |

Note:

\* Dealing in securities restricted to listed securities.

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 |      |
|----------------------|-----------------------|------|------------------------|------|-----------------|------|-------------------------------|------|-------------------|------|--------------------|------|
|                      | 2017                  | 2016 | 2017                   | 2016 | 2017            | 2016 | 2017                          | 2016 | 2017              | 2016 | 2017               | 2016 |
| Issued               | 261                   | 339  | 68                     | 51   | 107             | 93   | 150                           | 124  | 68                | 67   | 138                | 110  |
| Withdrawn*           | 40                    | 36   | 14                     | 11   | 53              | 26   | 43                            | 7    | 13                | 9    | 114                | 95   |
| Returned*            | 138                   | 244  | 44                     | 48   | 92              | 86   | 64                            | 60   | 33                | 52   | 94                 | 146  |

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) |      |
|----------------------|-----------------------|------|------------------------|------|-----------------|------|-------------------------------|------|-------------------|------|--------------------|------|---------------------------------|------|
|                      | 2017                  | 2016 | 2017                   | 2016 | 2017            | 2016 | 2017                          | 2016 | 2017              | 2016 | 2017               | 2016 | 2017                            | 2016 |
| Ceased               | –                     | –    | –                      | 1    | 1               | 1    | 1                             | 4    | –                 | 1    | –                  | –    | 1                               | 2    |
| 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 |      |
|----------------------|-----------------------|------|------------------------|------|-----------------|------|-------------------------------|------|-------------------|------|--------------------|------|
|                      | 2017                  | 2016 | 2017                   | 2016 | 2017            | 2016 | 2017                          | 2016 | 2017              | 2016 | 2017               | 2016 |
| Ceased*              | 529                   | 542  | 131                    | 162  | 105             | 97   | 144                           | 107  | 46                | 51   | 50                 | 45   |
| Revoked              | 8                     | 7    | –                      | –    | –               | –    | –                             | –    | 1                 | –    | –                  | 1    |
| Suspended            | –                     | –    | –                      | –    | –               | –    | –                             | –    | –                 | –    | –                  | –    |

Note:

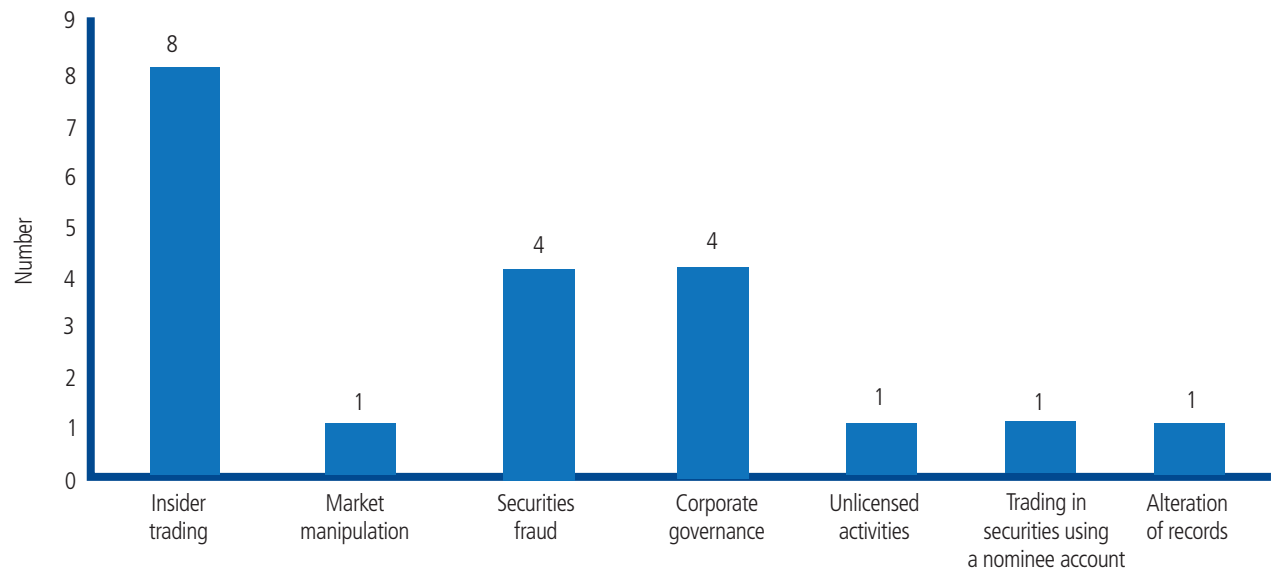
\* By regulated activities

# Enforcement

In 2017, the SC received 20 referrals on possible violation of securities law arising mainly from the SC’s active surveillance of market and corporate activities, as well as from information provided by local and foreign authorities. Nearly half of the referrals related to possible market misconduct involving insider trading and market manipulation (Chart 1). This is followed by possible securities fraud and corporate governance breaches in relation to conduct of PLC directors and officers causing wrongful loss to the PLC. The remaining referrals relates to offences such as carrying out regulated activities without licence from the SC, trading in securities using a nominee account, and alteration of records required to be maintained under securities law.

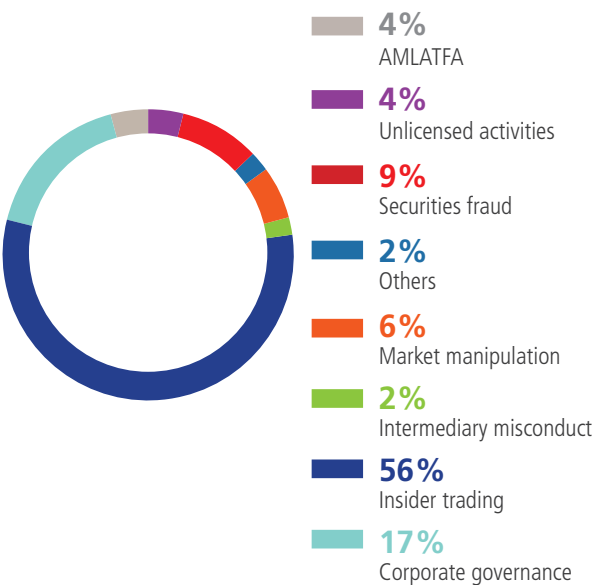
The total number of active investigations as at 31 December 2017 stood at 52. A significant portion of resources in the current year were devoted to investigating possible insider trading violations, with a total of 29 insider trading cases still ongoing (Chart 2).

Chart 1  
Referrals received in 2017 by nature of offence



Gathering documentary and oral evidence form an integral part of the investigation process. Investigation powers provided under the *Securities Commission Malaysia Act 1993* (SCMA) facilitate the gathering of documentary evidence from witnesses, including from PLCs and financial institutions. When necessary, searches were also conducted at premises in relation to possible corporate governance

Chart 2  
Active investigation by nature of offences



offences. In addition to documents, computers and other digital devices were seized for the purpose of investigation.

For purposes of gathering oral evidence, SC's Investigating Officers recorded formal witness statements from 386 individuals in 2017 (Chart 3). Almost two-thirds of these witnesses were made up of professionals, such as corporate advisers, bankers, lawyers, auditors and company secretaries, as well as directors and senior management of PLC, persons licensed by SC and securities account holders.

This year, SC continued to seek assistance from foreign supervisory authorities under the IOSCO's Multilateral Memorandum of Understanding on Consultation and Co-operation and Exchange of Information. We have made 13 requests to 9 foreign supervisory authorities, mostly to seek assistance to procure documentary evidence, such as banking documents, documents related to securities transactions and information of the beneficial ownership of companies for possible insider trading offences (Table 1). Conversely, SC rendered investigation assistance to 10 foreign supervisory authorities from 3 jurisdictions.

This included obtaining records on securities transactions, banking documents and telephone records. Aside from this, SC also sought assistance from the Royal Malaysian Police and the Singapore Police Force in the apprehending of 3 individuals in Singapore in 2017.

Table 1  
**Foreign assistance sought by SC in 2017 by jurisdiction**

| Jurisdictions | No. of requests |
|---------------|-----------------|
| Australia     | 1               |
| China         | 1               |
| Hong Kong     | 1               |
| Singapore     | 5               |
| Thailand      | 1               |
| UK            | 1               |
| US            | 1               |
| Brunei        | 1               |
| India         | 1               |
| <b>Total</b>  | <b>13</b>       |

Chart 3  
**Witness statements recorded in 2017 by type of witness**



## Administrative actions

In 2017, a total of 32 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, directives and moratoriums (See Table 2).

During the year, a total of RM2.806 million in penalties were imposed against the following parties:

- A licensed intermediary for failure to supervise its business, resulting in it contravening conditions of its licence;
- A licensed intermediary for breaching provisions in the *Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries*;

## Statements, Statistics and Activities

- 2 licensed intermediaries for delay in submitting the monthly statistical returns for wholesale funds under the LOLA framework;
- A registered person for delay in submitting a monthly post-issuance report for a structured product under the LOLA Framework; and
- 5 individual directors of a PLC for their respective failure to comply with approved accounting standards in preparing the PLC's audited financial statements, and thereby furnishing false or misleading information regarding the PLC's audited financial statements to the SC and Bursa Malaysia Securities Bhd.

## Infringement notices

Apart from administrative actions 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 functions.

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.

Table 2

### Administrative actions taken in 2017 by types of sanction and parties in breach

| Parties in breach                         | Types of sanction |            |           |           |                       |
|---|-------------------|------------|-----------|-----------|-----------------------|
|   | Directive         | Moratorium | Reprimand | Penalty   | Revocation of licence |
| Licensed persons                          | –                 | –          | 1         | 4         | 8                     |
| Public-listed companies (PLC)             | 1                 | –          | 1         | –         | –                     |
| Directors of PLC                          | –                 | –          | 5         | 5         | –                     |
| Registered persons                        | –                 | –          | –         | 1         | –                     |
| Company applying for listing              | –                 | –          | 1         | –         | –                     |
| Promoters of company applying for listing | –                 | 2          | 2         | –         | –                     |
| Other individuals <sup>1</sup>            | 1                 | –          | –         | –         | –                     |
| <b>Total</b>                              | <b>2</b>          | <b>2</b>   | <b>10</b> | <b>10</b> | <b>8</b>              |

Note:

<sup>1</sup> An individual carrying out a regulated activity without holding a licence

Infringement notices issued by the SC include the following:

- Supervisory letters involving Infringement – 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 2017, 81 infringement notices were issued by the SC as detailed in Table 3.

### Ongoing court cases for 2017

In 2017, the SC had a total of 63 ongoing cases in the Sessions Court, High Court, Court of Appeal and Federal Court (Table 4). Of these cases, 43% related to insider trading while 25% of cases related to corporate governance breaches such as financial misstatements and disclosure offences. Of the total number of ongoing cases, 10% of the cases involved questions of law and

Table 3

**Type of Infringement Notices**

| Type of Infringement Notices                | Total     |
|---|-----------|
| Supervisory Letters Involving Infringements | 16        |
| Warning Letters                             | 15        |
| Non-compliance Letters                      | 50        |
| <b>Total</b>                                | <b>81</b> |

interlocutory applications in superior courts. Cases relating to unlicensed activities, market manipulation, securities fraud and failure to appear before the SC in connection with an investigation made up the remaining 22% of the total number of cases (Chart 4).

### Details of criminal prosecution in 2017

In 2017, the SC charged a total of 10 individuals in the Sessions Court. Of this number, 7 individuals were charged for insider trading, 2 individuals for carrying out regulated activities without licence and 1 individual for failure to assist in SC's investigation.

Table 4

**Cases currently pending in courts**

| Courts                | No. of cases |
|-----------------------|--------------|
| Sessions Court        | 31           |
| High Court (Criminal) | 12           |
| High Court (Civil)    | 13           |
| Court of Appeal       | 5            |
| Federal Court         | 2            |
| <b>Total</b>          | <b>63</b>    |

Chart 4

**Ongoing court cases for 2017 by nature of cases**

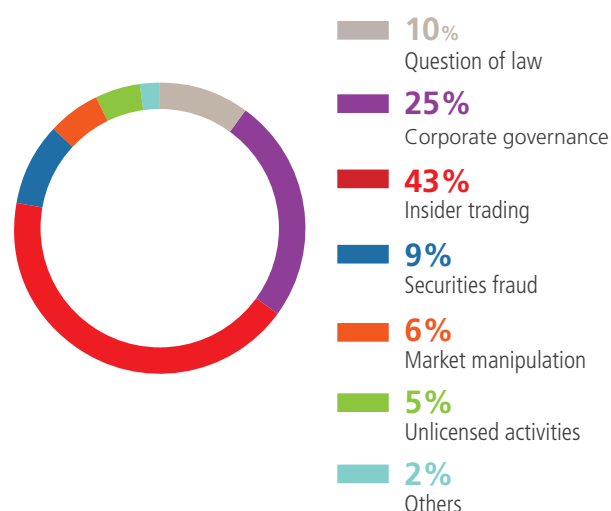




Table 5  
Details of criminal prosecution in 2017

| No. | Nature of offence | Offender(s)                                 | Facts of charge(s)  | Date charged  |
|-----|-------------------|---|---|---------------|
| 1.  | Insider trading   | Ewe Lay Peng (Ewe LP)                       | Ewe LP was charged with 1 count of insider trading under section 188(3) (b) of the CMSA for having communicated to Lim Bun Hwa, between 1 December 2007 and 31 December 2007, inside information in relation to the proposed conditional take-over offer by OSPL Holdings Sdn Bhd (OHSB) to acquire all the voting shares in PacificMas Bhd (PacificMas) not already owned by OHSB.   | 29 March 2017 |
| 2.  | Insider trading   | Lim Boon Cheng (Lim BC)                     | Lim BC was charged with 5 counts of insider trading under section 188(2) (a) of the CMSA. He is alleged to have acquired 145,000 units of PacificMas Bhd shares between 18 December 2007 and 31 December 2007 while in possession of inside information in relation to the proposed conditional take-over offer by OHSB to acquire all the voting shares in PacificMas not already owned by OHSB.   | 29 March 2017 |
| 3.  | Insider trading   | Lim Bun Hwa (Lim BH)                        | Lim BH was charged with 1 count of abetting Lim BC in acquiring 145,000 units of PacificMas Bhd shares between 18 December 2007 and 31 December 2007 while in possession of inside information in relation to the proposed conditional take-over offer by OHSB to acquire all the voting shares in PacificMas not already owned by OHSB.  | 29 March 2017 |
| 4.  | Insider trading   | Dato' Vincent Leong Jee Wai (Dato' Vincent) | Dato' Vincent was charged with 2 counts of insider trading under section 188(3) (a) of the CMSA for having communicated to Datuk Leong Wye Keong (Datuk Leong WK) between 26 November 2010 and 18 January 2011 inside information relating to the decrease in Maxbiz Corporation Bhd (Maxbiz) shareholders' equity which was close to Maxbiz being classified as financially distressed and the classification of Maxbiz as an affected listed issuer under Practice Note 17, criteria 2.1(a) of the <i>Listing Requirements of Bursa Malaysia Securities Bhd</i> .   | 22 May 2017   |
| 5.  | Insider trading   | Datuk Leong WK                              | Datuk Leong WK was charged with 4 counts of insider trading under section 188(2) (a) of the CMSA.<br><br>He is alleged to have disposed 2,131,400 units of Maxbiz Corporation Bhd (Maxbiz) shares in the account of Leong Khai Shaun (Leong KS) on 30 December 2010 and another 8,100,000 units of Maxbiz shares in his own account between 30 December 2010 and 18 January 2011 while in possession of inside information relating to the decrease in Maxbiz's shareholders' equity which was close to Maxbiz being classified as financially distressed and the classification of Maxbiz as an affected listed issuer under Practice Note 17, criteria 2.1(a) of the <i>Listing Requirements of Bursa Malaysia Securities Bhd</i> . | 29 May 2017   |

Table 5

**Details of criminal prosecution in 2017 (continued)**

| No. | Nature of offence  | Offender(s)               | Facts of charge(s)  | Date charged    |
|-----|--|---------------------------|---|-----------------|
| 6.  | Carrying on a business in a regulated activity without holding a Capital Markets Services Licence (CMSL) | Su Eng Koi (Su EK)        | Su EK, an officer of Jalatama Management Sdn Bhd (JMSB) was charged with 1 count of carrying on a business of dealing in derivatives without holding a CMSL, through JMSB between 1 July 2011 and 1 September 2013 under section 58(1) read together with section 367(1) of the CMSA.   | 5 July 2017     |
| 7.  | Carrying on a business in a regulated activity without holding a CMSL                                    | Yap Choong Seong (Yap CS) | Yap CS, an officer of Jalatama Management Sdn Bhd (JMSB) was charged with 1 count of carrying on a business of dealing in derivatives without holding a CMSL, through JMSB between 1 July 2011 and 1 September 2013 under section 58(1) read together with section 367(1) of the CMSA.  | 5 July 2017     |
| 8.  | Insider trading  | Goh Keng Huat (Goh KH)    | Goh KH was charged with 10 counts of insider trading under section 89E(2)(a) of the SIA. He is alleged to have acquired 851,600 units of Road Builder Holdings (M) Bhd (RBH) shares through the accounts of Wee Siew Ling between 4 September 2006 and 16 October 2006 while in possession of inside information relating to the proposed acquisition of all assets and liabilities of RBH by IJM Corporation Bhd (IJM) at a total indicative purchase consideration of approximately RM1.56 billion. | 10 October 2017 |
| 9.  | Insider trading  | Wee Siew Ling (Wee SL)    | Wee SL was charged with 10 counts of abetting Goh KH in acquiring 851,600 units of RBH shares through Wee SL's accounts between 4 September 2006 and 16 October 2006 while in possession of inside information relating to the proposed acquisition of all assets and liabilities of RBH by IJM at a total indicative purchase consideration of approximately RM1.56 billion.   | 10 October 2017 |
| 10. | Failing to appear before the SC in connection with an investigation                                      | Chok Chew Lan (Chok CL)   | Chok CL was charged with 2 counts of failing to appear before an Investigating Officer of the SC to be examined orally on 5 September 2017 and 19 September 2017 under section 134(5) of the SCMA.  | 24 October 2017 |

Table 6

Outcome of criminal trials and appeals in 2017

| No. | Nature of offence  | Offender(s)  | Description  |
|-----|--|--|--|
| 1.  | Knowingly authorising the furnishing of a misleading statement to Bursa Malaysia   | <ul style="list-style-type: none"> <li>Chin Keem Feung (Chin KF)</li> <li>Shukri Sheikh Abdul Tawab</li> </ul> | <p>On 14 November 2007, Chin KF and Shukri, former independent non-executive directors of Transmile Group Bhd (TGB) who were also former members of TGB's Audit Committee, were each charged under section 122B(b)(bb) of the SIA for knowingly authorising the furnishing of a misleading statement to Bursa Malaysia.</p> <p>The misleading statement was with respect to the unaudited revenue figures which were reported to Bursa Malaysia for both the fourth quarter of 2006 as well as the cumulative period for 2006.</p> <p>On 28 October 2011, the Sessions Court found Chin KF and Shukri guilty under section 122B(b)(bb) of the <i>Securities Industry Act 1983</i> (SIA) and they were both sentenced to 1-year imprisonment and fine of RM300,000 (in default 6 months imprisonment).</p> <p>The High Court, on 17 September 2015, affirmed the conviction and sentence imposed by the Sessions Court.</p> <p>On 19 January 2017, the Court of Appeal unanimously dismissed the appeal by Chin KF and Shukri and affirmed their conviction and sentence.</p>   |
| 2.  | <ul style="list-style-type: none"> <li>Holding out as a representative in respect of a regulated activity without licence</li> <li>Carrying on a business in a regulated activity without licence</li> </ul> | Zamani Hamdan  | <p>On 28 October 2011, Zamani, director of Rantau Simfoni Sdn Bhd (Rantau Simfoni), was charged under section 59(1) of the CMSA for holding himself out as a representative of a CMSL holder to trade in futures contracts without a CMSRL.</p> <p>Zamani was also charged in the alternative for carrying on the business of trading in futures contracts without holding a CMSL, through Rantau Simfoni, an offence under section 58(1) read together with section 367(1) of the CMSA.</p> <p>On 30 April 2013, the Sessions Court convicted Zamani on the alternative charge and sentenced him to a fine of RM1 million (in default, 1 year jail).</p> <p>Zamani had filed an appeal to the High Court against the conviction and sentence while the Prosecution filed an appeal against the sentence.</p> <p>The High Court, on 19 January 2017, dismissed Zamani's appeal against his conviction.</p> <p>The High Court further enhanced the sentence by adding an imprisonment sentence of 2 months while reducing the fine to RM215,000 (in default, 4 months jail).</p> <p>The SC has since filed an appeal to the Court of Appeal against the sentence imposed by the High Court.</p> |

Table 6

**Outcome of criminal trials and appeals in 2017 (continued)**

| No. | Nature of offence                          | Offender(s)                       | Description   |
|-----|--|-----------------------------------|---|
| 3.  | Submission of misleading information to SC | Dato' Lim Kim Ming (Dato' Lim KM) | <p>On 22 May 2007, Dato' Lim KM, a former chief executive officer and executive director of GP Ocean Food Bhd (GP Ocean), was charged under section 32B(1)(a)(aa) read together with section 138(2) of the <i>Securities Commission Act 1993</i> (SCA) for submitting misleading information to the SC in connection with GP Ocean's proposal for listing on the Main Board of Bursa Malaysia Securities Bhd. The misleading information was contained in:</p> <ul style="list-style-type: none"> <li>Gropoint Fisheries Sdn Bhd's Directors' Report and Audited Financial Statements 31 January 2006; and</li> <li>Gropoint Seafood Industries Sdn Bhd's Directors' Report and Audited Financial Statements 31 January 2006.</li> </ul> <p>Gropoint Fisheries Sdn Bhd and Gropoint Seafood Industries Sdn Bhd were at the material time subsidiaries of GP Ocean.</p> <p>On 6 January 2011, the Sessions Court acquitted and discharged Lim KM.</p> <p>On 14 February 2017, the High Court overturned the acquittal and ordered Lim KM to enter his defence on the charge against him.</p> |
| 4.  | Submission of misleading information to SC | Lim Kim Hai (Lim KH)              | <p>On 22 May 2007, Lim KH, a former executive director and finance director of GP Ocean, was charged under section 32B(1)(a)(aa) read together with section 138(2) of the SCA for submitting misleading information to the SC in connection with GP Ocean's proposal for listing on the Main Board of Bursa Malaysia Securities Bhd. The misleading information was contained in GP Ocean's Directors' Report and Financial Statements for the year ended 31 January 2006.</p> <p>On 6 January 2011, the Sessions Court acquitted and discharged Lim KH.</p> <p>On 14 February 2017, the High Court overturned the acquittal and ordered Lim KH to enter his defence on the charge against him.</p>   |
| 5.  | Submission of misleading information to SC | Lee Sin Teck (Lee ST)             | <p>On 18 April 2007, Lee ST, a co-founder, managing director and executive vice chairman of GP Ocean was charged under section 32B (1)(a)(aa) read together with section 138(2) of the SCA for submitting misleading information to the SC in connection with GP Ocean's proposal for listing on the Main Board of Bursa Malaysia Securities Bhd. The misleading information was contained in GP Ocean's Directors' Report and Financial Statements for the year ended 31 January 2006.</p> <p>On 6 January 2011, the Sessions Court acquitted and discharged Lee ST.</p> <p>On 14 February 2017, the High Court overturned the acquittal and ordered Lee ST to enter his defence on the charge against him.</p>  |

Table 6

Outcome of criminal trials and appeals in 2017 (continued)

| No. | Nature of offence  | Offender(s)   | Description   |
|-----|--|---|---|
| 6.  | Submission of misleading information to SC   | Tan Siok Wan (Tan SW)   | <p>On 18 April 2007, Tan SW, a co-founder, executive director and chief operating officer of GP Ocean was charged under section 32B (1)(a)(aa) read together with section 138(2) of the SCA for submitting misleading information to the SC in connection with GP Ocean's proposal for listing on the Main Board of Bursa Malaysia Securities Bhd. The misleading information was contained in a list titled 'GP Ocean Food Bhd Group Top Ten Customer'.</p> <p>On 6 January 2011, the Sessions Court acquitted and discharged Tan SW.</p> <p>On 14 February 2017, the High Court overturned the acquittal and ordered Tan SW to enter her defence on the charge against her.</p>   |
| 7.  | <ul style="list-style-type: none"> <li>Securities fraud</li> <li>Criminal breach of trust</li> </ul> | <ul style="list-style-type: none"> <li>Chung Wai Meng (Chung WM)</li> <li>Yip Yee Foo (Yip YF)</li> </ul> | <p>On 24 September 2004, Chung WM, a former director of Cold Storage (Malaysia) Bhd (CSM), was charged under section 87A of the SIA for defrauding CSM by transferring RM185 million of CSM's funds to pay for the purchase of CSM shares by Fulham Finance and Trade Ltd and Excoplex Sdn Bhd.</p> <p>Chung WM was also charged in the alternative for criminal breach of trust under section 409 of the <i>Penal Code</i> in respect of the sum of RM185 million.</p> <p>Yip YF was charged for abetting Chung WM in committing both the offences.</p> <p>On 11 March 2011, the Sessions Court ordered both Chung WM and Yip YF to enter their defence on the alternative charge for criminal breach of trust, and acquitted and discharged them on the charge under section 87A of the SIA.</p> <p>On 20 June 2011, the Sessions Court acquitted and discharged them on the alternative charges.</p> <p>The High Court, on 14 March 2017, dismissed the Prosecution's appeal against the acquittal order by the Sessions Court.</p> <p>The Prosecution has filed an appeal to the Court of Appeal against the High Court's decision.</p> |

Table 6

**Outcome of criminal trials and appeals in 2017 (continued)**

| No. | Nature of offence  | Offender(s)              | Description   |
|-----|--|--------------------------|---|
| 8.  | Insider trading  | Chew Lian Foon (Chew LF) | <p>On 25 October 2016, Chew LF, a former OSK Investment Bank Bhd dealer, was charged under section 370(c) read together with section 188(2)(a) of the CMSA with 7 counts of abetting Fang Siew Yee, the executive director of Three-A Resources Bhd (3A) 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 International Ltd (Wilmar).</p> <p>On 21 April 2017, the Sessions Court ordered a discharge not amounting to an acquittal against Chew LF upon the request of the Prosecution.</p>   |
| 9.  | Insider trading  | Ong Kok Aun (Ong KA)     | <p>On 25 October 2016, Ong KA, a former OSK Investment Bank Bhd dealer was charged under section 370(c) read together with section 188(2)(a) of the CMSA with 1 count of abetting Fang Siew Yee, the executive director of Three-A Resources Bhd (3A) 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.</p> <p>On 21 April 2017, the Sessions Court ordered a discharge not amounting to an acquittal against Ong KA upon the request of the Prosecution.</p>  |
| 10. | <ul style="list-style-type: none"> <li>Making a statement that is misleading in a material particular which is likely to induce the purchase of securities by other persons</li> <li>Furnishing misleading statement to Bursa Malaysia Securities Bhd</li> </ul> | Gan Boon Aun (Gan BA)    | <p>On 12 July 2007, Gan BA, the former chief executive officer of Transmile Group Bhd (Transmile), was charged with abetting Transmile in making a statement that is misleading in a material particular relating to Transmile's revenue in the company's quarterly report on unaudited consolidated results for the financial year ended 31 December 2006 which statement was likely to induce the purchase of Transmile's shares by other persons, an offence under section 86(b) read together with section 122C(c) of the SIA.</p> <p>On 26 May 2008, Gan BA was also charged in the alternative with furnishing a misleading statement to Bursa Malaysia Securities Bhd in the same financial statement, an offence under section 122B(a) (bb) read together with section 122(1) of the SIA.</p> <p>On 16 March 2011, the Sessions Court held that the Prosecution had proven a prima facie case and ordered Gan BA to enter his defence to the alternative charge.</p> <p>On 21 June 2011, Gan BA made an application for a referral of a constitutional question to the High Court to challenge the validity of section 122(1) of the SIA arguing that the provision was inconsistent with Article 5(1) of the <i>Federal Constitution</i>.</p> <p>On 14 November 2011, the High Court declared section 122(1) of the SIA to be unconstitutional and granted a stay of the decision.</p> |

Table 6

Outcome of criminal trials and appeals in 2017 (continued)

| No. | Nature of offence  | Offender(s)   | Description   |
|-----|--|---|---|
| 10. | <ul style="list-style-type: none"> <li>Making a statement that is misleading in a material particular which is likely to induce the purchase of securities by other persons</li> <li>Furnishing misleading statement to Bursa Malaysia Securities Bhd</li> </ul> | Gan Boon Aun (Gan BA)   | <p>The SC lodged an appeal to the Court of Appeal and on 28 September 2015, the Court of Appeal overturned the decision of the High Court and affirmed the validity of section 122(1) of the SIA.</p> <p>Gan BA then filed an appeal at the Federal Court against the decision made by the Court of Appeal.</p> <p>On 10 March 2016, the Federal Court struck out Gan BA's appeal on the ground that the appeal was incompetent for lack of jurisdiction and set aside the decisions of the High Court and the Court of Appeal. The Federal Court further ordered that the matter be remitted to the High Court to examine the record of proceedings and to consider whether there were questions regarding the provision of the <i>Federal Constitution</i> that were necessary for the determination by the Federal Court in accordance with sections 30, 84 and 85 of the <i>Courts of Judicature Act 1964</i>.</p> <p>Following the decision of the Federal Court on 9 May 2016, the High Court decided that there were questions that were necessary for the determination by the Federal Court and referred five constitutional questions to the Federal Court.</p> <p>On 15 March 2017, the Federal Court unanimously upheld the validity of section 122(1) of the SIA and ordered the matter to be remitted to the Sessions Court for continuation of the trial.</p> <p>On 27 April 2017, Gan BA filed an application at the Federal Court to review and to set aside the decision of the Federal Court on 15 March 2017.</p> <p>On 21 June 2017, the Federal Court dismissed Gan BA's application.</p> |
| 11. | <ul style="list-style-type: none"> <li>Fraud on a PLC</li> <li>Criminal breach of trust</li> </ul>   | <ul style="list-style-type: none"> <li>Ngu Tieng Ung (Ng TU)</li> <li>Wong Jit Kiang (Wong JK)</li> </ul> | <p>On 5 May 2005, Ngu TU, former managing director of Pancaran Ikrab Bhd (PIB), was charged with 2 counts under section 87A(b) of the SIA for engaging in an act that operated as a fraud on PIB by utilising RM15.5 million of PIB's funds to purchase PIB shares.</p> <p>Ngu TU was also charged with 1 count of committing criminal breach of trust under section 409 of the <i>Penal Code</i> in respect of RM21.5 million of PIB's funds.</p> <p>Further, an alternative charge of committing criminal breach of trust under section 409 of the <i>Penal Code</i> involving RM37 million of PIB's funds was also preferred against Ngu TU.</p> <p>Wong JK was charged for abetting Ngu TU in the commission of the said offences.</p> <p>Wong JK failed to attend court since 23 March 2009 and on 24 March 2010, the Sessions Court granted a discharge not amounting to an acquittal against him. A warrant of arrest is still pending against him.</p>  |



Table 6

**Outcome of criminal trials and appeals in 2017 (continued)**

| No. | Nature of offence   | Offender(s)  | Description  |
|-----|---|--|--|
|     |   |  | <p>In October 2010, Ngu TU pleaded guilty to the 2 principal charges under the SIA and was sentenced to 1-day imprisonment and RM1 million fine for each charge.</p> <p>In August 2011 upon the Prosecution's appeal against the sentence, the High Court set aside the conviction and sentence, on the ground that the plea was qualified and remitted the matter for a re-trial to the Sessions Court.</p> <p>The retrial against Ngu TU commenced in January 2012.</p> <p>In August 2013, the Sessions Court ordered Ngu TU to enter his defence on the alternative charge of committing criminal breach of trust of RM37 million of PIB's funds.</p> <p>On 11 September 2015, the Sessions Court convicted Ngu TU of criminal breach of trust under section 409 of the <i>Penal Code</i>. Ngu TU was sentenced to 6 years imprisonment and RM1 million fine, in default of payment, 2 years imprisonment.</p> <p>On 5 May 2017, the High Court allowed Ngu TU's appeal and set aside the Sessions Court's conviction and sentence. The Prosecution's cross appeal on sentence was also dismissed.</p> <p>The Prosecution has filed an appeal to the Court of Appeal against his acquittal.</p> |
| 12. | Furnishing false information to Bursa Malaysia Securities Bhd | Dato' Dr Haji Mohd Adam Che Harun (Dato' Adam)   | <p>Dato' Adam, the executive chairman and director of Megan Media Holdings Bhd (MMHB) was charged on 10 December 2007 under section 122B (a)(bb) read together with section 122(1) of the SIA 1983 for furnishing false information to Bursa Malaysia. The false information was in relation to the revenue in MMHB's Quarterly Report on Consolidated Results for the Financial Period ended 31 January 2007.</p> <p>On 17 May 2017, the Sessions Court found Dato' Adam guilty and sentenced him to 18 months imprisonment and fine of RM300,000 (in default 1 year imprisonment).</p>   |
| 13. | Submission of false information to the SC                     | <ul style="list-style-type: none"> <li>Tan Kam Sang (Tan KS)</li> <li>Ravandaran Thangeveloo (Ravandaran)</li> </ul> | <p>On 13 August 2004, Tan KS, an accountant of Kiara Emas Asia Industries Bhd (KEAIB) and Ravandaran, an audit partner of Messrs. Arthur Andersen &amp; Co. responsible for KEAIB's audit, were each charged with 4 counts of submitting false information to the SC under section 32B (1)(c) (aa) of the SCA.</p> <p>The false information was said to be contained in the 'Follow Up Questionnaires' of KEAIB for the financial years ended 31 March 1997, 1998, 1999 and 2000 on the status of the utilisation of proceeds of a rights issue by KEAIB when in fact RM16,937,739.20 of the rights issue proceeds had been utilised in breach of the conditions of the SC's letter of approval dated 14 November 1996.</p>  |

Table 6

Outcome of criminal trials and appeals in 2017 (continued)

| No. | Nature of offence  | Offender(s)   | Description  |
|-----|--|---|--|
|     |  |   | <p>On 13 December 2012, the Sessions Court acquitted both Tan KS and Ravandaran at the end of the Prosecution's case.</p> <p>The Prosecution appealed against the decision of the Sessions Court and on 18 May 2017, the High Court overturned the acquittals and ordered Tan KS and Ravandaran to enter their defence on the charges against them.</p>  |
| 14. | Furnishing misleading statements to the SC and Bursa Malaysia Securities Bhd | <ul style="list-style-type: none"> <li>Ang Sun Beng (Ang SB)</li> <li>Ang Soon An (Ang SA)</li> </ul>                   | <p>On 15 April 2008, Ang SB and Ang SA, a former managing director and executive director of Welli Multi Corporation Bhd (WMCB) were both charged 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.</p> <p>On 11 October 2010, both Ang SB and Ang SA pleaded guilty to the first charge and the other 3 charges were taken into consideration under section 171A of the <i>Criminal Procedure Code</i> 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).</p> <p>The Prosecution appealed against the sentence but on 2 February 2016, the High Court dismissed the Prosecution's appeal.</p> <p>On 15 February 2016, the Prosecution appealed to the Court of Appeal against the decision of the High Court.</p> <p>On 23 May 2017, the Court of Appeal allowed the Prosecution's appeal and enhanced the sentence against Ang SB and Ang SA to 6 months imprisonment in addition to the RM400,000 fine.</p> |
| 15. | Furnishing false statements to Bursa Malaysia Securities Bhd                 | <ul style="list-style-type: none"> <li>Lee Han Boon (Lee HB)</li> <li>Saipuddin Lim Abdullah (Saipuddin Lim)</li> </ul> | <p>On 21 March 2013, Lee HB and Saipuddin Lim, former executive directors of Axis Incorporation Bhd (Axis), were each charged with 5 counts of furnishing false statements to Bursa Malaysia under section 122B(b)(bb) of the SIA and section 369(b)(B) of the CMSA.</p> <p>The false statements were in relation to the revenue figures of Axis which were reported in its four quarterly reports for the financial year 2007 and the quarter ending 31 March 2008.</p> <p>On 10 July 2017, Lee HB and Saipuddin Lim each pleaded guilty to one charge of furnishing false statements to Bursa Malaysia in Axis' quarterly report for the financial year ending 31 March 2008. The other four charges were taken into consideration by the court under section 171A of the <i>Criminal Procedure Code</i> during sentencing.</p> <p>Lee HB was sentenced to 7 months imprisonment and a fine of RM200,000 while Saipuddin Lim was sentenced 12 months imprisonment.</p>   |

Table 6

**Outcome of criminal trials and appeals in 2017 (continued)**

| No. | Nature of offence  | Offender(s)   | Description  |
|-----|--|---|--|
| 16. | Insider Trading  | Yeoh Kheng Chew (Yeoh KC)   | <p>On 29 July 2016, Yeoh KC, a former executive director of Kencana Petroleum Bhd (Kencana) 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 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.</p> <p>On 2 May 2017, four additional charges were preferred against Yeoh KC under section 188(2)(a) of the CMSA for acquiring 4,000,000 units of Kencana shares through the account of Asia Premium Corp on 2 June, 17 June, 7 July and 8 July 2011 while in possession of the same inside information.</p> <p>On 20 July 2017, all the charges against Yeow KC were withdrawn on the instructions of the Attorney General.</p> |
| 17. | Insider Trading  | Paulene Chee Yuet Fang (Pauline CY)   | <p>On 29 July 2016, Paulene CY was charged under section 370(c) read together with section 188(2) (a) of the CMSA with one count of abetting Yeow KC in acquiring 1,159,000 units of Kencana Petroleum Bhd (Kencana) shares on 8 July 2011 while he was in possession of inside information relating to the proposed merger of Kencana and SapuraCrest Petroleum Bhd.</p> <p>On 2 May 2017, four additional charges were preferred against Paulene CY under section 370(c) read together with section 188(2) (a) of the CMSA for abetting Yeow KC in acquiring 4,000,000 units of Kencana shares on 2 June, 17 June, 7 July and 8 July 2011 while he was in possession of the same inside information.</p> <p>On 20 July 2017, all the charges against Paulene CY were withdrawn on the instructions of the Attorney General.</p>                                |
| 18. | Insider Trading  | Tan Yee Chee (Tan YC)   | <p>On 29 July 2016, Tan YC, a dealers representative, was charged under section 370(c) read together with section 188(2) (a) of the CMSA with 1 count of abetting Yeow KC in acquiring 1,159,000 units of Kencana Petroleum Bhd (Kencana) shares on 8 July 2011 while he was in possession of inside information relating to the proposed merger of Kencana and SapuraCrest Petroleum Bhd.</p> <p>On 20 July 2017, the charge against Tan YC was withdrawn on the instructions of the Attorney General.</p>  |
| 19. | Offering securities without having prospectus registered by the SC | <ul style="list-style-type: none"> <li>Raja Samsul Bahri Raja Muhammad (Raja Samsul )</li> <li>Abdul Malek Yusof (Abdul Malek)</li> <li>Noor Aida Abdullah (Noor Aida)</li> </ul> | <p>On 1 June 2016, Raja Samsul, Abdul Malek and Noor Aida were charged under section 232(1) read together with section 370(c) of the CMSA for offering securities without having a prospectus registered by the SC.</p> <p>Raja Samsul, Abdul Malek and Noor Aida were respectively the former chief executive officer and directors of Astana Resources Bhd (formerly known as JPG Holdings Bhd) when the company offered 6.9 million shares without having a prospectus registered by the SC in relation to the said shares under section 233 of the CMSA.</p> <p>On 16 January 2017, the Sessions Court granted an order for discharge not amounting to acquittal against all 3 individuals.</p>  |

Table 6

Outcome of criminal trials and appeals in 2017 (continued)

| No. | Nature of offence   | Offender(s)  | Description   |
|-----|---|--|---|
|     |   |  | <p>The Prosecution filed an appeal to the High Court against the Sessions Court order.</p> <p>On 27 November 2017, The High Court overturned the Sessions Court acquittal order and ordered for the charges against Raja Samsul, Abdul Malek and Noor Aida to be reinstated at the Sessions Court.</p>  |
| 20. | Insider Trading   | <ul style="list-style-type: none"> <li>Tiong Kiong Choon (Tiong KC)</li> <li>Thai Kim Sim (Thai KS)</li> </ul> | <p>Tiong KC, a remisier, was charged on 9 December 2014 with 2 counts of insider trading under section 188(2) (a) CMSA. Tiong KC had disposed 6,208,500 units of APL Industries Bhd (APLI) shares on 26 and 29 October 2007 while in possession of inside information relating to the audit adjustments proposed by APLI's auditors which would result in APLI reporting a higher loss for the financial year ended 30 June 2007, as compared to the previously reported unaudited 4th quarter results for the same financial year and that APLI would be classified as an affected issuer pursuant to the <i>Listing Requirements of Bursa Malaysia Securities Bhd</i> and <i>Practice Note 17/2005</i>.</p> <p>Thai KS, the former chief executive officer of APL Industries Bhd (APLI), was charged on 15 December 2014 with 1 count of insider trading under section 188(3) (a) of the CMSA for having communicated to Tiong KC, the said inside information between 26 to 29 October 2007.</p> <p>On 24 November 2017, the Sessions Court convicted Tiong KC and Thai KS on all the charges.</p> <p>Tiong KC was sentenced to 5 years imprisonment and a fine of RM10 million (in default 2 years imprisonment) while Thai KS was sentenced to 5 years imprisonment and a fine of RM5 million (in default 2 years imprisonment).</p> <p>Tiong KC and Thai KS were granted a stay of execution of the imprisonment sentence.</p> <p>Both Tiong KC and Thai KS have filed an appeal against their conviction and sentence to the High Court.</p> |
| 21. | Furnishing false statement to Bursa Malaysia Securities Bhd | Alan Rajendram<br>Jeya Rajendram<br>(Alan Rajendram)   | <p>Alan Rajendram, a former executive director of Linear Corporation Bhd (Linear) was charged on 9 July 2015 with one count of furnishing a false statement to Bursa Malaysia Securities Bhd under section 369(b) (B) of the CMSA. The false statement was alleged to have been made in an announcement on 29 December 2009 that Linear's wholly owned subsidiary, LCI Global Sdn Bhd had accepted a RM1.6 billion construction project awarded by Global Investment Group (GIG) a Seychelles incorporated company, to design and construct a district cooling plant of 350,000 RT (refrigeration tonnes) in the district of Manjung, Perak, for what was termed the 'King Dome Project'.</p> <p>On 28 December 2017, the Sessions Court acquitted Alan Rajendram at the end of the Prosecution's case.</p> <p>The Prosecution has filed an appeal to the High Court against the acquittal.</p>   |

## Civil enforcement actions and regulatory settlements in 2017

In 2017, the SC instituted civil enforcement actions against 20 individuals for breaches of securities laws. A total of RM8,002,486.08 was disgorged

from 8 individuals by way of settlements following the filing of civil suits while a total of RM891,633 was disgorged from 7 individuals by way of regulatory settlements. The total civil penalty paid in 2017 was RM3,050,000 by 4 individuals for insider trading. Further details are set out in Tables 7 and 8.

Table 7

**Civil enforcement actions in 2017**

| No. | Nature of breach | Offender(s)  | Description   |
|-----|------------------|--|---|
| 1.  | Insider trading  | <ul style="list-style-type: none"> <li>Koh Tee Jin (Koh TJ)</li> <li>Koh Thiam Seong (Koh TS)</li> <li>Koh Hui Sim (Koh HS)</li> </ul> | <p>On 13 March 2017, the SC filed a civil suit against Koh TJ, Koh TS and Koh HS. The SC is seeking, among others:</p> <ul style="list-style-type: none"> <li>A declaration that Koh TJ had communicated material non-public information to Koh TS and Koh HS who both had thereafter disposed Axis Incorporation Bhd (Axis) shares between 9 July 2008 and 30 July 2008;</li> <li>A declaration that Koh TS and Koh HS engaged in insider trading in respect of Axis shares between 9 July 2008 and 30 July 2008;</li> <li>A payment of the sum of RM3,546,477 from Koh TJ which is equivalent to 3 times the amount of RM1,182,159 being the difference between the price at which the shares had been disposed by Koh TS and Koh HS and the price at which the shares would have been likely to have been disposed at the time of the disposal, if the material non-public information had been generally available;</li> <li>A payment of the sum of RM739,389 and RM2,807,088 from Koh TS and Koh HS respectively which is equivalent to 3 times the difference between the price at which the shares had been disposed by Koh TS and Koh HS and the price at which the shares would have been likely to have been disposed at the time of the disposal, if the material non-public information had been generally available;</li> <li>Civil penalty of RM1,000,000 for the breach of section 188(3) of the CMSA by Koh TJ;</li> <li>Civil penalty of RM1,000,000 for the breach of section 188(2) of the CMSA by Koh TS and Koh HS;</li> <li>General and/or aggravated and/ or exemplary damages;</li> <li>Interest; and</li> <li>Costs.</li> </ul> |

Table 7  
Civil enforcement actions in 2017 (continued)

| No. | Nature of breach | Offender(s)   | Description  |
|-----|------------------|---|--|
| 2.  | Insider trading  | <ul style="list-style-type: none"> <li>Low Siew Moi (Low SM)</li> <li>Tan Cheng Teik (Tan CT)</li> <li>Hoi Main Seng (Hoi MS)</li> <li>Liaw Huat Hin (Liaw HH)</li> <li>Chua Keng Hong (Chua KH)</li> </ul> | <p>On 19 May 2017, the SC filed a civil suit against Low SM, Tan CT, Hoi MS, Liaw HH and Chua KH. The SC is seeking, among others:</p> <ul style="list-style-type: none"> <li>A declaration that Low SM had contravened section 89E (3) (a) of the SIA;</li> <li>A declaration that Tan CT had contravened sections 89E (3) (a) and 89E (2) (a) of the SIA;</li> <li>A declaration that Hoi MS, Liaw HH and Chua KH had contravened section 89E (2) (a) of the SIA;</li> <li>An order that Low SM pay the sum of RM1,654,185 being an amount equal to 3 times the amount being the difference between the price at which the shares in Worldwide Holdings Bhd (Worldwide) were acquired by Tan CT, Hoi MS, Liaw HH and Chua KH and the price at which it would have been likely to have been acquired at the time of the acquisition, if the material non-public information had been generally available;</li> <li>An order that Tan CT pay the sum of– <ul style="list-style-type: none"> <li>(i) RM365,637 being an amount equal to 3 times the amount being the difference between the price at which the shares in Worldwide were acquired by Hoi MS and Liaw HH and the price at which it would have been likely to have been acquired at the time of the acquisition, if the material non-public information had been generally available;</li> <li>(ii) RM384,606 being an amount equal to 3 times the amount being the difference between the price at which the shares in Worldwide were acquired by Tan CT and the price at which it would have been likely to have been acquired at the time of the acquisition, if the material non-public information had been generally available;</li> </ul> </li> <li>An order that Hoi MS pay the sum of RM164,088 being an amount equal to 3 times the amount being the difference between the price at which the shares in Worldwide were acquired by Hoi MS and the price at which it would have been likely to have been acquired at the time of the acquisition, if the material non-public information had been generally available;</li> <li>An order that Liaw HH pay the sum of RM201,549 being an amount equal to 3 times the amount being the difference between the price at which the shares in Worldwide were acquired by Liaw HH and the price at which it would have been likely to have been acquired at the time of the acquisition, if the material non-public information had been generally available;</li> <li>An order that Chua KH pay the sum of RM903,942 being an amount equal to 3 times the amount being the difference between the price at which the shares in Worldwide were acquired by Chua KH and the price at which it would have been likely to have been acquired at the time of the acquisition, if the material non-public information had been generally available;</li> <li>Civil penalty of RM1,000,000 against Low SM, Tan CT, Hoi MS, Liaw HH and Chua KH respectively;</li> <li>Interest; and</li> <li>Costs.</li> </ul> |

Table 7

**Civil enforcement actions in 2017 (continued)**

| No. | Nature of breach | Offender(s)   | Description   |
|-----|------------------|---|---|
| 3.  | Insider trading  | <ul style="list-style-type: none"> <li>• Yeow Kheng Chew (Yeow KC)</li> <li>• Paulene Chee Yuet Fang (Pauline CY)</li> <li>• Tan Yee Chee (Tan YC)</li> </ul> | <p>On 26 July 2017, the SC filed a civil suit against Yeow KC, Paulene CY and Tan YC. The SC is seeking, among others:</p> <ul style="list-style-type: none"> <li>• A declaration that Yeow KC had contravened section 188(2)(a) of the CMSA when he acquired 5,159,000 Kencana Petroleum Bhd (Kencana) shares between 2 June 2011 and 8 July 2011 through the trading accounts of Paulene CY, Asia Premium Corp and Angnew Resources Limited;</li> <li>• A declaration that Paulene CY had contravened section 188(2)(a) CMSA in respect of the acquisition of 5,159,000 Kencana shares between 2 June 2011 and 8 July 2011 through her trading account as well as the trading accounts of Asia Premium Corp and Angnew Resources Limited;</li> <li>• A declaration that Tan YC had contravened section 188(2)(a) CMSA in respect of the acquisition of 1,159,000 Kencana shares on 8 July 2011 through Paulene CY's trading account;</li> <li>• An order that Yeow KC and Paulene CY each pay the sum of RM2,326,980 being 3 times the difference between the price at which the Kencana shares had been acquired and the price at which the Kencana shares would have been likely to have been acquired at the time of the acquisition, if the inside information relating to the proposed merger of Kencana and SapuraCrest Petroleum Bhd (SapuraCrest) had been generally available;</li> <li>• An order that Tan YC pay the sum of RM452,280 which is equivalent to 3 times the amount of RM150,760 being the difference between the price at which the Kencana shares had been acquired and the price at which the Kencana shares would have been likely to have been acquired at the time of the acquisition, if the inside information relating to the proposed merger of Kencana and SapuraCrest had been generally available;</li> <li>• An order for civil penalty of RM1,000,000 against Yeow KC, Paulene CY and Tan YC severally;</li> <li>• An order that Yeow KC, Paulene CY and Tan YC be barred from being a director of any public listed company for a period of 10 years;</li> <li>• An order that Yeow KC, Paulene CY and Tan YC will refrain from any involvement in the management of any public listed company for a period of 10 years;</li> <li>• Interest; and</li> <li>• Costs.</li> </ul> |



Table 7

Civil enforcement actions in 2017 (continued)

| No. | Nature of breach  | Offender(s)  | Description  |
|-----|---|--|--|
| 4.  | <ul style="list-style-type: none"> <li>False trading and market rigging transaction</li> <li>Stock market manipulation</li> </ul> | <ul style="list-style-type: none"> <li>Ng Wai Hong (Ng WH)</li> <li>Lo Ga Lung (Lo GL)</li> <li>Toh Pik Chai (Toh PC)</li> <li>Ling Pik Ngieh (Ling PN)</li> <li>Ng Soo Tian (Ng ST)</li> <li>Chan Kok</li> <li>Chai Shou Wei (Chai SW)</li> </ul> | <p>On 21 September 2017, the SC filed a civil suit against the 7 defendants. The SC is seeking, among others:</p> <ul style="list-style-type: none"> <li>A declaration that all the defendants had engaged in false trading and market rigging transactions in respect of APL Industries Bhd (APLI) shares from 7 November 2006 to 9 November 2006;</li> <li>A declaration that all the defendants had engaged in stock market manipulation in respect of APLI shares from 7 November 2006 to 9 November 2006;</li> <li>An order that all the assets and properties of each of the defendants be traced and/or followed, and thereafter paid over to the SC;</li> <li>A declaration that all profits earned by each of the defendants by reason of their false trading and market rigging transactions and stock market manipulation of APLI shares are held on constructive trust for the benefit of the affected investors;</li> <li>General and/or aggravated and/or exemplary damages against all the defendants;</li> <li>Special damages;</li> <li>Civil penalty of RM1,000,000 against each of the defendants for the breach of section 84 and 85 of the SIA;</li> <li>Interest;</li> <li>An injunction to restrain each of the defendants, whether by themselves, their agents, servants or otherwise howsoever, from trading in any counter on Bursa Malaysia for a period of 5 years;</li> <li>An order that each of the defendants be barred from being a director of any public listed company for a period of 5 years; and</li> <li>Costs.</li> </ul> |
| 5.  | Insider trading   | <ul style="list-style-type: none"> <li>Lim Kok Boon (Lim KB)</li> <li>Cheah Mean Har (Cheah MH)</li> </ul>   | <p>On 28 September 2017, the SC filed a civil suit against Lim KB and Cheah MH. The SC is seeking, among others:</p> <ul style="list-style-type: none"> <li>A declaration that Lim KB had contravened section 188 (3) (a) of the CMSA when he communicated material non-public information to Cheah MH who had thereafter acquired a total of 350,000 GW Plastics Holdings Bhd (GW Plastics) shares on 25 September 2012 and 27 September 2012;</li> <li>A declaration that Cheah MH had contravened section 188 (2) (a) of the CMSA when she acquired a total of 350,000 GW Plastics shares on 25 September 2012 and 27 September 2012;</li> <li>A payment of the sum of RM142,500 by Lim KB and Cheah MH respectively, which is equivalent to 3 times the amount of RM47,500 being the difference between the price at which the shares had been acquired by Cheah MH 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;</li> <li>An order that Lim KB be barred from being a director of any PLC for a period of 5 years;</li> <li>A civil penalty of RM1,000,000 against Lim KB and Cheah MH;</li> <li>Interest; and</li> <li>Costs.</li> </ul>   |

Table 8

**Outcome of civil action taken**

| No. | Nature of breach  | Defendants  | Description   | Outcome   |
|-----|---|---|---|---|
| 1.  | Insider trading   | <ul style="list-style-type: none"> <li>Yeow Kheng Chew (Yeow KC)</li> <li>Paulene Chee Yuet Fang (Pauline CY)</li> <li>Tan Yee Chee (Tan YC)</li> </ul>   | <p>On 26 July 2017, the SC filed a civil suit against Yeow KC, Paulene CY and Tan YC.</p> <p><i>(Refer to Table 7 above for details)</i></p>  | <p>On 15 August 2017, the High Court recorded a consent judgment between the SC and the three defendants granting the orders which were sought by the SC.</p> <p>Both Yeow KC and Paulene CY were ordered to pay the SC the sum of RM2,326,980 each while Tan YC was ordered to pay the sum of RM452,280.</p> <p>All three defendants were also ordered to pay a civil penalty of RM1,000,000 each.</p>   |
| 2.  | <ul style="list-style-type: none"> <li>Unlicensed investment advice</li> <li>Market rigging</li> <li>Market manipulation</li> <li>Use of fraudulent scheme in connection with the purchase or sale of securities</li> </ul> | <ol style="list-style-type: none"> <li>Aeneas Capital Management L.P</li> <li>Thomas R. Grossman</li> <li>Richard Cohen</li> <li>John Suglia</li> <li>Priam Holdings Ltd</li> <li>Aeneas Evolution Portfolio Ltd</li> <li>Aeneas Portfolio Company L.P</li> <li>Acadian Worldwide Inc</li> <li>Tan Mong Sing (Tan MS)</li> <li>Low Thiam Hock (Low TH)</li> </ol> | <p>On 9 April 2008, the SC filed a civil suit against 8 foreign defendants and 2 Malaysian individuals. The SC sought for the following orders:</p> <ul style="list-style-type: none"> <li>A declaration that all the defendants conspired to manipulate the market of Iris Corporation Bhd (Iris) shares and/or the price of Iris shares and defrauded investors;</li> <li>A declaration that all profits earned by the defendants are held on constructive trust for the benefit of affected investors;</li> <li>Orders that all assets and properties of each of the defendants be traced and followed and then paid to the SC for the purpose of compensating affected investors;</li> <li>Permanent injunction to restrain each of the defendants from trading in Iris shares;</li> <li>Permanent injunction to restrain each of the defendants from trading in any counter on Bursa Malaysia;</li> <li>General and exemplary damages;</li> <li>Interest; and</li> <li>Costs.</li> </ul> | <p>On 16 June 2017, after a full trial, the High Court held in favour of the SC in its claim against the third defendant, Richard Cohen, a former research analyst at Aeneas Capital Management L.P.</p> <p>The High Court however dismissed the SC's claim against the ninth defendant, Tan MS. Tan MS's counter-claim against the SC was also dismissed.</p> <p>On 29 August 2017, the High Court declared in favour of the SC against the 1<sup>st</sup>, 2<sup>nd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 7<sup>th</sup> and 8<sup>th</sup> defendants for their role in the same manipulation.</p> <p>The SC had earlier withdrawn its claim against the 6<sup>th</sup> and the 10<sup>th</sup> defendants.</p> |

Table 8

Outcome of civil action taken (continued)

| No. | Nature of breach | Defendants   | Description   | Outcome   |
|-----|------------------|--|---|---|
| 3.  | Insider trading  | <ul style="list-style-type: none"> <li>Koh Tee Jin (Koh TJ)</li> <li>Koh Thiam Seong (Koh TS)</li> <li>Koh Hui Sim (Koh HS)</li> </ul> | <p>On 13 March 2017, the SC filed a civil suit against Koh TJ, Koh TS and Koh HS.</p> <p><i>[Refer to Table 7 above for details]</i></p>  | <p>On 6 October 2017, the SC obtained a judgment from the High Court against Koh TJ, Koh TS and Koh HS for insider trading in Axis' shares.</p> <p>Following the judgment in default of appearance, Koh TJ was ordered by the court to pay the SC a total of 3 times the loss avoided by Koh TS and Koh HS amounting to RM3,546,477.</p> <p>Koh TS and Koh HS were ordered to pay the SC RM739,389 and RM2,807,088 respectively, which was 3 times the loss each of them had avoided from the difference in price of Axis shares disposed against the likely price had the material non-public information had been generally available.</p> <p>Koh TJ, Koh TS and Koh HS were also ordered to pay SC a civil penalty of RM1,000,000 each, with costs and interest.</p> <p>They are also barred from being a director of any public listed company for a period of 5 years.</p> |
| 4.  | Insider Trading  | Lim Chiew  | <p>On 8 December 2005, the SC filed a civil suit against Lim Chiew, a former independent non-executive director of Magnum Corporation Bhd for insider trading in the shares of Bolton Bhd on 12 July 1999.</p> <p>The SC sought, among others:</p> <ul style="list-style-type: none"> <li>A payment of the sum of RM1,242,061.08 which is equivalent to 3 times the amount of RM414,020.36, being the profits he earned as a result of the breach;</li> <li>Civil penalty of RM500,000;</li> <li>Interest;</li> <li>Costs.</li> </ul> | <p>On 28 September 2017, the Kuala Lumpur High Court declared that the SC had successfully proven its claim against Lim Chiew. The High Court ordered Lim Chiew to pay the sum of RM1,242,061.08 claimed by the SC and a civil penalty of RM50,000.</p> <p>On 10 October 2017, Lim Chiew filed an appeal against the decision of the High Court.</p>  |

Table 8

**Outcome of civil action taken (continued)**

| No. | Nature of breach   | Defendants  | Description   | Outcome  |
|-----|--|---|---|--|
| 5.  | Insider trading  | <ul style="list-style-type: none"> <li>Low Siew Moi (Low SM)</li> <li>Tan Cheng Teik (Tan CT)</li> <li>Hoi Main Seng (Hoi MS)</li> <li>Liaw Huat Hin (Liaw HH)</li> <li>Chua Keng Hong (Chua KH)</li> </ul> | <p>On 19 May 2017, the SC filed a civil suit against Low SM, Tan CT, Hoi MS, Liaw HH and Chua KH.</p> <p><i>[Refer to Table 7 above for details]</i></p>  | <p>Pursuant to the filing of the civil suit, the following individuals had entered into settlement with the SC when they agreed without admission or denial of liability, to settle the claim that the SC had initiated against them:</p> <ul style="list-style-type: none"> <li>Liaw HH for the sum of RM201,549 on 22 August 2017;</li> <li>Chua KH for the sum of RM903,942 on 13 September 2017;</li> <li>Hoi MS for the sum of RM164,088 on 13 September 2017; and</li> <li>Tan CT for the sum of RM384,606 on 10 October 2017.</li> </ul>  |
| 6.  | <ul style="list-style-type: none"> <li>Use of manipulative and deceptive devices</li> <li>Causing wrongful loss to a listed corporation</li> </ul> | Datin Chan Chui Mei (Datin Chan CM)   | <p>On 26 September 2016, the SC filed a civil suit against Datin Chan CM. The SC is seeking, among others:</p> <ul style="list-style-type: none"> <li>A declaration that Datin Chan CM had contravened sections 179 and 317A of the CMAA;</li> <li>An order that Datin Chan CM makes restitution to persons aggrieved by the contravention;</li> <li>An order that Datin Chan CM pays the SC the sum of RM11.54 million, to be held in trust for Stone Master Corporation Bhd;</li> <li>An order that Datin Chan CM be barred from being a director of a PLC for a period of five years;</li> <li>Civil penalty of RM1 million for the contravention;</li> <li>Interest; and</li> <li>Costs.</li> </ul> | <p>On 27 March 2017, the SC obtained an order for interim injunction from the High Court to restrain Datin Chan CM from dealing with the monies in her bank accounts up to the amount of RM11.54 million until the disposal of the suit.</p> <p>The Court had also granted a stay of proceedings pending the disposal of Datin Chan CM's appeal to the Court of Appeal against the decision of the High Court in dismissing her application to strike out the SC's suit against her.</p> <p>Pending the hearing of the appeal at the Court of Appeal, Datin Chan CM filed an application at the Court of Appeal to stay the interim injunction.</p> <p>The Court of Appeal had on 31 October 2017 dismissed the application.</p> |

Table 9

Regulatory settlements in 2017

| No. | Nature of breach | Parties involved  | Brief facts of the case  |
|-----|------------------|---|--|
| 1.  | Insider trading  | <ul style="list-style-type: none"> <li>Yeoh Soo Ann (Yeoh SA)</li> <li>Chua Choon Chai (Chua CC)</li> </ul> | <p>On 11 May 2017, Yeoh SA entered into a settlement with the SC in the sum of RM78,000 when he agreed without admission or denial of liability to settle a claim that the SC was proposing to institute against him for communicating inside information contrary to section 188(3) of the CMSA to one Chua CC, who then traded in the shares of GW Plastics Holding Bhd (GW Plastics) between 25 September 2012 and 28 September 2012.</p> <p>The inside information was in relation to a share sale agreement between GW Plastics and Scientex Packaging Film Sdn Bhd (Scientex Packaging), a wholly owned subsidiary of Scientex Bhd (Scientex) i.e. the disposal of GW Plastics' 100% equity interest in Great Wall Plastic Industries Bhd (GWPI), and GW Packaging Sdn Bhd (GW Packaging) to Scientex Packaging for a total cash consideration of RM283.20 million (Proposed Disposals) and a proposed distribution of the cash proceeds arising from the Proposed Disposals to all shareholders of GW Plastics (Proposed Distribution), which was announced on 3 October 2012.</p> <p>Yeoh SA at the material time was a non-independent non-executive director of GW Plastics.</p> <p>On 1 June 2017, Chua CC also entered into a settlement with the SC for the sum of RM78,000 when he agreed without admission or denial of liability to settle a claim that the SC was proposing to institute against him for insider trading in the shares of GW Plastics, contrary to section 188(2) of the CMSA.</p> <p>The settlements were reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum that Yeoh SA and Chua CC were required to disgorge was equivalent to 3 times the difference between the price at which Chua CC acquired the shares 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 will be applied in accordance with section 201(7) of the CMSA.</p> |

Table 9

**Regulatory settlements in 2017 (continued)**

| No. | Nature of breach | Parties involved                     | Brief facts of the case  |
|-----|------------------|--------------------------------------|--|
| 2.  | Insider trading  | Lee Tian Wah @ Lim Siew Wah (Lee TW) | <p>On 30 June 2017, Lee TW entered into a settlement with the SC in the sum of RM215,890 when he agreed without admission or denial of liability to settle a claim that the SC was proposing to institute against him for insider trading in the shares of APL Industries Bhd (APLI) on 30 and 31 October 2007 in accounts belonging to himself and his wife, Lai Moi, contrary to section 188(2) of the CMSA.</p> <p>The inside information was in relation to the audit adjustments proposed by APLI's auditor which would result in APLI reporting a higher loss for the financial year ended 30 June 2007 as compared to the previously reported unaudited fourth quarter results for the same financial year, and that APLI would be classified as an affected issuer pursuant to the Listing Requirements of Bursa Malaysia Securities Bhd and <i>Practice Note 17/2005</i>, which was announced on 31 October 2007.</p> <p>The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum Lee TW was required to disgorge was equivalent to 2 times the difference between the price at which the shares were disposed and the price at which the shares would have been likely to have been disposed at the time of the disposal, if the information had been generally available. The monies recovered will be applied in accordance with section 201(7) of the CMSA.</p>   |
| 3.  | Insider trading  | Lim Lee Kuan (Lim LK)                | <p>On 30 June 2017, Lim LK entered into a settlement with the SC in the sum of RM323,835 when she agreed without admission or denial of liability to settle a claim that the SC was proposing to institute against her for communicating inside information contrary to section 188(3) of the CMSA to her father, Lee TW, who then traded in the shares of APL Industries Bhd (APLI) on 30 and 31 October 2007 in accounts belonging to himself and his wife, Lai Moi.</p> <p>The inside information was in relation to the audit adjustments proposed by APLI's auditor which would result in APLI reporting a higher loss for the financial year ended 30 June 2007 as compared to the previously reported unaudited 4<sup>th</sup> quarter results for the same financial year, and that APLI would be classified as an affected issuer pursuant to the Listing Requirements of Bursa Malaysia Securities Bhd and <i>Practice Note 17/2005</i>, which was announced on 31 October 2007. At the material time, Lim LK was the company secretary of APLI.</p> <p>The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum Lim LK was required to disgorge was equivalent to 3 times the difference between the price at which Lee TW disposed the shares and the price at which the shares would have been likely to have been disposed at the time of the disposal, if the information had been generally available. The monies recovered will be applied in accordance with section 201(7) of the CMSA.</p> |

Table 9

Regulatory settlements in 2017 (continued)

| No. | Nature of breach | Parties involved          | Brief facts of the case  |
|-----|------------------|---------------------------|--|
| 4.  | Insider trading  | Soon Leh Hong (Soon LH)   | <p>On 21 August 2017, Soon LH entered into a settlement with the SC in the sum of RM41,744 when she agreed without admission or denial of liability to settle a claim that the SC was proposing to institute against her for communicating inside information contrary to section 188(3) of the CMSA to her brother, Soon Koon Cheng.</p> <p>The inside information was in relation to M3nergy Bhd's (M3nergy) receipt of a Notice of Conditional Voluntary Take-Over Offer from Melewar Equities (BVI) Ltd which was announced to Bursa Malaysia on 12 September 2008. Soon KC had acquired 80,000 units of M3nergy shares in his own account on the same date prior to the announcement. At the material time, Soon LH was the group chief financial officer of Melewar Industrial Group Bhd.</p> <p>The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws. The amount disgorged from Soon LH is equivalent to 2 times the difference between the price at which Soon KC acquired the shares 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 will be applied in accordance with section 201(7) of the CMSA.</p> |
| 5.  | Insider trading  | Soon Koon Cheng (Soon KC) | <p>On 21 August 2017, Soon KC entered into a settlement with the SC in the sum of RM41,744 when he agreed without admission or denial of liability to settle a claim that the SC was proposing to institute against him for acquiring M3nergy Bhd (M3nergy) shares while in possession of inside information, contrary to section 188(2) of the CMSA.</p> <p>The inside information was in relation to M3nergy's receipt of a Notice of Conditional Voluntary Take-Over Offer from Melewar Equities (BVI) Ltd which was announced to Bursa Malaysia on 12 September 2008. Soon KC had acquired 80,000 units of M3nergy shares in his own account on 12 September 2008, prior to the announcement.</p> <p>The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws. The amount disgorged from Soon KC is equivalent to 2 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 will be applied in accordance with section 201(7) of the CMSA.</p>  |



Table 9

**Regulatory settlements in 2017 (continued)**

| No. | Nature of breach | Parties involved | Brief facts of the case   |
|-----|------------------|------------------|---|
| 6.  | Insider Trading  | Tan Shao Wei     | <p>On 19 December 2017, Tan SW entered into a settlement with the SC in the sum of RM112,420 when she agreed without admission or denial of liability to settle a claim that the SC was proposing to institute against her for communicating inside information contrary to section 188(3) of the CMSA to her husband, Tom Tan Chee Kwong (Tom) and her brother, Tan Eng Kean (Tan), both of whom had thereafter acquired 4,000 and 5,000 PacificMas Berhad (PacMas) shares respectively on 4 January 2008.</p> <p>The inside information was in relation to a proposed conditional take-over offer by OSPL Holdings Sdn Bhd (OSPL) to acquire all the voting shares in PacMas not already owned by OSPL which was announced on 4 January 2008. At the material time, Tan SW was an employee of CIMB Investment Bank Berhad.</p> <p>The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws. The sum of RM112,420 consists of a disgorgement equivalent to 3 times the difference between the price at which Tom and Tan had acquired the shares 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 and a civil penalty of RM100,000 which was imposed by the SC. The monies recovered will be applied in accordance with section 201(7) of the CMSA.</p> |

# Investor Education Initiatives

## InvestSmart® Fest 2017

|  |                   |
|--|-------------------|
| 13–15 October 2017                           | <b>19,482</b>     |
| Kuala Lumpur Convention Centre, Kuala Lumpur | Visitors          |
|  | <b>66</b>         |
|  | Exhibition Booths |

### Description

In 2017, the SC’s annual retail investor event, InvestSmart® Fest was held for the fourth time. The exhibitors ranged from various intermediaries, associations, institutions and government agencies, with the sole purpose of raising awareness on the capital market, how to invest smartly and the importance of investing for the future. Seminars and expert talks were also held throughout the 3-day event, with overwhelming participation from visitors. This year, 2 additional events took place during InvestSmart® Fest, the finplan4u service desk where participants were offered a complementary initial assessment of their financial status and the ScamBuster Run 2017 held on the third day of InvestSmart® Fest.



## Statements, Statistics and Activities

## InvestSmart® Day

| May         |              |
|-------------|--------------|
| 13 May 2017 | <b>569</b>   |
| Penang      | Participants |
|             | <b>8</b>     |
|             | Exhibitors   |
| 20 May 2017 | <b>530</b>   |
| Ipoh, Perak | Participants |
|             | <b>13</b>    |
|             | Exhibitors   |



## July

8 July 2017  
Kuala Lumpur

**616**  
Participants

**15**  
Exhibitors

15 July 2017  
Kuching, Sarawak

**655**  
Participants

**6**  
Exhibitors

16 July 2017  
Kuching, Sarawak

**281**  
Participants

**7**  
Exhibitors

22 July 2017  
Johor Bahru, Johor

**426**  
Participants

**9**  
Exhibitors



## August

5 August 2017  
Kuala Lumpur

**566**  
Participants

**10**  
Exhibitors

11 August 2017  
Penang

**170**  
Participants

**7**  
Exhibitors

12 August 2017  
Penang

**497**  
Participants

**11**  
Exhibitors

18 August 2017  
Ipoh, Perak

**200**  
Participants

**5**  
Exhibitors

19 August 2017  
Ipoh, Perak

**380**  
Participants

**7**  
Exhibitors

### Description

Based on the success of the annual flagship event of Investsmart® Fest, SC in 2017 started implementing the InvestSmart® Day in major cities nationwide.

During InvestSmart® Day, visitors attending will benefit from talks by subject-matter-experts as well as attend the mini exhibition booths set up by intermediaries and SC affiliates, such as Private Pension Administrator (PPA).

## Collaborative Events

### InvestSmart® @ Karnival Kewangan Kuala Lumpur

13-15 January 2017  
PWTC, Kuala Lumpur

**20,000**  
Participants  
**1,052**  
Surveys

### InvestSmart® @Karnival Kewangan Sabah

4-6 August 2017  
Kota Kinabalu, Sabah

**28,100**  
Participants  
**475**  
Surveys

### InvestSmart® @ Karnival Kewangan Sarawak

24-26 November 2017  
Kuching, Sarawak

**25,213**  
Participants  
**277**  
Surveys

#### Description

Karnival Kewangan organised by BNM is a 3-day event that gathers financial institutions including the insurance and banking providers. The target audience for the event are the general public. SC participates as an exhibitor during these events; to spread awareness on the organisation, the InvestSmart® brand and on the Malaysian capital market.

The InvestSmart® team engages the public and distributes collaterals, starter kits and various brochures on the capital market. Feedback on the public's investment experiences is also gathered for purpose of behavioural analysis.

## Statements, Statistics and Activities



### InvestSmart® @ Ministry of Finance (MoF) Open Day

30 March 2017  
Putrajaya

**2,000**  
Participants  
**475**  
Surveys

#### Description

A platform for the public to gain exposure and understanding on the country's state of economy. The InvestSmart® team set-up an exhibition booth to engage and provide knowledge sharing sessions with visitors in relation to the capital market.

### InvestSmart® @ Minggu Saham Amanah Malaysia (MSAM)

20-28 April 2017  
Temerloh, Pahang

**215,000**  
Participants  
**524**  
Surveys

#### Description

Permodalan Nasional Bhd's premier annual event, held with the objective to showcase its investment services and products; and educate the public on the importance of investing.

As in previous years, SC participated by setting up a booth to spread awareness on the Malaysian capital market as well as raise awareness on investors' rights and responsibilities. In addition, we also participated in talks held throughout week long event.

### Investsmart® @ MITI

6 May 2017  
Ipoh, Perak

**1,000**  
Participants

#### Description

In conjunction with the Ministry of International Trade & Industry (MITI) Day, the InvestSmart® team conducted knowledge sharing sessions and general engagement with visitors of SC, the InvestSmart® brand and the Malaysian capital market.

### Malaysian Financial Planning Council Event

9 May 2017  
Universiti Malaysia  
Terengganu,  
Terengganu

**120**  
Participants

#### Description

InvestSmart® team conducted direct engagements, surveys and distribution of collaterals. Convened knowledge sharing session with universities students during MFPC Day @ University. An event endorsed by InvestSmart® and supported by SC.



## SC in the Community

### InvestSmart® @ Pusat Sains Negara

9 December 2017  
Bukit Damansara,  
Kuala Lumpur

**500**  
Engagements

### InvestSmart® @ Dataran Merdeka for Ekspo Negaraku

10 December 2017  
Dataran Merdeka,  
Kuala Lumpur

**500**  
Engagements

#### Description

An initiative to reach out to the public through direct engagements. Our InvestSmart® team at the above 2 locations engaged the public and distributed collaterals and freebies. The team posed simple questions to test their awareness of the SC, the InvestSmart® brand and their susceptibility towards scams.





## Campaigns Anti Scam Awareness

### T.I.P.U video

28 September –  
11 October 2017  
**Screened in major  
cities nationwide**

**15**  
TGV Cinemas  
**135**  
Cinema halls  
**9,880**  
screening of  
the video

#### Description

A 30-second public service announcement was screened in the cinema to raise awareness on how scammers work and to inform the public on where to obtain further information or assistance when they are in doubt.

### ScamBuster Run 2017

15 October 2017  
Kuala Lumpur City  
Centre

**3,033**  
Registration  
**RM100,849**  
raised for the  
National Kidney  
Foundation

#### Description

In conjunction with InvestSmart® Fest 2017, the InvestSmart® team organised its very first 5km Charity Fun Run. The run was to create awareness among Malaysians about the rise in illegal investment schemes and subsequently develop resistance among investors towards scams. A total of RM100,849 was collected and fully donated to the National Kidney Foundation for the purchase of two dialysis machines.

## Statements, Statistics and Activities



### Seminars

- A total of 51 seminars were conducted, reaching out to 7,214 participants:
  - 1,555 participants attended 10 sessions of the InvestSmart® Unit Trust Seminars, which included PRS seminars.
  - 28 InvestSmart® Stock Market Seminars were attended by 3,555 participants.
  - 5 InvestSmart® B.M.W Seminars were conducted for 516 participants.
  - 3 sessions of InvestSmart® Cash@Campus Seminars benefitted 542 university students.
  - 1 session of InvestSmart® Kids & Cash Programme benefitted 56 primary school students.
  - 4 sessions of InvestSmart® Teens & Cash Programme benefitted 990 secondary school students.

## Digital Channel

- InvestSmart® Website: Average monthly hit rate was 4.9 million.
- InvestSmart® Facebook Page has garnered 61,000 followers and close to 70,000 likes.
- InvestSmart® Instagram: Average reach of 3.77 million followers per post. Total reach of 11.3 million.
- Live Facebook streaming of a panel discussion on *"Finplan4U – A Step Towards Financial Health and Wellness"* was streamed on 5 Oct 2017 at 1pm on the importance of financial planning. The panel comprised of Malek Ali of BFM 89.9 and 3 other panel members from the SC, the association and a financial planner.

## Media and Broadcast

- Media articles: 23 articles were published on various websites and 72 media clippings for the coverage of InvestSmart® Fest 2017 and 4 media clippings for World Investor Week.
- In 2017, an integrated advertising and media relations approach was adopted for InvestSmart® Fest 2017.
- BFM 89.9 – "Bukan Free Money" an edumercial to help investors to identify and avoid scams. The programme aired for 3 weeks in May 2017.
- BFM 89.9 – "InvestSmart® Series" a 3-minute weekly episode was aired from mid August until early December 2017 on various topics of the capital market. Expert speakers were called on air to share the views to encourage participation



## Complaints and Enquiries

For the period ending 31 December 2017, the SC received a total of 444 complaints and 626 enquiries.

Table 1

|              | 2017         | 2016         | 2015       |
|--------------|--------------|--------------|------------|
| Complaints   | 444          | 433          | 349        |
| Enquiries    | 626          | 609          | 446        |
| <b>Total</b> | <b>1,070</b> | <b>1,042</b> | <b>795</b> |

## Statements, Statistics and Activities

Chart 1

Classification of complaints received

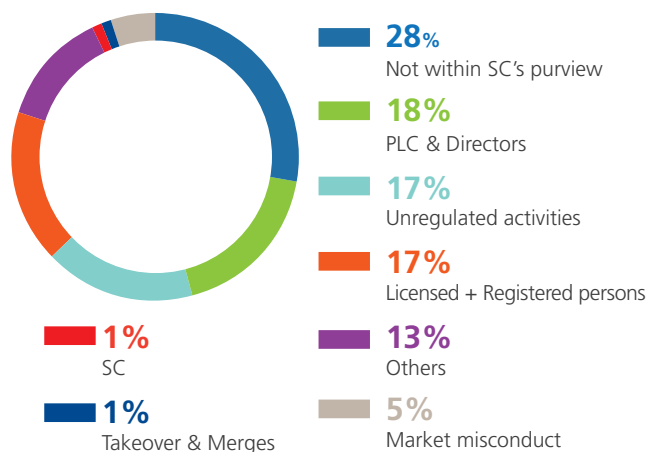
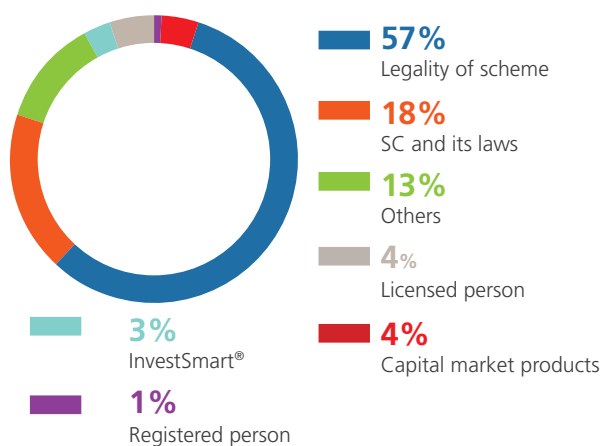


Chart 2

Classification of enquiries



## Publications

### ACTS, GUIDELINES AND CODES

*Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework*  
Revised | 16 January 2017

*Prospectus Guidelines*  
Revised | 19 January and 30 November 2017

*Asset Valuation Guidelines*  
Revised | 19 January 2017

*Equity Guidelines*  
Revised | 19 January 2017

*Guidelines on Financial Markets Infrastructures*  
Issued | 23 March 2017

*Guidelines on Regulated Short-Selling of Corporate Bonds*  
Issued/Effective | 13 April 2017

*Guidelines on Unit Trust Funds*  
Revised | 24 May 2017

*Guidelines for the Offering, Marketing and Distribution of Foreign Funds*  
Revised | 4 May 2017

*Guidelines on Compliance Function for Fund Management Companies*  
Revised | 9 May 2017

*Licensing Handbook*  
Revised | 23 June 2017

*Guidelines on Marketing Representative*  
Revised | 23 June 2017

*Guidelines on Marketing and Distribution of Unit Trust Funds*  
Updated  
Revised | 13 July  
Effective | 1 August

## Statements, Statistics and Activities

*Guidelines on Online Transactions and Activities in relation to Unit Trusts*  
Revised | 13 July  
Effective | 1 August

*Guidelines on Private Retirement Scheme*  
Revised | 13 July  
Effective | 1 August

*Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors*  
Revised | 8 November 2017

*Guidelines on Unlisted Capital market Products under the Lodge and Launch Framework*  
Revised | 8 November 2017

*Prospectus Guidelines*  
Revised | 30 November 2017

*Rules on Take-Overs, Mergers and Compulsory Acquisitions*  
Revised | 5 December 2017

*Guidelines on Sustainable and Responsible Investment Funds*  
Issued | 19 December 2017

### BOOKS, REPORT AND CONSULTATION PAPERS

*Proceedings of the SC-OCIS Roundtable 2016*  
Issued | March 2017

*Islamic Fund and Wealth Management Blueprint*  
Issued | 12 January 2017

*Securities Commission Annual Report 2016/ Laporan Tahunan 2016 Suruhanjaya Sekuriti Malaysia*  
Issued | 9 March 2017

*Malaysian Code on Corporate Governance (Bahasa Malaysia and Mandarin versions in July 2017)*  
Issued | 26 April 2017

*ASEAN Green Bond Standards*  
Issued | 8 November 2017

*Response Paper – Regulatory Framework for Cyber Security Resilience*

Issued | 19 January 2017

*Consultation Paper – Enhanced Framework for Principal Advisers*

Issued | 6 March 2017

*World Capital Markets Symposium 2015 – Markets and Technology: Driving Future Growth Through Innovation*

Issued | September 2017

## BOOKLETS, BULLETINS AND PAMPHLETS

*The Reporter*

Issued | April – October 2017  
September 2016 – March 2017

*Malaysian ICM*

Issued | May and September 2017

*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 | 26 May and 24 November 2017

*Resolutions of the Shariah Advisory Council of the Securities Commission Malaysia 2017 / Keputusan Majlis Penasihat Syariah Suruhanjaya Sekuriti Malaysia 2017*

Issued | 29 December 2017

## Statements, Statistics and Activities

### WEBSITES

[www.sc.com.my](http://www.sc.com.my)

[www.investsmart.my](http://www.investsmart.my)

[www.worldcapitalmarketsymposium.org](http://www.worldcapitalmarketsymposium.org)

[www.theroyalaward.com](http://www.theroyalaward.com)

## 2017 At a Glance

### January

- 12** The SC hosts dialogue with senior industry experts from leading global fund management and investment institutions
- 12** *Islamic Fund and Wealth Management Blueprint* launched
- 19** The SC introduces new framework for listing of mineral, oil and gas corporations

- 19** Court of Appeal jails former independent directors of Transmile Group Bhd for misleading disclosures



### February

- 13** Mandiri Manajema Investasi of Indonesia visits SC
- 14** The SC hosts dialogue with the Private Pension Administrator (PPA)
- 21** 5<sup>th</sup> AARG Inspection Workshop & Inaugural Collaborative Workshop with World Bank



### March

- 6** The SC proposes amendments to enhance framework for principal advisers
- 9** *SC Annual Report 2016* released
- 13** The ACMF collaborates with the International Capital Market Association to introduce ASEAN Green Bond Standards



- 14** First IOSCO Asia Pacific Hub launched in KL by Prime Minister Dato' Sri Mohd Najib Tun Abdul Razak
- 15** Federal Court upholds the SC law valid and constitutional in landmark decision
- 20** The SC files civil suit against three individuals for insider trading
- 23-25** The SC-OCIS Roundtable 2017 in the UK



## April

- 6-7** The SC hosts the Malaysian Institute of Accountants Integrated Reporting Session with Investors and Public Listed Companies and Session with Stakeholders
- 13** The SC allows regulated short selling of corporate bonds to boost bond market liquidity

- 26** SC releases new *Malaysian Code on Corporate Governance* to strengthen corporate culture



## May

- 8** The SC and World Bank Group jointly organise a conference themed 'Islamic Finance and Public-Private Partnership for Infrastructure Development'
- 9** Regulatory framework to facilitate Digital Investment Management services introduced.
- 17** Former Executive Chairman of Megan Media sentenced to 18 months jail for submission of false information

- 25** MidS Research Scheme to spur vibrancy of mid-and small- cap PLCs, enhancing investor interest
- 25** SC sues seven individuals for insider trading



## June

- 23** The SC introduces clearing as a new regulated activity
- 27** The SC and ASIC sign innovation co-operation agreement to establish FinTech Bridge

## July

- 5** SC charges two individuals for unlicensed activities
- 10** Axis' former executive directors jailed for furnishing false statements
- 20** Hari Raya Open House with staff and industry
- 23** Malaysia's first green sukuk under SC's Sustainable Responsible Investment (SRI) Sukuk Framework

- 31** The SC reprimands China-based Company, bans two Hong Kong citizens for life



## August

- 15-17** The SC Industry Dialogue 2017
- 22** The SC Scholarship Awards 2017 presented to 7 students
- 29** Court declares in SC's favour in Iris manipulation case



## September

- 7** The SC issues media statement on initial coin offerings
- 11** Announcement of senior management appointments
- 14** SC participates in the annual Bursa Charge 2017 to raise funds for the community
- 27** The SC sues seven individuals for market manipulation, seeks disgorgement and civil penalty of RM7 million

- 29** The SC wins insider trading case against former director of Magnum Corporation Bhd





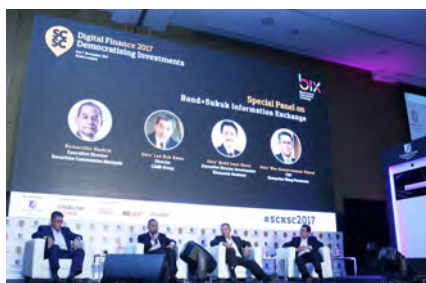
## October

- 3 The SC and ISRA publish textbook on *Sukuk: Principles and Practices*
- 3 The SC sues two individuals for insider trading of GW Plastics Shares
- 19 InvestSmart® Fest 2017 and inaugural Scambuster Run to raise awareness on scams



## November

- 2 The AOB fines auditor, RM75,000 for non-compliance with International Standards on Auditing
- 6 SCxSC Digital Finance Conference 2017; Co-Investment Fund announced
- 8 The ACMF launch *ASEAN Green Bond Standards* to drive sustainable investments
- 24 Ex-CEO of APL Industries Bhd and ex-remisier fined and jailed five years for insider trading
- 27 High Court declares in favour of the SC in Axis insider trading case
- 30 Enhanced *Prospectus Guidelines* issued



## December

- 4 The SC reprimands and fines five directors of Trive Property Group Bhd for furnishing false statements
- 9 MOF Treasure Hunt 2017 hosted by the SC
- 19 The SC issues *Guidelines on Sustainable and Responsible Investment Funds*
- 21 The SC initiates aFINity innovation lab for alternative trading system





## Acronyms and Abbreviations

|                |  |
|----------------|--|
| ACMF           | ASEAN Capital Markets Forum  |
| AICP           | ACMF Industry Consultative Panels  |
| AML/CFT/PF     | Anti-money laundering, countering financing of terrorism and proliferation financing |
| AOB            | Audit Oversight Board  |
| ASEAN          | Association of South-East Asian Nations  |
| AUM            | Assets under management  |
| BCM            | Business Continuity Management   |
| BIX            | Bond+Sukuk Information Exchange  |
| BMSC           | Bursa Malaysia Securities Clearing Sdn Bhd   |
| BMDC           | Bursa Malaysia Derivatives Clearing Bhd  |
| BNM            | Bank Negara Malaysia   |
| BoE            | Bank of England  |
| Bursa Malaysia | Bursa Malaysia Securities Bhd  |
| CCP            | Central counterparty   |
| CEF            | Closed-end fund  |
| CERT           | Computer Emergency Response Team   |
| CIS            | Collective investment schemes  |
| CMCF           | Capital Market Compensation Fund   |
| CMM            | Capital Markets Malaysia   |
| CMSA           | <i>Capital Markets and Services Act 2007</i>   |
| CMSL           | Capital Market Services Licence  |
| CMSRL          | Capital Market Services Representative's Licence                                     |
| CSRC           | China Securities Regulatory Commission   |
| DDoS           | Distributed Denial of Service  |
| DIM            | Digital Investment Management  |
| ECB            | European Central Bank  |
| ECF            | Equity crowdfunding  |
| EPF            | Employees Provident Fund   |
| ESG            | Environmental, Social and Governance   |
| ETF            | Exchange-traded funds  |
| FBMKLCI        | FTSE Bursa Malaysia Kuala Lumpur Composite Index                                     |
| FEN            | Financial Education Network  |
| FIMM           | Federation of Investment Managers Malaysia   |
| FinTech        | Financial technology   |
| FMC            | Fund management companies  |
| FMI            | Financial market infrastructure  |
| FPAM           | Financial Planning Association of Malaysia   |
| FSB            | Financial Stability Board  |
| FSSG           | Financial Statements Surveillance Group  |
| GBP            | <i>Green Bond Principles</i>   |
| GBS            | <i>Green Bond Standards</i>  |
| GEM            | Growth and Emerging Markets  |

|                |  |
|----------------|--|
| GLIC           | Government-linked Investment Companies                           |
| ICDM           | Institute of Corporate Directors Malaysia                        |
| ICM            | Islamic capital market   |
| ICMA           | International Capital Market Association                         |
| ICMGTS         | Islamic Capital Market Graduate Training Scheme                  |
| ICMR           | Institute for Capital Market Research                            |
| ICO            | Initial coin offering  |
| IFWM           | <i>Islamic Fund and Wealth Management</i>                        |
| IMF            | International Monetary Fund                                      |
| IMP            | Islamic Market Programme   |
| IOSCO          | International Organisation of Securities Commissions             |
| IPO            | Initial public offering  |
| ISRA           | International Shari'ah Research Academy for Islamic Finance      |
| LEAP           | Leading Entrepreneur Accelerator Platform                        |
| LOLA Framework | Lodge and Launch Framework                                       |
| MASB           | Malaysia Accounting Standards Board                              |
| MAVCAP         | Malaysia Venture Capital Management Bhd                          |
| MCCG           | <i>Malaysian Code of Corporate Governance</i>                    |
| MFPC           | Malaysian Financial Planning Council                             |
| MFRS           | Malaysian Financial Reporting Standard                           |
| MGS            | Malaysian Government Securities                                  |
| MITI           | Ministry of International Trade and Industry                     |
| MoF            | Ministry of Finance  |
| MORE@SC        | Graduate Management Executive Model Regulator                    |
| MRWG           | Market Risk Working Group  |
| MSCI           | Morgan Stanley Capital International                             |
| MSME           | Micro, small and medium enterprises                              |
| MVCDC          | Malaysian Venture Capital and Private Equity Development Council |
| NACSA          | National Cyber Security Agency                                   |
| NAV            | Net asset value  |
| OCIS           | Oxford Centre for Islamic Studies                                |
| OECD           | Organisation for Economic Co-operation and Development           |
| OPEC           | Organization of the Petroleum Exporting Countries                |
| OTC            | Over-the-counter   |
| P2P            | Peer-to-Peer   |
| PE             | Private equity   |
| PIE            | Public-interest entities   |
| PLC            | Public-listed company  |
| PNB            | Permodalan Nasional Bhd  |
| PPA            | Private Pension Administrator                                    |
| PPP            | Public-Private Partnerships                                      |
| PRS            | Private retirement scheme  |
| QE             | Quantitative easing  |
| REIT           | Real estate investment trust                                     |
| SAC            | Shariah Advisory Council   |
| SC             | Securities Commission Malaysia                                   |

|        |  |
|--------|--|
| SCMA   | <i>Securities Commission Malaysia Act 1993</i>           |
| SCxSC  | SC's Synergy and Crowdfunding Forum                      |
| SIA    | <i>Securities Industry Act 1983</i>                      |
| SICDA  | <i>Securities Industry Central Depositories Act 1991</i> |
| SID    | SC Industry Dialogue                                     |
| SIDC   | Securities Industry Development Corporation              |
| SIDREC | Securities Industry Dispute Resolution Center            |
| SIR    | Scholar in Residence                                     |
| SRI    | Sustainable and Responsible Investment                   |
| SRO    | Self-regulatory organisation                             |
| SROC   | Systematic Risk Oversight Committee                      |
| UK     | United Kingdom   |
| US     | United States  |
| US Fed | US Federal Reserve                                       |
| UTF    | Unit trust fund  |
| VC     | Venture capital  |

## SECURITIES COMMISSION MALAYSIA

3 Persiaran Bukit Kiara  
Bukit Kiara  
50490 Kuala Lumpur  
T 603 6204 8000  
F 603 6201 5078  
E [cau@seccom.com.my](mailto:cau@seccom.com.my)  
[www.sc.com.my](http://www.sc.com.my)  
[www.investsmartsc.my](http://www.investsmartsc.my)  
Twitter @seccommy