Suruhanjaya Sekuriti
Securities Commission
Malaysia

Annual Report 2013

Cover:

In conjunction with the Securities Commission Malaysia's 20th Anniversary (1993 – 2013), a photography competition was organised. Annual Report 2013 showcases photos taken by our employees who used their creativity and imagination to tell the story of '20'.

Cover photo credit: ***Khairul Nadzmi Mohd Yusof***
Information Technology, Corporate Resources

MISSION STATEMENT

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

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CHAIRMAN’S MESSAGE

CHAIRMAN'S MESSAGE

It is a particular privilege for me to write the Chairman's Message for this year's annual report. On 1 March 2013, Securities Commission Malaysia (SC) marked its 20th anniversary. Over the past two decades, we have grown from a modest organisation of 101 members of staff to more than 600 in 2013. More importantly, in that time, the capital market we oversee has grown into a RM2.7 trillion market that plays an important role as a key enabler in Malaysia's economic transformation.

Indeed, in today's post-crisis environment, the role of capital markets globally has become more important than ever. For many countries, the ability to gain access to capital is key to sustaining growth. Capital markets represent an important source of financing for businesses to meet their funding requirements. This shift has been coupled with the growing use of technology, including social-media networks, in creating new funding and investment opportunities.

However, recent market pressures on emerging markets and an increase in short-term volatility across a wide range of asset classes internationally has increased capital market risk. Although the impact of global developments in 2013 has varied depending on the circumstances of each jurisdiction, the Malaysian capital market has remained resilient. Nevertheless, we remain vigilant against risks associated with global monetary policy normalisation and international capital flows.

The SC's priorities in 2013 have therefore been to strengthen the capital market's role in supporting equitable and sustainable growth for the economy, and increasing access to financing and investment opportunities, on the basis of good conduct and behaviour by all its participants.

Enabling equitable and sustainable economic growth

As Malaysia's demography evolves and standards of living improve, the capital market is being increasingly called upon to facilitate the mobilisation of savings, smooth consumption patterns over lifetimes, and enable the conversion and hedging of financial and other risks.

Amid a volatile global environment in 2013, the Malaysian stock market provided steady returns to investors, emerging as one of the top-performing major markets in Asia. The benchmark equity index rose by 10.5%, which helped to boost market capitalisation to a record high of RM1.7 trillion. Efforts to encourage greater investments by institutional funds into small and mid-cap stocks, in particular, contributed towards the significant gains recorded by the domestic small-cap index (+36.7%).

Malaysia's bond market was resilient to volatile international capital flows. At RM1 trillion, it is the third-largest in Asia relative to the size of the economy. The depth of the market provided absorptive capacity for portfolios to be rebalanced across maturities in an orderly manner. Hence, Malaysia was not significantly affected by the retreat of foreign portfolio funds which other emerging bond markets experienced during the second half of the year.

The capital market continued to be an important source of financing for Malaysian businesses, with RM94 billion raised through initial public offerings (IPOs) and corporate bonds during the year. Indeed, the past two years have been the strongest period of capital-raising on record with a total of RM240 billion issued. The Islamic capital market, worth RM1.5 trillion, also maintained its leading position as the world's largest sukuk market, accounting for 69% of global sukuk issuances.

Assets under management (AUM) grew by 16.5% to RM588 billion in 2013, demonstrating the importance of the domestic investment management industry in mobilising domestic capital. Unit trust funds continued to be the main instrument for unlocking latent retail capital; at the end of the year, net asset value of unit trusts amounted to RM336 billion, equivalent to one-fifth of stock market capitalisation.

Democratisation of finance

In growing a capital market that fulfils the investment and financing needs of the real economy, we have been cognisant of the need to ensure accessibility and inclusiveness whilst ensuring the protection of investors, efficiency in intermediation, fair and orderly markets and mitigation of risks.

In particular, this has meant focusing our efforts to facilitate the development of facilities that support small and medium-sized businesses that go beyond financing, to enable partnerships and collaboration, so that they are able to raise their game and expand their capabilities. This means providing avenues for people who would otherwise be excluded from the investment process to build up their own assets and gain greater control of their lives.

During the year, we sought to enhance the regulatory framework to broaden access to market-based financing. Smaller, innovation-focused businesses, such as start-ups and small and medium enterprises, can be significant catalysts for growth. Enhancing the market's ability to provide financing for such firms can contribute to capital formation in the wider economy.

To this end, work on an online platform for unlisted securities and alternative investment products has reached an advanced stage, and we continued to develop the venture capital and private equity industry in Malaysia, given the need for a critical mass of investors to provide patient capital for such nascent businesses.

By facilitating the offering of products and asset classes that provide affordable entry points into the market, we seek to promote broader and more inclusive participation. The retail sukuk asset class, which was launched this year, has been well-received by the public, with DanaInfra introducing a second tranche to their inaugural retail sukuk offering within the same year.

Better wealth creation opportunities for investors have also been made available by increasing the number of full-fledged Islamic fund and wealth management companies as well as more extensive promotion of the Private Retirement Scheme (PRS), the voluntary third pillar of the Malaysian pension system which has reached 65,000 members with net asset value of RM300 million in less than two years.

Furthermore, we have continued to work on facilitating investment flows and cross-border product offerings within Southeast Asia through collaboration with regional regulators. With the harmonisation of standards for multi-jurisdictional offerings of equity and plain debt securities as well as the introduction of a framework for cross-border collective investment schemes (CIS), Malaysia will be in a strong position to capitalise on ASEAN growth, particularly in terms of infrastructure financing and regional investment products.

The Islamic capital market (ICM) continues to be an integral component of the Malaysian capital market, accounting for 56% of the overall market. Malaysia also has significant presence in Islamic fund and wealth management internationally, with RM97.5 billion in AUM. Hence, initiatives to further consolidate Malaysia's international leadership position in ICM were among the SC's key priorities in 2013.

In November, the SC introduced a revised Shariah screening methodology which further aligned Malaysia's securities screening process with international practices. By incorporating a two-tier quantitative benchmark approach comprising business activity and financial ratio benchmarks, the adoption of the revised methodology is envisaged to further enhance the attractiveness of the Malaysian Islamic equity market and fund management segment to international investors.

With increased market access and growth, initiatives to further expand the scope and efficiency of intermediation activities are critical. Hence, in August 2013 the SC launched the Graduate Representative Programme (GRP1000), which aims to train 1,000 graduates over the next three years in collaboration with the industry and encourage the entry of qualified professionals by providing alternative pathways to join the financial services industry in Malaysia.

Striking regulatory balance

The increasing importance of the role played by capital markets places the responsibility on capital market regulators to ensure that the right regulation, tools and resources are in place to meet the demands of both businesses and investors. In the current global investment climate, regulation needs to strike an optimal balance. Over-regulation runs the risk of stifling innovation and vibrancy of market-based financing and limiting consumer choice. On the other hand, too little or inappropriate regulation risks a loss of trust and confidence in the financial system.

Finding an appropriate balance in regulation becomes increasingly challenging as capital markets become more sophisticated and interconnected. In seeking this balance, the SC has begun developing a number of parallel strategies over the past year. The first of these is regulatory proportionality, meaning that the intensity with which we regulate markets, products, firms and activities is in proportion to the amount of risks they pose, standards of conduct upheld and significance of the outcomes we are looking to achieve.

While we have repeatedly espoused the notion of "no more regulation than necessary" and, wherever possible, have tried to avoid a one-size-fits-all approach to our work, we also recognise that, for regulatory proportionality to succeed, regulation has to allow for broader oversight to encapsulate innovations in the market.

To facilitate this, our regulatory framework will increasingly feature a more outcomes-based design, favouring broad-based standards over prescriptive, detailed rules. In addition, wherever possible, we are also simplifying and streamlining regulation. This, we believe, will be more conducive to innovation and give businesses greater flexibility to achieve the outcomes we expect of them.

Earlier in the year, I announced that the SC will be taking steps to further strengthen our engagement with industry. We have received extensive inputs from a cross section of domestic and international markets players through our industry dialogue sessions. These inputs, as well as the work of our high-level advisory groups, comprising local and international experts, contribute to the formulation of major capital market policies and regulatory changes. We will also be making efforts to further communicate our supervisory and regulatory concerns, and collaborate with industry on major policies and reforms.

For instance, in the area of supervision, we have disseminated good practices found in the course of our supervisory work by sharing them, in a general manner, with the rest of the industry. At the same time, we also highlight areas where further enhancements to governance, risk management and other business practices can be made.

In 2013, we continued to fine-tune our risk-based approach to intermediary supervision to ensure that supervisory interventions are effective and proportionate. The SC undertook 44 examinations and engagements, with detected areas for improvement addressed by requiring the affected intermediaries to undertake the necessary rectification.

More generally, in communicating regularly with the market on emerging risks and areas of regulatory concerns, we have covered issues such as systemic risks and key industry business drivers. We believe that by improving line-of-sight and having a shared awareness of issues we will be able to address risks that can affect the overall market more effectively.

Promoting good conduct and behaviour

Ultimately, it is crucial to uphold the trust and confidence of investors and enforce their rights at all times. Central to such efforts is a strong and credible enforcement regime, which underpins market integrity by incentivising compliance and deterring misconduct.

In 2013, the SC continued to deploy our wide range of enforcement powers against various offences, including insider trading, false financial reporting and failure to safeguard the interest of clients. Criminal charges were pressed against six individuals for offences related to false financial reporting, reflecting the severity accorded by the SC to serious breaches of securities laws.

We exercised our civil powers to recover losses on behalf of aggrieved investors. Regulatory settlements in areas such as insider trading and market manipulation have yielded more than RM2.7 million. SC also exercised its administrative powers to deal with regulatory breaches and collected RM1.4 million in penalties. Non-formal enforcement actions were initiated for less serious breaches resulting in the issuance of 70 infringement notices.

Given the increasingly borderless nature of financial transactions, cross-border enforcement and surveillance is important to curb incidences of market abuse. As a signatory to International Organization of Securities Commissions' (IOSCO) Multilateral Memorandum of Understanding (MMoU), the SC received 11 requests for assistance from foreign counterparts while it sought assistance on 24 occasions during the year. We also played a leading role in regional regulatory efforts by jointly setting up with the Securities and Futures Commission of Hong Kong the Asia-Pacific Takeovers Roundtable, and co-hosting with the Australian Securities and Investments Commission a Market Integrity Forum and the Asia-Pacific Regulators' Dialogue on Market Surveillance.

Recognising the growing complexity of the market, we have also strengthened our surveillance and supervisory capacity by recruiting more examiners and investing in technology. We have also adopted a significantly more robust stress testing methodology which strengthens the SC's capacity to evaluate the impact of an economic or financial shock and hence design appropriate safeguards.

An area of focus in 2013 was compliance with anti-money laundering laws and procedures. We conducted six audits on selected intermediaries, enabling us to identify existing areas of weakness and provide the appropriate supervisory intervention to effect improvements; where significant breaches were detected, we imposed administrative sanctions on the intermediaries concerned.

We also focused on the state of governance and controls in our annual regulatory assessments on front-line and self-regulatory organisations (SROs) in the capital market. We also further strengthened our oversight over such institutions in line with the recommendations contained in the IOSCO Objectives and Principles, which include reviewing the adequacy of existing guidelines, such as the *Guidance on the Regulatory Role of Bursa* and *Rules of Bursa Malaysia Securities Bhd*, as well as developing SRO Guidelines for the Federation of Investment Managers Malaysia.

Empowering investors

Investor protection and empowerment continued to be a key priority for the SC. The coming into effect of the *Guidelines on Sales Practices of Unlisted Capital Market Products* in March 2013 further strengthened regulatory safeguards for investors by mandating intermediaries to give due regard to the interest of investors throughout the life cycle of a product.

To encourage more informed and engaged participation among investors, we also sought to equip them with sufficient information and awareness regarding their rights and responsibilities, as well as the available avenues of engagement and redress, such as the Securities Industry Dispute Resolution Center (SIDREC) and the Capital Market Compensation Fund (CMCF).

Our outreach activities play a critical role in promoting greater investor empowerment, and for this reason we have further expanded our investor outreach programmes with initiatives such as the SC Mobile Unit, the SC Reach roadshow, Kempen Pelabur Bijak Kebangsaan and the release of SC's first mobile application, "SC Assists". This multi-pronged engagement strategy was designed to reach out to existing and potential investors across various regions in Malaysia, with a view to empower a more inclusive investor base.

In strengthening corporate governance, the SC has sought to institute both regulatory and non-regulatory incentives which promote stewardship and good governance in listed companies and intermediaries. The implementation of recommendations in the *Corporate Governance Blueprint 2011* remains on schedule, with measures effected in 2013 focusing on investor engagement and activism through a proposed Malaysian Code for Institutional Investors, as well as transparency and disclosure.

Commitment to international co-operation and collaboration

Throughout, the SC remained committed to close co-operation and collaboration with our international regulatory counterparts. Such commitment is critical, particularly in the areas of cross-border regulation and enforcement, as capital market activities become increasingly globalised.

SC's close co-operation with our counterparts, through arrangements such as the IOSCO MMoU, which has signatories from more than 100 jurisdictions, allows us to proactively anticipate emerging risks to the Malaysian capital market and pursue swift investigation and enforcement action against perpetrators of market abuse.

To facilitate the offering of alternative investment products, the SC also entered into a series of memoranda of understanding (MoU) with 26 European Union securities regulators to co-operate in the supervision of such offerings.

At the same time, we have also actively contributed to international regulatory discussions particularly through the platform of IOSCO. As a testament to Malaysia's leading role among emerging markets, in 2013 I was appointed as a Vice-Chair of the Board of IOSCO and elected as the Chair of IOSCO's Growth and Emerging Markets (GEM) Committee, the largest committee within IOSCO which represents 87 jurisdictions including some of largest economies in the world.

Our participation in initiatives including capacity-building, particularly for emerging markets, long-term financing and cross-border regulation, has not only enriched global regulatory discussions but also greatly informed our efforts to develop the Malaysian capital market through the adoption of appropriate best practices.

Looking ahead

With the essential market structures and regulatory foundations in place, the Malaysian capital market is now ready to shift to the next phase of its growth trajectory. As we enter our third decade, the SC is ready to press ahead with efforts to further diversify the capital market by offering a compelling value proposition for a wider spectrum of investors, issuers and intermediaries. It is envisaged that such diversity will lend greater vibrancy and depth to the market, enabling it to support more broad-based and sustainable growth within the economy.

Collective investments is a segment with significant growth potential. We will therefore work more closely with the industry to strengthen domestic institutional capacity, promote socially responsible investing which are aligned with the needs of the real economy, and expand the availability of ASEAN CIS. In order to encourage a more sustainable retirement savings culture, we will also seek to expand the PRS distribution channel and promote the use of employer-sponsored retirement schemes, among other complementary measures.

In the area of Islamic fund and wealth management, we will be further strengthening industry capabilities and cross-border linkages. Furthermore, in promoting sustainable and inclusive investing we will be introducing SR-i Sukuk guidelines in 2014 to facilitate investments into socially responsible businesses.

At the same time, the nation's ongoing transformation into a high-income economy will be supported by initiatives which further broaden access to financing and investing.

The SC will continue to facilitate efforts to raise long-term financing so as to ensure the sustainability of capital formation. Furthermore, we will facilitate more cross-border and multi-currency bond and sukuk issuances as well as assess potential new products such as high-yield bonds with a view to broaden the credit spectrum of investible asset classes. There are also innovative market-based avenues for capital-raising in the pipeline. A framework for crowdfunding is being prepared to provide greater regulatory transparency and clarity on these newer forms of equity financing.

Such developments, as well as ongoing innovation in technology and product design, will introduce greater complexity into the market, and it is critical for the SC to remain vigilant against potential risks and unintended consequences. To this end, SC's risk-focused supervisory approach will be strengthened by the implementation of a new comprehensive framework covering key intermediaries. In addition, our supervisory audits will increase scrutiny of corporate governance and conduct in areas identified through our risk-profiling.

Furthermore, to ensure that the regulatory framework will continue to be effective and proportionate, we will undertake a review on the product approval process as well as several guidelines, with amendments to the *Capital Markets and Services Act 2007* (CMSA) expected to be tabled in Parliament in 2014.

Conclusion

It is clear that the achievements of the SC over the past twenty years would not have been possible without the diligence and unwavering commitment to public service that have been demonstrated by all staff members, both past and present, under the steadfast leadership of the four previous Chairs of the SC. It is to them that I would like to express my deepest gratitude.

I also wish to record my appreciation for the SC's Management Team, as well as members of the Commission and the Shariah Advisory Council for their counsel and guidance. As we move forward, it is my hope that our sustained and collective efforts will continue to provide the capital market with the impetus to further develop into a vibrant and resilient enabler of growth in the Malaysian economy.

Ranjit Ajit Singh

PART 1 – GROWING OUR MARKET AND MAKING IT COMPETITIVE

Photo credit: ***Aina Syazwani Salleh***
Operational Policy & Regulations,
Corporate Finance & Investments

PART 01

GROWING OUR MARKET AND MAKING IT COMPETITIVE

INTRODUCTION

Over the last decade, as a consequence of globalisation, changing demographics and income growth, the capital market has evolved from a platform for basic capital raising to a mechanism for inter-generational wealth creation. In line with this, the key priority of SC's developmental agenda is to ensure a vibrant and competitive capital market; one that is inclusive in enabling economic growth through wider participation by both investors and issuers. This further strengthens Malaysia's competitive positioning both within the region and globally. This agenda continues to be guided by the direction and philosophies of the *Capital Market Masterplan 2* (CMP2) that is realised in the SC's business plans and strategic priorities.

A well-developed capital market requires depth and breadth of products, intermediaries and capital market services that are easily accessible to all types of investors and issuers. While the growth and development of core market segments such as equities, bonds and investment management are essential, niche areas – the Islamic capital market, alternative assets and derivatives – as well as qualitative elements are also needed to increase the attractiveness of the Malaysian capital market as the preferred venue for financial innovation, fund raising and investment.

Changing investing appetites and preferences together with investors' needs for more control over their investment portfolio allocation has resulted in greater market and product development effort by industry participants. Intermediaries are now increasingly partnering with their clients to customise service and product offerings, allowing for improved vibrancy in the capital market.

The SC continues to play a facilitative and collaborative role in catalysing national economic growth. We have capitalised on opportunities in the face of Asia's emerging wealth and demographic trends, as well as our existing market strengths to extract value from regional and global capital flows.

Our developmental agenda for the year continued to be driven by an emphasis on promoting sustainable and inclusive growth of the market. In doing this, our efforts have ranged from introducing new products and platforms to creating a facilitative environment with streamlined and enhanced guidelines for fund raising. In addition, we continued to develop skills and capacity for the industry.

CAPITAL RAISING FOR A BROAD SPECTRUM OF BUSINESSES

Within the capital formation value chain, Malaysia has well-established stock and bond markets offering financing for start-up and expanding companies as well as large infrastructure projects. The availability of various financing structures and instruments, ranging from basic shares and fixed income instruments to more structured vehicles such as real estate investment trusts (REITs), asset-backed securities and stapled securities, has given issuers greater choice in terms of funding their business requirements.

Total fundraising through the capital market continues to remain strong. Domestic liquidity continues to support the capital formation process, resulting in RM94 billion in funds raised. Over the last two years, RM240 billion has been raised through the capital market; exceeding the RM148 billion in funds raised for the previous period (2010–2011).

The bond market was the primary fundraising channel, with corporate bond issuances making up 91% of total funds raised. The IPO market picked up later in the year with notable listings which include established companies such as UMW Oil & Gas Corporation Bhd, Westports Holdings Bhd and AirAsia X Bhd.

Improving safeguards and increasing efficiency in the equity market

To enhance the efficiency of capital raising, efforts have been directed at streamlining rules and regulations to ensure they remain relevant, effective and balanced while associated risks are proportionately addressed. These include revising the *Equity Guidelines* to simplify transfer of listing and clarify regulatory principles for Special Purpose Acquisition Companies (SPACs).

The administrative process for companies seeking to transfer their listing from the ACE Market to the Main Market of Bursa Securities has been simplified. In the revised *Equity Guidelines,* the SC removed the requirement for an introductory document for such companies on the basis of the strength of their current business, and not through an acquisition which constitutes a reverse take-over or backdoor listing of the assets acquired. It has also been clarified that companies seeking a transfer are now required to have a healthy financial position, which includes positive cash flow from operating activities, sufficient levels of working capital for at least 12 months from the date of the transfer and no accumulated losses based on its latest audited balance sheet.

On the listing of SPACs, we issued a practice note to clarify its corresponding regulatory principles and requirements. A SPAC proposal must be viewed holistically and ensure that the management team's experience and track record is in line with its business objective and strategy. In particular, the management team's compensation and reward structure must commensurate with the potential returns of the SPAC.

To further strengthen market integrity, we introduced additional safeguards that aim to ensure a SPAC's management team has more meaningful financial participation and greater alignment of interest with its public shareholders. New safeguards that include the prohibition of the use of IPO proceeds for remuneration prior to the completion of a qualifying acquisition by the SPAC, restriction on the sale of securities held in the SPAC before the assets acquired are income generating and a requirement for a minimum capital contribution, will now promote greater accountability from the management team.

Within the trading environment Bursa Malaysia Securities Bhd launched Bursa Trade Securities 2 (BTS2) during the year. The implementation of this new trading system is expected to further add value and reinforce efficiency in providing a better trading environment with increased systems capability and improve industry capacity. A new trading feature within BTS2 system is the Dynamic Price Limit which acts as a safety measure against volatile trades. This further strengthens the circuit breaker framework.

Bond market – aligning practices to global trends and industry needs

To facilitate issuance of bonds and sukuk, SC now allows for the limits of existing bonds and sukuk programmes to be increased. Issuers can tap on existing programmes to meet increases in funding needs without having to set up a new programme. In granting such flexibility, issuers are required to ensure that any new issuances under the same programme do not compromise the voting positions of existing investors. Any approvals required from investors must be voted among investors of the same issuance only.

In line with global regulatory trend to reduce reliance on credit rating agencies, we are reviewing its policies to gradually remove the mandatory credit rating requirement. Several industry consultations with relevant stakeholders were held to ensure that there is sufficient level of industry readiness in terms of skills and capabilities in assessing credit risks of investing in bonds and sukuk, and to minimise disruption in both the primary and secondary markets.

Both initiatives will provide issuers and intermediaries with greater flexibility when strategising and structuring bond and sukuk issuances.

Unlisted market to spur innovation and entrepreneurial spirit

Recognising the need to strengthen the economic functionality of markets in promoting the growth of smaller capitalised companies and in serving the interests of long-term investors, the SC is committed to developing a dynamic capital market that is able to provide a wider financing scope for Malaysia's entrepreneurial and innovation landscape.

In May we held an industry briefing to share the conceptual framework for an unlisted market (MyULM) – Malaysia's first online platform to trade unlisted securities and alternative investment products. MyULM, which is being developed in consultation with key stakeholders including government agencies and the private sector, is one of the measures identified under the SC's CMP2.

The establishment of MyULM is aimed at connecting the capital market to all asset classes, ranging from capital formation to the financing of innovative ventures, cutting-edge green technology and investments in socially responsible projects. MyULM will increase intermediation efficiency and scope by fostering a conducive environment for innovation, facilitating greater diversity and expanding growth prospects across the value chain. Through a facilitative regulatory environment, MyULM is envisioned to provide financing opportunities for small-and-medium enterprises (SMEs), start-ups and even mature businesses wishing to seek liquidity in a more efficient and transparent manner.

In addition to fund raising, MyULM platform through its infomediary is expected to assist businesses, investors and other stakeholders to interact with one another through a centralised virtual marketplace, as well as connecting it to a wider business community, knowledge portals, recognised stock exchanges, association domains and universities. The infomediary will enrich the content, community and connectivity of MyULM by acting as a gateway for interactive collaboration within and outside the business community and enable the user to connect to knowledge sources and services tailored towards their needs.

Widening access and deepening knowledge in alternative funding avenues

As chair of the Malaysian Venture Capital Development Council (MVCDC), the SC continues to actively promote the growth and development of the venture capital industry through various initiatives. The MVCDC conducted a mapping exercise to identify various sources of funding in the venture capital ecosystem. This exercise facilitated discussions to further develop this market segment and promote its competitiveness.

MVCDC also continued to support the Malaysian Venture Capital and Private Equity Association (MVCA) through various capacity building programmes with a view to develop new talent and strengthen the skill sets of industry players. The Kuala Lumpur Venture Capital and Private Equity Conference further enabled understanding of market practices in the industry. This was followed by the Venture Capital and Private Equity Workshop, VC2E and Business Plan Boot Camp, allowing for the exchange of ideas, increased awareness and improved networking opportunities among VCs and entrepreneurs.

In addition the SC collaborates with the Government to encourage more venture capital financing for high-risk innovative projects as well as to promote industry competitiveness. In accordance with the *Venture Capital Tax Incentives Guidelines*, the SC certified two applications for VC tax incentives in 2013.

INVESTMENT PRODUCTS AND SERVICES FOR GREATER ACCESS

The attributes of a vibrant capital market is the depth of liquidity available, market resilience and dynamism as well as the active involvement of a diverse range of market participants. The market has to offer a full complement of attractive capital market products and services, of sufficient size and scale, which cater to a wide range of stakeholders. It must also instil trust and confidence in investors as market intermediaries innovate in support of greater level of inclusive participation.

In line with this, emphasis was placed on improving market access and widening the range of investment products to meet the needs of a wider spectrum of investors and to promote greater vibrancy in Malaysia's capital market.

Promising start for Private Retirement Schemes

The rollout of Private Retirement Schemes (PRS) in late 2012 marked a major milestone for the pension landscape and investment management industry in Malaysia. Complementing the mandatory Employees Provident Fund (EPF) scheme, the introduction of a private pension scheme in Malaysia was to cater for the long-term saving needs of the general public.

This alternative avenue for investment was created to allow a wider cross section of the public to access the capital market for their retirement needs. It is designed to be accessible, affordable and sustainable. In embodying inclusiveness, individuals are now provided sufficient opportunities to share in wealth creation and preservation of value. For employers, PRS can also be utilised as an effective tool for retaining and attracting talent.

The PRS Guidelines were amended to provide for vesting of contributions based on terms of service. Vesting gives employees increasing ownership rights to employers' contributions depending on their length of service.

Box 1: Quick Facts on PRS*

8 PRS Providers

11 Schemes with 44 retirement funds

64,710 PRS members

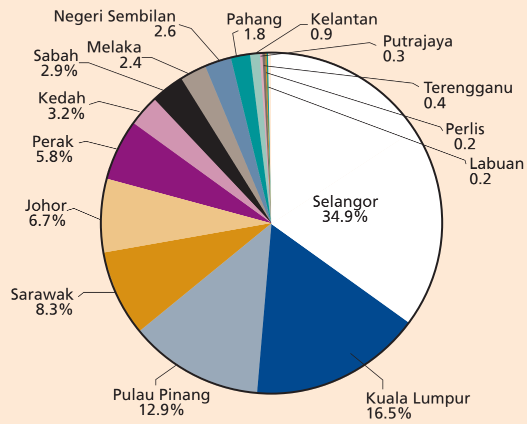
79% participation from employed segment; 19% self-employed; 2% includes students, homemakers and retirees

27 conventional funds and 17 Islamic funds

RM300 million total Net Asset Value

Near equal gender representation; 53% male members and 47% female members

Breakdown of members by state (%)



* As at December 2013

There is now greater clarity to both vested and conditionally vested units, which form part of an employee's accrued benefits.

Another amendment made covered pre-retirement withdrawals and transfers occurring within PRS. Pre-retirement withdrawals of accrued benefits once every calendar year on a per PRS Provider basis, facilitates greater flexibility for members who have investments in funds managed by multiple PRS Providers.

A distinctive feature of PRS is portability between Providers, affording greater choice and flexibility for members. A member is now allowed to transfer accrued benefits from any or all funds in any or all Schemes of a particular PRS Provider to another PRS Provider once every calendar year. This transfer is subject to Private Pension Administrator's (PPA) prior authorisation.

In the 2014 Federal Budget, the government announced a one-off PRS contribution of RM500 to contributors aged between 20 to 30 who participate in the PRS scheme with a minimum cumulative investment of RM1,000 within a year. This is an initiative to encourage saving and invesment amongst younger Malaysians. The incentive is implemented from 1 January 2014 for a period of five years.

In support of this, the SC proactively embarked on a series of educational initiatives on retirement planning. We hosted the first PRS conference in June which brought together not only industry experts but also 300 participants from public-listed companies (PLCs), government-linked companies (GLCs), SMEs, employer and trade associations. Experts from Australia, Hong Kong and the US shared common global challenges and discussed growth prospects of the private pension industry. In addition, a public PRS exhibition was organised.

The PPA has set up a fund with contributions from all Providers to promote awareness of PRS. The PPA launched a nation-wide intensive education and public engagement campaign. This five-year campaign equips investors with educational and financial tools to enable them to benefit from Malaysia's economic growth by investing in the capital market. Also, user-friendly fee comparison tables and a retirement calculator are now available online allowing investors to compare and assess the benefits of the various fund options.

Inaugural issuance of sukuk to retail investors in Malaysia

Following the SC's release of the retail bond and sukuk framework in 2012, a major milestone in the development of the Malaysian bond market was achieved in February with the launch of the first retail sukuk in Malaysia by DanaInfra Nasional Bhd (DanaInfra) of RM300 million to retail investors. Issued under RM8 billion Islamic Commercial Papers/ Medium-Term Notes Programme, the retail sukuk were listed on the Loans and Bonds Board of Bursa Malaysia.

With a minimum investment of RM1,000 this instrument provides access to a wider investor segment to Malaysia's thriving bond market. A total of 1,424 applications representing RM484 million in value was received representing a subscription rate of 161%. Encouraged by the overwhelming interest in its inaugural issue, DanaInfra continued to access the retail sukuk market with its second issuance of RM100 million sukuk under the same programme which was listed on the Main Market of Bursa Malaysia in November. Proceeds from these issuances were utilised for the construction of Malaysia's mass rapid transit project.

The successful launch of DanaInfra's retail sukuk has resulted in capital formation being made more inclusive particularly in the bond and sukuk market, where it has been a market for institutional and other sophisticated investors. Further, issuers are provided with an additional source of funding while retail investors have access to another asset class.

Product variety in the securities market

The listing of stapled securities is an important development in meeting the continuous appetite for new products in the domestic capital market. The listing of such securities is undertaken by leveraging on existing framework for listing of companies and REITs, without the need for separate guidelines.

The first listed stapled security structure in Malaysia, the KLCC Property Stapled Group comprising KLCC Property Holdings Bhd (KLCCP) group of companies and KLCC Real Estate Investment Trust (KLCC REIT), was listed on the Main Market of Bursa Malaysia in May. The ordinary shares of KLCCP were bound together with units of KLCC REIT on a one-for-one basis, such that one security may not be dealt with without the other. This is also the first Shariah-compliant listed stapled security in Malaysia.

Increasing product diversity in commodities

The SC concluded an assessment of the landscape on gold and other precious metals with the objective of providing investors, physical users and product issuers with opportunities to invest and hedge in exchange-traded products with such underlying commodities. This entailed a study of major and relevant commodity derivatives markets and the ecosystem of selected mercantile exchanges globally.

Box 2: Stapled Securities Explained

Stapled securities essentially refer to an arrangement where different types of securities are bound together and the "stapled" securities generally have the following characteristics:

(a) The affected securities are transferred and traded together; and

(b) Issuance of new shares or units in one type of security is matched with a corresponding issuance of new shares or units in the other type of securities.

In this regard, until the stapled securities become unbound, the affected securities cannot be transferred or traded separately.

Different types of securities may be stapled together, for example, ordinary shares, preference shares, units of a REIT or units of a business trust. However, the stapling structures that may be considered in Malaysia are–

(a) a "twin" structure where an issuer's voting securities are stapled to another issuer's voting securities. For example, ordinary shares of a company may be stapled to units of a REIT; and

(b) a "parent/child" structure where an issuer's voting securities are stapled to a special class of securities of its subsidiary. For example, ordinary shares of a company may be stapled to preference shares or debentures of its subsidiary.

In the Asia-Pacific region listed stapled securities are offered in Australia, Singapore and Hong Kong. In Australia, stapled REITs and stapled infrastructure funds are common listed products on the Australian Stock Exchange. There are various reasons for structuring a stapled security, though not all apply equally to different structures of such securities. Stapled structures could be designed to provide investors with a regular income stream from a passive investment vehicle as well as access to income or capital growth from a more active investment vehicle.

Gold Futures was launched on Bursa Malaysia Derivatives in October with the aim of helping investors enhance price risk management on a well-regulated platform. This contract constitutes the hard commodity segment of the derivatives market and adds to the diversity of product offerings.

The contract has a minimum size of 100 grams and is denominated in ringgit Malaysia. It is cash-settled based on the London AM Fix price, a gold price which is fixed by members of the London Gold Market Fixing Ltd and used as a benchmark to price the major global gold products and derivatives.[1] This provides greater accessibility and affordability to investors and wholesalers who want to trade, hedge and invest in gold at a lower entry cost.

Graduate Representative Programme

The SC recognises that the success of the capital market is dependent on the depth of skills of its human capital. In line with this, we launched the Graduate Representative Programme (GRP1000). In line with the

[1] The London Gold Fix is conducted twice each business day - first at 10.30 am (the Morning Fix) and then again at 3.00 pm (the Afternoon Fix).

announcement by the Prime Minister in the 2013 Federal Budget speech, the SC will collaborate with the industry to train 1,000 graduates over the next three years to meet the needs of securities and derivatives industry.

Prior to the launch of the GRP1000 initiative, we held a series of engagements with various industry participants such as the Association of Stockbroking Companies Malaysia, Malaysian Investment Banking Association, Malaysian Futures Brokers Association and foreign brokers. In addition, we undertook a Capacity Building Survey to gauge the industry's manpower requirement over the next three years.

Resulting from this, more than 36 partners have signed on to this initiative while 488 applicants have submitted their applications with 49% of total applications being considered for selection by capital market intermediaries. To-date, three pre-employment training sessions on the overview of the capital markets and interviewing skills have also been carried out. The coverage of this pre-employment training is wide and introductory in nature, and serves as an enabler between the university and industry. Candidates are introduced to the capital market industry, including products, services and regulatory framework. There is also an interactive learning session on a typical day of securities/derivatives to prepare them for job requirement and potential career path.

The GRP1000 initiative not only educates candidates, but inspires them to pursue a career in the capital market industry. It is also a platform for industry players to access and build a credible capital market talent pool.

REGIONAL POSITIONING AND VALUE PROPOSITION

With increasing liberalisation of the capital accounts in both developed and emerging markets, the dynamics of capital flows in markets has changed considerably. The current operating environment is characterised by new and complex financial products traded 24 hours a day across the globe. Against this backdrop, the Malaysian capital market is recognised as a sound and well-regulated market with regional and international connectivity.

Closer to home, ASEAN's economic performance continues to outpace the developed markets with a population of approximately 600 million, combined GDP of US$2.1 trillion, solid growth and a rising middle class. Investment flows among ASEAN countries are picking up. As these trends continue to be amplified, Malaysia as a leading member of this community is poised to leverage on new growth opportunities through ASEAN and regional markets.

Work on strengthening market connectivity, particularly in areas of inherent strengths such as bonds, sukuk and collective investment schemes, was prioritised with the aim of further improving investor access to cross-border products and services.

Strong validation under Financial Sector Assessment Programme

Following the Financial Sector Assessment Programme (FSAP) exercise for Malaysia, the International Monetary Fund (IMF) released its country report in February 2013. According to the report, the SC exhibits high levels of implementation of the International Organization of Securities Commissions (IOSCO) Principles for Securities Regulation. The report also highlighted that the regimes governing the regulation of markets and their participants, and with respect to enforcement, co-operation and information sharing are extensive and effective.

The report acknowledged that the SC has clear statutory authority over the Malaysian capital market, sufficient powers to carry out its regulatory duties and functions, an extensive regulatory regime over the capital market, the exchange, intermediaries and products, forthright and high-quality staff, the ability and capacity to share information and co-operate with counterparts, appropriate system of oversight of auditors of PIEs and independence requirements, as well as extensive provisions to address conflicts of interests and misalignment of incentives. Suggested enhancements and recommendations have been recognised, and are currently being implemented.

Globally we received the highest possible rating of "Fully Implemented" in 34 out of the 37 IOSCO principles assessed. It is noteworthy that our assessment was arduously more challenging as it was also based on the extensively revised and stricter IOSCO principles and methodology that were introduced following the Global Financial Crisis. The outstanding assessment results given by independent experts and experienced assessors also reinforce the approach and strategies of the SC in regulating and developing our capital market. The quality of our regulation is now a source of competitiveness.

Leveraging on regional integration through the ASEAN Capital Markets Forum

Efforts towards achieving greater integration in line with the objectives of the ASEAN Economic Community (AEC) by 2015 are gaining significant momentum. Building on earlier initiatives, the ASEAN Capital Markets Forum (ACMF) introduced further measures to encourage greater cross-border activity in the ASEAN region and expand the branding of ASEAN as an asset class.

The ACMF achieved a major milestone in facilitating cross-border collective investment schemes (CIS). On 1 October, the SC, in collaboration with the Monetary Authority of Singapore and the Securities and Exchange Commission of Thailand signed the memoranda of understanding (MoUs) on the Streamlined Authorisation Framework for Cross-border Public Offers of ASEAN Collective Investment Schemes, as well as the Co-operation and Exchange of Information on Cross-border Offers of ASEAN Collective Investment Schemes to Non-retail Investors.

The framework in the first MoU enables fund managers operating in signatory jurisdictions to offer CIS to retail investors in other signatory jurisdiction under a direct and efficient channel and streamlined authorisation process. The MoU provides for a common set of standards to govern these offerings. The latter MoU creates a framework for the provision of assistance and exchange of information to facilitate supervision of cross-border offers to non-retail investors. Implementation of the framework is planned for the first half of 2014. These aim to create a more efficient environment to facilitate cross-border offerings of investment funds and bring the region a step closer towards achieving an ASEAN passporting regime.

On 1 April, Malaysia, Singapore and Thailand announced the implementation of the ASEAN Disclosure Standards Scheme for multi-jurisdiction offerings of equity and plain debt securities in ASEAN jurisdictions to support cross-border activity in the different asset classes. The Scheme aims to facilitate fundraising activities and enhance the investment opportunities within ASEAN capital markets. Issuers offering equity or plain debt securities in multiple jurisdictions within ASEAN will only need to comply with a single set of disclosure standards for prospectuses, known as the ASEAN Disclosure Standards, bringing about greater efficiency and cost savings to issuers. The Scheme operates on an opt-in basis and ASEAN members will join the Scheme as and when they are ready to do so.

Building on this, the ACMF is now working to facilitate a streamlined review process of prospectuses prepared under the ASEAN Disclosure Standards for cross-border offerings of equity securities and plain debt securities in the region's jurisdictions.

The ACMF is also developing a common regulatory model for implementing an exemption regime to facilitate cross-border provision of supporting marketing services based on the 'automatic exemption' model. The exemption regime will allow supporting marketing services to be provided in respect of all types of capital market products and offerings to investors, both retail and institutional. In addition, a dispute resolution framework for cross-border transactions is being developed to ensure that investors who invest in or receive services from regulated entities in ASEAN on a cross-border basis are protected and have enforceable claims.

Greater co-operation through the ASEAN Framework Agreement on Services

Under the umbrella of the ASEAN Framework Agreement on Services (AFAS), the Working Committee on Financial Services Liberalisation (WCFSL) was established to facilitate negotiations for the liberalisation of the financial services sector in ASEAN.

ASEAN member states subscribe to the principle that financial sector liberalisation should be implemented gradually and progressively, to ensure orderly financial sector development and the maintenance of financial and macroeconomic stability. In tandem with this principle, liberalisation of the financial services sector in ASEAN was achieved through several packages of financial services commitments. In this regard, the WCFSL is currently negotiating the Sixth Package of Financial Services Commitments (Sixth Package). The SC leads negotiations on capital market services for Malaysia.

The Sixth Package aims to promote further liberalisation between ASEAN Member States in line with pledges made under the AEC Blueprint for specific financial services commitments by 2015. The SC remains committed to the ASEAN liberalisation agenda as well as integration efforts as set forth in the AEC Blueprint. Resultantly, the capital market commitments in this forum have exceeded pledged areas under this Blueprint.

Facilitating free trade agreements

Besides our involvement in ASEAN capital market negotiations, the SC continues to support the Ministry of International Trade and Industry's (MITI) initiatives in facilitating and promoting trade, investment and economic development with key trading partners.

We are a key contributor on financial services for Malaysia's ongoing trade negotiations, especially the Trans Pacific Economic Partnership Agreement (TPP). Malaysia is among the negotiating partners, which entered its fourth year of negotiations. Other partners include Australia, Brunei, Canada, Chile, Mexico, New Zealand, Peru, Singapore, the US and Vietnam, with Japan formally joining TPP negotiations in late-July. Once realised, the TPP will create a single market of nearly 500 million consumers.

Shaping global regulatory agenda and international standard setting

The SC continues its strong commitment and participation in international standard-setting and global regulatory policy making. The SC is actively involved in IOSCO which is the leading international standard-setter for securities regulation which represents 120 countries or 95 per cent of world's capital markets. This has become more significant given the growing role of emerging markets in the international financial system.

In May, the SC Chairman, Datuk Ranjit Ajit Singh was elected the Chair of the largest committee within IOSCO, the Growth and Emerging Markets (GEM) Committee. The GEM Committee accounts for 86 members worldwide; representing the world's fastest growing economies, including 10 of the G-20 members. As emerging markets issues are taking greater prominence in the international financial agenda, the GEM Committee plays an important role in contributing to global regulatory reform efforts and promoting emerging market views at international regulatory fora.

Datuk Ranjit was also appointed the Vice-Chair of the governing Board of IOSCO and represents the GEM Committee at the Financial Stability Board (FSB), which is the body established to co-ordinate at the international level the work of national financial authorities and international standard setting bodies as well as develop and promote the implementation of effective regulatory, supervisory and other financial sector policies.

These leadership positions are testament to the contributions and expertise that the SC brings to global regulatory discussions and policy making, and puts Malaysia at the forefront of shaping international financial market architecture. The SC therefore plays a major role in contributing to and advancing IOSCO's standard-setting work to ensure effective investor protection, fair and transparent markets and reduction of systemic risks.

In the space of global regulatory policy making, the SC drives the work of key IOSCO Committees and Task Forces as well as develops technical policy papers, often in collaboration with regulators from the more developed markets. Recognising the importance of capital markets in providing and channeling long-term financing for economic growth, Howard Wetston, Chairman of the Ontario Securities Commission and Datuk Ranjit are leading IOSCO's work in this area. This initiative is particularly critical following the recent call made by the G-20 Leaders to identify measures to facilitate domestic capital market development and improve the intermediation of global savings for productive long-term investments.

In addition to the above, the SC is also a member of several key IOSCO task forces and committees:

- The IOSCO Cross-Border Regulation Task Force aims to identify cross-border regulatory tools with a view to assist policy makers and regulators in addressing the challenges in regulating market activities domestically and globally;

- The IOSCO Financial Market Benchmarks Task Force, formed following the investigations and enforcement actions on the attempted manipulation of major interest rate Benchmarks, published a framework of principles to enhance the integrity, the reliability and the oversight of Benchmarks;

- The IOSCO Capacity Building Resource Committee focuses on designing a proposal for a new Capacity Building Development Fund, to address the capacity building needs of emerging market jurisdictions; and

- The IOSCO Vision 2020 Task Force is tasked to define the outcomes IOSCO would seek to achieve by 2020 and develop the roadmap for meeting those outcomes.

As an active contributor to the IOSCO, we view our strong leadership at the 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. Our involvement paves the way for the SC to be at the forefront of regulatory policy discussions, and to capitalise on these discussions for the benefit of investors and businesses. It also provides us the edge to steer the development of domestic and regional capital markets towards greater depth, and to compete with more developed markets.

Collaborative arrangements for greater cross-border capital market activities

It has become increasingly important for the SC to reinforce its collaborative network with its counterparts. Several regulatory arrangements that the SC developed and entered into, have paved the way for Malaysian domestic intermediaries to potentially benefit from cross-border activities with other markets and provide tangible benefits to industry development. These arrangements are also important from the perspective of ensuring appropriate investor protection and effective oversight of intermediaries' cross-border activities.

In July, the SC signed a series of MoUs with 26 European Union (EU) securities regulators to co-operate on the supervision of cross-border offering of alternative investment funds, as required under the EU Alternative Investment Fund Managers Directive. These supervisory arrangements provide opportunities for Malaysian fund managers to perform fund management activities on behalf of EU fund managers, including the management and marketing of alternative investment funds. EU fund managers, on the other hand, will be able to manage Malaysian alternative investment funds, thus providing a gateway for Malaysia to attract international capital through foreign intermediaries.

The SC signed an MoU with Autoriti Monetari Brunei Darussalam in October to facilitate mutual efforts in developing capital markets and encourage greater cross-border activities, particularly in Islamic capital markets.

International regulatory co-operation

Another important area of emphasis for the SC has been strengthening its international regulatory co-operation with its counterparts particularly in the area of enforcement where the SC has been a signatory to the IOSCO Multilateral Memorandum of Understanding (MMoU) on co-operation and exchange of information since 2007. The MMoU, which recently admitted its 100th signatory, has contributed towards the success of our enforcement efforts. It has enhanced our enforcement capabilities in dealing with cross-border market misconduct and has raised the level of overall investor protection in our market. The MMoU has enabled the SC's investigators to obtain valuable information and evidence to support our enforcement actions, including obtaining securities and banking records, recording statements on behalf of foreign regulators, procuring affidavits and locating key witnesses.

In addition, the SC is actively involved in the IOSCO Asia Pacific Regional Committees' Enforcement Directors' grouping which shares regulatory experiences and enforcement practices on a broad range of areas. It also serves as an important platform to strengthen co-operation among securities regulators in the region and to facilitate more effective investigation and enforcement of securities offences across borders.

Further, recognising the importance of cross-border surveillance of markets, in September the SC co-hosted with the Australian Securities and Investments Commission (ASIC) a Market Integrity Forum and a closed-door Asia-Pacific Regulators' Dialogue on Market Surveillance (ARMS) in Kuala Lumpur. Senior regulators from Australia, Japan, Hong Kong, India, Singapore, Thailand and Malaysia participated in the dialogue, providing an important platform to exchange views and discuss issues related to market integrity and maintaining fair and efficient markets. The initiative was well-received among participating jurisdictions in the Asia Pacific region. Subsequently, the Asia-Pacific Regional Committee (APRC), which is one of the four regional committees constituted by IOSCO, had given full support to bring ARMS under its auspices.

Exchange of regulatory knowledge and expertise

The Malaysian capital market regulatory framework is aligned with international standards and best practices for securities regulation. Given the recognition, the SC shares expertise with its regulatory counterparts on various aspects of the capital market by hosting study visits and attachments as well as providing other forms of technical assistance.

Recognising the importance of cross-sharing of regulatory knowledge and experiences, the SC and the Securities and Futures Commission of Hong Kong developed an online forum designed to facilitate the exchange of ideas and views regarding take-overs and related matters among regulators in the Asia-Pacific region in 2012. Subsequently, the regulators organised the second Asia-Pacific Take-overs Roundtable in Bangkok in October 2013 following the first Roundtable in Kuala Lumpur in May 2012, where an enhanced online forum (e-Forum) was launched with strengthened security features and greater functionality. The Asia-Pacific Take-overs Roundtable has provided an excellent platform and opportunity for regulators to share issues and challenges relating to take-overs regulation and helped regulators strengthen the handling of take-over related matters.

We hosted 16 study visits by international regulators, including Japan, India, Nigeria and Saudi Arabia. The SC also hosted visits by prominent members within the financial services sector, including Masamichi Kono, Chairman of the IFRS Foundation Monitoring Board and David Wright, Secretary General of IOSCO. This allowed for the sharing of expertise by thought leaders, with members of the SC and industry.

In collaboration with its training arm, the Securities Industry Development Corporation (SIDC), the SC provided technical assistance to the Lao Securities and Exchange Commission. This involved providing consultation for the setting up of a Capital Market Development strategic plan and capital market-related regulations for Lao PDR.

Greater emphasis towards promotion of the Malaysian capital market

To ensure effective and holistic promotion of the Malaysian capital market, the SC established the Capital Markets Promotion Council (CMPC) following the announcement in the 2013 Federal Budget. The CMPC was incorporated as a company limited by guarantee under the *Companies Act 1965* on 20 February 2013.

A CMPC Project Secretariat has been set up to facilitate its implementation and immediate activities, working closely with the CMPC Task Force comprising leading members of industry. The Task Force will be responsible to further clarify the strategic intent and objectives, functional and operational roles, governance structure and other key areas of the entity. To this end, the Task Force held its first meeting in February 2014 and will work towards finalising a Report that will contain findings and recommendations for implementation.

The CMPC is expected to be fully operational by the end of second quarter of 2014.

Box 3: Thought Leadership at WCMS 2013

In conjunction with our 20th anniversary, the SC actively promoted thought-leadership through various engagements with key regional and international stakeholders and influencers. In line with this, the SC hosted the third edition of the World Capital Markets Symposium (WCMS) to share insights, discuss opportunities and explore solutions on current economic and financial market challenges.

The Prime Minister of Malaysia, Dato' Sri Mohd Najib Tun Razak delivered the keynote address to more than 700 senior policymakers and representatives from global financial institutions, academia and market participants from over 40 countries. The symposium featured prominent speakers including Lord Adair Turner, Senior Fellow, Institute for New Economic Thinking and Former Chairman, Financial Services Authority, UK; Sheila C Bair, Former Chairman, Federal Deposit Insurance Corporation, US; and Dr Fareed Zakaria, Editor-at-Large of *Time Magazine* and host of Fareed Zakaria GPS, CNN's flagship international affairs programme.

The theme 'Redefining Markets: Sustaining Growth and Resilience', set the stage for crucial dialogues to lead the financial and wider business ecosystem towards stronger, more inclusive markets for balanced and sustainable growth and resilience. The forum emphasised the need for greater integrity in the marketplace. The growing role of Asia and the impact of an integrated ASEAN on regional dynamics were also deliberated.

This Symposium reinforced the role financial markets perform in financing the real economy. There is a need for the industry to take a long-term view and work with regulators to achieve overall soundness and stability of the financial system. In doing so, businesses were also encouraged to incorporate sustainability into their business models.

Speakers further emphasised that the future lies in responsible innovation. To continue serving the real economy, innovation should be understood and regulated appropriately; there is a need to promote innovation without compromising trust and confidence in the capital market.

Also highlighted was the need to reinforce integrity in the market. There is a need for a cultural shift – with the increasing complexity of markets, it is all the more critical to ensure strong governance and robust risk management.

Collaboration with members of the industry

The SC actively collaborates with industry stakeholders as we continue to develop a robust and comprehensive capital market. Building on this relationship, we hosted the SC Industry Dialogue (SID 2013) with various capital market associations and organisations to share and exchange views, as well as build consensus on focus areas to further accelerate the growth and quality of the Malaysian capital market.

Through this dialogue, we shared key initiatives that we are currently undertaking. In addition, we tapped on the industry's expert knowledge in formulating strategic priorities aimed at increasing the vibrancy of the Malaysian capital market. Areas of discussion include capital formation, provision of investment choices, development of a conducive intermediation environment, mobilisation of savings, socially responsible investing as well as international capabilities and linkages.

Leveraging on these industry engagements, efforts will be directed at further strengthening Malaysia's positioning in the global capital market landscape.

Box 4: Establishment of Advisory Groups

The SC has introduced a new consultative framework for capital market policy and regulatory reforms. The initiative enhances the existing consultative framework for the capital market in order to promote greater transparency and to ensure that SC's rulemaking processes encourage decisions that are legitimate, fair and achieve the best outcomes for the capital market. Given that rules and regulations impact the capital market as well as industry and stakeholders, transparency and industry participation in the policymaking process strengthens the SC's role as a regulatory agency.

The three advisory groups that have been established for the capital market are:

- Capital Market Advisory Group;
- Capital Raising Advisory Group; and
- Secondary Market Advisory Group.

Members of these groups are eminent and experienced capital market professionals who can provide global perspectives on capital market issues and emerging regional and global risks.

These advisory groups play a strategic role in enhancing the competitive positioning of our capital market globally and place Malaysia at the forefront of thought-leadership amongst developed emerging markets. These groups provide proposals and feedback to the SC to further enhance the growth and vibrancy of our market within a safe, efficient and transparent environment.

INTERNATIONALISATION OF MALAYSIA'S ISLAMIC CAPITAL MARKET

The Islamic capital market (ICM) marketplace is a key component of Malaysia's capital market. The SC's efforts have centred on facilitating the availability of ICM products and services that fulfill the needs of the stakeholders within a framework that ensures the protection of investors as well as efficiency in intermediation. Our developmental strategy for Malaysia's ICM marketplace is designed to allow accessibility to Islamic financial solutions that offer clarity and consistency with Shariah principles.

The SC's holistic approach in developing the capital market has allowed for the creation of a marketplace which is conducive for ICM which has grown from strength to strength for over 30 years, with the following attributes:

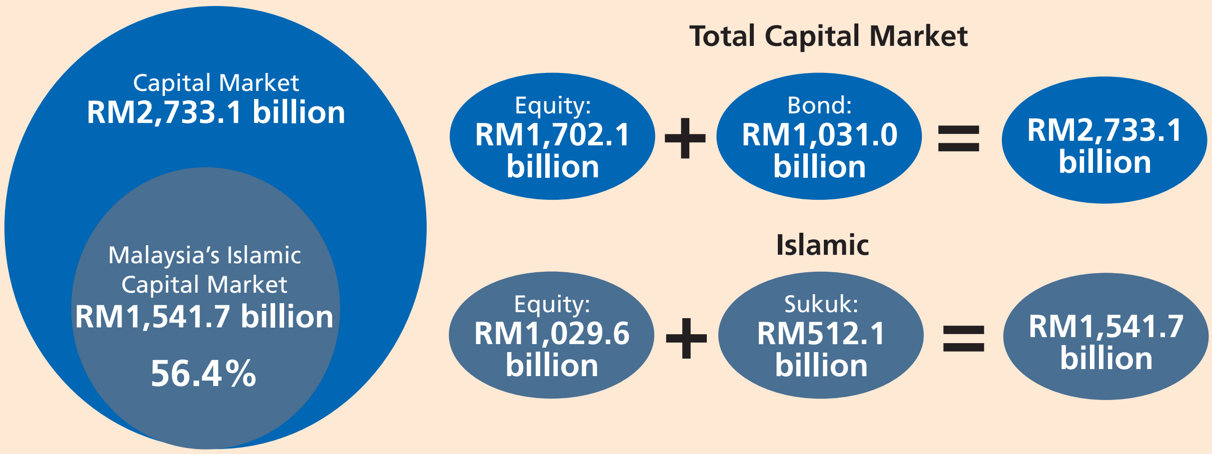
- well-defined Shariah governance framework;
- competitive pricing;
- innovative structures and human capital development;
- incentives for investment activities;
- tax neutrality vis-a-vis conventional capital market products;
- comprehensive infrastructure; and
- clear and facilitative rules.

Revision of Shariah screening methodology for listed companies

In November, the SC's Shariah Advisory Council (SAC) revised screening methodology came into effect. Under the revision, the SAC adopted a two-tier quantitative approach, applying business activity benchmarks and financial ratio benchmarks. The revision took into consideration the rapid development of the

Box 5: Snapshot of Malaysia's Islamic Capital Market

The Malaysian Islamic capital market grew by 8.8% from RM1,416.8 billion in 2012 to RM1,541.7 billion in 2013. This encompasses total market capitalisation of Shariah-compliant equities of RM1,029.6 billion and total sukuk outstanding of RM512.1 billion.



In the equity market, 71% of the companies listed on Bursa Malaysia are designated as Shariah compliant. The market capitalisation of Shariah-compliant equities increased by 9.3% in 2013, with Shariah-compliant equity market capitalisation representing 60.5% of the total equity market capitalisation.

In the sukuk market, the total value of sukuk outstanding rose by 7.9% in 2013. Malaysia remains the world leader in the sukuk market, accounting for 58.8% of global sukuk outstanding and 69% of sukuk issuances.

Malaysia is also a significant player in the Islamic fund management industry. Globally, Malaysia continues to account for approximately 22% of Islamic assets under management (AUM). On the domestic front, Islamic AUM accounted for approximately 16.6% of the industry's total AUM. Two new Islamic fund management licenses were also approved in 2013, bringing the number of full-fledged Islamic fund management companies in Malaysia to 19, with a combined AUM of RM37.9 billion.

Islamic finance industry in Malaysia since the process was first introduced in 1995. The revised methodology will also further align the Shariah screening process with international practices.

The publication of the *List of Shariah-Compliant Securities by the Shariah Advisory Council of the SC* under the revised screening methodology featured a total of 653 Shariah-compliant securities, constituting 71% of the 914 listed securities on Bursa Malaysia.

International collaboration and profiling

Recognising the significance of globalisation and interconnectedness in the financial markets, the SC continues to actively reinforce Malaysia's position as a leading ICM hub.

In this regard, we collaborated with two leading standard setters – the Islamic Financial Services Board (IFSB) and IOSCO – to publish the *Disclosure*

Box 6: Shariah Screening Methodology Revised

1. QUANTITATIVE

First Tier: Business Activity Benchmark

Activity	Computation	Benchmark
Conventional banking, conventional insurance, gambling, liquor and liquor-related activities, pork and pork-related activities, non-halal food and beverages, Shariah non-compliant entertainment, interest income from conventional accounts and instruments, tobacco and tobacco-related activities, and other activities deemed non-compliant according to Shariah.	$\frac{\text{Revenue of activity}}{\text{Group revenue}}$ **or** $\frac{\text{Profit before tax of activity}}{\text{Group profit before tax}}$ (whichever is higher)	Must be less than 5%
Hotel and resort operations, share trading, stockbroking business, rental received from Shariah non-compliant activities and other activities deemed non-compliant according to Shariah.	$\frac{\text{Revenue of activity}}{\text{Group revenue}}$ **or** $\frac{\text{Profit before tax of activity}}{\text{Group profit before tax}}$ (whichever is higher)	Must be less than 20%

Second Tier: Financial Ratio Benchmark

Financial component	Computation	Benchmark
Cash and cash equivalent placed in conventional accounts and instruments	$\frac{\text{Cash and cash equivalent}}{\text{Total assets}}$	Must be less than 33%
Interest bearing debt	$\frac{\text{Debt}}{\text{Total assets}}$	Must be less than 33%

2. QUALITATIVE

The SAC takes into account the qualitative aspect which involves public perception, *maslahah* or image of the company's activities toward Islam. This qualitative assessment does not refer to any of the above benchmarks for activities which do not comply with Shariah in deciding the status of the listed company.

Requirements for Islamic Capital Market Products. This joint publication is a compilation of the Issues Papers and commentaries presented at the IFSB-IOSCO-SC Roundtable on Disclosure Requirements for ICM Products held earlier in 2012. The book discusses the need to develop international regulatory standards and best practices relating to disclosure requirements for ICM products, and analyses the issues, risks and challenges arising from potential inadequate disclosure in the areas of sukuk and Islamic collective investment schemes, and ways to strengthen disclosure standards for ICM products.

Our partnership with the Oxford Centre for Islamic Studies (OCIS) continues to provide a platform for open discussions and rigorous exchange of views related to Islamic finance. The 4th SC-OCIS Roundtable was held in March in Oxfordshire, UK. Themed 'Completing the Islamic financial system cycle: From a Shariah-compliant to a Shariah-based approach', the discussion focused on issues and challenges in transitioning from a largely Shariah-compliant structure to an all-encompassing Shariah-based approach. In order to facilitate greater dialogue and debate, a select group of about 40 key industry practitioners, senior academicians, Shariah scholars, standard setters and regulators from around the world attended the closed-door Roundtable, which was graced by His Royal Highness Raja Dr Nazrin Shah who delivered a special address.

As chair of the Islamic Finance Task Force under the Standing Committee for Economic and Commercial Co-operation (COMCEC) Capital Market Regulators Forum of the Organisation of Islamic Co-operation (OIC), the SC has been working with other members of the task force to identify areas for international co-operation, design relevant strategies and make recommendations to develop ICM in their respective countries. During the second COMCEC Capital Market Regulators Forum held in September, a report titled 'Enhancing Infrastructure for ICM' was presented to member countries. It provides a set of recommendations to establish a foundation in ICM in areas such as legal, regulatory, tax framework, Shariah governance, talent development, products and services, with a long term aim of enabling cross-border activities.

Growth and sustainability of the ICM and Islamic finance industry are dependent, among others, on broadening the participation base through effective profiling. In this regard, we continued to lead a number of profiling initiatives. The ICM workshop for ASEAN Capital Market Regulators, organised in collaboration with Asian Development Bank (ADB), and the annual Islamic Markets Programme served to enhance knowledge sharing and deliberations of issues and opportunities in the ICM mainly among capital market regulators. In addition, we collaborated with the IMD to publish two case studies on sukuk issuances to further profile the ICM to a different set of stakeholders.

Our continuous policy initiatives and extensive contribution to the development of ICM were recognised globally. Deputy Chief Executive, Dato Dr Nik Ramlah Mahmood received an Award of Excellence at the London Sukuk Summit Awards 2013. This award was to acknowledge the outstanding contribution by and achievements of individuals, institutions, supranationals and financial centres serving the global Islamic financial services industry, especially the proliferating global sukuk market.

RESILIENCE THROUGH EFFECTIVE CORPORATE GOVERNANCE

A strong corporate governance framework is crucial in enhancing the attractiveness and resilience of PLCs, supporting sustainability of growth in the capital market. The SC's unwavering effort to promote and enhance corporate governance standards continues in 2013.

Notable milestones include the conclusion of the *World Bank Corporate Governance Report on the Observance of Standards and Codes* (CG ROSC 2012) followed by its dissemination event in February, hosting of the OECD Asian Roundtable on Corporate Governance held back-to-back with the International Corporate Governance Seminar as well as the release of the inaugural *ASEAN Corporate Governance Scorecard*

Country Report and Assessments 2012–2013. These together with our focused implementation efforts of initiatives under the *Corporate Governance Blueprint* (Blueprint) provided traction in pushing the corporate governance agenda.

Implementation of the Corporate Governance Blueprint 2011

The Blueprint, released in July 2011, is now midway into its implementation period of 2011–2015. More than half of the 35 recommendations have been incorporated into the corporate governance framework either through the *Malaysian Code on Corporate Governance 2012* or amendments to the Listing Requirements and through industry-led initiatives.

One of the recommendations of the Blueprint is the formulation of a new code for institutional investors (Code) and the creation of a dedicated umbrella body for institutional investors to strengthen the accountability of institutional investors to their own members and investors. The Minority Shareholders Watchdog Group (MSWG) has been appointed to lead this initiative, with the support of a Steering Committee comprising key representatives from the institutional investor fraternity. Targeted for release in 2014, the Code encourages the adoption of best practices in corporate governance and provides guidance to institutional investors in exercising their responsibilities. Areas covered include engagement and monitoring of investee companies, incorporating corporate governance and sustainability considerations into the investment decision-making process as well as managing conflicts of interest.

The framework for periodic disclosure was also reviewed given the criticality of timely disclosure for informed decision-making. Bursa Malaysia took the lead and issued a public consultation paper on the review of timeframe for financial statements and annual reports in May. Comments and feedback have been received from industry players and will be reviewed prior to any amendments to the laws and regulations.

Another recommendation of the Blueprint is to review developments and market readiness on integrated reporting which represents an evolution in corporate reporting and is intended primarily to support investors' capital allocation decisions as it enables companies to communicate the relationships between resources, thereby detailing the process of value creation. Globally, this evolution in reporting is spearheaded by the International Integrated Reporting Council (IIRC), which launched the Integrated Reporting Framework in December. The SC and the Association of Chartered Certified Accountants (ACCA) jointly organised a Roundtable on Integrated Reporting in to gather feedback and assess market readiness to adopt integrated reporting. It was attended by representatives of listed companies, institutional investors and members of the auditing and accounting fraternity.

Release of the Corporate Governance Report on the Observance of Standards and Codes

The Corporate Governance Report on the Observance of Standards and Codes (CG ROSC) was released on 26 February, at an event jointly organised by the SC and the World Bank. This assessment carried out by the World Bank examines the country's corporate governance framework benchmarked against the Organisation of Economic Co-operation and Development (OECD) Principles of Corporate Governance. Out of the six OECD principles for corporate governance examined, Malaysia scored highest in terms of equitable treatment of stakeholders followed by enforcement and institutional framework.

Malaysia secured overall scores which are higher than the average scores of countries within the Asian region and was also recognised as a regional leader in corporate governance, with strong institutions, sophisticated participants and high quality accounting practices. This is the third time that Malaysia has participated in the assessment; the first was in 2001 and subsequently in 2006.

Leading discussions on Corporate Governance

The SC continues to actively participate in high-level discussions on corporate governance organised by multilateral entities. Our key efforts include work done with OECD, the ASEAN community and selected jurisdictions.

OECD Asian Roundtable on Corporate Governance

The OECD Asian Roundtable on Corporate Governance is an established and valuable platform for networking and knowledge sharing among Asian policy makers, regulators and regional and international experts who are committed to improve corporate governance standard in Asia. Discussions and findings of this Roundtable play a role in the development of global international standards and best practices in corporate governance.

In June, we hosted the 14th Asian Roundtable on Corporate Governance (Roundtable). The one-and-half-day event was attended by 73 representatives from OECD countries and approximately 30 local participants. They discussed various themes, including risks and opportunities of controlling ownership in Asia, long-term growth in Asian equity markets, public supervision and enforcement as well as the role of institutional investors. Malaysia shared its perspectives on how its corporate governance landscape has evolved over the decade, culminating in the development of the *Corporate Governance Blueprint 2011*. In addition, the Roundtable endorsed the report "Better Policies for Improved Board Nomination and Election in Asia" which was developed by the Taskforce on Board Nomination and Election. The paper identified and proposed policy options to improve transparency of board nomination and election process.

To create greater awareness on the role of journalists in promoting good corporate governance and improved quality of business reporting, we organised a session on Corporate Governance and Financial Journalism. John Plender, Senior Columnist at Financial Times, UK spoke to an audience of 60 journalists on *'The Power of Journalism in Promoting Corporate Governance'*. Panel discussions recognised that business journalists play a significant role in influencing public opinion on corporate governance-related matters. As such, accurate and useful financial information as well as an understanding of the management and business environment of companies are key to professional business reporting.

ASEAN Corporate Governance Initiative

The ASEAN Corporate Governance Initiative aims to raise the corporate governance standards and practices of ASEAN public-listed companies and to give greater international visibility to well-governed ASEAN PLCS and showcasing them as investable companies. The initiative, which is under the ACMF, continues to be participated by six member countries namely Malaysia, Thailand, Indonesia, Singapore, Philippines and Vietnam. This initiative receives the support of the Asian Development Bank (ADB) through its regional technical assistance programme.

Led by Malaysia, the ASEAN Corporate Governance Initiative developed the ASEAN Corporate Governance Scorecard. This is an effort based on a ranking methodology which leverages off existing regional practices as well as those applied by multilateral agencies such as the OECD. The *ASEAN Corporate Governance Scorecard Country Reports and Assessments 2012–2013* were published and released at the OECD Asian Roundtable on Corporate Governance in June.

As project lead, we supported efforts towards promoting and creating awareness of this initiative. We participated in the ASEAN Corporate Governance technical workshop organised by ADB in Vientiane, Lao PDR. The SC also spoke at the Philippines' Institute of Corporate Directors on ACMF corporate governance initiative.

Sharing of Experience

At the invitation of the World Bank, we shared our experiences in developing the Malaysian Corporate Governance Blueprint with the Financial Services Authority of Indonesia (OJK) and its industry players. This was intended to assist OJK on Indonesia's corporate governance reform agenda and covered the philosophy and objectives of the Blueprint, the processes involved as well as the implementation plan.

PART 2 – SUPERVISING OUR MARKET WITH PROPORTIONAL REGULATION

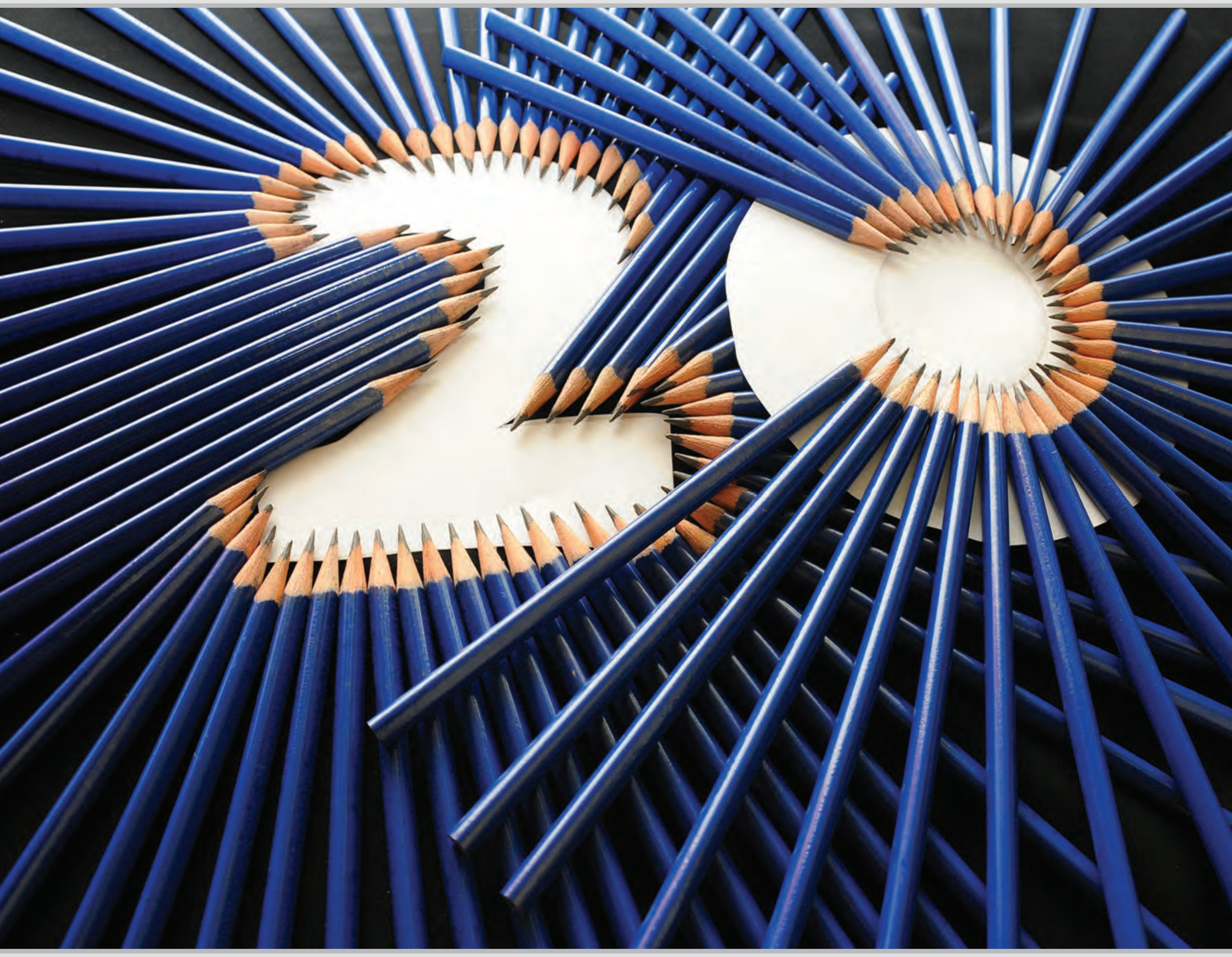


Photo credit: ***Mohd Rizal Ahmad***
Market Surveillance,
Market Oversight

PART 02

SUPERVISING OUR MARKET WITH PROPORTIONAL REGULATION

INTRODUCTION

The capital market has become increasingly sophisticated and complex. Participants have pursued economies of scale in order to become more operationally cost efficient. Financial innovation has enabled the tailoring of instruments to meet investors' specific needs and risk/return objectives. Ranging from plain vanilla instruments to complex structured products with a wide variety of underlying assets or embedded derivatives, the capital market offers a diversified source of both funding and investment opportunities.

Global regulatory actions taken in the past year have highlighted the importance of upholding integrity in financial markets as well as the consequences of failing to do so. Against this backdrop, the SC continues to intensify its work in monitoring, mitigating and managing risks within the capital market to achieve a balance between ensuring a fair and orderly market and facilitating responsible financial innovation.

In order to achieve an efficient and effective regulatory environment, the SC adopts an approach that facilitates growth and development yet remains fit for purpose; one that is outcomes-based without compromising the need to be prescriptive where necessary. This approach will enable the SC's regulatory functions to remain dynamic and supportive of market developments, giving the Malaysian capital market a competitive edge, particularly in light of greater regional competition.

This facilitative regulatory environment is complemented by proactive, analytical and risk-focused supervision, with added emphasis on preventive measures. We recognise that our market participants differ in their risk profiles and the benefits they generate. The SC therefore chooses to regulate different components – be it markets, products, firms or activities – in a manner that commensurates with the risks they pose and the outcomes that we seek to achieve.

Active industry participation and feedback is also a crucial aspect of this process. We continue to focus on enhancing stakeholder engagement, to give opportunities to market participants to contribute towards the effective implementation of regulatory outcomes as well as strengthening industry capabilities and skills sets.

RATIONALISATION OF REGULATION IN A DYNAMIC ENVIRONMENT

In recognising that regulations have cost implications, we have embarked on a review of our regulations to ensure that our regulatory environment remains transparent, promotes accountability, encourages responsible innovation and incentivises compliance in the most effective manner.

We therefore aim to achieve proportionate regulation that delivers these desired outcomes, imposing requirements only where necessary by considering alternatives to formal regulatory intervention while minimising the risk of unintended consequences.

While our regulatory framework has been acknowledged by the IMF and World Bank to be highly compliant with international standards, we are mindful that regulation must be dynamic given an environment that is constantly evolving. Retrospective analysis is thus carried out to ensure that regulatory requirements imposed remain proportionate to market needs and are facilitative of development.

SUPERVISION OF INSTITUTIONS TO PROMOTE CONFIDENCE

Well-functioning and competitive markets require modern and clear regulations, as well as effective supervision to ensure compliance with the rules. Our supervision is designed to optimise transparency and efficiency to promote confidence among all market participants.

As the capital market continues to develop and become increasingly sophisticated, the SC recognises a greater need for all stakeholders within the industry to carry out their roles effectively. Supervision of institutions will bolster our efforts to instil market discipline and enhance investor confidence.

Bursa Malaysia

The SC recognises that having an appropriate and robust governance arrangement within the exchange is an important part of ensuring adequate accountability and controls to enable the exchange to continue to meet its statutory obligations.

We completed the annual regulatory assessment on Bursa Malaysia to assess its compliance with the *Capital Markets and Services Act 2007* (CMSA), *Securities Industry (Central Depositories) Act 1991* and Bursa Malaysia rules which set out its regulatory responsibilities, duties and functions. The regulatory assessment in 2013 on the Governance and Risk Review of Bursa Malaysia took into account recent developments challenging front-line regulation carried out by exchanges, together with new supervisory standards emerging for exchanges as well as other related functions such as clearing and settlement and central depository.

In this regard, the SC's 2013 regulatory assessment entails a holistic approach in assessing the state of governance and controls in Bursa Malaysia in discharging its duties and responsibilities under the law, which requires Bursa Malaysia to, among others:

- act in the interest of the public, having regard to the protection of investors;
- operate a fair and orderly market;
- ensure orderly dealings in securities deposited with the central depository;
- ensure orderly and efficient clearing and settlement arrangements;
- manage its business and operational risks prudently; and
- ensure it has sufficient resources for the conduct of its business.

In addition to the onsite assessment, the SC supervises Bursa Malaysia through various reporting requirements as well as the review and approval of its business and listing rules. This facilitates our continuous monitoring of Bursa Malaysia's regulation over public listed companies, supervision of its participants and surveillance of the secondary markets. We have also imposed reporting requirements on stress testing the adequacy of clearing funds and large exposures for the purposes of managing the credit and liquidity levels of the securities and derivatives clearing houses.

The SC also carries out high level engagement with members of the Board of Bursa Malaysia. This provides a platform to discuss the outcome of our regulatory assessment and ensure the alignment of Bursa's strategies and initiatives with our developmental agenda.

Review and amendments to regulations for Bursa Malaysia

The SC undertook a review of the *Guidance on the Regulatory Role of Bursa Malaysia Bhd* to strengthen the regulatory obligations and requirements of the various services offered by Bursa Malaysia as well as streamline its roles and responsibilities. The review is expected to result in the issuance of Guidelines on Market Institutions in 2014, ensuring SC's regulatory requirements meet global standards of regulation.

The SC also commenced a review of the *Rules of Bursa Malaysia Securities Bhd* to ensure that the framework for Participating Organisations and Registered Persons remains effective in safeguarding the interest of investors, preventing systemic risk as well as ensuring an orderly and fair market while being facilitative for business and market developments. The review entailed benchmarking the rules against IOSCO's Objectives and Principles of Securities Regulation.

In approving the rule amendments for the introduction of Gold Futures contracts, the SC took steps to require an undertaking from Bursa Malaysia Derivatives (BMD) that necessary measures had been taken to ensure that the contract is not easily susceptible to manipulation. In this regard, BMD had to verify that all implementation requirements set by the SC were met, including industry engagements, system readiness, broker familiarisation exercise, adequacy of surveillance competencies and capabilities as well as public awareness programmes.

Federation of Investment Managers of Malaysia

As a self-regulatory organisation (SRO) recognised by the SC under the CMSA, the Federation of Investment Managers of Malaysia (FIMM) has a duty to promote market integrity, market efficiency and investor protection. The SC has strengthened its oversight over FIMM to ensure continuous compliance with the relevant provisions of the CMSA, terms and conditions imposed upon its recognition as an SRO, relevant guidelines as well as submission and reporting protocols.

Additionally, the SC continues to monitor FIMM's compliance with IOSCO's principles on self-regulation, particularly in respect of the exercise of its powers. This is to ensure that any action taken by FIMM is in the interest of the public and investors, and results in fair, effective and consistent enforcement of securities laws and FIMM's rules. The SC also closely monitors FIMM's governance arrangements to reduce any potential conflicts of interest.

In order to ensure that FIMM possesses adequate capacity, sound governance and a strong operating environment to regulate and supervise its members as well as distributors effectively, the SC is developing a SRO Guidelines to guide FIMM in discharging its role as an SRO. This guidelines is expected to be issued in 2014.

Private Pension Administrator Malaysia

The Private Pension Administrator Malaysia (PPA) was approved as a private retirement scheme administrator by the SC in June 2012. PPA is responsible for the establishment and operationalisation of an efficient and centralised administrative system for the overall private pension industry. During its developmental phase, the SC was instrumental in setting up PPA's key operational processes and facilitated its initiatives in promoting the private retirement scheme industry. The SC constantly engages the members of the Board of Directors and senior management of PPA to provide feedback on its annual business plans and matters concerning the overall development of the private retirement scheme industry.

Bond market service providers

The service providers within the bond market, such as credit rating agencies (CRA), bond pricing agencies (BPA) and bond trustees have a duty to contribute towards maintaining market discipline thus complementing SC's regulatory effort.

CRAs play an important role in providing an independent assessment of and opinion on the creditworthiness of bond issuers and issuances. Given that quality credit ratings are relied on by investors to make sound investment decisions, it is crucial for CRAs to maintain a high degree of professionalism, integrity and independence. The SC's oversight of domestic CRAs therefore entails a robust supervisory approach that encompasses registration and on-going monitoring. Examinations conducted on domestic CRAs cover the key principles set out in the IOSCO Code of Conduct for CRAs, and the requirements set out in the SC's *Guidelines on the Registration of CRAs*. The implementation of various supervisory interventions has led to improvements in the CRAs' corporate governance and control environment. In addition, SC continues to instil a culture of compliance within the CRAs through its periodic off-site surveillance.

The SC adopts a similar approach in its supervision of registered BPAs operating in the country. The SC conducted its first on-site examination on a domestic BPA this year, focusing mainly on corporate governance, compliance, pricing methodology and processes as well as operational capabilities. This helps in ensuring that the BPA continues to function efficiently, which is necessary for the provision of bond prices in a timely, fair and consistent manner.

Bond trustees are another key stakeholder within the bond segment of the capital market, with a fiduciary duty to safeguard bondholders' interests. The SC expects bond trustees to take a more proactive role in carrying out their duties to serve the interest of bondholders. The CMSA requires bond trustees to perform their duties diligently and exercise due care in discharging their statutory obligations. While off-site monitoring of all 15 bond trustees registered with the SC is conducted continuously, on-site reviews are undertaken on each bond trustee on a rotational basis.

Malaysia's Trade Repository project

To meet the respective regulatory mandates, SC, BNM and Perbadanan Insurans Deposit Malaysia (PIDM) have co-ordinated efforts to develop a framework for the reporting of OTC derivatives transactions to an approved trade repository in Malaysia.[1] A joint consultation paper setting out the proposed reporting requirements to the trade repository (TR) was issued in December. Public comments were sought in areas such as reportable transactions, reporting approach and data requirements.

Going forward, SC will work with relevant parties towards ensuring smooth implementation of the trade reporting requirements in Malaysia.

1 The *Capital Markets and Services Act 2007* was amended in 2011 to introduce a mandatory reporting framework for OTC derivatives transactions to an approved trade repository.

Box 7: Trade Repositories Explained

Trade repositories are entities that maintain a centralised electronic record of over-the-counter (OTC) derivatives transaction data. Such entities increase transparency in the OTC derivatives markets by improving the availability of data for regulators, investors and members of the public. The data collected may be used in tandem with other tools by regulators to facilitate the assessment of risks to financial stability, identify market irregularities and assist in determining appropriate resolution approaches when dealing with distressed financial institutions and market intermediaries. The availability of these data would also facilitate more nuanced policy making for the implementation of other derivatives reform measures in areas such as central clearing.

In response to the attention on the inherently opaque world of OTC derivatives during the global financial crisis of 2007–2008, specifically the lack of available data, G-20 leaders committed to require "OTC derivative contracts to be reported to trade repositories"[2].

[2] Leaders Statement, Pittsburgh Summit of the G20 Leaders.

SUPERVISION OF INTERMEDIARIES IN UPHOLDING MARKET INTEGRITY

Our supervision of intermediaries is based on their regulatory filings which are subjected to in-depth analysis to determine their level of compliance and risks posed to the capital market. This, together with information such as the business and operating models of these intermediaries are then used to formulate effective and timely supervisory decisions ranging from engagements, on-site examinations and regulatory interventions.

During the course of the year, we have enhanced our supervisory approach to be more risk-focused, concentrating on material risks posed by market intermediaries. This approach is dynamic with continuous review and assessment on the:

- conduct of market intermediaries in ensuring the protection of investors' interests;
- financial soundness in ensuring the sustainability of market intermediaries; and
- potential impact on the market, in the event of an intermediary's failure.

Multi-pronged approach to intermediary supervision

The SC's supervisory approach focuses on several key areas including the level of significance of a market intermediary in terms of its size and impact to the overall market as well as its expansion plans, be it on a domestic, regional or global scale. Various supervisory tools are used, including regulatory enhancements, off-site reviews, on-site examinations and engagements with industry stakeholders, to arrive at a holistic view of the industry's state of affairs. This multi-pronged approach, underpinned by a thematic and risk-based supervisory framework, results in proportionate degrees of regulatory intervention. In achieving these results, we have continued to apply sound judgment, supported by a clear rationale in arriving at our decision.

Supervisory findings for 2013

A total of 44 examinations and engagements with market intermediaries were carried out. The supervisory findings highlighted isolated cases of unlicensed activities and areas for improvements such as reporting of complaints and handling of employee transactions as well as updating

Box 8: Supervision of Auditors of Public-Interest Entities

Good financial reporting practices by public-interest entities (PIEs) as well as sound audit practices can be an effective market differentiator in attracting capital and potential investors to Malaysia. The Audit Oversight Board (AOB) plays a critical role in overseeing the auditors of PIEs with the objective of promoting confidence in the reliability of audited financial statements in Malaysia.

Malaysia has developed a robust audit framework and professional standards which are internationally benchmarked. AOB has enhanced several areas, with particular regard to the application of, and compliance with these standards. Audit firms are required to apply the principles underlying the professional standards rather than merely complying in form, and to exercise greater professional scepticism and independence in conducting audits. Focus is also placed on the strong leadership in an audit firm, often crucial in driving audit quality.

The comprehensive regulatory approach and robust regulatory framework of the AOB has resulted in it gaining recognition from the European Commission (EC). In particular, the framework on public oversight, quality assurance, investigation and sanctions of auditors and audit entities in Malaysia are recognised as equivalent to European Union member states. This is the result of extensive assessments conducted by the EC with assistance from the European Group of Auditors' Oversight Bodies.

AOB has also strengthened the registration system to ensure that registered auditors are fit and proper. It has also established a comprehensive risk-based inspection programme to assess compliance with International Standards of Auditing and the Malaysian Institute of Accountants' By-Laws by both registered auditors and their audit firms.

AOB continues to collaborate with audit firms and relevant auditing professional bodies to promote both self and market discipline to complement its inspections. It has intensified engagements with audit firms and relevant stakeholders to better understand issues faced by the profession, to reiterate key messages in promoting audit quality and to provide feedback in preparation for AOB's inspection. Discussions with the larger audit firms on ways to strengthen the firms' internal self-governance systems yielded positive results as some firms subsequently took stern action on partners who compromised on audit quality.

AOB is actively involved in the International Forum of Independent Audit Regulators (IFIAR) and ASEAN Audit Regulators Group (AARG) meetings as well as inspection workshops to enhance consistency, effectiveness and efficiency in its inspection approach. AOB hosted the 2nd AARG Inspection Workshop and engaged with regional leaders of the ASEAN Big Four audit firms to discuss internal/network review results and AARG's inspection findings.

AOB has also strengthened its collaborative arrangements with various professional bodies, namely the Malaysian Institute of Accountants (MIA), the Association of Chartered Certified Accountants (ACCA) and the Malaysian Institute of Certified Public Accountants (MICPA) to strengthen the audit industry's capabilities. These collaborations assist in capacity building efforts through strengthening the knowledge base within the audit profession.

of policies and procedures and audit manuals. These findings were mainly addressed by requiring the affected intermediaries to institute remedial measures with proper verification by their internal auditors. In addition, their state of regulatory compliance is continuously reviewed.

The SC continues to engage the intermediaries' board of directors and senior management to ensure that their employees and agents conduct business in accordance with the highest professional standards. This is in line with the SC's approach to instil market discipline through greater accountability by directors and senior management in complying with regulatory requirements.

We also provided guidance to six brokers in relation to their respective controls and procedures on the provision of electronic trading facilities. Following this, the brokers performed the assessments and identified areas for improvement within their respective firms.

Stockbroking companies were found to have established strong capital positions and reflected improvements to their operational and risk management practices as well as compliance standards. The capital adequacy ratio industry average among non-investment banks is at 12 times, ranging from 1.59 to 41.83 times, while the average risk weighted capital ratio of investment banks was at 33%, ranging from 19.18% to 96.23%. The industry placed greater attention on collateral management, where the average industry margin collateral stood at four times of margin exposure.

The SC also recently developed a targeted supervisory approach governing intermediaries licensed for advisory services. As advisory firms provide financial, investment and planning advice, it is critical that they are competent, exercise proper diligence, and continuously manage any conflict of interest. Engagements with five firms were conducted to detect gaps in the industry as well as to provide a platform for information gathering as part of our supervisory efforts.

In addition, an engagement session on compliance issues affecting industry was conducted in February attended by Chief Executive Officers as well as compliance officers of relevant intermediaries. This session enabled us to communicate our supervisory approach and concerns such as common findings and areas for improvements.

Review of intermediaries' anti-money laundering procedures

An area of focus was the assessment of anti-money laundering (AML) procedures. We conducted six thematic audits on selected intermediaries to examine the firms' processes and reporting mechanisms. While the findings reflected an improvement in overall controls and processes, several firms were required to review their processes on AML risk profiling and transactions monitoring, documentation, due diligence and training for employees. Findings also resulted in administrative sanctions being imposed on two intermediaries.

The supervisory focus on this area reflects the need for the stockbroking industry and its key personnel to ensure that they do not directly or indirectly assist clients to make payments other than to the clients themselves, despite receiving their client's instructions or consent to do so. Such prohibition on third party payments refers not only to proceeds from sale of shares but also to deposits and cash advances retained by the intermediaries for the client.

The SC also conducted an industry survey on fund management companies for self-assessment of their existing internal controls on anti-money laundering and counter financing of terrorism (AML/CFT). In the course of reporting their compliance and plans for remedial actions in addressing gaps to AML/CFT regulations, investment managers took stock of their processes and improved their current framework.

Strengthening cross-border supervision

Globalisation and the ensuing increase in cross-border activities of market intermediaries have exposed them to cross-border risks which may potentially pose a systemic threat to the capital market. This has heightened the need to improve the effectiveness of supervisory approaches and oversight of regulated entities that operate on a cross-border basis.

During the year, the SC engaged with three key intermediaries that have operations in international markets to better understand their business models in relation to their cross-border activities and potential regulatory concerns. These engagements were also used to communicate SC's regulatory expectations as these intermediaries continue to expand their regional and global presence.

The SC continues to focus on cross-border supervisory issues such as governance of regional and global intermediaries, oversight arrangements, roles of the board of directors and key management, as well as risks to the business operations of the group. Based on this, the SC will formulate a cross-border supervisory policy, including intensifying cross-border supervisory co-operation with the relevant regulators.

Enhancing intermediary stress testing

Stress testing is an important forward-looking tool to evaluate the sustainability of an intermediary should any unfavourable economic and financial shocks take place. We have embarked on developing a stress test model based on an appropriate methodology for capital market intermediaries.

The SC worked with a team of IMF experts in enhancing the intended stress test model for intermediaries. Based on our engagement with the IMF team, we are looking at several measures to be implemented as part of this model including the impact measurement of scenarios on the intermediary's liquidity, its current adjusted net capital and capital adequacy ratio.

As an initial step in developing the stress test model, the SC has considered several stress scenarios which include potential withdrawal of banking facilities granted to the intermediaries and the impact of collateral on intermediaries' liquidity in relation to margin accounts.

Expansion of intermediation activities

New provisions under the CMSA, which came into effect on 28 December 2012, expanded the scope of fund management to include the management of assets in a unit trust scheme. Managers of REITs are now directly licensed by the SC as opposed to the previous approach of approving them under section 289 of the CMSA and the *Guidelines on Real Estate Investment Trusts*. The SC assessed applications for Capital Markets Services Licence (CMSL) from 17 REIT managers, including a new REIT manager, KLCC REIT Management Sdn Bhd.

To further support the expansion of Islamic capital market intermediation activities, the SC granted approvals to two new Islamic fund management companies, namely Maybank Islamic Asset Management Sdn Bhd and Guidance Investments Sdn Bhd.

The SC also undertook rule amendments to develop and expand the distribution network for both unit trust and private retirement schemes. Following these amendments, any individual holding a Capital Markets Services Representative's Licence for financial planning can be registered as a consultant for a corporate unit trust adviser (CUTA) or corporate private retirement scheme adviser (CPRA) without having to be full-time employees.

The *Guidelines for Registered Persons* introduced in 2012 enabled 66 trading representatives and introducing representatives to be registered with the SC. The registration of the two classes of registered persons is to provide opportunities for fresh talent to join the stockbroking industry. This is also to strengthen the role of dealers' representatives by facilitating the provision of specialised services, allowing focus on client servicing and enabling access to a wider client base. In order to ensure that regulations remain relevant and facilitative, the SC also reviewed the ratio of the employment of registered representatives to licensed dealers' representatives and in October, announced a relaxation from the current 3:1 to 10:1.

FAIR AND ORDERLY MARKET THROUGH SURVEILLANCE

Developments in global capital markets have highlighted the intricacies and interdependencies of firms and markets. In view of this, our supervision and surveillance activities are focused on systemic stability as well as conduct of businesses and individuals.

Understanding and analysing systemic risk is crucial towards maintaining trust and confidence in the marketplace. The SC adopts a strong, multifaceted and co-ordinated approach aimed at reducing systemic risk. The approach is both a combination of preventive and reactive measures, cutting across firms, products and markets.

The SC also places emphasis on maintaining market integrity through a comprehensive regulatory framework, using timely pre-emptive measures and by promoting awareness among market participants. We continue to focus on uncovering market abuses and early detection of market misconduct.

Management of systemic risks

In carrying out the monitoring, mitigation and management of systemic risks to the capital market, we have established processes to examine and assess sources of systemic risk. Through this process, the SC has put in place measures to reduce the likelihood of such an event and assessed how early intervention could be initiated to minimise the impact to the market in a situation of systemic failure.

The perimeter of regulation is assessed regularly and where developments in the market require action, the SC can exercise its public interest mandate to stop conduct or products or change relevant rules to permit new services and products.

We have also reviewed our criteria for identifying intermediaries that are systemically important, and these were benchmarked against international standards. The criteria have since been adjusted and incorporated in our supervisory processes. In line with international development on identification of systemically important financial institutions (SIFI), we will continuously assess the trend and approach in identifying and supervising such intermediaries. Meanwhile, our approach of having more regular engagements and assessment on SIFIs enables us to identify and assess material risks. This allows us to apply a forward looking approach to facilitate early identification and intervention of issues or concerns.

Increasingly, certain capital markets products are also deemed to pose systemic risks as they might be vulnerable to any change in the economy, market or underlying assets. In this regard, we continue to monitor capital market product risks through a number of supervisory tools, including product complexity reviews. This allows the SC to formulate appropriate measures to safeguard investor interests while facilitating the introduction of new products and services.

During the year, we established a focus group with BNM to provide a platform to exchange and deliberate emerging trends, developments and risks that may have adverse implications on public confidence and the orderly functioning of the financial sector and the capital market. Discussions and deliberations centred on macro or system-wide issues as well as systemic stability. This focus group thus enables us to continuously monitor, mitigate and manage systemic risk and facilitate early intervention when necessary.

We also work with BNM to manage systemic risk issues associated with clearing and settlement activities. Following the MoU signed in October 2012, both BNM and SC have put in place enhanced working arrangements for co-operative oversight over the systems for transfer, clearing and settlement of securities and derivatives contracts. This is to strengthen the analysis of risks arising from financial interconnectedness within the clearing and settlement space, and better coordinate supervisory processes for dealing with such risks.

Oversight of trading activities

In the area of surveillance of trading activities, we adopt pre-emptive measures to review questionable trading at an early stage. Approximately 90,000 alerts were analysed during the year. Pre-emptive actions were instituted where results of the analysis revealed circumstances of questionable transactions.

In the period of January to December, Bursa Malaysia issued 31 unusual market activity queries (2012: 42), one market alert (2012: 3) and four surveillance queries (2012:14). Through these comprehensive surveillance efforts, the SC observed fewer instances of untoward market activities as compared to 2012 which reflects the improving discipline among industry participants and investors.

Given the proliferation of electronic trading and increasing complexity of trading techniques, the SC introduced several notable initiatives including the development of derivatives surveillance tools and the introduction of the Market-Surveillance Trading Visualiser to complement existing surveillance systems.

The SC also proactively conducts surveillance of bond trading activities by monitoring trade patterns on a daily basis using our electronic system. In-depth analysis is then initiated to detect any price volatility and anomalies in the trades carried out. The relatively stable trend observed in bond trading indicates that the SC's comprehensive efforts have served as an effective measure to deter irregular bond transactions.

Financial and Corporate Surveillance

In the area of financial and corporate surveillance, the SC's main focus was on public-listed companies (PLCs) with high market capitalisation.

As Malaysia's accounting framework is fully converged with the International Financial Reporting Standards, the SC's function in supporting compliance with the Malaysian Financial Reporting Standards (MFRS), both in form and in substance, and to promote quality financial reporting by PLCs remains critical. The SC remains steadfast in monitoring on-going developments and divergent views application of MFRS in the market to ensure the coherent and consistent implementation of these accounting standards.

As part of the corporate surveillance activities on PLCs, the SC focused on financial reporting issues that may have a material impact on the capital market. In view of this, the SC undertook close monitoring of developments pertaining to the upcoming revisions on revenue recognition under *IFRIC 15, Agreements for the Construction of Real Estate* and *MFRS 141, Agriculture,* with regard to the valuation of biological assets.

PART 3 – PROTECTING OUR INVESTORS THROUGH ENFORCEMENT AND EDUCATION

Photo credit: ***Edzuan Ezzady Rossidi***
Prosecution & Civil Enforcement,
Enforcement

PART 03

PROTECTING OUR INVESTORS THROUGH ENFORCEMENT AND EDUCATION

INTRODUCTION

Malaysia's capital market continues to build the trust and confidence of investors to participate in the fundraising process. It is supported by strong intermediation capabilities offered by our intermediaries and market professionals as well as a deep pool of domestic liquidity. The SC's efforts to broaden investor participation are premised holistically on helping investors exercise good judgement and discretion in making investment decisions, as well as intervening where investors are most at risk.

The investing environment is changing, with a plethora of information available instantly across multiple channels. Our efforts to reach out and educate the investing public are essential for raising awareness of the benefits of investing in the capital market as well as providing the requisite skills, knowledge and tools to better safeguard their rights and investment choices. Complementing this are various redress mechanisms by way of sanctions and compensation.

Conduct supervision makes assessments on whether investors are getting fair treatment and internal processes are in place to safeguard their interests. Where there is misconduct, the SC uses a range of enforcement tools to deal with those in breach. In determining the type of sanction that will be imposed on any contravention or breach, we take into account the nature and seriousness of the offence, previous regulatory record and any other mitigating factors. Where serious breaches occurs, enforcement actions are initiated and deterrent sentences are sought.

MARKET DISCIPLINE THROUGH ENFORCEMENT

The SC continues to focus our enforcement efforts on achieving effective outcomes through the use of our diverse range of enforcement tools and powers. To address serious breaches of securities laws, investigations were pursued and criminal charges filed against the culpable parties. We succeeded in securing and defending convictions at both trial and appellate courts for criminal prosecutions, emphasising our commitment to secure meaningful punishments against those who commit serious capital market offences. Statistics of ongoing trials and investigations are set out in Table 1 (page 47).

In relation to civil enforcement efforts, the SC exercised its powers to successfully disgorge ill-gotten gains from those who unjustly enriched themselves by engaging in prohibited trading practices. Civil remedies were also sought in favour of aggrieved investors who suffered losses due to corporate governance failures by licensed intermediaries.

At the same time, transgressions that required disciplinary sanctions were swiftly dealt with within the SC's administrative enforcement framework. We took assertive steps to safeguard the capital market against potential money laundering activities by imposing sanctions against market intermediaries for deficiencies with respect to anti-money laundering processes and controls.

Investigating and prosecuting serious breaches of securities laws

In line with efforts to inculcate high standards of corporate governance and to promote timely and accurate disclosure of financial information, criminal charges were filed against six individuals for offences relating to false financial reporting.

In March, Koh Tee Jin, Saipuddin Lim, Lee Han Boon and Lee Koon Huat were charged in the Sessions Court for their respective roles in furnishing false information concerning Axis Incorporation Bhd's quarterly revenue for financial years 2007 to 2008.

Similarly, following the revelation of the questionable financial affairs of Silver Bird Group Bhd, resources were prioritised to promptly investigate the matter. The SC's investigation culminated in criminal charges being preferred against two of the company's directors namely Dato' Tan Han Kook and Ching Siew Cheong for the reporting of false revenue in relation to the company's quarterly results for financial years 2010 and 2011.

Securing judicial precedents to reinforce deterrence

Considerable success was also achieved in securing convictions in the area of criminal prosecutions.

In April 2013, Zamani Hamdan was convicted by the Sessions Court for unlawfully carrying on the business of trading in futures contracts through his company, Rantau Simfoni Sdn Bhd. Neither Zamani nor Rantau Simfoni was licensed under the *Capital Markets & Services Act 2007* (CMSA) to carry out such a business, from which investments were solicited from 10 unsuspecting investors in 2010. Zamani had collected RM215,000 from the investors within a month. Zamani was convicted of the offence and fined RM1 million (in default of payment, one year's imprisonment) which is more than four times the amount he illegally collected. The matter is pending his appeal to the High Court.

In another case, following an appeal by the SC, the Court of Appeal convicted Mohamed Abdul Wahab, former Executive Director of Metrowangsa Asset Management Sdn Bhd, for submitting misleading information to the SC in relation to the amount of clients' funds managed by Metrowangsa. The decision of the Court of Appeal was significant in that it overturned the decisions of both the Sessions Court and the High Court to acquit Mohamed on the charge of making the misleading report to the SC. In its periodic reports to the SC in 2000 and 2001, Mohamed had falsely under-reported the sums of RM134,298,279 and RM231,020,000 respectively, being funds received from and managed on behalf of two of its clients, Lembaga Tabung Haji and Mimos Bhd. Mohamed was sentenced to a total fine of RM1 million (in default of payment, one year's imprisonment for each charge). The sentence affirms the SC's position that the failure of fund managers to safeguard their clients' interests is a fundamental breach of the trust and confidence placed upon them as licensed persons.

At the High Court, we also successfully defended the conviction of Wahid Ali Kassim Ali at the Sessions Court, where Wahid was found guilty of three counts of securities fraud. Wahid, who was a director of an asset management company, Aiwanna Manage Assets Sdn Bhd at the material time, was charged at the Sessions Court for omitting to state a material fact to his client in relation to the client's investments. Wahid was sentenced to one year's jail and fined RM3 million. The matter is pending appeal to the Court of Appeal.

In March 2013, the Court of Appeal affirmed a prior conviction against Ashari Rahmat for committing securities fraud. In an earlier decision by the Sessions Court, Ashari was found guilty of conspiring with others to swap successful IPO share applications in favour of those who had not submitted the applications through the formal share balloting process. Ashari is currently serving the imprisonment sentence of four years (including one year in default for non-payment of RM1 million fine).

Depriving insider traders of illegal gains

The scourge of insider trading is not only a threat to the integrity of the capital market, it also unjustly enriches the wrongdoers at the expense of counterparties who transacted in good faith based on publicly available information. Regulatory settlements were reached with the SC following proposed civil suits in two insider trading cases. These settlements led to the effective deprivation and disgorgement of illegal profits made by the individuals who traded on material non-public information.

In August 2013, the SC initiated a civil enforcement action against Tan Yeong Kim and She Tu Shwu Fen for the insider trading of Orisoft Technology Bhd shares between May 2007 and October 2008. During the material time, Tan was the Chief Executive Officer of Orisoft Technology Bhd. Tan and She Tu had purchased 619,200 Orisoft shares through She Tu's share trading account, having advance knowledge of a takeover proposal in respect of the company. Both Tan and She Tu agreed to a regulatory settlement of RM106,550.31 which is an amount equivalent to three times the difference between the price at which the shares were acquired and the price at which they would have been likely to acquire if the information had been generally available.

In the second case, the SC entered into a settlement with Lew @ Leow Muy Lai for a sum of RM122,436 following the SC's proposed civil action against her for the insider trading of shares of Worldwide Holdings Bhd in July 2006. Leow had purchased 380,000 Worldwide shares with non-public information that the company would be privatised by its major shareholder, Perbadanan Kemajuan Negeri Selangor. The settlement amount constitutes two times the difference between the price at which the shares were acquired and the price at which she would have been likely to acquire if the information had been generally available.

Recovering losses on behalf of aggrieved investors

The mainstay of effective investor protection was further pursued through the exercise of our civil powers to recover losses on behalf of aggrieved investors as a result of misconduct, such as mismanagement of clients' funds and market manipulation.

In January, the SC commenced civil action against RBTR Asset Management Bhd and seven other defendants for various breaches of securities laws in connection with an investment scheme that was managed by RBTR, a

Box 9: Securities Laws Held Constitutional by the High Court

On 27 November 2013, the High Court rejected an application by Dato' Sreesanthan Eliathamby to declare several provisions of the securities laws and the *Criminal Procedure Code* to be unconstitutional, stating that the application had no merits.

Dato' Sreesanthan, a corporate lawyer, was charged by the SC in July 2012 with seven counts of insider trading involving the shares of four companies, namely, Maxis Communications Bhd, Sime Darby Bhd, UEM World Bhd and VADS Bhd. The accused, who allegedly committed the offences between 2006 and 2008 had, in September 2012, sought to have the charges against him struck out on the basis that the provisions in question were in violation of various Articles in the Federal Constitution.

High Court judge, Y.A. Tuan Haji Kamardin Hashim in rejecting the application, held that the provisions in question were good law and valid, and were not in conflict with Articles 5(1) and 8(1) of the Federal Constitution, as argued by the accused. An excerpt of the judgment relating to the challenge to SC's powers of search and seizure under section 128 of the *Securities Commission Act 1993* (SCA) is set out below:

> *"Peguambela terpelajar bagi Pemohon dalam hujahan mereka mendakwa seksyen 128 SCA kononnya bercanggah dengan prinsip kesamarataan, tidak berkadaran dan tidak berkewajaran dengan matlamat yang ingin dicapai oleh SCA adalah tidak benar dan jauh tersasar. Sekiranya hujahan peguambela diterima, Mahkamah ini berpandangan hasrat murni dan matlamat SCA tidak akan tercapai atau sekurang-kurangnya akan terjejas teruk. Oleh kerana kesalahan-kesalahan yang terdapat di bawah SCA melibatkan jenayah kolar putih yang berbentuk kompleks dan sukar untuk dikesan, maka seharusnyalah SC diberikan kuasa yang cukup luas dan khas bagi melumpuhkan jenayah kolar putih tersebut. Dengan kuasa-kuasa yang diberikan tersebut maka pasaran saham dan pasaran modal di Malaysia dapat perlindungan sebaik-baik mungkin. Kelumpuhan pasaran saham dan pasaran modal boleh menghancurkan ekonomi negara dan ini hendaklah dielakkan daripada terjadi."*

Translation:
[The submission by learned counsel for the Applicant that section 128 SCA is purportedly inconsistent with the principle of equality, is disproportionate and not reasonable to the objectives which the SCA sought to achieve, is untrue and is far off the mark. If counsel's argument is accepted, this Court is of the view that the intention and objectives of the SCA cannot be achieved or at the very least will be adversely affected. As the offences under the SCA involve white collar crimes that are complex and difficult to detect, the SC should be given sufficiently wide and specific powers to thwart these white collar crimes. With the powers that are provided, the stock market and capital market in Malaysia can therefore obtain the best possible protection. A crippled stock market and capital market can destroy a country's economy and this must be prevented from occuring.]

The court granted a stay of the trial pending an appeal by Dato' Sreesanthan to the Court of Appeal.

The offences under the *Securities Industry Act 1983* (SIA) and the CMSA carry a maximum penalty of imprisonment for a term not exceeding 10 years and a fine of not less than RM1 million.

licensed fund management company. The suit contends, among others, that RBTR and its directors had failed to conduct proper due diligence to safeguard investors' monies and instead, misused monies for purposes contrary to the terms of the investment scheme resulting in significant capital losses to investors. The SC is seeking declaratory and restitutionary relief amounting to RM13,352,250 on behalf of the aggrieved investors of the scheme.

Apart from RBTR, the other defendants in the suit are Al Alim Mohd Ibrahim and Valentine Khoo (Directors of RBTR at the material time and holders of the SC's Fund Manager's Representative's Licence), Locke Guaranty Trust Limited, Locke Capital Investments Limited, Nicholas Chan Weng Sung and Joseph Lee Chee Hock (Directors of Locke Guaranty and Locke Capital) and Isaac Paul Ratnam.

In a separate case, we entered into a regulatory settlement with OCBC Bank (M) Bhd following a proposed civil action by the SC against the entity for share price manipulation. On 25 July 2011, the share price of DRB-HICOM Bhd had closed at RM1.95, which was 14.5% lower than its previous closing price of RM2.28. The SC's investigation revealed that the fall in the share price was a result of the trading activities by OCBC Bank in the stock on that day.

During the material time, OCBC Bank was a party to an options contract under which they would be required to pay the counterparty, upon maturity of the contract on 1 August 2011, a settlement price based on among others the prevailing market price of DRB-HICOM shares. Therefore OCBC Bank gained from the price manipulation by paying a lower settlement price to its counterparty than it otherwise would have had to if the price of DRB-HICOM shares had closed higher. At the same time, investors in DRB-HICOM warrants that were also due to mature on 1 August 2011 suffered losses because the settlement price for the warrants was adversely affected by the closing price of DRB-HICOM shares on 25 July 2011.

OCBC Bank, without admission or denial of liability, agreed to pay RM2,475,000 being three times the pecuniary gains made by them as a result of the breach. The SC will use the amount disgorged from OCBC Bank to compensate investors who were aggrieved as a result of the misconduct.

Timely regulatory intervention and administrative sanctions

The SC effectively exercised its administrative powers to deal with regulatory breaches by market participants so that such breaches are remedied swiftly and to pre-empt wider systemic issues. In doing so, a total of RM1,350,000 in administrative fines were imposed against market participants for various transgressions, ranging from poor compliance to omission of material information in corporate proposals. All administrative fines are paid to the Federal Consolidated Fund.

In November, administrative fines were imposed against Ranhill Energy and Resources Bhd (Ranhill Energy) and its Executive Director/President and Chief Executive, Tan Sri Hamdan Mohamad for failing to disclose to the SC material changes to Ranhill Energy's business in relation to its proposed listing exercise. The material change was in relation to the suspension of a licence issued by Petroliam Nasional Bhd to Perunding Ranhill Worley Sdn Bhd (PRW), a company controlled by Tan Sri Hamdan. As the contract between PRW and Petroliam Nasional Bhd represented a substantial contribution to Ranhill Energy's group revenue, the suspension of licence gave rise to a potential adverse impact on the group's oil and gas business. These material developments would have required Ranhill Energy to immediately inform the SC, which they had failed to do.

Box 10: Enforcement of Auditing Standards and Ethics

Audit Oversight Board (AOB) continues to conduct inquiries and impose appropriate sanctions against auditors for non-compliance with auditing and ethical standards, maintaining a credible form of public assurance in the auditing profession and the financial reporting of public-interest entities (PIEs).

AOB's enforcement philosophy is to balance the principle of proportionality, efficiency and achieving the desired outcome before any sanction is imposed on an individual and/or audit firm. Depending on the deterrent effect AOB plans to achieve, the sanctions could include among others, reprimand, relevant professional education to be undertaken by the person concerned, prohibition from accepting clients for a period not exceeding 12 months, prohibition from auditing any PIEs for a period not exceeding 12 months or permanently, and imposition of monetary penalty not exceeding RM500,000.

In undertaking the inquiry, AOB is mindful of the concept of fairness where any person subject to an inquiry is given the opportunity to clarify both in person and through written representation the issues raised against them, present relevant information and documents to support their defence.

Where serious breaches were identified by AOB, arising from its inspection of audit firms and auditors and its oversight activities, appropriate measures are taken to impose proportionate sanctions. In this regard, the AOB sanctioned six auditors through public reprimands and imposition of fines.

The SC also views breaches of statutory obligations seriously and had publicly reprimanded a bond trustee for failing to perform its duties as a trustee as required under section 273(1) of the CMSA. In July 2013, Universal Trustee (Malaysia) Bhd was sanctioned for its failure to inform the SC of the bond issuer's failure to remedy breaches of the trust deed. Universal Trustee had also failed to hold a bond holders' meeting and place before such meeting, proposals for the protection of the interest of the bond holders.

Safeguarding the capital market against money laundering activities

The SC is committed to ensuring that capital market intermediaries implement the highest standards of preventive measures to counter money laundering. A number of deficiencies in preventive measures by licensed intermediaries were successfully detected and a total of RM350,000 in administrative fines were imposed against them.

In April, an administrative fine was meted against TA Securities Holdings Bhd after it was found that the company had failed to implement effective internal systems to detect and report suspicious transactions as required under the *Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries.*

Customer due diligence is an important gatekeeping function in combating money laundering activities through the capital market. In this regard, administrative sanctions were imposed on Okachi (Malaysia) Sdn Bhd following examination findings by the SC which revealed shortcomings in its customer due diligence process, which had resulted in their dealings with a high-risk customer.

We continued to facilitate and reinforce a high level of compliance by licensed intermediaries with the SC's *Guidelines on Prevention of Money Laundering & Terrorism Financing*, as well as observance with global standards and best practices in relation to this increasingly important scope of the SC's supervisory function.

Ensuring responsible journalism

Financial journalists play an important role in an efficient capital market as the media provides investors with a credible source of information for investment decisions. Therefore, it is imperative that dissemination of information or reports by financial journalists is done in a fair, accurate and responsible manner.

In October 2013, a regulatory settlement was entered with K.A. Jahabar Sadiq a/l K.A. Abdul Kader, the editor of *The Malaysian Insider*, in connection with news published on its online news portal on 10 August 2012. The article, headlined 'SC to order Sime general offer for Eastern & Oriental Bhd (E&O), say sources', had falsely reported that there would be a change in a prior regulatory decision by the SC that Sime Darby Bhd was not required to undertake a mandatory general offer for E&O shares. The price sensitivity of the subject matter of the article coupled with the recklessness with which the article was written, without any verification with the SC, had created unwarranted and steep fluctuations in the price and volume of E&O shares.

The settlement was reached following a proposed civil action by the SC against Jahabar and *The Malaysian Insider* for making false statements in the said article which was likely to induce the purchase of securities by other persons. As a result of the regulatory settlement, an unequivocal retraction of the article and apology was made by *The Malaysian Insider.*

International co-operation for cross-border investigations

One of the key aspects of an effective regulatory framework is international co-operation on enforcement matters. The significance of international co-operation and exchange of information between securities regulators grows in tandem with the increasingly borderless nature of financial transactions, more so with the rapid evolution of technology. The SC discharges its obligations as an effective member of the IOSCO by providing timely and constructive investigative assistance to its foreign supervisory counterparts pursuant to a Multilateral Memorandum of Understanding (MMoU) of which Malaysia is a signatory.

We received and provided timely responses to 11 requests for assistance from seven foreign jurisdictions. The nature of requests varied in accordance with the complexity of the foreign authorities' investigations, ranging from simple requests for licensing information to tracing of securities and related financial transactions.

Table 1
Investigation, prosecution and civil enforcement activities in 2013

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	5
Number of witnesses called to give evidence during trials	47
Number of active investigation cases	56
Number of witnesses interviewed for investigation	246

INVESTOR OUTREACH FOR INFORMED PARTICIPATION

The Malaysian capital market has a wide and diverse range of investor segments, each with varying levels of financial literacy, experience, risk tolerance and access to information and investment tools. As such, Investor Education (IE) is a key component of the SC's investor protection mandate as informed and vigilant investors can exert greater discipline on market participants and in turn, reduce the cost and burden of regulation.

The SC's IE initiatives are centred around the objective of promoting more active and informed retail participation in the capital market. Our initiatives are tailored to target both potential and retail investors taking cognisance of their differences in backgrounds and investing objectives. These are implemented directly by the SC as well as our training and development arm, SIDC.

SC Mobile Unit

The SC launched its first mobile unit as another avenue to access the public in urban and rural areas. By arriving at the community's door-step, information on the SC and its role is disseminated through informal consultations and engagements. Having travelled to eight locations from Kangar, Arau and Sintok in the north, to Kuala Terengganu on the east coast as well as Shah Alam, Cheras, Seremban and Putrajaya in the central region, we were able to gauge the level of investment literacy in these communities.

The SC also participated in the Ministry of Finance (MOF) Mobile Community Transformation Centre (CTC) programme to bring government agencies and other relevant parties to various communities throughout Malaysia. Between July and November, we additionally participated in CTC programmes in Jeli in Kelantan, Segamat in Johor and Sungai Petani in Kedah.

SC Reach Roadshow "Bersama SC"

In December, the SC organised a three-day investor education roadshow programme in Kota Kinabalu. This was part of SC's ongoing efforts to promote more informed investor participation by increasing public awareness on the wide range of capital market products available and educating investors about their rights and responsibilities when investing in the capital market. The programme reached out to 10,000 potential and current investors in Sabah which has a growing investor base due to its young and diverse population.

A total of 24 exhibitors comprising capital market service providers, institutions, federal and state government entities took part in the event. Exhibition booths provided content to the public on the different types of investment products offered by the capital market, including unit trust funds and PRS.

"SC Assists"

The SC Chairman and Datuk Radin Malleh, Minister of Sabah Rural Development, launched the SC's first mobile application named "SC Assists" at the "Bersama SC" roadshow in December.

The mobile app was developed so that meaningful, relevant and timely information on licensed capital market products and intermediaries is communicated to the investor at the point when it is most needed. This basic mobile app is SC's first foray into the smartphone environment and is free for download for iPhone and Android users in English or Bahasa Malaysia versions.

Kempen Pelabur Bijak Kebangsaan (KPBK) 2012–2013

The SC, through SIDC, continued with its goal in delivering KPBK for various target segments to create informed and prudent capital market investors via seminars, conventional and online media initiatives as well as educational publications. The implemented programmes have exceeded the target reach, benefiting over 8.24 million people nationwide.

A total of 40,210 attended the KPBK's Seminar Pelabur Bijak events. In order to contextualise the concept of smart investing in terms of best ethical practices, lessons from KPBK were incorporated for the first time in a series of sermons, involving four mosques and 5,849 participants. In conjunction with this campaign, four infomercials were developed and broadcast on 420 radio and 499 primetime television slots, reaching out to an audience of 8.2 million and expanding its investor education coverage exponentially.

REINFORCEMENT OF INVESTOR RIGHTS

The SC continues to place importance on the requirement for issuers and distributors to treat investors fairly, taking into account the design and delivery of investment products. When the need for dealing with investor grievances arises, a structured complaints handling process is in place. This is further supported by the availability of effective dispute resolution and redress mechanisms, increasing investor confidence and trust in the capital market and encouraging fair business practices.

These mechanisms essentially provide investors with access to remedies that do not impose a cost, delay and disproportionate burden.

Regulation of sales practices for investor protection

The *Guidelines on Sales Practices of Unlisted Capital Market Products* (SPG) which came into effect in March primarily seeks to promote responsible product innovation and create a culture of good product governance both at the time of its creation through to its sales. As such, the scope of the SPG covers all stages of an investment product's cycle.

A principle tenet of the SPG is the fair treatment of investors. Businesses that demonstrate legal and ethical conduct build a strong reputation for fair and professional conduct and earn investors long-term loyalty. This in turn, will lead to higher sales of products, minimise complaints by the investors and enable businesses to be more competitive.

The rationale of the SPG is to prioritise the interest of investors through having proper policies and processes in place; one that gives due regard to their interests in the promotion, marketing and sale of unlisted capital market products. The SPG introduces the 'product highlights sheet' which is expected to empower investors in making informed investment. With clear, concise and effective disclosure investors should be in a better position to assess and make comparisons on products offered.

In line with IOSCO's recommendation, the SPG introduces a standardised suitability assessment process in order to ensure that the marketing of products would commensurate with the investor's financial standing, investment objectives and risk tolerance.

By conducting suitability assessment, proper risk profiling of investors can be achieved to ensure that the right product is recommended to investor, depending on their risk profile and needs.

The implementation of the SPG is not just timely but significant to curb mis-selling of unlisted capital market products.

Complaints handling

The Investor Affairs and Complaints Department handles complaints from the public on capital market-related matters. The SC classifies 'complaints' as reports by aggrieved investors, whereas 'enquiries' are requests for clarification and information.

Complaints and enquiries are looked at from all aspects and channelled to the appropriate department in the SC. Where a matter falls outside our purview, the matter is redirected to the relevant regulatory agency and the complainant or enquirer is informed accordingly. All feedback to the SC is an important indicator of the pressing issues affecting investors in the capital market.

Table 2
Statistics on complaints and enquiries

	2013	2012
Complaints	415	674
Enquiries	1,010	560
Total	**1,425**	**1,234**
Files open during the year*	163	202
Files closed during the year	204	60
Total complaints/ enquiries resolved within 15 days	716	529
Total complaints/ enquiries of similar issues that are inserted into existing files*	709	705
	%	%
% of files opened against total receipt	11.44	16.37

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

Some of these complaints are made because they have a direct impact on the complainants themselves, others are submitted with a view of providing intelligence or alerts to the SC. Strict confidentiality of all complaints received is observed and enforced, consistent with provisions of the securities law.

The number of complaints received by the SC totalled 415, which is 38% less than 2012; enquiries increased by 80% to 1,010 (2012: 560). This clearly reflects better awareness among investors of the need to verify or look for more information before making investment decisions. Of the enquiries received, 225 were in response to infomercials on basic investing and avoiding illegal investment schemes, which were broadcast on free-to-air TV and YouTube.

New internal processes were implemented and employees skill sets were upscaled through various technical courses and on-the-job training. As a result, the number of complaints/enquiries resolved within 15 days improved by 35% from 529 in 2012 to 716 in 2013. We also closed 204 files as compared to 60 files in 2012.

Prevention of transgressions that may lead to the investing public being aggrieved is considered the most ideal outcome. The SC also undertakes preventive regulatory measures where names of companies and websites operating unlicensed investment activities are posted as Investor Alerts on the SC website to warn the public against investing in such schemes. We also issue verbal and written warnings as well as cease-and-desist letters to stop individuals and companies from undertaking such unlicensed activities.

We took 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).

The SC works closely with industry, self-regulatory organisations (SROs) under our purview and 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. Scam perpetrators have spread their purveyance of illegal schemes to social media. The SC is cognisant of this and is a member of the taskforce to combat illegal blog web-based activities chaired by the National Security Council (NSC), Prime Minister's Department and the working group on awareness of cyber security chaired by the NSC.

Securities Industry Dispute Resolution Center (SIDREC)

SIDREC continues to increase investor awareness and understanding of its services as an alternative dispute resolution channel for investors seeking redress for matters involving capital market products. The Center has seen a good increase in enquiries from the investing public as a result of stronger awareness brought about by on-ground activities, print and radio commercials and a CEO interview that ran in the past year. These efforts have included working with industry, regulators and the media in reaching out to the public.

The heightened awareness of SIDREC has been reflected in the significant increase of enquires and claims that have come to the dispute resolution body, from a base of 21 in 2011, 114 in 2012 surging to 224 in 2013. These include 10 claims which were referred by Bursa Malaysia. SIDREC mediated and adjudicated six cases and two cases are in the process of mediation. This is a 100% increase from 2012. Through early intervention, SIDREC has amicably resolved cases prior to mediation.

SIDREC engages with its members through industry associations and one-on-one discussions and collaborates with its fellow peers in Malaysia and other jurisdictions. To this end, it is now a member of the International Network of Financial Services Ombudsman Schemes.

Regionally, SIDREC contributes to the SC's participation at the ASEAN Capital Market Forum (ACMF) and is on the ACMF's Working Group for Dispute Resolution and Enforcement Mechanisms. This is an effort on the part of ASEAN to ensure that in the efforts to facilitate cross-border transactions in the capital market, the supportive infrastructure, such as effective dispute resolution mechanisms are also in place.

Capital Market Compensation Fund

An addition to the redress mechanism framework for investors in the capital market has been established in the form of the Capital Market Compensation Fund (CMCF), complementing the existing avenues administered by the regulators, SIDREC and intermediaries' own internal dispute resolution. There has been close co-ordination between the Capital Market Compensation Fund Corporation (CMC), which is the administrator of the CMCF, SIDREC and the SC in structuring the mechanics operating within the investor protection framework.

Since December 2012, the CMCF has ushered in its first full year of operations. The CMC's board of five members has convened four times where matters relating to implementation of the law, establishment of rules on compensation and other operational issues have been considered. The board has representation from highly regarded and experienced persons from various backgrounds, which include representatives from the exchange holding company, from the SC and industry. This diverse board, headed by an independent Chairman, serves to promote effective decision-making by ensuring that deliberations are conducted thoroughly and inclusive of various stakeholder interests, especially those of the investors.

CMC made its first compensation payout to a claimant pursuant to a determination made by Bursa Malaysia under the previous compensation framework, being a transitional case submitted prior to the establishment of CMCF.

PART 4 – OPTIMISING OUR RESOURCES AND CAPABILITIES

Photo credit: ***Mageswary Karroppiah***
Prosecution & Civil Enforcement, Enforcement

PART
04

OPTIMISING OUR RESOURCES AND CAPABILITIES

INTRODUCTION

As the capital market we regulate expands in both breadth and depth, we continue to augment our strong institutional foundation, established over the last two decades, through a broad range of developmental and regulatory programmes and initiatives. Continuously building SC's capability and effectiveness is key to delivering our dual mandate of regulating and developing the capital market.

The SC's strength is derived from people who take pride in their contribution towards implementing and catalysing the national economic agenda. Our employees bring tremendous insight, experience and expertise not only to the Malaysian capital market but also through their contribution and collaboration with international regulatory counterparts and international financial bodies. Our high performing culture infuses our people to drive the institution to become a credible and respected regulator.

We continue to engage our employees through initiatives that challenge them intellectually and engage them emotionally. We place high importance on capacity building and leadership initiatives that nurture our people to be resilient and forward thinking. We consistently challenge ourselves to perform better and we do not compromise on integrity and efficiency. Our leadership programmes are designed to bring forth leaders who are committed to deliver our strategic priorities.

The SC adopts a holistic approach to achieve higher efficacy in our operations and delivery system. We are undertaking a review of our organisation structure to ensure we have an optimal structure in place to drive our strategic priorities for the next three to five years.

MULTIFACETED APPROACH TO TALENT DEVELOPMENT

The SC's strong organisational performance and achievements are attributable to our people. In managing our human capital, a number of initiatives were introduced to further enhance professional and specialised skillsets of our people. These include providing them with opportunities for international exposure, leadership development programmes and training on technical competencies.

As we move into the third decade, we continue to take a hard look at what we want to be as a regulatory body.

There is a strong need for us to proactively respond to the increasingly sophisticated and complex capital market, with creativity and agility. With this in mind, we have embarked on a series of initiatives that would bring about the professional and personal development of our people. We also launched an initiative to encourage and nurture a culture of innovation in the institution.

Strengthening our talent pipeline

Employee attachment and secondment programmes

It is becoming increasingly important that we collaborate with our counterparts and other global regulatory bodies in cross-sharing regulatory knowledge and experiences. In recognition of our role and contribution in the global regulatory agenda, we were invited to participate in international secondment opportunities with IOSCO, OECD and Japan's Financial Services Agency (JFSA) headquartered in Madrid, Paris and Tokyo respectively.

This opportunity not only provides us with an avenue to promote emerging market views in the international arena but it also builds the capability of our people in strategic areas. Our people will have the opportunity to gain firsthand experience in international regulation and policy making. In addition, it enables them to understand the cultural diversity of these organisations and their operating environment, allowing us to have a more global perspective in our thought process.

We have also been actively sharing our regulatory experience and practices with other securities regulators through attachments of talented people since 2008. The secondment programme has grown into a flagship programme that enjoys strong subscription. From 2008 to 2011, the SC hosted 44 foreign regulators comprising 41 from the Capital Market Authority of Saudi Arabia, two from the UAE Securities and Commodities Commission and one from the JFSA for stints ranging from three to 12 months.

In 2013, we welcomed five attachés from three jurisdictions, namely JFSA, the Securities and Exchange Commission of Cambodia and Autoriti Monetari Brunei Darussalam. The attachment programme provided a platform for the attachés to gain valuable insights and knowledge on the various aspects of the Malaysian capital market while sharing their regulatory experiences with our people.

This is part of SC's efforts to uphold and improve regulatory co-operation and promote mutually beneficial knowledge transfer and acquisition, as well as foster better relations and understanding among fellow regulators.

Opportunities for young talent

The Graduate Management Executive Programme (GMEP) continues to serve as the SC's main platform in nurturing fresh graduates. This two year rotation-based programme allows Graduate Management Executives (GMEs) to gain experience in various regulatory functions within the SC before assuming specific positions at the end of the programme.

In 2013, 20 new GMEs were recruited. To date, a total of 235 talented individuals have joined this programme. In addition, we awarded external scholarships to 15 deserving students, adding on to our current pool of 42 scholars who are studying in established universities.

Our internship and capital market placement programmes that support young Malaysians to gain work experience for their professional development continued to attract the interest of undergraduates. We offered 10 internships and two capital market placements.

The SC also extended bursary awards to 20 financially deserving students to pursue their tertiary education with three top Malaysian educational institutions. Since 2011, a total of 60 students have benefited from this scheme.

Continuous Professional Development

The SC continues to encourage employees to pursue professional qualifications which will enhance their competencies, knowledge and skills in the performance of their jobs.

The SC Staff Scholarship Award scheme has been introduced for qualified employees to pursue post-graduate qualifications. These individuals, upon completion of their course, are placed in crucial roles which are pivotal to the development of the Malaysian capital market. Complementing this is our Financial Scheme for Continuous Professional Development (PROFOUND), which encourages continuous professional development among our high performing employees. Since 2011, a total of 11 PROFOUND awards have been given out to employees.

Customised capacity building

In the core area of enforcement, we ran a series of nine programmes on Advocacy Skills and Court Protocols with prominent practising lawyers, providing employees with the opportunity to gain first-hand knowledge on managing cases effectively. We had the privilege of hosting the Head of Strategic Relations of the Serious Fraud Office, UK who shared practical experiences on prosecuting commercial crime and fraud cases.

To enhance the understanding of corporate fraud in the SC, we encourage selected employees to be certified in their areas of work. A total of 19 employees from the Investigation and Financial & Corporate Surveillance departments have received their Certified Fraud Examiners qualification. Complementing this is the Supervisory Programme for SC Examiners (SUPREME) curriculum, which was developed in-house to produce highly competent and technically sound Examiners who will ensure effective examination of market intermediaries and institutions.

In addition, our partnership with the Institute of Chartered Accountants in England and Wales continues with four AOB employees successfully completing the professional course. In their role of promoting greater governance, they now will be able to apply knowledge obtained to engage with internal and external stakeholders more effectively.

Our Leadership Excellence and Development (LEAD) curriculum, currently in its fourth year, hones the leadership skills of employees, pushing them to think out-of-the-box. Two new initiatives covering Knowledge and Idea Sharing Session and facilitation of TEDTalk presentations were incorporated under the personal development ambit.

The SC also places high importance on the learning needs of our non-executive employees. The Reaching for Excellence and Career Advancement (REACH) is designed for non-executive employees to develop technical and personal skills, providing them with an opportunity to move up the career path.

To enrich their knowledge and physical ability to safeguard the organisation and its employees, our internal Auxiliary Police underwent training conducted by experienced facilitators.

Nurturing a culture of innovation

To foster innovation within the institution, Eureka, the Chairman's Award for Innovation was launched. The award is given to SC employees who apply creative and novel ideas to improve the institution in some way or another. Two awards were given out in 2013.

The first award centred on Enterprise Social Networking to facilitate work collaboration and knowledge exchange among SC employees. This winning proposal demonstrated how we can achieve faster problem-solving and wider dissemination of best practices while improving collaboration between departments and teams along the way.

The second award was given out for the development and implementation of a surveillance system on suspicious market trading activities. Besides the analysis of potential market manipulation, this system deciphers voluminous trading data, facilitating the identification of trading patterns and strategies applied by suspicious investors. This further strengthens the SC's oversight of the capital market.

Going forward, we will continue to build and sustain a culture of innovation by providing an environment that encourages new ideas. With this, we will be better equipped to operate in a rapidly changing capital market and business environment.

Corporate case study series

The SC continues to develop case studies on corporate exercises in the country, which are considered as iconic and unique in its structuring. To date, we have developed six case studies on corporate exercises that include hostile takeovers, mergers and acquisitions, privatisations and divestments. We have entered into a formal agreement with a training provider which enables them to use our capital market case studies in the training of industry participants.

Conversations@SC

Over the years, the SC has initiated and drawn from various intellectual discussions and forums. To ensure that the benefits and outcomes from these are shared across the institution, we continue our effort to grow in-house knowledge database.

Introduced in 2013, Conversations@SC is a collection of exclusive interviews with leading experts who share intriguing, innovative and inspiring viewpoints. These conversations cover a wide range of topics, ranging from economic, political and market developments to management and leadership trends.

We secured 12 exclusive interviews with prominent speakers during the sidelines of the World Capital Markets Symposium (WCMS). Moving forward, we will leverage on other platforms to build content for this database.

GOVERNANCE AND STANDARDS FOR ORGANISATIONAL INTEGRITY

We have, over the years, established a culture of honesty, openness and accountability and as an institution, we are committed to the highest level of ethical conduct in all our activities. In this regard, there is strong emphasis on the importance of integrity as well as the institution's corporate values among our people. We continue to strengthen our organisational governance as well as the adequacy and integrity of our systems and internal controls.

These efforts aim to ensure that our people continue to discharge their responsibilities based on high ethical standards, professional conduct and integrity.

Enhancing SC's Integrity Framework

For the intent and spirit of the SC's internal governance standards to be fully appreciated and its principles exemplified for day-to-day guidance, we completed the organisation-wide roll-out of the Compliance and Ethics programme. This initiative, made compulsory to all employees, is an interactive e-learning programme to refresh as well as create awareness and understanding of our governance standards as contained in the *Code of Conduct and Code of Ethics.*

To further enhance our governance standards, we introduced measures to strengthen our internal processes related to managing potential conflict of interest and for reporting concerns of improper conduct.

Risk Control Self-Assessment implementation

The SC continued with the organisation-wide roll-out of the Risk Control Self-Assessment (RCSA), introduced to strengthen internal governance by reasonably ensuring the effectiveness of internal controls implemented by line departments.

RCSA involves a structured approach to documenting the SC's business and regulatory objectives, risks and controls and having heads of department and their people assess the adequacy and effectiveness of internal controls to address critical risks at an operational level. Where controls are deemed inadequate, action plans are immediately developed to undertake the necessary measures to tighten controls and reduce risks to an acceptable level. Across the SC, 90% of departments have identified and prioritised their operational risks, while 74% have also completed their own key risk assessment which was put through a rigorous challenge process by the RCSA Project Team. The complete roll-out of the RCSA will be concluded by the first quarter of 2014.

The SC uses RCSA as a management tool to support our Enterprise Risk Management framework (ERM) which provides an overview on risks impacting the SC, while RCSA is a tool used to substantiate the risk issues and control ratings in ERM.

Personal Data Protection Act 2010

The SC has established an internal Project Team to drive the necessary efforts in ensuring the institution's compliance with the *Personal Data Protection Act 2010* (PDPA) which came into effect on 15 November 2013. In exercising our regulatory functions, the SC is required to comply with three out of the seven PDPA Principles, which are the Security, Retention and Data Integrity Principles.

Major actions undertaken by the Project Team include educating employees and achieving compliance, the development and issuance of a *Compliance Guide for Line Departments*, issuance of PDP Notices for areas where the SC is obligated to provide notice as well as obtaining consent for the use of personal data.

Internal policies and procedures

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, we have 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.

The SC currently has 383 documented processes, which are made available on our corporate portal so that our employees are clear about criteria, application and implementation. To strengthen our internal controls and governance, we undertook several process improvement exercises to meet the needs of all our stakeholders. This resulted in:

- Establishing internal processes necessary for the SC to comply with the *Whistleblowing Protection Act 2010* (WPA) i.e. a process for handling any disclosure of improper conduct made to the SC, as well as a process for handling any complaint of detrimental action;
- Improving processes related to our frontline application processing and compliance reviews for managed investment schemes;
- Updating and enhancing processes to strengthen the SC's regulatory functions such as Shariah compliance review, complaints handling, market surveillance, enforcement actions, inspections and intermediary risk assessment. This includes improving assessment methods and cross-functional processes as well as clarifying roles and responsibilities to facilitate effective collaboration among the parties involved; and
- Enhancing our corporate service processes relating to procurement, account management, event management as well as resource and facilities management.

KNOWLEDGE AND TECHNOLOGY FOR OPERATIONAL EFFICIENCIES

The SC constantly strives to apply leading edge solutions in our commitment to maintaining investor protection and market integrity. This requires the ability to swiftly respond to a fast growing, vibrant and dynamic capital market as well as effectively react to issues and challenges, no matter how complex. As such, sophisticated enabling tools are essential to complement and enhance operational processes that support our business objectives and to help advance the core mandate of the SC.

Institutional knowledge management

Having established a strong foothold in our infrastructure to manage the wealth of institutional knowledge within the SC, we developed a three-year Knowledge Management Roadmap (2014–2016) to move to the next phase of our knowledge value chain. The Roadmap was developed through a rigorous process of research, benchmarking and engagements with key stakeholders. It encompasses a host of integrated strategies to manage and leverage on the SC's intellectual capital.

The management of intellectual capital forms an integral strategy identified in the roadmap and preparatory work has been completed. We successfully developed purpose-specific methods to identify, retain and leverage on a diverse range of knowledge sources. A pilot implementation of this initiative was carried out to obtain and organise capital markets knowledge from past and present SC employees who are deemed as internal subject matter experts, as well as to manage knowledge on major SC projects.

The assimilation of a computerised solution for records management into SC's operations has also increased the efficiency of retrieving and sharing of information within the institution as well as achieving business continuity and protection of SC's intellectual capital.

IT Infrastructure and systems

To improve productivity and effectiveness of our market surveillance function, we upgraded our market monitoring and surveillance systems to provide more timely and comprehensive analysis and reports, enabling management to make informed decisions quickly. The system has been upgraded to maximise usage of the new equity data feed structure used by Bursa Malaysia's new Bursa Trade System engine (BTS2). The IT infrastructure has also been upgraded to allow for an enhanced surveillance of the derivatives market.

In addition, our wireless internet infrastructure has been upgraded with expanded coverage, enabling better connectivity to support the growing 'mobile' needs for our employees.

eXtensible Business Reporting Language

Following the formulation of the strategic information framework, the SC embarked on a five-year enterprise data warehouse development plan to strengthen the flow of information within the organisation as well as with Malaysian capital market participants. The development plan includes the five-year roadmap for the implementation of the eXtensible Business Reporting language (XBRL), which SC intends to introduce in the Malaysian capital market as it provides benefits in the preparation, analysis and communication of business information.

XBRL allows straight-through processing (STP) of information and offers cost savings, greater efficiency and improved accuracy and reliability to all those involved in supplying or using financial data. The SC will benefit from the ease of interpretation and comparison of financial information for early fraud detection and inter-company analysis. The market as a whole will benefit from improved decision making and better transparency.

Information security and business continuity

The SC places great importance on information security, as demonstrated by the achievement in ISMS ISO 27001:2005 annual surveillance audit. Our Electronic Reporting System, a platform which houses the SC's critical business systems, has been benchmarked against the international security standards and assessed as having successfully passed without any non-conformance report for two years in a row.

The SC's databases have been growing exponentially, significantly contributed by the many electronic systems that support business functions. Our IT strategy is continuously reviewed to ensure that our infrastructure has sufficient capacity to maintain stringent data protection as well as to address business continuity for the longer term.

National Cyber Security

The SC plays an important role in the National Cyber Crisis Management Plan as part of a nation-wide initiative by the Malaysian government under the National Cyber Security Policy (NCSP) to combat cyber threats to the Critical National Information Infrastructure (CNII). Under this plan, the SC and Bursa Malaysia have established a working group to provide input, recommendation and feedback on cyber security issues related to the Malaysian capital market specifically and the financial sector generally.

An internal SC Computer Emergency Response Team (SC-CERT) comprising members from various functions has also been formed to manage and counter cyber-security related incidents and reporting.

COMMUNICATIONS

To mark the institution's 20th anniversary, SC rolled-out a list of activities, including publishing a special book titled *Leading, Defining, Transforming: Securities Commission Malaysia 1993–2013* to commemorate this milestone. The book, launched by HRH Raja Nazrin Shah Ibni Sultan Azlan Muhibbuddin Shah, Crown Prince of Perak at an industry appreciation dinner, contains a variety of exclusive interviews with past and present employees, notable officials from the government and agencies as well as key industry players.

The WCMS marked our foray using social media to communicate with stakeholders. Using LinkedIn, Twitter and Youtube we created awareness of the event and engaged 63,509 users from capital markets and financial enthusiasts on up-to-date capital market developments. The SC also reached out to the investing public and financial community through domestic and international media.

Generating over 30 million hits (per year), the SC website (www.sc.com.my) was enhanced. A vital avenue for external stakeholders to retrieve key information related to the capital market, it provides a reliable repository of materials, allowing stakeholders to access press releases, publications, guidelines, enforcement actions and the exposure of prospectuses.

PART 5 – CAPITAL MARKETS REVIEW AND OUTLOOK

Photo credit: ***Ismaiza Hashim***
Information Technology,
Corporate Resources

PART 05

CAPITAL MARKETS REVIEW AND OUTLOOK

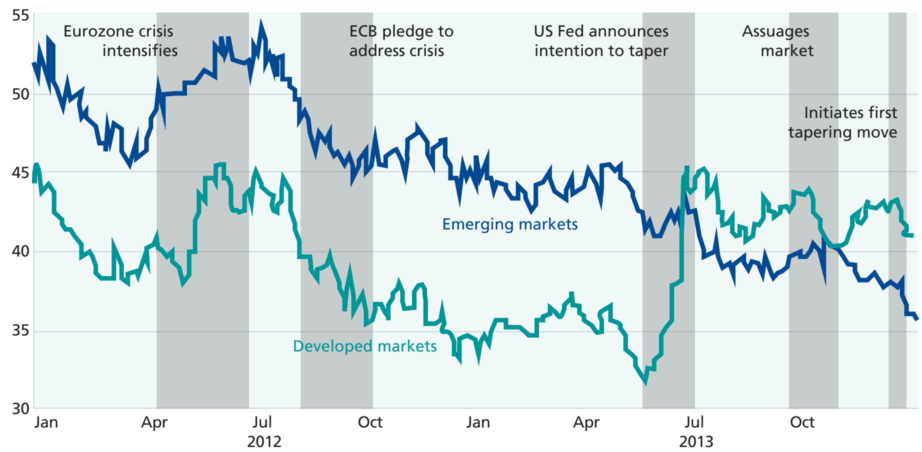
REVIEW OF 2013

Reactions towards expansionary monetary policy, especially in the US, Eurozone, and Japan have dominated capital market movements globally in 2013. This was in contrast to 2012, where developments of the debt crisis in the Euro area were central to market movements around the world.

Capital market conditions in 2013 reflected a growing divergence between growth prospects for advanced and emerging market economies, and the anticipation of a 'tapering' of the US Federal Reserve's (US Fed) asset purchase programme (Chart 1). Signs of economic recovery by the US were in contrast to a deceleration of growth in China, Brazil and other emerging market economies. At the same time perceptions of domestic

Chart 1

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

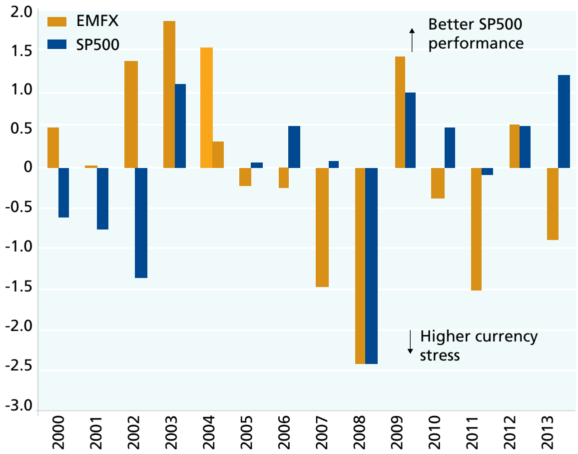


Source: SC using Thomson Datastream data

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

and external economic vulnerabilities in a number of those economies gave rise to concerns. This, coupled with expectations of tighter global liquidity, prompted an unwinding of carry trades, which increased pressure on emerging market currencies while driving advanced markets higher (Chart 2).

Chart 2
Emerging market currency stress versus S&P500 performance

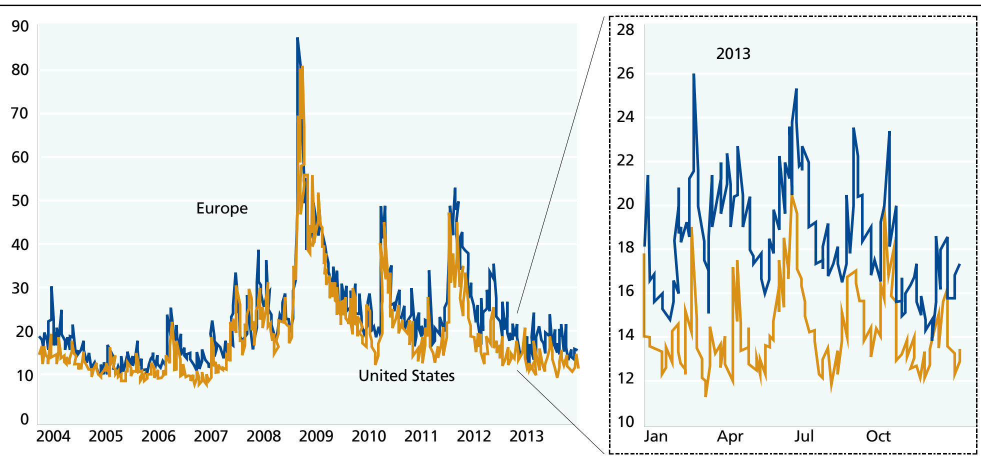


Source: SC using Thomson Datastream and IMF data
Note: EM currency stress measured by "pressure index", i.e. sum of percentage change in foreign reserves and US$ exchange rate during calendar year for all emerging market economies; S&P 500 performance measured by calendar year return. All figures standardised againts 2000-13 average.

As a result emerging market conditions worsened sharply after a worldwide correction in May 2013, prompted by the US Fed's announcement that improvements in the US economy would prompt a gradual reduction in quantitative easing. Stress levels remained high amid sustained price declines. Financial stocks prices became more sensitive to broader market shocks. Volatility in emerging bond markets, especially those in Asia, surpassed levels during the 2007–08 global crisis.

By contrast, conditions in developed markets continued to improve on the back of high upward momentum in stock prices, lower funding and liquidity premiums, and declining bond and stock market volatility. Moreover profitability and progress in financial reforms saw an easing in perceptions of banking sector risk. Risk aversion fell significantly amid optimism over the US outlook and Euro area stability, with volatility indices for the S&P 500 Composite and Euro STOXX 50 recording seven-year lows (Chart 3).

Chart 3
Investor risk aversion

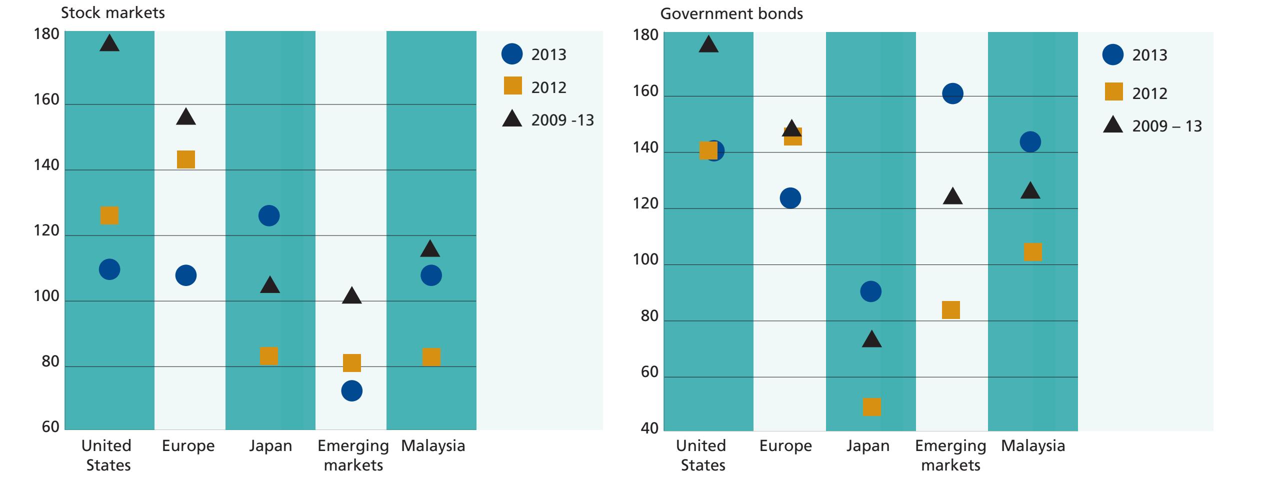


Source: Thomson Datastream US: VIX volatility index; Europe: VSTOXX volatility index.

Chart 4

Capital market volatility relative to pre-crisis levels

(Indexed, 31 Dec 2006 = 100)



Source: SC using Thomson Datastream data

Note: Volatility measured as standard deviation of daily index returns during period stated, rebased against 2006 volatility (pre-crisis). Major local currency stock and 10-year government bond indices, except for emerging markets (sovereign and non-sovereign foreign currency denominated bonds).

On 18 December 2013, the US Fed announced that it would reduce the size of its monthly asset purchases by $10 billion to $75 billion while reiterating its commitment to a low interest rate environment through a policy of 'forward guidance' to manage market expectations over interest rates. Immediate reaction to the announcement was relatively subdued in most emerging markets, with equity markets closing broadly flat one day after the announcement and benchmark yields and currency movements falling within one standard deviation of daily movements for the year. Advanced stock markets recorded gains as the prospect of US economic recovery is linked to stronger export demand and brighter earning prospects for export-oriented firms, such as those in the mining and, oil and gas industry.

WORLD STOCK MARKETS

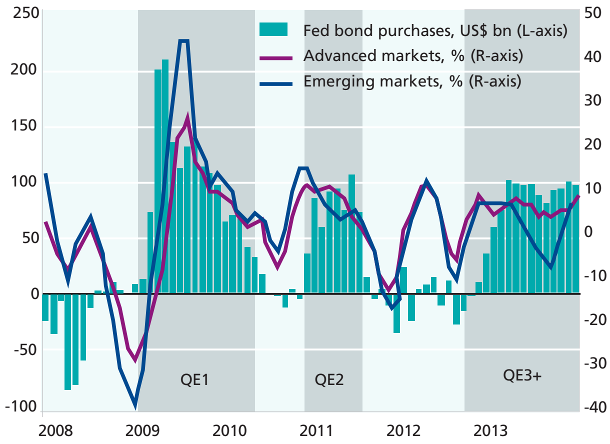
Stock markets in the advanced economies made strong and steady gains in 2013, while those in emerging market economies and Asia ex-Japan ended the year flat or slightly lower. The MSCI Emerging Market Index, ended the year 5% lower while the MSCI Developed Market Index, ended the year significantly higher by 24%.

The S&P 500, FTSE All-Share and Germany's DAX 30 indices ended the year on 23-year highs amid lower volatility. Japan's Nikkei 225 was seen as the best performer for 2013 gaining 56.7% buoyed by stimulus under the 'Abenomics' programme where plans to double its monetary base were being employed to achieve a target inflation rate of 2%. The S&P 500 climbed to a fresh high of 1,848 points during the year and ended the year 29.6% higher compared to a 13.4% growth in 2012 while the Eurostoxx 50 gained 18% for the year (Chart 5).

Among the emerging markets, the FBMKLCI and Johannesburg SE indices proved to be the exceptions; both closed at record highs through sustained domestic institutional interest and lower unwinding of foreign holdings relative to other markets. Emerging market volatility appeared to be largely driven by domestic events.

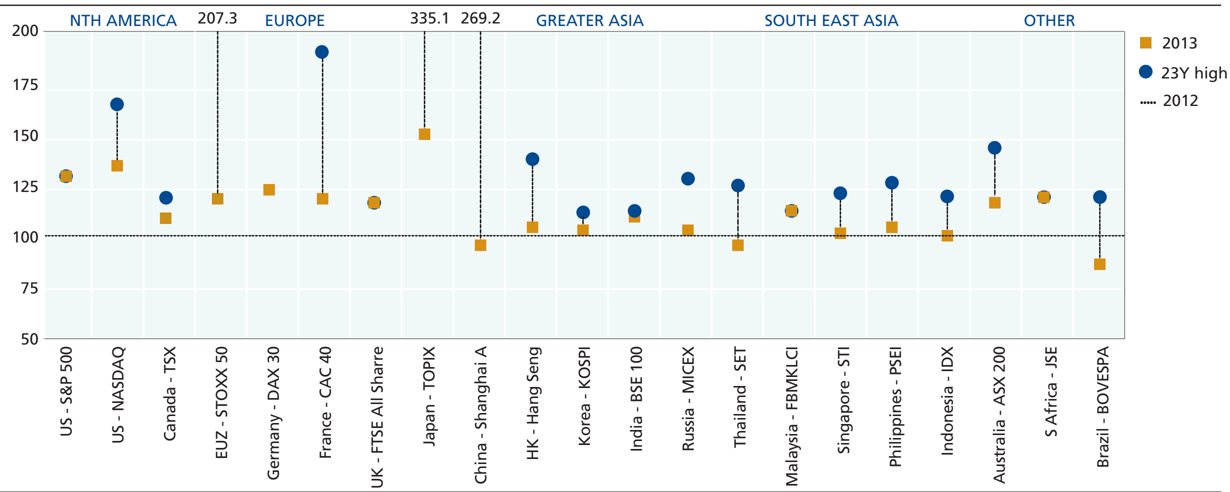
The US Fed's asset purchasing programme has had a strong bearing on stock market performance globally since November 2008 (Chart 6). However, perceptions of a regime shift since May 2013 led to a pre-emptive global re-allocation of portfolio capital, which sparked

Chart 6
US monetary policy and world stock market momentum



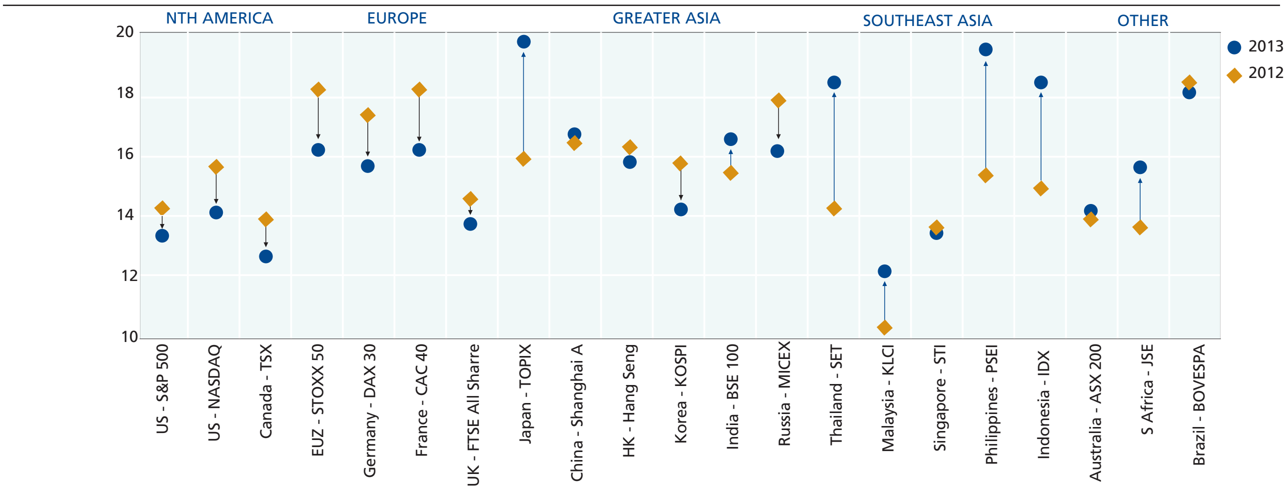
Source: SC and Thomson Datastream
Note: US monetary policy represented by monthly change in net outright purchased of securities by US Federal Reserve (US$bn); periods of quantitative easing shaded. Stock market momentum measured by 12-month rate of change (12/12) in nominal MSCI (developed) World and Emerging Market indices, in US dollars.

Chart 5
Stock market performance in 2013 and distance from 23Y high (31 Dec 2012 = 100)



Source: SC
Note: Records for the following indices go back slightly less than 23 years: Russian MICEX, China-Shanghai A, Australia-ASX 200, Singapore -STI, S Afica - JSE.

Chart 7
Stock market volatility (Annualised percentage)



Source: SC
Note: Volatility measured by annualised standard deviation of daily percentage changes in index.

a global market correction in the third quarter. While advanced markets regained their momentum following a surprise announcement of a delay to tapering on 18 September 2013, emerging markets continued to be marked by thin liquidity for the rest of the year. Global average number of trades rose 7% in 2013, which however was less pronounced than the 12% rise in value of share trading.[1]

The divergent performances of world stock markets point to some degree of misalignment of prices from their fundamentals. Forward-looking indicators suggest there is sustained investor interest in advanced equity markets. On this basis, Brazil, Russia, India and China (BRIC) economies and Asian markets on the whole appear to have been somewhat oversold, in particular China and Russia.

MALAYSIAN STOCK MARKET

Malaysian stocks performed strongly across the board in 2013. While blue-chip stocks rose steadily throughout the year, those of the smaller and high-growth segment recorded significant gains from April onwards.

The FBMKLCI traded 5% lower from its 2012 close in the first quarter reportedly amid uncertainty over the timing of the 13th general election (GE13). The index recovered sharply in the beginning of the second quarter, following the announcement of the polling date and backed by strong foreign demand for local stocks. Blue-chips then consolidated around 1,780 between May and June 2013 with some volatility around key events during that period including 5 May election and statements made by the US Fed regarding the

[1] Source: World Federation of Exchanges.

potential winding down of easy monetary policy. In the third quarter, the FBMKLCI corrected sharply amid continued heavy foreign selling coupled with the release of lower than expected economic growth figures for the second quarter. However the market quickly recovered in line with global trends on improving global macroeconomic prospects.

The FBMKLCI continued its upward momentum into the fourth quarter ending the year 10.5% higher after closing at an all-time high of 1,872.52 on 30 December 2013. However, Small Cap and ACE market stocks were the year's biggest gainers with their indices growing 36.7% and 34.7% respectively given a surge in demand which had begun in early May. Overall, stock market capitalisation grew by 16% in 2013 to RM1.702 trillion. Turnover velocity of Malaysian equities, a measure of market liquidity, was 36.05% in 2013, up slightly from 33.92% the year before.[2]

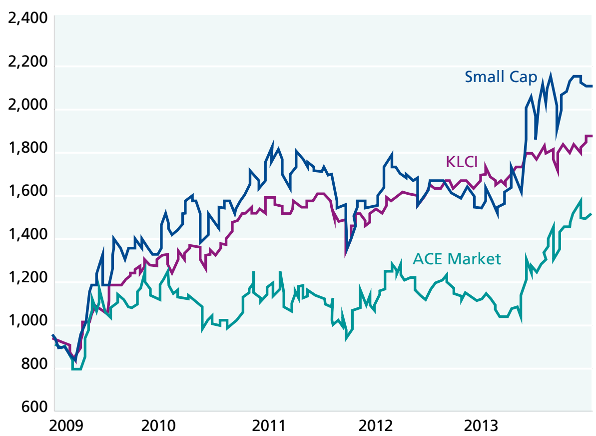
Foreign investors remained net positive buyers of Malaysian stocks for the year, compared to other

Table 1
Return and risk profile of key Malaysian stock indices

%	Return		Risk	
Index	**2013**	**2012**	**2013**	**2012**
FBMKLCI	10.5	10.3	12.0	10.4
Small Cap	36.7	-1.6	16.4	12.4
ACE	34.7	3.6	16.8	14.4

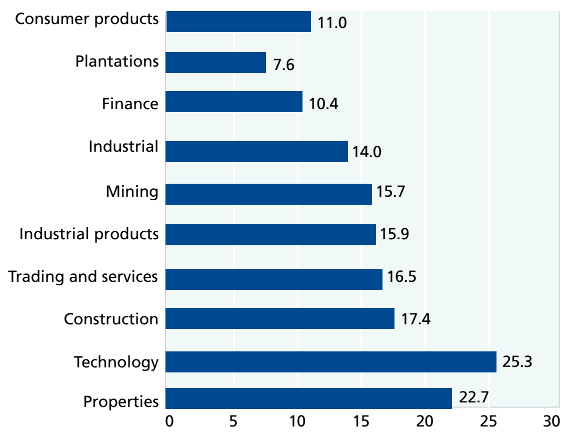
Source: SC using Thomson Datastream data. Return: percentage change in index over calendar year; Risk: annualised standard deviation of daily index movements during calendar year, in percentage points.

Chart 8
Performance of small cap and ACE Market indices relative to FBMKLCI (2 Jan 2009 = KLCI)



Source: SC

Chart 9
Malaysian stock market performance in 2013, by sector (%)



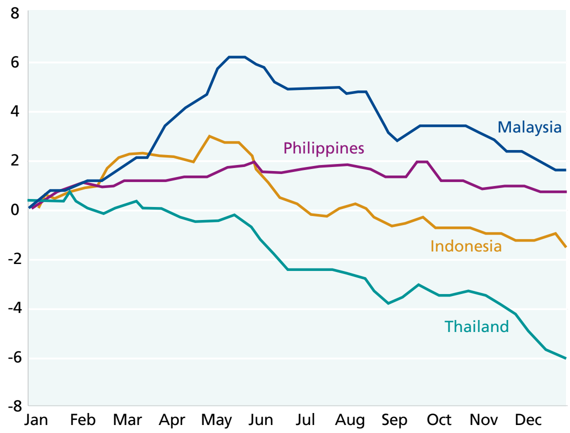
Source: SC

[2] Source: SC. Turnover velocity measures the annualised value turnover of all stocks listed on Bursa Malaysia relative to its capitalisation.

Chart 10

Net cumulative foreign stock market purchases in 2013

(RM billion)



Source: SC

markets in the region (Chart 10). However, foreign investors gradually pared down their holdings towards the end of the year.

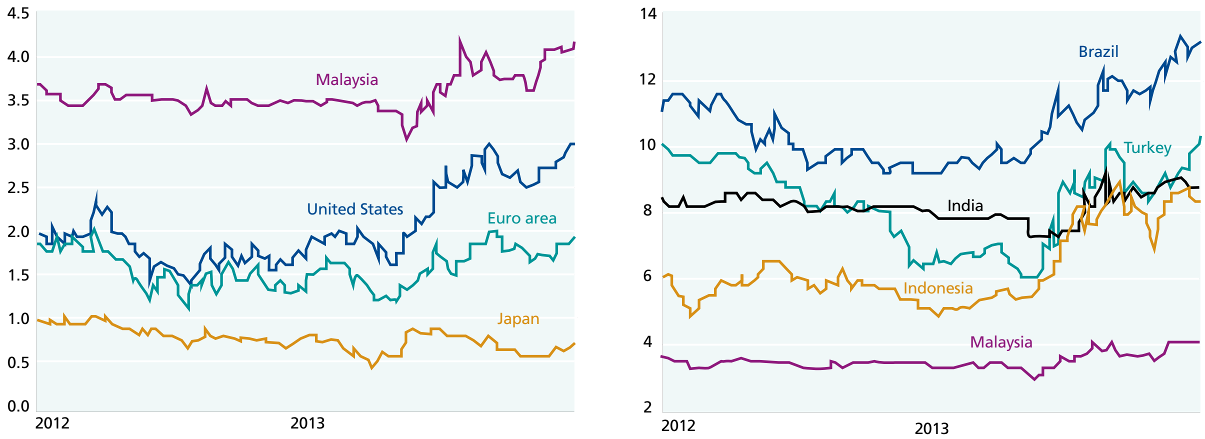
Positive views on infrastructure development drove property, technology and construction stocks higher, while rising long-term interest rates adversely impacted REITs and other yield-driven securities. The technology sector, which recorded the largest gains, recovered from a slump in 2012 on higher global semiconductor sales. Property prices rose steadily throughout the year due to accommodative interest rates and increased demand for both commercial and residential property. However, an increase in 10-year government bond yields had a negative impact on Malaysian REITs, although this has had a minimal impact on the overall market given their relatively small contribution to market capitalisation.

WORLD BOND MARKETS

Remarks by the chairman of the US Fed on 19 May that US monetary policy could soon be tightened sparked a sell-off in bond markets in the US, with bond yields rising from 2.13% at the beginning of

Chart 11

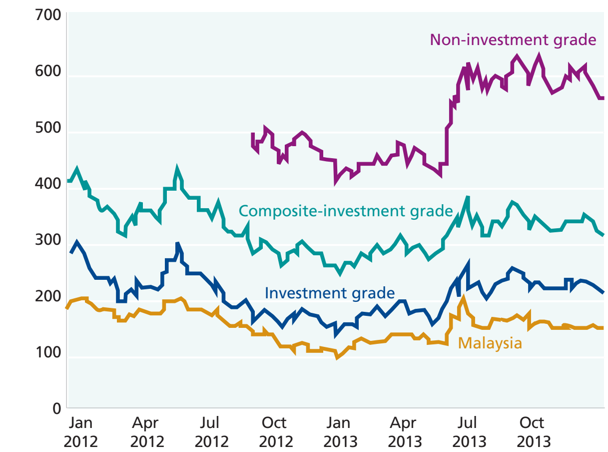
10-year government bond yields



Source: Thomson Reuters Datastream

Chart 12

Emerging market yield spreads (basis points)



Source: Thomson Datastream

Note: JPMorgan EMBI Global Diversified index; spread is difference between yield to maturity (stripped of coupons) relative to relevant US dollar benchmark rate.

June to 2.74% on 8 July. This had the effect of pushing up bond yields in other advanced economies, except for Japan where the adoption of an asset purchasing programme has led to a lowering of long-term rates (Chart 11).

The bond market sell-off in the US subsequently spread to emerging markets, which experienced an outflow of funds. This led to depreciating currencies and falling bond prices, which intensified as investors focused on vulnerabilities in these economies, in particular, weaker economic prospects in the region, especially China, as well as rising domestic and external imbalances in Indonesia, Turkey, India and Brazil.

As a result, it has become more expensive for emerging markets to raise bonds internationally. Non-investment grade issuers were most affected, with yield spreads widening by 200 basis points compared to investment grade bonds, whose average spread rose by 78bp (Chart 12). While at the end of 2013 Asian spreads, at 202bp, still remain lower than Europe (277bp), Latin America (330bp) and Africa (312bp), the region's premium nevertheless widened a significant 14.6% during the year.

Despite widening spreads, emerging market issuers, and in particular corporates, reportedly raised a record US$506 billion in 2013 (2012: US$488 billion).[3] This was largely attributed to resilient demand by institutional investors, including pension funds, whose obligations have continued to drive their global search for yield.

Capital outflows were not confined to emerging markets. A sharp rise in Asian bond yields suggested an increase in risk aversion to the region. Yields of Singaporean government bonds, as well as bonds in Hong Kong rose by around 20 basis points. The status of these two markets as international financial centres suggests they were also exposed to global re-allocation of portfolio capital towards Western markets.

MALAYSIAN BOND MARKET

The size of the Malaysian bond market totalled RM1.031 trillion in 2013 (2012: RM1.008 trillion), maintaining its position as the third largest local currency bond market as a percentage of GDP in Asia at 103.9%, after Japan, 222.3%, and South Korea, 130.2%.

Yields on Malaysian government bonds remained steady during the first four months of 2013. Thereafter, sovereign bonds rallied following the conclusion of the GE13, causing a flattening of the yield curve with yields on longer tenors falling to near record lows. In May 2013, owing to comments made by the US Fed

3 Source: Dealogic.

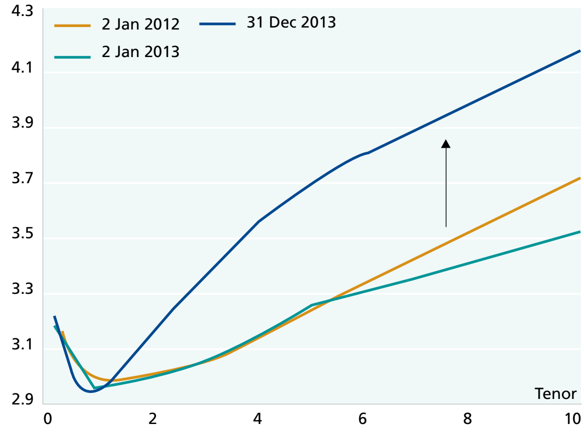
chairman regarding the potential winding down of their easy monetary policy, yields on Malaysian government bonds rose for four consecutive months, in line with global markets. A downgrade of Malaysia's sovereign debt outlook by Fitch Ratings on 30 July 2013 caused yields to rise further as volatility increased. This continued until mid-November when Moody's Investor Services upgraded the outlook on Malaysian sovereign debt which stabilised yields moving towards the end of the year despite the US Fed finally announcing its 'tapering' in December.

In contrast to other emerging markets such as Indonesia, which experienced significant outflows of foreign capital, the local currency government bond market avoided a big selloff, suggesting that foreign investors had not unwound positions indiscriminately. During the sell-off, while some foreign investors pared down their positions in Malaysian Government Securities, markets were supported by local banking institutions which increased their holdings. Reports also indicate that, rather than simply repatriating capital, many investors had chosen instead to reduce portfolio duration by switching into short-end of the curve (Chart 13).

Low foreign ownership of local currency corporate bonds meant that the market was spared the impact of global volatility. Foreign holdings of corporate bonds amounted to around 3.5% of their total outstanding value, or RM15.8 billion. These were largely concentrated in AAA-rated paper and typically held for the longer term.

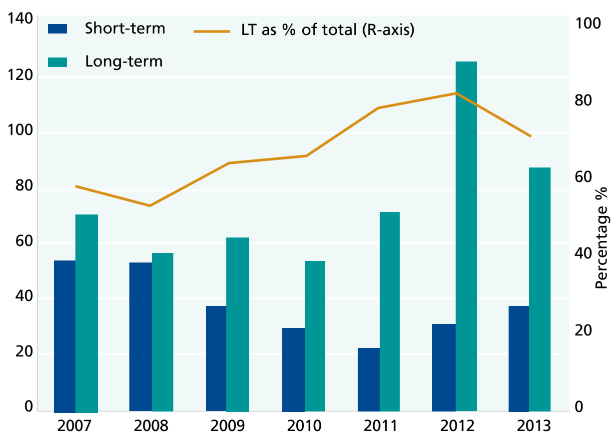
The maturity profile of corporate bond issues have lengthened, suggesting lower refinancing risks overall (Chart 14). Historical default rates remained very low at 0.03%, which amounted to RM135 million of corporate bonds outstanding.

Chart 13
Malaysia benchmark yield curve (percent)



Source: Thomson Datastream data

Chart 14
PDS issuance by maturity (RM billion)



Source: FAST BNM

FUNDRAISING

The Malaysian capital markets continue to be a significant source of funding for domestic economic activities. The demand for financing from the capital market resulted in an increase in the overall size of Malaysian capital market to about RM2.73 trillion in 2013, an increase of 10.5% from the preceding year.

In 2013, approximately 36.4% of total equity fundraising, equivalent to RM8.16 billion (2012: RM22.1 billion) was raised via IPOs while the remaining was raised via the secondary market. This is in contrast with 2012 when 70% of the total equity issuance was via IPOs. A total of 17 new companies were listed in 2013 (2012: 14).

The Malaysian bond market continues to have a healthy mix of public and private sector issuers which contribute 58% and 42% respectively to total bonds outstanding. Corporate bond issuance in 2013 amounted to RM86.17 billion, against RM123.8 billion in the preceding year. 2012 was an exceptional year with the issuance of the world's largest corporate sukuk of over RM30 billion by Projek Lebuhraya Usahasama Bhd.

Sukuk issuance accounted for 76% of corporate bond issuance in 2013, emphasising Shariah compliant issues as the preferred mode for fund raising via the corporate bond market. Malaysia has maintained its position as the largest issuer of Islamic bonds in the world, accounting for 69% of global sukuk issuances in 2013.

OUTLOOK FOR 2014

A dichotomy between investor optimism and central-bank caution over prospects for the world economy means that capital markets may be subject to shocks in 2014. Stretched valuations and an enthusiasm for higher-yielding assets suggest that investors are convinced that global economic recovery is imminent, or that if it falters, monetary support would be readily forthcoming.[4] Central banks have signalled, however, an intention to gradually withdraw such support over the coming months in line with solidifying growth in their economies. Markets may therefore be prone to shocks if actual growth rates disappoint or if monetary normalisation takes place at a faster pace than the markets expect.

Investors remain exposed to interest rate volatility owing to the large flows of funds into yield-driven assets, as well as growth of certain financing structures, over the past few years.[5] This is in spite of markets having brought forward their expectations of higher interest rates and effectively pricing-in monetary tightening.

Markets, financial institutions and certain types of investment structures remain tightly coupled through short-term leveraged funding and other financing structures whose values have grown in recent years.[6] An interest rate shock (such as a larger-than-expected reduction in asset purchases by central banks), or a pre-emptive unwinding of an investment position in anticipation of such a shock, could prove to be highly disruptive if markets were slow to adjust as a result of funding and liquidity squeezes, refinancing and rollover constraints or maturity mismatches.

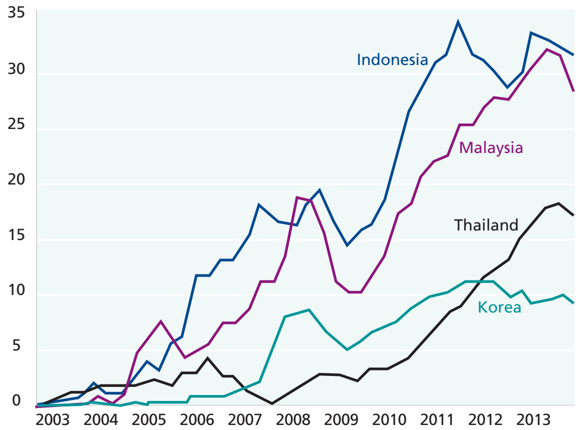
Bond markets in emerging market economies as well as those in Asia remain vulnerable to interest rate volatility and a rise in the cost of funds. Foreign holdings of bonds remain high by historical standards, in spite of the sell-off in 2013 (Chart 15). Amid supportive global liquidity conditions and funding

4 A widely-held view among analysts is that US recovery will accelerate in the second half due to pent-up demand for capital goods, and that asset portfolios will adjust accordingly on top of a gradual rise in interest rates. They include Nomura, BoA Merrill Lynch and Goldman Sachs, among others.

5 For instance, US high-yield bonds, "payment in kind" bonds and "covenant-light" bonds.

6 One example is mortgage real estate investment trusts (mREITs). See Global Financial Stability Report, October 2013, International Monetary Fund.

Chart 15
Foreign holdings of local currency bonds (% of total value)

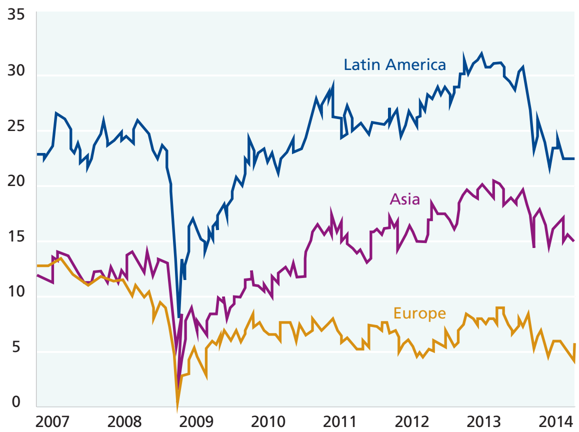


Source: Asian Development Bank

environment emerging market issuers, especially those in Latin America and Asia, have taken the opportunity to lengthen maturities (Chart 16); Malaysian bonds have also seen their maturities lengthen since 2009 (Chart 17). Nevertheless, by increasing portfolio durations this has also increased the sensitivity of bond valuations to interest rate risk. Moreover there is potential for further differentiation between the performance, and indeed the cost of debt financing, of highly-rated issuers and other issuers in the market.

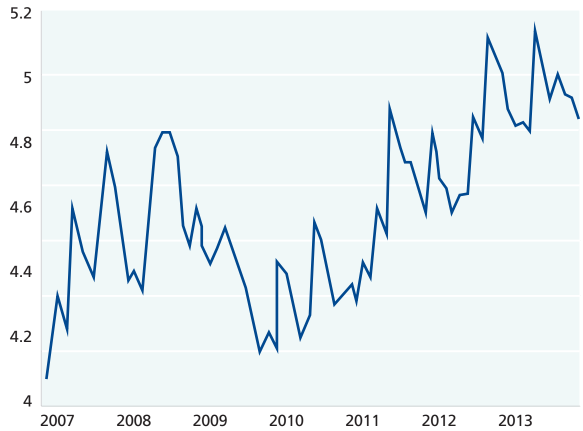
Malaysia is expected to maintain output growth of around 5% for 2014 with forecasts ranging from 5–5.5% (government) to 5.1% (market survey) and 4.9% (IMF).[7] The economy in 2014 is widely expected

Chart 16
Lengthening duration of foreign currency bonds by emerging market issuers (years)



Source: Thomson Datastream
Note: Average effective interest rate duration of bonds in respective JPM EMBI Global Diversified index (US dollars).

Chart 17
Modified duration of Malaysian government bonds (years)

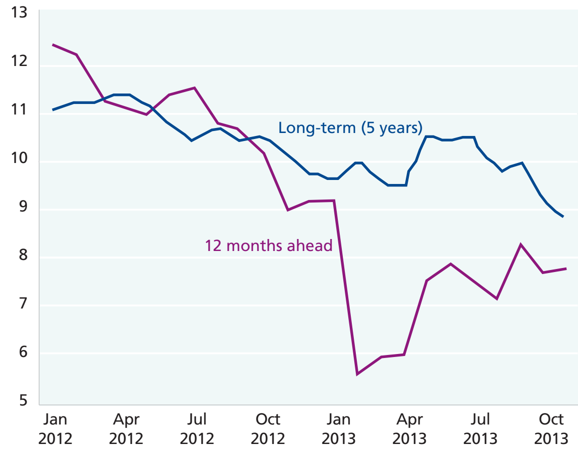


Source: Thomson Datastream
Note: Modified duration of Citigroup WGBI, all maturities (Malaysian ringgit).

7 Government forecast announced in the September 2013 Budget statement; median of 25 forecasts surveyed by Bloomberg; World Economic Outlook, October 2014, IMF.

Chart 18

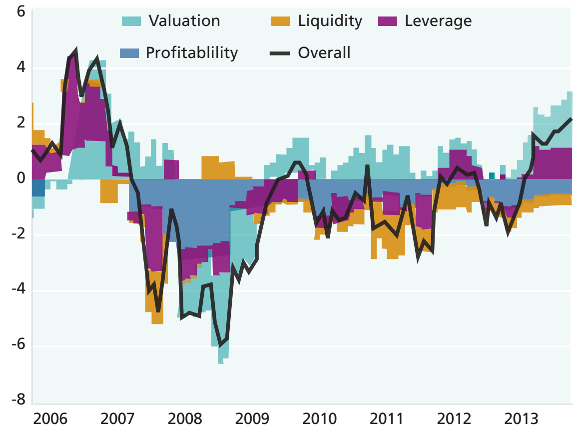
Earnings per share growth estimated (annual percentage growth)



Source: I/B/E/S
Note: EPS growth = 12M forward EPS/12M trailing EPS.

Chart 19

Corporate sector risk exposure (as of 31 Dec 2013)



Source: SC
Note: Valution: price to forward EPS; Liquidity; (negative) interest coverage; Leverage; total debt to assets; Profitability: (negative) return on assets. Overall index is sum of standardised components.

to be resilient, with output driven by the external sector as recovery in the advanced economies gain ground. Economic Transformation Programme (ETP) and other big-ticket construction projects are likely to continue to support domestic private investment. Although domestic demand is anticipated to remain resilient, higher inflation could dampen its contribution to overall economic growth this year.

A slower earnings outlook along with a significant appreciation in prices during the year, as well as the defensive low-beta nature of the Malaysian equities could weigh on the relative performance of the Malaysian stock market in 2014. Growth in earnings per share is expected to decelerate in 2014 to 7.8% from 15.7% during 2013. The average estimate for long-term (five-year) earnings per share (EPS) growth has also moderated, from 11% to 8.7% (Chart 18). However, there remains the possibility that the defensive nature of Malaysia's equities market may increase its relative attractiveness as global investors increasingly differentiate between the emerging stock markets.

In spite of the relatively strong performance of the local stock market in 2013, exposure of the corporate sector to market, credit and business-cycle risks has risen. A measure of such exposure has risen to a six-year high (Chart 19) and highlights the effects of significant appreciation in stock prices and a growing use of leverage amid accommodative monetary conditions.

PART 06

Statements and Statistics

COMMISSION MEMBERS

Seated (from left): Datuk Tan Leh Kiah @ Francis Tan, Datuk Ranjit Ajit Singh, Dato Dr Nik Ramlah Mahmood
Standing (from left): Dato' Mat Noor Nawi, Tan Sri Dato' Hasmah Abdullah, Fazlur Rahman Ebrahim, Tan Sri Dato' Seri Mohamed Jawhar Hassan, Dato' Gumuri Hussain, Datuk Dr Madinah Mohamad

DATUK RANJIT AJIT SINGH

Appointed 1 April 2012

Datuk Ranjit Ajit Singh is the Executive Chairman of the Securities Commission Malaysia (SC). He was previously Managing Director and has over 20 years' experience in the field of finance and securities regulation.

Datuk Ranjit has played a key role in international securities regulatory policy work. He is the Vice Chairman of the Board of the International Organization of Securities Commissions (IOSCO), the global body of securities regulators and the Chairman of IOSCO's Growth and Emerging Markets Committee (GEM).

Datuk Ranjit currently chairs the Securities Industry Development Corporation (SIDC), the Malaysian Venture Capital Development Council (MVCDC) and the Capital Market Development Fund (CMDF). He is also the Vice-Chairman of the Asian Institute of Finance and a member of the Board of the Labuan Financial Services Authority and the Financial Reporting Foundation. He is also a board member of the Malaysian Institute of Integrity (IIM).

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. He was also conferred the degree of Doctor of Laws honoris causa by Monash University Melbourne. He is fellow of CPA Australia and has worked in academia, consulting and accounting in Australia and Malaysia.

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. With more than 20 years experience in SC, she joined in 1993 as Manager of Law Reform and went on to become Director of the Policy and Development Division in 1997. She was made Managing Director and Executive Director of the SC's Enforcement Division in 2008. Dato Dr Nik Ramlah 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 was awarded The Award of Excellence for Outstanding Leadership in Islamic Capital Market at the London Sukuk Summit 2013.

Currently, she 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, Dato Dr 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 immediate past Chairman of SME Bank and served in this capacity from 2005 to 2013. He was also 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 Governance Board of PricewaterhouseCoopers Malaysia. He currently sits on the board of KUB Malaysia Bhd, Metrod Bhd and Media Prima Bhd. He has also served as a Non-Executive Director of Bank Industri & Teknologi Malaysia Bhd, Malaysian Airlines System Bhd, Sabah Bank Bhd and Rangkaian Hotel Seri Malaysia 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 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 is currently the Corporate Advisor of Johor Corporation and sits on the Board of Pelaburan Hartanah Bhd, Permodalan Felcra Sdn Bhd, Credit Counseling and Debt Management Agency and Dana Amal Jariah. He is also a member of the Shariah Council of BNP Paribas, Malaysia, the Audit Committee of Razak School of Government and Investment Committee of Majlis Amanah Rakyat. 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 its Chairman and Chief Executive Officer from 2006–2010. He joined ISIS as the Director-General in 1997. Tan Sri Mohamed Jawhar has served in various government positions, among others, 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 Board, Malaysian Anti-Corruption Commission; Distinguished Fellow, Institute of Diplomacy and Foreign Relations (IDFR); Distinguished Fellow, Malaysian Institute of Defence and Security (MiDAS); Fellow, Institute of Public Security of Malaysia (IPSOM), Ministry of Home Affairs; Board member, Institute of Advanced Islamic Studies (IAIS); Member, Laureate Advisory Board, INTI International University and Colleges; and Chairman, Malaysian National Committee of the Council for Security Cooperation in the Asia Pacific (CSCAP). He is also Malaysia's Representative as Expert and Eminent Person, ASEAN Regional Forum (ARF).

TAN SRI DATO' HASMAH ABDULLAH

Appointed 10 March 2011

Tan Sri Hasmah was a tax advisor to PricewaterhouseCoopers Taxation Services Sdn Bhd from 1 July 2011 until 30 September 2013. She is currently an independent and non-Executive Director of UMW Holdings Bhd since 1 September 2013 and Panasonic Manufacturing Malaysia Bhd from 1 October 2013. Tan Sri Hasmah is also on the Board of Trustees of the Malaysian Tax Research Foundation since April 2011 and on the Board of Trustees of Dana Amal Jariah from June 2012. Tan Sri Hasmah is the former Director General and Chief Executive Officer of the Inland Revenue Board (IRBM) and has served the agency for almost 38 years. Tan Sri Hasmah graduated in 1973 with a bachelor's degree in Arts (Hons) from University Malaya.

DATUK DR MADINAH MOHAMAD

Appointed 15 February 2012

Datuk Dr Madinah Mohamad is the Secretary General, Ministry of Education Malaysia (MOE), a position she has held since June 2013. As the Secretary General of the Ministry, she is involved in policy guidance and the administration of the ministry and is directly in charge of the development of the education in Malaysia.

Prior to her current position, Datuk Dr Madinah has had vast working experience in various Government agencies such as the Public Service Department, Ministry of National and Rural Development, Ministry of Works, and the National Unity and Integration Department of the Prime Minister's Department. She was also the former Secretary General, Ministry of Science, Technology and Innovation (MOSTI) from April 2009 until June 2013. She graduated with a bachelor's degree in Political Science from Universiti Sains Malaysia and a master's degree and a PhD in Human Resource Development from Universiti Putra Malaysia.

DATO' MAT NOOR NAWI

Appointed 1 December 2012

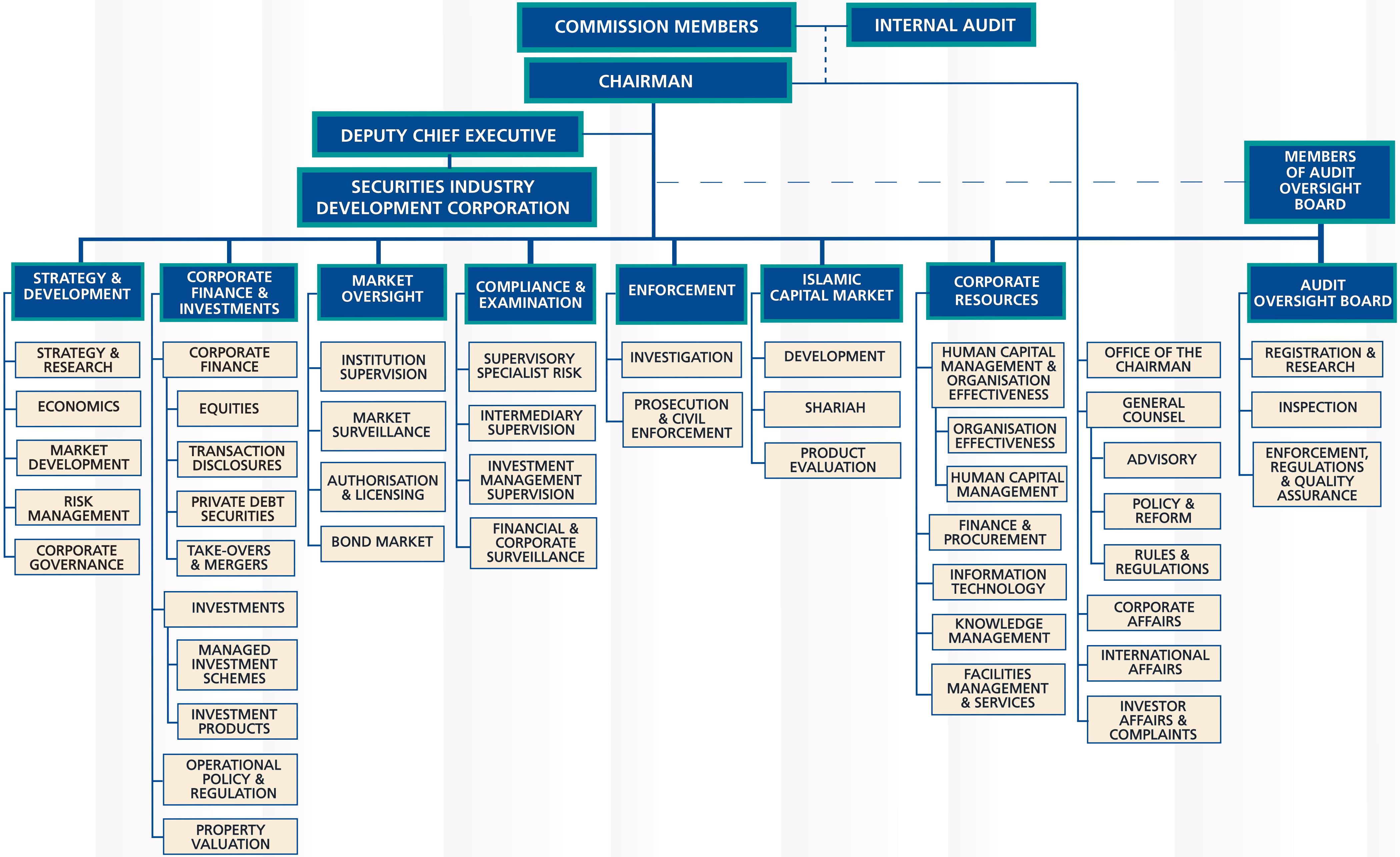
Dato' Mat Noor Nawi is currently the Deputy Secretary General Treasury (Policy), Ministry of Finance. Having been in the public service since 1981, Dato' Mat Noor has more than 30 years of experience in the government sector. He was the Agriculture Economist at the Federal Agriculture Marketing Authority (FAMA) before joining the 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, Bintulu Port Holdings 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.

EXECUTIVE TEAM

Seated (from left): Eugene Wong Weng Soon, Datuk Ranjit Ajit Singh, Dato Dr Nik Ramlah Mahmood, Zainal Izlan Zainal Abidin
Standing (from left): Shamsuflan Shamsuddin, Nik Hasyudeen Yusoff, Datin Teh Ija Mohd Jalil, Foo Lee Mei, Ahmad Fairuz Zainol Abidin, Goh Ching Yin

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 & Services Act 2007* (CMSA) and *Securities Industry (Central Depositories) Act 1991* (SICDA).

ABOUT THE COMMISSION

Members of the Commission

The Minister of Finance appoints Commission members. The Commission members comprise an Executive Chairman, a Deputy Chief Executive (DCE), and seven other members; inclusive of representatives from the government.

Datuk Ranjit Ajit Singh assumed the position of Executive Chairman since 1 April 2012. A profile of Commission members and their involvement in the various committees established by the Commission are provided on pages 79 and 87 respectively.

A Commission member may serve a maximum of three years, and is eligible for reappointment upon completion of his or her term. 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, including corporate bond and sukuk;
- 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;
- 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;
- Setting and approving standards for professional qualification for the securities and derivatives markets; and
- Promoting the development of securities and derivatives markets in Malaysia, including research and training.

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 a fair and orderly manner; and
- Systemic risk posed by the capital market is adequately managed.

Commission meetings

Eleven Commission meetings were held in 2013. The quorum required is five. The attendance record is set out in Table 1.

Table 1
Attendance at Commission meetings in 2013

Commission Member	Number of meetings attended
Datuk Ranjit Ajit Singh	11/11
Dato Dr Nik Ramlah Mahmood	9/11
Datuk Francis Tan Leh Kiah	11/11
Dato' Gumuri Hussain	10/11
Fazlur Rahman Ebrahim	11/11
Tan Sri Dato' Seri Mohamed Jawhar Hassan	11/11
Tan Sri Dato' Hasmah Abdullah	10/11
Datuk Dr Madinah Mohamad	10/11
Dato' Mat Noor Nawi	6/11

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.

Table 2
Committees of the Commission in 2013

Committee	Key Responsibility	Members
1. Audit Committee	Review effectiveness of SC's risk management and internal control systems and review the annual financial statements.	• Dato' Gumuri Hussain (Chairman) • Datuk Francis Tan Leh Kiah • Fazlur Rahman Ebrahim • Tan Sri Dato' Hasmah Abdullah
2. Issues Committee	Evaluate any proposed issuance and listing of securities of a corporation on the main market; corporate proposals involving acquisition of asset which results in significant change in the business direction or policy of a corporation listed or to be listed on the main market; corporate proposals involving the issuance of securities for the amalgamation of two or more corporations listed on the main market; and registration of listing prospectus.	• Datuk Ranjit Ajit Singh (Chairman) • Dato Dr Nik Ramlah Mahmood • Datuk Francis Tan Leh Kiah • Dato' Gumuri Hussain • Fazlur Rahman Ebrahim
3. Take-overs and Mergers Committee	Review take-over applications of a novel and/or complex nature and matters relating to national policy.	• Datuk Ranjit Ajit Singh (Chairman) • Dato Dr Nik Ramlah Mahmood • Datuk Francis Tan Leh Kiah • Dato' Gumuri Hussain • Tan Sri Dato' Hasmah Abdullah • Dato' Mat Noor Nawi[1]
4. Managed Investment Schemes Committee – previously known as Trusts and Investment Management Committee	Approve the establishment of listed unit trust schemes and appointment of the management company and trustee.	• Datuk Ranjit Ajit Singh (Chairman) • Dato Dr Nik Ramlah Mahmood • Fazlur Rahman Ebrahim • Tan Sri Dato' Seri Mohamed Jawhar Hassan • Tan Sri Dato' Hasmah Abdullah • Dato' Mat Noor Nawi[1]
5. Licensing Committee	Evaluate and approve (or reject) applications for the grant of a new Capital Markets Services Licence (CMSL), together with accompanying Capital Markets Services Representative Licence (CMSRL), 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 PRS providers.	• Datuk Ranjit Ajit Singh (Chairman) • Dato Dr Nik Ramlah Mahmood • Tan Sri Dato' Seri Mohamed Jawhar Hassan • Tan Sri Dato' Hasmah Abdullah • Datuk Dr Madinah Mohamad
6. Compensation Fund Appellate Committee	Hear appeals arising from the determination of the Capital Market Compensation Fund Corporation (CMCFC).	• Datuk Francis Tan Leh Kiah (Chairman) • Tan Sri Dato' Seri Mohamed Jawhar Hassan • Datuk Dr Madinah Mohamad • Goh Ching Yin • Ahmad Fairuz Zainol Abidin
7. Nomination and Remuneration Committee	Assess and formulate the remuneration of the Chairman and DCE and make appropriate recommendations to the Minister of Finance.	• Fazlur Rahman Ebrahim (Chairman) • Dato' Gumuri Hussain • Datuk Francis Tan Leh Kiah • Tan Sri Dato' Seri Mohamed Jawhar Hassan

1 Appointed on 19 March 2013.

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

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

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 Dr Mohammad Hashim Kamali
7.	Professor Dr Ashraf Md Hashim
8.	Associate Professor Dr Azman Mohd Noor
9.	Associate Professor Dr Aznan Hasan
10.	Professor Dr Engku Rabiah Adawiah Engku Ali
11.	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 (PIE), and providing recognition to auditors of foreign public-listed entities.

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

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.	Dato' Mohd Naim Daruwish

OPERATIONAL ACCOUNTABILITY

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 DCE and the Executive Directors, and collectively they are known as the Executive Team. The DCE, 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, Resource Committee, and IT Steering Committee.

The SC has a robust regulatory and supervisory framework to ensure observance of the IOSCO Principles to ensure the achievement of the key objectives of capital market regulation. As a competent capital market regulator, the SC has undertaken independent assessments under the various standards set by IOSCO, of which the SC is an active member; as well as other international standard setting bodies.

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

RISK MANAGEMENT AND INTERNAL CONTROLS

Accountability for the SC's capacity to manage risks to its mission, objectives and goals rests with the Executive Team, which is headed by the Executive Chairman. The Audit Committee reviews the effectiveness and integrity of the SC's risk management and internal control systems activity on behalf of the Commission, whilst the Risk Management Committee, comprising all members of the Executive Team, is responsible for providing strategic direction with regards to risk management throughout the organisation.

The Systemic Risk Oversight Committee (SROC) was established in line with 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 SROC's primary functions include considering systemic risk issues and co-ordinating market crisis management issues, as well as deliberating and advising relevant policies and pre-emptive regulatory action.

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

- An organisation structure with clearly defined responsibilities and delegation of responsibilities to its committees to assist the Commission in performing its key regulatory functions, which is also set out in this annual report;
- The annual Business Plan containing 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 established as a safe channel of communication for individuals to expose or report internal wrongdoing or suspected breaches of law within the organisation;
- The Statement of SC's Principles and Standards established to facilitate efficient and ethical engagement between the SC and its external stakeholders, which include the suppliers, contractors, vendors and consultants. In relation to this, the SC also expects its business stakeholders and all market participants engaging with the SC to emulate similar ethical principles. The Statement of SC's Principles and Standards include the expected governance standards with regards to ethics and integrity, conflicts of interest, transparency and disclosure, adherence to client charters, maintenance of confidentiality, providing a safe environment and workplace, commitment to environmental and social responsibilities and the SC's expectations of the people with whom the SC does business with;
- The Conflict of Interest Declaration which is required of Commission members and staff when faced with a conflict situation;
- The SC policy-making framework established to ensure greater accountability, more robust challenge and validation to improve consistency of policies and policy-actions;

- The Enterprise Risk Management (ERM) framework to provide Management and the Commission a holistic view of risks to help them set priorities and make well-informed decisions. The ERM framework is supported by the roll-out of Risk Control Self-Assessment throughout the organisation to provide 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;

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

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

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

- The Information Technology (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 were established to protect classified documents managed by the SC; and

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

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 Industry 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, among others, who are licensed under the CMSA to conduct regulated activities in Malaysia.

AUDIT COMMITTEE REPORT

The SC is pleased to present the Audit Committee Report for the financial year ended 31 December 2013.

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
- Tan Sri Dato' Hasmah Abdullah

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

Terms of reference

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

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

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

The main responsibilities of the Audit Committee are–

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

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

iii. to review the external auditors' audit scope and plans of audit, including coordination of audits 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 2012 prior to presentation to the Commission Members.

External audit

- Review of the audit findings, auditors' report and management letter and management's responses arising from the statutory audit for the financial year ended 31 December 2012.

- Review and approval of the external audit plan for the financial year ended 31 December 2013. 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 2013.

Internal audit

- Review of the internal audit reports and management's action plans to address the audit issues. The Audit Committee also monitored the implementation of the agreed actions and suggestions for improvements arising from the audits performed.

- Review the achievement of the 2013 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 2014.

- Review of the representation on risk management and internal controls to be included in the Statement on Governance for the 2013 Annual Report.

Internal Audit

The Internal Audit Department assists the Audit Committee in the discharge of its duties and responsibilities. The internal audit function reports directly to the Audit Committee, which determines the adequacy of scope and function of the department.

The internal audit function accomplishes its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control and governance processes.

The Internal Audit Department carries out its responsibilities by conducting reviews based on the approved internal audit plan, which is developed using a risk-based methodology. The main activities of the internal audit function for the year 2013 included:

- Performed predominantly risk-based audits for the areas identified in the internal audit plan.
- Reviewed the Audit Committee Charter and Internal Audit Charter to ensure they were 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.

Securities Commission Malaysia

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	2013 RM'000	2012 RM'000
Non-current assets			
Property, plant and equipment	3	190,337	196,045
Long term receivables	4	14,256	19,331
Other investments	5	255,718	226,969
		460,311	442,345
Current assets			
Trade and other receivables	6	27,856	22,239
Cash and cash equivalents	7	503,670	534,405
		531,526	556,644
Total assets of the Securities Commission Malaysia (SC)		991,837	998,989
Total assets of the Audit Oversight Board (AOB)	8	909	991
Total assets		992,746	999,980
Reserves			
Accumulated surplus		811,826	803,908
Compensation fund reserve	9	100,000	100,000
Human Capital Development (HCD) fund reserve	10	610	3,110
AOB reserve	8	879	928
Total reserves		913,315	907,946
Non-current liabilities			
Post-employment benefits	11	41,388	37,441
Current liabilities			
Other payables and accruals	12	38,013	54,530
Total liabilities of the SC		79,401	91,971
Total liabilities of the AOB	8	30	63
Total liabilities of the SC		79,431	92,034
Total reserves and liabilities		992,746	999,980

The notes on pages 100 to 118 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 RM'000	2012 RM'000
Income			
Levies		124,287	98,006
Fees and charges		26,744	25,466
Finance income	13	24,835	28,693
Licence fee		2,785	2,706
Other income		1,475	1,220
		180,126	156,091
Less: Expenditure			
Staff costs	14	119,691	111,232
Administrative expenses		33,577	26,397
Depreciation of property, plant and equipment	3	10,943	11,351
Rental expenses		1,997	1,844
		166,208	150,824
Net surplus of the SC		13,918	5,267
Net deficit of the AOB		(3,049)	(2,696)
Net operating surplus		10,869	2,571
Less: Grants		(3,000)	(2,400)
HCD expense	10	(2,500)	(2,500)
Surplus/(Deficit) before tax		5,369	(2,329)
Tax expense	19	–	–
Surplus/(Deficit) for the year/Total comprehensive income/(expense) for the year		5,369	(2,329)

The notes on pages 100 to 118 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	Compensation fund reserve RM'000	HCD fund reserve RM'000	Accumulated surplus RM'000	AOB reserve RM'000	Total RM'000
At 1 January 2012	100,000	5,610	802,041	2,624	910,275
Deficit/Total comprehensive expense for the year	–	–	(2,329)	–	(2,329)
HCD charge for the year	–	(2,500)	2,500	–	–
Transfer of surplus to AOB	–	–	(1,000)	1,000	–
Transfer of net deficit of the AOB to AOB reserve	–	–	2,696	(2,696)	–
At 31 December 2012/ 1 January 2013	100,000	3,110	803,908	928	907,946
Surplus/Total comprehensive income for the year	–	–	5,369	–	5,369
HCD charge for the year	–	(2,500)	2,500	–	–
Transfer of surplus to AOB	–	–	(3,000)	3,000	–
Transfer of net deficit of the AOB to AOB reserve	–	–	3,049	(3,049)	–
At 31 December 2013	100,000	610	811,826	879	913,315

The notes on pages 100 to 118 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 RM'000	2012 RM'000
Cash flows from operating activities			
Surplus/(Deficit) before tax		5,369	(2,329)
Adjustments for:			
Depreciation of property, plant and equipment	3	10,943	11,351
Provision for post-employment benefits		4,414	4,075
Interest income earned from fixed deposits and other investments		(25,822)	(25,888)
Impairment loss on property, plant and equipment		–	26
Operating deficit before working capital changes		(5,096)	(12,765)
Changes in working capital:			
Trade and other receivables		(9,028)	203
Other payables and accruals		(16,550)	5,176
Net cash used in operating activities		(30,674)	(7,386)
Cash flows from investing activities			
Purchase of property, plant and equipment		(5,235)	(5,778)
Proceeds from long term receivables		5,075	1,208
Proceeds from disposal of plant and equipment		–	2
Acquisition of investments in Malaysian Government Securities and Government Guaranteed Bonds		(28,749)	(59,230)
Interest income received from fixed deposits and other investments		29,233	26,853
Decrease/(Increase) in restricted deposits		11,402	(424)
Post-employment benefits paid		(467)	(429)
Net cash from/(used in) investing activities		11,259	(37,798)
Net decrease in cash and cash equivalents		(19,415)	(45,184)
Cash and cash equivalents at 1 January		504,254	549,438
Cash and cash equivalents at 31 December		484,839	504,254
Cash and cash equivalents comprise:			
Cash and bank balances	7	3,355	2,556
Deposits placed with licensed banks	7	463,315	494,849
Deposits placed with a scheduled institution	7	37,000	37,000
		503,670	534,405
Less: Restricted deposits		(19,659)	(31,061)
		484,011	503,344
AOB cash and cash equivalents	8	828	910
		484,839	504,254

The notes on pages 100 to 118 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

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

These financial statements were approved by the Commission on 28 January 2014.

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.

The following are accounting standards, amendments and interpretations of the MFRS framework that have been issued by the Malaysian Accounting Standards Board (MASB) but have not been adopted by the SC:

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

- Amendments to MFRS 10, *Consolidated Financial Statements: Investment Entities*
- Amendments to MFRS 12, *Disclosure of Interests in Other Entities: Investment Entities*
- Amendments to MFRS 127, *Separate Financial Statements (2011): Investment Entities*
- Amendments to MFRS 132, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 136, *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
- Amendments to MFRS 139, *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- IC Interpretation 21, *Levies*

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)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures – Mandatory Date of MFRS 9 and Transition Disclosures*

The SC plans to apply the above mentioned standards, amendments and interpretations that are applicable and effective from the annual period beginning on 1 January 2014 and 1 January 2015 respectively.

The initial application of abovementioned standards, amendments and interpretations are not expected to have any material financial impacts to the financial statements of the SC except as mentioned below.

MFRS 9, Financial Instruments
MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of 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, 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 and ability to hold them to maturity.

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

(b) Loans and receivables

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

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost.

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or 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 the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged 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 component will flow to the SC and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. 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	50 years
Office equipment, furniture and fittings	5 – 10 years
Computer and application systems	3 years
Motor vehicles	5 years

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

(c) Cash and cash equivalents

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

(d) Impairment

(i) Financial assets

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

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

If, in a subsequent period, the fair value of the financial asset increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, to the extent that the asset's carrying amount does not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Other assets

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

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

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

Impairment losses recognised in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Reversals of impairment losses are credited to profit or loss in the 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) Finance 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 had adopted the MFRS 119 (2011) in previous financial year. The change in accounting policy had been made restrospectively in previous year financial statements.

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

The SC's net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount.

The calculation of defined benefit obligations is performed by an independent qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the SC, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income. The SC determines the net interest expense or income on the net defined liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments.

Costs and expenses relating to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The SC recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(g) Grants

The SC provides grants to eligible entities to undertake capital market activities. Grants are recognised in profit or loss when payments have been made.

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 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 from/(to)	–	–	8,417	1,150	–	(9,567)	–
At 31 December 2012/ 1 January 2013	9,154	232,387	101,611	61,511	1,818	3,121	409,602
Additions	–	–	813	1,834	1,087	1,501	5,235
Transfer from/(to)	–	–	1,244	1,795	–	(3,039)	–
At 31 December 2013	9,154	232,387	103,668	65,140	2,905	1,583	414,837
Depreciation and impairment loss							
At 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/ 1 January 2013							
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
Depreciation for the year	93	4,647	2,900	2,993	310	–	10,943
At 31 December 2013							
Accumulated depreciation	1,756	67,477	93,521	60,209	1,401	–	224,364
Accumulated impairment loss	–	136	–	–	–	–	136
	1,756	67,613	93,521	60,209	1,401	-	224,500
Carrying amounts							
At 31 December 2012/ 1 January 2013	7,491	169,421	10,990	4,295	727	3,121	196,045
At 31 December 2013	7,398	164,774	10,147	4,931	1,504	1,583	190,337

4. Long term receivables

	2013 RM'000	2012 RM'000
Staff financing	18,691	24,548
Less: Unearned profit		
– Islamic financing on house and car	(2,894)	(3,254)
	15,797	21,294
Amount due within 12 months (Note 6)		
– Staff financing	1,541	1,963
Amount due after 12 months		
– Staff financing	14,256	19,331

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 (2012: 2% to 4% per annum).

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

	2013 RM'000	2012 RM'000
Within one year	1,541	1,963
More than one year and up to five years	5,751	7,496
More than five years	8,505	11,835
	15,797	21,294

5. Other investments

	2013 RM'000	2012 RM'000
Held-to-maturity investments		
– Malaysian Government Securities and Government Guaranteed Bonds	255,718	226,969
Market value:		
– Malaysian Government Securities and Government Guaranteed Bonds	256,520	230,108

6. Trade and other receivables

	2013 RM'000	2012 RM'000
Staff financing (Note 4)	1,541	1,963
Levies	14,882	8,097
Income receivable	6,321	9,732
Other receivables	2,357	193
Deposit and prepayments	2,757	2,275
	27,858	22,260
Less: Impairment loss		
– Staff financing	(2)	(21)
	27,856	22,239

7. Cash and cash equivalents

	2013 RM'000	2012 RM'000
Cash and bank balances	3,355	2,556
Deposits placed with licensed banks	463,315	494,849
Deposits placed with a scheduled institution	37,000	37,000
	503,670	534,405

The deposits placed with licensed banks and a scheduled institution earned income at rates ranging from 3.0% to 3.6% per annum (2012: 3.3% to 3.6% per annum).

Included in deposits placed with licensed banks are amounts restricted for brokers' security deposits of approximately RM1.7 million (2012: RM15.6 million), stockbroking industry development of approximately RM14.0 million (2012: RM14.0 million) and other miscellaneous deposits of approximately RM4.0 million (2012: RM1.5 million).

The cash and cash equivalents are placed with licensed banks which are under common control by the Government of Malaysia (a party that has direct or indirect significant influence on the SC).

8. Audit Oversight Board

8.1 On 1 April 2010, the SC established the Audit Oversight Board (AOB) under section 31C of the *Securities Commission Act 1993* (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 AOB 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 AOB 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:

	2013 RM'000	2012 RM'000
AOB reserve		
Fund from the SC	9,000	6,000
Accumulated deficit	(8,121)	(5,072)
	879	928
Represented by:		
Other receivables	81	81
Cash and cash equivalents	828	910
Total assets	909	991
Total liabilities		
Other payables and accruals	(30)	(63)
	879	928

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

9. Compensation fund reserve

This represents an amount of RM100 million (2012: RM100 million) allocated from the accumulated surplus for the Capital Market Compensation Fund Corporation (CMC).

10. Human Capital Development (HCD) fund reserve

This represents an amount of RM0.6 million (2012: RM3.1 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 profit or loss and other comprehensive income.

11. Post-employment benefits

	2013 RM'000	2012 RM'000
Net defined benefit liability	37,441	33,795
Expense recognised in profit or loss	4,414	4,075
Benefits paid	(467)	(429)
Total employee benefit liabilities	41,388	37,441

The defined benefit plan is an unfunded post-employment medical plan, which provides medical benefits for participants and their eligible dependants after retirement age until the death of the participant or spouse, or for child dependants up to age 18 or age 24, if they are still studying.

As such, the ultimate cost of the plan depends on the longevity of the retirees and their eligible dependants, the incidence and cost of events resulting in claims under the plan, and the inflation of such costs in the future.

Funding

The plan is unfunded. Employer contributions to the plan refer to the medical claim amounts paid directly by the SC. The SC expects to pay RM444,444 in contributions to its defined benefit plans in 2014.

Movement in net defined benefit liability

	2013 RM'000	2012 RM'000
Net defined benefit liability at 1 January	37,441	33,795
Included in profit or loss		
Current service cost	1,800	1,721
Interest cost	2,614	2,354
	4,414	4,075
Other		
Benefits paid	(467)	(429)
Net defined benefit liability at 31 December	41,388	37,441

Defined benefit obligation
Actuarial assumptions

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

	2013	2012
Discount rate	7.0%	7.0%
Medical cost inflation	5.0%	5.0%

At 31 December 2013, the weighted-average duration of the defined benefit obligation was 29.4 years (2012: 29.4 years).

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amount shown below.

2013	Defined benefit obligation Increase RM'000	Defined benefit obligation Decrease RM'000
Discount rate (1% movement)	(8,905)	12,163
Medical cost inflation rate (1% movement)	11,906	(8,891)

Although the analysis does not account to the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

12. Other payables and accruals

	2013 RM'000	2012 RM'000
Other payables	32,221	31,630
Accruals	4,112	7,323
Brokers' security deposits	1,680	15,577
	38,013	54,530

13. Finance income

	Note	2013 RM	2012 RM
Fixed deposits and other investments		25,822	25,888
Staff financing	13.1	(987)	2,805
		24,835	28,693

13.1 Included in staff financing is a MFRS 139 adjustment with regard to the early settlement of loans by the staff.

14. Staff costs

	2013 RM'000	2012 RM'000
Remuneration, bonus, staff medical, staff training and overtime	99,861	93,242
Employees Provident Fund	15,416	13,915
Post-employment benefits	4,414	4,075
	119,691	111,232

15. Surplus before tax

	2013 RM'000	2012 RM'000
Income before tax is arrived at after charging:		
Auditors' remuneration:		
Audit services	80	70
Other services	–	20
Executive members':		
Emoluments	3,180	3,175
Gratuity	–	899
Non-executive members' allowance	1,130	402
Rental expense:		
Property	1,774	1,472
Plant and equipment	223	372
Property, plant and equipment:		
Depreciation	10,943	11,351
Impairment loss	–	26
And crediting:		
Reversal of impairment loss on receivables	7	15

16. 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 2013, the SIDC paid management fee of RM266,400 (2012: RM266,400) to the SC, of which RM22,200 (2012: RM22,200) is still outstanding from SIDC. In addition, the SC had made a grant of RM1.5 million to SIDC in 2013 (2012: RM2.4 million).

17. Capital commitments

	2013 RM'000	2012 RM'000
Capital expenditure commitments		
Plant and equipment		
Approved but not contracted for:		
Within one year	9,530	11,190

18. Financial instruments

18.1 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
2013			
Financial assets			
Long term receivables	14,256	14,256	–
Other investments	255,718	–	255,718
Trade and other receivables	25,797	25,797	–
Cash and cash equivalents	503,670	503,670	–
	799,441	543,723	255,718
Financial liabilities			
Other payables and accruals	(38,013)	(38,013)	–
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)	–

18.2 Gains arising from financial instruments

	2013 RM'000	2012 RM'000
Gains on:		
Held-to-maturity investments	8,547	7,253
Loan and receivables	16,288	21,440
	24,835	28,693

18.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

18.4 Credit risk

Credit risk is the risk of a financial loss to the SC if a counterparty to a financial instrument fails to meet its contractual obligations. The SC has a formal credit policy in place and the exposure to credit risk is monitored on an ongoing basis. 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
2013			
Not past due	39,099	–	39,099
Past due 1 – 30 days	–	–	–
Past due 31 – 90 days	67	–	67
Past due 91 – 180 days	–	–	–
Past due more than 180 days	887	(2)	885
	40,053	(2)	40,051
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

The net receivables that are past due, are not being impaired as these receivables are secured over residential properties with fair values exceeds its outstanding debts.

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

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

	2013 RM'000	2012 RM'000
At 1 January	21	36
Impairment loss written off	(12)	–
Impairment loss reversed	(7)	(15)
At 31 December	2	21

Investments and other financial assets

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

18.5 Liquidity risk

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

Maturity analysis

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

	Carrying amount RM'000	Contractual cash flow RM'000	Under 1 year RM'000
2013			
Financial liabilities			
Other payables and accruals	38,013	38,013	38,013
2012			
Financial liabilities			
Other payables and accruals	54,530	54,530	54,530

18.6 Market risk

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

18.6.1 Interest rate risk

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

	2013 RM'000	2012 RM'000
Fixed rate instruments		
Financial assets	500,315	531,849

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The SC does not have any fixed rate financial assets at fair value through profit or loss. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

18.7 Fair value information

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.

The table below analyses financial instruments not carried at fair value for which fair value is disclosed, together with their carrying amounts shown in the statement of financial position.

Fair value of financial instruments carried at amortised cost

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
2013					
Financial assets					
Long-term receivables	–	14,256	–	14,256	14,256
Other investments	256,520	–	–	256,520	255,718
	256,520	14,256	–	270,776	269,974
2012					
Financial assets					
Long-term receivables	–	19,331	–	19,331	19,331
Other investments	230,108	–	–	230,108	226,969
	230,108	19,331	–	249,439	246,300

Level 1 fair value
Level 1 fair value is derived from unadjusted quoted price in active markets for identical financial assets that the entity can access at the measurement date.

Level 2 fair value
Level 2 fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for the financial assets, either directly or indirectly.

Transfers between Level 1 and Level 2 fair values
There has been no transfer between Level 1 and 2 fair values during the financial year. (2012: no transfer in either directions)

Level 3 fair value
Level 3 fair value is estimated using unobservable inputs for the financial assets.

19. Tax expense

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

20. Reserves management

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

STATEMENT BY COMMISSION MEMBERS

In the opinion of the members, the financial statements set out on pages 95 to 118 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 2013 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: 28 January 2014

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 95 to 118 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 28 January 2014.

………………………………………………..

Vignaswaran A/L Kandiah

Before me:

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

Report on the Financial Statements

We have audited the financial statements of Securities Commission Malaysia (SC), which comprise the statement of financial position as at 31 December 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 95 to 118.

Commission Members' Responsibility for the Financial Statements

The Commission Members are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards and with International Financial Reporting Standards. The Commission Members are also responsible for such internal control as the Commission Members determine is necessary to enable the preparation of financial statements 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 about 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 give a true and fair view of the financial position of the SC as of 31 December 2013 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and with International Financial Reporting Standards.

Other Matters

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Peter Ho Kok Wai
Partner
Approval Number: 1745/12/15(J)

Petaling Jaya, Malaysia

Date: 28 January 2014

CORPORATE PROPOSALS

EQUITY

The SC considered 25 equity applications in 2013 as compared with 36 in the previous year (Table 1). The reduction in the number of applications considered was mainly due to the exemption of certain offerings of securities from having to seek the SC's approval following the amendments to the CMSA on 28 December 2012. Those exempted include the offering of securities listed or approved for listing on a stock exchange outside Malaysia to prescribed persons, and the offering of securities in lieu of dividends by corporations whose shares are listed on Bursa Malaysia. In 2012, there were 15 such proposals considered.

Table 1
Status of equity applications

Applications	2013	2012
Brought forward from the previous year	11	9
Received during the year	25	41
Total for consideration	**36**	**50**
Approved during the year	(20)	(33)
Not approved during the year	(4)	–
Returned during the year	(1)	(3)
Total considered during the year	**(25)**	**(36)**
Withdrawn during the year	(2)	(3)
Carried forward to the next year	**9**	**11**

In 2013, the SC approved 12 initial public offerings (IPOs) for the Main Market. The approved IPOs were expected to raise RM12.3 billion in proceeds, with a total expected market capitalisation of RM40.61 billion (Table 2).

Among the notable IPOs in 2013 were UMW Oil & Gas Corporation Bhd which raised RM2.36 billion and was, in terms of oil and gas IPO, the largest in Asia and the third largest globally during the year; Westports Holdings Bhd, a port operator which raised RM2.03 billion; AirAsia X, a long haul low cost carrier which raised RM987.65 million; and Sona Petroleum Bhd, a special purpose acquisition company which raised RM550 million.

The SC registered a total of 61 equity prospectuses in 2013. From the 18 IPO prospectuses registered, 17 were in relation to Main Market listings. A total of 43 abridged prospectuses were registered, of which 32 were from corporations listed on the Main Market (Table 3).

Table 2
Equity applications approved by type of proposals

Type of proposals	2013		2012	
	No. of proposals approved	Amount to be raised (RM million)	No. of proposals approved	Amount to be raised (RM million)
IPO on Main Market: – Domestic companies – Foreign companies	 12 –	 12,300 –	 10 1	 22,984 90
Subtotal	**12**	**12,300**	11	**23,074**
Restructuring / Mergers & acquisitions	3		4	
Cross listing of Malaysian companies	1		1	
Transfer from ACE Market to Main Market	3		2	
Others*	1		15	
TOTAL	**20**	**12,300**	**33**	**23,074**

* Comprising proposals for offering of securities listed or approved for listing on a stock exchange outside Malaysia to prescribed persons and offering of securities in lieu of dividends by corporations whose shares are listed on Bursa Malaysia.

Table 3
Registration of equity prospectuses

	2013	2012
Prospectus	18	19
Abridged prospectus	43	30
TOTAL	**61**	**49**

PRIVATE DEBT SECURITIES

The bond market remained buoyant in 2013. The SC considered a total of 104 corporate bonds and sukuk (private debt securities or PDS) applications (Table 4). Ringgit-denominated PDS continued to form the majority of proposals approved with a total nominal value of up to RM148.1 billion, of which 67% were Shariah-compliant papers (Table 5).

Table 4
Status of PDS applications

Applications	2013	2012
Brought forward from the previous year	15	3
Received during the year	97	115
Total for consideration	**112**	**118**
Approved during the year	(103)[1]	(98)[2]
Rejected during the year	–	–
Returned during the year	(1)	(1)
Total considered during the year	**(104)**	**(99)**
Withdrawn during the year	(4)	(4)
Carried forward to the next year	**4**	**15**

Note:
[1] 103 applications comprising 88 ringgit-denominated and 15 foreign currency-denominated PDS issues.
[2] 98 applications comprising 81 ringgit-denominated and 17 foreign currency-denominated PDS issues.

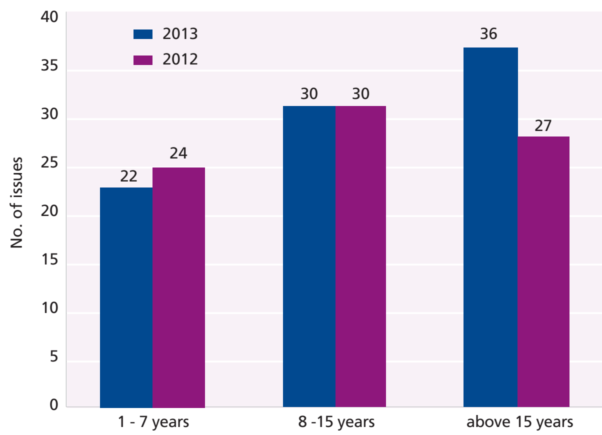
Table 5
Approved ringgit-denominated PDS issues

Type of issues	2013		2012	
	No. of issues	Amount (RM million)	No. of issues	Amount (RM million)
Conventional PDS				
– Commercial papers/Medium-term notes	28	46,908	23	26,310
– Bonds	4	1,280	8	3,835
– Loan stocks	5	257	9	2,063
Subtotal	**37**	**48,445**	**40**	**32,208**
Sukuk				
– Islamic commercial papers/Islamic medium-term notes	37	82,590	31	63,340
– Islamic bonds	12	16,539	6	5,033
– Islamic loan stocks	–	–	4	2,718
Subtotal	**49**	**99,129**	**41**	**71,091**
Combination of conventional PDS and sukuk				
– Commercial papers/Medium-term notes	2	500	–	–
TOTAL	**88**	**148,074**	**81**	**103,299**

The maturity profile of approved PDS also saw a larger number of issues that have tenures of more than 15 years, rising by a significant 33% (Chart 1). This was partly due to longer-tenured banking capital and proposals with perpetual maturities, following the first issuance of perpetual sukuk by Malaysian Airline System Bhd in 2012. Also more commonly referred to in the market as 'perps', such PDS normally garner investors' interest by offering comparatively more attractive yields. Three perps were approved and issued in 2013 by AEON Credit Service (M) Bhd, Boustead Holdings Bhd and S P Setia Bhd.

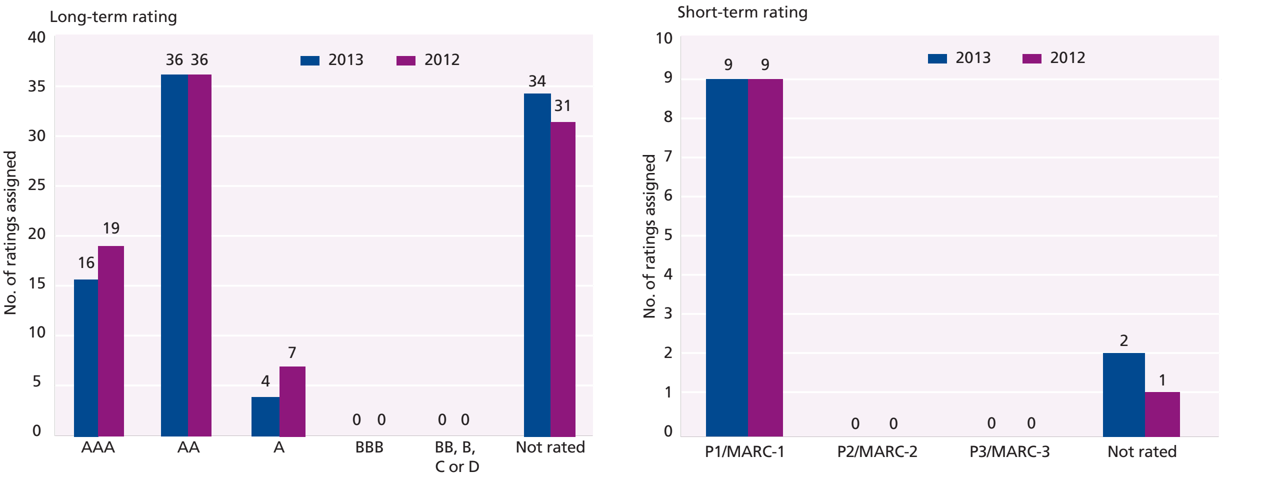
It was also noted that the Malaysian government issued its inaugural 30-year bond, the longest dated so far, in the third quarter of 2013 which further supports the development of the longer-end of the risk-free yield curve. The extension of the risk-free yield curve will in turn allow greater ease in the pricing of longer-dated ringgit-denominated papers in the Malaysian bond market.

Chart 1
Tenure of approved ringgit-denominated PDS issues



Note: Tenure of facility, and not the respective notes or papers issued under the facility.

Chart 2
Rating summary of approved ringgit-denominated PDS issues



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

The credit spectrum remained conservative with over 80% of rated issues in the AAA and AA categories. A total of 65 ratings (based on the initial ratings) were assigned by credit rating agencies (CRAs) to the approved ringgit-denominated PDS issues (Chart 2). The number of unrated issues continued to rise. Issues that are exempted from the mandatory rating requirement are those that are convertible into listed shares or are issued on a non-tradable and non-transferable basis.

The SC also approved 15 foreign currency-denominated PDS issues, comprising 11 sukuk and one conventional PDS by foreign issuers, as well as two sukuk and one conventional PDS by Malaysian issuers.

TAKE-OVERS AND MERGERS

The SC considered a total of 143 applications relating to the *Malaysian Code on Take-overs and Mergers 2010* (TOM Code) as compared to 155 applications considered in 2012.

A total of 33 documents in relation to take-over offers (comprising 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 approximately RM18.33 billion, as compared to 35 take-over offers in 2012 involving a total offer value of RM14.54 billion.

Take-over offers during the year included the offers for MISC Bhd, Tradewinds (M) Bhd and Pontian United Plantations Bhd which constituted in agregate 65% of the total offer value in 2013. A total of 25 take-over offers were in relation to proposed privatisation transactions. Common reasons cited for privatisation included streamlining of corporate structure for greater flexibility, low trading liquidity and challenging business environment.

The SC also cleared 47 independent advice circulars whereby 33 were in relation to take-over offers and the remaining were in relation to whitewash procedures from the mandatory offer obligation. The SC also approved 28 applications seeking exemption from having to undertake a mandatory take-over offer and 35 other applications for various matters under the TOM Code including rulings, ancillary applications in relation to the TOM Code and other related decisions (Table 6).

Table 6
Applications considered under the Malaysian Code on Take-overs and Mergers 2010

Type of applications/ documents cleared	2013	2012
Clearance of offer documents	33	35
Clearance of independent advice circulars	47	46
Applications for exemption from mandatory offer obligation	28	25
Other applications	35	49
TOTAL	**143**	**155**

Asia Pacific Take-overs Regulators e-Forum

The Asia Pacific Take-overs Regulators e-Forum which was first launched in 2012 was given an upgrade and new look in November. The upgrade not only enhances usability of the website, it also improves the security features of the e-Forum.

The e-Forum (www.takeoversforum.com) is an online platform jointly hosted by the SC and the Securities and Futures Commission of Hong Kong (SFC). The concept of the Forum was first mooted at the Inaugural Roundtable of Regional Take-overs Regulators held in Kuala Lumpur, Malaysia, in May 2012. The e-Forum is designed to facilitate the exchange of ideas and views regarding take-overs and related matters among regulators in the Asia-Pacific region. Membership to the e-Forum is open to take-overs regulators only.

In addition to the SC and the SFC, nine take-overs regulators in the Asia-Pacific region have signed up as members, namely, the Australian Securities and Investments Commission; the Australian Takeovers Panel; the China Securities Regulatory Commission; the Securities and Exchange Board of India; the Financial Services Agency of Japan; the New Zealand Takeovers Panel; the Securities and Exchange Commission of Pakistan; the Monetary Authority of Singapore; and the Securities and Exchange Commission of Thailand.

PROPERTY VALUATION

The number of corporate proposals which involved the review of property asset valuations by the SC was five, down by 38% from 2012. However, the aggregate market value of the property assets involved and the number of valuation reports and valuation certificates (forming part of the prospectuses/circulars reviewed), were more than five times that of 2012. Out of the said five corporate proposals, three were IPOs on the Main Market, one was the listing of the first stapled securities and another involved the refinancing of an acquisition by a listed real estate investment trust (REIT).

The corporate proposal with the highest aggregate market value of property assets reviewed at RM24 billion, was the IPO of IOI Properties Group Bhd. Its property assets included on-going developments located in Singapore and Xiamen, China. This was followed by the aggregate market value of property assets injected into the KLCC REIT of RM8.5 billion involving the Petronas Twin Tower, Menara 3 Petronas and Menara Exxonmobil, which was part of a proposal to create the listed stapled securities.

As for referrals by Bursa Malaysia of valuation reports prepared by companies in compliance with the Bursa Malaysia Listing Requirements, the SC reviewed a total of 168 valuation reports and certificates from 59 corporate proposals as compared to 131 valuation reports and certificates in 2012 for the same number of corporate proposals. The market value of the properties relating to the corporate proposals more than doubled in 2013. Of the 168 valuation reports and certificates reviewed, 154 were for the purposes of acquisitions and disposals, 10 for joint ventures and four for restructuring of companies listed on the ACE market.

Table 7
Valuation reviewed by type of proposals

Type of proposals	Number of corporate proposals (No. of reports)				Market value (RM million)	
	2013		2012		2013	2012
Initial public offering:						
– Main Market	4	(99)	3	(7)	33,281	5,161
– ACE Market	–	–	1	(3)	–	12
Acquisition by REITs	1	(1)	3	(5)	750	609
Restructuring/mergers and acquisitions	–	–	1	(1)	–	182
TOTAL	**5**	**(100)**	**8**	**(16)**	**34,031**	**5,964**
Cases referred by Bursa Malaysia						
– Main market transactions	57	(164)	59	(131)	18,895	9,243
– ACE market transactions	2	(4)	–	–	146	–
TOTAL	**59**	**(168)**	**59**	**(131)**	**19,041**	**9,243**

* Includes the listing of the staples securities comprising of the units in the KLCC REIT and the shares of KLCC Property Holdings Berhad.

INVESTMENT MANAGEMENT

Total funds managed by licensed fund management companies in Malaysia has risen 16.5% to RM588.4 billion compared to RM505.1 billion in 2012. 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 64.4% of total funds under management, as compared to 65.8% as at end-2012 (Chart 1). The amount of onshore investment by fund management companies increased from RM425 billion as at end-2012 to RM490 billion (Chart 2). Asset allocation in equities increased from 49.4% as at end-2012 to 51.3% (Chart 3). The bulk of investments inside and outside of Malaysia were in equities (Chart 4).

Table 1

Source of clients' funds under management

Type of funds	Local (RM million)		Foreign (RM million)	
	2013	2012	2013	2012
Unit trust funds*	334,057.3	294,932.4	1,094.4	1,000.6
Corporate bodies	59,776.1	52,950.3	10,105.2	8,486.7
Employee Provident Fund	74,988.1	57,571.8	–	–
Wholesale funds	60,415.2	49,223.1	474.0	345.4
Individual	6,526.6	4,892.8	488.4	483.0
Private pension funds	2,698.2	1,717.5	1,462.1	1,173.4
Charitable bodies	436.6	460.4	271.1	196.5
Other funds	34,007.7	29,421.3	1,608.7	2,204.8
TOTAL	**572,905.8**	**491,169.6**	**15,503.9**	**13,890.4**

*Includes Islamic unit trust funds.

Chart 1
Percentage of funds managed by fund management companies

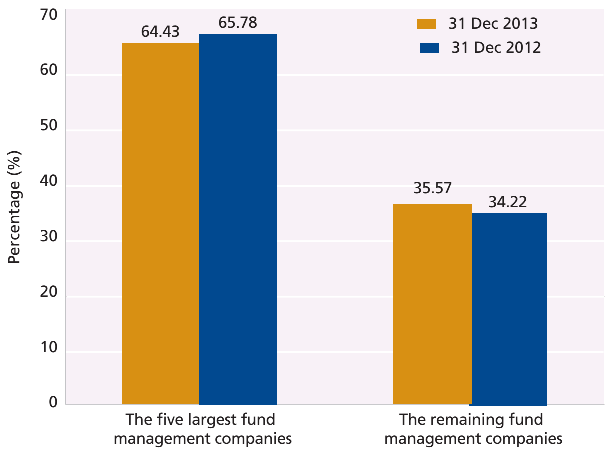


Chart 2
Funds invested inside and outside of Malaysia

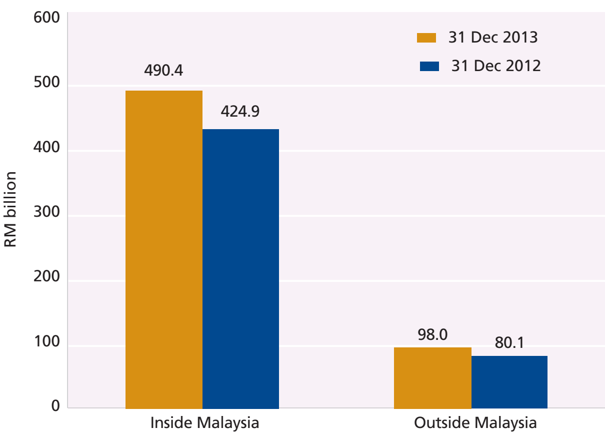


Chart 3
Asset allocation

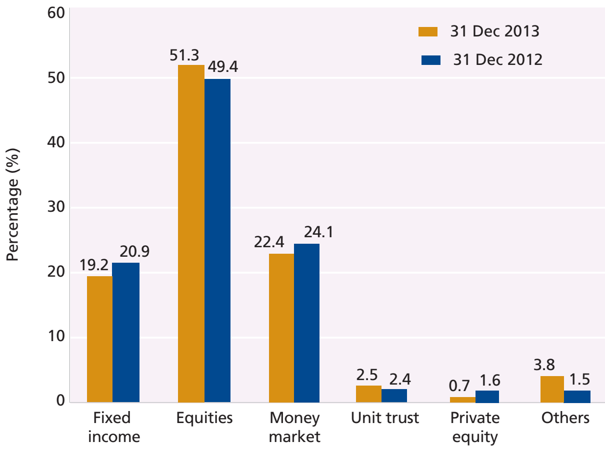
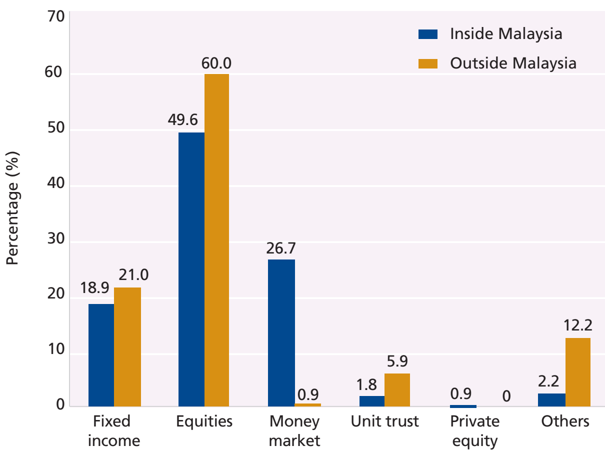


Chart 4
Asset allocation inside and outside of Malaysia as at 31 December 2013



COLLECTIVE INVESTMENT SCHEMES AND PRIVATE RETIREMENT 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 38 locally-incorporated unit trust management companies. In 2013, a total of 36 new unit trust funds were launched, 16 funds were terminated and 14 funds matured, bringing the total number of unit trust funds available to investors to 595 as at 31 December 2013. This was a slight increase of 1.02% from end-2012 (Table 2).

The total net asset value (NAV) of unit trust funds grew 13.8% in 2013 owing to increasing demand for such investments as compared to the end of 2012. The total NAV grew from RM294.85 billion recorded on 31 December 2012 to RM335.51 billion on 31 December 2013. The size of the unit trust industry is equivalent to 19.71% of Bursa Malaysia's market capitalisation, as compared to 20.12% at the end of 2012 (Table 2).

Table 2
Overall status of unit trust industry

	31 Dec 2013	31 Dec 2012
No. of funds launched	**595**	**589**
– Conventional	417	420
– Shariah-compliant	178	169
Units in circulation (billion units)	388.52	351.58
No. of accounts (million)*	17.36	16.71
Total NAV (RM billion)	**335.51**	**294.85**
– Conventional	292.69	259.49
– Shariah-compliant	42.82	35.36
% of NAV to Bursa Securities market capitalisation**	19.71	20.12

* Including unit holders accounts with institutional unit trust advisers (IUTA) that operate nominee account system.
** The comparison made between the total NAV of the unit trust industry and Bursa Malaysia's market capitalisation is not an indication of the actual amount invested in Bursa Malaysia by the unit trust industry.

In 2013, 30 new wholesale funds were launched for high-net-worth and institutional investors whilst eight were terminated or matured, raising the number of wholesale funds in the market to 193 as at 31 December 2013. The total NAV of wholesale funds at the end of 2013 was RM59.45 billion compared to 171 funds with NAV of RM52.48 billion at the end of 2012.

The year 2013 saw the listing of one real estate investment trust (REIT), namely KLCC Real Estate Investment Trust, that was stapled to a company on the Main Board of Bursa Malaysia with a market capitalisation for the stapled group of RM13.87 billion upon listing. The total number of REITs listed on Bursa Malaysia as at 31 December 2013 was 17 with a market capitalisation of RM33.13 billion (inclusive of market capitalisation of the stapled group) and total asset size of RM41.05 billion, an increase from 31 December 2012 which recorded a total of 16 REITs with a market capitalisation of RM24.59 billion and total asset size of RM31.13 billion.

The number of exchange-traded funds (ETFs) listed on the Main Board of Bursa Malaysia as at 31 December 2013 remained at five with a total market capitalisation of RM1.03 billion, as compared to a total market capitalisation of RM929.21 million at end-2012.

As at 31 December 2013, only one closed-end fund (CEF) was listed on the Main Board of Bursa Malaysia with a market capitalisation of RM336 million compared to a market capitalisation of RM331.8 million at end-2012.

In 2013, four PRS comprising 18 retirement funds were launched. The schemes were AmPRS, AIA Private Retirement Scheme, Manulife Shariah PRS Nestegg Series, and OnePRS Scheme. As at 31 December 2013, there were 11 private retirement schemes comprising 44 funds in the market, with a total NAV of RM299.82 million.

Table 3
Applications relating to collective investment schemes and private retirement schemes

Type of applications	Number of applications					
	Considered		Approved		Pending consideration	
	2013	2012	2013	2012	As at 31 Dec 2013	As at 31 Dec 2012
Establishment of collective investment schemes	**78**	**83**	**78**	**83**	**39**	**60**
– Unit trust funds	37	38	37	38	13	35
– Real estate investment trusts	1	1	1	1	–	1
– Wholesale funds	38	44	38	44	19	15
– Exchange-traded funds	2	–	2	–	7	9
Establishment of retirement funds	**12**	**32**	**12**	**32**	**–**	**3**
Increase in fund size limit	**4**	**141**	**4**	**141**	–	–
– Unit trust funds	3	82	3	82	–	–
– Real estate investment trusts	1	4	1	4	–	–
– Wholesale funds	–	55	–	55	–	–
Exemption/variation from guidelines	**19**	**17**	**19**	**17**	**3**	**6**
Registration of prospectus	**179**	**177**	**179**	**177**	**17**	**39**
Registration of deeds	**164**	**104**	**164**	**104**	**21**	**47**
Other applications	**86**	**59**	**82**	**59**	**5**	**8**
TOTAL	**542**	**613**	**538**	**613**	**85**	**163**

We considered 542 applications relating to CIS and PRS, comprising applications to establish new funds, increase fund size and other ancillary matters (Table 3).

INVESTMENT PRODUCTS

Structured warrants

There were six eligible issuers of structured warrants in 2013. The SC received and registered six base prospectuses and seven supplementary prospectuses from these issuers in 2013.

The SC also registered a total of 410 term sheets in 2013 relating to the offering of structured warrants which was a decrease of 26% compared to 553 term sheets registered in 2012. The cautious stance adopted during the period running up to the 13th Malaysian General Election and the halt in issuance by an active issuer over a 3-month period following its merger exercise have resulted in the lower issuance of structured warrants in 2013.

The registered term sheets in 2013 would allow the structured warrants issuers to offer a total of up to 27.65 billion structured warrants.

Structured products

With regard to structured products, there were eight issuers who applied for 17 new structured products programmes in 2013. All 17 structured products programmes with various types of underlying references were authorised by the SC in 2013. These programmes have an aggregate size of RM85 billion with each programme typically having a limit size of up to RM5 billion.

Table 4
Structured warrants considered

	2013	2012
No. of eligible issuers	6	6
Base prospectus registered	6	6
Supplementary prospectus registered	7	7
Term sheets registered	410	553
Issue size (billion warrants)	27.65	39.53

Table 5
Structured products programmes considered

Structured products	2013		2012	
No. of issuers applied for new programmes	8		8	
No. of new programmes authorised	No. of programmes	Size RM' billion	No. of programmes	Size RM' billion
Principle – Conventional – Islamic	 16 1	 80 5	 16 1	 80 5
TOTAL	**17**	**85**	**17**	**85**

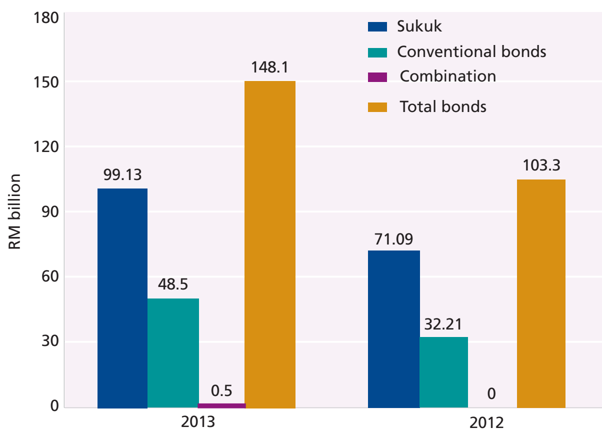
ISLAMIC CAPITAL MARKET

SUKUK

The SC approved 88 private debt securities proposals amounting to RM148.07 billion, of which 49 were sukuk valued at RM99.13 billion and one proposal involving a combination of conventional PDS and sukuk amounting to RM500 million.

The sukuk value represented 67% of total new bond issues approved (Chart 1).

Chart 1
Sukuk approved by the SC



Approval was given to three foreign issuers to issue sukuk in ringgit denomination. They were Dialog Axiata PLC (Sri Lanka), Trafigura Funding S.A. (Dutch) and FGB Sukuk Company II Ltd (United Arab Emirates – UAE) with total approved size of RM9.7 billion. The SC also approved 13 foreign issuers seeking to offer sukuk in the Malaysian market in foreign currency denominated sukuk. The 13 were from UAE, Qatar, Saudi Arabia, Turkey, multilateral organisations as well as issuers from Malaysia.

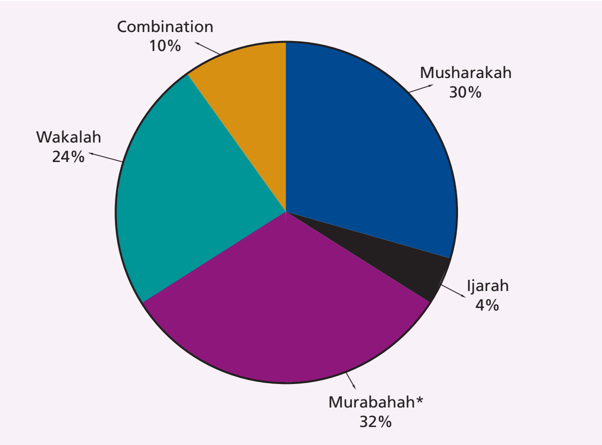
In terms of the underlying Shariah principle, sukuk *murabahah* led the Malaysian sukuk market this year based on approval size. Sukuk *murabahah* represented RM32.15 billion or 32.26% of the total size of sukuk approved (Chart 2).

SHARIAH-COMPLIANT SECURITIES

The SC released the updated list of Shariah-compliant securities approved by its Shariah Advisory Council (SAC) on 31 May and 29 November where in the latter, the updated list was released based on the revised screening methodology which was announced on 18 June 2012.

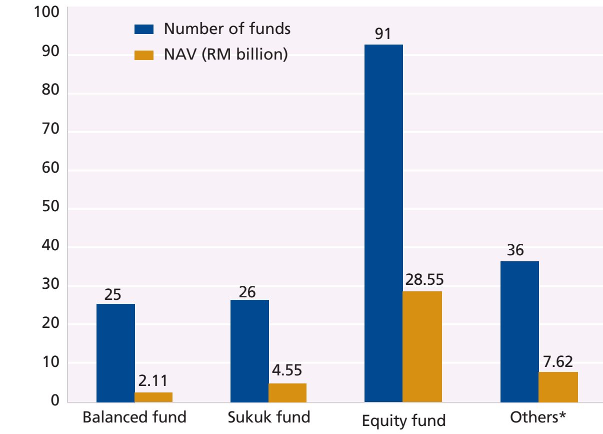
Under the revised screening methodology, SAC adopts a two-tier quantitative approach which applies the business activity benchmarks and the financial ratio

Chart 2
Size of sukuk approved in 2013 by Shariah principle



** including combined issuance with conventional*

Chart 3
Shariah-compliant unit trust funds by category



** including feeder funds, fixed income funds, money market funds, structured and mixed asset funds*

benchmarks. The revision has taken into consideration of the rapid development of the Islamic finance industry in Malaysia, since the Shariah screening methodology was first introduced in 1995.

The updated list, featured a total of 653 Shariah-compliant securities. These counters constituted 71% of the 914 listed securities on Bursa Malaysia. The list included 16 newly-classified Shariah-compliant securities and excluded 158 from the previous list issued in May.

As at end-2013, the market capitalisation of Shariah-compliant securities stood at RM1.03 trillion or 60.49% of total market capitalisation, with year-on-year growth of 9.28% compared to end-2012.

ISLAMIC UNIT TRUST FUNDS

The number of launched funds was 178 funds compared to 169 funds as at end-2012. The NAV of these funds saw a 21.1% increase from RM35.36 billion (2012) to RM42.82 billion. By category, equity funds still dominated the market with 91 funds. This was followed by 26 sukuk funds and 25 balanced funds while the remainder of 36 comprised feeder funds, fixed-income funds, money market funds, structured products and mixed-asset funds (Chart 3).

Statistics on ICM products and services are summarised in Table 1–Table 7.

Table 1
Shariah-compliant securities

Number of securities	2013	2012
Shariah-compliant securities	650*	817
Total listed securities	911	923
% of Shariah-compliant to total listed securities	71%	89%
Market capitalisation (RM billion)	**2013**	**2012**
Shariah-compliant securities	1,029.62	942.15
Total listed securities	1,702.15	1,465.68
% of Shariah-compliant to total listed securities	60.49%	64.28%

**As at 31 December 2013.*

Table 2
Islamic unit trust funds

No. of launched funds	2013	2012
Islamic	178	169
Total industry	595	589
Units in circulation (billion units)	**2013**	**2012**
Islamic	80.31	69.89
Total industry	388.52	351.58
NAV (RM billion)	**2013**	**2012**
Islamic	42.82	35.36
Total industry	335.51	294.85
% of Islamic to total industry	12.76%	11.99%

Table 3
Islamic wholesale funds

Number of launched funds	2013	2012
Islamic	52	41
Total industry	193	171
Units in circulation (billion units)	**2013**	**2012**
Islamic	14.75	15.89
Total industry	59.76	53.98
NAV (RM billion)	**2013**	**2012**
Islamic	16.43	16.22
Total industry	59.45	52.48
% of Islamic to total industry	27.64%	30.91%

Table 4
Islamic assets under management (AUM)

	2013	2012
Islamic AUM (RM billion)	97.50	79.56
Total Industry (RM billion)	588.41	505.06
% of Islamic AUM to total industry	16.57%	15.75%

Table 5
Islamic PRS

Number of launched funds	2013	2012
Islamic	17	9
Total industry	44	26
Number of accounts opened	**2013**	**2012**
Islamic	22,511	2,451
Total industry	72,990	10,875
NAV (RM million)	**2013**	**2012**
Islamic	79.52	14.45
Total industry	299.82	62.69
% of Islamic to total industry	26.52%	23.05%

Table 6
Islamic ETF

	2013	2012
Islamic ETF	1	1
Total Industry	5	5
Market capitalisation (RM billion)		
Islamic ETF	0.31	0.29
Total Industry	1.03	0.92
% of Islamic ETF to total industry	30.10%	31.52%

Table 7
Islamic REITs

	2013	2012
Islamic REITs	4	3
Total Industry	17	16
Market capitalisation (RM billion)		
Islamic REITs	14.14	3.47
Total Industry	33.13	24.59
% of Islamic REITs to total industry	42.68%	14.11%

VENTURE CAPITAL

The number of registered venture capital corporations (VCCs) and venture capital management corporations (VCMCs) stood at 61 and 58 respectively as at the end of 31 December 2013 (Table 1). Four VCCs and five VCMCs were added to the list. Due to closure of funds and changes in company direction, two VCCs were deregistered.

Out of the 119 registered VCCs and VCMCs, 99 are locally-owned, 15 are joint ventures while five others are foreign-owned. The number of venture capital professionals employed in the industry with at least four years of experience stood at 103 as at end-2013.

The total committed funds stood at RM5.79 billion which represented an increase of approximately 1.7% year-on-year (Table 2).

Total venture capital investments increased by 24.5% to RM3.43 billion from RM2.76 billion. Investments stood at RM264 million as compared to RM230 million representing an increase of 14.8% year-on-year. A total of 56 investee companies received venture capital funding as compared to 47 investee companies.

As for divestments, there was an increase of 22.1% from RM235 million in 2012 to RM287 million in 2013. A total of 33 investee companies were divested in 2013 as compared to 52 companies in 2012. Divestments were mainly through share redemptions and trade sale.

The government remained as the main funder to the venture capital industry by contributing 61.36% of total committed funds, equivalent to approximately RM3.56 billion (Chart 1). Local companies contributed 18.73% while foreign companies and individuals

Chart 1
Sources of venture capital funds (2013: RM5.796 billion)

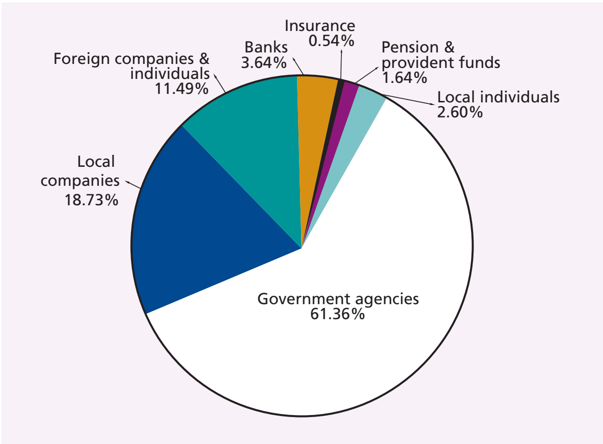


Table 1
Venture capital industry participants

	31 Dec 2013	31 Dec 2012
Number of registered venture capital funds/corporations	61	59
Number of registered VCMCs	58	53
Number of investee companies	356	466
Number of venture capital professionals*	103	124
Shareholding structure		
Local ownership	99	100
Joint ventures	15	10
Foreign ownership	5	2

** Professionals with more than four years of experience*

Chart 2
Investments by financing stage (2013: RM264 million)

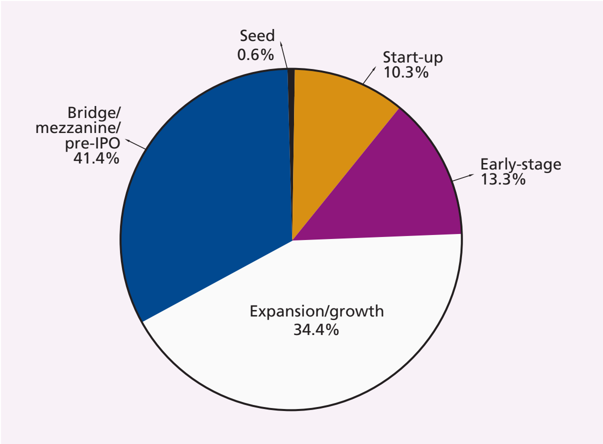


Table 2
Venture capital key statistics

	(RM million)	
	31 Dec 2013	31 Dec 2012
Total committed funds under management	5,796	5,698
Total investment as at end of the period	3,433	2,757
	During 2013	**During 2012**
Investments in investee companies	264	230
Divestments	287	235

Table 3
Investments during 2013

Business stages	Total investment ('000)	% of total investment	No. of investee company
Seed	1,500	0.6	1
Start-up	27,214	10.3	12
Early-stage	35,200	13.3	10
Expansion/ growth	90,783	34.4	17
Bridge/ mezzanine/ pre-IPO	109,044	41.4	16
TOTAL	**263,741**	**100.0**	**56**

contributed to 11.49% respectively. In terms of contribution to total sources of funds for the industry, the contributions from banks, insurance companies, pension and provident funds, and local individuals decreased from 12.02% to 8.42% collectively. The top three industry players continued to be the same major players, based on size of assets under management, i.e. Malaysia Venture Capital Management Bhd, Kumpulan Modal Perdana Sdn Bhd and Malaysian Life Sciences Capital Fund Ltd.

Investee companies at the early-stage up to pre-IPO stages received the bulk of the funding from venture capital funds in 2013 where in total 43 investee companies received funding amounting to RM235 million representing 89.1% of total investments (Table 3).

Investments into seed and start-up stages collectively stood at 10.9% out of total investments. These were channeled into 13 investee companies compared to last year where 5.65% of total investments were made into five investee companies. Investments in investee companies at the seed and start-up stages were mainly undertaken by the government venture capitals and also selected VCCs/VCMCs.

In terms of sector classification, there was an increase of 15.1% in the investments made in IT and communication as compared to 2012 (Chart 3). It was also observed that 36.5% of total investments was made in sectors such as electricity & power generation, education, transportation & storage and also construction sectors which are all captured under the category 'others'.

In contrast, investments in the manufacturing and life sciences sectors recorded declining investment figures in 2013.

Table 4 shows that the total amount divested was RM287 million. There has been an increase of 22.1% from the previous year where total divestments stood at RM235 million with 52 investee companies being disposed. Divestments were mainly in investee companies at the later stages such as expansion/growth and bridge/mezzanine/pre-IPO. Proceeds from divestments of investee companies at these stages amounted to approximately RM258 million, representing 89.79% of total proceeds from divestments.

Chart 3
Investments by sectors

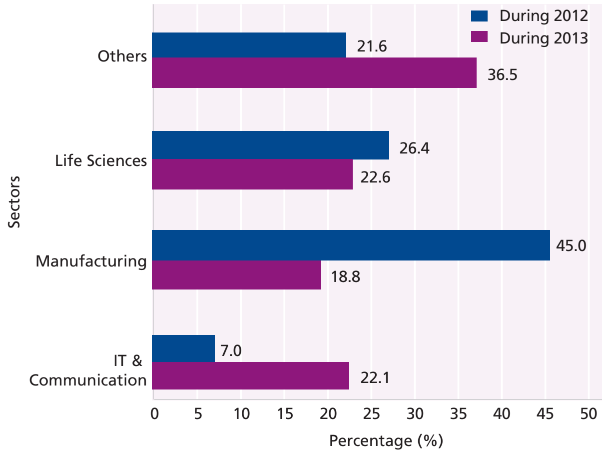


Table 4
Divestments during 2013

Business stages	Total divestment ('000)	% of total divestment	No. of investee company
Seed	5,724	1.99	2
Start-up	1,000	0.35	1
Early-stage	22,603	7.87	2
Expansion/ growth	35,089	12.21	7
Bridge/ mezzanine/ pre-IPO	222,896	77.58	21
TOTAL	**287,312**	**100.0**	**33**

AUTHORISATION AND LICENSING

The number of capital market intermediaries stood at 237 firms supported by 9,531 licensed representatives. The market had a broad representation of domestic and foreign players to serve the differing needs of the capital market. At individual level, the breadth of participation was also widened through the registration of 66 Trading and Introducing Representatives into the market following the implementation of the *Guidelines for Registered Representatives* in October 2012.

With the inclusion of PRS as another asset class for investment in Malaysia, seven firms were approved to include dealing in PRS as another regulated activity to their current licence to increase market penetration.

Following the amendments made to the CMSA in December 2012 which expanded the definition of fund management to include the management of assets in a unit trust scheme, 15 REITs managers were granted licences. Two firms were given licences to operate in Islamic fund management.

Overall, there was a marginal increase of 2% in the number of Capital Markets Services Representative's Licence holders. Double digit growth was recorded by fund management, financial planning and corporate finance segments indicating the positive momentum towards investment management and advisory industry. Efforts for higher intermediation in the securities and derivatives industry are underway with the introduction of the Graduate Representative Programme.

A total of 1,012 new licences were issued to representatives and 22 new licences were issued to fund management companies and advisory firms.

Table 1
Capital Markets Services Licence holders

Categories	Regulated activities[1]	2013	2012
Investment banks	Dealing in securities Dealing in derivatives Advising on corporate finance Investment advice	2	2
	Dealing in securities Dealing in derivatives Advising on corporate finance	1	3
	Dealing in securities Fund management Advising on corporate finance	1	1
	Dealing in securities Advising on corporate finance Investment advice	4	5
	Dealing in securities Advising on corporate finance	2	2
	Dealing in securities Dealing in private retirement scheme Advising on corporate finance Investment advice	1	–
		11	**13**
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**

Categories	Regulated activities[1]	2013	2012
Stockbroking companies with at least one merger partner	Dealing in securities Dealing in derivatives Advising on corporate finance Investment advice	–	1
	Dealing in securities Dealing in derivatives Investment advice	1	1
	Dealing in securities Advising on corporate finance Investment advice	3	2
	Dealing in securities Investment advice	–	2
	Dealing in securities Dealing in derivatives	1	–
	Dealing in securities Dealing in derivatives Advising on corporate finance	1	–
		6	**6**
Standalone stockbroking companies	Dealing in securities Investment advice	4	3
	Dealing in securities	1	4
	Dealing in securities Advising on corporate finance	1	–
		6	**7**
Issuing houses	Dealing in securities	2	2
		2	**2**
Futures brokers	Dealing in derivatives	11	13
		11	**13**

Categories	Regulated activities[1]	2013	2012
Unit trust management companies (UTMC)	Fund management Dealing in securities restricted to unit trust	26	25
	Dealing in securities restricted to unit trust	5	7
	Fund management Financial planning Dealing in securities restricted to unit trust	1	1
	Fund management Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	2	1
	Fund management Dealing in private retirement scheme Dealing in securities restricted to unit trust	3	3
	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	1	1
	Fund management Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	2	2
	Dealing in private retirement scheme Dealing in securities restricted to unit trust	2	–
		42	**40**
Fund managers	Fund management	57	43
	Fund management Dealing in securities restricted to unit trust	26	27
	Fund management Financial planning Dealing in securities restricted to unit trust	1	1
	Fund management Advising on corporate finance	1	1
	Fund management Investment advice	1	1
	Fund management Dealing in private retirement scheme Dealing in securities restricted to unit trust	3	3
	Fund management Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	2	2
	Fund management Dealing in private retirement scheme	2	2
	Fund management Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	2	1
		95	**81**

Categories	Regulated activities[1]	2013	2012
Special scheme foreign fund managers	Fund management	5	5
		5	**5**
Islamic fund managers	Fund management Dealing in securities restricted to unit trust	5	4
	Fund management	14	14
		19	**18**
Fund supermarket	Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	1	1
		1	**1**
Dealing in private retirement scheme	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	7	4
	Dealing in private retirement scheme Financial planning	1	1
	Fund management Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	2	2
	Fund management Dealing in private retirement scheme Dealing in securities restricted to unit trust	3	3
	Fund management Dealing in private retirement scheme	2	2
	Fund management Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	2	1
	Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	1	1
	Dealing in private retirement scheme Dealing in securities restricted to unit trust	2	–
	Dealing in private retirement scheme Dealing in securities restricted to unit trust Advising on corporate finance Investment advice	1	–
		21	**14**
Corporate unit trust advisers (CUTA)	Financial planning Dealing in securities restricted to unit trust	–	4
	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	6	3
		6	**7**

Categories	Regulated activities[1]	2013	2012
Advisory companies	Advising on corporate finance	38	40
	Advising on corporate finance Investment advice	4	4
	Investment advice	19	19
	Financial planning Dealing in securities restricted to unit trust	–	4
	Financial planning	21	20
	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	7	5
	Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	1	1
	Dealing in private retirement scheme Financial planning	1	–
		91	**93**
Corporate PRS advisers	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	6	–
	Dealing in private retirement scheme Financial planning	1	–
		7	–
Individuals	Financial planning	8	9
	Investment advice	1	1
		9	**10**

Note:
[1] Regulated activities refer to the activities that the companies are licensed to conduct.

Total licensed companies:
– at as 31 December 2013: 237
– at as 31 December 2012: 230

Total licensed individuals:
– at as 31 December 2013: 9
– at as 31 December 2012: 10

Table 2
Capital Markets Services Representative's Licence holders

By core activity	2013	2012
Dealing in securities[1]	6,698	6,787
Dealing in derivatives	772	790
Fund management	708	587
Advising on corporate finance[2]	668	598
Investment advice	245	236
Financial planning	440	377
	9,531	**9,375**

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 licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Issued	–	–	–	–	17	1	2	2	1	–	2	–

Table 4
Application for new representative's licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Issued	383	485	117	256	195	111	164	129	49	67	104	74
Withdrawn*	41	36	13	11	24	9	9	5	4	6	38	12
Returned*	229	403	66	96	95	189	61	103	38	60	144	212

Note:
* By regulated activities

Table 5
Cessation of company/individual licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning		Financial planning (individual)	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Ceased	3	1	2	–	2	3	4	1	2	–	1	3	–	–
Revoked	–	–	–	–	–	1	–	–	–	–	–	–	–	–
Suspended	–	–	–	–	–	–	–	–	–	–	–	–	–	–

Table 6
Cessation of representative's licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Ceased	528	409	154	128	79	92	93	91	43	36	46	40
Revoked	–	–	–	–	–	1	–	–	–	–	–	–
Suspended	2	–	–	–	–	–	–	–	–	–	–	–

ENFORCEMENT

During the year, a significant proportion of investigative resources were deployed to work on cases concerning prohibited trading practices. Out of 56 active investigations, 82% were in relation to suspected insider trading and market manipulation offences. (Chart 1) This is in line with an equally considerable number of referrals received concerning such offences.

A total of 16 referrals were received from various sources including Market Surveillance and Investors Affairs and Complaints departments, and other regulatory authorities. A majority of the referrals or 75%, were attributed to suspicious trading activities such as market manipulation and insider trading. Apart from that, the SC also received referrals for other possible breaches in relation to corporate governance practices and illegal conduct of regulated activities. (Chart 2)

In conducting investigations, documentary and oral evidence is crucial in ensuring that all angles are probed fairly and thoroughly. Investigation powers are utilised to obtain evidence from various sources including professional firms, financial institutions, public listed and private companies, regulated entities, investors and other individuals. Oral evidence is obtained through formal recording of witness statements. In 2013, witness statements were recorded from a total of 246 witnesses of which a majority comprised professionals, advisers, company directors, senior management of listed companies as well as licensed persons. (Chart 3)

Cross-border transactions are increasingly becoming a common feature in many of the SC's investigations. In this regard, the SC continues to co-operate with its foreign supervisory counterparts through the IOSCO's Multilateral Memorandum of Understanding on Consultation and Co-operation and Exchange of Information. The SC made 24 requests to seek assistance from seven foreign jurisdictions to obtain evidence (Table 1). Conversely, the SC received 11 requests for assistance from foreign supervisory authorities of seven jurisdictions.

Table 1
Foreign assistance sought by SC in 2013 by jurisdiction

Jurisdictions	No. of requests
British Virgin Islands	1
China	1
Hong Kong	2
Singapore	17
Switzerland	1
United Kingdom	1
United States	1
TOTAL	**24**

Chart 1
Active investigation files in 2013 by nature of offence

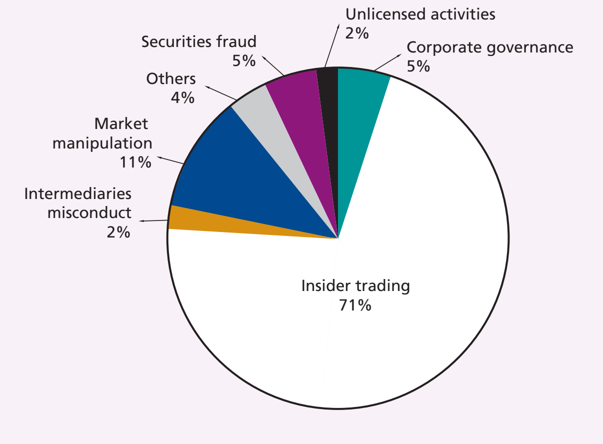


Chart 3
Witness statements recorded in 2013 by type of witness

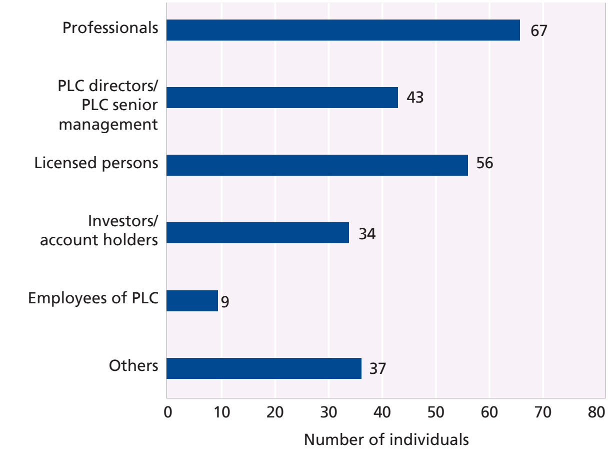
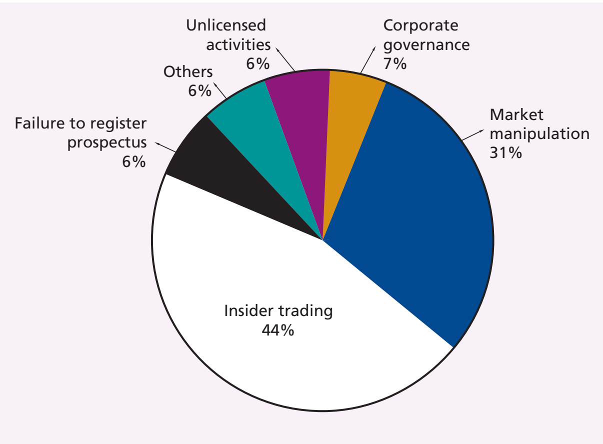


Chart 2
Referrals received in 2013 by nature of offence



Administrative actions

In 2013, a total of 12 administrative sanctions were instituted by the SC for various misconducts, breaches of take-overs and mergers provisions and failure to submit material information to the SC. The sanctions imposed on the parties in breach comprise of reprimands, imposition of penalties and a directive.

During the year, a total of RM1,350,000 in penalties were imposed against the following parties:

- Two licensed intermediaries for failure to comply with the AML Guidelines;
- A promoter for failure to submit material information to the SC;
- A public company for failure to submit material information to the SC; and
- Persons acting in concert for breaches of take-overs and mergers provisions.

For the first time, the SC had also reprimanded a bond trustee for failure to carry out its duties as a trustee as required under sections 273(1)(d) and (e) of the CMSA.

Table 2
Administrative actions in 2013 by type of sanction and parties in breach

Parties in breach	Type of Sanction		
	Reprimand	Directive	Penalty
Promoter	1	–	1
Persons acting in concert – 3 directors – Company	4	–	1*
Licensed intermediaries	–	1	2
Bond trustee	1	–	–
Public company	–	–	1

* Penalty on breach of take-overs and mergers provisions was imposed collectively on the persons acting in concert.

The SC also invoked its powers under the CMSA and issued a directive to the directors and compliance officer of a licensed intermediary to attend at least two training programmes in relation to anti-money laundering within a year.

Infringement notices

Apart from administrative action under its statutory powers, the SC also utilises other forms of non-statutory enforcement tools in the exercise of its monitoring, gate-keeping and supervisory function. These previously involved the issuance of Supervisory Letters to parties in breach in cases which do not merit any criminal, civil or administrative action.

In 2013, the SC undertook an evaluation of its non-statutory enforcement regime, following which all non-statutory enforcement tools will now be broadly classified as Infringement Notices. Infringement Notices are issued where breaches of securities laws or guidelines detected do not warrant the initiation of a formal enforcement action or the imposition of an administrative sanction. The Infringement Notices are classified as the following:

Supervisory Letter – issued in the discharge of SC's supervisory function, including the conduct of an examination under section 126 of the SCA.

Warning Letter – issued pursuant to the discharge of SC's gate-keeping function such as the issuance of licenses, approval of corporate proposals and review of prospectuses. Warning Letters may be issued to licensed, registered persons or other professionals or experts.

Non-Compliance Letter – issued pursuant to the discharge of SC's gate-keeping function for minor breaches.

Cease and Desist Letter – issued to stop or prevent violation of securities laws. Cease and Desist Letters may be issued to a person who is committing or about to commit an infringing act. Failure to comply with the cease and desist order may attract formal enforcement action by the SC.

In 2013, the SC issued 70 Infringement Notices (Table 3).

Pursuant to this classification, SC's statistics on supervisory letters for the year 2010, 2011 and 2012 are updated in Table 4.

Table 3
Infringement notices issued in 2013 (by type of sanction and parties in breach)

Type of Infringement Notice	No. issued
Supervisory Letters	23
Warning Letters	13
Non-Compliance Letters	33
Cease and Desist Letter	1

Table 4
Supervisory letter for 2010, 2011 and 2012 pursuant to classification

Year	Number of supervisory letters previously reported	Number of infringement notices
2010	103	114
2011	69	86
2012	15	57

Table 5
Persons charged in 2013

No.	Nature of offence	Offender(s)	Description
1.	Submission of false financial results to the stock exchange	Koh Tee Jin Lee Han Boon Saipuddin Lim Abdullah	Koh, Lee and Saipuddin were each charged on 21 March 2013 with five counts of furnishing false statements relating to the revenue of Axis Incorporation Bhd (Axis) to Bursa Malaysia. The charges under section 122B(b)(bb) of the SIA and section 369(b)(B) of the CMSA were in relation to false revenue contained in Axis' four quarterly reports for the financial year 2007 and the quarter ending 31 March 2008.
	Abetting the submission of false financial results to the stock exchange	Lee Koon Huat	Lee was charged on 26 March 2013 with four counts of abetting Axis in furnishing false statements relating to the company's revenue to Bursa Malaysia. The charges under section 122C(c) read together with section 122B(a)(bb) of the SIA were in relation to false revenue contained in Axis' four quarterly reports for the financial year 2007.
2.	Submission of false financial results to the stock exchange	Tan Han Kook Ching Siew Cheong	Tan and Ching, former directors of Silver Bird Group Bhd, were each charged on 11 September 2013 with seven and eight counts respectively of furnishing false statements relating to the revenue of Silver Bird Group Bhd to Bursa Malaysia. The charges under section 369(b)(B) of the CMSA were in relation to false revenue contained in Silver Bird Group Bhd's quarterly reports for financial years 2010 and 2011.

Table 6
Outcome of criminal court cases and appeals in 2013

No.	Nature of offence	Offender(s)	Description
1.	Furnishing misleading statement of accounts to client	Wahid Ali Kassim Ali	Wahid Ali, a director of Aiwanna Manage Assets Sdn Bhd (Aiwanna) was charged on 19 October 2005 with three counts of omitting to state a material fact pertaining to a RM5 million investment of Aiwanna's client, Eastern Pacific Industrial Corporation Bhd (EPIC), in the purchase of bonds, hence rendering the statement of accounts to be misleading. Wahid Ali was convicted of all three charges on 30 June 2009 and sentenced to one year's imprisonment and a fine of RM1 million for each charge (in default of payment of the total fine of RM3 million, one year's imprisonment), the imprisonment term to be served concurrently. Wahid Ali appealed against the conviction and sentence. The High Court affirmed the Sessions Court's decision on 14 January 2013. Wahid Ali had subsequently appealed against the decision of the High Court which affirmed the said decision by the Sessions Court. Pending his appeal to the Court of Appeal against the said High Court decision, Wahid Ali was ordered to execute a bond of RM1 million to stay the execution of the sentences.
2.	Market manipulation	Low Thiam Hock	Low was charged on 18 September 1999 under section 84(1) of the SIA for manipulating the price of Repco Holding Bhd's shares. On 14 November 2006, Low was acquitted and discharged by the Sessions Court. The Prosecution appealed against the acquittal. The High Court affirmed the Sessions Court's decision on 15 October 2010. The Prosecution had subsequently appealed against the decision of the High Court. The Court of Appeal reversed the decision of the High Court on 28 February 2013 and ordered Low to enter his defence to the said charge. The case has been remitted to the Sessions Court for trial.
3.	Fraudulent act in connection with an initial public offering (IPO) balloting exercise	Ashari Rahmat	Ashari, an operating officer of the Malaysian Issuing House, was charged on 20 March 2000 under section 87A(b) of the SIA for engaging in a fraudulent act by switching successful IPO share applications with those not put through the balloting process during the IPO exercise of UPA Corporation Bhd. Ashari was convicted by the Sessions Court on 25 March 2009 and sentenced to three years' imprisonment and a fine of RM1 million (in default of payment, one year's imprisonment). Ashari appealed against the conviction and sentence but the High Court affirmed the Sessions Court's decision on 4 January 2012. Ashari further appealed against the High Court's decision. On 5 March 2013, the Court of Appeal affirmed the High Court's decision.

Table 6 *(continued)*
Outcome of criminal court cases and appeals in 2013

No.	Nature of offence	Offender(s)	Description
4.	Carrying out regulated activities without a Capital Market Services Licence	Zamani Hamdan	Zamani, a director of Rantau Simfoni Sdn Bhd (Rantau Simfoni) was charged on 28 October 2011 and subsequently convicted of carrying out regulated activities without a licence. Zamani was charged under section 59 of the CMSA for holding himself out as a representative of a Capital Markets Services Licence holder to trade in futures contracts without a licence. He was also charged under section 58 of the CMSA in the alternative, for carrying on the business of trading in futures contracts without a licence, through his company, Rantau Simfoni. For this alternative charge, Zamani was convicted by the Sessions Court on 30 April 2013 and sentenced to a fine of RM1 million. Zamani appealed against the conviction and sentence on 2 May 2013 while the Prosecution filed an appeal against the sentence on 8 May 2013.
5.	Submission of false financial results to the stock exchange Issuing a company prospectus containing false information	Jimmy Tok Soon Guan Mok Chin Fan Cheong Kok Yai Normah Sapar	Jimmy, Mok and Cheong, directors of Inix Technologies Holdings Bhd (Inix), were charged on 23 September 2010 for knowingly authorising the furnishing of false statements relating to the revenue of Inix to Bursa Malaysia. The charges under section 122B(b)(bb) of the SIA were in relation to false revenue in Inix's four quarterly reports for the quarters ending 31 October 2005, 31 January 2006, 30 April 2006 and 31 July 2006. Jimmy, Mok and Cheong were also charged under section 55(1)(a) of the SCA for causing the issuance of Inix's prospectus, which contained a revenue amount that is false. Normah, Senior Account Executive of Inix, was charged for abetting Jimmy in committing the said offences. On 29 September 2011, Mok, Cheong and Normah pleaded guilty to all the offences charged. Jimmy also pleaded guilty to all the offences on 13 October 2011. They were sentenced as follows: • Mok and Cheong were each fined RM125,000 (in default of payment, one year's imprisonment) for the offence under section 55 of the SCA and fined RM50,000 (in default of payment, six months' imprisonment) for each of the four offences under section 122B of the SIA; • Normah was fined RM150,000 (in default of payment, one year's imprisonment) for the offence under section 55 of the SCA and fined RM50,000 (in default of payment, six months' imprisonment) for each of the four offences under section 122B of the SIA; and • Jimmy was fined RM400,000 (in default of payment, two years' imprisonment) for the offence under section 55 of the SCA. For the four offences under section 122B of the SIA, he was fined RM200,000 (in default of payment, 18 months' imprisonment) for the first and second charges respectively and RM150,000 (in default of payment, one year's imprisonment) for the third and fourth charges respectively. The Prosecution appealed against the sentences imposed by the Sessions Court. The High Court affirmed the decision of the Sessions Court on 9 July 2013. The Prosecution subsequently filed an appeal against the decision of the High Court on 22 July 2013.

Table 6 *(continued)*
Outcome of criminal court cases and appeals in 2013

No.	Nature of offence	Offender(s)	Description
6.	Carrying out fund management activities without a licence	Anuar Abdul Aziz	Anuar was charged on 2 September 2003 under section 15B of the SIA for carrying out the functions of a fund manager's representative for Corporate Eight Asset Management Sdn Bhd (now known as Oasis Asset Management Sdn Bhd) without a licence. Anuar was acquitted by the Sessions Court on 20 May 2010. The Prosecution filed an appeal against the acquittal on 2 June 2010. The High Court affirmed the decision of the Sessions Court on 12 October 2012. The Prosecution subsequently filed an appeal to the Court of Appeal on 22 October 2012 against the decision of the High Court. The Court of Appeal affirmed the High Court's decision on 15 August 2013.
7.	Issuing a company prospectus containing misleading information Furnishing false information to the SC Making false statements in company records	Chee Kok Wing	Chee, a director of NasionCom Holdings Bhd (NasionCom) was charged on 28 May 2007 for committing the following offences: • Section 55(1)(a) of the SCA for causing the issuance of the Prospectus of NasionCom dated 31 January 2005 which contained misleading information. • Section 122B(a)(bb) of the SIA read together with section 122(1) of the same Act for furnishing false information to the SC in relation to the revenue of NasionCom as contained in the company's Annual Report 2005. • Section 364(2) of the Companies Act 1965 for authorising the making of false statements in documents which were required by section 167(1) of the same Act. Chee was acquitted by the Sessions Court on 13 September 2013. The Prosecution filed an appeal against the acquittals on 24 September 2013.
		Shamsul Khalid Ismail	Shamsul Khalid, a director of NasionCom, was charged on 28 May 2007 under section 122B(a)(bb) of the SIA read together with section 122(1) of the same Act for furnishing false information in relation to the revenue of NasionCom as contained in the company's Annual Report 2005. Shamsul Khalid was acquitted by the Sessions Court on 13 September 2013. The Prosecution filed an appeal against the acquittal on 24 September 2013.
		Mah Soon Chai	Mah was charged on 28 May 2007 under section 122B(a)(bb) of the SIA read together with section 122C(c) of the same Act for abetting NasionCom in submitting false information to the SC. Mah was acquitted by the Sessions Court on 13 September 2013. The Prosecution filed an appeal against the acquittal on 24 September 2013.

Table 6 *(continued)*
Outcome of criminal court cases and appeals in 2013

No.	Nature of offence	Offender(s)	Description
8.	Mismanagement of client's funds by licensed fund manager Submission of misleading statement to the SC	Mohamed Abdul Wahab	Mohamed, Executive Director of Metrowangsa Asset Management Sdn Bhd (Metrowangsa), was charged on 12 March 2003 for committing the following offences: • Section 47C(5) of the SIA – for having abetted Metrowangsa in using RM50 million of client's funds belonging to Lembaga Tabung Haji to pay Mimos Bhd, another client of Metrowangsa (the first charge). • Section 122B(b)(cc) of the SIA – for two counts of knowingly authorising the furnishing of misleading statements to the SC in Metrowangsa's semi-annual report from 2000 to 2001 (the second and third charges). Mohamed was convicted by the Sessions Court on 1 April 2009 for the first charge and sentenced to a fine of RM200,000 (in default of payment, one year's imprisonment). He was however, acquitted of the second and third charges. The Prosecution filed an appeal against the acquittal of the second and third charges. The High Court affirmed the decision of the Sessions Court on 14 February 2013. The Prosecution subsequently filed an appeal against the decision of the High Court on 19 February 2013. On 13 December 2013, the Court of Appeal reversed the High Court's decision and convicted Mohamed of the second and third charges. The Court of Appeal sentenced Mohamed to a fine of RM500,000 (in default of payment, one year's imprisonment for each charge).

Table 7
Civil actions and regulatory settlements in 2013

No.	Nature of offence	Parties involved	Description
1.	Mismanagement of client's funds by licensed fund manager Fraud in connection with purchase of securities	RBTR Asset Management Bhd Locke Guaranty Trust Limited, New Zealand Locke Capital Investments Ltd, British Virgin Islands Al Alim Mohd Ibrahim Valentine Khoo Isaac Paul Ratnam Nicholas Chan Weng Sung Joseph Lee Chee Hock	On 23 January 2013, the SC filed a civil suit at the High Court against RBTR Asset Management Bhd (RBTR) and seven other defendants for various breaches of the securities laws in relation to an investment scheme that was managed by RBTR. At the material time, Al Alim and Valentine Khoo were directors of RBTR who were also holders of SC's Fund Manager's Representative's Licence. Nicholas Chan and Joseph Lee were directors of Locke Guarantee Trust Limited and Locke Capital Investments Ltd, whilst Isaac Paul Ratnam was an individual associated with the operations of the two companies. Among the relief sought by the SC in the civil suit are for the defendants to make restitution amounting to RM13,352,250 to the Euro Deposit Investment (EDI) scheme investors and that the defendants' assets be traced and paid over to the SC for purposes of compensating the EDI scheme investors who suffered losses as a result of the defendants' conduct.
2.	Insider trading	Tan Yeong Kim She Tu Shwu Fen	On 1 August 2013, the SC entered into a settlement with Tan and She Tu in the sum of RM106,550.31 when they agreed without admission or denial of liability, to settle a claim by the SC against them for contravention of section 89E of the SIA and section 188 of the CMSA in relation to insider trading in the shares of Orisoft Technology Bhd between 17 May 2007 to 29 October 2008. The settlement was reached following letters of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the amount disgorged from the defendants was three times the difference between the price at which the shares were acquired by the defendants and the price at which they would have been acquired if the information had been generally available.
3.	Insider trading	Lew @ Leow Muy Lai	On 26 August 2013, the SC entered into a settlement with Leow in the sum of RM122,436 when she agreed without admission or denial of liability, to settle a claim by the SC against her for contravention of section 89E of the SIA in relation to insider trading in the shares of Worldwide Holdings Bhd on 9 July 2006. The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the amount disgorged from Leow was two times the difference between the price at which the shares were acquired by her and the price at which they would have been acquired if the information had been generally available.

Table 7 (continued)
Civil actions and regulatory settlements in 2013

No.	Nature of offence	Parties involved	Description
4.	Dissemination of false information	K.A Jahabar Sadiq a/l K.A Abdul Kader	On 24 October 2013, K.A Jahabar Sadiq a/l K.A Abdul Kader issued an apology and a public retraction to the SC on The Malaysian Insider's website with regard to an article published on 10 August 2012 headlined 'SC to order Sime general offer for E&O, say sources'. The settlement was made following a letter of demand issued by the SC to K.A Jahabar Sadiq a/l K.A Abdul Kader to make a full and unequivocal retraction of the said article which was attributed to the SC and to publish a statement by him that the article dated 10 August 2012 was untrue and published without prior verification with the SC. The retraction was published on The Malaysian Insider's website for a period of three days, from 24 October 2013 to 26 October 2013.
5.	Market manipulation	OCBC Bank (M) Bhd	On 2 December 2013, the SC entered into a settlement with OCBC Bank in the sum of RM2,475,000 when OCBC Bank agreed without admission or denial of liability, to settle a civil claim by the SC against it for contravention of section 176(1)(b) of the CMSA in relation to the price manipulation of DRB-HICOM Bhd shares on 25 July 2011. The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the amount disgorged from OCBC Bank was three times the pecuniary gain made as a result of the breach.

Table 8
Enforcement action by Audit Oversight Board in 2013

No.	Nature of misconduct	Parties involved	Description
1.	Breach of AOB's registration condition	Tan Chin Huat (Partner, STYL Associates)	Tan was the engagement partner in the audit of a PIE for the financial year ended 31 December 2010. He was reprimanded on 19 August 2013 for breach of section 31O(4) of the SCA for failure to comply with certain requirements of the International Standards on Auditing in discharging his professional duties in the performance of an audit of the PIE.
2.	Breach of AOB's registration condition	Yeo Eng Hui (Partner, STYL Associates)	Yeo was the engagement partner in the audit of a PIE for the financial year ended 31 December 2010. He was reprimanded on 19 August 2013 for breach of section 31O(4) of the SCA for failure to comply with certain requirements of the International Standards on Auditing in discharging his professional duties in the performance of an audit of the PIE.

Table 8 (continued)
Enforcement action by Audit Oversight Board in 2013

No.	Nature of misconduct	Parties involved	Description
3.	Breach of AOB's registration condition	Wong Shan Ty (Partner, Ong & Wong)	Wong was the engagement partner in the audit of a PIE for the financial year ended 30 September 2011. She was reprimanded on 19 August 2013 for breach of section 31O(4) of the SCA for failure to comply with certain requirements of the International Standards on Auditing in discharging her professional duties in the performance of an audit of the PIE. On 13 September 2013, Wong appealed to the SC pursuant to section 31ZB of the SCA, against the above decision made by the AOB. On 31 October 2013, the SC decided to reject the appeal.
4.	Breach of AOB's registration condition	Cheah Choong Keong (Partner, C.K. Cheah & Co.)	Cheah was the engagement partner in the audit of a PIE for the financial year ended 30 September 2011. He was reprimanded and fined RM5,000 on 19 August 2013 for breach of section 31O(4) of the SCA for failure to comply with certain requirements of the International Standards on Auditing in discharging his professional duties in the performance of an audit of the PIE; and certain requirements of the *By-Laws (On Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants which relate to independence of an auditor in discharging his professional duties. On 12 September 2013, Cheah appealed to the SC pursuant to section 31ZB of the SCA, against the above decision made by the AOB. On 31 October 2013, the SC decided to reject the appeal.
5.	Breach of AOB's registration condition	Dr Abd Halim Husin (Partner, Wong Weng Foo & Co.)	Dr Abd Halim was the engagement partner in the audit of a PIE for the financial year ended 30 June 2011. He was reprimanded on 28 August 2013 for breach of section 31O(4) of the SCA for failure to comply with certain requirements of the International Standards on Auditing in discharging his professional duties in the performance of an audit of the PIE.
6.	Breach of AOB's registration condition	Mohd Neezal Md Noordin (Partner, AljeffriDean)	Mohd Neezal was the engagement partner in the audit of a PIE for the financial year ended 31 March 2011. He was reprimanded and fined RM10,000 on 28 August 2013 for breach of section 31O(4) of the SCA for failure to comply with certain requirements of the International Standards on Auditing in discharging his professional duties in the performance of an audit of the PIE and certain requirements of the *By-Laws (On Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants which relate to independence of an auditor in discharging his professional duties.

INVESTOR EDUCATION PROGRAMMES

PROGRAMME

6–8 Dec 2013

24 exhibitors
More than 10,000 visitors

SC Reach/Bersama SC

Kota Kinabalu, Sabah

DESCRIPTION

The SC organised a three-day investor education roadshow in Kota Kinabalu, Sabah. This was to promote more informed investor participation. Also launched at the event was the first mobile app "SC Assists".

The event was also supported by the State Government, Ministry of Finance and Bank Negara Malaysia.

PROGRAMME

14 Jan – 14 Dec 2013

SC Outreach

Formerly Known as SC Investor Clinic

DESCRIPTION

21,232 participants
26 towns and 14 states

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 programmes 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 programmes are also conducted in collaboration with SIDC and other strategic partners to ensure greater reach to investors.

50,000 visitors

PROGRAMME

14 – 16 March 2013

1Halal 1Malaysia Carnival

Kedah

DESCRIPTION

The SC participated in the Carnival organised and promoted by the State Government of Kedah and Department of Islamic Development Malaysia (JAKIM), as part of SC's efforts to reach out to increase awareness and understanding of investing in the Islamic capital market.

PROGRAMME

20,000 visitors

5 Jul – 2 Nov 2013

Ministry of Finance (MOF) Mobile Community Transformation Centre (CTC)

- 5–6 July, Kelantan
- 28–29 September, Johor
- 1–2 November, Kedah

DESCRIPTION

The SC's mobile unit participated in the MOF CTC as one of its agencies to reach rural communities. These events enable the SC to increase public awareness and understanding of SC's role and function in regulating the capital market.

PROGRAMME	DESCRIPTION	REACH
Minggu Saham Amanah Malaysia (MSAM), Perlis (20–27 April 2013)	The SC participates annually in this event organised 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.	120,000 visitors
Karnival Hari Guru, Negeri Sembilan (14–19 May 2013)	The SC participated in the 'Karnival Hari Guru', organised by Utusan Melayu Malaysia Bhd, in conjunction with the National Teachers' Day celebrations. The event provides the opportunity to deliver investor education across a mixed demographic of the teaching community.	30,000 visitors
Program Pembangunan dan Kecermelangan Keluarga & Pendidikan (PKP), Sarawak (24–26 August 2013)	The SC continues to balance our reach in Sabah, Sarawak and Peninsular Malaysia and participated at this event to increase public awareness and understanding of the SC's role and function in regulating the capital market.	1,000 visitors
Pameran Pengguna Kebangsaan, Kuala Terengganu (31 May–3 June 2013)	Organised by the Ministry of Domestic Trade, Co-operatives and Consumerism in conjunction with National Consumers' Day celebrations. The SC continues with its efforts to extend the reach of its investor education initiatives.	50,000 visitors
Kempen Pelabur Bijak Kebangsaan, 2012–2013 (Infomercials)	Four infomercials were broadcast on 420 radio and 499 primetime television slots. The infomercials were also made available on YouTube. The infomercials focused on introduction to investment and how to identify and avoid illegal investment schemes.	• 8.2 million audience • 225 enquiries received on possible illegal activities in response to the infomercials
Nationwide radio edumercial series, Astro Radio Sdn Bhd	Edumercials were broadcast in January and February as part of a 14-month investor education campaign in 2011/2013 comprising multilingual edumercials aimed at providing periodic practical reminders and alerts to the public on what to be aware of 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.
Media articles	A series of articles published in various local magazines educating the Malaysian public on wise investing, money management and protection from scams.	22 articles in various local magazines, namely Personal Money, Money Compass, Ringgit, and Financial 1st.

PROGRAMME	DESCRIPTION	REACH
Collaboration with BNM LINK	The SC and BNM LINK established a collaborative partnership by leveraging on each agency's programme to provide the public with a holistic understanding of their respective role and the products each agency regulate.	• Leaflets: 1,400 copies • Video edumercials: 3 copies
Educational collateral such as leaflets and posters on scams, basic rights of investors as well as information on investment products	The SC ensures the distribution of its investor education collaterals through outreach programmes by the SC and SIDC. We also leverage on our fellow regulators and government agencies, industry associations, market intermediaries, non-governmental agencies, institutions of higher learning and the media. Leaflets distributed nationwide in major newspapers, namely *Harian Metro* and *Berita Harian*. "Scam Alert" posters distributed to various associations, district offices and government agencies.	• Posters: 980 • Leaflets: 544,260 copies
'SC Assists' (Mobile App)	Through this new initiative, the SC is able to keep abreast with the latest technology to empower potential or current investors through usage of their very own smartphone. The app provides users with information and tools to immediately identify licensed capital market products and intermediaries and a means to contact relevant regulatory agencies. The app is available in Bahasa Malaysia and English for iPhone and Android users.	Available on Android and iOS
Malaysian Investor website (www.min.com.my)	Managed by SIDC for the SC, the website is an important and 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 website, www.sc.com.my 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.	13.7 million hits for the year under review
Kids & Cash and Teens & Cash	Fun, interactive and engaging programmes targeting children between the ages of 10 and 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.	9,502 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.	716 participants
Kempen Pelabur Bijak Kebangsaan, 2012–2013 (Seminar)	A nationwide campaign to educate new and potential retail investors on how to invest in the capital market. The campaign targeted the general rural and urban population, private and public sector employees as well as college and university students. The campaign's activities included informative and interactive exhibitions, games and quizzes. The public was also able to check the legal status of investment schemes, lodge complaints and obtain relevant information directly from the SC and SIDC representatives.	40,210 participants

PUBLICATIONS

GUIDELINES AND CODES

Guidelines on Sales Practices of Unlisted Capital Market Products
Updated
29 March 2013

Prospectus Guidelines
Updated
1 April 2013

Licensing Handbook
Updated
2 May 2013

Guidelines on Private Retirement Schemes
Updated
15 November 2013

Equity Guidelines
Updated
18 December 2013

BOOKS, REPORTS AND CONSULTATION PAPERS

Securities Commission Malaysia Annual Report 2012
Issued
14 March 2013

Laporan Tahunan 2012 Suruhanjaya Sekuriti Malaysia
Issued
14 March 2013

Audit Oversight Board Annual Report 2012/ Laporan Tahunan 2012 Lembaga Pemantauan Audit
Issued
30 May 2013

Capital Markets & Services Regulations 2012
Issued
3 June 2013

Securities Commission Act 1993 (Act 498) – As at 3 October 2011
Issued
19 July 2013

Capital Markets & Services Act 2007 (Act 671) – As at 28 December 2012
Issued
19 July 2013

Leading Defining Transforming: Securities Commission Malaysia 1993–2013
Issued
22 October 2013

Consultation Paper – Joint Public Consultation on Trade Repository Reporting Requirement for Over-the-Counter Derivatives
Issued
20 November 2013

BOOKLETS, BULLETINS AND PAMPHLETS

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
31 May and 29 November 2013

In Case of Emergency
Updated
17 September 2013

Malaysian ICM
Issued
March and August 2013

Capital.My
Issued
March and November 2013

The Reporter
Issued
January and May 2013

WEBSITES

www.sc.com.my | www.worldcapitalmarketsymposium.org

2013 AT A GLANCE

JANUARY

14–16 Jan
AOB organised ASEAN Audit Regulators Inspection Forum

15–16 Jan
Co-hosted with ADB the Inaugural Asian Capital Market Forum on Islamic Capital Market

FEBRUARY

26 Feb
Release of World Bank's Corporate Governance Report on the Observance of Standards and Codes (CG ROSC 2012)

MARCH

1 Mar
SC turns 20

4 Mar
Hosted the 18th ASEAN Capital Markets Forum

9–10 Mar
4th SC-OCIS Islamic Finance Roundtable in Oxfordshire, UK

14 Mar
Release of SC Annual Report 2012

APRIL

3–6 Apr
Participated in the Malaysia International Halal Showcase (MIHAS) organised by MATRADE

20–28 Apr
Participated in Minggu Saham Amanah Malaysia (MSAM) organised by Permodalan Nasional Bhd in Perlis

18th ASEAN Capital Markets Forum, Kuala Lumpur

4th SC-OCIS Islamic Finance Roundtable in Oxfordshire, UK

MAY

11 May
20th Anniversary Charity Jogathon in support of the SC-CSR Initiative

27 May
Shared conceptual framework for Malaysia's first online platform to trade unlisted securities and alternative investment products (MyULM)

29 May
Datuk Ranjit Ajit Singh elected as the Chairman of the Growth and Emerging Markets Committee (GEM) of IOSCO

JUNE

5–6 Jun
Co-hosted OECD Asian Roundtable on Corporate Governance

12 Jun
Datuk Hj Ahmad Hj Maslan, Deputy Finance Minister working visit to SC

25 Jun
Organised Private Retirement Scheme Conference and Exhibition

28 Jun
Organised Industry Dialogue 2013

JULY

3 Jul
SC participated in the first Ministry of Finance Open Day

AUGUST

20 Aug
Hosted SC Hari Raya Open House

20 Aug
Merdeka Leadership Series Talk by Tan Sri Rafidah Aziz

27 Aug
Graduate Representative Programme (GRP1000) launched by Datuk Seri Ahmad Husni Mohamad Hanadzlah, Minister of Finance II

SEPTEMBER

2–3 Sep
Hosted Asia Pacific Regulators Dialogue on Market Surveillance

11 Sep
Charged two former directors of Silver Bird Group Bhd for furnishing false information

OCTOBER

22–23 Oct
3rd World Capital Markets Symposium officiated by Dato' Seri Najib Tun Abdul Razak, Prime Minister Malaysia

22 Oct
Organised an Industry Appreciation Dinner in conjunction with SC 20th Anniversary graced by HRH Raja Nazrin Shah

29 Oct
Signed an MoU with Autoriti Monetari Brunei Darussalam to strengthen efforts to encourage greater cross-border activities

NOVEMBER

8 Nov
SC fines Ranhill Energy and Resources Bhd and Tan Sri Hamdan Mohamad for failure to disclose to SC


Ranhill Energy and Hamdan fined

TOTAL RM500,000 PENALTY: Parties did not inform SC immediately of PRW's licence suspension

20 Nov
Jointly issued with BNM and PIDM a Public Consultation Paper on OTC Derivatives Reporting Requirements

29 Nov
Released the updated list of Shariah-compliant securities approved by SAC based on the revised screening methodology

DECEMBER

6–8 Dec
SC organised Investor Outreach programme in Sabah and launched "SC Assists"; the first mobile app


Former fund manager fined RM1m

Court of Appeal overturns High Court decision

13 Dec
Former fund manager fined RM1 million for providing misleading disclosures to SC

18 Dec
SC revised Equity Guidelines to simplify transfer of listing and clarify regulatory principles for SPACs

ACRONYMS AND ABBREVIATIONS

AARG	ASEAN Audit Regulators Group
ACMF	ASEAN Capital Markets Forum
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
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
APRC	Asia-Pacific Regional Committee
ASEAN	Association of South-East Asian Nations
BCM	Business Continuity Management
BMD	Bursa Malaysia Derivatives Bhd
BNM	Bank Negara Malaysia
BPA	Bond Pricing Agency
BTS	Bursa Trade Securities (Bursa Malaysia Securities Trading System)
Bursa Malaysia	Bursa Malaysia Securities Bhd
CCM	Companies Commission of Malaysia
CEF	Closed-end fund
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
CMP2	*Capital Market Masterplan 2*
CMSA	*Capital Markets & Services Act 2007*
CMSL	Capital Market Services Licence
CMSRL	Capital Market Services Representative's Licence
CMPC	Capital Market Promotion Council
CP/MTN	Commercial Papers/Medium Term Notes
CRA	Credit rating agency
CSR	Corporate social responsibility
DCE	Deputy Chief Executive
EPF	Employees Provident Fund
ERM	Enterprise Risk Management
ETF	Exchange-traded Fund
ETP	Economic Transformation Programme
EU	European Union
FBMKLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FIA	*Futures Industry Act 1993*
FIMM	Federation of Investment Managers Malaysia

FLR	Front-line Regulator
FPLC	Federation of Public Listed Companies
FRS	Financial Reporting Standards
FSAP	Financial Sector Assessment Programme
FSB	Financial Stability Board
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
GEM	Growth and Emerging Markets
GLC	Government-linked Company
ICAEW	Institute of Chartered Accountant in England and Wales
ICM	Islamic capital market
IFIAR	International Forum of Independent Audit Regulators
IFSB	Islamic Financial Services Board
IICMF	International Islamic Capital Market Forum
IMF	International Monetary Fund
IMP	Islamic Markets Programme
INCEIF	International Centre for Education in Islamic Finance
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
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
MSWG	Minority Shareholder Watchdog Group
MVCA	Malaysian Venture Capital and Private Equity Association
MVCDC	Malaysian Venture Capital Development Council
MyULM	Malaysia's unlisted market
NAV	Net asset value
OCIS	Oxford Centre for Islamic Studies
OECD	Organisation for Economic Co-operation and Development
OIC	Organisation of Islamic Countries
OTC	Over-the-counter
PDS	Private debt securities
PE	Private equity
PIDM	Perbadanan Insurans Deposit Malaysia

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
SME	small-and-medium enterprises
SPAC	Special purpose acquisition company
SRO	Self-regulatory organisation
TOM Code	*Malaysian Code on Take-overs and Mergers 2010*
TPP	Trans Pacific Economic Partnership Agreement
TR	Trade repository
UB	Universal broker
UK	United Kingdom
US	United States
US Fed	US Federal Reserve
UTMC	Unit trust management company
VC	Venture capital
VCC/VCMC	Venture capital corporation/venture capital management corporation
WCMS	World Capital Markets Symposium

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