



**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia

annual report  
**2007**



## **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



The year 2007 proved to be challenging for the world's financial markets. Concerns over credit quality in the US subprime mortgage market quickly turned into a wholesale reappraisal of risk across financial markets. The resultant upheaval in credit and money markets, as investors fled to safe assets, soon gave way to contagion across other asset classes and bouts of equity market volatility that had not been seen for nearly a decade. But in spite of these concerns, the Malaysian capital market scaled new heights. The stock market surpassed many of its regional peers in terms of price performance, and experienced a significant rise in liquidity on the back of fair and orderly trading. The futures market also recorded strong gains while deepening considerably. The bond market, now Asia's fourth largest, saw record issuance and approvals of both ringgit and foreign-currency paper. These developments drove further growth in the unit trust industry, and a steady stream of innovation which included structured products and exchange-traded funds. Meanwhile, the Malaysian Islamic capital market continues to strengthen in terms of size and diversity of products.

The market's resilience and continuing growth reflect the strong foundations which have been built over the years. This has been important in instilling market confidence, and I welcome the clear affirmation of the market's strengths by various international organisations during the year. In its *Doing Business 2007* report, the World Bank ranked Malaysia fourth in the world for the quality of our investor protection; the Asia Pacific Group ranks us fifth worldwide for compliance with Financial Action Task Force standards on money-laundering and counter-terrorist financing; and Malaysia scored top marks for disclosure and transparency of accounting standards in the *Report on the Observance of Standards and Codes* by the World Bank. The market's

international competitiveness was further underscored by PricewaterhouseCooper's review, which identified Malaysia as having recorded the third largest value of announced M&A deals in the Asia-Pacific ex-Japan (RM120 billion) after China and India, both economies many times the size of ours.

In 2007, we worked harder to reinforce these strengths, guided throughout by the clear vision set out by the *Capital Market Masterplan*: we continued to review and enhance the framework of regulation under which we and the market operate; we improved our capabilities and capacity for effective supervision, surveillance and enforcement; and we continued to introduce initiatives to improve the efficiency and competitiveness of Malaysia's capital markets.

### Stronger Regulation

Over the past year, we introduced important changes to the regulatory framework targeted at key constituencies of the capital market. A major achievement was the *Capital Market and Services Act 2007*. The Act streamlines securities regulation, introduces a single licensing regime, facilitates the establishment of self-regulatory organisations, and strengthens investor protection. We also revised and updated the *Malaysian Code of Corporate Governance* to strengthen the role of independent directors in general, and of audit committees in particular.

The Code now requires all PLCs to carry out their own internal audits. The reporting line for internal auditors clearly holds the board accountable for ensuring that the internal audit process is effective. Audit committees have been strengthened: members must be non-executive and the

majority must be independent; they must all be financially literate and one must be a qualified accountant – forming a nexus of continuous engagement between the company chairman, CEO, CFO, head of internal audit and external auditors. We also set in motion the establishment of an accounting oversight board, targeted at the accounting profession, to emphasise the significance of the role of auditors and audit quality in attesting and providing credibility to the financial statements prepared and verified by companies.

### Tackling Market Abuse and Corporate Misconduct

We widened the scope of our financial and corporate surveillance, as well as the breadth of actions that we take against misconduct. These range from directing companies to restate and reissue their accounts and suspending auditors, to prosecuting company officials. We also expanded our principles-based approach into the area of supervision. This gives intermediaries the flexibility to innovate and compete without being hampered by unnecessary regulatory costs. At the same time, they have come under stronger oversight and made more accountable for their conduct.

We have taken a preventive approach to inculcate a strong compliance culture within the industry. For this, we actively engaged with directors, senior management and industry associations to ensure an effective application of regulatory requirements and responsibilities. We enhanced our inspection programmes using risk-based assessments on thematic and high risk areas to prevent possible market misconduct. During the year, we also stepped up our supervisory assessments of market participants by conducting a series of diligence reviews, surprise inspections, and routine risk-focused inspections of investment banks, stockbroking, and fund management companies. To reflect the growing importance of the investment management industry in our capital market, we established a specialised department to supervise the investment management industry with particular focus on the unit trust management and fund management companies.

As part of our drive towards improving the quality of our market and to ensure high standards of conduct, we have taken action where breaches of regulatory requirements were observed. Among the sanctions included substantial fines,

reprimands and suspension from registering new dealer's representatives. To ensure we have relevant resources to monitor our increasingly sophisticated markets, we invested in state of the art surveillance systems and further enhanced the skills of our teams.

Tackling market abuse and corporate misconduct remains one of our highest priorities, and we continue to invest more in our capability to enforce the rules we set, to manage risks and to handle public complaints. In 2007, we adopted a new approach to enforcement that makes greater use of civil and administrative remedies to achieve a swift and fair resolution to cases. We actively applied the new approach: in 2007, we adopted pre-emptive measures to freeze assets and disgorge ill-gotten gains and make restitution. The following four cases alone involved a sum of over RM73 million covered by this new approach:

- In the case of Swisscash, we obtained a *mareva* injunction to prevent disposal of assets and secured an order to compel the return of RM35 million from 14 bank accounts in Hong Kong and Singapore. In Malaysia, 22 were also frozen. We facilitated a meeting of regulators from eight different countries in Hong Kong to trace fund transfers from bank accounts in one country to another;
- In the case of Ayer Molek Rubber Company, we obtained an injunction against RM20 million in proceeds from the company's sale of land;
- Investors in Powerhouse Asset Management Company received restitution worth RM10.9 million in total, and we filed a civil suit against the company and the fund manager for the shortfall of RM1.9 million; and
- We commenced a civil suit against the managing director of FTEC Resources for restitution of the RM2.5 million that he is charged with utilising for his own benefit.

Securities cases involving other jurisdictions highlighted the market's growing international linkages and the importance of cross-border co-operation with our counterparts. In 2007, the SC's strong standing in the international regulatory arena and our efforts in supervision and enforcement were recognised when we were admitted as a signatory to the

IOSCO Multilateral Memorandum of Understanding. The IOSCO MMOU is an international benchmark for co-operation and information sharing among leading global regulators for cross-border securities offences. The successful acceptance of the SC into this select group of regulators demonstrates our strong capacity in regulating the capital market.

The enforcement initiatives I have described are aimed at strengthening regulatory discipline. However, this is only one cornerstone of a "triangle of disciplines" that underpins a healthy and vibrant market. I am encouraged by signs that the other cornerstones, self discipline and market discipline, are also being strengthened. I especially welcome the growing efforts of independent directors to shoulder their responsibilities and blow the whistle on dishonest corporate officers. This self discipline, steeped in strong individual values, is the basis for fundamentally honest, decent boards, and top management who will not break the law and who will embed a culture that deters others from doing the same. I also wish to recognise the vigilance of others – including minority shareholders, auditors, and members of public and staff – who have contributed to the success of our enforcement work by coming forward with information on inappropriate corporate conduct.

### Enhancing Quality of Listings

In terms of attracting foreign companies to make their primary or secondary listings in Malaysia, we see a window of opportunity in regional fund-raising. South-east Asian infrastructure funding requirements alone are estimated at US\$150 billion over the next five years. Malaysia is in a good position to bridge this need.

First, we have a competitive market for initial public offerings: direct listing costs, including advisory fees, are low; the regulatory turnaround time is now comparable, if not faster, than other regional markets; and liquidity in Bursa Malaysia has improved considerably. Second, we continue to have a healthy market for IPOs, with strong interest on the part of issuers to access the market. There is also strong investor appetite to invest in these IPOs, judging from the oversubscription rate observed in 2007. And third, our stringent approach to vetting companies, mainly based on quality of governance, has led to higher

quality of IPOs, translating into better returns for investors and the further strengthening of confidence. This is reflected in the higher net profits among the IPOs that have published their 2006 and 2007 accounts, while at the end of 2007, 63% of new IPOs for the year were trading above their IPO prices. Fourth, a high level of M&A activity goes hand-in-hand with a vibrant primary market, and we are seeing a healthy trend in M&A activities in Malaysia and the development of a Malaysian private equity industry.

Even so, we recognise that more can be done to make Bursa Malaysia a preferred listing destination for local companies, and to attract foreign companies to make their primary or secondary listings in Malaysia. We responded to these needs by freeing-up listing rules, wherever possible streamlining them with international practices, and by providing incentives to encourage M&A. Measures concerned with listing included allowing foreign companies to list their entire issued capital with full trading fungibility between Bursa Malaysia and other exchanges, and the introduction of a "greenshoe" option facility and price stabilisation mechanism for IPOs in line with international practices. Transparency is the key to instilling confidence in the fund-raising process and we will introduce a public exposure period for IPO prospectuses in 2008.

### More Innovative and Efficient Intermediation

Our work involving the intermediation industry this year focused on bottlenecks in distribution and improving efficiency in general. We noted the experience of other markets, where deregulation and liberalisation helped to accelerate capital market growth by expanding the customer base. More open markets typically have a wider range of services, prices, and products of a higher quality. This year, we continued the process of liberalisation started in 2004 and welcomed two new foreign fund managers to our market. Further liberalisation was announced in Budget 2008 allowing for significant foreign participation to promote Malaysia's ICM as an international hub with three new stockbroking licences offered to facilitate business and order flows from the Middle East. We also raised permissible foreign ownership in fund management and REIT management companies to 70%. For the bond market, multilateral development banks and foreign multinational corporations may now issue both local and

foreign-denominated bonds, while sophisticated investors are allowed to conduct secondary trades in foreign-currency bonds.

Turning to intermediation, I see this period as one of unprecedented opportunity for Malaysian intermediaries. Asia is now the world's growth locomotive, and domestic intermediaries should seize the opportunities available to them. However, competition has become more intense, and it is vital that intermediaries engage in providing competitive value-added services. In 2007, we partially liberalised commission rates by allowing fully negotiable rates for Internet trading. As a result, investors have a choice and benefit from competitive pricing that is commensurate with the level and quality of service provided. It also encourages intermediaries to be more creative and innovative and I hope the industry will take the opportunity to promote their services and offer a better proposition to attract more customers to the stock market.

### **Globally Competitive Islamic Capital Market**

Our Islamic capital market continues to raise the bar globally in terms of product innovation and end-to-end Shariah-compliant services. However, competition from other jurisdictions for this fast-growing segment has intensified and we have taken steps to collaborate with stakeholders, and to create a more liberalised environment for Islamic financial activities, including working together with Bank Negara Malaysia on the Malaysia International Islamic Financial Centre initiative.

At the same time, we sought to increase the connectivity of Malaysia's market within the global market network. This year, we signed a mutual recognition agreement with the Dubai Financial Services Authority, the first between two Islamic markets, for the cross-border distribution and marketing of Islamic funds between the two Islamic centres. This was followed by a two-way flow of marketing activities between Malaysia and the Gulf countries.

I am happy to report that we were named "Best Regulator for Islamic Funds" by Terrapin Pte Ltd this year. The award acknowledges our pioneering efforts and leadership in the development and promotion of a comprehensive ICM. It is also an endorsement of the government's efforts to position Malaysia as a global hub in the origination, distribution,

and trading of Islamic funds and wealth management.

### **Helping Investors Help Themselves**

Greater product complexity poses higher risks to investors. We believe that the correct approach is not to shield them from such risks but to make sure that they are better equipped to manage the investment risks. To achieve this, we have developed a blueprint for investor education to be implemented in 2008. We will take a two-prong approach to develop knowledgeable and vigilant investors: the first involves a long-term strategy for promoting nationwide financial literacy; the second is to encourage the industry to take responsibility for educating their customers. We are preparing to implement this blueprint by establishing new accountabilities for both the SC and the newly-corporatised Securities Industry Development Corporation. The SC retains the important role of planning and monitoring the implementation of the blueprint, and will engage directly with the industry.

We have reached out to investors through various means. In 2007, we launched an extensive publicity campaign against illegal Internet investment schemes which helped significantly to reduce the level of such activities. We also renewed the CMDF-Bursa research scheme for small companies; this scheme had been well-received by investors since its launch a few years ago.

### **More Efficient and Accountable Regulator**

We met our time charter for 92% to 100% of our applications – ahead of the KPI benchmark of 90% set for 2007. We are promoting greater transparency and accountability and our performance scorecard is now published quarterly. We also strengthened our public consultation process. For the CMSA, our roll-out plan included extensive briefings for industry, including to MPs and backbenchers. In 2007, we participated in 80 events and 50 speaking engagements and stepped up management engagement with senior editorial teams thereby cultivating a strong relationship with the media.

We continued to reduce our time for approval of corporate proposals: in 2007, we reduced time-to-market for new funds from four months to just 21 days, and facilitated the introduction of fund supermarkets.

To assess our performance, we undertook a feedback audit with internal and external stakeholders. The feedback was positive suggesting that the SC has been improving its perceived personality – in terms of professionalism and communication – with stakeholders and they are happy with our focus on investor protection and increased efficiency in processing applications. Following the feedback, a strategy was developed to enhance the SC name and the values that we want associated with our name. Internal alignment strategies are being rolled out.

### Everyone's Contribution

We could not have fulfilled our regulatory and developmental mandate without the partnership of industry and all our

stakeholders. I am grateful for the prompt response given to us whenever consultations are sought, resulting in a speedier delivery of results and services. Again, I would like to register my deep appreciation for my fellow Commission members, the Shariah Advisory Council members, and our management team. Without them, my journey through the many challenges of the year would have been difficult, if not impossible. I also want to say how proud I am of our staff who have worked hard and delivered on their job goals with much integrity and professionalism. To all who have contributed to our achievements in 2007, I thank you.



**Zarinah Anwar**



## Part One

### **Protect investors and maintain market confidence**

Investor confidence in the integrity and fairness of the capital market is key to the process of capital formation. Investors choose jurisdictions where corporate governance standards are high and their investments safe. We must strive for quality markets and companies built on a track record of good corporate conduct and value creation.

# PROTECT INVESTORS AND MAINTAIN MARKET CONFIDENCE

## INTRODUCTION

Issuers, intermediaries, investors, and advisers all have a role in promoting market integrity, building market confidence and strengthening investor protection. The SC continues to be committed to improving corporate governance standards and quality of corporate proposals. In carrying out our corporate surveillance functions, we continue to proactively review and analyse financial and non-financial information of PLCs, placing strong emphasis on the substance of their transactions in order to identify issues that may be of concern at the earliest possible stage.

On the enforcement front, we have worked hard to deter, detect, investigate, and penalise those who breach our laws. Our strategic approach to enforcement has proved to be effective in achieving desired outcomes. Driving home our conviction that breaches of securities laws and false financial reporting will not be tolerated, we took criminal action against those who erred. Recovering monies for investors who were cheated, various civil suits were filed and injunctions obtained to protect the monies from being dissipated. We did not stop there – we shut down illegal Internet investment schemes, froze proceeds from money laundering activities, and imposed fines and compounds.

Our recognition of the importance of an informed investor base in an increasingly complex and sophisticated market is reflected in our increased emphasis on investor awareness initiatives. We developed a blueprint for investor education to promote nationwide financial literacy which seeks to encourage the industry to incorporate investor education in their marketing activities.

## QUALITY CORPORATE PROPOSALS

Among the measures taken to improve quality of corporate proposals were pre-submission consultations, post-decision meetings with issuers and advisers, publication of grounds for rejection, and regular dialogues with market participants. These measures resulted in a better understanding and appreciation of the SC requirements as reflected in a significantly higher approval rate in 2007. The approval rate for IPO proposals was 90%, a marked increase from 43% recorded in 2006. The approval rates for proposals for restructuring and fund-raising through issuance of securities, were 46% and 99% respectively, again a commendable improvement when compared with 17% and 92% achieved in 2006.

More frequent interaction and dialogue between market participants and the SC not only improved the quality of corporate proposals, but also increased our efficiency in processing them. For example, potential issues were identified and resolved or mitigated prior to formal submission of proposals. This resulted in more efficient processing by the SC and reduced time-to-market. In this regard, we achieved a better turnaround time for corporate submissions where 94% were processed within the time charter – a significant increase of 84% from 2006.

## Due Diligence

With the capital market developing at an exponential rate and market players offering internationally issued products, and value propositions which are increasingly sophisticated

and complex, responsible due diligence practices are crucial in maintaining a disciplined and competitive market, particularly in a disclosure-based environment.

The increased accountability expected of market professionals make due diligence an indispensable tool of self regulation. It is what will protect them from the ire of both the market and the regulators when things go wrong. The role played by advisers and experts is increasingly important in maintaining the quality of issuers so that investors can make measured investment decisions based on sound and accurate information.

The role of advisers and experts in conducting due diligence has been actively debated for many years and has received much attention lately as a result of the spate of recent market failures, which have again prompted the often-asked question “where were the advisers and experts – were they assertive in conducting the reasonable enquiries within their expertise and vocation? Could such wrongdoing be avoided or mitigated had the advisers and experts been more assertive in their actions?”

To this end, the SC has undertaken several initiatives to strengthen the due diligence framework with a view to–

- improve the level of due diligence on the part of advisers and experts;
- emphasise the onus placed on advisers and experts to be accountable for information submitted to the SC; and
- achieve clarity in the scope and role of advisers and experts in the due diligence process.

The *Guidelines on Due Diligence Conduct* will be issued in the first quarter of 2008. It sets out the obligations of issuers, advisers, and experts in conducting due diligence, as well as our expectations on how these parties should undertake these obligations. The draft was released to the intermediaries and the public for consultation in October 2007 and we have received positive feedback from the Malaysian Investment Banking Association, The Association

of Banks in Malaysia, The Malaysian Institute of Certified Public Accountants, MIA, Bar Council of Malaysia, Minority Shareholder Watchdog Group as well as intermediaries from the unit trust industry.

## CORPORATE SURVEILLANCE

The adoption of another 10 revised Financial Reporting Standards (FRS) effective 1 July 2007 was reflective of the MASB’s effort to formally align the FRS with international financial reporting standards. This common financial reporting platform is expected among others, to facilitate international business and investments in Malaysia.

Where there were complex or practical accounting issues, we adopted a pragmatic approach by encouraging discussions with PLCs, industry experts, the accounting fraternity, and others, as a means to address such issues. Alternatively, specific cases on implementation of the FRS were referred to the Financial Reporting Standards Implementation Committee (FRSIC) of the MIA, which was set up early this year to provide guidance.

In 2007, there was a noticeable improvement in the standard of financial reporting by PLCs which took initiatives to keep abreast with developments and to achieve quality in their financial reporting.

### Financial Reporting Issues

- Profits reduced due to FRS requirements to write off the difference between the current market price and the contracted price of the shares issued for an acquisition of business;
- Profits increased by recognising listing premium as an intangible asset instead of writing off as an expense; and
- Inconsistent treatment on depreciation of hotel properties arising from different interpretation of a change in FRS requirement.

Corporate governance departures in financial reporting in 2007 pointed towards the requirement for greater emphasis on front-line controls exercised by all capital market participants, particularly the directors, audit committee members, and senior management of PLCs.

As at 31 December 2007, a total of 459 cases were placed under the SC's surveillance (Table 1). Of these, 238 were new cases initiated during the year which included 194 routine coverage cases. The remaining 44 new cases were PLCs which we had actively reviewed or closely monitored arising from issues of concern that had come to our attention.

#### Financial and Corporate Surveillance

- Creation of fictitious sales to boost the PLC's revenue and profits, and then using the fictitious sales invoices to obtain banks' discounting facilities;
- Settlement of "debtors" balances by transferring the balances to "Property, Plant and Equipment (PPE)" account under the guise of acquisition of PPE by the PLC, payments of which were made by the "debtors"; and
- False representation about status of bank accounts which comprised monies held in trust.

Table 1  
Cases Under Surveillance

	2007	2006
Cases brought forward	221	230
Cases initiated	238	103
<b>Total</b>	<b>459</b>	<b>333</b>
Cases closed	(140)	(112)
Cases carried forward	319	221
	2007	2006
Active review	22	69
Monitoring	57	56
Routine coverage	240	96
<b>Total</b>	<b>319</b>	<b>221</b>

In facilitating our financial and corporate surveillance, we held a total of 84 meetings with directors, auditors, advisers and other relevant parties as part of our proactive engagement approach. SC representatives also attended several site visits and general meetings (annual and extraordinary) of PLCs as observers.

#### STRATEGIC APPROACH TO ENFORCEMENT

Our strategic approach to enforcement, begun in 2006, was more compelling this year. In appropriate cases, we vigorously instituted civil and administrative actions as we continued to exercise our criminal prosecution powers. With increasing awareness of international money laundering activities, we expanded on the type of enforcement actions by freezing cash from illegal activities under the provisions of *Anti Money Laundering & Anti Terrorism Financing Act 2003* (AMLATFA).

In deciding which action to take, we carefully considered the type of sanction or relief which is most appropriate. Where investors lost their money and there was prospect of recovery, we sought civil relief for restitution from the court. To protect the monies from being dissipated, we obtained injunctions to freeze them. Where the public was misled by false financial information, criminal charges were preferred against those responsible. Illegal investment schemes offered over the Internet were stopped by collaborating with Malaysian Communications and Multimedia Commission (MCMC) to block the offending websites.

Key enforcement actions taken this year:

- Criminal charges against 16 persons;
- Civil actions against 11 persons;
- Civil injunctions freezing a total RM20 million;
- Civil Orders seeking restitution in the amount of RM69.4 million;
- AMLATFA freezing orders in the amount of RM7.87 million;

- Administrative fines imposed in the amount of RM800,000; and
- Compounds imposed in the amount of RM1.55 million.

With a strengthened enforcement team of investigation and prosecution officers, we took more actions this year. In response to public expectation for quick actions in high profile cases, our team thoroughly investigated matters in a timely manner. Investigation into Transmile was completed in two months while the investigation into Megan Media which involved extensive cross-border investigations, was completed in six months.

We embraced the importance of collaborating with international regulators to strengthen our enforcement capabilities across borders. Recognising that international

boundaries are blurring in this rapidly globalising economy, we intensified efforts to build stronger relationships with international regulators. We sought their assistance when needed and offered ours when requested. This year, we made 25 requests to foreign regulators to assist in our investigations and received six requests for such assistance.

### False Financial Reporting

Underlying our strong emphasis on investor protection, we take very seriously our responsibility to oversee disclosure of important information to the investing public. Companies must also reflect true and accurate information in their financial statements. All investors should be able to rely on the truth of information disclosed in corporate proposals and financial documents which they need to make informed decisions about their investments.

The most common violations that we took action against this year involved false financial reporting by companies. Seeing an increase in the size and impact of inaccurate financial statements, as in the case of Megan Media which involved false reporting of RM1.8 billion and Transmile of RM300 million, we prioritised our resources to investigate and take criminal action against those responsible. Severe consequences flow from such transgressions which on conviction can carry a maximum penalty of RM3 million

**Table 2**  
**Increased Results in 2007**

Key Results	2007	2006
Persons convicted	5	1
Persons charged in criminal courts	16	2
Persons sued in civil courts	11	7
Illegal internet schemes shut down	10	-

**Table 3**  
**Criminal Charges for False Financial Reporting in 2007**

GP Ocean	Tan Siok Wan, Lee Sin Teck, Dato' Lim Kim Ming, Lim Kim Hai and GP Ocean Food Bhd charged for inflating GP Ocean's revenue by RM26 million in its listing proposal to the Main Board of Bursa Malaysia.
NasionCom	NasionCom Holdings Bhd publicly reprimanded and directed to rectify and reissue its financial statements for the financial year ended 31 December 2005. Dato' Chee Kok Wing and Shamsul Khalid Ismail, both Directors of NasionCom, and Mah Soon Chai, a shareholder of Express Top-up Sdn Bhd (a subsidiary of Nasioncom) charged for their involvement in the falsified financial documents which inflated the revenue by RM139 million.
Transmile	Gan Boon Aun, Lo Chok Ping and Khiuddin Mohd charged for abetting the company to inflate its revenue in the amount of RM300 million while Chin Keem Feung and Shukri Sheikh Abdul Tawab were offered a compound of RM500, 000 for authorising the furnishing of the inflated revenue. Criminal charges against the latter two followed in November after they failed to pay the compound.
Megan	Kenneth Kok Hen Sen @ Kok Liew Sen and Dato' Dr Hj Mohd Adam Che Harun charged for inflating Megan Media Holdings Bhd's revenue by RM1.8 billion.
Polymate	Dato' Ng Kim Weng charged for inflating Polymate Holdings Bhd's revenue by RM22 million in its 2003 annual report.

fine or imprisonment for 10 years, or both.

To uphold the integrity of the information given to the public and punish those responsible for falsely reporting them, this year we took action against 15 persons and a PLC – GP Ocean. In the case of NasionCom, after completing our investigation, we collaborated with Companies Commission of Malaysia (CCM) by initiating a joint prosecution under the *Companies Act 1965* against two individuals, one of whom was a Director of NasionCom for falsifying the company's financial documents.

### Restating and Reissuing Financial Statements

Consistent with our enforcement strategy of taking the most appropriate action to achieve desired outcomes, errant

PLCs have also been directed to restate and reissue their financial statements. This year, we directed two companies to make the necessary restatement and reissue their financial statements so that investors who have read or relied on misleading statements are quickly informed of their inaccuracy or falsity.

### Safeguarding Investors' Money

A number of civil actions were instituted this year seeking court orders for the return of monies to aggrieved investors. Where appropriate, we took quick and pre-emptive actions to freeze assets which prevent them from being dissipated. In total, we froze RM20 million by way of civil injunctions and RM7.87 million by way of freezing orders under AMLATFA.

Table 4

#### Companies Directed to Restate or Reissue Financial Statements in 2007

Talam	Talam Corporation Bhd was directed to restate and reissue its 2006 and 2007 financial statements and announce it to Bursa Malaysia. This case involved deliberate adjustments of unexplained transactions in its financial statements that reclassified RM90 million debtors which were reported despite Talam's auditor's inability to obtain sufficient audit evidence to verify the adjustments.
Welli	Welli Multi Corporation Bhd was directed restate and reissue its 2005 financial statements by excluding inflated revenue figures after the SC's investigation into the authenticity and recoverability of trade receivables amounting to RM113 million out of a total sum of RM135 million for that year.

Table 5

#### High Profile Civil Actions Taken in 2007

Swisscash	RM65 million of Swisscash monies frozen in Malaysia, Singapore, Hong Kong, Switzerland, Jersey, Isle of Man and Australia. We also obtained an Order against one of the defendants to transfer back to Malaysia RM35 million held in overseas bank accounts.
Ayer Molek	Obtained injunction to safeguard RM20 million of the company's monies to prevent the company and its solicitors from disposing or dealing with it.
FTEC	Civil proceedings against Kenneth Vun @ Vun Yun Liun, the Managing Director and shareholder of FTEC Resources Bhd to reconstitute RM2.496 million to the company and to restrain him from managing FTEC's funds.
Powerhouse	Civil proceedings against Powerhouse Asset Management Sdn Bhd and its Executive Director and shareholder, Tan Kok Kheng, to restore RM1.93 million to investors. The SC also restrained the company from dealing with the investors' monies by transferring all its monies to a Trust Company appointed by the SC.
Cambridge	Triggered by a request for assistance from Dubai Financial Services Authority, which was investigating a global Internet investment scam run by Cambridge Capital Trading, we froze bank accounts amounting to RM1.6 million under AMLATFA.

## Illegal Internet Investment Schemes

In response to a growing number of illegal Internet investment schemes which claimed to invest in securities and media reports of the public being duped, the SC set up a dedicated cross-divisional Internet task force to specifically investigate complaints received from the investing public. After issuing numerous warnings against such schemes, we worked closely with MCMC to block Internet access to 10 websites offering these types of illegal investment schemes.

### Details of Websites Blocked

- www.swisscash.net, www.swisscash.biz, www.swissmutualfund.biz, www.swisscashguide.com
- www.abbfund.com, www.abfund.us
- www.cfdventure.com
- www.swedenfund.com
- www.uebond.com
- www.esuissefund.com, www.efmf.com.pa
- www.ecashfinance.com
- www.eaindex.com
- www.winlifund.com
- www.danatures.com, www.gerahanafutures.com

Of the many illegal Internet investment schemes investigated in 2007, Swisscash is the largest. As computer networks connected all countries of the world, the spread of this scheme transcended national boundaries. To combat this crime, we led an international investigation with eight countries exchanging intelligence and co-ordinated the freezing of bank accounts with approximately RM65 million Swisscash monies in Malaysia, Singapore, Hong Kong, Switzerland, Jersey, Isle of Man and Australia which in turn, intercepted the dissipation of these monies.

Acting swiftly, we filed a civil action against the persons behind this scheme and obtained an international mareva injunction which not only froze their bank accounts, but

also restrained them from operating the scheme. We subsequently secured a court order directing one of the defendants to transfer back to Malaysia RM35 million held in his bank accounts overseas.

By acting against illegal investment schemes, we tackled the problem affecting Internet users and put a halt to the emerging trend of soliciting monies from unsuspecting investors with false promises of lucrative returns.

### Swisscash

A civil suit was filed against Albert Lee Kee Sien, Kelvin Choo Mun Hoe, Amir Hassan, Dynamic Revolution Sdn Bhd, Swiss Mutual Fund (1948) S.A, SMF International Limited and SMF (1948) International Limited for the following breaches:

- Holding out as fund managers without a licence;
- Holding out as investment advisers without a licence; and
- Making false statements on the website inducing the public to invest.

Other enforcement efforts in Swisscash included:

- Continually blocking Swisscash websites that crop up;
- Obtaining a worldwide mareva injunction preventing assets belonging to the perpetrators from being removed or disposed of before judgment in the civil proceedings;
- Obtaining a court order directing RM35 million held in the bank accounts of Amir Hassan overseas be transferred back to Malaysia;
- Freezing approximately RM5 million in local bank accounts of the perpetrators;
- Collaborating with overseas regulators to freeze approximately RM60 million Swisscash monies; and
- Continued exchange of information with overseas regulators with the common purpose of repatriating funds to Malaysia or forfeiture in the respective jurisdictions.

### Combating Money Laundering

As a member nation of the Asia Pacific Group on Money Laundering (APG), a mutual evaluation was conducted in January 2007 to assess Malaysia’s initiatives on Anti-money Laundering/Corporate Financing of Terrorism based on Malaysia’s compliance with the recommendations of the Financial Action Task Force on Money Laundering (FATF). Together with other Malaysian supervisory agencies, the SC outlined various measures taken in the capital market to combat money laundering and terrorist financing when the APG evaluators conducted their onsite inspection from 29 January 2007 until 9 February 2007.

According to the APG report issued in July 2007, Malaysia scored well on the assessment where it was rated as fully and largely compliant for 33 out of the total of 49 FATF Recommendations. The APG also provided positive feedback and comments for further enhancements of Malaysia’s efforts to combat money laundering and terrorist financing.

### INVESTOR PROTECTION AND EDUCATION

Investor education is a critical pillar of investor protection. Investors are best protected when they are knowledgeable and vigilant of their rights. Investor education is also important for the development of the capital market. It facilitates the rapid growth of the capital market by building the capacity of investors to understand the risks associated with sophisticated products and entrench our reputation for a strong investor protection regime. Sophisticated investors will exert greater market discipline on PLCs and in turn reduce the cost and burden of regulation.

During the year, we developed a blueprint which advocates a two-prong approach to investor education. First, there is a push strategy of educating investors and potential investors. For this, efforts will be directed at widening the coverage of investor education programmes so as to promote nationwide financial literacy. Investor education programmes will be developed to target three key segments:

- schools;
- rural areas, blue collar workers, and housewives; and
- universities and workplace.

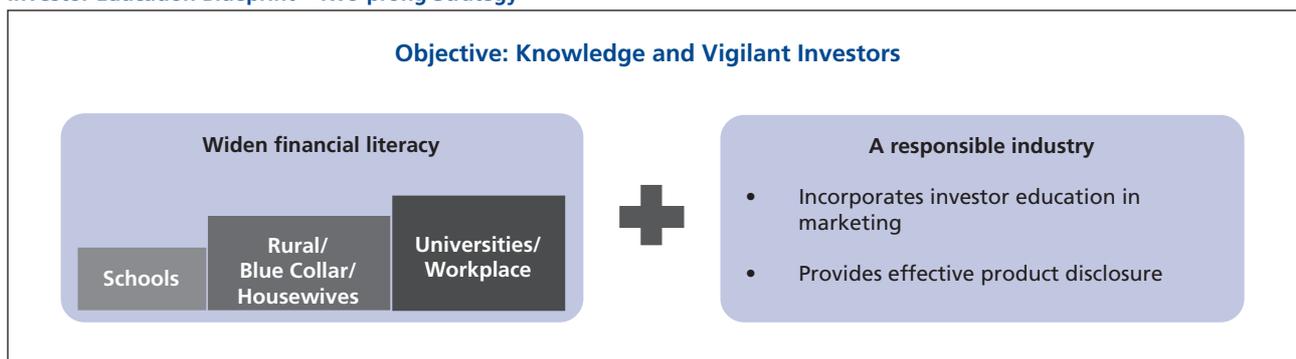
Second, efforts to widen financial literacy will be coupled with initiatives to encourage industry to take on the responsibility of educating investors. This will involve industry incorporating investor education in their marketing, both at the firm and industry level, as well as ensuing effective product disclosure to investors.

### Online Education

The Malaysian Investor website ([www.min.com.my](http://www.min.com.my)) continues to provide articles and information on wise investing, investors’ rights and responsibilities, and how to spot illegal investment schemes.

Throughout 2007, we responded to 264 investor queries through this website. MIN has gained in popularity among Internet-savvy investors and the website achieved an average monthly hit rate of 1.4 million, an increased of 53.6% from previous year.

Figure 1  
Investor Education Blueprint – Two-prong Strategy



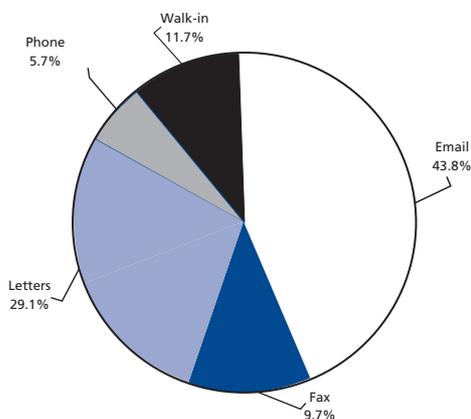
## Handling Complaints

Investor protection is the basis of our mandate as the capital market regulator and as such, permeates through the regulatory framework, policies, and regulatory initiatives. We continue to increase investors' awareness and close the gaps in their knowledge on their rights and responsibilities through investor education programmes and the effective handling of complaints. We provide a front-line avenue for investors to lodge complaints, grievances, or queries through an Investor Affairs and Complaints Department which—

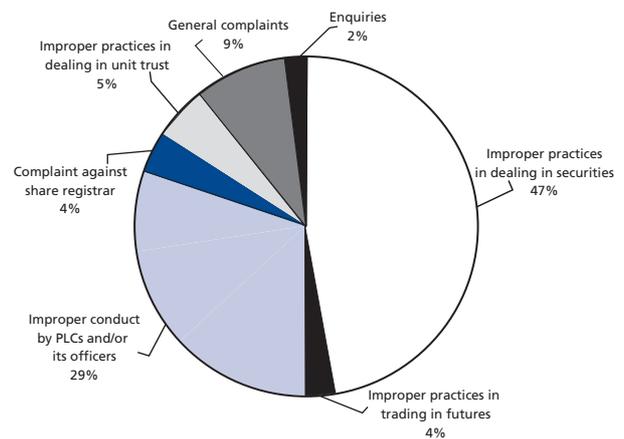
- provides an interface for investors who can inquire or make their complaints in person, by phone or in writing. This often is also a natural “gateway” for whistleblowers who are given confidentiality on their identity;
- reviews complaints for possible breaches of securities laws or rules of the exchange. Complaints are escalated to relevant departments for appropriate action to be taken.
- addresses enquiries on investors' rights and responsibilities, capital market issues, laws and products;
- mediates conflicts between investors and market intermediaries to facilitate the informal resolution of complaints;

- highlights illegal investment schemes and other pitfalls through direct communication in response to complainants or enquiries, press releases and articles in the media, the SC website, and other channels;
- identifies and analyses trends from enquiries and complaints which highlight areas of concern on regulatory policy or market intermediaries, PLCs and gaps in investor knowledge; and
- manages and maintains a database of complaints and enquiries received by the SC.

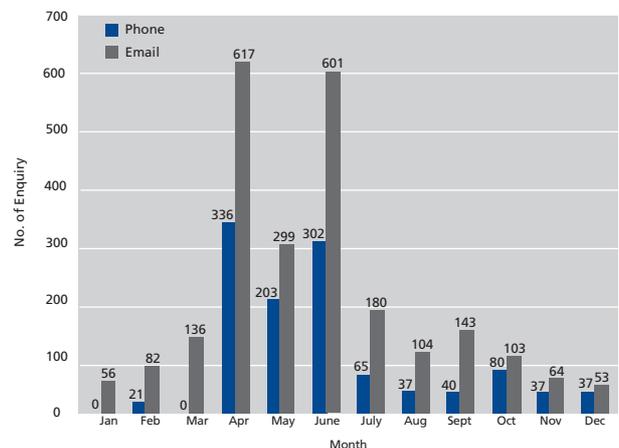
**Chart 1**  
Channels of Complaints and Enquiries Received Between 1 January 2007 and 31 December 2007



**Chart 2**  
Complaints and Enquiries Received 1 January 2007 and 31 December 2007



**Chart 3**  
Enquiries Received on Internet Illegal Investment Schemes in 2007



### **CMSA Strengthens Investor Protection**

Under the CMSA, the SC can now obtain three times compensation of the pecuniary gain made or loss avoided through civil actions for an expanded range of market offences, such as false trading, market rigging, stock market manipulation, and false or misleading statements. Previously, this provision was only applicable for insider trading.

Where investors' assets are at risk, the CMSA allows the SC to transfer clients' monies and property to another person if we are of the view there is a breach of the securities laws and immediate action is necessary to protect clients' assets. In the primary market, issuers have to place monies received

from subscribers in a trust account until the shares are issued or transferred to the share applicants. The CMSA also protects bond holders by requiring bond trustees to obtain the SC's approval before they act on a bond issue.

The CMSA also introduced a registration system with clear application of investor protection provisions, particularly relating to conflicts of interest and suitability of recommendations made to clients. This way, investors are protected when they invest in capital market products irrespective of the nature of the entity which offers such products. The handbook also requires licensed representatives to enhance their professional competence and ethical conduct through continuing professional education.



## Part Two

### **Promote fair, efficient and orderly market**

We have moved towards a principles-based approach to supervision which encourages and fosters good business practices. It allows market participants to discover effective ways of meeting a mandated principle yet operate and evolve without being constrained by overly burdensome regulation.

# PROMOTE FAIR, EFFICIENT AND ORDERLY MARKET

## INTRODUCTION

In 2007, we make further progress towards putting in place a principles-based supervisory regime. We assessed the supervisory activity against the outcome. A supervisory activity with minimum beneficial outcome would be given less priority because the cost, to both the intermediaries and the SC, was not commensurate with the benefit of the outcome.

We continued to reduce the burden of regulation where cost outweighed the benefits of regulation. Cost in this context was not limited to financial implications, but also involved a consideration of impact to investors and the market, as well as industry preparedness.

Increasingly, we shifted from prescribing requirements to outlining the principles of regulation. This allowed flexibility in applying the regulation according to the needs of the intermediaries. Some of our intermediaries expressed discomfort, given such a wide interpretation of a principle, as opposed to a prescribed requirement. We advise our intermediaries, who are apprehensive, to consult us. Communication is the key to success, and we have taken great strides to be transparent in our activities and encourage engagements and collaboration with industry.

Our focus for the year was on instilling professional conduct and ethical practices, while developing an appreciation for quality risk management and strong internal controls. As these attributes become entrenched in the Malaysian capital market, we will further deregulate aspects of intermediaries' activities and remove regulatory barriers to accommodate new types of businesses which would increase the competitive strength of our intermediaries and provide consumers with a wider range of quality services.

## SUPERVISION OF INTERMEDIARIES

Since the introduction of principles-based supervision at the start of 2006, we have complemented it with the adoption of a risk-based approach in the supervision of intermediaries. This way, any misconduct in the capital market will be detected or pre-empted at an early stage.

During the year, we conducted a number of visits to market intermediaries to review their operational and risk management policies, and at the same time, update their risk profile. We also increased our focus on market abuse, particularly abuse committed by market intermediaries, and on various market manipulation activities.

### Risk Assessment Model

We have a comprehensive risk assessment model to establish the risk profile of all market intermediaries and to continuously update their risk profiles. This allows us to prioritise the deployment of our resources to market intermediaries and issues where their impact on our regulatory objectives, combined with the probability of risks crystallising, is greatest.

As part of our strategy to have a better understanding and a holistic profile of our intermediaries, we have an in-house information system which comprehensively procures accurate, reliable and timely disclosure of all concerns within the capital market and the SC.

At the same time, we mitigate these risks by taking both pre-emptive and responsive actions in addressing the regulatory concerns by using a range of supervisory tools.

They include engagements with Board of Directors and senior management of the intermediaries, and heavy penalties via administrative actions against them if found to be in breach of regulatory rules.

### Examination of Stockbroking Companies

Examination of intermediaries is one of our key supervisory tools. Our on-site examination is focused on directing the industry towards achieving the highest professional standards by monitoring the development of the industry and its compliance with relevant laws, regulations and guidelines.

During the year, our examination team completed—

- six risk-focus examination of stockbroking companies, with key focus on compliance with regulatory requirements, and extended our scope to cover the companies' anti-market abuse systems and controls;
- three surprise visits on stockbroking companies focused on areas of significant compliance, operational, and financial risks; and
- three joint due diligence reviews with BNM on stockbroking companies to check if they had complied with the necessary preconditions to be an Investment Bank.

The main objective of our examination was to assess the adequacy of the stockbroking companies' efforts and measures in conducting their business activities in a manner which contributed to the maintenance of a fair and orderly market.

### Transparent Regulatory Approach and Process

We believe that effective communication with our stakeholders is an essential part of the regulatory process as it helps us achieve the appropriate balance between protecting investors and fostering fair and efficient markets.

During the year, we conducted meetings with boards of directors and senior management of stockbroking companies and investment banks to discuss regulatory concerns

identified and to obtain their feedback and updates on their business strategies and plans for our ongoing review.

Co-operation with the industry is a key strategy to proactively prevent, detect, and deter misconduct in the capital markets and to raise the standard of compliance culture and good practice.

We led in efforts to increase the level of consultation and engagement with the industry by giving a number of presentations and actively consulted industry associations, industry participants, investment banks, stockbroking companies, compliance officers, and other regulators. Topics discussed included capital market issues, promoting good market conduct, sharing our supervisory approach, promoting market vibrancy, and maintaining public confidence. This approach was successful in fostering a compliance culture within the industry, and creating a better understanding and support for, and alignment to our supervisory approach.

We also engaged BNM on various issues, such as supervision of Investment Banks and successfully completed the mutual recognition of Financial Analysts and Financial Planners.

Following an industry consultation on guidelines on market conduct and business practices for stockbrokers, their representatives and employees, we are in the final stage of issuing the guidelines. We will formally roll-out and publish the guidelines, which provide commentaries and examples of how stockbroking companies may organise and control their affairs responsibly and effectively in order to comply with their obligations under the securities laws, rules, regulations and guidelines. These efforts are part of the CMP strategic initiatives of anchoring Malaysian intermediation services on appropriate prudential standards, with high levels of business conduct and professional skills.

### Administrative Actions

During the year, we took stern actions against those guilty of breaches of conduct, rules and regulations.

Table 1 shows some of the notable administrative actions taken in 2007.

Table 1  
Administrative Actions Taken Against Intermediaries in 2007

Types (or Nature) of Actions Against Intermediaries*	Number of Actions
Reminders/Warnings	4 IB, 2 SBC
Fine and Reprimand	2 IB, 1 SBC, 1 FSBC, 1 AMC
Business expansion restriction	1 IB

\* IB – Investment Bank  
SBC – Stockbroking Company  
FSBC – Foreign Stockbroking Company  
AMC – Asset Management Company

### Common Findings from Examination on SBCs

Common findings uncovered during our examinations included:

- Ineffective management supervision over the business conduct of their dealer's representatives;
- Breach of licensing conditions prohibiting an unlicensed person to deal in securities;
- Breach of Bursa rules restricting a trading clerk from taking orders directly from clients;
- Breach or violation of regulatory requirements not promptly reported to the SC;
- Know-your-client information not updated periodically and formally documented;
- Employees' trading policies and procedures not adequately reviewed and enforced; and
- Incomplete or inadequate account documentations.

### Risk-based Supervision for Fund Managers

In line with CMP's objective of promoting an effective investment management industry and recognising the growth of the investment management industry as a segment of the capital market, the SC established a dedicated Investment Management Supervision Department in May 2007 which uses risk-based supervision tools. With these tools, we strive to achieve a holistic supervision of the industry, and encompass a combination of self-assessment tools coupled with periodic regulatory audits. Self-assessment

tools require intermediaries to submit the Compliance and Risk Assessment Questionnaire (CRAQ) and a semi-annual report on the operation of compliance policies and procedures. Such self-assessment exercises are in line with principles-based supervision and disclosure-based regime. Regulatory audits complement the self-assessment exercises as a process which strengthens the veracity of such assessments.

### Examination of Fund Managers

In 2007, the SC examined fund managers to ensure adequacy and effectiveness of internal controls and procedures, state of compliance and supervisory systems, compliance with rules and regulations, and to identify areas for improvement.

The fund management companies were also examined for their financial strength, corporate governance, client asset protection, trading practices, criteria for assessing service providers, and compliance with anti-money laundering regulations.

During the year, our examination team completed–

- two risk-based examinations of fund management companies, encompassing a wide range of risk areas of operations and compliance with rules and regulatory requirements; and
- two risk-focused examinations of fund management companies, with key focus on trust accounts and profit-sharing schemes.

In addition, several engagements were conducted with fund management companies to assess the adequacy of their business activities and address areas of concern.

### Credit Agricole as Foreign Fund Manager

In November 2007, we approved the establishment of Credit Agricole Asset Management as another foreign fund management company to provide a greater range of services and product choice to investors. Credit Agricole is the fourth foreign fund management company to be granted a licence under this special scheme.

## SINGLE LICENSING REGIME

The CMSA came into effect on 28 September 2007 and introduced a single licensing framework for all capital market intermediaries in Malaysia. The new law which repeals the SIA and FIA removed the need for separate licences when a capital market intermediary undertakes businesses in both the securities and futures market.

### Reduce Cost and Regulatory Burden

A capital market intermediary need hold only one licence to carry on the business in any one or more of the six regulated activities.

Also, administrative approvals and notifications by capital market intermediaries, which previously had to be submitted separately under the SIA and FIA, can now be submitted together under the CMSA.

The CMSA introduces two types of licence – the principal licence is known as a Capital Markets Services Licence (CMSL) and the representative's licence is known as a Capital Markets Services Representative's Licence (CMSRL). An entity which has met with the necessary quantitative and qualitative fit and proper criteria as provided in the *Licensing Handbook* can now be approved to carry on a total of six different regulated activities under a single licence, as is the case with investment banks. The six activities are:

- dealing in securities;
- trading in futures contracts;
- fund management;
- advising on corporate finance;
- investment advice; and
- financial planning.

A holder of a CMSL or a CMSRL can apply to the SC to add on or reduce its regulated activities by applying for

a variation of its licence and in the case of a CMSRL holder, to change the principal who employs him.

### Corporate Finance and Research Analysts

Prior to the CMSA, individuals employed by stockbroking companies and investment banks who carry on the business of advising on corporate finance and providing investment advice were subjected to less regulatory requirements compared to individuals who were employed by boutique investment advisory companies. Only the latter were required to pass modules 12 and 15 of the licensing examinations conducted by the SIDC and were subjected to licensing requirements before commencing business.

With the CMSA, both categories of professionals are now subjected to similar regulatory requirements including licensing, compliance with a wide range of investor protection provisions provided under the securities laws, and continuing professional education to enhance their competence. To facilitate a smooth transition and maintain business efficacy, all existing corporate finance executives and research analysts employed by stockbroking companies and investment banks are deemed to hold a CMSRL to carry on the regulated activity of advising on corporate finance or investment advice, as the case may be, for a period of one year from the effective date of the CMSA. However, they must have met the SC's minimum requirements stipulated in the *Guidelines for Dealer's and Dealer's Representatives under the SIA* before the CMSA came into force.

### Restricted Dealing Licence

We have also introduced a restricted dealing licence for unit trust management companies who market and distribute unit trust products. Under the old regime, unit trust management companies had exempt dealer status for their dealings in unit trust products. Under the CMSA, they must obtain a CMSL. Again, to facilitate a smooth transition and maintain business efficacy, all unit trust management companies are allowed to continue with their activities for a period of one year from the effective date of the CMSA.

The restricted dealing licence is also applicable to financial planners or fund managers who wish to market and distribute unit trust products. It is also applicable to other categories of intermediaries, such as the funds supermarket who distribute third-party funds.

Only the principal company is required to hold a CMSL for dealing in unit trust products, while their agents and employees are required to be registered with FMUTM. They must pass the examinations for persons dealing in unit trusts (PDUT) or any other qualification recognised by the FMUTM and approved by the SC in order to carry on dealing in unit trust products.

## EFFICIENCIES IN LICENSING

The *Licensing Handbook* was introduced as a single document which enumerates the minimum assessment criteria for granting a CMSL and CMSRL for all six regulated activities under the CMSA. The handbook, issued on 28 September 2007, replaced a total of eight licensing-related guidelines and incorporated the conditions and restrictions of licences, and set out application procedures, relevant fees and forms. To facilitate the transition process arising from the coming into effect of the CMSA, a set of FAQs on the single licensing regime and licensing related issues was posted on the SC website.

### Longer Licence Tenure

As an incentive to capital market intermediaries with high standards of corporate governance and market conduct, we will extend the licence tenure to 36 months for qualified CMSL holders and to 24 months for qualified CMSRL holders. The period is expected to benefit market participants by reducing administrative steps in their renewal process. We are confident that this liberalisation does not impair our ability to step in to review the conduct of licensed persons at any point in time since the CMSA provides the SC with a wide range of powers to take appropriate action on licensed persons for market or unethical misconduct. The longer period will also allow the SC to undertake a more rigorous assessment on whether the licensed persons are fit and proper, and whether to allow them to continue with their regulated activities.

With the shift to a two-year renewal, licensed representatives are now given the flexibility of collecting the necessary CPE points within the 24 months period instead of 12 months. The extended time frame will allow licensed representatives to identify CPE courses which benefit and interest them.

### Appointment of Directors

A capital market intermediary can now appoint a director or a chief executive officer without having to obtain the SC's prior approval. However, before appointing a director or chief executive officer, the capital market intermediary must undertake the necessary due diligence to find a candidate who is fit and proper, and suitably qualified to assume the position.

The capital market intermediary must notify the SC within two working days or prior to any public announcement, whichever is earlier when making such appointments. For supervisory purposes, the SC will carry out its post-appointment assessment on these individuals. If our assessment reveals that a director or a chief executive officer is not fit and proper, we can direct the person to be removed from the position.

Investment banks must also comply with the *Guidelines on Investment Banks* for the appointment of its directors and chief executive officers, requiring BNM's prior approval.

### "Controllers"

Prior to the CMSA, all changes to the shareholding of a capital market intermediary, whether directly or indirectly, require the SC's prior approval. Now, prior approval is only needed where the change in shareholding, directly or indirectly, results in a change in the "controller" of the capital market intermediary.

"Controller" is defined in the CMSA as a person who is entitled to exercise, or control the exercise of, not less than 15% of the votes attached to the voting shares in the CMSL holder; or has the power to appoint or cause to be appointed a majority of the directors of the CMSL holder; or has the power to make or cause to be

made or give effect to decisions made on the business or administration of such a CMSL holder.

Where changes in shareholding composition or paid-up capital does not result in a change of controller, a capital market intermediary need only notify the SC within 14 days of the occurrence of the event.

Again, investment banks must also comply with the *Guidelines on Investment Banks* for changes in its shareholders which requires BNM's prior approval.

### Adequate and Competent Personnel

It is very important that a capital market intermediary has adequate and competent personnel with integrity and professional skills appropriate to the nature and scale of its business. Therefore, we have increased the minimum number of CMSRL holders from one to two for each regulated activity being carried out by a capital market intermediary. For a CMSL holder who applies to carry on dealing in unit trust products, the capital market intermediary must have two individuals registered with the FMUTM. This increase in minimum number of licensed representatives better safeguards the capital market intermediary's clients as it ensure business continuity.

To ensure that a capital market intermediary has a person to provide direction and feedback to the board on issues relating to the regulated activity, we have retained the requirement for at least one licensed director who must have at least 10 years of relevant experience in the regulated activity for which the company is licensed.

If the capital market intermediary carries on more than one regulated activity, it must appoint a head with at least eight years of relevant experience for each additional regulated activity. By doing this, the SC expects that a person with the necessary skills and expertise will provide guidance and supervision to the representatives carrying on that particular regulated activity.

### Removal of Experience Requirement

Since the supervision of the company's licensed

representatives will be carried on by either a licensed director or a head of regulated activity who each has the necessary experience in the regulated activities, candidates with relevant tertiary or professional qualification are no longer required to have three years of 'direct and relevant experience' when applying for a CMSRL. This was a prerequisite before the CMSA for candidates applying to carry on investment advisory activities, corporate finance, and financial planning. The only exception to this is for candidates applying for a CMSRL to carry on fund management where two years of 'relevant' experience would still be required for applicants with relevant tertiary or professional qualification.

## SUPERVISION OF MARKETS

### Surveillance Priorities

We prioritise our surveillance functions to meet challenges posed by the dynamics of the Malaysian capital market, as well as uphold its integrity and credibility. Given the dynamic nature of the capital market and innovative financial instruments which contribute to market complexity, surveillance has become increasingly challenging, and we need to continue redefining the scope of our surveillance functions.

During the year, we maintained our focus on early detection of market irregularities and abuses, so that pre-emptive remedial actions could be taken against the perpetrators. We worked closely with Bursa Malaysia, as the front-line regulator, in detecting market abuse, and took appropriate and timely actions. We also benchmarked ourselves against other jurisdictions and adopted their best practices and systems.

To achieve desired outcomes, we continue to adopt the existing surveillance framework:

- Adopt a proactive approach to contain market irregularities and maintain market integrity, with timely and effective market intervention and surveillance actions;
- Take immediate action on intermediaries, listed companies, and investors to contain market irregularities, and minimise or prevent possible systemic effect on the market;

- Worked with Bursa Malaysia through technical working groups and quarterly meetings to discuss and resolve operational issues and work towards strengthening Bursa Malaysia's role as a front-line regulator (FLR); and
- Clear demarcation of functions between the SC and Bursa Malaysia to harmonise and distinguish roles and responsibilities.

To achieve higher surveillance standards, we implemented a new automated system and developed a framework for enhanced disclosure to strengthen the price discovery process and pre-empt insider trading violations.

The new automated system has capabilities of providing enhanced solutions for market surveillance and operational control, such as:

- Detection of irregular price and volume movements, and behaviour of individual securities or market, based on current and historical trend;
- Alert parameters which are dynamic, based on current and historical trend of each stock;
- Automatic alert of unusual market behaviour; and
- Ability to perform simulation of various market scenarios.

## SUPERVISION OF BURSA MALAYSIA

Bursa Malaysia Bhd (Bursa Malaysia) as the FLR overseeing public-listed entities plays an important complementary role to the SC. An MOU and the Guidance on Regulatory Role of Bursa Malaysia govern the relationship between the SC and Bursa Malaysia, minimising duplication of activities and fostering mutual assistance through co-operation and effective communication.

### Bursa Malaysia as a Regulatory Body

As inherent conflicts of interest may arise between Bursa Malaysia's self-interest as a profit-oriented PLC and a FLR, the SC remains statutorily responsible for supervising and monitoring the activities of the entities within the Bursa Malaysia Group, namely;

- Bursa Malaysia Securities Bhd;
- Bursa Malaysia Derivatives Bhd;
- Bursa Malaysia Securities Clearing Sdn Bhd;
- Bursa Malaysia Derivatives Clearing Sdn Bhd; and
- Bursa Malaysia Depository Sdn Bhd.

The SC's supervisory responsibilities over Bursa Malaysia is through—

- ongoing off-site monitoring of Bursa Malaysia's regulation over public-listed entities, its supervision over its members and surveillance of secondary markets. We also determine if sufficient resources are devoted to regulatory functions; and
- annual onsite audit; the first of which commenced in 2005 (after the demutualisation of the exchange) with the recent third regulatory assessment completed in November 2007. The SC's regulatory annual assessment on Bursa Malaysia is essentially based on the Annual Regulatory Report submitted by Bursa Malaysia. The ARR sets out the extent and scope of Bursa Malaysia's compliance with its statutory obligations and its salient activities for the financial period.

On an ongoing basis, the SC discusses issues with Bursa Malaysia, such as improvements in governance structures, regulatory functions, and other services offered to their stakeholders.

Furthermore, as a FLR, the market behaviour of market participants is regulated by rules issued by Bursa Malaysia. All amendments to such rules require our approval. To ensure all submissions by Bursa Malaysia are managed efficiently and without delay, we maintain continuous engagement to deal with issues that may arise.

### Product and Infrastructure Development Oversight

We review proposals submitted by Bursa Malaysia, including market or product development initiatives. We oversee selected areas of Bursa Malaysia's infrastructure development and work to ensure the provisioning of automated systems

with adequate capacity, security arrangements and facilities, as well as industry readiness.

Having launched BursaTrade Phase 1A – the trading platform on derivatives on 20 November 2006, Bursa Malaysia is currently targeting to launch BursaTrade Phase 1B – the systems infrastructure for the equity market. It is undergoing systems testing, and implementation is expected in the first quarter of 2008.

The SC granted an approval in principle to introduce Direct Market Access (DMA) for the derivatives market which will enable zero touch execution of trades by clients via the broker. It is expected that DMA facilities will provide an impetus in advancing the utilisation of sophisticated technology by brokers and its clients in this market. With DMA, the speed of execution by a client will be much faster. The SC and Bursa Malaysia are looking at appropriate controls to put in place to manage risks related to DMA, both at the stockbroking companies and at the exchange. DMA is expected to be launched in first quarter of 2008.

## Bursa Malaysia as a PLC

In our capacity as the regulator of Bursa as a PLC, we monitor and enforce the Listing Rules of Bursa Malaysia Securities on Bursa Malaysia where necessary. This includes compliance with all disclosure requirements, monitoring unusual market activity, and others.

## SUPERVISION OF BOND MARKET

### Intermediaries

We adopt a risk-based approach in supervising bond market intermediaries, namely, bond trustees and credit rating agencies (CRAs), where the focus of supervision is closely tied to risks posed to the markets. In adopting this approach, the SC conducts regular and timely oversight by examining submissions, reports, and other documents to ensure that bond market intermediaries continuously exercise high standards of professionalism and compliance, and to safeguard the interest of bond investors.

There are 14 bond trustees registered under the *Practice Note on Registration by the SC for the Purpose of Acting as a Bond Trustee* issued in 2006. Following registration, the SC conducts close supervision on these bond trustees by monitoring compliance with requirements under the practice note, and addresses various issues, including those raised by bond investors and other market participants on the role and performance of the bond trustees.

The SC also conducts oversight of CRAs recognised under the *Practice Note on Recognition of Credit Rating Agencies by the SC for the Purpose of Rating Bond Issues*, also issued in 2006, particular on their compliance with the stipulated recognition criteria, as follows:

- High standards of professionalism in rating and monitoring corporate bonds;
- Adequate and timely dissemination of rating information; and
- Compliance with IOSCO's Code of Conduct Fundamentals for CRAs.

Several non-compliance of the recognition criteria were detected, mainly on timely dissemination of rating information, and appropriate actions were taken with the CRAs to address the issues.

### Trading

Unlike the equity market, bonds are traded in the over-the-counter market, largely by sophisticated institutional investors and financial institutions. As savvy investors and mostly regulated institutions, the SC expects these market participants to exercise high standards of professionalism and conduct in the secondary bond market. We adopt a balanced approach in overseeing the conduct of trading in the bond market, with the underlying objective of ensuring a fair and orderly market.

Our oversight efforts serve to detect market abuses, deter misconduct, and enable timely supervisory actions to be taken. We constantly conduct enquiries on unusual trades to determine compliance with securities laws.

This consequently builds and maintains confidence, upholds market integrity and promotes greater professionalism among the market participants. More importantly, it also serves to maintain investors' confidence in the bond market.

### **Infrastructure – Electronic Trading Platform**

The SC, together with BNM, is facilitating the development of a centralised electronic trading platform (ETP) by Bursa

Malaysia for secondary bond trading. Once fully operational, the ETP will capture, store and disseminate real-time information, and at the same time, provide electronic trading facilities for bond and money market instruments.

While the development of the ETP is aimed at enhancing price transparency and discovery process in the secondary bond market trading, the availability of pre- and post-trade information provide an effective check and balance mechanism in ensuring proper conduct by market participants.



## Part Three

### Strengthen market competitiveness

The experience of developed markets shows that deregulation and liberalisation are critical in deepening secondary market liquidity, allowing industry to offer a wider range of high-quality services, products, and prices to attract an expanding customer base. Our measured approach to liberalisation has yielded the desired benefits with an increase in trading, promotional activities, and product development and research.

# STRENGTHEN MARKET COMPETITIVENESS

## INTRODUCTION

Malaysia's capital market had an excellent year in 2007 – recording extremely strong growth across all market segments. The stock market rose by 32% to close the year at 1,445. Bursa Malaysia's turnover velocity rose from 36% in 2006 to 58% and total turnover for the derivatives market rose by about 49%.

It was also a record-breaking year for Malaysia's bond market, Asia's fourth largest. We approved RM158.8 billion of RM-denominated bond issues in 2007, about double the amount of RM79.6 billion in the previous year. Foreign currency-denominated bond issues approved also increased from US\$7.8 billion in 2006 to US\$12.3 billion. In addition, our approval of programme issuance of structured products rose from RM22 billion in 2006 to RM94.2 billion.

The unit trust industry also registered a strong growth of 39% over the year with industry NAV standing at RM169.41 billion, while the number of funds in operation increased by 26% to 495 funds.

Overall, the size of the Malaysian capital market – comprising debt securities and equity market capitalisation – has more than doubled during the first seven years of this decade to RM1.6 trillion in 2007 from about RM700 billion in 2000 and is about eight times larger than its size of RM200 billion in 1990.

The strong growth trend augurs well for the Malaysian capital market which is gaining international competitiveness as a result of the orderly implementation of developmental initiatives guided by the vision of the CMP.

## Progress of CMP Implementation

Recommendations	CMP Phase			
	One	Two	Three	Overall
Completed	103	11	15	129
In progress	6	10	7	23
<b>Total</b>	<b>109</b>	<b>21</b>	<b>22</b>	<b>152</b>
Completed	94%	52%	68%	85%
In progress	6%	48%	32%	15%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Among them were initiatives implemented to strengthen corporate governance, promote regulatory efficiency, and restructure the intermediation landscape. The initiatives facilitated a structural shift in the Malaysian capital market resulting in a period of increased activities. To date, about 85% of the 152 recommendations in the 10-year CMP have been implemented.

In 2007, the SC focused on optimising regulatory efficiency and introduced key developmental initiatives to promote market efficiency and competitiveness, such as addressing distribution bottlenecks and inefficiencies in the intermediation industry, and strengthening Malaysia's position as a leading ICM centre.

We also streamlined the regulatory framework to achieve an optimal balance between facilitative regulation and investor protection. We promoted greater accountabilities for intermediaries and professionals to reduce regulatory burden, and strengthen oversight through a principle-based supervisory approach.

## GROWTH THROUGH DEREGULATION

### Deregulation of Commission Rates

As part of the phased approach towards a more deregulated, competitive, and vibrant stock market environment, the following initiatives were undertaken:

- Commission rates for Internet trading and cash upfront transactions were made fully negotiable;
- The commission rate structure for non-Internet and non-cash upfront transactions remained unchanged but a minimum brokerage charge of RM40 was imposed for these transactions; and
- The SCANS clearing fee was reduced from 0.04% to 0.03%.

The progressive deregulation of commission rates will allow customers to choose between the cost-efficient service offered by Internet trading and the personal and customised service offered by dealer representatives. This creates an environment where the pricing of services are appropriate to the level of services.

Overall, the gradual deregulation of pricing structures is intended to provide industry the flexibility to offer more choices to a broader range of customers, as well as create a more competitive environment for the provision of intermediation services.

### Budget 2008 Incentives for Investment Management

Consistent with the government's strong commitment to entrench Malaysia's position as an international investment management centre, several broad-ranging incentives to enhance the overall landscape of investment management industry, with a focus on Islamic fund management, were unveiled in Budget 2008:

- Liberalised shareholding structure
  - Foreign ownership of fund management companies and REIT management companies is allowed up to 70%; and

- Islamic fund management companies are allowed 100% foreign ownership;

- Facilitative cross-border investment policy
  - With effect from 1 October 2007, Islamic funds are permitted to invest 100% of assets abroad;
- Greater access to institutional funds
  - Approximately US\$2 billion in start-up funding will be channelled by EPF to Islamic fund management companies;
- More competitive operating environment
  - Income tax exemption on all Islamic fund management activity fees until 2016;
  - Income tax exemption for non-resident Islamic finance experts; and
  - One stop-centre at the SC for all fund management related queries.

### Increasing Regulatory Efficiency

Flexibilities were provided to facilitate remiser mobility, subject to the ability of stockbroking companies to manage the ethical conduct of representatives, and facilitate the global outsourcing of back-office functions for the futures industry.

Investment banks are co-regulated by the SC and BNM, where BNM undertakes prudential regulation for financial soundness, and the SC, which undertakes regulation of business and market conduct to promote market integrity and investor protection. In 2007, the SC and BNM signed an MoU to formalise arrangements for regulatory and supervisory co-operation.

### Financial Planning

To facilitate convergence in the financial planning industry, and minimise regulatory burden and compliance costs for licensees, the SC and BNM signed an MoU on the Mutual Recognition of Financial Advisers and Financial Planners

on 20 August 2007. It was agreed that a dual licensing regime will be maintained and a Working Level Joint Committee was set up to streamline licensing, continuing educational requirements, and co-ordinate a broad range of operational and regulatory issues, including application procedures, compliance and supervision.

The role of financial planners in providing advice and sourcing products suited to investors have increased significantly over the years due to growing investor sophistication. To facilitate licensed financial planners in distributing unit trusts, the SC worked closely with the Federation of Malaysian Unit Trust Managers (FMUTM), the Financial Planning Association of Malaysia (FPAM), the Malaysian Financial Planning Council (MFPC) and the Malaysian Association of Chartered Financial Consultants (MACHFC). The FMUTM launched the *Guidelines for Registration of Corporate Unit Trust Advisers* in October 2007.

To safeguard the independence of financial advisers in distributing unit trust products, financial planners are required to adequately disclose the fee income they earn from the sale of unit trust products. Financial planners also need to meet eligibility criteria on paid-up capital and other requirements.

### Enhancing Savings Intermediation

One of our priorities has been to harness the high level of domestic savings to drive the growth of the capital market through more efficient intermediation in a more deregulated and liberalised environment. Towards this end, the SC reviewed its *Guidelines on Unit Trust Funds* to promote greater product innovation and strengthen investor protection.

In tandem with BNM increasing the limit on investments abroad to 50% of funds under management, the SC amended the guidelines on valuations to facilitate investments in different time zones and liberalised investment and exposure limits.

The SC also adopted a disclosure-based approach for approval of unit trust funds from 1 March 2007; thereby

reducing the time to market from four months to 21 days. Apart from the ability to meet market demand on a timely basis, under a disclosure-based approach, investors are provided sufficient information to make investment decisions. In addition, the single-pricing regime to enhance disclosure of sales charges took effect from 1 July 2007.

For a more competitive distribution environment, the regulatory framework now facilitates the introduction of fund supermarkets while the FMUTM revised its *Guidelines for Registration of Institutional Unit Trust Advisers* (IUTA Guidelines) to provide greater clarity.

The impact of a more deregulated and liberalised environment was immediately evident with the number of fund approvals totalling 121 between January – December 2007, bringing the total number of funds approved as at end-December to 521. Of these, 495 have been launched and made available to investors.

Global participation was further liberalised with the ceiling on foreign ownership in fund management companies raised to 70%. A foreign fund management licence was granted to Credit Agricole, bringing the number of foreign fund managers operating under the special scheme to four.

We introduced guidelines to facilitate the offering, marketing and distribution of foreign funds in Malaysia which took effect on 1 July 2007 to facilitate the cross-border distribution of unit trust products. Under the guidelines, products from or listed in recognised jurisdictions, i.e. foreign jurisdictions recognised by the SC can now be offered in Malaysia. The guidelines also include provisions on the eligibility, duties and responsibilities of local fund distributors in marketing and distributing foreign funds to Malaysian investors.

### EFFICIENCY IN FUND-RAISING

The global capital market landscape is undergoing radical transformation with intensifying competition among exchanges, and a shift in bargaining power from exchanges and intermediaries to issuers and investors in an increasingly demand-driven market place. Capital markets must therefore, increase their value proposition to stay internationally competitive.

## Competitive IPO Market

By most yardsticks, Malaysia has a highly competitive IPO market with a broad investor base as reflected by an average oversubscription rate of 41.9 times for Malaysian IPOs in 2007.

We assess proposals of IPO on whether they meet quality requirements which emphasise on governance. The stringent approach has resulted in strong performances and strengthened confidence in Malaysian IPOs. As at end-December, net profits grew by 43% for 36 IPOs which published their 2006 and 2007 accounts. In addition, 63% of IPOs or 17 PLCs in 2007 traded above their IPO prices with 11 providing a return in excess of 20%.

An analysis of broad market data also indicates that Malaysian PERs are comparable to other markets and that foreign listings tend to trade at a discount to local companies. This reaffirms that Malaysian companies are likely to get better valuations being listed at home rather than abroad as liquidity for PLCs tend to be strongest in their domestic market.

In addition, the direct costs of listing, such as advisory fees are low and the regulatory turnaround time is now comparable, if not faster than other regional markets.

## Growth of MESDAQ

To provide SMEs and start-ups with access to the capital market, Malaysia has the largest number of small and mid-cap companies in Southeast Asia. In particular, MESDAQ has been successful as a fund-raising platform in propelling the growth of young technology-based and high-growth companies. MESDAQ grew from only four listings and a market capitalisation of RM177 million in 2001 to 124 listings with a market capitalisation of RM11.07 billion as at December 2007. In addition, the MESDAQ market also enjoys considerable liquidity. For 2007, MESDAQ's turnover velocity was 159%.

## Preferred Listing Destination

Measures were taken to strengthen the positioning of Bursa Malaysia as a preferred listing destination. To create a

conducive environment that fosters rapid corporate sector expansion through capital-raising or M&A activities, the SC revised the guidelines on the offering and listing of equity securities in order to—

- facilitate dual listings by allowing companies to list their entire issued capital with 100% full trading fungibility across Bursa Malaysia and other exchanges;
- encourage foreign listings by streamlining the regulatory criteria for the listing of companies with foreign operations;
- allow the listing of companies incorporated in foreign jurisdictions in line with international practices while maintaining a requirement for standards of shareholder protection to be comparable with those in Malaysia;
- facilitate acquisition of assets by listed companies which are no longer subjected to profit track record requirements unless such acquisitions result in a change in the controlling shareholders, Board of Directors or core business;
- remove the requirement for property development companies to have a minimum land bank of 500 acres. Property companies are now assessed based on the location of the property, sustainability of development, and earnings prospects. In addition, property companies and construction companies may also apply for listing under either the market capitalisation or profit track record route;
- facilitate greater opportunities for growth of MESDAQ companies by allowing them to undertake acquisitions which may result in a significant change in their business direction;
- introduce a public exposure period for IPO prospectuses for more transparency in the fund-raising process;
- replace the requirement for mandatory profit forecasts with an enhanced requirement for the Board of Directors to provide a “Management Discussion and Analysis” (MDA). The MDA provides a thorough discussion and analysis of the company's businesses, financial condition, and prospects in their submission

to the SC, as well as in the prospectus or other offering documents. The new disclosure standards are benchmarked against the requirements set by IOSCO and the Financial Reporting Standards;

- promote more efficient matching of supply and demand and orderly post-listing price discovery for an IPO through regulatory changes to provide for a “greenshoe” option and price stabilisation mechanism for IPOs;
- imposed a moratorium on all promoters and/or controlling shareholders of IPO companies from dealing in their entire shareholdings for six months from the listing date;
- set a minimum IPO price of RM0.50 per share; and
- remove SC regulations on the pricing of securities to related parties as they overlapped with stringent provisions governing related-party transactions in the *Listing Requirements of Bursa Malaysia Berhad*.

### Revision of Structured Product Guidelines

On 27 April 2007, the SC revised the *Guidelines on the Offering of Structured Products* to increase issuance efficiency and minimise compliance and administrative costs. The revised guidelines facilitate the submission of applications for structured product programmes and issuance of more product types. It also widened the pool of issuers to include foreign banks and special scheme brokers which are now allowed to distribute structured products issued by their parent company or related companies, or special purpose vehicles sponsored by them. In granting these flexibilities, provisions were made whereby issuers are expected to apply a higher standard of care and diligence, particularly when distributing to individual investors.

### Venture Capital Industry

The venture capital (VC) industry is a critical funding source which promotes business creation and entrepreneurship and help in the overall development of the capital market. In 2007, the SC continued to be actively involved in promoting the growth of this industry either directly, or

**Table 1**  
**2007 MVCDC Council**

• Dato’ Zarinah Anwar (Chairman) Chairman, Securities Commission
• Dato’ Ibrahim Mahaludin Puteh Deputy Secretary General (Policy), Ministry of Finance
• Dato’ Abdul Hanan Alang Endut Secretary General, Ministry of Science, Technology and Innovation
• Dato’ Badlisham Ghazali Chief Executive Officer, Multimedia Development Corporation
• Chok Kwee Bee Executive Director, BI Walden Management Sdn Bhd
• Husni Salleh Chief Executive Officer, Malaysia Venture Capital Management Bhd
• Dato’ Azlin Alias Chief Executive Officer, Malaysian Technology Development Corporation
• Ismael Fariz Ali Director, FirstFloor Capital Sdn Bhd

through the Malaysian Venture Capital Development Council (MVCDC) which is chaired by the SC.

The MVCDC, through a Project Steering Committee, chaired by the SC, was involved in the study on “Funding to Achieve an Innovation Economy by 2020.” The study was conducted over three phases. The first phase focused on the Malaysian venture capital industry, angel investors, and nascent companies. The next phase covered government grants, late stage funding from soft loans, venture debt, and private equity funds, as well as ICT and biotech companies in the nascent to expansion or maturity stage. Finally, the third phase covered all key funding mechanisms for an innovation economy. The study, which will form part of an Innovation Roadmap, was presented to the National Innovation Council, chaired by Dato’ Seri Abdullah Ahmad Badawi, on 30 November 2007.

In 2007, the MVCDC also–

- undertook a study on the expansion of the private sector funding for Malaysia’s VC industry;

- held its inaugural Venture Capital Roundtable on “*Creating Positive Traction in the Malaysian VC Industry*” to promote greater dialogue between policy makers and practitioners;
- sponsored an Executive Investment Management Skills Workshop to train participants from the domestic venture capital and private equity community; and
- organised an industry consultation on the “*Guidelines for the Annual Certification for Tax Incentives for the Venture Capital Industry*”.

As at 31 December 2007, the SC received five applications for tax certification under the *Guidelines for the Annual Certification for Tax Incentives for the Venture Capital Industry*. The number of applications represented 10% of the total number of VCC and VCMCs registered with the SC for 2007.

## CONDUCTIVE TRADING ENVIRONMENT

Developmental initiatives are being implemented to strengthen efficiencies and to increase the connectivity of Malaysia’s capital domestic market to global investors.

Bursa Malaysia launched its new trading platform for derivatives and will be launching the BursaTrade equities trading platform in 2008. The new trading platform will provide the necessary infrastructure to introduce many advanced capabilities to further deepen market liquidity. In conjunction with this, the SC has granted approval in principle for the launch of Direct Market Access (DMA) for derivatives.

In addition, the reintroduction of regulated short-selling (RSS) and stock borrowing and lending (SBL) has been critical in signalling the increasing openness of Malaysia’s stock market. Many international benchmarking exercises regard the availability of RSS and SBL as critical features in an advanced capital market.

Malaysia is the leading global centre for price discovery for oil palm products. The SC granted approval for Bursa Malaysia Derivatives to launch a US\$-denominated crude palm oil futures contract. This contract will help meet the growing demand from global edible oil users to trade in

Malaysia’s commodity products, without exposure to currency risks.

The SC led a project task force comprising representatives from Bursa Malaysia and the Malaysia Futures Brokers’ Association (MFBA), to chart a strategic roadmap to review and strengthen the Malaysian derivatives industry in five key strategic areas—

- industry structure and processes;
- marketing capacity and channels;
- market liquidity
- product range; and
- global positioning.

On exchange-traded fund (ETF) developmental initiatives, the SC also worked closely with various parties, including Bursa Malaysia, domestic and foreign ETF participants, trustees and legal advisers, to review its guidelines on ETFs to create a more conducive and facilitative environment. In addition, we provided approval in principle for a permitted short selling framework to facilitate market-making of ETFs.

The first equity ETF in Malaysia was launched by the AmInvestment Bank Group and listed on Bursa Malaysia on 19 July 2007. The FBM30etf tracks the performance of the FTSE Bursa Malaysia Large 30 Index. The Prime Minister also announced in March 2007, the establishment of a RM3.5 billion ETF to be seeded by government-linked investment companies.

The Malaysian REIT industry also gained momentum with four new REITs listed on Bursa Malaysia in 2007. Foreign ownership allowed in REITs management companies was increased to 70%. This was to strengthen the regional competitiveness of the Malaysian REITs industry to attract more listings and global investors. The SC also created a more facilitative environment by—

- amending our guidelines to expand permitted investments;
- streamlining valuation requirements with accounting standards;

- providing greater flexibility on remuneration of a REIT Manager and trustee; and
- providing guidance on placement of new units to finance yield-accretive acquisitions by a listed REIT.

### Take-overs Code – Clarification and Revision

On 20 March 2007, the SC announced that applications for exemption from having to undertake a mandatory offer in circumstances arising from the issuance of new securities in a company (Practice Note (PN) 2.9.1), compulsory acquisition of the remaining shares of a company (PN2.9.8), and when a company purchases its own shares (PN2.9.10), would be approved within one working day. Previously, such approvals took 21 working days. The implementation of this measure should have a favourable effect on take-overs, given that a substantial number of applications for exemption from undertaking a mandatory offer fall under these practice notes. Thus, the time for considering and processing applications will be significantly reduced.

In addition, for more efficient, competitive, and informed take-over and merger activities, we strengthened the requirement for immediate announcements to be made. The requirement now includes instances where a company is the subject of a rumour or speculation of being taken over, where there is untoward movement in share price, or significant volume build-up due to a merger and acquisition exercise. This requirement will provide clarity as to when timely announcements should be made to the market.

With effect from 28 September 2007, the *Malaysian Code on Take-overs and Mergers 1998* (Take-overs Code) was applied to securities borrowing and lending transactions. This follows the reintroduction of regulated short selling on the local stock exchange, which was effected through the issuance of the *Guidelines on Securities Borrowing and Lending* by the SC.

These SC measures are in response to the growth and continued sophistication of the Malaysian capital market

which is best served by minimising regulatory friction cost so that market intermediaries can respond quickly and innovatively. They will increase market efficiency and promote timely dissemination of market information, ultimately, facilitating mergers and acquisitions.

We also made amendments to the CMSA on provisions relating to take-overs, mergers, and compulsory acquisitions. These provisions will come into force when the Take-overs Code, which is under review by the SC, comes into force in 2008.

## ISLAMIC CAPITAL MARKET

Malaysia has the world's most comprehensive Islamic capital market (ICM) which is underpinned by a robust regulatory infrastructure offering end-to-end Shariah compliance. The international competitiveness of Malaysia's ICM continues to be strengthened through sustained expansion of the product range, fiscal incentives, and liberalisation to expand the international customer base of issuers and investors.

### Sukuk Market

The Malaysian *sukuk* market continued to experience unprecedented growth. In 2007, over 76% of all bonds approved by the SC were *sukuk* – with a total value of RM121.3 billion.<sup>1</sup> These were largely innovative structures based on widely-accepted principles, such as *musyarakah*, *ijarah*, and *istisna`*.

Malaysia's ICM continued to strengthen its reputation as a centre of innovation in 2007 with landmark issuances, such as the largest *sukuk* and conventional bond funding programme of RM60 billion by Cagamas Bhd, the *sukuk* issuance of RM15.4 billion by Binariang GSM Sdn Bhd, the largest exchangeable *sukuk* of US\$850 million by Khazanah Nasional Bhd and the RM3 billion TM Islamic Stapled Income Securities by Telekom Malaysia and Hijrah Pertama Bhd (Table 2).

<sup>1</sup> This figure includes the approval of seven combination issuances (conventional bonds and *sukuk*) with a combined issue size of RM89.5 billion.

Table 2  
Notable Sukuk Programmes and Issuances in 2007

Issuer	Shariah Principle	Amount (RM million)
Cagamas Bhd*	Multiple Shariah principles	60,000 <sup>+</sup>
Binariang GSM Sdn Bhd	<i>Musarakah</i>	15,366
Telekom Malaysia Bhd & Hijrah Pertama Bhd	<i>Ijarah</i>	2,997
Khazanah Nasional Bhd	<i>Musarakah</i>	2,890 <sup>++</sup>
MISC Bhd*	<i>Mudharabah</i>	2,500
Cagamas MBS Bhd	<i>Musarakah</i>	2,300
Putrajaya Holdings Bhd*	<i>Musarakah</i>	1,500
Lebuh raya Kajang-Seremban Sdn Bhd (two issues)	<i>Istisna'</i>	1,453
Menara ABS Bhd	<i>Ijarah</i>	1,100
United Growth Bhd*	<i>Musarakah</i>	800

+ A combination of a few Islamic principles and conventional bond

++ Issued out of Labuan amounting to US\$850 million.

\* Programmes

The SC introduced a facilitative framework for the issuance of foreign currency denominated *sukuk* to promote Malaysia as an international *sukuk* centre. Qualified issuers, such as multilateral development banks, multilateral financial institutions, sovereigns and quasi-sovereigns, and multinationals which issue a non-ringgit *sukuk* rated at least a single A, will be deemed approved and can also be offered to sophisticated investors onshore. The new framework allows international documentation based on UK or US laws and accepts ratings by international credit rating agencies to reduce issuance costs for international issuers.

### Hub for Intermediation and Fund Management

Budget 2008 launched initiatives to create a highly liberalised environment and provided several incentives to promote Malaysia's positioning as a wealth management and intermediation hub. The measures are as follows:

- Three new stockbroking licences to be issued to leading stockbroking companies which are able to source and intermediate businesses and order flows from the Middle East;

- Islamic fund management companies are allowed to be wholly owned by foreigners;
- RM7 billion will be outsourced by the Employees Provident Fund to be managed by Islamic fund management companies;
- Islamic fund management companies are allowed to invest all their assets abroad;
- Fund management companies are given income tax exemption on all fees received from Islamic fund management activities, until assessment year 2016; and
- The SC will facilitate the licensing process and all dealings with other government agencies to expedite the approval process for the establishment of fund management businesses in Malaysia.

Several guidelines were introduced to provide greater clarity and certainty on Shariah compliance, as follows:

- The SC issued *The Guidelines on Islamic Fund Management*. It sets out the compliance requirements for Islamic fund management and for carrying on an Islamic fund management business under an Islamic window; and
- Bursa Malaysia released the *Best Practices Guidelines in Islamic Stockbroking*. It outlines key areas for operations and compliance aspects of an Islamic stockbroking business.

Bursa Malaysia collaborated with FTSE to launch the FTSE-Bursa Malaysia Emas Shariah Index and FTSE-Bursa Malaysia Hijrah Shariah Index to facilitate performance benchmarking and launch index-related products. The indices are based on a free-float methodology and the components of the indices are subjected to rigorous screening for Shariah compliance by the Shariah Advisory Council of SC (SAC) and Yassar Research. With the introduction of these two Shariah indices, the SAC revised the publication date of its *List of Securities Approved by the Shariah Advisory Council of the Securities Commission* from the last Friday of April and October to the last Friday of May and November every year.

In 2007, the SC was named "The Best Regulator for Islamic

Funds” at the Master of Islamic Funds Awards in Dubai. The award acknowledges our pioneering efforts and leadership role in the development and promotion of a comprehensive Islamic capital market. It also recognises the government’s efforts to position Malaysia as a global Islamic financial hub that specialises in the origination, distribution, and trading of Islamic funds and wealth management.

### Shariah Advisory Council

The SAC plays a critical role in promoting innovation in ICM by providing timely guidance and clarity on Shariah-

compliance issues. In 2007, the SAC held 14<sup>2</sup> meetings and deliberated on several Shariah issues. The key SAC resolutions are provided in Table 3.

### Building Capacity

The SC actively participates in capacity building for the development of ICM. Our flagship Islamic Markets Programme (IMP), organised annually by the SIDC, has gained a reputation for effective knowledge transfer and sharing of expertise among skilled Islamic market professionals. It has also helped positioned the SIDC as a leading ICM technical training centre under the MIFC initiative.

Table 3  
Key Resolutions by the SAC in 2007

Sukuk	
<i>Kafalah</i> (guarantee) on <i>musyarakah</i> and <i>mudharabah</i> capital	<i>Kafalah</i> on <i>musyarakah</i> and <i>mudharabah</i> capital can be in the form of third-party guarantee based on <i>tabarru'</i> (voluntarily basis), third-party guarantee with the imposition of a fee or a guarantee through special funds.
Purchase undertaking in structuring <i>sukuk</i>	The exercise of a purchase undertaking on maturity or in the event of default within the tenure of the <i>sukuk</i> is permissible. The ruling was made on the basis that the purchase undertaking is regarded as a promise to be fulfilled by the issuer.
Forward lease	Forward lease is permissible. Lease payments can be fully settled upfront upon the contract of <i>ijarah</i> or via other agreeable payment arrangements. If the <i>ijarah</i> asset does not meet the required specifications by the lessee upon delivery in the future, the lessor is then responsible for replacing the asset.
Consent from chargee or co-owner of asset for securitisation	An encumbered asset (either a charged asset to the bank or an asset that is co-owned with another party) can be used as an underlying asset in structuring of <i>sukuk</i> provided that the issuer first obtain consent from the chargee or co-owner, as the case may be.
<i>Ta'widh</i> (compensation) on late payments under <i>sukuk musyarakah</i> and <i>sukuk mudharabah</i>	<i>Ta'widh</i> is permissible under <i>sukuk musyarakah</i> and <i>sukuk mudharabah</i> . However, <i>ta'widh</i> is only applicable when the obligor fails to distribute the capital and realised profit on the dates stipulated in the agreement. <i>Ta'widh</i> cannot be applied to expected profit.
Revision to terms in <i>sukuk</i> documents involving maturity date and profit rate	During the tenure of a <i>sukuk</i> , revision to the terms in the <i>sukuk</i> document, such as an extension of the maturity date and the revision of the profit rate, will adversely affect the original contract ( <i>'aqd</i> ) of the <i>sukuk</i> . Therefore, the revisions can only be implemented by first having the initial contract cancelled. Thereafter, a new contract stating the new maturity date and profit rate is to be executed to replace the previous contract.
Convertible/ Exchangeable <i>sukuk</i>	The issuance of convertible/exchangeable <i>sukuk</i> is permissible as long as the <i>sukuk</i> is structured based on Shariah principles, such as <i>musyarakah</i> , <i>mudharabah</i> and <i>ijarah</i> .

<sup>2</sup> This is inclusive of the Special SAC Meetings held to review the Shariah status of companies at the pre-IPO stage.

The second IMP, themed “Innovating for Growth” was held in July 2007. It attracted 40 local and foreign participants from the Maldives, Brunei, Bangladesh, Uzbekistan, Iran, Japan and Mauritius.

The SC also organised various conferences and seminars in 2007 to further enhance skill sets in ICM, such as:

- The Shariah Advisers’ Workshop on Islamic structured products;
- The SC and Citigroup co-hosted the Global Shariah Dialogue on “Recent Trends in the *Sukuk* Market”. It attracted more than 100 local and international Shariah scholars and market professionals; and
- The SC and Bursa Malaysia jointly organised an Islamic Stockbroking Education Programme as part of its roll-out to promote Islamic stockbroking best practices and Shariah application in Islamic stockbroking services.

## CORPORATE GOVERNANCE

In line with Budget 2008 recommendations, the *Malaysian Code on Corporate Governance* was amended to incorporate latest best practices to elevate the standards of corporate governance in Malaysia, and benchmark the Malaysian corporate governance framework against frameworks in other jurisdictions. The revised *Malaysian Code on Corporate Governance* has improved the following areas:

- *Composition, qualification, and frequency of meetings of the audit committee*

To strengthen the role of the audit committee, all members of the audit committee should be non-executive directors and financially literate. At least one should be a member of an accounting association or body. Additionally, the audit committee should meet with the external auditors without executive board present, at least twice a year.

- *Eligibility of directors*

The revised *Malaysian Code on Corporate Governance* provides greater clarity on the aspects a nominating committee should consider when recommending candidates for directorships. The criteria recommended are as follows:

- skills, knowledge, expertise and experience;
- professionalism;
- integrity; and
- for independent non-executive directors, the nominating committee should also evaluate their ability to discharge the responsibilities/functions as expected of them.

The nominating committee should also ensure that its assessments and evaluations are properly documented.

- *Importance of the internal audit function*

The revised *Malaysian Code on Corporate Governance* recognises the importance of the internal audit function by requiring all companies to have one. Furthermore, a head of internal audit should report directly to the audit committee to preserve the independence of the internal audit function.

## Improved World Bank Ranking for Investor Protection

Our capital market has continued to receive positive reports on its corporate governance framework, specifically with regards to investor protection. In *Doing Business 2007*, the World Bank ranked us fourth for investor protection, after New Zealand, Singapore, and Hong Kong. This is an improvement from last year when we ranked fifth.

**Table 4**  
**Where are Investors Protected, and Where Not?**

Most Protected	Rank	Least Protected	Rank
New Zealand	1	Albania	164
Singapore	2	Gambia	165
Hong Kong, China	3	Rwanda	166
Malaysia	4	Venezuela	167
Canada	5	Djibouti	168
Ireland	6	Swaziland	169
Israel	7	Lao PDR	170
United States	8	Vietnam	171
United Kingdom	9	Tajikistan	172
South Africa	10	Afghanistan	173

Source: World Bank, 2007.

### Oversight Framework for Auditors

Following the announcement of Budget 2008 and in response to the discovery of increasing irregularities in the financial statements of certain PLCs, we are formulating a robust oversight framework for auditors in line with international best practices. An independent and effective audit oversight framework will provide the monitoring mechanisms necessary to ensure that the audited financial statements of PLCs are accurate and reliable.

We have conducted extensive consultations with relevant stakeholders, including the accounting professional bodies, regulatory agencies, and the business community to receive views and feedback on the formulation of an independent oversight framework for auditors. Industry feedback indicates there is strong support for the establishment of such a framework for public company auditors that is benchmarked against best practices internationally.

The SC also established a High Level Task Force comprising members of the profession, regulators, and industry to present an appropriate audit oversight regulatory framework to the government in the first quarter of 2008.

### CORPORATE SOCIAL RESPONSIBILITY

There was a substantial increase in the number of corporate social responsibility (CSR) initiatives in 2007. The Institute of Corporate Responsibility, Malaysia (ICRM) conducted a dialogue on “G3 – Reporting Sustainability, Is It Relevant to Malaysia?” to highlight global corporate responsibility developments and their relevance to Malaysian PLCs.

UNDP Malaysia and the ICRM concluded its second CSR conference, themed “Raising the Bar” on 23 August 2007 which was preceded by two workshops on ‘Strategic CSR for Sustainable Business’. The SC also participated in the National Mirror Committee on Social Responsibility which is responsible for providing a national perspective to the proposed ISO Guidance on Social Responsibility.

### SECURITIES INDUSTRY DEVELOPMENT CORPORATION

A rapidly-changing financial services landscape has redefined traditional job specifications, placing greater demands on skill sets for various functions from the back office to the trading rooms and the client interface. Increasingly, market professionals need to be equipped with capabilities and knowledge to respond proactively to fast-paced developments across the entire spectrum of the capital market.

The SC corporatised the Securities Industry Development Centre (SIDC) so that it can take on greater challenges in capacity building. On 12 March 2007, the SIDC was incorporated as a fully-owned subsidiary of the SC and it was officially launched on 30 July 2007. The SIDC became the Securities Industry Development Corporation. A corporatised SIDC will seek new business opportunities unrestricted by regulatory considerations. It will have greater flexibility to work with a wider range of partners in order to cater to local and global demands. The evolution of the SIDC was recognised in the CMP as a means to further strengthen capacity-building in the capital market.

The independent SIDC is now able to co-develop training programmes and events in partnership with industry,

provide consultancy services, and develop new capital market-related programmes as a commercial proposition. For example, the first of a series of Institutional Investor Education programmes was co-sponsored by Aberdeen Asset Management, BNP-Paribas, and Nomura Securities. Its success led to participants requesting that the programme be run at least twice a year, and the sponsors agreed to do so. Ultimately, the SIDC is to become a self-financing, independent entity whose programmes are designed to meet market needs.

The SIDC has also begun implementing the CMDF RM36 million five-year Industry Transformation Initiative to enhance industry skills. With the SIDC transformed into an implementer and supplier of quality training services for the industry, the SC will focus on its oversight role on capacity building and investor education.

## INTERNATIONAL CO-OPERATION

### **Mutual Recognition Agreement Between the SC and the Dubai Financial Services Authority**

The SC and the Dubai Financial Services Authority (DFSA) signed a mutual recognition agreement in March 2007, opening the gateway for cross border distribution and marketing of Islamic funds between Malaysia and the Dubai International Financial Centre. This arrangement between regulators was the first of its kind between two Islamic markets. For this, both the SC and DFSA was awarded “Best Regulator for Islamic Funds” at the inaugural Master of Islamic Funds Awards held in Dubai.

The agreement was intended to increase the connectivity of the Malaysian ICM to the global ICM network. It allows for cross-border distribution and marketing of Islamic funds between the SC and the Dubai International Financial Centre. Under the agreement, Islamic funds approved by the SC may be marketed and distributed in the Dubai International Financial Centre (DIFC), with minimal regulatory intervention. At the same time, Islamic funds registered with the DFSA will be provided access to Malaysian investors. Malaysian capital market intermediaries will benefit from the gateway to distribute their Islamic funds to a fast growing market while Malaysian investors will have access to a range of Islamic funds from the DIFC. Both regulators will work closely to supervise and enforce the securities laws to protect investors.

## **ASEAN Capital Markets Forum**

The SC chairs the ASEAN Capital Markets Forum (ACMF), a grouping of heads and senior officials of ASEAN’s securities regulators. The ACMF met twice in 2007, in Kuala Lumpur and in Manila, where discussions were focused on the progress of the ACMF’s efforts in harmonising regulatory standards within ASEAN. At the last meeting in Manila, the SC was elected to chair the ACMF for the third consecutive year.

## **Signatory to IOSCO MMoU**

The SC was accepted as a signatory to the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Co-operation and the Exchange of Information (MMoU) which further strengthens our enforcement and supervision efforts. The MMoU is seen as an international benchmark for co-operation and information sharing to fight cross-border fraud and other securities law violations. It also helps to raise the level of overall investor protection in the market place. Malaysia is one of few emerging markets which qualified to be signatories of the IOSCO MMoU.

## **IOSCO EMC Working Group on the Regulation of Secondary Markets**

The SC is an active member of IOSCO and chairs the IOSCO Emerging Markets Committee (EMC) Working Group on the Regulation of Secondary Markets. The Working Group has a membership of 80 emerging market regulatory agencies, and discussed a variety of issues relating to the securities market, such as exchange developments, issues of clearing and settlement, and the development of the corporate bond market.

The Working Group Report on “Factors Influencing Liquidity in Emerging Markets” was adopted at the IOSCO Emerging Markets Committee meeting in Dubai in 2007.

## **IOSCO Asia-Pacific Regional Committee**

The IOSCO-APRC is one of four regional committees of IOSCO with 25 members representing securities regulators

from 21 countries in the Asia-Pacific region. The APRC met twice in 2007, once in Mumbai and the second time in Seoul. The current mandates of the APRC include the mutual recognition of collective investment schemes (CIS) which is aimed at facilitating the cross-border offerings of CIS among APRC members on the basis of compliance with a single framework. At the IOSCO APRC meeting in Seoul in November 2007, the SC Chairman delivered a presentation on “Recent developments in securities supervision”.

### 14th APEC Finance Ministers Meeting

At the Asia Pacific Economic Co-operation (APEC) Finance Ministers Meeting held in Coolumb, Australia in August 2007, the discussions on “Making Private Capital Markets Work Better” focused on:

- the need for reforms to be consistent with economies’ development priorities; and
- the importance of strengthening financial institutions and regulatory frameworks to increase regional and international market integration.

On the “Transparency and Sustainability of the Public Balance Sheet”, Ministers deliberated on the need to support continued fiscal sustainability and endorsed a set of principles to guide further progress.

### ASEAN Finance Ministers

At the 11th ASEAN Finance Ministers’ Meeting in Chiang Mai, Thailand in April 2007, the ASEAN Finance Ministers

announced the establishment of an ASEAN Infrastructure Financing Mechanism (AIFM) and tasked Malaysia to lead a High Level Task Force to establish a fund and identify initiatives to attract private sector participation in regional infrastructure projects.

The Finance Ministers recognised that infrastructure development was critical in accelerating regional growth and integration. It was proposed that the AIFM effect intermediation of large regional savings into member countries with low levels of infrastructure development. It will work towards achieving the vision of creating an ASEAN Economic Community by 2015 announced by the ASEAN Leaders at the Summit held in Singapore in November 2007.

The SC also participated in the 4th Annual ASEAN Finance Ministers Investors’ Seminar held in New York in October 2007. The road shows were intended to promote ASEAN as an asset class to global investors and carried the theme “Borderless ASEAN – Soaring, Stronger Together”.

### Trade Agreements

In 2007, the SC participated in negotiations on Malaysia’s commitment in the multilateral framework with regard to the capital market sector. There was substantial progress on the fourth package of commitments of the ASEAN Framework Agreement on Services (AFAS) to liberalise market access. The fourth and fifth round of trade negotiations with the US began in early 2007 and predominantly discussed market access to banking, insurance and capital market sectors.



## Part Four

### Increase our capabilities and effectiveness

We have benchmarked our turnaround time for approval against the most competitive jurisdictions to reduce time-to-market and keep regulatory costs low. For approval processes, we are comparable with more developed markets in the crucial aspects of speed, efficacy, and timeliness. We are committed to reinforcing and addressing any remaining area of inefficiency.

# INCREASE OUR CAPABILITIES AND EFFECTIVENESS

## INTRODUCTION

The SC introduced various initiatives in 2007 to further increase our capabilities and effectiveness. We invested in our people and in information technology, and further improved our work processes to achieve efficiency in service delivery and operational excellence.

We undertook new process designs to entrench a collaborative work culture across the SC and introduced pre-submission consultations to better serve the market. We also undertook an in-depth market survey to obtain feedback on our performance so that we can further improve. Overall, our stakeholders said that the quality of our service had continued to improve.

The SC's most important asset is our people. This year, our ability to attract and retain talent was further augmented. Innovative recruitment strategies and internal sourcing were adopted to effectively fill the SC talent pipeline across all levels with the right people. Our investment in human capital development also included continuous learning and developmental programmes to inculcate a high performance work culture.

## ENHANCING TRANSPARENCY AND EFFICIENCY

We continued to institute faster turnaround times in our dealings with market participants and other stakeholders, and increased the level of transparency of our decisions by publishing our latest and improved process maps on the SC website. These included:

- Complaints management and a guide on “How do I lodge a complaint?”;

- Approval processes for collective investment schemes such as “The approval process of initial public offerings (IPOs) of real estate investment trusts (REITs) in Malaysia” and “Establishment of unit trust funds”;
- Take-overs and mergers, specifically “The approval process of take-overs and mergers applications in Malaysia”; and
- The approval process of PDS in Malaysia.

Internally, we continued to reward collaborative efforts which promoted efficient and effective work practices across the organisation. All departments reviewed and improved all key business processes. Bottlenecks and duplication were eliminated through collective process re-engineering. These enhanced process maps were made available to all staff via the Intranet. We also set a minimum key performance indicator (KPI) of 90% achievement rate for all applications made to the SC to be considered and completed within the stipulated time charter.

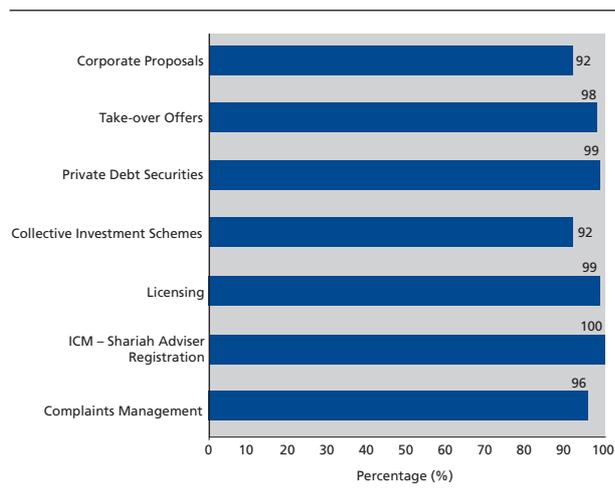
A key finding from our evaluation of applications was a high rate of submissions that did not adhere to the SC guidelines. Examples included incomplete submissions on proposals for approval using the assessment approach and insufficient disclosure on proposals for approval using the declaratory approach. We found ourselves giving advice and/or seeking additional information for processing these applications, resulting in tighter time pressures to meet our service delivery charter.

Based on this finding, we introduced pre-submission consultations for all corporate proposals. This gives us the opportunity to better serve the market by giving advice

on the interpretation of the various acts, guidelines and disclosure requirements, as well as on structuring transactions in accordance with Shariah principles. We highlighted areas that we felt could put investors at too much risk and helped to find solutions for such proposals.

With enhanced internal processes, we see improved results in our scorecard. We highlighted on a quarterly basis, the reasons for rejection of corporate proposals, and this helped to improve the quality of submissions to us and assisted companies in their fund-raising efforts. We met our time charters for 92% of applications submitted, thus exceeding the 90% KPI set for the year.

**Chart 1**  
**Applications Meeting Time Charter in 2007**



### Integrated Business Planning

The SC's annual business plan is formulated by taking into account long-term strategic plans and assessing market developments to adequately address challenges and risks resulting from frequent changes taking place in the economy and the market place.

The annual planning process begins with a review of long-term strategies, such as the CMP and Ninth Malaysian Plan, as well as an assessment of strategic issues and risks to determine priorities for the year. These themes are cascaded into business goals and strategies to support the achievement

of the strategic priorities. The business goals and strategies are then cascaded into detailed work programmes which set out the deliverables and key performance indicators.

The business planning and budgeting processes are integrated into a single process. This helps to achieve greater linkages between strategy and resource allocations, generate time savings across the organisation and greatly improve goal alignment.

### LEVERAGING ON INFORMATION TECHNOLOGY

#### Systems for Internal and External Stakeholders

During the year, the SC significantly improved the efficiency of our business operations by embedding information technology (IT) in our core business processes. We upgraded existing systems and developed new systems where required. We further automated processes for approving corporate proposals so that our gate-keeping function is more effective. New systems were set up for surveillance and enforcement to facilitate more proactive regulatory intervention.

To facilitate more efficient and timely submissions from external stakeholders, new systems were introduced to improve the reporting and submission processing capabilities. They were the Electronic Reporting System (ERS) for unit trusts in September and an improved Electronic Licensing Application (ELA) system in November.

The ERS enables online monthly reporting for statistical and compliance purposes by unit trust management companies (UTMCs) to the SC. This means a faster turnaround time for the release of industry statistics.

The new ELA meets the new requirements under the CMSA which introduced the single licensing regime in September 2007. Apart from implementing information systems, focus was given to the total security of our technical infrastructure. In 2007, we put in place an upgraded Information Security Management System (ISMS) framework for our ERS platform which received ISO 27001:2005 certification in August 2007.

## Capital Market Database Project

We had embarked on a long-term project to build a comprehensive and authoritative database for capital market statistics. The efficient collection of capital market statistics would improve data collection and data quality. The efficient dissemination of reliable capital market statistics on a timely basis would assist the SC in conducting its regulatory, supervisory and developmental functions more effectively. It was also intended that the database would provide a platform for information sharing and strengthening the modelling and analytical capacity of the organisation.

In 2007, we established the database architecture and commenced detailed design of data models for various components of the database.

## HUMAN CAPITAL DEVELOPMENT

The SC adopted a holistic human capital management philosophy focusing on people, performance management, information, and work flows. In 2007, our human capital development programmes continued to focus on attracting and retaining talent, retaining core capabilities, promoting high performance culture, promoting high integrity and accountability among SC staff, as well as developing our capital market leadership development programme.

### Attracting and Retaining Talent

Our HR practices are geared to motivate and retain the best staff to meet organisational goals and objectives. We source and hire candidates with the right experience, expertise and attitude, and once recruited, we continuously manage their development and career paths.

In 2007, staff recruitment was further augmented by scholarship awards, external recruitment through advertisements, and engagements with young graduates. Internal recruitments were conducted through open resourcing (OR), internal transfers and secondments, and internships.

The SC Scholarship Programme, which offers scholarships to the best and brightest young Malaysians, who then return to exciting careers with the SC, was increased three fold. We offered scholarships for 15 places for A-Levels and

independent studies in local and overseas universities. Now in its twelfth year, the SC Scholarship Programme is an integral component of the SC talent pipeline, and over the years, 80 scholars have been successfully brought into our workforce.

New talents continued to be sourced externally through fresh recruitment approaches. This included engagements with young graduates where we recruited fresh graduates with strong academic qualifications as Graduate Management Executives (GMEs). GMEs are rotated through various departments to gain exposure to different regulatory functions before assuming specific positions. The GME Programme began in August 2005, drawing a total of 56 GMEs to the workforce, with 34 of them joining us in 2007.

Apart from recruiting externally, the SC also practises internal staff secondments, transfers, promotions and OR. While OR provides opportunities for recruiting internally from among staff, and providing for career development, the other initiatives help boost staff morale, acknowledge internal excellence, and serve as an incentive for staff to perform at their highest level.

From July through September 2007, the SC welcomed the first batch of 13 short-term placement interns from local and overseas universities under the SC Internship Programme. Another batch of 11 interns commenced their internships in December 2007. These young undergraduates take on challenging roles in the SC, at the same time gain direct exposure to the Malaysian capital market and a deeper appreciation of regulatory matters.

Our recruitment initiatives were not isolated from the challenge of high mobility of Malaysia's workforce. We had to compete with other organisations for the best and brightest people. Hence, our remuneration package was redesigned to remain attractive and competitive. A better salary structure in tandem with market movements, and where necessary, a degree of flexibility built into the remuneration, were factored in to attract critical skills needed to deliver our business mandates.

### High Performance Culture

We continued our journey in driving and entrenching a high performance culture in the organisation where superior performance is acknowledged, recognised and appropriately

rewarded. We set performance standards and measured our achievements against key performance indicators and client charters. In addition to assessing the achievement of results, we also emphasised the creation of value in the process of delivering our targets. Attention was given to the level of professionalism and excellence demonstrated. We not only generated our own reservoir of technical expertise, but strived to equip our people with strong leadership capabilities, particularly those from mid-managerial levels. We continued to promote team-based performance by encouraging staff to be more involved in cross-functional projects and assignments. This was part of our efforts in building cross-functional expertise and providing opportunities for lateral growth and exposure.

Leading the efforts were programmes geared towards the development of structured learning where learning requirements were mapped against the SC competency framework. Learning programmes ranged from technical and technology-related to leadership development programmes. Several programmes were provided through e-learning, thereby encouraging staff to pace their learning suited to their work schedule.

In 2007, we initiated a structured induction programme for new staff, including the GMEs to promote a high performance culture. The programme assimilated new staff into the SC's work culture and climate, assisting them to become loyal and enthusiastic staff who understand their role in the development and regulation of the capital markets and see the connection between our vision, mission and our values.

We subscribed to the International Institute of Management Development's (IMD) weekly web cast to provide staff with exposure on the latest in thought leadership and international best practices in management adopted by organisations. Staff were also given opportunities to further enhance their skills, knowledge and understanding in a focused area, through PROFOUND. This is a financial award scheme where those who meet requirements can work while studying towards a professional qualification.

We conducted the Evening Talk Series which discussed topics other than capital or finance issues to give staff a wider perspective on topics of the day. Subjects ranging from human rights to environment and gender issues helped

contextualise their work at the SC with the broader issues affecting our stakeholders and the community we live in and try to serve.

The SC constantly promotes health and safety among our staff. In 2007, we organised a Health and Safety Week from 25–29 June 2007. Several safety and health-related activities, such as daily talks, exhibitions, free health screening, quizzes, and healthy food promotions were organised. The event encouraged staff to maintain a healthy work lifestyle.

### **Capital Market Leadership Development Programme**

In 2007, the SC introduced a new initiative to develop and foster strategic and business capabilities among Malaysia's financial leaders. We partnered with the IMD, a top European business school based in Lausanne, Switzerland, to bring a world-class capital market leadership development programme to financial leaders in Malaysia.

The "Advanced Business Management Programme (ABMP) for Senior Leaders in the Capital Markets" was held from 2–6 April 2007 and 29–31 May 2007, targeting CEOs, COOs, CFOs, and senior management.

The highly successful ABMP provided 27 financial leaders and regulators with insights and a thorough understanding of the breadth of issues, challenges and opportunities in a globally connected business environment.

### **Promoting Integrity and Accountability**

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 to enhance the level of professionalism of our staff:

- Internal whistle-blowing procedure

We designed a safe channel to expose internal wrongdoing. Our internal whistle-blowing procedure plays a dual role – as an internal risk-management tool,

and as an avenue for staff to put across genuine concerns through an open approach where anonymity is guaranteed.

- Asset declaration

From 2007, staff can undertake this mandatory declaration of interest and assets through an online process, providing a more efficient and effective approach in maintaining up-to date data. Such a single-custodian approach also increased the credibility of the process.

- Protocol for stakeholder engagements

We developed a best practice guide to extract optimum value from engagements with both internal and external stakeholders.

## SEEKING MARKET FEEDBACK

Having introduced several measures to enhance our effectiveness and professionalism over the last few years, we felt it was time to evaluate the impact of these initiatives on the market and to get feedback. We wanted to know how the market viewed the SC in terms of what we do, as well as how we do things to enable us to—

- evaluate our progress and identify challenges and opportunities;
- improve our performance and effectiveness; and
- listen and respond to the market's needs.

We began by conducting an independent and in-depth survey. We sought feedback from our stakeholders which included the stockbrokers, investment banks, fund managers, and the media, on how they rate what we do and how well we do it, specifically in the areas of—

- investor protection;
- regulation;
- enforcement;

- facilitation and development;
- time to market;
- transparency and consultation;
- market sensitivity;
- quality of organisational talent; and
- customer service.

The feedback from our stakeholders was positive. Internal feedback was also obtained, so that where there were clear gaps, the SC would know how to prioritise in terms of improving or closing the gaps and addressing the concerns. Taking into account the feedback, we set out to articulate what we stand for as an organisation, and established an implementation plan.

Moving forward, we will focus our collective energy on key organisational behaviours, such as being more facilitative, collaborative and working in partnership with the market in discharging our functions and duties. We strongly believe that by adopting this approach, the SC can bring about greater improvement and effectiveness, not just for ourselves but more importantly, for the overall Malaysian capital market.

## RECOGNITION AND AWARDS

### Best Regulator for Islamic Funds

The SC and Dubai Financial Services Authority (DFSA) were awarded the “Best Regulator for Islamic Funds” at the inaugural Master of Islamic Funds Awards held in Dubai on 13 November 2007. The mutual agreement signed between the SC and DFSA was acknowledged as pioneering efforts in the development and promotion of a comprehensive Islamic capital market.

The Master of Islamic Funds Awards confers international recognition for outstanding achievement in the global Islamic funds industry.

This international acknowledgement is also an endorsement

of the government’s efforts to position Malaysia as a global Islamic financial hub that specialises in, among others, the origination, distribution and trading of Islamic funds and wealth management.

The award was organised by Terrapin Pte Ltd, a global business media company that specialises in producing leading global funds conference series, among others. The eminent panel of judges included international Shariah experts and practitioners.

### SC Director Awarded Most Outstanding Person for Contribution to Islamic Finance

SC Senior Executive Director, Dato Dr Nik Ramlah Mahmood, was named the “Most Outstanding Person for Contribution to Islamic Finance” at the 4th Kuala Lumpur Islamic Finance Forum 2007 (KLIFF).

The annual KLIFF Islamic Finance Awards honour and appreciate efforts of institutions and organisations which have contributed significantly to develop the Islamic finance industry.

Dato Dr Nik Ramlah received the award from the Second Finance Minister of Malaysia, Tan Sri Nor Mohamed Yakcop at the KLIFF gala dinner and award presentation ceremony held on 20 November 2007 in Kuala Lumpur.

### Recipients of National and State Awards

The following SC staff were conferred national and state-level awards in 2007:

Name	Award	Occasion
Ranjit Ajit Singh Senior Executive Director	Darjah Mulia Seri Melaka (DMSM)	Birthday of Yang Di-Pertua Negeri Melaka, Tun Mohd Khalil Yaakob
Dr Nik Ramlah Nik Mahmood Senior Executive Director	Darjah Panglima Setia Bintang Sarawak (PSBS)	Birthday of Yang Di-Pertua Negeri Sarawak, Tun Datuk Patinggi Abang Muhammad Salahuddin Abang Barieng
Fong Yee Mei Senior Manager	Pingat Darjah Setia Negeri Sembilan (DNS)	Birthday of DYMM Tuanku Yang Di-Pertuan Besar Negeri Sembilan Darul Khusus



## **Part Five**

### **Capital market issues and outlook**

# CAPITAL MARKET ISSUES AND OUTLOOK

## THE WORLD ECONOMY

World output stayed strong in 2007 but global economic conditions turned less stable and became increasingly variable. According to latest estimates, world GDP grew at a real rate of 4.9% from 5% in 2006.<sup>1</sup> Global growth was supported by robust domestic demand in Asia. This helped to offset erratic growth in Japan and western Europe, and a continued slowdown in the US economy.

The US economy looked fragile towards the end of 2007 as problems in the housing and financial markets worsened. A sharp fall in house prices and rising mortgage defaults lessened the availability of credit to households.

**Table 1**  
**Summary of World Real GDP (Annual % Change)**

	2005	2006	2007	2008f
World	4.4	5.0	4.9	4.1
US	3.1	2.9	2.2	1.5
Euro area	1.5	2.8	2.6	1.6
Japan	1.9	2.4	1.9	1.5
Developing Asia	9.0	9.6	9.6	8.0
– China	10.4	11.1	11.4	10.0
– India	9.0	9.7	8.9	8.4
– Malaysia	5.2	5.9	5.8	5.6
– Indonesia	5.7	5.5	6.2	6.1
– Philippines	4.9	5.4	6.3	5.8
– Thailand	4.5	5.0	4.0	4.5

e = estimate, f = forecast

Source: International Monetary Fund

Meanwhile, firms faced higher costs of capital as a result of financial market turbulence.

As concerns over the US economy grew, the dollar weakened further across a spectrum of currencies. Renewed worries about US current account's large and persistent deficit intensified the decline during the fourth quarter. Mounting uncertainty over the dollar's roles as a global reserve currency and foreign-exchange peg for oil-exporting countries also contributed to the decline.

The dollar's depreciation added to inflationary pressures in many developing countries. These had grown as a result of high energy and food prices, and strong domestic demand. Oil prices continued to rise to new peaks, pushing up demand for biofuels. This in turn drove the international prices of related commodities sharply higher.

In countries where inflation had picked up, such as China and those in South Asia and parts of Latin America, central banks continued to raise policy interest rates. However, in the US, western Europe and Japan worries over financial system instability and the threat of recession prompted central banks to generally loosen monetary conditions in the second half of the year.

These developments have made the outlook for global growth less predictable. Current projections<sup>2</sup> suggest that global growth for 2008 will decelerate to 4.1% on the assumption that, among other things:

- US household and business spending does not weaken significantly;

<sup>1</sup> Based on purchasing power parities. Source: Update to *World Economic Outlook October 2007*, International Monetary Fund.

<sup>2</sup> Source: Update to *World Economic Outlook October 2007*, International Monetary Fund.

- Developing economies, continue to grow strongly without overheating; and
- Stability gradually returns to financial markets and credit markets operate normally.

However, there are several risks surrounding these assumptions as a result of developments in the second half of 2007.

A wider and more intense fall in house prices could lower US consumer spending sharply, especially if the stock market, another important component of household wealth, weakens at the same time. A more pronounced US housing downturn could also threaten a global decline in property prices.

Prospects for developing countries are generally favourable. But they have also become more integrated with the global economy through trade and financial flows. As a result, they remain vulnerable to global economic and financial contagion.

Financial markets are likely to remain volatile until the full extent of problems associated with the credit market turmoil becomes clear. Banks and other financial institutions have already announced close to US\$91 billion of subprime-related losses.<sup>3</sup> Estimates of potential losses<sup>4</sup> imply there could be another US\$57 billion waiting to be announced, although there is still much uncertainty as to where these exposures are held.

Therefore, news of unexpected losses by banks or financial difficulties affecting financial services providers could set off another round of volatility in financial markets, which in turn could lead to a severe tightening in global credit. This has the potential of depressing economic sentiment and activity, and would require appropriate easing of monetary and fiscal policy to support both growth and financial stability.

As a result of these uncertainties, there are risks that world output could fall short of current forecasts.<sup>5</sup>

## THE MALAYSIAN ECONOMY

The Malaysian economy proved robust to developments in the global economic environment. GDP grew by an estimated 6% in 2007; strong domestic activity, especially in the services sector, helped to offset slower exports.<sup>6</sup>

Higher household spending and a sharp rise in tourism contributed to faster growth of utilities, retail and wholesale trade, accommodation, and dining. A strong expansion in property and business services, as well as in financial services, reflected a renewed vibrancy in Malaysian asset markets and the increasing sophistication of the domestic financial sector.

An improvement in the property market and implementation of the Ninth Malaysia Plan projects led to a recovery in the construction sector. The mining sector also staged a recovery as higher global oil prices drove more production and exploration further afield.

However, a cyclical downturn in global electronics demand had an adverse impact on manufacturing and export growth. Agricultural output meanwhile was affected by extensive flooding during the year.

Higher food and energy prices added somewhat to inflationary pressures in the second half of the year. However, headline inflation for 2007 was at the lower end of official forecasts, averaging at 2%.<sup>7</sup> This allowed the central bank to maintain the official policy rate at 3.5%, which kept overall interest rates stable.

Improved foreign investor sentiment as well as looser monetary conditions in more advanced economies pushed

<sup>3</sup> Source: Standard & Poor's.

<sup>4</sup> As of November 2007 Goldman Sachs estimates that total write-downs from subprime-related credit obligations could be as much as US\$148 billion. Source: *The Economist*.

<sup>5</sup> In their October *World Economic Outlook*, the IMF estimated a one-in-six chance that 2008 world output growth could fall to 3.5% if global economic conditions were to worsen significantly.

<sup>6</sup> Source: *Economic Report 2007/2008*, Government of Malaysia.

<sup>7</sup> This and other monetary and financial data immediately below were taken from *Monetary and Financial Developments December 2007*, Bank Negara Malaysia.

the ringgit higher in 2007. The currency gained 6.8% against the US dollar, and nearly 5% against the British pound. International reserves remained strong at RM336 billion (US\$101 billion).

The outlook for the economy continues to be positive. Official estimates project GDP to grow by 6–6.5% in 2008, while the main multilateral agencies have forecast a slightly lower but still robust range of 5.6–5.9%.<sup>8</sup> The strength of domestic demand should help to offset a moderation in the external sector. A pick-up in spending on infrastructure projects and an increase in Ninth Malaysia Plan-related investment is expected to boost output growth.

Corporate profits are expected to be robust, with market earning estimates growth at around 12–13%.<sup>9</sup> Government-linked companies are entering the new year in a strong position as they continue to streamline their operations and improve efficiency. The plantation sector should continue to benefit from high commodity prices.

Headline inflation is forecast to be within a slightly wider range of 2–3% in 2008 because of pressure from fuels, commodities and various tariff increases.<sup>10</sup> Nevertheless, the market expects short rates to be more or less stable, reflecting views that inflationary pressures will be contained.

## GLOBAL CAPITAL MARKETS

Global financial market conditions turned volatile in the third quarter of 2007 following a reappraisal of US housing credit risk. This initially led to a sharp drop in valuations of securities backed by low-grade “subprime” mortgages, as well as related structured credit products, such as collateralised debt obligations.

However, fears quickly arose about the exposure of other credit markets to subprime mortgage risk. The rapid growth of securitisation through structured instruments in the last

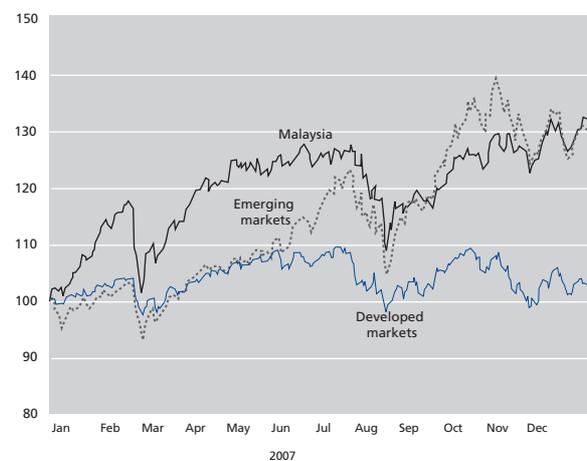
few years had increased linkages between these markets. It also allowed credit risk to be widely distributed among a diverse set of investors.

This quickly turned into a major correction across a wide spectrum of credit markets and a “flight to quality” to government bonds. In August, money market interest rates rose sharply in North America and western Europe. At the same time, new issues of asset-backed commercial paper and high-yield corporate bonds diminished.

Uncertainty over exposures to subprime mortgage risk fuelled the panic. Risk aversion in the financial system grew on news of large and mounting losses by major global banks and other financial institutions. The situation also highlighted the risk of a more extensive “credit crunch”.

**Chart 1**  
**Stock Market Performance**

MSCI World, Emerging Markets and Far East ex-Japan indices, and the Kuala Lumpur Composite index, rebased, Dec 31st 2006 = 100 (local currency)



Source: Thomson Financial Datastream, Securities Commission

The credit market turmoil also provoked a global sell-off in equity and bond markets, as hedge funds and other leveraged players sought to cover their portfolio losses.

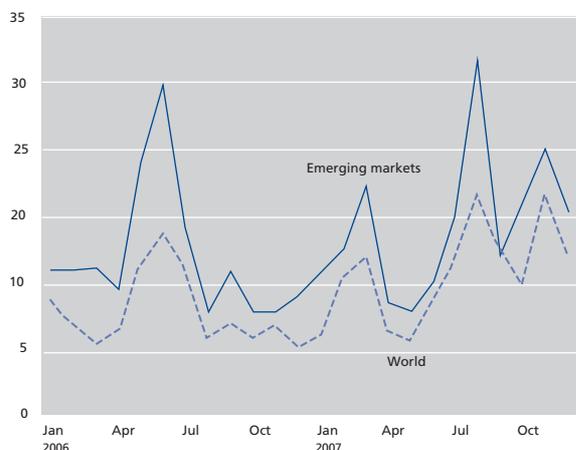
<sup>8</sup> Sources: *Economic Report 2007/2008*, IMF, World Bank and Asian Development Bank.

<sup>9</sup> 12-month forward earnings growth estimate. Source: I/B/E/S.

<sup>10</sup> Source: *Annual Report 2006*, Bank Negara Malaysia.

**Chart 2**  
**Stock Market Volatility**

Standard deviation of daily index movements per month, annualised percentages; MSCI World and Emerging Market indices (local currency)



Source: Securities Commission, Thomson Financial Datastream

Stock price volatility more than doubled in August–September. Meanwhile, emerging market bond yields spreads widened by 100 basis points amid a sharp decline in US Treasury yields.

Markets stabilised somewhat in October after the European Central Bank and US Federal Reserve took exceptional steps to alleviate liquidity pressures in the financial system. However, several more rounds of turmoil in the fourth quarter led the central banks in the US, western European and Japan to announce a set of monetary measures in December aimed at reducing stress in the financial system.

Although conditions have since improved, financial markets on the whole are likely to remain fragile until the full extent of unwinding from the subprime mortgage crisis has played out. Risks to financial stability have increased and international money markets and structured products are especially vulnerable if credit problems in more advanced economies spread beyond the housing markets.

Global equities, which have weathered the turmoil well so far, could also come under a lot more pressure. The market’s

**Chart 3**  
**Emerging Market Credit Risk Premium**

JPMorgan-Chase EMBI+ Composite index stripped yield spread over 10-year US Treasuries



Source: Thomson Financial Datastream

view on equity risk has steadily worsened, reflecting growing uncertainty about the world economy. Emerging markets should continue to attract capital flows on the basis of strong macroeconomic fundamentals.

The financial turmoil of 2007 has raised many important issues for markets and regulators, in particular, the unintended consequences of securitisation and structured finance, which has seen tremendous growth in only a few years.<sup>11</sup> Through such innovations, loans are packaged into debt securities, which are then pooled and repackaged into a new set of financial instruments that carry different levels of risk.<sup>12</sup> The instruments are then typically split up and sold in “tranches” according to the different risk appetites of investors. These range from securities designed to offer the credit risk of the highest-rated borrowers (and therefore lower yields), to those offering much higher potential returns but with a greater credit risk to match.

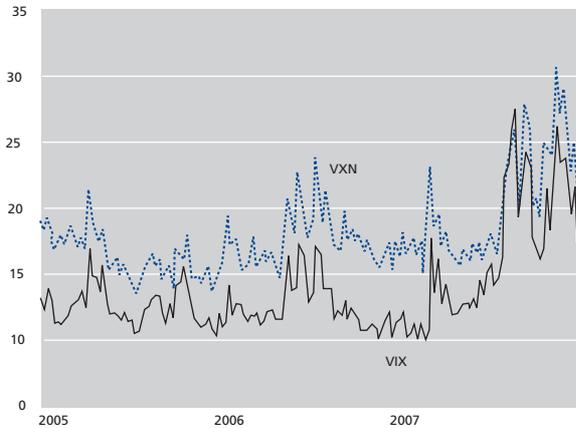
In doing so, structured products have allowed financial risks to be transferred from the balance-sheets of banks and other debtholders to the wider market, thus freeing capital so that it can be used more profitably elsewhere. However, this comes at a cost: that of not knowing who

<sup>11</sup> There are many excellent surveys and reports on the growth of this market, including those by the International Monetary Fund and Bank for International Settlements. For global data, see <http://www.bis.org/statistics/derstats.htm>.

<sup>12</sup> The fastest growth has been in credit default swaps (CDSs) and collateralised debt obligations (CDOs).

#### Chart 4 Equity Risk Aversion

30-day implied volatility for S&P 500 Composite (VIX) and Nasdaq Composite (VIXN) indices, annualised percentages



Source: Thomson Financial Datastream

ultimately holds the underlying credit risk on which such instruments are based, and how much exposure they have to potential losses. Under normal conditions, this poses few problems: by breaking up and dispersing such risks into the market, structured finance serves to diversify them within the financial system. But when risks all crystallise at the same time and in the same direction – triggered as they were in August by the rising default rate in subprime mortgages – then uncertainty over the distribution and scale of losses can affect confidence and impede the workings of markets.

The events affecting global credit markets this year illustrate how such unintended consequences – fundamentally, a case of poor transparency – can undermine not only capital market efficiency but, given the high degree of linkages between them, financial stability as well. That these consequences were not intended, let alone priced into valuations of structured products, make them a classic example of an economic “externality”.<sup>13</sup>

The events have also drawn attention to the role and accountability of credit rating agencies. By certifying the likely default rate associated with each tranche, the agencies gave structured products their marketability. However, they have been criticised for being too slow in downgrading these securities as valuations fell. As a result, investors were not given timely and accurate information, and were therefore unable to assess risks correctly.

## MALAYSIAN CAPITAL MARKETS

Malaysia’s capital market had a good year despite the global financial upheaval. Positive economic conditions provided a strong foundation to growth, which was balanced across all segments of the market.

Equities found greater momentum in 2007 and set new records for prices and activity. The KLCI closed off its all-time high but still ended the year 32% higher at 1,445.<sup>14</sup> Strong corporate earnings growth, especially among plantation, and oil and gas companies, helped to maintain reasonable valuations, despite rising share prices. The market also rewarded those, like a number of government-linked companies, that delivered strong corporate performance and improved governance.

Strong performance was not confined to blue-chips alone. Main Board stocks outside the 100 largest firms recorded a 64% increase for the year, dwarfing the performance of their larger cousins.<sup>15</sup> Moreover, efforts to promote smaller listed companies appear to be paying off. The smallest of the Main Board companies gained 31% as a group, while Second Board companies enjoyed a creditable 12% rise in their stock prices.<sup>16</sup>

The stockmarket acquired greater depth on more active trading by retail investors and foreign institutions. Turnover increased substantially and was sustained throughout the year

<sup>13</sup> Externalities are economic “side-effects”. They are defined as costs (or benefits) arising from an economic activity that affect somebody other than the people engaged in the economic activity, and are not reflected fully in prices. Examples include pollution. One solution is to regulate them, although it is generally more efficient to find a way for the market to take their costs into account when engaging in (or evaluating) economic activity. Source: Adapted from *The Economist*.

<sup>14</sup> The KLCI set a new intra-day high of 1,452.57 in 2007 on 31 December.

<sup>15</sup> This refers to the performance of the FTSE-Bursa Malaysia Small Cap index.

<sup>16</sup> Companies in the FTSE-Bursa Malaysia Fledgling index make up the smallest 2% of Main Board capitalisation. The Second Board performance was calculated by splicing the previous exchange-calculated index with the new FTSE-calculated index introduced in September this year.

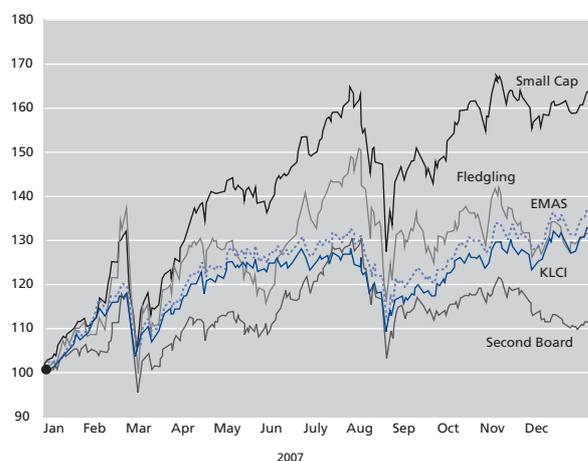
in spite of a marked increase in price volatility. Trading volume increased from 879 million per day in 2006 to 1,548 million in 2007. As a result, the market's turnover velocity, which measures the size of trading relative to the market, rose from 36% in 2006 to 58% in 2007.

Ringgit appreciation generated a strong demand for bonds. However, the deterioration in global credit markets put some pressure on the domestic market, although short-term papers continued to attract interest. A surge in domestic mergers and acquisition activity spurred growth of equities as well as bonds. The value of completed deals targeting Malaysian companies grew from RM38.3 billion in 2006 to RM132.5 billion in 2007; average deal size more than doubled from RM80.4 million to RM200.6 million.<sup>17</sup> By contrast, acquisitions by Malaysian companies during the year amounted to RM40.9 billion, reflecting significant foreign involvement in the market.<sup>18</sup>

**Chart 5**  
**Malaysian Stock Market Performance**

Kuala Lumpur Composite (KLCI), FTSE-Bursa Malaysia EMAS, Small Cap, Fledgling and Second Board indices, Jan 2nd 2007=100.

Note: Second Board index is spliced from the previous index and the new FTSE-Bursa Malaysia index introduced September 2007



Source: Thomson Financial Datastream

Buoyant conditions in their underlying markets drove stronger growth in derivatives. Notably, the stock index futures market appeared to reach critical mass, as activity surged alongside the cash market. Average daily volume jumped from 6,618 in 2006 to 12,733 contracts a day on greater foreign participation. CPO futures also drew strong foreign interest. The market tracked the worldwide boom in commodities and rediscovered its momentum following a lull at the beginning of the year.

Trading activity for structured warrants soared in December 2006 and stayed high throughout 2007, providing a significant boost to the market in tradable structured products. Average daily volume increased from around 23 million contracts to nearly 144 million contracts in 12 months, reflecting strong retail demand. Strong appetite for international markets led to a tripling in volume in October after warrants on foreign stocks, mainly blue-chip Chinese listings as well as a number US technology favourites, were introduced to the market.

Malaysia's capital market, like others in the region, faces prospects of being influenced by developments in global markets in the months ahead. The world's financial market environment is likely to remain volatile until credit markets stabilise and the global economic outlook becomes clearer. A situation where world growth moderated at a measured pace would probably have a minimal impact on the capital market. However, a "worst-case" scenario, where global growth falls sharply or even contracts, would bring renewed pressure on the whole region. Markets could be vulnerable to a quick reversal in global sentiment given their strong performance in the last 18 months. The Malaysian market can count on several strengths, which would lessen the longer-term impact of any downturn.

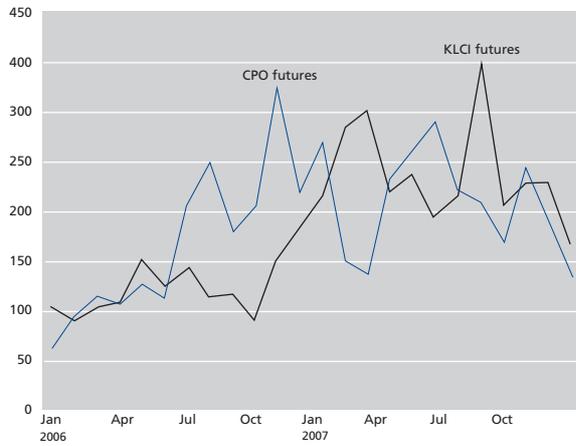
First, Malaysia has a stable economy anchored by domestic demand to provide support for further growth. Earnings are expected to benefit from buoyant commodity prices and a

<sup>17</sup> Source: Bloomberg data.

<sup>18</sup> Source: Bloomberg data.

**Chart 6**  
**Futures Activity**

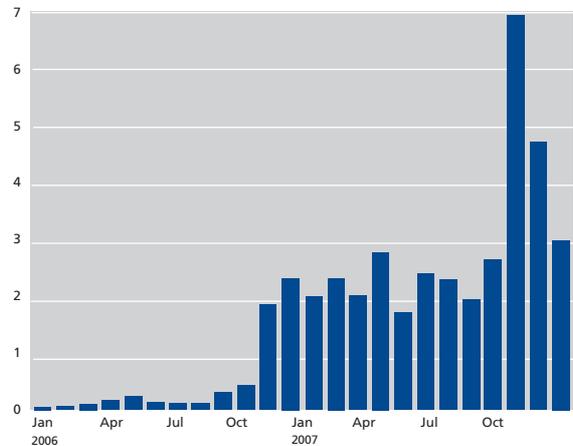
Monthly trading volume of Kuala Lumpur Composite and Crude Palm Oil futures contracts, thousands of contracts



Source: Bursa Malaysia

**Chart 7**  
**Structured Warrants Activity**

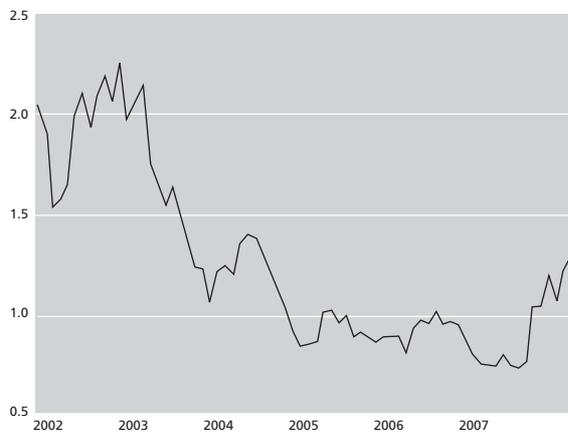
Monthly trading volume of structured call warrants, billions of units



Source: Bursa Malaysia

**Chart 8**  
**Malaysia International Equity Risk Premium**

Spread between sovereign-risk adjusted earnings yield and US 10-year Treasury yield, percent



Source: Securities Commission

relatively higher level of domestic productive capacity. Equities, for example, continue to trade at sound valuations; Malaysia’s equity risk premium has lessened since 2002 and remains well below that of other emerging markets.<sup>19</sup>

Second, Malaysia’s progress in corporate and economic restructuring has led to demonstrable improvements in fundamentals and opened more growth opportunities for the market. A strong follow-through on plans and on managing projects efficiently would reinforce confidence and lend weight to current market valuations. For instance, in 2008, the implementation of key infrastructure and other developmental projects under the Ninth Malaysia Plan will promote further growth of the domestic bond market. In addition, the market appears well placed to provide funding for regional infrastructure development, which is projected to be in the order of US\$150 billion over the next five years. The market is also likely to have to adopt more sophisticated bond structures and instruments such as hybrid capital, subordinated debt and securitisation to meet demanding financing needs.

Third, measures to strengthen the market’s foundations, such as investor protection, corporate governance and market structure, are improving efficiencies, helping to lower costs and uncovering investment value. The soundness of market intermediaries has improved in the past decade, with better risk management capabilities. While bolstering overall

<sup>19</sup> Malaysia’s international equity risk premium measures the extra return that investors require to hold Malaysian equities instead of a (credit) risk-free asset, like US government bonds. One indicator of this premium is the difference between the sovereign-risk adjusted earnings yield on the MSCI Malaysia stock index and the benchmark yield on 10-year US treasury bonds. In the chart above, we calculate earnings yields by using a 12-month forward earnings estimate on the stock index; sovereign risk is measured by the yield spread between the JPMorgan-Chase Global bond index for Malaysia and US 10-year Treasury bonds. All yields are in US dollars.

investor confidence in the market, these improvements will also continue to enhance the Malaysian market's "investibility" among global institutional funds.

Fourth, global structural trends bode well for the capital market's long-term development. Oil-exporting economies, Asian central banks, hedge funds and private equity have collectively amassed an estimated US\$8.4 trillion in assets.<sup>20</sup> Based on conservative assumptions on oil prices, foreign assets of oil exporters are estimated to grow by more than US\$1 billion per day, to reach US\$6 trillion by 2012.<sup>21</sup> In seeking new investments, they are expected to inject even more liquidity into the world's capital markets over the next few years. Concerted efforts at enhancing product innovation and supply would place the

market in stronger position to attract these funds.

Fifth, the market is in a good position to benefit from faster global expansion of Islamic finance, which has grown more established in the last two years. Islamic products and services are gaining widespread acceptance. On the supply side, there are now larger global offerings of Islamic securities by a wider array of issuers. A notable development was the British government's announcement that it plans to launch Shariah-compliant gilts. Islamic financial innovation has also grown rapidly. At the same time, the investor base for Islamic products is beginning to widen; around 50% of subscriptions for *sukuk* are said to come from non-Muslims, reflecting the competitive pricing of Islamic products.

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<sup>20</sup> Source: McKinsey & Co estimates.

<sup>21</sup> Source: McKinsey & Co estimates.



## **Part Six**

### **Statements and statistics**

## MEMBERS OF THE SECURITIES COMMISSION

### **DATO' ZARINAH ANWAR**

Appointed 1 December 2001

Dato' Zarinah Anwar was appointed the Chairman of the Securities Commission, Malaysia on 1 April 2006. She had served as the Deputy Chief Executive of the SC and Member of the Commission since 1 December 2001. Dato' Zarinah currently chairs the Malaysian Venture Capital Development Council (MVCDC) and the Capital Market Development Fund (CMDf). She is a Member of the Labuan Offshore Financial Services Authority (LOFSA), Foreign Investment Committee (FIC), Financial Reporting Foundation, National Innovation Council and Institut Integriti Malaysia. Prior to joining the SC, Dato' Zarinah was the Deputy Chairman of Shell Malaysia.

### **TAN LEH KIAH @ FRANCIS TAN**

Appointed 18 May 1999

Francis Tan is the Managing Partner of Azman, Davidson & Co Advocates and Solicitors, a position he has held since 1986. 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.

### **DATUK SITI HADZAR MOHD ISMAIL**

Appointed 1 February 2000

Datuk Siti Hadzar is the Adviser to the Ministry of Finance. She was previously the Deputy Secretary General (Policy) of the Ministry. Prior to her appointment at the Ministry of Finance, she was attached to the Economic Planning Unit, holding posts in, among others, the FIC and the Macroeconomics Section. Datuk Siti Hadzar obtained a Master's degree in Arts (development economics) from Williams College, US in 1976.

### **DATO' MUHAMMAD IBRAHIM**

Appointed 15 May 2004

Dato' Muhammad Ibrahim is an Assistant Governor of Bank Negara Malaysia (BNM). He has been with BNM since 1984 and has served in the areas of finance, banking supervision and regulation, strategic planning, insurance and offshore banking. He was previously the Managing Director of Danamodal Nasional Bhd. He is a Council Member of the Malaysian Institute of Accountants (MIA) and a Senior Associate of the Institute of Bankers Malaysia. He graduated with an accounting degree from the University of Malaya and has a postgraduate degree from Harvard University.

**Members of the Securities Commission**

Front: Datuk Siti Hadzar Mohd Ismail, Dato' Zarinah Anwar

Back: Dato' Gumuri Hussain, Dato' Muhammad Ibrahim, Dato' Mohd Bakke Salleh, Fazlur Rahman Ebrahim,  
Datu Dr Michael Dosim Lunjew, Francis Tan Keh Kiah





### **DATO' GUMURI HUSSAIN**

Appointed 1 August 2004

Dato' Gumuri is the Chairman of SME Bank. He also serves as the Chairman of Rangkaian Hotel Seri Malaysia Bhd and sits on the Boards of Kurnia Setia Bhd and Metrod (Malaysia) Bhd. 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 of PricewaterhouseCoopers. He has also served as a Non-executive Director of Sabah Bank Bhd and Malaysian Airline System 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 Certified Public Accountants (MICPA) and MIA.

### **DATO' MOHD BAKKE SALLEH**

Appointed 1 August 2004

Dato' Mohd Bakke is the Group Managing Director of FELDA Holdings Bhd. Before this, he was the Group Managing Director and Chief Executive Officer of Lembaga Tabung Haji and Director of the Property Division at Pengurusan Danaharta Nasional Bhd. He also worked with several subsidiaries of Permodalan Nasional Bhd. He was with Citibank Malaysia as Head of Audit Division and Assistant Vice President in the Real Estate Division. Dato' Mohd Bakke is a Director of BIMB Holdings Bhd, Bank Islam Malaysia Bhd, Amanah Raya Bhd and several other unlisted companies in Malaysia and overseas. He is a Fellow of the ICAEW and a member of the MIA. He completed his articleship at the London Office of Grant Thornton after graduating with a bachelor's degree in science (economics) from the London School of Economics and Political Science.

### **DATU DR MICHAEL DOSIM LUNJEW**

Appointed 16 February 2005

Datu Dr Michael Dosim Lunjew is the Secretary General of the Ministry of Plantation Industries and Commodities. He has over 31 years of working experience in the government sector. He has held various positions, including the Deputy Secretary General I, Ministry of Plantation Industries and Commodities; Senior Director of the Strategic Planning Division of the Ministry of International Trade and Industry; Director of Institut Tadbiran Awam Negara (INTAN), South Zone Campus; and Director of Trade Research and Development Bureau of the Malaysian External Trade Development Corporation (MATRADE). He holds an honours degree in economics from Universiti Malaya, a master's degree in business administration from the University of Toledo, US and a PhD in training management from Universiti Putra Malaysia.

### **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/Chief Executive Officer of Bank Muamalat Malaysia Bhd. He currently sits on the Boards of Pelaburan Hartanah Bumiputera Bhd, EXIM Bank Malaysia Bhd, and Credit Counselling 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.

## SENIOR MANAGEMENT

### DATO DR NIK RAMLAH MAHMOOD

Dato Dr Nik Ramlah is Senior Executive Director of Strategy and Development. She is responsible for strategy and research, market development, Islamic capital market (ICM), economics and risk management. Her team conceptualises and formulates capital market strategy, developmental initiatives and the SC's business plan, and provides policy analysis of key issues and input to the government on wider issues affecting the broader economy and the capital market. They also identify and manage macro risks to the SC's regulatory objectives, and oversee initiatives to develop the Malaysian capital market, including the ICM.

She is also Acting Head for Enforcement. The enforcement team investigates into possible violations of securities and futures laws in both the primary and secondary markets, and recommends appropriate actions to protect public investors. Where criminal enforcement is necessary to maintain and reinforce a fair and orderly market, the team will prosecute, having first obtained consent from the Public Prosecutor.

### DATUK RANJIT AJIT SINGH

Datuk Ranjit Ajit Singh is Senior Executive Director of Market Supervision. He is responsible for all matters pertaining to the supervision of the markets and oversees Bursa Malaysia and related market institutions and intermediaries, the licensing and authorisation framework, corporate and market surveillance, and supervision of the bond market. His team seeks to maintain market integrity, ensure proper conduct by market players and ensure investor confidence in the capital market.

### DATUK KRIS AZMAN ABDULLAH

Datuk Kris Azman is Executive Director of Issues and Investments. He is responsible for all matters pertaining to considerations and recommendations for issues and investments, which include evaluation of applications for the issuance of securities, corporate transactions, take-overs and mergers, collective investment schemes and registration of prospectuses. His team works to create a fair, equitable and transparent environment for fund-raising.



**Senior Management**

Front: Dato Dr Nik Ramlah Mahmood, Datin Teh Ija Mohd Jalil  
Back: Goh Ching Yin, Datuk Kris Azman Abdullah, Datuk Ranjit Ajit Singh

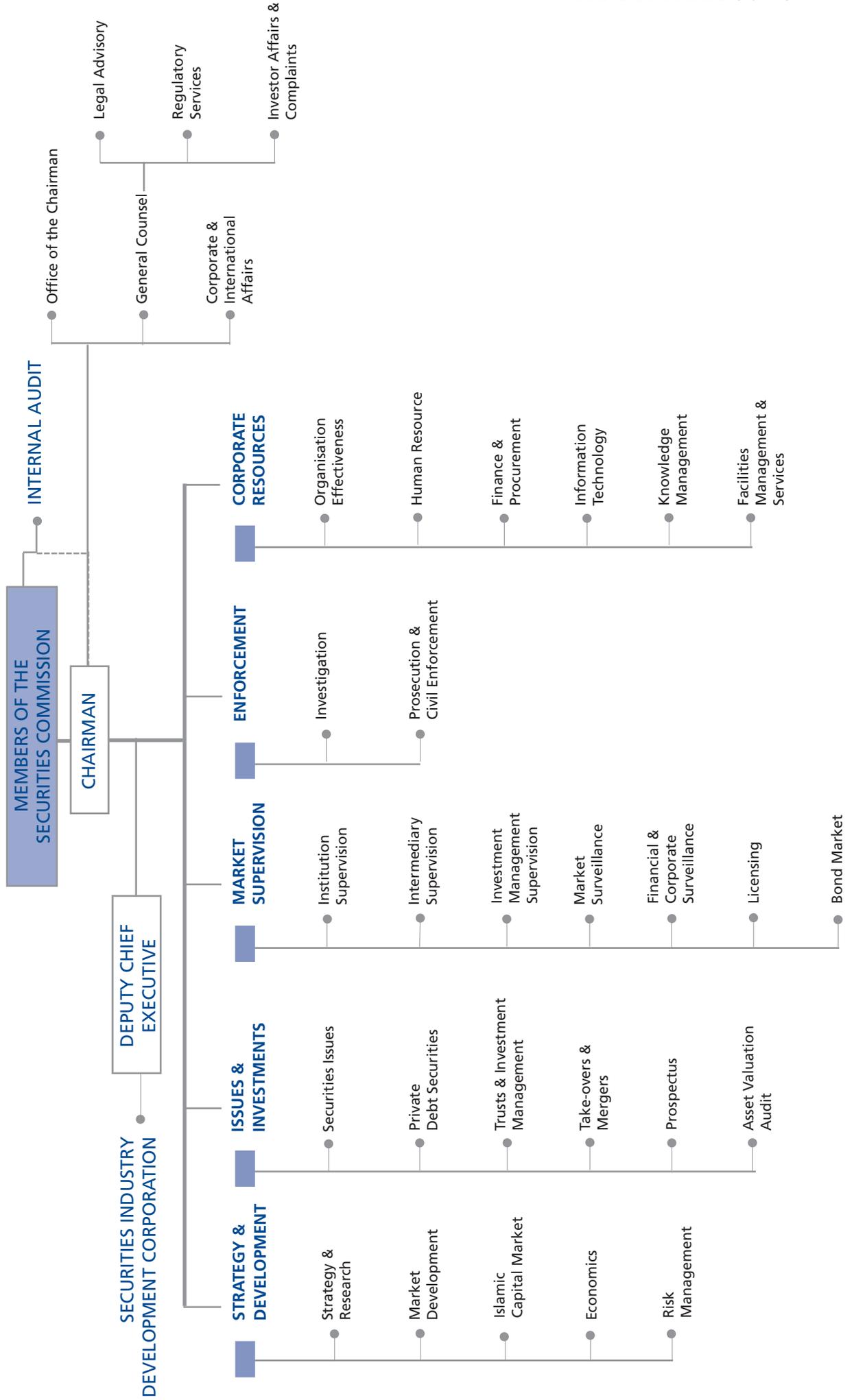
**DATIN TEH IJA MOHD JALIL**

Datin Teh Ija is Executive Director of Corporate Resources. She is responsible for organisation effectiveness, human resource, finance and procurement, information technology and knowledge management. Her team acts as a strategic partner to all business groups, thereby ensuring operations are aligned with the SC's strategic and business objectives, and that staff possess the necessary skills to effectively deliver our regulatory goals.

**GOH CHING YIN**

Goh Ching Yin is the Executive Director, Office of the Chairman. He is responsible for special projects with emphasis on market vibrancy and development. His team partners with business groups on various initiatives and projects under the direction of the Chairman's Office.

# ORGANISATION STRUCTURE 2007



## STATEMENT ON GOVERNANCE

The SC is responsible for regulating and developing the capital market. As the oversight regulator of PLCs, we fully support the principles and best practices in the *Malaysian Code on Corporate Governance* which applies to PLCs, as required by the *Listing Requirements of Bursa Malaysia Securities Berhad*. We, therefore, seek to comply with the code's key principles and best practices, wherever possible.

### MEMBERS OF THE COMMISSION

Members of the Commission consist of a Chairman, Deputy Chief Executive, four members representing the government, and three others. The Chairman and Deputy Chief Executive are executive positions. Dato' Zarinah Anwar assumed the position of Chairman on 1 April 2006, taking over from Tan Sri Md Nor Yusof. Prior to that, Dato' Zarinah held the position of Deputy Chief Executive.

A profile of the members is provided on pages 6-1 to 6-3. The members also sit on various committees established by the Commission.

All Commission Members are appointed by the Minister of Finance. The terms of their appointment include:

- A Member cannot hold full-time office in any PLC;
- A Member is appointed for not more than three years;
- A Member is eligible for reappointment;
- The Minister of Finance can revoke the appointment of any Member at any time;

- All Members must disclose their interest, whether direct or indirect, on any matter under discussion by the Commission; and
- Remuneration and allowances payable to Members of the Commission are determined by the Minister of Finance and are in line with the government's remuneration framework for public sector entities.

### COMMISSION MEETINGS

Twelve Commission meetings were held in 2007. The quorum required was five.

*Table 1*  
**Attendance at Commission Meetings in 2007**

Commission Member	Number of Meetings Attended
Dato' Zarinah Anwar	10
Francis Tan Leh Kiah	8
Datuk Siti Hadzar Mohd Ismail	7
Dato' Muhammad Ibrahim	6
Dato' Gumuri Hussain	8
Dato' Mohd Bakke Salleh	8
Datu Dr Michael Dosim Lunjew	6
Fazlur Rahman Ebrahim	9

## COMMITTEES OF THE COMMISSION

The Commission delegates some of its responsibilities to its Committees listed in Table 2.

The Commission has appointed the SAC to advise on issues pertaining to the application of Shariah principles in ICM products and services. The SAC members which included the addition of another internationally-respected Shariah expert to the SAC, as at end-2007 were–

- Dato' Hassan Hj Ahmad;
- Datuk Hj Md Hashim Hj Yahaya;
- Dato' Dr Abdul Halim Ismail;
- Prof Datuk Dr Abdul Monir Yaacob;
- Dr Mohd Daud Bakar;
- Prof Madya Dr Abdul Halim Muhammad;
- Dr Mohd Ali Hj Baharum; and
- Cecep Maskanul Hakim.

*Table 2*  
**Committees of the Commission**

Committee	Responsibility	Members
1. Audit Committee	Review effectiveness of the SC's internal controls and risk management systems and the annual financial statements.	<ul style="list-style-type: none"> <li>• Dato' Gumuri Hussain (Chairman)</li> <li>• Francis Tan Leh Kiah</li> <li>• Datu Dr Michael Dosim Lunjew</li> <li>• Fazlur Rahman Ebrahim</li> </ul>
2. Issues Committee	Evaluate proposed issues of new securities by PLCs.	<ul style="list-style-type: none"> <li>• Dato' Zarinah Anwar (Chairman)</li> <li>• Datuk Siti Hadzar Mohd Ismail</li> <li>• Francis Tan Leh Kiah</li> <li>• Fazlur Rahman Ebrahim</li> <li>• Dato' Gumuri Hussain</li> <li>• Dato' Muhammad Ibrahim</li> </ul>
3. Take-overs and Mergers Committee	Assess requests for waivers from the mandatory general offer obligation. Evaluate exemptions from provisions of the take-overs and mergers code.	<ul style="list-style-type: none"> <li>• Dato' Zarinah Anwar (Chairman)</li> <li>• Datuk Siti Hadzar Mohd Ismail</li> <li>• Datu Dr Michael Dosim Lunjew</li> <li>• Francis Tan Leh Kiah</li> <li>• Dato' Gumuri Hussain</li> </ul>
4. 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"> <li>• Dato' Zarinah Anwar (Chairman)</li> <li>• Datuk Siti Hadzar Mohd Ismail</li> <li>• Fazlur Rahman Ebrahim</li> <li>• Dato' Mohd Bakke Salleh</li> <li>• Dato' Muhammad Ibrahim</li> </ul>
5. Licensing Committee	Evaluate, recommend and approve licence applications	<ul style="list-style-type: none"> <li>• Dato' Zarinah Anwar (Chairman)</li> <li>• Datuk Siti Hadzar Mohd Ismail</li> <li>• Dato' Mohd Bakke Salleh</li> <li>• Datu Dr Michael Dosim Lunjew</li> <li>• Dato' Muhammad Ibrahim</li> </ul>
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"> <li>• Francis Tan Leh Kiah (Chairman)</li> <li>• Dato' Muhammad Ibrahim</li> <li>• Dato' Mohd Bakke Salleh</li> <li>• Dato Dr Nik Ramlah Nik Mahmood</li> <li>• Datuk Kris Azman Abdullah</li> </ul>

## MEETING PROCEDURES

The agenda and papers for consideration at Commission and Committee meetings are distributed well ahead of each meeting so that members have sufficient time to study them. Detailed background papers are required for issues tabled for the consideration of a Committee and the members rigorously discuss and debate on them. Management representatives may be invited to attend Commission and Committee meetings when necessary to advise on any matter under discussion.

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 keeps a full set of minutes of all Commission and committee meetings.

## RISK MANAGEMENT FRAMEWORK

The Commission believes that the maintenance of a sound internal control system is through effective risk governance, at both operational and strategic levels, established on a clear understanding and appreciation of the risk management framework. In the SC, we take an approach known as integrated risk management. It is a continuous, hands-on, and systematic process to understanding, managing and communicating risk from the perspective of the organisation as a whole. It is about making strategic decisions which contribute to the achievement of an organisation's corporate goals and objectives.

We established the integrated risk management framework in 2006 which we used to identify key risk areas that could significantly influence our work priorities and our ability to meet our goals and objectives. A major part of the work of risk management is in determining and ensuring a clear understanding within the organisation of SC's risk profile.

The risk profile tells us, among others:

- where risks come from – both external (eg. economy, market players, laws and regulation, public institutions, market structure, international competition) and internal (e.g. processes, people, technology, data, facilities);

- what they could impact – e.g. our goals and objectives, our reputation, safety, market stability, etc; and
- our ability to control them.

We capture and document our risk profile using Dimension, an online dashboard and reporting system, designed and developed in-house.

The annual risk assessment cycle drives our integrated risk management process. It runs in parallel to the business planning process and builds on an initial strategic risk assessment at the beginning of the year. Every quarter, departmental risk reviews take place, and where necessary revisions to the risk profile are made. Risks are monitored and validated to ensure robustness, with the Management Committee holding overall accountability for the risk management processes and policies. Our risk profile is reported to the Management Committee and Audit Committee, at least on a quarterly basis, by the Risk Management Department.

The Commission considers the risk management framework as robust, and subjects the framework to continuous improvement, taking into consideration emerging best practices and the changing business and capital market environment.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Commission exercised due care and took reasonable steps to ensure that the financial statements for the year 2007 presented a fair assessment of the SC's financial position and that the requirements of accounting standards were fully met.

### Internal Control

The Commission acknowledged its responsibility for ensuring that a system of internal control is in place and for reviewing its adequacy, integrity and effectiveness. The system is designed to protect and safeguard the SC's assets, to provide reasonable assurance against material mis-statement, fraud or loss, and to manage risks to the SC's statutory objectives. It includes formal policies and operating procedures for

safeguarding of assets, maintenance of proper accounting records, reliability of financial and operational information, and compliance with applicable legislation, regulation and best practices.

The SC's internal audit function is independent of line operations and functionally, reports directly to the Chairman of the Audit Committee.

### Relationship with External Auditors

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

### Accountability

The annual report and financial statements are sent to the Minister of Finance at the end of the SC's financial year and tabled at Parliament.

## 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](http://www.sc.com.my).

The Commission has an Investor Affairs and Complaints Department that receives and resolves public complaints and all queries are speedily addressed. We regularly meet our constituents to discuss operational matters and gather feedback on long-term measures for the development of the capital market.

## SOCIAL RESPONSIBILITY

In as much as the SC champions and promotes corporate social responsibility (CSR) among the entities we regulate, as an extension to good corporate governance, we also apply the same standards to ourselves. This year, we have undertaken a variety of activities across the nation, impacting people and their communities.

Our biggest activity, involving all staff of the SC, was to help in various causes. Our staff participated in environmental activities, such as mangrove planting in Langkawi where the mangroves were destroyed by the December 2004 tsunami. Staff reached out to orphans, such as those in Nur Zaharah orphanage in Janda Baik who needed a new home after theirs was burnt down earlier in the year, and there were refurbishment activities, such as painting of schools and library makeovers across the country. This is detailed in Table 3.

Several staff also spearheaded the 'Recycling for a Cause' and 'Blossom Corner' programmes. Staff were encouraged to bring in recyclable materials, such as glass, paper, plastic and aluminum which were then sold. The Blossom Corner collected cash donations from staff. The proceeds from both programmes were donated to various causes.

In 2007, our staff also decided not to print greeting cards for festive occasions and the money saved was channelled to four deserving charities from the following categories: Children, Community, Environment and Animal Welfare, and Health.

The four charities were selected by staff because they provide outstanding commitment and dedication to improve and enrich the lives of Malaysians, but at the same time, they were not large or household-name organisations, which were more financially well established. The four categories and charities were:

- **Children** – Rumah Nur Salam, Pusat Aktiviti Kanak-Kanak Chow Kit;
- **Community** – Shelter Home for Abused Women and Children, Seremban;

- **Environment & Animal Welfare** – Malaysian Nature Society; and
- **Health** – Paediatric Intensive Care Unit, Universiti Malaya Medical Care Centre.

We also gave RM15,000 to MERCY Malaysia (MERCY). The contribution consisted of funds collected from staff for Johor floods victims and from the SC. The money was channelled to fund the School Disaster Preparedness Programme spearheaded by MERCY in Johor.

Table 3  
SC Staff Participation in Community Causes

Categories	Initiatives
<b>Environmental Activities</b>	<ul style="list-style-type: none"> <li>• We visited five schools in the Klang Valley and planted trees as a way to inculcate and promote the importance of preserving the environment among the children; and</li> <li>• We helped replant mangrove trees in Kuala Kriang (Langkawi), which were destroyed in the 2004 tsunami.</li> </ul>
<b>Compassionate Activities</b>	<ul style="list-style-type: none"> <li>• We spent time and/or made donations to organisations, such as:</li> <li>• Bukit Harapan (Tuaran, Sabah), a home for the physically and mentally handicapped;</li> <li>• Sekolah Kebangsaan Pendidikan Khas (Kuala Lumpur), a school for blind children;</li> <li>• Rumah Putera orphanage, Yayasan Kebajikan Anak-Anak Yatim (YAATIM) in Pengkalan Chepa, Kelantan; and</li> <li>• Rumah Seri Kenangan (Pengkalan Chepa, Kelantan), an old folks home.</li> </ul>
<b>Refurbishment Activities</b>	<ul style="list-style-type: none"> <li>• We helped landscape a primary school in the fishing community of Pulau Tuba (Langkawi);</li> <li>• We repaired and decorated Sekolah Rendah Langkawi and donated books and stationery;</li> <li>• We cleaned and painted Sekolah Kebangsaan Seri Budiman, Terengganu and donated books and stationery; and</li> <li>• We repaired and refurbished the orphanage of Pusat Penjagaan Nur Zaharah in Janda Baik. We also spent time with the children and celebrated Hari Raya with them.</li> </ul>

# AUDIT COMMITTEE REPORT

The Commission is pleased to present the Audit Committee Report for the financial year ended 31 December 2007.

## MEMBERS AND MEETINGS

The Audit Committee comprises the following Non-executive Members of the Securities Commission:

- Dato' Gumuri Hussain (Chairman);
- Francis Tan Leh Kiah (Alternate Chairman);
- Datu Dr Michael Dosim Lunjew; and
- Fazlur Rahman Ebrahim.

The Committee convened four meetings during the financial year, which were attended by the majority of its Members.

## AUTHORITY

The Audit Committee is authorised by the Commission to review and investigate any activity within its terms of reference, or as otherwise directed by the Commission, to determine the resources required and to have full access to employees for information.

The Audit Committee is authorised to obtain independent professional or other advice when needed and to secure the attendance of outsiders with relevant experience and expertise if required.

## TERMS OF REFERENCE

Audit Committee Members and the Chairman of the Committee are appointed by the Commission. The Committee meets at least four times a year or as frequently as required and needs a quorum of two. The proceedings are recorded and the minutes of meetings tabled at Commission meetings.

The Head of Internal Audit Department attends all meetings of the Committee. The Head of the Finance Department and the external auditors attend meetings of the Committee whenever required. The SC Chairman and other officers of the SC attend when invited.

The duties of the Committee are–

- (i) to consider and recommend the appointment of the external auditors, their remuneration and any issue regarding their performance;
- (ii) to discuss with the external auditors, their scope and plans of the audit;
- (iii) to assist the Commission in its review of the adequacy and effectiveness of the internal control system;
- (iv) to review the risk management policies and practices of the SC to ensure their effectiveness;
- (v) to review the annual financial statements, before submission to the Commission, 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 review the external auditors' management reports and management's responses;
- (vii) to support and provide direction to the Internal Audit Department to ensure its effectiveness;
- (viii) 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 action required of the management; and
- (ix) to follow up on the implementation of all recommendations made by the Internal Audit Department.

#### ACTIVITIES OF THE COMMITTEE

During the financial year, the main activities of the Audit Committee included:

- Review of audit findings, audit report and management letter, and management's responses arising from the audit for the financial year ending 31 December 2006;
- Review of the financial statements for the financial year ending 31 December 2006 prior to presentation to the

Commission members;

- Review and approve the external audit plan for the financial year ending 31 December 2007. Various audit and accounting issues were discussed at the Audit Committee meetings;
- Review and approve the internal audit plan for the financial year ending 31 December 2007;
- Review of internal audit reports, recommendations made, and management responses to these recommendations. The Committee also monitored implementation of agreed actions and suggestions for improvements arising from the audits performed; and
- Review of findings, recommendations, management responses and follow-up actions arising from special reviews requested by the audit committee and/or management.

#### INTERNAL AUDIT

The Internal Audit Department assists the Audit Committee in the discharge of its duties and responsibilities. During the financial year, Internal Audit Department regularly reported to the Audit Committee on compliance with internal controls and procedures. It also ensured that the recommendations to improve controls were followed through by management. In addition, the Internal Audit Department played an advisory role in various projects undertaken by management.

# FINANCIAL STATEMENTS

## STATEMENT BY THE MEMBERS OF THE SECURITIES COMMISSION

In the opinion of the members, the financial statements set out on pages 6-18 to 6-36 are drawn up in accordance with applicable approved accounting standards for entities, other than private entities, issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Securities Commission as at 31 December 2007 and of its income and expenditure and its cash flows for the year ended on that date.

On behalf of Members of the Securities Commission:



.....  
**Dato' Zarinah Anwar**  
Chairman



.....  
**Dato' Gumuri Hussain**  
Member

Kuala Lumpur,

Date: 21 January 2008

## STATUTORY DECLARATION

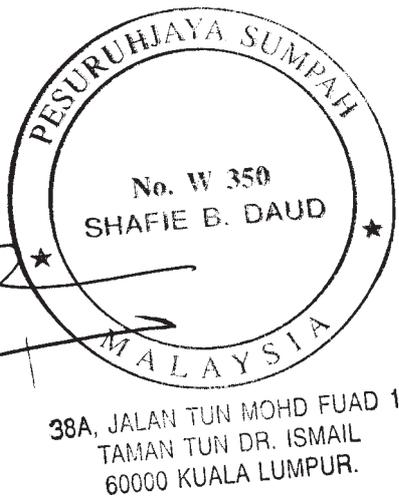
I, Vignaswaran A/L Kandiah, the officer primarily responsible for the financial management of Securities Commission, do solemnly and sincerely declare that the financial statements set out on pages 6-18 to 6-36 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously 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 21 January 2008.



.....  
Vignaswaran A/L Kandiah

Before me:

**REPORT OF THE AUDITORS ON THE FINANCIAL STATEMENTS OF THE SECURITIES COMMISSION**

We have audited the financial statements set out on pages 6-18 to 6-36. The preparation of the financial statements is the responsibility of the Securities Commission's Members.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, and for no other purpose. We do not assume responsibility to any other person for the contents of this report.

We conducted our audit in accordance with approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the members, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements are properly drawn up in accordance with applicable approved accounting standards for entities, other than private entities, issued by the Malaysian Accounting Standards Board so as to give a true and fair view of the state of affairs of the Securities Commission at 31 December 2007 and of its income and expenditure and its cash flows for the year ended on that date.

**KPMG**

Firm Number: AF 0758

Chartered Accountants

**Johan Idris**

Partner

Approval Number: 2585/10/08(J)

Kuala Lumpur,

Date: 21 January 2008

## BALANCE SHEET

at 31 December 2007

	Note	2007 RM'000	2006 RM'000 Restated
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	3	211,125	216,118
Prepaid lease payments	4	7,956	8,048
Long term receivables	5	47,682	49,272
Other investment	6	24,580	29,707
		<u>291,343</u>	<u>303,145</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	7	28,460	32,528
Cash and cash equivalents	8	593,219	463,516
Current tax assets		323	–
		<u>622,002</u>	<u>496,044</u>
<b>TOTAL ASSETS</b>		<u>913,345</u>	<u>799,189</u>
<b>RESERVES</b>			
Accumulated surplus		769,255	654,625
BMSB compensation fund reserve	9	100,000	100,000
<b>TOTAL RESERVES</b>		<u>869,255</u>	<u>754,625</u>
<b>LONG TERM LIABILITIES</b>			
Deferred tax liabilities	10	–	5,675
Retirement benefits	11	20,285	16,019
		<u>20,285</u>	<u>21,694</u>
<b>CURRENT LIABILITIES</b>			
Other payables	12	23,805	22,576
Current tax liability		–	294
		<u>23,805</u>	<u>22,870</u>
<b>TOTAL LIABILITIES</b>		<u>44,090</u>	<u>44,564</u>
<b>TOTAL RESERVES AND LIABILITIES</b>		<u>913,345</u>	<u>799,189</u>

The financial statements were approved and authorised for issue by the Members of the Securities Commission on 21 January 2008.

The notes on pages 6-22 to 6-36 are an integral part of these financial statements.

**INCOME AND EXPENDITURE STATEMENT**

for the year ended 31 December 2007

	Note	2007 RM'000	2006 RM'000 Restated
<b>INCOME</b>			
Levies		146,778	71,354
Fees and charges		46,588	33,456
Income received from fixed deposits and other investments		21,120	14,369
Income received from fixed income securities		–	2,719
Other income		3,830	4,031
		<u>218,316</u>	<u>125,929</u>
<b>LESS: EXPENDITURE</b>			
Staff costs	13	70,420	66,629
Administration expenses		26,348	18,651
Depreciation of property, plant and equipment	3	12,062	12,210
Amortisation of prepaid lease payments	4	92	92
Rental expenses		433	411
Impairment losses	3	(10)	69
		<u>109,345</u>	<u>98,062</u>
<b>SURPLUS BEFORE TAXATION</b>	14	108,971	27,867
Taxation	15	5,659	(10,979)
		<u>114,630</u>	<u>16,888</u>
<b>ACCUMULATED SURPLUS BROUGHT FORWARD</b>		654,625	637,737
		<u>769,255</u>	<u>654,625</u>
<b>ACCUMULATED SURPLUS CARRIED FORWARD</b>		<u>769,255</u>	<u>654,625</u>

The notes on pages 6-22 to 6-36 are an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 December 2007

	<b>BMSB compensation fund reserve RM'000</b>	<b>Accumulated surplus RM'000</b>	<b>Total RM'000</b>
<b>At 1 January 2006</b>	100,000	637,737	737,737
Net surplus for the year	—	16,888	16,888
<b>At 31 December 2006</b>	<u>100,000</u>	<u>654,625</u>	<u>754,625</u>
Net surplus for the year	—	114,630	114,630
<b>At 31 December 2007</b>	<u><u>100,000</u></u>	<u><u>769,255</u></u>	<u><u>869,255</u></u>
	Note 9		

The notes on pages 6-22 to 6-36 are an integral part of these financial statements.

**CASH FLOW STATEMENT**

for the year ended 31 December 2007

	Note	2007 RM'000	2006 RM'000 Restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Surplus before taxation		108,971	27,867
Adjustments for:			
Income received from fixed deposits and other investment		(21,120)	(14,369)
Income received from fixed income securities		–	(2,719)
Property, plant and equipment written off	14	–	183
Gain on disposal of property, plant and equipment	14	(172)	(684)
Impairment losses on property, plant and equipment	14	(10)	69
Depreciation of property, plant and equipment	3	12,062	12,210
Amortisation of prepaid lease payments	4	92	92
Provision for retirement benefits		4,569	4,525
		<hr/>	<hr/>
Operating profit before working capital changes		104,392	27,174
Changes in working capital:			
Trade and other receivables		5,713	(9,547)
Trade and other payables		1,229	(5,176)
		<hr/>	<hr/>
Cash generated from operations		111,334	12,451
Tax paid		(408)	(9,118)
		<hr/>	<hr/>
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>110,926</b>	<b>3,333</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	3	(7,060)	(6,756)
Investment in long term receivables		1,590	1,018
Proceeds from disposal of property, plant and equipment		172	742
Proceeds from investments in fixed income securities		–	106,766
Proceeds from investments in Malaysian Government Securities		5,000	20,000
Income received from fixed deposits and other investment		19,378	17,088
Retirement benefits paid		(303)	(142)
		<hr/>	<hr/>
<b>NET CASH GENERATED FROM INVESTING ACTIVITIES</b>		<b>18,777</b>	<b>138,716</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>129,703</b>	<b>142,049</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>463,516</b>	<b>321,467</b>
		<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>593,219</b>	<b>463,516</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>CASH AND CASH EQUIVALENTS COMPRISE:</b>			
Cash and bank balances	8	1,229	3,376
Deposits placed with licensed banks	8	591,990	460,140
		<hr/>	<hr/>
		<b>593,219</b>	<b>463,516</b>
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 6-22 to 6-36 are an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

The Securities Commission (SC) is the regulatory agency for the regulation and development of capital markets. The SC has direct responsibility for supervising and monitoring the activities of market institutions including the exchanges and clearing houses and regulating all persons licensed under the Capital Market and Services Act 2007. The address of its registered office and principal place of business is as follow:

### Registered office and principal place of business

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

#### 1. BASIS OF PREPARATION

##### (a) Statement of compliance

The financial statements of the SC have been prepared in accordance with applicable approved accounting standards for entities, other than private entities, issued by the Malaysian Accounting Standards Board (MASB).

The MASB has issued the following new and revised Financial Reporting Standards (FRSs) or Interpretation that are effective for annual periods beginning after 1 October 2006:

- (i) FRS 117, Leases  
The effect of adopting this standard is set out in Note 19.
- (ii) FRS 124, Related Party Disclosures

The initial applications of these standards are not expected to have any material impact on the financial statement of the SC.

##### (b) Basis of measurement

The financial statements of SC have been prepared on the historical cost basis except as disclosed in the notes to the financial statements.

##### (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 unless otherwise stated.

##### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Property, plant and equipment

#### Recognition and measurement

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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.

#### 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 SC and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

#### Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

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

Buildings	2%
Office equipment, furniture and fittings	10%–20%
Computer and application systems	33 1/3%
Motor vehicles	20%

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

### (b) Prepaid lease payments

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided.

The SC had previously classified a lease of land as finance lease and had recognised the amount of prepaid lease payments as property within its property, plant and equipment. The SC treats such a lease as an operating lease, with the unamortised carrying amount classified as prepaid lease payments in accordance with the transitional provisions in FRS 117.67A.

The prepaid lease payments are amortised over the lease term of 99 years.

**(c) Trade and other receivables**

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

**(d) Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value.

**(e) Other investment**

Investments in Malaysian Government Securities held as long term investments are stated at cost less allowance for diminution in value. An allowance is made when the SC is of the view that there is a diminution in their value, which other than temporary.

**(f) Impairment**

The carrying amount of assets, other than financial assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment loss is recognised in the income statement. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the original carrying amount that would have been determined, net of depreciation or amortization.

**(g) Liabilities**

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

**(h) Provisions**

A provision is recognised if, as a result of a past event, the SC has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**(i) Taxation**

Tax on the surplus or deficit for the year comprises current and deferred tax. Income tax is recognised in the income statement.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

**(j) Recognition of income and expenditure**

All income and expenditure are accounted for on an accrual basis.

Income received from fixed deposits and other investment are recognised as it accrues, using the effective interest method.

**(k) Employee benefits****(i) Short-term 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. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

**(ii) Defined contribution plans**

As required by law, eligible employers in Malaysia make contributions to the state pension scheme, the Employees Provident Fund (“EPF”). Such contributions are recognised as an expense in the income statement 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	Note	Buildings RM'000	Office equipment, furniture and fittings RM'000	Computer and application system RM'000	Motor vehicles RM'000	Capital- work-in- progress RM'000	Total RM'000
At 1 January 2006		232,600	84,723	61,289	4,868	738	384,218
Additions		-	2,794	2,618	-	1,344	6,756
Disposal		-	-	-	(2,155)	-	(2,155)
Written off		(213)	(4)	-	(4)	-	(221)
Transfer (to)/from		-	400	287	-	(687)	-
At 31 December 2006 / 1 January 2007		232,387	87,913	64,194	2,709	1,395	388,598
Additions		-	309	1,803	365	4,583	7,060
Disposal		-	-	(532)	(845)	-	(1,377)
Transfer (to)/from		-	979	408	-	(1,387)	-
At 31 December 2007		232,387	89,201	65,873	2,229	4,591	394,281

## 3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Buildings RM'000	Office equipment, furniture and fittings RM'000	Computer and application system RM'000	Motor vehicles RM'000	Capital- work-in- progress RM'000	Total RM'000
<b>Depreciation and impairment loss</b>							
At 1 January 2006:							
Accumulated depreciation		30,425	69,474	58,352	4,084	-	162,335
Accumulated impairment loss		-	-	-	-	-	-
Depreciation for the year	14	30,425	69,474	58,352	4,084	-	162,335
Impairment loss	14	4,652	5,025	2,268	265	-	12,210
Disposal		69	-	-	-	-	69
		-	-	-	(2,096)	-	(2,096)
Written off		(32)	(1)	-	(5)	-	(38)
At 31 December 2006 / 1 January 2007:							
Accumulated depreciation		35,045	74,498	60,620	2,248	-	172,411
Accumulated impairment loss		69	-	-	-	-	69
Depreciation for the year	14	35,114	74,498	60,620	2,248	-	172,480
Reversal of impairment loss	14	4,652	5,249	2,080	81	-	12,062
Disposal		(10)	-	-	-	-	(10)
		-	-	(531)	(845)	-	(1,376)
At 31 December 2007:							
Accumulated depreciation		39,697	79,747	62,169	1,484	-	183,097
Accumulated impairment loss		59	-	-	-	-	59
		39,756	79,747	62,169	1,484	-	183,156

**3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	Note	Buildings RM'000	Office equipment, furniture and fittings RM'000	Computer and application system RM'000	Motor vehicles RM'000	Capital- work-in- progress RM'000	Total RM'000
<b>Carrying Amounts</b>							
At 1 January 2006		202,175	15,249	2,937	784	738	221,883
At 31 December 2006 / 1 January 2007		197,273	13,415	3,574	461	1,395	216,118
At 31 December 2007		192,631	9,454	3,704	745	4,591	211,125

**4. PREPAID LEASE PAYMENTS**

	<b>Leasehold land Unexpired period more than 50 years RM'000</b>
<b>Cost</b>	
At 1 January 2006	–
Effect of adopting FRS 117	9,154
At 1 January 2006, restated/31 December 2006/ 1 January 2007/31 December 2007	<u>9,154</u>
<b>Amortisation</b>	
At 1 January 2006	–
Effect of adopting FRS 117	1,014
At 1 January 2006, restated Amortisation for the year	<u>1,014</u> 92
At 31 December 2006/ 1 January 2007 Amortisation for the year	<u>1,106</u> 92
At 31 December 2007	<u>1,198</u>
Carrying Amount	
At 1 January 2006, restated	<u>8,140</u>
At 31 December 2006/ 1 January 2007	<u>8,048</u>
At 31 December 2007	<u>7,956</u>

**5. LONG-TERM RECEIVABLES**

	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Loan to staff	61,042	67,972
Less: Unearned profit		
– Islamic financing on house and car	(6,708)	(7,720)
	<u>54,334</u>	<u>60,252</u>
Amount due within twelve months (Note 7)		
– Loan to staff	<u>6,652</u>	<u>10,980</u>
Amount due after twelve months		
– Loan to staff	<u>47,682</u>	<u>49,272</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, 7 years, 5 years and 4 years respectively. The rate charged on these loans ranges from 2% to 4% per annum (2006: 2% to 4% per annum).

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

	<b>2007</b> <b>RM'000</b>	<b>2006</b> <b>RM'000</b>
Within 1 year	6,652	10,980
More than 1 year and up to 5 years	10,893	14,558
More than 5 years	36,789	34,714
	<u>54,334</u>	<u>60,252</u>

## 6. OTHER INVESTMENT

	<b>2007</b> <b>RM'000</b>	<b>2006</b> <b>RM'000</b>
Malaysian Government Securities	<u>24,580</u>	<u>29,707</u>
Market value:		
Malaysian Government Securities	<u>25,189</u>	<u>30,396</u>

## 7. TRADE AND OTHER RECEIVABLES

	<b>2007</b> <b>RM'000</b>	<b>2006</b> <b>RM'000</b>
Levies	9,884	11,542
Fees and charges	1,897	2,248
Income receivable	8,949	7,207
	<u>20,730</u>	<u>20,997</u>
Less: Allowance for doubtful debts	(1,924)	(293)
	<u>18,806</u>	<u>20,704</u>
Other receivables	3,002	844
Loan to staff (Note 5)	6,652	10,980
	<u>28,460</u>	<u>32,528</u>

**8. CASH AND CASH EQUIVALENTS**

	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash and bank balances	1,229	3,376
Deposits placed with licensed banks	591,990	460,140
	<u>593,219</u>	<u>463,516</u>

**9. BMSB COMPENSATION FUND RESERVE**

This represents an amount of RM100 million (2006: RM100 million) allocated from the accumulated surplus for the Bursa Malaysia Securities Berhad (“BMSB”) Compensation Fund.

**10. DEFERRED TAX LIABILITIES**

The amounts, determined after appropriate offsetting, are as follows:

	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>
Deferred tax liabilities	–	20,226
Deferred tax assets	–	(14,551)
	<u>–</u>	<u>5,675</u>

Deferred tax liabilities and assets are offset above where there is a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred taxes relate to the same taxation authority and same entity.

The recognised deferred tax assets and liabilities (before offsetting) are as follows:

	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>
Property, plant and equipment	–	20,226
Provisions	–	(4,484)
Unutilised tax losses	–	(3,097)
Unabsorbed capital allowance	–	(6,970)
	<u>–</u>	<u>5,675</u>

## 11. RETIREMENT BENEFITS

The amounts recognised in the balance sheet are as follows:

<b>Post retirement medical benefits</b>	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Present value of unfunded obligations	19,863	17,378
Unrecognised actuarial gains	422	422
Unrecognised net transitional liability	–	(1,781)
	<hr/>	<hr/>
Net liability	<u>20,285</u>	<u>16,019</u>

### Movements in the net liability recognised in the balance sheets:

	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Net liability at 1 January	16,019	11,636
Benefits paid	(303)	(142)
Expense recognised in the income statements	4,569	4,525
	<hr/>	<hr/>
Net liability at 31 December	<u>20,285</u>	<u>16,019</u>

### Expenses recognised in the income statements:

	<b>2007 RM'000</b>	<b>2006 RM'000</b>
Current service cost	1,566	1,696
Interest on obligation	1,222	1,048
Amortisation of net transitional liability	1,781	1,781
	<hr/>	<hr/>
	<u>4,569</u>	<u>4,525</u>

### Principal actuarial assumptions used at the balance sheet date (expressed as weighted averages):

	<b>2007</b>	<b>2006</b>
Discount rate	7.0%	7.0%
Price inflation	3.5%	3.5%
Medical cost inflation	5.0%	5.0%
	<hr/>	<hr/>

**12. OTHER PAYABLES**

	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>
Other payables	5,815	4,588
Accrued expenses	3,288	3,435
Security deposits	14,702	14,553
	<u>23,805</u>	<u>22,576</u>

**13. STAFF COSTS**

	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>
Employees Provident Fund	8,208	7,584
Other staff costs	62,212	59,045
	<u>70,420</u>	<u>66,629</u>

Included in other staff costs are expenses relating to retirement benefits of RM4,568,996 (2006 - RM4,524,977).

**14. SURPLUS BEFORE TAXATION**

	<b>Note</b>	<b>2007</b>	<b>2006</b>
		<b>RM'000</b>	<b>RM'000</b>
Surplus before taxation is arrived at after charging:			
Allowance for doubtful debts		1,613	–
Amortisation of prepaid lease payment	4	92	92
Auditors' remuneration:			
– Audit services		30	25
– Other services		3	–
Depreciation	3	12,062	12,210
Executive members:			
– Emoluments		1,014	1,030
– Gratuity		–	110
Impairment losses on property, plant and equipment	3	–	69
Property, plant and equipment written off		–	183
Non-executive members' allowance		282	285
		<u>          </u>	<u>          </u>
And crediting:			
Gain on disposal of property, plant and equipment		172	684
Reversal of impairment losses on property, plant and equipment	3	10	–
Reversal of allowance for doubtful debts		–	4
		<u>          </u>	<u>          </u>

## 15. TAXATION

	<b>2007</b> <b>RM'000</b>	<b>2006</b> <b>RM'000</b>
Current tax expense		
Current year	–	4,785
Under provision in prior years	16	25
	<hr/>	<hr/>
	16	4,810
Deferred tax expense		
Reversal of provision in prior years	(5,675)	–
Origination and reversal of temporary differences		
– current	–	6,060
– under provision in prior years	–	109
	<hr/>	<hr/>
	(5,659)	10,979
	<hr/> <hr/>	<hr/> <hr/>
<b>Reconciliation of effective tax</b>		
Surplus before taxation	108,971	27,867
	<hr/> <hr/>	<hr/> <hr/>
Tax calculated using Malaysian tax rate of 27% (2006: 28%)	29,422	7,803
Non-deductible expenses	–	3,042
Tax exempt income	(29,422)	–
	<hr/>	<hr/>
	–	10,845
Reversal of provision in prior years	(5,675)	–
Under provision in prior years	16	134
	<hr/>	<hr/>
	(5,659)	10,979
	<hr/> <hr/>	<hr/> <hr/>

During the year, the SC was granted approval from Minister of Finance to be exempted from taxation with effect from Year Assessment (YA) 2007 onwards. Consequently, deferred tax recognised in prior years has been reversed out.

## 16. RELATED PARTIES

The SC has appointed a legal firm, where the partner of the firm is a Commission member of the SC. The amounts transacted with the SC by the firm amounted to RM87,000 (2006: RM11,000) being legal fees and there were no outstanding balances as at 31 December 2006 and 2007. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

### Other transactions

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 2007, the SIDC had incurred RM142,000, being management fees to the SC, out of which RM24,000 is still outstanding from SIDC. In addition, the SC had made a grant of RM5 million to SIDC in 2007.

**17. CAPITAL COMMITMENTS**

	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Capital expenditure commitments</b>		
<b>Plant and equipment</b>		
<i>Contracted but not provided for and payable:</i>		
Within one year	–	3,093
<i>Approved but not contracted for</i>		
Within one year	18,036	12,060
	<u>18,036</u>	<u>15,153</u>

**18. FINANCIAL INSTRUMENTS****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.

**Credit risk**

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 only with licensed financial institutions. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

**Liquidity risk**

The SC monitors and maintains a level of cash and cash equivalents deemed necessary by the SC to finance its operations and to mitigate the effects of fluctuations in cash flows.

*Effective rates and repricing analysis*

	<b>Effective rates per annum %</b>	<b>Total RM'000</b>	<b>Within 1 year RM'000</b>	<b>1–5 years RM'000</b>	<b>After 5 years RM'000</b>
As at 31 December 2007					
<b>Financial assets</b>					
Deposits placed with licensed banks	3.74	591,990	447,490	144,500	–
Malaysian Government Securities	4.29	24,580	–	24,580	–

	Effective rates per annum %	Total RM'000	Within 1 year RM'000	1-5 years RM'000	After 5 years RM'000
As at 31 December 2006					
<b>Financial assets</b>					
Deposits placed with licensed banks	3.65	460,140	445,840	14,300	–
Malaysian Government Securities	4.10	29,707	5,228	24,479	–

*Recognised financial instruments*

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

**19. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified as a result of compliance of FRS 117, Leases and to conform with the presentation requirements of FRS 101, Presentation of Financial Statements.

	As restated RM'000	As previously stated RM'000
<b>Income statement</b>		
Depreciation of property, plant and equipment	12,210	12,302
Amortisation of prepaid lease payments	92	–
	<u>12,302</u>	<u>12,302</u>
<b>Balance sheet</b>		
Property, plant and equipment	216,118	224,166
Prepaid lease payments	8,048	–
Other investment	29,707	–
Cash and cash equivalents	463,516	493,223
	<u>717,389</u>	<u>717,389</u>
<b>Cash flow statement – operating activities</b>		
Depreciation of property, plant and equipment	12,210	12,302
Amortisation of prepaid lease payments	92	–
	<u>12,302</u>	<u>12,302</u>

## CORPORATE PROPOSALS

One of our key regulatory functions is to regulate the offerings and issues of securities by public companies, including the listing of such securities on Bursa Malaysia, as well as matters relating to take-overs and mergers. We are also the sole approving and registering authority for prospectuses of all securities (other than securities issued by unlisted recreational clubs).

### SECURITIES ISSUES

*(Tables 1–4)*

During the year, we received a total of 406 corporate submissions, which showed an 18% increase when compared with 344 submissions received in 2006. Of these submissions, together with 43 submissions brought forward from 2006, we managed to consider 390 or 87% of the total submissions on-hand for the year. A total of 18 submissions were withdrawn and the remaining 41 were carried forward to the next year. Of the 390 submissions processed, 368 or 94% were approved, 20 or 5 % rejected and two deferred. Proposals related to fund-raising via issues of equity formed the bulk of proposals approved, being 32% of the total applications considered.

There were 26 approvals for new listings on Bursa Malaysia in 2007 compared with 30 in 2006. Of the 26, nine were for the Main Board, 13 for the Second Board and four for the MESDAQ Market.

The various corporate proposal exercises approved in 2007 were expected to raise RM172.61 billion, two fold higher than RM86.87 billion in 2006.

### PROSPECTUSES

*(Table 5)*

In 2007, we received 259 new prospectuses for registration comprising 47 public offering/base prospectuses, 159 term sheets, 41 abridged prospectuses and 12 supplementary base prospectuses. This was in addition to 26 prospectuses brought forward from 2006, bringing the number of prospectuses at hand in 2007 to 285. Of these, 244 were registered, 12 were withdrawn/returned and 29 carried forward to 2008. In addition, 31 relief applications from compliance with the Prospectus Guidelines were submitted and reviewed.

### PRIVATE DEBT SECURITIES

*(Table 6)*

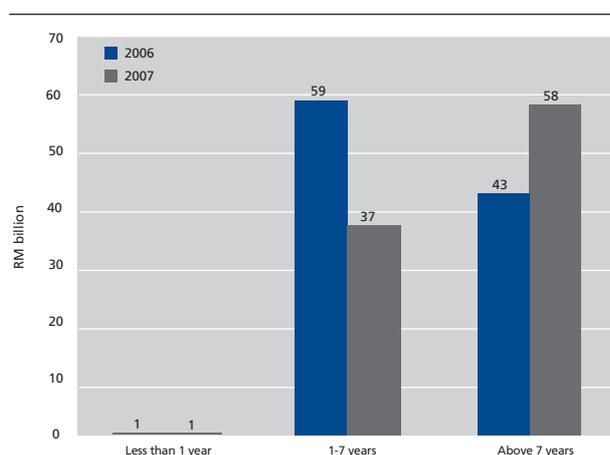
In 2007, the SC approved 120 PDS issues amounting to RM158.8 billion as compared with 135 PDS issues amounting to RM79.56 billion in 2006. Of the total 120 approved PDS issues in 2007, 12 with an aggregate value of RM13.6 billion were Asset-Backed Securities (ABS) and three issues amounting to RM3.6 billion were by agencies of foreign government.

Bonds accounted for 39.17% of the total number of PDS issues approved, followed by medium-term notes 21.67%, commercial papers/medium-term notes (CP/MTN) programme 20%, loan stocks 7.5%, and commercial papers/short-term notes 5%. The remaining 6.67% comprised a combination of multiple types of instruments with combined issue size. We also approved one issue of negotiable certificate of deposits.

For 2007, conventional PDS issues accounted for 23.11% of the total size of PDS issues approved whereas *sukuk* issues accounted for 20.03%. The remaining 56.86% comprises a combination of conventional PDS and *sukuk* where their issue size has been combined.

With regard to maturity profile, 58 or 60.42% of the total number of PDS issues (excluding 24 CP/MTN programmes) approved in 2007 had maturity periods of more than seven years and 37 or 38.54% had maturity periods of between one to seven years. The remaining one PDS issue or 1.04% had a maturity period of less than one year (Chart 1).

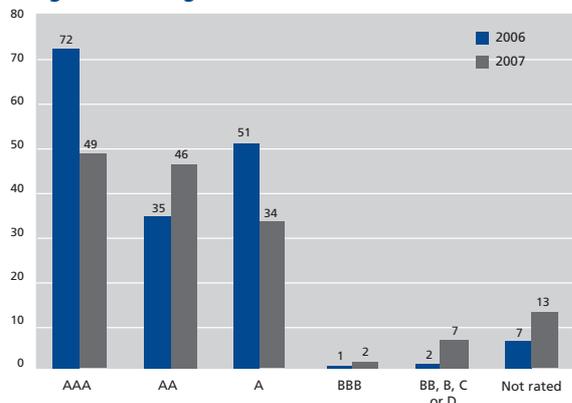
Chart 1  
Maturity Profile



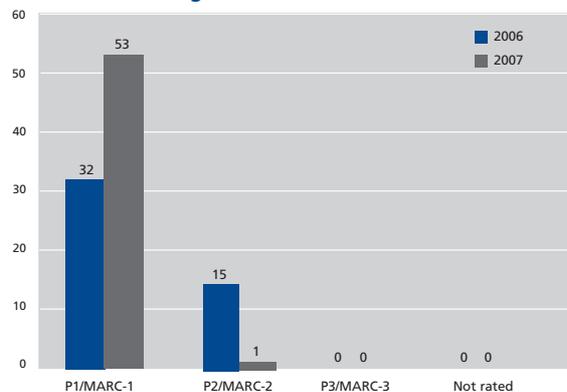
Note: Above maturity profile excludes 24 CP/MTN programmes as the maturity profiles are determined only at the point of issuance.

Chart 2  
Rating Summary

Long-term Rating



Short-term Rating



Note: For CP/MTN programmes, both short-term rating accorded for CPs and long-term rating for MTNs are taken into account.

In 2007, a total of 192 ratings (based on initial rating) were assigned by credit rating agencies to the respective PDS issues, out of which 185 had a short-term rating of between P1/MARC-1 and P3/MARC-3 and long-term rating of between AAA and BBB while seven issues had long-term ratings between BB and C. Thirteen issues were not rated as they were either not required or were granted exemption from the rating requirement (Chart 2).

In addition to the ringgit-denominated PDS issues, the SC approved twelve offers of US dollar denominated PDS issues in Malaysia by foreign issuers (as part of global offerings) and one Singapore dollar denominated PDS issue (as a settlement mode under a proposed acquisition) in 2007.

We also approved 22 programmes issuance of structured products amounting to approximately RM94.25 billion in 2007.

TAKE-OVERS AND MERGERS

(Tables 7– 8)

In 2007, the SC considered a total of 412 applications (2006: 230 applications) relating to the *Malaysian Code on Take-overs and Mergers 1998* (Take-overs Code).

Out of 412 applications considered, 95 applications were for exemption from mandatory offer obligation. This represented an increase of 53.23% from the 62

applications in 2006. The SC also cleared 52 offer documents in 2007, a 160% increase from the previous year. The remaining applications were for appointment of independent advisers, clearance of independent advice circulars, extension of time, requests for rulings, and other ancillary applications.

The number of applications considered in 2007 showed a significant increase of approximately 79% compared to the number of applications considered in 2006. The increase was mainly due to the number of offers undertaken and the number of applications made following the merger exercise of the Sime Darby Bhd Group, the Golden Hope Plantations Group and the Kumpulan Guthrie Bhd Group. The merger exercise resulted in 80 applications for exemptions from mandatory offer obligations under PN 2.9.7, rulings under PN 2.2 and waivers from disclosure requirements. The increase in the applications for the appointment of independent advisers and clearance of independent advice circulars was a result of the increase in the number of offers.

The year 2007 saw the mega merger of companies under the umbrella of Permodalan Nasional Bhd to form the enlarged Synergy Drive Bhd Group (now known as Sime Darby Bhd). The Group, which was listed on 30 November 2007, is Malaysia's largest listed company, with an estimated market capitalisation of RM50 billion, and is said to be the world's largest listed plantations company. Another notable merger exercise was between IJM Corporation Bhd and Road Builder Holdings (M) Bhd.

During the year, we saw more unprecedented high value take-over offers, such as the take-over of Maxis Communications Bhd by Binariang GSM Sdn Bhd for RM40 billion and PPB Oil Palms Bhd by Wilmar International Limited for RM5.6 billion. The 30 voluntary offers and 22 mandatory offers undertaken in 2007 constituted RM54 billion and RM8.7 billion in value, respectively. The 30 voluntary offers also included four exit offers undertaken to delist Rohas-Euco Industries Bhd,

Ramatex Bhd, Cosway Corporation Bhd and MOL Accessportal Bhd as part of the companies' privatisation process by their respective major shareholders.

## Compliance Under the FIC Guidelines

In 2007, the SC considered 348 applications on compliance with the FIC Guidelines, comprising proposals to raise funds via equities and debt instruments, acquisition of interests involving M&A, appointment of unit trust management companies and market intermediaries under the SIA and FIA.

## ASSET VALUATION AUDIT

*(Table 9)*

In 2007, 38 public companies submitted 142 valuation reports to the SC for various corporate proposals. Acquisition of assets formed 34% of the proposals while fund-raising via IPO Second Board took 18%. Despite a drop of 39.6% in the proposals with valuation reports, there was an increase of 99.3% in the number of properties reviewed.

Of the total assets value of RM4,732 million reviewed, cases for disposal took the lead at 23.3%, followed by establishment of an unlisted REIT at 22.8%, acquisition of assets by listed companies at 21.6%, and listed REITs at 13.3%.

The year also saw expansion in the listed REITs through purchase of properties to add to their existing portfolios. During the period, a total amount of RM628 million were acquired by three REITs compared to only RM258 million in 2006. The number would be higher if cash acquisitions, which did not require the SC's approval, were included.

The SC also cleared 34 prospectuses pertaining to valuation certificates compared to 16 for 2006. We also processed 13 waiver applications for conditions imposed as against three applications in the previous year.

## KEY STATISTICS

Table 1

### Status of Submissions

Submissions	2007	2006
Submissions brought forward from previous year	43	75
Submissions received during the year	406	344
Submissions on-hand for the year	449	419
Submissions considered during the year	(390)	(355)
Submissions withdrawn/returned during the year	(18)	(21)
Submissions carried forward to next year	41	43

Table 2

### Listing Proposals Considered

	Main Board		Second Board		MESDAQ		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Approved	9	11	13	7	4	12	26	30
Rejected	1	5	2	8	0	27	3	40
Deferred	0	0	0	0	2	1	2	1
<b>Total</b>	<b>10</b>	<b>16</b>	<b>15</b>	<b>15</b>	<b>6</b>	<b>40</b>	<b>31</b>	<b>71</b>

Table 3

## Number of Submissions Considered by Type of Proposal

Type of Proposals	Approved		Rejected		Deferred		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Initial public offering:								
– Main Board	9	11	1	5	0	0	10	16
– Second Board	13	7	2	8	0	0	15	15
– MESDAQ	4	12	0	27	2	1	6	40
Transfer to Main Board	21	20	0	0	0	0	21	20
Fund-raising via issues of equity <sup>1</sup>	123	79	1	7	0	0	124	86
Fund-raising via issues of PDS	102 <sup>2</sup>	93	0	1	0	0	102	94
Restructuring	11	2	13	10	0	0	24	12
Acquisition and merger	20	20	3	2	0	0	23	22
Disposal	21	20	0	1	0	0	21	21
Others <sup>3</sup>	44	28	0	1	0	0	44	29
<b>Total</b>	<b>368</b>	<b>292</b>	<b>20</b>	<b>62</b>	<b>2</b>	<b>1</b>	<b>390</b>	<b>355</b>

Table 4

## Amount of Funds Raised/To Be Raised by Type of Issues

Type <sup>4</sup>	Funds Raised/to Be Raised			
	(RM million)		(% )	
	2007	2006	2007	2006
IPOs				
– Amount raised by PLCs	966.57	1,359.36	0.56	1.56
– Amount raised by offerors	1,033.31	2,692.06	0.60	3.11
Funds raised via equity				
– Listed	11,807.15	3,259.77	6.84	3.75
– Unlisted	0	0	0	0
Funds raised via debt <sup>5</sup>				
– Listed	432.04	210.30	0.25	0.24
– Unlisted <sup>6</sup>	158,370.23	79,352.38	91.75	91.34
<b>Total</b>	<b>172,609.30</b>	<b>86,873.87</b>	<b>100.00</b>	<b>100.00</b>

<sup>1</sup> Includes rights issues, restricted issues, private placements, issues of warrants, etc.

<sup>2</sup> Includes six PDS issuance by Cagamas Bhd.

<sup>3</sup> Includes proposals by unlisted companies.

<sup>4</sup> Refers to each type of individual issues approved to be undertaken by listed/unlisted companies.

<sup>5</sup> Excludes negotiable certificate of deposits (NCD) of RM100 billion (2007) and RM3 billion (2006).

<sup>6</sup> Includes issuance by Cagamas Bhd of RM63.95 billion (2007) and RM6.93 billion (2006).

**Table 5**  
**Equity Prospectuses Considered**

	2007						2006			
	Full	Modified	Term Sheets	Abridged	Supplementary	Total	Full	Abridged	Supplementary	Total
Balance brought forward	22	1	3	0	0	26	68	0	0	68
Received during the year	38	9	159	41	12	259	67	9	6	82
Total	60	10	162	41	12	285	135	9	6	150
Less:										
Prospectus registered	(27)	(8)	(157)	(40)	(12)	(244)	(68)	(9)	(6)	(83)
Withdrawn/returned	(6)	(1)	(5)	0	0	(12)	(41)	0	0	41
Pending registration	27	1	0	1	0	29	26	0	0	26

**Table 6**  
**PDS Issues Approved**

	2007		2006	
	No. of Issues	Size of Issues (RM million)	No. of Issues	Size of Issues (RM million)
<b>Conventional</b>				
Short-term notes/CPs	4	2,410.00	5	1,750.00
MTNs	9	9,530.00	9	15,580.00
CP/MTN programmes	13	5,005.00	14	2,983.00
Bonds	25	16,458.00	31	13,930.00
Loan stocks	9	3,297.03	3	1,900.80
	<b>60</b>	<b>36,700.03</b>	<b>62</b>	<b>36,143.80</b>
<b>Sukuk</b>				
Short-term notes/CPs	2	270.00	5	280.00
MTNs	17	11,610.00	13	18,586.00
CP/MTN programmes	11	1,960.00	18	5,779.00
Bonds	22	17,962.24	35	17,573.87
	<b>52</b>	<b>31,802.24</b>	<b>71</b>	<b>42,218.87</b>
<b>Combination</b>	<b>8</b>	<b>90,300.00</b>	<b>2</b>	<b>1,200.00</b>
<b>Total</b>	<b>120</b>	<b>158,802.27</b>	<b>135</b>	<b>79,562.68</b>

Table 7

**Applications Considered for Take-overs and Mergers**

Types of Applications	2007	2006
Extension of time	16	13
Clearance of offer document	52	20
Appointment of independent adviser	63	32
Clearance of independent advice circular	65	24
Exemption from mandatory offer obligation	95	62
Request for rulings and other ancillary applications	121	79
<b>Total</b>	<b>412</b>	<b>230</b>

Table 8

**Number of Submissions Considered for Compliance with the FIC Guidelines**

Types of Proposal <sup>7</sup>	2007	2006
Flotation on Main Board and Second Board	31	31
Flotation on MESDAQ	5	18
Special issue/rights issue	6	8
Fund-raising via debt	7	6
Private placement/restricted issue	76	58
Composite scheme <sup>8</sup>	35	26
Acquisition	28	27
Transfer listing <sup>9</sup>	18	0
Take-overs and mergers	55	30
Unit trust management company/REIT management company	6	10
Market intermediaries under the SIA and FIA	29	22
Others	52	46
<b>Total</b>	<b>348</b>	<b>282</b>

<sup>7</sup> Types of proposals listed are on a stand-alone basis except for composite schemes.

<sup>8</sup> Composite scheme consist of a combination of multiple types of proposals, which may include any of the proposals listed in the table.

<sup>9</sup> The proposals considered were submitted prior to the issuance of circular transfer of listing status on April 2007.

Table 9  
Valuation Reviewed by Type of Proposals

Type of Proposals	Number of Companies (No. of reports)		Number of Properties		Capital Value (RM million)	
	2007	2006	2007	2006	2007	2006
Flotation						
– Main Board	3 (37)	7 (76)	83	99	234	754
– IPOM REIT <sup>10</sup>	0 0	9 (40)	0	257	0	3,049
– Second Board	7 (41)	6 (26)	140	284	92	147
– MESDAQ Market	2 (4)	1 (1)	4	1	5	2
Acquisition	10 (14)	14 (21)	1,266	138	1,023	2,156
Acquisition by REITs	3 (11)	3 (5)	16	25	628	258
Bonus issues	0 0	0 0	0	0	0	0
Restructuring, reorganisation and revaluation	5 (14)	6 (27)	56	127	549	436
Change in utilisation of proceeds	1 (1)	0 0	1	0	15	0
Utilisation of proceeds from–						
– rights issues	0 0	0 0	0	0	0	0
– private placements	0 0	0 0	0	0	0	0
– bonds	0 0	0 0	0	0	0	0
– ICULS	0 0	0 0	0	0	0	0
Combination	0 0	0 0	0	0	0	0
Unlisted companies	1 (7)	0 0	8	0	1,081	0
Disposal	6 (13)	17 (50)	423	71	1,105	2,667
<b>Total</b>	<b>38 (142)</b>	<b>63 (246)</b>	<b>1,997</b>	<b>1,002</b>	<b>4,732</b>	<b>9,469</b>

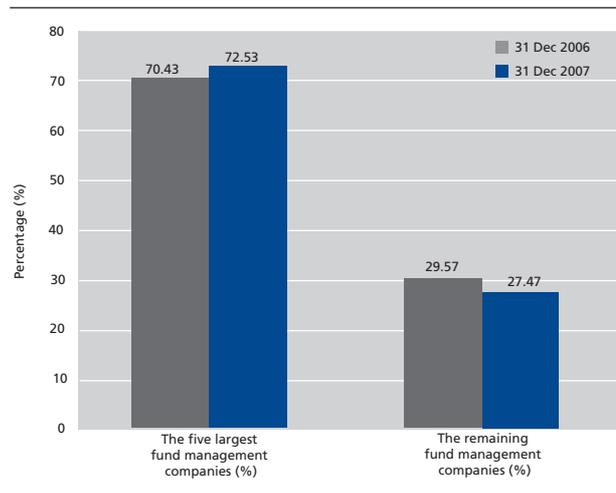
<sup>10</sup> Refers to the establishment and listing of REITs on the Main Board.

# INVESTMENT MANAGEMENT

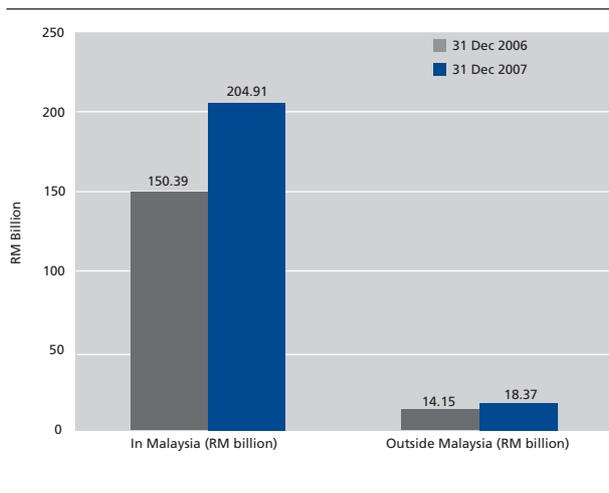
The investment management industry in Malaysia continued to expand in 2007. As at 31 December 2007, total asset under management by licensed fund management companies in Malaysia increased by 44.13% to RM236.98 billion as compared to 2006. Unit trust funds continued to be the main source of assets under management, reaching RM169.41 billion as at end-2007 as compared to RM121.77 billion as at end-2006. Other types of assets under management included funds from charitable bodies, corporate bodies, EPF and EPF contributors, government bodies/agencies, individuals, insurance companies and private pension funds (Table 1).

As at end-2007, there are 79 holders of the Capital Market Services Licence for fund management, and the five largest

**Chart 1**  
Percentage of Funds Managed by Fund Management Companies



**Chart 2**  
Funds Invested in and Outside Malaysia



**Chart 3**  
Asset Allocation

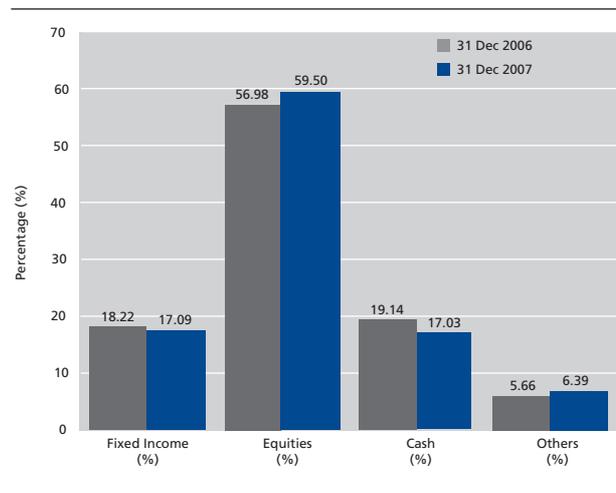


Table 1  
Source of Funds

Source of Funds	Local (RM million)		Foreign (US\$ million)	
	2007	2006	2007	2006
Charitable Bodies	391.42	218.97	1.11	0.32
Corporate Bodies	14,559.20	7,550.77	1,514.20	388.92
EPF	21,564.01	12,319.08	0	0
Government agencies/bodies	1,156.28	146.79	0	0
Individuals	3,510.95	1,880.12	101.93	29.66
Insurance Companies	1,607.57	1,675.54	155.43	142.61
Private pension funds	1,450.91	1,155.67	1.13	0.15
Unit trust funds	169,414.26	121,773.16	493.77	297.51
Other funds	13,894.17	10,270.73	491.95	166.59
<b>Total</b>	<b>227,548.78</b>	<b>156,990.84</b>	<b>2,759.51</b>	<b>1,025.76</b>

fund management companies' account for 72.53% of total assets under management, which is an increase by 2.1% compared to end-2006 (Chart 1). The amount of onshore investment also increased from RM150.39 billion as at end-2006 to RM204.91 billion as at end-2007 (Chart 2). Fund management companies in Malaysia relied more on equities for their asset allocation strategies, with the allocation in equities increasing from 57.0% 2006 to 59.50% as at end-2007. Lesser investments into the fixed income were made in 2007, evidenced by the decrease in asset allocation in the fixed income market (Chart 3).

### Collective Investment Schemes

Unit trust funds continue to make up the largest share of the Malaysian collective investment scheme (CIS) industry. The unit trust industry is dominated by locally-incorporated funds managed by 39 unit trust management companies. A total of 495 funds were in operation as at end-2007, up 26.2% from end-2006 (Table 2).

The year 2007 saw a tremendous growth in the NAV of unit trust funds owing to increasing demand for units, launch of new products, and bullish market conditions. The total NAV grew 39% year-on-year from RM121.76 billion recorded on 31 December 2006 to RM169.41 billion on 31 December 2007. This makes up 15.32% of Bursa Securities'

market capitalisation, an increase of 14.35% from end-2006 (Table 2).

BNM's liberalisation on investments abroad has given investors the opportunity to minimise risk through diversification of investment across different countries and different regions. In 2007, unit trust managers continued to launch new products that invested in foreign assets, either directly or through a feeder structure, thus offering a means for investors to have exposure in foreign assets and minimise single-country risk through professional management. As at end-2007, a total of RM15.16 billion, or 8.9% of the industry NAV, was invested abroad, giving an increase of 79% since end-2006.

For other types of CIS–

- Restricted investment schemes (RIS) are private funds managed by fund managers for sophisticated and institutional investors. A total of 19 new RIS were launched in 2007, raising the number of RIS in the market to 24. Total NAV of RIS as at 31 December 2007 was RM957.40 million.
- In 2007, four new real estate investment trust (REITs) were listed on the Main Board of Bursa Securities. This raised the total number of REITs listed on Bursa Securities to 13. The total asset size of

the REIT industry was RM6.47 billion and the market capitalisation of the 13 REITs was RM5.27 billion as at 31 December.

- One new exchange-traded fund (ETF) was listed on the Main Board of Bursa Securities in 2007. The total NAV of ETFs was RM527.62 million while market capitalisation of the two ETFs currently listed on Bursa Securities was RM531.80 million as at 31 December.

- As at 31 December, there was one listed closed-end fund (CEF) listed on the Main Board of Bursa Securities. The fund's NAV was RM316.22 million and its market capitalisation was RM366.80 million.

In total, we considered 1,008 applications in 2007 relating to CIS, comprising applications to establish new funds, applications to increase fund size and other types of application (Table 3). This was a significant increase of 34% from applications received and considered in 2006.

**Table 2**  
**Overall Status of Unit Trust Industry**

	31 December 2007	31 December 2006
No of funds launched	495	392
– Conventional	367	297
– Shariah-compliant	128	95
Total approved fund size (billion units)*	473.94	339.88
Units in circulation (billion units)	208.34	154.07
No. of accounts (million)**	12.68	11.40
Total NAV (RM billion)	169.41	121.76
– Conventional (RM billion)	152.55	112.59
– Shariah-compliant (RM billion)	16.86	9.17
% of NAV to KLSE market capitalisation	15.32	14.35

\* For funds approved, including those not yet launched

\*\* Including accounts in Institutional Unit Trust Advisers (IUTA) operating a nominee system.

Table 3  
Applications for Various Matters on Collective Investment Schemes

Type of Applications	Number of Applications					
	Considered		Approved		Pending Consideration	
	December 2007	December 2006	December 2007	December 2006	December 2007	December 2006
Establishment of collective investment schemes	143	103	142	101	12	13
– Unit trust funds	121	84	121	83	8	11
– Real estate investment trusts	1	8	0	7	1	1
– Closed-end funds	1	0	1	0	0	0
– Restricted investment schemes	20	10	20	10	2	1
– Exchange-traded funds	0	1	0	1	1	0
Change in fund size limit	120	66	120	66	1	3
– Unit trust funds	116	64	116	64	1	1
– Real estate investment trusts	2	1	2	1	0	2
– Closed-end funds	0	0	0	0	0	0
– Restricted investment schemes	2	1	2	1	0	0
– Exchange-traded funds	0	0	0	0	0	0
Exemption/variations from guidelines	33	24	31	22	0	5
Revaluation of property	3	3	3	3	0	1
Registration of prospectus	244	164	244	164	11	6
Registration of deeds	179	110	179	110	36	13
Appointment of CEO, Directors, Investment committee members	159	157	159	157	9	24
Other applications	127	125	126	114	2	11
<b>Total</b>	<b>1,008</b>	<b>752</b>	<b>1,004</b>	<b>737</b>	<b>71</b>	<b>76</b>

# ISLAMIC CAPITAL MARKET

## SUKUK

In 2007, the SC approved a total of 120 bond issues amounting to RM158.8 billion, of which 59 issues were *sukuk* valued at RM121.3 billion.<sup>1</sup> The value represented 76.4% of total new bond issues approved (Chart 1).

*Sukuk musyarakah*, *sukuk ijarah* and *sukuk istisna`* dominated the Malaysian *sukuk* market in terms of approval size in 2007. The combination of the three types of *sukuk* represented RM47.5 billion or 78% of the total size of *sukuk* approved<sup>2</sup> (Chart 2). The remaining 22% or RM13.8 billion of *sukuk* approved was structured using *murabahah* and *bai` bithaman ajil* principles.

## SHARIAH-BASED UNIT TRUST FUNDS

(Table 1)

In 2007, the SC approved 34 new Shariah-based unit trust funds. This brought the total to 134 or 25.7% of the total of 521 approved funds. Of the Shariah-based unit trust funds, 62 were equity funds, 21 were balanced funds, 19 were *sukuk* funds while the remainder comprised money market funds, structured products, feeder funds, fixed income funds, and mixed asset funds (Chart 3).

The increase in Shariah-compliant investment products contributed mainly to the growth of Shariah-based unit trust funds in Malaysia. The NAV of Shariah-based unit trust funds for the last ten years grew at a compounded annual

Chart 1  
Sukuk Approved by the SC

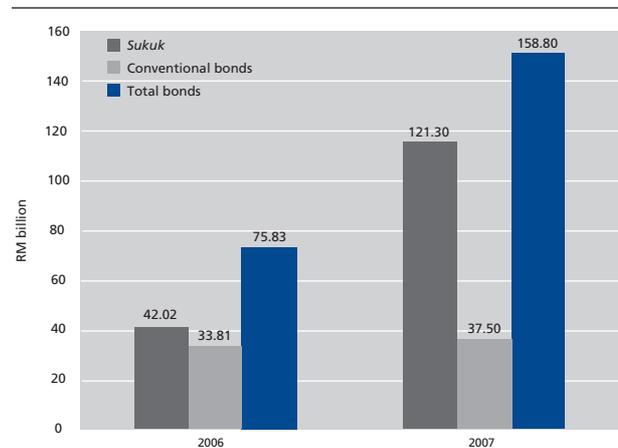
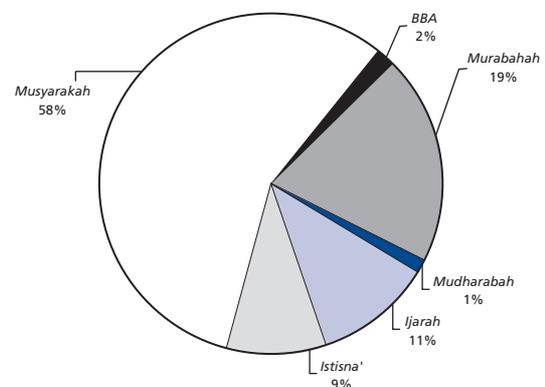


Chart 2  
Size of Sukuk Approved in 2007 by Shariah Principle



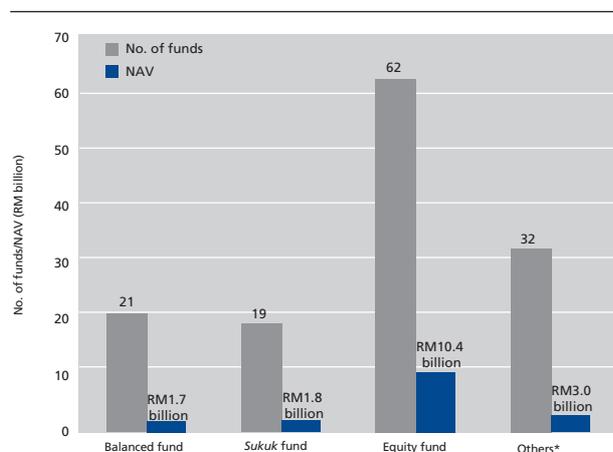
<sup>1</sup> This figure includes the approval of seven combination issuances (conventional bonds and sukuk) with a combined issue size of RM89.5 billion.

<sup>2</sup> The combination issuance of RM60 billion by Cagamas Bhd was not included for the purpose of this calculation due to uncertainty of the amount per multiple Shariah principles to be used.

**Table 1**  
**Shariah-based Unit Trust Funds**

	2007	2006
Number of approved funds		
Shariah-based	134	100
Total industry	521	416
Total approved fund size (billion units)		
Shariah-based	102.6	64.3
Total industry	473.9	339.9
Units in circulation (billion units)		
Shariah-based	36.4	18.54
Total industry	208.3	154.07
NAV (RM billion)		
Shariah-based	16.9	9.17
Total industry	169.4	121.8
% of Shariah-based to total industry	10.0%	7.5%

**Chart 3**  
**Shariah-based Unit Trust Funds by Category**



Note: \* Including feeder funds, fixed income funds, money market funds, structured product and mixed asset funds.

growth rate of 39.6% while the total industry recorded a growth rate of 17.8% in the same period.

A second Islamic REIT, Al-Hadharah Boustead REIT made a commendable debut on Bursa Malaysia in February 2007.

It was the first REIT to be backed by plantation assets and offered investors an attractive alternative to plantation stocks, with a profit sharing of at least 98% of its distributable earnings to be paid to unit holders for the first three financial years.

### SHARIAH-COMPLIANT EQUITIES

(Table 2)

In 2007, two reviews were conducted on all listed companies and the results published on 25 May and 30 November 2007 respectively. Throughout the year, 35 equities were added to the list of Shariah-compliant equities while 21 were removed. In total, there were 853 Shariah-compliant equities or 86.1% of the total listed equities on Bursa Malaysia.<sup>3</sup>

With the introduction the new equity index series by Bursa Malaysia, two new benchmark indices for Shariah-compliant equities were introduced in 2007 in Malaysia. The two indices are subject to international indexing features, such as free float and liquidity, and the Shariah-compliance filter

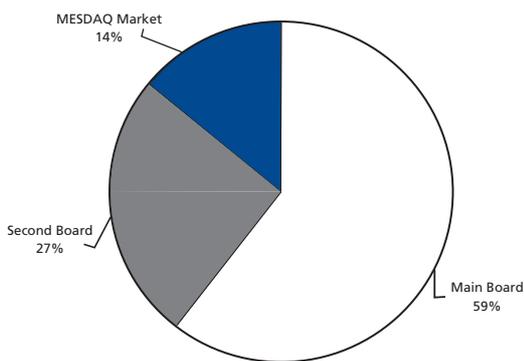
<sup>3</sup> Throughout 2007, 46 Shariah-compliant equities were also excluded from the list as their shares were delisted from Bursa Malaysia.

**Table 2**  
**Shariah-compliant Equities**

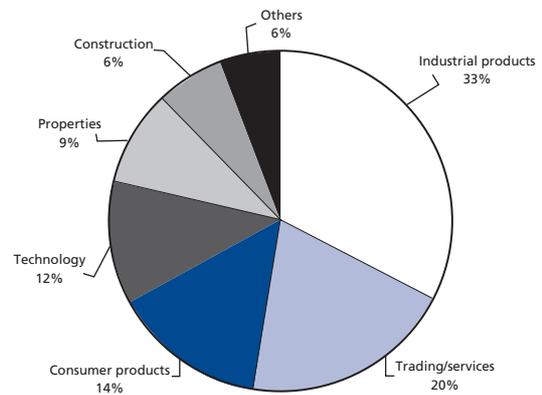
	2007	2006
Number of equities		
Shariah-compliant equities	853	886
Total listed securities	991	1,029
% of Shariah-compliant to total listed securities	86%	86%
Market capitalisation		
Shariah-compliant securities	705.1	548.4
Total listed securities	1,106.2	848.7
% of Shariah-compliant to total listed securities	63.7%	64.6%

**Chart 4**  
**Shariah-compliant Equities by Board and Market Sector**

**Board**



**Market Sector**



by the SAC. The FBM EMAS Shariah Index was designed to replace the old benchmark index for Shariah-compliant equities, the Kuala Lumpur Shariah Index (KLSI). The second index, FBM Hijrah Shariah Index, is a tradeable index with a fixed number of 30 constituents.

The new indices will create further opportunities for investors seeking Shariah-compliant investments to benchmark their investments, and for asset managers to create new products

servicing the investment community. They will create opportunities for capital market intermediaries to work with Bursa Malaysia to package a broad range of attractive products to enhance the choice of investments, such as Islamic ETFs and structured products.

As at end 2007, the market capitalisation of Shariah-compliant equities stood at RM705.1 billion or 63.7% of total market capitalisation.

## VENTURE CAPITAL

From 2005 to 2007, the total number of venture capital companies (VCC) and venture capital management companies (VCMC) in Malaysia grew a moderate 13%. As at 31 December 2007, there were 52 VCC and 46 VCMC registered with the SC, totaling 98, which is an 8% increase year-on-year. Out of this, 93 were 100% locally-owned, while five were partly foreign-owned. Together, they had committed funds under management of RM3.3 billion.

The number of investee companies declined slightly from 461 in 2006 to 433 in 2007. In addition, the number of VC professionals fell from 184 in 2006 to 132 in 2007.

Total committed funds under management in 2007 (RM3.308 billion) was relatively unchanged from that of last year (RM3.310 billion). However, 2007 saw a significant

increase in the total amount of VC investments. Total investments in 2007 (RM1.784 billion) jumped 54% year-on-year, following a 20% decline in 2006 (RM1.159 billion). In 2007, there was a corresponding 183% rise in the amount invested in investee companies from RM169 million in 2006 to RM479 million in 2007.

Meanwhile, the amount of new funds raised in 2007 (RM456 million) fell 36% year-on-year (RM715 million in 2006). Divestments also declined from RM182 million in 2006 to RM105 million in 2007.

The government continued to be the main source of VC funding in 2007 although its contribution to total committed funds under management declined from 41% in 2006 to 36% in 2007.

Table 1

### Venture Capital Industry Participants

	31 December 2007	31 December 2006
Number of registered venture capital funds/companies	52	49
Number of registered VCMCs	46	42
Number of investee companies	433	461
Number of venture capital professionals	132	184
<b>Shareholding structure</b>		
100% local ownership	93	87
Part foreign ownership	5	4

The contribution from corporations in 2007 also fell 6% year-on-year. However, there were encouraging signs of a slight increase in institutional participation, particularly from pension and provident funds, and insurance companies which collectively contributed 3% to total committed funds under management in 2007, compared to 2% in 2006. The contribution from banks more than

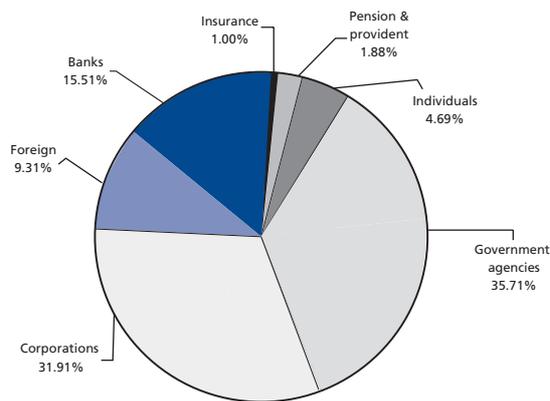
doubled from 7% in 2006 to 16% in 2007. Finally, foreign contribution to total committed funds under management edged up from 8% in 2006 to 9% in 2007.

In 2007, investment in investee companies, as a percentage of total committed funds under management, rose 19% year-on-year. Conversely, investment in other assets fell

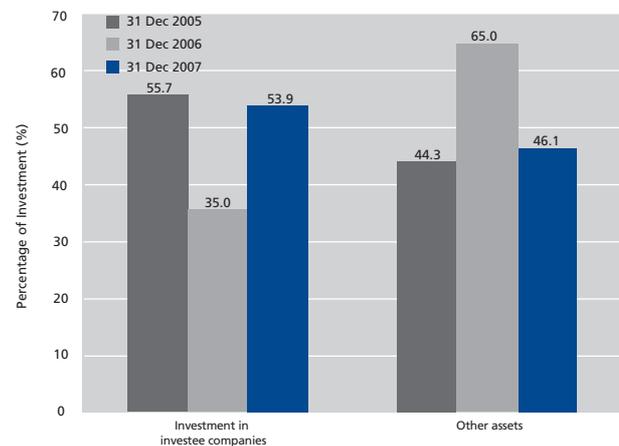
**Table 2**  
**Venture Capital Investments**

	31 December 2007 (RM million)	31 December 2006 (RM million)
Total committed funds under management	3,308	3,310
Total investment	1,784	1,159
	<b>2007</b>	<b>2006</b>
New funds raised	456	715
Investment in investee companies	479	169
Divestments	105	182

**Chart 1**  
**Source of Venture Capital Funds 2007**



**Chart 2**  
**Utilisation of Funds (2007: RM3.308b)**



from 65% in 2006 to 46% in 2007.

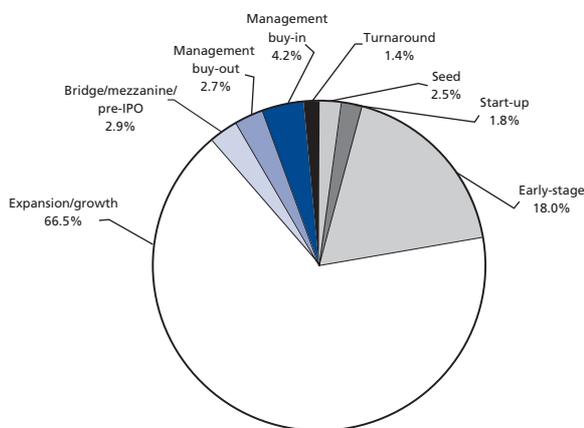
The bulk of the investment in investee companies (RM 479 million in 2007) was made at the expansion/growth stage. This stage accounted for 67% of total investments in investee companies (refer to Chart 3) during the year. Not surprisingly, the number of venture companies in the expansion/growth stage was the highest, compared to all other business stages (refer to Table 3). In 2007, the percentage of investments at the seed and start-up stage declined 3% and 9% year-on-year respectively. Investments at the turnaround and buy-in stages in 2007 stood at 1% and 4% respectively, in contrast to 2006 when there were no investments made at these two stages. Investments at the bridge/mezzanine/pre-IPO stage dipped from 6 % in 2006 to 3% in 2007.

In the past, VC investments in investee companies were typically concentrated in the Information Technology & Communication (ICT) sector. In 2006, for instance, 44% of investments in investee companies could be found in the ICT sector. However, the year 2007 saw a change in this trend as only 15% of investments were made in the ICT sector. Life Sciences experienced a marginal 1% year-on-year increase in investments (26% in 2007).

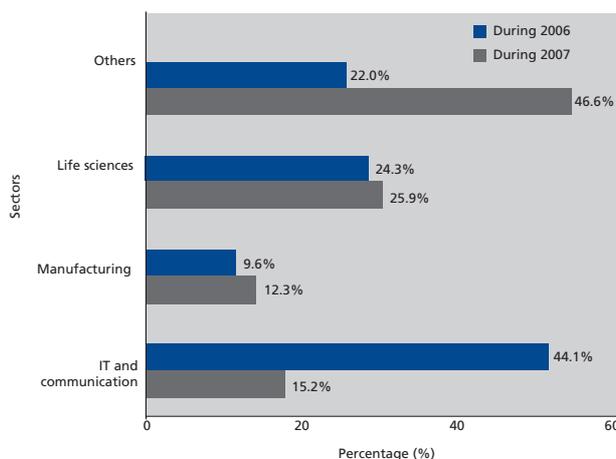
Investments in other sectors rose from 22% to 47% in 2007. This sector includes investments in sectors such as electricity and power generation, education, trading, transportation and finance.

Almost 30% of divestments (worth RM31m) in 2007 were at the bridge/mezzanine/pre-IPO stage. The start-up stage, which recorded no divestments in 2006, accounted for 23% of total divestments in 2007. The category "Others" includes funds disposed via listing on the stock market and share redemptions. This stage contributed 14% of total divestments in 2007.

**Chart 3**  
Investment by Financing Stage 2007



**Chart 4**  
Investment by Sectors



**Table 3**  
**Number of Venture Companies by Business Stage 2007**

Business Stage	Number of Venture Capital
Seed	30
Start-up	4
Early-stage	18
Expansion/growth	58
Bridge/mezzanine/pre-IPO	3
Management buy-out	3
Management buy-in	1
Turnaround	2
Cashing out	0
Others	2
<b>Total</b>	<b>121</b>

**Table 4**  
**Divestments During 2007**

Business Stage	Amount Divestment (RM million)	Share of Total (%)
Seed	2.90	3
Start-up	24.06	23
Early-stage	0	0
Expansion/growth	3.99	4
Bridge/mezzanine/pre-IPO	30.09	29
Management buy-out	1.64	2
Management buy-in	8.03	8
Turnaround	0	0
Cashing out	19.25	18
Others	14.86	14
<b>Total</b>	<b>104.84</b>	<b>100</b>

## MARKET INTERMEDIARIES

### LICENCE APPLICATIONS STATISTICS

There were 24 new company licences and 753 new representatives licences approved in 2007, a 35% and 5% decrease respectively, from 2006. For the company category, 2006 was an exceptional year as nine new dealing licenses were issued of which eight were primarily to cater to the formation of Investment Banks.

Given the vibrant performance of the stock market in 2007 and the coming into effect of the CMSA in September 2007, the number of entrants into the capital market can be expected to show a positive trend in 2008.

There were 12 new company applications received for financial planning and advising on corporate finance. The availability of qualified financial advisory services augurs well for the further development of the market.

During the year, two new foreign fund management companies, BNP Paribas Asset Management Malaysia Sdn Bhd and Nomura Asset Management Sdn Bhd were licensed into the industry, bringing the number to four foreign fund managers offering their services in Malaysia. The licensing of foreign fund managers which are 100% owned by foreign companies was introduced in the Budget 2005 announcement where a total of five licences were allowed under this category.

No new companies were approved to carry on dealing activities in 2007, although the increase in trading in the futures market resulted in growing interest for direct participation by intermediaries in this segment of the capital market. In 2007, five companies were

approved to carry on the activities of trading in futures contracts, two of which were approved as a result of the merger of their securities and futures operations. This is significant because in 2006, only one company was approved to carry on trading in futures contracts. The 2007 entrants included a foreign dealer extending its activities to include trading in futures contracts. More companies are participating in the futures market because of growing liquidity of Bursa Malaysia Derivatives Bhd.

In 2007, the number of applicants approved for the representative's licence was relatively unchanged from the same period in the previous year. Of the 753 applications approved in 2007, 48% were for dealing in securities, although the application approved in 2007 for dealing in securities were slightly lower than in 2006 as industry participants paused to examine the changes introduced by the CMSA.

A review of the demographics of applicants for the representative's licence shows that more professionally qualified participants were interested to act as licensed representatives in the capital market. This augurs well for our efforts to have more competent and qualified persons in the capital market. We also note the new applications for the representative's licence are also from previously licensed persons returning to the industry on the back of positive trends displayed by the stock market. This group constituted almost a third of total new applicants.

Following the introduction of the CMSA, where the provision of corporate finance and research activities are seen as distinct regulated activities, 507 individuals employed by stockbroking companies and investment banks were absorbed as licensed persons.

In addition, with the introduction of the single licensing regime, persons holding a valid licence granted under the SIA and FIA were deemed to be licensed

appropriately under the CMSA. In this regard, a total of 216 companies and 7,544 representatives were migrated into the new framework.

Table 1

**Application for New Company/Individual Licences Under SIA and FIA (1 January 2007 to 27 September 2007)**

Licence Type	Dealer		Investment Adviser		Fund Manager		Futures Broker		Futures Fund Manager	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Applications brought forward from previous year	0	1	4	16	0	0	1	0	0	0
New applications received	0	8	10	18	4	6	4	2	1	3
Granted	0	9	7	18	2	6	3	1	1	3
Withdrawn	0	0	0	12	0	0	0	0	0	0
Rejected	0	0	0	0	0	0	0	0	0	0
Returned	0	0	0	0	0	0	0	0	0	0
Applications carried forward to next period* (2007)/ next year (2006)	0	0	7	4	2	0	2	1	0	0

\* CMSA came into effect on 28 September 2007. Next period refers to 28 September to 31 December 2007.

Table 2

**Application for New Company/Individual Licences Under CMSA 2007 (28 September 2007 to 31 December 2007)**

Regulated Activities	Dealing in Securities	Trading in Futures Contract	Fund Management	Advising on Corporate Finance	Investment Advice	Financial Planning	Financial Planning (Individual)
Applications brought forward from 27 September 2007	0	2	2	1	0	5	1
New applications received	1	0	1	1	1	1	0
Granted	0	2	2	1	1	5	0
Withdrawn	0	0	0	0	0	0	0
Rejected	0	0	0	0	0	0	0
Returned	0	0	0	0	0	0	0
Applications carried forward to next year	1	0	1	1	0	1	1

Table 3

**Application for New Representative's Licences Under SIA and FIA (1 January 2007 to 27 September 2007)**

Licence Type	Dealer's Representative		Investment Representative		Fund Manager's Representative		Futures Broker's Representative		Futures Fund Manager's Representative	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Applications brought forward from previous year	4	2	10	8	3	0	3	0	0	0
New applications received	286	426	139	139	103	135	114	138	47	31
Granted	261	412	94	106	87	120	95	128	44	29
Withdrawn	2	6	6	14	1	3	1	1	0	0
Rejected	0	0	0	0	0	0	0	0	0	0
Returned	21	6	32	17	16	9	14	6	3	2
Applications carried forward to next period* (2007)/ next year (2006)	6	4	17	10	2	3	7	3	0	0

\* CMSA came into effect on 28 September 2007. Next period refers to 28 September to 31 December 2007.

Table 4

**Application for New Representative's Licences Under CMSA (28 September 2007 to 31 December 2007)**

Regulated Activities	Dealing in Securities	Trading in Futures Contract	Fund Management	Advising on Corporate Finance	Investment Advice	Financial Planning
Applications brought forward from 27 September 2007	6	7	2	2	1	14
New applications received	126	18	27	6	6	19
Granted	95	21	26	5	5	20
Withdrawn	2	1	0	1	0	0
Rejected	0	0	0	0	0	0
Returned	6	0	2	0	0	5
Applications carried forward to next year	29	3	1	2	2	8

Table 5

**Application for Renewal of Company/Individual Licences Under SIA and FIA (1 January 2007 to 27 September 2007)**

Licence Type	Dealer		Investment Adviser		Fund Manager		Futures Broker		Futures Fund Manager	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Applications brought forward from previous year	0	0	0	2	5	4	0	0	0	0
New applications received	25	35	65	79	46	75	4	15	12	13
Granted	25	35	60	81	48	74	4	15	12	13
Withdrawn	0	0	1	0	1	0	0	0	0	0
Rejected	0	0	0	0	0	0	0	0	0	0
Returned	0	0	3	0	1	0	0	0	0	0
Applications carried forward to next period* (2007)/ next year (2006)	0	0	1	0	1	5	0	0	0	0

\* CMSA came into effect on 28 September 2007. Next period refers to 28 September to 31 December 2007.

Table 6

**Application for Renewal Company/Individual Licences Under CMSA 2007 (28 September 2007 to 31 December 2007)**

Regulated Activities	Dealing in Securities	Trading in Futures Contract	Fund Management	Advising on Corporate Finance	Investment Advice	Financial Planning	Financial Planning (Individual)
Applications brought forward from 27 September 2007	0	0	1	0	0	0	1
New applications received	13	8	25	9	5	10	6
Granted	11	8	25	8	4	9	7
Withdrawn	0	0	0	0	0	1	0
Rejected	0	0	0	0	0	0	0
Returned	0	0	1	0	0	0	0
Applications carried forward to next year	2	0	0	1	1	0	0



Table 10

**Cessation of Operations and Revocation of Company/Individual Licences Under CMSA (28 September 2007 to 31 December 2007)**

Regulated Activities	Dealing in Securities	Trading in Futures Contract	Fund Mangement	Advising on Corporate Finance	Investment Advice	Financial Planning	Financial Planning (Individual)
Ceased to operate	0	1	0	1	0	1	1
Revoked	0	0	0	0	0	0	0

Table 11

**Cessation of Operations and Revocation of Representatives's Licences Under SIA and FIA (1 January 2007 to 27 September 2007)**

	Dealer's Representatives		Investment Representatives		Fund Manager's Representatives		Futures Broker's Representatives		Futures Fund Manager's Representatives	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Ceased to operate	259	427	29	24	66	71	67	119	30	28
Revoked	0	0	0	0	0	0	0	0	0	0

Table 12

**Cessation of Operations and Revocation of Representatives's Licences Under CMSA (28 September 2007 to 31 December 2007)**

Regulated Activities	Dealing in Securities	Trading in Futures Contract	Fund Management	Advising on Corporate Finance	Investment Advice	Financial Planning
Ceased to operate	62	6	21	3	4	8
Revoked	0	0	0	0	0	0

Table 13

**Application for Registration of Locals**

	2007	2006
Applications brought forward from previous year	0	0
New applications received	24	5
Granted	23	5
Withdrawn	0	0
Rejected	0	0
Returned	1	0
Applications carried forward to next year	0	0

Table 14  
**Migration of Company/Individual Licences to CMSA (CMSRL)**

Licence Type	Regulated Activities	Corporation	Individual
Dealer	Dealing in Securities	7	0
	Dealing in Securities Trading in Futures Contract	3	0
	Dealing in Securities Advising in Corporate Finance	4	0
	Dealing in Securities Investment Advice	9	0
	Dealing in Securities Advising on Corporate Finance Investment Advice	12	0
	Dealing in Securities Fund Management Advising on Corporate Finance Investment Advice	1	0
	Dealing in Securities Fund Management Advising on Corporate Finance Investment Advice Financial Planning	1	0
Futures Broker	Trading in Futures Contract	13	0
Fund Manager & Fund Manager/Futures Fund Manager	Fund Management	79	0
	Fund Management Financial Planning	1	0
Investment Adviser	Advising on Corporate Finance	35	0
	Investment Advice	21	1
	Financial Planning	25	14
	Advising on Corporate Finance Investment Advice	3	0
	Advising on Corporate Finance Financial Planning	2	0

Table 15

**Migration of Representative's Licences to CMSA (CMSRL)**

Licence Type	Regulated Activity	Representative
Dealers's Representative	Dealing in Securities	6,151*
Futures Broker's Representative	Trading in Futures Contract	224
Dealer's Representative & Futures Broker's Representative	Dealing in Securities Trading in Futures Contract	440
Fund Manager's Representative & Futures Fund Manager's Representative	Fund Management	429
Investment Representative	Advising on Corporate Finance	63
	Investment Advice	65
	Financial Planning	172

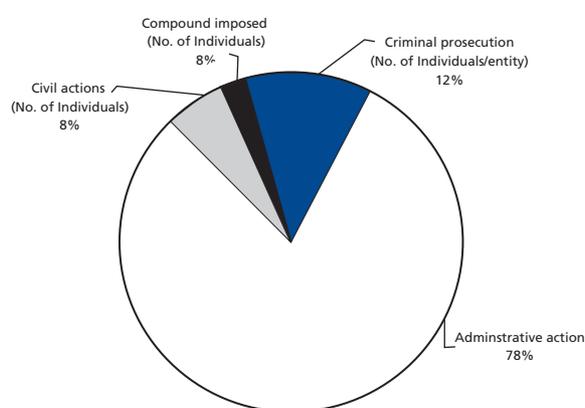
\* Note: 96 restricted to bonds

## ENFORCEMENT

The wide array of actions taken by the SC in 2007 is summarised below. Chart 1 shows notable increase in all forms of enforcement actions. A majority of the cases were dealt with by administrative actions, followed by criminal and civil actions.

All criminal actions taken in 2007 were against persons who submitted false financial information to the SC while civil actions were taken for restitution of monies to investors with injunctions in place in some cases to prevent dissipation of the funds pending the outcome of the litigation.

**Chart 1**  
**Enforcement Actions Taken by SC in 2007**



**Table 1**  
**Enforcement Actions in 2007**

Type	Total
Administrative Actions	109
Civil Actions (No. of Individuals)	11
Compounds Imposed (No. of Individuals)	3
Criminal Prosecution (No. of Individuals/entity)	16

Table 2

## Criminal Prosecution Initiated in 2007

No.	Nature of Offence	Offender(s)	Facts of Case	Date Charged
1.	Director who submitted inflated revenue figures to Bursa.	Dato' Ng Kim Weng	Ng, former Group Managing Director of Polymate Holdings Bhd (PHB) and Managing Director of ABI Malaysia Sdn Bhd (its wholly-owned subsidiary), was charged for knowingly authorising the furnishing of false statements to Bursa, namely the inflated revenue and trade receivables of PHB for the year ended 30 September 2003, as contained in PHB's 2003 Annual Report.	Ng was charged on 7 February 2007.
2.	Directors and listed entity who submitted inflated revenue to Bursa as part of a listing proposal.	Lee Sin Teck	Lee was deemed to have committed an offence as he was a Director of GP Ocean Food Bhd (GP Ocean) when it submitted through Alliance Merchant Bank Bhd, misleading information to the SC contained in GP Ocean's "Directors' Report and Financial Statements 31 January 2006".  This information was required to be submitted to the SC in connection with GP Ocean's proposal for listing on the Main Board of Bursa Malaysia Securities Bhd.	Lee was charged on 18 April 2007.
		Tan Siok Wan	Tan was deemed to have committed an offence as she was a Director of GP Ocean when it submitted through Alliance Merchant Bank Bhd, misleading information to the SC contained in a list titled "GP Ocean Food Bhd Group Top Ten Customers".  This information was required to be submitted to the SC in connection with GP Ocean's proposal for listing on the Main Board of Bursa Malaysia Securities Bhd.	Tan was charged on 18 April 2007.
		GP Ocean Food Bhd	GP Ocean misleading information to the SC:  – in its "Directors' Report and Financial Statements 31 January 2006"; and  – in a list titled "GP Ocean Food Bhd Group Top Ten Customers", submitted through Alliance Merchant Bank Bhd.  The information was required to be submitted to the SC in connection with GP Ocean's proposal for listing on the Main Board of Bursa Malaysia Securities Bhd.	GP Ocean was charged on 8 May 2007.

Table 2 (Con't)

**Criminal Prosecution Initiated in 2007**

No.	Nature of Offence	Offender(s)	Facts of Case	Date Charged
	Directors and listed entity who submitted inflated revenue to Bursa as part of a listing proposal.	Dato' Lim Kim Ming	<p>Lim was deemed to have committed an offence as he was a Director of GP Ocean when it submitted through Alliance Merchant Bank Bhd, misleading information to the SC contained in:</p> <ul style="list-style-type: none"> <li>Gropoint Fisheries Sdn.Bhd's "Directors' Report and Audited Financial Statements 31 January 2006"; and</li> <li>Gropoint Seafood Industries Sdn Bhd's "Directors' Report and Audited Financial Statements 31 January 2006".</li> </ul> <p>Gropoint Fisheries Sdn Bhd and Gropoint Seafood Industries Sdn Bhd were subsidiaries of GP Ocean.</p> <p>The information was required to be submitted to the SC in connection with GP Ocean's proposal for listing on the Main Board of Bursa Malaysia Securities Bhd.</p>	Lim was charged on 22 May 2007.
		Lim Kim Hai	<p>Lim was deemed to have committed an offence as he was a Director of GP Ocean when it submitted through Alliance Merchant Bank Bhd, misleading information to the SC contained in GP Ocean's "Directors' Report and Financial Statements 31 January 2006".</p> <p>This information was required to be submitted to the SC in connection with GP Ocean's proposal for listing on the Main Board of Bursa Malaysia Securities Bhd.</p>	Lim was charged on 22 May 2007.
3.	Persons who submitted inflated revenue to the SC.	Dato' Chee Kok Wing	<p>Chee was charged for committing an offence by causing the issuance of Prospectus of NasionCom Holdings Bhd (NHB) which contained misleading information, namely top ten customers of NHB for the financial period ended 31 July 2004.</p> <p>This information was required to be submitted to the SC in connection with NHB's proposal for listing on the MESDAQ Market of Bursa Malaysia Securities Bhd.</p> <p>Chee was deemed to have committed an offence as he was a Director of NHB when NHB submitted false information to the SC contained in its 2005 annual report.</p>	Chee was charged on 28 May 2007.

Table 2 (Con't)

## Criminal Prosecution Initiated in 2007

No.	Nature of Offence	Offender(s)	Facts of Case	Date Charged
			Chee was also charged for an offence under the <i>Companies Act 1965</i> for authorising the making of false statements in documents used in the preparation of financial statement contained in the 2005 annual report.	
	Persons who submitted inflated revenue to the SC.	Shamsul Khalid Ismail	Shamsul was deemed to have committed an offence as he was a Director of NHB when NHB submitted false information to the SC contained in its 2005 annual report.	Shamsul was charged on 28 May 2007.
		Mah Soon Chai	Mah was charged for committing an offence by abetting NHB in submitting false information to the SC. The false information was contained in NHB's 2005 annual report.	Mah was charged on 28 May 2007.
		Robin Tan Teck Hong	Robin was charged under the <i>Companies Act 1965</i> for abetting Chee who had authorised the making of false statements in documents used in the preparation of the financial statement contained in the 2005 annual report. The charge was preferred in collaboration with SSM as a joint prosecution.	Robin was charged on 29 May 2007.
4.	Directors who submitted inflated revenue to Bursa.	Gan Boon Aun Lo Chok Ping Khiudin Mohd	Gan, Lo, and Khiudin were charged for abetting Transmile Group Bhd (TGB) in making a statement that was misleading in TGB's "Quarterly Report on Unaudited Consolidated Results for the Financial Year Ended 31 December 2006".  At the material time, Gan was the Chief Executive Officer (CEO) of TGB. While Lo and Khiudin were the Chief Financial Officer (CFO) and Executive Director (ED) of TGB respectively.	Gan, Lo, and Khiudin were charged on 12 July 2007.
5.	Directors who submitted inflated revenue to Bursa.	Chin Keem Feung Shukri Sheikh Abdul Tawab	Chin and Shukri, the former Independent Non-executive Director of TGB and also former members of Audit Committee of TGB, had knowingly authorised the furnishing of misleading statements to Bursa Malaysia. The misleading statement was in relation to TGB's revenue and contained in TGB's "Quarterly Report on Unaudited Consolidated Results for the Financial Year Ended 31 December 2006".  The charges alleged that both Chin and Shukri were aware that the statement on TGB's revenue was misleading when they authorised it for submission to Bursa Malaysia on 15 February 2007.	Chin and Shukri were charged on 14 November 2007.

Table 2 (Con't)

**Criminal Prosecution Initiated in 2007**

No.	Nature of Offence	Offender(s)	Facts of Case	Date Charged
6.	Directors who submitted inflated revenue to Bursa.	Kenneth Kok Hen Sen @ Kok Liew Sen  Dato' Dr Hj Mohd Adam Che Harun	Kok Hen Sen, the former Financial Controller of Megan Media Holdings Bhd (MMHB), had abetted MMHB, with intent to deceive, and furnished false statements to Bursa Malaysia. The false statements were in relation to MMHB's financial statement for the year ended 30 April 2006 and "Quarterly Report on Consolidated Results for the Financial Period Ended 31 July 2006, 31 October 2006, and 31 January 2007" respectively.  Mohd Adam Che Harun, Executive Chairman and Director of MMHB, was deemed to have committed the offence when MMHB, with intent to deceive, furnished false statement to Bursa Malaysia. The false statement was for MMHB's "Quarterly Report on Consolidated Results for the Financial Period Ended 31 January 2007".	Kok and Mohd Adam were charged on 10 December 2007.

Table 3

## Outcome of Criminal Prosecution – Persons Convicted and Fined

No.	Nature of Offence	Offender(s)	Facts of Case	Punishment
1.	Person who furnished false report to KLSE (now Bursa Malaysia).	Soh Chee Wen	<p>Soh abetted Tiah Thee Kian in furnishing false reports to the KLSE in respect of off-market transactions of Omega Holdings Bhd shares (OHB) and OHB-A shares.</p> <p>The false reports related to the reporting of the OHB shares transaction by TA Securities Sdn Bhd that:</p> <ul style="list-style-type: none"> <li>• 4,310,000 OHB shares were transacted at RM11.60 per share when in fact it was at RM6.45 per share; and</li> <li>• 5,236,000 OHB-A shares were transacted at RM9.55 per share when in fact it was at RM6.45 per share.</li> </ul> <p>In sentencing, Soh also admitted to the offence of using a scheme to defraud Omega Securities Sdn Bhd for the purposes of section 171A of the <i>Criminal Procedure Code</i>.</p>	Soh pleaded guilty and was convicted of both offences and fined RM3 million (in default 30 months imprisonment) for each offence.
2.	Fraud involving IPO share applications.	Lee Han Kong Tan Tiam Lay	<p>Lee and Tan engaged in an act which operated as a fraud upon UPA Corporation Bhd (UPA), namely, by switching successfully balloted envelopes of UPA share applications with envelopes that were not put through the balloting process.</p> <p>On 27 July 2004, alternative charges were preferred against Lee and Tan for cheating UPA by deceiving UPA into believing certain applications for the initial public offering of the UPA shares had been successfully balloted when in fact the applications were not balloted. UPA was dishonestly induced to allot the shares to those applicants.</p>	<p>Lee and Tan were both charged on 20 March 2000.</p> <p>Lee and Tan pleaded guilty to the alternative charge of cheating and were convicted on 5 May 2005. They were sentenced to 20 months imprisonment by the Sessions Court. Lee and Tan appealed against the sentence imposed.</p> <p>On 20 April 2007, the High Court allowed Lee and Tan's appeal on the sentence. The imprisonment sentence imposed by the Sessions Court was set aside. Lee and Tan were both ordered by the High Court to pay a fine of RM30,000 each, in default 12 months imprisonment.</p>
3.	Directors who cheat investors by operating an illegal futures market.	Foong Seng Meng Ahmad Wajdi Lee Abdullah	Foong and Ahmad Wajdi operated an illegal futures market at a company called Delta Matrix Sdn Bhd.	Foong and Ahmad Wajdi were convicted of the offence and each fined RM300,000 (in default 24 months imprisonment) for the offence.

Table 4  
Outcome of Criminal Prosecution – Accused Called to Enter Defence

No.	Nature of Offence	Offender(s)	Facts of Case	Punishment
1.	Director who permitted the furnishing of false statement to Bursa.	Peter Ling Ee Kong	<p>Peter Ling, a director of Wembley Industries Holdings Bhd (WIHB), knowingly and wilfully permitted the furnishing of a false statement to the KLSE in relation to WIHB's affairs.</p> <p>The false statement was contained in WIHB's announcement to KLSE dated 25 February 1998 which stated that none of the directors or substantial shareholders of WIHB had any interest, direct and/or indirect, in the disposal of its subsidiaries when in fact he had an indirect interest in it.</p>	<p>Peter Ling was charged on 31 October 2003.</p> <p>On 27 November 2006, the Court ruled that the Prosecution had proven a <i>prima facie</i> case against Peter Ling and he was called to enter his defence.</p>
2.	Fund manager's representative who misled his client by omitting a material fact in the statement of account issued to the client.	Wahid Ali Kassim Ali	<p>Wahid Ali, a Director of Aiwanna Manage Assets Sdn Bhd (a former licensed fund manager) at the material time, was preferred with three charges under section 87A (c) SIA 1983 for omitting to state a material fact pertaining to the investment of Aiwanna's client, Eastern Pacific Industrial Corporation Bhd (EPIC).</p> <p>The material fact omitted had caused the statement of accounts issued to EPIC for the month of December 2001, January 2002, and February 2002, to be misleading.</p>	<p>Wahid was charged on 19 October 2005.</p> <p>On 12 November 2007, the Court ruled that the Prosecution had proven a <i>prima facie</i> case against Wahid Ali and he was called to enter his defence.</p>
3.	Persons who cheat investors by operating an illegal futures market.	Jomi @ Umi Kamandan  Kong Kim Fung  Henny O Borubui  Emorevest Sdn Bhd	<p>Jomi, Kong, Henny and Emorevest operated an illegal futures market at the premises of Emorevest Sdn Bhd.</p>	<p>Jomi, Kong and Henny were charged on 12 December 2002. Emorevest was charged on 19 December 2002.</p> <p>The three accused persons and defendant company were acquitted and discharged by the Sessions Court on 11 May 2006 at the end of the Prosecution's case.</p> <p>On 29 November 2007, the High Court allowed the appeal by Prosecution and the case was reverted back to the Sessions Court for defence.</p>
4.	Illegal fund manager's representative.	Siti Mariam Berahim Dr Barjoyai Bardai	<p>Siti Mariam was not licensed to carry out the activities of a fund manager's representative for Perdana Ventures Sdn Bhd (PTV).</p> <p>As a Director of PTV, Dr Barjoyai allowed Siti Mariam and one other licensed person to act as PTV's fund manager's representative.</p>	<p>The accused persons were charged on 27 September 2002.</p> <p>On 16 February 2007, the Court ruled that Prosecution had proven a <i>prima facie</i> case against both accused persons and called on them to enter their defences.</p>

Table 5

**Outcome of Criminal Prosecution – Persons Acquitted**

No.	Nature of Offence	Offender(s)	Facts of Case	Punishment
1.	Persons who defrauded a stockbroking company.	Ng Wu Hong	<p>Ng, the CEO of Sarawak Securities Sdn Bhd (SSSB), was charged for using a scheme to defraud SSSB by increasing the margin equity in the margin accounts in SSSB by creating false collaterals using 'phantom shares'.</p> <p>The false collaterals had caused SSSB to suffer an exposure of RM36.4 million.</p>	<p>Ng was convicted and sentenced to two years imprisonment by the Sessions Court.</p> <p>On appeal to the High Court the conviction was overturned and Ng was acquitted and discharged.</p> <p>The Public Prosecutor filed a notice of appeal to the Court of Appeal against the decision of the High Court.</p>
		Kho Cheng Wei	<p>Kho, a margin clerk with SSSB, was charged for engaging in an act which operated as a fraud on SSSB by increasing the margin equity in the margin accounts in SSSB by creating false collaterals using 'phantom shares'.</p> <p>Kho was also charged for making false entries into the records of SSSB.</p>	<p>Kho was convicted and sentenced to eight months imprisonment by the Sessions Court.</p> <p>On appeal to the High Court the conviction was overturned and Kho was acquitted and discharged.</p> <p>The Public Prosecutor filed a notice of appeal to the Court of Appeal against the decision of the High Court.</p>
		Lee Sai Lan	<p>Lee, a margin clerk with SSSB, was charged for engaging in an act which operated as a fraud upon SSSB by increasing the margin equity in the margin accounts in SSSB by creating false collaterals using 'phantom shares'.</p> <p>Lee was also charged for making false entries into the records of SSSB.</p>	<p>Lee was acquitted and discharged by the Sessions Court.</p> <p>On appeal the High Court upheld the acquittal.</p> <p>The Public Prosecutor filed a notice of appeal to the Court of Appeal against the decision of the High Court.</p>

Table 6  
Civil Actions Taken

No.	Offence	Plaintiff(s)	Facts of case
1.	Unlicensed Internet investment advisers and fund managers who defrauded investors.	Albert Lee Kee Sien Kelvin Choo Mun Hoe Amir Hassan Dynamic Revolution Sdn Bhd SMF International Ltd SMF (1948) International Ltd Swiss Mutual Fund SA	On 21 June 2007, the SC filed a civil suit seeking orders restraining the defendants from acting and/or holding out as fund managers and investment advisers (breach of sections 14 & 15A SIA) and declarations that the defendants' assets be restored to the investors.  In the interim, the following orders were obtained: <ul style="list-style-type: none"> <li>• International mareva orders freezing the assets of the defendants in Malaysia and overseas to preserve the assets until final determination by the court.</li> <li>• Order directing one of the defendants, Amir Hassan to transfer RM35 million in accounts overseas back to Malaysia.</li> </ul>
2.	Disposal of company assets without shareholders' approval and failure to announce such disposal on Bursa.	Ayer Molek Rubber Company Bhd Ropizah Ambri & Co.	On 6 September 2007, the SC obtained an injunction to prevent Ayer Molek Rubber Company Bhd and its solicitors Messrs. Ropizah Ambri & Co from disposing of or dealing with or dissipating any of its assets in or outside Malaysia up to the value of RM20 million, which represents the company's sale proceeds of several pieces of land in 2006 and 2007.
3.	Director who used public funds for his personal use.	Kenneth Vun @ Vun Yun Liun	On 26 September 2007, the SC filed a civil suit against Kenneth Vun @ Vun Yun Liun (Kenneth Vun), Managing Director and a shareholder of FTEC Resources Bhd (FRB) to compel him to retribute RM2.496 million to the company. The sum represented part of proceeds raised by FRB in an initial public offering in 2003.
4.	Licensed person and company who used clients' monies for unapproved investments	Powerhouse Asset Management Sdn Bhd Tan Kok Kheng	Powerhouse was a licensed fund manager and Tan Kok Kheng was a licensed fund manager's representative and former Executive Director of Powerhouse who had breached their respective licensing condition when they solicited investments in gold structured products. In the civil action, the SC sought restitution of RM1.925 million as shortfall of investments to be returned to investors.

Table 7

**Compounds Offered**

No.	Nature of Offence	Offender(s)	Facts of Case	Compound Offered
1.	Trading in futures contracts without a licence.	Bay Put Hai	Bay abetted Reinn Holdings Sdn. Bhd which had traded in futures contracts on another person's behalf without a futures broker's licence.	Bay was compounded RM250,000 for the offence.
2.	Knowingly permitted the making of false statement to Bursa.	Kuan Pek Seng	<p>Kuan had knowingly permitted the making of a false statement to the KLSE (now known as Bursa Malaysia) with regards to Chin Foh Bhd's (CFB) turnover and profit as reported in CFB's Audited Consolidated Results for the Financial Year Ended 31 January 2000, that is contained in CFB's Annual Report dated 28 April 2000.</p> <p>At the material time, Kuan Pek Seng was the Group Managing Director of CFB.</p>	Kuan was compounded RM1 million for the offence.
	Abet in the making of a false statement to Bursa.	Lim Chin Tong	<p>Lim Chin Tong had abetted Kuan Pek Seng in the making of false statement to the KLSE (now Bursa Malaysia) with regards to CFB's turnover and profit as reported in CFB's Audited Consolidated Results for the Financial Year Ended 31 January 2000, which was contained in CFB's annual report dated 28 April 2000.</p> <p>At the material time, Lim Chin Tong was the Executive Director of CFB.</p>	Lim was compounded RM300,000 for the offence.

Table 8  
Directive Issued

No.	Nature of Offence	Offender(s)	Facts of Case	Date
1.	Directive to reissue 2005 financial statements.	NasionCom Holdings Bhd	NasionCom furnished the SC false statements by inflating its revenue for financial year ended 31 December 2005 which contained a total of RM143,109,727 sales that were not transacted. These sales were recorded in the financial statements of two NHB subsidiaries, namely NasionCom Sdn Bhd and Express Top-up Sdn Bhd.	The Directive was issued on 15 February 2007.  NasionCom challenged this Directive and is the subject matter of judicial review proceedings in the High Court.
2.	Directive to reissue various financial statements.	Welli Multi Corporation Bhd (Welli)	Welli furnished the SC false statements by inflating its revenue for: <ul style="list-style-type: none"> <li>• Financial year ended 31 December 2005 (RM141,272,866);</li> <li>• Quarter ended 31 March 2006;</li> <li>• Quarter ended 30 June 2006 (RM45,076,031); and</li> <li>• Quarter ended 30 September 2006 (RM86,791,804).</li> </ul>	The Directive was issued on 27 November 2007.
3.	Directive to reissue 2006 and 2007 financial statements.	Talam Corporation Bhd (Talam)	The SC directed Talam to reinstate the RM90 million debtors, and reissue its 2006 and 2007 financial statements to comply with the approved accounting standards. Talam's breach involved the adjustments of various transactions in its financial statements for the year ended 31 January 2006 despite Talam's auditors, Ernst & Young's inability "to obtain sufficient appropriate audit evidence" to satisfy themselves of the adjustments.  The adjustments had the effect of reclassifying RM90 million of its debtors into property development costs, other liabilities and retained profits brought forward.	The Directive was issued on 3 October 2007 and it has been complied with.

## PUBLICATIONS ISSUED IN 2007

### GUIDELINES AND CODES

*Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries*  
(Date revised: 11 January 2007)

*Guidelines on the Offering of Structured Products*  
(Date revised: 27 April 2007)

*Guidelines for the Offering, Marketing and Distribution of Foreign Funds*  
(Date issued: 1 July 2007)

*Licensing Handbook*  
(Date issued: 28 September 2007)

*Guidelines on Regulation of Markets*  
(Date issued: 28 September 2007)

*Malaysian Code on Corporate Governance*  
(Date issued: 1 October 2007)

*Guidelines on Islamic Fund Management*  
(Date issued: 3 December 2007)

### BOOKS, REPORTS AND CONSULTATION PAPERS

*Securities Commission Annual Report 2006*  
(Date issued: 8 March 2007)

*Laporan Tahunan 2006 Suruhanjaya Sekuriti*  
(Date issued: 8 March 2007)

*Capital Markets and Services Act 2007*  
(Date issued: 28 September 2007)

*Capital Markets and Services Regulations 2007*  
(Date issued: 28 September 2007)

### BOOKLETS, BULLETINS AND PAMPHLETS

#### Booklets

*Securities Commission: An Introduction*  
(Date issued: March 2007)

*List of Shariah-compliant Securities by the Shariah Advisory Council of the Securities Commission/Senarai Sekuriti Patuh Syariah oleh Majlis Penasihat Syariah Suruhanjaya Sekuriti*  
(Date issued: 25 May 2007 and 30 November 2007)

#### Bulletins

*Malaysian ICM*  
(Date issued: March, June, September and December 2007)

#### Pamphlets

*Questions That Every Unit Trust Investor Must Ask*  
(Date issued: January 2007)

*Malaysia: Global Islamic Capital Market Hub*  
(Date revised: March 2007)

*Developments in the Malaysian Islamic Capital Market*  
(Date revised: March 2007)

*Islamic Capital Market on Bursa Malaysia and Labuan  
International Financial Exchange*  
(Date revised: March 2007)

*Shariah-based Unit Trust Funds*  
(Date revised: March 2007)

*Islamic REITs*  
(Date revised: March 2007)

*Awat Berhati-hati*  
(Date issued: August 2007)

## **SECURITIES COMMISSION WEBSITES**

[www.sc.com.my](http://www.sc.com.my)

[www.min.com.my](http://www.min.com.my)

## CALENDAR OF EVENTS

JANUARY	
12	<p>The SC and World Bank co-hosted the launch of the <i>World Bank Report on the Observance of Standards and Codes on Corporate Governance</i> by Minister of Finance II, Tan Sri Nor Mohamed Yakcop in Kuala Lumpur.</p> <p>In the report, the World Bank gave Malaysia top marks for disclosure and transparency of accounting standards on the country's observance of standards and codes for corporate governance.</p>
23	A delegation from Bapepam-LK and Bank Indonesia visited the SC and participated in the Financial Sector Knowledge Sharing Programme.
30	The SC Chairman officiated and launched the Financial Reporting Standards Implementation Committee (FRSIC) in Kuala Lumpur.
FEBRUARY	
7	The SC charged Dato' Ng Kim Weng for submitting false information in Polymate Holdings Bhd's 2003 annual report to Bursa Malaysia.
7	A delegation from the Capital Markets Authority of Kenya visited the SC.
12	The SC Chairman delivered a keynote address at the The Edge-Lipper Malaysia Fund Awards 2007 in Kuala Lumpur.
15	The SC publicly reprimanded NasionCom Holdings Bhd and directed the company to rectify and reissue its financial statements for the financial year ended 31 December 2005.
26	The SC froze two Malaysian bank accounts amounting to RM1.6 million, closed two websites and questioned several individuals believed to be connected to a global Internet investment scam run by Cambridge Capital Trading.
27	The SC Chairman hosted and chaired the 6th ASEAN Capital Markets Forum in Kuala Lumpur.
27	The SC signed an MoU on mutual assistance and co-operation with the State Securities Commission of Vietnam.

MARCH	
6	The SC and Citigroup organised the Global Shariah Dialogue themed “Recent Trends in the Sukuk Market” in Kuala Lumpur to foster greater interaction and collaboration among worldwide Shariah scholars and market professionals in addressing important Shariah issues faced by the Islamic financial services industry.
6–9	A delegation from the Hong Kong Securities and Futures Commission visited the SC.
8	The SC released its <i>Annual Report 2006</i> .
20	The SC announced that approvals for exemptions from having to undertake mandatory offers will take one working day instead of 21 working days previously.
21	The SC Chairman delivered a keynote address, entitled “The Malaysian Islamic Capital Market – Roadmap and Strategies Going Forward” at Invest Malaysia 2007 organised by Bursa Malaysia in Kuala Lumpur.
26–29	The SC Chairman chaired a panel session at the Global Islamic Forum (GIFF 2007) in conjunction with the Islamic Financial Services Board Annual General Meeting held in Kuala Lumpur.
27	The SC and BNM released a joint information note on the facilitative regulatory framework for the issuance of foreign currency-denominated bonds and <i>sukuk</i> in Malaysia.
27	The SC Senior Executive Director chaired the 4th International Seminar on Challenges Facing the Islamic Financial Services Industry organised by the Islamic Financial Services Board (IFSB) in Kuala Lumpur.
27	The SC and the Dubai Financial Services Authority (DFSA) entered into a mutual recognition agreement which enables the cross-border marketing and distribution of Islamic funds with minimal regulatory intervention.
APRIL	
9–12	The SC participated in the 32nd Annual Conference of the IOSCO in Mumbai, India.
11	The SC was accepted as a signatory to the IOSCO Multilateral Memorandum of Understanding (MMoU) on information sharing and enforcement of securities laws.
18	The SC charged Tan Siok Wan and Lee Sin Teck for falsifying information in GP Ocean listing proposal.
19	The SC organised and hosted the 3rd IOSCO Asia Pacific Regional Committee (APRC) Seminar on the IOSCO MMoU.
20–29	The SIDC participated in the Minggu Saham Amanah Malaysia 2007 (MSAM 2007) exhibition organised by Permodalan Nasional Bhd in Kuantan.
MAY	
4	The MVCDC held the inaugural Venture Capital Roundtable to tap industry views on ways to boost the country’s venture capital industry.

MAY	
6	The SC Chairman and senior management hosted a briefing for members of Barisan Nasional Backbenchers Club (BBC) in Kuala Lumpur.
9–13	The SC participated in the Malaysia International Halal Showcase (MIHAS 2007) at the Kuala Lumpur Convention Centre.
14	Soh Chee Wen pleaded guilty to two alternative charges for abetting Tiah Thee Kian in submitting false information to the KLSE (now known as Bursa Malaysia).
15	The SC Chairman delivered a presentation, entitled “The Relevance of a Cross-sectoral Approach to the Supervision of Islamic Financial Services: Recent Experience and Prospects” at the 4th Islamic Financial Board Summit organised by the IFSB in Dubai.
19	The SC hosted the IOSCO-IFSB Seminar on Regulatory Issues in Islamic Capital Markets.
19	The SC signed a MoU for co-operation with the Securities and Exchange Organisation of Iran.
21	The SC Senior Executive Director delivered a special address at the launch of the FTSE Bursa Malaysia Hijrah Index at Bursa Malaysia.
22	The SC charged two more directors of GP Ocean, Dato’ Lim Kim Ming and Lim Kim Hai, for submitting misleading information in GP Ocean listing proposal.
24	The SC, in collaboration with INCEIF, organised the 2nd INCEIF Intellectual Discourse Series with the theme of “Islamic Finance, Venture Capital and the Growth of New Industries”. The SC Chairman delivered the keynote address, entitled "Islamic Finance, Venture Capital and the Growth of New Industries" while the SC Senior Executive Director participated as a panel commentator for the discussion session.
24	The SC released an updated list of Shariah-compliant securities by the SAC which took effect from 25 May 2007.
28	Representatives from the Capital Markets Authority (CMA) Saudi Arabia visited the SC.
28	The SC charged Dato’ Chee Kok Wing, Shamsul Khalid Ismail and Mah Soon Chai for submitting false information in NasionCom Holdings Bhd’s (NasionCom) financial statements for the year ended 31 December 2005 and NasionCom’s prospectus for listing on the MESDAQ Market.
30	The Lord Mayor of London, Alderman John Stuttard, British High Commissioner, His Excellency Boyd McCleary, and four other high ranking British officials visited the SC.
31	The SC announced that it will block access to websites offering illegal investment schemes to the Malaysian public, starting from 11 June 2007.
JUNE	
7	A delegation from Kazakhstan representing the Regional Financial Centre of Almaty (RFCA) visited the SC.

JUNE	
11	The SC and BNM investigated AB Fund for illegal Internet investment activities.
12	The SC Senior Executive Director delivered the keynote address at the 6th International Conference on Corporate Social Responsibility.
12	The SC in collaboration with the Malaysian Communications and Multimedia Commission (MCMC) and CyberSecurity Malaysia blocked access to six websites offering illegal investment schemes to the Malaysian public.
20	The SC Chairman delivered a keynote address, entitled "Future Direction of the Legal and Regulatory Framework for Malaysia's Capital Markets" at the Malaysia Investment Banking Association (MIBA) Regional Capital Market Conference 2007.
21	The SC obtained a worldwide Mareva injunction against persons involved in the Swisscash Internet investment scheme, preventing them from disposing their assets in and outside of Malaysia.
25	A delegation from the Sarajevo Stock Exchange (SASE) visited the SC.
25	The SC was notified by Hextar Holdings Bhd of the company's withdrawal of its proposed listing on the Second Board of Bursa Malaysia. The SC will closely monitor the process to ensure timely and orderly reimbursement of application monies to all applicants.
26	The SC held a dialogue with the council members of the MIA to discuss issues and challenges facing the capital market.
29	The SC announced the release of the <i>Guidelines for the Offering, Marketing and Distribution of Foreign Funds</i> which took effect from 1 July 2007 to facilitate the offering, marketing and distribution of foreign funds directly into Malaysia.
JULY	
12	The SC preferred criminal charges against Gan Boon Aun, Lo Chok Ping and Khiudin Mohd for abetting Transmile Group Bhd (TGB) in making a misleading statement on TGB's revenue in the quarterly report on unaudited consolidated results for the financial year ended 31 December 2006.
16	The SC Senior Executive Director delivered the keynote address, entitled "The Capital Market Master Plan Final Phase Roll Out – Update on Progress" at the MAICSA Annual Conference 2007 in Kuala Lumpur.
19	The SC hosted the APRC Mutual Recognition (MR) of Collective Investment Scheme (CIS) meeting which was attended by 14 representatives from Hong Kong, Indonesia, Japan, Singapore and Thailand.
20	The SC Chairman chaired the meeting of the Committee for International Communication for the Capital Market (ICCM).
27	The SC Chairman delivered a speech on "The Way Forward: Strengthening Domestic Capital Markets from a Regional Integration Perspective" at the ADB Conference in Bangkok, Thailand.
30	The SC Chairman delivered a keynote address at the SIDC-ITI launch.

AUGUST	
1	A delegation from the Securities & Exchange Commission of Sri Lanka led by its Chairman, Dr Gamini Wickramasinghe, visited the SC.
3–5	The SC Chairman spoke on “Corporate Governance and Transparency” at the First Annual Malaysian Student Leaders Summit organised by the United Kingdom and Eire Council for Malaysian Students (UKEC) in Kuala Lumpur.
13–14	The SC Senior Executive Director delivered the keynote address at the MIF 2007: Issuers and Investors Forum organised by the Malaysian Islamic Finance in Kuala Lumpur.
14	The SC Senior Executive Director delivered a keynote address at the MIF 2007 – Issuers and Investors Forum.
16	The SC chaired the 7th ASEAN Capital Markets Forum (ACMF) meeting in Manila, Philippines.
21	A delegation under the Egypt Financial Services Project visited the SC.
23	The SC Chairman delivered a keynote address on “Raising the Bar” at the UNDP-SC CSR Workshop and Conference organised by the SIDC.
30	The SC Chairman delivered a speech, entitled “Enabling Islamic Economic Environment – Malaysian Capital Market Growth” at the INCEIF Global Forum 2007 in Kuala Lumpur.
SEPTEMBER	
6	In an action to protect investors, the SC obtains injunction to safeguard RM20 million of the Ayer Molek Rubber Company Bhd’s monies.
6	The SC Senior Executive Director presented a paper on “ <i>Urus Tadbir Korporat dan Etika Perniagaan</i> ” at the Konvensyen Integriti Nasional organised by the Institute of Integrity Malaysia (IIM) at Putrajaya.
10	A delegation, comprising six Vietnamese Ministry of Finance officials and one State Securities Commission of Vietnam official, visited the SC.
27	A delegation from the State Securities Commission of Vietnam visited the SC.
27	The SC announced the release of the CMSA, which came into force on 28 September 2007, to strengthen the capital market regulatory framework, improve business efficacy and further enhance investor protection.
27	The SC achieved a breakthrough in its civil enforcement case against the Swisscash Internet investment scheme when it secured a Court Order to direct one of the defendants, Amir Hassan, to transfer back to Malaysia RM35 million Swisscash monies held in bank accounts overseas.
OCTOBER	
1	The SC released a revised <i>Malaysian Code on Corporate Governance</i> to further strengthen Malaysia’s corporate governance framework, aligning it with current globally-accepted best practices.

OCTOBER	
1	The SC filed a landmark civil suit against FTEC Resources Bhd (FRB) Managing Director and shareholder, Kenneth Vun @ Vun Yun Liun, compelling him to restitute RM2.5 million to the company. The sum represents part of proceeds raised by FRB in an IPO in 2003.
3	The SC directed Talam Corporation Bhd to reissue its 2006 and 2007 financial statements by 31 October 2007.
10	The SC established a <i>prima facie</i> case for manipulating Actacorp Holdings Bhd warrants against Mohd Raffique Ibrahim Sahib and Ariffin Abdul Majid.
18	The SC Chairman delivered the Luncheon keynote address, entitled “Looking Ahead – Key Trends in Islamic Finance” at the Islamic Capital Finance Conference in Washington DC, organised by the American Malaysian Chamber of Commerce.
NOVEMBER	
5	Six representatives from the State Securities Commission, Vietnam, visited the SC.
7	The SC held its Hari Raya Open House for its stakeholders and a Hari Raya luncheon for all SC staff on the same day.
7	The SC filed a civil suit against Powerhouse Asset Management Sdn Bhd and its executive director cum shareholder, Tan Kok Kheng, a Singaporean, compelling them to restitute RM1.93 million to 75 investors.
13	The SC emerged as the “Best Regulator for Islamic Funds” at the inaugural Master of Islamic Funds Awards held in Dubai. The win acknowledges the SC’s pioneering efforts and leadership role in the development and promotion of a comprehensive ICM.
13	The SC Chairman delivered a keynote address, entitled “Powering the Malaysian Market to New Heights” at the Malaysian Capital Market Summit.
14	The SC charged two former Directors of Transmile Group Bhd for knowingly authorising the furnishing of misleading statements to Bursa Malaysia Securities Bhd.
15	The SC signed an MoU on mutual assistance and co-operation with the Securities and Exchange Commission of Nigeria.
20	The SC Senior Executive Director, Dato Dr Nik Ramlah Mahmood, was named the “Most Outstanding Person for Contribution to Islamic Finance” by the Kuala Lumpur Islamic Finance Forum 2007 (KLIFF) at its 4th annual KLIFF Islamic Finance Awards.
22	The SC approved the establishment of Credit Agricole Asset Management as a foreign fund management company under the special scheme.
28	The SC Chairman delivered a presentation on “Recent Developments in Securities Supervision” at the IOSCO APCR and Roundtable meetings in Seoul, Korea.

NOVEMBER	
<b>30</b>	The SC released an updated list of Shariah-compliant securities by the SAC which took effect from 1 December 2007.
DECEMBER	
<b>4-6</b>	The SC Chairman presented a paper on “Enforcement Challenges in Emerging Markets” at the IOSCO Emerging Markets Committee meeting in Dubai.
<b>6</b>	The SC announced that it will kick start a computer-based examination (CBE) system for SC licensing examinations in January 2008. Implemented by the SIDC, the CBE system will increase the number of times licensing examinations are offered in a year and results will be processed more quickly.
<b>10</b>	The SC preferred criminal charges against two individuals – Kenneth Kok Hen Sen @ Kok Liew Sen, Megan Media Holdings Bhd’s (MMHB) former financial controller, and Dato Dr Hj Mohd Adam Che Harun, MMHB’s executive chairman and director – for making false statements on MMHB’s revenue figures to Bursa Malaysia.
<b>11</b>	Two representatives from the Korean Ministry of Finance and Economy visited the SC.
<b>12</b>	The SC Chairman delivered a keynote address at the Bursa Malaysia “Your Preferred Listing Destination” IPO Conference in Kuala Lumpur.
<b>14</b>	The Minister of Finance, Laos visited the SC.
<b>31</b>	The SC announced that the new stockbroking commission rate structure was to take effect on 1 January 2008. This initiative is part of a phased approach towards a more deregulated, competitive, and vibrant stock market environment.

## ACRONYMS AND ABBREVIATIONS

ABS	Asset-backed debt securities
ABS Guidelines	<i>Guidelines on the Offering of Asset-backed Debt Securities</i>
ADB	Asian Development Bank
AMLA	<i>Anti-Money Laundering Act 2001</i>
APEC	Asia-Pacific Economic Co-operation
APRC	Asia Pacific Regional Committee
ASCM	Association of Stockbroking Companies Malaysia
ASEAN	Association of South-East Asian Nations
BDREF	Bumiputera Dealer Representatives Education Fund
BNM	Bank Negara Malaysia
Bursa Malaysia	Bursa Malaysia Bhd
CCM	Companies Commission of Malaysia
CDS	Central Depository System
CFA	Chartered financial analyst
CFP	Certified financial planner
CIS	Collective investment scheme
CMDF	Capital Market Development Fund
CMGTS	Capital Market Graduate Training Scheme
CMF	<i>Capital Market Masterplan</i>
CMSA	<i>Capital Markets and Services Act 2007</i>
CPE	Continuing Professional Education
CPO	Crude palm oil
CSR	Corporate social responsibility
DBR	Disclosure-based regulation
EMBI	Emerging Markets Bond Index
EPF	Employees Provident Fund
ESOS	Employee share option schemes
ETF	Exchange-traded fund
FAQs	Frequently-asked questions
FIA	<i>Futures Industry Act 1993</i>
FIC	Foreign Investment Committee
FLR	Front-line regulator
FMUTM	Federation of Malaysian Unit Trust Managers
FPAM	Financial Planning Association of Malaysia
FTSE	Financial Times Stock Exchange

GDP	Gross Domestic Product
GLC	Government-linked company
ICAEW	Institute of Chartered Accountants in England and Wales
ICM	Islamic capital market
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPO	Initial public offering
ISO	International Standards Organization
IT	Information technology
KLCI	Kuala Lumpur Composite Index
KLIBOR	Kuala Lumpur Interbank Offered Rate
KLSI	Kuala Lumpur Syariah Index
LOFSA	Labuan Offshore Financial Services Authority
M&A	Merger and acquisition
MAICSA	Malaysian Institute of Chartered Secretaries and Administrators
MASB	Malaysian Accounting Standards Board
MAVCAP	Malaysia Venture Capital Management Bhd
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation
MGS	Malaysian Government Securities
MIA	Malaysian Institute of Accountants
MICPA	Malaysian Institute of Certified Public Accountants
MIFC	Malaysia International Islamic Financial Centre
MoU	Memorandum of Understanding
MSCI	Morgan Stanley Capital International
MVCDC	Malaysian Venture Capital Development Council
NAV	Net asset value
OECD	Organisation for Economic Co-operation and Development
PDS	Private debt securities
PE	Price to earnings
PLC	Public-listed company
REIT	Real estate investment trust
SAC	Shariah Advisory Council
SC	Securities Commission
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
SPV	Special purpose vehicle
UB	Universal broker
UK	United Kingdom
US	United States
VCC / VCMC	Venture capital company/venture capital management company
WTO	World Trade Organisation



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