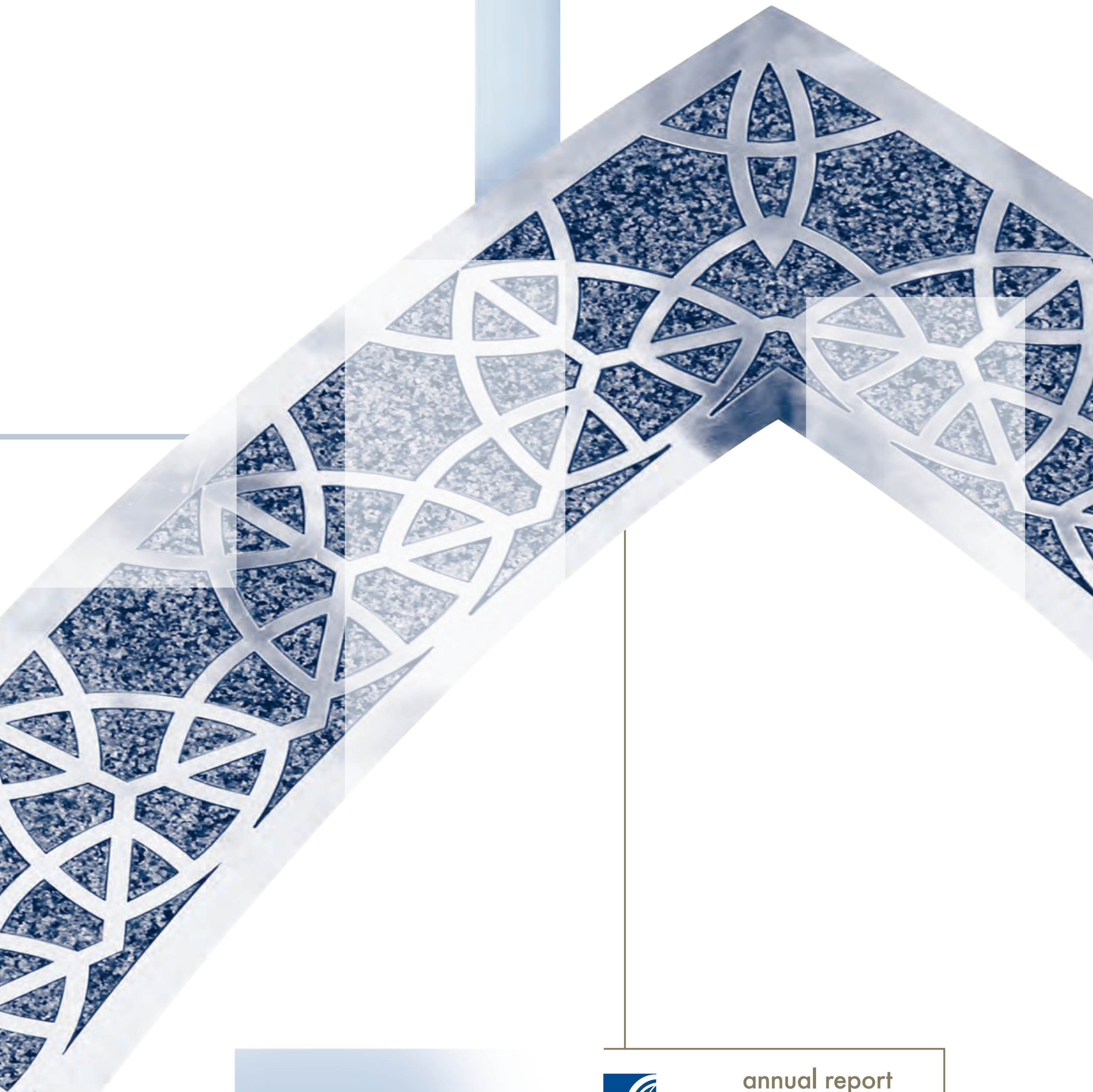


Suruhanjaya Sekuriti
Securities Commission
Malaysia

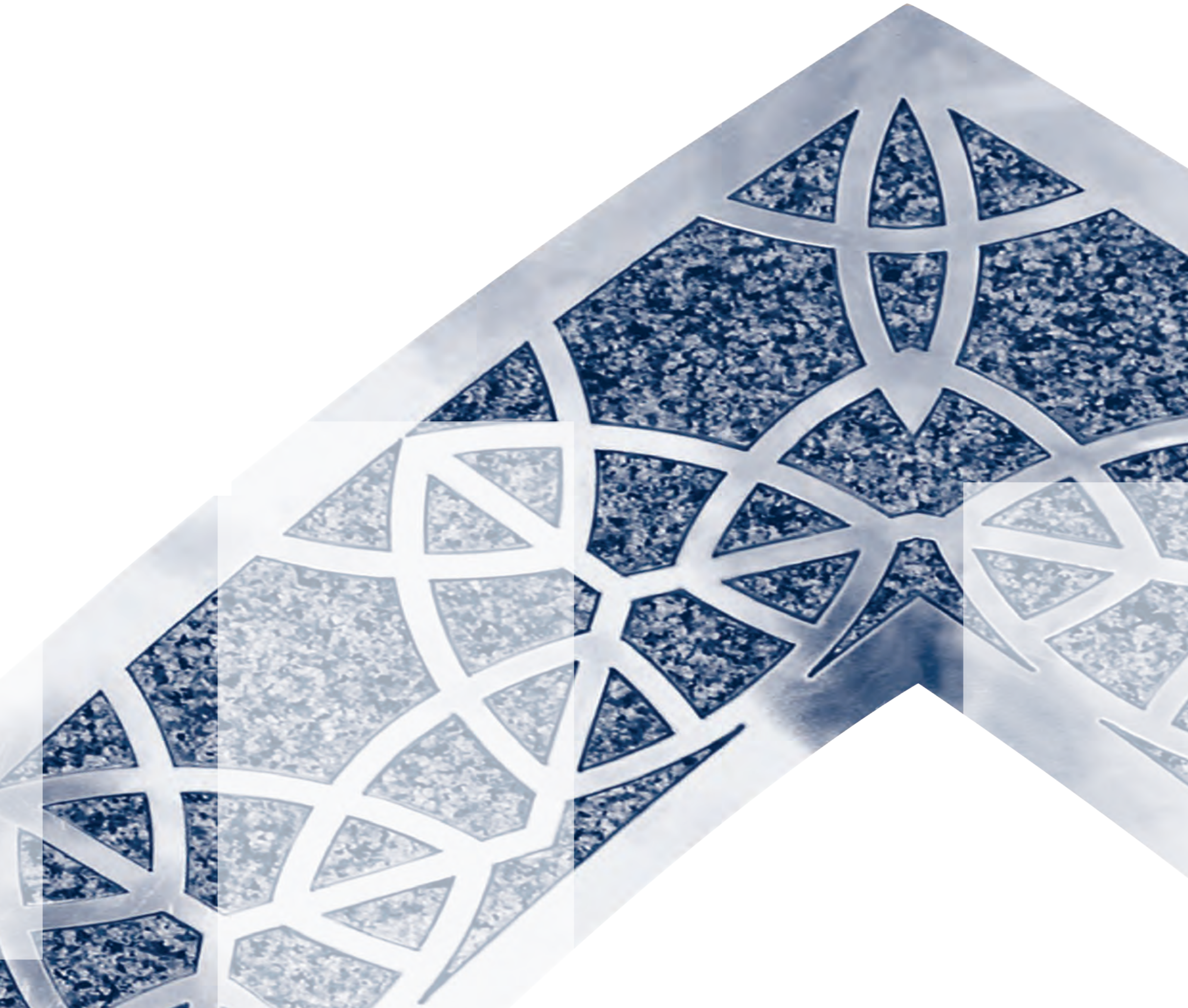
annual report 2012

20th Anniversary
1993 – 2013
Securities Commission Malaysia

Leading • Defining • Transforming

Mission Statement

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



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20 YEARS KEY MILESTONES OF THE SC

Chairman's Message

CHAIRMAN'S MESSAGE

It is my privilege to present the Securities Commission Malaysia's 20th annual report, and my first since assuming chairmanship of the SC in April 2012. For two decades, since 1 March 1993, accountability for the capital market has rested within a single specialised authority, tasked with streamlining regulation and overseeing its orderly development.

As a result, we have been able to focus appropriate attention and, more importantly, resources on growing the capital market to meet the needs of Malaysia's economy. In doing so, we have been mindful of achieving a balance between protecting investors; maintaining fair, efficient and resilient markets; and promoting the development of Malaysia's capital market.

Our efforts have culminated in a resilient domestic market that, in spite of continuing global stresses, plays a central role in financing economic growth and in mobilising the country's pool of savings. This was particularly apparent in 2012, which I am pleased to report was a record year across literally all segments of the capital market, from the primary and secondary markets, to asset management and the Islamic capital market.

Capital market performance

In the primary market, more funds were raised than in any previous year. Capital raising through the issuance of bonds and initial public offerings (IPOs) amounted to RM145.9 billion, with over four–fifths (RM123.8 billion) in the form of bond and sukuk issuances. This made the Malaysian bond market the fourth most active in Asia for corporate bond issuances, and the biggest market for sukuk issuances in the world in 2012. The bond market ended the year as the third largest in Asia relative to gross domestic product, exceeding the RM1 trillion mark for the first time, and is the world's largest sukuk market in terms of outstanding sukuk value.

2012 also was a record year for IPOs, which raised RM22.1 billion. This placed Malaysia as the fifth largest IPO market in the world for the year with the listing of, among others, the world's third largest oil palm plantation operator and the second biggest listed healthcare provider globally.

While the sheer volume of bond and equity issuances in the year was noteworthy, so too was the variety of issuers that came to tap the capital market. In the stock market, they ranged from the billion-ringgit IPOs to large-and-medium-sized listings on the Main Market, and growth companies on the ACE Market. Similarly, in the bond and sukuk market, they included the world's largest sukuk issuance, a RM30.6 billion offer by PLUS Bhd, as well as a range of conventional and Shariah-compliant issuances. Funds raised went towards financing a wide range of economic activities, including infrastructure and utilities, financial services, property development, consumer services, construction, health services and plantations.

These are important outcomes because they clearly show how steady, determined efforts in strengthening the regulatory framework and enhancing oversight of markets in Malaysia have been able to deliver effective and resilient domestic financing channels for a range of risk and maturity profiles. By the same token, this has also presented a more diverse set of investment opportunities for a range of risk and portfolio horizons. These include providing Shariah-compliant financing and investment channels for the capital market. Two of the three largest IPOs this year, namely Felda Gobal Ventures Holdings Bhd and IHH Healthcare Bhd, are both classified as compliant for the purposes of Shariah-based investing.

Malaysia's strong performance in bond and equity issuances contrasted with that of global capital raising, which recorded a mixed year amid uncertainty over world growth and other market factors. Concerns over financial turbulence in the eurozone, structural fiscal constraints in the United States and Japan, and slower growth by emerging and developing economies drove frequent and rapidly-shifting views on risks in the world's financial markets throughout the year, as demonstrated by the large fluctuations in the Chicago Board Options Exchange's VIX indicator of investor risk aversion. This was exacerbated by execution problems with certain global listings, highlighting the importance for listing authorities and advisers to keep a close eye on execution risks in capital raising exercises.

In the secondary market, equities displayed sustained growth for the year, with the bellwether Kuala Lumpur Composite Index (KLCI) ending the year on a record high of 1,688.95 on 31 December 2012. The index was up 10.3% in local currency terms and, benefitting from a strengthening ringgit, by 14.3% in US dollar terms, higher than the world average (13.1%). Smaller-cap stocks attracted interest during the course of the year, resulting in a slight decline in the average size of trades in spite of turnover being maintained at nearly 1.4 billion units a day, in line with global trends. Importantly, the market continued to display its hallmark resilience: the KLCI's annualised daily volatility of 10.3% was significantly lower than that of Asia ex-Japan (14.7%).

The Malaysian stock market not only displayed a favourable risk-return profile for the year, but more importantly derived value from factors other than market risk. In 2012, the relatively strong dividend payouts of Malaysian stocks continued to appeal to investors. Malaysian stocks have offered an average year-end dividend yield of 3.7% over 2004–2012, compared to 2.7% in Asia ex-Japan and 2.5% in emerging Asia.[1]

The fund management industry continues to play a key role in savings mobilisation and has seen significant expansion of size and scope. Assets under management have consistently recorded positive growth every year since records began, and registered a growth of 19.2%

[1] Based on MSCI index constituents.

in 2012 to end the year at RM505.1 billion. Unit trusts had a particularly strong year, with net asset value growing 18.2% to RM294.9 billion; this figure amounts to 20.1% of the value of the stock market at the end of 2012. The Shariah-compliant segment grew even faster, by 26.9%, to RM35.4 billion, and accounts for 12% of the total net asset value.

Development of the market

Our developmental agenda in 2012 was driven by several core themes, with an emphasis on promoting sustainable and inclusive growth of the market while maintaining our commitment towards resilience. We continued to be committed to broadening access to the capital market with the entry of new products and widening participation. At the same time as providing greater opportunities to generate wealth through the capital market, we have also been mindful that in these uncertain times, wealth creation must also be accompanied by ways of facilitating fair distribution and safeguards to ensure its protection.

The introduction of private retirement schemes (PRS) launched by the Prime Minister in July 2012 was a milestone event for Malaysia and the capital market. PRS is expected to improve retirement savings options for the Malaysian public. As an alternative platform for accumulating retirement savings, PRS complements the existing mandatory system for retirement savings. A comprehensive framework that includes a Private Pension Administrator, and approved PRS providers and retirement funds, has been designed to protect investors and facilitate orderly development. Benefits will accrue to the capital market as well: PRS will help in mobilising and intermediating more pools of savings, thus providing an additional source of long-term capital to the market.

We also took steps during the year to broaden access and investment opportunities in the Malaysian bond and sukuk markets for retail investors. Our intention was also to extend the pool of potential investors for bond issuers beyond the wholesale market. Within a short space of time, we witnessed the listing of the first retail product under this framework in the form of the RM300 million DanaInfra Nasional Bhd retail sukuk. Proceeds will be utilised for the construction of Malaysia's mass rapid transit project, which is an encouraging start for this retail-centric product.

In the area of capital raising, the release of *Business Trust Guidelines* in 2012 is part of the SC's continuous efforts to further develop financing through the Malaysian capital market and strengthen our appeal as a listing destination within the region. Previous initiatives have facilitated the listing of infrastructure projects, companies with significant foreign operations, real estate investment trusts and special-purpose acquisition companies. Through the listing of business trusts, issuers now have the ability to monetise businesses and assets, thus giving them an additional avenue for raising funds and optimising their capital structures. Business trusts also present intermediaries with an opportunity to widen their scope of corporate finance services, and represent a new asset class for investors.

On the Islamic capital market front, we engaged in further measures to build scale in the domestic Shariah-compliant equity and investment management segments. At the same time, we also expanded the market's international reach in these areas. To this end, we revised the Shariah screening methodology for Islamic equities and our *Guidelines on Sukuk*, both of which are expected to contribute towards Malaysia's competitive positioning in this area. We also continued to work towards driving thought-leadership and capacity-building for the industry, often through strategic partnerships with others. For instance, the SC collaborated with the Oxford Centre for Islamic Studies in organising a third Annual Roundtable in Kuala Lumpur with the theme of 'Solutions for Liquidity Management'. We also worked with Bank Negara Malaysia (BNM), under the Malaysia International Islamic Financial Centre, on several joint international promotional road shows as well as on the second Royal Award for Islamic Finance, a biennial event that recognises the outstanding contribution of an individual towards the global development of Islamic finance.

In seeking to broaden access for market intermediaries, and strengthening and diversifying intermediation capacity, we released *Guidelines for Registered Persons (Registered Representative)* in October 2012. The range of permissible activities by registered individuals has been expanded through two new classes of registered persons, namely the 'Trading Representative' and 'Introducing Representative'. We envisage that more specialised functions will improve the quality of service that clients receive, and help attract new talent into the stockbroking industry.

Maintaining integrity and resilience

The past year has highlighted the importance of upholding integrity in financial markets—and the consequences when they fail to do so. While institutions have typically been the focus of regulatory actions, there is increasing pressure on regulators to hold individuals personally accountable and expand the scope for fiduciary duty. The quality of the market and the high standards of its participants cannot be compromised. This year was no exception, and the SC focused intensely on strengthening our regulatory and supervisory framework to ensure sustained and effective oversight.

Financial innovation and structural developments have modified the nature of capital market intermediation, and have changed the relationships between market segments, making them more interconnected. During the year, we continued to intensify efforts to monitor, mitigate and manage risks within the capital market, with a particular emphasis on systemic risk. Our approach to systemic risk management is multi-pronged, taking into consideration potential risks arising from various sources both from within and outside the capital market.

Systemic risk is also a primary guiding consideration in our supervisory efforts, with the SC establishing a specialised risk group within our supervisory function focusing on systemically important entities. The anticipatory approach is intended to ensure that preventative and corrective actions can be taken in a timely manner to address emerging risks, while ensuring the integrity and financial soundness of capital market intermediaries. This approach further reinforces the close supervision that we maintain over the capital market.

Being mindful of the need to recognise and pre-empt potential systemic risk from across the broader financial sector, we continued to strengthen existing channels of close communication and co-operation with regulatory counterparts while forging new avenues of oversight. In October 2012, we signed a new memorandum of understanding (MoU) with BNM, which further reinforces the wide scope of co-operation between SC and BNM and ensures a more integrated and holistic approach to managing systemic risk and financial sector stability.

In addition to systemic risk, our efforts to maintain the integrity of markets also extended to market abuse and misconduct. We take a serious view of attempts to undermine investor confidence and create disorderliness in the market. A key pillar of our approach to market oversight is having in place a strong enforcement regime. In 2012 we took a number of significant enforcement actions against market abuse and misconduct, utilising the range of enforcement tools available to the SC. We were encouraged by a landmark ruling by the Court of Appeal in favour of a substantial custodial sentence for a case on manipulation of share prices, which underscored the severity of such offences. As offences such as insider trading and market manipulation can severely undermine investor confidence and create disorderliness in the market, we remain committed to taking action necessary to ensure that our capital market remains fair and transparent.

Investor awareness and a culture of ethics and good governance within market participants are also key components of a fair and efficient market. Therefore, during 2012 we continued to promote a greater understanding of investor rights as well as avenues for recourse. Over the past year, we reached out to a wider spectrum of investors including schoolchildren, university students and rural communities to address knowledge gaps. This was accompanied by measures such as the release of *Guidelines on Sales Practices of Unlisted Capital Market Products*, which promotes responsible conduct by mandating simple and accurate disclosures, as well as suitability assessments in line with investors' risk profiles. This also serves to align the incentives of investors and intermediaries.

A strong, internally-driven culture of governance among issuers and intermediaries continues to be one of the main goals of the SC. Following from the *Corporate Governance Blueprint 2011*, we launched the *Malaysian Code on Corporate Governance 2012*, aimed at enhancing board effectiveness of listed companies, reinforcing the independence of directors and fostering the commitment of directors. Our corporate governance efforts have yielded positive results, and were duly recognised internationally through a rise of two places in Malaysia's 2012 corporate governance ranking in the Asia-Pacific region.

Commitment to international co-operation and collaboration

In 2012, the SC continued its commitment and strong contributions to global regulatory policy-making efforts and initiatives. This has become all the more critical given the growing role of Asia in the international financial system, and the need for a more balanced debate on international regulatory reforms to ensure that the outcomes are inclusive and relevant. Over the years, we have followed international regulatory developments closely, and have taken steps where necessary to keep the organisation and our policy-making efforts relevant and aligned with global best practices. In 2012, our contribution to international regulatory discussions and initiatives was further strengthened through my election as a member of the Board of the International Organization of Securities Commissions (IOSCO) and the Vice Chair of IOSCO's Emerging Markets Committee.

We view strong cross-border collaboration as another important aspect which provides tangible benefits to industry development. The regulatory arrangements that we entered into with our international counterparts pave the way for, among others, an expansion of our intermediaries' activities across financial markets. These arrangements are also critical to ensure appropriate investor protection and effective oversight of related intermediaries and their cross-border activities.

Our international work during 2012 demonstrated our continuing commitment towards building on existing relationships, for instance, through co-organising with IOSCO and the Islamic Financial Services Board a high-level roundtable on 'Disclosure Requirements for Islamic Capital Market Products'. Recognising the growth and intricacies relating to mergers and acquisitions, the SC in 2012 collaborated with the Securities and Futures Commission of Hong Kong, to form the Asia Pacific Take-overs Regulators Forum. The Forum is expected to facilitate the exchange of ideas, views and importantly mobilise resources on take-over matters among regional experts.

With a growing population base and increasing wealth opportunities in the region, the SC also participated actively and played a leading role to promote greater regional cross-border flows and work towards the integration of ASEAN capital markets. In 2012, through the ASEAN Capital Markets Forum, we led an initiative which resulted in the development of an ASEAN Corporate Governance Scorecard to raise corporate governance standards and practices within the region and to showcase well-governed ASEAN public-listed companies. The launch in September of the ASEAN Trading Link connecting Bursa Malaysia, the Singapore Exchange and the Stock Exchange of Thailand is a significant achievement, allowing investors easier and more seamless access to greater investment opportunities in the region.

Strong progress has also been made in several other strands of work to encourage greater cross-border regional flows, including the signing of a MoU among regulators and exchanges from Malaysia, Thailand and Singapore to expedite the time-to market for companies seeking a secondary listing in a participating ASEAN country. A number of market-based initiatives to facilitate the regional cross-border offerings of collective investment schemes, equity and debt securities are on going, and should be completed in 2013. In addition, the Audit Oversight Board, through the ASEAN Audit Regulators Group, collaborated closely with other ASEAN audit regulators to improve audit quality and address industry challenges in the region.

Financial Sector Assessment Programme

The SC is committed to aligning our regulatory framework with international standards and best practices. Such arrangements must also be thoroughly and independently validated against best-in-class. In 2012, Malaysia undertook the Financial Sector Assessment Programme (FSAP), a highly-rigorous and comprehensive assessment of all aspects of a country's financial system by the International Monetary Fund and the World Bank.

Having been directly involved in the drafting of IOSCO's Objectives and Principles of Securities Regulation, which forms part of the FSAP assessment, I was well aware of the rigour, breadth and comprehensiveness that we would be subjected to. The most recent revision to the IOSCO principles not only added new principles, but also substantially raised the bar for compliance with the standards. Malaysia was to be among the first jurisdictions in the world to be assessed under these new principles, which included new and more stringent standards for financial market infrastructures. Moreover, SC's involvement in the FSAP included not only an assessment of our regulatory framework against these standards in the form of a Report on the Observance of Standards and Codes (ROSC); we were also subjected to several thematic and topical evaluations through Technical Notes, which included a comprehensive review of our supervisory intensity and effectiveness.

In all, the exercise took over a year to complete, with a full-time project team to manage logistics and communications with the FSAP missions both onshore and internationally, as well as with our counterparts at BNM and other agencies. Resources were mobilised across virtually every department of the SC. The final results, which found the Malaysian securities regulatory and supervisory framework highly compliant with international standards, are therefore very encouraging. They are a welcome validation of our efforts at building an efficient and resilient capital market for the nation while ensuring high levels of investor protection. The FSAP assessment will feed into our on going efforts towards the projected growth and development of the capital market during the CMP2 period.

Looking ahead

As the SC enters its third decade, the increasing vibrancy and sustained growth within the domestic economy and the surrounding region provide the Malaysian capital market with valuable and significant opportunities for expansion. In catalysing the next phase of growth within our market, I am firmly of the view that it is essential for us to intensify efforts to promote greater dynamism and vibrancy in the face of competitive pressures from across the region.

We therefore stand at a critical juncture. It is imperative for us to swiftly capitalise on this window of opportunity to ensure that the Malaysian market can continue to be positioned competitively and emerge as a globally competitive capital market. In doing so, the regulatory philosophy, and market structures and practices must continue to be dynamic and proactively evolve in response to the changing external environment. Our collective willingness to adapt will enable us to leverage on opportunities and pre-empt future challenges, ensuring that the Malaysian capital market will maintain high standards of regulation while promoting greater vibrancy and innovation in our market.

To provide further opportunities for growth, we will promote greater ease of market access and innovation through streamlined regulations and more competitive markets. Our commitment to investor protection and market integrity will not be compromised. In cognisance of the increasing sophistication of the market and financial interconnections – not only domestically but also internationally – the SC will heighten the intensity of our supervision. But we will enhance our proactive approach by exercising judgement, based on a wider set of established parameters, in determining the relevant level of supervisory engagement with each entity. In doing so, we will not only look at the actual conduct of firms, but also be making an assessment of the commensurate risks that may arise from such factors as their business models and strategies. At the same time, we will widen our oversight perimeter over a broader range of participants, activities and products that may impact the market and investor confidence.

To realise these commitments, we have defined three mutually-reinforcing priorities which we will incorporate into our strategic plan over a period of three years. These priorities are:

1. To strengthen the competitive position and vibrancy of the Malaysian capital market
2. To ensure that regulations are balanced and proportionate
3. To further empower investors

The SC will seek to fulfil these priorities over the medium term, in tandem with CMP2 strategies, through our three-year business plan (2013–15).

Strengthening the competitive position and vibrancy of the Malaysian capital market

Malaysia is strategically placed in a growing and dynamic part of Asia. Our efforts in strengthening the Malaysian capital market must not only ensure that our market is competitively positioned within the region but that it also continues to play its primary role in capital formation and supporting economic transformation. This entails capitalising on opportunities where we can be competitive, particularly in niche market segments such as within the investment management value chain, as well as leveraging on our existing strengths to create greater access to and alternative venues for fund raising. There will also be more emphasis on initiatives to promote greater vibrancy in the capital market, especially towards encouraging new growth opportunities through ASEAN and regional markets that add value to existing products and services. This will necessitate greater levels of intermediation and skills to increase the attractiveness of the Malaysian capital market as a venue for investment, fund raising and financial innovation.

Ensuring that regulations are balanced and proportionate

Moving forward, effectiveness and efficiency will become an important consideration in the design of new regulations. To optimise the regulatory framework, the SC will ensure that capital market regulations will give rise to costs that are proportionate to the risks that they intend to mitigate, without compromising on their effectiveness. In a global environment where new and more voluminous rules are being introduced for the financial sector, Malaysia must ensure that, at any one time, it has in place no more rules than necessary. This means that, even as we introduce new rules and requirements, regulations which have been superseded or become less relevant should be repealed. Having in place balanced, effective and proportionate regulations will also contribute to the achievement of competitiveness and vibrancy as well as empowerment of investors, thus reinforcing the symbiotic relationship amongst the three pillars.

Further empowering investors

Building and preserving the confidence of investors in the capital market continues to be at the heart of our regulatory philosophy. We will therefore prioritise efforts that will further empower investors, with a view of ensuring confident and informed participation. These efforts include mitigating information asymmetries by enhancing investors' ability to obtain and understand quality information, enhancing market access, strengthening our enforcement regime with the aim of eliminating instances of market abuse, and providing adequate resources for redress.

Regulation and supervision going forward will increasingly be guided by consumer behaviour, using a more analytical approach in data and intelligence gathering. We also recognise that opportunities must be afforded to all stakeholders to contribute to the development of the capital market and therefore will encourage investors to participate more actively in informing regulatory content by providing feedback through the SC's consultative process.

We value the active participation of the industry in efforts to develop the Malaysian capital market, and have benefitted greatly from industry feedback and contributions on numerous initiatives. We look forward to working even more closely with the industry and with the public, building on the existing relationship by enhancing our approach to stakeholder engagement. This will enable us to leverage on the wealth of our collective experience in pursuit of common goals for the capital market.

The foundation of a successful organisation is its people. I feel privileged to work with a team of highly motivated, dedicated and capable individuals who collectively focus their efforts towards achieving public policy objectives. But we are mindful that we must continue to build on our current efforts to strengthen capacity. We will be taking steps to further enhance our internal talent pool, and to attract new talent with the relevant skills, aptitude and experience. As the role of regulators transforms and becomes more sophisticated and complex in line with the markets we oversee, we will also be equipping ourselves with the necessary tools and technology to enable us to effectively fulfil our mandate and responsibilities.

I would like to acknowledge the important contributions, commitment and professionalism of the SC staff. I would also like to thank members of the Commission and my Management Team as well as the Shariah Advisory Council for their dedication and support. I also wish to record my deep appreciation to my predecessor, Tan Sri Zarinah Anwar, for her contributions to the SC.

Ranjit Ajit Singh

Part One
Growing our market

GROWING OUR MARKET

INTRODUCTION

The hallmark of a vibrant capital market is reflected in the depth and breadth of its products and services and that these products and services are easily accessible to investors. In the last decade, continuous efforts at the SC have resulted in the establishment of strong market segments in equities and private debt securities, investment management and the Islamic capital market (ICM).

The formulation of the *Capital Market Masterplan 2* (CMP2) further strengthens the position of the capital market in meeting challenges posed by the changing global landscape as well as supporting the national economic transformation process. CMP2 initiatives for greater market development have included strengthening the economic functionality of the stock market to promote growth of small and mid-cap companies, broadening access to the bond market, expanding diversity and opportunities for private sector savings intermediation and widening ICM's international base.

In fulfilling our statutory responsibilities of regulating and developing the Malaysian securities and derivatives markets, we have always maintained a collaborative approach with the industry. Such efforts have proven fruitful, as reflected by the wider choices of innovative products and investment opportunities created.

Our pursuit towards achieving a capital market with a full range of quality investment opportunities remains a continuing target, resulting in constant evaluation of our regulatory framework vis-à-vis global developments. In 2012, these initiatives fall into the following four areas:

- Financing the economy;
- Widening asset classes;
- Expanding the Islamic capital market; and
- Extending international linkages.

FINANCING THE ECONOMY

The transformation and development of the capital market has begun to meet its longer-term objectives of becoming an important source of financing for the economy. Growing the capital market through sound regulations that also support innovation and competition whilst ensuring resilience of institutions and strength of markets has been a challenging task, particularly amidst a more volatile external environment and domestic demand for capital market products to meet the needs of a more developed and diversified economy. By the end of 2012, it is evident that the capital market has been effective in fulfilling its vital role in capital formation and supporting economic transformation.

More significant is that the capital market has deepened and broadened sufficiently to reduce risks associated with issues of maturity and currency mismatches. By effectively matching different maturity profiles for various investment portfolios, the capital market's expansion is important to enable availability of long-term funding for infrastructure. The development of the local currency bond market to become the third largest in Asia[1] after Japan and Korea, together with a

1 As a % of GDP.

healthy growth of the equity market with the largest number of public-listed companies (PLCs) in ASEAN and steady growth in market capitalisation meant that corporations and businesses are able to source capital and manage their risk profiles appropriately. Higher financing of funding needs through the equity and bond markets relative to bank lending has also improved the risk profile for the Malaysian financial sector.

Both the equity and debt markets continued to be significant sources of financing for economic activities through raising a total of RM155.5 billion in 2012, comprising initial public offerings (IPOs), real estate investment trusts (REITs), secondary equity issuances and issuances of corporate bonds. IPOs and corporate bonds made up 94% of this total or RM145.9 billion. In terms of domestic sources of financing for the business sector, the capital market has financed more than half of their financing needs, while the rest was financed through the financial intermediaries. This reflects increasing recourse and access to market-based financing instruments for funding needs.

The expanding role of the capital market in financing the nation's economic growth is enabled by the continued strong growth of the equities and bond markets which has grown in size to RM2,473.5 billion in 2012. This translates to a compound growth rate of 10.9% per annum over a 12-year period, growing at a faster rate relative to gross domestic product (GDP). At the end of 2012, the equity market capitalisation and nominal value of domestic debt securities outstanding were at 156.6% and 107.7% of nominal GDP respectively. Compared to other regional economies, the size of the Malaysian capital market is relatively large in relation to the economy and more developed, providing a wider distribution of capital and risk.

In 2012, the equity, bond and sukuk markets have had significant issuances with the IPOs of Felda Global Ventures Holdings Bhd, IHH Healthcare Bhd and Astro Malaysia Holdings Bhd, as well as the world's largest sukuk by Projek Lebuhraya Usahasama Bhd (PLUS). The depth of the domestic savings pool coupled with the increased intermediation of regional capital flows by capital market intermediaries have enabled Malaysia to gain prominence as a fund raising and investment venue. This bodes well for the domestic capital market as the region moves closer to the goal of an integrated ASEAN capital market by 2015.

WIDENING ASSET CLASSES

With the CMP2 setting the overall direction in transforming market competitiveness, various initiatives on the product side have been implemented with a view of ensuring that investors in the Malaysian capital market are able to access a diverse range of innovative products to match their risk profiles. These measures will also provide more investment opportunities for the sustained high domestic savings, further helping to intermediate and match these funds with a diverse pool of issuers ranging from the large firms to the small and medium-sized companies.

Enhancing the local retirement savings landscape through Private Retirement Schemes

Changes in Malaysia's demographic and labour market trends have resulted in increased life expectancy amongst Malaysians and rising living standards. In promoting the welfare of the public at retirement, Malaysia has begun to implement a multi-pillar pension framework in order to cater for society's retirement needs. Towards this aim, an expansion in the range of available retirement schemes is being designed that will result in a robust, stable and sustainable multi-pillar pension system. An important pillar in this improved national multi-pillar pension framework is the development of a competitive private pension industry which is aligned to government initiatives to transform Malaysia to a high income economy, retain and attract skilled professionals, and re-energise the private sector.

Therefore, within the country's overall retirement savings landscape, the SC has spearheaded the establishment of the Private Retirement Scheme (PRS) industry, which forms Pillar III of the overall multi-pillar pension system. This new market segment, which will supplement the mandatory public savings schemes, is also expected to be the fastest growing component of Malaysia's social and pension framework. Contributions accumulated in the PRS industry will provide an additional source of long-term capital to increase the liquidity and vibrancy of the buy side and facilitate the allocation of real capital to productive investments. Additionally, the PRS is expected to facilitate the development of Islamic fund management and promote product innovation as it gives fund managers an opportunity to serve another market segment and to broaden their distribution channels. The PRS also has the potential to increase the amount of money going into Islamic investments.

The PRS is designed with choice, flexibility, affordability and accessibility in mind to appeal to a wide cross section of the population. Each PRS will include a range of retirement funds that individuals may choose to invest in based on their own retirement needs, goals and risk appetite. The fund options under a PRS must be consistent with the objective of building savings for retirement and ensure that there is a prudent spread of risk. The PRS will operate as a trust structure with the schemes' trustees ensuring the assets of the funds are segregated from the PRS Providers. The funds under the PRS will be professionally managed by the PRS Providers with the purpose of meeting the retirement objective of members.

All relevant intermediaries in the PRS industry, namely the PRS Providers, Private Pension Administrator (PPA), schemes' trustees and PRS distributors require the approval of the SC to operate and will be subject to regulatory requirements and ongoing supervision. The *Guidelines on Private Retirement Schemes* was released in April 2012, along with the approval of an initial eight PRS Providers. The eight PRS Providers are:

- AmInvestment Management Sdn Bhd;
- American International Assurance Bhd;
- CIMB-Principal Asset Management Bhd;
- Hwang Investment Management Bhd;
- ING Funds Bhd;
- Manulife Unit Trust Bhd;
- Public Mutual Bhd; and
- RHB Investment Management Sdn Bhd.

Another key aspect of the PRS framework was the establishment of the PPA in July 2012. It has a statutory mandate to meet public interest considerations and act in the best interests of members, and the overall need to service members efficiently and effectively. With the PPA in place, investors can now enjoy ease of access to consolidated information on all their investments in PRS, irrespective of how many schemes they invest in or the number of providers they invest with.

The PPA provides an efficient administrative framework for the growth and operation of the private pension landscape. Its responsibility includes facilitating and maintaining all PRS-related transactions made by contributors and members. The PPA would also be responsible to create awareness of the PRS, and would serve as a resource centre for data and research on the PRS industry in Malaysia. As a one-stop centre, the PPA will play an important role in the enabling infrastructure for PRS by providing efficiency in the administration of the PRS. The empowerment given to investors to take greater control over their investments is embodied in the way account holders will have easy access to information and ease of transfers.

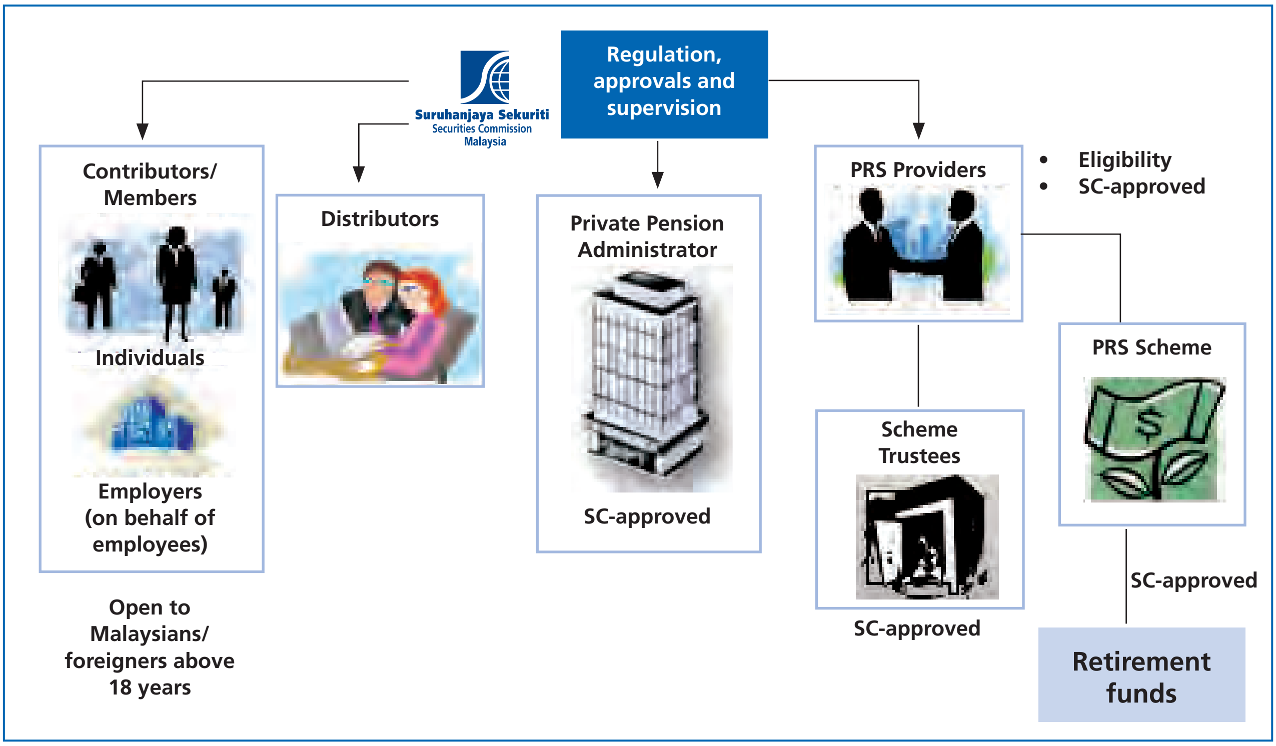
With the necessary PRS infrastructure in place (Diagram 1), the Malaysian public has started investing in this voluntary scheme with the roll out of the first few approved PRS funds in the fourth quarter of 2012. As at end December 2012, there are 26 retirement funds under PRS offered to the public.

Providing retail bonds and sukuk to investors

The Malaysian retail bonds and sukuk framework was launched on 7 September 2012 with the aim of meeting retail investors' demand for access to a wider range of investment products and to leverage on the strengths of the Malaysian bond market. Also, with

Diagram 1

Key components of PRS framework



Box 1:

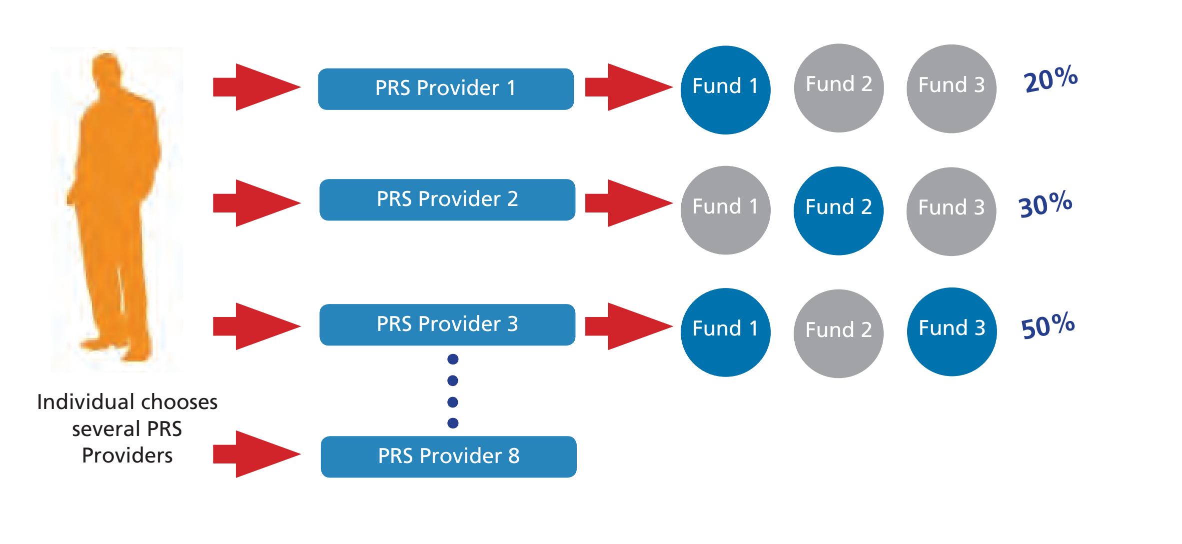
A Saver's Perspective of PRS

PRS will provide additional diversification and a value-added domestic savings vehicle for savers. With the PRS, additional savings instruments are made available to be utilised primarily for investments to assure additional income during retirement. The bulk of the savings would be locked in (70% of all contributions cannot be withdrawn until the retirement age), which is the aim of PRS as opposed to other non-retirement savings instruments.

PRS seeks to enhance choices available for all individuals, whether employed, self-employed or otherwise, to supplement their retirement savings under a well-structured and regulated environment.

Voluntary contributions can also be made by an employer on behalf of its employees. For employers, PRS may be a tool to attract and retain talent. It promotes employee loyalty and may provide a valuable employment benefit to retain high performing employees.

Potential savers can choose any fund of their choice. Where they do not exercise any choice of fund under a Scheme, potential savers will be allocated to a default option of that PRS Provider. Under the default option, the investments will be made to either the 'Growth', 'Moderate' or 'Conservative' fund of that PRS Provider depending on the saver's



age. 'Growth' default option is for savers under the age of 40, 'Moderate' is the default option for those between 40 to 50 years of age and 'Conservative' option is for those above 50 years of age.

Contributions to PRS will be split into sub-account A and B, which comprise 70% and 30% of total contributions respectively. Switching funds within the same PRS is possible at any time while transfer of funds between different Providers is possible once per calendar year provided the saver has been a member of the PRS for one year.

Members will be able to keep track of their PRS investments online via the PPA website or contact their PRS Provider. They will receive statements on a periodic basis from PRS Providers and a consolidated statement on their investments from the PPA. This will include contributions held by every PRS Provider.

Prior to reaching the retirement age, withdrawals from PRS or from any funds under PRS may be made in full following the death of a member or permanent departure of a member from Malaysia. With respect to other pre-retirement withdrawals, members may only withdraw the amount in sub-account B from each PRS Provider once a year. While pre-retirement withdrawal may be made for any reason, a tax penalty of 8% on the withdrawal amount will be deducted by the PRS providers before the balance is credited to the member's account. Although withdrawals are permitted, members are encouraged to retain their savings for continuous investment under the respective Schemes.

Besides helping individuals save for retirement, individuals participating in the PRS enjoy income tax relief of up to RM3,000 per tax payer per year of assessment, commencing 2012 for a 10-year period.

this framework in place, issuers now have access to a larger pool of investors. Previously, only corporate and institutional investors were able to invest in fixed income instruments as the large standard transaction size (typically about RM5 million) limited these products to investors with high financial capacity.

The framework allows for retail bonds and sukuk to be issued and traded either on the exchange (Bursa Malaysia) or over-the-counter (OTC) via appointed banks. Supporting this measure, the SC has approved amendments to the *Rules of Bursa Securities, Listing Requirements* and the *Rules of Bursa Depository.*

In line with the objective of facilitating greater retail participation in the bond and sukuk markets, a phased approach has been adopted to provide retail investors time to gain the necessary understanding and familiarity with investing and trading in bonds and sukuk. Retail investors will be able to invest in bonds and sukuk issued or guaranteed by the Malaysian government in the initial phase. As part of the next phase, the *Guidelines on Private Debt Securities* and *Guidelines on Sukuk* were revised to allow PLCs, financial institutions licensed under the *Banking and Financial Institutions Act 1989* or *Islamic Banking Act 1983*, and other specified issuers to issue bonds and sukuk to retail investors.

Box 2:

Guide to Investing in Retail Bonds and Sukuk

The retail bond and sukuk framework provides greater clarity on the types of fixed income products that may be offered to retail investors. This will open up a whole new spectrum of products that may be offered directly to retail investors; products that were previously only available to institutional investors or through unit trust funds. Including fixed income products to an investor's investment portfolio will potentially lower the overall portfolio risks.

A typical bond or sukuk issued to retail investors:

- Must be denominated in ringgit Malaysia;
- Has a tenure of more than one year; and
- Must have "plain vanilla" characteristics such as fixed term with principal and any accrued interest/returns payable at expiry, and does not embed any swaps, options or derivatives.

The framework developed by SC also requires the bond or sukuk to be rated by an independent credit rating agency. The rating gives an indication of the quality of the bond or the creditworthiness of the issuer. However, the rating is only one of the indicators that an investor can use to decide whether the investment will generate returns that commensurate with the risks.

The investor can also rely on information in the prospectus that is required to be prepared by the issuer and registered with the SC. In this regard, the SC has substantially amended the *Prospectus Guidelines* to ensure disclosure requirements tailored to such fixed income offerings are more focused and streamlined, and better structured to ensure that investors are given pertinent information in a more concise format.

Investors will still be able to rely on continuous and timely updates on the issuer that are readily and publicly available as only PLCs and other specified issuers are allowed to issue such instruments to retail investors. Only under certain limited circumstances will unlisted issuers be allowed to issue bonds to retail investors.

Another benefit given to retail investors is in the form of stamp duty waivers for all retail bond trades.

Tax incentives were also introduced in the Federal Budget 2013 to spur development of this new product class. A double deduction (effective from year of assessment 2012 to 2015) will be given for additional expenses incurred in the issuance of retail bonds and retail sukuk. At the same time, individual investors have also been given stamp duty exemption on instruments related to the transactions of retail bonds and sukuk.

It was also announced in the Federal Budget 2013 that DanaInfra Nasional Bhd will be the first issuer of a retail sukuk worth RM300 million to be listed on the exchange. This exchange-traded retail sukuk gives the general public an opportunity to participate in financing the mass rapid transit (MRT) development project.

Widening investment and funding opportunities through business trusts

It is important to ensure that issuers continue to have a range of market-driven fund raising options to tap into for their funding needs. The introduction of business trusts in Malaysia is intended to provide issuers with another avenue to better optimise their capital structure and raise finance at competitive costs. At the same time, yield-seeking investors will benefit from this new investment instrument. Business trusts as a structured investment vehicle will also assist in growing and enhancing the capabilities of domestic asset managers.

A business trust is essentially a business that is created through a trust deed which sets out among other things, the governance and investment mandate. A business trust may be listed on a stock exchange. It would actively undertake business operations and runs much like a company.

This innovative structure is suitable for a range of businesses; in particular, capital intensive and infrastructure-type businesses with a stable cash flow wishing to pay out distributions without being constrained by accounting profits. This is due to the fact that, unlike a company, it is permitted to make

Box 3:

Structure of a Business Trust

Business trusts are essentially businesses established using a trust structure. In a business trust, the trustee takes on the role of a trustee-manager who is the legal owner and manager of the assets of the business trust and is thus the single responsible entity in the business trust. The trustee-manager receives remuneration for rendering services, which typically comprises a fixed fee and an incentive fee tied to the performance of the business trust.

Given its key role in a business trust, the new framework requires that the trustee-manager be incorporated as a company other than an exempt private company and the person carrying on the fund management activity must be licensed by the SC. The trustee-manager will not be allowed to carry out any other business besides the management and operation of the business trust.

The rationale for having the trustee-manager as a single responsible entity as opposed to a conventional unit trust scheme where the manager and the trustee are separate entities is to overcome the difficulty for an independent trustee to set similar operating mandates for a business trust while it actively engages in running a risk-enterprise, much like a company.

In order to safeguard the interest of investors, the new framework for business trust has a provision that ensures that the directors of the trustee-manager act in the best interests of the unitholders and that in the event of a conflict between the unitholders' interests and interests of the trustee-manager, the interest of the unitholders' shall prevail. Unitholders are also empowered to remove trustee-managers in circumstances as may be specified by the SC.

distributions from its cash flows (instead of profits), provided it remains solvent. As an alternative to the company structure, business trust also allows investors to participate more directly in the business or the assets of the trust; at the same time it enables the manager to attract investors with a different risk-return profile. Establishment of an Islamic business trust is yet another alternative and consistent with our objective of encouraging the development of more risk sharing Shariah-based investment products.

In pursuit of these outcomes, amendments to the *Capital Markets and Services Act 2007* (CMSA) have been passed by both legislative houses in the second quarter of 2012 enabling the introduction of business trusts to widen the choice of asset classes. Subsequently, the *Business Trusts Guidelines* was released to provide issuers with a formal framework to list their business assets and increase the appeal and vibrancy of the domestic capital market.

To further encourage development of business trusts, the Government has accorded it the same tax treatment as a company structure. The transfer of any business, asset and real property to a business trust has also been given stamp duty exemption and real property gains tax exemption at the early stage of the establishment in the Federal Budget 2013.

Improving the derivatives market's infrastructure and product diversity

The exchange-traded derivatives market infrastructure was enhanced via a new derivatives clearing and settlement system in February 2012. The new system utilises web-based technologies to provide faster and more efficient clearing and settlement services and caters for higher trade volumes with improved functionalities.

The SC facilitated rule amendments for the introduction of new products to the Malaysian derivatives market with the objective of broadening the product range for investors. This allowed Bursa Malaysia Derivatives to increase its product offerings with the modification and subsequent re-launch of the FBM KLCI Options (OKLI) in May 2012 and the start of trading for Options on Crude Palm Oil Futures (OCPO) in July 2012. Also, in a move to encourage greater retail participation in the derivatives market, restrictions on the setting up of branches and kiosks by futures brokers were eased.

In addition, we are studying the possibility of setting up a mercantile exchange to provide investors opportunities to invest and hedge in gold futures and other precious metals. This initiative aims to expand the range of alternative investments available to Malaysian investors.

MALAYSIA'S ISLAMIC CAPITAL MARKET

Over the years, Malaysia has provided a viable model of co-existence of an ethical and a societal-based finance framework, facilitating the appeal of Islamic finance to both Muslims and non-Muslims and the ability to operate on a universal basis. We have persistently taken concrete and consistent measures to develop a facilitative regulatory framework, created a large pool of players, introduced a comprehensive range of innovative and competitive Islamic financial products and services, and ensured sufficient depth to facilitate liquidity management. As a result, the Malaysian Islamic capital market (ICM) has contributed significantly to the development of the overall capital market through further broadening the capital market by providing an attractive alternative source of fund raising and investment. More importantly, the Malaysian ICM continues to play a key role in contributing to the development of the global Islamic financial system. Greater cross-border linkages and connectivity, a growing need for alternative instruments for cross-border fund raising and investments, and an increasingly conducive and enabling environment collectively provide the base on which the ICM is expected to build its next phase of growth.

Continuing developments and enhancements in ICM

The development of Malaysia's ICM has been facilitated by an enabling environment and ecosystem that are regularly reviewed and continually enhanced.

Box 4:

Faith in Finance: The Malaysian Islamic Capital Market

The Malaysian ICM has contributed significantly to the development of the overall capital market and has become a viable alternative source of fund raising. The size of the ICM in Malaysia has more than tripled during the period of the first *Capital Market Masterplan*, 2000–2010, or at a rate of 13.6% per annum during this period. Since then, the phenomenal growth momentum has been sustained, with the size of the Malaysian ICM increasing by 16.3% annually to reach RM1.42 trillion as at end December 2012. Growth has been sustained in particular by the strong performance of the sukuk segment.

The total size of ICM is currently equivalent to 57% of the Malaysian capital market. In the equity market, 89% of the companies listed on Bursa Malaysia are designated as Shariah compliant. Market capitalisation of Shariah-compliant equities grew by 6.7% year-on-year to RM806.4 billion over 2011, and by 16.8% year-on-year to RM942.2 billion over 2012, which represents 64% of the total equity market capitalisation. The listings of Felda Global Ventures Holdings Bhd and IHH Healthcare Bhd, which collectively raised about RM16 billion through their IPOs, also helped give a boost to the Islamic equity segment in 2012.

In comparison, the total value of sukuk outstanding rose by 18.8% year-on-year to RM349.3 billion at end-2011 and went on to record an even larger increase in growth of 35.9% year-on-year in 2012. The total amount outstanding as of December 2012 currently stands at RM474.6 billion, with just over half (50.7%) being issued by the government and its related entities, while 42.6% were issued by the private sector. The remaining 6.7% made up of issuances by foreign entities.

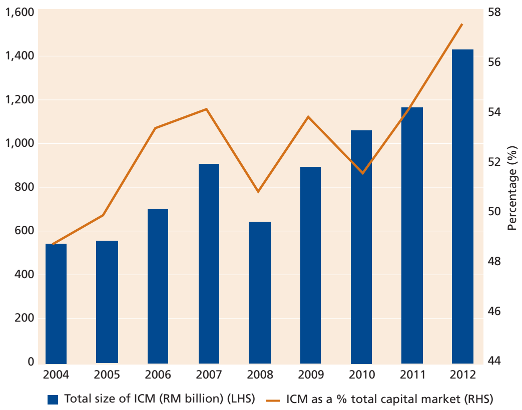
The sukuk segment registered another record year in 2012 in terms of total issuance which amounted to RM326.5 billion in 2012, compared with RM185 billion in 2011. Malaysia thus remains the world leader in the sukuk market, accounting for 69.2% of global sukuk outstanding and 76.9% of sukuk issuances in 2012. The issuance of PLUS Bhd's RM30.6 billion sukuk at the beginning of 2012 marked a significant milestone, representing the single largest sukuk issuance globally.

Malaysia is also a significant player in the Islamic fund management industry. Malaysia accounted for 25% of the global Islamic fund size at the end of 2012. On the domestic front, Islamic assets under management accounted for approximately 16% of the industry's total assets under management. Two new Islamic fund management licences were also approved in 2012, bringing the number of full-fledged Islamic fund management companies in Malaysia to 18, with a combined assets under management of RM28 billion.

Building on its early mover advantage and continuous measures to enhance the regulatory framework and expand the Shariah-compliant product base, the ICM will continue to provide wider options for investment instruments and meeting financing needs of economic agents. Through collaboration and co-operative efforts with other financial centres on mutual recognition of rules and regulations as well as documentation, the internationalisation of the Malaysian ICM will play a key role in contributing to the next phase of the ICM in Malaysia as well as the development and expansion of the global Islamic financial system.

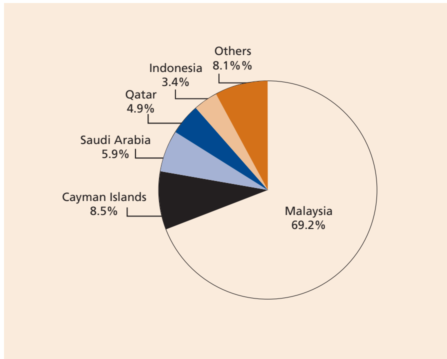
Growing the Islamic capital market

Overview of Islamic capital market



Growth trajectory of ICM supported by market confidence and underpinned by a sound regulatory framework.

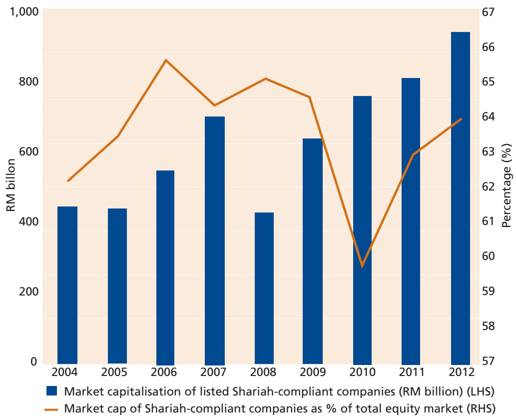
Share of global sukuk outstanding in 2012, by issuer country of domicile [total outstanding: US$279,958 million]



Source: IFIS

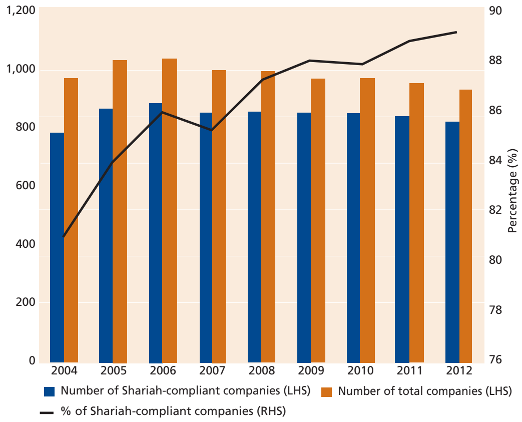
Regulatory infrastructure supports Malaysia as global centre for sukuk issuances.

Market capitalisation of listed Shariah-compliant companies



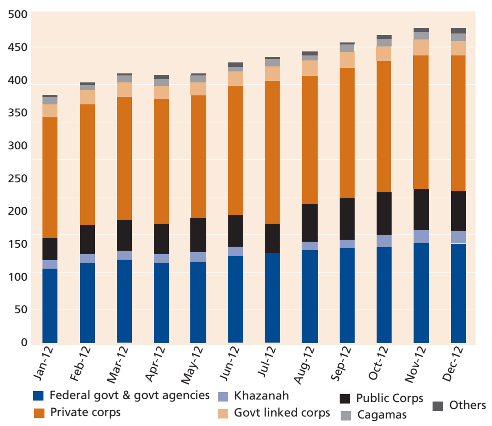
Equities market has a high ratio of Shariah-compliant counters, enabling market to support Islamic-based fund raising.

Number of Shariah-compliant companies on Bursa Malaysia



Vibrant fund raising opportunities encourage increasing number of listings of Shariah-based businesses.

Sukuk: Amount outstanding by issuer (RM billion)



Broad-based sukuk issuances across a range of maturities and size by government and private sector, held by Malaysian and foreign investors.

Note: Sukuk outstanding figures cover both short-term and long-term Islamic debt securities. 'Others' include supranational, foreign private corporations and foreign governments.

Our efforts are consistent with the growth strategies envisaged in the CMP2 as well as aligning with global developments.

Revision to the Shariah screening methodology for listed companies

Concomitant with the increasing sophistication of the Islamic finance industry since the introduction of the screening methodology in 1995, a revision to the screening methodology was undertaken to determine Shariah-compliant status of listed companies. The revised methodology has a two-tier quantitative approach involving streamlining of existing business activity benchmarks and the inclusion of new financial ratio benchmarks. The revised methodology will add further rigour to the screening process thereby contributing to increased competitiveness of Malaysia's Islamic equity and fund management segments, domestically and internationally.

Progress in the sukuk market

Malaysia's capability in originating, arranging and distributing ringgit and non-ringgit denominated sukuk issuances is well-known globally. Such intermediation capability has been leveraged by both local and foreign issuers tapping the deep ringgit market. In 2012, we witnessed the participation of several foreign issuers in the domestic sukuk market such as:

- Abu Dhabi National Energy Company PJSC, which is 75% owned by the Government of Abu Dhabi;
- First Resources Limited, which is listed on the Main Board of the Singapore Exchange;
- JSC Development Bank of Kazakhstan, which is 100% owned by the Government of Kazakhstan through the JSC Sovereign Wealth Fund 'Samruk-Kazyna';
- Kingdom of Bahrain via its investment holding company, Bahrain Mumtalakat Holding Company B.S.C; and
- Noble Group Limited, a Hong Kong based company which is listed on the Singapore Exchange.

The increasing interest by foreign issuers to issue sukuk out of Malaysia is testimony to the country's well-developed legal and regulatory framework as well as its facilitative issuance process.

Malaysia has continued to remain at the forefront in the innovation and development of sukuk, ever since the issuance of the first sukuk in 1990. 2012 was no exception as another landmark deal – the world's first corporate perpetual sukuk was issued by Malaysia Airlines System Bhd (MAS). The RM2.5 billion innovative sukuk has equity-like features structured based on the Shariah principle of *musharakah*. The sukuk also featured a *musawamah* transaction, a negotiated-sale transaction that allows MAS to defer the periodic payments if needed. This landmark deal further reinforces Malaysia's position as a centre for innovation.

Efforts to further innovate and broaden the sukuk market are set to continue via the introduction of a framework for the issuance of AgroSukuk for companies in the agriculture sector. As the objective is to improve the availability of fund raising avenues for agriculture activities and agro-based industries, the Government has also proposed in Federal Budget 2013 that expenses for the issuance of AgroSukuk will be entitled to a double deduction for a period of three years effective from year of assessment 2013 to 2015.

Shariah Advisory Council

A key pillar in the development of the ICM in Malaysia, especially in facilitating innovation and ensuring a robust Shariah governance process, is the Shariah Advisory Council (SAC). Its role is to provide greater consistency and clarity to issuers, intermediaries and investors in the Malaysian ICM and the appointment of the SAC members by His Majesty Seri Paduka Baginda Yang di-Pertuan Agong under section 316C of the CMSA further strengthens the SAC's institutional role in ensuring Malaysia's leading position in international Islamic finance.

Internationalisation of the ICM

Growing cross-border transactions necessitates a coordinated and collaborative approach across jurisdictions in many areas including sharing of ideas and capacity building.

International collaboration on Islamic thought leadership

To promote open discussions and rigorous exchange of views on matters relevant to the development of Islamic finance globally, since 2008 the SC has collaborated with the Oxford Centre for Islamic Studies (OCIS) on a series of programmes. The flagship programme is the annual SC-OCIS Roundtable series which is a platform for market practitioners, academicians, scholars, regulators and other stakeholders to share and debate new thoughts that would further enrich efforts to create better understanding as well as expand Islamic finance globally. In March 2012, the third SC-OCIS Roundtable, themed 'Solutions for Liquidity Management', was officiated by His Royal Highness Raja Dr Nazrin Shah, Crown Prince of Perak, who is also the Malaysia International Islamic Financial Centre (MIFC) Financial Ambassador. The key outcomes from this Roundtable were a rich discussion on the potential solutions in sukuk trading which can promote liquidity; a greater recognition of the importance of participatory instruments and addressing the challenges; and stimulating a greater understanding of commodity *murabahah*.

In 2012, the SC and OCIS also established the SC OCIS Scholar-in Residence programme aimed at facilitating applied research on contemporary issues to global Islamic finance. The programme is also intended to encourage focused research work that will lead to findings that can be readily applied by industry and to promote broader harmonisation of Islamic finance practices across jurisdictions. In this way, cross-border transactions and activities can be further facilitated.

Achieving a certain level of harmonisation in standards and practices to facilitate international transactions and activities is equally important in widening the ICM's international appeal. To this end, we have collaborated with two important standard-setting bodies, the Islamic Financial Services Board and the International Organization of Securities Commissions (IOSCO) to discuss disclosure requirements for ICM products which would accelerate the connectivity and appeal of the ICM products that meet international regulatory standards and best practices relating to disclosure requirements.

A notable development in 2012, was the election of SC as the Chair of the Organisation of Islamic Co-operation (OIC)'s Standing Committee for Economic and Commercial Cooperation (COMCEC) Capital Market Regulators Forum's Task Force on Islamic Finance at its inaugural meeting in Turkey in September 2012. In its role as Chair, the SC will work with other members of the Task Force to identify areas for co-operation in the development of Islamic finance internationally, and to design relevant strategies and make policy recommendations.

International outreach and profiling

The continued growth, innovation and sustainability of the ICM requires a strengthening of the knowledge base, the availability of skills-sets and continuous profiling efforts by the SC. To support domestic and international efforts in this area, we undertook various capacity building programmes, including the 7th Islamic Market Programme (IMP) and the 6th International Islamic Capital Market Forum (IICMF).

We also published books, aimed at providing authoritative views and to act as sources of information for the readers on applied issues related to Islamic market practices, convention and processes. The published books for 2012 include:

- *Managing Fund Flows, Risks and Derivatives: Applications in Islamic Institutions;*
- *Shariah Rulings and Opinions on Ijarah, Musharakah and Mudharabah; and*
- *Proceedings of the 2nd SC-OCIS Roundtable 2011 and 3rd SC-OCIS Roundtable 2012.*

In support of the MIFC initiative, Bank Negara Malaysia and SC hosted The Royal Award for Islamic Finance (The Royal Award), a biennial award to recognise an individual who have excelled in advancing Islamic finance globally through outstanding contribution and achievement. The Royal Award also provides further impetus to the wealth of knowledge about the cross-border application of Islamic finance. In 2012, Iqbal Khan was selected by an independent jury as the second recipient of the Royal Award for his dedication, drive and leadership in accelerating the global growth and accessibility of Islamic finance.

INTERNATIONAL LINKAGES

Globalisation presents both challenges and opportunities to stakeholders in the capital market and ongoing efforts are undertaken to ensure that Malaysia is at the forefront to capitalise as well as embrace such developments. Besides charting the basis for future growth in productivity and living standards, globalisation has resulted in financial deepening and convergence to international standards, which enables greater mobility amongst issuers, investors, and intermediaries.

While the increased access to global markets vis-à-vis availability of higher product variety is an enticing proposition to issuers and investors – regulators around the world have to contend with challenges arising from the rising sophistication, flexibility, and mobility of capital market activities. Striking a balance between liberalisation and investor protection requires a multi-pronged regulatory approach, ranging from cross-border regulatory standard setting to preparation and realignment of our domestic capabilities in meeting international standards.

ASEAN capital market integration initiatives

As the ASEAN Economic Community timeline approaches 2015, initiatives in the ASEAN capital market space continue to focus on providing greater cross-border access to investors, issuers and intermediaries, broadening the range of products and enhancing the overall attractiveness of the region to global capital. In 2012, the ASEAN Capital Markets Forum (ACMF) led initiatives on several fronts to better integrate the region's capital markets to meet the objectives of the ASEAN Economic Community Blueprint 2015.

Significant progress has been made on the regulatory front. This includes the signing of an MoU on the Expedited Review Framework for Secondary Listings by the regulators and exchanges from Malaysia, Singapore and Thailand in March 2012. The MoU is expected to enhance the efficiency and facilitate the processing of secondary listing applications and relevant disclosure documents, and expedite the time-to-market for companies seeking a secondary listing in a participating ASEAN country. In efforts to profile the ASEAN markets, the launch of the ASEAN Trading Link connecting Bursa Malaysia, the Singapore Exchange and the Stock Exchange of Thailand is another key milestone in 2012 allowing investors easier and more seamless access to greater investment opportunities in the region.

To strengthen corporate governance standards among ASEAN PLCs, the SC led a corporate governance initiative under the ACMF. The *ASEAN Corporate Governance Scorecard*, which was published in March 2012, is based on a corporate governance ranking methodology which leverages off methodologies already implemented in ASEAN countries, as well as those applied by multilateral agencies such as the Organization for Economic Co-operation and Development (OECD). The Scorecard was a significant achievement in helping to raise corporate governance standards and practices of ASEAN PLCs. It also showcases and enhances the visibility of well governed ASEAN PLCs internationally and promotes ASEAN as an asset class. Designed to be universally applicable to different markets in the region, while being reflective of global principles and internationally-recognised good practices, the *ASEAN Corporate Governance Scorecard* uses the OECD Principles of Corporate Governance as its main benchmark.

A number of market-based initiatives are ongoing in line with the goals of achieving the objectives of the ASEAN Economic Community Blueprint 2015. They include facilitating the cross-border offerings of collective investment schemes, equity and debt securities, and facilitating cross-border supporting marketing services and regional co-operation in ICM. The SC is also an active member of the ASEAN Working Committee on Capital Market Development (WC-CMD) which is focused, among others, on bond market development and working towards adopting a targeted approach towards addressing key market gaps in the ASEAN local currency bond markets.

Sharing of regulatory experience with counterparts

Our capital market regulatory framework is widely regarded as being of very high quality and consistent with international standards and best practices for securities regulation. Consequently, we have actively shared our technical expertise and experience with international regulators on various aspects of capital market regulation through dialogues, study visits and regulatory attachments.

Throughout the year, we hosted 11 study visits by capital market regulators from, among others, India, Korea, Kenya, Pakistan, Saudi Arabia and Thailand on various areas relating to market development, supervision, surveillance and ICM. We have also responded to approximately 100 foreign enquiries, relating to various aspects of the regulatory framework governing the Malaysian capital market.

In May 2012, the Securities and Futures Commission (SFC) Hong Kong and the SC organised a Roundtable of Regional Take-over Regulators of nine jurisdictions in Kuala Lumpur. The Roundtable, the first such gathering of regional experts in take-over regulation in the Asia-Pacific region, is a platform for dialogue on current issues and key areas of take-over regulation. The discussions came on the back of greater recognition that regulators need to work together to minimise regulatory arbitrage, reduce conflict and promote greater efficiency given the rapid expansion of cross-border transactions. The SC's initiative was aimed at fostering co-operation and exchanges of regulatory and technical expertise amongst the different jurisdictions.

Following the Roundtable, in November 2012, the Malaysian and Hong Kong regulators jointly launched the Asia Pacific Take-overs Regulators Forum. This forum incorporates the first e-platform in the region for take-over regulators. The online forum is aimed at promoting and developing transparent and fair conduct of take-over activities in their respective markets, sharing experiences of fellow regulators to assist in the development of regulation, and to protect the investing public against financial losses arising from malpractice in take-over exercises.

Regulatory standard setting

As a long term contributor to the IOSCO, we view this multi-regulatory platform as critical in positioning the Malaysian capital market and in shaping the development of global regulatory standards and best practices for the capital market. As the leading international standard setter for international securities regulations, IOSCO is committed in tackling emerging risks to investors and securities markets in a proactive manner, including its commitment in meeting the mandates of the G20 Leaders and the Financial Stability Board on regulatory reform.

The SC continued to strengthen its leadership role in IOSCO with the SC Chairman having been elected as a member of the Board of IOSCO and the Vice Chair of IOSCO's Emerging Markets Committee. Being part of IOSCO's governing body responsible for leading the direction and process of standard-setting and decision-making on policy issues affecting global capital markets is reflective of our strong standing and contribution to global policy making.

Our leadership role in the Emerging Markets Committee (EMC) representing 80% of the IOSCO membership is critical in ensuring that key regulatory issues affecting emerging markets are appropriately taken into consideration in the development of global policies and international standard-setting.

Part Two
Supervising our market

SUPERVISING OUR MARKET

INTRODUCTION

The year 2012 was significant for the Malaysian capital market from perspectives of growth, performance, rising sophistication in financial intermediation and new product issuances. The strong performance and vibrancy of the market stood out against the backdrop of very challenging global economic conditions. The resilience of the market and sustained investor confidence have been the culmination of measured and directed efforts by the SC to reinforce and modernise the market ecosystem.

During the year under review, the SC has directed its attention to further strengthening institutional arrangements with a view to streamlining accountability, reducing unnecessary overlaps in responsibilities and enhancing co-ordination and co-operation among the key regulatory institutions. The SC also recognised the need to reinforce and advance the domestic financial ecosystem by encouraging the orderly development of the capital market through regulatory changes aimed at addressing the changing demands and needs of the market.

To achieve these objectives, the SC focused on ensuring regulations are purpose-built and effective; raising the standards of market conduct through robust supervisory mechanisms; and enhancing corporate governance practices to manage risks to investor protection and stability. These efforts are aligned with the *Capital Market Masterplan 2* (CMP2) which sets the tone and strategic long-term direction of the Malaysian capital market.

Supporting the strategic theme of the CMP2, the SC strived to nurture growth with governance by striking the right regulatory balance that promotes competition and resilience without compromising investor protection or impinging on businesses' ability to operate. In addition, to further safeguard a competitive market, the SC has aligned, where necessary, key features of our regulation with international standards and best practices. In this regard, the SC was a key player undergoing the rigorous Financial Sector Assessment Programme by the IMF and the World Bank to verify our legal, institutional, regulatory and supervisory frameworks were aligned to best international practices.

In discharging our supervisory functions, the SC proactively focused on preventive and corrective actions to address early regulatory concerns. Emphasis has been placed on the adoption of thematic and risk-based approach, allowing for appropriate level of intervention, judgement and monitoring that is proportionate to the level of risk. This enabled the SC to prioritise resources efficiently on areas with the greatest impact on the market and investors, as well as to detect emerging issues at an early stage.

STRENGTHENING INSTITUTIONAL ARRANGEMENTS

Audit Oversight Board

The Audit Oversight Board (AOB) is a key component in the governance and institutional arrangement for the effective oversight of auditors of public interest and listed entities. The AOB is aimed at protecting the interest of investors and advancing the public interest in the preparation of informative, reliable, accurate, and independent audit reports. To achieve these goals, the AOB oversees and maintains the registration of all auditing firms, inspects registered firms that file or participate in the preparation of audit reports of public companies and where appropriate advises on auditing and other professional standards.

During the year under review, the AOB registered a total of 67 domestic audit firms and 293 local individual auditors. The AOB also recognised 14 individuals from six foreign audit firms involved in the audit of eight foreign corporations pursuant to powers under the

Securities Commission Act 1993 (SCA). The provisions under the SCA provide recognition of foreign auditors who audit the financial statement of foreign corporations listed on Bursa Malaysia.

The AOB also intensified its supervisory efforts through various inspections carried out during the year. It adopts a risk-based approach to supervision. In 2012, the AOB completed inspections on 19 audit firms involving 40 individual auditors. The emphasis of inspections was to determine the sufficiency and appropriateness of audit evidence to support the audit opinion. In addition to regular risk-based inspections, the AOB also performed thematic reviews during the year on the audits of financial institutions such as stockbroking companies and banks.

Federation of Investment Managers Malaysia

The Federation of Investment Managers Malaysia (FIMM) was recognised as a self-regulatory organisation (SRO) for the investment management industry in 2011. FIMM's members comprise operators of collective investment schemes and distributors of unit trust products. FIMM is responsible for regulating its members particularly in the areas of distribution and marketing of unit trust products. FIMM carries out proactive supervision and enforces against breaches or non-compliance of its rules and regulations.

FIMM itself, by virtue of the CMSA, is subject to oversight by the SC. In overseeing FIMM, the SC ensures that it discharges its regulatory functions effectively and impartially. The SC also ensures that FIMM has the capacity, proper governance arrangements and a strong operating environment to effectively regulate and supervise its members.

In 2012, the SC held its first high level dialogue with the Board of Directors of FIMM to communicate its supervisory objectives and framework, to provide clarification on FIMM's roles and responsibilities, and to reiterate its reporting obligations to the SC. The year also saw the SC undertaking the first regulatory audit on FIMM since its recognition as an SRO. The audit focused on the adequacy of FIMM's governance arrangements, the robustness of its complaints handling processes and compliance with the terms and conditions imposed upon its recognition. Apart from the audit, the SC also monitors FIMM's activities through regular engagements and structured reports.

Securities Industry Dispute Resolution Center

The accessibility to alternative dispute resolution mechanisms and the institutionalisation of avenues for investor redress are important components to meet investor interests in a growing market. To address this need, the Securities Industry Dispute Resolution Center (SIDREC) was established in 2011 to provide investors with an independent avenue for affordable and timely redress.

In 2012, efforts to increase investor awareness of SIDREC's services were actively pursued, particularly to highlight procedures on lodging claims with SIDREC and building understanding on modalities within SIDREC to assist the investing public in resolving capital market disputes involving its members.

SIDREC's members which comprises stockbroking companies, unit trust companies, derivatives brokers and fund management companies also continued to engage with their clients and provided necessary information compiled by SIDREC on dealing with aggrieved claimants. Clients were also made more aware of SIDREC's role as an avenue of mediation if the company could not resolve clients' monetary complaints to their satisfaction.

In 2012, in an effort to raise awareness among potential claimants, short messages on SIDREC were included in periodic statements issued by Bursa Depository Sdn Bhd to all Central Depository System (CDS) account holders. In addition, SIDREC engaged with clients of investment banks and stockbroking companies through the Market Chat road shows organised by Bursa Malaysia Securities Bhd. Through these events, which were held in towns throughout Malaysia, SIDREC was able to engage with relevant parties and obtain feedback from persons who would be most likely to use SIDREC's services.

These promotional activities were supplemented by efforts which targeted the wider investing public. SIDREC continues to participate with the SC on investor awareness events throughout 2012, such as investor road shows and *Klinik Sihat Labur*. In addition, SIDREC advertised its services in *StarBiz* (business section of *The Star* newspaper), and has been featured in newspaper articles aimed at retail investors.

The heightened awareness of SIDREC has been reflected in the significant increase of enquiries and claims that have been submitted to the dispute resolution body. Details are contained in the SIDREC 2012 Annual Report.

With the establishment of the Capital Market Compensation Fund, SIDREC's scope has been broadened to include those claims that were usually made to Bursa's compensation funds which would not involve an insolvent entity.

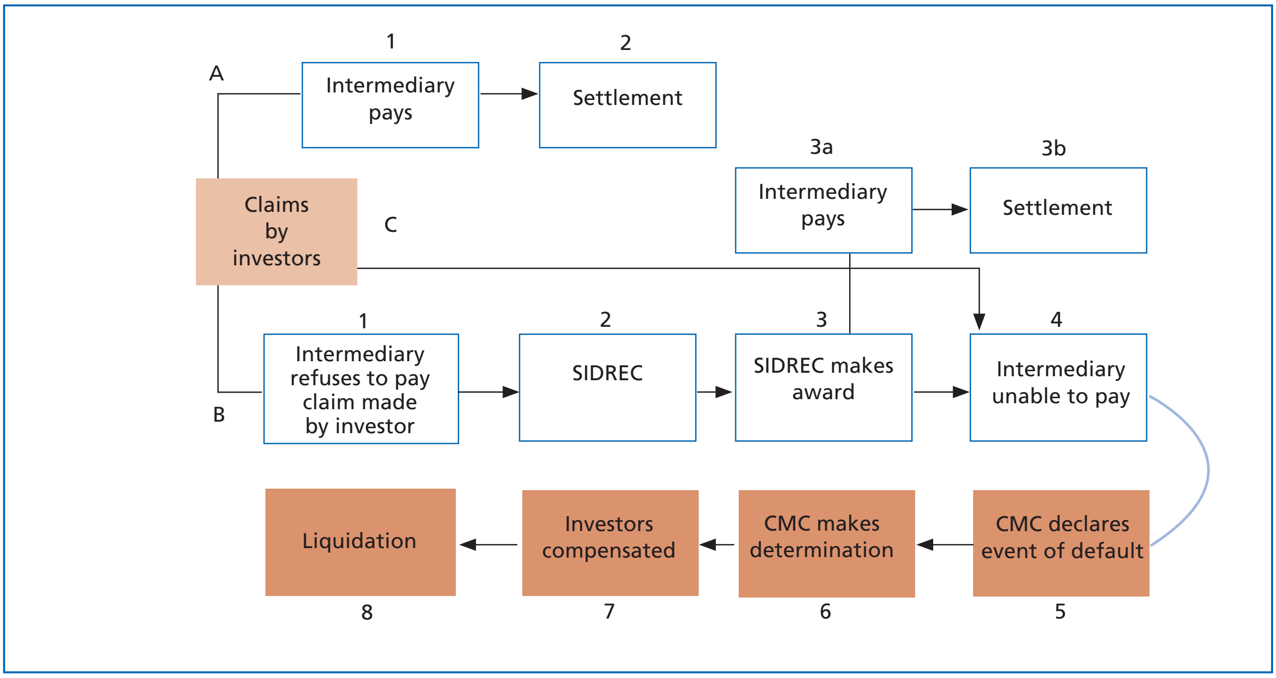
Capital Market Compensation Fund

In December 2012, the Capital Market Compensation (CMC) Fund was established to consolidate the existing compensation funds. The establishment of the CMC Fund further complements improvements in market infrastructure by providing yet another independent avenue for investor redress.

In essence, the CMC has widened the scope of compensation to include the fund management industry and private retirement schemes. Its remit has been broadened and streamlined to cover claims below RM100,000 arising from fraud, defalcation as well as mis-selling of products where the licensed entity concerned is insolvent or about to become insolvent. Monetary claims below RM100,000 involving fraud, defalcation or mis-selling related to licensed entities which are not insolvent, can be made to SIDREC.

SIDREC and the CMC provide smaller retail investors a single independent point of recourse for monetary claims, with the CMC as the avenue for monetary claims against insolvent licensed entities and SIDREC against licensed intermediaries who are not insolvent. The availability of these two additional avenues of redress will improve administrative efficiency, simplify recourse for investor compensation and enforce individual accountability vis-à-vis the licensed entities.

Diagram 1
Process for settlement of mandatory claims through SIDREC and CMC



Collaboration with Bank Negara Malaysia

On 30 October 2012, the SC signed a new memorandum of understanding (MoU) with Bank Negara Malaysia (BNM).

The MoU establishes a framework for co-operation between the SC and BNM to ensure the orderly development of the capital and money markets with adequate investor protection. The MoU was entered into with a view to formalise the arrangements in governing areas of shared responsibility to enable both regulators to effectively discharge their statutory obligations.

The MoU sets out the roles and responsibilities of both regulators and establishes effective mechanisms to facilitate co-operation and information exchange. The setting of clear regulatory perimeters is intended to avoid unnecessary duplication in regulation and provide clarity to the entities being regulated. At the same time, it allows regulatory gaps to be addressed.

The MoU builds on and further strengthens the previous MoUs signed by SC and BNM in 2002 and 2007 respectively. It provides for an enhanced scope of collaboration and co-operation between BNM and the SC in areas with common regulatory and supervisory interests. The MoU clarifies the manner in which both regulatory agencies can work together in the following areas:

- formulation of legislation and policies;
- regulation and supervision of entities which come under the joint regulatory oversight of BNM and the SC;
- supervision of the payment system;
- mutual recognition of financial planners and financial advisers; and
- conduct of investigation and enforcement actions.

The enhanced MoU also paves the way for continued collaboration and information sharing between BNM and the SC in areas which are critical in managing threats to financial stability and systemic risk, including supervision of financial groups, management of financial crisis, supervision of money market and derivatives market, combating threats relating to money laundering and terrorism financing and supervision of auditors of financial institutions.

INTRODUCING REGULATORY CHANGES

Sales Practices Guidelines

The SC released the *Guidelines on Sales Practices of Unlisted Capital Market Products* (Sales Practices Guidelines) in December 2012. This initiative is in line with the recommendation of the CMP2 and the global reform agenda on enhancing investor protection through investor empowerment.

The Sales Practices Guidelines cover each life cycle stage of an unlisted capital market product beginning from the development phase until its distribution to the mass market. The guidelines aim to provide investors access to good quality, relevant and effective information in relation to unlisted capital market products. It sets out the SC's expectations on product issuers and distributors in relation to their conduct and business practices in the issuance, marketing and selling of such products.

The guidelines seek to instil the principle of fair treatment to investors by imposing the following requirements:

Disclosure of Information

Distributors must ensure sufficient information is disclosed to investors to enable them to make an informed investment decision. This includes providing investors with a Product Highlights Sheet (PHS) which offers concise and salient information to help investors understand the product. This is aimed to encourage investors to be responsible for their investment as the PHS facilitates product comparison.

Suitability Assessment

Product distributors are required to conduct a suitability assessment to collate information on the investor's personal background, financial situation, investment needs, level of knowledge and investment experience in order to determine the risk profile of the investor. Investment recommendations made to potential investors should be based on the outcome of the assessment.

Enhanced disclosures in take-over transactions

In September 2012, the SC issued an expanded Practice Note addressing the requirements on independent advice circulars (IACs) for take-over offers. The expanded requirements provide shareholders who are subject to a take-over offer with clearer and more comprehensive advice to enable them to make informed decisions.

Under the enhanced Practice Note, advisers are required to consider 'fair and reasonable' as two discrete terms in making a recommendation on an offer. For an offer to be 'fair', the offer price must be at least equal to or greater than the value of the securities that are the subject of the take-over offer. Advisers should also take into consideration all relevant factors in evaluating whether an offer is 'reasonable' including the ability of the offeror to pass special resolutions, liquidity of the offeree securities, and other qualitative considerations. The decoupling of the terms will further ensure that independent advice circulars are more easily understood, transparent and provide clear basis to justify a recommendation.

Independent advice circulars on take-over related matters

The SC's regulatory objective in supervising the conduct of take-over practices is centred on affording fair treatment to affected shareholders, particularly minority shareholders. In November 2012, the SC stepped up the protection accorded to shareholders of target companies by enhancing the provisions of Practice Note 15 of the *Malaysian Take-Overs and Mergers Code 2010* (TOM Code 2010) which relates to IACs.

The enhanced guidance over IACs was issued following a public consultation and aimed to ensure that recommendations issued by independent advisers are comprehensible and reliable. Specifically, the TOM Code 2010 which sets the requirement for independent advisers (IAs) to comment and advise on the reasonableness of an offer is now enhanced with a well-defined and clear interpretation of the terms 'fair' and 'reasonable' that is to be applied consistently for all take-over bids. This seeks to ensure that IAs undertake sufficient analysis and assessment in reaching a conclusion, thereby placing greater accountability on the IAs to provide meaningful and comprehensible recommendations to assist the affected shareholders in arriving at an informed decision in a take-over bid.

Best Practice Guide for Independent Advice Letters

Independent advisers (IAs) are expected to act with due skill, care and diligence in advising how shareholders should exercise their voting rights to their best interests in respect of a corporate action. It is essential that IAs conduct their roles professionally and take all reasonable steps to ensure there is an appropriate basis for the recommendation made to shareholders which is contained in the Independent Advice Letter (IAL).

Given the significance of the IAL, the SC in December 2012 issued a joint public consultation paper with Bursa Malaysia to propose a best practice guide for IAs and promote consistency in IALs. The consultation paper sets out a number of proposals aimed at providing greater clarity of regulatory expectations on the roles of IAs and to offer guidance to enhance the standards of disclosures in IALs. The keys areas covered in the guide include, amongst others, considerations for acceptance of engagement, valuation matters and the contents of an IAL. The best practice guide is intended to reinforce the regulatory regime over IAs and it is envisaged that the enhanced disclosures and quality of the IALs will in turn empower shareholders with more meaningful information for an informed decision.

EFFECTIVE SUPERVISION

Authorisation and licensing

Authorisation and licensing are part of the SC's gatekeeping function that focuses on the integrity of the market and confidence of the investors on the fitness and ability of market intermediaries to carry out capital market activities.

During the year under review, the SC issued a total 1,122 new licences to dealers' representatives, bringing the total number of licensed dealer representatives as at 31 December 2012 to 9,375. There were three new licences issued to companies for carrying out corporate finance and fund management activities. The total number of licensed corporate finance companies and fund management companies as at 31 December 2012 stands at 44 and 81 respectively.

In 2012, the SC continued with efforts to further develop the licensing framework to cater to the needs of our expanding markets.

Referral activities

To enhance the platform for marketing and promoting capital market products, the SC amended the *Licensing Handbook* in May 2012 to include referral activities as a permissible activity for individuals licensed to deal in securities and derivatives. The amendment paved the way for greater cross participation between both the securities and derivatives markets as it allows brokers from either market to undertake the activity of introducing agents. The securities and derivatives firms are responsible for the appropriate safeguards to ensure high standards of practice and integrity in the conduct of introducing agents. This initiative will lead to a more facilitative trading environment with the aim of increasing the number of participants and spur further growth in our markets.

Licensing of trustee-managers and REIT managers

The amendments to the CMSA which came into effect in December 2012 has amongst others, expanded the definition of 'fund management' to include activities in the management of assets in a unit trust scheme. The new definition requires Trustee-Managers who manage and hold assets of a business trust, and real estate investment trust (REIT) managers who manage assets under a REIT scheme, to be licensed by the SC as fund managers. As a result, the activities, conduct and the fit and properness of Trustee-Managers and REIT managers will now fall under the oversight of the SC.

Registration of trading and introducing representatives

In 2012, the SC has introduced two new classes of registered persons, namely 'Trading Representative' and 'Introducing Representative' through the issuance of the *Guidelines for Registered Person* (Registered Representative).

This initiative strengthens the role of dealers and dealer representatives by facilitating provision of specialised services, allowing focus on client servicing and enabling access to a greater client base. These new classes of registered persons are eligible to qualify as full-fledged dealer representatives after two years upon meeting the relevant criteria.

This guideline also enhances the opportunity for fresh talent to join the stockbroking industry as registered representatives to undertake execution of trades or act as introducers on behalf of stockbroking companies.

Oversight of Bursa Malaysia

Bursa Malaysia plays multiple key roles in the capital market; as provider of a market for securities and derivatives products; provider of clearing, settlement and depository services; as well as a front-line regulator. Given this significance, the SC constantly monitors and evaluates Bursa Malaysia's operations to ensure that it conforms to its regulatory obligations and fulfils the interest of the investing public.

In 2012, the annual regulatory audit carried out by the SC reviewed the critical areas which include Bursa Malaysia's surveillance and supervision capabilities, operational efficiencies of the clearing houses and central depository as financial market infrastructures, and the effectiveness of its risk management systems and internal controls. Operational and regulatory gaps identified during the audit were escalated to the senior management.

In addition to the annual audit, the SC conducts oversight over Bursa Malaysia through the various reporting requirements imposed as well as the review and approval of its business rules. This facilitates the continuous monitoring of Bursa Malaysia's regulation over public-listed companies (PLCs), supervision of its participants and surveillance of the secondary markets. During the year, the SC held a high level dialogue with the board of directors of Bursa Malaysia to discuss and address issues concerning the discharge of its duties and responsibilities as an integrated exchange for the Malaysian capital market.

The close monitoring by the SC also serves to ensure that Bursa Malaysia meets all its continuing obligations as a listed entity and observes the Main Market Listing Requirements. In carrying out its functions, Bursa Malaysia is expected to strike a proper balance between its commercial interests and its regulatory obligations. The SC continuously engages with Bursa Malaysia to strengthen its governance framework and controls to mitigate potential conflict of interest situations.

Supervision of intermediaries

The SC's supervisory strategies and mechanisms are targeted at safeguarding and ensuring the integrity and soundness of capital market intermediaries with the objective of raising the standards of market conduct. Supervisory activities are designed to commensurate with the level of risks assessed. In deriving the risk profiles of intermediaries, calibrated assessments embracing both quantitative and qualitative aspects are considered and applied with appropriate supervisory judgements.

The SC's Risk Profiling Framework was further enhanced in 2012 to reinforce the examination of firm specific risks and thematic concerns of market intermediaries. The self-assessment exercise was also extended to derivatives firms where they were required to review their internal controls and risk management procedures and submit their assessment for SC's evaluation.

Recognising the need for a strong compliance culture in the intermediaries, the examinations conducted in 2012 focused on governance arrangements and the tone from the top. Five key oversight functions within the intermediaries were targeted. These comprise the board of directors, senior management, risk management, internal audit and compliance. Each of these functions was examined to determine its effectiveness in cascading good business practices and instilling proper standards of market conduct.

The examination findings generally indicated the need for greater compliance awareness across all levels of employees within a firm. In addition, the independence and the scope of the compliance function have to be enhanced to commensurate with the scale and breadth of the respective intermediaries' business operations.

In addition to on-site examinations, on-going off-site monitoring activities were carried out to observe the financial soundness and business continuity of the intermediaries. Off-site monitoring entailed analysis of the intermediaries' self-assessment report and their periodic submissions with a view to identify those that may potentially be in financial difficulties. This enabled the SC to implement timely pre-emptive measures in reducing possible threats to the financial sustainability of the intermediary.

During the year under review, the SC designed a stress testing model which was used to assess the capital adequacy of stockbroking companies and their resilience in the event of adverse market conditions. To further mitigate risks posed by the intermediaries, the SC strengthened its Intervention Framework to allow a consistent approach to be adopted for early intervention. This framework prescribes the parameters of the various intervention stages and possible measures to be undertaken by the SC in the event of deficiencies of an intermediary.

Effective communication and engagement with the industry players remained a fundamental part of the SC's regulatory process. The SC had actively engaged with the intermediaries, especially its directors and senior management, in two-way dialogues to understand and appreciate their business models, aspirations and strategies while at the same time keeping abreast with industry updates and developing trends. Leveraging on the inputs and feedback obtained, the SC strengthened its risk profiling exercise and assessment methodology. In addition, these engagements served as a useful platform for the SC to address supervisory gaps and to communicate regulatory expectations.

Through dialogues, industry consultations and workshops, the SC extended its reach to external stakeholders such as statutory auditors, advisers, industry bodies and practitioners to evaluate the regulatory concerns affecting the intermediaries and the market as a whole and obtain their feedback. In July 2012, the Auditor's Report on Client Assets (CAR) was introduced to the fund management industry as part of SC's client assets protection measures. The CAR was formulated after consultations with a Working Group comprising the Malaysian Institute of Accountants and representatives from audit firms involved in the statutory audit of fund management companies.

Supervision of systemically important financial institutions

In response to the changing market environment following the 2008 global financial crisis and in line with global regulatory reforms, the SC recognised the need to enhance the existing regulatory framework in managing and reducing systemic risks. In this regard, the SC has taken steps to enhance the intensity and effectiveness of its supervision over systemically important financial institutions (SIFIs).

During the year under review, the SC formalised a coherent framework for defining, quantifying and identifying entities within the market that qualify as a SIFI. Following this exercise, those intermediaries identified as SIFIs were subjected to stringent examination and monitoring. Specific supervisory plans were developed for the respective SIFIs to identify areas of high risks concentration and systemic vulnerability with the objective of ensuring an effective crisis management procedure is in place. In addition to heightened oversight of the business conduct and processes adopted by the SIFIs, the SC also examined the business models, strategies, risks and mitigating measures to assess robustness to withstand challenges during times of economic turbulence.

Supervision of credit rating agencies

High quality independent credit rating supports and encourages sound decision making by investors. The SC's oversight on credit rating agencies (CRAs) is focused at safeguarding investors' interests by preserving the integrity and objectivity of the credit rating process.

During the year under review, the SC conducted the first on-site examination on the two domestic CRAs, Malaysian Rating Corporation Bhd and RAM Rating Services Bhd. The examination focused on the key principles set out in the code of conduct for CRAs as prescribed by the IOSCO. This includes assessments into areas such as corporate governance, integrity of the rating process, independence and objectivity in managing conflicts of interest and operational capabilities. Alongside the examination, the SC also conducted a review into the state of compliance with the requirements of the CRA Guidelines that was issued in 2011.

Bond trustees and bond pricing agencies also fall within the SC's purview under the CMSA. The trustees are relied upon to safeguard the interests of bondholders while pricing agencies are depended on to generate fair and independent valuations. There are currently 15 bond trustees and one bond pricing agency registered with the SC. Through off-site monitoring and engagements, the SC assessed the intermediaries' adherence to the regulatory requirements, in particular, on critical areas such as governance structure, internal audit and risk management functions, as well as their operational, compliance and monitoring capabilities.

SURVEILLANCE

Market surveillance

The SC's various enforcement efforts are underpinned by pre-emptive regulatory actions as a measure to protect investors against market abuses. The rapidly changing landscape of the capital market and the increasing complexity of financial products have prompted the SC to intensify our oversight of market activities. Our surveillance team monitors risks arising from major changes in the economy and identify emerging trends in the market environment that require regulatory response. Our resources are focused on early detection of market irregularities and to take the necessary pre-emptive remedial actions. One-on-one engagement sessions were held with several Participating Organisations to highlight our regulatory concerns and to emphasise their gatekeeping roles within the regulatory ecosystem.

Technological advancements improved the operational efficiency of our surveillance work while allowing us to keep up with the increasing complexity of trading techniques, evolving modus operandi and the proliferation of electronic trading. We automated a large part of our internal processes and equipped ourselves with more comprehensive analytical tools to detect unusual price and volume movements in both the stock and derivatives markets. Through consultation with market practitioners and other regulators, we leveraged on their experience to refine our surveillance techniques over electronic trading including algorithmic trading and direct market access. We further intensified our surveillance process by recalibrating the trading alerts in our surveillance system to detect a wider range of irregular trading practices.

The SC's surveillance work is co-ordinated closely with Bursa Malaysia, the front line regulator that plays a fundamental role in complementing our oversight function. Aligned with the SC's focus on pre-emptive actions, Bursa Malaysia also stepped up its market intervention measures including surveillance queries and unusual market activity queries at an early stage to reduce the risk of sudden disruptions and prevent any possible trading irregularities. Resulting from concerted efforts by the SC and Bursa Malaysia, our markets remained stable and market integrity was preserved despite the extreme volatility and speculative trading experienced this year in some of our market segments.

The SC continued our active surveillance of bond trading to detect any irregular trading patterns that would undermine integrity of the market. Detailed analysis of trade data and price volatility and engagements with relevant bond traders were carried out to determine any potential breach of securities laws.

As part of the SC's effort to improve its monitoring effectiveness, a surveillance protocol was also formalised between the SC and BNM. The SC also entered into a memorandum of understanding to enhance the scope of collaboration and co-operation with BNM.

Financial and corporate surveillance

With the issuance of the Malaysian Financial Reporting Standards (MFRS) which came into effect beginning 1 January 2012, Malaysia's accounting framework is now fully convergent with the International Financial Reporting Standards. Against the backdrop of this significant transition in the financial reporting landscape, the SC played a supporting role in promulgating the prudential compliance of the MFRS, both in form and in substance, to promote quality financial reporting.

As part of this initiative, the SC reached out to various stakeholders in the financial reporting eco-system including directors of PLCs, professional accountants, auditors, advisers and industry associations in recognition of the critical role they play in shaping the quality of financial reporting practices. Stakeholders were reminded of their responsibility to ensure the dissemination of timely and accurate information to the investing public to enable informed decision-making.

The SC has continuously supported all measures to facilitate and educate PLCs in adopting the necessary changes in financial reporting and to ensure a smooth transition of convergence with the IFRS. We participated in various discussions with domestic standard setters and other stakeholders in an effort to keep abreast with ongoing developments, for instance, the upcoming revised standard by the International Accounting Standards Board on revenue recognition. The SC also takes a close interest in monitoring the development of MFRS 141, Agriculture due to the concerns raised by the industry concerning the valuation of biological assets.

Correspondingly, our corporate surveillance activities in 2012 were focused on financial reporting issues that may have a material impact on the capital market. Our review was targeted to ensure a coherent and consistent implementation of the MFRS, particularly where there have been divergent views on its interpretation or application. We continued to be pro-active in taking preventive action to address any early concerns in relation to corporate conduct and transactions of companies with high market capitalisation. As part of our systemic and reputational risks review, we scrutinised disclosures made by PLCs through announcements, circulars and prospectuses as well as other publicly available information. Our review also considered the intelligence received from complaints channeled to SC in connection with corporate malpractices.

CORPORATE GOVERNANCE

Strengthening corporate governance represents one of the key thrusts to reinforce investor trust and confidence in the capital market. The *Malaysian Corporate Governance Blueprint 2011* (Blueprint), a five-year plan which seeks to further improve corporate governance standards in Malaysia, considers approaches aimed at strengthening self and market discipline, complementing regulatory discipline, and promoting the internalisation of corporate governance culture. The introduction of the new *Malaysian Code on Corporate Governance 2012* by the SC marks the first major deliverable following the implementation of the Blueprint.

Malaysian Code On Corporate Governance 2012

The *Malaysian Code on Corporate Governance 2012* (MCCG 2012) was released on 29 March 2012. The MCCG 2012 supplements certain recommendations contained in the superseded 2007 Code and also introduces new recommendations to enhance corporate governance standards in Malaysia.

The MCCG 2012 outlines corporate governance practices which extend beyond those regulated by law. These recommendations are in line with the aspiration that the boards of directors and shareholders of companies should not only seek to achieve financial competitiveness, but also to encourage ethical practices and high standards of governance.

The MCCG 2012 focuses on clarifying the role of the board in providing leadership, enhancing board effectiveness through strengthening its composition and reinforcing its independence. The Code also encourages companies to put in place corporate disclosure policies that embody principles of good disclosure and transparency. Companies are encouraged to make public their commitment to respecting shareholder rights.

Survey on board fees

Boards play the role of stewards and guardians of the company and are key to raising corporate governance standards. Driven by a progressively complex market place, boards must have the ability to draw on a wide range of viewpoints, skills, expertise and background to make the best decisions in the interest of the company. The evolution of a board is critical to the growth of any company and in tandem, remuneration packages should remain competitive to attract and retain talent while being linked to performance.

A collaborative survey on board fees in Malaysia by the Minority Shareholder Watchdog Group and Towers Watson is underway. This online survey was initiated in response to the recommendation of the *Malaysian Corporate Governance Blueprint 2011*. This initiative provides insights into the current remuneration levels and practices of the corporate boards in Malaysia. The results and data gathered from the survey will be used in calibrating the SC's efforts and future strategies with respect to corporate boards.

The online survey commenced on 1 November 2012 and the report is targeted to be released by the second quarter of 2013.

ASEAN CG Scorecard

The SC also plays a pivotal role in the promotion of good corporate governance regionally. The ASEAN corporate governance initiative comprising the ASEAN Corporate Governance Scorecard (Scorecard) and the ranking of corporate governance of ASEAN PLCs are among several regional initiatives led by the SC under the ASEAN Capital Markets Forum banner. This initiative is intended to raise corporate governance standards and practices of ASEAN PLCs, showcase well governed companies in the region and promote ASEAN as an asset class.

The initiative is now in its second year (2012). For the pilot year, the Scorecard was used to rank the top 30 PLCs in Indonesia, Malaysia, Philippines, Singapore, Thailand and top 10 PLCs in Vietnam. The target for the second year is to release the results of the top 50 PLCs from each of the participating jurisdiction except for Vietnam where the list will be top 30 PLCs.

CLSA-ACGA CG Watch 2012

In the Corporate Governance Watch 2012 Report, Malaysia has improved its ranking in the Asia-Pacific region by advancing to the fourth spot, two notches up from the sixth position it held in 2010. The Report is the result of a survey undertaken by the Asian Corporate Governance Association in collaboration with CLSA Asia-Pacific Markets (ACGA-CLSA). The biennial Corporate Governance Watch reports on the corporate governance landscape of 11 Asian nations since 2000.

The report attributed Malaysia's improvement in corporate governance ranking to amongst others, the publication of the 5-year *Malaysian Corporate Governance Blueprint 2011* and the fact that Malaysia is one of the few markets in Asia that undertook a major overhaul of its code of corporate governance, bringing the standards expected of boards of directors in line with international standards.

The report also marked an improvement in terms of corporate governance culture in Malaysia, and observed that companies seem to be taking more interest in improving corporate governance practices, and in contrast to two years ago (2010), it is companies rather than the government that seem to be making more of a difference in the country's corporate governance landscape.

ATTAINING INTERNATIONAL STANDARDS

Financial Sector Assessment Programme

The SC is committed to continuously benchmarking itself against international standards and best practices, which is reflected in the rules, regulations and practices in the Malaysian capital market. In attaining international standards, SC has participated in assessments conducted by independent experts based on new standards introduced since the global financial crisis (GFC), which have greater focus on effectiveness of implementation of laws, rules and regulations as well as institutional frameworks supporting inter-agency co-operation and collaboration.

Overall, the assessments found that the SC has sustained compliance with the latest, more stringent international standards at a very high level. These findings validate the strategies and policies that have been adopted by the SC that are dynamic and continuously evolve in building a stable and sound capital market, and in response to new challenges as we progressively build scale to grow the Malaysian capital market.

In 2008, we voluntarily underwent an independent assessment to benchmark our compliance with the IOSCO Objectives and Principles of Securities Regulation (IOSCO Principles), and this included our assessment on compliance with CPSS-IOSCO Recommendations for Securities Settlement Systems (RSSS). The SC was also early in undertaking an assessment of its corporate governance arrangements in 2002, which is followed up with an update in 2005.

When Malaysia decided to participate in the Financial Sector Assessment Programme (FSAP), the SC and the Malaysian capital market were measured against the latest global standards. SC's participation in the FSAP in 2012 was extensive, covering all aspects of managing the capital market, providing a facilitative environment that supports growth of markets and contributing to stability of the financial sector by promoting resilience. SC not only participated in FSAP assessments which directly evaluated the state of the capital market, but also other accompanying assessments on the financial environment that are more indirect, but critical to a sound and stable financial sector, such as assessments on corporate governance and accounting standards.

The FSAP was conducted jointly by the International Monetary Fund (IMF) and World Bank and involved domestic agencies responsible for the financial sector. Although the assessments covered the regulatory and supervisory framework of the overall financial sector in Malaysia, this part will focus mainly on the FSAP coverage on the capital market, the regulatory framework and SC's approach in regulating the capital market.

FSAP in Malaysia

The FSAP, in the context of the capital market in Malaysia, covered the following core areas:

- Stability aspects of the capital market through assessing the quality of regulation and supervision over intermediaries and the securities and derivatives market;
- Ability of supervisors, policymakers and financial safety nets to respond effectively in a crisis;
- Close analysis of effectiveness of the legal, regulatory and institutional framework with a strong focus on implementation issues to determine the degree of soundness of capital market institutions and markets; and
- Analysis of development efforts to expand the capital market and assess the quality of development strategies and measures in terms of sustaining or improving soundness of the institutions and markets, as well as from perspectives of efficiency.

The major output from the FSAP exercise is a set of reports containing detailed assessment findings and recommendations by the assessors.

One of key components of the FSAP is the Reports on the Observance of Standards and Codes (ROSC). ROSCs are formal assessments on areas relating to financial regulation and supervision, market integrity and policy transparency. They are performed by experts using established methodologies and by reference to comprehensive and detailed international standards, which are specific to the areas examined. In relation to the capital market, the SC was involved in the core assessment on securities regulation (IOSCO ROSC),

Box 5:

The Establishment and Evolution of FSAP

The Financial Sector Assessment Programme (FSAP) was introduced in 1999 to provide an objective, third-party assessment of a country's financial sector, which is meant to complement day-to-day regulation and supervision conducted by domestic financial sector authorities.

> *"[FSAP] is a key instrument of the Fund's surveillance and provides input to the Article IV consultation. In jurisdictions with financial sectors deemed by the Fund to be systemically important, financial stability assessments under the FSAP are a mandatory part of Article IV surveillance, and are supposed to take place every five years; for all other jurisdictions, participation in the program is voluntary.*
>
> *In developing and emerging market countries, FSAPs are conducted jointly with the World Bank. In these countries, FSAP assessments include two components: a financial stability assessment, which is the responsibility of the Fund, and a financial development assessment, which is the responsibility of the World Bank.*
>
> *Each individual country's FSAP concludes with the preparation of a Financial System Stability Assessment (FSSA), which focuses on issues of relevance to IMF surveillance and is discussed at the IMF Executive Board together with the country's Article IV report."*
>
> ***Extract from the IMF's description of FSAP***

Since its inception, more than 140 countries have completed the programme. These countries include advanced and emerging economies, such as Argentina, Australia, France, Japan, and Sri Lanka.

Following the global financial crisis, the IMF and World Bank reviewed the standards and the FSAP process and implemented significant enhancements across the many assessment standards. In most cases, the enhancements focused on stability-related issues, with more rigorous examinations of rules, regulations and practices relating to exposure of institutions to various risk scenarios, examinations of vulnerabilities and effectiveness of risk mitigation measures. The more stringent standards involved introduction of comprehensive and rigorous assessment methodologies as well as greater emphasis on a broader pool of potential risks, including cross-country links, spillover effects and co-ordination arrangements. This revamp significantly raised the compliance 'bar' for countries participating in FSAP after the global financial crisis.

accounting and auditing (AA ROSC), corporate governance (CG ROSC) as well as financial market infrastructure relating to securities clearing and settlement (FMI ROSC).

In addition to the ROSCs, another important component of the FSAP is the Technical Notes, which are topical reviews of clearly-defined areas or themes with the aim of identifying scope for further improvement and providing recommendations. The SC also was involved in the preparation of several Technical Notes on key areas in the capital market, where the review and findings by the assessors will be reflected in the assessment reports.

The SC's involvement in FSAP

Assessments under the FSAP were performed by subject matter experts and experienced assessors comprising IMF and World Bank staff as well as external consultants. The SC, in getting ready for the assessments, undertook extensive preparatory work, including completing self-assessment reports based on the IOSCO Principles and the FMI Principles, responding to FSAP questionnaires, and furnishing data and written responses on a range of topics and questions posed by the assessors. The assessments by the FSAP assessors were detailed and intensive, and conducted throughout the year, through desk reviews as well as several on-site engagements with SC staff and other relevant stakeholders in the capital market.

Key FSAP findings

Overall, the FSAP assessors have found that the securities regulatory and supervisory framework in Malaysia exhibits high levels of compliance vis-à-vis international standards. This has resulted in the development of a strong regulatory and supervisory framework, investment in a modern financial market infrastructure and strong growth in across various capital market segments.

The report concluded that reforms undertaken by the SC as well as other domestic authorities have resulted in a transformed and strengthened Malaysian financial sector, which remained resilient throughout the recent crisis. Merger activities also have led to the emergence of capital market intermediaries which are now able to expand into neighbouring markets, thus enabling these entities to build scale and efficiency.

Areas for improvement identified by the assessors are few; most of these have already been recognised by the SC in the CMP2 and the *Malaysian Corporate Governance Blueprint 2011*. As a result, work is already underway to address any identified gaps and strengthen the regulatory environment in preparation for the next phase of capital market development. A number of recommendations have already been implemented in full, including on-site inspections on self-regulatory organisations (SROs) and credit rating agencies (CRAs).

Assessment on securities regulation and supervision

The SC has scored well in the core assessment on securities regulation (IOSCO ROSC), with nearly all of applicable principles receiving the highest possible rating of 'Fully Implemented'. These principles are highly comprehensive, covering areas ranging from the strength of the regulatory institution itself to laws and processes on issuers, collective investment schemes, market intermediaries, secondary markets as well as other market participants.

The assessments found that the SC practices effective risk-based supervision over the entities under its purview and has adopted "appropriate supervisory techniques that reflect emerging best practices including risk-based capital requirements, stress testing, peer group comparisons and horizontal reviews." The core assessment on securities regulation also recognised the strong foundation that has been established in the capital market, by noting that the measures implemented under the CMP1 contributed significantly towards "a restructuring of the financial sector, underpinned by a strong regulatory and supervisory framework resulting in a transformed and strengthened financial sector which weathered the recent global financial crisis well."

Overall, this result attests to the quality of regulation and supervision in the Malaysian capital market, and the effectiveness of the strategies and policies adopted by the SC in fulfilling its two-pronged regulatory and market development mandates. The high level of compliance accorded to the SC in the core assessment on securities regulation validates the approach that we have consistently undertaken to benchmark ourselves against international best practices in securities regulation and supervision, while making sure that such measures are effective and appropriate for the Malaysian capital market.

The highly positive result of this assessment is made more significant in light of the extensive revision made to the IOSCO principles and assessment methodology following the GFC. The revisions to the Principles were particularly onerous in the areas impacting assessment of risk management, supervisory intensity in terms of determination of systemically important institutions and the management of their risks, market stability concerns and building resilience to domestic and international shocks. There was also enhancement of standards related to cooperation among domestic regulators and across borders. It is noted that the SC is rated as 'Fully Implemented' for all these new principles introduced after the crisis, thus validating the SC's approach of proactively responding to sources of emerging risks to the capital market by bringing them under formal oversight.

The assessment also recognised the high level of SC's operational independence, and made some recommendations to further strengthen this institutional independence.

Box 6:

The IOSCO Objectives and Principles for Securities Regulation

The core assessment on securities regulation (IOSCO ROSC) was performed based on the IOSCO Objectives and Principles for Securities Regulation, which prescribes the attributes of effective regulation and supervision in the capital market. Each principle is graded on a scale ranging from 'Fully Implemented', which is assigned when the assessor is satisfied that all assessment criteria have been met without significant deficiency, to 'Broadly Implemented', 'Partly Implemented' and 'Not Implemented'.

Following the GFC, the IOSCO Principles were strengthened to include eight new principles focussing on systemic risk, conflicts of interest and misaligned incentives, proactive reviewing of the perimeter of regulation as well as oversight of auditors, credit rating agencies and other information intermediaries. The methodology was also made more stringent with significant new aspects of capital market management being assessed. These were directed mainly at risk management frameworks, the underlying legal provisions, the institutional arrangements, as well as implementation and effectiveness.

Recognising that Malaysia has a sound legal and regulatory framework, the assessors spent significant time evaluating the implementation and effectiveness of regulations. Evidence of enforcement of regulations was studied in substantive detail. Evidence of information sharing and co-ordination and collaboration among regulators was seen as a critical lynch-pin for effective implementation.

Table 1
Assessment categories for Securities Regulation (IOSCO ROSC)

Rating	Interpretation
Fully Implemented	All assessment criteria (as specified in the benchmarks) are generally met without any significant deficiencies.
Broadly Implemented	A jurisdiction's inability to provide affirmative responses to applicable Key Questions for a particular Principle are limited to the Questions excepted under the Principle's Broadly Implemented benchmark and, in the judgment of the assessor, such exceptions do not substantially affect the overall adequacy of the regulation that the Principle is intended to address.
Partly Implemented	The assessment criteria specified under the Partly Implemented benchmark for that Principle are generally met without any significant deficiencies.
Not Implemented	Major shortcomings are found in adhering to the assessment criteria.

Assessment on financial market infrastructures

The Financial Market Infrastructures (FMI) ROSC is an assessment on the integrity of infrastructures which facilitate the clearing, settlement, and recording of monetary and other financial transactions, such as payments, securities, and derivatives contracts including derivatives contracts for commodities.

The assessment was performed based on the new Principles for Financial Market Infrastructures released in June 2012, making Malaysia one of the very first jurisdictions in the world assessed using these standards. These new Principles and assessment methodology are more comprehensive and rigorous than the earlier set of standards on clearing and settlement.

For the capital market, entities assessed are Bursa Malaysia Securities Clearing (BMSC), Bursa Malaysia Derivatives Clearing (BMDC) and Bursa Malaysia Depository (BM Depository). The SC was also assessed vis-à-vis its regulatory responsibilities over these entities. For each principle and regulatory responsibility, the entity assessed is assigned a rating ranging from 'Observed' to 'Broadly Observed', 'Partly Observed' and 'Not Observed.'

The overall outcome of the FMI ROSC is favourable. For BMSC, BMDC, BM Depository and the SC, a high percentage of principles received the highest rating of 'Observed'. The areas for improvement identified in the assessment are mostly operational in nature and work is already underway to address these issues with a view of closing all gaps in the near future.

Assessment on corporate governance (CG ROSC)

In 2012, the World Bank conducted an assessment of Malaysia's corporate governance framework, under the World Bank and IMF programme on Reports on the Observance of Standards and Codes (ROSC). This is the third time that Malaysia's corporate governance framework is being assessed; the first was in 2001 and subsequently in 2006.

The assessment was based on the application of the OECD Principles of Corporate Governance and covered areas such as responsibilities of the board, equitable treatment of shareholders and disclosure and transparency. The ROSC highlights the progress in relation to corporate governance regulations and is a benchmark to measure corporate governance standards in Malaysia. It also makes policy recommendations for future reforms. The methodology adopted for 2012 assessment has been enhanced as compared to the two earlier assessments. Despite the more rigorous and comprehensive coverage with additional features to address, Malaysia has complied in most of the key areas and secured overall scores which are generally higher than the regional averages of countries within the Asian region.

The full report is targeted to be released by the first quarter of 2013.

Assessment on accounting and auditing (AA ROSC)

The Accounting and Auditing ROSC (AA ROSC) was performed by the World Bank using a diagnostic tool comprising four components, namely the accounting and auditing environment, national accounting standards with reference to the International Financial Reporting Standards (IFRS), actual compliance with IFRS and auditing standards. The report focused on areas where the relevant authorities and stakeholders could implement actions to further strengthen the accountancy profession and increase compliance with international standards.

Overall, the report concluded that good progress has been achieved in improving the quality and consistency of corporate financial reporting and corporate governance for public-interest entities (PIEs) over the last 10 years. The Malaysian accounting and auditing profession was deemed to be well developed and

Malaysian accounting and auditing standards are in line with international standards, with full convergence with IFRS achieved in 2012 and the clarified International Standards on Auditing (ISA) adopted in full since 2010.

The report also found that the institutional framework of corporate financial reporting by PIEs in Malaysia is well-developed with multiple layers of systematic control, review and enforcement. There is also high-level collaboration and co-ordination between the accounting profession and the regulatory enforcement agencies, with an MoU between the SC and BNM and regular bilateral meetings among regulators. This results in strong regulatory oversight of PIEs while minimising the potential for overlap and duplication by regulators.

Part Three
Enforcing our laws, protecting investors

ENFORCING OUR LAWS, PROTECTING INVESTORS

INTRODUCTION

A sound regulatory framework is both incomplete and ineffective without credible enforcement. Enforcement is a critical component of capital market regulation as it serves all the three goals of investor protection, ensuring fair and orderly markets and reducing systemic risks.

Effective investor protection however requires not merely ex-post enforcement efforts but also ex-ante initiatives aimed at educating investors and ensuring responsible practices by product issuers and distributors. Similarly, supporting mechanisms for complaints handling, dispute resolution and compensation fund must function efficiently and effectively to ensure seamless protection for investors.

Enforcement of the securities laws and holistic and extensive investor education programmes therefore continue to be the focus of the SC's efforts towards protecting the investing public and safeguarding the capital market.

Recognising the need to effectively address investors' grievances and in order to encourage early detection of areas of concern, the SC also worked hard to extend our reach to investors and improve our complaints management functions.

ENFORCEMENT

The enforcement tools available to the SC under the CMSA include criminal prosecution as well as powers to pursue civil and administrative actions. This diversity of enforcement powers enables us to pursue a variety of enforcement actions to seek the desired outcomes.

For serious offences we exercise our criminal enforcement powers to punish the wrongdoers. To protect investors' assets or recover losses suffered by aggrieved investors, we invoke our powers to undertake civil action and to seek various court orders. Where there are indications of undesirable conduct or poor governance practices, the SC takes pre-emptive measures to prevent further escalation and address shortcomings through engagement and supervisory action. Administrative sanctions are imposed on licensed persons for breaches of the SC's guidelines.

Insider trading

Insider trading undermines the basic principle of a fair market and serves to unjustly enrich those who trade on non-public material information at the expense of others. Insiders, including directors and principal officers of companies and professionals working on corporate exercises, have privileged access to material information relating to the affairs of the companies concerned. They are required to maintain the highest standard of ethical conduct, integrity, confidentiality and governance when carrying out their duties. Misuse of privileged information would adversely impact the integrity and competitiveness of the entire capital market.

Following extensive investigations, the SC succeeded in taking a major enforcement action for insider trading. In July 2012, Dato' Sreesanthan Eliathamby, a senior lawyer who also sits on the boards of several public-listed companies (PLCs) was charged by the SC for seven counts of insider trading in the shares of four listed companies between 2006 and 2008. The charges involved three counts of insider trading in the shares of Sime Darby Bhd, ahead of an acquisition exercise involving companies within the Sime Darby group and two counts of insider trading in the shares of Maxis Communications Bhd. Two other charges were preferred for insider trading of shares in UEM World Bhd and

VADS Bhd. The trades in UEM World were alleged to have been made with his advance knowledge of the corporate restructuring of the UEM group, while the trades in VADS Bhd allegedly involved his knowledge relating to VADS Bhd's proposed privatisation.

In another case, the SC initiated civil action against Lim Chin Chin, a corporate finance executive, for passing non-public information about a corporate exercise involving Sin Chew Corporation Bhd to Ong Sew Teng and Chong Hiong Lim (tippees). The civil action resulted in a regulatory settlement with Lim whereby she agreed for RM232,320 to be disgorged. The amount disgorged from Lim was equivalent to three times the pecuniary gains made by the tippees from their trades based on the inside information provided by Lim. The tippees, who profited from their trades, had agreed to a similar regulatory settlement earlier.

Market manipulation

The dissemination of accurate information which will ensure fair and orderly share price movement, is key to ensuring fair and orderly market. This will also enable investors to make informed decisions on their investments in the stock market. Manipulative trading activities that deliberately interfere with genuine market forces in determining fair and orderly share prices not only undermine the integrity of the stock exchange, they severely compromise the fair valuation of listed companies, which in turn adversely affect investors' decision-making.

In 2012, we continued our efforts to pursue those responsible for market manipulation activities. Following extensive investigations into a complex web of trading activities involving 42 CDS accounts and nine stockbroking companies, we preferred criminal charges against a former remisier, Dato' David Goh Hock Choy. Goh was charged in September 2012 in the KL Sessions Court for artificially inflating the share price of Lii Hen Industries Bhd by engaging in manipulative transactions that did not result in any change of beneficial ownership.

The SC also scored a major victory in our fight against market manipulation activities when we succeeded in an appeal seeking longer custodial sentence for a market manipulation offence. In June 2012, the Court of Appeal ruled in SC's favour and imposed 12 months imprisonment on Dato' Chin Chan Leong. Chin was initially sentenced to only one-day imprisonment following his conviction by the Kuala Lumpur Sessions Court in February 2010 for manipulating the share price of Fountain View Development Bhd. The SC's appeal to the High Court seeking to enhance the sentence was dismissed, resulting in the appeal to the Court of Appeal.

The successful convictions and imposition of longer jail sentences reflect the acknowledgement by the Courts of the severity of manipulation activities and the harm that this does to an orderly capital market and the economy as a whole. These sentences, and the SC's continuous pursuit of custodial sentences through criminal enforcement action, will serve as a strong and clear deterrent to market manipulators.

False financial reporting

Disclosure and transparency of financial information are critical elements for the investing public to make informed decisions within a fair and orderly market environment. The SC's regulatory framework underlines the importance of accurate and timely disclosures by PLCs and firm enforcement action will be taken against companies and directors who deliberately mislead investors through false financial reporting.

In October 2012, the Sessions Court found Alan Rajendram a/l Jeya Rajendram, former director of LFE Corporation Bhd, guilty of four charges of permitting furnishing false information in relation to the company's unaudited financial results for the financial year ended 31 December 2007. Following the conviction, the court sentenced Alan Rajendram to one-year imprisonment and fines totalling RM1.2 million.

Box 7:

Pursuing Deterrent Custodial Sentences for Market Manipulation – The Fountain View Case

The Fountain View investigation began soon after the crash of its share price in April 2005, resulting in RM1.8 billion of the company's market capitalisation being wiped out in just under one month.

In view of the adverse impact this had on the stock market, the SC committed resources to prioritise investigations into the case. Following intensive investigations, criminal charges were brought against Dato' Chin Chan Leong in June 2005 for artificially inflating the share price of Fountain View from RM1.99 to RM6.05 over a period of two months between November 2003 and January 2004. Chin was convicted by the Sessions Court in February 2010 and was imposed a fine of RM1.3 million and a one-day imprisonment.

Despite having secured the conviction, the SC took further steps to seek a heavier punishment to reflect the seriousness of the offence and the damage caused to the capital market. Accordingly, the SC filed an appeal with the High Court against the sentence. After lengthy oral and written submissions during the appeal to support the case for an enhanced custodial sentence, the High Court agreed with the decision of the Sessions Court and reaffirmed the one-day jail sentence that was originally imposed.

The SC then appealed to the Court of Appeal. Following an arduous appeal process, during which a number of foreign case law precedents were submitted by the SC to demonstrate the severity of punishments for similar offences in other jurisdiction, we finally succeeded.

In June 2012, the Court of Appeal ruled in SC's favour and increased the jail term to one year. In passing the sentence, the Court of Appeal held that the earlier sentence did not reflect the gravity of the offence and also took into account the fact that the offence committed was pre-planned and well thought out.

The decision by the Court of Appeal to enhance the sentence for market manipulation serves as an important deterrence against fraudulent and harmful market trading practices.

Clearly, the severity of the court imposed sentences demonstrates the gravity of financial crime, particularly capital market offences, and its far reaching adverse effects on a healthy and competitive capital market.

Unlicensed capital market activities

As the size of the capital market grows, so does the demand for investment opportunities by investors, leading to an increase in the supply of investment products to respond to such demand. New or ill-informed investors can sometimes be vulnerable to being duped of their hard earned money by unscrupulous parties who prey on their inexperience or lack of knowledge. Such rogue parties are often unlicensed to carry out regulated activities but yet deceptively hold themselves out to be so, while offering lucrative returns in exchange for managing investors' monies. Such unlicensed activities have the potential to damage the reputation of the capital market as well as undermine the trust and confidence of investors.

In August 2012, the SC successfully obtained a judgment in the High Court against seven individuals (defendants) who were involved in futures trading activities without licence. The seven individuals agreed to settle a sum in excess of RM2.3 million, being the amount they had solicited from the public, to be restituted in favour of aggrieved investors. The defendants had dishonestly solicited monies from unsuspecting members of the public purportedly for the purpose of investments in futures contracts which promise lucrative returns. Despite being unlicensed to carry out any form of regulated activity, the defendants had dishonestly associated themselves with a licensed investment bank as part of their deception in soliciting investments from the public.

Sanctions against market intermediaries

Market intermediaries and their representatives are the direct link between investors and the capital market. Therefore, the SC ensures that these important market participants are subject to high standards of business conduct through compliance with the relevant regulatory requirements governing their activities. Where regulatory breaches are identified, the SC seeks quick remedial action by deploying the appropriate administrative powers to sanction the contravening party, rectify shortcomings or gaps, and reinforce compliance.

In 2012, the SC meted out eight administrative sanctions against licensed intermediaries and imposed fines totalling RM110,000 for various breaches involving misconduct and improper business practices. For less serious breaches, such as delays in submission of regulatory reports to the SC, we issued 15 supervisory letters to licensed intermediaries, PLCs, boards of PLCs, as well as to an individual.

In March 2012, the SC reprimanded an investment bank for its failure to carry out proper due diligence in relation to a corporate exercise, which in turn led to a material omission in the proposal that was submitted to the SC. The investment bank, which was the principal adviser in the corporate exercise, had omitted to advise the client to disclose a conflict of interest situation, which would have been detected had they conducted a thorough due diligence on the client's affairs.

In another case, a licensed dealer's representative was found to have helped his client to apply for IPO shares using multiple accounts in the names of Bumiputera individuals. In addition, the dealer had also facilitated the transfer of proceeds from the subsequent sale of the IPO shares from the Bumiputera account holders, back to his client. Such unethical practices were in clear contradiction of the SC's requirements for licensed persons to carry out regulated activities honestly and in a fair manner. The dealer was fined RM60,000 and his licence was suspended for a period of one month.

Since the inception of Audit Oversight Board (AOB) in 2010, its oversight function over auditors of public listed entities, in particular the inspection work, has gained momentum and yielded important results. In July 2012, AOB reprimanded an auditor, over its audit procedures conducted on a public listed company. The audit work was found to have fallen short of the standards expected and required under the International Standards of Auditing. Following due appeal process, AOB's decision was upheld and reaffirmed in August 2012.

Table 1
Investigation, prosecution and civil enforcement activities in 2012

Ongoing criminal trials at the Sessions Court	15
Ongoing appeals at the High Court and Court of Appeal	17
Ongoing civil trials at the High Court	3
Number of witnesses called to give evidence during trials	114
Number of active investigation cases	61
Number of witnesses interviewed for investigation	226

COMPLAINTS MANAGEMENT

The SC through its Investor Affairs and Complaints Department handles complaints from the public. Some of these complaints may have direct impact on the complainants while others can be in the nature of providing intelligence or alerts to the SC. While every attempt is made to address every complaint, the extent the SC is able to share on the status of the review and findings with the complainant is circumscribed by the confidentiality requirements under the securities laws. Additionally, the issues in a complaint may be complex and may raise matters that are beyond the original complaint. As such, we adopt a holistic approach where all complaints or enquiries are looked at from all aspects and channelled to the appropriate department in SC. Where a matter falls outside our purview, the complaint will be redirected to the relevant regulatory agency and the complainant will be informed accordingly.

In 2012, the number of complaints received by the SC totalled 674 which is 13% less than in 2011. The number of enquiries however increased from 191 in 2011 to 560, a 193% increase. The increase in the number of enquiries and the reduction in the number of complaints reflect better awareness among the investors about the need to verify or look for more information before making investment decisions. In terms of the handling of the complaints received, in the year under review, the number of complaints/enquiries resolved within 15 days has increased by 15% from 2011.

The SC finds that the complaints received from members of the public provide us with invaluable intelligence and help us in our effort to strengthen market processes and enhance the integrity of our market. For example, the *Guidelines on Sales Practices of Unlisted Capital Market Products* (Sales Practices Guidelines) which set out the SC's expectations of product issuers and product distributors on the issuance, marketing or sale of unlisted capital market products address many of the concerns that have been identified through complaints received from the public. The Sales Practices Guidelines requires issuers to treat investors fairly and take their interest into account in the design, delivery and distribution of investment products.

Due to considerable efforts to make SC more accessible to the public, we have observed an increase in the number of enquiries. The investor clinics held across the nation serve the purpose of both increasing the reach of our investor education efforts as well as providing the public with a frontline avenue to make enquiries, lodge complaints or obtain updates on their complaints or enquiry. It also creates an opportunity for investors to obtain one-on-one advice or guidance on matters relating to the capital market, without having to travel to the SC's offices in Kuala Lumpur.

This effort by the SC to engage and communicate useful learning points to investors is intended to enhance their understanding of the capital makets, its products and services. In 2012, we held 57 investor clinics in 26 towns and engaged with almost 9,000 investors.

The SC has also taken further steps to enhance the complaints management process through educating the public about the increased protection available to them under the *Whistleblower Protection Act 2010* (WPA). In this regard, a clear explanation of the protection afforded, the criteria for eligibility and the processes involved to make a disclosure under the WPA to the SC is set out in the SC's website.

Table 2
Complaints management

Year	2011	2012
Complaints	774	674
Enquiries	191	560
Total	965	1,234
No. of files opened*	252	202
% of files opened/total receipts	26%	16%
Total complaints/enquiries resolved within 15 days	460	529

Note:
* A file may consist of more than one complaint/enquiry

In our effort to assist investors, appropriate complaints are also channelled to the Securities Industry Dispute Resolution Center (SIDREC) which provides an independent, cost and time efficient avenue to help mediate and settle disputes involving monetary claims, between investors and persons or entities licensed by the SC.

The SC also works closely with industry, the SROs under our purview and with other regulators both in Malaysia and in other jurisdictions to ensure that issues raised, particularly those impacting the investing public are escalated and addressed in a timely, holistic and consistent manner.

With the increasing use by scam perpetrators of different modalities to market their illegal investment schemes, regulators have taken proactive efforts to increase the level of information sharing and engagement. In this regard, a Co-ordinating Committee on Commercial Crime Cases has been set up, comprising all regulatory agencies with the Royal Malaysian Police as the secretariat. The Co-ordinating Committee's objective is to facilitate quick escalation and engagement between the regulatory agencies on steps to be taken relating to matters that arise from information received by the respective agencies.

Additionally, pursuant to the MoU between SC and BNM, two working groups have been set up to ensure the effective oversight of investor protection matters namely:

- Working Group on Investor Protection
- Working Group on Improving Effectiveness of Dispute Resolution

The SC continuously encourages market players to enhance their own processes in dealing with complaints they receive from their customers, and have been gratified with industry's positive response. In 2012, we engaged with the Federation of Investment Managers Malaysia (FIMM) and Malaysian Investment Banking Association (MIBA) to promote the enhancements of processes related to dealing with client complaints. The engagements provided very useful and constructive feedback to the industry and the SC on areas needing enhancement and the challenges faced. An example of positive follow through by industry is MIBA's proposed Industry Guidelines on complaints handling. These Guidelines are expected to be released in the first quarter of 2013, and it will ensure consistency of standards and processes in the handling and management of complaints by licensed entities. The guidelines are also being developed by taking into account the concerns highlighted by the SC. It is a recognition by the market of the importance on having an effective, fair and transparent complaints avenue for investors and how effective complaints management is, with the necessary internal controls, as a risk management tool for an organisation.

INVESTOR EDUCATION

Different modalities of delivery

Investor education was identified in the SC's first *Capital Market Masterplan* as a key tool of investor protection and continues to play an important and strategic role in the *Capital Market Masterplan 2* (CMP2). The SC's focus on investor education in the CMP2 seeks to address the gaps in knowledge and access to information on the part of investors. The inadequate level of investors' knowledge on capital market products and processes, their rights relating to some of these products and the opaqueness of information that served to hide possible conflicts of interest and misconduct required a rethinking on our approach to investor education.

For this reason, our investor education strategy has been directed at increasing the reach and sustainability of our investor education initiatives and delivering investor education at the point of need.

Our efforts in 2012 have been to continue to deliver investor education through the investor clinics, media initiatives, investor programmes as well as through collaborative efforts with industry in ensuring good governance, high standards of disclosure and sales practices.

Financial literacy programmes for targeted groups

In 2012, the SC through Securities Industry Development Corporation (SIDC) continued to conduct nationwide financial literacy programmes for various target groups. To inculcate a money management culture and introduce the basics of investing, we conducted Kids & Cash and Teens & Cash programmes for 41,690 students. To assess the effectiveness of the programmes, surveys were conducted three months after the programmes. It was found that 95% of Kids & Cash participants started saving or saved more, and 97% were able to differentiate between needs and wants when making a purchase. As for Teens & Cash, the survey results showed that 64% of participants understood the importance of investing better.

To extend the reach of these programmes, we conducted Train the Trainer programmes for school teachers. In 2012, 167 teachers were trained to conduct the Kids & Cash and Teens & Cash programmes and in total, 278 teachers have been trained to conduct the programmes, benefitting more than 2,000 students nationwide.

Customised Financial Capability seminars were conducted for women, parents, rural communities, blue collar workers, private and public sector employees as well as college and university students. A total of 10,100 individuals participated in these seminars. An impact survey conducted by a third party among 800 randomly selected participants after the seminar showed that 88% of participants now practised the 'Pay Yourself First' approach of saving, 87% are more vigilant when considering an investment, 86% have started implementing a personal budget, while 87% are now able to differentiate between legal and illegal investment schemes.

Nationwide campaign – Kempen Pelabur Bijak Kebangsaan 2012–2013

The SC initiated a new campaign called *'Kempen Pelabur Bijak Kebangsaan 2012–2013'* (KPBK), aimed at educating investors on wise investing in the capital market. It was targeted at rural and urban folks, private and public sector employees as well as college and university students. The six-month campaign began in October 2012 and included seminars, electronic and social media, and educational publications. As at December 2012, the campaign has reached out to one million new and potential investors via print and online media, and social networks.

Additionally, more than 11,000 participants have benefited from face-to-face interaction by attending the seminars and 280,000 leaflets have been distributed under the campaign. The seminars also offer participants the opportunity to meet the SC and SIDC representatives to enhance their skills and knowledge on capital market investing. The topics covered in the seminars include the importance of investing, investment products available in the Malaysian capital market, guide to wise investing, investors' rights and responsibilities and avenues for seeking redress. In the print media, 20 advertorials have been published in *Pa & Ma, Money Compass, Ringgit, Berita Harian, Harian Metro* and *The Star* newspapers. Six TV and radio infomercials will be produced to support the KPBK.

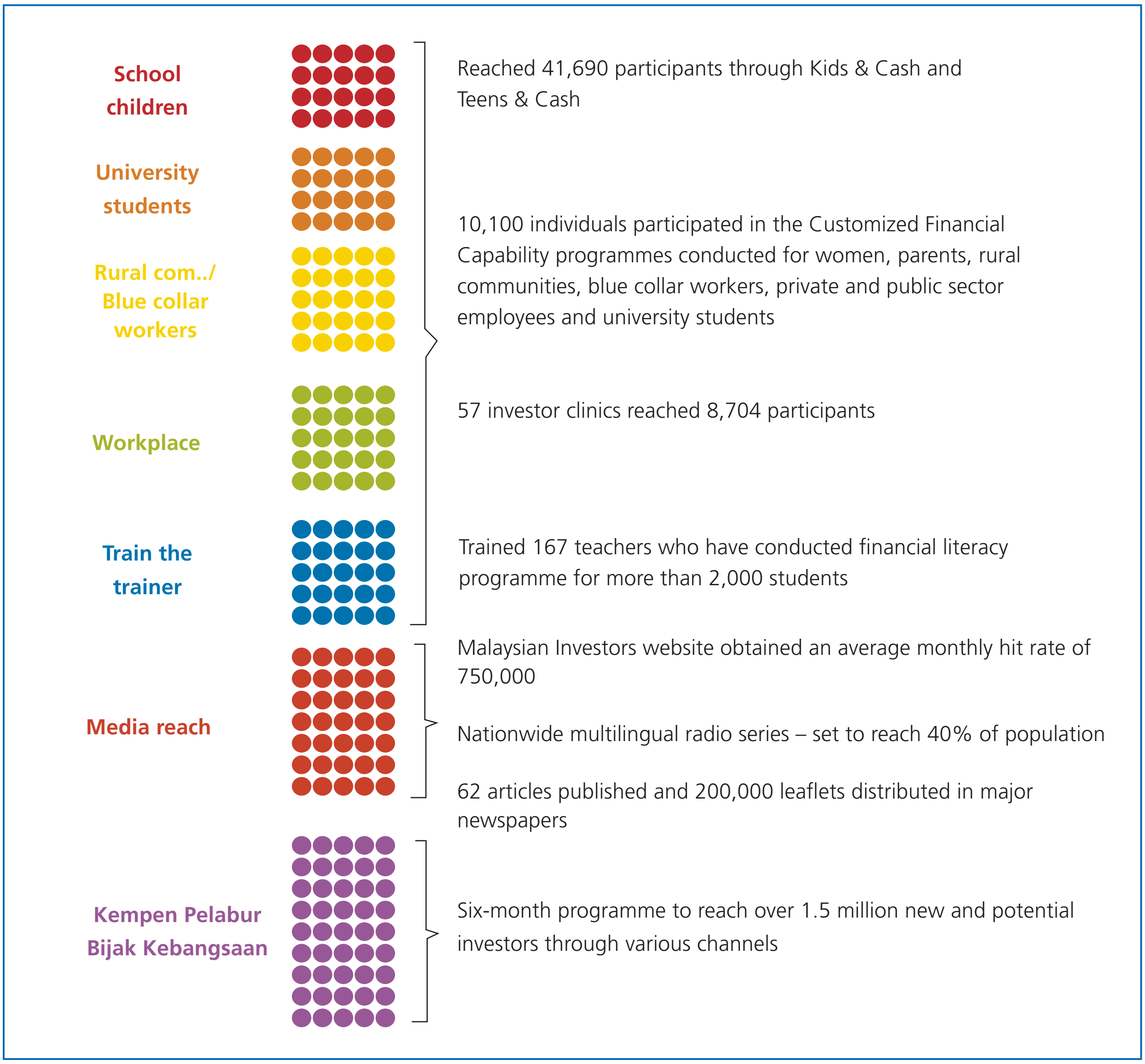
Investor clinics – Klinik Sihat Labur

Our nationwide investor clinics have gained momentum and are now recognised and sought after by investors and stakeholders. This initiative provides an avenue for the SC to reach out to the public nationwide while providing investors with a platform for 'one on one' engagement with the SC in their locality. In 2012, 57 clinics were held in 26 towns involving almost 9,000 participants. These efforts were carried out in collaboration with our strategic partners in investor education such as other regulators, government agencies; both at Federal and state level, and non-governmental organisations (NGOs). The complaints and enquiries received from the public at our investor clinics and other fora, serve as a useful gauge on the level of investor understanding and awareness and fits into the SC's investor education framework.

Through these clinics we found that emotions and other triggers can override knowledge, making investors vulnerable to scams. This vulnerability appears to cut across all social, education, occupation, income and age groups. A more holistic survey to ascertain investor knowledge and behavioural patterns will be undertaken in 2013 to enable us to better understand investor behaviour after our informal survey identified triggers for problematic behaviour. This will help the SC to develop tools to facilitate the delivery of investor education at the point of need.

Diagram 1

Investor education programme for all



Education through the print and electronic media

The SC works closely with both print and broadcast media in the delivery of investor education. We have directly and through SIDC, published articles and provided print, radio and television interviews as well as background briefings to the media to enhance investor understanding of areas ranging from very basic tips on investing and avoiding scams to more complex issues relating to the capital market and new products or increased retail access to products, such as private retirement schemes and retail bonds/sukuk.

A nationwide radio edumercial was also launched by the SC in December 2011 and has aired 2,486 spots in 2012. The edumercials were intended to serve as periodic reminders to investors on basic considerations and steps they should undertake to protect themselves, when considering an investment. The stations airing the edumercials (SINAR fm, HITZ fm, MY fm and THR Raaga fm) have a combined listenership of 9.8 million per week. The edumercials were developed to deliver educational messages and alerts in a practical day-to-day context in the four main languages; Bahasa Malaysia, English, Mandarin and Tamil.

Education through social media

In 2012, the SC's *'Bijak Mengurus Wang'* Facebook fan page achieved peak popularity among seminar participants of all ages, obtaining more than 6,000 'likes'. The fan page also continues to serve as an alternative platform to the Malaysian Investor website, where participants can ask questions and view the latest articles on financial management and investments.

To fully utilise the potential of social media, the SC successfully implemented its annual inter-varsity money management competition, namely the Inter-varsity Financial Literacy Movie (I-FiLM) Competition. It was actively promoted on Facebook, YouTube and blogs and as a result, 62 educational videos from 31 universities were received. I-FiLM successfully created awareness on money management and wise investing among university students, with 23,527 of them viewing the videos. Apart from that, the competition gained major exposure, receiving more than 1.7 million unique impressions, representing the number of people who viewed the I-FiLM advertisements on Facebook, Twitter and blogs.

SC website

We have also provided more investor-centric information in the Investor Affairs section of the SC website. It now includes investor alerts, information on new products and developments in the markets, links to other regulatory agencies as well as an online avenue to lodge enquiries and complaints. This is further supported by the Malaysian Investor website managed by SIDC for the SC, which provides useful, clear and easy to understand information on capital market products. Apart from that, it also provides information on the investor education programmes run by the SIDC.

Investor education for ICM

With the increasing use of ICM terms and the label 'Shariah compliant' for the marketing of investment products by promoters of illegal investment schemes, we have incorporated relevant information pertaining to the ICM as part of the wider investor education initiatives. This is intended to raise investor awareness and understanding of ICM products, Shariah-compliant investments in securities and the principles that are applicable to them. The misuse of ICM terms in labelling illegal investment products, has aided in the marketing of some investment scams, as it attracts investors with the perception of an additional level of credibility. In this regard, the SC has also conducted investor clinics with special focus on ICM-related issues to targeted groups or at the request of local communities.

Collaborating with stakeholders

The SC leverages off a network of partners (other regulators, government agencies, relevant state ministries, NGOs, industry and media), to increase the reach of our messages to a wider public through participation at exhibitions, road shows and in the distribution of our collateral.

With the co-operation of the Royal Malaysian Police, Association of Banks Malaysia and State Governments, the SC's 'Scam' alert posters have had nationwide coverage through police stations, banks, as well as at State district offices/government agencies. We also ran an advertorial page in a financial comic book published by Agensi Kaunseling Dan Pengurusan Kredit's in collaboration with Old Master Q in Bahasa Malaysia, English, Mandarin and Tamil. This publication has reached over 80,000 readers.

Strengthening investor protection through responsible sales practices

Whilst investor education programmes remain a useful and effective mode of educating investors, our efforts also focused on the delivery of education in context. Market professionals have a key role in this through the conduct of their activities. They are expected to convert information into knowledge through meaningful, complete and timely disclosures and institute responsible sales practices embedding an effective 'know your client' process as well as product suitability assessment prior to the sale of a capital market product. The SC encourages regular updates on client profile to ensure the continued relevance of the investment objective and risk profile of the product marketed. Issuers and distributors of capital market products are expected to take into account the interest of investors in the design and delivery of a product to the market as well as providing continuous responsible disclosures.

This approach has been reflected in three major initiatives that the SC has undertaken in 2012 with close engagement with industry. These are PRS, the retail bond and sukuk framework and the Sales Practices Guidelines.

Considerable focus was given to ensuring both the regulatory framework and the market processes catered to the needs of the targeted investor groups from the design of the product to its delivery and distribution including the disclosure and sales practices.

To address our concerns on the quality of sales practices of our intermediaries, the SC articulated its expectations of intermediaries in meeting their obligations of responsible and ethical sales practices in the development and sale of unlisted capital market products through the Sales Practices Guidelines, issued in December 2012.

Of particular importance is the requirement for issuers and distributors to treat investors fairly and ensure investor interests are taken into account in the design and delivery of investment products. The 'know your client process' and product suitability assessment required under the Sales Practice Guidelines, seeks to ensure as far as possible that compliance is to the substance of the guidelines and not just a mere 'check list' exercise. The guidelines also seek to ensure investors are provided with access to quality advice and require a Product Highlights Sheet to be given to investors at the point of sale. Product Highlights Sheets will enable product comparison and allow investors to obtain the relevant information to make more informed decisions.

Part Four
Increasing our capabilities, enhancing our effectiveness

INCREASING OUR CAPABILITIES, ENHANCING OUR EFFECTIVENESS

INTRODUCTION

A key aspect of our success and strong organisational performance is attributable to our staff. In recent years, the roles and responsibilities of regulators have evolved dramatically as capital markets continue to transform in the wake of the Global Financial crisis of 2008–09. We depend on the skills, competence and professionalism of our staff to deliver outcomes to our stakeholders as we continue to reposition the need for better regulation with the need for growth and innovation in the markets we regulate. We continue to reap the rewards of a strong workforce through the personal and professional commitment of our staff in delivering quality outcomes across a broad range of developmental and regulatory programmes and initiatives throughout 2012.

We continue to build on the foundational, institutional and legal framework put in place, and these on-going enhancements to skill sets as well as talent development have succeeded as evidenced by the high level of output throughout the year under review. By the same token and consistent with our market development function, we also continue to focus on initiatives to strengthen and deepen the professional and technical capabilities amongst market participants given their important roles as enablers to drive competitive advantage in our capital market. Throughout 2012, we also continued to strengthen our organisational governance and reviewed the adequacy and integrity of our systems and internal controls. These efforts are aimed at ensuring our staff continue to discharge their responsibilities based on high ethical standards, professional conduct and integrity.

We also strive to provide a holistic support system to ensure our people have the ability to effectively implement the SC's mandate. This involves providing optimal resources for programmes and projects, a conducive and congenial working environment, as well as platforms, systems and tools to network, share knowledge and deliver outcomes to our various stakeholders.

STRENGTHENING REGULATORY CAPACITY AND SKILL SETS

Developing and regulating the capital market require staff to constantly update their knowledge, skill sets, competencies and expertise to meet emerging needs, new challenges, as well as anticipate and manage risks. Our Human Capital Management practices undergo continuous adjustments as we adopt and adapt best practices to suit our requirements. A cornerstone of our human capital practice is to ensure a good mix of home-grown talent with hiring from industry and academia.

To better regulate the growing market complexity in an increasingly challenging environment, SC has continued to make concerted efforts in 2012 to channel investments where results are most visible. Major programmes have further strengthened organisational capacity building and skill sets development, as well as contributed to national talent management initiatives.

Regulating in a challenging environment

Attaining optimum resource level remains our biggest challenge, considering the dynamic and challenging market conditions where competition in recruiting the best, brightest as well as skilled and experienced employees is intense. Differentiated efforts are undertaken to ensure that the SC is at the forefront in recruitment to ensure that our resource requirements are met in a timely manner.

We adopt a proactive approach in implementing our resourcing and up-skilling strategies to hire or acquire the skill sets needed to meet the demands of evolving regulatory roles and responsibilities.

In our effort to fill vacancies and most importantly ensure that the appropriate skills are available to fulfill the expected requirements we take cognisance that:

- Global regulatory developments may change the role of regulators;
- A diversity of new players, products and new business models requires the acquisition of new expertise; and
- Utilisation of new tools, technology and databases in our work requires new skill sets.

Supporting Malaysian talent management

The SC plays a strong role in supporting Malaysian talent management efforts, including working with TalentCorp, professional bodies such as the ICAEW and the ACCA, on multiple outreach efforts to the Malaysian diaspora of experienced professionals, as well as fresh talents studying locally and abroad.

During the year, there were various levels of outreach and networking efforts as well as employment facilitation and exposure opportunities. Two Malaysian Public Service Department scholars were also recruited through TalentCorp's national talent placement programme.

Deepening organisational capacity building

Apart from strengthening the ability to attract and retain talent, we recognise the need to adapt to a changing workforce, a diffused working environment and the pervasive use of technology in many aspects of capital market activities.

In addition, the infrastructure for the development of human capital, and for capital market information, will increasingly define the potential for future growth. Therefore, in attracting, motivating, developing, rewarding and retaining talent, the SC has continued to leverage a range of pipelines across various levels of experience. The SC is also clear that we need to build our own timber over time, as it takes at least seven years' experience, technical know-how and growing one's regulatory expertise to become a competent regulator. Our goal is to have 70%–80% of our people home grown in the next five to eight years.

Young potentials

The Graduate Management Executive Programme (GMEP) continues to serve as the SC's main platform in nurturing fresh graduates to progressively contribute within the organisation. This two year rotation-based programme allows Graduate Management Executives (GMEs) to gain exposure from various regulatory functions within the SC before assuming specific positions at the end of the programme. In 2012, 24 GMEs were recruited, adding to the total of 215 that were brought into the SC since the inception of the programme in October 2004.

The SC's premier scholarship, internship and capital market placement programmes also continued to attract strong interest in 2012. Nine pre-university and degree scholarships were awarded to bright young Malaysians as part of our long term talent pipeline initiatives. The SC accepted 14 internships and one capital market placement during the year under review. These scholars and undergraduates form a further talent pipeline for the SC, and as seen in past years, many will join the SC.

Additionally, the SC bursary awards were given to 30 new recipients in 2012 bringing the total to 55, all of whom are pursuing their tertiary education in three premier local institutions of higher learning. This is part of our endowment to Malaysian education and society, and the bursary students will also have an opportunity to join the SC and contribute to regulating the Malaysian capital market.

Experienced talent

In 2012, we received more than 3,000 CVs and interviewed over 300 people, and of those SC hired, two-thirds were high calibre professionals. The SC conducts senior recruitment drives locally and abroad, and successfully encouraged the return of a number of Malaysian talents working overseas. Following engagement sessions and interviews in London and Manchester in March and April, and Melbourne, Sydney and Brisbane in October 2012, several identified candidates commenced the process of joining the SC and one had already been hired by December.

Long serving staff continue to add to our bench strength of ready-made regulators with deep specialist technical knowledge and skills on regulating the capital market in an environment of increasing complexity. This further reinforces our institutional delivery of strong outcomes to our various stakeholder communities.

Our employees' legal acumen and ability is also recognised by the Public Prosecutor and the Attorney-General of Malaysia, who appointed an additional two SC staff members as Deputy Public Prosecutors (DPPs), bringing the total DPPs within the SC to five. This recognition is a continuing honour for the SC as one of only two organisations with staff appointed to such positions outside of the Attorney-General's Office.

Honing skill sets

The SC's human capital agenda continues to be driven by targeted initiatives aimed at enhancing our people's personal and professional development. Learning and talent development interventions are systematically undertaken at various learning points, i.e., foundation, intermediate and expert levels, to ensure availability, progression and sustainability of our talent pool. On average, our staff attended eight man-days of training in 2012 with a gradual increase in investment per staff.

Career Development Roadmap

In 2012, we commenced the design of a Career Development Roadmap aimed at articulating a value proposition to our staff through clearer opportunities for career progression and wider avenues for professional development across various time frames in line with organisational needs. The roadmap will provide a comprehensive career development framework encompassing job families and managerial and expert career tracks, providing a range of career growth opportunities. It will also contain a menu of learning initiatives. In turn, the career paths will ensure that the SC has people at all levels with the right skills and abilities to undertake our various functions effectively.

Staff attachment and secondment programmes

Complementing the array of training and certification provided, emphasis is also placed on enabling our personnel to acquire practical experience by way of secondment or attachment. In 2012, one staff member was sent on an attachment to the US Securities and Exchange Commission and is currently still working in Washington DC. The SC also hosted six personnel from the Malaysian Public Service Department through the government's cross fertilisation programme for top talent in the public sector. Two officials from our regulatory counterparts, the Japan Financial Services Agency and the Capital Market Authority of Maldives, also commenced regulatory attachments with the SC in 2012, continuing with a long established programme of regulatory secondments. Through these arrangements, personnel from both the SC and our counterparts are able to learn on the job, share best practices and promote understanding and co-operation.

Professional qualifications

Following from previous years, the SC continues to encourage staff to pursue professional qualifications which will enhance their competencies, knowledge and skills in the performance of their jobs. We also carried out specially designed in-house curricula and certification programmes to provide specialised training for our staff.

International Standards on Auditing (ISAs) Assessment Programme

The SC's continuing collaboration with the Institute of Chartered Accountants in England and Wales (ICAEW), a professional membership organisation for the ISAs assessment programme signifies our commitment to improve the standard of auditing practices. Six staff members of the Audit Oversight Board (AOB) successfully completed the ISA programme in 2012, enhancing their professional credibility and ability in conducting examinations and engagements.

SC-Computer Emergency Response Team (SC-CERT)

The SC-CERT was drawn up to ensure the safety and integrity of the capital market from cyber-security threats, in line with the National Cyber-Security Policy established by the Ministry of Science, Technology and Innovation, Malaysia. Staff members from various disciplines were recruited, trained and certified to be part of the response team and their role would be to detect, assess and provide appropriate responses to a cyber-crisis situation which may impact the capital market and its participants. Trained personnel are also expected to assist in promoting awareness of cyber-threats amongst capital market participants.

Certified Fraud Examiners (CFE) Qualification

During the year, 14 staff members from the Investigation and, Financial and Corporate Surveillance departments obtained their CFE qualification. Accredited by the Association of Certified Fraud Examiners (ACFE), the CFE qualification equips its holder with skills in fraud prevention, detection and deterrence.

SUPREME and Specialist Curricula

2012 also marked the successful implementation of the SUPREME curriculum, a signature programme for our examiners. SUPREME is expected to result in a cadre of technically competent SC Commissioned Examiners whose skills are benchmarked to international standards. A total of 30 examiners completed the programme, thereby enhancing the examination pool available to conduct examinations of market intermediaries and institutions.

Additionally, three curricula, comprising Derivatives, Corporate Finance and Investment, and Financial Corporate Surveillance, were completed in 2012. Developed to global standards, these curricula will ensure our staff is up-to-date on international and domestic developments in these key areas. The curricula comprised modules ranging from products design and structuring, business models and regulations affecting these market segments.

Enhancing Leadership and Technical Skills

There were also a number of programmes designed to equip staff with the required competencies to meet current and future needs of the individual.

Leadership Excellence and Development (LEAD) Programme

The SC's LEAD programme enters its third year to support our staff's continuous professional development, essentially providing the knowledge and skills to effectively and efficiently manage themselves and their work. A cornerstone of LEAD is providing practical training to undertake work through collaboration given that a significant amount of work in the SC is team-based.

Advocacy Skills and Court Protocols

Officers from the Prosecution Department attended a programme on Advocacy Skills and Court Protocols to further augment their skills set for court work. Facilitators of the programme comprised prominent international legal practitioners whilst the content of the programme focused on case management mainly through sharing of practical experience.

Impact assessments

To measure the effectiveness of our learning interventions, a formal Impact Assessment was carried out through a survey questionnaire on four learning programmes. These covered technical (Corporate Finance and Forensic Accounting Curricula) and leadership (Creative Thinking and Presentation Skills) programmes. The survey was to ascertain how the learning was acquired and how it was applied in the work context. Respondents agreed that the programmes have positively impacted their work performance as well as their managerial skills. The Impact Assessment also served as a communication platform in that it helped identify staff's learning needs, thereby enabling further customisation of training programmes to better address specific staff requirements.

Building industry capacity

The SC remains steadfast in its commitment to enhance the technical capabilities of capital market participants so that they are able to cope with the changing business and regulatory environment. The SC's training arm, the Securities Industry Development Corporation (SIDC) is charged with spearheading the SC's objectives in this regard. To ensure relevancy and efficacy, these educational initiatives rely on close engagement and collaboration between industry, academia, our affiliates and partners as well as the public sector.

Industry Transformation Initiative (ITI)

The ITI is a development programme for capital market intermediaries designed by the SIDC and funded by the Capital Market Development Fund (CMDF). This initiative is intended to increase the level of professionalism amongst market intermediaries which should lead to greater confidence of investors in the people whom they deal with. Since 2007, more than 72,000 participants have gone through the ITI programme.

The ITI's flexible modular curriculum caters to intermediaries' diverse roles, experience and competency levels as well as learning needs; moving participants to advanced standards of professionalism over time. The training integrates technical and interpersonal skills, and is delivered through action-based learning, simulation exercises and case studies. The programme is regularly reviewed via industry focus groups to ensure that it is current and relevant.

In the year under review, 111 ITI courses were conducted comprising 22 modules and benefitting 12,725 participants. The courses received an average participant rating of 4.1 out of 5 (Good to Excellent), attesting to the overall quality of the ITI programme.

Islamic Capital Market Graduate Training Scheme (ICMGTS)

Developed in 2009, the ICMGTS programme continues to provide a special training scheme for graduates to transform themselves into forward-thinking ICM professionals by acquiring technical knowledge and the relevant soft skills. During the sixth and seventh editions of the programme conducted in 2012, 80 students underwent the eight weeks training on six technical ICM modules and five soft skills modules provided by SIDC.

i-Advisor programme

The i-Advisor programme was specifically designed to provide continuous professional development for Shariah Advisers. The focus of the programme is the integration of theoretical and practical aspects of industry knowledge. The programme is offered on a modular basis with the duration of each module ranging from two to three days with 13 days in total for all five modules offered.

The CMDF-funded programme which started in 2011 is organised by the SIDC. In 2012, the third and fourth batches were attended by 271 participants.

Shariah Advisers Workshop

The 7th Shariah Advisers Workshop themed 'Dissecting Sukuk Musharakah' was held to enhance the knowledge and skill sets among Shariah advisers. Participants of the workshop comprised Shariah advisers registered with the SC as well as Shariah officers of the Islamic financial institutions. The workshop attracted more than 80 participants in 2012.

Islamic Market Programme

The 7th Islamic Market Programme (IMP), designed for senior regulators and participants in the financial services industry, forms an important platform for discussion of topics related to Islamic finance and capital market. In 2012, the IMP's theme was 'Building the Environment for the Growth of Islamic Finance'. It attracted 41 local and international participants including Islamic finance practitioners, members of academia and regulators.

International Islamic Capital Market Forum

The 6th International Islamic Capital Market Forum (IICMF) was held in conjunction with the Global Islamic Finance Forum 2012. It featured panel sessions showcasing Malaysia's offerings in the ICM. Panels comprising SC representatives, international and domestic Islamic investment and commercial bankers, fund managers, issuers and lawyers covered diverse topics relating to the ICM. The event was attended by more than 130 participants.

ENHANCING INTERNAL GOVERNANCE

As a high-performing and value-based organisation, we continuously look into the adequacy and integrity of our systems and internal controls to ensure that they are relevant, efficient, effective and transparent. In the year under review, initiatives to strengthen internal governance began with a complete review of people practices led by the Executive Team reflecting management's pro-active focus on a key resource for the SC.

Consistent with practices that the SC expects from the market and its participants, we have begun a review of the effectiveness of controls in key areas of the SC to ensure that we are managing risks appropriately and that policies and procedures are being followed in every department and at every level within the organisation.

People practices review

The Executive Team undertook a review in 2012 of some of our people practices to ensure their relevance and that they serve intended purposes. In doing so, staff's views, comments and feedback were taken into consideration whilst also bearing in mind that SC has many practices already in place that are benchmarked to best-in-class. Management therefore ensured that where they continued to serve their purpose, SC retained these policies and practices, whilst also making required enhancements for continuous improvement.

A new methodology will continue to ensure that all structures and jobs in SC are created, reviewed and revised through a robust governance process that maintains optimal organisational manning levels. Internal resourcing key principles are retained, whilst the process has been streamlined, simplified and made much more flexible to enhance transparency, efficiency and effectiveness, as well as, gives latitude, responsibility and accountability in how vacancies are filled. Greater opportunities for junior executives have been created in addition to already existing career paths, opening up further avenues for growth and advancement across the organisation.

SC Policy Making Framework

In 2012, a post implementation review (PIR) of the SC Policy Making Framework (PMF) was undertaken to provide assurance that it remained fit for purpose. The PMF, which was introduced in 2010, is a guide for good policy making in the SC. It is a broad process flow based on clear principles, focusing on outcomes and mechanisms that should deal with problems it was designed to solve. The PIR concluded that the PMF has had a positive effect on the SC's policy making process as, among other things, the framework established a set of clear protocols applicable to any department that is proposing new policies for management's consideration. These protocols include an assessment of policy implications, consultations with internal and external stakeholders, risk assessments and the development of a Concept Note to test new ideas with management and subject matter experts before beginning detailed work. The PMF also serves as a good reference point and learning tool for new staff undertaking policy work.

While the PMF has had a positive impact on the SC's work culture, improvements were made to enhance clarity and remove ambiguity thereby promoting a more consistent and professional approach to policy making. The inclusion of guidance notes and the use of a Cover Sheet further augmented the clarity and robustness of the process which also helped to increase the level of compliance by departments that are involved in policy work.

Risk Control Self-Assessment

An organisation-wide roll-out of the Risk Control Self-Assessment (RCSA) was undertaken in May 2012 after the successful pilot implementation of the project in 2011 which involved the Institution Supervision Department. RCSA is a management tool to gather and communicate information that leads to improvements in internal controls and business processes. It is a structured, formal and documented process for the purpose of:

- Identifying key risk factors and significant exposure;
- Assessing the control processes that mitigate or manage those risks;
- Developing action plans to reduce risks to an acceptable level; and
- Determining the likelihood of, or assisting in, the achievement of business objectives.

By the end of 2012, 80% of the departments across the SC had identified and prioritised their operational risks, while 23% had also conducted their own key risk assessment. The roll-out of the RCSA will continue in 2013, and the aim is to complete all departments by June 2013.

Business and regulatory processes

The SC has established extensive internal management and operational processes to ensure that our actions are fair, reasonable and transparent to the affected persons and the marketplace, and that there is consistent application to relevant principles. This is very much in line with *Principle 4 of the International Organization of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulation*, which states that the regulator should adopt clear and consistent regulatory processes.

The SC currently has 335 documented processes, which are made available on our corporate portal so that staff are clear about the criteria, application and implementation. This year we undertook several process improvement exercises to further enhance internal controls and governance, as well as to achieve the outcomes that we intended, in particular, meeting the needs of our stakeholders. The review included:

- Enhancing our processes for internal whistle-blowing and for the timely disclosure of real or potential conflicts of interests;
- Updating and enhancing processes to strengthen the SC's regulatory functions such as market surveillance, licensing, product evaluations and complaints handling. This includes improving cross-functional processes and clarifying roles

and responsibilities to facilitate effective collaboration among the parties involved;

- Improving our corporate service processes relating to human capital management and facilities management to enhance internal service delivery and provide optimum support to the SC's business operations; and

- Reviewing internal controls on procurement of supplies and maintenance services. This in-house review reaffirmed the adequacy of internal controls and provided reasonable assurance that there are no lapses in the areas reviewed.

Compliance and ethics programme

The SC takes pride in its culture of honesty, openness and accountability and our commitment to the highest level of ethical conduct in all our activities. Our high level of professionalism has been fundamental to our success and is reflected in everything we undertake to do.

We place a high priority on maintaining the trust and confidence of our stakeholders and as part of our continuous improvement efforts to integrate high standards of ethical conduct in our daily working life, a Compliance and Ethics programme was launched in November 2012. The Programme is an e-learning platform for staff of the SC to enhance awareness on and understanding of the SC's governance standards – *Statement on Governance, Code of Conduct, Code of Ethics, Code of Practice on the Prevention* and *Eradication of Sexual Harassment* and *Internal Whistle-blowing Procedure.*

All staff, including new recruits are required to go through an interactive tutorial, followed by an on-line assessment, to ensure that they are aware of their responsibilities and understand the organisation's expectations on ethical conduct and standards of behaviour. The programme's ultimate objective was to raise our staff's appreciation of the intent and spirit of the SC's internal governance standards and to exemplify its principles in their daily work.

Certified Integrity Officer

The SC supports government initiatives to instil a culture of integrity in the Malaysian public and private sectors. This includes the Certified Integrity Officer (CeIO) initiative by the Corporate Integrity Development Centre of the Malaysian Anti-Corruption Academy (MACA), which is a programme to train senior officers from the public and private sectors to combat corruption, misappropriation of funds and abuse of power. The programme is monitored by a board which is chaired by the Malaysian Anti-Corruption Commission (MACC) Chief Commissioner, and seven members appointed by the Chief Secretary to the Government. The Chairman of the SC is a member of the board.

From July to October 2012, two senior staff of the SC attended and successfully completed the CeIO programme and have officially been given recognition as CeIOs.

Fostering a conducive work environment

We recognise that a conducive work environment contributes to higher levels of productivity, enhanced creativity, and makes collaboration easier. During the year under review, we undertook efforts in the following areas:

1. Energy efficiency initiatives by:

   a. Reducing electricity consumption through replacement of old devices with energy-savings devices in the premises and enhancing lighting in areas to enhance staff safety;

   b. Improving the air-conditioning distribution system within the premise and maintaining an optimum temperature in the working areas to ensure comfortable working environment; and

c. Installing efficient sun-shading device to reduce heat and direct sunlight onto the glass building façade;

2. A space utilisation audit resulting in availability of additional space, reducing storage areas by relocating storage space and renting additional office space at other locations to cater for additional requirements. This has ensured that we maintain the expected level of comfort as a healthy workplace atmosphere reduces work-place stress significantly;

3. Workplace safety review by:

a. Upgrading the fire alarm and public address (PA) system to reinforce the safety of staff and ensure orderly evacuation process in case the need arises; and

b. Ensuring staff readiness in handling emergency situations, e.g., training by the fire department for designated staff members.

4. Health and Safety activities for all staff planned and implemented by the Health and Safety Committee, including:

a. A 'health and safety day', comprising talks on health topics, health checks and promotion of health food. Activities were also organised to promote healthy lifestyle, including optimising the use of the office gymnasium;

b. Events based on health themes, e.g., 'Slim-Down Challenge' – a competition aimed at encouraging groups to lose the most weight within a certain timeframe and *'Jom Naik Tangga'* – event to encourage use of stairs instead of the lifts; and

c. Consistent messages on health were sent across the organisation through various channels, e.g., health topics of current interest published in the quarterly staff bulletin, *SC Buzz* and induction courses for new staff. Head of departments were also encouraged to refer staff showing signs of work related stress to the in-house Medical Adviser for counselling.

REFINING OUR IT INFRASTRUCTURE AND SYSTEMS

Information technology (IT) has become pervasive in our work at the SC, be it in the way we supervise, regulate, learn, research, communicate and collaborate. Our IT systems and facilities help advance the core mandate of the SC as well as the operational processes that support our business objectives. We continue our efforts to develop an integrated user-centric approach for all our systems, facilities and services and to ensure that they deliver a distinctive, high quality experience for staff and stakeholders.

Infrastructure and systems

The SC's Strategic Information Framework (SIF) is our primary enabler for managing and enhancing the collection and exchange of information in the Malaysian capital market. The SIF comprises a common submission platform, a single data exchange language and a consolidated data warehouse to streamline the collation and use of information for regulatory and development purposes.

The framework is being implemented in phases beginning with plans to adopt XBRL as the common data exchange language for the capital market. A 5-year XBRL road map has been developed together with a common submission platform. The SC management has set aside an allocation in 2012 for a XBRL pilot project in 2013 which includes an assessment of its acceptance prior to full adoption.

To enhance our internal infrastructure, we continued with the organisation-wide roll out of the records management system (RMS) in 2012 following the successful implementation of the RMS in several departments over a 2-year period, from 2010 to 2011. The RMS has enhanced the SC's ability to have up-to-date records of high integrity and improved the efficiency of retrieving and sharing of information as well as effective business continuity planning. In parallel, the records management policy was also revisited to reflect best practices adopted during the implementation of the programme over the last three years.

We also continued to improve our market surveillance systems to strengthen our capabilities and operational efficiency when monitoring market trading activities. Our systems are now able to provide efficient detection of market manipulation, as well as enable more detailed analysis of surveillance activities and market trends.

We also implemented several initiatives to improve internal efficiency, increase productivity and secure the SC's intellectual property. These initiatives include enhancing the processes relating to internal risk governance and promoting self-service amongst staff members.

The intranet was also upgraded to the latest version, which has advanced technology features to enrich sharing of information and to provide for seamless integration with other business systems and document repositories. Its search capability has been substantially enhanced; allowing optimal utilisation of internal resources and knowledge assets.

IT security

To maintain external stakeholders' confidence when dealing with the SC electronically, we continued our efforts to reinforce the security of our networks and infrastructure. Our security system reflects our continuous commitment to our stakeholders that the confidential information they submit to the SC through the Electronic Reporting System (ERS) platform is protected.

The SC successfully completed an annual ISMS ISO 27001:2005 audit to benchmark against international security standards. Our ERS platform received a clean bill of health from the assessors.

An Application Security Assessment (ASA) exercise was also performed on applications riding on the ERS platform to ensure all applications implemented in the SC incorporate best security practices.

WORKING WITH THE COMMUNITY

Corporate social responsibility

As an organisation that embraces community service and environmental preservation, the SC consciously embeds corporate social responsibility (CSR) into our fundamental value chain and culture. Going beyond enforcing regulatory compliance and ethical business behaviour, we strive to expand and refine our commitment towards fulfilling our corporate conscience.

In 2012, the SC conducted a variety of CSR activities focusing on two key areas – the environment and the community – through our people and their families. This allowed everyone, the younger generation in particular, to appreciate the importance of protecting the environment and the immense value of serving the community within which the SC operates.

Paying tribute to our country's diverse flora and fauna, we accomplished selective conservation activities at several Malaysian locations. There was also strong emphasis on volunteerism and contributions to help the less fortunate, and our staff actively identified SC's target communities and reached out to those in need in remote areas. Some of these CSR efforts included:

- Conserving and planting mangrove trees along Malaysia's coastal habitats;
- Supporting rehabilitation efforts at turtle sanctuaries in Malaysia;

- Distributing food and essential supplies to remote Orang Asli settlements;

- Repairing houses in a remote village in Kelantan;

- Raising charitable funds through events by Treasure Trove (a charity shop set up in 2010 by staff volunteers) which include four charity sales in 2012 – a Charity Bazaar, MAKNA Bake Sale, Mini Ramadan Bazaar and Great Cupcakes Sale, with proceeds donated to several orphanages. Also, the MAKNA Bake Sale raised funds for the National Cancer Council Malaysia in conjunction with the Pink Ribbon (National Breast Cancer) Day;

- Participating in an *ibadah korban* expedition during *Eid Addha* to help bring cheer to the underprivileged at several remote villages in Cambodia;

- Spending time at the shelter homes with children from Rumah Nur Salam in Chow Kit and bringing them for an outing at Zoo Negara to spread awareness of wildlife conservation; and

- Carrying out fund raising activities through the SC's Badan Kebajikan Kakitangan Islam (BAKTI), including collections during regular *ceramah/kuliah* and through a 'Clean House' programme, with the monies donated to identified recipients before the end of Ramadan and items collected were donated to several orphanages.

To nurture the spirit of caring and giving, foster camaraderie and help improve work-life balance in the SC, senior management also worked with staff on several in-house activities such as:

- Distributing small gifts to all staff, replacing the traditional *Majlis Berbuka Puasa* event and so reaching out to everyone in the SC family; and

- In-house games and competitions, especially during the Merdeka Day celebrations.

All these SC CSR initiatives also contributed to greater synergy and a stronger sense of organisational inclusion in our people.

Part Five
Review of capital market performance

REVIEW OF CAPITAL MARKET PERFORMANCE

GLOBAL ENVIRONMENT

The world's financial markets continued to be characterised by frequent and rapidly-shifting views on risks. In the past 12 months, investor sentiment has alternated between so-called 'risk-on'/'risk-off' modes; in the first quarter when markets surged higher over optimism over global economic recovery; at the end of the second quarter, when euro area concerns caused markets to correct sharply; and in the third and fourth quarters, when markets staged a rally following a breakthrough by the EU in strengthening its financial stability arrangements and a preliminary agreement by the US on its Fiscal Cliff.

Optimism over prospects for the global economy drove markets higher and volatility further down in Q1 2012. The Chicago Board Options Exchange's VIX indicator, a measure of US stock market risk aversion, hit 3½-year lows as improved activity in the US, positive policy developments in the euro area and confidence in emerging and developing countries' economic growth suggested that the threat of a sharp global slowdown had eased (Chart 1). By May, price volatility globally, as well as in Asia and emerging markets overall, had reduced sharply to around 15% from 28%–33% in Q4 2011. In Europe, stock market volatility remained at around 23%, though down significantly from about 40%.

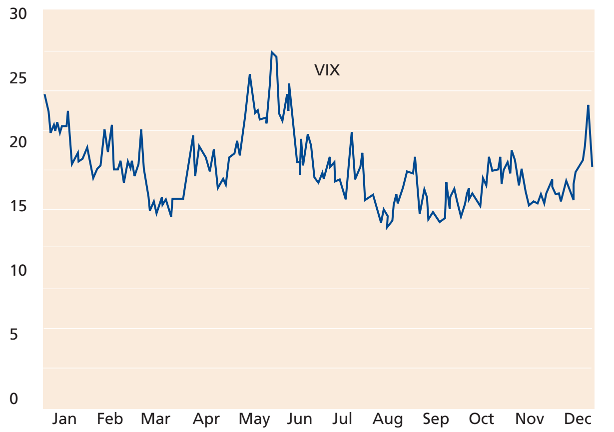
Risk aversion returned to markets at the end of Q2 2012 amid worries over political developments in the euro area and a potential slowdown in Asian growth. The VSTOXX measure of European stock market risk expectations, more than doubled as uncertainty grew over whether and how the EU would assist troubled member states. This was further aggravated by growing concerns over the Spanish banking sector and widespread social unrest against austerity measures. At the same time, signs of slower-than-expected growth by China and, by extension, the rest of Asia drove price-volatility of stock markets in the region 3–4 percentage points higher to around 18%–19%.

A resolution to political gridlock in the EU, which saw the strengthening of a financial rescue fund, prompted a sharp global market rally in Q3 2012. This was supported by confirmation by the US Federal Reserve of a further round of monetary stimulus, reflecting the open-ended nature of the central bank's commitment to the market. Risk aversion indicators globally soon fell back to levels at the beginning of the year, while stock market volatility both in Asia and the world overall dropped to around 14%.

This rally proved to be short-lived as growing global uncertainty – in particular global geopolitical developments, especially in the Middle-East, and the presidential election in the US – appeared to cause markets to lose momentum. Market indicators again showed signs of growing expectations of risk. Issues which drove these concerns included a general lack of confidence over economic policies, the possibility of capital reversal from emerging economies and a potential disintegration of the euro zone. While emerging market economies were seen to have successfully navigated global shocks thus far, concerns about the need in Japan and the US for medium-term fiscal adjustment impacted overall sentiments.

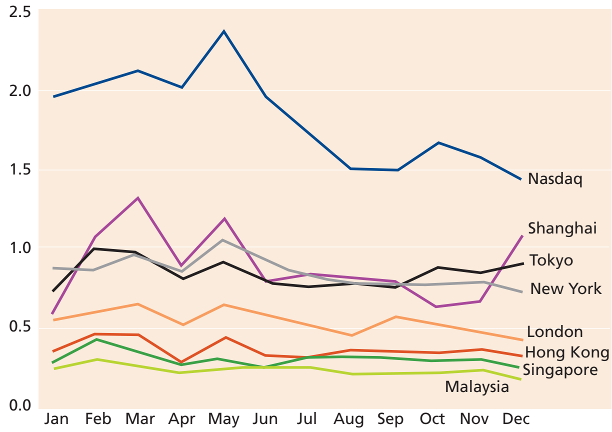
In the stock markets, such uncertainty appeared to prolong a decline in European and US initial public offerings (IPOs) in exchanges and subdued trading activity in some of the bigger Western exchanges. The total value of global IPOs in 2012 was lower than in any year since 2003 (with exception of 2009) (Chart 2). Malaysia was a notable exception to this trend. Exchange turnover as a proportion of market capitalisation globally

Chart 1
CBOE VIX



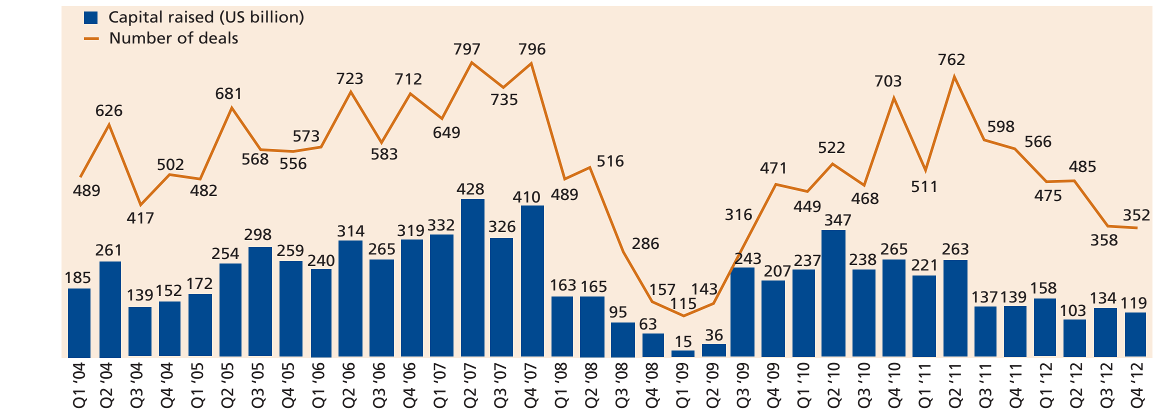
Source: Thomson Reuters

Chart 3
Turnover velocity in selected stock exchanges



Source: WFE

Chart 2
IPOs (global total); no. of deals and capital raised

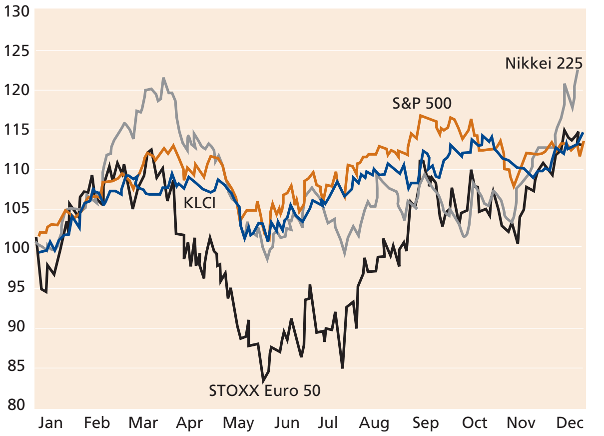


Source: Bloomberg

has dropped by nearly 25% on average this year (Chart 3).

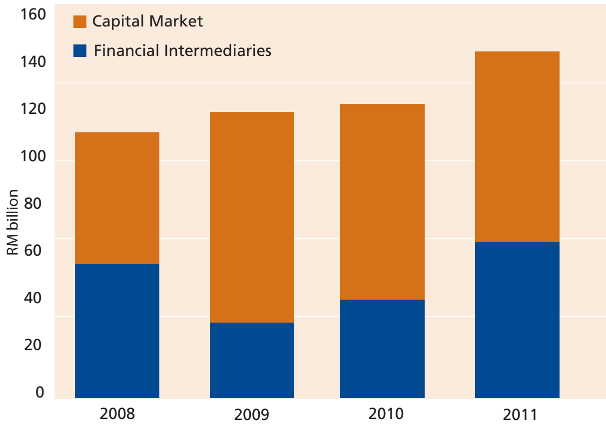
The fourth quarter of 2012 once again witnessed a change in investor sentiment, as favourable 2H 2012 activity in the US and the implementation of the Outright Monetary Transactions (OMT) Programme in Europe propelled investor confidence at year end. Stock market indices around the world ended the year on a 3-year high (Chart 4) as optimism on the outlook for the US and China improved towards the end of 2012. This coincided with the resolution of the Fiscal Cliff in the US on tax related issues.

Chart 4
Key stock indices in 2012 (Jan 2nd=100)



Source: Thomson Reuters

Chart 5
Domestic sources of funding for the business sector (RM billion)



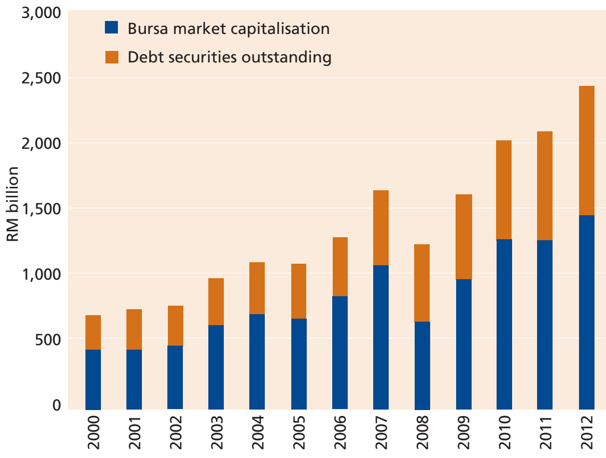
Source: SC, BNM

Notes:
(1) Funds raised in the banking system exclude loan disbursed to household and government;
(2) Funds raised in the equity market include both IPO and secondary issuances;
(3) Funds raised via bond market refer to issuance of corporate bonds; and
(4) Businesses include non-bank financial institutions, domestic non-business entities and foreign entities.

DOMESTIC CAPITAL MARKET DEVELOPMENT

The expansion in domestic economic activities was facilitated by a robust Malaysian capital market, which surged by 16.4% to reach a record size of RM2,473.5 billion. Both the equity and bond market continued to be significant sources of financing for economic activities through raising a total of RM85 billion in 2011, equivalent to 57% of the total financing for the business sector, while the rest was financed through financial intermediaries (Chart 5). The growing share of financing by the capital market reflects increasing recourse to capital market instruments for longer-term financing. This greater matching of maturity risks is positive for the economy, improving the overall risk profile for the financial sector.

Chart 6
Size of Malaysian capital market

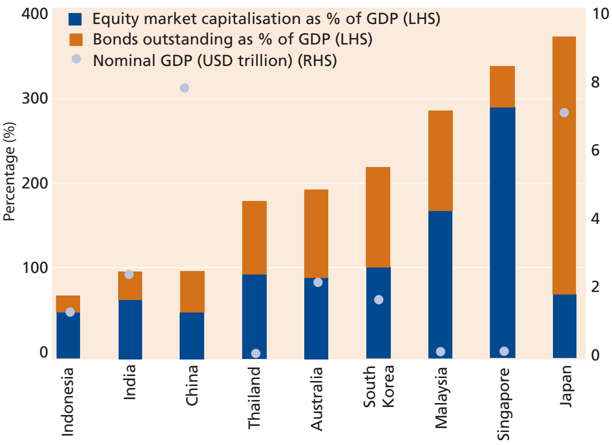


Source: SC

The increasing role of the Malaysian capital market in financing economic growth is reflected in the continued strong growth of the equity and bond markets from a market size of RM717.5 billion in 2000 to RM2,473.5 billion in 2012, translating to a compound growth rate of 10.9% per annum over the 12 year period (Chart 6). The faster growth of the Malaysian capital market relative to GDP has resulted in a much larger capital market size relative to the national economy. At the end of 2012, the equity market capitalisation and nominal value of domestic bonds outstanding were at 156.6% and 107.7% of nominal GDP respectively, a

Chart 7

Regional economies – Capital market size to GDP



Source: Bank for International Settlements, World Federation of Exchange, International Monetary Fund World Economic Outlook and Asian Development Bank

Notes:

(1) The size of bonds outstanding refers to that of local currency bonds outstanding as at December 2012, except in the case of Japan (September 2012) and Australia (domestic debt securities outstanding as at June 2012) and India (domestic debt securities outstanding as at June 2012). The data was taken from Asian Bonds Online except in the case of Australia (BIS) and India (BIS);

(2) The size of the equity market refers to domestic market capitalisation data from the WFE statistics, with China's consisting of the aggregate market capitalisation of Shanghai and Shenzhen Exchange and Japan's consisting of the aggregate market capitalisation of Tokyo and Osaka Exchange;

(3) The GDP denominator refers to Gross Domestic Product at Current Prices in US dollars estimated for 2012 by the IMF in its World Economic Outlook October Update, except Malaysia (Ministry of Finance).

substantial increase compared to the 124.7% and 76.6% observed respectively in 2000. Compared to other regional economies, the size of the Malaysian capital market is relatively large and more developed, providing a wider distribution of capital and risk. Based on statistics from the World Federation of Exchanges and Bank for International Settlements, the size of the Malaysian capital market – estimated at 264.3% of nominal GDP as at end-2012 – is comparable to most of the major markets in the region (Chart 7).

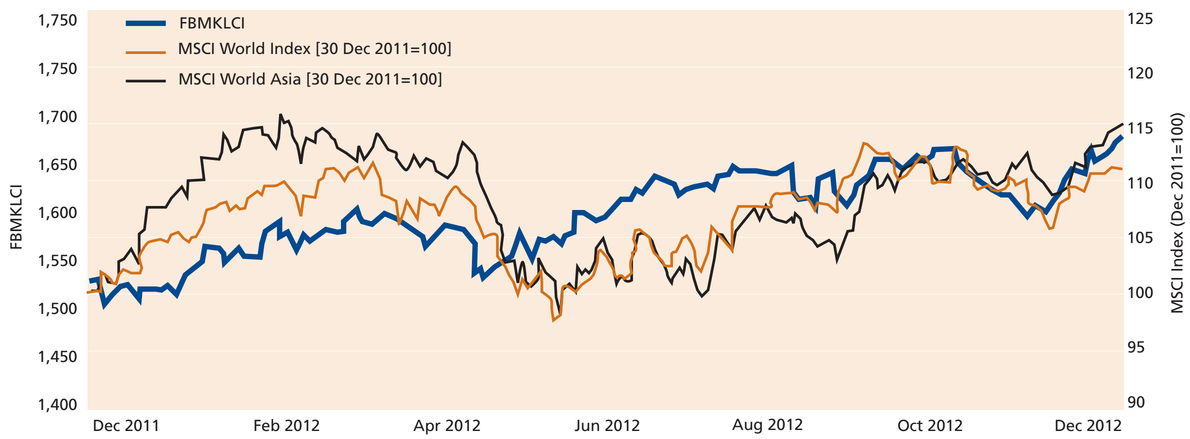
Equity market

Equity market performance was encouraging

The Malaysian equity market performed well in 2012, with the headline FBMKLCI closing at an all-time record high of 1,688.95 points supported by a healthy and favourable domestic economy. Despite heightened global market volatility and a challenging economic environment, the index increased by 10.3%, compared to the marginal increase of 0.8% in 2011. Correspondingly, the overall capitalisation of the Malaysian equity market expanded to RM1,465.7 billion, representing an increase of 14.1% by end 2012

Chart 8

FBMKLCI, MSCI World Index, and MSCI Emerging Markets Asia Index



Source: SC, Bursa Malaysia, Bloomberg

(2011: 0.7%). Compared to benchmark stock indices, the Malaysian stock market performance trailed the MSCI Emerging Asia Index and MSCI World Index during 2012, with both indices growing by 18.1% and 13.2% respectively (Chart 8). Nevertheless, while the Malaysian equity market has not grown as rapidly as some of the regional indices, the FBMKLCI outperformed the headline indices of major developed markets, such as the US' Dow Jones Industrial Average (7.3%) and the UK's FTSE100 Index (5.8%)(Chart 9). The resilience of the Malaysian stock market is evidenced by its long-term performance, as shown by Malaysia sustaining its position as one of the few markets which has been posting a net positive return since the onset of the global financial crisis.

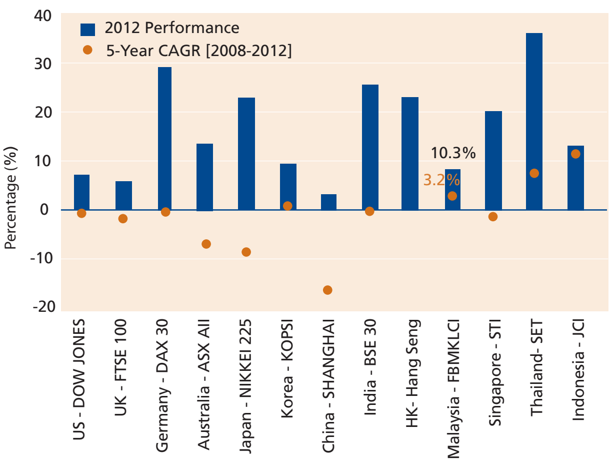
Trading remains active

The positive sentiment in the domestic equity market was boosted by the country's stable economic growth, strong fundamentals and supportive policies. The relatively high level of confidence lent support to the market as indicated in the slight increase in trading activity over the year. The average daily trading value of RM1.66 billion was lower than the preceding year's RM1.79 billion although the average daily trading volume rose by 1.3% in 2012 to 1.36 billion shares. In comparison, the trading volume for equity transactions worldwide declined by 22.5% during the same period[1].

For the year 2012, institutional investors continued to dominate trading activity; both domestic and foreign institutional investors made up 77% of securities trading, compared to 23% by retailers (Chart 10). The monthly average trading value by local institutions in 2012 stood at RM18 billion equivalent to 56% of the overall average monthly trading value, with the foreign investors' and local retailers' average monthly trading value at RM8 billion and RM6 billion respectively. In terms of volume, local retail investors continued to be active as their market share improved from 47.6% in 2010 to 51.4% in 2012, with interest focused on 'penny' stocks.

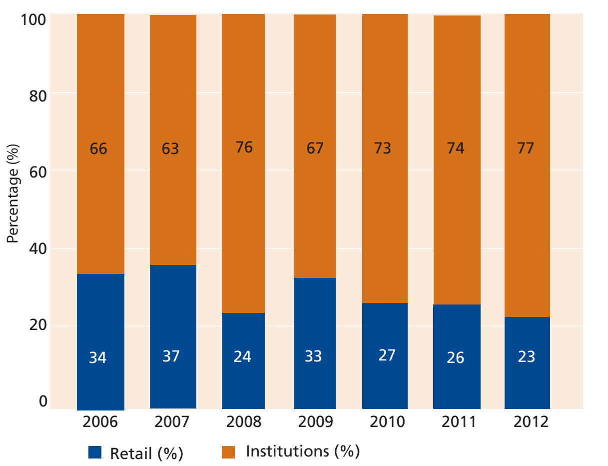
As economic growth in developed economies remained largely subdued, international investors displayed an

Chart 9
Performance of Malaysia's equity market versus global markets



Source: Bursa Malaysia, Thomson Reuters Datastream

Chart 10
Securities market trading participation

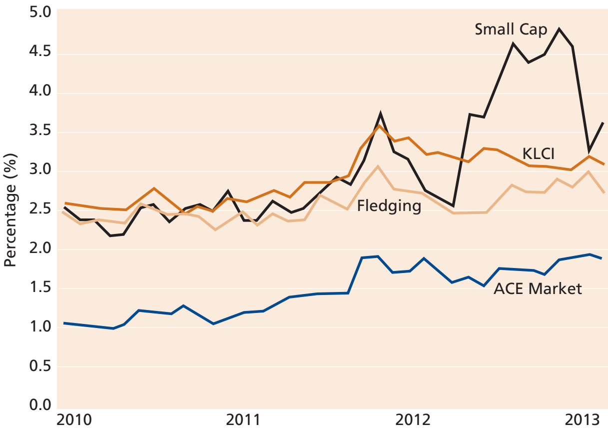


Source: SC, Bursa Malaysia

[1] World Federation of Exchanges.

increasing willingness to reallocate their portfolio in search of higher yields to regional emerging markets, including Malaysia. Malaysia continued to be seen as a relatively strong dividend-play by yield-seeking international investors. Malaysian stocks offered dividend yields of around 3.7%. The small-cap stocks presented the most attractive yields, with dividend/price ratios growing from 2.5% to 4.5% during the year (Chart 11). As a result, the year 2012 witnessed a relatively strong rate of foreign participation in Malaysia's equity market; the percentage of market capitalisation owned by foreign investors hit a high of 24.4% as at end 2012 (2011: 22.7%) (Chart 12). Foreign investors emerged strongly as net buyers in 10 out of 12 months in 2012 with a net buy position of 2.4 billion shares worth RM13.7 billion, more than seven times the RM1.8 billion net buy position recorded in 2011 (Chart 13). Meanwhile, the local institutions continued to command the largest shareholding at 68.5%, while the local retailers' share of the market capitalisation stood at 7.1%.

Chart 11
Dividend yields for selected Bursa Malaysia indices (%)

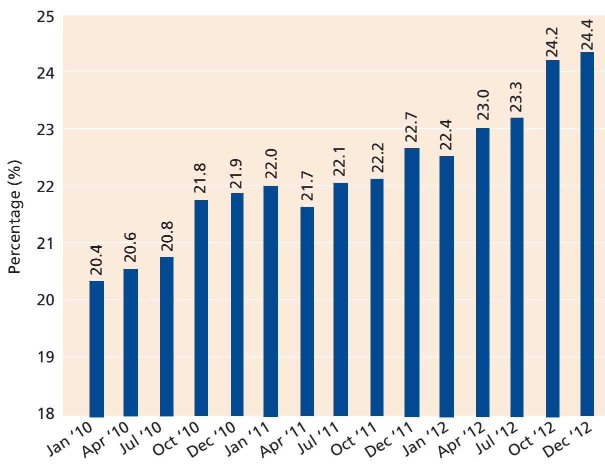


Source: Thomson Reuters

Largest number of PLCs in ASEAN

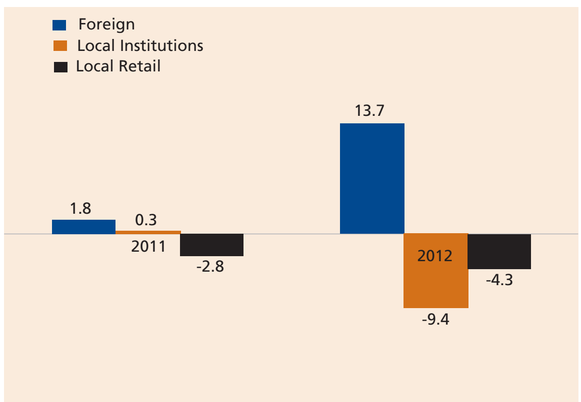
During the year 2012, the number of listed companies in Malaysia decreased slightly by 2.1% to 921 (2011: 941), consisting of 912 locally incorporated and nine foreign incorporated companies. Compared to other bourses in the region, Malaysia still has the largest number of public-listed companies (PLCs) in ASEAN, with improving equity market accessibility for smaller companies to raise funds.

Chart 12
Securities market foreign ownership based on market capitalisation (%)



Source: SC estimates

Chart 13
Net trading positions (RM billion)



Source: Bursa Malaysia

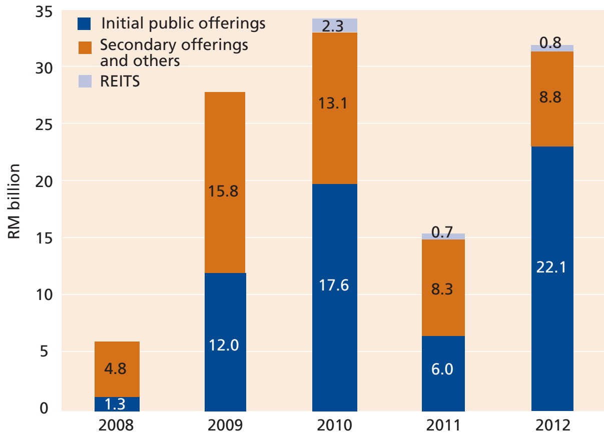
Robust equity fund raising

2012 was a record year for IPOs, which raised RM22.1 billion, triple the amount raised in the previous year (2011: RM6 billion). Malaysia has defied the global market that has seen equity fund raising activities weakening in 2012, largely a result of new issuances by several large corporations. The amount of capital raised via IPOs globally fell 27.8% to US$99.6 billion, the lowest level since 2008 with a bigger drop of 39.9% in the IPO proceeds in the Asia Pacific region.[2]

Among the most notable listings during 2012 include two of the world's six largest IPOs (in terms of amount of funds raised). The listing of Felda Global Ventures Holdings Bhd (FGVH) which is the third largest oil palm plantation in the world raised RM9.9 billion placing FGVH as the fourth largest IPO globally in 2012 after Facebook, Japan Airlines and Santander Mexico. The listing of the sixth largest IPO in 2012 – IHH Healthcare Holdings Bhd – which sold RM6.3 billion of shares in Kuala Lumpur and Singapore in July – elevated the firm to be the world's second biggest listed healthcare provider after the United States' HCA Holdings Inc. Another notable IPO was Astro Malaysia Holdings Bhd which raised RM4.6 billion in proceeds. Overall, the Malaysian equity market saw 14 new companies listed in 2012 (2011: 26), enabling it to finish fifth among the global IPO markets behind the Nasdaq, NYSE, Tokyo Stock Exchange and Hong Kong Stock Exchange.[3]

In 2012, a total of RM9.6 billion was also raised through secondary issuances (right issues, private placement, restricted offer for sale, special issues) and REITs, an increase of 6.7% from the preceding year (Chart 14).

Chart 14
Total funds raised via equity market



Source: SC, Bursa Malaysia

Bond market

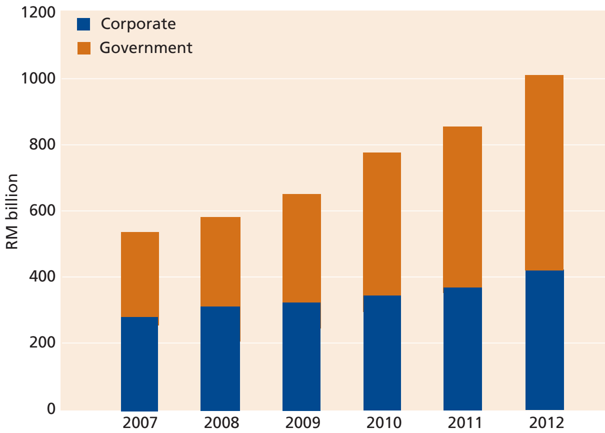
The commendable performance in 2012 led to the Malaysian bond market recording total bonds outstanding of RM1,007.8 billion as at end 2012 (2011: RM841.1 billion). As such, Malaysia maintained its position as the third largest local currency bond market as a percentage of GDP in Asia, after Japan and South Korea. It remained resilient in the face of international developments, including volatility of portfolio capital flows and fluctuating investor sentiment over the global economic outlook.

The bond market, which grew about 20% in 2012, had a balanced mix of public sector and private sector bonds, each contributing 59% and 41% respectively to the total bonds outstanding (Chart 15).

In terms of distribution between the sukuk and conventional bonds, continuous high growth of sukuk issuances has resulted in an increasing share of the outstanding short-term and long-term sukuk at 47.1% of the total bond market as at end December 2012, compared to its share of 41.5% at end 2011. This indicates that the sukuk market has been witnessing accelerating growth and is breaking away from being a niche investment instrument to becoming a viable alternative to conventional bonds.

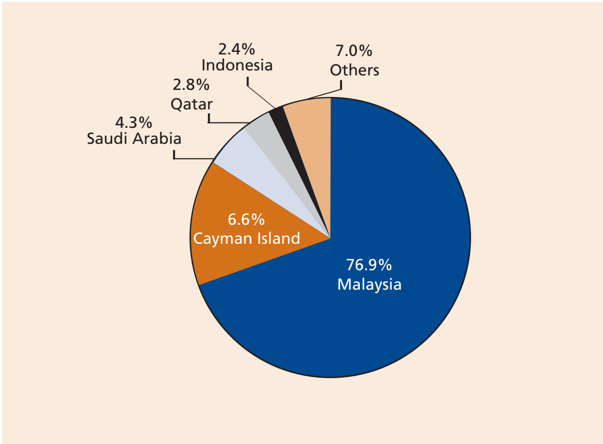
[2] Renaissance Capital Global IPO Market Annual Review.
[3] *Ibid.*

Chart 15
Bond market size (RM billion)



Source: SC

Chart 16
Share of global sukuk issuances in 2012, by domicile



Source: Islamic Finance Information Service (IFIS)

Debt market fund raising in 2012

Sustained economic performance and investor confidence in the capital market amidst continued expansion of large projects created a growing appetite for debt fund raising in both conventional debt securities and sukuk. The year 2012 saw these markets achieving a record year in issuances, with funds raised totalling RM637.2 billion as at end December 2012, surpassing 2011's total issuances of RM518.8 billion. The large issuances were supported mainly by financing needs for new infrastructure projects.

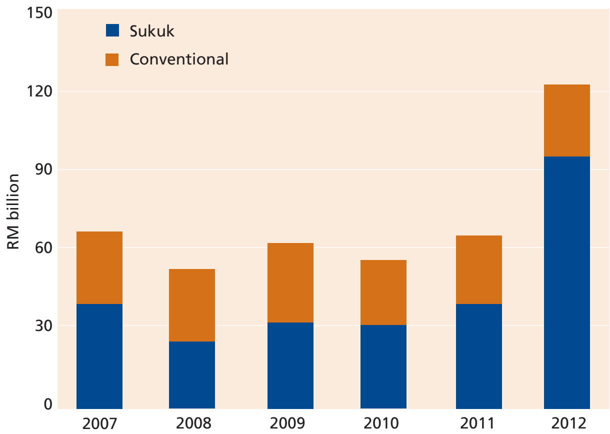
Sukuk vs conventional bonds

Compared to conventional bonds, the overall sukuk market raised RM326.5 billion as at end December 2012, compared to RM185 billion as at end 2011, accounting for 51.2% of total issuances in the overall bond market. This was driven by higher demand for innovative Islamic financial products and services. The issuance of PLUS Bhd's RM30.6 billion sukuk in the early part of 2012 marked a significant milestone as it represented the single largest sukuk issuance globally. Another landmark sukuk deal was the issuance of the world's first corporate perpetual sukuk, by Malaysia Airlines System Bhd (MAS). In 2012, Malaysia had the world's largest total sukuk issuances in the world, accounting for 76.9% of total global sukuk issuances (Chart 16). Malaysia was able to dominate the sukuk market due to ample domestic liquidity, robust domestic economic fundamentals, sustained investor demand, and comprehensive but simple regulatory framework.

Corporate bonds

The issuances of corporate bonds in 2012 was the highest ever recorded amounting to RM123.8 billion, a 77% increase from the previous year (Chart 17). Of the total corporate bond issuances, 79% (RM98 billion) was made up of sukuk. In addition to local corporates, a total of 12 foreign issuers from countries such as Korea, UAE, Singapore, Bahrain and Kazakhstan tapped the local debt market. Collectively, more than RM5 billion of corporate bonds were issued by foreign issuers. The increase in total issuances was driven by the need for financing in the corporate sector, mainly for capital expansion and refinancing across selected sectors of the economy, in particular the infrastructure, banking

Chart 17
Corporate bond issuances (Sukuk and conventional)



Source: SC

Table 1
Issuance of corporate bonds by sector (in percentage)

	2011 (%)	2012 (%)
Agriculture, Forestry and Fishing	1.0	2.2
Mining and Quarrying	0.7	0.1
Manufacturing	2.0	1.5
Construction	7.2	4.0
Electricity, Gas and Water	17.2	9.9
Transport, Storage and Communications	6.3	10.6
Finance, Insurance, Real Estate and Business Services	46.3	61.8
Government and Other Services	18.6	9.6
Wholesale, Retail Trade, Hotels and Restaurants	0.6	0.2

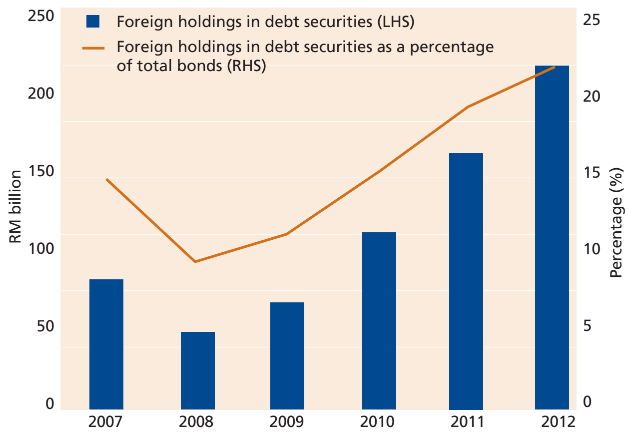
Source: SC

and utilities sectors (Table 1). Recourse to the corporate bond market was also prompted by the conducive domestic interest rate environment and ample domestic liquidity.

Increasing foreign holdings in the bond market

Favourable investor sentiment led to increased local and foreign holdings in the bond market. As at end of December 2012, total foreign holdings of Malaysian bonds has increased by 37% to RM225.4 billion, which is equivalent to 22.4% of total bonds outstanding (Chart 18). The increase in foreign holdings was seen largely for public sector debt, with foreign holdings of both conventional and sukuk increasing by 41.7% to RM 211.6 billion as at end December 2012, accounting for 39.5% of total public debt outstanding. Foreign holdings of Malaysian government bonds are one of the highest in the region, trailing only Indonesia. Meanwhile, the foreign shareholding of corporate bonds as at December 2012 was RM13.8 billion, slightly lower than RM15.1 billion in 2011.

Chart 18
Foreign holdings in Malaysian debt securities



Source: BNM

Investment management

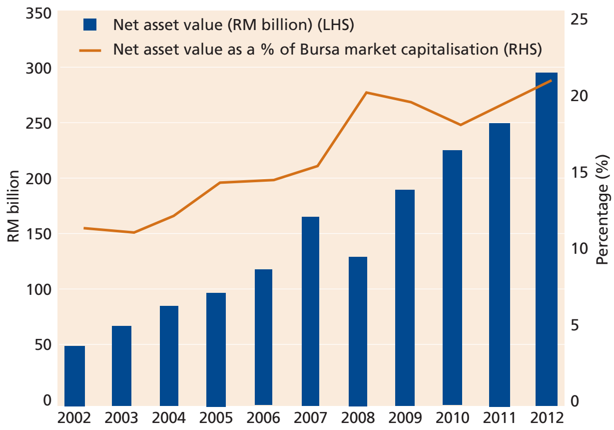
Fund management continued to be the fastest growing segment in the Malaysian capital market, mobilising assets amounting to RM505.1 billion as at December 2012. It has grown at an approximately 20% compound annual growth rate since the year 2000.

The aggregate NAV of unit trust funds grew by 18.2% to RM294.9 billion as at December 2012 from RM249.5 billion in 2011, reflecting the industry's continued importance as a driver of mobilising public savings in the capital market (Chart 19). The size of the unit trust industry was equivalent to 20.1% of Bursa Malaysia's market capitalisation, as compared to 19.4% at the end of 2011. Comparison with regional markets shows that the Malaysian unit trust industry is currently the largest in the region with an NAV value above its regional peers (Chart 20). This trend reflected Malaysia's capacity to sustain its first mover advantage as the first country in the region to set up an investment management industry with the first unit trust in the 1950s and the first fund management company in the 1970s. Continuing efforts have been made to deepen the unit trust industry in Malaysia.

The period pre-1990s saw the industry constrained by slow growth amid a lack of public interest in new investment products. Post-1990s, the industry experienced acceleration in growth with the centralisation of industry regulation, extensive marketing strategies adopted by the ASN (Amanah Saham Nasional) and ASB (Amanah Saham Bumiputera) and liberalisation of guidelines that govern unit trust and asset management companies in Malaysia. The period also saw greater product innovation and deregulation of the industry. As at end 2012, there are 40 unit trust management companies managing 589 funds. In 2012, the unit trust sector was further deepened with the introduction of the private retirement schemes (PRS). This is expected to further increase investor appetite for specialised unit trust products to encourage increasing savings for retirement. Through the PRS, Malaysia hopes to increase coverage of retirement savings on a voluntary basis to all sectors of the labour market, including the self-employed.

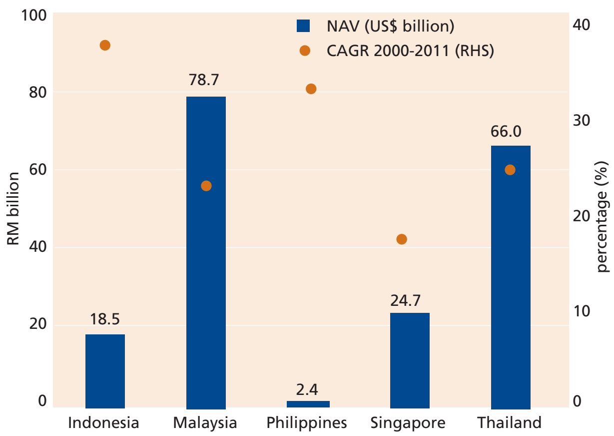
The maturity and confidence of the domestic unit trust industry is reflected in the increasing share of funds invested overseas. In 2012, a total of 281 funds have invested RM19.8 billion in foreign markets, representing 6.7% of the industry's total NAV (end 2011: 272 funds, RM15.6 billion). For the year 2012, 29 out of 32 new funds launched have obtained approval to invest in the overseas market. Twenty-one of the newly launched funds have invested RM2.6 billion overseas as at 31 December 2012, compared to RM1 billion a year earlier.

Chart 19
Malaysian unit trust NAV



Source: SC

Chart 20
NAV and CAGR selected country comparison 2011



Source: SC, various regional regulatory agencies

CAPITAL MARKET RESILIENCE

Continued market resilience in the face of higher global risks

Amid a continued flow of portfolio capital from the EU and US, and prolonged uncertainty over developments in the euro area, the US economy and China, the world's financial markets faced the prospect of sudden global deleveraging during 2012. The risk that this would have a significant market impact was further exacerbated by the relatively rich valuations at which the region's markets were trading. In the case of Malaysia, equities traded at a 17% premium to the region, based on forward earnings, with projected earnings growth for 2013 at the lower end of the regional range. Meanwhile, heavy foreign demand appeared to be behind negative yield spreads between 3–5 year benchmark bonds and their corresponding interest rate swaps on a number of occasions during the year.

Nevertheless, direct exposure of the Malaysian capital market to global market shocks remained relatively low and manageable. Malaysian capital market assets continued to exhibit a relatively low 'beta', or elasticity, to global price movements. Malaysian stock returns, in particular, displayed a much lower correlation with US and EU markets than those in Asia (particularly China). For portfolio investments, around 16% (RM80 billion) of assets under management was invested internationally during 2012. The exposure to Asia ex-Japan and ex-China markets (8% or RM42 billion) was typically larger than to the euro area (2% or RM10 billion). Even taken together, simultaneous shocks from both these regions would therefore have had a relatively limited impact on Malaysian portfolio asset valuation. At the level of the market, long-standing and regularly-tested measures have been in place to manage the risk of market volatility, including individual stock price limits and a market-wide circuit breaker framework. While trading activity on the exchange continued to be concentrated in a few key players, stockbroking firms on the whole remained well-capitalised and carried a low exposure to market risk.

The prospect of global deleveraging also raised concerns that some global financial services firms, which had taken the opportunity to establish a local presence before the global financial crisis, would withdraw from emerging markets. In the immediate aftermath of the global financial crisis, major financial centres in Asia saw retrenchment of both foreign and local staff. The risk during 2012 was that global firms, faced with deleveraging in their home markets, would take a strategic decision to close down marginal businesses in the region and elsewhere. However, there have been no such indications in Malaysia during the year. The risk of withdrawal by foreign firms in Malaysia was mitigated to some extent by the structural and regulatory framework. A requirement for financial firms to be locally incorporated helped insulate such firms from adverse impact of global developments on their parent companies.

As deleveraging is closely associated with credit risk, our stability assessment also emphasised default-related stress levels in the bond market. In 2012, the value of corporate bonds assessed to be under stress, as well as actual rates of default, remained low.

Vigilance over integrity risks to market resilience

Interest in small stocks surged during the year. The FTSE-Bursa Fledgling and ACE indices gained by 6.2% and 3.6% respectively during the year; daily turnover of Fledgling index stocks jumped by a quarter, while that of ACE companies nearly doubled. Factors behind this interest included news and rumours concerning corporate deals, momentum and rotational trading, and a general lack of news in other market segments. While the impact of small-cap exuberance on overall market stability remained very low, the SC nevertheless took pre-emptive measures where necessary to mitigate any integrity risks, such as market abuse or insider activity, which could have had an impact on investor confidence.

Similarly, our surveillance efforts emphasised possible

Box 8:

Technology and Trading Innovation

The Knight Capital technology mishap in August 2012 raised significant issues concerning trading technology both in a global context as well as that of the Malaysian capital market. Algorithmic (algo) trading, in particular, is a new but growing local phenomenon and the SC has looked closely at what occurred with Knight Capital, and of the global rise of algo trading, to better understand and prepare for the risks as well as benefits that such trading innovation can bring.

Trading technology glitches appear to be as much about human error as it is about an algo trading system running amok. In the case of Knight Capital, a coding error resulted in thousands of wrong trades in 148 stocks, leading to a disorderly market and massive losses for the firm, which eventually had to be bailed out.

Algo trading does take place in the Malaysian capital market, but remains relatively low. Anecdotal evidence suggests that algo trading makes up a small proportion of market turnover: 2% of derivatives trades and possibly 10% of securities volume. Much of what constitutes as algo trading in the stock market would take place through the exchange's direct market access facility. There are several ways that brokers facilitate algo trading: (i) through direct market access algo agency trades; (ii) by providing pure agency algo services; and (iii) by engaging in proprietary algo strategies, including market-making. However, few brokers are thought to engage in algo trading at present.

The International Organization of Securities Commissions (IOSCO) recognises that relatively few jurisdictions currently have regulations that are designed specifically to address algo trading, especially its speedier variant called high-frequency trading (HFT). IOSCO recommends market authorities to consider whether tailored regulatory requirements should be introduced, especially in markets where algo trading or HFT is a dominant component of the market structure. However, it recognises that where such regulations are actually needed can vary from jurisdiction to jurisdiction.

A preliminary assessment of the Malaysian environment suggests that risks from algo trading to market stability appear small for now. Many of the trading controls other jurisdictions have been recently implementing are already in place in our market. Nevertheless, the SC is considering ways of preparing itself and the market for the future growth in algo.

One approach is to improve information-gathering and to monitor developments more closely. Lessons from previous episodes in other jurisdictions suggest that market authorities must be able to capture, through appropriate tagging, order granularity, transaction, timing and reference data that provide the source data necessary to conduct effective surveillance and analysis of algo activity. Likewise, strong capabilities in the area of data capture and technology are important. If a potential problem is identified, regulators must be able to obtain detailed information related to algo transactions.

Authorities have also learnt that strong governance practices in relevant areas are necessary. For instance, some regulators are mulling over existing rules, with a view to incorporate an annual review and stress-test of systems (including algos), and to issue regulatory guidance on minimum standards, in order to inculcate good risk governance practices over trading systems.

Trading innovation seems to be here to stay, with automated trading already part of the mainstream practices. The role of algo trading – and HFT in particular – in contributing to high volatility and a withdrawal of liquidity during times of market stress is still subject to debate among practitioners, regulators and academics. However, its impact on liquidity during normal periods is thought to be, on the whole, positive. Where algo trading has played a part in market disruption, the cause can often be traced back to human error.

In the case of Malaysia, algo trading will likely drive a higher amount of trading volumes in the future. Instituting high standards and expectations of risk governance over pre-trading activity, implementing precautions against current post-trade (market) risks and enhancing regulatory capability for closer supervision and monitoring would augment what is already a relatively strong control framework over trading risk compared to other jurisdictions.

integrity risks in the bond market, given the heightened interest in debt instruments. Trading activity in the domestic bond market increased substantially in 2012, after falling by a half in 2007–08 (from RM68 billion to RM34 billion) as a result of global de-leveraging. Notwithstanding the impact of global developments on the overall bond market, movements or volatility in yields and turnover of individual corporate bonds during the year did not appear to pose any threat to market stability. Outside of minor trading irregularities, there were also no significant instances of market abuse. In light of more issuance of corporate paper, our surveillance focused on sell-down activities of new issuances by primary subscribers and where relevant enquires into sell-down transactions with unusually high yield spreads.

OUTLOOK

The world's financial markets still appear to be susceptible to sudden surges in optimism or pessimism that marked their performance in 2012 – the so-called 'risk-on'/'risk-off' phenomenon. Correlations across a wide range of asset classes internationally remain high, suggesting that markets around the world are still focusing on the same drivers, namely prospects for global economic recovery and liquidity conditions. Any event that can affect market confidence, such as an unexpected shock to the global economy, a resurgence of the euro area debt crisis, or setbacks to medium-term fiscal adjustment in the US and Japan, has therefore a higher likelihood of a global correction in markets.

Nevertheless, global sentiment over prospects for the world economy appears to be turning positive. The VIX index, a gauge of equity investors' risk aversion, is hovering near a five-year low; there has been a rapid trend upwards in global demand for high-yielding assets, in particular speculative-grade bonds. Resurgence in capital flows 'searching for yield' can help support growth by making it easier for companies to secure financing. Global bond and stock markets can therefore expect a sustained recovery if these trends were to persist over the next 12 months.

In Malaysia, sustained economic growth and adequate liquidity is expected to support the continued expansion of the capital market in 2013. Several large projects planned in 2013 would likely source financing through the sukuk and corporate bond markets. It is expected that projects under the ETP will continue to require sizeable capital market funding. Likely sectors that will require long-term financing are oil and gas, infrastructure, utilities and property. Examples include funding for urban regeneration projects, development of petrochemical complexes, the country's mass rapid transit (MRT) system, and development of transportation links such as ports and roads. Similarly, the Malaysian equity market is expected to continue to be a significant source of financing in 2013. Potential issuers are those related to the transportation, power and insurance sectors.

Taking into consideration the robust domestic fundamentals that should mitigate weaknesses in the external sector; the country's economic performance is expected to continue to be resilient. Given the low level of inflation and investor friendly economic and social policies, investors' sentiment towards Malaysia are expected to be favourable. Compounded with strong domestic regulatory framework, indicators point to positive developments for the Malaysian capital market in the year 2013.

Part Six
Statements and statistics

COMMISSION MEMBERS

DATUK RANJIT AJIT SINGH

Appointed 1 April 2012

Datuk Ranjit Ajit Singh was appointed Executive Chairman of the SC effective April 2012. He was previously Managing Director of the SC and has over 20 years' experience in the field of finance and securities regulation.

He is currently a member of the governing Board of the IOSCO. He is also the Vice Chairman of IOSCO's Emerging Markets Committee with 86 jurisdictions. He has played a key role in international securities regulatory policy work.

Datuk Ranjit currently chairs the Securities Industry Development Corporation (SIDC) and the Capital Market Development Fund (CMDF). He is also a member of the Board of the Labuan Financial Services Authority (Labuan FSA) and the Financial Reporting Foundation.

Datuk Ranjit is trained as a financial economist and accountant. He holds a Bachelor of Economics (Honours) degree and a Master of Economics degree in Finance from Monash University Melbourne and is a fellow of CPA Australia. He has had prior working experience in Australia and Malaysia in academia, consulting and accounting.

DATO DR NIK RAMLAH MAHMOOD

Appointed 1 April 2012

Dato Dr Nik Ramlah Mahmood was appointed Deputy Chief Executive of the SC on 1 April 2012. She joined the SC in 1993 as Manager of Law Reform Department and was a Director of the Policy and Development Division later in 1997. She was made Managing Director and Executive Director of the SC's Enforcement Division in 2008. Dato Dr Nik Ramlah has served the SC for 20 years and has worked in areas ranging from legal and regulatory reform, product and market development, Islamic capital market, investor education and enforcement.

Dato Dr Nik Ramlah sits on the board of the SIDC and the CMDF. She is also a member of the Professional Development Panel of the International Centre for Education in Islamic Finance (INCEIF), the global university of Islamic finance and is an EXCO member of the Asian Institute of Finance (AIF).

Dato Dr Nik Ramlah holds a First Class Honours in Law from University Malaya and a LLM and PhD from the University of London. For her PhD, she was a recipient of a scholarship from the Association of Commonwealth Universities. Prior to joining the SC in 1993, Nik Ramlah was an Associate Professor in the Faculty of Law, University Malaya.

DATUK TAN LEH KIAH @ FRANCIS TAN

Appointed 18 May 1999

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

DATO' GUMURI HUSSAIN

Appointed 1 August 2004

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

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

FAZLUR RAHMAN EBRAHIM

Appointed 1 May 2006

Fazlur Rahman Ebrahim is the former Managing Director of Prokhas Sdn Bhd, a company wholly owned by the Minister of Finance, Incorporated. He was previously the Chief Operating Officer of Bank Islam Malaysia Bhd and the President and Chief Executive Officer of Bank Muamalat Malaysia Bhd. He currently sits on the boards of Pelaburan Hartanah Bhd and Credit Counseling and Debt Management Agency. Fazlur holds a bachelor's degree in business administration from Ohio University, US and a master's degree in Business Administration (Finance) from Universiti Kebangsaan Malaysia.

TAN SRI DATO' SERI MOHAMED JAWHAR HASSAN

Appointed 15 May 2010

Tan Sri Mohamed Jawhar is Chairman of The Institute of Strategic and International Studies (ISIS) Malaysia. He was Chairman and Chief Executive Officer of ISIS from 2006–2010. He joined ISIS as the Director-General in 1997. Before joining ISIS, Tan Sri Mohamed Jawhar had served with the government, among others, as the Director-General, Department of National Unity; Under-Secretary, Ministry of Home Affairs; Director (Analysis) Research Division, Prime Minister's Department; and Principal Assistant Secretary, National Security Council. He has also served as Counselor in the Malaysian embassies in Indonesia and Thailand.

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

TAN SRI DATO' HASMAH ABDULLAH

Appointed 10 March 2011

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

DATO' DR MADINAH MOHAMAD

Appointed 15 February 2012

Dato' Dr Madinah Mohamad is the Secretary General, Ministry of Science, Technology and Innovation (MOSTI), a position she has held since April 2009. She is very much involved in the administration of MOSTI and directly in charge of the development of science, technology and innovation in Malaysia. These include the drafting and formation of new policies with respect to innovation as well as the implementation and progress of related policies endorsed by the Government, such as Biotechnology Policy, IT Policy and National Science and Technology Policy.

Prior to her current position, Dato' Dr Madinah has had vast working experience in various Government agencies such as the Public Service Department, the Ministry of National and Rural Development, the Ministry of Works, the National Unity and Integration Department and the Ministry of Foreign Affairs. Dato' Dr Madinah graduated with a Bachelor's degree in Political Science from University Science Malaysia, a Master's degree and a PhD in Human Resource Development from University Putra Malaysia.

DATO' MAT NOOR NAWI

Appointed 1 December 2012

Dato' Mat Noor Nawi is currently the Deputy Secretary General Treasury (Policy), Ministry of Finance. Having been in the public service since 1981, Dato' Mat Noor has more than 30 years of working experience in the government sector. He was the Agriculture Economist at the Federal Agriculture Marketing Authority (FAMA) before joining Economic Planning Unit (EPU), Prime Minister's Department in 1983. He has since continued to serve the EPU in various capacities where his last position was the Deputy Director General 1 before joining the Ministry of Finance. Currently, Dato' Mat Noor sits on the Boards of Pelaburan Hartanah Bhd, Employees Provident Fund, Pengurusan Aset Air Bhd, Telekom Malaysia Bhd and DanaInfra Nasional Bhd.

He holds a Bachelor of Science in Resource Economics from University Putra Malaysia and a Master of Science in Policy Economics from University of Illinois, Urbana-Campaign, US.

SENIOR MANAGEMENT

DATIN TEH IJA MOHD JALIL
Executive Director
Corporate Resources

GOH CHING YIN
Executive Director
Strategy and Development

EUGENE WONG WENG SOON
Executive Director
Corporate Finance and Investments

ZAINAL IZLAN ZAINAL ABIDIN
Executive Director
Islamic Capital Market

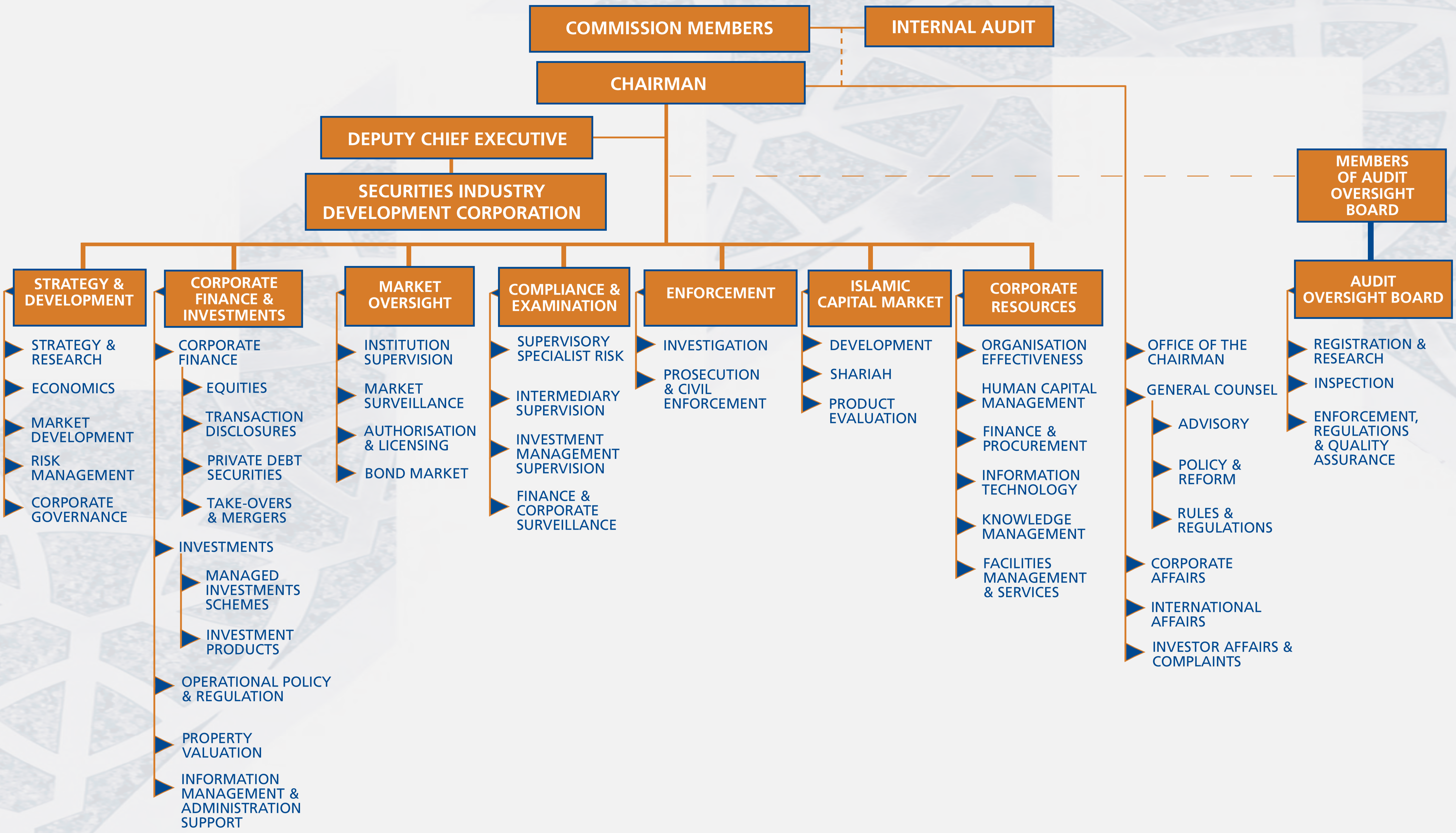
NIK HASYUDEEN YUSOFF
Executive Director,
Executive Chairman
Audit Oversight Board

FOO LEE MEI
Executive Director
General Counsel

SHAMSUFLAN SHAMSUDDIN
Executive Director
Compliance and Examination

AHMAD FAIRUZ ZAINOL ABIDIN
Executive Director
Enforcement

ORGANISATION STRUCTURE



STATEMENT OF GOVERNANCE

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

As a competent capital market regulator, the SC had undertaken independent assessments under the various standards set by the International Organization of Securities Commissions (IOSCO), of which the SC is an active member; as well as other international standard setting bodies. The SC advocates high standards of corporate governance and is itself fully committed to the upholding of sound governance principles and best practices.

MEMBERS OF THE COMMISSION

The Minister of Finance appoints Commission members. The Commission members comprise an Executive Chairman, a Deputy Chief Executive, four members representing the government, and three other persons.

Datuk Ranjit Ajit Singh assumed the position of Executive Chairman since 1 April 2012, taking over from Tan Sri Zarinah Anwar. A profile of Commission members and their involvement in the various committees established by the Commission are provided on pages 6-1 to 6-5 and page 6-10 respectively.

A Commission member may serve a maximum of three years, and is eligible for reappointment upon completion of his or her term. The remuneration or allowances of a Commission member are determined by the Minister of Finance.

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

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

The SCA requires a Commission member to manage conflict of interest by disclosing his or her interest in any matter under discussion by the Commission or any committee. Once a disclosure has been made, he or she:

- shall not take part nor be present in any deliberation or decision of the Commission or committee; and
- shall be disregarded for the purposes of constituting quorum of the Commission or committee, relating to the matter.

FUNCTIONS OF THE COMMISSION

The SC's regulatory functions include:

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

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

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

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

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

COMMISSION MEETINGS

Eleven Commission meetings were held in 2012. The quorum required is five. The attendance record is set out in Table 1.

Table 1
Attendance at Commission Meetings in 2012

Commission member	No. of meetings attended
Datuk Ranjit Ajit Singh (appointed 1 April 2012)	8/8
Dato Dr Nik Ramlah Nik Mahmood (appointed 1 April 2012)	7/8
Datuk Francis Tan Leh Kiah	11/11
Dato' Gumuri Hussain	8/11
Fazlur Rahman Ebrahim	10/11
Tan Sri Mohamed Jawhar Hassan	7/11
Dato' Dr Mohd Irwan Serigar Abdullah (stepped down w.e.f. 30 November 2012)	2/10
Tan Sri Dato' Hasmah Abdullah	11/11
Dato' Dr Madinah Mohammad (appointed 15 February 2012)	4/9
Dato' Mat Nor Nawi (appointed 1 December 2012)	0/1
Tan Sri Zarinah Anwar (retired 31 March 2012)	3/3

COMMITTEES OF THE COMMISSION

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

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

Table 2
Committees of the Commission in 2012

Committee	Key Responsibility	Members
1. Audit Committee	Review effectiveness of the SC's risk management and internal control systems and review the annual financial statements.	• Dato' Gumuri Hussain (Chairman) • Datuk Francis Tan Leh Kiah • Fazlur Rahman Ebrahim • Tan Sri Dato' Hasmah Abdullah
2. Issues Committee	Evaluate any proposed issue and listing of securities of a corporation on a stock market and corporate exercises involving acquisition of asset which results in significant change in the business direction or policy of a listed corporation.	• Datuk Ranjit Ajit Singh (Chairman)[1] • Dato Dr Nik Ramlah Nik Mahmood[2] • Datuk Francis Tan Leh Kiah • Dato' Gumuri Hussain • Fazlur Rahman Ebrahim • Tan Sri Zarinah Anwar[3]
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.	• Datuk Ranjit Ajit Singh (Chairman)[1] • Dato Dr Nik Ramlah Mahmood[2] • Datuk Francis Tan Leh Kiah • Dato' Gumuri Hussain • Tan Sri Dato' Hasmah Abdullah • Dato' Dr Mohd Irwan Serigar Abdullah • Tan Sri Zarinah Anwar[3]
4. Managed Investment Schemes Committee – previously known as Trusts and Investment Management Committee	Evaluate and approve the establishment of a unit trust or property fund and any other form of collective investment schemes.	• Datuk Ranjit Ajit Singh (Chairman)[1] • Dato Dr Nik Ramlah Mahmood[2] • Fazlur Rahman Ebrahim • Tan Sri Mohamed Jawhar Hassan • Tan Sri Dato' Hasmah Abdullah • Dato' Dr Mohd Irwan Serigar Abdullah • Tan Sri Zarinah Anwar[3]
5. Licensing Committee	Evaluate and approve (or reject) applications for the grant of a new CMSL, together with accompanying CMSRLs, directors, key management personnel and compliance officer. The Committee is also responsible to consider policies relating to licensing issues to be recommended to the Commission, as well as evaluate applications for private retirement scheme (PRS) providers.	• Datuk Ranjit Ajit Singh (Chairman)[1] • Dato Dr Nik Ramlah Mahmood[2] • Tan Sri Mohamed Jawhar Hassan • Tan Sri Dato' Hasmah Abdullah • Dato' Dr Madinah Mohamad • Tan Sri Zarinah Anwar[3]
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.	• Datuk Francis Tan Leh Kiah (Chairman) • Tan Sri Mohamed Jawhar Hassan • Dato' Dr Madinah Mohamad • Goh Ching Yin • Ahmad Fairuz Zainol Abidin
7. Nomination and Remuneration Committee	Formulate the remuneration package of the Chairman and Deputy Chief Executive and make related recommendations to the Minister of Finance.	• Fazlur Rahman Ebrahim (Chairman) • Dato' Gumuri Hussain • Datuk Francis Tan Leh Kiah • Tan Sri Mohamed Jawhar Hassan

1 Appointed as Chairman on 1 April 2012.
2 Appointed as Deputy Chief Executive on 1 April 2012.
3 Retired on 31 March 2012.

Members of the SAC are appointed by His Majesty Seri Paduka Baginda Yang di-Pertuan Agong, and are as follows:

No.	SAC Members
1	Tun Abdul Hamid Haji Mohamad
2	Tan Sri Sheikh Ghazali Haji Abdul Rahman
3	Dato' Dr Abdul Halim Ismail
4	Dr Mohd Daud Bakar
5	Dr Muhammad Syafii Antonio
6	Professor Mohammad Hashim Kamali
7	Professor Dr Ashraf Md Hashim
8	Associate Professor Dr Azman Mohd Noor
9	Assistant Professor Dr Aznan Hasan
10	Associate Professor Dr Engku Rabiah Adawiah Engku Ali
11	Associate Professor Dr Shamsiah Mohamad

The Audit Oversight Board (AOB) was established under section 31 of the SCA and its mandate is to assist the Commission in discharging its regulatory function in respect of developing an effective audit oversight framework, registering or recognising auditors of public interest entities, and providing recognition to auditors of foreign public listed entities.

The AOB members are appointed by the SC, and are as follows:

No.	AOB Members
1	Nik Mohd Hasyudeen Yusoff (Executive Chairman)
2	Goh Ching Yin
3	Datuk Nor Shamsiah Mohd Yunus
4	Cheong Kee Fong
5	Chok Kwee Bee
6	Dato' Gumuri Hussain
7	Mohd Naim Daruwish

MEETING PROCEDURES

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

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

ACCOUNTABILITY AND AUDIT

The Chairman is entrusted with the day-to-day administration of the SC as provided by section 4(2) of the SCA. In managing the day-to-day operations of the SC, the Chairman is assisted by the Deputy Chief Executive and the Executive Directors, and collectively they are known as the Executive Team. The Deputy Chief Executive, by virtue of section 4(3) of the SCA, deputises the Chairman in the event the Chairman is not available or unable to discharge his authority or duties. There are various operating committees established by the Chairman to advise and assist in the day-to-day operations of the SC, such as the Risk Management Committee, Systemic Risk Oversight Committee, Sanctions Committee, the Resources Committee, and the IT Steering Committee.

Risk management and internal control

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

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

More elaborate description of the SC's risk management and internal control systems are provided in the Statement on Internal Control on pages 6-13 to 6-16.

Assurance

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

Financial Reporting

The Commission exercised due care and took reasonable steps to ensure that the financial statements for the year 2012 presented a fair assessment of the SC's financial position and that the requirements of accounting standards were fully met.

Relationship with external auditors

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

EXTERNAL STAKEHOLDER AND PUBLIC COMMUNICATION

Effective and ongoing communication with capital market participants is necessary to facilitate the discharge of the SC's responsibilities. We regularly meet our constituents to discuss and gather feedback on issues and measures to enable us to provide a facilitative policy and regulatory framework, and encourage continuous growth and development of the capital markets. All press releases, publications, various guidelines and annual reports are posted on the official website – www.sc.com.my.

The SC has an Investor Affairs and Complaints Department that receives and handles public complaints against the SC, or a staff of the SC, in relation to misconduct in the discharge of the SC's function.

The Securities Dispute and Dispute Resolution Center (SIDREC) is a body approved by the SC to handle monetary claims by investors against stockbrokers, futures brokers, fund managers, unit trust management companies, amongst others; who are licensed under the CMSA to conduct regulated activities in Malaysia.

STATEMENT ON INTERNAL CONTROL

INTRODUCTION

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

RESPONSIBILITIES FOR RISK MANAGEMENT AND INTERNAL CONTROL

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

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

RISK MANAGEMENT

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

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

In delivering our mandate, we noted that it is very important for us to take a focused and holistic view of risk issues and the mitigation of such risks within the SC. The Executive Team has therefore decided to establish a Risk Management Committee (RMC) comprising all members of the Executive Team. The RMC is responsible to provide strategic direction for SC's risk management by:

- Reviewing principal risks to the SC and capital market and the actions taken by the organisation to mitigate such risks;

- Determining appropriate accountabilities for risk mitigation, and regularly monitor its progress;

- Reviewing the SC's risk policy and practice; and

- Reporting to the Commission on SC's enterprise risk profile and mitigation strategy.

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

INTERNAL AUDIT

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

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

During the year, the Internal Audit Department was subjected to an external Quality Assurance Review (QAR), performed by the Institute of Internal Auditors Malaysia. The department achieved full conformance to the International Standards for the Professional Practice of Internal Auditing.

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

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

MONITORING AND REVIEW

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

- The delegation of responsibilities to committees of the Commission through clearly defined terms of reference;

- The Executive Team's representation to the Commission on the control environment of the SC;

- The Executive Team's regular review to discuss operational and strategic issues at senior management level to ensure focus on the achievement of its business plan and goals;

- The SC Business Plan is monitored closely by the Executive Team and reported to the Commission;

- The SC's risk profile is reported to the Commission periodically;

- The Internal Audit's independent assessments on the effectiveness of internal controls in selected areas in accordance with the Annual

Audit Plan approved by the Audit Committee. The significant issues and recommendations for improvements are highlighted from these assessments to the Executive Team and Audit Committee, and implementation of action plans are monitored and reported periodically; and

- The Audit Committee's review of the internal control issues identified by Internal Audit, as well as any matters relating to internal controls highlighted by the external auditors in the course of their financial audit of the SC and AOB accounts; and evaluation of the effectiveness and adequacy of the SC's internal control system.

CONTROL ENVIRONMENT

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

- An organisation structure with clearly defined responsibilities and delegation of responsibilities to its committees to assist the Commission in performing its key regulatory functions, which is also set out in this annual report;

- The annual Business Plan containing the SC's business goals, strategies, key projects, resource needs and budget, which is approved by the Commission;

- The Code of Ethics and the Code of Conduct (including the Code of Practice on the Prevention and Eradication of Sexual Harassment) which set out the expectations required of staff on ethical conduct and standards of behaviour;

- The Internal Whistleblowing Procedure was established as a safe channel of communication for individuals to expose or report internal wrongdoing or suspected breaches of law within the organisation;

- The Statement of the SC's Principles and Standards was introduced as the SC's commitment to the observance and practice of the highest ethical standards in conducting business with the suppliers, contractors, vendors, consultants and other relevant stakeholders;

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

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

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

- The IT User Policy which was established to ensure the effective protection and proper usage of the SC's computer systems. It is a guide for efficient and disciplined IT department management and provides unambiguous and precise reference for IT department personnel in carrying out their duties and for users in utilising the computer systems;

- The Records Management Policy which was established to give clear guidance of the standards and procedures that need to be put in place to ensure that records are fit to be used as evidence and/or information by the SC, in carrying out business operations or legal obligations;

- The SC Document Confidentiality Levels which was established to protect classified documents managed by the SC;

- The roll-out of Risk Control Self-Assessment (RCSA) throughout the organisation. The RCSA is a structured, systematic and consistent approach for the SC to continuously evaluate the management of key risks as well as effectiveness and adequacy of internal controls at the business process or at the department/ business group level across the organisation;

- The SC has a Compliance and Ethics e-learning platform for staff of the SC to enhance awareness on and understanding of the SC's governance standards as exemplified in our Code of Conduct, Code of Ethics and other internal governance standards, and is part of our continuous improvement efforts to integrate high standards of ethical conduct in all of our actions; and

- The Business Process Flows which are available on the SC's intranet to serve as a guide to all staff, particularly new recruits, in understanding the SC's operations.

REVIEW OF THE STATEMENT BY THE COMMISSION

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

REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

The external auditors have reviewed this Statement on Internal Control for the inclusion in the SC's annual report for the financial year ended 31 December 2012 and reported to the Audit Committee that nothing had come to their attention that caused them to believe that the Statement on Internal Control is inconsistent with their understanding of the processes adopted by the Commission.

AUDIT COMMITTEE REPORT

The SC is pleased to present the Audit Committee Report for the financial year ended 31 December 2012.

Members and meetings

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

- Dato' Gumuri Hussain (Chairman);
- Datuk Francis Tan Leh Kiah (Alternate Chairman);
- Fazlur Rahman Ebrahim; and
- Tan Sri Dato' Hasmah Abdullah.

The Committee convened six meetings, which were attended by the majority of its members, during the financial year. A member of senior management is invited to be in attendance at the Audit Committee meetings.

Terms of reference

The Audit Committee is a committee of the Commission. The Commission members determine the membership and appoint the Audit Committee members and the Chairman of the Committee.

The Committee meets at least four times a year or as frequently as required and needs a quorum of two. The Committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. The proceedings of the Committee are recorded and the minutes of meetings are tabled at Commission members' meetings.

The purpose, authority and responsibility of the Audit Committee are set out in the Audit Committee Charter.

The main responsibilities of the Audit Committee are:

i. to assist the Commission in its review of the adequacy and effectiveness of the SC's risk management and internal control systems;

ii. to consider and recommend the appointment of the external auditor, their remuneration and any issues regarding their performance;

iii. to review the external auditor's audit scope and plans of audit, including coordination of audit efforts with internal audit;

iv. to review the accounting policies and practices adopted by the SC in the preparation of its financial statements and integrity of the financial reporting processes;

v. to review the annual financial statements and make appropriate recommendation(s) to the Commission regarding the adoption of the SC's annual financial statements and the level of disclosure, focusing in particular on:

   - compliance with applicable accounting standards;
   - changes in significant accounting policies and practices;
   - significant adjustments arising from the audit; and
   - significant unusual events.

vi. to support and provide direction to the Internal Audit Department to ensure its effectiveness;

vii. to consider and review the findings arising from internal audit reports or other internal investigations and responses by management, and to determine appropriate corrective actions required of management;

viii. to review the implementation of action plans to address key audit observations raised by the Internal Audit Department; and

ix. to review the effectiveness of processes and procedures to ensure compliance with laws, regulations and contracts.

Activities of the Committee

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

Financial Reporting

- Review of the financial statements for the financial year ended 31 December 2011 prior to presentation to the Commission members.

External Audit

- Review of the audit findings, auditor's report and management letter and management's responses arising from the statutory audit for the financial year ended 31 December 2011.
- Review and approval of the external audit plan for the financial year ended 31 December 2012. Various audit and accounting issues were discussed at the Audit Committee meetings.
- Recommendation to the Commission to re-appoint the existing external auditors for the financial year ending 31 December 2012.

Internal Audit

- Review of the internal audit reports and management's action plans to address the audit issues. The Audit Committee also monitored implementation of agreed actions and suggestions for improvements arising from the audits performed.
- Approval to conduct an external quality assurance review of the internal audit function and consider the outcome of the said review.
- Review the achievement of the 2012 internal audit plan, which provided an overall indication of the performance of the internal audit function for the year.
- Consideration of the adequacy of scope and comprehensive coverage of internal audit's activities, and approved the internal audit plan for the financial year ending 31 December 2013.
- Review of the SC's annual Statement on Governance (relating to Accountability and Audit) and Statement on Internal Control to be published in the Annual Report 2012.

Internal audit

The Internal Audit Department assists the Audit Committee in the discharge of its duties and responsibilities. The internal audit function reports directly to the Audit Committee, which determines the adequacy of scope and function of the department. The internal audit function accomplishes its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control and governance processes.

The Internal Audit Department carries out its responsibilities by conducting reviews based on the approved internal audit plan, which is developed using a risk-based methodology. The main activities of the internal audit function for the year 2012 include:

- Performed predominantly risk-based audits for the areas identified in the internal audit plan;

- Undertook an external quality assurance review on conformance to the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors; and

- Reviewed the Audit Committee Charter and Internal Audit Charter to ensure it is in line with relevant good practices and reflects the current practices of the Audit Committee and internal audit function.

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

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

as at 31 December 2012

	Note	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Non-current assets				
Property, plant and equipment	3	196,045	201,646	199,825
Long term receivables	4	19,331	20,539	21,515
Other investments	5	226,969	167,739	188,729
		442,345	389,924	410,069
Current assets				
Trade and other receivables	6	22,239	23,358	25,527
Cash and cash equivalents	7	534,405	576,958	537,537
		556,644	600,316	563,064
Total assets of the SC		998,989	990,240	973,133
Total assets of the Audit Oversight Board (AOB)	8	991	3,247	4,549
Total assets		999,980	993,487	977,682
Reserves				
Accumulated surplus		803,908	802,041	780,769
BMSB compensation fund reserve	9	100,000	100,000	100,000
Human Capital Development (HCD) fund reserve	10	3,110	5,610	8,110
AOB reserve	8	928	2,624	4,450
Total reserves		907,946	910,275	893,329
Non-current liability				
Post-employment benefits	11	37,441	33,795	31,994
Current liabilities				
Other payables and accruals	12	54,530	48,794	52,260
Total liabilities of the SC		91,971	82,589	84,254
Total liabilities of the AOB	8	63	623	99
		92,034	83,212	84,353
Total reserves and liabilities		999,980	993,487	977,682

The notes on pages 6-24 to 6-48 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Note	2012 RM'000	2011 RM'000
Income			
Levies		98,006	106,964
Fees and charges		25,466	22,902
Income on:			
– Fixed deposits and other investments		25,888	24,483
– Staff financing		2,805	2,924
Licence fee		2,706	2,224
Other income		1,220	1,075
		156,091	160,572
Less: Expenditure			
Staff costs	13	111,232	99,620
Administrative expenses		26,397	26,645
Depreciation of property, plant and equipment	3	11,351	10,411
Rental expenses		1,844	573
		150,824	137,249
Net surplus of the SC		5,267	23,323
Net deficit of the AOB		(2,696)	(1,826)
Net operating surplus		2,571	21,497
Less: Grants		(2,400)	(4,000)
Human Capital Development (HCD) expense	10	(2,500)	(2,500)
(Deficit)/Surplus before tax		(2,329)	14,997
Income tax expense	18	–	–
(Deficit)/Surplus for the year		(2,329)	14,997
Other comprehensive income, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Defined benefit plan actuarial gain	20(a)	–	1,949
Comprehensive (expense)/income for the year		(2,329)	16,946

The notes on pages 6-24 to 6-48 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	BMSB compensation fund reserve RM'000	HCD fund reserve RM'000	Accumulated surplus RM'000	AOB reserve RM'000	Total RM'000
At 1 January 2011	100,000	8,110	780,769	4,450	893,329
Surplus for the year	–	–	14,997	–	14,997
Defined benefit plan actuarial gain	–	–	1,949	–	1,949
Comprehensive income for the year	–	–	16,946	–	16,946
HCD charge for the year	–	(2,500)	2,500	–	–
Transfer of net deficit of the AOB to AOB reserve	–	–	1,826	(1,826)	–
At 31 December 2011	100,000	5,610	802,041	2,624	910,275
Deficit/comprehensive expense for the year	–	–	(2,329)	–	(2,329)
HCD charge for the year	–	(2,500)	2,500	–	–
Transfer of surplus to the AOB	–	–	(1,000)	1,000	–
Transfer of net deficit of the AOB to AOB reserve	–	–	2,696	(2,696)	–
At 31 December 2012	100,000	3,110	803,908	928	907,946
	Note 9	Note 10		Note 8	

The notes on pages 6-24 to 6-48 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	Note	2012 RM'000	2011 RM'000
Cash flows from operating activities			
(Deficit)/Surplus before tax		(2,329)	14,997
Adjustments for:			
Depreciation of property, plant and equipment		11,351	10,411
Provision for post-employment benefits		4,075	4,030
Plant and equipment written off		–	1
Financing income		(25,888)	(24,483)
Impairment loss on property, plant and equipment		26	31
Operating (deficit)/surplus before working capital changes		(12,765)	4,987
Changes in working capital:			
Trade and other receivables		203	4,573
Other payables and accruals		5,176	(2,942)
Net cash (used in)/from operating activities		(7,386)	6,618
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,778)	(12,264)
Proceeds from long term receivables		1,208	934
Proceeds from disposal of plant and equipment		2	–
(Acquisition)/Disposal of investments in Malaysian Government Securities and Government Guaranteed Bonds		(59,230)	20,990
Financing income		26,853	22,115
(Increase)/Decrease in restricted deposits		(424)	4,858
Post-employment benefits paid		(429)	(280)
Net cash (used in)/from investing activities		(37,798)	36,353
Net (decrease)/increase in cash and cash equivalents		(45,184)	42,971
Cash and cash equivalents at beginning of year		549,438	506,467
Cash and cash equivalents at end of year		504,254	549,438
Cash and cash equivalents comprise:			
Cash and bank balances	7	2,556	3,022
Deposits placed with licensed banks	7	494,849	536,936
Deposits placed with a scheduled institution	7	37,000	37,000
AOB cash and bank balances	8	910	3,117
		535,315	580,075
Less: Restricted deposits		(31,061)	(30,637)
		504,254	549,438

The notes on pages 6-24 to 6-48 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

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

These financial statements were approved by the Commission on 31 January 2013.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the SC have been prepared in accordance with Malaysian Financial Reporting Standards (MFRSs), and with International Financial Reporting Standards. This is the SC's first financial statements prepared in accordance with MFRSs and MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards* has been applied.

In the previous financial years, the financial statements of the SC were prepared in accordance with Financial Reporting Standards (FRSs) in Malaysia. The financial impacts on transition to MFRSs are disclosed in Note 20 to the financial statements.

The SC has early adopted the amendments to MFRS 101, *Presentation of Financial Statements* which are effective for annual periods beginning on or after 1 July 2012. The early adoption of the amendments to MFRS 101 has no impact on the financial statements other than the presentation format of the statement of profit or loss and other comprehensive income.

The SC has early adopted the amendments to MFRS 119, *Employee Benefits* which are effective for annual periods beginning on or after 1 January 2013. The most significant change relates to the accounting for changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor method' permitted under the previous version of MFRS 119 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board (MASB).

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

- MFRS 10, *Consolidated Financial Statements*
- MFRS 11, *Joint Arrangements*
- MFRS 12, *Disclosure of Interests in Other Entities*
- MFRS 13, *Fair Value Measurement*
- MFRS 127, *Separate Financial Statements (2011)*
- MFRS 128, *Investments in Associates and Joint Ventures (2011)*
- IC Interpretation 20, *Stripping Costs in the production Phase of a Surface Mine*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards – Government Loans*
- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009–2011 Cycle)*
- Amendments to MFRS 101, *Presentation of Financial Statements (Annual Improvements 2009–2011 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2009–2011 Cycle)*
- Amendments to MFRS 132, *Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)*
- Amendment to MFRS 134, *Interim Financial Reporting (Annual Improvements 2009–2011 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements: Transition Guidance*
- Amendments to MFRS 11, *Joint Arrangements: Transition Guidance*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Transition Guidance*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 132, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015

- MFRS 9, *Financial Instruments (2009)*
- MFRS 9, *Financial Instruments (2010)*

The SC plans to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning on 1 January 2013 for those standards, amendments or interpretations that are applicable and effective for annual periods beginning on or after 1 January 2013.
- from the annual period beginning on 1 January 2014 for those standards, amendments or interpretations that are applicable and effective for annual periods beginning on or after 1 January 2014.
- from the annual period beginning on 1 January 2015 for those standards, amendments or interpretations that are applicable and effective for annual periods beginning on or after 1 January 2015.

Material impacts of initial application of a standard, an amendment or an interpretation are discussed below:

MFRS 9, Financial Instruments
MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets. Upon adoption of MFRS 9, financial assets will be measured at either fair value or amortised cost.

MFRS 10, Consolidated Financial Statements
MFRS 10, *Consolidated Financial Statements* introduces a new single control model to determining which investees should be consolidated. MFRS 10 supersedes MFRS 127, *Consolidated and Separate Financial Statements* and IC Interpretation 112, *Consolidation – Special Purpose Entities*. There are three elements to the definition of control in MFRS 10: (i) power by investor over an investee, (ii) exposure, or rights, to variable returns from investor's involvement with the investee, and (iii) investor's ability to affect those returns through its power over the investee.

MFRS 13, Fair Value Measurement
MFRS 13, *Fair Value Measurement* establishes the principles for fair value measurement and replaces the existing guidance in different MFRSs.

The initial application of other standards, amendments and interpretations is not expected to have any material financial impacts to the current and prior periods financial statements upon their first adoption.

(b) Basis of measurement

The financial statements of the SC have been prepared on the historical cost basis other than as disclosed in Note 2.

(c) Functional and presentation currency

These financial statements are presented in ringgit Malaysia (RM), which is the SC's functional currency. All financial information is presented in RM and has been rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

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

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

There are no significant areas of estimation uncertainty and critical judgements in applying accounting policies that have significant effect on the amounts recognised in the financial statements.

2. Significant accounting policies

The accounting policies set out below have been applied consistently to the periods presented in these financial statements and in preparing the opening MFRS statements of financial position of the SC at 1 January 2011 (the transition date to MFRS framework), unless otherwise stated.

(a) Financial instruments

(i) Initial recognition and measurement

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

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

(ii) Financial instrument categories and subsequent measurement

The SC categorises financial instruments as follows:

Financial assets

(a) Held-to-maturity investments

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

Financial assets categorised as held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

(b) Loans and receivables

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

Financial assets categorised as loans and receivables are subsequently measured at amortised cost using the effective interest method.

All financial assets are subject to review for impairment (see Note 2(d)).

Financial liabilities

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

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(b) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

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

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

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

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the SC and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

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

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

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

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

(c) Cash and cash equivalents

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

(d) Impairment

(i) Financial assets

All financial assets are assessed at each reporting date whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the asset. Losses expected as a result of future events, no matter how likely, are not recognised.

An impairment loss in respect of loans and receivables and held-to-maturity investments is recognised in profit or loss and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account.

(ii) Other assets

The carrying amounts of other assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(e) Revenue

(i) Levies and licence fees

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

(ii) Fees and charges

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

(iii) Financing income

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

(f) Employee benefits

(i) Short term employee benefits

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

A liability is recognised for the amount expected to be paid if the SC has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

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

(iii) Defined benefit plans

Post-employment benefits

The SC provides post-employment medical coverage to eligible employees engaged prior to 1 January 2003.

The SC net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the end of the reporting period on high quality bond yield for a 30-year term. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the SC, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the SC. An economic benefit is available to the SC if it is realisable during the life of the plan, or any settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The SC recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

The SC recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains and losses and past service cost that had not previously been recognised.

3. Property, plant and equipment

	Leasehold land RM'000	Buildings RM'000	Office equipment, furniture and fittings RM'000	Computer and application systems RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Cost							
At 1 January 2011	9,154	232,387	91,404	75,174	1,250	2,904	412,273
Additions	–	–	856	2,380	–	9,028	12,264
Write-off	–	–	(1,442)	(19,267)	–		(20,709)
Transfer (to)/from	–	–	1,730	1,106	–	(2,836)	–
At 31 December 2011/1 January 2012	9,154	232,387	92,548	59,393	1,250	9,096	403,828
Additions	–	–	646	972	568	3,592	5,778
Disposal	–	–	–	(4)	–	–	(4)
Transfer (to)/from	–	–	8,417	1,150	–	(9,567)	–
At 31 December 2012	9,154	232,387	101,611	61,511	1,818	3,121	409,602

3. Property, plant and equipment

	Leasehold land RM'000	Buildings RM'000	Office equipment, furniture and fittings RM'000	Computer and application systems RM'000	Motor vehicles RM'000	Capital work-in-progress RM'000	Total RM'000
Depreciation and impairment loss							
At 1 January 2011:							
Accumulated depreciation	1,474	53,641	88,209	68,422	623	–	212,369
Accumulated impairment loss	–	79	–	–	–	–	79
	1,474	53,720	88,209	68,422	623	–	212,448
Depreciation for the year	93	4,648	1,523	3,935	212	–	10,411
Impairment loss	–	31	–	–	–	–	31
Write-off	–	–	(1,442)	(19,266)	–	–	(20,708)
At 31 December 2011/1 January 2012:							
Accumulated depreciation	1,567	58,289	88,290	53,091	835	–	202,072
Accumulated impairment loss	–	110	–	–	–	–	110
	1,567	58,399	88,290	53,091	835	–	202,182
Depreciation for the year	96	4,541	2,331	4,127	256	–	11,351
Impairment loss	–	26	–	–	–	–	26
Disposal	–	–	–	(2)	–	–	(2)
At 31 December 2012:							
Accumulated depreciation	1,663	62,830	90,621	57,216	1,091	–	213,421
Accumulated impairment loss	–	136	–	–	–	–	136
	1,663	62,966	90,621	57,216	1,091	–	213,557
Carrying amounts							
At 1 January 2011	7,680	178,667	3,195	6,752	627	2,904	199,825
At 31 December 2011	7,587	173,988	4,258	6,302	415	9,096	201,646
At 31 December 2012	7,491	169,421	10,990	4,295	727	3,121	196,045

4. Long term receivables

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Staff financing	24,548	26,673	27,463
Less: Unearned profit			
– Islamic financing on house and car	(3,254)	(3,580)	(3,889)
	21,294	23,093	23,574
Amount due within 12 months (Note 6)			
– Staff financing	1,963	2,554	2,059
Amount due after 12 months			
– Staff financing	19,331	20,539	21,515

Staff financing relates to Islamic financing and conventional housing loans, Islamic financing and conventional motor vehicle loans, computer loans and study loans. The financing for housing and motor vehicle are secured over the properties and motor vehicle of the borrowers respectively. The staff financing are repayable over a maximum period of 25 years, seven years, five years and four years respectively. The rate charged on these staff financing ranges from 2% to 4% per annum (2011: 2% to 4% per annum).

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

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Within one year	1,963	2,554	2,059
More than one year and up to five years	7,496	7,368	7,227
More than five years	11,835	13,171	14,288
	21,294	23,093	23,574

5. Other investments

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Held-to-maturity investments			
– Malaysian Government Securities and Government Guaranteed Bonds	226,969	167,739	188,729
Market value:			
– Malaysian Government Securities and Government Guaranteed Bonds	230,108	170,909	191,686

6. Trade and other receivables

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Staff financing (Note 4)	1,963	2,554	2,059
Levies	8,097	8,252	11,503
Income receivable	9,732	10,648	8,280
Other receivables	193	703	1,841
Deposit and prepayments	2,275	1,237	1,907
	22,260	23,394	25,590
Less: Allowance for doubtful debts			
– Staff financing	(21)	(36)	(63)
	22,239	23,358	25,527

7. Cash and cash equivalents

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Cash and bank balances	2,556	3,022	1,392
Deposits placed with licensed banks	494,849	536,936	499,145
Deposits placed with a scheduled institution	37,000	37,000	37,000
	534,405	576,958	537,537

The deposits placed with licensed banks and a scheduled institution earned income at rates ranging from 3.3% to 3.62% (31.12.2011: 2.75% to 3.7%; 1.1.2011: 2.75% to 3.5%) and for periods ranging from six months to 24 months.

Included in deposits placed with licensed banks are amounts restricted for brokers' security deposits of approximately RM15.6 million (31.12.2011: RM15.4 million; 1.1.2011: RM17.2 million), restitution of eligible investors from Swisscash transactions of RMNil (31.12.2011: RM0.8 million; 1.1.2011: RM3.8 million), stockbroking industry development of RM14.0 million (31.12.2011: RM14.0 million; 1.1.2011: RM14.0 million) and other miscellaneous deposits of RM1.5 million (31.12.2011: RM0.4 million; 1.1.2011: RM0.4 million).

8. Audit Oversight Board

8.1 On 1 April 2010, the SC established the AOB under section 31C of the SCA. AOB was established for the purposes set out in section 31B of the SCA, namely:

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

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

8.2 The financial statements of the AOB, which are annexed to these financial statements, are prepared in accordance with Malaysian Financial Reporting Standards and with International Financial Reporting Standards.

The assets and liabilities of the AOB are as follows:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Audit Oversight Board reserve			
– Fund from the SC	6,000	5,000	5,000
– Accumulated deficit	(5,072)	(2,376)	(550)
	928	2,624	4,450
Represented by:			
Other receivables	81	130	124
Cash and cash equivalents	910	3,117	4,425
Total assets	991	3,247	4,549
Total liabilities			
Other payables and accruals	(63)	(623)	(99)
	928	2,624	4,450

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

9. BMSB compensation fund reserve

This represents an amount of RM100 million (31.12.2011: RM100 million; 1.1.2011: RM100 million) allocated from the accumulated surplus for the Bursa Malaysia Securities Bhd (BMSB) Compensation Fund.

10. Human Capital Development (HCD) fund reserve

This represents an amount of RM3.1 million (31.12.2011: RM5.6 million; 1.1.2011: RM8.1 million) allocated from the accumulated surplus for the SC's long-term commitment to support the human capital development in the financial services industry.

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

11. Post-employment benefits

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

Post-employment benefits

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Present value of unfunded obligations	37,441	35,744	31,994
Actuarial gains recognised	–	(1,949)	–
Net liability	37,441	33,795	31,994

Movements in the present value of defined benefit obligations

	2012 RM'000	2011 RM'000
Defined benefit obligations as at 1 January	33,795	31,994
Benefits paid	(429)	(280)
Expense recognised in profit or loss	4,075	4,030
Actuarial gain recognised	–	(1,949)
Defined benefit obligations as at 31 December	37,441	33,795

Expense recognised in profit or loss

	2012 RM'000	2011 RM'000
Current service cost	1,721	1,917
Interest on obligation	2,354	2,113
Net benefit expense	4,075	4,030

The expense is recognised in the following line item in the statement of profit or loss and other comprehensive income:

	2012 RM'000	2011 RM'000
Staff costs	4,075	4,030

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

	2012	2011
Discount rate	6.6%	6.6%
Price inflation	3.5%	3.5%
Medical cost inflation	5.0%	5.0%

Historical information

	2012 RM'000	2011 RM'000	2010 RM'000	2009 RM'000	2008 RM'000
Present value of the defined benefit obligation	37,441	35,744	31,994	28,538	22,755
Fair value of plan assets	–	–	–	–	–
Deficit in the plan	37,441	35,744	31,994	28,538	22,755

12. Other payables and accruals

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Other payables	31,630	25,287	28,350
Accruals	7,323	8,150	6,752
Brokers' security deposits	15,577	15,357	17,158
	54,530	48,794	52,260

13. Staff costs

	2012 RM'000	2011 RM'000
Remuneration, bonus, staff medical, staff training and overtime	93,242	83,574
Employees Provident Fund	13,915	12,016
Post-employment benefits	4,075	4,030
	111,232	99,620

14. Income before tax

	2012 RM'000	2011 RM'000
Income before tax is arrived at after charging:		
Auditors' remuneration:		
– Audit services	70	70
– Other services	20	10
Executive members:		
– Emoluments	3,175	1,795
– Gratuity	899	–
Impairment loss on receivables	–	3
Non-executive members' allowance	402	366
Rental expense:		
– Property	1,472	228
– Plant and equipment	372	345
Property, plant and equipment:		
– Depreciation	11,351	10,411
– Impairment loss	26	31
– Write-off	–	1
And crediting:		
Reversal of impairment loss on receivables	15	30

15. Related parties

The Chairman of the SC is also the Chairman of Securities Industry Development Corporation (SIDC) which is a company limited by guarantee. For the financial year ended 31 December 2012, the SIDC had incurred RM266,000 (2011: RM264,000), being management fees paid to the SC, out of which RM22,200 (2011: RM22,000) is still outstanding from SIDC. In addition, the SC had made a grant of RM2.4 million to SIDC in 2012 (2011: RM2.5 million).

16. Capital commitments

	2012 RM'000	2011 RM'000
Capital expenditure commitments		
Plant and equipment		
Approved but not contracted for:		
Within one year	11,190	16,310

17. Financial instruments

17.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:

(a) Loans and receivables (L&R);
(b) Held-to-maturity investments (HTM); and
(c) Other financial liabilities measured at amortised cost (OL).

	Carrying amount RM'000	L&R/ (OL) RM'000	HTM RM'000
31.12.2012			
Financial assets			
Long term receivables	19,331	19,331	–
Other investments	226,969	–	226,969
Trade and other receivables	20,696	20,696	–
Cash and cash equivalents	534,405	534,405	–
	801,401	574,432	226,969
Financial liabilities			
Other payables and accruals	(54,530)	(54,530)	–
31.12.2011			
Financial assets			
Long term receivables	20,539	20,539	–
Other investments	167,739	–	167,739
Trade and other receivables	22,683	22,683	–
Cash and cash equivalents	576,958	576,958	–
	787,919	620,180	167,739
Financial liabilities			
Other payables and accruals	(48,794)	(48,794)	–

1.1.2011			
Financial assets			
Long term receivables	21,515	21,515	–
Other investments	188,729	–	188,729
Trade and other receivables	23,801	23,801	–
Cash and cash equivalents	537,537	537,537	–
	771,582	582,853	188,729
Financial liabilities			
Other payables and accruals	(52,260)	(52,260)	–

17.2 Financial risk management

The SC has policies and guidelines on the overall investment strategies and tolerance towards risk. Investments are managed in a prudent manner to ensure the preservation and conservation of the fund. The SC has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

17.3 Credit risk

Credit risk is the risk of a financial loss to the SC if a counterparty to a financial instrument fails to meet its contractual obligations. The SC has a formal credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Fixed deposits are placed with licensed banks and with a scheduled institution. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

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

	Gross RM'000	Individual impairment RM'000	Net RM'000
31.12.2012			
Not past due	38,287	–	38,287
Past due 1 – 30 days	–	–	–
Past due 31 – 90 days	260	–	260
Past due 91 – 180 days	–	–	–
Past due more than 180 days	769	(21)	748
	39,316	(21)	39,295

	Gross RM'000	Individual impairment RM'000	Net RM'000
31.12.2011			
Not past due	41,933	–	41,933
Past due 1 – 30 days	–	–	–
Past due 31 – 90 days	115	–	115
Past due 91– 180 days	–	–	–
Past due more than 180 days	648	(36)	612
	42,696	(36)	42,660
1.1.2011			
Not past due	44,460	–	44,460
Past due 1 - 30 days	–	–	–
Past due 31 - 90 days	76	–	76
Past due 91 - 180 days	–	–	–
Past due more than 180 days	662	(63)	599
	45,198	(63)	45,135

The net receivables that are past due, are not being impaired as these receivables are secured over residential properties with total fair value amounting to RM2.9 million.

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

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

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
At beginning of the year	36	63	63
Impairment loss recognised	–	3	–
Impairment loss reversed	(15)	(30)	–
At end of the year	21	36	63

Investments and other financial assets

Risk management objectives, policies and processes for managing the risk

Investments are allowed only in liquid securities and only with counterparties that have a credit rating that are sovereign or near sovereign.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the SC has only invested in Malaysian government securities and government guaranteed bonds. The maximum exposure to credit risk is represented by the carrying amounts in the statement of financial position.

17.4 Liquidity risk

Liquidity risk is the risk that the SC will not be able to meet its financial obligations as they fall due. The SC monitors and maintains a level of cash and cash equivalents deemed necessary by the SC to finance its operations and to mitigate the effects of fluctuations in cash flows.

Maturity analysis

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

	Carrying amount RM'000	Contractual cash flow RM'000	Under 1 year RM'000
31.12.2012			
Financial liabilities			
Other payables and accruals	54,530	54,530	54,530
31.12.2011			
Financial liabilities			
Other payables and accruals	48,794	48,794	48,794
1.1.2011			
Financial liabilities			
Other payables and accruals	52,260	52,260	52,260

17.5 Market risk

Market risk is the risk that changes in market prices, such as interest rates that will affect the SC's financial position or cash flows.

17.5.1 Interest rate risk

The interest rate profile of the SC's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	31.12.2012 RM'000	31.12.2011 RM'000	1.1.2011 RM'000
Fixed rate instruments			
Financial assets	531,849	573,936	536,145

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

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

17.6 Fair value

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

18. Taxation

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

19. Reserves management

The SC's financial management objective is to maintain adequate reserves to safeguard the SC's ability to perform its duties and functions independently and effectively. The Management monitors the long term capital commitments to ensure that sufficient funds are available to meet the obligations. The SC's investments are managed in a prudent manner to ensure the preservation of the funds.

20. Explanation of transition to MFRSs

As stated in note 1(a), these are the first financial statements of the SC prepared in accordance with MFRSs.

The accounting policies set out in note 2 have been applied in preparing the financial statements of the SC for the financial year ended 31 December 2012, the comparative information presented in these financial statements for the financial year ended 31 December 2011 and in the preparation of the opening MFRS statement of financial position at 1 January 2011 (the SC's date of transition to MFRSs).

In preparing the opening statement of financial position at 1 January 2011, the SC has adjusted amounts reported previously in financial statements prepared in accordance with previous FRSs. An explanation of how the transition from previous FRSs to MFRSs has affected the SC's financial position, financial performance and cash flows is set out as follows:

20.1 Reconciliation of financial position

	1.1.2011			31.12.2011		
	FRSs RM'000	Effect of transition to MFRSs RM'000	MFRSs RM'000	FRSs RM'000	Effect of transition to MFRSs RM'000	MFRSs RM'000
Non-current assets						
Property, plant and equipment	199,825	–	199,825	201,646	–	201,646
Long term receivables	21,515	–	21,515	20,539	–	20,539
Other investments	188,729	–	188,729	167,739	–	167,739
Total non-current assets	410,069	–	410,069	389,924	–	389,924
Current assets						
Trade and other receivables	25,527	–	25,527	23,358	–	23,358
Cash and cash equivalents	537,537	–	537,537	576,958	–	576,958
Total current assets	563,064	–	563,064	600,316	–	600,316
Total assets of the SC	973,133	–	973,133	990,240	–	990,240
Total assets of the AOB	4,549	–	4,549	3,247	–	3,247
Total assets	977,682	–	977,682	993,487	–	993,487

	Note	1.1.2011 FRSs RM'000	1.1.2011 Effect of transition to MFRSs RM'000	1.1.2011 MFRSs RM'000	31.12.2011 FRSs RM'000	31.12.2011 Effect of transition to MFRSs RM'000	31.12.2011 MFRSs RM'000
Reserves							
Accumulated surplus	20.4(b)	782,924	(2,155)	780,769	802,247	(206)	802,041
BMSB compensation fund reserve		100,000	–	100,000	100,000	–	100,000
HCD fund reserve		8,110	–	8,110	5,610	–	5,610
AOB reserve		4,450	–	4,450	2,624	–	2,624
Total reserves		895,484	(2,155)	893,329	910,481	(206)	910,275
Non-current liability							
Post-employment benefits	20.4(a)	29,839	2,155	31,994	33,589	206	33,795
Current liabilities							
Other payables and accruals		52,260	–	52,260	48,794	–	48,794
Total liabilities of the SC		82,099	2,155	84,254	82,383	206	82,589
Total liabilities of the AOB		99	–	99	623	–	623
		82,198	2,155	84,353	83,006	206	83,212
Total reserves and liabilities		977,682	–	977,682	993,487	–	993,487

20.2 Reconciliation of profit or loss and other comprehensive income for the year ended 31 December 2011

	FRSs RM'000	31.12.2011 Effect of transition to MFRSs RM'000	MFRSs RM'000
Income			
Levies	106,964	–	106,964
Fees and charges	22,902	–	22,902
Income on:			
– Fixed deposits and other investments	24,483	–	24,483
– Staff financing	2,924	–	2,924
Licensing fee	2,224	–	2,224
Other income	1,075	–	1,075
	160,572	–	160,572
Less: Expenditure			
Staff costs	99,620	–	99,620
Administrative expenses	26,645	–	26,645
Depreciation of property, plant and equipment	10,411	–	10,411
Rental expenses	573	–	573
	137,249	–	137,249
Net surplus of the SC	23,323	–	23,323
Net deficit of the AOB	(1,826)	–	(1,826)
Net operating surplus	21,497	–	21,497
Less: Grants	(4,000)	–	(4,000)
HCD expenses	(2,500)	–	(2,500)
Surplus before tax	14,997	–	14,997
Income tax expense	–	–	–
Surplus for the year	14,997	–	14,997
Other comprehensive income, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Defined benefit plan actuarial gain (See Note 20.4(a))	–	1,949	1,949
Comprehensive income for the year	14,997	1,949	16,946

20.3 Material adjustments to the statements of cash flows for 2011

There are no material differences between the statement of cash flows presented under MFRSs and the statement of cash flows presented under FRSs.

20.4 Notes to reconciliations

(a) Post-employment benefits

Under FRSs, the SC had chosen to recognise cumulative gains and losses using the "corridor method". Under the "corridor method", actuarial gains and losses are recognised when the cumulative unrecognised amount thereof at the beginning of the period exceeds 10% of the greater of the present value of the obligation and the fair value of the assets.

Upon transition to MFRSs, the SC elected to apply the exemption to recognise all cumulative actuarial gains and losses at the date of transition as an adjustment to opening accumulated surplus.

The impact that affected the post-employment benefits are summarised as follows:

	1.1.2011 RM'000	31.12.2011 RM'000
Statement of profit or loss and other comprehensive income		
Defined benefit plan actuarial gain	–	1,949
Statement of financial position		
Increase in post-employment benefits	2,155	206
Adjustments to accumulated surplus	2,155	206

(b) Accumulated surplus

The changes that affected the accumulated surplus are as follows:

	1.1.2011 RM'000	31.12.2011 RM'000
Decrease in accumulated surplus		
Defined benefit plan actuarial loss	(2,155)	(206)

STATEMENT BY COMMISSION MEMBERS

In the opinion of the members, the financial statements set out on pages 6-20 to 6-48 are drawn up in accordance with Malaysian Financial Reporting Standards and with International Financial Reporting Standards so as to give a true and fair view of the financial position of the Securities Commission Malaysia as at 31 December 2012 and of its financial performance and cash flows for the financial year then ended.

On behalf of the Commission Members:

....
Datuk Ranjit Ajit Singh
Chairman

....
Dato' Gumuri Hussain
Member

Kuala Lumpur,
Date: 31 January 2013

STATUTORY DECLARATION

I, Vignaswaran A/L Kandiah, the officer primarily responsible for the financial management of Securities Commission Malaysia, do solemnly and sincerely declare that the financial statements set out on pages 6-20 to 6-48 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 31 January 2013.

……………………………………..
Vignaswaran A/L Kandiah

Before me:

PESURUHJAYA SUMPAH
No. W 350
SHAFIE B. DAUD
MALAYSIA
38A, JALAN TUN MOHD FUAD 1
TAMAN TUN DR. ISMAIL
60000 KUALA LUMPUR

INDEPENDENT AUDITORS' REPORT TO THE COMMISSION MEMBERS OF SECURITIES COMMISSION MALAYSIA

Report on the Financial Statements

We have audited the financial statements of Securities Commission Malaysia ("SC"), which comprise the statement of financial position as at 31 December 2012, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 6-20 to 6-48.

Commission Members' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the SC's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SC's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Commission Members, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Malaysia Financial Reporting Standards and with International Financial Reporting Standards so as to give a true and fair view of the financial position of the SC as of 31 December 2012 of its financial performance and cash flows for the year then ended.

Other Matters

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Peter Ho Kok Wai
Partner
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Petaling Jaya, Malaysia

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CORPORATE PROPOSALS

EQUITY

The SC received a total of 41 equity applications in 2012, down by 21% against the 52 applications received in 2011. Together with the nine applications brought forward from year 2011, there was a total of 50 applications for consideration in year 2012. Thirty six applications were considered, of which 33 were approved and three returned. Another three applications were withdrawn, leaving 11 to be carried forward to year 2013 (*Table 1*).

Table 1
Status of equity applications

Applications	2012	2011
Brought forward from the previous year	9	8
Received during the year	41	52
Total for consideration	**50**	**60**
Approved during the year	(33)	(33)
Rejected during the year	(0)	(6)
Returned during the year	(3)	(2)
Total considered during the year	**(36)**	**(41)**
Withdrawn during the year	(3)	(10)
Carried forward to the next year	**11**	**9**

Of the 33 approvals, 11 were for initial public offerings (IPOs) on the Main Market of Bursa Malaysia, four for restructuring/mergers and acquisitions resulting in a significant change in the business direction of the affected listed companies, two for transfer of listing from the ACE Market to the Main Market, one for cross listing of Malaysian corporation and 15 for offering of securities and dividend-in-specie (*Table 2*).

The 11 IPOs for the Main Market approved in year 2012 were expected to raise total proceeds of RM23.07 billion from the market (*Table 3*). Among the noteworthy IPOs approved in terms of market capitalisation size were Felda Global Ventures Holdings Bhd, IHH Healthcare Bhd and Astro Malaysia Holdings Bhd.

Table 2
Equity applications considered by type of proposals

Type of proposals	Approval		Rejected		Returned		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
IPO on Main Market:								
– Domestic companies	10	13	–	4	2	1	12	18
– Foreign companies	1	1	–	–	1	–	2	1
Subtotal	**11**	**14**	**–**	**4**	**3**	**1**	**14**	**19**
Restructuring/mergers and acquisitions	4	5	–	1	–	–	4	6
Cross listing of Malaysian companies	1	–	–	–	–	–	1	–
Transfer from ACE Market to Main Market	2	2	–	1	–	–	2	3
Others[1]	15	12	–	–	–	1	15	13
TOTAL	**33**	**33**	**–**	**6**	**3**	**2**	**36**	**41**

Note:
[1] Comprising proposals for offering of securities and dividend-in-specie.

Table 3
Amount of funds to be raised from approved IPOs

Amount to be raised	(RM million)	
	2012	2011
By issuers	12,126	4,063
By offerors	10,948	2,535
TOTAL	**23,074**	**6,598**

PROSPECTUSES

In 2012, the SC received 60 new prospectuses for registration, comprising 31 prospectuses and 29 abridged prospectuses. Of the 31 prospectuses received, 26 were in relation to IPOs whereby 19 were for the Main Market and seven for the ACE Market. As for the 29 abridged prospectuses received in 2012, 26 were from companies listed on the Main Market and three from companies listed on the ACE Market.

Together with the 17 prospectuses pending registration at the end of year 2011, there were 77 prospectuses for registration in year 2012. Of these, 49 were registered and 10 were withdrawn/returned, leaving 18 pending registration at the end of 2012 (*Table 4*).

PRIVATE DEBT SECURITIES

The SC received a total of 115 applications for issuances of private debt securities (PDS) in 2012, an increase of 17% from the 98 applications received in 2011. Together with three applications brought forward from 2011, there were 118 applications for consideration in 2012, of which 98 (or 83%) were approved, one was returned, four were withdrawn and the remaining 15 were carried forward to 2013 (*Table 5*).

Of the 98 PDS issues approved, 81 (or 83%) were denominated in ringgit with a total nominal value of up to RM103.3 billion. Out of the total nominal value approved in 2012, 69% was from sukuk issues and the remaining 31% from conventional PDS issues (*Table 6*).

30% of the total number of issues approved had tenures of between one and seven years, another 37% had tenures of between eight and 15 years and the remaining 33% had tenures of more than 15 years (*Chart 1*).

A total of 71 ratings (based on initial rating) were assigned by credit rating agencies (CRAs) to approved

Table 4
Status of equity prospectuses

	2012			2011		
	Prospectus	Abridged Prospectus	Total	Prospectus	Abridged Prospectus	Total
Balance brought forward	16	1	17	28	–	28
Received during the year	31	29	60	40	38	78
Total	**47**	**30**	**77**	**68**	**38**	**106**
Less:						
Registered during the year	(19)	(30)	(49)	(26)	(37)	(63)
Returned/withdrawn	(10)	–	(10)	(26)	–	(26)
Pending registration	18	–	18	16	1	17

ringgit-denominated PDS issues. There were nine issues with short-term ratings of 'P1/MARC-1', 62 with long-term ratings of between 'AAA' and 'BBB'. Thirty-two issues were not required to be rated by CRAs as allowed under the *Private Debt Securities Guidelines and Islamic Securities Guidelines* (*Chart 2*).

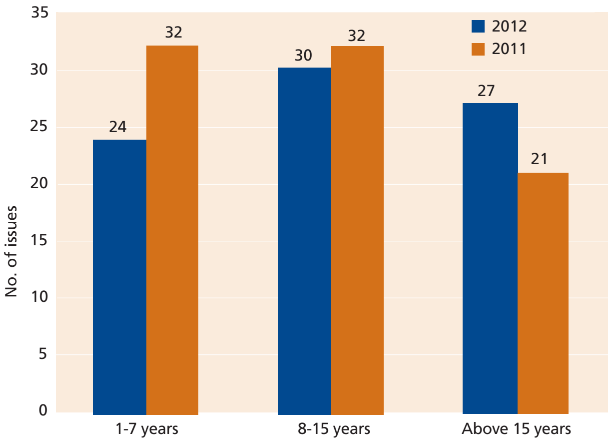
The SC also approved 17 foreign currency-denominated PDS issues in 2012, comprising 12 sukuk and one conventional PDS by foreign issuers (as part of global offerings to investors in international capital markets and institutional investors in Malaysia), as well as one sukuk and three conventional PDS by Malaysian issuers.

Table 5
Status of PDS applications

Applications	2012	2011
Brought forward from the previous year	3	1
Received during the year	115	98
Total for consideration	**118**	**99**
Approved during the year	(98)[1]	(91)[2]
Rejected during the year	–	–
Returned during the year	(1)	(3)
Total considered during the year	**(99)**	**(94)**
Withdrawn during the year	(4)	(2)
Carried forward to the next year	**15**	**3**

Note:
1 98 applications comprising 81 ringgit-denominated and 17 foreign currency-denominated PDS issues.
2 91 applications comprising 85 ringgit-denominated and 16 foreign currency-denominated PDS issues.

Chart 1
Tenure of approved ringgit-denominated PDS issues

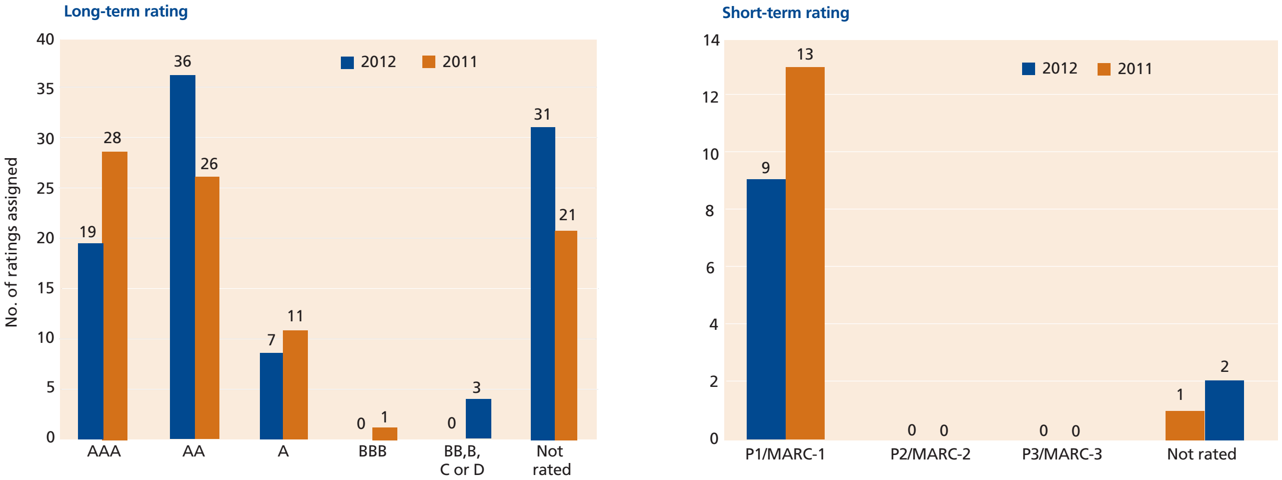


Note: Tenure of facility, and not the respective notes or papers issued under the facility

Table 6
Approved ringgit-denominated PDS issues

Type of issues	2012 No. of issues	2012 Amount (RM million)	2011 No. of issues	2011 Amount (RM million)
Conventional PDS				
– Commercial papers/Medium-term notes	23	26,310	26	27,043
– Bonds	8	3,835	2	800
– Loan stocks	9	2,063	12	2,084
Subtotal	**40**	**32,208**	**40**	**29,927**
Sukuk				
– Islamic commercial papers/Islamic medium-term notes	31	63,340	36	75,665
– Islamic bonds	6	5,033	8	3,238
– Islamic loan stocks	4	2,718		
Subtotal	**41**	**71,091**	**44**	**78,903**
Combination of conventional PDS and sukuk				
– Commercial papers/Medium-term notes	–	–	1	3,500
TOTAL	**81**	**103,299**	**85**	**112,330**

Chart 2
Rating summary of approved ringgit-denominated PDS



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

TAKE-OVERS AND MERGERS

The SC considered a total of 155 applications relating to the *Malaysian Code on Take-overs and Mergers 2010* (Code), an increase of 27% from 122 applications considered in 2011.

A total of 35 offer documents (i.e. comprising documents relating to take-over bids and schemes for control under the *Companies Act 1965*) were reviewed and cleared by the SC involving a total offer value of RM14.54 billion, as compared to 23 offer documents in 2011 involving a total offer value of RM4.06 billion. Of the 35 offer documents cleared, 23 were in relation to privatisation transactions. Common reasons cited for taking listed companies private included unfavorable market valuation, low trading liquidity, challenging financial prospects and restrategising of business direction.

Table 7
Applications considered under the Malaysian Code on Take-overs and Mergers 2010 in 2012

Type of Applications	2012 (Jan–Dec)	2011 (Jan–Dec)
Clearance of offer documents[1]	35	23*
Clearance of independent advice circulars	46	36
Exemption from mandatory offer obligation	25	26
Others[2]	49	37*
TOTAL	**155**	**122**

Note:
1 Including documents relating to scheme for control under the *Companies Act 1965*.
2 Including rulings, ancillary applications and related decisions.
* Three selective capital repayment schemes in 2011 have been reclassified under clearance of offer documents.

Noteworthy take-over offers in terms of value in 2012 were the offer by Pemodalan Nasional Bhd and Tan Sri Dato' Sri Liew Kee Sin for the remaining shares in SP Setia Bhd valued at RM5.7 billion, the offer by DRB-HICOM Bhd for the remaining shares in Proton Holdings Bhd valued at RM1.5 billion, the offer by Ambang Sehati Sdn Bhd for the remaining shares and warrants in Bandar Raya Development Bhd valued at RM1.5 billion and the share exchange offer by YTL Industries Bhd and YTL Corporation Bhd for shares in YTL Cement Bhd valued at RM1.2 billion.

The SC also approved 25 exemptions from the mandatory offer obligation and 46 applications for clearance of independent advice circulars. The remaining applications considered were for rulings, ancillary applications in relation to the Code and other related decisions.

PROPERTY VALUATION

In 2012, the number of corporate proposals which involved the disclosure review of property asset valuations by the SC was eight compared to 19 in 2011. The proposals involved 16 valuation reports and 14 valuation certificates for property assets with a total market value of RM6 billion, a reduction of 56% from RM13.7 billion in 2011.

Out of the eight corporate proposals involving property asset valuations, IPOs took the lead at 50% with three IPOs on the Main Market, including one by real estate investment trusts (REITs), and one IPO on the ACE Market. This was followed by acquisitions and refinancing by listed REITs at 37.5% and restructuring/mergers and acquisitions resulting in a significant change in the business direction of the affected listed companies at 12.5%. The IPO of IGB REIT had the largest property asset valuation which involved the Gardens Mall and Mid Valley Megamall with market values at RM1.16 billion and RM3.44 billion respectively.

The number of referrals by Bursa Malaysia for valuation reports prepared in compliance with the *Bursa Malaysia Listing Requirements* was 59 compared to 72 referrals in 2011. The review involved 131 valuation reports and 125 valuation certificates. The market value of the property assets reviewed showed a decrease of 40%, from RM15.4 billion in 2011 to RM9.2 billion in 2012.

Table 8
Valuation reviewed by type of proposals

Type of proposals	No. of companies (No. of reports)				No. of properties		Market value (RM million)	
	2012		2011		2012	2011	2012	2011
Initial public offering:								
Main Market								
– Companies	2	(5)	5	(40)	5	3,205	561	3,083
– Real estate investment trust	1	(2)	2	(33)	2	81	4,600	6,548
ACE Market	1	(3)	5	(6)	3	6	12	83
Acquisition by REITs	2	(3)	4	(10)	3	44	496	1,245
Refinance REITs	1	(2)	–		2	–	113	–
BDL/RTO	1	(1)	3	(40)	3	176	182	2,775
TOTAL	**8**	**(16)**	**19**	**(129)**	**18**	**3,512**	**5,964**	**13,734**
Cases referred by Bursa Malaysia								
Main Market								
– Acquisition and disposal	53	(124)	65	(206)	330	1,920	8,799	14,097
– Restructuring	–	(0)	–		–	–	–	–
– Bonus issues/rights issues	–	(0)	–		–	–	–	–
– Joint venture	1	(1)	3	(4)	1	9	349	1,251
– Combination	1	(2)	–		2	–	20	–
ACE Market								
– Acquisition and disposal	3	(3)	3	(3)	4	3	51	51
– Restructuring	1	(1)	1	(1)	1	1	24	24
– Bonus issues/rights issues	–	(0)	–	–	–	–	–	–
TOTAL	**59**	**(131)**	**72**	**(214)**	**338**	**1,933**	**9,243**	**15,423**

INVESTMENT MANAGEMENT

As at 31 December 2012, total funds managed by licensed fund management companies in Malaysia has risen by 19.2% to RM505.1 billion compared to RM423.6 billion in 2011. Sources of funds under management included private pension funds, Employees Provident Fund (EPF), unit trust funds, corporate bodies and charitable bodies (Table 1).

The five largest fund management companies accounted for 65.8% of total funds under management, as compared to 66.2% as at the end of 2011 (Chart 1). The amount of onshore investment by fund management companies increased from RM366 billion (end-2011) to RM424.9 billion (end-2012) as shown in Chart 2. Asset allocation in equities decreased from 51.0% as at end-2011 to 49.4% in the year under review (Chart 3). The bulk of investments inside and outside Malaysia were in equities (Chart 4).

Chart 1

Percentage of funds managed by fund management companies

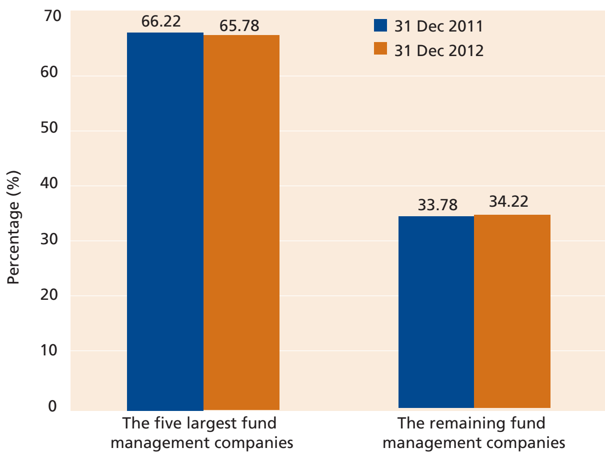


Table 1

Source of clients' funds under management

Type of funds	Local (RM million)		Foreign (RM million)	
	2012	2011	2012	2011
Unit trust funds*	294,932.4	251,086.4	1,000.6	671.5
Corporate bodies	52,950.3	46,102.2	8,486.7	7,564.7
Employee Provident Fund	57,571.8	43,088.1	–	–
Wholesale funds	49,223.1	24,851.9	345.4	118.4
Individual	4,892.8	4,297.4	483.0	375.8
Private pension funds	1,717.5	1,626.9	1,173.4	965.2
Charitable bodies	460.4	503.6	196.5	200.1
Other funds	29,421.3	40,469.5	2,204.8	1,654.2
TOTAL	**491,169.6**	**412,026.0**	**13,890.4**	**11,549.9**

*Includes Islamic unit trust funds.

Chart 2

Funds invested inside and outside of Malaysia

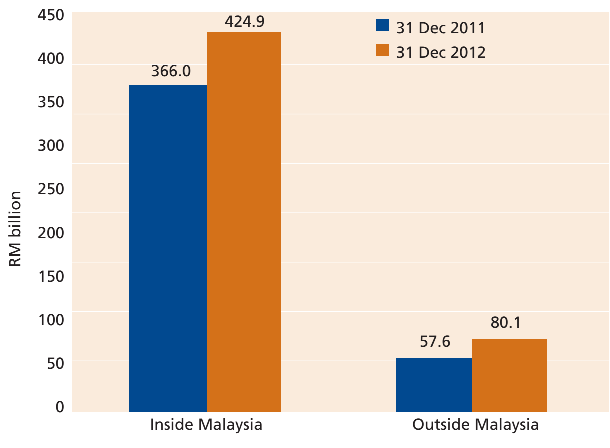


Chart 4

Asset allocation inside and outside of Malaysia as at 31 December 2012

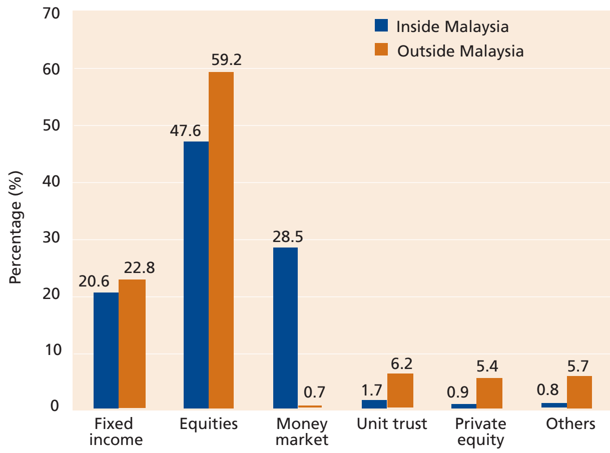
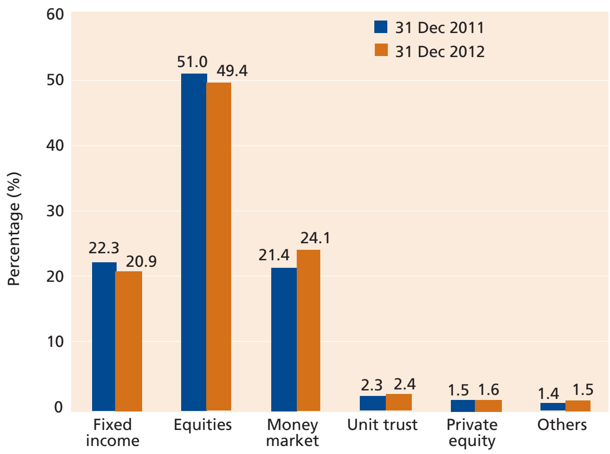


Chart 3

Asset allocation



COLLECTIVE INVESTMENT SCHEMES

Unit trust funds continued to make up the largest share of the Malaysian collective investment scheme (CIS) industry. These are locally-constituted funds operated and administered by 40 locally-incorporated unit trust management companies. In the year under review, a total of 32 new unit trust funds were launched, 23 funds were terminated and seven funds matured, bringing the total number of unit trust funds available to investors to 589 as at 31 December 2012. This was a slight increase of 0.34% from end-2011 (Table 2).

The total net asset value (NAV) of unit trust funds grew 18.2% in 2012 owing to increasing demand for such investments as compared to the end of 2011. The total NAV grew from RM249.46 billion recorded on 31 December 2011 to RM294.85 billion on 31 December 2012. The size of the unit trust industry is equivalent to 20.12% of Bursa Malaysia's market capitalisation, as compared to 19.42% at the end of 2011 (Table 2).

Forty-two new wholesale funds were launched in 2012 for high-net-worth and institutional investors, raising the number of wholesale funds in the market to 171 as at 31 December 2012. The total NAV of wholesale funds at the end of 2012 was RM52.48 billion compared to 133 funds with NAV of RM27.41 billion at the end of 2011.

The year 2012 saw the listing of one real estate investment trust (REIT) on the Main Market of Bursa Malaysia with a market capitalisation of RM4.73 billion upon listing. The total number of REITs listed on Bursa Malaysia as at 31 December 2012 was 16 with a market capitalisation of RM24.59 billion and total asset size of RM31.13 billion, an increase from 31 December

Table 2

Overall status of unit trust industry

	31 Dec 2012	31 Dec 2011
No. of funds launched	**589**	**587**
– Conventional	420	423
– Shariah-compliant	169	164
Total approved fund size (billion units)*	707.35^	659.27
Units in circulation (billion units)	351.58	316.41
No. of accounts (million)**	16.71	16.05
Total NAV (RM billion)	**294.85**	**249.46**
– Conventional	259.49	221.60
– Shariah-compliant	35.36	27.86
% of NAV to Bursa Securities market capitalisation***	20.12	19.42

Note:
* For funds approved, including those yet to be launched.
** Including unitholders accounts with institutional unit trust advisers (IUTA) that operate nominee account system.
*** The comparison made between the total NAV of the unit trust industry and Bursa Malaysia's market capitalisation is not an indication of the actual amount invested in Bursa Malaysia by the unit trust industry.
^ Total approved fund size (billion units) as at 27 December 2012.

2011 which recorded a total of 15 REITs with a market capitalisation of RM16.28 billion and total asset size of RM22.8 billion.

The number of exchange-traded funds (ETFs) listed on the Main Market of Bursa Malaysia as at 31 December 2012 remained at five with a total market capitalisation of RM929.21 million, as compared to a total market capitalisation of RM1.01 billion at end-2011.

As at 31 December 2012, only one closed-end fund (CEF) had listed on the Main Market of Bursa Malaysia with a market capitalisation of RM331.8 million compared to a market capitalisation of RM287 million at end-2011.

In the first year since the launch of the Private Retirement Scheme in Malaysia, seven schemes comprising 26 retirement funds have been launched.

We considered 613 applications relating to CIS, comprising applications to establish new funds, increase fund size and other ancillary matters (Table 3).

Table 3

Applications relating to collective investment schemes and private retirement schemes

Type of applications	Number of applications					
	Considered		Approved		Pending consideration	
	2012	2011	2012	2011	As at 31 Dec 2012	As at 31 Dec 2011
Establishment of collective investment schemes	**83**	**100**	**83**	**100**	**60**	**35**
– Unit trust funds	38	48	38	48	35	15
– Real estate investment trusts	1	2	1	2	1	–
– Closed-end funds	–	–	–	–	–	–
– Wholesale funds	44	50	44	50	15	19
– Exchange-traded funds	–	–	–	–	9	1
Establishment of retirement funds	32	–	32	–	3	–
Increase in fund size limit	**141**	**74**	**141**	**74**	–	**3**
– Unit trust funds	82	43	82	43	–	1
– Real estate investment trusts	4	4	4	4	–	1
– Closed-end funds	–	–	–	–	–	–
– Wholesale funds	55	27	55	27	–	1
– Exchange-traded funds	–	–	–	–	–	–
Exemption/variation from guidelines	17	14	17	14	6	5
Revaluation of property	–	–	–	–	–	–
Registration of prospectus	177	166	177	166	39	20
Registration of deeds	104	80	104	80	47	18
Other applications	59	46	59	45	8	3
TOTAL	**613**	**480**	**613**	**479**	**163**	**84**

INVESTMENT PRODUCTS

Structured warrants

There were six eligible issuers of structured warrants in 2012. The SC had received and registered six base prospectuses and seven supplementary prospectuses from these issuers in 2012.

The SC had also registered 553 term sheets in 2012 relating to the offering of structured warrants, an increase of 49% compared to 370 term sheets registered in 2011. The increase was contributed by a combination of favourable factors such as increased investor interest in structured warrants as well as improvements in market performance which saw the FBMKLCI rise from 1,531 points as at end of 2011 to 1,689 points as at end of 2012. In addition, the listing fee incentives offered by Bursa Malaysia Securities Bhd continued to attract more structured warrants issuances in the market.

The registered term sheets in 2012 would allow the structured warrants issuers to offer a total of up to 39.53 billion structured warrants.

Table 4
Structured warrants considered

Structured warrants	2012	2011
No. of eligible issuers	6	6
Base prospectus registered	6	5
Supplementary prospectus registered	7	9
Term sheets registered	553	370

Structured products

Eight issuers applied for approval for 17 new structured products programmes in 2012. All 17 structured products programmes with various types of underlying references were approved by the SC in 2012. These programmes have an aggregate approved size of RM85 billion with each programme typically having an approved limit size of up to RM5 billion.

Table 5
Structured products programmes considered

Structured products	2012		2011	
No. of issuers applied for new programmes	8		12	
No. of new programmes approved	No. of programmes	Size RM billion	No. of programmes	Size RM billion
Principle				
– Conventinal	16	80	19	91
– Islamic	1	5	2	10
TOTAL	**17**	**85**	**21**	**101**

ISLAMIC CAPITAL MARKET

SUKUK

In 2012, the SC approved 81 private debt securities issues amounting to RM103.3 billion, of which 41 issues were sukuk valued at RM71.1 billion.

The sukuk value represented 68.8% of total new bond issues approved (Chart 1).

Several foreign issuers sought approval to issue sukuk in ringgit denomination in 2012. The issuances which were substantial in sizes, were from Bahrain, Hong Kong, Kazakhstan, Singapore and the United Arab Emirates. Additionally, the SC approved a total of US$22.5 billion foreign currency sukuk, including a large sukuk from the International Islamic Liquidity Management amounting to US$12 billion.

In terms of the underlying Shariah principle, sukuk *murabahah* led the Malaysian sukuk market in 2012 based on approval size. The sukuk *murabahah* structure represented RM39.1 billion or 55% of the total size of sukuk approved (Chart 2).

SHARIAH-COMPLIANT SECURITIES

In 2012, the updated lists of Shariah-compliant securities were published on 25 May and 30 November. During the year, 18 securities were added to the list of Shariah-compliant securities by the Shariah Advisory Council (SAC) while five were removed.

The November 2012 list showed that there were 817 Shariah-compliant securities or 89% of the total listed securities on Bursa Malaysia. The Malaysian capital market continued to attract the interest of companies seeking to raise funds in 2012 where six IPO applications were approved as Shariah-compliant securities by the SAC at pre-IPO stage. This includes the two largest companies seeking Shariah-compliant status at pre-IPO stage i.e. of FELDA Global Ventures Holdings Bhd and IHH Healthcare Bhd.

Chart 1
Sukuk approved by the SC

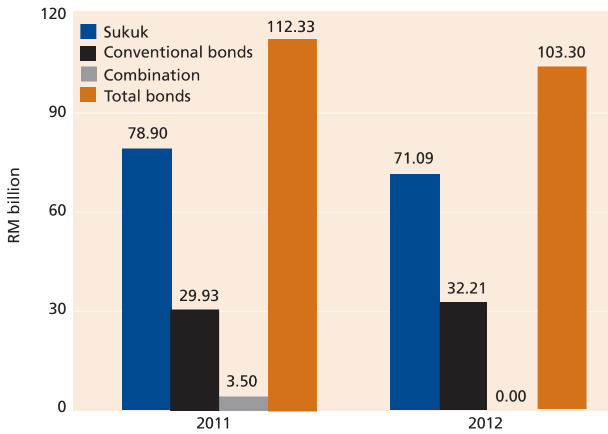
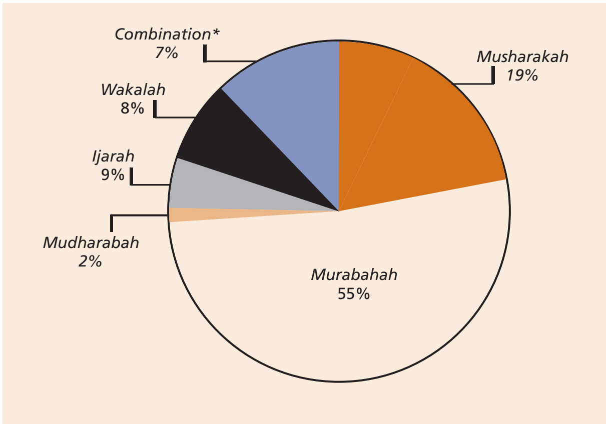


Chart 2
Size of sukuk approved in 2012 by Shariah principle



* *Combination between multiple Shariah principles*

As at end-2012, the market capitalisation of Shariah-compliant securities stood at RM942 billion or 64% of total market capitalisation, with year on year growth of 16.9% compared to end-2011.

ISLAMIC UNIT TRUST FUNDS

As at end-2012, the number of launched funds was 169 funds compared to 164 funds as at end 2011. The NAV of these funds saw a 26.9% increase from RM27.9 billion in 2011 to RM35.4 billion in 2012. By category, the equity funds still dominated the market with 87 funds. This was followed by 23 sukuk funds and 22 balanced funds while the remainder of 37 comprised money market funds, structured products, feeder funds, fixed-income funds and mixed-asset funds (Chart 3).

ISLAMIC PRIVATE RETIREMENT SCHEMES

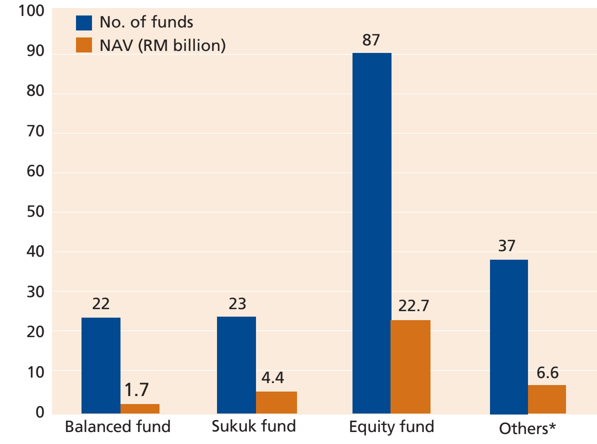
As at end-2012, two Islamic PRS schemes were approved by the SC. The two Islamic PRS schemes and the corresponding core funds duly authorised are as follows:

1. CIMB Islamic PRS Plus:
   - CIMB Islamic PRS Plus Conservative
   - CIMB Islamic PRS Plus Moderate
   - CIMB Islamic PRS Plus Growth
   - CIMB Islamic PRS Plus Equity
   - CIMB Islamic PRS Plus Asia Pacific Ex Japan Equity
2. Public Mutual Private Retirement Scheme – Shariah-based Series
   - Public Mutual PRS Islamic Growth Fund
   - Public Mutual PRS Islamic Moderate Fund
   - Public Mutual PRS Islamic Conservative Fund

Statistics on ICM products and services are summarised in the Table 1–Table 6.

Chart 3

Shariah-compliant unit trust funds by category



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

Table 1

Shariah-compliant securities

Number of securities	2012	2011
Shariah-compliant securities	817	839
Total listed securities	923	946
% of Shariah-compliant to total listed securities	89%	89%
Market capitalisation	**2012**	**2011**
Shariah-compliant securities	942	806
Total listed securities	1,466	1,285
% of Shariah-compliant to total listed securities	64%	63%

Table 2

Shariah-compliant unit trust funds

No. of launched funds	2012	2011
Shariah-compliant	169	164
Total industry	589	587
NAV (RM billion)	**2012**	**2011**
Shariah-compliant	35.4	27.9
Total industry	294.9	249.5
% of Shariah-compliant to total industry	12%	11.2%

Table 3

Shariah-compliant wholesale funds

No. of approved funds	2012	2011
Shariah-compliant	41	28
Total industry	171	133
NAV (RM billion)	**2012**	**2011**
Shariah-compliant	16.2	7.3
Total industry	52.5	27.4
% of Shariah-compliant to total industry	30.9%	26.6%

Table 4

Islamic ETF

	2012	2011
Islamic ETF	1	1
Total Industry	5	5
Market capitalisation (RM billion)		
Islamic ETF	0.3	0.4
Total Industry	0.9	1
% of Islamic ETF to total industry	33%	40%

Table 5

Islamic REITs

	2012	2011
Islamic REITs	3	3
Total Industry	16	15
Market capitalisation (RM billion)		
Islamic REITs	3.5	2.9
Total Industry	24.6	16.3
% of Islamic REITs to total industry	14.2%	17.8%

Table 6

Islamic assets under management (AUM)

	2012	2011
Islamic AUM (RM billion)	79.6	64.2
Total Industry (RM billion)	505.1	423.6
% of Islamic AUM to total industry	15.8%	15.2%

VENTURE CAPITAL

The number of registered venture capital corporations (VCCs) and venture capital management corporations (VCMCs) stood at 59 and 53 respectively as at end of 31 December 2012 (Table 1). Five VCCs and two VCMCs were added to the list. On the other hand, two VCCs and one VCMC were deregistered due to the expiry of fund's charter and changes in company direction.

Out of the 112 registered VCCs and VCMCs as at end of 2012, 100 are locally-owned, 10 are joint ventures while two others are foreign-owned. As at end-2012, the number of venture capital professionals employed in the industry with at least four years of experience stood at 124.

As compared to the previous year, the total committed funds as at end-2012 stood at RM5.698 billion which represented an increase of approximately 4.4% year-on-year (Table 2).

At the end of the year under review, total venture capital investments decreased by 23% to RM2.757 billion from RM3.586 billion as at the end of the previous year. Investments made in 2012 stood at RM230 million which was channeled into 47 investee companies as compared to RM253 million where a total 51 investee companies received funding in 2011.

As for divestments, there was an increase of 61% from RM146 million in 2011 to RM235 million in 2012 where 52 investee companies were divested in 2012 as compared to 46 companies in 2011. Divestments were mainly through share redemptions and trade sale.

The government remained as the main funder to the VC industry, contributing 54.07% of total committed funds, equivalent to approximately RM3.081 billion as at end of 2012 (Chart 1).

In addition to government funding, local companies and foreign companies as well as individuals continued to support the industry by contributing 23.27% and 10.64% respectively. Other contributors such as banks, insurance companies, pension and provident funds, and local individuals have increased their

Table 1
Venture capital industry participants

	31 Dec 2012	31 Dec 2011
Number of registered venture capital funds/corporations	59	56
Number of registered VCMCs	53	52
Number of investee companies	466	409
Number of venture capital professionals*	124	131
Shareholding Structure		
Local ownership	100	98
Joint ventures	10	8
Foreign ownership	2	2

* Professionals with more than four years of experience.

Table 2
Venture capital key statistics

	(RM million)	
	31 Dec 2012	31 Dec 2011
Total committed funds under management	5,698	5,460
Total investment as at end of the period	2,757	3,586
	During 2012	During 2011
Investments in investee companies	230	253
Divestments	235	146

Chart 1
Sources of venture capital funds (2012: RM5.698 billion)

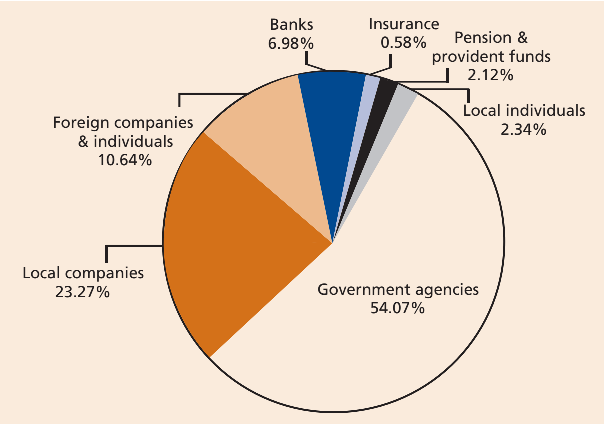


Chart 2
Investments by financing stage (2012: RM230 million)

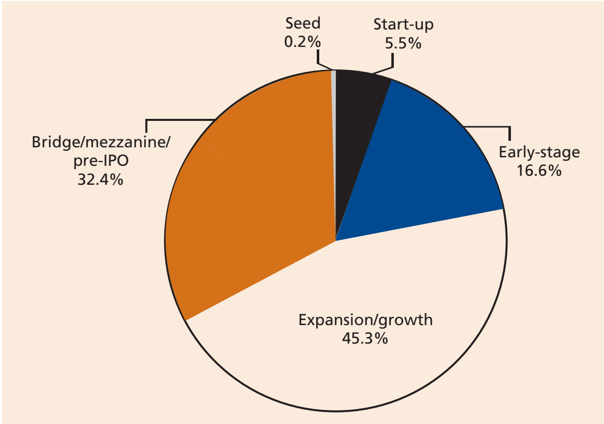


Table 3
Investments during 2012

Business stages	Total investment ('000)	% of total investment	No. of investee company
Seed	450	0.20	1
Start-up	12,534	5.45	4
Early-stage	38,111	16.58	13
Expansion/ growth	104,180	45.33	19
Bridge/ mezzanine/ pre-IPO	74,573	32.44	10
TOTAL	**229,848**	**100.00**	**47**

contribution collectively from 10.26% to 12.02% as at end of 2012. The top three industry players continued to be the same major players compared to last year, based on size of assets under management and they are Malaysia Venture Capital Management Bhd, Kumpulan Modal Perdana Sdn Bhd and Malaysian Life Sciences Capital Fund Ltd.

Investee companies at the early-stage up to pre-IPO stages received the bulk of the funding from venture capital funds, in which a total 42 investee companies received funding amounting to RM217 million representing 94.35% of total investments made during the year (Table 3).

Investments into seed and start-up stages remained low at collectively 5.65% out of total investments made during the year. These were channeled into only five investee companies compared to last year where 6.61% of total investments were made into six investee companies.

In terms of sector classification, 2012 witnessed a decrease in the investments made in the IT and communication as well as life sciences sectors (Chart 3). Investments in these sectors decreased by 35.4% in the year under review.

In contrast, investments in the manufacturing sector recorded an increase of 33.5% in 2012. This was due to increased amounts of follow-on investments made from the previous year. It was also observed that 21.6% of total investments were made in non-traditional sectors such as electricity and power generation, education and construction sectors all of which are captured under the category 'others'.

Table 4 shows that the total amount divested in 2012 amounted to RM235 million. There has been an

Chart 3
Investments by sectors

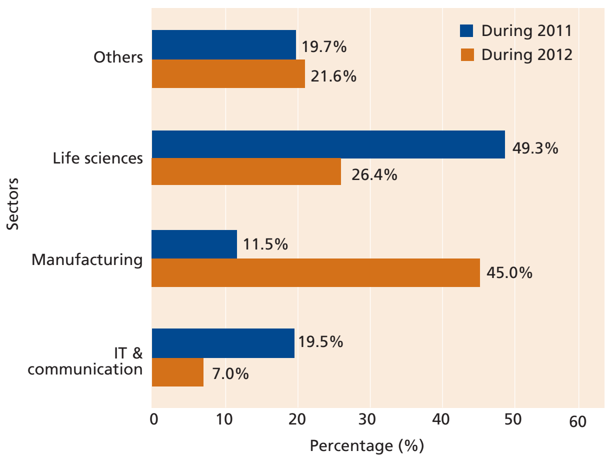


Table 4
Divestments during 2012

Business stages	Total divestment ('000)	% of total divestment	No. of investee company
Seed	15,400	6.56	1
Start-up	27,200	11.58	2
Early-stage	30,546	13.01	14
Expansion/ growth	29,105	12.40	7
Bridge/ mezzanine/ pre-IPO	132,541	56.45	28
TOTAL	**234,792**	**100**	**52**

increase of 61% from the previous year where total divestments stood at RM146 million with 46 investee companies being disposed in 2011. Most investee companies were divested at the bridge/mezzanine/ pre-IPO stage. In 2012, proceeds from divestments of investee companies at this stage amounted to RM133 million representing 56.45% of total proceeds from divestments.

AUTHORISATION AND LICENSING

As at end 2012, the number of licensed capital market intermediaries was 230 firms supported by 9,375 licensed representatives. The market also had a broad representation of domestic based firms, foreign based and boutique firms to meet and support the differing needs of the market.

With the introduction of the private retirement scheme framework on 18 July 2012, another licence for fund management was issued in 2012. Thirteen companies were also approved to include dealing in private retirement scheme as another regulated activity to their current licence.

The number of Capital Markets Services Representatives Licence holders increased by 4% in 2012 with the majority of the increase being for dealing in securities and dealing in derivatives.

In 2012, 1,122 new licences were issued to representatives and three new licences were issued to a fund management company and two corporate advisory firms.

Table 1

Capital Markets Services Licence Holders

Categories	Regulated activities[1]	2012	2011
Investment banks	Dealing in securities Dealing in derivatives Advising on corporate finance Investment advice	2	1
	Dealing in securities Dealing in derivatives Advising on corporate finance	3	3
	Dealing in securities Fund management Advising on corporate finance	1	1
	Dealing in securities Advising on corporate finance Investment advice	5	6
	Dealing in securities Advising on corporate finance	2	3
		13	**14**
Universal brokers	Dealing in securities Advising on corporate finance Investment advice	1	1
		1	**1**
Special scheme foreign stockbroking companies	Dealing in securities Dealing in derivatives Advising on corporate finance Investment advice	1	1
	Dealing in securities Advising on corporate finance Investment advice	5	5
	Dealing in securities Investment advice	1	1
		7	**7**

Note:

[1] Regulated activities refer to the activities that the companies are licenced to conduct.

Categories	Regulated activities[1]	2012	2011
Stockbroking companies with at least one merger partner	Dealing in securities Dealing in derivatives Advising on corporate finance Investment advice	1	1
	Dealing in securities Dealing in derivatives Investment advice	1	1
	Dealing in securities Advising on corporate finance Investment advice	2	2
	Dealing in securities Investment advice	2	2
		6	**6**
Stand alone stockbroking companies	Dealing in securities Investment advice	3	2
	Dealing in securities	4	4
	Dealing in securities Investment advice Financial planning	–	1
		7	**7**
Issuing houses	Dealing in securities	2	2
		2	**2**
Derivatives brokers	Dealing in derivatives	13	13
		13	**13**
Unit trust management companies (UTMC)	Fund management Dealing in securities restricted to unit trust	25	30
	Dealing in securities restricted to unit trust	7	8
	Fund management Financial planning Dealing in securities restricted to unit trust	1	2
	Fund management Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	1	–
	Financial planning Dealing in securities restricted to unit trust	–	1
	Fund management Dealing in private retirement scheme Dealing in securities restricted to unit trust	3	–
	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	1	–
	Fund management Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	2	–
		40	**41**

Note:
[1] Regulated activities refer to the activities that the companies are licensed to conduct.

Categories	Regulated activities[1]	2012	2011
Fund manager	Fund management	43	46
	Fund management Dealing in securities restricted to unit trust	27	30
	Fund management Financial planning Dealing in securities restricted to unit trust	1	2
	Fund management Advising on corporate finance	1	1
	Fund management Investment advice Dealing in securities restricted to unit trust	–	2
	Fund management Investment advice	1	1
	Fund management Dealing in private retirement scheme Dealing in securities restricted to unit trust	3	–
	Fund management Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	2	–
	Fund management Dealing in private retirement scheme	2	–
	Fund management Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	1	–
		81	**82**
Special scheme foreign fund managers	Fund management	5	5
		5	**5**
Islamic fund managers	Fund management Dealing in securities restricted to unit trust	4	3
	Fund management	14	13
		18	**16**
Fund supermarket	Investment advice Dealing in securities restricted to unit trust	–	1
	Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	1	–
		1	**1**
Dealing in private retirement scheme	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	4	–
	Dealing in private retirement scheme Financial planning	1	–
	Fund management Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	2	–

Note:
[1] Regulated activities refer to the activities that the companies are licenced to conduct.

Categories	Regulated activities[1]	2012	2011
Dealing in private retirement scheme	Fund management Dealing in private retirement scheme Dealing in securities restricted to unit trust	3	–
	Fund management Dealing in private retirement scheme	2	–
	Fund management Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	1	–
	Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	1	–
		14	**–**
Corporate unit trust advisers (CUTA)	Financial planning Dealing in securities restricted to unit trust	4	7
	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	3	–
		7	**7**
Advisory companies	Advising on corporate finance	40	39
	Advising on corporate finance Investment advice	4	4
	Advising on corporate finance Financial planning	–	1
	Investment advice	19	19
	Financial planning Dealing in securities restricted to unit trust	4	–
	Financial planning	20	23
	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	5	–
	Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	1	–
		93	**86**
Individuals	Financial planning	9	9
	Investment advice	1	1
		10	**10**

Total licensed companies:
- at as 31 December 2012: 230
- at as 31 December 2011: 235

Total licensed individuals:
- at as 31 December 2012: 10
- at as 31 December 2011: 10

Table 2

Capital Markets Services Representative's Licence Holders

	2012	2011
Dealing in securities[1]	6,787	6,652
Dealing in derivatives	790	651
Fund management	587	568
Advising on corporate finance[2]	598	556
Investment advice	236	205
Financial planning	377	342
TOTAL	**9,375**	**8,974**

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

Table 3

Application for new company/Individual licences under CMSA

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Dealing in private retirement scheme		Advising on corporate finance		Investment advice		Financial planning		Financial planning (individual)	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Issued	–	–	–	–	1	2	–	–	2	3	–	–	–	2	–	–

Table 4

Application for new representative's licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Dealing in private retirement scheme		Advising on corporate finance		Investment advice		Financial planning	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Issued	485	458	256	168	111	93	–	–	129	150	67	65	74	118
Withdrawn*	36	12	11	4	9	10	–	–	5	6	6	2	12	1
Returned*	403	140	96	42	189	82	–	–	103	38	60	31	212	90

Note:
* By regulated activities.

Table 5

Cessation of Company/Individual licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Dealing in private retirement scheme		Advising on corporate finance		Investment advice		Financial planning		Financial planning (individual)	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Ceased	1	–	–	–	3	–	–	–	1	–	–	–	3	1	–	–
Expired	–	–	–	–	–	2	–	–	–	2	–	1	–	1	–	–
Revoked	–	–	–	–	1	–	–	–	–	–	–	–	–	–	–	–
Suspended	–	–	–	–	–	1	–	–	–	–	–	–	–	–	–	–

Table 6

Cessation of representative's licences under CMSA

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Dealing in private retirement scheme		Advising on corporate finance		Investment advice		Financial planning	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Ceased	409	379	128	88	92	74	–	–	91	94	36	38	40	12
Expired	–	21	–	4	–	6	–	–	–	11	–	–	–	23
Revoked	–	–	–	–	1	–	–	–	–	–	–	–	–	–
Suspended	–	–	–	–	–	1	–	–	–	–	–	–	–	–

Note:

* By regulated activities

ENFORCEMENT

In 2012, the Investigation Department received 36 referrals from departments within the SC, mainly from the Market Surveillance and Investors Affairs and Complaints. Referrals were also received from other law enforcement agencies.

Offences related to possible insider trading made up a substantial portion of referrals received. Offences relating to possible market manipulation and corporate governance breaches including those involving disclosure of false financial performance by PLCs, formed a large number of these referrals. (*Chart 1*)

Insider trading investigations, which comprise more than half of the department's active cases, continue to be a high priority area for SC. There were 61 active investigations in 2012 with substantial resources devoted to conducting these insider trading investigations. (*Chart 2*)

We gathered evidence, including both printed and electronic evidence, as well as oral evidence from individuals employed by PLCs, professionals, licensed persons and investors. A total of 315 witnesses was interviewed. A significant number of witnesses for statements comprised professionals such as investment bankers, lawyers and company secretaries.

Chart 2
Active investigation files by nature of offence

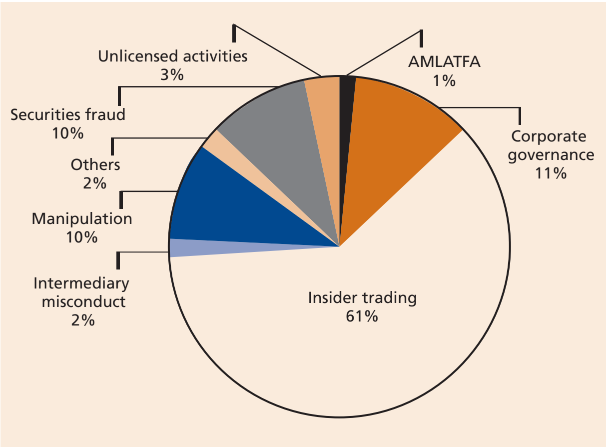


Chart 1
Referrals received by nature of offence

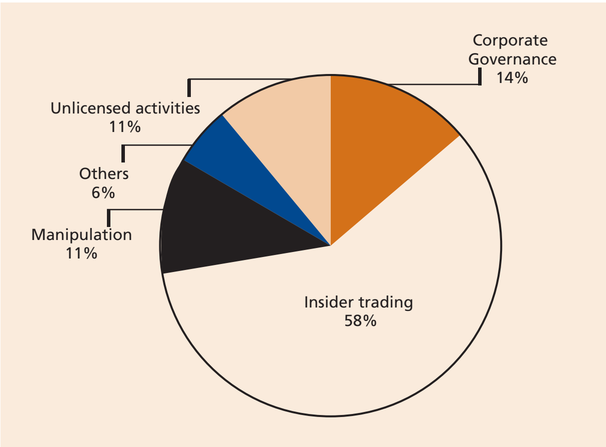
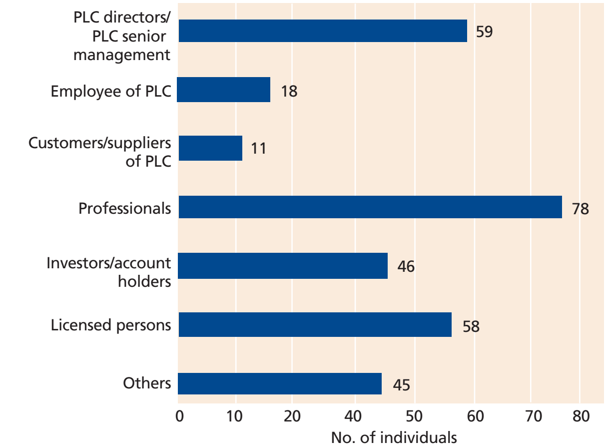


Chart 3
Witnesses for statements recorded in 2012



The SC continues to rely on co-operation from foreign regulators via the International Organization of Securities Commissions' Multilateral Memorandum Of Understanding (IOSCO MMOU) concerning Consultation and Co-operation and the Exchange of Information to facilitate its investigation involving cross-border transactions. Through the IOSCO MMOU, the SC makes various requests for investigation assistance to foreign regulators and in turn, similarly responds to requests from counterparts.

Table 1
Assistance sought by the SC in 2012 by country

Countries	No. of cases
China	1
Hong Kong	12
Japan	1
Singapore	13
Thailand	2
United Kingdom	2
United States	1
TOTAL	**32**

During 2012, we sought the assistance from seven foreign regulators and rendered assistance to five foreign regulators.

Administrative actions

In 2012, seven administrative sanctions were meted out for various misconduct, breaches of licensing conditions and omission of material information submitted to the SC. Of the seven sanctions, one involved a suspension of licence, two were penalties and four were reprimands.

RM110,000 in penalties were imposed against a licensed director of a fund manager and a licensed representative of a stockbroking company for engaging in improper business practices.

The SC also invoked its powers under the CMSA and issued a directive to a fund manager to protect the clients' assets following an examination undertaken by the SC which uncovered lapses in the fund manager's

Chart 4
Administrative actions by type of sanctions

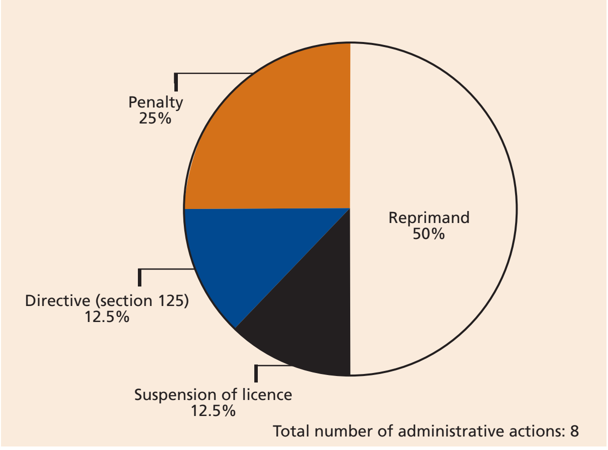
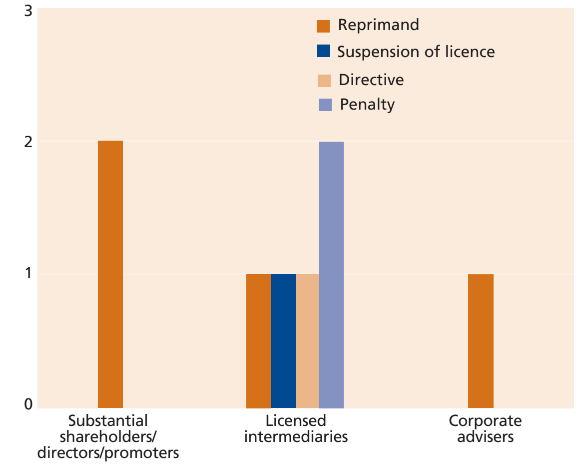


Chart 5
Administrative actions and parties in breach



investment framework which in the SC's views were likely to jeopardise the interests of the fund manager's clients.

In addition to the sanctions meted out under the CMSA, the SC had also issued a total of 15 supervisory letters against licensed intermediaries, public-listed companies, board of directors, as well as an individual for various minor breaches. A self-regulatory organisation was also issued a reminder for late submission of its annual self-regulatory organisation report, which was required under section 330(2) of the CMSA.

Chart 6

Supervisory letters issued by nature of breach

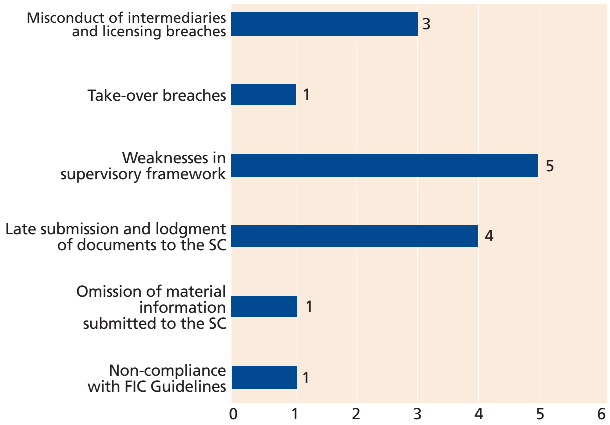


Table 2

Persons charged

No.	Nature of offence	Offender(s)	Description of charge(s)
1.	Market manipulation	Dato' Goh Hock Choy Siow Chung Peng	Dato' Goh was charged on 4 September 2012 under section 84(1) of the *Securities Industry Act 1983* (SIA) by causing a misleading appearance of active trading in Lii Hen Industries Bhd (Lii Hen) shares that did not involve any change of beneficial ownership. The manipulative trades were allegedly executed through 42 accounts at nine stockbroking firms. The offence was alleged to have been committed between 26 March 2004 and 28 October 2004. Siow Chung Peng was charged on the same day under section 84(1) of the SIA read together with section 122C(c) of the same Act for abetting Goh Hock Choy in the principal offence above.
2.	Insider trading	Dato' Sreesanthan a/l Eliathamby	Dato' Sreesanthan was charged on 20 July 2012 with seven counts of insider trading under section 188(2)(a) of the CMSA and section 89E(2)(a) of the SIA. He was alleged to have traded in the shares of four public listed companies while in possession of inside information relating to various corporate exercises, details of which are stated below: • Sime Darby Bhd, while in possession of information on the proposed acquisition by Synergy Drive of companies within the Sime Darby, Guthrie and Golden Hope groups. • Maxis Communications Bhd while in possession of information relating to Maxis' privatisation. • UEM World Bhd while in possession of information relating to the corporate restructuring exercise of the UEM group. • VADS Bhd, while in possession of information on its proposed privatisation.

Table 3
Convictions and appeals against sentences

No.	Nature of offence	Offender(s)	Description of charge(s)
1.	Engaged in an act which operated as a fraud	Ashari Rahmat	On 20 March 2000, Ashari, an operations officer at the Malaysia Issuing House (MIH), was charged under section 87A(b) SIA when he defrauded UPA Corporation Bhd's IPO exercise by switching successful applications with those not put through the balloting process. Ashari was convicted on 25 March 2009 by the Sessions Court and sentenced to three years imprisonment and a fine of RM1 million (in default one year imprisonment). On 4 January 2012, the High Court ruled that the notice of appeal filed by Ashari against his conviction and sentence was defective. The High Court ordered the fine of RM1 million to be paid and allowed a stay of the jail sentence pending his appeal to the Court of Appeal upon payment of RM500,000 bail sum. Ashari is currently serving one year imprisonment in default of the RM1 million fine.
2.	Market manipulation	Dato' Chin Chan Leong	On 27 June 2005, Dato' Chin was charged with creating a misleading appearance of active trading in Fountain View Development Bhd (FVDB) shares through transactions that did not involve any change in beneficial ownership on Bursa Malaysia through 20 central depository securities accounts. Chin pleaded guilty to the charge on 5 February 2010. The Sessions Court sentenced Chin to a fine of RM1.3 million (in default 13 months imprisonment) as well as a one-day imprisonment term. On 2 September 2010, the High Court dismissed the SC's appeal against the sentence against Chin. On 27 June 2012, the Court of Appeal allowed the appeal by the SC against the sentence imposed on Chin and enhanced the one day jail sentence to a 12-month sentence. The Court of Appeal also affirmed the fine imposed by the Sessions Court.
3.	Short selling	Ahmad Skhri Ramli	Ahmad Skhri was charged on 16 January 2002 for short selling 202 lots of AKN Technology Bhd shares. On 21 December 2006, he was convicted of two charges under section 41(1)(a) SIA 1983 read together with section 122C(c) of the same Act for abetting PBSN in the short selling of 202 lots of AKN Technology Bhd shares. Ahmad Skhri was fined RM300,000 (in default 12 months imprisonment). On 4 August 2009, the High Court dismissed Ahmad Shkri's appeal. Both convictions on the short selling and the respective sentences of fine were upheld. On 24 July 2012, the Court of Appeal dismissed Ahmad Shkri's appeal and affirmed the High Court's decision. Both convictions on the short selling and the respective sentences were upheld. Ahmad Shkri paid the fine of RM150,000 and served six months imprisonment in default of the balance of RM150,000. On 24 September 2012 the Court of Appeal dismissed Ahmad Shkri's application to review the Court of Appeal's earlier decision and maintained the convictions and sentences.

No.	Nature of offence	Offender(s)	Description of charge(s)
4.	• Act to defraud [section 87A(b) read together with section 122C(c) SIA] • Criminal breach of trust [section 409 *Penal Code*] • Cheating [section 420 read together with section 109 *Penal Code*] • Knowingly permitting the submission of false information to the Stock Exchange [section 122B(b)(bb) of the SIA] [section 369(b)(B) of the CMSA]	Alan Rajendram a/l Jeya Rajendram	Alan Rajendram a/l Jeya Rajendram, a former director of LFE Corporation Bhd (LFE), was charged on 24 June 2010 with securities fraud and eight other offences he allegedly committed when he was the director of the company. Alan, was charged under section 87A(b) of the SIA for committing an act that operated as a fraud on LFE by using RM9 million of LFE's monies to finance the purchases of LFE shares pursuant to a private placement and restricted offer of LFE shares to him. The alleged act was said to have been committed between 4 January 2007 and 8 February 2007. The court however discharged the accused of this charge on the basis that the alleged act by the accused did not fall within the ambit of section 87A. Alan faced two other charges under section 122B(b)(bb) of the SIA and another two charges under section 369(b)(B) of the CMSA for knowingly permitting the furnishing of false statements by LFE to Bursa Malaysia Securities Bhd in relation to LFE's unaudited financial results for all four quarters for its financial year ended 31 December 2007. Apart from the securities law breaches, Alan was also charged for criminal breach of trust under the section 409 of the *Penal Code* of a further RM9.99 million of LFE's monies and further three charges for abetting two other Directors of LFE in cheating EON Bank Bhd of RM3.96 million by supplying fictitious documents to enable the drawdown on LFE's banking facilities. However at the end of the Prosecution's case, the court discharged and acquitted the accused. On 10 October 2012, the Court found Alan guilty of the offence of permitting the furnishing of false information to Bursa Malaysia and imposed a 12-month imprisonment term together with a fine of RM1.2 million.

Table 4

Acquittals and appeals

No.	Nature of offence	Offender(s)	Description of charge(s)
1.	Submission of false information	Tan Kam Sang Ravandaran a/l Thangeveloo	Tan, a former accountant of Kiara Emas Asia Industries Bhd (KEAIB) and Ravandaran, former audit partner of Messrs. Arthur Andersen & Co. who was in-charge of KEAIB's audit, were both charged on 13 August 2004 for furnishing false information to the SC. The information was in relation to the 'Follow-up Questionnaires' of KEAIB for the financial years ended 31 March 1997, 1998, 1999 and 2000 on the status of utilisation of rights issue proceeds when in fact RM16,937,739.20 of the right issue proceeds had been utilised in breach of the conditions of the SC's letter of approval dated 14 November 1996. The information in the 'Follow-up Questionnaires' was required to be submitted to the SC in connection with the Hup Lee Amalgamated Bhd's (thereafter known as Kiara Emas Asia Industries Bhd) proposal dated 16 July 1996 submitted pursuant to section 32 of the *Securities Commission Act 1993* (SCA). On 13 December 2012, both Tan and Ravandaran were acquitted and discharged by the Sessions Court. The Prosecution has filed an appeal against the acquittal to the High Court.

No.	Nature of offence	Offender(s)	Description of charge(s)
2.	Illegal fund management activities	Anuar Abdul Aziz	Anuar was charged on 2 September 2003 for acting as a fund manager's representative for Corporate Eight Asset Management Sdn Bhd (now known as Oasis Asset Management Sdn Bhd) without holding a fund manager's representative's licence. He was acquitted by the Sessions Court on 20 May 2010 at the end of the Prosecution's case. On 12 October 2012, the High Court dismissed the appeal by the Prosecution. The SC has filed an appeal to the Court of Appeal against the decision of the High Court.
3.	Market manipulation	Mohd Raffique Ibrahim Sahib Ariffin Abdul Majid	On 28 November 2002, Mohd Raffique and Ariffin were charged for instructing the purchase of Actacorp Holdings Bhd warrants (AW) in December 1997 where such purchases were intended to increase the price of the warrant, which acts were calculated to create a misleading appearance with respect to the price of AW on the KLSE. Both the accused Mohd Raffique and Ariffin were acquitted and discharged by the Sessions Court on 1 April 2009. On 26 October 2010, the High Court dismissed the Prosecution's appeal, affirming the acquittal and discharge of the Sessions Court. On 31 July 2012, the Court of Appeal dismissed the Prosecution's Appeal, affirming the decision of the High Court and Session's Court in acquitting and discharging both the respondents at the end of the defence case.
4.	• Abetting an act to defraud [section 87A(b) read together with section 122C(c) SIA 1983] • Abetment of criminal breach of trust [section 409 read together with section 109 *Penal Code*] • Abetment of Cheating [section 420 read together with section 109 *Penal Code*]	Eswaramoorthy Pillay a/l Amuther	Eswaramoorthy Pillay a/l Amuther was charged on 29 June 2010 for abetting Alan Rajendram a/l Jeya Rajendram, a former Director of LFE Corporation Bhd (LFE), in committing securities fraud and four other *Penal Code* offences. Pillay was charged under section 87A(b) read together with section 122C(c) of the SIA for abetting Alan to commit an act that operated as a fraud on LFE. The fraud involved the use of RM9 million of LFE's monies to finance Alan's purchases of LFE shares pursuant to a private placement and restricted offer of LFE shares. The alleged act is said to have been committed between 4 January 2007 and 8 February 2007. He was also charged under section 409 read together with section 109 of the *Penal Code* for abetting Alan to commit criminal breach of trust of a further RM9.99 million of LFE's monies. Another three charges were also preferred against Pillay for abetting two other directors of LFE in cheating EON Bank Bhd of RM3.96 million by supplying fictitious documents to enable the drawdown on LFE's banking facilities. On 14 May 2012, the court discharged and acquitted Pillay of the offence of abetting.

Table 5
Regulatory settlements

Lim Chin Chin
On 3 February 2012, the SC entered into a settlement with Lim Chin Chin in the sum of RM232,320 when she agreed without admission or denial of liability to settle a claim that the SC was proposing to institute against her for her role in insider trading in the shares of Sin Chew Media Corporation Bhd between 29 January 2007 and 30 January 2007, contrary to the SIA. The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws.

PUBLICATIONS

GUIDELINES AND CODES

Guidelines on Private Retirement Scheme
(Issued: 5 April 2012)
(Updated: 25 October 2012)

Guidelines on Compliance Function for Fund Management Companies
(Updated/Effective: 16 April 2012)

Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries
(Updated: 1 August 2012)

Guidelines for Registered Person (Registered Representative)
(Issued: 8 October 2012)

Business Trusts Guidelines
(Issued: 28 December 2012)

Guidelines on Private Debt Securities
(Amended: 28 December 2012)

Prospectus Guidelines
(Updated/Effective: 28 December 2012)

Guidelines on Sukuk
(Amended: 28 December 2012)

Guidelines on Real Estate Investment Trusts
(Updated: 28 December 2012)

Guidelines on Sales Practices of Unlisted Capital Market Products
(Issued: 28 December 2012)
(Effective: 29 March 2013)

Licensing Handbook
(Revised: 28 December 2012)

BOOKS, REPORTS AND CONSULTATION PAPERS

Books

World Capital Markets Symposium Kuala Lumpur 2010
(Issued: 26 January 2012)

Securities Commission Malaysia Annual Report 2011
(Issued: 28 March 2012)

Laporan Tahunan 2011 Suruhanjaya Sekuriti Malaysia
(Issued: 28 March 2012)

Malaysian Code on Corporate Governance 2012
(Issued: 29 March 2012)

Audit Oversight Board Annual Report 2011/Laporan Tahunan 2011 Lembaga Pemantauan Audit
(Issued: 24 April 2012)

Proceedings of SC-OCIS Roundtable 2011
(Issued: 13 August 2012)

Proceedings of SC-OCIS Roundtable 2012
(Issued: 14 September 2012)

Private Retirement Schemes Examination Study Guide
(Issued: 3 September 2012)

Response papers/Consultation papers

Public Response Paper – Corporate Governance Blueprint 2011 and Independent Chairman and Voting by Poll
(Issued: 29 March 2012)

Public Consultation Paper – Proposed Revisions to the Guidelines for the Registration of Venture Capital Corporations and Venture Capital Management Corporations
(Issued: 25 May 2012)

Joint Public Consultation Paper (with Bursa Malaysia Securities Bhd) – Proposed Best Practice Guide in Relation to Independent Advice Letters
(Issued: 20 December 2012)

BOOKLETS, BULLETINS AND PAMPHLETS

Booklets

List of Shariah-compliant Securities by the Shariah Advisory Council of the Securities Commission Malaysia/ Senarai Sekuriti Patuh Syariah oleh Majlis Penasihat Syariah Suruhanjaya Sekuriti Malaysia
(Issued: 25 May and 30 November 2012)

Private Retirement Schemes
(Issued: 18 July 2012)

Skim Persaraan Swasta
(Issued: 18 July 2012)

Bulletins

Malaysian ICM
(Issued: July 2012)

Capital.My
(Issued: April and July 2011)

The Reporter
(Issued: January, May and August 2012)

SECURITIES COMMISSION WEBSITES

www.sc.com.my
www.min.com.my

INVESTOR EDUCATION PROGRAMMES

PROGRAMME	DESCRIPTION	REACH
SC Investor Clinic	This platform provides the investing public direct access to the SC across the country, enabling them to share concerns or seek clarification on issues related to the capital market. The clinics include a talk tailored to suit the needs of the target audience, with specific focus on scams, unlicensed investment schemes and rights and responsibilities of investors. The clinics are also conducted in collaboration with SIDC and other strategic partners to ensure greater reach to investors.	8,704 participants 26 towns and 11 states
1Halal 1Malaysia Carnival, Melaka (3-6 February 2012)	The SC participated in the Carnival organised and promoted by the State Government of Melaka and the Department of Islamic Development Malaysia (JAKIM), as part of our efforts to reach out to increase awareness and understanding of investing in the Islamic capital market.	7,500 visitors
Karnival Suruhanjaya Syarikat Malaysia Bersama Rakyat, Pagoh, Johor (3 March 2012)	The SC participated in the Companies Commission of Malaysia's Carnival, as part of our efforts to increase public awareness and understanding of: • The SC's role and function in regulating the capital market. • The different modalities of investment scams and basic steps to take to avoid scams.	3,000 visitors
Minggu Saham Amanah Malaysia (MSAM), Kota Kinabalu, Sabah (20-29 April 2012)	The SC participates annually at MSAM, an event organsied by Permodalan Nasional Bhd (PNB) to showcase its companies and investment products. One of the primary objectives of MSAM, is to educate the public on investing in unit trusts as an investment product and the importance of financial planning.	280,000 visitors
Karnival Hari Guru, Kuala Kangsar, Perak (12–16 May 2012)	The SC participated in the 'Karnival Hari Guru', organised by Utusan Melayu Malaysia Bhd, in conjunction with the National Teachers' Day celebrations. The SC's participation in the event provided us with the opportunity to deliver our investor education across a mixed demographic of the teaching community.	50,000 visitors
Pameran Pengguna Kebangsaan 2012, Semenyih, Selangor (1–3 June 2012)	The event was organised by the Ministry of Domestic Trade, Co-operatives and Consumerism and held in conjunction with National Consumers' Day celebrations. The SC participated in the exhibition as part of our continuing efforts to extend the reach of our investor education initiatives to the general public.	10,000 visitors
Nationwide radio edumercial series, Astro Radio Sdn Bhd	A 14-month investor education campaign comprising of multilingual edumercials aimed at providing periodic practical reminders and alerts to the public on things to watch out for when investing. The radio edumercials were broadcast on: SINAR fm, HITZ fm, MY fm and THR Raaga fm	Nationwide – the radio stations have a combined listenership of 9.8 million per week

PROGRAMME	DESCRIPTION	REACH
Media articles/advertorials	A series of articles and advertorials published in major newspapers and magazines discussing smart investing, the basics of financial management and highlighting fraudulent investment schemes.	62 articles in various local media, including *The Star*, *New Straits Times*, *theLink*, *Smart Investor*, *Pa & Ma*, *Money Compass*, *Harian Metro*, *Generasi Pengguna*, *Ringgit*, *Berita Harian* and *Sinar Harian*
Collaboration with Agensi Kaunseling dan Pengurusan Kredit (AKPK)	Advertorials in four major languages (Bahasa Malaysia, English, Mandarin and Tamil) in the 'Old Master Q' financial comic book published by AKPK, BNM's credit counseling and debt management agency. The advertorials provide the reader a general checklist when considering an investment and raise the readers' awareness of the SC's role and function. The comic book is targeted at young adults.	80,000 copies published
Educational collateral such as leaflets and posters on scams, basic rights of investors as well as information on investment products	The SC together with SIDC continuously develops new collateral to help deliver investor education. During the year under review, five new investor education leaflets covering various aspects of investing and the recently launched private retirement scheme, were added to our collection. The SC ensures the distribution of its investor education collaterals through outreach programmes by the SC and SIDC. We also leverage off our fellow regulators and government agencies as well as industry associations, market intermediaries, non-governmental agencies, institutions of higher learning and the media, to help us increase the reach of our collaterals. In this regard, in 2012, to help increase awareness of investment scams, 'Scam Alert' posters were distributed and displayed nationwide at police stations, local and foreign banks and district offices/government agencies.	Posters : 4,000 Leaflets : 400,424
Malaysian Investor website (www.min.com.my)	The Malaysian Investor website (MIN), which is managed by SIDC for the SC, is an important and very informative reference point for the public and investors seeking to better understand the essentials of investing in the capital market and investment products. MIN complements the SC's official website by providing useful investor centric information on investment products and investing techniques for both new and seasoned investors. Investors who need clarification can also submit their queries via the website.	• Two new articles per month • 8.98 million hits in 2012
Kids & Cash and Teens & Cash	Fun, interactive and engaging programmes targeting children between the ages of 10 to 17. The programmes aim to inculcate a healthy money management culture in children and provide an introduction to the basic concepts of banking and investing as well as savings and investment accounts.	41,690 students
Cash@campus	A tailor-made programme for university students aimed at enhancing their knowledge and skills in managing savings and developing investment know-how.	2,277 students

PROGRAMME	DESCRIPTION	REACH
B.M.W. seminar	A programme targeting parents, blue collar workers, women and rural communities. The programme provides a practical guide to money management and aims to increase familiarity with investing, create awareness of investors' rights and responsibilities, as well as develop a resistance to scams.	6,765 participants
Money @ Work	A basic practical programme developed for employees of public and private organisations. The programme aims to enhance the level of knowledge and skills in money management and basic investing, to enable participants to take control of their finances and plan for their future.	1,058 employees
Kempen Pelabur Bijak Kebangsaan (KPBK) 2012–2013	A nationwide campaign from October 2012 to March 2013 to educate over 1.5 million new and potential investors on wise investing in the capital market via seminars, electronic and social media, and educational publications. The campaign targets the general rural and urban population, private and public sector employees, as well as college and university students.	As at December 2012, the campaign has reached out to one million new and potential investors
'Career in the Capital Market' Seminar	A seminar designed to create awareness among campus students on the various career opportunities available in the capital market.	4,844 students
Train the Teacher (TTT) Programme for Kids & Cash and Teens & Cash	A structured workshop to train and equip school teachers with the ability and knowledge to conduct Kids & Cash or Teens & Cash programmes. The TTT programme aims to increase the sustainability and reach of the SC's efforts to increase financial literacy in children.	167 teachers
I-FiLM	An annual inter-varsity money management competition. Evolving from its predecessor, `Campus KaChing!', `I-Film' provides students the challenge of producing a creative and entertaining video, promoting the concept of either money management or investing for the future, via social media. The competition attracted a lot of interest with 31 universities participating and 62 entries.	• 23,527 students viewed the videos • Received 1.7 million 'unique impressions' (i.e. people who viewed the I-FiLM advertisement on Facebook, Twitter and blogs)

2012 AT A GLANCE

A snaphot of key events and achievements during the year

JANUARY

13 Jan
Nik Hasyudeen Yusoff, Executive Director, attended the ASEAN Audit Regulators Meeting in Singapore.

18 Jan
Datuk Ranjit Ajit Singh, Managing Director, attended the IOSCO Standing Committee Meeting in Singapore.

31 Jan
Datuk Ranjit Ajit Singh, Managing Director, delivered a speech at the OECD 30th Anniversary International Conference in Istanbul, Turkey.

FEBRUARY

8 Feb
Tan Sri Zarinah Anwar, Chairman, attended IOSCO Emerging Markets Committee Advisory Board and Joint Committee Meeting in Tokyo.

16 Feb
Dato Dr Nik Ramlah Mahmood, Managing Director, attended the OECD-Indonesia Policy Dialogue in Jakarta.

20 Feb
Datuk Ranjit Ajit Singh, Managing Director, delivered a keynote address at the 6th GCC Regulators' Summit in Muscat, Oman.

MARCH

12–13 Mar
Hosted the 3rd SC-OCIS Islamic Finance Roundtable on 'Solutions for Liquidity Management'.

16 Mar
Signed an MoU on Expedited Review Framework for Secondary Listings together with the securities regulators and stock exchanges of Malaysia, Singapore and Thailand.

28 Mar
The SC Annual Report 2011 published.

29 Mar
The *Malaysian Code on Corporate Governance 2012* (MCCG 2012) released.

APRIL

1 Apr
Datuk Ranjit Ajit Singh succeeded Tan Sri Zarinah as Chairman of the SC. Dato Dr Nik Ramlah Mahmood appointed Deputy Chief Executive.

4–7 Apr
Participated in the Malaysia International Halal Showcase (MIHAS) organised by MATRADE.

2–20 Apr
Commenced Financial Sector Assessment Programme (FSAP), an in-depth assessment conducted by IMF and World Bank into various aspects of a country's financial sector.

20–28 Apr
Participated in Minggu Saham Amanah Malaysia (MSAM) in Sabah organised by PNB.

MAY

10 May
SC & Securities and Futures Commission Hong Kong hosted the first Roundtable of Regional Take-over Regulators of nine jurisdictions.

10 May
Datuk Ranjit Ajit Singh, Chairman, delivered a speech at the IOSCO Annual Conference in Beijing and was elected as a member of the Board of the IOSCO.

24 May
Release of the updated list of Shariah-compliant securities by the SC's Shariah Advisory Council.

JUNE

8 Jun
Hosted a seminar on 'Malaysian Code on Corporate Governance 2012'.

18 Jun
Announced the adoption of a revised screening methodology to determine the Shariah-compliant status of listed companies.

25–28 Jun
Hosted the 7th Islamic Market Programme (IMP).

JULY

12 Jul
Datuk Ranjit Ajit Singh, Chairman, delivered a keynote address at the RAM Annual Bond Market Conference in Kuala Lumpur.

18 Jul
Launch of the Private Pension Administrator by Dato' Sri Mohd Najib Tun Razak, Prime Minister, at the SC.

19 Jul
Announced the new Shariah Advisory Council members.

AUGUST

10 Aug
Illegal futures trading: SC recovers RM2.3 million from seven individuals.

SC recovers RM2.3m from 7 individuals

KUALA LUMPUR: The Securities Commission (SC) has obtained a judgement in the High Court here, ordering seven individuals involved in illegal futures trading activities to settle a sum of more than RM2.3 million. High Court judge Datuk Mary Lim Thiam Suan ordered that all amounts recovered by the SC to be applied at its dis-

29 Aug
Hosted Hari Raya Open House.

29 Aug
Hosted the 'Bicara Merdeka' talk by Royal Professor Ungku Abdul Aziz.

SEPTEMBER

7 Sep
Announced the Malaysian retail bonds and sukuk framework that provides retail investors direct access to invest in bonds and sukuk.

18 Sep
Collaborated with Islamic Financial Services Board (IFSB) and IOSCO to organise a high-level Roundtable, themed 'Disclosure Requirements for Islamic Capital Market Products'.

19 Sep
Hosted The Royal Award for Islamic Finance, attended by His Majesty Seri Paduka Baginda Yang di-Pertuan Agong.

OCTOBER

8 Oct
Issued the *Guidelines for Registered Persons* which provides for two new classes of registered persons, namely trading representative and introducing representative.

11 Oct
RM1.2 million fine for ex-director of LFE Corporation Bhd for giving false statement.

25 Oct
Issued an expanded practice note addressing the requirements on independent advice circulars for take-over offers.

29 Oct
Datuk Ranjit Ajit Singh, Chairman, delivered a keynote address at the ASLI 17th Malaysian Capital Market Summit in Kuala Lumpur.

30 Oct
BNM and SC signed MoU to enhance joint regulatory oversight.

NOVEMBER

1 Nov
Hosted the 13th Emerging Markets Programme.

7 Nov
Launched the Asia Pacific Takeovers Regulators Forum, which incorporates the first e-platform in the region, in collaboration with Securities and Futures Commission Hong Kong.

22 Nov
Hosted a dialogue with the Board of Directors of the Federation of Investment Managers of Malaysia (FIMM).

DECEMBER

3 Dec
Hosted a public lecture on 'Our Market, Our Values – A Principles Based Approach to Creating Value in Muslim majority Markets' by Iqbal Khan.

20 Dec
Published a joint consultation paper seeking public feedback on the proposed Best Practice Guide on Independent Advice Letters.

ACRONYMS AND ABBREVIATIONS

ACMF	ASEAN Capital Markets Forum
AIF	ASEAN Infrastructure Fund
AMLA	*Anti-Money Laundering Act 2001*
AML/CTF	*Anti-Money Laundering/Combating Terrorist Financing*
AMLATFA	*Anti-Money Laundering and Anti-terrorism Financing Act*
AOB	Audit Oversight Board
APEC	Asia-Pacific Economic Cooperation
APRC	Asia-Pacific Regional Committee
ASEAN	Association of South-East Asian Nations
BMD	Bursa Malaysia Derivatives Bhd
BNM	Bank Negara Malaysia
Bursa Malaysia	Bursa Malaysia Securities Bhd
CCM	Companies Commission of Malaysia
CDS	Central Depository System
CeIO	Certified Integrity Officer
CFE	Certified Fraud Examiner
CG	Corporate governance
CIS	Collective investment scheme
CMCF	Capital Market Compensation Fund
CMDF	Capital Market Development Fund
CMP	Capital Market Masterplan
CMSA	*Capital Markets and Services Act 2007*
CMSL	Capital Market Services Licence
CMSRL	Capital Market Services Representative's Licence
CP/MTN	Commercial papers/medium term notes
CPO	Crude palm oil
CRA	Credit rating agency
CSR	Corporate social responsibility
EMBI	Emerging Markets Bond Index
EMC	Emerging Markets Committee
EPF	Employees Provident Fund
ETF	Exchange-traded fund
ETP	Economic Transformation Programme
FBMKLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FIA	*Futures Industry Act 1993*
FIMM	Federation of Investment Managers Malaysia
FKLI	FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures
FLR	Front-line regulator
FPAM	Financial Planning Association of Malaysia
FPLC	Federation of Public Listed Companies

FRS	Financial Reporting Standards
FSAP	Financial Sector Assessment Programme
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
GLC	Government-linked company
IAL	Independent advice letter
ICM	Islamic capital market
IFSB	Islamic Financial Services Board
IICMF	International Islamic Capital Market Forum
IMF	International Monetary Fund
IMP	Islamic Market Programme
IOSCO	International Organization of Securities Commissions
IPO	Initial public offering
ISO	International Organization for Standardization
IT	Information technology
ITI	Industry Transformation Initiative
Labuan FSA	Labuan Financial Services Authority
M&A	Mergers and acquisitions
MAICSA	Malaysian Institute of Chartered Secretaries and Administrators
MASB	Malaysian Accounting Standards Board
MAVCAP	Malaysian Venture Capital Management Bhd
MCCG 2012	*Malaysian Code on Corporate Governance 2012*
MGS	Malaysian Government Securities
MIA	Malaysian Institute of Accountants
MIBA	Malaysian Investment Banks Association
MICG	Malaysian Institute of Corporate Governance
MICPA	Malaysian Institute of Certified Public Accountants
MIFC	Malaysia International Islamic Financial Centre
MITI	Ministry of International Trade and Industry
MoU	Memorandum of understanding
MSCI	Morgan Stanley Capital International
MVCA	Malaysian Venture Capital and Private Equity Association
MVCDC	Malaysian Venture Capital Development Council
NAV	Net asset value
OCIS	Oxford Centre for Islamic Studies
OECD	Organisation for Economic Co-operation and Development
OIC	Organisation of the Islamic Co-operation
OTC	Over-the-counter
PDS	Private debt securities
PE	Private equity
PLC	Public-listed company
PPA	Private Pension Administrator
PRS	Private retirement scheme
RAIF	The Royal Award for Islamic Finance
REIT	Real estate investment trust
ROSC	Reports on Observance of Standards and Codes
SAC	Shariah Advisory Council

SC	Securities Commission Malaysia
SCA	*Securities Commission Act 1993*
SIA	*Securities Industry Act 1983*
SICDA	*Securities Industry (Central Depositories) Act 1991*
SIDC	Securities Industry Development Corporation
SIDREC	Securities Industry Dispute Resolution Center
SIFI	Systematically-important financial institution
SPV	Special purpose vehicle
SRO	Self-regulatory organisation
TOM Code	*Code Malaysian Code on Take-overs and Mergers 2010*
UB	Universal broker
UK	United Kingdom
US	United States
UTMC	Unit trust management company
VC	Venture capital
VCC/VCMC	Venture capital corporation/venture capital management corporation

1993

- Establishment of the SC with the coming into effect of the *Securities Commission Act 1993* which marked the dissolution of the Capital Issues Committee (CIC) and the Panel on Take-over and Mergers. SC was first housed in the Ministry of Finance at Jalan Duta and subsequently moved to its first premises at Jalan Semantan.
- The first major investigation under the SCA in relation to share dealing of Union Paper Holdings Bhd, which led to the SC's first arrest and prosecution that culminated in a conviction.
- Accepted as a member of the International Organization of Securities Commissions (IOSCO), reflecting SC meeting global standards early in its history.

1994

- The Securities Industry Development Centre – SIDC (now known as Securities Industry Development Corporation) was set up as a department in the SC, in line with emphasis on research and training as core values in the development and growth of the securities and futures markets.
- The SC approved the move to print share applications forms with prospectus in the newspapers by companies seeking listing and introduction of automation, a major step towards enhancing investor access to the IPO market, increasing efficiency and reducing processing time.
- The SC became a key player in the international discussions on capital market regulations and was elected as Chairman of the working group on the Regulation of Secondary Markets at the XIXth annual meeting of IOSCO in Tokyo 1994.

1995

- New product guidelines were introduced including the *Guidelines for Public Offerings of Securities of Infrastructure Project Companies* (IPC Guidelines) and *Guidelines for Public Offerings of Securities of Closed-end Funds.*
- Malaysia became the third Asian economy after Hong Kong and Japan to offer domestic equity derivative products with the launch of trading on the Kuala Lumpur Options and Financial Futures Exchange (KLOFFE).
- The SC took action to safeguard the public interest by ensuring that all unattended applications were processed before the balloting exercise in the Malaysian Issuing House (MIH) case.

1996

- Amendments made to the SIA enabled the transfer of powers from the Ministry of Finance's Licensing Office to the SC to issue securities and futures trading licences, making the SC the sole regulator responsible over the industry, which include powers on licensing, reporting requirements and fiduciary obligations.
- Ground-breaking of the SC new building at Bukit Kiara.
- Shariah Advisory Council (SAC) was established to advise the SC on matters pertaining to the development of a full-fledged Islamic capital market. SAC became the focal point of reference on the Islamic capital market, providing guidance on capital market products and services that comply with Shariah principles.
- The SC's corporate website www.sc.com.my was launched.
- The SC rolled out the second financial futures exchange – the Malaysian Monetary Exchange (MME). With the introduction of the MME, the SC succeeded in achieving its objectives to improve liquidity in the futures market.

1997

- SC became the sole regulator of the commodity futures market and administered the financial futures market with the merger of the SC and the Commodities Trading Commission (CTC).
- *Financial Reporting Act 1997* (FRA) came into force, establishing a strong accounting and financial reporting framework. The FRA was the first statutory framework for accounting standard-setting and compliance in the region and provided an institutional financial reporting framework in line with those in matured jurisdictions.
- Financial Reporting Foundation and the Malaysian Accounting Standards Board (MASB) were established, bringing in an era of strong industry collaboration on accounting and financial reporting framework.
- Minister of Finance approved the establishment of Malaysian Exchange for Securities Dealing & Automated Quotation (MESDAQ) as a stock exchange. MESDAQ was intended to provide a more facilitative environment for financing start-ups by Malaysian entrepreneurs.

1998

- The SC facilitated a reimbursement scheme to mitigate losses clients of stockbroking companies may suffer as a result of violations of rules, regulations and securities laws. The clients of Omega Securities were reimbursed to the fullest extent possible.
- SC-Danaharta Broker Restructuring Scheme was announced by SC. The scheme was aimed at resolving the problems of troubled stockbroking companies on an industry wide basis and address the exposure of the banking sector to these brokers.
- The SIDC became a one-stop examination centre for market intermediaries of the securities and futures industry.
- The SC implemented its financial reporting surveillance and compliance function, which was specifically dedicated to ensuring the compliance of public-listed companies with approved accounting standards and other financial reporting requirements.

1999

- The SC moved to its new building at Bukit Kiara from temporary offices in Jalan Semantan, Damansara Heights. The new building was officiated by Prime Minister, Dato Seri Dr Mahathir Mohamad.
- The SC released the High Level *Finance Committee Report on Corporate Governance*, setting out 70 recommendations for an enhanced corporate governance framework. The Report encompassed the reform of laws, regulations and rules and the development of a Malaysian code on corporate governance.
- The SC enhanced its enforcement capacity by setting up a Complaints Unit to handle public complaints on violations of securities laws.
- The *Capital Market Masterplan*'s website was launched for the public to provide comments and feedback on the master plan.
- To facilitate the share application process, the SC and MIH together with financial institutions and the Malaysian Central Depository (MCD) launched the integrated electronic system.

2000

- The *Securities Commission (Amendment) Act 2000* came into effect, making the SC the single regulator of all fund raising activities. At the same time, the SC became the approving and registering authority for prospectuses in respect of all securities other than securities issued by unlisted recreational clubs.
- SC successfully ensured Y2K-related disruptions did not affect the market when trading commenced on 3 January 2000.
- The SC's role in IOSCO gained more prominence with the appointment of our Chairman as Head of the Asia-Pacific Regional Committee of IOSCO.

2001

- The SC released the first *Capital Market Masterplan* (CMP), setting the strategic position and future direction of the development of the Malaysian capital market.
- Inaugural Emerging Markets Programme by SIDC was conducted to enhance international cooperation among regulators. It drew over 60 participants from 21 countries and its success has sustained the EMP as SC's flagship annual event ever since.
- SC launched the Malaysian Derivatives Exchange (MDEX) through a memorandum of understanding to merge exchanges by KLOFFE and the Commodity and Monetary Exchange of Malaysia (COMMEX).
- The SC Building received the ASEAN Energy Awards for Energy Efficient Buildings.

2002

- The SIDC launched the Malaysian Investor website (www.min.com.my) as one of the measures to educate investors on the capital market.
- The SC disbursed a grant of RM250,000 to help with the establishment of Minority Shareholder Watchdog Group (MSWG) and granted MSWG an investment adviser's licence.
- The SC was given the mandate by IOSCO to lead the Task Force on Islamic Capital Markets given Malaysia's position as a leading proponent and innovator in the global Islamic capital market.

2003

- Malaysian-owned companies with foreign operations and foreign companies operating in Malaysia were allowed to list on the Main Board of KLSE, as part of the move to support targeted investments abroad as well as to regionalise the Malaysian capital market.
- The SC released seven revised fund raising guidelines in preparation for the final phase of the Malaysian capital market's transition from a merit-based to a disclosure-based regulatory framework for fund raising.

2004

- The KLSE was demutualised. The SC and KLSE signed a MoU to establish a framework for co-operation, mutual understanding, exchange of information and other assistance following the demutualisation.
- New amendments to securities laws came into effect; *Securities Industry (Amendment) Act 2003*, the *Securities Commission (Amendment) Act 2003*, the *Futures Industry (Amendment) Act 2003* and the *Securities Industry (Central Depositories) (Amendment) Act 2003*, provided better investor protection as it strengthened the SC's enforcement capabilities and enhanced the provisions relating to clearing and settlement arrangements on the exchange. The changes cover areas ranging from management and custodianship of client funds, whistle blowing, and civil and administrative actions for any breaches of the laws.

2005

- The SC was made the sole approving authority for the consideration and approval of listings and corporate proposals on the MESDAQ Market.
- *Guidelines on Real Estate Investment Trusts* (REIT) was published to accelerate the growth of this asset class.
- The SC launched the Electronic Licensing Application (ELA) that allows applications and renewals of capital market intermediary licences over the Internet. It provides a search function for the public to ascertain that dealings were made with a licensed person or company.

2006

- Prime Minister, Dato' Seri Abdullah Badawi launched the first edition of Malaysian ICM, a quarterly bulletin to promote Malaysia as a global Islamic financial hub amongst domestic and international market participants.
- The SC identified a set of initiatives to accelerate growth and enhance investor protection in the unit trust industry. These initiatives were consistent with the commitment and strategies outlined in the Ninth Malaysia Plan and CMP to accelerate the growth and development of the investment management industry and to enhance its role in mobilising savings.

2007

- The SC was accepted as a signatory to the IOSCO Multilateral Memorandum of Understanding (MMoU) on information sharing and enforcement of securities laws.
- The *Capital Markets and Services Act 2007* (CMSA) came into force which consolidates the securities, futures and fund raising laws into a single legislation.
- The SC filed a landmark civil suit against FTEC Resources Bhd Managing Director and shareholder, Kenneth Vun @ Vun Yun Liun, compelling him to restitute RM2.5 million to the company. This case marked the start of the SC increasingly tapping on its civil enforcement powers to ensure effective and efficient remedies.
- The SC successfully secured a Court Order to transfer RM35 million of Swisscash monies held in accounts overseas back to Malaysia in the Swisscash Internet investment scam.
- The SC emerged as the 'Best Regulator for Islamic Funds' at the inaugural Master of Islamic Funds Awards. This acknowledges the SC's pioneering efforts and leadership role in the development and promotion of a comprehensive Islamic capital market.

2008

- 'Green shoe' option and price stabilisation mechanism for IPOs was introduced to enhance the efficiency and competitiveness of the fund raising process. This mechanism allows the issuer to over-allot securities to ensure that the demand for shares in an IPO can be met in an efficient manner and that price volatility during the period immediately after listing can be minimised.
- Prospectuses were publicly available on the SC website and allowed the public to submit their comments to the SC, thereby ensuring that the public is fully-informed on prospectuses for the issuance of shares relating to the IPO of companies and collective investment schemes to be listed on Bursa Malaysia Securities.
- Five leading financial institutions were granted approval to establish Islamic fund management companies in Malaysia. This reflects the global recognition of Malaysia's position as a centre of Islamic finance.
- Malaysia's capital market regulatory framework achieved a high level of compliance through an independent assessment based on the IOSCO Objectives and Principles of Securities Regulation.

2009

- The Minister of Finance, the SC and Bursa jointly officiated the launching of the new fund raising framework and unveiled the new board structure. The new structure merged the Main Board and Second Board into a single board now known as 'Main Market', while the 'ACE Market' replaced the 'MESDAQ' for companies of all sizes and from all economic sectors.
- In recognition of SC's work in effectively growing the Islamic capital market in Malaysia as well as collaboration to develop markets in the region, the Chairman of SC, Tan Sri Zarinah Anwar was awarded the 'Most Outstanding Contribution to the Development of an Islamic Capital Market' at the London Sukuk Summit.
- The SC and Bursa Malaysia announced the introduction of Securities Borrowing and Lending Negotiated Transaction, an enhanced securities borrowing and lending model that offers an option to borrow and lend on an over-the-counter basis.
- The SC entered into the largest settlement in its history involving RM31 million. The sum recovered was restituted to eligible investors affected by the Swisscash investment scam.
- The inaugural World Capital Markets Symposium (WCMS) was hosted and organised by the SC in Kuala Lumpur and brought together some of the world's most influential people, including Paul Krugman and Raghuram G. Rajan. It was attended by over 500 people from more than 30 countries.

2010

- SC initiated and launched the inaugural SC–OCIS Roundtable and Public Forum, jointly hosted by the SC and the Oxford Centre for Islamic Studies (OCIS) to mark the beginning of one of the major partnerships established by SC to advance Islamic finance.
- Electronic Share Payment (e-Share) was jointly introduced with BNM and Bursa Malaysia as part of efforts to further promote the use of e-payments in the stock market.
- The Audit Oversight Board (AOB) was established and almost immediately accepted into the International Forum of Independent Audit Regulators, putting Malaysia as the second country from ASEAN to be admitted. This gave recognition to AOB as a well-structured, independent audit regulator and enabled AOB to be involved in global activities.
- Malaysia was recognised as an approved investment destination under China's Qualified Domestic Institutional Investor (QDII) scheme administered by the China Banking Regulatory Commission (CBRC). This recognition facilitates the flow of Chinese funds into Malaysia and opened up business opportunities for Malaysian capital market intermediaries.
- The SC jointly organised with BNM the Inaugural Royal Award for Islamic Finance with the Yang di-Pertuan Agong presenting the awards.
- The SC hosted the second WCMS, with an impressive line-up of high profile thought leaders, policymakers, regulators, fund managers and corporate captains.

2011

- The Securities Industry Dispute Resolution Centre (SIDREC) was established to complement the gazette of the *Capital Markets and Services (Dispute Resolution) Regulations 2010* to facilitate individual investors with small claims access to settlement of disputes without the need to resort to expensive litigation.
- Following the successful implementation of the first CMP, the Prime Minister, Dato' Sri Mohd Najib Tun Razak launched the *Capital Market Masterplan 2* (CMP2) on April 2011.

- The *Corporate Governance Blueprint 2011* was launched by the Finance Minister II on 8 July 2011, representing a comprehensive 5-year program to take the governance framework and its implementation to a new level.

- The SC received the 'Outstanding Contribution to the Development of Islamic Capital Market' award at the London Sukuk Summit and was awarded the 'Most Outstanding Institution Contribution to Islamic Finance' at Kuala Lumpur Islamic Finance Forum (KLIFF).

2012

- Under the auspices of the ASEAN Capital Markets Forum, the securities regulators and stock exchanges of Malaysia, Singapore and Thailand signed a MoU on Expedited Review Framework for Secondary Listings. The framework will foster greater capital market integration and promote ASEAN as a global fund raising destination.
- The SC released the *Malaysian Code on Corporate Governance 2012* as part of the *Corporate Governance Blueprint 2011*.
- Dato' Sri Mohd Najib Tun Razak launched the private retirement scheme (PRS) framework with the establishment of the Private Pension Administrator and the approval by the SC of the first set of PRS on 18 July 2012. The scheme marked a significant milestone in the development of a long-term sustainable private retirement industry for Malaysia.
- Launched the Malaysian retail bonds and sukuk framework to facilitate greater retail participation in the bond and sukuk market.
- Launch of the ASEAN Trading Link connecting Bursa Malaysia, the Singapore Exchange and the Stock Exchange of Thailand.
- A new asset class known as business trust was introduced with amendments to the CMSA and the introduction of the *Business Trusts Guidelines.*

20 Years

Key Milestones of the SC

20th Anniversary
1993 – 2013
Securities Commission Malaysia
Leading • Defining • Transforming

SECURITIES COMMISSION MALAYSIA

3 Persiaran Bukit Kiara Bukit Kiara 50490 Kuala Lumpur

Tel +603 6204 8000 **Fax** +603 6201 5078 **E-mail** cau@seccom.com.my **Website** www.sc.com.my