

# STATEMENT ON GOVERNANCE

The Securities Commission Malaysia (SC) is a statutory body established under the SCMA to regulate and develop the Malaysian capital market. The SC's mission is to promote and maintain fair, efficient and transparent securities and derivatives markets and to facilitate the orderly development of an innovative and competitive capital market. It is committed to ensure investor protection, fair and orderly markets; and monitor, mitigate and manage systemic risks arising from the capital market. The SC's responsibilities, powers and authorities are clearly defined and transparently set out in the securities laws, namely the SCMA, CMSA and *Securities Industry (Central Depositories) Act 1991* (SICDA).

## ABOUT THE COMMISSION

### Board Members

The Board is responsible for the overall governance of the Commission. The Minister of Finance appoints Board members. The Board comprises an Executive Chairman, a Deputy Chief Executive and 7 other members who may include persons representing the government and private sector. The Executive Chairman is entrusted with the day-to-day administration of the SC as provided by section 4B(1) of the SCMA. Datuk Syed Zaid Albar assumed the position of Executive Chairman on 1 November 2018. A profile of Board members is featured on pages 102 to 105 and their involvement in the various committees established by the Board is provided on page 112.

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

A person is disqualified from holding the office of a Board member if he or she holds a full time office in any PLC, becomes a member of either Houses of Parliament, or becomes an officer or director of an entity that is regulated by the Commission. Furthermore, a Board member will also be disqualified if he or she:

- Is convicted of an offence under the law involving fraud, dishonesty, corruption or violence;
- Is declared a bankrupt;
- Is not capable of discharging his or her duties;
- Fails to attend 3 consecutive meetings of the Board without leave;
- Conducts himself in such a way as to bring disrepute to the Commission;
- Fails to disclose his or her interests; or
- Becomes involved in any activity which may interfere with his or her independence in discharging his or her functions.

The SCMA requires a Board member to manage conflicts of interest by disclosing his or her interest in any matter under discussion by the Board or any of its committees. Once a disclosure has been made, he or she:

- Shall neither take part nor be present in any deliberation or decision of the Board or its committees; and

- Shall be disregarded for the purposes of constituting quorum of the Board or its committees, relating to the matter.

## Functions of the Commission

The Commission shall have the following functions:

- To advise the Minister on all matters relating to the capital market;
- To regulate all matters relating to the capital market;
- To ensure that the provisions of the securities laws are complied with;
- To regulate the take-overs and mergers of companies;
- To promote and regulate all matters relating to fund management, including unit trust schemes (UTS) and PRS;
- To be responsible for supervising and monitoring the activities of any exchange holding company, stock exchange, derivatives exchange clearing house and central depository;
- To take all reasonable measures to maintain the confidence of investors in the capital market by ensuring adequate protection for such investors;
- To promote and encourage proper conduct among participating organisations, participants, affiliates, depository participants and all licensed or registered persons of an exchange, clearing house and central depository, as the case may be;
- To suppress illegal, dishonourable and improper practices in the capital market, and the provision of investment advice or other services relating to the capital market;
- To consider and make recommendations for the reform of the securities laws;
- To encourage and promote the development of the capital market in Malaysia including research and training in connection thereto;
- To encourage and promote self-regulation by professional associations or market institutions in the capital market;
- To license, register, authorise, approve and supervise all persons engaging in regulated activities or providing capital market services as may be provided for under any securities law;
- To promote and maintain the integrity of all licensed persons, registered persons, approved persons and participants in the capital market;
- To register or recognise all auditors of PIEs or schedule funds, and to exercise oversight over any person who prepares a report in relation to financial information of PIEs or schedule funds, in relation to capital market activities;
- To promote confidence in the quality and reliability of audited financial statements in Malaysia, and to promote and develop an effective and robust audit oversight framework in Malaysia;
- To take all reasonable measures to monitor, mitigate and manage systemic risks arising from the capital market;
- To promote and regulate corporate governance and approved accounting standards of listed corporations; and
- To set and approve standards for professional qualification for the capital market.

The Commission also has the functions and powers conferred upon it by or under the securities laws.

## Board Meetings

Ten Board meetings were held in 2020. The quorum required is 5. The attendance record is set out in Table 1.

The work of the Board in governing the SC is facilitated by various board committees established under section 18 of the SCMA, as listed in Table 2. Membership of these board committees comprise of Board Members as well as any other person as may be appointed by the Board. In this regard, in January 2020, the Board had appointed an independent member to the Take-Overs and Mergers Committee pursuant to section 18(2)(b) of the SCMA

TABLE 1

### Attendance at Board meetings

Board Member	Number of meetings attended
Datuk Syed Zaid Albar	10/10
Datuk Zainal Izlan Zainal Abidin	10/10
Tan Sri Noorul Ainur Mohd Nur <sup>1</sup>	3/10
Datuk Dr Khaw Lake Tee <sup>2</sup>	6/10
Johan Mahmood Merican <sup>3</sup>	2/10
Ahmad Faris Rabidin <sup>4</sup>	8/10
Dato' Gooi Hoe Soon	10/10
Datuk D.P Naban	10/10
Dr Zunika Mohamed <sup>5</sup>	5/10
Datin Rashidah Mohd Sies <sup>6</sup>	3/10

<sup>1</sup> Retired from the Board on 4 April 2020.

<sup>2</sup> Retired from the Board on 16 August 2020.

<sup>3</sup> Retired from the Board on 16 August 2020.

<sup>4</sup> Retired from the Board on 3 November 2020.

<sup>5</sup> Appointed to the Board on 1 June 2020.

<sup>6</sup> Appointed to the Board on 15 September 2020.

## AUDIT COMMITTEE

The Audit Committee comprises non-executive members of the SC as shown in Table 2, who are appointed by the Board. The purpose, authority and responsibilities of the Audit Committee are set out in the Audit Committee Charter as approved by the

TABLE 2

## Board Committees

Committee	Key Responsibility
<b>1. Audit Committee</b>	Review effectiveness of the SC's risk management and internal control systems; and review the annual financial statements.
<b>2. Issues Committee</b>	Review and decide on primary listings of corporations and business trusts on the Main Market; acquisition of assets which results in a significant change in business direction or policy of a corporation or business trust listed on the Main Market; secondary or cross listings of foreign corporations or foreign business trusts on the Main Market; and the establishment of listed schemes.
<b>3. Take-Overs and Mergers Committee</b>	Review take-over and merger related applications of a novel and/or complex nature and matters relating to national policy.
<b>4. Managed Investment Schemes Committee<sup>8</sup></b>	Approve the establishment of listed REITs.
<b>5. Licensing Committee</b>	Evaluate and approve (or reject) application for the grant of a new Capital Markets Services Licence (CMSL), application for new licensed representatives, directors, key management or compliance officers that are submitted together with the new CMSL application, application relating to PRS providers and consider any policy recommendations relating to licensing issues.
<b>6. Nomination and Remuneration Committee</b>	Assess and formulate the remuneration of the Executive Chairman and Deputy Chief Executive and make appropriate recommendations to the Minister of Finance.

## Members

- Dato' Gooi Hoe Soon (Chairman)
- Tan Sri Noorul Ainur Mohd Nur<sup>1</sup>
- Datuk Dr Khaw Lake Tee<sup>2</sup>
- Ahmad Faris Rabidin<sup>4</sup>
- Datuk DP Naban
- Dr Zunika Mohamed<sup>5</sup>

- Datuk Syed Zaid Albar (Chairman)
- Datuk Zainal Izlan Zainal Abidin
- Ahmad Faris Rabidin<sup>4</sup>
- Dato' Gooi Hoe Soon
- Datuk D.P Naban
- Datin Rashidah Mohd Sies<sup>6</sup>

- Datuk Syed Zaid Albar (Chairman)
- Datuk Zainal Izlan Zainal Abidin
- Tan Sri Noorul Ainur Mohd Nur<sup>1</sup>
- Johan Mahmood Merican<sup>3</sup>
- Datuk D.P Naban
- Dato' Gooi Hoe Soon
- Datin Rashidah Mohd Sies<sup>6</sup>
- Lynette Yeow Su-Yin<sup>7</sup>

- Datuk Syed Zaid Albar (Chairman)
- Datuk Zainal Izlan Zainal Abidin
- Tan Sri Noorul Ainur Mohd Nur<sup>1</sup>
- Datuk Dr Khaw Lake Tee<sup>2</sup>

- Datuk Syed Zaid Albar (Chairman)
- Datuk Zainal Izlan Zainal Abidin
- Datuk Dr Khaw Lake Tee<sup>2</sup>
- Ahmad Faris Rabidin<sup>4</sup>
- Dato' Gooi Hoe Soon
- Dr Zunika Mohamed<sup>5</sup>

- Ahmad Faris Rabidin<sup>4</sup> (Chairman)
- Datuk D.P Naban (Chairman)
- Dato' Gooi Hoe Soon
- Dr Zunika Mohamed<sup>5</sup>

<sup>1</sup> Retired from the Board on 4 April 2020.

<sup>2</sup> Retired from the Board on 16 August 2020.

<sup>3</sup> Retired from the Board on 16 August 2020.

<sup>4</sup> Retired from the Board on 3 November 2020.

<sup>5</sup> Appointed to the Board on 1 June 2020.

<sup>6</sup> Appointed to the Board on 15 September 2020.

<sup>7</sup> Appointed on 10 Jan 2020 pursuant to Section 18(2)(b) of the SCMA.

<sup>8</sup> On 21 November 2020, the functions were merged with Issues Committee.

Board. Essentially, the Audit Committee provides oversight of the SC's governance, risk management and internal control practices.

The Audit Committee also provides oversight of internal audit activities, including approving Internal Audit Charter and Annual Internal Audit Plan. The Audit Committee is responsible for the review of the external auditors' proposed audit scope, approach and performance, including reviewing all significant matters relating to the financial statements with Management and the external auditors. For the current financial year, the Audit Committee had convened 6 meetings.

## SHARIAH ADVISORY COUNCIL

The SAC is mandated to ascertain the application of Shariah principles on any matter relating to Islamic capital market (ICM) and plays an important role in the development of Malaysia's ICM. It advises the Commission on any Shariah issue relating to ICM and issue rulings on ICM which are published for the benefit of the industry.

The 9 SAC members as listed in Table 3, serve for a 3-year period commencing 1 July 2020, as assented by the Yang di-Pertuan Agong under Section 31ZK of the SCMA.

TABLE 3

### Shariah Advisory Council members

No.	SAC Members
1.	Datuk Dr Mohd Daud Bakar (Chairman)
2.	Associate Professor Dr Aznan Hasan (Deputy Chairman)
3.	Dr Shamsiah Mohamad
4.	Professor Dr Engku Rabiah Adawiah Engku Ali
5.	Professor Dr Ashraf Md. Hashim
6.	Professor Dr Asmadi Mohamed Naim
7.	Associate Professor Dr Mohamed Fairouz Abdul Khir
8.	Professor Dato' Dr Mohd Azmi Omar
9.	Dr Zaharuddin Abdul Rahman

## AUDIT OVERSIGHT BOARD

The AOB was established under Part IIIA of the SCMA and its mandate is to assist the SC in discharging its regulatory function in respect of developing an effective audit oversight framework, promoting confidence in the quality and reliability of audited financial statements, and regulating auditors of PIE and scheduled funds.

The AOB also exercises oversight over any person who prepares a report relating to the financial information of PIE and schedule funds, in relation to capital market activities. The AOB members are appointed by the Board (Table 4).

TABLE 4

### Audit Oversight Board members

No.	AOB Members
1.	Dato' Gumuri Hussain (Non-Executive Chairman) <sup>1</sup>
2.	Dato' Anantham Kasinather (Non-Executive Chairman) <sup>2</sup>
3.	Alex Ooi Thiam Poh (Executive Officer)
4.	Salmah Bee Mohd Mydin
5.	Hew Ee-Lu
6.	Nor Azimah Abdul Aziz
7.	Dato' Darawati Hussain
8.	Dato' Seri Ahmad Johan Mohammad Raslan <sup>3</sup>

<sup>1</sup> Retired as Non-Executive Chairman on 23 November 2020.

<sup>2</sup> Appointed as AOB Non- Executive Member on 1 January 2020. and thereafter as Non-Executive Chairman on 1 December 2020.

<sup>3</sup> Appointed on 1 December 2020.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Commission is committed to maintaining strong risk management and internal control, which is an integral component of its governance arrangement.

### Risk Management

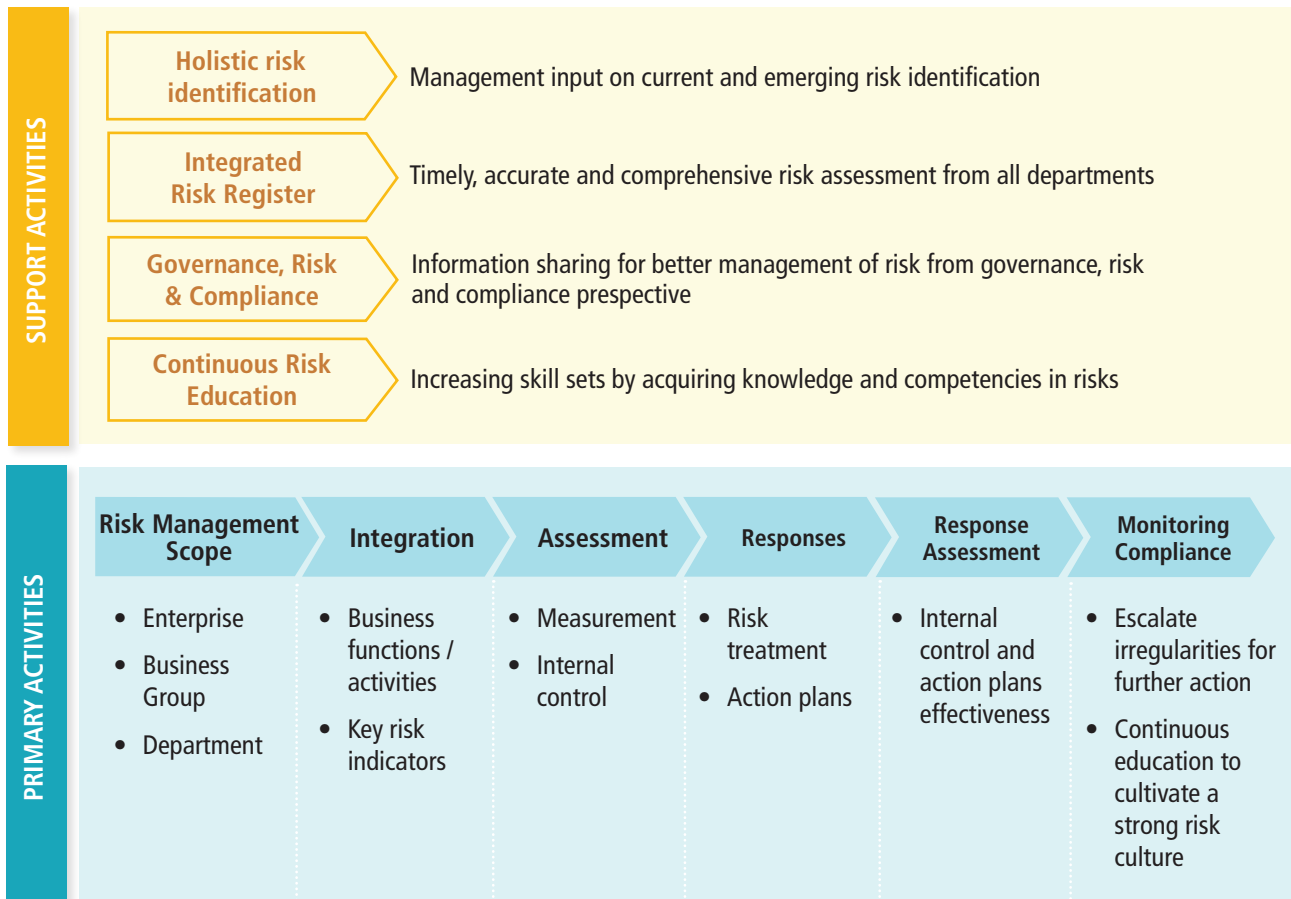
The SC has put in place various measures to manage and mitigate possible risks associated with the operations of the SC. The Board is responsible for reviewing and adopting appropriate systems and controls to manage the enterprise risks of the SC. The Audit Committee, on behalf of the Board, provides an independent assessment of the effectiveness of the Enterprise Risk Management (ERM) framework.

The Executive Chairman with the assistance of the Executive Team is responsible for the effective management of risk and internal control within the SC. The risk committee led by the Executive Chairman provides the necessary challenges, deliberation and strategic direction on risks faced by the SC. At the departmental level, risk officers are responsible to identify and manage the risks faced by the respective departments in carrying out their day to day operations. The roles undertaken by the three lines of defence also support the Board and the SC Management in managing risk of the SC.

Management of internal risks of the SC is guided by the ERM framework which aims to assess risks across all facet of the Commission. This framework is consistent with the International Organization for Standardization (ISO) for risk management (ISO: 31000). It involves systematically identifying, analysing, measuring, monitoring and reporting on risks that may affect the achievement of the Commission's business objectives. The ERM framework is based on the primary and support activities outlined in Diagram 1.

DIAGRAM 1

## ERM approach and activities



Furthermore, the Board and Management drive a proactive risk management culture with regular risk awareness and engagement sessions being carried out to ensure risks officers and the SC employees have a good understanding and application on the expectations and management of risk. This also facilitates the strengthening of risk management initiatives for effective and efficient response to the constantly evolving operating environment.

As part of growth and embracing a culture of continuous improvement, during the year, the SC undertook a maturity assessment on the ERM Framework by an independent external consultant.

Enhancement recommendations to the various components of the framework have been identified along with an implementation timeline.

### Internal Controls

The SC has put in place a suite of internal control measures in the form of policies and procedures covering operational matters in terms of governance, staffing, procurement, operations resiliency, data protection and risk management with the objectives to provide assurance on the effectiveness of control environment.

# GOVERNANCE AND COMPLIANCE

The *Code of Conduct* for Members of the Board sets out the expectations required of Board Members in the discharge of their duties.

The *Statement of the SC's Principles and Standards* facilitates efficient and ethical engagement between the SC and its external stakeholders, which include suppliers, contractors, vendors and consultants. The SC also expects its business stakeholders and all market participants engaging with the SC to emulate similar ethical principles.

The Framework for Handling External Complaints Against the SC Employees, sets out the process for handling complaints made by external parties against any employee of the SC in relation to the discharge of his functions.

The *Compliance Management Guidelines* provides a structured approach to ensure compliance with the laws, regulations and internal governance standards, which impact the day-to-day operations of the SC.



The *Code of Conduct* sets out the expectations required of employees on ethical conduct and standards of behaviour.

Feedback channels for the SC employees and agents to raise concerns on employee conduct, including the Internal Whistleblowing Procedure to expose or report internal wrongdoing or suspected breaches of law within the organisation.

Conflict of Interest Declaration processes in which Board members and employees must comply with when faced with a conflict of interest situation

The Compliance and Ethics programme, an interactive e-learning tool, aims to help SC employees understand the principles of the SC's internal governance standards. These modules are intended to reaffirm the importance of maintaining the high standards of ethics, values and behaviour that the SC and its employees must continue to be associated with. The programme is imposed on new staff and all staff are required to undertake the programme every 2 years.

## Business Processes and Procedures

As part of building the employees' understanding of the SC's operations, Business Process Flows and other relevant business process guidance documents, which serve as guide for employees in the discharge of their functions, are made available on the SC's intranet. These business process flows and guidance documents are subject to annual review by respective owners.

The *Procurement Policy and Guidelines* was established to ensure fair and orderly sourcing and acquisition of goods and services for the SC. It includes a procurement strategy outlining proper guidance on the end-to-end procurement process as well as the reinforcement of good procurement governance and control.

The *Asset Management Policy and Guidelines* sets out the treatment of assets in the SC to

ensure that the SC's fixed assets are safeguarded and properly recognised and maintained in good working condition.

## Information and Knowledge Management

- Authorisation for Disclosure of Information Policy governs the release of information from the SC that is not in the public domain.
- The *Data Loss Mitigation Guidelines* acts as a reference point for employees in handling both physical and electronic records containing sensitive information. The Guidelines ensure sensitive information is appropriately secured from unauthorised disclosure and protected from alteration, corruption, loss or misuse, while preventing reputational damage and adversely impacting our stakeholders.
- The *Records Management Policy* 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.
- Retention and dissemination process was improved to allow staff better access to knowledge and information to assist in their daily tasks.

## OPERATIONAL RESILIENCE

- Business continuity management arrangements were put to test in the fullest extent due to COVID-19 pandemic in 2020. The established business continuity arrangements have responded well throughout the various phases of the movement control order period. These arrangements ensured continuity of operations from all angles; premise, human capital, technology and business processes. The SC has in place the following protocols and procedures to allow its staff to continue to work in a safe and secure environment:

- Pandemic plan;
- Assurance in the continuity of critical functions;
- Remote / WFH protocols including technology infrastructure;
- Human capital mobilisation and allocation;
- Premise sanitisation procedures;
- Continuous and open communications avenues; and
- Workplace safety and return to work protocols.

- The existing *IT User Policy and IT Policy* was reviewed annually to ensure the effective protection and proper usage of the SC's computer systems.

## Anti-Corruption Measures

As a public institution, the SC is highly committed to provide an environment that promotes a strong sense of accountability and professionalism among its employees. In line with the requirements of the National Anti-Corruption Plan, the SC has developed its own Organisational Anti-Corruption Plan (OACP) with the strategic objective of strengthening the SC's governance, integrity and anti-corruption measures. The OACP covers key elements such as an explicit anti-corruption commitment from key stakeholders, relevant policies and procedures, controls, training and communication, reporting mechanisms and importantly, regular auditing and monitoring.

## INTERNAL AUDIT

The SC's Internal Audit Department (IAD) assists the Audit Committee in the discharge of its duties and responsibilities. IAD reports directly to the Audit Committee, which determines the adequacy of scope and function of the department. IAD 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.



IAD 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 IAD for the year 2020 included performing predominantly risk-based audits for the areas identified in the internal audit plan. The results of the audit and activities performed by the internal audit function were presented to the Audit Committee for its review. Where applicable, internal audit conducted follow-up audits to ensure that Managements' corrective actions were implemented appropriately and provided updates on the status of the key actions to the Audit Committee. In addition, IAD played an advisory role in the course of performing its audit activities.

IAD also reviewed the Audit Committee Charter and the Internal Audit Charter to ensure these were in line with The Institute of Internal Auditors' International Professional Practices Framework.

## EXTERNAL STAKEHOLDER AND PUBLIC COMMUNICATION

Consistent and constant communication with capital market participants is necessary to facilitate the effective discharge of the SC's responsibilities. Regular meetings and discussions with our key stakeholders enable the SC to provide facilitative policies, a robust regulatory framework and encourage continuous growth and development of the capital market. All media releases, publications, guidelines, annual reports as well as consultation and response papers are posted on the SC's official website – [www.sc.com.my](http://www.sc.com.my).

The SC's Consumer and Investor Office acts as one of the key channels in engaging investors and the public. The office receives and handles public complaints and enquiries relating to the capital market. In addition, it is responsible for the SC's investor empowerment strategy under the InvestSmart® brand, targeted towards the public and investors of all life stages.

Through InvestSmart®, the SC undertakes various initiatives via different modalities such as exhibitions, seminars, roadshows, digital and social media on the fundamentals of making sound investment decisions.

SIDREC is a body approved by the SC to handle capital market-related disputes involving monetary claims by investors against its members. SIDREC's members are licensed intermediaries and registered persons specified under Part 1 of Schedule 4 of the CMSA, carrying out dealings in securities, derivatives, PRS and fund management in Malaysia. Members of SIDREC comprise banks, stockbrokers, futures brokers, fund management companies, unit trust management companies, PRS providers and distributors as well as two specified development financial institutions (DFIs).

SIDREC provides an independent and impartial avenue for redress for disputes between investors and SIDREC's members. Provision of effective and affordable access to redress is in line with international best practices and it supports the Commission's investor protection and empowerment initiatives.

Under SIDREC's Mandatory Scheme for claims of up to RM250,000, SIDREC's members are required to participate in SIDREC's dispute resolution process. Services under the Mandatory Scheme are free to investors. Under its Voluntary Scheme, where both parties must agree to use SIDREC's expert services, SIDREC is able to accept claims exceeding RM250,000 for mediation and adjudication as well as court-referred case management and mediation.

Apart from its involvement in the dispute resolution process with both SIDREC's members and investors, SIDREC also interacts with the investing public through its awareness initiatives. In addition, SIDREC concurrently engages its members, the Commission and other stakeholders such as related industry associations and self-regulatory organisations (SROs) to provide insights, positive observations as well as concerns stemming from its dispute resolution process. This provides valuable feedback to the market, investors and the regulator.