



Suruhanjaya Sekuriti
Securities Commission
Malaysia

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The background of the entire page is a complex, abstract geometric pattern. It consists of various shades of gray and white, forming a series of interlocking triangles and polygons that create a sense of depth and movement. The pattern is most prominent in the lower right corner, where it forms a large, stylized, star-like or web-like structure. The overall effect is modern and architectural.

Mission Statement

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

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Chairman's Message

CHAIRMAN'S MESSAGE



Four years since its peak, the global financial crisis continues to pose significant challenges for the world economy. Developments in 2011 underscore the virulent nature of the crisis, which saw a deepening of the euro-area sovereign debt crisis eventually give way to more widespread fears about global growth. The ensuing correction in emerging market stocks, bonds and currencies during the second half of the year marked a worldwide re-allocation of capital away from emerging market assets into those perceived to be less risky.

However, at no point did the turbulence compromise the stability of the Malaysian financial sector, an indication of the progress that we have made in building a strong foundation which has contributed to the resilience of the Malaysian capital market. Closer supervision and diligent enforcement have instilled the important hallmarks of a well-functioning capital market, which include not just vibrancy, but also efficacy and integrity. Such foundations, which were laid down over the course of implementing the first *Capital Market Masterplan* (CMP1), are being strengthened further as we enter the first year of implementing the *Capital Market Masterplan 2* (CMP2) in 2011.

A major outcome of CMP1 is that domestic sources of financing the Malaysian economy are now diversified, with the share of financing by the capital market reaching 40% by end 2011. This broadening of the capital market not only facilitates capital investment, and thus the needs of a growing economy; but by allowing for a more prudent

balance between debt and equity assets to be struck, it also strengthens the resilience of the national financial system.

Over the next 10 years, the capital market will have to take on an even bigger role – one that is capable of providing long-term finance to sustain domestic growth amid a challenging global environment for growth and jobs, while adapting and remaining resilient to big shifts in the economic and financial landscape. Under such dynamic and changing conditions, there is a need to ensure that market participants have clarity and certainty about the direction of the capital market over the longer term.

CMP2 with its underlying theme of 'growth with governance' was launched in April 2011 and aims to provide clear strategies to chart this direction, and unlock the potential of our capital market, expand its role in financing the growth of the domestic economy, and support the on-going national economic transformation process. Given the stronger linkages to international markets, CMP2 also addresses issues of stability as we continue to instil better risk management frameworks in the market and better governance among players to meet the dynamic changes in the regional and global environment.

The theme of 'growth with governance' recognises the need to have an efficient market mechanism for mobilising our savings for capital formation that at the same time redistributes returns fairly and adequately to investors. Growth strategies prioritise key areas such as promoting

capital formation, expanding intermediation efficiency and scope, deepening liquidity and risk intermediation, expanding growth boundaries through internationalisation, and building capacity and strengthening the infrastructure to meet future requirements. Governance strategies on the other hand are aimed at fostering an enabling environment for expansion and innovation.

Our work during the year reflected the aims of CMP2, while anticipating and managing global risks to our capital markets. On the supervisory front, we have pursued a more intensive and comprehensive approach to the oversight of firms and markets, while continuing to make progress in building credible deterrence through several significant enforcement successes. At the same time, we have sought to enhance our operational effectiveness by increasing internal capacity and adopting systems and tools for raising productivity.

Improving regulation to promote growth and stability

Financial innovation, such as high-frequency trading and synthetic exchange-traded funds, continued to push ahead in 2011 in spite of the global turbulence. At the same time, taking lessons from the global financial crisis, regulators continue to bring unregulated or lightly-regulated activities within the perimeter of regulation. Progress has been gradual as the international community exercises caution to strike the right balance between reducing opportunities for regulatory arbitrage and ensuring the proportionality of regulation in order not to stifle innovation.

Changes in the global and domestic financial landscape are important considerations in our programme of regulatory review and reform as we begin implementing CMP2. Recognising the need for a relevant legal framework for a modern and mature capital market, we made significant amendments to the *Capital Markets and Services Act 2007* (CMSA) to provide the legal foundation for the implementation of several key CMP2 strategies. Among others, the changes in the CMSA now allow us to extend regulatory reach over derivatives; confer explicit powers to monitor, mitigate and manage systemic risks and provide

for the establishment of a strong framework for developing and regulating private retirement schemes.

A clear legal framework for the private retirement scheme industry is critical to the development of stronger overall safety-nets, which will be an important basis of financial security in retirement. A vibrant private retirement scheme industry also carries other benefits: contributions accumulated in private retirement schemes will provide an additional source of long-term capital. Moreover, the establishment of private retirement scheme providers will further strengthen the domestic institutional investor base.

Raising governance standards in the market

Shareholder activism, especially by institutional investors, is vital in fostering good corporate governance. While Malaysia has made good progress in corporate governance practices, more work is necessary if the market is to meet the standard of global best practices. Thus, in line with the governance strategy outlined in CMP2, the SC introduced a *Corporate Governance Blueprint 2011* in July, with a view to assisting companies to develop a culture of good governance and encouraging stakeholders to exercise stronger market discipline.

Other measures we have taken to promote governance in the market include formally recognising the Federation of Investment Managers Malaysia (FIMM) as a self-regulatory organisation for the unit trust industry. We also raised transparency and objectivity requirements of credit rating agencies and now require a stronger compliance function for fund managers to further safeguard the interests of clients, particularly in relation to the protection of their assets.

The SC is also active at the regional level. Through its contributions in the ASEAN Capital Markets Forum (ACMF), Malaysia is leading work to develop a ranking methodology for good governance among companies listed on ASEAN exchanges. Through this approach, we aim to create an asset class of ASEAN listed

companies observing high standards of governance as the pathway to support performance and enhance long-term growth prospects.

Maintaining intensive supervisory activity and achieving credible deterrence

Amid heightened risks to global financial stability, the SC has been formalising our internal framework for dealing with systemic risk in the capital market. We are in the process of developing further tools and methodologies for that purpose. In our day-to-day operations, we have raised the intensity of our supervisory activities to commensurate with relevant risk assessments. These have included thematic audits of market intermediaries, compliance and risk assessments of stockbroking companies and an enhanced market surveillance approach, which resulted in pre-emptive regulatory action over trading activities in a number of counters.

Our objective in the area of enforcement continues to be that of achieving credible deterrence, and in this regard the SC had a record year of successful prosecutions. These involved a number of significant cases of fraud and market manipulation, all of which attracted custodial sentences. The Kuala Lumpur Sessions Court's sentencing of a director of FX Consultant Sdn Bhd and FX Capital Consultant Sdn Bhd to five years' imprisonment and a fine of RM5 million for operating a ponzi scheme and taking part in money laundering, marks one of the heaviest punishments against a capital market offender, and reflects the gravity of the offence.

Strengthening investor protection

The SC's investor protection mission remains as critical as ever. As investors turn to the markets to help secure their future, they must have confidence that their interests are being protected. We have taken several initiatives in the past 12 months to safeguard the interests of investors.

The Securities Industry Dispute Resolution Center (SIDREC) was set up in January 2011 to provide free

services for the adjudication of claims below RM100,000 between investors and capital market intermediaries in relation to capital markets products and services.

The threshold for shareholder approval for PLCs wishing to dispose their assets was raised to 75% to give shareholders the same degree of protection regardless of the route by which a company is taken private. In addition, PLCs must provide shareholders with independent advice and detailed disclosure on the use of proceeds from the asset disposal to increase transparency and ensure shareholders are equipped with adequate information for decision making.

We also issued 'Treating Investors Fairly' sales practices guidelines which introduced changes to the definition of 'sophisticated investors' to help limit the distribution of high-risk and complex products to unsuitable investors. Product highlight sheets aimed at improving disclosure were issued and suitability assessments have been clarified.

A challenge to these efforts is that investors can be unaware of their rights and responsibilities. Many fall prey to investment scams and are ignorant of the need for financial planning. We have noted a worrying trend of poor financial discipline and money management skills among young adults. Investor education is therefore a critical pillar of investor protection. Given these concerns, we intensified our investor education efforts, reaching some 68,000 participants through financial literacy training programmes, exhibitions and carnivals. We also introduced a new 'Train the Trainer for Teachers' programme, with the co-operation of the Education Ministry, to equip teachers with financial literacy teaching skills to create a significant multiplier effect for our *Kids & Cash* and *Teens & Cash* initiatives.

Fostering international co-operation

The pursuit of investor protection and other regulatory objectives today requires more international co-operation and co-ordination than ever before. Countries increasingly undertake unilateral, bilateral and multilateral initiatives to improve access to financial services, promote capital formation and redistribute risks. In 2011 the SC continued to participate, as well as lead, in a number of

major international engagements, especially with IOSCO, the Financial Stability Board (FSB) and ACMF.

In November, we hosted IOSCO's Asia-Pacific Regional Committee meeting and organised the Committee's Seminar Training Programme on 'Understanding New Financial Products and the Regulatory Implications of Those Products' for regulators from around the region. Malaysia co-chaired the Emerging Markets Committee's Task Force on Development of Corporate Bond Markets in Emerging Markets, together with the Securities and Exchange Board of India, in collaboration with the World Bank. The report of the Task Force provided guidance for emerging markets looking to develop corporate bond markets and made key recommendations encompassing regulatory and developmental issues.

The SC was a member of the FSB Task Force on Financial Stability Issues in Emerging Markets and Developing Economies (EMDEs), and chaired the expert group that looked at stability issues and policy options concerning developing domestic capital markets in EMDEs. The group focused on capital market development, enhancing market infrastructure and firms, and strengthening regulatory capacity. The final report was presented to the meeting of G20 Finance Ministers and Central Bank Governors in November, and received considerable attention from advanced and emerging market authorities.

As part of the ACMF Implementation Plan to Promote the Development of an Integrated Capital Market, the SC leads work on the ASEAN equity and derivatives market development initiatives including work on regulatory harmonisation, the promotion of cross-listings and enhancing corporate governance standards in the region.

Increasing internal capacity and productivity

The SC remains committed to achieving the highest standards of delivery, and in 2011 focused on enhancing data and information handling, specialised-skills development and internal governance.

In particular, a new organisation-wide records management system will help us store, organise and retrieve information

more effectively across the organisation. We have established an electronic repository to enhance the collation and sharing of market intelligence, and upgraded components of our surveillance systems, and began a collaboration with Bank Negara Malaysia and the Department of Statistics to improve the collection of data on the Islamic capital market which we hope to extend to other capital market sectors in due course.

Our internal governance standards have been strengthened with the requirement for all departments across the SC to undertake risk control self-assessment. We have also conducted an independent quality-assurance review of our internal audit function and I am happy to note that it conforms to the Internal Standard for the Professional Practice of Internal Auditing.

These and other efforts over the years have contributed to the SC's high level of internal capacity and productivity, and I am very grateful for the recognition we have received from our counterparts both at home and abroad. This year alone we hosted seven secondments from the Ministry of Finance and Public Services Department, and 11 regulatory secondees from the Capital Market Authority of Saudi Arabia, Japan Financial Services Agency and the Securities and Commodity Authority of Abu Dhabi.

Looking Forward

Looking ahead to 2012, our efforts will continue to focus on delivering an equally challenging set of targets including a new code of corporate governance, greater profiling and internationalisation of the Islamic capital market, executing the private retirement scheme framework, and addressing human resource challenges and talent management for the capital market. Most significantly, the SC will, along with Bank Negara Malaysia and other relevant agencies, take part in the Malaysia Financial Sector Assessment Programme (FSAP). Conducted by the IMF and the World Bank, the FSAP is a comprehensive and in-depth assessment of a country's financial sector resilience.

The SC has been undertaking self-assessments under the IOSCO Principles, the World Bank Corporate Governance

ROSC (Report on Standards and Codes) and its update. More recently, the World Bank assessed Malaysia's compliance under the Accounting and Auditing ROSC. The successful outcomes under these assessments will help to reinforce international recognition of the robustness of the regulatory and supervisory framework that governs Malaysia's capital market.

As our domestic capital market deepens and matures, it has grown in sophistication to meet the more varied needs of Malaysian companies venturing abroad as regional and global players. This has made meeting international benchmarks and standards more challenging. Nevertheless, reforms over the years have made our regulatory framework more agile in its responses to new market dynamics, enabling us to demonstrate continued compliance with international regulatory standards and preparedness to deal with challenges arising from financial crises.

We will continue to engage the international community and will incorporate feedback from the FSAP assessment into our work in developing and strengthening the Malaysian capital market.

Conclusion

The delivery of the SC's regulatory and market development responsibilities is made possible by the support of a diversified workforce who thrive on challenge and have a

strong performance culture. I am heartened to note that their drive for excellence and competitive spirit in the workplace has also been applied on the recreational front. A number of our sportsmen and sportswomen have made us proud in local and international sporting events and I am particularly pleased that so many participated in a wide range of social-responsibility activities, notably the Mount Kinabalu Challenge.

As in the past, the coming year will pose new challenges. The SC has also set its own demanding goals in implementing CMP2 and the Corporate Governance Blueprint. I am confident we will continue to be proactive and responsive to national, regional and global events and remain vigilant to managing new risks while delivering our goals.

On behalf of the SC, I would like to thank all our stakeholders for their support during the year. I am particularly grateful to our Commission and Shariah Advisory Council members for their immense commitment, guidance and contribution. I would also like to acknowledge the counsel and support of the SC's Management Committee and the hard work of the SC staff in delivering the achievements outlined in this report.



Zarinah Anwar
Chairman



Part One

Protect Investors
and Maintain
Market Confidence

PROTECT INVESTORS AND MAINTAIN MARKET CONFIDENCE

INTRODUCTION

A sound and balanced regulatory framework, which supports fair and orderly markets and promotes ethical conduct through effective surveillance and strong enforcement, is an integral building block of market confidence. In order for the Malaysian capital market to enjoy sustained growth, the market needs to observe and uphold high standards of corporate governance and investors need to be financially knowledgeable and to understand their rights as shareholders. Those responsible for conduct that undermine investor confidence or disrupt the fair and orderly functioning of the market must be dealt with according to the laws.

The SC continues to expand efforts to build an informed investor base through nationwide financial literacy programmes aimed at equipping investors with the necessary knowledge and skills to make informed and responsible investment decisions.

Measures to strengthen our regulatory powers and the development of a blueprint to promote corporate governance excellence through greater shareholder activism and self and market discipline were also put in place.

As always these efforts were strongly complemented by effective surveillance and enforcement action in order to detect, investigate and penalise those in breach of securities laws. Where serious breaches occurred, deterrent sentences were sought.

STRENGTHENING THE FRAMEWORK FOR INVESTOR PROTECTION

Blueprint to strengthen self and market discipline

Reinforcing our commitment to building a capital market that will be distinguished by the quality of its governance, in July, we launched the *Corporate Governance Blueprint 2011* (Blueprint).

The five-year Blueprint was the first major deliverable of the *Capital Market Masterplan 2* (CMP2), consistent with its theme of 'growth with governance'. The Blueprint seeks to raise the standards of corporate governance by strengthening self and market discipline to complement regulatory discipline. Most of the recommendations will be implemented through a new corporate governance code and changes to Bursa Malaysia's Listing Requirements, both of which would take effect in 2012. Several recommendations require legislative amendments while others require further scrutiny by industry-driven taskforces and working groups in collaboration with the SC.

Amendments to the securities laws

To ensure that our regulatory framework remains robust, significant amendments to the *Securities Commission Act 1993* (SCA) and the *Capital Markets and Services*

Six strategic corporate governance priorities

The Blueprint focuses on six main components of the corporate governance ecosystem, namely, shareholder rights, role of institutional investors, boards, gatekeepers and influencers, disclosure and transparency as well as public and private enforcement.

Shareholder Rights

Shareholders of companies have a responsibility to protect and advance their interests by exercising their rights of ownership to ensure that the companies they are invested in are well governed. In supporting this, the Blueprint recommends the removal of impediments to proxy voting. It also advocates poll voting, particularly on resolutions for related-party transactions, and a requirement for the chairman at general meetings to inform shareholders of their right to demand a poll vote before voting is carried out.

Role of Institutional Investors

Institutional investors are in a leadership position to exercise influence over companies and to hold them accountable for good governance. They should therefore play an active role in promoting good corporate governance practices. The Blueprint recommends the issuance of a new stewardship code by institutional investors that amplifies how corporate governance has been adopted as an investment criterion by the institutional investors and the measures taken to influence, guide and monitor investee companies. The Blueprint also recommends the establishment of an umbrella body for institutional investors to share and pursue common interests.

The Board's Role in Governance

The Blueprint emphasises the need for boards to discharge their role as active and responsible fiduciaries. To enhance board effectiveness, the Blueprint recommends, among others, the formulation, and disclosure in the annual report, of a board charter, limiting the tenure of independent directors, reducing the number of directorships in listed companies that directors may hold and separating the position of chairman and CEO. The Blueprint also mandates the establishment of a Nominating Committee, chaired by an independent director, which should focus on recruitment, assessment, diversity and training needs of directors.

Disclosure and Transparency

Disclosure and transparency are critical elements of a robust corporate governance framework as they provide the basis for informed decision-making by stakeholders. The Blueprint recommends the strengthening of disclosure and transparency by requiring that shareholders be provided with quality and timely information and that the submission period for quarterly and annual reports be shortened. Companies are strongly encouraged to utilise information technology to improve the quality and timeliness of information dissemination to shareholders. A taskforce is to be established to review developments in integrated reporting and to promote awareness and its adoption by companies.

Role of Gatekeepers and Influencers

Interposed between the company and shareholders, gatekeepers and influencers have an important role in promoting self and market discipline. Whistleblowing obligations in the securities laws would be expanded to include corporate advisers and company secretaries, and internal codes of conduct are to be enhanced to prevent the abuse of market sensitive information. The Blueprint also proposes the development of corporate governance training programmes for financial journalists and the provision of awards and scholarships to outstanding financial journalists for promoting corporate governance.

Public and Private Enforcement

Public and private enforcement plays a crucial role in ensuring corporate governance transgressors are held accountable by the state, regulators or aggrieved parties. A study on the feasibility of third party litigation funding to assist investors in private enforcement actions will be pursued, together with a study on the viability of the SC being empowered to initiate action for oppression or unfair prejudice.

Implementation of the recommendations of the Blueprint will be closely monitored, with a mid-term review to be undertaken in 2013, to ensure that the progress of achieving excellence in corporate governance is tracked and unrestrained.

Act 2007 (CMSA) were brought into force on 3 October. These amendments were made after the SC carried out an extensive regulatory risk review following the global financial crisis.

Managing systemic risk in the capital market

IOSCO issued the revised *Objectives and Principles of Securities Regulation* in June 2010 which, amongst others, requires securities regulators to have, or to contribute to, a process of monitoring, mitigating and managing systemic risk, appropriate to its mandate. This underscores the important role of capital market regulators in managing systemic risk and contributing to financial stability.

In keeping with these developments, the SC's statutory functions under section 15 of the SCA were expanded to include managing, monitoring and mitigating systemic risk in the capital market. A new Part IXA was also incorporated into the CMSA to enable the SC to obtain information and issue directions to market intermediaries to take appropriate measures to monitor, mitigate or manage systemic risk. The amendments also allow the SC to share information and co-operate with other supervisory authorities, both domestic and foreign, who manage systemic risk in the capital market.

Regulation of derivatives

To promote transparency and enhance regulatory oversight for the monitoring of systemic risks posed by OTC derivatives, amendments to section 15 SCA were made to enable the SC to develop an appropriate regulatory framework for OTC derivatives. A new subdivision 4 was inserted under Division 3 of Part III of the CMSA to introduce a mandatory reporting framework for OTC derivatives transactions to a trade repository which will be established and operationalised within two years.

Pursuant to this new regulatory framework for derivatives, index warrants have been prescribed as securities for the purposes of securities laws under the *Capital Markets and*

Services (Index Warrants) Order 2011 to minimise disruption to the trading and regulation of index warrants.

Audit Oversight Board oversight of foreign auditors

To promote foreign listings in Bursa Malaysia and to ensure parity in the framework for the oversight of auditors of local and foreign corporations listed on Bursa Malaysia, amendments to the SCA were introduced to enable the Audit Oversight Board (AOB) to grant recognition to foreign auditors who audit the financial statements of foreign corporations listed on Bursa Malaysia.

SC's examination reach expanded

Since the global financial crisis, regulators have been encouraged to review the scope and intensity of their examination process in order to ensure that potential breaches or failures in a systemically important financial institution can be detected early. In line with global developments, the SCA was amended to extend the SC's examination powers to registered persons under Part 2 of Schedule 4 such as venture capital companies, credit rating agencies, bond pricing agencies and those registered directly under subsection 76(2) of the CMSA.

Enhancing enforcement processes

Given the increase in cross-border transactions, many of the SC's investigations involved taking statements from witnesses and retrieving documentary evidence outside our jurisdiction. As such, amendments to the SCA were made to enable statements recorded in audio or video format to be admitted as evidence and statements taken from a person who has since passed away, or cannot be found, to be admitted as evidence.

To enhance transparency of the SC's enforcement action, section 152A of the SCA was amended to extend the application of this section to include the SC's actions for breach of provisions on take-overs and mergers and action taken against licence holders.

Private retirement scheme industry

In line with the SC's mandate to lead the development of a private retirement scheme (PRS) industry to enhance the adequacy of savings for retirement needs, amendments were made to Part IIIA of the CMSA to provide for a dedicated regulatory framework under which SC-approved PRS providers, will be able to offer a range of funds catering to varying investor financial needs, goals and risk appetites. The PRS framework is discussed in Part 3.

EDUCATING INVESTORS AND ENGAGING STAKEHOLDERS

Investor education is a key component of the SC's investor protection mandate as informed and vigilant investors can exert greater discipline on market participants and in turn, reduce the cost and burden of regulation. Under the CMP2, the SC is also committed to broadening the scope of our investor education programmes to cover issues such as ethical conduct and integrity, the consequences of corporate fraud, greater shareholder participation in corporate voting and investing in environmental, social and governance-related investment products.

Listening and responding to our stakeholders has enabled the SC to integrate industry needs in the development of critical pieces of work such as CMP2, the Corporate Governance Blueprint and PRS scheme, among others. The SC also gives priority to engaging with industry and market players and has encouraged feedback through our complaints management programme and consultation papers. In numerous dialogues and fora, senior management engaged with industry stakeholders, collaborated with international experts and fellow regulators and engaged with global investors at international roadshows to share the thinking that underpinned the work in progress, influence international perceptions of the Malaysian capital market and solicit feedback to address key issues.

Educating investors

We continue to deliver investor education programmes for different segments of the public. This is to ensure that

current and potential investors are adequately informed, knowledgeable and able to be accountable for their investment decisions. These programmes were conducted together with our training and development arm, the Securities Industry Development Corporation (SIDC).

Train the Trainer programme for teachers

In September, to ensure that our efforts to lay the foundations of smart money management skills among children are sustainable, we launched a comprehensive 'Train the Trainer for Teachers' module for teachers with the support and co-operation of the Ministry of Education. This programme aims to equip teachers with the knowledge and skills to help children differentiate between needs and wants and to understand the basic concepts and skills of budgeting, saving and investing. One hundred teachers were trained in our pilot programme and we aim to train at least 100 teachers every year. The exponential impact of this programme both in reach and sustainability can be considerable if each of the 100 teachers trained go on to make 100 kids financially savvy each year.

Investor Clinics – Klinik SihatLabur

Through our interaction with investors and participants at exhibitions and roadshows we found that the public appreciate and respond positively to face-to-face engagements with the SC staff when seeking clarification or help.

The Investor Clinic programme which is tailored to meet the specific needs of our target audience in terms of different levels of knowledge and understanding of investor rights, investment products and activities, was launched in April and held in 10 towns in Peninsular Malaysia and Sarawak.

Nationwide multilingual radio series

A nationwide multilingual radio series on Airtime Management and Programming Sdn Bhd (AMP) Radio Network, which is set to reach up to 40% of the Malaysian

population within a 14-month campaign period, went live on 12 December. The high listenership of four identified stations under the AMP Radio Network (Sinar FM, Hitz FM, MY FM and THR Raaga) allows the SC to deliver key financial literacy messages frequently and consistently in a cost-effective manner. This is our second radio investor education initiative since the successful maiden campaign on BFM Radio in 2010.

We have also worked with Suria FM which has helped distribute investor education material to highway users in the Klang Valley as part of its 'Toll Rancak' campaign.

Educating investors through intermediaries

During the year greater emphasis was also given to ensuring that investors are appropriately informed on the products that are introduced and marketed.

The SC engages with industry and market participants to encourage the incorporation of investor education elements in their marketing efforts as well as ensure meaningful product disclosure to investors. More directly, aided by market intelligence received through enquiries and complaints as well as feedback from relevant line departments in the SC, trends and gaps in market processes or investor knowledge are identified and initiatives taken to close these gaps via recommendations made to the relevant line departments. One example of this effort is the work undertaken to review and enhance market sales practices to ensure that distributors consider the suitability of an investor before recommending an investment product and provide accurate and sufficient disclosure on the risks involved when investing in that product.

Effective complaints management

Complaints and enquiries management serves as an important channel for investors to communicate directly with the SC and is a valuable source of market intelligence for us.

Table 1
Complaints and enquiries received

	2011
Complaints received	774
Enquiries received	191
Total complaints and enquiries received	965
Files opened	252
Complaints/enquiries addressed within 15 working days	713

We receive complaints and enquiries from walk-ins, via the internet, emails, phone hotline, letters, faxes, and referrals from other agencies. Strict confidentiality of all complaints received is observed and enforced, consistent with provisions of the SCA. The complaints management process also caters for the requirements of the *Whistleblower Protection Act 2010*.

The nature of these complaints or enquiries spans the spectrum of market activities from possible breaches of securities laws, unfair market conduct and tip-offs or whistle-blowing information to general enquiries by the public seeking more information on other capital market-related matters. In several cases, the intelligence received has allowed the SC to take appropriate pre-emptive action to prevent breaches of securities laws.

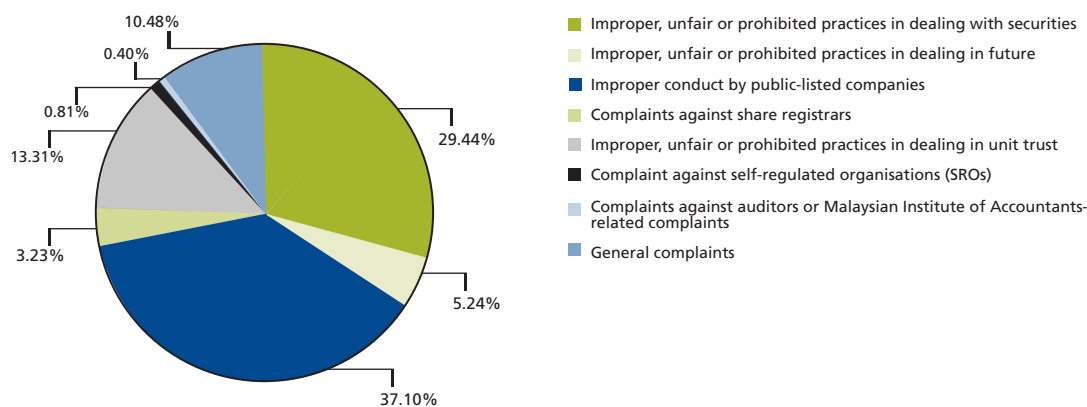
Through the complaints management system, the SC is able to monitor trends, identify gaps in market conduct and processes put in place by market intermediaries and escalate issues for appropriate action. It also serves as a valuable tool for the SC to identify matters that need to be addressed through the SC's investor education strategy and initiatives.

Public consultations

To provide our stakeholders with a meaningful opportunity to share their views on policies under development, we continued our practice of public consultation.

Chart 1

Nature of complaints received



Pursuant to proposals under the Corporate Governance Blueprint, a public consultation issued in November sought public feedback on issues relating to independent chairman and poll voting.

The Blueprint recommends mandating the separation of the position of the chairman and chief executive officer, and that the chairman should be a non-executive member of the board. The SC envisages moving one step further, to require an independent chairman, an issue which has been widely debated. The consultation paper provided the opportunity for all parties to contribute their views in respect of whether or not the chairman should be an independent director.

To encourage greater shareholder activism, the Blueprint also recommends that poll voting should be mandated for resolutions approving related-party transactions. The consultation paper solicited views on whether poll voting should be mandated for all resolutions requiring shareholders' approval.

Four public response papers were also issued during the year on feedback received and the way forward on four consultation papers issued in 2010. Three, relating to the review of the definition of sophisticated investors and sales practices for unlisted products, updates to guidelines on

applications relating to take-overs and mergers and amendments to Bursa Malaysia's Listing Requirements, were issued in January.

The fourth public response paper, issued in June, was on the proposed Continuing Professional Development (CPD) framework to replace the Current Continuing Professional Education (CPE) programme.

Continuing engagement with the media

The SC also actively reached out to the investing public and financial community through the domestic and international media. We issued 62 press releases and 23 speeches during the year and had 94 separate interactions with the media through press conferences, interviews, emailed queries and background briefings which garnered coverage in over 1,000 media articles. We also hosted a training programme for young journalists to provide an introduction to the capital market and an introduction to how the SC works.

The SC's website continued to attract considerable interest, with around 30 million hits, largely stimulated by announcements on the SC's enforcement actions and the exposure of prospectuses.

ENFORCEMENT

The enforcement of securities laws remains a cornerstone of the SC's efforts to institute regulatory discipline and build confidence in the integrity of the capital market. In our enforcement efforts, we continue to use a variety of tools available in the law spanning criminal, civil and administrative actions. Criminal sanctions continue to be pursued to achieve deterrence while civil remedies have been used to seek restitution for investors and to prevent possible dissipation of monies resulting from breaches of the law. Various administrative sanctions were imposed for breaches of the SC's guidelines and regulations.

Criminal prosecutions

Significant outcomes have been achieved in terms of deterrent jail sentences for securities offences including those involving disclosure of misleading information to the market, fraud involving public-listed companies and market abuses such as shortselling.

The SC's steady focus on enforcement by criminal actions this year achieved the highest number of jail sentences in the history of the SC's enforcement efforts. Thirteen persons received jail sentences and the courts imposed fines totalling in excess of RM13.7 million. In total, 14 persons were convicted in the courts either following a full trial or after pleading guilty.

Jail sentences for authorising misleading financial statements

In a landmark decision for securities cases, the Court of Appeal upheld a six-month jail term imposed by the High Court on two former directors of MEMS Technology Bhd for authorising a misleading statement to the stock exchange in the company's financial statements. The two directors were first charged in the Sessions Court in 2009 for the misleading statement which related to MEM'S reported revenue of RM73.4 million as it contained over RM30 million worth of sales which did not take place. Ooi Boon Leong and

Deterrent sentence passed by Courts

In September, the Sessions Court found two former directors of Multi-code Electronics Industries (M) Bhd (Multi-code) guilty of committing criminal breach of trust involving over RM26 million of funds belonging to Multi-code. Gordon Toh Chun Toh was sentenced to 12 years imprisonment while Abul Hasan Mohamed Rashid received a jail sentence of six years.

In passing the sentence, Sessions Court Judge, Justice Dato' Jagjit Singh Bant Singh said

"A pre-meditated white collar scandal executed with precision within T+3 is how I would sum up the whole case".

He emphasised that the sentence must send a strong message to offenders and would-be offenders that crime does not pay. He also pointed out that the victim, Multi-code, is a public-listed company which lost millions as a result, causing its public shareholders to suffer as well. He said that for the business and commercial sector to flourish, the corporate environment must be free of white collar crimes.

Both accused had been charged in 2009 with securities fraud under the *Securities Industry Act 1983* (SIA) while the charges of criminal breach of trust were preferred as alternative charges. This case was jointly prosecuted by the Attorney General's Chambers and the SC.

Tan Yeow Teck were originally sentenced to a fine of RM300,000 by the Sessions Court. The Public Prosecutor appealed to the High Court on the grounds that the sentence was manifestly inadequate. The High Court upheld the appeal and went one step further by enhancing the sentence to a six-month jail term in addition to the fine. The High Court judge, Justice Dato' Hj Ghazali Cha cited public interest as a reason for the enhanced sentence, pointing out that the offence affected the integrity of the capital market. Both directors appealed against this

decision, but the Court of Appeal agreed with the High Court that the sentence of a fine was manifestly inadequate and did not reflect the seriousness of the offence. The Court of Appeal emphasised that the custodial sentence was necessary to ensure that the public would not lose confidence in the capital market and that potential wrongdoers would be deterred.

The role of independent directors as stewards of good corporate governance was brought sharply to light when two independent directors were found guilty of breaches of securities laws relating to disclosure of financial information pertaining to the affairs of a public-listed company. Notably, it was the first time audit committee members, who were also non-executive directors, were jailed for their involvement in the furnishing of misleading disclosures of financial information to the stock exchange. Chin Keem Feung and Shukri Sheikh Abdul Tawab were former independent non-executive directors of Transmile Group Bhd (TGB) and members of its audit committee. In 2007, they were charged with knowingly authorising the furnishing of a misleading statement contained in TGB's Quarterly Reports for the financial year ended 31 December 2006. In handing down his sentence after a trial which lasted almost a year, the Sessions Court judge emphasised that the public interest factor must be given paramount consideration. He highlighted that the audit committee was a vital organ of the company with specific duties, functions and responsibilities and that the investing public relies on them.

Jail sentences for manipulation and CBT

For manipulating the shares of Suremax Group Bhd, a listed company, Phillip Wong Chee Keong was sentenced to 24 months jail and fined RM3 million while Francis Bun Lit Chun was jailed three months and fined RM2 million. Also this year, the Court of Appeal upheld the conviction and sentence imposed by the High Court on Haron Jambari and Nik Aziz Nik Mohd Amin. Haron, a former remisier, was charged in May 1995, for making a false statement to his client under the SIA. He was also charged with criminal breach of trust (CBT) for misappropriating RM2 million belonging to his client. He was sentenced to three years imprisonment and a fine of RM1 million (in default two years) for the SIA offence and

four years imprisonment and two strokes of the rotan for committing CBT. The four-year jail term against Nik Aziz, who was then an accountant for the company, was also upheld on the CBT charge together with a two-year jail term for the *Penal Code* offence relating to corrupt practices for accepting a sum of money from Haron while performing his duties as a public servant.

Jail sentences for illegal fund management activities

The court convicted Raja Noor Asma Raja Harun and sentenced her to five years jail with a fine of RM5 million (in default six months imprisonment) for soliciting funds from investors on the pretext of trading in futures contracts. Raja Noor Asma, the director of FX Consultant Sdn Bhd and FX Capital Consultant Sdn Bhd, was charged under the FIA and the *Anti-Money Laundering and Anti-Terrorism Financing Act 2001* (AMLATFA). She is currently serving her sentence.

The SC was also successful in defending the appeal filed by businessman Phazaluddin Abu when the High Court upheld the earlier conviction by the Sessions Court against him under section 15A of the SIA for acting as a fund manager without a licence through the website www.danafutures.com. The High Court also dismissed Phazaluddin's appeal against his conviction for money laundering. Phazaluddin was ordered to serve his four-year imprisonment for both offences immediately, when his application for stay of execution of his sentence pending an intended appeal was dismissed.

Criminal charges preferred

Delivering our commitment to enforce corporate governance transgressions, criminal charges were preferred during the year against six directors and officers of listed entities.

- Chong Yuk Ming and Balachandran a/l A. Shanmugam, who were directors of Bestino Group Bhd (Bestino), were charged in relation to the issuance of 400 million redeemable preference shares by Bestino without a prospectus.

- The directors and officers of Kosmo Technology Industrial Bhd (Kosmo) were charged with respect to their role in the submission of false information in the financial statements of Kosmo. Norhamzah Nordin was the Group Managing Director and one of the major shareholders of Kosmo at the material time while Mohd Azham Mohd Noor was the Group Executive Director and also one of Kosmo's major shareholders. Lim Hai Loon was the Account Manager of Kosmo at the material time and she was charged for her role in abetting the offence.
- Zamani Hamdan a director of Rantau Simfoni Sdn Bhd was charged for trading in futures contracts without a licence.

Civil actions

Enforcement of insider trading breaches continued to be a priority for the SC in the past year. In 2011, 12 persons entered into settlement agreements with the SC for breaches of insider trading laws. In each of these cases, the persons involved were required to disgorge up to three times the financial benefit they received. In total, approximately RM973,687 was disgorged from these individuals. By obtaining up to three times the disgorgement of gains realised through out-of-court settlements, the SC avoided protracted litigation while at the same time ensuring that offenders were deprived of their ill-gotten gains and that, where applicable, investors were restituted.

This year, the SC also obtained injunctions restraining seven defendants from dealing with monies collected from the public amounting to approximately RM1.2 million.

Imposition of administrative sanctions

During the year the SC continued to step up our efforts to ensure that intermediaries and their representatives uphold high ethical standards in order to maintain a fair, efficient and orderly market. A total of 19 administrative actions were meted out against intermediaries for various misconduct. These include two cases of suspension of licence, two penalties, nine reprimands, five directives

and in one case, the SC barred a valuer from making submissions.

The licences of two dealer's representatives were suspended for one and three months respectively for failure to supervise a trading clerk and for jeopardising the interest of clients by amending purchase orders without the client's consent.

The SC barred a registered valuer and a valuation firm from making submissions to the SC for a period of six months for failing to ensure that a valuation was properly carried out and duly reviewed. The SC also found that the data used in carrying out the valuation was not properly verified and correctly analysed.

A penalty of RM250,000 was imposed on an investment bank for failing to comply with two SC guidelines relating to market conduct and prevention of money laundering and terrorism financing. In addition, the SC has also directed the investment bank concerned to conduct a comprehensive training programme for its employees. Another licensed intermediary was imposed a penalty of RM200,000 for failing to identify and report suspicious transactions to the Financial Intelligence Unit and failing to have in place an effective system for detecting and reporting suspicious transactions.

Directives were issued in a number of instances. A directive to undertake a compensation exercise for shareholders was issued against an offeror who had breached the *Malaysian Code on Take-overs & Mergers 2010* (TOM Code) by entering into an arrangement to purchase shares in a company during the exit offer on favourable conditions that were not extended to all shareholders. In another case, a directive was issued requiring the board of directors of a licensed intermediary to ensure its independent auditors carried out a verification exercise of its funds and to take remedial actions to address gaps in its compliance framework within a stated timeline.

In addition to the administrative sanctions meted out under sections 354 and 356 of the CMSA, the SC also issued a total of 69 supervisory letters to corporate advisers, licensed intermediaries, public-listed companies, boards of directors, legal advisers as well as individuals for minor breaches of the SC's guidelines.

The background of the entire page is a complex, light gray geometric pattern on a darker gray textured surface. The pattern consists of large, interlocking triangles and polygons that form a star-like or crystalline structure. In the bottom right corner, there is a more detailed, circular geometric motif resembling a stylized flower or a complex mandala. The overall aesthetic is modern and architectural.

Part Two

Promote a Fair,
Efficient and
Orderly Market

PROMOTE A FAIR, EFFICIENT AND ORDERLY MARKET

INTRODUCTION

The global financial crisis and the EU sovereign debt crisis have collectively posed the greatest shock to the world financial system since the Great Depression eight decades ago. Although the main effects were concentrated in the financial markets of the US and Europe, the shockwaves felt globally, served to highlight weaknesses in regulatory and supervisory processes, resulting in substantive efforts to drive further improvement in this area.

The global nature of the crisis and the increasing internationalisation of financial markets and institutions have prompted global regulators to harmonise their regulatory response and to consider changes to the structure, process and responsibilities of international agencies. A wide and sweeping range of regulatory responses aimed at co-ordinating regulatory arrangements between international agencies have either been implemented, remain in progress or are under consideration. This is reflected in the substantial developments aimed at addressing risks posed by Systemically Important Financial Institutions (SIFI), regulation of over-the-counter (OTC) markets, oversight of hedge funds, custodians and credit ratings agencies and in the overall refinement of the regulatory perimeter.

The challenge facing regulators is to develop an appropriate regulatory framework, with a structure of supervisory arrangements and a capital market system, which deliver outcomes in an environment of systemic stability. Appropriate capital allocation, diversification and management of risk, timely information generation and

monitoring, efficient facilitation of trading and detection of market abnormalities are needed, functioning in tandem with strong corporate governance.

While the Malaysian capital market has not been at the centre of the global crisis, the interconnectivity between the domestic capital market and foreign counterparts means that we are always alert to the associated risks and spillover effects. The SC has addressed the risks of such contagion through measures aimed at reducing these risks, mitigating and managing their impact.

The SC has expanded our supervisory work to include broader responsibilities and functions and we continued to benchmark ourselves against global best practices. In order to discharge our regulatory functions effectively, we have reviewed and increased our capacity and resources to be appropriate to the size, complexity and types of markets we supervise. The SC continued to strengthen our strategic focus in 2011 on the creation and maintenance of a fair, efficient and orderly market. We enhanced the regulatory framework, refined supervisory and surveillance tools and intensified supervision of capital market intermediaries.

ENHANCING THE REGULATORY FRAMEWORK

Changes to the licensing framework

To promote ease of doing business while continuing to maintain high standards of investor protection, three key

changes were made to the licensing regime. These involve licence renewals and the appointment of chief executive officers (CEO), both effective October, and a dual licensing framework for dealing in derivatives, effective July.

Consistent with efforts to internationalise and enhance the competitiveness of the Malaysian capital market, the SC removed the need for licensed intermediaries and their representatives to renew licences on a periodic basis. This was welcomed by licensed holders as a move towards business efficiency and creating a more cost-effective regulatory regime. As entry assessment is important to the SC's gate-keeping function, the SC places great emphasis on continuous assessment and oversight on the compliance and supervision of licensed intermediaries. As such, supervision efforts have been enhanced, and annual reporting obligations by licensed intermediaries and their representatives were introduced in October to ensure continued assessment on licensees' eligibility to remain licensed.

With the amendments to the CMSA, licensed intermediaries are required to seek the SC's prior approval for the appointment of a CEO. The CEO plays an important role in setting the tone at the top and driving the intermediaries' governance agenda. The requirement for the SC's prior approval of CEO appointments reflects our commitment to enhance governance and ensure that only fit and proper persons are appointed as chief stewards of licensed intermediaries.

To facilitate investors' increasing demand for derivatives products, securities' dealer representatives (DR) are allowed to be licensed for dealing in derivatives by completing a familiarisation programme, in place of the licensing examination. The familiarisation programme is intended for DRs to apprise themselves with the regulatory standards and increase their knowledge in derivatives products to cater for investors' need for value-added service from their DRs. Facilitating the entry of existing licence holders who have the market experience, would help promote the derivatives industry and contribute to the liquidity of the market.

Inculcating higher compliance standards within the fund management industry

In May, a revised version of the *Guidelines on Compliance Function for Fund Managers* (Compliance Guidelines) was issued, following a series of industry consultations and sharing of supervisory findings over the last two years. With emphasis on higher compliance standards by fund management companies, the Compliance Guidelines also introduced 11 core principles that fund management companies and their representatives are required to uphold in the conduct of their business. Encompassing integrity, skill, conflict of interest, compliance culture and client asset protection, the core principles are aimed at promoting a culture of compliance, professionalism, ethical standards and responsible conduct amongst fund management companies, their representatives and employees.

Among other enhancements to the revised Compliance Guidelines are requirements for fund management companies to highlight unique features and characteristics of investment products to their clients. In addition, fund management companies must make their clients aware of the risks inherent in the investments, including liquidity and attribution of ownership. They will have to provide quarterly updates on the performance of each client's portfolio against appropriate benchmarks and any subsequent changes in risk. Fund management companies are also now expressly prohibited from recommending, or investing clients' funds in, products that they themselves do not fully understand.

Strengthening oversight on outsourced functions

In August, *Guidelines on Outsourcing for Capital Market Intermediaries* (Outsourcing Guidelines) were issued, replacing the *Guidelines on Performance of Supervisory Functions at Group Level for Capital Market Intermediaries* and *Guiding Principles for Outsourcing of Back Office Functions for Capital Market Intermediaries*.

The new Outsourcing Guidelines enable intermediaries to focus on their core strengths of intermediation by outsourcing their back office functions to service providers and will facilitate the creation of a more cost-effective, business friendly and efficient environment for intermediation activities. To ensure effective supervisory reach, access to books and records kept offshore must be made available.

Strengthening oversight on credit rating agencies

Recognising the significant role of credit rating agencies (CRAs) in assessing the credit quality of issued bonds, the *Guidelines on Registration of Credit Rating Agencies* (CRA Guidelines) were issued on 30 March. The CRA Guidelines establish the regulatory and supervisory requirements for rating agencies that provide credit rating services in Malaysia.

This move towards strengthening oversight on CRAs in Malaysia is in line with international efforts to intensify the regulation of CRAs globally following widespread criticism of their role in the US sub-prime crisis. The CRA Guidelines are modelled after IOSCO's *Code of Conduct Fundamentals for Credit Rating Agencies* (May 2008) and *Objectives and Principles of Securities Regulation* (June 2010), which subject CRAs, whose ratings are used for regulatory purposes, to a system of registration and ongoing supervision.

The emphasis of the CRA Guidelines is on the transparency of rating criteria and policies, objectivity of rating process and managing conflicts of interest. The CRA Guidelines also require a credit rating agency to obtain prior approval from the SC for the appointment or re-appointment of senior management. In addition, the CRA Guidelines stipulate a range of regulatory actions that the SC may take in the event of a breach of any requirement in the guidelines by a rating agency.

Complementing the CRA Guidelines is the amendment to section 126 of the SCA on 3 October 2011, which has been expanded to include examination of credit rating agencies. This will enable the SC to assess the credit rating process undertaken by the agencies.

Enhancing regulation of corporate bonds and sukuk

In enhancing the regulatory framework for fund-raising and product regulation in the corporate bond and sukuk markets, the revised *Private Debt Securities Guidelines* (PDS Guidelines), *Islamic Securities Guidelines* (Sukuk Guidelines) and *Trust Deeds Guidelines* were issued in July.

The revisions were in line with the broader objectives of the CMP2 which seeks to achieve higher levels of operational efficiency, enhanced standards for fair and ethical business practices and to strengthen internal controls for business conduct and risk management. Revisions made to the Sukuk Guidelines will provide greater clarity on the application of Shariah rulings and principles endorsed by the SC's Shariah Advisory Council (SAC) in relation to sukuk transactions while the *Trust Deeds Guidelines* will improve disclosure standards and protection for corporate bond and sukuk holders.

Enhancing anti-money laundering requirements

Our thematic anti-money laundering examinations conducted on stockbroking intermediaries uncovered incidences of certain lapses, including in the identification and reporting of suspicious transactions, the taking of reasonable steps to minimise exposure to money laundering risk and the conduct of customer due diligence on 'high risk' clients. In order to provide clarity to the industry and to prevent transgressions, we issued the enhanced *Guidelines on Market Conduct and Business Practices for Stockbrokers and Licensed Representatives* on 29 April. These Guidelines prohibit the issuance of third-party payments from clients' accounts and the issuance of cash cheques for payment of sale proceeds. The enhancements are geared towards minimising the possibility of market intermediaries being used in connection with money-laundering activities, and strengthening the anti-money laundering and counter-financing of terrorism practices among market intermediaries.

REFINING SUPERVISORY AND SURVEILLANCE TOOLS

Enhancing the risk profiling framework

In our efforts to continuously enhance our supervisory methodologies and tools, this year, we reviewed the Risk Profiling Framework. This review is consistent with our approach to ensure our supervisory methodologies and tools are always up-to-date and at par with international standards.

Essentially, the framework is being used to risk rate and rank the stockbroking and fund management intermediaries to allow us to allocate the suitable supervisory attention and intervention to meet our regulatory objectives.

Arising from this review, further enhancements to the components and risk scenarios of the framework were introduced. The assessment criteria have been expanded to cover more segments of the market intermediaries. Self-assessment has also been introduced for intermediaries that have yet to be subject to such assessment. The self-assessment requires intermediaries to assess their internal controls and the steps taken to mitigating the impact and possibility of identified risk areas.

In line with our regulatory mandate to monitor, manage and mitigate systemic risk in the capital market, we have included a new dimension to the framework to cater for SIFIs which will be subjected to a more stringent monitoring process, while other intermediaries will be supervised based on their risk levels.

Augmenting quantitative assessment of stockbroking intermediaries

Enhancements were made to the SC's quantitative supervisory assessments through the review of our stress testing methodologies for stockbroking intermediaries. Work is also in progress to develop key supervisory indicators to allow for a more structured approach to analysing supervisory information filed with us. The key

supervisory indicators also serve as an early warning mechanism to enable us to take preventive measures when there are signs of concerns or distress.

INTENSIFYING SUPERVISION OF CAPITAL MARKET INTERMEDIARIES

Thematic regulatory assessment on the Exchange

To ensure that Bursa Malaysia's enforcement powers are adequate and its enforcement of governance, processes and procedures are effective in responding to the changing landscape, we undertook a thematic regulatory assessment of Bursa Malaysia's enforcement framework. The assessment focused on several key areas of the exchange's enforcement functions; including the consistency of Bursa Malaysia's power and levels of oversight of its enforcement functions and responsibilities; the robustness of its confidentiality standards and procedural fairness; and the effectiveness of Bursa Malaysia's governance structure, policies and processes to ensure timely, fair and consistent enforcement action against defaulting parties.

Arising from the assessment, we have provided recommendations to Bursa Malaysia to further strengthen its enforcement process, governance and procedures. We will also continuously monitor Bursa Malaysia's implementation of the recommendations to ensure that they are put in place and applied consistently throughout Bursa Malaysia's enforcement framework.

Examination of systemically important fund management companies

In addition to the regular examinations and engagements conducted on all fund management companies, specific focus was given to fund management companies deemed systemically important.

Based on these examinations, we expanded on the assessment of the fund management companies' regulatory compliance status to include evaluation of their risk

management framework and resiliency in managing systemic risks. This is an ongoing area of assessment where continuous supervisory oversight is in place.

On-site visits of bond trustees

On-site visits were conducted on bond trustees to ensure that they remain steadfast in upholding bondholders' interests and diligently undertake their duties as stipulated in the trust deed as well as in the law. Emphasis is placed on the bond trustees' operational, compliance and monitoring capabilities, as well as their governance structure and risk management function, to ascertain that they consistently maintain high professional standards and independence.

On-site engagements with stockbroking intermediaries

Pursuant to approvals accorded to seven stand-alone stockbroking companies to undertake an alternative scheme to fulfil the consolidation requirement, we have visited all seven firms to gauge the implementation progress of the approved plans. The visits allowed us to have direct engagement with the board of directors and key management of these firms, to gain an overview of the firms' business plan and risk outlook for the year and to determine how they intend to manage their business and risk.

This provided a useful avenue for the intermediaries to interact with us on a one-to-one basis and it enabled us to have a better understanding of the business and activities of the intermediaries.

Surveillance on public-listed companies

To strengthen the surveillance framework in relation to standards of financial reporting and corporate governance, we adopted a pre-emptive and proactive approach. Our financial and corporate surveillance programmes are focused on the corporate conduct of PLCs through

observation of corporate disclosures as well as compliance with the substance of the Financial Reporting Standards.

In this regard, we undertook a comprehensive review of all PLCs with concentration on those with significant market capitalisation. The review encompasses surveillance activities which entail a number of trigger-factors that can result in an immediate review being initiated for any PLC. These include reviews of unaudited quarterly financial statements, monitoring company announcements, circulars and prospectuses, as well as reviewing complaint letters and other publicly available information.

We engaged with directors of PLCs, senior management, auditors, advisers and other relevant parties to emphasise the importance of public disclosures that are timely, accurate and relevant. Such engagement is vital in ensuring that corrective action is taken in response to deficiencies identified during surveillance.

In addition, with Malaysia's convergence to the International Financial Reporting Standards (IFRS) from 1 January 2012, we continued our efforts to monitor and deliberate on potential implementation issues that may have an impact on the capital market.

Consistent with our efforts to continually elevate the standards of performance and conduct of PLCs, we are committed to uplifting the level of education and awareness. During the year, we held a range of presentations and engagements with the relevant authorities on various matters and continued to support Bursatra Sdn Bhd's monthly Mandatory Accreditation Programme for directors of PLCs, which is a platform for discussion on practical issues faced by PLCs as well the duties and obligations of PLC directors.

A COLLABORATIVE APPROACH FOR BETTER SUPERVISION

To ensure that the thrust and direction of our supervisory and surveillance efforts appropriately reflect the issues and current trends in the market, keeping abreast of the views and concerns of key market players

and understanding what drives intermediaries' business plans and risk outlooks is an important aspect of the SC's effectiveness as a regulator. Priority is therefore given to targeted engagements and collaborations with intermediaries, auditors, directors and senior management, advisers and key market institutions. These efforts facilitate transparent discussions on new or changes to the SC's policies and guidelines and play a vital role in ensuring that early detection of deficiencies is accompanied by the execution of corrective actions.

Dialogues with fund management intermediaries and auditors

In June, a dialogue was conducted with the compliance officers of fund management companies, in relation to the revised Compliance Guidelines as well as other pertinent areas such as sharing of common supervisory findings, briefing on compilation of statistical data for fund management companies and on matters in relation to complaints.

A dialogue with statutory auditors of fund management companies and the Malaysian Institute of Accountants was also held in July in conjunction with the enhanced Compliance Guidelines to strengthen client asset protection requirements and to discuss supervisory findings on client asset protection and accounting-related matters.

Joint initiatives with Bursa Malaysia

To enhance our support of Bursa Malaysia's surveillance capacity and the effectiveness of its regulatory actions, we conducted frequent engagements and gap assessments on the effectiveness of its surveillance methods and activities. In addition, the SC co-ordinated with Bursa Malaysia on appropriate regulatory actions, comprising surveillance query, unusual market activity query, market alert and designation. These actions were initiated at an early stage to prevent irregularities from disrupting the fair and orderliness of the market and investor confidence.

To strengthen self-policing by market intermediaries, SC-Bursa Malaysia joint efforts were undertaken via regular engagements, conferences and seminars on surveillance systems and practices by global players.

Another milestone in curbing insider trading activities was achieved with the introduction of a Privy List in the *Bursa Malaysia Corporate Disclosure Guide* in September. Recognising the importance for listed issuers to maintain a list of its personnel who are in possession of price-sensitive information, the Privy List is targeted at minimising and curbing potential emergence of insider trading activities and at facilitating expeditious investigations.

To widen access to bond financing through retail participation, the development of a framework to facilitate the offering of bonds and sukuk to retail investors is presently in the pipeline. A series of consultations have been held with various stakeholders to establish a suitable framework for retail trading while ensuring sufficiently robust standards for investor protection. The proposed framework will include an effective distribution network and a cost-efficient trading mechanism to facilitate retail investors' access to the bond market. Investor education initiatives would also be undertaken to ensure that investors are familiar with the investment characteristics and risks associated with investing in bonds.

Recognition of FIMM as a self-regulatory organisation

On 20 January, the SC, with the concurrence of the Minister of Finance, recognised the Federation of Investment Managers Malaysia (FIMM) as a self-regulatory organisation (SRO) for the unit trust industry. As an SRO, recognised under section 323 of the CMSA, FIMM will regulate its own members while also ensuring that investors are protected and public interests are upheld. FIMM's SRO role complements the SC's efforts to regulate the unit trust industry more effectively and efficiently.

Table 1
Supervisory actions instituted in 2011

Supervisory function	Details
Investment Management Supervision	<ol style="list-style-type: none"> Seven examinations were conducted on fund management companies, including systemically important companies and foreign fund management companies. Seven engagements were conducted on fund management companies, focusing on their custodial arrangements, business-viability and investment in non-traditional assets.
Intermediary Supervision	<ol style="list-style-type: none"> Visited a broad range of intermediaries to assess the level of compliance with regulatory requirements and completed 16 examinations. Continued the thematic audits series through the examination of three foreign brokers. Intensified examination efforts in anti-money laundering specific audits, including three special audits arising from complaints received. A penalty of RM250,000 was imposed on an investment bank for failure to identify and report suspicious transactions, failure to take reasonable steps to minimise bank's exposure to money laundering risk and failure to conduct enhanced customer due diligence on 'high risk' clients. A penalty of RM200,000 was imposed on a futures broker for allowing an unlicensed person to carry out licensed activity, failure to identify and report suspicious transactions by facilitating the transfer of a client's funds to third parties, failure to have in place an effective system for detecting and reporting suspicious transactions, failure to provide adequate training on the requirements of the <i>Guidelines on Prevention of Money-Laundering and Terrorism Financing for Capital Market Intermediaries</i> as well as failure to conduct independent audit on compliance programmes.
Market Surveillance	<ol style="list-style-type: none"> Eleven high profile counters were escalated for swift initiation of regulatory actions arising from various market offences. In-depth reviews were conducted on 41 cases of which 14 cases involving more than 151 parties were considered for further investigation. A numbers of thematic reviews were conducted which gave rise to the following: <ol style="list-style-type: none"> a day trader was sanctioned, via the imposition of a RM150,000 fine and suspension of 18 months by Bursa Malaysia; 15 parties were considered for further investigation; and various recommendations on the strengthening of supervisory role of market intermediaries.
Licensing	<ol style="list-style-type: none"> A one-month licence suspension was imposed on a CMSRL holder for failure to supervise a trading clerk concerning a short selling incident. The said trading clerk was reprimanded and has left the industry. A CMSRL holder was reprimanded and their licence was suspended for three months for jeopardising a client's interests. A CMSRL holder was reprimanded for failure to give priority to a client's order. A warning was issued to a financial planning company for failure to have at least two CMSRL holders and to maintain its minimum net tangible asset of RM50,000 at all times.

To support FIMM's new responsibility, the governance structure at FIMM was enhanced through the imposition of a 45% representation on FIMM's Board by public interest directors (PIDs). The SC thoroughly engaged with the PIDs of FIMM to emphasise the importance of proper corporate governance and ensure that public interest and investor protection remain their first order of priority.

The SC is also currently developing the framework for our supervisory role over FIMM, which will include engagements, notifications and reporting protocols, for the thorough oversight and review of FIMM's compliance with its regulatory obligations as an SRO.



Part Three

Strengthen Market
Competitiveness

STRENGTHEN MARKET COMPETITIVENESS

INTRODUCTION

The Malaysian capital market was among the fastest growing segments of the Malaysian economy and recorded 10.6% growth annually from 2001–2011; expanding from RM773 billion to RM2.12 trillion at end 2011 with strong growth across certain market segments namely debt securities, investment management and the Islamic capital market (ICM). The significant growth was a result of increased efficiencies and competitiveness arising from deregulation and liberalisation, lower friction cost, greater economies of scale and expanded distribution channels.

To position Malaysia's capital market to expand its role in invigorating national economic growth over the next 10 years, the CMP2, themed 'growth with governance', was launched by the Prime Minister in April.

Taking into consideration the challenges of a changing global landscape, CMP2's growth strategies are targeted at strengthening the role of the capital market, including the promotion of capital formation, expansion and enhancement of intermediation, deepening liquidity and risk intermediation, facilitating internationalisation, building capacity and strengthening information infrastructure.

STRATEGIES AND INITIATIVES FOR THE CAPITAL MARKET

With 2011 being the first year of implementation of CMP2, the SC's efforts and initiatives were firmly focused on transforming the competitive dynamics

of the capital market. Key structural challenges and critical linkages were addressed to foster a more diverse and innovative intermediation environment and to nurture new growth opportunities in line with CMP2's growth strategies.

A range of measures were therefore introduced to the Malaysian capital market to allow efficient intermediation of domestic savings to finance and promote not only the growth of emerging, small and medium-sized companies but also large investment projects.

Developing the private pension industry

The introduction of the private retirement scheme (PRS) framework was part of the overall recommendations made by the SC to the Government to accelerate the development of a private pension industry. PRS seeks to enhance choices available for all Malaysians, whether employed or self-employed, to supplement their retirement savings within a well-structured and regulated environment.

The legal framework for PRS was established with the enactment of relevant amendments to the CMSA on 3 October. It provides the SC with the authority to approve and regulate PRS schemes and PRS intermediaries. Under the PRS framework, PRS providers may, subject to the SC's approval, offer a range of private pension funds that have the underlying objective of investing for retirement purposes. The fund options under a PRS will be designed with different investment strategies to cater for individuals with different risk-return profiles.

The law also provides for the establishment of a centralised Private Pension Administrator, to be approved by the SC.

Incentivising participation in PRS is a critical aspect to influencing behaviour and growing demand in the PRS industry. In this respect, tax incentives had been announced by the Prime Minister in the 2012 Budget speech, whereby personal tax relief of up to RM3,000 would be given to contributions by individuals to PRS approved by the SC as well as tax deductions to employers for contributions above the statutory rate up to 19% of employees' remuneration. Tax exemption was also announced on income received by funds within the PRS schemes.

Following the enactment of the legal framework, the SC also released the eligibility requirements for PRS providers on 5 December. Only a select number of suitably qualified and experienced providers with the required expertise in pension fund management or retail fund management would be approved. The SC, in approving the PRS providers, will take into account the applicant's financial standing, track record, organisational capabilities and operational requirements (e.g. capital, investment limit, governance, risk management) as well as business proposition and commitment to grow the PRS industry.

Promoting the venture capital industry

The venture capital (VC) industry is an important source of financing for emerging high-growth companies. Although the Malaysian VC industry has grown 11% annually from RM2.1 billion in 2003 to RM5.46 billion at end 2011, it has yet to achieve sufficient critical mass to generate self-sustaining growth momentum.

As chair of the Malaysian Venture Capital Development Council (MVCDC), the SC continued to actively promote the growth and development of the VC industry through various efforts and initiatives.

The groundwork for the establishment of a regulatory framework for the VC and private equity (PE) industries commenced in 2011 with jurisdictional benchmarking and engagements with industry players. This was to identify

issues and areas for improvement, especially in terms of enhancing the standard and capacity of players, improving governance and investor protection, which are crucial aspects of attracting private sector participation in the industry.

As a Council tasked to advise and assist the government on the overall development of the VC industry, the MVCDC held its 15th meeting in November to deliberate, support and co-ordinate strategies aligned with the government's efforts to encourage an innovation-led economy.

To promote and raise industry awareness, the MVCDC undertook a collaborative effort with the Malaysian Venture Capital and Private Equity Association (MVCA) to publish the second edition of the *Venture Capital and Private Equity Directory 2011–2012*, following the first edition which was published in 2009. The directory, which provides comprehensive information on the latest industry statistics, relevant regulatory requirements and details of registered venture capital and private equity corporations, serves as a single reference for industry practitioners, entrepreneurs, institutions and investors.

The MVCDC also continued to support the MVCA by facilitating various capacity-building programmes with a view to developing new talent and strengthening the skill sets of industry players. In November, the VC & PE Training Workshop was held which focused on deepening the knowledge and understanding of the market practices of the industry. This was followed by Venture Capital Pitch to Entrepreneurs (VC2E), a platform to exchange ideas, increase awareness and strengthen networking opportunities among venture capitalists and entrepreneurs.

Industry players also benefited significantly from the Kuala Lumpur International Venture Capital Symposium 2011, which was jointly organised by the Malaysian Technology Development Corporation and the Ministry of Finance in October. The symposium provided participants with varied perspectives and insights into the VC and PE businesses, the trends, risks and outlook and also developments in other regions.

As the entity which provides certification for VC incentives, the SC reviewed three applications for VC tax incentives in 2011 under the *Venture Capital Tax*

Incentives Guidelines. The year also saw the listing of three VC-backed companies on the Main Market of Bursa Malaysia, namely, Maxwell International Holdings Bhd, Prestariang Bhd and Century Software Holdings Bhd.

Strengthening the derivatives market

Innovations like electronic platforms and derivatives are now integral features of modern financial systems. Malaysia recognises the importance of derivatives in giving traders the ability to hedge and arbitrage, and intermediaries to build risk management capabilities.

To strengthen regulation and transparency of derivatives in the over-the-counter (OTC) market, the SC has developed a definition of derivatives and introduced a legislative framework for a trade repository.

These efforts are expected to enhance international confidence in the quality of Malaysia's capital market and provide a basis for the expansion of cross-border opportunities with other markets.

A milestone in the derivatives industry was achieved in June 2010 when Malaysia received the US Commodities and Futures Trading Commission's (CFTC) Part 30.10 Exemption Relief which allows Malaysian futures brokers to solicit and accept orders and customer funds directly from US customers for trading in Bursa Malaysia Derivatives Bhd's (BMD) derivatives products. In June 2011, BMD also received CFTC approval for FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures (FKLI), which allows Malaysian futures brokers to offer and sell the BMD's FKLI contracts in the US. This effectively widens the customer base for Malaysian futures brokers.

In line with CMP2's recommendation to widen services and product range, the SC in September 2011, approved BMD's proposal to expand the current Exchange for Physicals facility to include Exchange for Swaps and Exchange of Futures for Futures, collectively known as Exchange for Related Positions (EFRP). An EFRP is an off-market transaction between two parties who have separate but related transactions. Hence, an EFRP allows

for a physical to be exchanged for an exchange traded product. EFRP provides the convenience of private negotiation at a single price and reduces counterparty risk as the trade goes through the clearing house. All EFRP transactions must meet the exchange's requirements and be reported to the exchange. Contracts allowed to conduct EFRP are the Crude Palm Oil Futures (FCPO), Crude Palm Kernel Oil Futures (FPKO), USD Crude Palm Oil Futures (FUPO), three-year MGS Futures (FMG3), five-year MGS Futures (FMG5), three-month KLIBOR Futures (FKB3), FBM KLCI Futures (FKLI) and FBM KLCI Options (OKLI).

The SC also approved the introduction of Negotiated Large Trades (NLT) in November, providing more flexibility to market participants. This is an off-market trading facility which allows market participants and their clients to perform large-sized transactions with each other through direct and private negotiation. Large trades can be transacted at a single price, thereby minimising slippage and execution uncertainties. In addition, all NLT trades are reported to the exchange for clearing, and the volume and registration time of the NLTs are announced to the market. The NLT facility is available for the FKLI, FCPO, FKB3 and FMG5 contracts.

To enhance overall liquidity in the derivatives market, the SC approved the removal of the licensing examination, qualification and working experience requirements for local participants in October. Under the new framework, individuals would be required to attend a Familiarisation Programme conducted by BMD before registering themselves as local participants with BMD. Such individuals would thus enjoy special fee rebates from BMD, the futures brokers as well as tax abatement from the government. This new local framework will take effect in 2012 after necessary changes to the *Rules of Bursa Malaysia Derivatives* and the SC's *Licensing Handbook* are made.

Efforts to provide investors with a greater range of products to facilitate their trading strategies continued in December with the approval to BMD to introduce the Options on Crude Palm Oil (OCPO) and to modify the current FTSE Bursa Malaysia KLCI Options (OKLI)

contracts. The underlying assets of both OCPO and OKLI will be based on their respective futures contract, i.e. FCPO and FKLI which are currently actively traded on BMD.

Improving the technical skills of market intermediaries

In 2011, 20,634 participants attended 181 courses from 19 modules of the Industry Transformation Initiative (ITI), which enhances market professionalism by strengthening the technical skills and competencies of market intermediaries. Since its launch in July 2007, a total of 59,652 participants have been trained under ITI, which is funded by the Capital Market Development Fund (CMDf).

DEVELOPING AND GROWING THE ISLAMIC CAPITAL MARKET

Given the growing significance of the Islamic capital market (ICM), both domestically and globally, and the objective of strengthening and sustaining Malaysia's leadership position in this segment of the capital market, the ICM Department in the SC was transformed into a business group in January 2011.

The establishment of the ICM Business Group provides a broader and stronger platform to support the SC's continuing efforts to enhance Malaysia's capabilities in the various facets of the ICM including product innovation, Shariah research and intermediation activities, as well as to widen the international base of Malaysia's ICM as envisaged in the CMP2. It has also reinforced the SC's role in ensuring the ongoing development and enhancement of appropriate regulatory and Shariah governance framework to support the orderly growth of the ICM in Malaysia.

The year saw significant progress, ranging from product development and market expansion, to capacity building and further strengthening of relevant infrastructure. The SC was also recognised in several international fora for our global leadership in Islamic finance:

- *Outstanding Contribution to the Development of ICM* awarded to the SC at the 5th London Sukuk Summit 2011
- *Outstanding Leadership in Islamic Finance* awarded to the SC's ICM Consultant, Wan Abdul Rahim Kamil, at the 5th London Sukuk Summit 2011
- *2011 Islamic Finance Industry Leadership* awarded to the SC Chairman, Tan Sri Zarinah Anwar, at The Asset Triple A Islamic Finance Awards 2011
- *The Most Outstanding Contribution to Islamic Finance – Institution* awarded to the SC at the KLIFF Islamic Finance Awards 2011

Progress in the sukuk market

Malaysia continued to strengthen its position as a centre for innovation with the issuance of sukuk based on the Shariah principle of *wakalah bi istithmar* by Gulf Investment Corporation G.S.C., a regional financial institution incorporated and based in Kuwait. Under this sukuk structure, 49% of the proceeds raised from the sukuk issuance would be invested by an agent or *wakeel* with a Special Purpose Vehicle 1 (SPV1) through a commodity *murabahah* financing arrangement while the remaining 51% of the proceeds would be invested with an SPV2 as a sub-agent for the purpose of investing in Shariah-compliant ventures.

The structure of the sukuk was further enhanced by the application of a *musawamah* contract (a sale contract between two parties at an agreed price), which the relevant parties would enter into upon maturity and prior to the redemption of the sukuk. This sukuk was the first to be structured using the combination of the principle of *wakalah bi istithmar* and the contract of *musawamah*.

The Budget 2012 proposed that expenses incurred in the issuance of Islamic securities (sukuk) based on the *wakalah* principle be given deduction for the purpose of income tax computation. Specifically, the incentive shall apply to Islamic securities structured based on the

wakalah principle that comprises a mixed component of debt and assets, which is a structure that is accepted internationally for the purpose of trading in the secondary market. This incentive, which is given for the years of assessment 2012 until 2015, is therefore expected to attract more diverse international investors, promote a more active and liquid secondary market as well as further enhance the breadth of the Malaysian sukuk market, in line with Malaysia's strategy to reinforce its position as an international Islamic financial centre.

Revised Islamic Securities Guidelines

In August, the SC released the revised *Islamic Securities Guidelines* (Sukuk Guidelines) with the objective of enhancing the regulatory framework for fundraising and product regulation in the sukuk market. The revised Sukuk Guidelines provide better clarity on the application of Shariah rulings and principles endorsed by the Shariah Advisory Council of the SC. In addition to the general Shariah principles and concepts applicable for sukuk transactions, the revised Sukuk Guidelines set out the Shariah rulings applicable to specific types of sukuk.

Under the revised Sukuk Guidelines, the roles and responsibilities of key transaction parties for sukuk issuances are further enhanced for the benefit of investors, and greater disclosure of relevant information to investors is also required. In addition, the revised Sukuk Guidelines further streamline the approval process, expedite the time-to-market for sukuk issuances and enable the issuance and documentation standards for domestic sukuk issues to be comparable with international best practices.

Islamic fund management

In 2011, the SC approved another Islamic fund management licence, for RHB Islamic Asset Management Sdn Bhd, bringing the number of full-fledged Islamic fund management companies in Malaysia to 16.

Shariah governance

The Shariah governance framework is a key constituent of the comprehensive infrastructure of Malaysia's Islamic

capital market. To ensure that investors in Malaysia's ICM receive the same degree of clarity and protection as investors in the conventional market, the centralised decision-making at the SC's Shariah Advisory Council (SAC) provides consistency and certainty in Shariah rulings and interpretation, enabling industry players to operate on a common platform. Empowered to make rulings on any Shariah matter relating to the ICM referred to them by the courts, the binding effect of the SAC's rulings also provides certainty in respect of dispute resolution on contracts and transactions based on Shariah. In addition, anyone seeking to advise on the issuance of Shariah-based products or services must be a registered Shariah adviser who meets the SC's requirements, with respect to qualifications and experience, on Shariah and Islamic finance respectively.

The SAC and registered Shariah advisers therefore play a prominent role in facilitating the innovation and development of ICM products and services, as well as ensuring orderly and consistent application of relevant Shariah principles.

Key resolutions by the SAC in 2011 were, amongst others, in the following areas:

- Treatment on the entitlement or rights to subscribe to loan stocks of Shariah-compliant securities;
- Imposition of late payment charge on judgment debt for cases involving Islamic finance; and
- Criteria for Special Purpose Acquisition Company (SPAC) to be classified as Shariah compliant

As at the end of 2011, the registered Shariah advisers under the *Registration of Shariah Advisers Guidelines* comprised 41 individuals and 19 corporations. Of these, six individuals and 14 corporations were foreigners. Most of the foreign corporations were registered in compliance with the requirement under the Sukuk Guidelines in relation to the offering of foreign currency-denominated sukuk in Malaysia.

Capacity building for the ICM

In line with its role in developing the ICM, among others, through the enhancement of knowledge and capabilities of professionals and other stakeholders within the industry, the SC continued to provide thought leadership by

spearheading a number of capacity building initiatives during the year, which include the following:

- The 2nd SC-OCIS Roundtable on Islamic Finance, a collaboration with the Oxford Centre for Islamic Studies (OCIS), was held in March. Under the theme 'Islamic Finance and the Public Good', three broad topics were addressed, namely 'Shariah, Finance and the Public Good'; 'Shariah, Recourse to Law and Enforceability of Financial Contracts'; and 'Creating an Enabling Corporate Structure for Islamic and Ethical Finance'. Attended by a select group of leading industry practitioners, academicians, Shariah scholars, standard setters and regulators from around the world, the Roundtable generated highly insightful, critical and constructive deliberations.
- The Islamic Markets Programme (IMP) forms an important platform to discuss current issues in Islamic finance and capital market. In the 6th IMP on 'The Role of Regulation in Overcoming Challenges in Developing Islamic Markets', local and international speakers shared their knowledge and experience on the challenges in regulating Islamic markets and on ways to overcome them from a regulatory perspective. The programme attracted more than 40 delegates including from Brunei, Germany, Hong Kong, Iran, Maldives, Taiwan, Turkey and United Arab Emirates.
- The 5th International Islamic Capital Market Forum on '*Risk Sharing: A Way Forward to Public Good*' discussed an alternative to the present fractional banking system from the perspectives of economics, the law and Shariah. Local and international experts in the Islamic finance industry, including economists, academicians, Shariah scholars, legal practitioners and regulators shared their views and experiences on the subject. The Forum also effectively represented a platform to take the discussions at the 2nd SC-OCIS Roundtable forward.
- Dr Volker Nienhaus was invited as the 3rd visiting scholar under the Visiting Scholar Programme, a

collaboration between the SC and the University of Malaya (UM) primarily to enhance academic research in Islamic finance. During his term, Dr Nienhaus, who was also then a Visiting Professor at the University of Reading in the UK, among others delivered public and closed-door lectures at the SC and conducted a series of lectures and workshops at the UM.

- 77 graduates participated in the 4th and 5th rounds of the Islamic Capital Market Graduate Training Scheme (ICMGTS). The programme, jointly developed by the SC and the Securities Industry Development Corporation (SIDC) and introduced in 2009, prepares graduates for employment in the industry by providing a combination of structured and experiential learning over an eight-week period.
- The inaugural i-Advisor Programme was held in 2011. Funded by the Capital Market Development Fund (CMDf) and organised by the SIDC, the programme, which aims to provide continuous professional development in the area of Shariah advisory relating to the ICM, has been developed to integrate the theoretical and practical aspects of industry knowledge. The programme is offered on a modular basis with the duration of each module ranging from two to three days with 13 days in total for all five modules.
- A Roundtable on Islamic Fund Management, organised and chaired by the SC, was held in conjunction with the 8th Islamic Financial Services Board (IFSB) Summit in Luxembourg. The Roundtable enabled Malaysian Islamic fund management companies to learn about the regulatory and operating framework in Luxembourg and network with members of the Luxembourg fund management industry. It was attended by over 30 participants, comprising regulators and industry players from Luxembourg and Malaysia.
- The SC also organised a similar programme for Malaysian and Indonesian fund management industry players in Jakarta, in conjunction with the

High Level Joint Conference on Islamic Finance hosted by Bank Indonesia and Bank Negara Malaysia. Almost 40 representatives, including regulators, attended the programme which provided them the platform to gain a greater understanding of the industry landscape in both countries and to establish contacts.

- A Shariah Advisers Workshop on ‘*Shariah Stocks Screening Process: Background, Methodology and Case Studies*’ was organised to provide an understanding of the objective, background and mechanics of the stocks screening process and its methodology as adopted by the SC.
- An Expert Talk on Islamic Structured Products was held as a platform to discuss the application of Shariah principles in the structuring of structured products and the mechanisms involved, as well as to examine several case studies.
- A workshop on IFSB standards was organised jointly with the IFSB to discuss:
 - Guiding Principles on Governance for Islamic Collective Investment Schemes;
 - Capital Adequacy Requirements for Sukuk, Securitisations and Real Estate Investment;
 - Guiding Principles on Conduct of Business for Institutions Offering Islamic Financial Services; and
 - Guiding Principles on Shariah Governance Systems for Institutions Offering Islamic Financial Services.

The workshop was attended largely by representatives from institutions involved in the Islamic fund industry.

The SC also participated in various seminars, programmes and events organised during the year by external organisations both locally and abroad to promote greater understanding of the ICM as well as to profile and strengthen Malaysia’s position as an international centre for Islamic finance.

INTERNATIONAL COLLABORATIONS AND TRADE AGREEMENTS

Involvement in international regulatory standard setting

The SC continues to actively participate in the international regulatory arena, working closely with IOSCO, ASEAN, APEC, and collaborating with our international regulatory counterparts.

As an active member of IOSCO, the leading international policy forum and global standards setter for securities regulation, the SC contributes towards the development of international standards in securities regulation. The SC Chairman is the Vice Chairman of the IOSCO Emerging Markets Committee¹ (EMC), a position held since May 2008. As one of the key committees within IOSCO, the EMC is an important platform for emerging market regulators to deliberate and exchange substantive views on key regulatory issues and challenges affecting emerging markets. The SC also chairs the IOSCO EMC Working Group on Secondary Markets, which has published several reports on issues affecting secondary markets, and is currently working on a mandate on Day Trading in Emerging Markets.

During the year, the SC co-chaired, with the Securities Exchange Board of India (SEBI), the IOSCO EMC Task Force on the Development of Corporate Bond Markets in Emerging Markets. In collaboration with the World Bank, the Task Force developed a Report which reviews the current state of development of corporate bond markets in emerging markets, discusses issues and challenges and provides emerging markets with guidance in regulating and developing their corporate bond markets. The Report also seeks to address the varying needs of corporate bond markets in emerging markets which are at different stages of development, and identifies a comprehensive set of recommendations encompassing both regulatory and developmental issues.

The SC was also invited to participate in a Task Force of the Financial Stability Board (FSB), together with the

¹ The IOSCO EMC members make up approximately 80% of the 126 ordinary and associate members in IOSCO.

International Monetary Fund, the World Bank, IOSCO and central banks and securities regulators from Emerging Markets and Developing Economies (EMDEs). The Task Force was created in response to the G20's request to prepare a Report identifying and examining financial stability issues that are of particular relevance for EMDEs. The SC led the expert group in preparing the input on key financial stability issues from the perspective of EMDE capital markets, and identifying relevant policy recommendations. The final Report was submitted to the Finance Ministers and Central Bank Governors of G20 and published by the FSB in October.

The SC continues to represent the IOSCO EMC on the IFRS Foundation Monitoring Board (Monitoring Board). The Monitoring Board's main responsibilities are to ensure that the Trustees of the IFRS Foundation discharge their duties as defined by the IFRS Foundation Constitution, as well as approve the appointment or re-appointment of the IFRS Foundation Trustees. Other members of the Monitoring Board are the Chair of the IOSCO Technical Committee, the European Commission, the Financial Services Agency of Japan and the US Securities and Exchange Commission. The Monitoring Board is concluding its review of the governance structure of the IFRS Foundation to support the development of a set of high quality, globally accepted accounting standards.

The SC hosted the IOSCO Asia Pacific Regional Committee (APRC) meeting and seminar in December. The APRC is one of IOSCO's four regional Committees, which meets to discuss, among others, issues affecting the region's capital markets. At the meeting chaired by the Securities and Exchange Board of India, senior regulators discussed the impact of current international developments in the financial sector on the Asia-Pacific region, including the effects of the eurozone crisis on regional markets. Participants also discussed the challenges involved in cross-border enforcement, including the implications of technology-based trading.

Throughout the year, we continued to extend assistance to our regulatory counterparts through training and other forms of technical assistance. In 2011, the SC hosted 12 study visits by international regulators from, among others, Thailand, Cambodia, India, Oman, Pakistan and Nigeria, on various areas relating to the regulation and development of the Malaysian capital market. On 29–30

November, the SC also hosted the IOSCO Seminar Training Programme on Understanding New Financial Products and Regulatory Implications of Those Products, which was well participated by regulators in the Asia-Pacific region.

The SC responded to approximately 90 foreign enquiries in 2011, relating to various aspects of the regulatory framework governing the Malaysian capital market.

Promoting integration of ASEAN capital markets

The SC is a member of the ASEAN Capital Markets Forum (ACMF), a high level grouping of ASEAN securities regulators established under the auspices of the ASEAN Finance Ministers in 2004, to act as a forum to discuss policy issues relating to capital market development in the region. The Monetary Authority of Singapore currently chairs the ACMF.

ASEAN capital market integration is being actively pursued, given the benefits that can accrue from greater capital flows, a wider range of products and services and enhanced risk diversification. Integration would enable ASEAN to leverage off its collective scale, boosting ASEAN's collective competitiveness vis-a-vis Europe and the US as well as its own rapidly growing investment needs more efficiently.

Since the endorsement of the ASEAN Economic Community Blueprint 2015 (Implementation Plan 2015) by the ASEAN Finance Ministers in April 2009, the ACMF has made substantial progress in its efforts to promote ASEAN as an asset class, raise regulatory standards in ASEAN capital markets and facilitate greater flow and access into our capital markets.

The key initiatives currently being undertaken by the ACMF include promoting the cross-border offering of products, facilitating cross-listings, enhancing corporate governance standards among ASEAN listed companies, and facilitating cross-border trading through the ASEAN Trading Link. In particular, the SC is leading efforts to develop a framework for the expedited review of secondary listing applications on ASEAN exchanges. The SC also drives the initiative on the ASEAN Corporate Governance Scorecard which aims to raise corporate governance

Regional corporate governance ranking of ASEAN PLCs

The SC is leading a collaboration with ASEAN Corporate Governance (CG) experts to develop a CG scorecard to rank public listed companies in the region.

The ASEAN CG Scorecard and the Corporate Governance Ranking of ASEAN PLCs are among a number of major regional initiatives under the ASEAN Capital Markets Forum. Funded by the Asian Development Bank, these initiatives are aimed at raising corporate governance standards and practices in ASEAN, and enhancing the visibility and investment profile of quality ASEAN PLCs internationally.

With the technical assistance of the region's top CG experts, a CG ranking methodology has been established by leveraging off methodologies already implemented in ASEAN countries, as well as those applied by multilateral agencies such as the Organisation for Economic Co-operation and Development.

The CG experts, namely Professor Mak Yuen Teen from the National University of Singapore Business School; Rongruja Saicheua from the Thai Institute of Directors; Professor Sidharta Utama from the Indonesian Institute for Corporate Directorship; and Professor Salleh Hassan from Malaysia, will assess ASEAN PLCs against the evaluation criteria, and develop a list of ranked companies which is expected to be released in the first quarter of 2012.

For the pilot year, the ASEAN CG Scorecard will be used to rank the top 30 PLCs in each of the participating countries, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. Moving forward it is envisaged that this initiative will produce an annual top PLCs regional list.

The ASEAN CG Scorecard is expected to strongly support efforts to establish ASEAN as an asset class and promote ASEAN PLCs as internationally competitive from a corporate governance perspective.

standards and practices in ASEAN, and enhance the visibility and investment profile of quality ASEAN public-listed companies internationally.

The SC also actively supports the Ministry of Finance through participation in the ASEAN Finance Ministers' Process to promote the role of capital markets in regional integration efforts. In September, the ASEAN Finance Ministers signed the Shareholders Agreement for the establishment of the ASEAN Infrastructure Fund (AIF) to finance major infrastructure projects across the region. The AIF, which will be established in Malaysia, will start with an initial equity contribution to the fund, amounting to US\$485.2 million, from nine ASEAN members and the Asian Development Bank (ADB), as co-financiers.

Memoranda of understanding

The SC continues to forge ties with international regulators. We signed a memorandum of understanding (MoU) with the Office of the Agricultural Futures Trading Commission of Thailand (AFTC) in May, which aims to strengthen bilateral ties and enhance cross-border co-operation on commodity futures between the regulators in Malaysia and Thailand.

The SC also signed an MoU with the Central Bank of Ireland in November to collaborate in the area of supervision and regulation of authorised entities whose activities include the offering of collective investment schemes with operations supervised by the two regulators. This represents a significant step forward in Malaysia's efforts to pave the way for Malaysian intermediaries to internationalise their product offerings and enhance the visibility of Malaysian funds among European investors.

International trade agreements

ASEAN Framework Agreement on Services

The SC continued to participate in negotiations for financial services liberalisation under the ASEAN Framework Agreement on Services (AFAS) which are conducted through the Working Committee on Financial

Services Liberalization (WCFSL). In 2011, the Fifth Package of Financial Services Commitments (Fifth Package) was signed at the sidelines of the ASEAN+3 Finance Ministers Meeting on 4 May in Hanoi, Vietnam. Negotiations on the Fifth Package which began in April 2008 were concluded in December 2010.

Under the Fifth Package, Malaysia made meaningful liberalisation commitments in the capital market sub-sectors as part of its efforts to achieve the target of the ASEAN Economic Community (AEC) Blueprint. Malaysia's commitment under the Fifth Package is in fact beyond the pledged areas under the AEC Blueprint and thus reaffirms Malaysia's commitment to greater regional integration under the AEC.

As a result of these commitments, ASEAN financial services' suppliers are now allowed to conduct the regulated activities of trading in futures contracts, fund management (conventional or Islamic), venture capital activities and venture capital management. They may advise on corporate finance, and financial planning activities with no foreign equity restrictions, while dealing in securities and dealing in securities restricted to unit trust is allowed with permissible foreign equity of up to 70%. In addition, Malaysians abroad are now allowed to use advisory and securities broking services from ASEAN financial services suppliers.

Further to the signing of the Fifth Package, negotiations on the Sixth Package of Financial Services Commitments (Sixth Package) commenced in July 2011.

Free trade agreements

Trade is an integral part of the Malaysian economy and continues to grow despite global economic uncertainties. To further boost trade, the Ministry of International Trade and Industry (MITI) pursues free trade agreements (FTAs) with strategic partners and the SC continues to support MITI by providing advice and input on capital-market related areas and also participates in trade negotiation meetings.

In 2011, the SC was at the forefront of negotiations on financial services for several FTAs, including the Trans-Pacific Partnership Agreement (TPP), Malaysia-EU FTA, and Malaysia-Australia FTA. Thus far, there has been substantive progress on all three FTAs. Further to that, initial meetings between Malaysia and the Gulf Cooperation Countries (GCC) have also taken place to explore the possibility of an FTA in the near future.

Asia-Pacific Economic Cooperation (APEC) Finance Ministers' Meeting

In addition to trade initiatives under ASEAN and FTAs, the SC was part of the Malaysian delegation at the 18th APEC Finance Ministers' Meeting held in Honolulu, Hawaii in November. The SC's role at the meeting was to advise and assist Dato' Seri Ahmad Husni Hanadzlah, Malaysia's Minister of Finance II, on matters pertaining to the capital market.

PROMOTING MALAYSIA'S CAPITAL MARKET

Stakeholder engagements

The SC continues to proactively promote the Malaysian capital market through regular engagements with key regional and international stakeholders and influencers, which are conducted through high-level roundtable discussions, briefings and seminars. Through these sessions, the SC is able to address concerns and issues, while providing up-to-date information on the developments and liberalisation measures affecting the Malaysian capital market. These engagements are typically at a high level, with the objective of boosting international and regional co-operation, and enhancing cross-border opportunities between domestic and foreign participants.

Among the significant engagements for 2011 were the visits by the Lord Mayor of London, the Secretary of Financial Services of the Treasury of Hong Kong, and the high-level Financial Roundtable with the Prime Minister of Malaysia

in conjunction with his official visit to London. The SC also organised specific briefings following the launch of CMP2 and the Corporate Governance Blueprint with international fund managers, foreign diplomatic missions and rating agencies.

In order to get a first-hand update on the European debt crisis, an engagement was held with the EU Ambassador to discuss implications of the EU crisis on Asia and countries in the region. To promote India-Malaysia capital market links, the Chairman of the Securities and Exchange Board of India was given the opportunity to update key Malaysian fund managers and intermediaries about the recent developments and investment opportunities in India.

The SC continued to support and collaborate with other agencies such as Bursa Malaysia and the MIFC, as well as domestic investment banks, on international investor roadshows and other promotional activities to cohesively promote Malaysia as an international financial hub in Southeast Asia. Through the collective effort of all the various public and private institutions, Malaysia has been recognised and is ranked the 21st most competitive economy in the world, according to the WEF Global Competitive Report 2011–2012.

To ensure open and transparent communication about the Malaysian capital market, the SC also continues to update domestic and international stakeholders on key regulatory developments, relevant news and topical issues through quarterly issues of *Capital.My*.



Part Four

Increase Our Capabilities
and Effectiveness

INCREASE OUR CAPABILITIES AND EFFECTIVENESS

INTRODUCTION

The SC continues to invest in our people, organisational capabilities and in information technology (IT) tools and infrastructure to enable us to be proactive and agile to respond to challenges and opportunities identified in the CMP2 and our annual Business Plan. These efforts have yielded positive results in the form of higher regulatory capabilities and operational effectiveness, which have enabled us to introduce and implement a number of landmark initiatives and strategic plans in the year, along with meeting greater demands in our supervisory, oversight and enforcement work.

We adopted a holistic approach to enhance the effectiveness of our delivery system. Among others, we strengthened the competencies and skill sets of our staff through human capital management (HCM) initiatives and introduced additional measures to promote and internalise greater integrity and governance. We also worked on improving our processes through continuous review and assurance, leveraging on IT and enhancing knowledge and record management systems. To reinforce a sense of belonging and promote greater inclusiveness among all levels of staff, we also undertook a number of programmes to promote greater internal communication and staff volunteerism.

STRENGTHENING REGULATORY CAPACITY AND SKILL SETS

To strengthen regulatory capacity and skill sets, organisational efforts were focused on a range of HCM

initiatives designed to enhance existing practices and implement new measures that promote high performance and a value-based culture. In 2011, we identified and worked on three areas in particular:

- Rewards and career development;
- Governance practices and controls; and
- Strategic HCM programmes.

Our learning and development programmes were focused on honing current skill levels and preparing for future needs. To this end, we ensured that our staff are equipped with the necessary skills to perform their current job functions and expand their knowledge base to keep pace with market developments.

The learning and development initiatives implemented ranged from external programmes, in-house curricula on specific capital market functions and segments as well as leadership programmes, to virtual learning, knowledge sharing sessions and on-the-job learning. We achieved an average of 8.87 days formal learning per full time equivalent (FTE), an increase of 25% from the 7.11 days recorded in 2010. The average training days would be higher with the inclusion of hours dedicated to knowledge sharing and on-the-job coaching sessions.

Rewards and career development

The SC conducts regular reviews of terms and conditions of employment and people management practices as part of our efforts to ensure relevance and competitiveness. This year, priority was given to implementing a range of

initiatives related to benefits, reward and recognition as well as career development.

Following a review of the organisation's current reward and recognition programmes, including benchmarking and suitability assessments, we introduced several enhancements during the year, including improved provisions on maternity leave, paternity leave and utilisation of earned leave.

We have also embarked on a holistic aggregation of all career development opportunities. This was a substantive exercise involving focus groups and wide ranging syndication across the whole organisation. We worked on the overall framework and philosophy, mapped out and implemented various components. These included succession planning for key positions, the development of capital markets curricula and certification programmes to enhance professional competencies, enhancements to training facilities for professional development as well as leadership development programmes. Many of these also addressed recommendations from the SC organisational climate survey on rewards and career development which paralleled on-going work and served to validate the importance of these initiatives.

Climate survey

In addition to initiatives related to enhancing organisational design, improving business processes and augmenting a high performance corporate culture, an organisational climate survey was conducted in February to ascertain the staff's opinion and perceptions of the quality of our work environment to identify areas of strength and areas where improvements could be made.

The survey encouraged staff to provide honest feedback that would support the SC's efforts to create an environment which motivates people to do their best and derive job satisfaction from working in an organisation of which they are proud to be a part.

Upon the conclusion of the survey in May, which included analysis of the survey results and identification of the priority areas to work on, the outcome was shared

with the entire staff population and working groups were formed to identify appropriate action plans to address the issues that were identified. Implementation of these action plans has been ongoing since June and staff are updated on progress on a monthly basis.

The survey results also provided insights into the areas where we are doing well and thus helped to reaffirm the good work practices already in place. High performing areas, as benchmarked against international norms, included having clarity and line of sight to organisational goals and objectives as well as strong teamwork.

Governance practices and controls

Systematic revisions to our governance practices and controls were implemented to promote a higher level of clarity, certainty and integrity in the way we manage our people.

Our governance framework was enhanced and implemented through reviewing policies, processes and procedures. The latest policies cover:

- Non-Malaysian recruitment – clear parameters for employing non-Malaysian professionals have been developed;
- Secondments and attachments – the principles and arrangements for SC staff to gain further professional exposure and skills development at third-party organisations have been put in place; and
- Cooling off – a cooling off time frame has been introduced to preserve integrity and avoid conflicts when staff members leave the SC.

Strategic HCM programmes

Succession management system

The SC continues to place importance on having a structured succession planning system in place. To this end, the SC utilised assessment centres and implemented a mentoring programme as well as formalised the

establishment of a Succession Council to identify and groom our people to take on senior leadership roles and manage critical functions in the SC.

Organisational job profiling and job evaluation

Following the completion of the job profiling initiative in 2010, all jobs in the SC were evaluated to define their relative worth or size to establish internal relativities based on fair, sound and consistent parameters. This provided the basis for designing a robust and equitable grade and pay structure, grading jobs within the organisational context and managing jobs and pay relativities. It also established effective criteria for comparing jobs within the SC as well as with equivalent jobs or roles in the broader job market. We completed this process in 2011 for executive, professional and mid-management roles.

Curriculum development and LEAD

This year saw the roll-out of the SC Core Capital Market Curriculum, a comprehensive syllabus on the mechanics and risks of capital market financial products. The SC's Leadership Excellence and Development (LEAD) curriculum entered its second year with a total of 20 leadership development programmes already conducted, to better equip staff with the appropriate leadership and management skills to manage and develop their direct reports, drive change, achieve organisational objectives and engage with stakeholders.

SUPREME and CFE certification programmes

Another milestone in developing professional and specialised skill sets was marked by the launch of SUPREME, a signature programme for SC examiners aimed at ensuring high level of capability in conducting examinations of market intermediaries and institutions.

In addition, staff members from the Investigation Department, the Financial and Corporate Surveillance Department and the Audit Oversight Board (AOB) were identified to undergo two main certification programmes

in 2011; the Certified Fraud Examiner (CFE) and ICAEW International Standards on Auditing (ISA) Assessment and Audit Faculty. These certification programmes would further enhance the professional expertise of SC investigators and examiners.

Overseas exposure

To provide our staff with greater opportunities to discuss and network internationally on current developments in the global financial markets, including the latest regulatory developments and international standards, staff engaged with foreign regulators and global industry players through various regional and international programmes, including the APEC Financial Regulators Training Initiative, ASIC Summer School 2011 and the Regional Leadership Programme for Securities Regulators, the SEC Enforcement Programme, IOSCO/FSI Trading Book Issues and Market Infrastructure, 2011 Korea Capital Market Seminar, 3rd International Course on Islamic Capital Markets and ADB-AFDC Workshop on Developing Sustainable Government Bond Markets. These overseas programmes also provided opportunities for our staff to profile Malaysia and our capital markets.

We also benefited from dialogues with fellow regulators and experts from the US CFTC, the UK Financial Services Compensation Scheme, Goldman Sachs, Allen & Gledhill and other counterparts and industry players. These interactions enabled the mutual exchange of experiences and best practices in areas such as surveillance of the derivatives market, the impact of Dodd-Frank on Asian markets, prospects for the derivatives market in Asia, structured investment products and compensation fund schemes.

Assessment centre for SC auxiliary police

To enhance security within the premises and perimeter of the SC, we received approval from the Royal Malaysia Police (RMP) for the establishment of an Auxiliary Police Unit. Thirty-three security personnel successfully undertook a 90-day police training programme at the PDRM Training Centre (PULAPOL). An in-house

assessment centre was also launched to serve as an on-boarding programme for these personnel to further enhance their competencies.

ENHANCING SYSTEMS AND INTERNAL PROCESSES

The SC continually strives to provide a more efficient and effective delivery system to our stakeholders. This is particularly important in today's challenging market conditions when greater uncertainty and the swiftly shifting global environment demand ever greater agility and ability on the part of the regulators.

Leveraging on IT

To improve stakeholders' experience when dealing with the SC, the Electronic Reporting System (ERS) infrastructure was upgraded, after nine years of service. The upgrade also enabled us to respond positively to the increase in online applications and submissions from our external stakeholders.

In parallel, the Automated Auditor Registration Systems (ARAS) was implemented for the AOB to facilitate online registration of auditors servicing public-interest entities.

Technological innovations to surveillance

To improve productivity and effectiveness, we also automated our detection and surveillance analysis. SMARTS, a real-time system to efficiently monitor Bursa Malaysia, was upgraded to the latest version to capitalise on the system's new capabilities and features. These changes significantly reduce turnaround time and increase the operational efficiency of surveillance work, whilst enabling us to address the increased complexity of trading techniques.

To further facilitate analysis of surveillance information, two new surveillance platforms were introduced namely the Surveillance e-Repository and the Surveillance e-Personality profile.

Complementary improvements were also made to the bond trading surveillance system of equities transactions to support the existing intra-regulator co-operation with Bank Negara Malaysia, particularly with regard to instituting regulatory action against errant bond market participants.

Enhancing IT security for business continuity

Business continuity and our ability to leverage on technology, to improve our surveillance processes and to protect the confidentiality, availability and integrity of the information we receive electronically, are fundamental to our effectiveness as a regulator. In this regard, the preservation of the SC's IT infrastructure, network and data security remains a top priority.

In support of this effort, we completed the network and server security assessment on all servers and network devices, mitigating risks by taking the necessary steps to address all possible vulnerabilities in 2011.

We have also obtained recertification of ISMS ISO 27001:2005. This ensures that the ERS platform is continuously benchmarked against international security standards, hence maintaining external stakeholders' confidence of a secure environment, network and data when dealing with the SC electronically.

Increasing recruitment efficiencies and user friendliness

A series of new HCM eSystems were also introduced during the year to drive performance excellence by increasing capabilities and productivity:

SCORE

SCORE, the SC's online recruitment engine for job applications, was formally launched to increase efficiency and user friendliness. SCORE is a one-stop centre that provides pertinent information on vacancies, facilitates recruitment of the best candidates for the SC and acts

as an online information repository. Job applicants for vacancies in the SC are now able to submit their resumes and other relevant documents online at their convenience, supporting our efforts to go paperless.

eSTAR

An employee referral scheme, eSTAR formally encourages our staff to introduce qualified candidates to the SC. The STAR programme is supported by an HCM eSystem that allows successful candidates to name staff referrers for successful recruitment rewards. In tandem with this, the system also collates and compiles referral details and facilitates the management of rewards.

eInternship

To enhance service delivery and reach more external stakeholders, the SC launched an eInternship online application system for Malaysian students studying in universities locally and abroad. This has allowed our officers to focus on substantive assessments, which has markedly improved administrative processing and timelines.

eCMPlacement

An eCMPlacement system which enables Malaysian students studying in local universities to apply online for places at the SC, to conduct their mandatory practical training, has similarly facilitated quicker turnaround in the application and selection process for the Capital Market Placement Programme. A collaborative effort between the SC, the Ministry of Higher Education and local universities, this programme provides undergraduates with workplace exposure and experience. To incentivise the undergraduates to take their placements seriously, their on-the-job performance is graded and the outcome is factored into their final degree results.

eSCMS, eScholarship, eSPMS, LPS, HR Avenue, HCM metrics

A range of systems and metrics were either designed, improved or institutionalised to improve various processes

including staff performance and evaluation, the management of the SC's continuing professional and leadership development programme, knowledge management and communication on HR practices and services as well as our scholarship programme.

Process reviews relating to internal resourcing were also completed. Further reviews on other areas including external resourcing and development pipelines are planned for 2012.

Enhancing knowledge and records management

The governance structure of our Knowledge Management (KM) initiatives was enhanced in 2011 via the KM Consultative Working Group. This inclusive and collaborative approach has strengthened stakeholders' involvement in the KM agenda, laid the foundation for on-going discussions and catalysed new ideas in the way we manage our intellectual capital.

To ensure timely access to information on global capital market developments we have increased our subscriptions to international online database providers, facilitating news feeds to be channelled systematically and disseminated efficiently utilising appropriate platforms to avoid information asymmetry.

Following the successful implementation of the records management pilot project in 2010 involving the Equities Department, we extended the records management process to the Take-overs and Mergers, Private Debt Securities and Licensing departments. The benefits gained include improved security features, having up-to-date records of high integrity, improved work processes through improved collaboration and business continuity planning. The organisation-wide roll-out of the records management solution will continue in 2012.

Improving internal governance

The SC has been entrusted to build, protect and maintain a capital market that is robust and well regulated. To deliver on our responsibility of regulating and developing the Malaysian capital market, we continued to instil trust and

confidence in the market by being the benchmark for accountability, credibility and effectiveness.

As a high-performing and values-based organisation, we continuously look into the adequacy and integrity of our systems and internal controls. Consistent with practices that the SC expects from the market, we undertook several initiatives in 2011 to improve our internal governance:

Quality assurance review of the SC's internal audit function

An independent internal review team conducted a Quality Assurance Review (QAR) of our internal audit function to evaluate its conformance with the Institute of Internal Auditor's International Professional Practices Framework. The aim was to strengthen our internal governance by ensuring that internal audit activity is effective and complies with international standards, as well as identifying opportunities for improvement. The review, which was completed in September, was presented to the Audit Committee in October which comprised independent members of the Commission. The survey concluded that the SC's internal audit function complies with the International Standards for the Professional Practice of Internal Auditing.

Risk control self-assessment

As part of efforts to continuously improve our system of internal controls, we embarked on and successfully completed the pilot implementation of the Risk Control Self-Assessment (RCSA) project in 2011. The pilot RCSA involved the Institution Supervision department, a critical regulatory function. RCSA is a management tool to gather and communicate information that leads to improvements in internal controls and business processes. It involves a structured, formal and documented process for the purpose of:

- Identifying key risk factors and significant exposure;
- Assessing the control processes that mitigate or manage those risks;

- Developing action plans to reduce risks to an acceptable level; and
- Determining the likelihood of, or assisting in, the achievement of business objectives.

It was concluded from the pilot implementation that RCSA provided a robust challenge process for the identification and assessment of key operational risks, root causes and controls; development of action plans to mitigate or manage the residual risks; and enhanced operational risks identification and assessment.

As a result of the success of the pilot, an organisation-wide roll-out of the RCSA will be undertaken in 2012.

Document confidentiality policy

The Document Confidentiality policy which was established in March, is an SC standard for assigning confidentiality levels to documents that contain sensitive information which we produce or distribute, to which access is restricted to particular groups of people. The policy was implemented to protect classified documents managed by the SC using a standard practice across the organisation.

OTHER ORGANISATIONAL INITIATIVES

Greater internal communication and staff volunteerism

The organisational climate survey paved the way for a number of internal communication initiatives. The SC Buzz, our bi-monthly online staff bulletin, began in June, featuring interesting personalities in the SC family, staff events and useful tips.

Staff participated actively in corporate social responsibility (CSR) activities aimed at encouraging staff volunteerism through care for the environment and communities in need.

Departmental CSR activities included contributing food and essential supplies to remote orang asli settlements in

Perak, planting mangrove trees in Sabah and fruit trees in Perak, releasing baby turtles and fishes at protected sanctuaries in Terengganu and Perak and spending time with underprivileged children at shelter homes.

Treasure Trove, a charity shop aimed at raising funds for selected charity organisations, was set up this year by a group of staff volunteers. Located in the cafeteria, the shop sells previously loved goods and brand new items donated mainly by SC staff. Supporters of Treasure Trove also organised a charity bake sale where proceeds from the sale of homemade cakes and cookies were donated to an orphanage in Kuala Lumpur.

Staff members also formed two teams and succeeded in scaling the heights of Mount Kinabalu in October. The

teams accomplished their mission to reach the peak on time, with 90% of the participants, and to clear the trails of rubbish. The Mount Kinabalu Challenge was also aimed at building skills relating to project management, teamwork and results orientation; which are among key attributes and competencies required from staff of the SC.

The year also saw a number of SC sportsmen and sportswomen making their mark in the sporting arena, in internal tournaments organised by the staff sports and recreational club and even in international competitions.

All these initiatives have helped build a more conducive environment and promoted a higher level of synergy and sense of inclusiveness within the organisation.

The background of the page features a complex, repeating geometric pattern in shades of gray. The pattern consists of interlocking lines that form a series of triangles and polygons, creating a sense of depth and movement. The overall effect is a textured, almost crystalline appearance.

Part Five

Capital Market Review and Outlook

CAPITAL MARKET REVIEW AND OUTLOOK

GLOBAL DEVELOPMENTS

In 2011, the world economy continued its recovery from the global financial crisis albeit at a modest rate. Growth in emerging economies continued to outpace that of advanced economies. Although monetary authorities around the world continued to maintain a relatively accommodative stance, economic sentiments were still cautious amidst uncertainty over fiscal policy in the US and the sovereign debt crisis in Europe. Emerging economies were not spared as events with regard to political instability in the Middle East and natural disasters such as the earthquake and tsunami in Japan and flooding in Thailand caused disruptions to the world's supply of key exports like oil, electronic components and agricultural crops, resulting in, amongst others, a spike in world commodity prices.

Initial growth projections were moderate, with the International Monetary Fund (IMF) estimating the world economy to grow at 4.0% in 2011 relative to 5.1% in 2010. However, there was a broadly downward revision in growth forecasts, with the World Bank revising its 2011 global growth estimate to 2.7% to take into account supply shocks arising from natural disasters, fading impact of monetary stimulus in the US and Europe, slower growth in China and India on the back of inflation concerns and sovereign rating downgrades which raised fears of higher borrowing costs and potential contraction in credit.

Financial market performance

Global financial market performance in 2011 reflected the underlying turbulence in the real economy. The equities

market was significantly impacted by developments in the US and Europe, with the MSCI World Index closing broadly flat. In particular, 2011 saw a dampening in capital-raising activity worldwide, evidenced by a 40% fall in the volume of initial public offerings (IPOs) and the cancellation of numerous proposed listings in the face of market uncertainty and relatively poor performance of recent listings.

Although emerging markets began the year promisingly, the credit rating downgrade of the US by Standard & Poor's in August 2011 caused a reversal in investor

Table 1
Output (annual % change)

Real GDP growth ^e	2011	2012f	2013f
World	2.7	2.5	3.1
High income	1.6	1.4	2.0
OECD Countries	1.4	1.3	1.9
– Euro Area	1.6	-0.3	1.1
– Japan	-0.9	1.9	1.6
– United States	1.7	2.2	2.4
– Non-OECD countries	4.5	3.2	4.1
Developing countries	6.0	5.4	6.0
– East Asia and Pacific	8.2	7.8	7.8
– Europe and Central Asia	5.3	3.2	4.0
– Latin America and Caribbean	4.2	3.6	4.2
– Middle East and N. Africa	1.7	2.3	3.2
– South Asia	6.6	5.8	7.1
– Sub-Saharan Africa	4.9	5.3	5.6

Source: World Bank

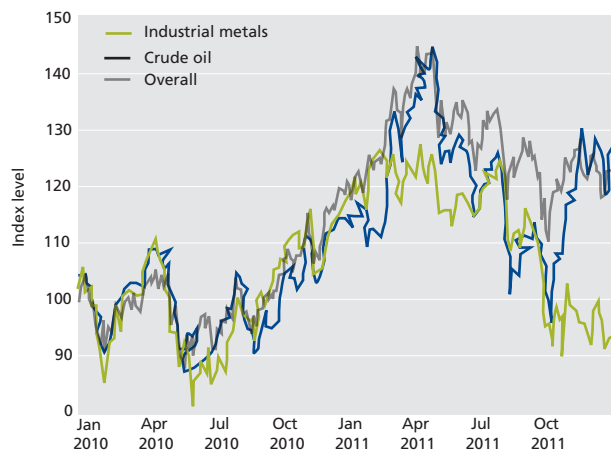
e: Estimates

f: Forecast

Chart 1

Global commodity prices (1 Jan 2011=100)

S&P Goldman Sachs Commodities Indices

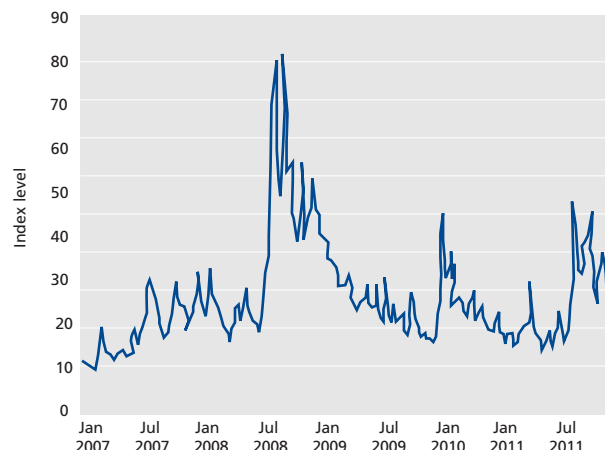


Source: Thomson Reuters Datastream, SC

Chart 3

Risk aversion

CBOE VIX index of implied volatility of S&P's 500 index option

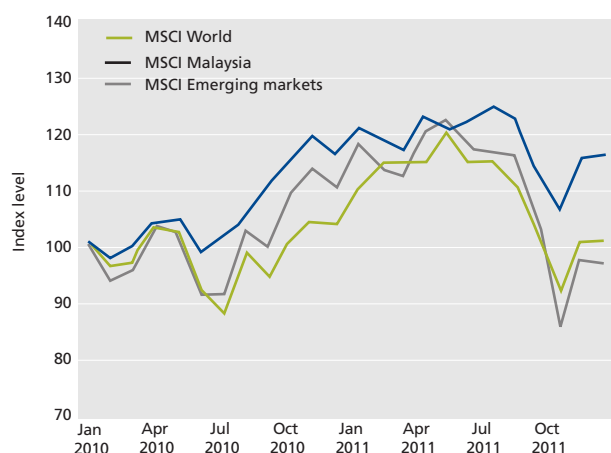


Source: Bloomberg, SC

Chart 2

MSCI World, MSCI Emerging Markets and MSCI Malaysia

(1 Jan 2010=100)

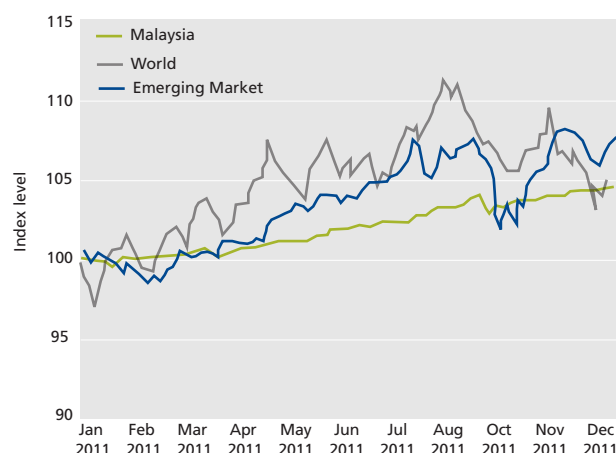


Source: Thomson Reuters Datastream

Chart 4

World government bond prices (31 Dec 2010=100)

JPM EMBI + Emerging Market and Malaysia indices, CGBI World, WCGBI index in US dollars



Source: Thomson Reuters Datastream, SC

sentiments and triggered a sell-down in emerging market equities as investors sought refuge in the traditional safe haven assets of US Treasury Bills and gold. Equity market volatility spiked in the wake of the downgrade, with the CBOE VIX index rising sharply to 43 points, before moderating towards end-2011.

Although risks arising from American fiscal uncertainty dissipated in the last quarter of the year, downside risks from the eurozone debt crisis continued to persist, with various European nations placed on credit watch for possible credit rating downgrades. Several major American and European financial institutions' credit ratings were

downgraded in November and December, causing their stocks to shed value and potentially increasing the cost of future fund-raising. This has impacted bond markets worldwide, with fund-raising by lower-rated corporate issuers dampened by reduced risk appetites. The increase in risk aversion was also reflected in the widening of credit default swap (CDS) spreads, particularly for European sovereign debt.

Despite the European crisis highlighting the default risk attached to sovereign debt, the market as a whole continued to view government bonds as a relatively safe asset. Prices for government bonds registered steady growth over the year, notwithstanding a brief slump in the third quarter.

Regional developments

In 2011, Asian countries recorded broadly encouraging economic growth, in spite of the slowdown in advanced economies. Growth was driven mainly by resilient domestic demand as favourable labour market conditions and rising wages sustained private consumption, and improving capacity utilisation rates supported investment activities. Major Asian economies also benefited from rising commodity prices such as crude palm oil, particularly Malaysia and Indonesia. However, Thailand's growth

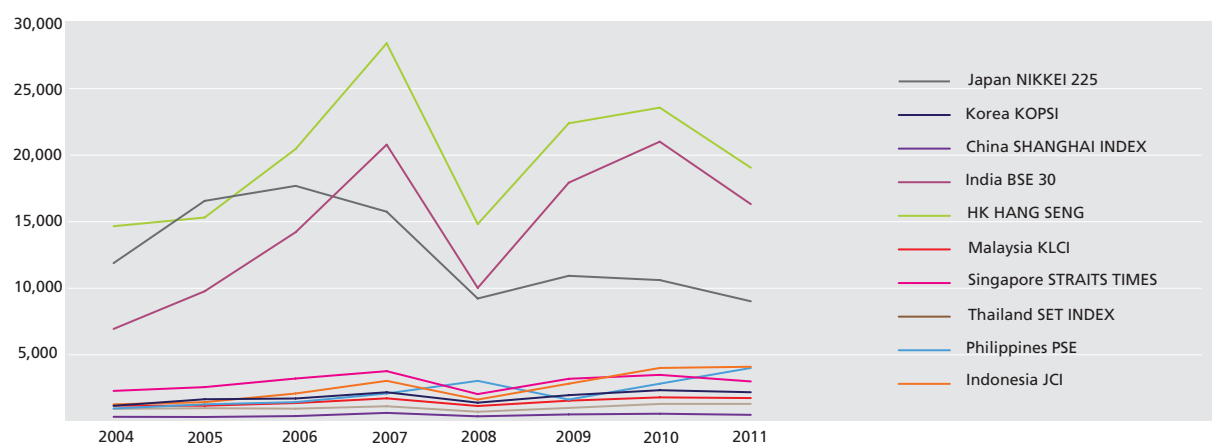
slowed down markedly as its economy was severely affected by floods which damaged key infrastructure and interrupted production and distribution channels.

Overall, headline inflation was moderately under control in most countries except for China and Vietnam where higher inflation was recorded due to rising food prices. The main focus of monetary policy was on managing inflation and several countries tightened monetary policy to combat rising inflation including China, India and Vietnam.

Stock market performance varied across the region, with equity indices in India, China, Japan, Korea, Taiwan, Thailand, Vietnam and Singapore recording declines of between 1% to 28%, while equities in Indonesia, Philippines and Malaysia rose by a range of 1% and 5% (Chart 5). In particular, the Indonesia JCI and Philippines PCOMP indices rose on the back of strong performance by commodities and plantation counters.

Indonesia's capital market performance was bolstered by the upgrade of its sovereign rating to investment grade, making it more attractive to foreign investors. The size of the Asian equity market, represented by market capitalisation of listed companies, grew at a

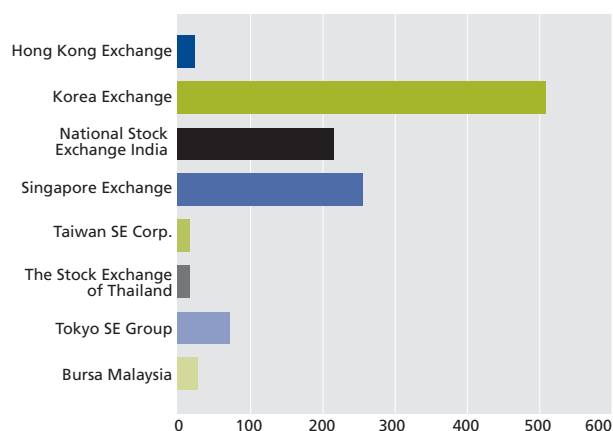
Chart 5
Major Asian stock indices



Source: Bloomberg

Chart 6

2011 capital raised by bond issuance (US\$ '000 million)



Source: World Federation of Exchange

moderate pace, with China, India and Singapore exhibiting the most volatility due to foreign portfolio inflows seeking higher returns. Despite the floods, Thailand SETI's market capitalisation expanded, albeit at a lower rate.

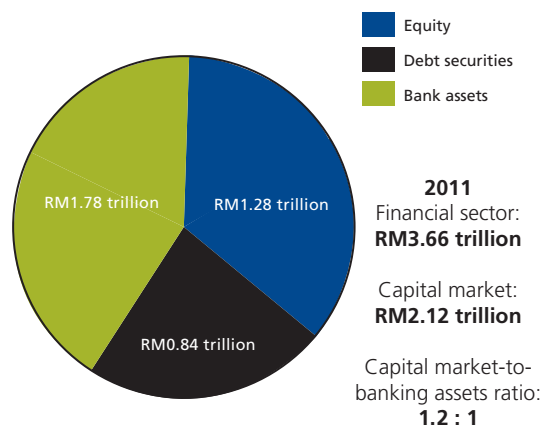
Asia's bond markets continued the upward trend of 2010 to expand strongly, reflecting growing interest of foreign investors searching for higher yields. Korea, Singapore and India were the most active markets, with Singapore and India increasing total value of capital raised by 162% and 58% respectively compared to 2010, whilst Korea recorded a slight fall of 2%. The bond markets in Japan, Malaysia and Thailand were fairly active during 2011, with capital inflows being a major factor.

DOMESTIC DEVELOPMENTS

In 2011, the Malaysian economy remained on a broadly healthy growth trajectory, despite external headwinds arising from fragilities in the world's economic recovery. GDP growth in Malaysia moderated to 5.1% in 2011

Chart 7

Capital market and financial sector by segment size



Source: SC and BNM

from 7.2% in 2010. Domestic aggregate demand was supported by sustained domestic consumption, which grew 8.9% year-on-year, and investments, which mitigated the impact of a moderation in export growth. In particular, projects under the Economic Transformation Programme (ETP) helped sustain domestic demand and enhance investor confidence, with new public-private initiatives resulting in 95 new projects with a projected total investment value of RM162.15 billion.

The size of the Malaysian financial sector¹ stood at RM3.66 trillion at end-2011, representing growth of 9.2% from 2010. Capital market assets, comprising market capitalisation of securities traded on Bursa Malaysia and debt securities outstanding, stood at RM2.12 trillion, i.e. 119% of banking sector assets. The capital market accounted for approximately 40% of net funds raised from domestic sources in 2011. Overall capital market risks also abated in 2011 relative to the previous year, particularly due to improvements in bond and equity market liquidity and 12-month forward earnings growth estimates which trended above the regional average.

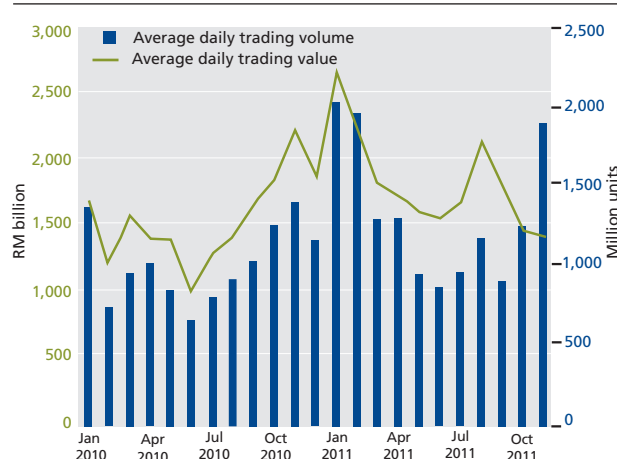
¹ Computed by aggregating: (a) market capitalisation of securities listed on Bursa Malaysia; (b) value of debt securities outstanding, and (c) aggregate assets of commercial, Islamic and investment banks minus their holdings of Malaysian securities to avoid double-counting.

Equity market overview

The capitalisation of the Malaysian equity market expanded by 0.78% in 2011 to reach RM1.285 trillion. Shariah-compliant securities accounted for RM806.4 billion (i.e. 62.8%) of this market. Overall average trading activity rose in 2011 with a daily average trading volume of 1.34 billion units, an increase of 31.6% from a year earlier.

81.6% of securities listed on Bursa Malaysia are held by domestic investors, with nominees, corporations and individuals accounting for the highest proportion of ownership. Out of the 18.4% stake held by foreign investors, nominees and corporations account for the bulk of the holdings, i.e. 17%, with the remaining 1.4% held by foreign individuals, investment houses and other investors.

Chart 8
Malaysia stock market trading summary



Source: Bursa Malaysia

Table 2
Statistics on the Malaysian equity market*

Size	RM1.285 trillion
Average daily trading volume	1.34 billion units
Average daily trading value	RM1.79 billion
Turnover velocity	34.1%
No. of listed companies	941

Source: SC

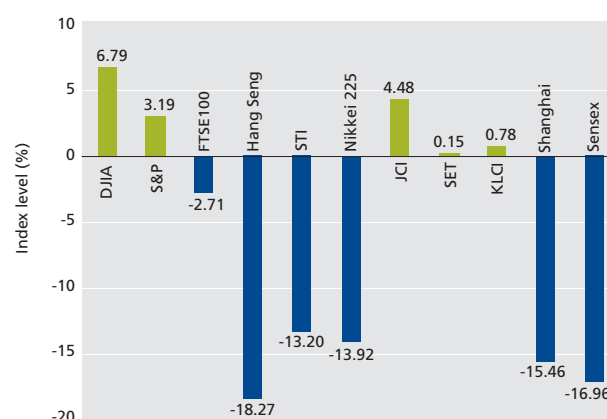
* Statistics for trading volume, value and turnover velocity are year-to-date averages as at 31 December 2011.

Total equity funds (IPOs, rights issues and warrants) raised was RM12.62 billion in 2011. However, this is significantly lower than the 2010 aggregate issuance of RM32.14 billion, which is congruent with a general slowdown in IPO activity worldwide, as companies deferred listings in the face of market uncertainty. There were 28 IPOs worth RM7.38 billion in 2011, accounting for 58.9% of funds raised via the equity market.

Domestic stock prices were relatively resilient despite continuing uncertainties in the global financial market. The FBMKLCI ended the year at 1,530.73 points with a year-to-date change of 0.8%. Despite weaker global stock market performance as well as a slowdown in the domestic market, the FBMKLCI managed to end the year on a stable note, having risen 11 points from its 2010 close of 1,518.91. Although growth was marginal, the FBMKLCI still outperformed the MSCI Emerging Asia Index and MSCI World Index during 2011, when both indices fell by 19% and 8% respectively.

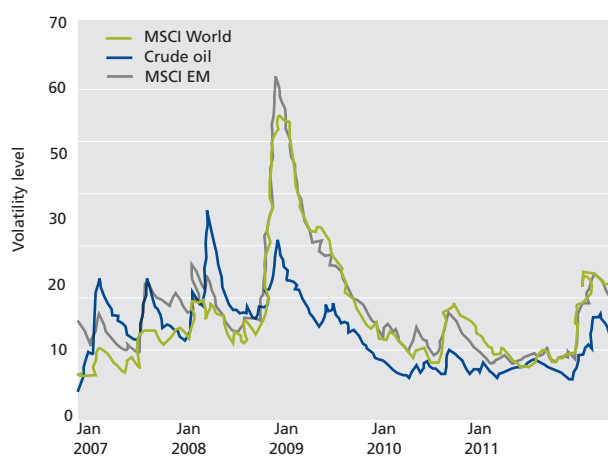
Equity market volatility rose in the second half of 2011, peaking in October 2011 in tandem with heightened turmoil in the eurozone. It was, however, lower than during the crisis period in 2008 and relatively lower than most emerging markets.

Chart 9
Stock market indices (% change in 2011)
Stock market YTD growth as at 30 December 2011



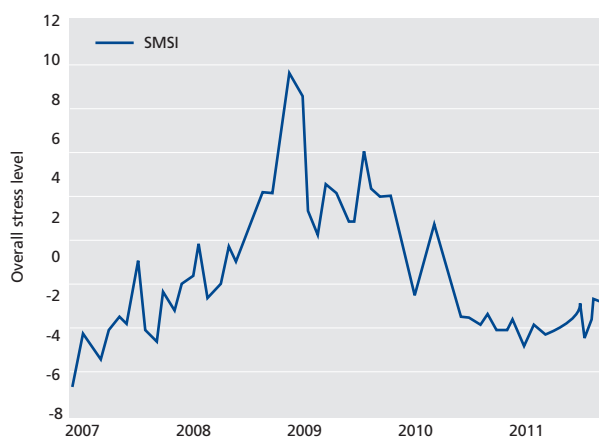
The stress level in the Malaysian stock market, measured against volatility, price impact, market illiquidity and financial sector resilience, was lower in 2011 compared to the past two years. The stress level rose briefly during the year due to uncertainties regarding the global economy. Overall, the reduced volatility, stability in the financial markets and improved market liquidity contributed to the lower stress levels in the stock market.

Chart 10
Implied volatility of MSCI Malaysia vs MSCI Emerging Market and MSCI World



Source: Thomson Reuters Datastream, SC

Chart 11
Malaysian stock market stress index



Source: SC

Bond market overview

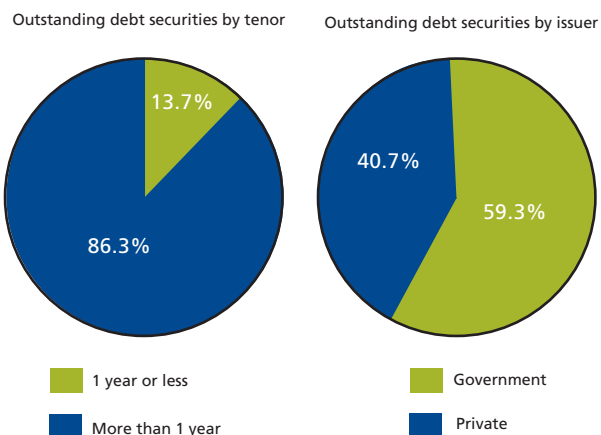
Total ringgit-denominated outstanding debt securities amounted to RM841.1 billion at end-2011, having grown by 10.2% since end-2010. The value of outstanding ringgit-denominated sukuk stood at RM350.2 billion, i.e. 41.6% of the total bond market. Short-term debt securities accounted for 13.7% of outstanding bonds, with longer-term instruments (i.e. debt securities with a tenor of longer than one year) making up the remaining 86.3%. Private debt securities (PDS) accounted for 40.7% of all debt securities outstanding.

In the public debt market, fund-raising was mainly through new issuances of MGS amounting to RM58.8 billion and Government Investment Issues (GII) of RM36.4 billion. Net funds raised by the public sector after accounting for redemptions amounted to RM45.6 billion.

The SC approved 91 applications to raise funds via private debt securities in 2011. Out of the total nominal value of RM112.33 billion approved in 2011, 86.6% was by domestic issuers and the remaining 13.4% was by foreign issuers.

In the private debt market, a total of RM71.2 billion via corporate bonds (RM25.5 billion) and sukuk (RM45.6 billion) were issued in 2011.

Chart 12
Malaysian bond market



Source: SC

The finance, insurance and real estate sector continued to dominate issuances of PDS in 2011. This was followed by government & other services, and the utilities sectors.

The overall bond turnover ratio was higher as at December 2011 compared to a year ago. The government bond turnover ratio increased to 0.62 from 0.61 as at end-2010; while the corporate bond turnover ratio went up to 0.12 from 0.07. The turnover ratio for the year

exceeded its historical five-year average, indicating an active bond market and higher liquidity.

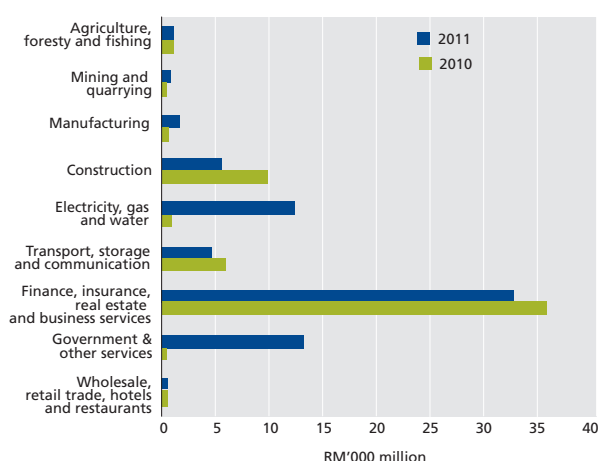
The yield for MGS rose markedly in March 2011, in line with expectations that Bank Negara Malaysia would raise policy rates – an expectation fulfilled by the increase in the overnight policy rate (OPR) by 25 basis points in April 2011. MGS yields subsequently remained stable, as investors expected the OPR to remain unchanged for the rest of the year in view of emerging pessimism on the global economic outlook.

The yields for corporate bonds and sukuk trended lower in 2011. This was due to improved sentiments in Malaysia's economic outlook and investor confidence which attracted institutional funds from both local and foreign into the corporate bond market.

The credit spread in 2011 was lower than that recorded during both the 2008 crisis and the post-crisis period in 2009. This reflected Malaysia's stable economic recovery path and was further supported by stable bond yields recorded for 2011.

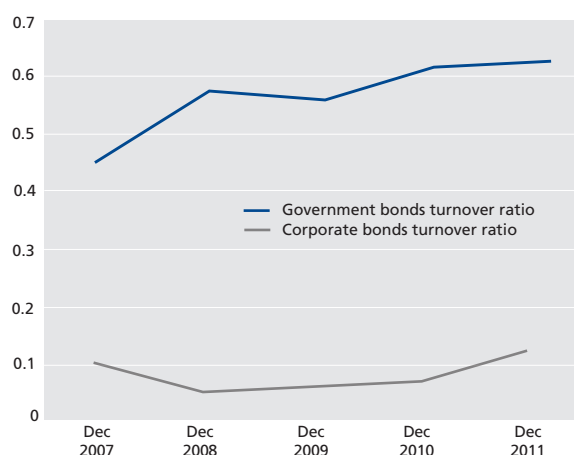
As at 30 September 2011, financial institutions were the main holders of government bonds, followed by foreign holders and social security institutions, continuing the trend from 2010. In particular, the proportion of MGS

Chart 13
2011 new issues of PDS by sector



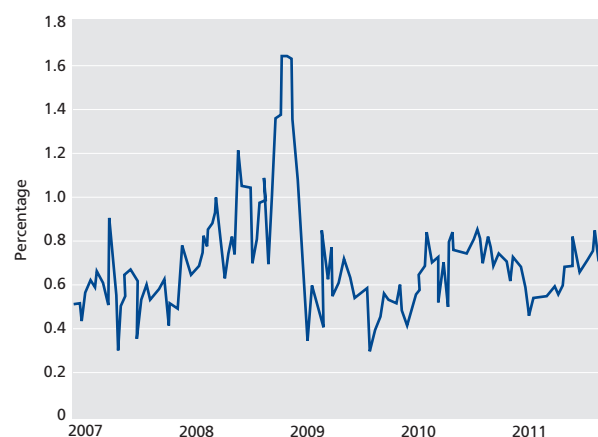
Source: BNM

Chart 14
Bond turnover ratio



Source: Asian Bonds Online

Chart 15
Credit spread of ringgit bonds (5-year AAA vs 5-year MGS)



Source: SC

held by foreign investors increased from 28.3% as at December 2010 to 36.9% as at December 2011. This could be partially attributed to uncertainty in the American and European financial markets, as investors looked to rebalance their portfolios with relatively safe assets that still provide a healthy yield.

Foreign investment in PDS also increased from RM14.3 billion as at end-2010 to RM15.1 billion as at end-2011, out of which RM10.1 billion was in conventional PDS while the remaining RM5.1 billion was in sukuk.

Fund management overview

Fund management is a major feature of the Malaysian capital market, mobilising assets amounting to RM423.6 billion as at end-2011. Unit trust funds continued to constitute the largest share of the Malaysian fund management industry, with 587 unit trust funds operated and administered by 40 locally-incorporated unit trust management companies.

The aggregate NAV of unit trust funds grew by 9.99% to RM249.5 billion in 2011, out of which RM2.7 billion was attributed to the 49 unit trust funds which were launched during the year. The size of the unit trust industry was equivalent to 19.42% of Bursa Malaysia's market capitalisation, as compared to 17.79% at the end of 2010.

OUTLOOK

Investor sentiments leading into 2012 will be influenced by economic performance, valuation and liquidity in the capital markets. The deleveraging process of European banks and further fiscal austerity measures amidst the European sovereign debt crisis are also factors which may affect investors' expectations.

A global economic slowdown may affect commodity prices. However, prices of precious metals may continue to be buoyed by investors' increasing preference for less risky assets, such as gold, and sustained demand by China, which in 2011 accounted for almost two-thirds of

all demand growth across commodity markets. Given the market valuation and performance in 2011 as well as the need for portfolio rebalancing by investors, there are growth opportunities in Asian capital markets.

Growth in Emerging Asian economies is expected to moderate, particularly if export demand shows slower growth and policy interventions to rein in inflation in China and India start to take effect. At the same time, some countries may also consider further monetary easing to stimulate growth in the face of moderating aggregate demand. Fiscal flexibility available to authorities in regional economies could also support growth.

The Malaysian economy is forecast to expand by 5%-6% in 2012, with private consumption and investments continuing to be the main engines of growth.² Malaysia is likely to continue to be affected by external developments through the impact on export demand. However, domestic fundamentals are expected to provide a counterbalance to lower external demand. Initiatives such as the Entry Point Projects (EPP) announced under the ETP are expected to sustain private investments. To date, RM3.2 billion has been raised via the bond market to finance the EPPs, with 104 more announced projects yet to undertake fund-raising. As all lead companies for these projects are already listed on Bursa Malaysia, the bulk of their financing would likely be secured through issuance of debt securities.

The equity market is expected to remain sensitive to any major adverse external development. However, domestic developments are likely to have a positive impact on sentiments. Listing activity is expected to pick up in tandem with positive domestic economic fundamentals. The operationalisation of CMP2 initiatives, such as the PRS framework, could act as a catalyst for increased investor participation.

Overall, the outlook for the Malaysian capital market appears to be broadly favourable. While the real economy and financial markets may be influenced by external uncertainties, domestic consumption and investment demand are expected to mitigate the downside risks and provide a positive impetus to the growth of the Malaysian capital market.

² Source: Bank Negara Malaysia



Part Six

Statements
and Statistics

COMMISSION MEMBERS



TAN SRI ZARINAH ANWAR

Appointed 1 December 2001

Tan Sri Zarinah Anwar was appointed the Chairman of the SC on 1 April 2006. She had served as the Deputy Chief Executive of the SC and member of the Commission since 1 December 2001. Tan Sri Zarinah is also the Vice Chairman of the Emerging Markets Committee of IOSCO and represents the committee on the International Financial Reporting Standards (IFRS) Monitoring Board. Tan Sri Zarinah currently chairs the Malaysian Venture Capital Development Council (MVCDC) and the Capital Market Development Fund (CMDf). She is also the Vice Chairman of the Asian Institute of Finance Malaysia (AIF). In addition, Tan Sri Zarinah is a member of the Labuan Financial Services Authority (Labuan FSA), the Financial Reporting Foundation (FRF), Malaysia International Islamic Financial Centre (MIFC), and the board of directors of the Institut Integriti Malaysia (IIM).

Prior to joining the SC, Tan Sri Zarinah was the Deputy Chairman of Shell Malaysia. She graduated with an LLB (Hons) from the University of Malaya.

DATUK TAN LEH KIAH @ FRANCIS TAN

Appointed 18 May 1999

Francis Tan is a consultant of Azman, Davidson & Co Advocates and Solicitors. He was the Managing Partner from 1986 to 2008. He is an associate member of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) and the Malaysian Institute of Taxation. He is also a solicitor of the Supreme Court of England and Wales.





DATO' GUMURI HUSSAIN

Appointed 1 August 2004

Dato' Gumuri is the Chairman of SME Bank, a position he has held since October 2005. He was the Managing Director and Chief Executive Officer of Penerbangan Malaysia Bhd from 2002 to 2004. Prior to this, he was a Senior Partner and Deputy Chairman of the Governance Board of PricewaterhouseCoopers Malaysia.

He sits on the boards of Kurnia Setia Bhd, Metrod (Malaysia) Bhd and Media Prima Bhd. He has also served as a non-executive director of Bank Industri & Teknologi Malaysia Bhd, Malaysia Airline System Bhd and Sabah Bank Bhd. Dato' Gumuri is a fellow of the Institute of Chartered Accountants in England and Wales (ICAEW) and a member of the Malaysian Institute of Accountants (MIA) and the Malaysian Institute of Certified Public Accountants (MICPA).

DATO' DR MOHD IRWAN SERIGAR ABDULLAH

Appointed 1 January 2011

Dato' Dr Mohd Irwan is the Deputy Secretary-General of the Treasury of the Ministry of Finance. He has extensive experience working in the Ministry of Finance and the Economic Planning Unit of the Prime Minister's Department. Dato' Dr Mohd Irwan currently sits on the boards of the Employees Provident Fund (EPF), Retirement Fund Incorporated (KWAP), Suruhanjaya Koperasi Malaysia (SKM), International Islamic University Malaysia (IIUM), Kumpulan Wang Amanah Negara (KWAN), Lembaga Tabung Haji (TH), Malaysian Foundation for Innovation (YIM), GovCo Holdings Limited, Capital Market Development Fund (CMDF), Malaysian Venture Capital Development Council (MVCDC) and Malaysian Holding Sdn. Bhd (MHSB). He is also the Chairman of the Working Group on Strengthening and Monitoring Abandoned Housing Projects.

Dato' Dr Mohd Irwan has a doctorate (PhD) in Economics from IIUM, Master of Science in Energy, Management and Policy from University of Pennsylvania and a bachelor's degree (Hons) in Population Studies from University of Malaya.



FAZLUR RAHMAN EBRAHIM

Appointed 1 May 2006

Fazlur Rahman Ebrahim is the Managing Director of Prokhas Sdn Bhd, a company wholly owned by the Minister of Finance, Incorporated. He was previously the Chief Operating Officer of Bank Islam Malaysia Bhd and the President and Chief Executive Officer of Bank Muamalat Malaysia Bhd. He currently sits on the boards of Pengurusan Danaharta Nasional Bhd, Pelaburan Hartanah Bhd, Syarikat Jaminan Kredit Perumahan Bhd, Syarikat Jaminan Pembiayaan Perniagaan Bhd and Credit Counseling and Debt Management Agency. 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 MOHAMED JAWHAR HASSAN

Appointed 15 May 2010

Tan Sri Mohamed Jawhar has been the Chairman and Chief Executive Officer of Institute of Strategic and International Studies (ISIS) Malaysia since 2006. He joined ISIS as the Director-General in 1997. Before joining ISIS, Tan Sri Mohamed Jawhar had served with the government, among others, as the Director-General, Department of National Unity; Under-Secretary, Ministry of Home Affairs; Director (Analysis) Research Division, Prime Minister's Department; and Principal Assistant Secretary, National Security Council. He has also served as Counselor in the Malaysian embassies in Indonesia and Thailand.

Tan Sri Jawhar is also Non-Executive Chairman, New Straits Times Press (Malaysia) Bhd; member, Economic Council Working Group; Advisory Panel, Malaysian Anti-Corruption Commission; Distinguished Fellow, Institute of Diplomacy and Foreign Relations (IDFR); Distinguished Fellow, Malaysian Institute of Defence and Security (MiDAS); Board member, Institute of Advanced Islamic Studies (IAIS); Chairman, Malaysian National Committee of the Council for Security Cooperation in the Asia Pacific (CSCAP); member, International Advisory Board, East West Center, US. He is also Expert and Eminent Person, ASEAN Regional Forum (ARF) Register.

TAN SRI DATO' HASMAH ABDULLAH

Appointed 10 March 2011

Tan Sri Hasmah is the former Director General and Chief Executive Officer of the Inland Revenue Board Malaysia (IRBM). She was appointed as the IRBM Director General and Chief Executive Officer in October 2006 and retired in 2011 after serving the agency for almost 38 years. Tan Sri Hasmah is currently an Advisor with PricewaterhouseCoopers Malaysia and also on the Board of Trustees for the recently established Malaysian Tax Research Foundation. Tan Sri Hasmah graduated with a bachelor's degree in Arts (Hons) from the University of Malaya.



SENIOR MANAGEMENT



DATO DR NIK RAMLAH MAHMOOD

Managing Director
Executive Director, Enforcement



DATUK RANJIT AJIT SINGH

Managing Director
Executive Director, Market Supervision



DATIN TEH IJA MOHD JALIL

Executive Director
Corporate Resources



GOH CHING YIN

Executive Director
Strategy and Development



EUGENE WONG WENG SOON

Executive Director
Corporate Finance and Investments



ZAINAL IZLAN ZAINAL ABIDIN

Executive Director
Islamic Capital Market



NIK HASYUDEEN YUSOFF

Executive Director
Executive Chairman, Audit Oversight Board



FOO LEE MEI

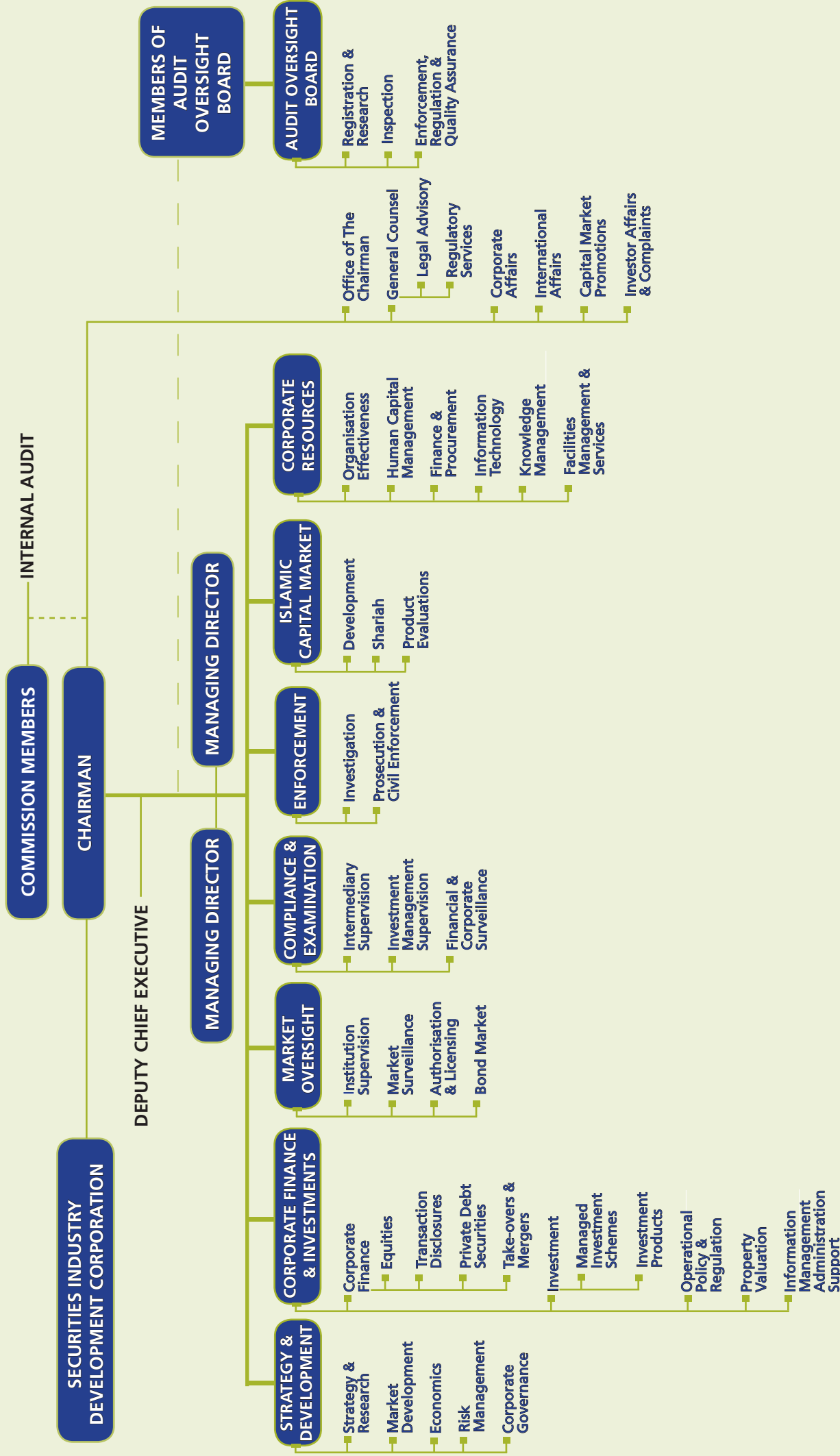
Executive Director
General Counsel



SHAMSUFLAN SHAMSUDDIN

Executive Director
Compliance and Examination

ORGANISATION STRUCTURE



STATEMENT ON GOVERNANCE

The SC is a statutory body established under the *Securities Commission Act 1993* (SCA) to regulate and develop the Malaysian capital market. The SC's functions, powers and various governance arrangements are set out in the SCA.

The SC is an active member of the International Organization of Securities Commissions (IOSCO) and is committed to the IOSCO principles of securities regulation to protect investors; ensure fair, efficient and transparent markets; and reduce systemic risk.

As a capital market regulator, the SC advocates high standards of corporate governance and is itself fully committed to the upholding of sound governance principles and best practices.

MEMBERS OF THE COMMISSION

The Minister of Finance appoints Commission members. The Commission members comprise an Executive Chairman together with six other members of which four members represent the government whilst the remaining two members represent the private sector.

Tan Sri Zarinah Anwar assumed the position of Executive Chairman on 1 April 2006. A profile of Commission members and their involvement in the various committees established by the Commission are provided on pages 6-1 to 6-3 and page 6-8 respectively.

A Commission member's term of appointment cannot exceed a period of more than three years. However, upon

completion of his or her term, he or she is eligible for reappointment as a Commission member.

Whilst serving as a Commission member, he or she is also entitled to receive any remuneration or allowances as may be determined by the Minister of Finance.

A person is disqualified from holding the office of a Commission member if he or she holds a full time office in any public-listed company. Further, a Commission member must also vacate his or her office where he or she is:

- convicted of an offence under the law;
- declared a bankrupt;
- not capable of discharging his or her duties; or
- fails to attend three consecutive meetings of the Commission without leave.

A Commission member is also required by the law to disclose the nature of his or her interest in any matter that is being discussed by the Commission or by a committee. Contravention of this requirement can result in an offence being committed against the SCA.

FUNCTIONS OF THE COMMISSION

The SC's regulatory functions include:

- Advising the Minister of Finance on all matters relating to the Malaysian capital market;
- Supervising exchanges, clearing houses and central depositories;

- Approving authority for issuance of securities;
- Registering authority for prospectuses of corporations;
- Regulating all matters relating to securities and derivatives contracts;
- Regulating the take-over and merger of companies;
- Promoting and regulating all matters relating to fund management, including unit trust schemes;
- Licensing, registering, authorising and supervising all persons engaging in regulated activities or providing capital market services;
- Promoting the development of securities and derivatives markets in Malaysia including research and training;
- Oversight of self-regulatory organisations;
- Promoting proper conduct of market institutions and licensed persons;
- Developing an effective audit oversight framework and registering or recognising all auditors of public interest entities;
- Undertaking reasonable measures to monitor, mitigate and manage systemic risks arising from the securities and derivatives markets;
- Promoting and regulating corporate governance and approved accounting standards of listed corporations; and
- Setting and approving standards for professional qualification for the securities and derivatives markets.

These regulatory functions are carried out with the view to ensure that:

- Investors have confidence in our capital market by ensuring that they are adequately protected ;
- Markets operate in fair and orderly manner; and
- Systemic risk posed by the capital market is adequately managed.

Apart from discharging the above regulatory functions, the SC is also obliged to encourage and promote the development of the Malaysian capital market.

COMMISSION MEETINGS

Ten Commission meetings were held in 2011. The quorum required is five. The attendance record is set out in Table 1.

Table 1

Attendance at Commission Meetings in 2011

Commission Member	No. of meetings attended
Tan Sri Zarinah Anwar	10/10
Datuk Francis Tan Leh Kiah	9/10
Dato' Gumuri Hussain	8/10
Fazlur Rahman Ebrahim	10/10
Tan Sri Mohamed Jawhar Hassan	9/10
Dato' Dr Mohd Irwan Serigar Abdullah (appointed 1 January 2011)	4/8
Tan Sri Dato' Hasmah Abdullah (appointed 10 March 2011)	8/8
Datuk Wira Ismail Saleh (retired 25 February 2011)	1/2

COMMITTEES OF THE COMMISSION

Committees established by the Commission pursuant to section 18 of the SCA are listed in Table 2.

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

The Audit Oversight Board (AOB) assists the Commission in discharging its regulatory function in respect of developing an effective audit oversight framework and registering or recognising auditors of public interest entities.

MEETING PROCEDURES

Due notice is given on issues to be discussed with the distribution of agenda and papers for consideration at Commission and Committee meetings. These meetings provide a forum for balanced deliberation of issues and transparent decision-making. Management representatives may be invited to attend Commission and Committee meetings when necessary to advise on any matter under discussion.

Table 2

Committees of the Commission in 2011

Committee	Responsibility	Members
1. Audit Committee	Review effectiveness of the SC's internal controls and risk management systems and review the annual financial statements.	<ul style="list-style-type: none"> Dato' Gumuri Hussain (Chairman) Datuk Francis Tan Leh Kiah Fazlur Rahman Ebrahim Datuk Wira Ismail Saleh¹ Tan Sri Dato' Hasmah Abdullah²
2. Issues Committee	Evaluate any proposed issue and listing of securities by PLCs and corporate exercises involving reverse take-overs of PLCs.	<ul style="list-style-type: none"> Tan Sri Zarinah Anwar (Chairman) Datuk Francis Tan Leh Kiah Fazlur Rahman Ebrahim Dato' Gumuri Hussain
3. Take-overs and Mergers Committee	Assess requests for waivers from the mandatory general offer obligation. Evaluate exemptions from provisions of the <i>Malaysian Code on Take-overs and Mergers 2010</i> .	<ul style="list-style-type: none"> Tan Sri Zarinah Anwar (Chairman) Datuk Francis Tan Leh Kiah Dato' Gumuri Hussain Tan Sri Dato' Hasmah Abdullah² Dato' Dr Mohd Irwan Serigar bin Abdullah³
4. Managed Investment Schemes Committee (previously known as Trusts and Investment Management Committee)	Evaluate and approve the establishment of a unit trust or property fund and any other form of collective investment schemes.	<ul style="list-style-type: none"> Tan Sri Zarinah Anwar (Chairman) Fazlur Rahman Ebrahim Tan Sri Mohamed Jawhar Hassan Tan Sri Dato' Hasmah Abdullah² Dato' Dr Mohd Irwan Serigar bin Abdullah³
5. Licensing Committee	Evaluate and approve (or reject) applications for the grant of a new CMSL, together with accompanying CMSRLs, directors, key management personnel and compliance officers. The Committee also considers applications for exemptions from the SC licensing examinations and, deliberates and decides on policies relating to licensing issues.	<ul style="list-style-type: none"> Tan Sri Zarinah Anwar (Chairman) Tan Sri Mohamed Jawhar Hassan Tan Sri Dato' Hasmah Abdullah²
6. Compensation Fund Appellate Committee	Hear appeals arising from the determination of the Compensation Committee of Bursa Malaysia on claims against the Bursa Malaysia Compensation Fund.	<ul style="list-style-type: none"> Datuk Francis Tan Leh Kiah (Chairman) Dato Dr Nik Ramlah Nik Mahmood Datuk Wira Ismail Saleh¹ Tan Sri Mohamed Jawhar Hassan Goh Ching Yin
7. Nomination and Remuneration Committee	Formulate the remuneration package of the Chairman and Deputy Chief Executive and make related recommendations to the Minister of Finance. It also determines the individual remuneration package of the Managing Directors.	<ul style="list-style-type: none"> Fazlur Rahman Ebrahim (Chairman w.e.f. 23 March 2011) Dato' Gumuri Hussain⁴ Datuk Francis Tan Leh Kiah

1 Retired 25 February 2011.

2 Appointed 10 March 2011.

3 Appointed 1 January 2011.

4 Former Chairman.

All Members of the Commission have access to the Commission Secretary who ensures that the members have sufficient information, support and resources to make informed decisions. The Commission Secretary and the various Committee Secretariats keep a full set of minutes of all Commission and Committee meetings, respectively.

ACCOUNTABILITY AND AUDIT

The Chairman is entrusted with the day-to-day administration of the SC as provided by section 4(2) of the SCA. Since 6 February 2008, Managing Directors have been appointed by the Commission to assist the Chairman with day-to-day operations related to the broad areas of

regulation and development. The Management Committee, which is the highest executive body and chaired by the Chairman, meets regularly and is supported by other committees including the Sanctions Committee, the Resources Committee, and the IT Steering Committee.

Risk management and internal control

The Commission considers risk management integral to the successful pursuit of the SC's mission, objectives and goals; and acknowledges its oversight responsibility to ensure the maintenance of sound risk management and internal control systems at the SC.

Accountability for the SC's capacity to manage risks to its mission, objectives and goals rests with the Management Committee. It defines the various roles and responsibilities with regard to risk management throughout the organisation, sets the SC's risk appetite and takes responsibility for shaping and reinforcing the SC's risk culture and establishing sound internal control systems.

More elaborate description of the SC's risk management and internal control systems are provided in the Statement on Internal Control on pages 6-10 to 6-13.

Assurance

Our internal audit function is independent of line operations and functionally, reports directly to the Audit Committee.

Financial reporting

The Commission exercised due care and took reasonable steps to ensure that the financial statements for the year 2011 presented a fair assessment of the SC's financial position and that the requirements of accounting standards were fully met.

Relationship with external auditors

The Commission ensures that there are formal and transparent arrangements for the maintenance of a professional relationship with the external auditors through the Audit Committee. The role of the Audit Committee in relation to the external auditors is stated in the Audit Committee Report.

EXTERNAL STAKEHOLDER AND PUBLIC COMMUNICATION

Effective and ongoing communication with capital market participants is necessary to facilitate the discharge of the SC's responsibilities. We regularly meet our constituents to discuss operational matters and gather feedback on long-term measures for the development of the capital market. All press releases, publications, various guidelines and annual reports are posted on the official website – www.sc.com.my.

The SC has an Investor Affairs and Complaints Department that receives and resolves public complaints.

STATEMENT ON INTERNAL CONTROL

INTRODUCTION

As the statutory regulator of the Malaysian capital market advocating high standards of corporate governance, the SC adopts principles and best practices of corporate governance, which include having a sound system of internal controls to ensure that our operations are aligned towards the achievement of the SC's mission, objectives and goals. Although not subjected to any requirement to make a statement on internal control, the Commission acknowledges and follows the good governance practice.

RESPONSIBILITIES FOR RISK MANAGEMENT AND INTERNAL CONTROL

The Commission affirms its responsibility and accountability for achieving the SC's mission, objectives and goals. Our risk management and internal control systems were established by the Management Committee to ensure that the Commission's operations are in accordance with the Commission's mission, objectives and goals.

The Management Committee is accountable to the Commission for having in place an effective risk management framework and internal control systems. The Audit Committee reviews the SC's financial statements, as well as the adequacy and integrity of internal control systems and the audit activity on behalf of the Commission, as set out in the Audit Committee Charter of the SC. The Audit Committee Report describes the terms of reference of the Audit Committee in greater detail.

RISK MANAGEMENT

Risk management is part of our regular work; examples of risk-based approaches we use include risk-based supervision, strategic enforcement, product and regulatory reviews, market crisis framework, and disaster recovery for IT and facilities. We also integrate these efforts under a single enterprise risk management programme to:

- Give assurance that we are regularly identifying and managing risks to our strategic goals and activities;
- Give a holistic view of risks to help the Management Committee and the Commission set priorities and make well-informed decisions;
- Facilitate information-sharing, work co-ordination and clear line-of-sight, so that we make more efficient use of our resources and avoid duplication of efforts; and
- Provide a common risk assessment approach that aligns the way we define risks and assesses whether issues are unacceptable, tolerable or acceptable.

Through the enterprise risk and business planning processes, we align our work goals, strategies and programmes across the organisation with the key risks in our business environment; arising from our areas of responsibility in the capital market; and concerning operational and resource issues. In addition, we assess the effectiveness of our work programmes, organisational-wide

controls and governance practices in mitigating risks to our business goals, objectives and mission.

We manage enterprise risk through both a bottom-up and a top-down approach. Departments identify and assess risks, and develop mitigation strategies, taking into consideration issues that have cross-functional and organisational-wide relevance. The Management Committee periodically reviews and validates these risks and mitigation strategies, and sets the overall risk tolerance for the organisation. The Commission oversees the effectiveness of risk management, providing high-level guidance and an avenue for challenge on the assessment of strategic risk issues.

INTERNAL AUDIT

The Internal Audit Department assists the Audit Committee in the discharge of its duties and responsibilities. It independently reviews the risk profile and control processes implemented by the SC's management, and reports directly to the Audit Committee on at least a quarterly basis.

The Internal Audit practices are governed by the Internal Audit Charter, which is subjected to periodic review. The Annual Audit Plan is primarily developed using a risk-based audit planning framework which ensures alignment with the SC's objectives and key risk areas. It is subject to feedback from the Management Committee; review and approval by the Audit Committee and is reviewed during the middle of the year for relevancy and possible reprioritisation.

Audit activities for the year are dictated by the approved Annual Audit Plan. Audit engagements are carried out using a participative risk-based audit approach and outcomes of the audit engagements are shared with the Management Committee and tabled to the Audit Committee.

The Audit Committee, among others, oversees the adequacy of the scope, function and resources of the Internal Audit Department.

MONITORING AND REVIEW

The monitoring of the effectiveness of risk management and internal control systems are embedded in the SC's operations. The processes adopted to monitor and review the effectiveness of risk management and internal control systems include:

- The delegation of responsibilities to committees of the Commission through clearly defined terms of reference;
- The Management Committee's representation to the Commission on the control environment of the SC;
- The Management Committee's regular review to discuss operational and strategic issues at senior management level to ensure focus on the achievement of its business plan and goals;
- The SC Business Plan is monitored closely by the Management Committee and reported to the Commission;
- The SC's risk profile is reported to the Commission periodically;
- The Internal Audit's independent assessments on the effectiveness of internal controls in selected areas in accordance with the annual Audit Plan approved by the Audit Committee. The significant issues and recommendations for improvements are highlighted from these assessments to the Management Committee and Audit Committee, and implementation of action plans are monitored and reported periodically; and
- The Audit Committee reviews of the internal control issues identified by Internal Audit, as well as any matters relating to internal controls highlighted by the external auditors in the course of their financial audit of the SC and AOB accounts; and evaluation of the effectiveness and adequacy of the SC's internal control system.

CONTROL ENVIRONMENT

Other key elements encompassing the SC's control environment include:

- An organisation structure with clearly defined responsibilities and delegation of responsibilities to its committees to assist the Commission in performing the SC's 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 Commission;
- 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 Internal Whistleblowing Procedure which was established in 2007 as a safe channel of communication for individuals to expose or report internal wrongdoing or suspected breaches of law within the organisation;
- The *Statement of the SC's Principles and Standards* which was introduced in December 2010 as the SC's commitment to the observance and practice of the highest ethical standards in conducting business with the suppliers, contractors, vendors, consultants and other relevant stakeholders;
- The Conflict of Interest Declaration which is required of staff when faced with a conflict situation;
- The SC policy-making framework which was established in April 2010 to ensure greater accountability, more robust challenge and validation to improve consistency of policies and policy-actions;
- The Policy and Guidelines on Procurement emphasises on 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 also encourages engagement with environmentally and socially responsible vendors;

- The IT User Policy which was established to ensure the effective protection and proper usage of the SC's computer systems. It is a guide for efficient and disciplined IT Department management and provides unambiguous and precise reference for IT Department personnel in carrying out their duties and for users in utilising the computer systems;
- The Records Management Policy which was established to give clear guidance of the standards and procedures that need to be put in place to ensure that records are fit to be used as evidence and/or information by the SC, in carrying out business operations or legal obligations;
- The SC Document Confidentiality Levels which was established in March 2011 to protect classified documents managed by the SC; 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.

REVIEW OF THE STATEMENT BY THE COMMISSION

The Commission acknowledges the representations in this statement and is of the view that the risk management and internal control systems have been adequately reflected. The Commission and the Management Committee will continue to strengthen the internal control environment of the SC, and further enhance our risk management framework.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Internal Control for the inclusion in the SC's annual report for the financial year ended 31 December 2011,

and reported to the Audit Committee that nothing had come to their attention that caused them to believe that the Statement on Internal Control is inconsistent with their understanding of the processes adopted by the Commission.

AUDIT COMMITTEE REPORT

The SC is pleased to present the Audit Committee Report for the financial year ended 31 December 2011.

Members and Meetings

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

- Dato' Gumuri Hussain (Chairman);
- Datuk Francis Tan Leh Kiah (Alternate Chairman);
- Datuk Wira Ismail Salleh (retired 25 February 2011);
- Fazlur Rahman Ebrahim; and
- Tan Sri Dato' Hasmah Abdullah (appointed 10 March 2011).

The Committee convened five 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 committee of the Commission. The Commission Members determine the membership and appoints the Audit Committee members and the Chairman of the Committee.

The Committee meets at least four times a year or as frequently as required and needs a quorum of two. 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 Commission Members' 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:

- i. to assist the Commission in its review of the adequacy and effectiveness of the SC's risk management and internal control systems;
- ii. to consider and recommend the appointment of the external auditor, their remuneration and any issues regarding their performance;
- iii. to review the external auditor's audit scope and plans of audit, including coordination of audit efforts with internal audit;
- iv. to review the accounting policies and practices adopted by the SC in the preparation of its financial statements and integrity of the financial reporting processes;
- v. to review the annual financial statements and make appropriate recommendation(s) to the Commission regarding the adoption of the SC's annual financial statements and the level of disclosure, focusing in particular on:

- compliance with applicable accounting standards;
 - changes in significant accounting policies and practices;
 - significant adjustments arising from the audit; and
 - significant unusual events.
- vi. to support and provide direction to the Internal Audit Department to ensure its effectiveness;
- vii. to consider and review the findings arising from internal audit reports or other internal investigations and responses by the management, and to determine appropriate corrective actions required of the management;
- viii. to review the implementation of all recommendations made by the Internal Audit Department; and
- ix. to 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 2010 prior to presentation to the Commission Members.

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 2010.
- Review and approval of the external audit plan for the financial year ended 31 December 2011. Various audit and accounting issues were discussed at the Audit Committee meetings.

- Recommendation to the Commission to re-appoint the existing external auditors for the financial year ending 31 December 2011.

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.
- Approval to conduct an internal quality assurance review of the internal audit function and consider the outcome of the said review.
- Review the achievement of the 2011 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 2012.
- Review of the SC's annual Statement on Governance (relating to Accountability and Audit) and Statement on Internal Control to be published in the Annual Report 2011.

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 through a risk-based methodology.

The main activities of the internal audit function for the year 2011 included:

- Performed predominantly risk-based audits for the areas identified in the internal audit plan.
- Established the foundation for IT assurance work.
- Undertook a self-assessment on conformance to the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and facilitated the quality assurance review conducted by an internal review team.

- Undertook the foundation work to implement risk control self assessment in the SC, via the involvement in a dedicated project team.

The results of the audits and activities performed by the internal audit function were presented to the Audit Committee for their review. Where applicable, the internal audit function conducted follow-up audits to ensure that Management's corrective actions were implemented appropriately and provided updates on the status of the key actions to the Audit Committee. In addition, the Internal Audit Department played an advisory role in the course of performing its audit activities.

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

as at 31 December 2011

	Note	2011 RM'000	2010 RM'000
Non-current assets			
Property, plant and equipment	3	201,646	199,825
Long term receivables	4	20,539	21,515
Other investments	5	167,739	188,729
		<hr/> 389,924 <hr/>	<hr/> 410,069 <hr/>
Current assets			
Trade and other receivables	6	23,358	25,527
Cash and cash equivalents	7	576,958	537,537
		<hr/> 600,316 <hr/>	<hr/> 563,064 <hr/>
Total assets of the SC		990,240	973,133
Total assets of the Audit Oversight Board (AOB)	8	3,247	4,549
Total assets		<hr/> <hr/> 993,487 <hr/> <hr/>	<hr/> <hr/> 977,682 <hr/> <hr/>
Reserves			
Accumulated surplus		802,247	782,924
BMSB compensation fund reserve	9	100,000	100,000
Human Capital Development (HCD) fund reserve	10	5,610	8,110
AOB reserve	8	2,624	4,450
Total reserves		<hr/> 910,481 <hr/>	<hr/> 895,484 <hr/>
Non-current liability			
Retirement benefits	11	33,589	29,839
Current liabilities			
Other payables and accruals	12	48,794	52,260
Total liabilities of the SC		82,383	82,099
Total liabilities of the AOB	8	623	99
		<hr/> 83,006 <hr/>	<hr/> 82,198 <hr/>
Total reserves and liabilities		<hr/> <hr/> 993,487 <hr/> <hr/>	<hr/> <hr/> 977,682 <hr/> <hr/>

The notes on pages 6-21 to 6-38 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

	Note	2011 RM'000	2010 RM'000
Income			
Levies		106,964	94,755
Fees and charges		22,902	29,571
Financing income on:			
– Fixed deposits and other investments		24,483	23,065
– Staff loan		2,924	3,456
Licence fee		2,224	2,439
Other income		1,075	957
		<u>160,572</u>	<u>154,243</u>
Less: Expenditure			
Staff costs	13	99,620	91,451
Administrative expenses		30,645	31,948
Depreciation of property, plant and equipment	3	10,411	11,172
Rental expenses		573	423
HCD expense	10	2,500	1,890
		<u>143,749</u>	<u>136,884</u>
Net surplus of the SC		16,823	17,359
Net deficit of the AOB		(1,826)	(550)
Income before tax		<u>14,997</u>	<u>16,809</u>
Income tax expense	18	–	–
Total comprehensive income for the year		<u><u>14,997</u></u>	<u><u>16,809</u></u>

The notes on pages 6-21 to 6-38 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

	BMSB compensation fund reserve RM'000	HCD fund reserve RM'000	Accumulated surplus RM'000	AOB reserve RM'000	Total RM'000
At 1 January 2010	100,000	10,000	768,675	—	878,675
Total comprehensive income for the year	—	—	16,809	—	16,809
HCD charge for the year	—	(1,890)	1,890	—	—
Transfer of accumulated surplus to AOB reserve	—	—	(5,000)	5,000	—
Transfer of net deficit of the AOB to AOB reserve	—	—	550	(550)	—
At 31 December 2010	100,000	8,110	782,924	4,450	895,484
Total comprehensive income for the year	—	—	14,997	—	14,997
HCD charge for the year	—	(2,500)	2,500	—	—
Transfer of net deficit of the AOB to AOB reserve	—	—	1,826	(1,826)	—
At 31 December 2011	100,000	5,610	802,247	2,624	910,481
	Note 9	Note 10		Note 8	

The notes on pages 6-21 to 6-38 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2011

	Note	2011 RM'000	2010 RM'000
Cash flows from operating activities			
Income before tax		14,997	16,809
Adjustments for:			
Depreciation of property, plant and equipment		10,411	11,172
Provision for retirement benefits		4,030	3,686
Property, plant and equipment written off		1	–
Interest income		(24,483)	(23,065)
Gain on disposal of property, plant and equipment		–	(183)
Impairment loss on property, plant and equipment		31	–
		<hr/>	<hr/>
Operating surplus before working capital changes		4,987	8,419
Changes in working capital:			
Trade and other receivables		4,573	(5,694)
Other payables and accruals		(2,942)	(3,577)
		<hr/>	<hr/>
Net cash generated from/(used in) operating activities		6,618	(852)
		<hr/>	<hr/>
Cash flows from investing activities			
Purchase of property, plant and equipment		(12,264)	(5,004)
Proceeds from long term receivables		934	4,373
Proceeds from disposal of property, plant and equipment		–	184
Proceeds from/(additional) investments in Malaysian Government Securities		20,990	(48,948)
Interest income		22,115	28,268
Decrease in restricted deposits		4,858	7,245
Retirement benefits paid		(280)	(230)
		<hr/>	<hr/>
Net cash generated from/(used in) investing activities		36,353	(14,112)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		42,971	(14,964)
		<hr/>	<hr/>
Cash and cash equivalents at beginning of year		506,467	521,431
		<hr/>	<hr/>
Cash and cash equivalents at end of year		549,438	506,467
		<hr/>	<hr/>
Cash and cash equivalents comprise:			
Cash and bank balances	7	3,022	1,392
Deposits placed with licensed banks	7	536,936	499,145
Deposits placed with a scheduled institution	7	37,000	37,000
AOB cash and bank balances	8	3,117	4,425
		<hr/>	<hr/>
		580,075	541,962
Less: Restricted deposits		(30,637)	(35,495)
		<hr/>	<hr/>
		549,438	506,467
		<hr/>	<hr/>

The notes on pages 6-21 to 6-38 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

The Securities Commission Malaysia (SC) is the regulatory agency for the regulation and development of capital markets. The SC has direct responsibility for supervising and monitoring the activities of market institutions including the exchanges and clearing houses and regulating all persons licensed under the *Capital Markets and Services Act 2007*. The address of the SC is:

3, Persiaran Bukit Kiara
Bukit Kiara
50490 Kuala Lumpur, Malaysia

These financial statements were approved by the Commission on 20 January 2012.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the SC have been prepared in accordance with Financial Reporting Standards (FRSs) and accounting principles generally accepted in Malaysia.

The SC shall apply the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) once they become effective:

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2011

- IC 19, *Extinguishing Financial Liabilities with Equity Instruments*
- Amendments to IC 14, *Prepayments of a Minimum Funding Requirement*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2012

- FRS 124, *Related Party Disclosures* (revised)
- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- Amendments to FRS 7, *Financial Instruments: Disclosures – Transfers of Financial Assets*
- Amendments to FRS 112, *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2012

- Amendments to FRS 101, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013

- FRS 9, *Financial Instruments* (2009)
- FRS 9, *Financial Instruments* (2010)
- FRS 10, *Consolidated Financial Statements*
- FRS 11, *Joint Arrangements*
- FRS 12, *Disclosure of Interests in Other Entities*
- FRS 13, *Fair Value Measurement*
- FRS 119, *Employee Benefits* (2011)
- FRS 127, *Separate Financial Statements* (2011)
- FRS 128, *Investments in Associates and Joint Ventures* (2011)
- IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*

The SC's financial statements for annual period beginning on 1 January 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards (MFRSs) issued by the MASB and International Financial Reporting Standards (IFRSs). As a result, the SC will not be adopting the above FRSs, Interpretations and amendments.

The change of the financial reporting framework is not expected to have any significant impact on the financial position and performance of the SC.

(b) Basis of measurement

The financial statements of the SC 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 judgments

The preparation of financial statements in conformity with FRSs requires management to make judgments, 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 judgments in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the SC, unless otherwise stated.

(a) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the SC becomes a party to the contractual provisions of the instrument.

A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

(ii) Financial instrument categories and subsequent measurement

The SC categorises financial instruments as follows:

Financial assets**(a) Held-to-maturity investments**

Held-to-maturity investments category comprises debt instruments that are quoted in an active market with the intention 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

Loans and receivables category comprises receivables and cash and cash equivalents.

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(f)].

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

(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 the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. 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 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 or 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 stated at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts, if any, of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within “other income” and “other expenses” respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing part 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 part will flow to the SC and its cost can be measured reliably. 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 calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the SC will obtain ownership by the end of the lease term.

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

Leasehold land	Over the leased period of 99 years expiring in 2094
Buildings	2%
Office equipment, furniture and fittings	10%–20%
Computer and application systems	33 1/3%
Motor vehicles	20%

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate at the reporting date.

(c) Receivables

Trade and other receivables are categorised and measured as loans and receivables in accordance with Note 2(a).

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, balances and deposits with banks which have an insignificant risk of changes in value with original maturities of six months or less. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of restricted deposits.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with Note 2(a).

(e) Other investments

Investments in Malaysian Government Securities are categorised and measured as held-to-maturity investments in accordance with Note 2(a).

(f) 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.

(ii) Non-financial assets

The carrying amounts of non-financial 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 generate cash inflows from continuing use that is largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss is recognised if the carrying amount of an asset exceeds its 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 year in which the reversals are recognised.

(g) Revenue

(i) Levies and licence fees

Levies and licence fees income are recognised in profit or loss on an accrual basis.

(ii) Fees and charges

Fees and charges income are recognised in profit or loss when payments have been received.

(iii) Financing income

Financing income received from fixed deposits and other investments are recognised as it accrues using the effective interest method in profit or loss.

(h) Employee benefits

(i) Short term employee benefits

Wages and salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the SC.

A liability is recognised for the amount expected to be paid under short-term cash bonus 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) Defined contribution plans

As required by law, eligible employers in Malaysia make contributions to the Employees Provident Fund (EPF). Such contributions are recognised as an expense in profit or loss as incurred.

(iii) Post-retirement medical benefits

The SC provides post-retirement medical benefits to eligible employees engaged prior to 1 January 2003. The SC's obligations under this scheme are determined based on actuarial valuation (conducted every three years) where the amount of benefit that employees have earned in return for their service in the current and prior years is estimated. That benefit is determined by the actuaries using the Projected Unit Credit actuarial method. Actuarial gains and losses are recognised as income or expense over the expected average remaining working lives of the participating employees when the cumulative unrecognised actuarial gains or losses for the scheme exceed 10% of the higher of the present value of the benefit obligation and the fair value of plan assets. Past service cost is recognised immediately to the extent that benefits are already vested, and otherwise, is amortised on a straight line basis over the average period until the amended benefits become vested.

3. Property, plant and equipment

Cost	Leasehold land RM'000	Buildings RM'000	Office equipment, furniture and fittings RM'000	Computer and application systems RM'000	Motor vehicles RM'000	Capital- work-in- progress RM'000	Total RM'000
At 1 January 2010	9,154	232,387	90,578	74,914	1,791	4,363	413,187
Additions	–	–	766	208	323	3,707	5,004
Disposal	–	–	–	–	(864)	–	(864)
Write-off	–	–	–	(5,054)	–	–	(5,054)
Transfer (to)/from	–	–	60	5,106	–	(5,166)	–
At 31 December 2010 or 1 January 2011	9,154	232,387	91,404	75,174	1,250	2,904	412,273
Additions	–	–	856	2,380	–	9,028	12,264
Write-off	–	–	(1,442)	(19,267)	–	–	(20,709)
Transfer (to)/from	–	–	1,730	1,106	–	(2,836)	–
At 31 December 2011	9,154	232,387	92,548	59,393	1,250	9,096	403,828

3. Property, plant and equipment (continued)

	Note	Leasehold land RM'000	Buildings RM'000	Office equipment, furniture and fittings RM'000	Computer and application systems RM'000	Motor vehicles RM'000	Capital- work-in- progress RM'000	Total RM'000
Depreciation and impairment loss								
At 1 January 2010		1,382	49,072	86,784	68,676	1,279	–	207,193
Depreciation for the year	14	92	4,648	1,425	4,800	207	–	11,172
Disposal		–	–	–	–	(863)	–	(863)
Write-off		–	–	–	(5,054)	–	–	(5,054)
At 31 December 2010 or 1 January 2011:								
Accumulated depreciation		1,474	53,641	88,209	68,422	623	–	212,369
Accumulated impairment loss		–	79	–	–	–	–	79
Depreciation for the year	14	1,474	53,720	88,209	68,422	623	–	212,448
Impairment loss	14	93	4,648	1,523	3,935	212	–	10,411
Write-off		–	31	–	–	–	–	31
		–	–	(1,442)	(19,266)	–	–	(20,708)
At 31 December 2011:								
Accumulated depreciation		1,567	58,289	88,290	53,091	835	–	202,072
Accumulated impairment loss		–	110	–	–	–	–	110
Carrying amounts								
At 1 January 2010		1,567	58,399	88,290	53,091	835	–	202,182
At 31 December 2010		7,772	183,315	3,794	6,238	512	4,363	205,994
At 31 December 2011		7,680	178,667	3,195	6,752	627	2,904	199,825
		7,587	173,988	4,258	6,302	415	9,096	201,646

4. Long term receivables

	2011 RM'000	2010 RM'000
Loan to staff	26,673	27,463
Less: Unearned profit		
– Islamic financing on house and car	(3,580)	(3,889)
	<u>23,093</u>	<u>23,574</u>
Amount due within 12 months (Note 6)		
– Loan to staff	<u>2,554</u>	<u>2,059</u>
Amount due after 12 months		
– Loan to staff	<u>20,539</u>	<u>21,515</u>

Loan to staff relates to Islamic and conventional housing loans, Islamic and conventional motor vehicle loans, computer loans and study loans. The housing and motor vehicle loans are secured over the properties and motor vehicle of the borrowers respectively. The loans are repayable over a maximum period of 25 years, seven years, five years and four years respectively. The rate charged on these loans ranges from 2% to 4% per annum (2010: 2% to 4% per annum).

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

	2011 RM'000	2010 RM'000
Within one year	2,554	2,059
More than one year and up to five years	7,368	7,227
More than five years	13,171	14,288
	<u>23,093</u>	<u>23,574</u>

5. Other investments

	2011 RM'000	2010 RM'000
Held-to-maturity investments		
– Malaysian Government Securities	<u>167,739</u>	<u>188,729</u>
Market value:		
– Malaysian Government Securities	<u>170,909</u>	<u>191,686</u>

6. Trade and other receivables

	2011 RM'000	2010 RM'000
Loan to staff (Note 4)	2,554	2,059
Levies	8,252	11,503
Income receivable	10,648	8,280
Other receivables	703	1,841
Deposit and prepayments	1,237	1,907
	<u>23,394</u>	<u>25,590</u>
Less: Allowance for doubtful debts		
– Loan to staff	(36)	(63)
	<u>23,358</u>	<u>25,527</u>

7. Cash and cash equivalents

	2011 RM'000	2010 RM'000
Cash and bank balances	3,022	1,392
Deposits placed with licensed banks	536,936	499,145
Deposits placed with a scheduled institution	37,000	37,000
	<u>576,958</u>	<u>537,537</u>

The deposits placed with licensed banks and scheduled institution earned income at rates ranging from 2.75% to 3.7% (2010: 2.5% to 3.5%) and for periods ranging from six months to 24 months.

Included in deposits placed with licensed banks are amounts restricted for brokers' security deposits of approximately RM15.4 million (2010: RM17.2 million), restitution of eligible investors from Swisscash transactions of RM0.8 million (2010: RM3.8 million), stockbroking industry development of RM14.0 million (2010: RM14.0 million) and other miscellaneous deposits of RM0.4 million (2010: RM0.4 million).

8. Audit Oversight Board

8.1 On 1 April 2010, the SC established the AOB under section 31C of the *Securities Commission Act 1993* (the 'Act'). The AOB was established for the purposes set out in section 31B of the Act, namely:

- a. to promote and develop an effective and robust audit oversight framework in Malaysia,
- b. to promote confidence in the quality and reliability of audited financial statements in Malaysia, and
- c. to regulate auditors of public interest entities.

To facilitate the abovementioned purposes, a fund known as the Audit Oversight Board Fund (the 'Fund') was established under section 31H of the Act. The Fund is administered by the SC. The SC provides administrative and accounting support to the Fund and the accounts are kept separately from the accounts of the SC in accordance with section 31L(5) of the Act.

- 8.2 The financial statements of the AOB, which are annexed to these financial statements, are prepared in accordance with Financial Reporting Standards and generally accepted accounting principles in Malaysia.

The assets and liabilities of the AOB are as follows:

	2011 RM'000	2010 RM'000
Audit Oversight Board reserve		
– Fund from the SC	5,000	5,000
– Accumulated deficit	(2,376)	(550)
	<u>2,624</u>	<u>4,450</u>
Represented by:		
Other receivables	130	124
Cash and cash equivalents	3,117	4,425
Total assets	<u>3,247</u>	<u>4,549</u>
Total liabilities		
Other payables and accruals	(623)	(99)
	<u>2,624</u>	<u>4,450</u>

The details of total assets, total liabilities and income and expenditure of the AOB are disclosed in the audited financial statements of the AOB which are annexed to these financial statements.

9. BMSB compensation fund reserve

This represents an amount of RM100 million (2010: RM100 million) allocated from the accumulated surplus for the Bursa Malaysia Securities Bhd (BMSB) Compensation Fund.

10. Human Capital Development fund reserve

This represents an amount of RM5.6 million (2010: RM8.1 million) allocated from the accumulated surplus for the SC's long-term commitment to support the human capital development in the financial services industry. The amount will be utilised over a period of five years effective year 2008.

During the year, an amount of RM2.5 million has been charged to the statement of comprehensive income.

11. Retirement benefits

The amounts recognised in the statement of financial position are as follows:

Post-retirement medical benefits

	2011 RM'000	2010 RM'000
Present value of unfunded obligations	35,744	31,994
Unrecognised actuarial losses	(2,155)	(2,155)
Net liability	<u>33,589</u>	<u>29,839</u>

Movements in the present value of defined benefit obligations

Defined benefit obligations at 1 January	29,839	26,383
Benefits paid	(280)	(230)
Expense recognised in profit or loss	4,030	3,686
Defined benefit obligations at 31 December	<u>33,589</u>	<u>29,839</u>

Expense recognised in profit or loss

Current service cost	1,917	1,806
Interest on obligation	2,113	1,880
Net benefit expense	<u>4,030</u>	<u>3,686</u>

The expense is recognised in the following line item in the statement of comprehensive income:

	2011 RM'000	2010 RM'000
Staff costs	<u>4,030</u>	<u>3,686</u>

Principal actuarial assumptions used at the reporting date (expressed as weighted averages):

	2011	2010
Discount rate	6.6%	6.6%
Price inflation	3.5%	3.5%
Medical cost inflation	<u>5.0%</u>	<u>5.0%</u>

Discount rate is based on long-term high quality Malaysian corporate bonds and government bonds of 15 years.

Historical information

	2011 RM'000	2010 RM'000	2009 RM'000	2008 RM'000	2007 RM'000
Present value of the defined benefit obligation	35,744	31,994	28,538	22,755	19,863
Fair value of plan assets	—	—	—	—	—
Deficit in the plan	35,744	31,994	28,538	22,755	19,863

12. Other payables and accruals

	2011 RM'000	2010 RM'000
Other payables	25,287	28,350
Accruals	8,150	6,752
Brokers' security deposits	15,357	17,158
	<u>48,794</u>	<u>52,260</u>

13. Staff costs

	2011 RM'000	2010 RM'000
Remuneration, bonus, staff medical, staff training and overtime	83,574	76,946
Employees Provident Fund	12,016	10,819
Retirement benefits	4,030	3,686
	<u>99,620</u>	<u>91,451</u>

14. Income before tax

	2011 RM'000	2010 RM'000
Income before tax is arrived at after charging:		
Auditors' remuneration:		
– Audit services	70	63
– Other services	10	5
Executive member:		
– Emoluments	1,795	1,288
Impairment loss on receivables	3	—
Non-executive members' allowance	366	311
Rental expense:		
– Property	228	230
– Plant and equipment	345	193

	2011 RM'000	2010 RM'000
Property, plant and equipment:		
– Depreciation	10,411	11,172
– Impairment loss	31	–
– Write-off	1	–
	<u> </u>	<u> </u>
And crediting:		
Gain on disposal of property, plant and equipment	–	183
Reversal of impairment loss on receivables	30	1,699
	<u> </u>	<u> </u>

15. Related parties

The Chairman of the SC is also the Chairman of Securities Industry Development Corporation (“SIDC”) which is a company limited by guarantee. For the financial year ended 31 December 2011, the SIDC had incurred RM264,000 (2010: RM256,000), being management fees paid to the SC, out of which RM22,000 (2010: RM22,000) is still outstanding from SIDC. In addition, the SC had made a grant of RM2.5 million to SIDC in 2011 (2010: RM3 million).

16. Capital commitments

	2011 RM'000	2010 RM'000
<i>Capital expenditure commitments</i>		
Plant and equipment		
<i>Approved but not contracted for:</i>		
Within one year	<u>16,310</u>	<u>12,010</u>

17. Financial instruments

17.1 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) Other financial liabilities measured at amortised cost (OL).

	Carrying amount RM'000	L&R/ (OL) RM'000	HTM RM'000
2011			
Financial assets			
Long term receivables	20,539	20,539	–
Other investments	167,739	–	167,739
Trade and other receivables	23,358	23,358	–
Cash and cash equivalents	576,958	576,958	–
	<u>788,594</u>	<u>620,855</u>	<u>167,739</u>

	Carrying amount RM'000	L&R/ (OL) RM'000	HTM RM'000
Financial liabilities			
Other payables and accruals	(48,794)	(48,794)	–
2010			
Financial assets			
Long term receivables	21,515	21,515	–
Other investments	188,729	–	188,729
Trade and other receivables	25,527	25,527	–
Cash and cash equivalents	537,537	537,537	–
	773,308	584,579	188,729
Financial liabilities			
Other payables and accruals	(52,260)	(52,260)	–

17.2 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

17.3 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. Fixed deposits are placed with licensed banks and with a scheduled institution. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The ageing of receivables as at the end of the reporting year was:

	Gross RM'000	Individual impairment RM'000	Net RM'000
2011			
Not past due	41,933	–	41,933
Past due 1 – 30 days	–	–	–
Past due 31 – 90 days	115	–	115
Past due 91 – 180 days	–	–	–
Past due more than 180 days	648	(36)	612
	42,696	(36)	42,660

	Gross RM'000	Individual impairment RM'000	Net RM'000
2010			
Not past due	44,460	–	44,460
Past due 1 – 30 days	–	–	–
Past due 31 – 90 days	76	–	76
Past due 91 – 180 days	–	–	–
Past due more than 180 days	662	(63)	599
	45,198	(63)	45,135

The net receivables that are past due, are not being impaired as these receivables are secured over residential properties with total fair value amounting to RM1.6 million.

The fair values of these collateralised properties are determined using the comparison method based on professional valuation.

The movements in the allowance for impairment losses of receivables during the financial year were:

	2011 RM'000	2010 RM'000
At 1 January	63	1,762
Impairment loss recognised	3	–
Impairment loss reversed	(30)	(1,699)
At 31 December	36	63

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 a credit rating equal to or better than 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. The maximum exposure to credit risk is represented by the carrying amounts in the statement of financial position.

17.4 Liquidity risk

Liquidity risk is the risk that the SC will not be able to meet our 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 our operations and to mitigate the effects of fluctuations in cash flows.

Maturity analysis

The table below summarises the maturity profile of the SC's financial liabilities as at the end of the reporting period based on undiscounted contractual cash flow.

	Carrying amount RM'000	Contractual cash flow RM'000	Under 1 year RM'000
2011			
Financial liabilities			
Other payables and accruals	48,794	48,794	48,794
2010			
Financial liabilities			
Other payables and accruals	52,260	52,260	52,260

17.5 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.

17.5.1 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:

	2011 RM'000	2010 RM'000
Fixed rate instruments		
Financial assets	576,958	537,537

Interest rate risk sensitivity analysis***Fair value sensitivity analysis for fixed rate instruments***

The SC does not account for any fixed rate financial assets at fair value through profit or loss, and the SC does not designate derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

17.6 Fair value

In respect of cash and cash equivalents, trade and other receivables and other payables and accruals, the carrying amounts approximate fair value due to the relatively short-term nature of these financial instruments.

18. Taxation

The SC was granted approval from the Minister of Finance to be exempted from taxation with effect from Year Assessment (YA) 2007 onwards.

19. 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. The 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.

Statement by Commission Members

In the opinion of the members, the financial statements set out on pages 6-17 to 6-38 are drawn up in accordance with Financial Reporting Standards and accounting principles generally accepted in Malaysia so as to give a true and fair view of the financial position of the Securities Commission Malaysia as at 31 December 2011 and of its comprehensive income and cash flows for the year then ended.

On behalf of the Commission Members:



Tan Sri Zarinah Anwar
Chairman



Dato' Gumuri Hussain
Member

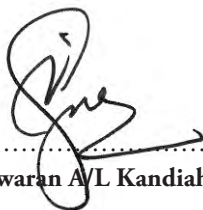
Kuala Lumpur,

Date: 20 January 2012

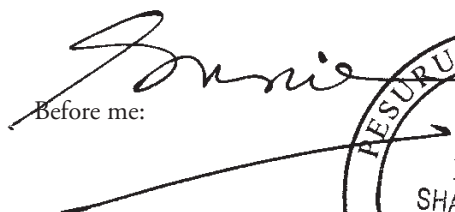
Statutory Declaration

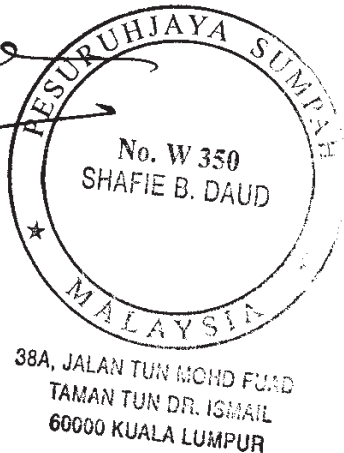
I, Vignaswaran A/L Kandiah, the officer primarily responsible for the financial management of the Securities Commission Malaysia, do solemnly and sincerely declare that the financial statements set out on pages 6-17 to 6-38 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the *Statutory Declarations Act, 1960*.

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur on 20 January 2012.



.....
Vignaswaran A/L Kandiah

Before me: 



Independent auditors' report to the Commission Members of Securities Commission Malaysia

Report on the Financial Statements

We have audited the financial statements of the Securities Commission Malaysia which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 6-17 to 6-38.

Commission Members' Responsibility for the Financial Statements

The Commission Members are responsible for the preparation of these financial statements that give a true and fair view in accordance with Financial Reporting Standards in Malaysia, and for such internal control as the Commission Members determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material mis-statement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material mis-statement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Securities Commission Malaysia's preparation of the financial statements that give a true and fair view 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 Securities Commission Malaysia's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Commission Members, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Securities Commission Malaysia as at 31 December 2011, and of its comprehensive income and cash flows for the year then ended in accordance with Financial Reporting Standards in Malaysia.

Other Matters

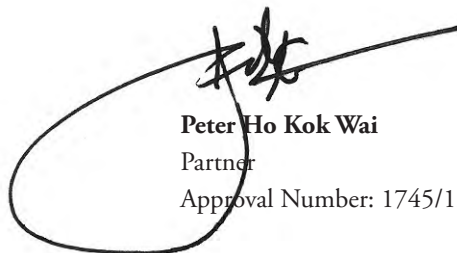
This report is made solely to the Commission Members, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.



KPMG

Firm Number: AF 0758

Chartered Accountants



Peter Ho Kok Wai

Partner

Approval Number: 1745/12/13(J)

Petaling Jaya, Malaysia

Date: 20 January 2012

CORPORATE PROPOSALS

EQUITY

The SC received a total of 52 equity applications in 2011, an increase of 24% from the 42 applications received in 2010. Together with eight applications brought forward from 2010, the year saw a total of 60 applications submitted for consideration. There were 41 applications considered, of which 33 were approved, six rejected and two returned. Another 10 applications were withdrawn, leaving nine to be carried forward to 2012 (Table 1).

Of the 33 approvals, 14 were for initial public offerings (IPOs) on the Main Market of Bursa Malaysia, five for restructuring/mergers and acquisitions resulting in a significant change in the business direction of the affected listed companies, two for transfer of listing from the ACE

Market to the Main Market and 12 for offering of securities and dividend-in-specie (Table 2).

The 14 IPOs for the Main Market approved in 2011 are expected to raise total proceeds of RM6.6 billion from the market (Table 3). Among the noteworthy IPOs approved in terms of market capitalisation were Bumi Armada Bhd, MSM Malaysia Holdings Bhd and UOA Development Bhd.

PROSPECTUSES

In 2011, the SC received 78 new prospectuses for registration, comprising 40 public offering prospectuses and 38 abridged prospectuses. The 40 public offering

Table 1
Status of equity applications

Applications	2011	2010
Brought forward from the previous year	8	21
Received during the year	52	42
Total for consideration	60	63
Approved during the year	(33)	(39)
Rejected during the year	(6)	(3)
Returned during the year	(2)	(8)
Total considered during the year	(41)	(50)
Withdrawn during the year	(10)	(5)
Carried forward to the next year	9	8 ¹

Note:

¹ Includes two applications which were deferred.

Table 2

Equity applications considered by type of proposals

Type of proposals	Approved		Rejected		Returned		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
IPO on Main Market:								
– Domestic companies	13	22	4	–	1	4	18	26
– Foreign companies	1	4	–	1	–	2	1	7
Subtotal	14	26	4	1	1	6	19	33
Restructuring/mergers and acquisitions	5	–	1	2	–	1	6	3
Cross listing of Malaysian companies	–	2	–	–	–	–	–	2
Transfer from ACE Market to Main Market	2	5	1	–	–	1	3	6
Others ¹	12	6	–	–	1	–	13	6
TOTAL	33	39	6	3	2	8	41	50

¹ Comprising proposals for offering of securities and dividend-in-specie.

Table 3

Amount of funds to be raised from approved IPOs

Amount to be raised	(RM million)	
	2011	2010
By issuers	4,063	4,458
By offerors	2,535	8,984
TOTAL	6,598	13,442

prospectuses received in 2011 comprised 24 for the Main Market and 16 for the ACE Market, as compared to 47 public offering prospectuses received in 2010 comprising 24 for the Main Market and 23 for the ACE Market. The 38 abridged prospectuses received in 2011 comprised 32 for the Main Market and six for the ACE Market, as compared to 41 abridged prospectuses received in 2010 comprising 34 for the Main Market and seven for the ACE Market. Together with the 28 public offering prospectuses pending registration at the end of 2010, there were 106 prospectuses for registration in 2011. Of these, 63 were registered, 26 were withdrawn/returned and 17 were pending registration at the end of 2011 (Table 4).

PRIVATE DEBT SECURITIES

The SC received a total of 98 applications for issuances of private debt securities (PDS) in 2011, an increase

of 63% from the 60 applications received in 2010. Together with one application brought forward from 2010, there were 99 applications for consideration in 2011, of which 91 (or 92%) were approved, three were returned, two were withdrawn and the remaining three were carried forward to 2012. The 91 applications approved comprised 101 PDS issues (Table 5).

Of the 101 issues approved, 85 (or 84%) were denominated in ringgit with a total nominal value of up to RM112.3 billion which is a 77% increase from 2010. The marked increase was due largely to the increase in sukuk issues which more than doubled to RM78.9 billion in 2011 compared to RM38.3 billion in the previous year. Out of the total nominal value approved in 2011, 70.2% was from sukuk issues, 26.6% from conventional PDS issues and the remaining 3.2% from facilities which allow the issuance of a combination of sukuk and conventional notes. (Table 6) Included in the 101 PDS issues approved

Table 4
Status of equity prospectuses

	2011			2010		
	Prospectus	Abridged Prospectus	Total	Prospectus	Abridged Prospectus	Total
Balance brought forward	28	–	28	42	1	43
Received during the year	40	38	78	47	41	88
Total	68	38	106	89	42	131
Less:						
Prospectus registered	(26)	(37)	(63)	(33)	(42)	(75)
Withdrawn/returned	(26)	–	(26)	(28)	–	(28)
Pending registration	16	1	17	28	–	28

Table 5
Status of PDS applications

Applications	2011	2010
Brought forward from the previous year	1	3
Received during the year	98	60
Total for consideration	99	63
Approved during the year	(91) ¹	(61) ²
Rejected during the year	–	–
Returned during the year	(3)	–
Total considered during the year	(94)	(61)
Withdrawn during the year	(2)	(1)
Carried forward to the next year	3	1

Note:

¹ 91 applications comprising 85 ringgit-denominated and 16 foreign currency-denominated PDS issues.

² 61 applications comprising 59 ringgit-denominated and nine foreign currency-denominated PDS issues.

were asset-backed securities which also showed an increase in terms of nominal value from RM1.8 billion in 2010 to RM3.1 billion in 2011.

37.6% of the total number of issues approved had tenures of between one and seven years, another 37.6% had tenures of between eight and 15 years and the remaining 24.8% had tenures of more than 15 years. (Chart 1)

A total of 82 ratings (based on initial rating) were assigned by credit rating agencies (CRAs) to approved ringgit-denominated PDS issues. There were 13 issues with short-term ratings of 'P1/MARC-1', 66 with long-term ratings of between 'AAA' and 'BBB' and three with long-term ratings of between 'BB' and 'D'. There were

Chart 1
Tenure of approved ringgit-denominated PDS issues

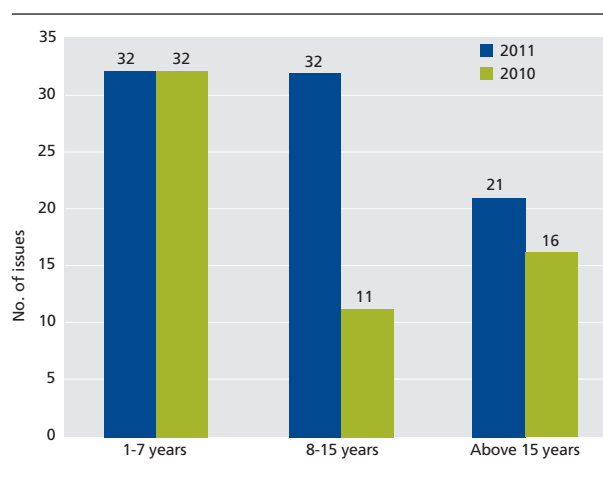


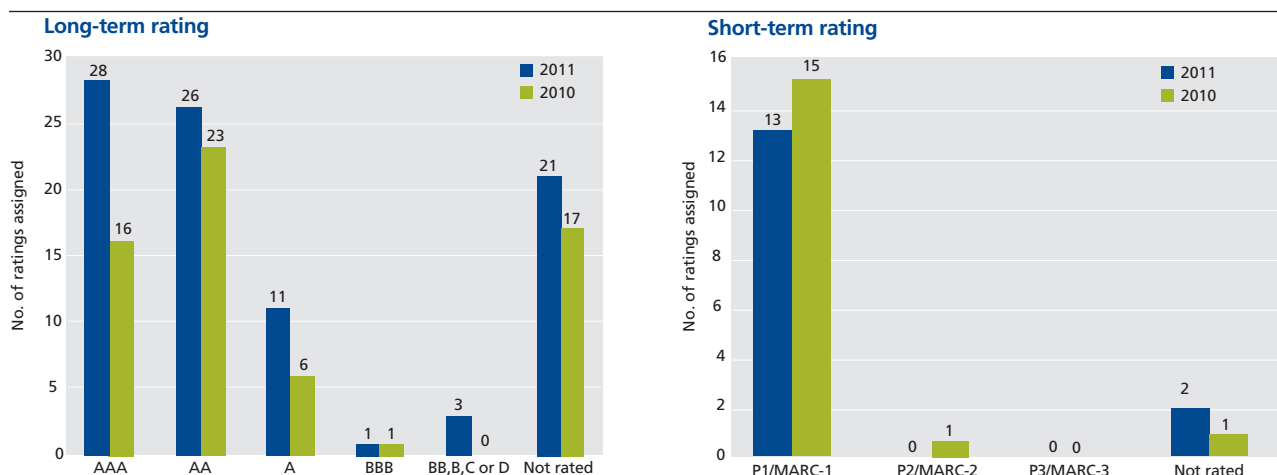
Table 6

Approved ringgit-denominated PDS issues

Type of issues	2011		2010	
	No. of issues	Amount (RM million)	No. of issues	Amount (RM million)
Conventional PDS				
– Commercial papers/Medium-term notes	26	27,043	17	16,005
– Bonds	2	800	11	7,025
– Loan stocks	12	2,084	5	225
Subtotal	40	29,927	33	23,255
Sukuk				
– Islamic commercial papers/Islamic medium-term notes	36	75,665	21	34,390
– Islamic bonds	8	3,238	4	3,938
Subtotal	44	78,903	25	38,328
Combination of conventional PDS and sukuk				
– Commercial papers/Medium-term notes	1	3,500	1	2,000
TOTAL	85	112,330	59	63,583

Chart 2

Rating summary of approved ringgit-denominated PDS issues



Note: A PDS issue may be assigned more than one credit rating (e.g. for commercial paper/medium-term note programmes, both short-term rating accorded for commercial papers and long-term rating for medium-term notes are taken into account).

23 issues not required to be rated by CRAs as allowed under the *Private Debt Securities Guidelines* and *Islamic Securities Guidelines* (Chart 2).

The SC also approved 16 foreign currency-denominated PDS issues in 2011, comprising 10 sukuk and two conventional PDS by foreign issuers (as part of global offerings to investors in international capital markets and institutional investors in Malaysia) and four conventional PDS by Malaysian issuers.

TAKE-OVERS AND MERGERS

The SC considered a total of 122 applications relating to the *Malaysian Code on Take-overs and Mergers 2010* (TOM Code) in 2011, a decrease of 18.7% from 150 applications considered in 2010. The 2010 Code no longer required the appointment of independent advisers to be approved by the SC, reflecting the SC's commitment to further facilitate the efficiency of take-over transactions. This led to a decline in the number of applications.

Table 7

Applications considered under the *Malaysian Code on Take-overs and Mergers 2010*

Type of applications	2011	2010 [^]
Clearance of offer documents	20	27
Exemption from mandatory offer obligation	26	22
Clearance of independent advice circulars	36	38
Appointment of independent advisers ¹	–	42
Others ²	40	21
TOTAL	122	150

Note:

¹ The 2010 Code no longer requires the appointment of independent advisers to be approved by the SC.² Includes extensions of time, rulings, waivers from provisions of the TOM Code and other ancillary applications.[^] Certain comparable figures for 2010 have been reclassified to conform with the current year's presentation.

Of the 122 applications considered, 20 were for clearance of offer documents, which showed a decrease from the 27 offer documents cleared in 2010. There was a slight increase in the number of applications for exemptions from mandatory offer obligations from 22 previously to 26 in 2011. The remaining applications were in relation to extensions of time, requests for rulings, and other ancillary matters.

The 20 offers represented a combined offer value of RM3.88 billion. The largest take-over offers in terms of offer value were the voluntary offer by Nikvest Sdn Bhd and others for MTD Capital Bhd valued at RM1.3 billion followed by MBM Resources Bhd's offer for Hirotako Holdings Bhd valued at RM412.5 million.

PROPERTY VALUATION

The number of public companies undertaking corporate proposals which involved the SC reviewing property asset valuations increased from 11 in 2010 to 19 in 2011. The proposals involved 129 valuation reports and 76 valuation certificates for property assets, an increase

of 55% over 2010, with a total market value of RM13.7 billion.

Out of the 19 corporate proposals involving property asset valuations, IPOs took the lead at 63% with seven IPOs on the Main Market, including two by real estate investment trusts (REITs), and five IPOs on the ACE Market. This was followed by acquisitions by listed REITs at 21% and restructuring/mergers and acquisitions resulting in a significant change in the business direction of the affected listed companies at 16%. The largest property asset valuation reviewed in the year was for the IPO of Pavilion REIT which involved the Pavilion Kuala Lumpur Mall and Pavilion Tower valued at RM3.543 billion.

Valuation reports prepared by companies in compliance with the *Bursa Malaysia Listing Requirements* are referred to the SC for review by Bursa Malaysia. The number of such referrals increased by 50% from 2010 and involved the review of 214 valuation reports and 152 valuation certificates. The market value of the property assets reviewed showed an increase of 64%, from RM9.4 billion in 2010 to RM15.4 billion in 2011.

Table 8

Valuations reviewed by type of proposals

Type of proposals	No. of companies (No. of reports)		No. of properties		Market value (RM million)	
	2011	2010	2011	2010	2011	2010
IPOs:						
Main Market						
– Companies	5 (40)	5 (279)	3,205	470	3,083	5,292
– Real estate investment trust	2 (33)	2 (9)	81	13	6,548	2,486
ACE Market	5 (6)	–	6	–	83	–
Acquisition by REITs	4 (10)	4 (10)	44	12	1,245	1,088
Restructuring/mergers and acquisition	3 (40)	–	176	–	2,775	–
TOTAL	19 (129)	11 (298)	3,512	495	13,734	8,866
Cases Referred by Bursa Malaysia						
Main Market						
– Acquisition and disposal	65 (206)	36 (82)	1,920	1,650	14,097	9,235
– Restructuring	–	–	–	–	–	–
– Bonus issues/rights issues	–	1 (1)	–	9	–	119
– Joint venture	3 (4)	–	9	–	1,251	–
ACE Market						
– Acquisition and disposal	3 (3)	3 (3)	3	3	51	30
– Restructuring	1 (1)	2 (2)	1	2	24	50
– Bonus issues/rights issues	–	–	–	–	–	–
TOTAL	72 (214)	42 (88)	1,933	1,664	15,423	9,434

INVESTMENT MANAGEMENT

As at 31 December 2011, total funds managed by licensed fund management companies in Malaysia rose by 12.2% to RM423.6 billion compared to RM377.5 billion in 2010. Sources of funds under management included private pension funds, Employees Provident Fund (EPF), unit trust funds, corporate bodies and charitable bodies (Table 1).

The five largest fund management companies maintained their two-third contribution to total funds under management (Chart 1). The amount of onshore investment by fund management companies increased from RM322.5 billion as at end-2010 to RM366.0 billion as at end-2011 (Chart 2). Asset allocation in equities decreased from 55.3% as at end-2010 to 51.0% as at end-2011 (Chart 3). Reliance on investments inside and outside of Malaysia on equities in the asset allocation was also evident (Chart 4).

Chart 1

Funds managed by fund management companies (in percentage)

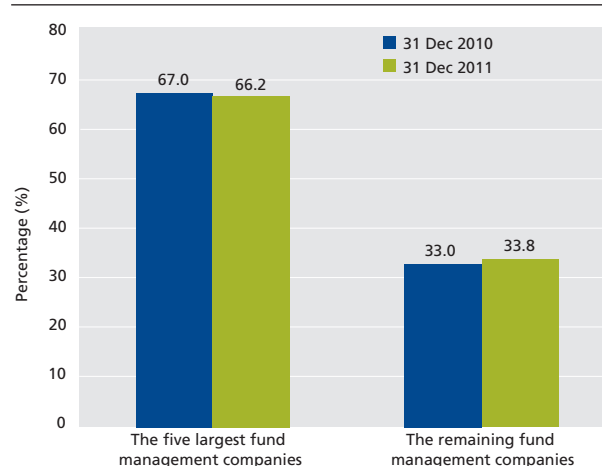


Table 1

Sources of clients' funds under management

Type of funds	Local (RM million)		Foreign (RM million)	
	2011	2010	2011	2010
Unit trust funds*	251,086.4	226,811.6	671.5	1,082.6
Corporate bodies	46,102.2	42,517.6	7,564.7	7,091.4
Employees Provident Fund	43,088.1	38,837.8	—	—
Wholesale funds	24,851.9	18,657.9	118.4	146.3
Individual	4,297.4	3,219.4	375.8	254.6
Private pension funds	1,626.9	2,296.5	965.2	1,938.5
Charitable bodies	503.6	483.5	200.1	83.3
Other funds	40,469.5	32,341.2	1,654.2	1,733.6
TOTAL	412,026.0	365,165.4	11,549.9	12,330.3

* Includes Islamic unit trust funds.

Chart 2
Funds invested inside and outside of Malaysia

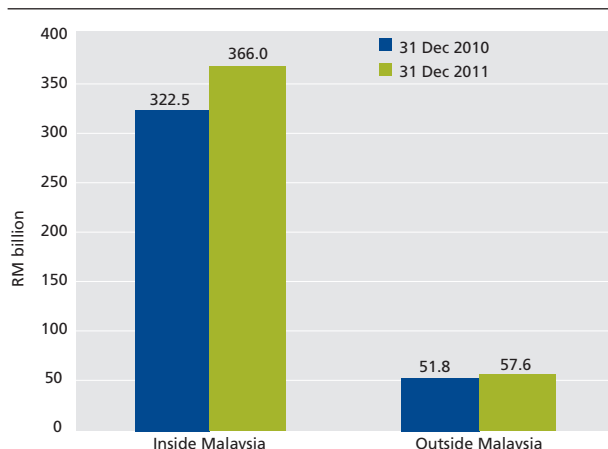
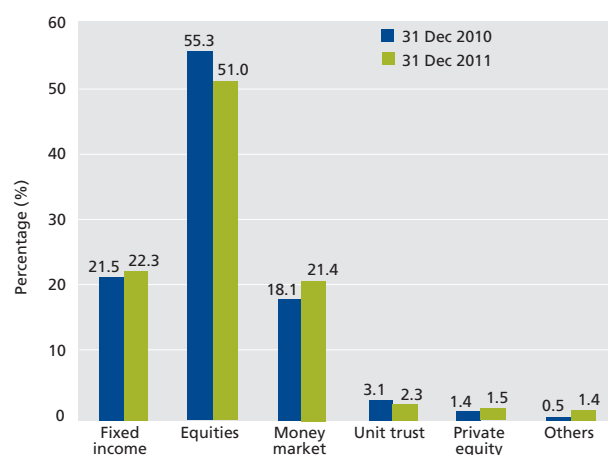


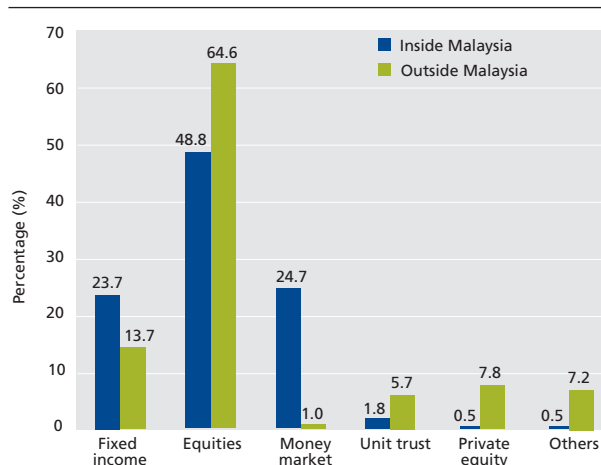
Chart 3
Asset allocation



COLLECTIVE INVESTMENT SCHEMES

Unit trust funds continued to make up the largest share of the Malaysian collective investment scheme industry. These are locally-constituted funds operated and administered by 40 locally-incorporated unit trust management companies. In 2011, a total of 49 new unit trust funds were launched, nine funds were terminated and 17 funds matured, bringing the total number of unit trust funds available to investors to 587 as at 31 December

Chart 4
Asset allocation inside and outside of Malaysia as at 31 December 2011



2011. This was an increase of 4.08% from end-2010 (Table 2).

The year 2011 saw a growth in the net asset value (NAV) of unit trust funds owing to increasing demand for such investments as compared to the end of 2010. The total NAV grew 9.99% year-on-year from RM226.81 billion recorded on 31 December 2010 to RM249.46 billion on 31 December 2011. The size of the unit trust industry is equivalent to 19.42% of Bursa Malaysia's market capitalisation, as compared to 17.79% at the end of 2010 (Table 2).

A total of 33 new wholesale funds were launched in 2011 for high-net-worth and institutional investors, raising the number of wholesale funds in the market to 133 as at 31 December 2011. The total NAV of wholesale funds at the end of 2011 was RM27.41 billion compared to 107 funds with NAV of RM18.66 billion at the end of 2010.

The year 2011 saw the listing of one real estate investment trust (REIT) on the Main Board of Bursa Malaysia with a market capitalisation of RM3.06 billion upon listing. The total number of REITs listed on Bursa Malaysia as at 31 December 2011 was 15 with a market capitalisation of RM16.28 billion and total asset size of RM22.8 billion, an increase from 31 December 2010 which recorded a total of 14 REITs with a capitalisation of RM10.49 billion and total asset size of RM16.07 billion.

The number of exchange-traded funds (ETFs) listed on the Main Board of Bursa Malaysia as at 31 December 2011 remained at five with a total market capitalisation of RM1.01 billion, as compared to a total market capitalisation of RM1.23 billion at end-2010.

As at 31 December 2011, only one closed-end fund (CEF)

had listed on the Main Board of Bursa Malaysia with a market capitalisation of RM287 million compared to a market capitalisation of RM292.6 million at end-2010.

We considered 480 applications relating to CIS, comprising applications to establish new funds, increase fund size and other ancillary matters (Table 3).

Table 2

Overall status of unit trust industry

	31 December 2011	31 December 2010
No. of funds launched	587	564
– Conventional	423	412
– Shariah-compliant	164	152
Total approved fund size (billion units)*	659.27	608.01
Units in circulation (billion units)	316.41	289.37
No. of accounts (million)**	16.05	15.09
Total NAV (RM billion)	249.46	226.81
– Conventional (RM billion)	221.60	202.77
– Shariah-compliant (RM billion)	27.86	24.04
% of NAV to Bursa Malaysia's market capitalisation***	19.42	17.79

* For funds approved, including those yet to be launched.

** Including unitholders accounts with institutional unit trust advisers (IUTA) that operate a nominee account system.

*** The comparison made between the total NAV of the unit trust industry and Bursa Malaysia's market capitalisation is not an indication of the actual amount invested in Bursa Malaysia by the unit trust industry.

Table 3

Applications relating to collective investment schemes

Type of applications	Number of Applications					
	Considered		Approved		Pending consideration	
	December 2011	December 2010	December 2011	December 2010	December 2011	December 2010
Establishment of collective investment schemes	100	89	100	89	35	26
– Unit trust funds	48	55	48	55	15	9
– Real estate investment trusts	2	2	2	2	–	–
– Closed-end funds	–	–	–	–	–	–
– Wholesale funds	50	30	50	30	19	16
– Exchange-traded funds	–	2	–	2	1	1
Increase in fund size limit	74	48	74	48	3	4
– Unit trust funds	43	33	43	33	1	–
– Real estate investment trusts	4	2	4	2	1	3
– Closed-end funds	–	–	–	–	–	–
– Wholesale funds	27	13	27	13	1	1
– Exchange-traded funds	–	–	–	–	–	–
Exemption/variation from guidelines	14	15	14	15	5	3
Revaluation of property	–	–	–	–	–	–
Registration of prospectus	166	157	166	157	20	16
Registration of deeds	80	122	80	122	18	11
Other applications	46	54	45	54	3	6
TOTAL	480	485	479	485	84	66

INVESTMENT PRODUCTS

Structured warrants

In 2011, there were two new eligible issuers for structured warrants bringing the total number of eligible issuers to six. The SC had also received and registered five base prospectuses and nine supplementary prospectuses from eligible issuers in 2011.

The SC registered a total of 370 term sheets in 2011 relating to the offering of structured warrants which is an increase of 89% from the 196 term sheets registered in 2010. The

Table 4

Structured warrants considered

Structured warrants	2011	2010
No. of eligible issuers	6	4
Base prospectuses registered	5	4
Supplementary prospectuses registered	9	8
Term sheets registered	370	196

increase was contributed by a combination of factors such as increased investor interest in structured warrants as well as the incentives introduced by Bursa Malaysia to attract more structured warrants issuances in the market.

The registered term sheets in 2011 would allow issuers to offer a total of up to 27.13 billion structured warrants.

Structured products

There were 12 issuers of structured products in 2011. Twenty-one structured product programmes with various types of underlying references were approved by the SC in 2011. These programmes have an aggregate approved size of RM101 billion with each programme typically having an approved limit size of up to RM5 billion.

There was also a significant increase in the approved size of Islamic structured products, from RM500 million in 2010 to RM10 billion in 2011 due to greater interest in Islamic structured products.

Table 5

Structured product programmes approved

	2011		2010	
No. of issuers	12		11	
Principle	No. of programmes	Size RM billion	No. of programmes	Size RM billion
Conventional	19	91	19	95
Islamic	2	10	1	0.5
TOTAL	21	101	20	95.5

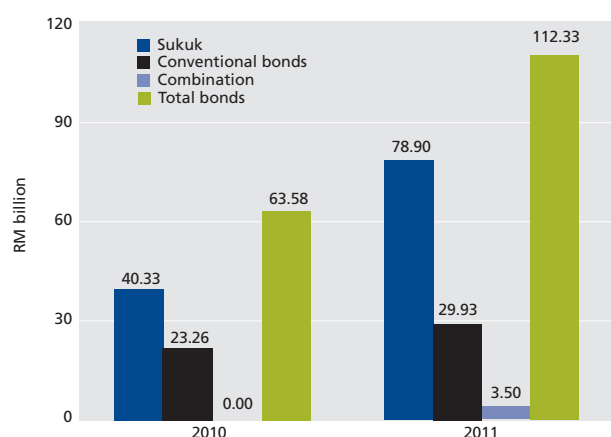
ISLAMIC CAPITAL MARKET

SUKUK

In 2011, the SC approved 85 private debt securities issues amounting to RM112 billion, of which 44 issues were sukuk valued at RM78.9 billion. The value represented 70% of total new bond issues approved (Chart 1).

In terms of the underlying Shariah principle, sukuk *musharakah* led the Malaysian sukuk market this year based on approval size. Sukuk *musharakah* represented RM50.7 billion or 64% of the total size of sukuk approved (Chart 2).

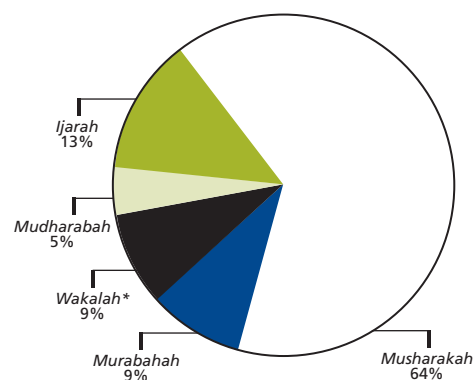
Chart 1
Sukuk approved by the SC



SHARIAH-COMPLIANT UNIT TRUST FUNDS

In 2011, the SC approved 15 new Shariah-compliant funds. This brought the total number of Shariah-compliant funds to 167 or 27.6% of the total of 604 approved funds. Of the Shariah-compliant funds, 85 were equity funds, 21 were balanced funds, 24 were sukuk funds while the remainder comprised money market funds, structured products, feeder funds and mixed-asset funds (Chart 3).

Chart 2
Sukuk approved in 2011 by Shariah principle



* Combination of multiple Shariah principles

SHARIAH-COMPLIANT SECURITIES

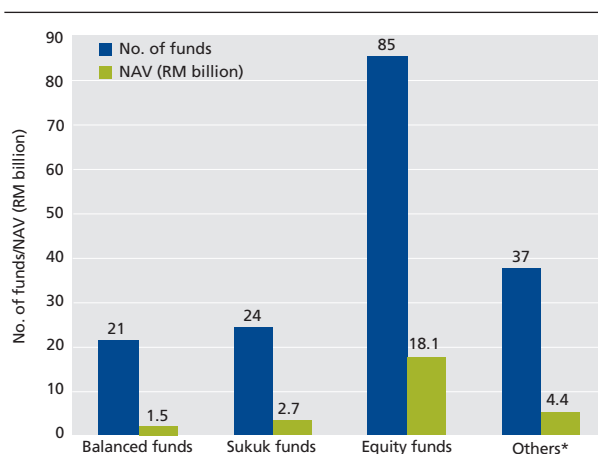
This year, the updated lists of Shariah-compliant securities were published on 27 May and 25 November. Based on the list published in November, there were 839 Shariah-compliant securities or 89% of the total listed securities on Bursa Malaysia.

During the year, 39 securities were added to the list of Shariah-compliant securities by the SAC while eight were removed. Over the same period, 14 IPO applications were approved as Shariah-compliant securities at the pre-IPO stage.

As at end-2011, the market capitalisation of Shariah-compliant securities stood at RM806 billion or 63% of total market capitalisation.

Chart 3

Shariah-compliant unit trust funds by category



* Including feeder funds, money market funds, structured products and mixed asset funds.

Table 1

Shariah-compliant unit trust funds

	2011	2010
Number of approved funds		
– Shariah-compliant	167	155
– Total industry	604	584
Number of launched funds		
– Shariah-compliant	164	152
– Total industry	587	564
Units in circulation (billion units)		
– Shariah-compliant	61.2	56.2
– Total industry	316.4	289.4
NAV (RM billion)		
– Shariah-compliant	27.9	24.0
– Total industry	249.5	226.8
% of Shariah-compliant to total industry	11.2%	10.6%

Table 2

Shariah-compliant wholesale funds

	2011	2010
Number of approved funds		
– Shariah-compliant	30	19
– Total industry	152	112
Units in circulation (billion units)		
– Shariah-compliant	7	4.2
– Total industry	27	19.9
NAV (RM billion)		
– Shariah-compliant	7.3	4.2
– Total industry	27.4	18.7
% of Shariah-compliant to total industry	26.7%	22.5%

Table 3

Shariah-compliant securities

	2011	2010
Number of securities		
– Shariah-compliant securities	839	846
– Total listed securities	946	961
% of Shariah-compliant to total listed securities	89%	88%
Market capitalisation		
– Shariah-compliant securities	806	756.1
– Total listed securities	1,285	1,275.3
% of Shariah-compliant to total listed securities	63%	59.3%

Table 4

Islamic ETF

	2011	2010
Number of Islamic ETF	1	1
Total Industry	5	5
Net asset value (RM billion)		
– Islamic ETF	0.4	0.6
– Total industry	1.0	1.2
% of Islamic ETF to total industry	40%	50%

Table 5

Islamic REITs

	2011	2010
Number of Islamic REITs	3	3
Total Industry	15	14
Market capitalisation (RM billion)		
– Islamic REITs	2.9	2.3
– Total industry	16.3	10.5
% of Islamic REITs to total industry	18%	22%

Table 6

Islamic assets under management (AUM)

	2011	2010
Islamic AUM (RM billion)	64	48
Total Industry (RM billion)	424	377
% of Islamic AUM to total industry	15%	13%

VENTURE CAPITAL

The number of registered venture capital corporations (VCC) and venture capital management corporations (VCMC) stood at 56 and 52 respectively as at the end of 31 December 2011 (Table 1). During the year, two VCCs and three VCMCs were deregistered due to the expiry of fund's charter and changes in company direction.

Out of the 108 registered VCCs and VCMCs, 98 are locally-owned, eight are joint ventures while two others are foreign-owned. The number of venture capital professionals employed in the industry with at least four years of experience stood at 131 as at end-2011. The decline could be due to the closures of a few VCCs and VCMCs which took place in 2011.

As compared to the previous year, the total committed funds as at end-2011 stood at RM5.46 billion which

represented a decline of approximately 8.37% year-on-year (Table 2).

As at the end of 2011, total venture capital investments increased by 5.81% to RM3.586 billion from RM3.389 billion as at the end of the previous year. Investments made in 2011 stood at RM253 million which was channelled into 51 investee companies as compared to RM453 million where a total 84 investee companies received funding in 2010.

In relation to divestments, there was an increase of 64.04% from RM89 million in 2010 to RM146 million in 2011 where 46 investee companies were divested in 2011 as compared to 28 companies in 2010. Divestments were mainly through share redemptions and trade sale. The year 2011 also saw the listing of three venture capital-backed

Table 1

Venture capital industry participants

	31 Dec 2011	31 Dec 2010
Number of registered venture capital funds/corporations	56	58
Number of registered VCMCs	52	55
Number of investee companies	409	389
Number of venture capital professionals*	131	186
Shareholding structure		
Local ownership	98	102
Joint ventures	8	9
Foreign ownership	2	2

* Professionals with more than four years of experience.

Table 2

Venture capital key statistics

	(RM million)	
	31 Dec 2011	31 Dec 2010
Total committed funds under management	5,460	5,959
Total investments as at end of the period	3,586	3,389
	During 2011	During 2010
Investments in investee companies	253	453
Divestments	146	89

companies on the Main Market of Bursa Malaysia, namely, Maxwell International Holdings Bhd, Prestariang Bhd and Century Software Holdings Bhd.

The government remained as the main funder to the venture capital industry by contributing 54.1% of total committed funds, equivalent to approximately RM2.954 billion as at end of 2011 (Chart 1).

In addition to the government's funding, local companies and foreign companies as well as individuals continued to support the industry by contributing 25% and 10.64% respectively. Other contributors such as banks, insurance companies, pension and provident funds and local individuals have increased their contribution collectively from 9.43% to 10.26% as at end-2011. The top three industry players continued to be the same major players compared to 2010, based on size of assets under management, i.e Malaysia Venture Capital Management Bhd, Kumpulan Modal Perdana Sdn Bhd and Malaysian Life Sciences Capital Fund Management Company Ltd.

Investee companies at the early stage and expansion or growth stages continued to receive the bulk of the funding from venture capital funds where in total 39 investee companies received funding amounting to RM215 million representing 84.98% of total investments made during the year (Table 3).

Investments into seed and start-up stages remained low at collectively 6.61% out of total investments made during the year. These were channeled into only six investee companies compared to last year where 5% of total

Chart 1

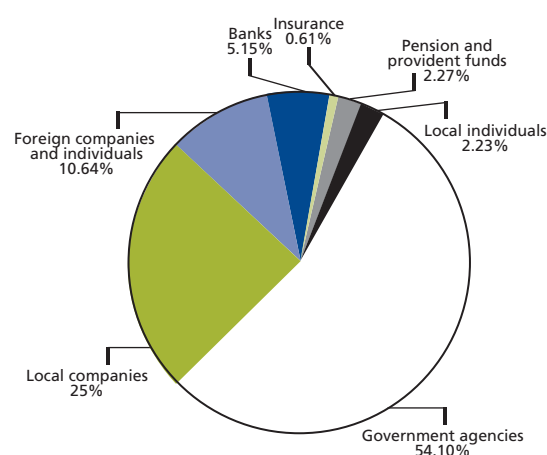
Sources of venture capital funds (2011: RM5,460 million)

Chart 2

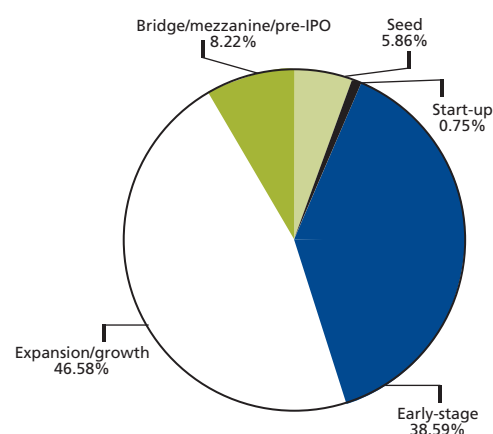
Investments by financing stage (2011: RM253 million)

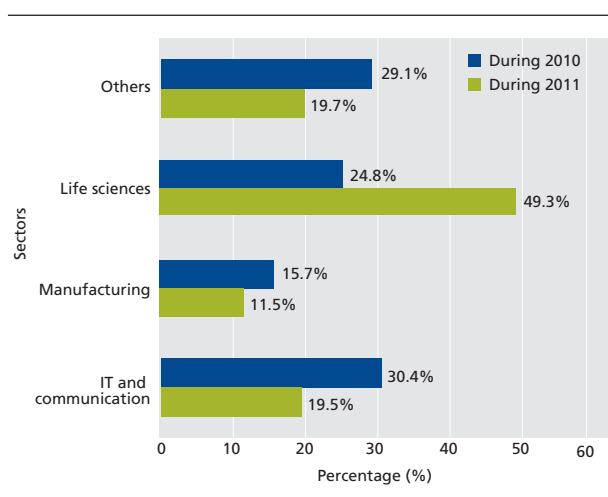
Table 3
Investments during 2011

Business stages	Total investment ('000)	% of total investment	No. of investee company
Seed	14,829	5.86	1
Start-up	1,887	0.75	5
Early-stage	97,593	38.59	15
Expansion/growth	117,795	46.58	24
Bridge/mezzanine/pre-IPO	20,779	8.22	6
TOTAL	252,883	100	51

Table 4
Divestments during 2011

Business stages	Total divestment ('000)	% of total divestment	No. of investee company
Seed	15,071	10.32	2
Start-up	–	–	–
Early-stage	4,623	3.16	5
Expansion/growth	68,645	47.00	21
Bridge/mezzanine/pre-IPO	57,732	39.52	18
TOTAL	146,071	100	46

Chart 3
Investments by sector



investments were made into 17 investee companies. Investments in investee companies at the seed and start-up stages are relatively risky and therefore investments were undertaken by government venture capitals and also selective VCCs/VCMCs.

In terms of sector classification, there has been a shift in the investments made in 2011 from the IT and communication sector the year before to the life sciences sector (Chart 3), consistent with the increased focus on life sciences sector seen globally. In contrast, the remaining sectors recorded declining investment figures in 2011.

Investments into life sciences almost doubled in 2011 amounting to 49.3% of total investments from 24.8% recorded last year. The IT and communication sector stood at 19.5% of total investments, a decrease from 30.4% in 2010. The manufacturing sector saw a slight decline from

15.7% in 2010 to 11.5% in 2011. It was also observed that venture capitals continued to invest, though only at 19.7% of total investments, in non-traditional sectors such as electricity and power generation, education and construction sectors, all captured under the category 'others'.

Table 4 shows that the proceeds from divestments of 46 investee companies during the year totaled

RM146 million. There has been an increase from 2010 where total divestments stood at RM89 million with 28 investee companies being disposed. Divestments were mainly in investee companies at the later stages such as expansion/growth and bridge/mezzanine/pre-IPO. Proceeds from divestments of investee companies at these stages amounted to approximately RM126 million, representing 86.30% of total proceeds from divestments.

AUTHORISATION AND LICENSING

As at end-2011, the participation of licensed capital market intermediaries stood at 235 firms supported by 8,974 licensed representatives. The market also had a broad representation of domestic based firms, foreign based and boutique firms to meet and support the differing needs of the market.

The Malaysian market remained resilient amidst the global financial uncertainty and increasing regulatory pressure as the market did not experience a significant exit of licensed players. In fact, in line with the increasing demand for advisory services and larger number of corporate exercise applications, the advisory segment continued to experience growth.

Two new fund management companies were licensed in 2011 bringing the total of licensed fund management companies to 82. The start of the year also saw the entrance of the 16th Islamic fund management company in Malaysia, strengthening Malaysia's position as a regional hub for the Islamic capital market.

The advisory segment gained traction. In 2011, five new boutique firms were licensed which comprised three corporate advisory firms and two financial planning firms.

There was only a marginal decrease of 2% in the number of Capital Markets Services Representatives Licence holders. Despite the overall decrease, there was an increase of 25% in the number of representatives for the advisory segment of corporate finance, investment advice and financial planning.

Following the legislative amendment for the removal of the requirement for licensed intermediaries and their representatives to renew their licences, application for licence renewal was no longer processed with effect from 3 October 2011.

In 2011, 4,538 applications were processed. Additionally, 1,052 new licences were issued to representatives and seven new licences were issued to companies. This is a 12.7% increase from the previous financial year.

Table 1

Capital Markets Services Licence holders

Categories	Regulated activities ¹	2011	2010
Investment banks	Dealing in securities	1	1
	Dealing in derivatives		
	Advising on corporate finance		
	Investment advice		
	Dealing in securities	3	3
	Dealing in derivatives		
	Advising on corporate finance		
	Dealing in securities	1	1
	Fund management		
	Advising on corporate finance		
	Dealing in securities	6	6
	Advising on corporate finance		
	Investment advice		
	Dealing in securities	3	3
	Advising on corporate finance		
		14	14
Universal brokers	Dealing in securities	1	1
	Advising on corporate finance		
	Investment advice		
		1	1
Special scheme foreign stockbroking companies	Dealing in securities	1	1
	Dealing in derivatives		
	Advising on corporate finance		
	Investment advice		
	Dealing in securities	5	5
	Advising on corporate finance		
	Investment advice		
	Dealing in securities	1	1
	Investment advice		
		7	7
Stockbroking companies with at least one merger partner	Dealing in securities	1	1
	Dealing in derivatives		
	Advising on corporate finance		
	Investment advice		
	Dealing in securities	1	1
	Dealing in derivatives		
	Investment advice		
	Dealing in securities	2	2
	Advising on corporate finance		
	Investment advice		
	Dealing in securities	2	3
	Investment advice		
		6	7
Standalone stockbroking companies	Dealing in securities	2	1
	Investment advice		
	Dealing in securities	4	4
	Dealing in securities	1	1
	Investment advice		
	Financial planning		
		7	6

Categories	Regulated Activities ¹	2011	2010
Issuing houses	Dealing in securities	2	2
		2	2
Futures brokers	Dealing in derivatives	13	13
		13	13
Unit trust management companies (UTMC)	Fund management	30	30
	Dealing in securities restricted to unit trust		
	Dealing in securities restricted to unit trust	8	8
	Fund management Financial planning Dealing in securities restricted to unit trust	2	2
	Financial planning Dealing in securities restricted to unit trust	1	–
		41	40
Fund managers	Fund management	46	50
	Fund management Dealing in securities restricted to unit trust	30	30
	Fund management Financial planning Dealing in securities restricted to unit trust	2	2
	Fund management Advising on corporate finance	1	1
	Fund management Investment advice Dealing in securities restricted to unit trust	2	1
	Fund management Investment advice	1	–
		82	84
Special scheme foreign fund managers	Fund management	5	5
		5	5
Islamic fund managers	Fund management Dealing in securities restricted to unit trust	3	2
	Fund management	13	13
		16	15
Fund supermarkets	Investment advice Dealing in securities restricted to unit trust	1	1
		1	1
Corporate unit trust advisers (CUTA)	Financial planning Dealing in securities restricted to unit trust	7	7
Institution unit trust advisers (IUTA)	Fund management Financial planning Dealing in securities restricted to unit trust	–	1
		7	8

Categories	Regulated Activities ¹	2011	2010
Advisory companies	Advising on corporate finance	39	38
	Advising on corporate finance	4	4
	Investment advice		
	Advising on corporate finance	1	1
	Financial planning		
	Investment advice	19	20
	Financial planning	23	24
		86	87
Individuals	Financial planning	9	9
	Investment advice	1	1
		10	10

Note:

1 Regulated activities refer to the activities that the companies are licensed to conduct.

Total licensed companies:

- at as 31 December 2011: 235
- at as 31 December 2010: 237

Total licensed individuals:

- at as 31 December 2011: 10
- at as 31 December 2010: 10

Table 2

Capital Markets Services Representative's Licence holders

	2011	2010
Dealing in securities ¹	6,652	6,797
Dealing in derivatives	651	858
Fund management	568	535
Advising on corporate finance ²	556	518
Investment advice	205	180
Financial planning	342	290
TOTAL	8,974	9,178

Note:

- 1 Includes representatives licensed for dealing in securities restricted to bonds and representatives licensed for dual activities – dealing in securities and dealing in derivatives.
Excludes representatives licensed for dual activities – advising on corporate finance and dealing in securities restricted to underwriting activities
- 2 Includes representatives licensed for dual activities – advising on corporate finance and dealing in securities restricted to underwriting activities

Table 3

Application for new company/individual licences under CMSA

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning		Financial planning (individual)	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Issued	–	–	–	1	2	3	3	4	–	1	2	8	–	–

Table 4

Applications for new representative's licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Issued	458	464	168	110	93	87	150	117	65	46	118	84
Withdrawn*	12	21	4	7	10	14	6	6	2	–	1	8
Returned*	140	213	42	78	82	139	38	56	31	31	90	156

Note:

* By regulated activities.

Table 5

Applications for renewal of company/individual licences (1 Jan to 2 Oct 2011)

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning		Financial planning (individual)	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Issued	28*	33	5	12	46	61	24	30	6	17	14	20	2	4
Withdrawn	–	1	–	1	1	1	5	1	–	–	1	1	–	–
Returned	16*	34	4	15	31	31	19	39	4	19	10	16	1	4

Note:

* Includes companies licensed for dealing in securities restricted to unit trust products.

Table 6

Applications for renewal of representative's licences (1 Jan to 2 Oct 2011)

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Issued	2,786	4,117	280	454	136	316	257	297	63	101	97	154
Withdrawn*	16	31	–	6	3	4	1	2	–	–	1	3
Returned*	75	124	12	16	12	43	13	33	7	10	28	32

Note:

* By regulated activities.

Table 7

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)	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Ceased	–	3	–	1	–	2	–	2	–	–	1	–	–	–
Expired	–	–	–	–	2	1	2	–	1	1	1	5	–	–
Revoked	–	–	–	–	–	1	–	–	–	–	–	–	–	–
Suspended	–	–	–	–	1	–	–	–	–	–	–	–	–	–

Table 8

Cessation of representative's licences under CMSA

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Ceased*	379	375	88	96	74	67	94	99	38	35	12	30
Expired*	21	5	4	20	6	9	11	6	–	4	23	42
Revoked	–	–	–	–	–	1	–	–	–	–	–	–
Suspended	–	–	–	–	1	–	–	–	–	–	–	–

Note:

* By regulated activities.

Table 9

Applications for registration of local participants

	2011	2010
Applications brought forward from previous year	–	–
New applications received	9	2
Granted	9	2
Withdrawn	–	–
Rejected	–	–
Returned	–	–
Applications carried forward to next year	–	–

ENFORCEMENT

In 2011, the Investigation Department received a total of 38 referrals from various departments in the SC such as Market Surveillance, Investors Affairs and Complaints as well as Intermediary Supervision. We had also received referrals from other law enforcement agencies.

Almost a third of the referrals comprised insider trading offences. A quarter of the referrals were corporate governance-related offences such as false reporting on the performance of PLCs and false disclosure in the prospectus.

During the year, there were 65 active investigations. Substantial resources were dedicated to conducting insider trading investigations which are highly challenging and involve a protracted evidence gathering process.

The investigations involve the gathering of both documentary and oral evidence. Documentary evidence procured included both printed and electronic documents. During the year, the department secured almost 700 gigabytes of data (equivalent to about 40,000 boxes of printed materials) for purposes of investigation. The review of electronic documents procured included filtering through the data using key word searches and analysing data obtained using various softwares.

In terms of oral evidence gathered, we interviewed a total of 467 individuals in 2011. The witnesses were mainly of professionals such as investment bankers, lawyers, auditors and company secretaries.

Over the years, the ability to gather cross border evidence has become all the more important due to the increase in foreign transactions in the cases investigated. Thus, the ability to gather such evidence through international co-operation is vital. The IOSCO's *Multilateral Memorandum of Understanding Concerning Consultation and Co-operation and the Exchange of Information* continues to be an important tool for the SC in gathering foreign evidence. In 2011, the SC sought assistance from 11 countries.

Chart 1
Referrals received by nature of offence

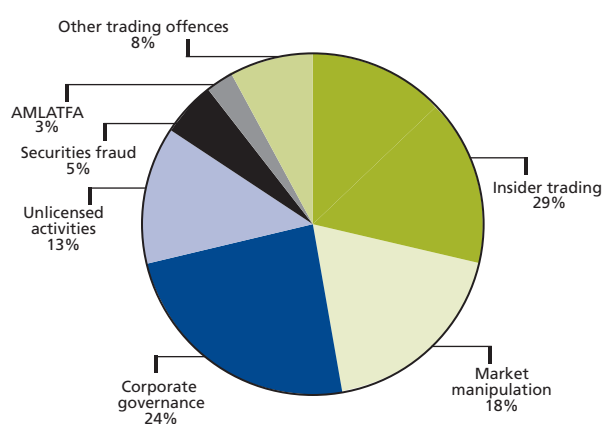


Chart 2

Active investigation files by nature of offence

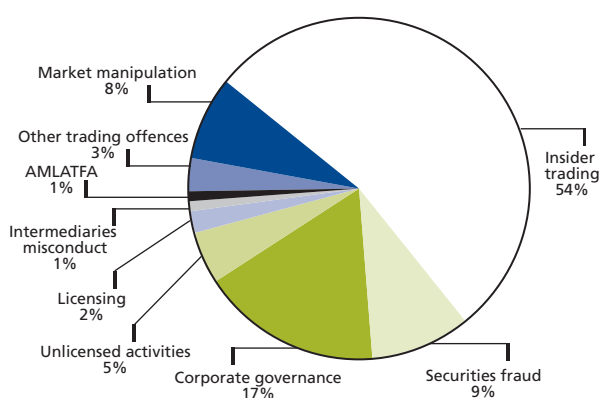


Chart 3

Witnesses for statements recorded in 2011

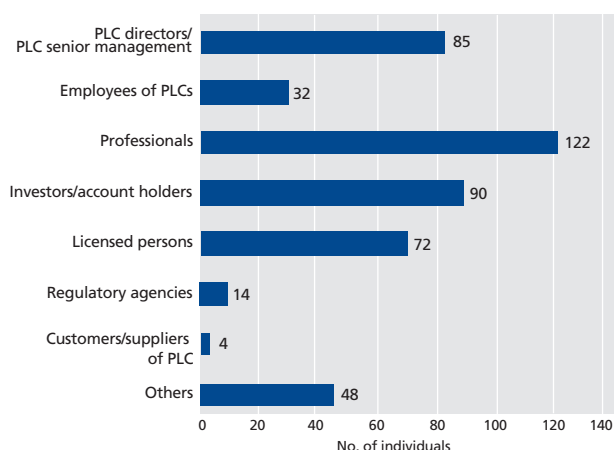


Table 1

Assistance sought by the SC in 2011 by country

No	Countries	Investigation files
1	Australia	1
2	China	1
3	Chinese Taipei	1
4	Hong Kong	6
5	British Virgin Islands	5
6	Singapore	9
7	Thailand	2
8	United States	1
9	New Zealand	1
10	Japan	1
11	United Arab Emirates	2
TOTAL		30

During the year, the SC had reciprocated and rendered assistance in investigations to foreign securities regulators in eight cases. Assistance rendered included procuring oral and documentary evidence.

Administrative actions

In 2011, a total of 19 sanctions were meted out following administrative actions against intermediaries for various misconduct involving, amongst others, breaches of licensing conditions and breaches of the take-overs and mergers provisions. Of the 19 sanctions, two were suspension of licences, two were penalties, nine were reprimands, five were directives and in one case, the SC barred submissions from a valuer for failing to comply with the SC's guidelines.

The SC also issued a total of 69 supervisory letters to corporate advisers, licensed intermediaries, public-listed companies, boards of directors, legal advisers as well as individuals for minor breaches of the SC's guidelines.

Chart 4
Administrative actions by type of sanctions

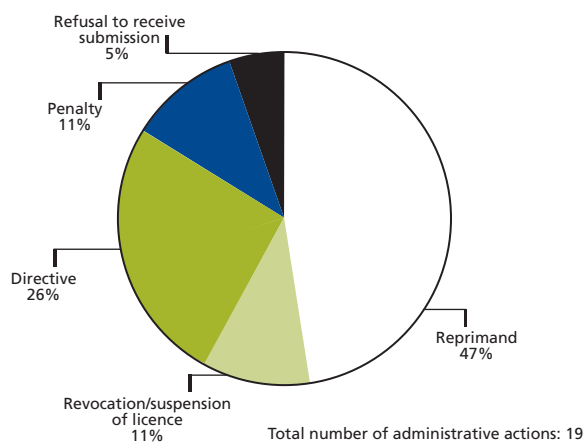


Chart 6
Administrative actions by nature of breaches

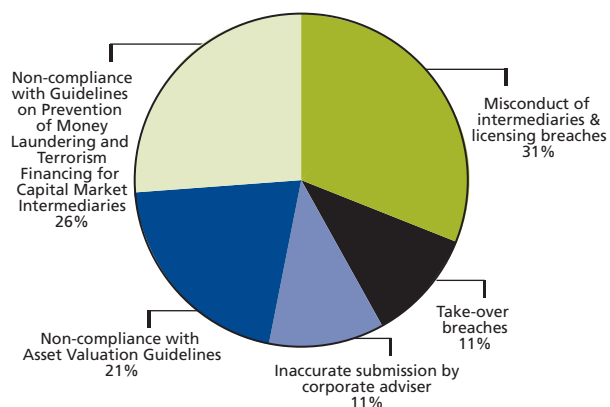


Chart 5
Administrative actions and parties in breach

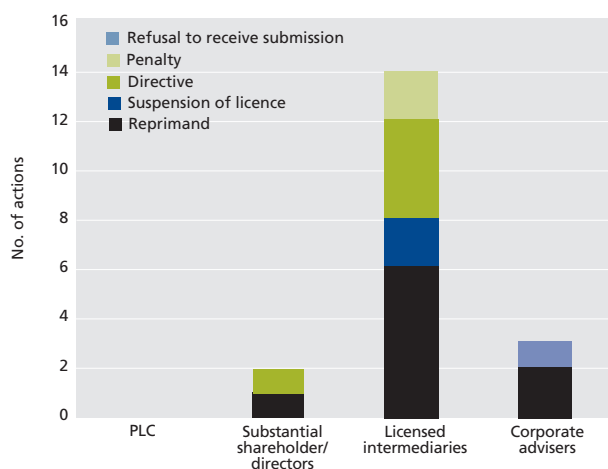


Chart 7
Supervisory letters issued by nature of breaches

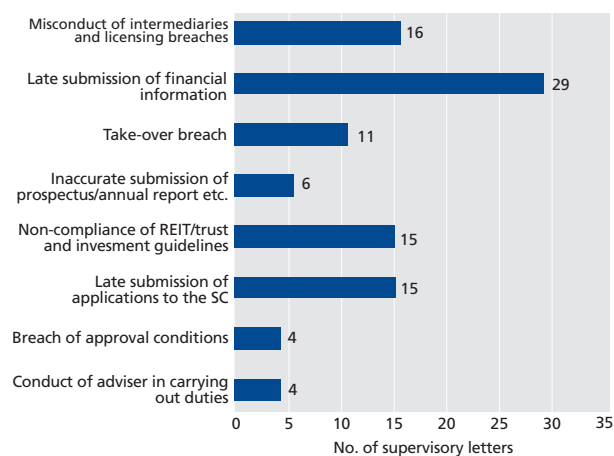


Table 2

Persons charged

No.	Nature of offence	Offender(s)	Description of charge(s)
1.	Issuing securities without a prospectus	Chong Yuk Ming Balachandran a/l A. Shanmugam	On 21 April 2011, Chong the founder and Chairman of Bestino Group Bhd (Bestino) and Balachandran, a former director of Bestino were jointly charged under section 232(1) CMSA read together with section 367(1) CMSA for failing to register a prospectus with the SC in relation to the issuance of redeemable preference shares (RPS) by Bestino. The SC alleges that Bestino raised approximately RM400 million from the RPS issuance to over 6,000 individuals.
2.	Furnishing a misleading statement to the stock exchange	Norhamzah Nordin Mohd Azham Mohd Noor Helen Lim Hai Loon	On 26 May 2011 and 7 June 2011, the SC charged Norhamzah, the Group MD of Kosmo Technology Industrial Bhd (Kosmo) and Mohd Azham, the Group ED for providing false information to Bursa Malaysia. They each face eight charges under section 122B(a)(bb) SIA read together with section 122(1) SIA in relation to the inflated revenues in Kosmo's eight quarterly reports for financial years 2006 and 2007. Charges were also preferred against Kosmo's Accounts Manager, Helen for abetting Kosmo. She faces eight charges under sections 122B(a)(bb) SIA read together with section 122C(1) SIA and 369(a)(B) CMSA read together with section 370(1) CMSA in relation to inflated revenues in Kosmo's eight quarterly reports for the financial years 2006 and 2007. The SC alleges that Kosmo's revenue was inflated by approximately RM132 million over the period of two years.
3.	Holding out as a fund manager without a licence	Zamani Hamdan	Zamani was charged on 28 October 2011 for holding himself out as a representative of an investment bank trading in futures contracts. He was also charged in the alternative for carrying on the business of trading futures contracts without a licence through his company, Rantau Simfoni.

Table 3

Convictions and appeals against sentences

No.	Nature of offence	Offender(s)	Description of charge(s)
1.	Market manipulation	Wong Chee Kheong, Executive Chairman of Suremax Group Bhd (Suremax) Bun Lit Chun, Director of Suremax	Wong was charged on 25 October 2005 for creating a misleading appearance of active trading which had the effect of raising the price of Suremax shares vide transactions that did not involve any change in beneficial ownership of the shares. On 12 January 2011 Wong was sentenced to 24 months jail and fined RM3 million. Bun was also charged for the same offence and sentenced to three months jail and fined RM2 million.
2.	Scheme to defraud and trading without a licence	Raja Noor Asma Raja Harun, Director of FX Capital Consultant Sdn Bhd	Raja Noor pleaded guilty to charges of defrauding the investors of FX Consultant Sdn Bhd and FX Capital Consultant Sdn Bhd, and trading in futures contracts without a licence. On 10 January 2011, she was sentenced to five years jail and fined RM5 million (in default six month jail).
3.	Remisier making a false statement to his client Criminal breach of trust	Haron Jambari, Remisier	Haron was convicted and sentenced to three years jail with a fine of RM1 million (in default two years) for making a false statement to his client, Majlis Agama Islam Wilayah Persekutuan (MAIWP) relating to the purchase of Petronas Dagangan Bhd shares. He was also convicted and sentenced to four years jail and two strokes of the rotan for committing CBT for misappropriating RM2 million of MAIWP's funds. Despite his appeals, both the High Court and the Court of Appeal upheld his conviction and sentences.

Table 3 (Con't)

No.	Nature of offence	Offender(s)	Description of charge(s)
4.	Abetment of making a false statement Criminal breach of trust Obtaining consideration in the capacity of public servant	Nik Aziz Nik Mohd Amin, accountant of MAIWP	Nik Aziz was convicted and sentenced to four years jail for abetting Haron Jambari in committing CBT for misappropriating RM2 million of MAIWP's funds. Nik Aziz was also convicted for obtaining RM130,000 in the discharge of his official duties in relation to the purchase of Petronas Dagangan Bhd shares and sentenced to two years jail. He was however acquitted by the Court of Appeal on the charge of abetting Haron Jambari in making the false statement. The Court also set aside the whipping sentence for the CBT offence as Nik Aziz's is now over 50 years old.
5.	Holding out as a fund manager without a licence	Phazaluddin Abu	On 5 May 2011, the High Court upheld the earlier conviction by the Sessions Court against businessman Phazaluddin under section 15A SIA for acting as a fund manager without a licence through the website www.danafutures.com. The High Court also dismissed Phazaluddin's appeal against his money laundering conviction for dealing with the moneys collected via the unlicensed scam. Phazaluddin was convicted and sentenced to four years jail for both offences.
6.	Short selling	Lua Yik Hor, dealer's representative	On 23 June 2011, the Court of Appeal upheld Lua's sentence of two years jail for short selling.
7.	Submitting false information in connection with a proposal for listing	Chan Kok Suan, Group MD of Granasia Corporation Bhd (GCB)	Chan was charged on 9 February 2006 for inflating the revenue of GCB in connection with its proposal for listing. He pleaded guilty on 1 March 2010 and was sentenced to a fine of RM500,000 (in default of imprisonment 10 months). Dissatisfied with the sentence, the SC filed an appeal to the High Court. On 26 July 2011, the High Court maintained the fine but increased the default in payment of fine from 10 months to two years. The SC has filed a further appeal against the sentence to the Court of Appeal.
8.	Fraud in connection with the purchase of securities Criminal breach of trust	Gordon Toh Chun Toh, Director of Multi-code Electronics Industries (M) Bhd (Multi-code)	Gordon was charged on 13 March 2009 for defrauding Multi-code, by using RM17.6 million of its funds to finance his purchase of 11.1 million Multi-code shares. Gordon was also charged for committing CBT involving RM26 million of Multi-code's funds. On 22 September 2011, the Sessions Court convicted Gordon of CBT and sentenced him to 12 years jail and a fine of RM1 million, in default two years imprisonment.
9.	Abetment of fraud in connection with the purchase of securities Criminal breach of trust	Abul Hasan Mohamed Rashid, Director of Multi-code	Abul Hasan was charged on 13 March 2009 for abetting Gordon Toh defraud Multi-code when he used RM17.6 million of its funds to finance the purchase of 11.1 million Multi-code shares. Abul Hasan was also charged for CBT involving RM26 million of Multi-code's funds. On 22 September 2011, the Sessions Court convicted Abul Hasan of CBT and sentenced him to six years jail.
10.	Furnishing false statement to stock exchange False information in prospectus	Directors of INIX Technologies Holdings Bhd (INIX): Jimmy Tok Soon Guan, Mok Chin Fan and Cheong Kok Yai Normah Sapar, Senior Accounts Executive of INIX	Jimmy, Mok and Cheong were charged on 23 September 2010. The SC alleged that they furnished a false statement to the stock exchange relating to the revenue of INIX for the financial year ending 31 July 2006. They were also charged for the issuance of INIX prospectus containing false information on its revenue for the six months ending 31 January 2005. Normah was charged with abetting Jimmy with the above offences on 23 September 2010. On 29 September 2011, Mok, Cheong and Normah pleaded guilty to all the offences. Mok and Cheong were each fined RM125,000 (in default one year jail) for the offence under section 55 of the SCA and fined RM50,000 (in default six months jail) for each of the four offences under section 122B of the SIA bringing the total fines imposed on Mok and Cheong to RM325,000. Normah was fined RM150,000 (in default one year jail) for the offence under section 55 of the SCA and fined RM50,000 (in default six months imprisonment) for each of the four offences under section 122B of the SIA bringing the total fine imposed on Normah to RM350,000.

Table 3 (Con't)

No.	Nature of offence	Offender(s)	Description of charge(s)
			Jimmy pleaded guilty to all the offences he was charged with on 13 October 2011. He was fined RM400,000 (in default two years jail) for the offence under section 55 of the SCA. For the four offences under section 122B of the SIA, he was fined RM200,000 (in default 18 months jail) for the first and second charges respectively and RM150,000 (in default 12 months jail) for the third and fourth charge respectively bringing the total fine imposed on him to RM1.1 million.
11.	Failure to appear before the SC in connection with an investigation	Normah Sapar, Senior Accounts Executive of INIX Chong Poh Ying, supplier to INIX Helen Soon Shiau Yen, Accounts Clerk of INIX	Normah and Helen were charged on 23 September 2010 for failing to appear at the SC to provide a statement in connection with the SC's investigation into INIX's affairs. Chong was charged on 27 September 2010 for the same offence. On 7 October 2011, Normah, Chong and Helen pleaded guilty. Cheong and Helen were fined RM25,000 and RM20,000 respectively (in default three months jail). Normah was fined a total of RM50,000 for the two charges under section 134(5)(a) of the SCA (in default three months jail for each offence).
12.	Knowingly authorising the furnishing of misleading statements to the stock exchange	Chin Keem Feung, former Independent Non-Executive Director and Audit Committee member of Transmile Group Bhd (TGB) Shukri Sheikh Abdul Tawab, former independent non-executive director and Audit Committee member of TGB	Chin and Shukri were charged on 14 November 2007. Both of them were charged with having knowingly authorised the furnishing of misleading statements to Bursa Malaysia. The misleading statement was in relation to TGB's revenue contained in TGB's Quarterly Report On Unaudited Consolidated Results For the Financial Year Ended 31 December 2006. On 28 October 2011, the Sessions Court found Chin and Shukri guilty and they were both sentenced to one year jail and a fine of RM300,000 (in default six months jail).
13.	Knowingly authorising the furnishing of misleading statements to the stock exchange	Ooi Boon Leong, Director and substantial shareholder of MEMS Technology Bhd (MEMS)	Ooi was charged on 16 April 2009 for having knowingly authorised the furnishing of a misleading statement to Bursa Malaysia. The misleading statement was in relation to MEMS revenue for the year ended 31 July 2007 contained in its condensed consolidated income statements for the 12-month period ended 31 July 2007. On 25 February 2011, he pleaded guilty and was sentenced to a fine of RM300,000 (in default, two years jail). On 11 January 2011, the High Court allowed the Prosecution's appeal against sentence and imposed a six months jail term in addition to the fine of RM300,000. This decision was upheld by the Court of Appeal.
14.	Knowingly authorising the furnishing of a misleading statement to the stock exchange	Tan Yeow Teck, former director and chief financial officer of MEMS	Tan was charged on 16 April 2009 together with Ooi Boon Leong for having knowingly authorised the furnishing of a misleading statement to Bursa Malaysia. The misleading statement was in relation to MEMS's revenue for year ended 31 July 2007 contained in its condensed consolidated income statements for the 12 month period ended 31 July 2007. On 25 February 2010, Tan pleaded guilty and was sentenced to a fine of RM300,000 (in default, two years jail). On 11 January 2011, the High Court allowed the Prosecution's appeal against sentence and imposed six months jail in addition to the fine of RM300,000. On 4 November 2011, the Court of Appeal dismissed his appeal and upheld the convictions and the sentences.

Table 4

Acquittals and appeals

No.	Nature of offence	Offender(s)	Description of charge(s)
1.	Furnishing misleading information to the SC in connection with proposal	Lim Kim Ming, Director of GP Ocean Food Bhd (GP Ocean) Lim Kim Hai, Director of GP Ocean Tan Siok Wan, Director of GP Ocean Lee Sin Teck, Director of GP Ocean	The four individuals were charged in April and May 2007 for committing offences as directors of GP Ocean when the company submitted misleading information in connection with GP Ocean's proposal for listing on the Main Board of Bursa Malaysia. On 6 January 2011, all four individuals were acquitted and discharged by the Sessions Court. The SC has filed an appeal against the acquittal to the High Court.
2.	Fraud in connection with the purchase of securities	Ng Wu Hong, Chief Executive Officer of Sarawak Securities Sdn Bhd Kho Cheng Wei, a margin clerk of Sarawak Securities Lee Sai Lan, a margin clerk of Sarawak Securities	The three individuals were charged on 11 November 1999 for their involvement in defrauding Sarawak Securities by creating false collateral in various margin accounts. On 8 November 2002 Ng was convicted and sentenced to two years jail by the Sessions Court while Kho was convicted and sentenced to eight months jail. Lee was discharged and acquitted. On 14 February 2007, the High Court overturned the convictions against both Ng and Kho and they were acquitted and discharged. The High Court also upheld the decision to acquit Lee. On 9 February 2011, at the Court of Appeal, the SC's appeal against the decisions of the High Court was struck out as the notice of hearing could not be served on them.
3.	Fraud in connection with the purchase of securities Criminal breach of trust	Yip Yee Foo, Director of Cold Storage (M) Bhd (CSM) Chung Wai Meng, Director of CSM	Yip and Chung were charged on 24 September 2004 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. Yip and Chung were both also charged in the alternative for CBT of the said RM185 million. On 11 March 2011, the Sessions Court ordered both of them to enter their defence on the alternative charge for CBT and acquitted and discharged them on the charge under section 87A SIA. On 20 June 2011, the Sessions Court acquitted and discharged both accused persons on the alternative charge. The SC has filed an appeal to the High Court against the acquittal.

Table 5

Compound offered

No.	Nature of offence	Offender(s)	Description of charge(s)
1.	Securities not deposited in the name of the beneficial owner [S.25(4) SICDA 1991]	Surinder Kaur Jessy a/p Piara Singh	Surinder was compounded RM25,000 for allowing Kanesan a/l Velupillai to use her CDS account at Arab-Malaysian Securities Sdn Bhd (now known as AmInvestment Bank Bhd) to trade in Nexnews Bhd shares for the period between 7 May 2007 and 10 May 2007.

Table 6

Civil enforcement actions

No.	Nature of offence	Offender(s)	Description of charge(s)
1.	Unlicensed trading and engaging in scheme to defraud	Ahmad Nazmi Mohamed Mohd Shahrul Firdaus Zakaria Mohd Khalid Sujud Fakhrul Arif Ahmad Husni Fakhrul Mukmin Ahmad Husni Fakhrul Razi Ahmad Husni Ahmad Fauzi Ambran	On 6 April 2011, the SC filed a civil action alleging the seven defendants had solicited monies purportedly for investment in futures contracts and engaged in a scheme to defraud the investors. An injunction was granted by the Court to freeze the accounts of the seven defendants amounting to approximately RM1.2 million.
2.	Submission of false statements and/or information in prospectus	Wimems Corporation Bhd (Wimems) Flex-P Industries Bhd Fong Piau	The SC's civil action alleges that each of the defendants were involved in engaging in a scheme to defraud investors as well as in issuing the Wimems Prospectus dated 30 December 2005 and Wimems Annual Report 2005 which allegedly contained false statements. On 27 October 2011, the SC obtained judgments against the defendants.

Table 7

Regulatory settlements

Kanesan a/l Velupillai
On 22 March 2011 the SC entered into a settlement with Kanesan a/l Velupillai in the sum of RM98,247 when he agreed, without admission of liability to make the payment. This sum constituted a disgorgement of three times the profits arising from alleged irregularities in his trading of Nexnews Bhd shares between 3 May 2007 and 10 May 2007. This settlement followed the SC's proposed proceedings under section 89E and 90(1) of the SIA.
In accordance with the provisions of section 90A(7) of the SIA, the amount recovered from Kanesan a/l Velupillai will be used first to reimburse the SC for all costs of investigations and proceedings. The remaining amount will be used to compensate the sellers who sold their shares to him before the information became generally available.
Heah Sieu Lay
On 29 March 2011 the SC entered into a settlement with Heah Sieu Lay in the sum of RM77,576 when he agreed, without admission of liability to make the payment. This sum constituted a disgorgement of twice the profits arising from alleged irregularities in his trading of Nexnews Bhd shares between 4 May 2007 and 10 May 2007. This settlement followed the SC's proposed proceedings under section 89E and 90(1) of the SIA.
In accordance with the provisions of section 90A(7) of the SIA, the amount recovered from Heah Sieu Lay will be used first to reimburse the SC for all costs of investigations and proceedings. The remaining amount will be used to compensate the sellers who sold their shares to him before the information became generally available.

Table 7 (Con't)

Tan Kong Han

On 29 March 2011 the SC entered into a settlement with Tan Kong Han in the sum of RM24,760 when he agreed, without admission of liability to make the payment. This sum constituted a disgorgement of twice the profits arising from alleged irregularities in his trading of Nexnews Bhd shares between 3 May 2007 and 17 August 2007. This settlement followed the SC's proposed proceedings under section 89E and 90(1) of the SIA.

In accordance with the provisions of section 90A(7) of the SIA, the amount recovered from Tan Kong Han will be used first to reimburse the SC for all costs of investigations and proceedings. The remaining amount will be used to compensate the sellers who sold their shares to him before the information became generally available.

Lee Kwong Joo

On 18 September 2011, the SC entered into a settlement with Lee Kwong Joo in the sum of RM18,000 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 Sin Chew Media Corporation Bhd (Sin Chew) between 25 January 2007 and 30 January 2007, contrary to section 89E and 90(1) of the SIA.

The settlement was reached following letters of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum he was required to disgorge was equivalent to three times the gains he made from his trades in Sin Chew shares.

In accordance with the provisions of section 90A(7) of the SIA, the amount recovered from Lee Kwong Joo will be used first to reimburse the SC for all costs of investigations and proceedings. The remaining amount will be used to compensate the sellers who sold their shares to him before the information became generally available.

Parmjit Singh a/l Meva Singh & Sushil Kaur a/p Dulla Singh

On 28 September 2011, the SC entered into a settlement with Parmjit Singh a/l Meva Singh and Sushil Kaur a/p Dulla Singh in the sum of RM83,513 when they agreed without admission or denial of liability, to settle a claim that the SC was proposing to institute against them for insider trading in the shares of Crest Petroleum Bhd (Crest Petroleum) between 14 January 2003 and 16 January 2003, contrary to section 89E of the SIA.

The settlement was reached following letters of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sums both of them were required to disgorge was equivalent to three times the gains they made from their trades in Crest shares.

In accordance with the provisions of section 90A(7) of the SIA, the amount recovered from them will be used first to reimburse the SC for all costs of investigations and proceedings. The remaining amount will be used to compensate the sellers who sold their shares to them before the information became generally available.

Foong Choong Heng

On 3 October 2011, the SC entered into a settlement with Foong Choong Heng in the sum of RM281,361 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 Crest Petroleum between 14 January 2003 and 21 January 2003, contrary to section 89E of the SIA.

The settlement was reached following letters of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum he was required to disgorge was equivalent to three times the gains he made from his trades in Crest Petroleum shares.

In accordance with the provisions of section 90A(7) of the SIA, the amount recovered from Foong Choong Heng will be used first to reimburse the SC for all costs of investigations and proceedings. The remaining amount will be used to compensate the sellers who sold their shares to him before the information became generally available.

Ong Sew Teng

On 3 October 2011, the SC entered into a settlement with Ong Sew Teng in the sum of RM71,280 when she agreed without admission or denial of liability, to settle a claim that the SC was proposing to institute against her for insider trading in the shares of Sin Chew between 24 January 2007 and 30 January 2007, contrary to section 89E of the SIA.

The settlement was reached following letters of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum she was required to disgorge was equivalent to three times the gains she made from her trades in Sin Chew shares.

In accordance with the provisions of section 90A(7) of the SIA, the amount recovered from Ong Sew Teng will be used first to reimburse the SC for all costs of investigations and proceedings. The remaining amount will be used to compensate the sellers who sold their shares to her before the information became generally available.

Table 7 (Con't)

Chong Hiong Lim
<p>On 3 October 2011, the SC entered into a settlement with Chong Hiong Lim in the sum of RM161,040 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 Sin Chew between 25 January 2007 and 30 January 2007, contrary to section 89E of the SIA.</p> <p>The settlement was reached following letters of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum he was required to disgorge was equivalent to three times the gains he made from his trades in Sin Chew shares.</p> <p>In accordance with the provisions of section 90A(7) of the SIA, the amount recovered from Chong Hiong Lim will be used first to reimburse the SC for all costs of investigations and proceedings. The remaining amount will be used to compensate the sellers who sold their shares to him before the information became generally available.</p>
Soon Khiat Voon
<p>On 3 October 2011, the SC entered into a settlement with Soon Khiat Voon in the sum of RM33,750 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 Sin Chew between 25 January 2007 and 30 January 2007, contrary to section 89E of the SIA.</p> <p>The settlement was reached following letters of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum he was required to disgorge was equivalent to three times the gains he made from his trades in Sin Chew shares.</p> <p>In accordance with the provisions of section 90A(7) of the SIA, the amount recovered from Soon Khiat Voon will be used first to reimburse the SC for all costs of investigations and proceedings. The remaining amount will be used to compensate the sellers who sold their shares to him before the information became generally available.</p>
Chong Mei Ngor
<p>On 13 October 2011, the SC entered into a settlement with Chong Mei Ngor in the sum of RM88,110 when she agreed without admission or denial of liability, to settle a claim that the SC was proposing to institute against her for insider trading in the shares of Sin Chew between 25 January 2007 and 30 January 2007, contrary to section 89E of the SIA.</p> <p>The settlement was reached following letters of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum she was required to disgorge was equivalent to three times the gains she made from her trades in Sin Chew shares.</p> <p>In accordance with the provisions of section 90A(7) of the SIA, the amount recovered from Chong Mei Ngor will be used first to reimburse the SC for all costs of investigations and proceedings. The remaining amount, if any, will be used to compensate the sellers who sold their shares to her before the information became generally available.</p>
Rameli Musa
<p>On 16 November 2011, the SC entered into a settlement with Rameli Musa in the sum of RM36,050 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 Crest Petroleum between 15 January 2003 and 17 January 2003, contrary to section 89E of the SIA.</p> <p>The settlement was reached following letters of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum Rameli was required to disgorge was equivalent to three times the gains he made from his trades in Crest Petroleum shares.</p> <p>In accordance with the provisions of section 90A(7) of the SIA, the amount recovered from Rameli will be used first to reimburse the SC for all costs of investigations and proceedings. The remaining amount, if any, will be used to compensate the sellers who sold their shares to him before the information became generally available.</p>

PUBLICATIONS

GUIDELINES AND CODES

Guidelines on Registration of Credit Rating Agencies
(Issued: 30 March 2011)

Guidelines on Market Conduct and Business Practices for Stockbrokers and Licensed Representatives
(Revised: 29 April 2011)

Guidelines on Compliance Function for Fund Management Companies
(Updated/Effective: 23 May 2011)

Guidelines on Real Estate Investment Trusts
(Updated: 13 July 2011)

Guidelines on Outsourcing for Capital Market Intermediaries
(Issued/Effective: 9 August 2011)

Equity Guidelines
(Updated: 10 August 2011)

Guidelines on Private Debt Securities
(Revised: 12 July 2011)
(Effective: 12 August 2011)

Guidelines on Trust Deeds
(Revised: 12 July 2011)
(Effective: 12 August 2011)

Guidelines on Islamic Securities (Sukuk Guidelines)
(Revised: 12 July 2011)
(Effective: 12 August 2011)

Eligibility Requirements for Private Retirement Scheme Providers

(Issued: 5 December 2011)

BOOKS, REPORTS AND CONSULTATION PAPERS

Public Response Paper – Review of Sophisticated Investors and Sales Practices for Unlisted Capital Market Products
(Issued: 28 January 2011)

Public Response Paper – Proposed Updates to Guidelines on Contents of Applications Relating to Take-overs and Mergers
(Issued: 28 January 2011)

Public Response Paper – Proposed Amendments to Bursa Malaysia Securities Berhad Listing Requirements on Privatisation of Listed Companies via Disposal of Assets
(Issued: 28 January 2011)

Securities Commission Malaysia Annual Report 2010
(Issued: 17 March 2011)

Laporan Tahunan 2010 Suruhanjaya Sekuriti Malaysia
(Issued: 17 March 2011)

Audit Oversight Board Annual Report 2010 / Laporan Tahunan 2010 Lembaga Pemantauan Audit
(Issued: 31 March 2011)

Capital Market Masterplan 2
(Issued: 12 April 2011)

Public Response Paper – Proposed Implementation of the Continuing Professional Development (CPD) Framework to Replace the Current Continuing Professional Education (CPE) Programme

(Issued: 28 June 2011)

Corporate Governance Blueprint 2011

(Issued: 8 July 2011)

Public Consultation Paper – Independent Chairman and Voting by Poll

(Issued: 15 November 2011)

BOOKLETS, BULLETINS AND PAMPHLETS

Booklets

List of Shariah-compliant Securities by the Shariah Advisory Council of the Securities Commission Malaysia/ Senarai Sekuriti Patuh Syariah oleh Majlis Penasihat Syariah Suruhanjaya Sekuriti Malaysia

(Issued: 27 May and 25 November 2011)

Malaysia's Capital Market

(Issued: 30 November 2011)

Bulletins

Malaysian ICM

(Issued: March, June and October 2011)

Capital.My

(Issued: April, July and December 2011)

The Reporter

(Issued: April and August 2011)

SECURITIES COMMISSION WEBSITES

www.sc.com.my

www.min.com.my

2011 AT A GLANCE

A snapshot of significant developments and achievements recorded during the year.

Jan11

The Chairman delivered the keynote address at the RAM Annual Bond Market Conference 2011.

Jan19

Securities Industry Dispute Resolution Center (SIDREC) launched.

Feb14

Visit by the Securities & Exchange Commission of Cambodia.

Mar1

The Chairman delivered the opening keynote at the International Corporate Governance Network (ICGN) Conference.

JANUARY



FEBRUARY



MARCH



Jan10

Deterrent sentence secured in the FX Capital ponzi scheme.

Jan12

Zainal Izlan Zainal Abidin appointed Executive Director for Islamic Capital Market.

Jan12

Jail sentence and fine secured in the Suremax Group Berhad shares manipulation case.

Jan25

Q4 2010 scorecard released.

Jan25

Hosted a Public Lecture by Dr Volker Nienhaus under the SC-UM Visiting Scholar Programme.

Feb16

The Chairman delivered the keynote address at the EU-Malaysia Chamber of Commerce and Industry (EUMCCI) Breakfast Dialogue.

Feb28

The Chairman delivered the keynote address and presented awards at The Edge-Lipper Awards 2011.

Feb28

Federation of Investment Managers Malaysia (FIMM) recognised as a Self-Regulatory Organisation (SRO) for the unit trust industry.

Mar11-13

Co-hosted the 2nd SC-OCIS Islamic Finance Roundtable in Oxford, UK, on 'Islamic Finance and the Public Good'.

Mar17

The *SC Annual Report 2010* published.

Mar29

The Chairman presented awards at StarBiz-ICR Awards 2010.

Mar30

Guidelines on the Registration of Credit Rating Agencies issued.

Apr 6–10

Participated in the Malaysia International Halal Showcase (MIHAS) organised by MATRADE.

Apr 7–8

The Chairman delivered the closing remarks at the AIF International Symposium 2011, for which she is the patron.

May 3

The Chairman delivered the keynote address at the Corporate Directors Conference 2011.

June 1–2

Training programme held for the Royal Malaysia Police (PDRM) to enhance understanding of securities laws and its enforcement.

June 8

The Chairman delivered the keynote address at the 2nd World Islamic Banking Conference: Asia Summit hosted by the Monetary Authority of Singapore.

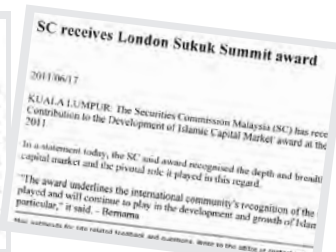
APRIL



MAY



JUNE

**Apr 12**

The *Capital Market Masterplan 2* launched.

Apr 20–26

Participated in Minggu Saham Amanah Malaysia (MSAM) organised by PNB.

Apr 21

Directors of Bestino Group charged for failing to register a prospectus with the SC in relation to the issuance of Redeemable Preference Shares.

Apr 21

Q1 2011 scorecard released.

May 23

Revised *Guidelines on Compliance Function for Fund Managers* issued.

May 26

The Chairman presented awards at the Malaysian Investor Relations Association's (MIRA) inaugural Investor Relations Award ceremony.

May 27

MoU signed with The Office of Agricultural Futures Trading Commission of Thailand

June 6

The Chairman delivered a luncheon address to Heads of Mission and Foreign Diplomats to Malaysia, organised by Labuan FSA.

June 7

Group managing director of Kosmo Technology Industrial Berhad charged for providing false information to Bursa Malaysia.

June 17

Awarded the prestigious "Outstanding Contribution to the Development of Islamic Capital Market" award at the 5th London Sukuk Summit dinner.

June 17

The Chairman presented awards at the RAM league Awards 2011.

June 27–29

The SC jointly-organised the 6th Islamic Markets Programme with SIDC.

July 8

*Corporate Governance
Blueprint 2011* launched.

July 11

The Chairman received '2011 Corporate Award in the Public Sector Category' at Institute of Internal Auditors Malaysia (IIAM)'s 70th International Conference.

Aug2-22

A series of CMP2/CG Blueprint post-launch stakeholder dialogues held.

Sept 6

The Chairman delivered the keynote address and received the Industry Leadership Award at Triple A Islamic Finance Awards Luncheon organised by The Asset magazine.

Sept 9

Hosted Hari Raya
Open House for key
stakeholder

JULY



AUGUST

SC issues revised outsourcing guidelines

[illegible]

SEPTEMBER



July 12

Revised *Private Debt Securities (PDS) Guidelines, Sukuk Guidelines and Trust Deed Guidelines* issued.

July 22

Q2 2011 scorecard released.

July22

Co-hosted a networking session and talk by Mr Ashok Rao, President of The Indus Entrepreneurs (TiE).

Aug9

Revised *Guidelines on Outsourcing for Capital Market Intermediaries* issued.

Sept14

'Train the Trainer for Teachers' programme launched, to mark the start of a collaboration with Ministry of Education on investor education.

Sept 14

Letter of Intent signed with Tsinghua University, China to develop an annual five-day Malaysia-China Financial Programme for Senior Executives (MCFP).

OCTOBER

Oct 4

Awarded 'The Most Outstanding Institution Contribution to Islamic Finance' at KLIFF Islamic Finance Awards Ceremony 2011.

Oct 11

The Chairman delivered a speech at MTDC KL Venture Capital Symposium.



NOVEMBER

Nov 2–4

Hosted the 12th Annual Emerging Markets Programme.

Nov 8

Co-organised and co-hosted the 8th ASEAN Finance Minister's Investor Seminar (AFMIS) with the Ministry of Finance.



DECEMBER

Dec 1–2

Hosted the IOSCO Asia-Pacific Regional Committee Meeting.

**Oct 12**

The Chairman launched the Thomson Reuters Bond Pricing Agency Malaysia Bond/Sukuk Index Series.

Oct 27

Q3 2011 scorecard released.

Oct 28

Director of Rantau Simfoni charged for illegal trading in futures contracts.

Oct 28

Directors of Transmile Group sentenced to jail and fined for misleading disclosure.

Nov 10

Hosted the 5th International Islamic Capital Market Forum.

Nov 29–30

Hosted the IOSCO Seminar Training Programme.

Nov 29–Dec 2

The Chairman delivered the keynote address at Bursa Malaysia's Corporate Governance Week.

Dec 5

Eligibility Requirements for Private Retirement Scheme Providers issued.

INVESTOR EDUCATION PROGRAMMES

PROGRAMME	DESCRIPTION	REACH
Minggu Saham Amanah Malaysia, Ipoh	The SC participated in one of Permodalan Nasional Bhd's main events to showcase their companies and products, as well as to educate the public on investing in general and unit trust as an investment product.	177,000 visitors
Karnival Hari Guru, National level	The SC participated in this carnival run in conjunction with the national Teachers' Day celebration. We participated in an exhibition, ran an investor clinic and conducted talks to teachers and the public.	10,000 visitors
Himpunan Sejuta Belia	The event was held in conjunction with the celebration of Youth Day at the national level. The SC participated in an exhibition, ran an investor clinic and conducted talks to the public particularly the youth.	2,000 visitors
Hari Penggalakan Sains dan Kesedaran Kewangan (Rural outreach programme in Sarawak)	A programme co-organised with Sarawak Chief Minister's Office. The SC led the financial literacy programme which comprised an investor clinic, exhibition, talks, <i>Kids & Cash</i> , <i>Teen & Cash</i> , <i>Cash@Campus</i> and B.M.W. (<i>Be Money Wise</i>) seminars targeted at school children and the local community.	3,000 visitors
Karnival Pengguna, Ministry of Domestic Trade, Co-operative and Consumerism KPDNKK.	The SC participated in this carnival in conjunction with the national celebration of Consumers Day. We ran an investor clinic, participated in an exhibition and conducted talks to the public.	10,000 visitors
Minggu Kesedaran Kewangan	An event organised the Financial Education Working Committee (an inter-agency committee comprising BNM, SC, AKPK, PIDM and FMB). The SC's participation included an investor clinic, exhibition, talks, and SIDC's <i>Kids & Cash</i> , <i>Teens & Cash</i> as well as <i>Cash@Campus</i> workshops targeting school children and college/ university students.	10,000 visitors
Investor education roadshows in collaboration with the Federation of Malaysian Consumers Associations (FOMCA) at three locations in the Klang Valley	To promote and educate consumers through talks, exhibition and investor clinic.	880 participants
Investor Clinics in collaboration with the Co-operative Commission of Malaysia (Negeri Sembilan) and Koperasi Negeri Sembilan	To promote and educate co-operative members through talks, exhibition and investor clinic.	170 participants
Educating investors through the SC's investor education collateral during exhibitions/seminars	During exhibitions, visitors participated in games run at our booth and in answering quizzes. The questions in the quiz are designed to also gauge their basic understanding of the capital market and how susceptible they are to scams.	2,305 participants

PROGRAMME	DESCRIPTION	REACH
SC Investor Clinics	The clinics comprised: <ul style="list-style-type: none"> – one-to-one sessions to address concerns of individual investors – talks focusing on scams, unlicensed investments, rights and responsibilities of investors. The clinics served as a platform for the sharing of real life investment issues faced by the audience.	829 participants
Smart Partnership Programme	In collaboration with the BNM/FOMCA/KPDNKK and other government agencies, the SC sent speakers to provide talks to targeted groups, such as staff of government agencies, community colleges, universities and the general public.	1,740 attendees
Radio Series – Multilingual nationwide edu-mercials	A series of multilingual investor education edu-mercials was developed to reach a nationwide audience via four radio stations, namely SINAR fm, Hitz fm, MY fm and THR Raaga. The series comprising 30-second edu-mercials went live on 12 Dec and continues to run over a period of 14 months.	Nationwide
Educational leaflets and posters on scams, basic investors rights, as well as saving money and investing	Distribution of education leaflets and posters through outreach programmes by the SC and SIDC. Various NGOs, government agencies, consumer associations, institutions of higher learning and the media have also helped distribute the leaflets and posters.	Distributed 242,741 leaflets and 2,400 posters
Kids & Cash and Teens & Cash	Fun and interactive programmes aimed at inculcating a healthy money management culture as well as basic understanding of investment.	29,803 students
B.M.W. (Be Money Wise) seminar	A practical and sensible programme that helps parents, rural communities, blue collar workers and women to understand money management, increase familiarity with investing, create awareness of investors' rights and responsibilities as well as develop a high level of caution towards scams.	8,009 participants
Cash@Campus	A programme tailored to raise the capacity of university students to manage their savings and investment.	3,035 students
Money@Work	A basic hands-on programme where employees of public and private organisations learn how to take control of their finances and plan for a safe and secure future.	1,697 employees
Media articles	A series of editorials published in major newspapers and magazines discussing smart investing, the basics of financial management and spotting fraudulent investment schemes. A total of 52 articles were positioned in various media including the <i>New Straits Times</i> , <i>Money Compass</i> , <i>theLink</i> , <i>Pa & Ma</i> , <i>Berita Harian</i> and <i>Harian Metro</i> .	Nationwide
Malaysian Investor website (www.min.com.my)	The main point of reference for the public and investors alike, it focuses on the basics of money management and investment techniques. Investors who need clarification can also submit their queries via the website.	<ul style="list-style-type: none"> • Two new articles every month • 67 enquiries received • Average hit rate: 500,000 hits monthly

PROGRAMME	DESCRIPTION	REACH
Campus kaChing! 2011	An annual inter-varsity money management competition where students used creative speech and song performances to convince their peers to manage their money well.	20 universities
Kids & Cash National Quiz Competition	An inter-school online competition aimed at assessing students' understanding of financial management, general knowledge and economic developments.	2,116 schools participated
Train the Trainer for Teachers Programme for Kids & Cash and Teens & Cash	A hands-on training programme to equip school teachers with the ability and knowledge to conduct <i>Kids & Cash</i> or <i>Teens & Cash</i> in their respective schools. This is designed to multiply the reach of these programmes by leveraging on existing resources.	100 teachers
Institutional Investors Series (IIS)	An annual series aimed at exploring the latest trends, products and challenges faced by institutional investors. The programme, which is supported by the SC, is sponsored by Aberdeen Asset Management, Amundi Asset Management (formerly Credit Agricole Asset Management), BNP-Paribas Investment Partners, Franklin Templeton Asset Management and Nomura Asset Management.	40 participants

ACRONYMS AND ABBREVIATIONS

ABS	Asset-backed debt securities
ACMF	ASEAN Capital Markets Forum
ADB	Asian Development Bank
AFMIS	ASEAN Finance Ministers' Investor Seminar
AIF	ASEAN Infrastructure Fund
AMLA	<i>Anti-Money Laundering Act 2001</i>
AML/CTF	<i>Anti-Money Laundering/Combating Terrorist Financing</i>
AMLATFA	<i>Anti-Money Laundering and Anti-terrorism Financing Act</i>
AOB	Audit Oversight Board
APEC	Asia-Pacific Economic Cooperation
APRC	Asia-Pacific Regional Committee
ASEAN	Association of South-East Asian Nations
BMD	Bursa Malaysia Derivatives Bhd
BNM	Bank Negara Malaysia
Bursa Malaysia	Bursa Malaysia Securities Bhd
CCM	Companies Commission of Malaysia
CDS	Central Depository System
CFTC	US Commodities and Futures Trading Commission
CG	Corporate governance
CIS	Collective investment scheme
CMDF	Capital Market Development Fund
CMP	<i>Capital Market Masterplan</i>
CMSA	<i>Capital Markets and Services Act 2007</i>
CMSL	Capital Market Services Licence
CMSRL	Capital Market Services Representative's Licence
CPD	Continuing Professional Development
CP/MTN	Commercial Papers/Medium Term Notes
CPO	Crude Palm Oil
CRA	Credit Rating Agency
CSR	Corporate Social Responsibility
EMBI	Emerging Markets Bond Index
EMC	Emerging Markets Committee
EPF	Employees Provident Fund

ETF	Exchange-Traded Fund
ETP	Economic Transformation Programme
EU	European Union
FAQs	Frequently-Asked Questions
FBMKLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FIA	<i>Futures Industry Act 1993</i>
FIMM	Federation of Investment Managers Malaysia
FKLI	FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures
FLR	Front-line Regulator
FPAM	Financial Planning Association of Malaysia
FPLC	Federation of Public Listed Companies
FRS	Financial Reporting Standards
FSAP	Financial Sector Assessment Programme
FTA	Free Trade Agreement
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
GLC	Government-linked Company
HCD	Human capital development
HCM	Human capital management
IA	Internal audit
ICM	Islamic capital market
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IMP	Islamic Markets Programme
IOSCO	International Organization of Securities Commissions
IPO	Initial public offering
ISO	International Organization for Standardization
IT	Information Technology
ITI	Industry Transformation Initiative
Labuan FSA	Labuan Financial Services Authority
M&A	Mergers and acquisitions
MAICSA	Malaysian Institute of Chartered Secretaries and Administrators
MASB	Malaysian Accounting Standards Board
MATRADE	Malaysia External Trade Development Corporation
MAVCAP	Malaysian Venture Capital Management Bhd
MGS	Malaysian Government Securities
MIA	Malaysian Institute of Accountants
MIBA	Malaysian Investment Banks Association
MICG	Malaysian Institute of Corporate Governance
MICPA	Malaysian Institute of Certified Public Accountants
MIFC	Malaysia International Islamic Financial Centre
MITI	Ministry of International Trade and Industry
MoU	Memorandum of understanding
MRA	Mutual Recognition Agreement
MSCI	Morgan Stanley Capital International
MVCA	Malaysian Venture Capital and Private Equity Association
MVCDL	Malaysian Venture Capital Development Council
NAV	Net asset value

NEM	National Economic Model
NKEA	National Key Economic Area
OCIS	Oxford Centre for Islamic Studies
OECD	Organisation for Economic Co-operation and Development
PDS	Private debt securities
PE	Private equity
PLC	Public-listed companies
PRS	Private retirement scheme
REIT	Real estate investment trust
ROSC	Report on Standards and Codes
SAC	Shariah Advisory Council
SBC	Stockbroking company
SC	Securities Commission Malaysia
SCA	<i>Securities Commission Act 1993</i>
SIA	<i>Securities Industry Act 1983</i>
SICDA	<i>Securities Industry (Central Depositories) Act 1991</i>
SIDC	Securities Industry Development Corporation
SIDREC	Securities Industry Dispute Resolution Center
SPV	Special purpose vehicle
SRO	Self-regulatory organisation
TOM Code	<i>Malaysian Code on Take-overs and Mergers 2010</i>
UB	Universal broker
UK	United Kingdom
US	United States
UTMC	Unit trust management company
VC	Venture capital
VCC/VCMC	Venture capital corporation/venture capital management corporation
WTO	World Trade Organisation

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