

© Securities Commission Malaysia, 2019 Information contained in this annual report is accurate as at 31 December 2019. Rationale for Cover Design The cover for the Securities Commission Malaysia Annual Report 2019 is a continuity from last year's design. The fluidity of the weave motif represents the SC's continuous pursuit in cultivating a capital market that is

Accessible, Agile and Accountable.





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#### **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.





### Chairman's Message

66 It is my privilege to present the annual report for Securities Commission Malaysia, which provides an account of our initiatives in 2019. 99



well-developed and efficient capital market is essential in meeting a country's economic development objectives. As Malaysia transitions into a high-income economy, investments are required, especially in high value-added and sustainable industries. Consequent positive spillovers on job creation and household wealth can subsequently ensure that Malaysia's growth is inclusive and shared broadly.

Investments of this scale require a vibrant economy that is underpinned by a deep and liquid market. This would allow individuals, corporations and institutions to unlock value by mobilising funds to finance the real economy. In this regard, trust is essential to attract investor participation in the capital market.

To engender trust, the Securities Commission Malaysia (SC) is committed to build a market with clear and commercially sensible rules. To be credible, such rules must be fairly and consistently applied with due regard for the interests of all parties involved – including the public.

66 In 2019, the bond and sukuk market recorded total non-resident portfolio inflows of RM19.9 billion while the equity market saw outflows of -RM11.1 billion. This accumulated to a net inflow of RM8.7 billion into the capital market, compared to net outflows of -RM33.6 billion in the previous year.

To ensure the rules are observed, we do not rely on regulatory intensity alone. The first line of defence remains an organisation's own governance and internal controls, with additional discipline provided by an informed and vigilant public.

By placing accountability on market participants for their own behaviour, we recognise that growth cannot occur in an environment devoid of risk. The regulatory framework must therefore allow legitimate commercial risk-taking, subject to full and timely disclosures, and effective risk management practices.

However, while we provide a facilitative environment for *bona fide* transactions, we are also wary of poor business conduct which may erode public trust and market integrity.

In this regard, the SC's supervisory, surveillance and enforcement role provides a hard backstop against behaviours by market participants that fall short of regulatory requirements.

#### Sustained growth amidst headwinds

With these safeguards in place, the Malaysian capital market remained resilient and orderly amidst a challenging external environment.

Crucially, the capital market continued to channel financing to the Malaysian economy in 2019, with RM139.4 billion raised through equity, bonds and sukuk (2018: RM114.6 billion). The number of initial public offerings on the Main, ACE and LEAP Markets also increased to 30, despite total equity issuance falling to RM6.6 billion (2018: RM9.2 billion).

Sustained issuances enabled the capital market to grow by 3% to RM3.2 trillion in 2019, with bonds and sukuk outstanding accounting for RM1.5 trillion and equity market capitalisation making up the remaining RM1.7 trillion.

The fund management industry remained an important source of liquidity, with total assets under management (AUM) rising to RM823.2 billion in 2019 (2018: RM743.6 billion). The 11% increase was driven by valuation gains in small and mid-cap equities as well as higher net injections from dividend reinvestment, and marked a welcome rebound from the -4% contraction in 2018.

The depth of domestic buy-side liquidity also enabled orderly intermediation of cross-border portfolio flows. In 2019, the bond and sukuk market recorded total non-resident portfolio inflows of RM19.9 billion while the equity market saw outflows of

-RM11.1 billion. This accumulated to a net inflow of RM8.7 billion into the capital market, compared to net outflows of -RM33.6 billion in the previous year.

#### **Towards a AAA market**

The market's resilience demonstrates the rigour of the SC's regulatory framework. This underpins my decision to focus my first full year as the Executive Chairman on improving the functionality of the market for its users, particularly issuers and investors.

The end goal I have in mind is to have a capital market which is Accessible to the widest possible demographic, including underserved segments such as small businesses; Agile in response to opportunities and shifts in the competitive landscape, while remaining Accountable to all relevant stakeholders.

A market with these attributes, Accessibility, Agility and Accountability, can accelerate Malaysia's economic development by serving a larger population of businesses and investors. It can also raise overall competitiveness and bolster trust by focusing on governance and accountability.

The SC's work programme for 2019 therefore comprised initiatives to broaden market access, promote greater agility and reinforce a culture of good conduct, governance and accountability.

### Growing alternative financing channels

While financing businesses is a core function of the capital market, previously, various structural impediments limited access to investments in many private companies, hence excluding them from the capital market.

Today, however, technology provides a cost-effective way to mitigate such concerns through channels such as equity crowdfunding (ECF) and peer-to-peer (P2P) financing.



By providing a convenient electronic medium to invest in micro, small and medium enterprises (MSMEs), these financing platforms not only enabled underserved businesses to obtain capital but also attracted a new generation of digitally savvy investors.

Today, there are 10 ECF and 11 P2P financing platforms registered with the SC, with eight new operators approved in 2019 alone. Over the year, almost RM444 million in financing was disbursed to MSMEs – a significant increase from RM196 million raised in 2018. The ECF segment also saw the successful exit of three issuers, which allowed investors to realise their gains and will likely attract liquidity into this space.

Acknowledging the catalytic impact of financing emerging businesses, the Government has allocated RM100 million to the Malaysia Co-investment Fund (MyCIF) to co-invest on a 1:4 ratio alongside private investors. A further RM10 million was also allocated specifically for social enterprises.

#### **Expanding the digital market** ecosystem

Given strong public interest in digital assets as an investment instrument, in 2019, the SC formally prescribed these assets as securities and introduced a framework to regulate Digital Asset Exchanges (DAX). This framework provides clarity on the regulatory treatment of digital assets and specifies standards for integrity as well as fit and properness. Three operators have been approved to date.

During Budget 2018, the Government also proposed a technology-enabled mechanism to alleviate home financing constraints in Malaysia, particularly among first-time house buyers. Following a public consultation, the SC launched a regulatory framework for property crowdfunding (PCF) and registered its first operator in September 2019.

Greater investor awareness also translated into growth for Digital Investment Management (DIM), the provision of automated discretionary portfolio management services. Attractive for its easy access, flexibility and low entry costs, AUM grew to more than RM54 million, with three new firms licensed in 2019 – including the first Islamic DIM – and another three granted approval-in-principle.

#### Spearheading ICM development

With Shariah-compliant assets representing 64% of the capital market, Malaysia is not only a global leader in the Islamic capital market (ICM) but also a pioneer in innovation and thought leadership.

In March 2019, we hosted the 10<sup>th</sup> SC-OCIS Roundtable together with the Oxford Centre for Islamic Studies (OCIS), focusing on impact investing. In April, we also collaborated with the World Bank and IOSCO Asia Pacific Hub for a conference on the role of Islamic finance in promoting financial inclusion.

Insights from diverse participants are integrated into the SC's development efforts such as our work in designing a structure for waqf funds, which enable returns to be channelled towards social impact activities. This product innovation is guided by our Islamic Fund and Wealth Management Blueprint and is expected to be launched in 2020.

Recognising that Islamic finance may provide a solution for the world's sustainable financing needs, in 2014, the SC introduced the Sustainable and Responsible Investment (SRI) Sukuk Framework to attract investments into green, social and sustainable projects. To broaden the issuer and investor base, in 2019, we revised the framework to enhance disclosure standards and further align requirements with internationally accepted principles and best practices.

**REPORT** 2019

#### Financing sustainable development

Given the pressing need for the world to meet the UN's Sustainable Development Goals, our efforts to develop Malaysia as a regional SRI centre must be accelerated. To this end, in November 2019, the SC launched the Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market (SRI Roadmap), a five-year plan which contains 20 strategic recommendations mapped against our existing 5*i*-strategy.

As sustainability is an overarching concern, co-operation is vital to align all stakeholders towards this objective. Domestically, the SC and Bank Negara Malaysia (BNM) have set up the Joint Committee on Climate Change (JC3) to pursue collaborative efforts to build climate resilience within the financial sector. Members of JC3 include Bursa Malaysia and 19 industry participants.

As an early mover in SRI, the SC also plays a leading role in sustainability-related efforts at the international level via platforms such as the International Organization of Securities Commissions (IOSCO), the ASEAN Capital Markets Forum (ACMF) and the Working Committee on Capital Market Development (WC-CMD).

#### **Enhancing primary market efficiency**

At the same time, the SC also focused on enhancing efficiencies within established segments of the capital market.

Topping the list are reforms to the primary equity market, specifically the approval process for initial public offerings (IPOs). Streamlining this area is crucial to provide greater certainty and costefficiency for companies listing in Malaysia, while not compromising the robustness of the due diligence and approval process.

After close consultation with practitioners and other stakeholders, the SC has committed to

liberalise the Approved Principal Adviser (APA) Framework by introducing the concept of Recognised Principal Advisers (RPA), Qualified Persons (QP) and Senior Officers (SO). The guidelines to this effect will be introduced in 2020.

These front-end liberalisation measures will be accompanied by more stringent post-hoc supervision. In 2019, the SC conducted a thematic review of selected APAs to gauge their readiness for this framework. These efforts will be expanded moving forward, with more rigorous assessment on RPAs' actual compliance with regulatory requirements during execution of corporate proposals.

#### **Fostering competitiveness**

As efficiency is key for intermediaries to remain competitive, the SC established the Brokerage Industry Digitisation Group (BRIDGe) whose members also comprise BNM, Bursa Malaysia and industry participants.

In 2019, the BRIDGe workstreams finalised measures for greater efficiency in the broking industry. These include digitising the client onboarding process through non-face-to-face verification and online CDS account opening, enabling seamless posttrade and settlement through higher settlement limits, and enabling investors to electronically participate in corporate actions such as rights issues and dividend reinvestment plans (DRP). These recommendations complement the SC's efforts to promote the use of e-prospectuses, e-contract notes and e-statements.

As collective investment schemes (CIS) remain a major channel for investors to access the capital market, in 2019, the SC concurrently conducted a review of the Guidelines for Unit Trust Funds (GUTF) and the private retirement schemes (PRS) landscape.

We also took steps to promote market vibrancy and broaden investor choices by approving six leveraged



and inverse exchange-traded funds (ETFs) while liberalising requirements for short selling and market making, as well as the retail bond and sukuk framework.

#### Raising the bar for corporate conduct

As the market's largest user of external financing, the SC demands high standards of conduct, accountability and governance from Malaysia's public-listed companies (PLCs). We undertake active surveillance on PLC activities, focusing on risk areas, corporate transactions and financial reporting, while also regularly querying statutory auditors and the issuers themselves.

To track the implementation of the SC's Malaysian Code on Corporate Governance (MCCG), in 2019, the SC released the inaugural Corporate Governance Monitor (CG Monitor), which noted positive levels of adoption across various MCCG best practices, particularly board responsibilities, audit committee as well as risk management and internal controls.

Encouragingly, mid-cap and small-cap companies are among early adopters of newly introduced practices such as remuneration disclosures and tenure limits on independent directors. We hope that the CG Monitor will be a useful reference for PLC boards and senior management in strengthening their governance arrangements as well as investors and other stakeholders.

Taking the cue from the *National Anti-Corruption* Plan 2019-2023, the SC reviewed the anticorruption policies of PLCs and found that only 59% had such policies in place, with most requiring further enhancements. Arising from this finding, the Listing Requirements were amended to require all PLCs to have policies and procedures on anti-corruption and whistleblowing, and for anti-corruption risks to be included in issuers' annual risk assessment frameworks.

#### Heightening oversight on market participants

The SC deploys a comprehensive systemic risk and market surveillance programme, and regularly engages regulatory counterparts to ensure that authorities have a joined-up view of the market. In 2019, we undertook a macro stress test on liquidity risk of investment funds and released the Guiding Principles on Business Continuity to promote resilience of critical capital market services against disruptions.

The SC's oversight of the market is reinforced by our rigorous supervisory regime over licensed entities, financial market infrastructure providers and self-regulatory organisations (SROs). In addition to ongoing monitoring of compliance, supervisors also conduct on-site inspections and, where relevant, thematic reviews on key risks across a particular segment. Topics reviewed in 2019 included the treatment of material non-public information (MNPI) by fund management companies (FMC) and outsourcing to technology service providers.

#### **Deterring misconduct through** enforcement

In 2019, the SC continued to use the full range of our powers to pursue enforcement actions against those who committed offences under the securities law.

We secured an increase in civil penalties and greater disgorgement from insider trading and false disclosure cases amounting to RM33.8 million. This enabled the restitution of close to RM1.3 million to more than 600 affected investors. Greater focus was also placed on securities fraud. which accounted for 25% of active cases in 2019.

Our pursuit of criminal and civil actions through the courts is complemented by administrative

actions. In 2019, 99 sanctions including financial penalties, revocation of licences and reprimands were imposed against intermediaries, professional advisors, PLCs and their directors.

In addition to breaches detected by the SC's surveillance and supervisory activities, complaints from the public are an important channel for detecting transgressions, including those committed by unlicensed individuals.

To ensure the investing public is informed and vigilant against such misconduct, the SC conducted an extensive investor education and outreach programme, which included the InvestSmart® Fest 2019 in Kuala Lumpur, Bersama InvestSmart® Borneo in Kota Kinabalu as well as various events and media broadcasts. The SC also co-chairs the Financial Education Network (FEN), which released the Malaysia National Strategy for Financial Literacy 2019–2023 in July 2019.

#### **Priorities moving forward**

The year 2020 marks an important economic milestone for Malaysia. As we continue to face a challenging external environment amidst modest growth prospects, the SC will intensify efforts to create an Accessible, Agile and Accountable domestic capital market. This includes initiatives to expand access to financing for underserved issuers, focusing on unlisted mid-tier corporations and facilitating debt issuances by investees of private equity and venture capital funds.

The SC will also broaden the range of alternative financing and investment opportunities, brought about by greater maturity in the digital market ecosystem. We will continue to facilitate development in new digital assets such as initial exchange offerings (IEOs), and enhance existing ECF, P2P financing and DIM segments, including the introduction of more innovative Islamic solutions.

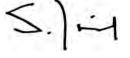
Efforts to expand the digital market ecosystem will be complemented by concurrent investment in strengthening the SC's own capabilities – particularly our expertise in supervising digital business models and asset classes as well as greater use of analytics to ensure we remain effective in an increasingly technology-driven market.

We also note rising international competition in the ICM, which necessitates a renewed focus by the SC to further develop this segment.

Equal emphasis will be placed on implementing the SRI Roadmap, to ensure that synergistic areas will remain a source of competitive advantage for the capital market. In particular, an environmental, social and governance (ESG) criteria will be included in the shariah screening methodology for PLCs. The objective is to encourage the creation of ESG-related indices and funds to provide diversity of investment options. The ESG screening criteria is also an important step towards encouraging PLCs to adopt more sustainable business practices.

Finally, having established an Anti-Corruption Committee and developed an Organisational Anti-Corruption Plan, the SC will continue to raise our own governance and accountability standards to ensure that the institution continues to operate with integrity and independence.

The achievements of the SC were made possible by the hard work of its employees and I unreservedly express my gratitude to my colleagues, particularly the Executive Team. The watchful oversight from our Board members is an important check and balance for the organisation and I thank them for their diligence.



**DATUK SYED ZAID ALBAR** 

## HIGHLIGHTS 2019

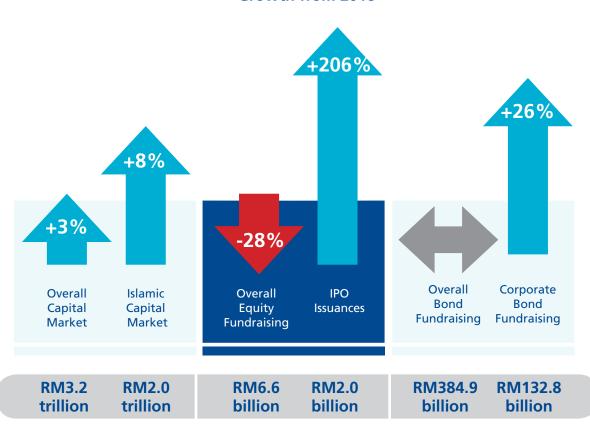
#### Capital market size and fundraising

#### **Key highlights**

Total capital market grew by 3%, driven largely by Islamic capital market Overall decline in equity fundraising, but significant rebound in IPOs

Strong growth of corporate bonds maintained overall bond fundraising

#### **Growth from 2018**



**Size in 2019** 

#### **Fundraising**

Strong fundraising growth was recorded in other segments across the capital market, despite a decline in secondary issuances. In particular, alternative fundraising is becoming a significant component of fundraising in the market



#### **Alternative fundraising**

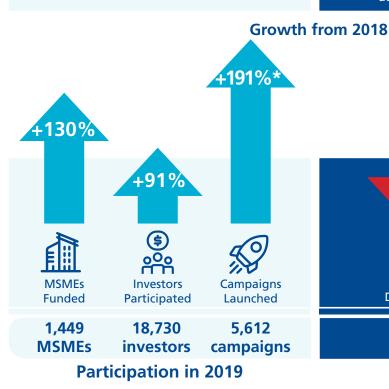
#### **Key highlights**

#### ECF/P2P

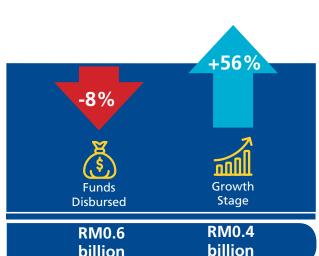
ECF/P2P platforms continued to reach out to more MSMEs, and broaden investor pool

#### VC/PE

VC/PE investments in growth stage companies saw substantial growth, despite decline in overall VC/PE investments



<sup>\*2018</sup> number has been adjusted to the RMOs' latest reported number.



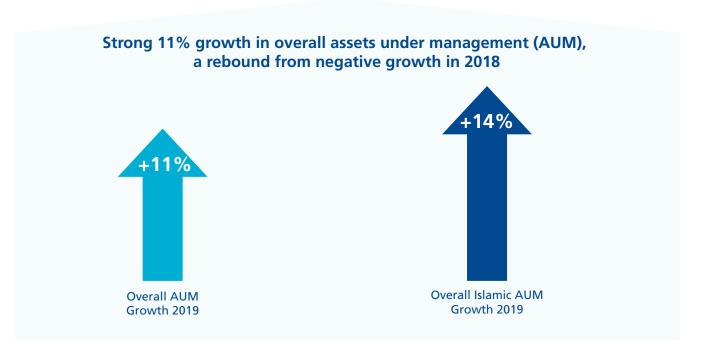
**Size in 2019** 

#### **DID YOU KNOW?**

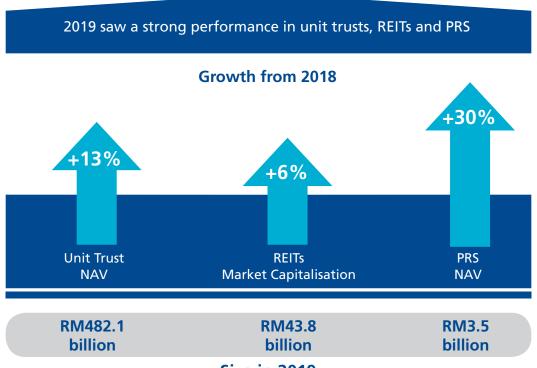
Since inception, there have been 8,182 successful campaigns launched, with 1,943 MSMEs funded via the ECF/P2P platforms.

## HIGHLIGHTS 2019

#### **Fund management**



**Key highlights** 



**Size in 2019** 

### Islamic Capital Market (ICM) and Sustainable and Responsible Investment (SRI)

#### ICM and SRI remained a key focus in 2019

Launch of the SRI Roadmap for the Malaysian Capital Market



Enhancement to the SRI Sukuk Framework



In November 2019, the SRI Sukuk Framework was revised to further harmonise the SC's requirements with internationally accepted principles and best practices

SRI Sukuk for renewable energy projects issued in 2019



#### **Digital**

### Focus on enabling wider digital channels and business models for greater diversity in our market

		Equity Crowdfunding	Peer-to-peer Financing	Digital Exchanges	Property Crowdfunding	Digital Investment Management	Digital Broker	Total
Approvin 201		+3	+5	+3	+1	+5	-	17
Cumula approv by 201	ed	10	11	3	1	7	1	33

#### **DID YOU KNOW?**

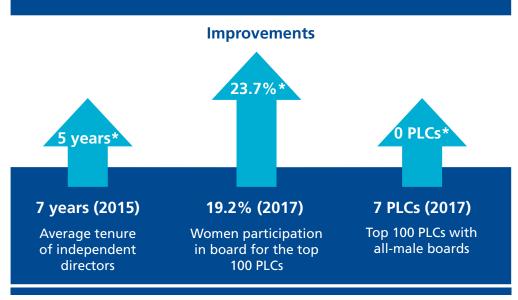
In just 2 years, DIMs recorded a total AUM of over RM74 million from over 20,000 accounts.

## HIGHLIGHTS 2019

#### Corporate Governance (CG)

#### **Key highlights**





<sup>\*</sup> As reported in the CG Monitor 2019.

#### Strengthening the resilience of the capital market against corruption

Overview of the SC's anti-corruption measures for PLCs and market intermediaries



Review

**59%** PLCs have anti-corruption measures in place



Action taken

SC amended *Bursa Malaysia Listing Requirements* to strengthen the anti-corruption framework of all PLCs



Regulation

All PLCs are required to:

- Have policies and procedures on anti-corruption and whistleblowing
- Include anti-corruption risk in the company's annual risk assessment framework

#### **DID YOU KNOW?**

27 out of the 36
Malaysian Code
on Corporate
Governance (MCCG)
practices were
adopted by more
than 70% of the 841
listed companies
(CG Monitor 2019).

#### **Enforcement**

#### **Key highlights**



Greater number of investors who have been restituted



Greater focus on securities fraud investigations



Greater use of other enforcement tools such as admin actions



Greater focus on unlicensed activities in relation to digital assets

619

Investors who have been restituted in 2019

VS

149

Investors on average in the past 5 years

25%

of active cases in 2019

**VS** 

3%-14%

of active cases on average of past 5 years 99

Admin actions in 2019

**VS** 

39

Admin actions on average in the past 5 years

23

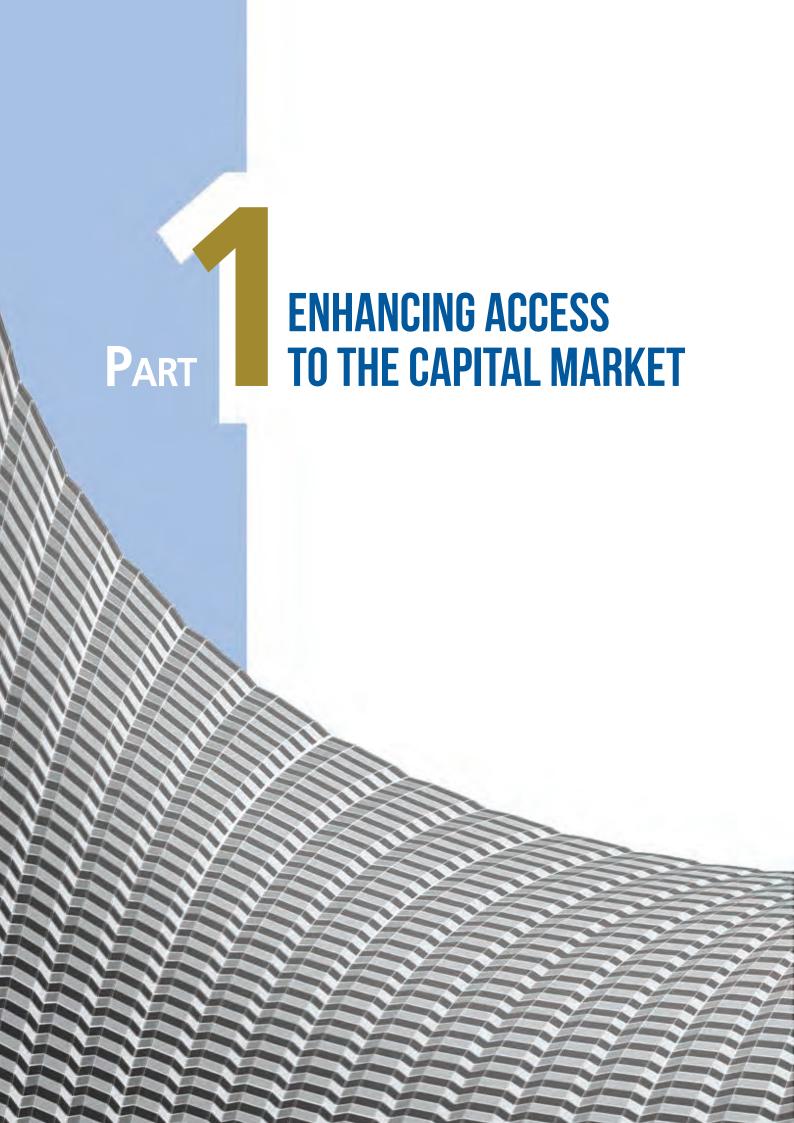
Orders of Cease and Desist pertaining to enforcement of digital related activities

### **DID YOU KNOW?**

In 2019, the SC conducted over 1,300 engagements with diverse stakeholders in relation to market and product development, encouraged innovation in services and product offerings, and provided regulatory guidance through consultations.







#### INTRODUCTION

In 2019, the SC focused its efforts on broadening access to financing and investments. To drive greater capital market development and innovation, there is a need to further enhance accessibility to the capital market and facilitate efficient allocation of resources.

The capital market continues to be an enabler for sustained long-term growth across the spectrum of issuers, investors, intermediaries and enterprises through a holistic approach. Some of the measures undertaken include leveraging digital technology to broaden access to the capital market, expanding Islamic capital market capabilities, developing Malaysia's value proposition as a regional Sustainable and Responsible Investment (SRI) centre, facilitating vibrancy in the capital market and advocating investor protection.

#### LEVERAGING DIGITAL TECHNOLOGY TO BROADEN ACCESS TO THE CAPITAL **MARKET**

#### **Alternative fundraising channels and** new market operators

To address the unique requirements of businesses, particularly micro, small and medium enterprises (MSMEs), the SC facilitates the development of alternative financing avenues that connect issuers with traditionally untapped pools of investors through cheaper, faster and more convenient delivery channels. These channels also aim to meet the demands of underserved investors.

Equity crowdfunding (ECF) and peer-to-peer (P2P) financing platforms continue to provide alternative sources of capital to fund business activities of MSMEs. First introduced in 2015, there are now 21 market-based financing platform operators in Malaysia, including three new ECF and five P2P financing operators approved in 2019.

Given the success rate of over 8,000 fundraising campaigns, the crowdfunding framework continues to represent a structured and viable alternative access to capital for start-ups and MSMEs, while at the same time widening access for investors.

#### DID YOU KNOW?

As at end 2019, the ECF and P2P financing market has provided close to RM706 million of alternative financing for 1,943 Malaysian MSMEs.

The sustained growth of ECF and P2P financing in 2019 has largely benefitted the services sector. For the ECF market, key beneficiaries include the 'Wholesale and Retail Trade: Repair of Motor Vehicles and Motorcycles' and 'Information and Communication' sectors comprising 20% and 11% of total funds raised respectively. The majority of P2P financing were directed to the 'Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles' sector, which accounted for 42% of the total funds raised.

In terms of investors, ECF and P2P financing platforms continued to attract strong participation of investors including retail and youth segments, in line with the SC's agenda to create a more inclusive capital market.

## EGF\*

## P2P\*

### FINANCING PLATFORMS

**PLATFORM OPERATORS** 



**PLATFORM OPERATORS** 

RM74 MIL

**RAISED TO DATE 80 SUCCESSFUL CAMPAIGNS** 



**RM632 MIL** 

**RAISED TO DATE 8.102 SUCCESSFUL CAMPAIGNS** 

77 MSMEs

51% ARE TECHNOLOGY-**FOCUSED PROJECTS** 



**1,866 MSMEs** 

75% ARE NON TECHNOLOGY-**FOCUSED PROJECTS** 

40% 53%

BELOW **35 YEARS OLD** 

**RETAIL** 

96%

**MALAYSIAN INVESTORS** 



62%

BELOW **35 YEARS OLD**  95%

**RETAIL** 

98%

**MALAYSIAN INVESTORS** 

20%

**WHOLESALE AND RETAIL TRADE**; **REPAIR OF MOTOR VEHICLES AND MOTORCYCLES** 

11%

**INFORMATION** AND **COMMUNICATION** 



42%

WHOLESALE AND RETAIL TRADE: **REPAIR OF MOTOR VEHICLES** AND MOTORCYCLES

<sup>\*</sup> Data is cumulative since inception of ECF in 2015 and P2P in 2016.



#### Malaysia's First Equity Crowdfunding Exit

**S** kolafund is a digital platform that matches deserving undergraduates from less privileged backgrounds with various sources of funding through crowdfunding. To date, Skolafund has crowdsourced a total of RM1.6 million on its platform, benefitting 592 students from low-to-middle income families. With over 29,000 registered donors, Skolafund has launched 350 campaigns and 189 of them were fully funded.

In 2017, ECF helped Skolafund to successfully raise RM300,000 from 26 investors to expand its business. In particular, this fundraising campaign provided investors the opportunity to own equity in Skolafund's business via an investment entry size of as low as RM10, thus reflecting the inclusive nature of ECF.

On 9 October 2019, Skolafund was acquired by one of Asia's biggest donation crowdfunding platforms. This marked Malaysia's first successful ECF exit - a milestone in the country's ECF journey. Harnessing the power of digital technology and a socially conscious hyper-connected society, the exit deal rewarded investors with a 10% return on their investments, demonstrating that social impact enterprises are a fast growing and attractive segment.







10% return on investment rewarded to investors



### FINTEGE 22 - 23 OCTOBER A Securities Commission Malaysia Initiative in collaboration with **CONFERENCE 2019**







SCxSC is the SC's flagshi event, a platform to discuss global and local fintech developments relevant to the capital market. In its 6<sup>th</sup> year, SCxSC 2019 placed a focus on growth and agility within the fintech ecosystem.

"A bit of history – the first SCxSC was held in 2014. Our initia objective was simply to build awareness on ECF and P2P as alternative means of fundraising for start-ups and SMEs.

Move the clock by 5 years to 2019, significant progress has bee made. Early entrants have since expanded, with a corresponding increase in their client base and general public awareness."

> SYED ZAID ALBAR CHAIRMAN, SC

FINTECH ENTREPRENEURSHIP

**FINTECH LITERACY** 

**FOCUS** 

**INNOVATIVE TECHNOLOGY** 

**SC DIGITAL INITIATIVES** 



INSTITUTIONS

**TECHNOLOGY PROVIDERS** 

**OTHERS\*** 

Note: \*Others include government agencies, non-financial / technology companies and the academia.

INCREASE IN FEMALE PARTICIPATION

**INTERNATIONAL** 

**LOCAL** 

**EXHIBITION BOOTHS** 

ECF & P2P PLATFORMS DAX OPERATORS FINANCIAL INSTITUTIONS GOVERNMENT AGENCIES OF PARTICIPANTS **AND BELOW** 

FIRESIDE CHAT WORKSHOP TECH TALK
CHILL CHAT **PANEL** 



**JEFFREY CRUTTENDEN** CO-FOUNDER, **ACORNS** 



ELI **BROVERMAN** CO-FOUNDER, **BETTERMENT** 



**KAREEM TABBAA** CHIEF PRODUCT OFFICER, **WAHED INVEST** 

#SCxSC19









2019

#### **Malaysia Co-investment Fund**



uring Budget 2019, the Government announced that RM50 million would be allocated to set up a Co-investment fund, administered by the SC, to invest together with private investors on ECF and P2P platforms. The fund is intended to further catalyse access to financing for MSMEs through the use of ECF and P2P platforms as an alternative avenue for fundraising. It also seeks to serve as an efficient and transparent means to channel government funds to the intended MSME recipients.

Following this, the Malaysia Co-investment Fund (MyCIF) was established to facilitate financing for MSMEs and provide transparency on the disbursement of public funds for target enterprises. In October, MyCIF began co-investing in ECF and P2P financing campaigns.

In Budget 2020, a further RM50 million was allocated to the fund, with an additional RM10 million specifically assigned for social enterprises.

MyCIF co-invests on a 1:4 ratio alongside private investors, allowing public funds to benefit a wider number of MSMEs. Co-investment will only take place after sufficient funds have been raised from private investors, allowing MyCIF to leverage the 'wisdom of the crowd' in determining MSMEs eligible for co-investment.

MSMEs that receive co-investment from MyCIF are required to report their business performance to the MyCIF Committee, providing valuable data to measure outcomes of the fund. The MyCIF Committee comprises members from the SC, the Ministry of Finance and independent fund managers. As MyCIF invests on commercial terms similar to other private investors, the fund is expected to eventually become self-sustaining and will not rely on funds from the government.

MyCIF has benefited a diverse range of companies from traditional businesses to tech-enabled platforms. These include an online platform for confinement services, a sales lead management system provider, a distributor of high performance motorcycle parts and a digital merchant point-of-sale provider.

#### **Establishment of Property Crowdfunding Framework**

In Budget 2019, the Government proposed to explore new technology-enabled and innovative mechanisms to address home financing challenges in Malaysia, particularly in relation to homebuyers who are not able to obtain financing through traditional avenues.

One such initiative was the establishment of private-sector driven property crowdfunding (PCF) platforms, which offer an additional alternative avenue for Malaysian homebuyers to finance the

purchase of their first home, including through tailored financing options.

In March 2019, the SC published a public consultation paper to explore the appropriate regulatory framework for such PCF platform, which received strong interest and feedback from a number of stakeholders including property developers, valuers, banks and prospective house buyers.

Following the public consultation, the PCF framework was published on 17 May 2019. The framework sets out the requirements and

#### **ANNUAL REPORT** 2019

obligations of a PCF operator in facilitating a PCF campaign, including providing fair, clear and timely information to both homebuyers and investors prior to participating in the campaign as well as exit certainty at the end of the agreed tenure.

On 25 September 2019, the SCergistered EdgeProp as the first PCF operator.

#### **Introduction of Digital Assets Framework**

The years from 2016 to 2018 saw the evolution and growth of the digital asset segment. In Malaysia, strong investor and issuer interest in this new asset class necessitated the formulation of clear regulations to govern such activities, including the offering of digital assets as an investment or fundraising instrument.

To enable innovation while also managing the risks associated with digital assets, the SC in January 2019 provided regulatory clarity on the status of digital assets in Malaysia through the introduction of regulatory requirements for the operation of Digital Asset Exchanges (DAX) as well as the prescription of digital assets as securities.

The framework provides a structure for the trading of digital assets and takes into account the growing interest of Malaysian investors in having exposure to this new asset class. The framework also ensures that integrity as well as fit and properness standards are met.

In June 2019, the SC registered three DAX operators. The first DAX operator, Luno, has commenced operations. Expected to follow suit in 2020 are two other operators, SINEGY and Tokenize.

#### SC FINTECH ROUNDTABLE 17 May 2019

The Minister of Finance, YB Tuan Lim Guan Eng met with representatives of the fintech industry at a roundtable organised by the SC. The discussion covered the progress of the fintech industry in fostering digital innovation to meet the financing needs of MSMEs and enable greater financial inclusion for Malaysian issuers and investors.

Focus was given to developmental topics, including efforts to expand the reach of digital services across sectors and locations, easy access to investment information, and the ability to attain capital market products and services at a lower cost.

Eight new registered market operators (RMOs) were announced at the roundtable, resulting in a total of 21 RMOs as at end 2019, comprising 10 ECF platforms and 11 P2P platforms. The SC also issued the PCF framework at the roundtable, following amendments made to the Guidelines on Recognized Markets.



#### Nurturing the Malaysian Fintech Ecosystem – aFINity

he 'Alliance of FinTech Community' or 'aFINity' launched by the SC in 2015 serves as a focal point for capital market development initiatives in the fintech sphere. To date, aFINity has 350 registered members across different groups of stakeholders, including innovators, entrepreneurs, investors and other regulatory authorities. In 2019, aFINity saw over 360 engagements involving more than 290 organisations and individuals.

#### **Collaboration with Regional and Global Peer Regulators**

As part of aFINity, the SC collaborated as a technical partner with the World Bank and the Cambridge Centre for Alternative Finance (CCAF) at the University of Cambridge Judge Business School to produce the 2019 report titled Regulating Alternative Finance: Results from A Global Regulator Survey.

This report provides empirical data from financial services regulators in 111 jurisdictions on the current landscape of alternative finance regulations. Focusing on P2P financing, ECF and initial coin offerings (ICOs), it aims to comprehensively analyse how regulators from both developing and developed economies are regulating and supervising these online alternative finance activities.

#### DID YOU KNOW?

Malaysia identified as one of the most benchmarked-against jurisdiction globally. Malaysia also stood out as a regional leader, particularly in ECF.

Source: Regulating Alternative Finance: Results from A Global Regulator Survey

#### **MyFintech Week**

Under the aFINity initiative, the SC also participated in Bank Negara Malaysia's (BNM) MyFintech Week in June 2019, where demonstration sessions on P2P financing and digital investment management (DIM) were conducted to enhance awareness on how fintech is enabling new financing and investment opportunities in the capital market.

As part of MyFintech Week, the SC also organised the ECF Investor Day to further educate the public on capital raising and investment mechanism. This was carried out through direct engagements with selected ECF fundraisers during pitch sessions.



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### **DEMOCRATISING** INVESTMENT MANAGEMENT



**LICENSED** COMPANIES

1<sup>ST</sup> ISLAMIC DIGITAL **INVESTMENT MANAGER** 



AUM **RM74.69 MIL** 



**23,083 CLIENTS** 

92% SOURCED LOCALLY

#### **Facilitating digital investments**

To democratise investment management, the SC launched the Digital Investment Management (DIM) framework in 2017. It allowed incumbent and prospective fund managers to incorporate innovative technologies in offering automated discretionary portfolio management services to a wider range of investors.

To enhance investor's access to flexible, transparent and diversified investments, the SC licensed three more digital investment companies in 2019. This year, Wahed Technologies Sdn Bhd became Malaysia's first licensed Islamic digital investment manager and UOB Asset Management Bhd became the first incumbent to vary its licence to include DIM activities. Three additional companies were also granted approval-in-principle status and are expected to be operational by early 2020.

The DIM industry continues to evolve, recording over RM74 million of total assets under management (AUM) in two years. Both start-ups and incumbent fund managers have been tapping into this segment and embracing innovation to

better engage with consumers, while at the same time making investments affordable and accessible to all.

#### **EXPANDING ISLAMIC CAPITAL MARKET CAPABILITIES**

Malaysia continues to maintain its leadership in the Islamic capital market (ICM), particularly in relation to the issuance of sukuk and Islamic funds - solidifying efforts to enhance its role as a prominent international centre for Islamic fund and wealth management. ICM represented 63.57% of Malaysia's capital market, with a market size of RM2,035.58 billion as at December 2019, a 8.23% growth over 2018.

The year has seen sukuk issuances valued at RM102.39 billion, representing 77.09% of total corporate issuances, while Islamic AUM stood at RM180.52 billion, making up 21.93% of the fund management industry. Shariah-compliant securities comprised 64.06% of total equity market capitalisation and was valued at RM1,096.62 billion.

#### **Broadening Islamic social finance** instruments through innovative products

Wagf is an Islamic concept of endowment that is typically linked with social development and public good objectives. By utilising funds tailored for waqf purposes, sustainable returns can be generated and channelled towards financing social-impact activities.

To facilitate the development of a waqf concept linked to the capital market, the SC explored leveraging investment products such as collective investment schemes (CIS), where returns generated would be channelled into waqf projects or initiatives.

Taking into account the results of extensive consultations with the industry, the SC is developing a waqf fund structure for the reference of fund managers interested in issuing such product.

#### **DID YOU** KNOW?

#### **Islamic Fund and Wealth Management Blueprint**

- In 2017, the SC launched a five-year *Islamic* Fund and Wealth Management Blueprint (IFWMB) to chart the strategic direction for Malaysia's Islamic fund and wealth management industry.
- The IFWMB comprised three strategic thrusts:
  - Strengthening Malaysia's position as a global hub for Islamic funds;
  - Establishing Malaysia as a regional centre for Shariah-compliant SRI; and
  - Developing Malaysia as an international provider of Islamic wealth management services.
- The Islamic fund management industry also witnessed new and innovative investment product offerings. These include Islamic ETF based on gold, SRI Islamic funds as well as social and green sukuk.
- As of December 2019, there are now 23 full-fledged Islamic fund management companies.

Tax incentives for management of Islamic funds



Tax exemption expiring in 2020 for fund management companies managing Islamic funds has been extended until 2023.

#### Malaysia's first Islamic DIM company

Following the IFWMB recommendation to facilitate new Islamic digital business models, products and services, the SC licensed Wahed Technologies as Malaysia's first Islamic DIM on 9 August 2019. This provides investors with access to a diversified Shariah-compliant portfolio in an efficient and transparent manner, and facilitates connectivity with international markets through its parent company, Wahed Invest which has presence in more than 130 countries.

## SC-WORLD BANK-IOSCO ASIA PACIFIC HUB CONFERENCE 2019

29 - 30 April 2019

The 2019 conference is the second collaboration between the SC, World Bank Group (WBG) Global Knowledge and Research Hub in Malaysia, and IOSCO Asia Pacific Hub. The conference also marked the third collaboration between the SC and the WBG.

Themed 'Islamic Finance: A Catalyst for Financial Inclusion', more than 200 industry practitioners, policymakers and experts in Islamic finance gathered to deliberate the role of Islamic finance for greater financial inclusion, including the use of Islamic social finance instruments and financial technology.

#### Other key discussions:

The sustainable use of Islamic finance to address financial inclusion

The use of Islamic finance instruments (i.e. policy, regulatory and institutional elements) to foster shared prosperity

Enhancing access to financing for MSMEs The use of technology to support Islamic finance in facilitating greater inclusion

Presentation of case studies on crowdfunding and blockchain



66 Islamic products and services for financial inclusion hold the promise for a shared and better future. Therefore, increased digitisation will certainly reduce costs and enhance speed, convenience and appeal. In this regard, the capital market provides entrepreneurs and MSMEs both conventional and Shariah-compliant avenues to access alternative sources of financing. Equity crowdfunding and peer-to-peer financing platforms, as well as venture capital and private equity, are available to meet their needs at different stages of their businesses.

#### Revised SRI Sukuk Framework to Spur Issuances

#### **Enhancement to the Revised SRI Sukuk Framework**

It has been estimated that by 2030, up to US\$90 trillion¹ would be needed to finance infrastructure investments globally, presenting sustainable finance with the opportunity to be part of mainstream investment and financing solutions.

Leveraging Malaysia's leadership in ICM, and given the alignments in underlying principles between Islamic finance and SRI, Malaysia is well-positioned to strategically lead the development of the SRI agenda.

In 2014, the SC introduced the SRI Sukuk Framework (Framework), aimed at facilitating the creation of an SRI ecosystem for investors and issuers.

The Framework facilitated the issuance of the inaugural social SRI sukuk in 2015 as well as the world's first green sukuk in 2017.

In November 2019, the Framework was revised to further harmonise the SC's requirements with internationally accepted principles and best practices, and to enhance transparency in the disclosure of information. As at December 2019, 10 SRI sukuk have been issued amounting to RM4.77 billion.

The revision included expansion of eligible SRI projects, enhancement of disclosure and reporting requirements as well as clarification on the role of external reviewers. These amendments are expected to broaden the investor and issuer base.

#### Why SRI Sukuk?



















**SUSTAINABLE** PROPERTIES / **ASSETS** 

The Sustainable Infrastructure Imperative: Financing for Better Growth and Development, United Nations.

#### **Revised SRI Sukuk Framework to Spur Issuances**

(Continued)

#### Key components of the Revised SRI Sukuk Framework



#### **UTILISATION OF PROCEEDS**

Proceeds raised from the issuance of SRI sukuk are utilised only for the purpose of funding activities or transactions relating to eligible SRI projects.

Funding may include the following:

- Purchase of Shariah-compliant receivables arising from the financing of an eligible SRI
- Acquisition of an eligible SRI project;
- Refinancing of existing borrowings or financing facilities utilised to fund an eligible SRI project; or
- Other supporting expenditures such as research and development related to eligible SRI projects.



#### **MANAGEMENT OF PROCEEDS**

Proceeds allocated for the eligible SRI projects are credited into a designated account or otherwise tracked in an appropriate manner.



#### **REPORTING**

Annual reporting on the following:

- Original amount allocated for the eligible SRI projects;
- Amount utilised for the eligible SRI projects;
- Unutilised amount and where such amount is placed or invested pending utilisation; and
- List of the eligible SRI projects in which the proceeds have been allocated to, as well as brief description of the said eligible SRI projects and their impact or expected impact.



#### PROCESS FOR PROJECT EVALUATION AND SELECTION

Establish internal processes for evaluation and selection of the eligible SRI projects.

Source: Sustainable and Responsible Investment Sukuk Framework – An Overview, SC

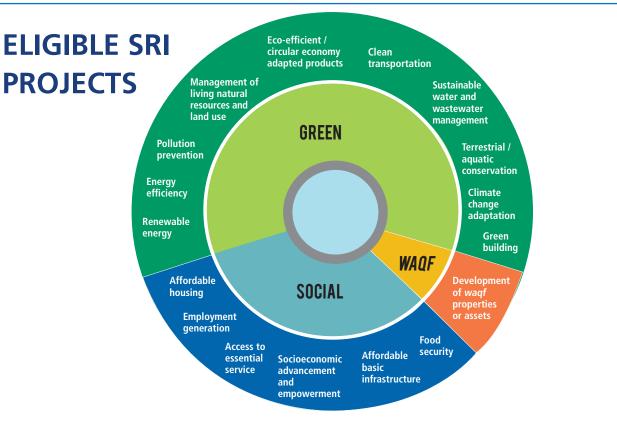
#### Broadening funding avenues in the renewable energy sector through SRI sukuk

The sukuk market has played an important role in providing capital for infrastructure projects including those under public-private partnership models. With Malaysia aspiring to achieve a 20% renewable energy mix by 2025<sup>2</sup>, SRI sukuk could play a pivotal role in allocating funds toward renewable energy projects.

Under the Framework, the year 2019 saw the issuance of the first hydro-power green sukuk by Pasukhas Green Assets in February as well as Malaysia's first ASEAN Sustainability SRI Sukuk by Edra Solar in October. Total SRI sukuk issued in 2019 for renewable energy projects amounted to RM1.28 billion, which was raised from four uniquely diverse issuers.

These progressive developments are evidence of Malaysia's strong proposition as an innovative centre for sustainable finance and investment, and reinforce the SC's commitment in driving the green agenda. This also demonstrates that the Framework is an incubator for product innovation that embraces both sustainability and sukuk agendas.

Ministry of Energy, Science, Technology, Environment and Climate Change (MESTECC).



Source: Sustainable and Responsible Investment Sukuk Framework – An Overview, SC

#### **Supporting measures** to encourage growth

In line with the sustainability agenda, the SC has put in place supporting measures to further attract issuers to this segment. These incentives cover tax deductions for SRI sukuk issuances as well as a Green SRI Sukuk Grant Scheme.

#### SRI SUKUK FOR RENEWABLE ENERGY PROJECTS **ISSUED IN 2019**

RM17 MIL **PASUKHAS GREEN ASSETS** 

TELEKOSANG HYDRO ONE

RM470 MIL RM550 MIL RM245 MIL CYPARK REF EDRA SOLAR









#### TOTAL SRI SUKUK APPROVED / LODGED\*

31 DEC 2017 RM4.25 **BILLION** 

31 DEC 2018 RM4.74

31 DEC 2019 RM6.20 BILLION

\* Data is cumulative since 2015.

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#### **DEVELOPING MALAYSIA'S VALUE** PROPOSITION AS A REGIONAL SRI **CENTRE**

#### **Accelerating SRI**

To further accelerate development of the SRI ecosystem, the SC launched the Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market (SRI Roadmap) on 26 November 2019. The SRI Roadmap is pivotal in charting the role of the capital market in driving Malaysia's sustainable development.

The five-year SRI Roadmap identified 20 strategic recommendations, which are mapped against the 5*i*-Strategy introduced by the SC in 2014. The 5*i*-Strategy was fundamental in driving the development of a facilitative SRI ecosystem in the Malaysian capital market, and focused on widening the range of SRI instruments, increasing SRI investor base, building a strong SRI issuer base, instilling strong internal governance culture, and designing information architecture in the SRI ecosystem.

The SRI Roadmap builds on the SC's initiatives to strengthen Malaysia's position as a regional leader in sustainable investment.

#### **Concerted efforts on climate** change

To further pursue collaborative efforts in building climate change resilience within the Malaysian financial sector, the Joint Committee on Climate Change (JC3) was set up on 27 September 2019, and is co-chaired by the SC and BNM. Members comprise Bursa Malaysia and 19 other industry participants.

### 5i-STRATEG

Developing a facilitative SRI ecosystem in the Malaysian capital market



#### WIDENING THE RANGE OF SRI **INSTRUMENTS**

Facilitate the development of new SRI capital market products to widen and deepen the SRI asset classes



alignment to international standards and principles sukuk



Develop SRI taxonomy for the





#### INCREASING SRI **INVESTOR** BASE

On the buy side, there is a need to attract institutional and individual investors to increase the SRI investor base and thus demand for SRI products



Enhance the role of governmentlinked investment companies and institutional investors in SRI



Encourage SRI investments by retail investors





#### BUILDING A STRONG SRI ISSUER

On the supply side, efforts need to focus on building a strong and diversified issuer base consisting of listed and unlisted companies and multilateral organisations



Support the development of an initial public offering pipeline for green and social impact companies

Enhance the roles of financial institutions in SRI

Collaborate with multilateral development institutions



#### **INSTILLING STRONG INTERNAL GOVERNANCE CULTURE**

Development of metrics and disclosures to measure sustainability in facilitating investment decisions to inculcate good governance practices in the SRI space



Strengthen sustainability disclosures of public-listed

Promote the adoption of sustainable business practices, including disclosure among small

and medium

enterprises

Enhance board governance on sustainability, including climate risks and opportunities

**Enhance risk** assessment and supervisory



#### **DESIGNING INFORMATION ARCHITECTURE** IN THE **SRI ECOSYSTEM**

Development of platforms that provide SRI data to investors, thereby enabling better assessment of investment opportunities to ensure transparency and accessibility to the SRI market



transparency of information on SRI products



Develop ancillary services for SRI





promotion and profiling of Malaysia as a regional SRI centre

Illustration: The Edge, 14 December 2019.

# RESPONSIBLE INVESTMENT ROADMAP FOR THE MALAYSIAN CAPITAL MARKET

26 November 2019

The SC's SRI Roadmap was launched by YB Tuan Lim Guan Eng, Minister of Finance. The event gathered 200 industry practitioners, policymakers and experts from the sustainable investment space.



"The SRI emphasises not just financial returns, but also its positive impact on the environment, governance, culture and social development."

- YB TUAN LIM GUAN ENG, MINISTER OF FINANCE



"Sustainability is an important global agenda given the need to address real issues on the ground that are affecting society such as the eradication of poverty, providing access to education and healthcare, and addressing climate change."

- SYED ZAID ALBAR, CHAIRMAN, SC

An interactive panel discussion was organised which explored the role of the capital market in creating market-based solutions in meeting sustainable development and climate change funding needs, and the key drivers in positioning Malaysia as the regional SRI centre.

#### THE PANEL SESSION FEATURED:



Tan Sri Jemilah Mahmood

Under Secretary for Partnerships, International Federation of Red Cross and Red Crescent Societies Founder, Mercy Malaysia

"Non-profit organisations are the link between government, business and people. For the SRI Roadmap to be successful, partnerships between government, the corporate sector and institutions like civil society are going to be very key."



Najmuddin Mohd Lutfi CEO, BIMB Investments

"For Islamic finance. the features have a lot of commonality with SRI and the environmental, social and governance (ESG). As you know, Malaysia is among the leading Islamic finance centres in the world. We have a very robust and developed Islamic market and because of that, we have quite a head start when it comes to SRI and ESG."



Stefan Priesner
UN Resident Coordinator
for Singapore, Malaysia and
Brunei Darussalam

"The UN SDG goals aim to create a better world not only for this generation but also for the next generation by focusing on sustainable development. And we think the capital market can play a huge role in funding these goals."



> At its inaugural meeting, JC3 recognised the urgent need to accelerate measures towards ensuring a smooth and orderly transition to a low-carbon economy. This includes managing exposures to climate risks and facilitating businesses to transition towards sustainable practices. The implementation will be pursued through the formation of four sub-committees, where each will focus on risk management, governance and disclosure, product and innovation, as well as engagement and awareness.

#### **Championing the sustainable finance** agenda globally

The SC's early efforts in promoting sustainable finance through its 5*i*-Strategy has enabled it to lead initiatives within the international arena, especially among emerging markets and its regional peers. Through leading sustainable finance efforts in fora such as the International Organization of Securities Commissions (IOSCO), the ASEAN Capital Markets Forum (ACMF), and the ASEAN Working Committee on Capital Market Development (WC-CMD), the SC was able to shape policies, standards and frameworks in this evolving area.

Within IOSCO, the SC and the National Securities Commission of Argentina co-chair the Growth and Emerging Markets (GEM) Committee Working Group on Sustainable Financing. The SC is also a member of IOSCO's Board-level initiative, the Sustainable Finance Network (SFN).

In June 2019, the GEM Working Group published a Report on Sustainable Finance in Emerging Markets and the Role of Securities Regulators. The Report provided recommendations for emerging market regulators to consider when issuing regulations or guidance concerning sustainable financial instruments, with a view to encourage adoption of sustainability practices by the market.

Following the publication of the Report, it was agreed that a GEM Sustainable Finance Outreach Programme be conducted to guide regulators in implementing such recommendations, particularly vis-à-vis domestic legal and regulatory regimes, and market conditions.

At the regional level, the SC's efforts on sustainable finance are undertaken through the ACMF – a high-level forum of ASEAN capital market regulators tasked with developing and implementing capital market integration initiatives within ASEAN, and the WC-CMD, which aims to build capacity and provide the infrastructure for development of ASEAN capital markets.

The SC and the Securities and Exchange Commission of the Philippines co-chair ACMF's Sustainable Finance Working Group. The year 2019 saw significant growth of bond issuances under the suite of ASEAN standards on sustainable financing developed by ACMF.

#### DID YOU KNOW?

#### **ASEAN Bond Standards**

- ACMF developed several bond standards to support ASEAN's sustainable development needs:
  - ASEAN Green Bond Standards (ASEAN GBS) launched in 2017.
  - ASEAN Social Bond Standards (ASEAN SBS) and ASEAN Sustainability Bond Standards (ASEAN SUS) launched in 2018.
- As at end 2019, bond issuances following ASEAN label amounted to US\$5 billion, with Malaysia accounting for US\$1.43 billion or 29% of total issuances.

#### **NOTABLE SRI INITIATIVES IN THE MALAYSIAN CAPITAL MARKET**



- Launch of the SC's SRI Roadmap
- Issuance of the SC's revised SRI Sukuk Framework
- Establishment of the JC3



- Establishment of RM6 million Green SRI Sukuk Grant Scheme which is tax exempted
- Issuance of ASEAN SBS and ASEAN SUS
- Launch of the SC's IFWMB
- Issuance of **social impact sukuk** by Khazanah Nasional (2<sup>nd</sup> tranche) with retail portion



- Issuance of world's first green sukuk under SRI Sukuk Framework
- Issuance of the ASEAN GBS followed by inaugural ASEAN Green Bond
- Issuance of the SC's **Guidelines on SRI Funds**
- Tax incentive for SRI funds for three years from YA 2018 to YA 2020, and extended for another three years from YA 2021 to YA 2023 (2020
- Launch of the SC's revised *Malaysian Code on Corporate Governance*



Tax incentive for SRI Sukuk issuers for five years from YA 2016 to YA 2020, and extended for another three years from YA 2021 to YA 2023 (2020 Budget)



- Inaugural issuance of **social impact sukuk** by Khazanah Nasional under SRI Sukuk Framework
- Introduction of **Sustainability Reporting** through *Bursa Malaysia Listing* Requirements



- Issuance of the SC's **SRI Sukuk Framework**
- Launch of FTSE4Good Bursa Malaysia Index
- Issuance of Malaysian Code for Institutional Investors

Source: Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market, SC

# **ENHANCING ACCESSIBILITY**

#### THROUGH ISLAMIC AND SUSTAINABILITY INITIATIVES IN 2019

JAN - JULY

#### **MALAYSIAN GREEN FINANCING TASKFORCE (MGFT)**

The SC chaired the MGFT, which comprises nine other members representing financial regulators, institutional investors, banks, asset managers and government agencies involved in the renewable energy sector.

MGFT submitted its recommendations, which contained 21 action items under eight broad strategies to facilitate the estimated RM33 billion in renewable energy financing required to meet the national target of 20% renewable energy installed capacity by 2025.

**SEP** 

#### **SC-OCIS SCHOLAR IN RESIDENCE PROGRAMME**

An annual initiative to further research contemporary issues in Islamic finance. The 2019/2020 scholar is Tarik Akin, Senior Project Director at Department of Strategy and Coordination, Presidency of the Republic of Turkey, who is conducting research on 'Is Risk-Sharing Asset-Based Redistribution a Viable Solution to Tackle Wealth Inequality?'.

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#### 10<sup>™</sup> SC-OXFORD CENTRE FOR ISLAMIC STUDIES (OCIS) **ROUNDTABLE**

An annual collaboration between the SC and OCIS to further enhance global thought leadership in Islamic finance. The theme for 2019 was 'Impact Investing as an Extension to the Islamic Economy'.

**APR** 

#### SC-WORLD BANK-IOSCO ASIA **PACIFIC HUB CONFERENCE 2019**

Themed 'Islamic Finance: A Catalyst for Financial Inclusion', the conference explored key policies, regulatory and institutional opportunities and challenges, and focused on the role of Islamic finance in enhancing access to financing.

For further details, refer to page 12.

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#### LAUNCH OF THE SUSTAINABLE AND RESPONSIBLE INVESTMENT ROADMAP FOR THE MALAYSIAN CAPITAL MARKET

The SRI Roadmap is aimed at creating a facilitative SRI ecosystem and charts the role of the capital market in driving Malaysia's sustainable development.

For further details, refer to page 17.

#### LAUNCH OF REVISED SRI SUKUK FRAMEWORK

Revised framework includes expansion of eligible SRI projects, enhanced disclosure and reporting requirements, and clarified role of external reviewers.

For further details, refer to pages 13 and 14.

In 2019, ACMF began developing a Roadmap for ASEAN Sustainable Capital Markets. The Roadmap, due to be completed in 2020, will provide a common vision and comprehensive direction to strengthen ASEAN's commitment to promote an ecosystem for sustainable capital market development.

ACMF's sustainable finance efforts in the region has been recognised by the International Capital Market Association (ICMA), which appointed ACMF as a member of its 2019/2020 Advisory Council of the Green Bond Principles and Social Bond Principles Executive Committee.

The WC-CMD, which is co-chaired by the SC and Ministry of Finance, Vietnam, is developing a report on sustainable finance in ASEAN, focusing on the government and quasi-government sectors.

#### **FACILITATING VIBRANCY IN THE CAPITAL MARKET**

#### **Rising role of venture capital** and private equity industries in supporting business growth

Venture capital (VC) and private equity (PE) are vital elements in the Malaysian entrepreneurship ecosystem. In addition to financial capital, VC and PE firms provide strategic guidance and business mentoring, as well as leverage their networks that support entrepreneurs in building successful and competitive enterprises. The growth of these enterprises contribute towards job creation, innovation and economic progress.

In 2019, the Malaysian VC and PE industry witnessed a total fund commitment of RM5,998.07 million and had a total of 122 corporations registered with the SC. Investments in 2019 amounted to RM566.37 million.

To ensure a holistic approach in formulating initiatives for the industry, new members

representing angel and institutional investors were appointed to the Malaysian Venture Capital and Private Equity Development Council (MVCDC) – in addition to existing representations from ministries, government agencies and regulators. Chaired by the SC, the MVCDC aims to facilitate more inclusive engagements between the government and the private sector in cultivating VC and PE developmental efforts.

#### Spurring innovation in the exchangetraded funds market

Exchange-traded funds (ETF) offer investors attractive benefits of instant diversification by passively tracking indices at a lower cost than actively managed funds. ETFs also provide investors easy access to a wide range of underlying assets, including alternative asset classes such as commodities and futures.

Following enhancements to the Guidelines on Exchange-Traded Funds in 2018, the SC approved six Leveraged and Inverse (L&I) ETFs in 2019, which were subsequently listed on Bursa Malaysia. As at end 2019, market capitalisation of the ETF industry stood at RM2.14 billion.

Leveraged ETFs aim to provide a multiple of the underlying index's returns, while Inverse ETFs are constructed with the aim of hedging against a downward market. Aside from providing a gateway to foreign markets, L&I ETFs also serve as a simple and convenient exposure to futures.

#### **Greater accessibility to corporate** bonds through the retail bond and sukuk framework

In 2018, the SC introduced a framework on bond and sukuk seasoning, which provided retail investors with greater access to corporate bonds and sukuk that were previously made available only to sophisticated investors.





Source: SC

Tax incentives for the venture capital industry



Tax incentives for the VC industry that were first announced in Budget 2018, received further extension until 2026.

#### These incentives include:

- Income tax exemption for registered Venture Capital Corporations (VCCs) on all sources of income other than interest income arising from savings or fixed deposits and profits from Shariah-based deposits;
- Income tax exemption for Venture Capital Management Corporations (VCMCs) on share of profits, performance bonus or carried interest, and management fees received from VCCs with certified tax exemption by the SC;
- Income tax deduction on the amount of investments made in qualified VCCs that are registered with the SC no later than 31 December 2023, up to RM20 million per annum; and
- Income tax deduction on the amount of investments made directly into qualified start-ups.

Following the introduction of the seasoning framework, revisions were made in 2019 to the relevant retail bonds guidelines. The revisions further enhanced investors' accessibility to corporate bonds and sukuk by making it easier for eligible distributors to participate. Amendments were also made in relation to disclosure requirements for high net worth individuals. This included providing further clarity on how information on seasoned bonds is to be disseminated to investors.

Since the entry of the first distributor under the seasoning framework in 2019, there has been an increase in the number of corporate bonds and sukuk traded by retail investors. As at end

2019, 12 eligible seasoned bonds were available for trading.

#### **Enhancing private retirement schemes** to improve members' retirement well-being

Since its inception in 2012, the private retirement scheme (PRS) has continued to provide Malaysians with a platform to supplement their retirement savings. In complementing the mandatory scheme, investments in PRS serve as another source of income for members in their golden years as well as providing an avenue for those that are not mandatorily covered by other retirement schemes.

#### **UNDERSTANDING**

#### LEVERAGED AND INVERSE ETFS

#### **LEVERAGED**



- Aims to **deliver up to twice** the daily performance of the underlying index.\*
- 2 If the underlying index gains 1% in a day, the ETF aims to deliver up to 2% gain.
- **3** Which means up to twice the performance and risk.

#### **INVERSE**



- Aims to **deliver at most inverse (-1x)** the daily performance of the underlying index.\*
- 2 If the underlying index loses 1% in a day, the ETF aims to deliver up to 1% gain.
- **3** Which means you **profi** when the underlying index is **down**.



#### INVESTMENT STRATEGY

- Passively-managed
- Directly into nearest monthly/quarterly futures contracts of the underlying index

Note: \* Guidelines on Exchange-Traded Funds, SC.



Sustained growth of the industry continued with total net asset value (NAV) reaching RM3.5 billion, driven by increased awareness of the PRS industry and its benefits. To date, there are 455,000 PRS members and more than 700 participating employers that make voluntary contributions for their employees under PRS.

To strengthen Malaysia's voluntary savings, the SC undertook a strategic review of the PRS landscape. The scope of review included liberalisation of asset allocation, greater flexibility in structuring both core and non-core funds as well as improvement of the default option for members.

The strategic review also catalysed the offering of more innovative and diverse investment options. Following the review, two new PRS funds were launched to provide insurance protection coverage for members. The funds offered free insurance policies covering injuries, disabilities or death.

In broadening investor understanding, the Private Pension Administrator Malaysia (PPA), the central administrator for PRS launched a new fund performance tool on its website to assist investors in comparing returns of the various PRS funds.

#### **Ensuring access to the capital market** through international trade

To facilitate access into the Malaysian market and safeguard interests of Malaysian investors and companies abroad, the SC has been continuously involved in various regional and international committees and trade agreements. Participation in these for a also supports and facilitates the Government's overall international trade and economic agenda.

#### **Measures related** to PRS



To ensure PRS members have access to their voluntary retirement savings in times of need as well as to ease their financial burden, Budget 2020 permits withdrawals for healthcare and housing without being subject to any tax penalty.

The SC's current involvement includes the Regional Comprehensive Economic Partnership (RCEP), Asian Bond Market Initiative (ABMI), and the ASEAN Working Committee on Financial Services Liberalisation (WC-FSL). These for awere established to enable efforts towards market development, greater integration and liberalisation of market access.

Under the WC-FSL, ASEAN completed the *Eighth* Package of Financial Services Commitments (Eighth Package), which was signed by the ASEAN Finance Ministers on 5 April 2019. To enhance access into the capital market via the Eighth Package, the SC committed to allow 100% ASEAN-owned credit rating agencies in Malaysia. This offer came into force on 7 October 2019.

#### ADVOCATING INVESTOR PROTECTION

In tandem with ongoing efforts to enhance accessibility to the capital market, the SC has taken measures to further empower investors through education and awareness initiatives as well as ensure there is an avenue of recourse for investors in the event of a dispute with capital market intermediaries.

## PRIVATE RETIREMENT SCHEMES

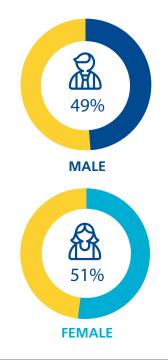
#### **GROWTH OF ASSETS AND MEMBERS**

**NET ASSET VALUE MEMBERS** RM2.23 RM2.7 RM3.5 301 416 **BILLION BILLION THOUSAND THOUSAND THOUSAND BILLION** 2017 2018 2019 2017 2018 2019

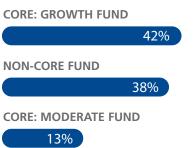
#### PRS MEMBERS BY AGE GROUP

# 34% 30 TO LESS THAN 40 29% 40 TO LESS THAN 50 18% 50 TO LESS THAN 55 7% 55 TO LESS THAN 60 6% ABOVE 60 6%

#### PRS MEMBERS BY GENDER



#### PRS MEMBERS' FUND PREFERENCE



1370

CORE: CONSERVATIVE FUND

7%

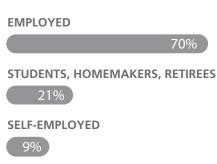
# 78% PRE-RETIREMENT WITHDRAWAL

**WITHDRAWALS** 

BY PRS MEMBERS

OTHERS
4%

#### PRS MEMBERS BY TYPE OF EMPLOYMENT



#### **Greater investor empowerment and** continued anti-scam awareness

The SC's InvestSmart® platform established in 2014 continues to provide investors relevant investment knowledge to enable them to exercise better judgment in their investment decisionmaking. These efforts encourage the participation of informed investors in the capital market and protect them from falling prey to scams and illegal schemes.

The InvestSmart® initiative is also in line with the Malaysia National Strategy for Financial Literacy

2019–2023 (National Strategy) developed by the Financial Education Network (FEN), which was launched in July 2019. FEN is co-chaired by BNM and the SC with five other members.

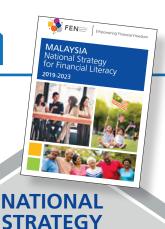
To provide investors an avenue to seek redress through an independent and impartial expert platform, the SC set up the Securities Industry Dispute Resolution Center (SIDREC) in 2010. In 2019, SIDREC received 290 claims and enquiries. About 91% of the eligible claims that went through SIDREC's dispute resolution process were resolved through case management and mediation, without having to progress to adjudication.

#### **National Strategy for Financial Literacy 2019–2023**

The National Strategy was launched by the Prime Minister, YAB Tun Dr Mahathir Mohamad on 23 July 2019 to elevate the levels of financial literacy and promote responsible financial behaviour and healthy attitudes towards financial management.

This National Strategy is a holistic 5-year roadmap that sets out the priorities and actionable plans.





Improve financial well-being of Malaysian To elevate financial literacy of Malaysians and to promote responsible behaviour and rational attitudes STRATEGIC OUTCOMES Plan ahead and ave, manage and protect money mprove access Nudge to financial **APPROACHES** Public-Private outreach and hehavioural products and Partnerships services LIFE STAGES Pre-Retirees/ children o To STRATEGIC **PRIORITIES** Building and culcate positi



### **FLAGSHIP EVENTS 2019**

#### 18 - 20 OCTOBER • INVESTSMART® FEST 2019

This year marks the 6<sup>th</sup> installment of the InvestSmart<sup>®</sup> Fest. Held at Mid Valley Exhibition Centre, the Fest was officiated by Datuk Seri Saifuddin Nasution Ismail, Minister of Domestic Trade and Consumer Affairs.





#### 50+ **EXHIBITORS**

FINANCIAL MARKET INSTITUTIONS INTERMEDIARIES REGULATORY AND GOVERNMENT





370 free consultations with licensed financial planners offered at #FinPlan4U financial service desk



#### **BIX MOBILE APP**

Bonds and Sukuk Information Exchange Malaysia (BIX Malaysia) launched the BIX Mobile App to provide investors instant access to personalised bonds and sukuk information.



#### **SCAMBUSTER WALK HUNT 2019**

In conjunction with the InvestSmart® Fest 2019, the SC organised the 1st ScamBuster Walk Hunt on 20 October 2019. The ScamBuster Walk Hunt was held following the success of ScamBuster Runs in 2017 and 2018. All proceeds raised were channelled to SC HEART, its corporate and social responsibility initiative.



Fun educational activities aimed at raising awareness on illegal investment schemes:

- 4km trek for clues and riddles in the KL Golden Triangle
- Quiz on investing knowledge

#### 29 – 30 JUNE • BERSAMA INVESTSMART® @ BORNEO – SABAH 2019

The SC's inaugural East Malaysia investor education initiative, InvestSmart®@ Borneo was held in Kota Kinabalu. Sabah's Assistant Minister of Finance, YB Tuan Sarifuddin Hata officiated the event on behalf of Chief Minister of Sabah, YAB Datuk Seri Panglima Haji Shafie Apdal.







**SPEAKERS** 



#### **EXHIBITORS**

ASSOCIATIONS **INTERMEDIARIES** REGULATORY AND GOVERNMENT AGENCIES

# Invest® OUTREACH PROGRAMMES 2019

Throughout the year, InvestSmart® carried out and participated in 22 investor education initiatives, comprising 18 investor education events and four public service announcements (PSA) campaigns

#### JAN

PSA – 'Be a smart investor! Do not invest in something you do not fully understand' audio on all radio stations

Bursa Malaysia's The Marketplace Fair, Penang

#### MAR

PSA – 'Silap Labur, Duit Lebur' video on all TV stations and Prasarana public transportation

AKPK's Women in Finance

#### MAY

InvestSmart® @ MCMC – 'Pengurusan Kewangan Asas Pelaburan'

#### JUL

MFPC's Youth National Financial Literacy Workshop, Ipoh

BNM's Karnival Kewangan, Melaka

#### SEP

BNM's Karnival Kewangan, Kangar

Program Kebolehpasaran Graduan IPT 2019, Universiti Sains Islam Malaysia

#### NOV

MFPC's Youth National Financial Literacy Workshop, Petaling Jaya

#### FEB

BNM's Karnival Kewangan, Miri

#### APR

BNM's Karnival Kewangan, Kuala Terengganu

InvestSmart® @ SC - 'Melabur Untuk Masa Hadapan Anda'

PNB's Minggu Saham Amanah Malaysia

#### JUN

Bersama InvestSmart® @ Borneo, Sabah 2019

#### AUG

MFPC's Youth National Financial Literacy Workshop, Kelantan

#### OCT

IOSCO's World Investor Week 2019\*

3-minute InvestSmart® series edumercial on digital assets and anti-scam awareness on radio stations

InvestSmart® Fest 2019, Kuala Lumpur

**ScamBuster Walk Hunt 2019** 

#### DEC

PSA - 'T.I.P.U.' audio on all radio stations

PSA – News crawler on TV stations

Ministry of Finance – Living in Future Time (LIFT) Festival Putrajaya

InvestSmart® @ SC - 'Invest Smart • Bijak Labur'

<sup>\*</sup> Event held from 30 September to 6 October 2019



#### INTRODUCTION

The Malaysian capital market landscape has been undergoing continuous changes, driven by the evolving operating environment and technological advancements, necessitating the need to modernise the capital market for the benefit of investors and issuers.

In 2019, the SC undertook efforts to promote agility within the capital market. This included digitising the broking value chain to improve investor experience and operational efficiency; promoting liquidity in the capital market; strengthening the primary market ecosystem; and promoting competitiveness in the unit trust industry.

In doing so, the SC increased greater collaboration with its product and service providers as well as advisers. Continued and open engagement allowed these stakeholders to appreciate the objectives of the SC's regulatory stance, as well as enabled the SC to serve its stakeholders better and uphold market confidence.

#### **DIGITISING TOWARDS BETTER INVESTOR EXPERIENCE AND OPERATIONAL EFFICIENCY**

Globally, the proliferation of digital devices in the hands of retail investors and new customer experience driven by digital companies have provided investors with greater accessibility and convenience at low to zero cost. This is in addition to the emergence of new models of trading such as algorithmic trading and social investing, proliferation of data analytics, and modernisation of post-trade. To compete, incumbent players globally are looking to strengthen their investor proposition and service delivery through greater digitisation.

To enable the Malaysian stockbroking industry to have greater agility to compete, the SC launched the Brokerage Industry Digitisation Group (BRIDGe) in August 2018. BRIDGe is a multilateral partnership between the SC, BNM, Bursa Malaysia and industry participants, whose objective is to develop and implement solutions such as:

- Digital client onboarding experience;
- Seamless and efficient post-trade and settlement experience; and
- E-corporate actions for greater adoption and transparency.

#### BRIDGe

#### **BROKERAGE INDUSTRY DIGITISATION GROUP**

In 2019, the BRIDGe working group concluded its recommendations, following which these implementation efforts were initiated:

#### **OBJECTIVES**

**DIGITAL CLIENT** ONBOARDING **EXPERIENCE** 

#### RECOMMENDATIONS

- Enable adoption of **digital onboarding** process with minimal human intervention
- Create a less rigid and onerous defaulters list to support client credit assessment during the onboarding process



**SEAMLESS AND EFFICIENT POST-TRADE AND** SETTLEMENT EXPERIENCE

- Enable investors to settle trades online in a single transaction
- Facilitate full adoption of e-contract notes and greater adoption of e-statements



**DIGITISING CORPORATE** 

- Enable greater e-notification for all corporate actions
- Enable e-dividend reinvestment plans (DRP), e-share conversion as well as greater adoption of e-rights
- Enable investors to trade seamlessly during a share consolidation exercise

#### **Digitising client onboarding** experience

Today, most brokers do not fully offer digital onboarding services, and the opening of new Central Depository System (CDS) accounts requires at least a face-to-face meeting with new investors. With investors looking for greater convenience to trade, there is a need to enable a fully digital onboarding experience. This includes enabling investors to open both trading and CDS accounts online with little human intervention.

The BRIDGe Digital Onboarding working group identified the need for brokers to conduct nonface-to-face client verification mechanisms efficiently, and for Bursa Malaysia to enable new investors to open CDS accounts online. Bursa Malaysia Rules were subsequently amended in 2019 to update the non-face-to-face verification mechanisms for participating organisations.

The online opening feature of CDS will be available in 2020 along with Bursa Malaysia's e-CDS initiative. The working group is also looking at setting up a database of defaulters to enhance the client onboarding process.

#### **Enabling seamless post-trade and** settlement experience

While online trade settlement is increasing in popularity, the use of cheques is still prevalent for large value securities transactions. A survey conducted by the BRIDGe Post Trade and Settlement working group identified that the current daily online transfer limits of RM30,000 to RM50,000 is one of the limiting factors in settling trades online. In reality, more than half of retail and small-business trades are valued above RM30,000, and more than two-thirds of frequent large value traders prefer a higher online transfer limit.

#### Diagram 1

#### **BRIDGe** survey results on retail settlement patterns



Retail individual transactions are valued above RM30,000



Retail individual transactions are valued above RM50,000



Frequent large value traders prefer limits higher than RM30,000 - RM50,000

To mitigate potential fraud risks associated with a higher online settlement limit, the working group together with the SC, BNM, banks, brokers and Paynet have identified necessary control measures. The finalisation of a higher online settlement limit by the banks for the broking sector and the proposed control measures will continue into 2020.

The working group also looked at greater adoption of e-contract notes and e-statements, in line with the issuance of Technical Note No. 2/2017 - Clarification on Obtaining Client's Consent for the Purpose of Issuance and Delivery of Electronic Contract Notes by Capital Markets Services Licence (CMRSL) Holder by the SC in 2017, mandating the phasing out of physical contract notes.

#### **DID YOU** KNOW?

Bursa Malaysia rules now mandate the provision of an electronic conversion facility to enable investors to convert warrants, irredeemable convertible unsecured loan stock (ICULS) and bond convertibles into shares electronically.

#### **Digitising corporate actions**

Today, several types of corporate actions in Malaysia are largely undertaken manually such as notifications by post, payment via a cheque, filling up physical forms, purchase of revenue stamps from the post office and physical submission of subscriptions. Such manual interventions often impact the subscription rates of corporate actions. For example, subscription of dividend reinvestment plans (DRP) is only 28% today.

To address this issue, the Corporate Actions working group under BRIDGe has recommended the following:

- Enhancing the ability for e-notification for corporate actions starting with the mandatory collection of email addresses for new and existing investors trading online. This was facilitated by a directive issued by the SC in July 2019;
- Enabling e-DRP to improve the subscription rate of DRPs. This involves ongoing collaboration with Lembaga Hasil Dalam Negeri (Inland Revenue Board of Malaysia) to enable a digital collection of stamp duty by share registrars and enablement of digital offerings by share registrars;

- Enabling e-share conversion for the conversion of warrants, ICULS and bond convertibles into shares. Bursa Malaysia has since undertaken amendments to their listing rules to mandate the provision of the option for electronic conversion to investors;
- Facilitating greater take up of e-rights by enabling higher limits for online settlement. This will encourage more digital offerings by share registrars; and
- Facilitating greater transparency to investors and the ability to trade during a share consolidation exercise. The SC has issued a directive, requiring brokers to allow online trading during a share consolidation exercise.

#### **MEMBERS OF BRIDGe**



#### PROMOTING LIQUIDITY IN THE **CAPITAL MARKET**

Market makers continue to be key in promoting liquidity and depth, given their readily available presence in the market as counterparties to investors. In 2019, the SC further liberalised the short selling and market making frameworks aimed at increasing market efficiency.

The liberalisation serves to expand the pool of market makers to include standalone foreign corporations to market make products on Bursa Malaysia. In addition, there will be an expanded range of Approved Securities for short selling to boost the liquidity of small and mid-cap shares.

To ensure that short-selling activities undertaken will be conducted in an orderly and controlled manner, the short-selling position limits on a particular security will now be combined for both Regulated Short Selling and Permitted Short Selling (PSS) framework.

#### STRENGTHENING THE PRIMARY **MARKET ECOSYSTEM**

In facilitating a conducive environment for issuers to tap the Malaysian capital market for fundraising and at the same time to further empower investors to make informed investment decisions, it is imperative to strengthen the fundamentals of the primary market in order to better serve the needs of a diverse pool of issuers and investors.

#### **Sharing responsibilities in effective** gatekeeping

In 2019, the SC collaborated with key stakeholders to further infuse market perspectives into the enhanced initial public offering (IPO) framework. This is targeted to reinforce the shared responsibilities between the SC and Approved Principal Advisers with a firm focus on enabling investors to make informed investment decisions based on adequate disclosures of the risks and returns.

#### PROVIDING FLEXIBILITY IN SHORT SELLING AND **MARKET MAKING**



OF SMALL AND MID-CAP SHARES

- **Enhance the category of qualifie** institutions to include standalone foreign corporations to market make products on Bursa Malaysia Securities such as the new Leveraged and Inverse ETFs.
- **Expand the range of Approved Securities** for short selling to include all exchangetraded funds (ETFs) except for inverse ETF. In addition, the market capitalisation criterion will be lowered from the current RM500 million million to RM200 million.

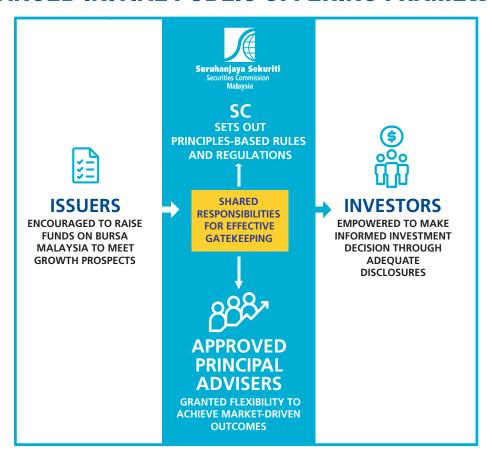


OF MARKET MAKERS

- **Exempting market makers** for structured warrants, single stock futures and single stock options from the 'At-Tick' rule when short selling underlying shares under the PSS framework.
- Allow market makers of ETFs to short sell without confirmed borrowings of the ET units or constituent securities.



#### ENHANCED INITIAL PUBLIC OFFERING FRAMEWORK



A robust due diligence process is the cornerstone of the primary market's regulatory framework as the SC relies on information submitted by the Approved Principal Advisers to perform their duties efficiently. Furthermore, targeted investors should be provided with information that is adequately disclosed in the offering documents to make informed investment decisions.

To this end, the SC is geared towards setting out principles-based rules and regulations while Approved Principal Advisers would be granted greater flexibility and the corresponding accountability to achieve the desired outcomes without compromising investors' interest.

The enhanced IPO framework is targeted to be rolled out in 2020.

#### **Collaborating with key stakeholders**

The SC has been actively engaging various stakeholders who play important roles in a typical IPO process such as Approved Principal Advisers, reporting accountants, due diligence lawyers, valuers and other stakeholders. These engagements have allowed the industry to have a better understanding of the SC's expectations of a proper due diligence process. In turn, the industry also provided diverse perspectives on building an agile IPO framework.

2019

#### **Liberalising the Approved Principal Adviser Framework**

Approved Principal Advisers need to remain relevant and responsive in meeting the evolving needs of the issuers without compromising their standards of good governance and professionalism. Following focus group consultations with external stakeholders, the SC conducted a holistic review of the Qualified Senior Personnel (QSP) regime, which forms the backbone of the Approved Principal Adviser Framework. From the review, there are three broad directions to revamp the Approved Principal Adviser Framework:

#### 1. **Recognised Principal Advisers**

A corporate finance adviser would no longer require the SC's approval to act as an Approved Principal Adviser to submit specific corporate proposals to the SC such as applications to list on the Main Market of Bursa Malaysia. Instead, qualified corporate finance advisers would only need the SC's recognition to act as Recognised Principal Advisers (RPA). This liberalisation initiative aims to bring positive disruption and promote greater competition within the industry.

#### 2. **Oualified Person**

With the introduction of the new Qualified Person (QP) regime, which will replace the QSP, the RPA must have at least one QP working full time for each specific corporate proposal. Although the SC's approval would not be required for the appointment of a QP, the RPA must ensure that the QP fulfils the minimum criteria provided by the SC. It is envisioned that the RPA will be empowered to make decisions to achieve market-driven outcomes, which include selecting the QP from a wider talent pool of qualified corporate finance professionals to make submissions to the SC.

#### 3. Senior Officer

To reinforce the RPA's accountability as an effective gatekeeper for each specific corporate proposal submitted to the SC, the RPA must identify a Senior Officer (SO) who is of higher authority or rank than the QP. There will also be enhanced standards and obligations for the SO and QP to promote market discipline and uphold investors' interests.

The relevant guidelines are being finalised for issuance in 2020.

#### **Enhancing the SC's supervisory role in** the primary market

In 2019, the SC carried out a thematic review of selected Approved Principal Advisers to gauge the industry's readiness for the enhanced IPO framework. The thematic review was focused on identifying areas of improvement on due diligence processes and internal controls. The findings of the thematic review and recommended good practices will be shared with the industry in 2020.

To ensure market effectiveness and preserve market confidence, the SC has also been working to strengthen its supervisory efforts and capabilities to proactively monitor actual, potential or perceived risks in the primary market. These proposed supervisory measures are targeted at assessing the RPA's compliance level of relevant regulatory requirements, including due diligence processes carried out during the RPA's execution or implementation of specific corporate proposals.

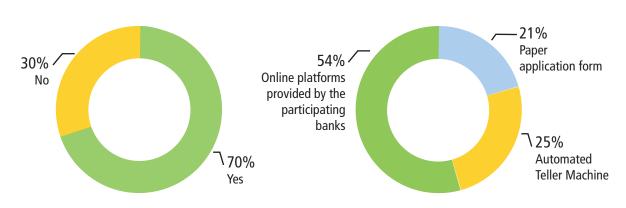
#### Making prospectuses more accessible and relevant for investors

Easy and affordable access to technology has enabled investors to participate in the Malaysian

#### **Survey Responses from Retail Investors 2019**

#### Would you use an electronic prospectus for investment purposes?

#### How do you normally apply for shares?



Source: Malaysian Investment Banking Association

capital market such as investing in IPOs and rights issues. In 2019, a survey was carried out by the Malaysian Investment Banking Association's Stockbroking Committee to understand retail investors' risk appetite on the use of electronic prospectuses.

The survey reached out to 868 retail investors who have actively invested in IPOs. From the survey, 70% of retail investors would use an electronic prospectus as a tool to make investment decisions. In addition, 54% of retail investors apply for shares through online platforms provided by participating banks.

In 2019, the SC took proactive and responsive measures in making prospectuses more relevant to investors in an increasingly digitised capital market.

These measures are intended to increase functionality and ease of navigation in electronic prospectuses for investors. In addition, to further empower investors to make informed investment decisions, electronic prospectuses can include hyperlinks to educational materials issued by the SC or Bursa Malaysia. The enhanced guidelines are being finalised with the expected issuance in 2020.

#### PROMOTING COMPETITIVENESS IN THE UNIT TRUST INDUSTRY

Unit trust funds remain the largest component of the Malaysian CIS industry. Against a competitive investment landscape, continued wealth preservation and creation through the unit trust segment requires intermediaries to widen the breadth and depth of product and service offerings.

#### **Regulatory harmonisation with** major fund centres

In 2019, the SC embarked on efforts to enhance the unit trust regulatory framework to improve the competitiveness and efficiency of the industry. These efforts are intended to benefit investors by enabling issuers to refocus on bringing more diverse product offerings to the market in a more efficient manner.



The SC commenced a holistic review of the Guidelines on Unit Trust Funds to ensure that the requirements are aligned to international standards and major fund jurisdictions. It is envisaged that the review will enable more product innovation and internationalisation of funds while enhancing market competitiveness, thereby offering investors greater choice and access to investments appropriate to their financial goals.

As part of the review, the SC sought feedback from the unit trust industry through the Federation of Investment Managers Malaysia (FIMM) and carried out benchmarking studies. Following this, the SC held targeted consultations with focus groups comprising selected unit trust management companies. Subsequently in 2020, the SC will organise a public consultation, which will offer an opportunity for all stakeholders to provide comments.

#### Faster time to market for retail feeder funds

At the same time, the SC will be revising the authorisation process for retail feeder funds to improve efficiency and efficacy. For funds meeting certain parameters, management companies will now be able to submit applications without going through a pre-submission consultation process with the SC once they file documentations with the SC on their target fund selection and monitoring, as well as risk management process.

The approach outlines the SC's expectations in operationalising the requirements for retail feeder funds to provide clarity to management companies and reduce time to market. The enhanced process is targeted to be rolled out in 2020.



#### The Evolving Business of Asset Management: Malaysia's Perspective

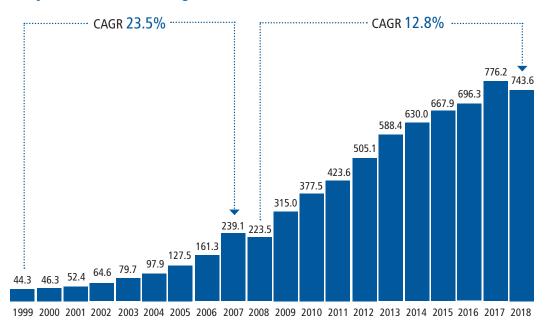
By the Institute for Capital Market Research Malaysia

#### **The Changing Landscape**

The Malaysian asset management industry has achieved strong growth over the last two decades, with total assets under management (AUM) experiencing double-digit compounded annual growth rate (CAGR). However, CAGR of AUM has started to taper following the Global Financial Crisis, indicating that the industry may have reached a point of inflection, particularly in the last five years which saw single digit year-on-year growth with a contraction in 2018.

#### Diagram 1

Malaysia assets under management from 1999 to 2018 (RM billion)



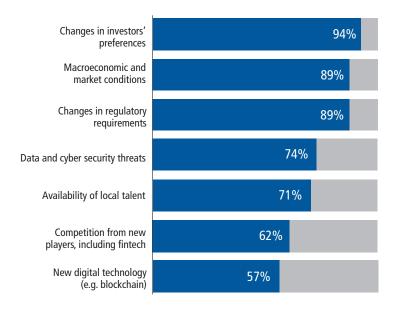
While AUM growth is a reflection of headline figures, numbers are only part of a bigger story concerning the fundamental shifts faced by the asset management industry globally that could bring far-reaching consequences. Apart from grappling with cyclical macroeconomic and market uncertainties, the industry has to also navigate the structural evolutions such as the advent of digitalisation, changing demographic trends and investors' preferences, talent shortages and tighter regulatory requirements that demand higher thresholds of accountability, governance and transparency.

Globally, this has led to further industry consolidation, indicating that the global environment may disrupt existing business models of asset managers. Amidst these changes, it is important to remember that the asset management industry remains one of the core constituents of today's financial markets, and plays a vital role in the overall economy.

#### **Insights from the Industry**

In order to develop a comprehensive and holistic picture of the asset management industry, an online survey by the Institute for Capital Market Research Malaysia (ICMR) was rolled out to all licensed asset managers.

#### Diagram 2 Relevance of external shifts on business



94% of asset managers indicated that changing investors' preferences is the key factor affecting their business and strategic plans in the next 12-24 months.



#### The Evolving Business of Asset Management: Malaysia's Perspective

By the Institute for Capital Market Research Malaysia

(Continued)



Asset managers anticipate that in the next five years, investors' preferences will shift towards SRI funds and private mandates (77% respectively) followed by wholesale funds (74%). This shift towards SRI is in line with global trends.

#### Diagram 4

#### Shift in investors' demand and corresponding talent shortage across asset classes

	Increasing	Talent shortage
Regional equity	86%	88%
Global equity	83%	82%
Alternatives	83%	76%
Regional fixed income	80%	79%
Emerging market equity	69%	85%
Emerging market fixed income	57%	74%
Global fixed income	51%	76%
Local equity	31%	32%
Local fixed income	26%	42%

While the asset managers view that investors' preferences are moving towards non-domestic equities and alternatives, they also highlighted that there exist tremendous talent gap in these asset classes, which elevates concern that the asset managers may not be well prepared to meet the changing investors' needs.

#### Diagram 5

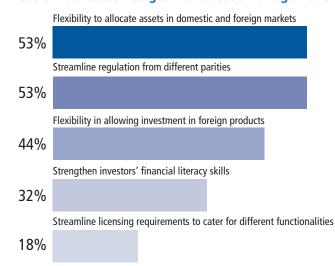
#### Level of priority for asset manager's digitalisation strategy



In terms of digitalisation, 91% responded that their strategy would focus on enhancing middle and back office operations. Malaysia's asset managers' digitalisation strategy seems more focused on enhancing day-today operations compared to global asset managers who are using digitalisation to capture a larger client base and enhance investment management process.

#### Diagram 6

#### Areas of facilitation to grow the asset management industry



More than 50% of asset managers ranked 'flexibility to allocate assets in domestic and foreign markets' and 'streamline regulation from different parities' as key areas to be reviewed to facilitate the growth of the industry.



#### The Evolving Business of Asset Management: Malaysia's Perspective

By the Institute for Capital Market Research Malaysia

(Continued)

#### **Moving Forward**

As part of the research, ICMR outlined a set of recommendations that address underlying structural issues that cut across broad industry concerns. These recommendations were designed to be considered by both policymakers and industry players in a holistic manner. In line with this, the recommendations were formulated with the overarching aim of strengthening the asset management industry across the value chain, while anchoring it with strategic outcomes that reflect core functions of the industry, namely promoting inclusive capital markets, strengthening the intermediation role and enhancing value creation. The recommendations can be broadly clustered into three key themes:

- 1. Revitalisation of the industry by facilitating diversification across asset classes and geographical markets and strengthening internationalisation efforts to broaden the investor base, gain economies of scale and harness synergies;
- 2. Adapt to changing markets by **incorporating innovation** and differentiated strategies via the adoption of a long-term approach. This could include bridging the gap between fintech and traditional players by tapping the start-up ecosystem e.g. partnerships with early-stage fintech start-ups via venture capital accelerators: and
- 3. Prioritising human capital as a cornerstone for development through cross-border partnerships to facilitate greater knowledge transfer and reciprocal relationships between asset managers and asset owners. Policymakers and industry players should also leverage behavioural economics for more targeted and effective investor outreach.

Extracted from The Evolving Business of Asset Management: Malaysia's Perspective that was launched in June 2019. This report presented findings from a joint research collaboration between ICMR and its research partner, Nomura Institute of Capital Market Research, Japan. The full report is available online at https://www.icmr.my/the-evolving-business-of-assetmanagement.

ICMR was established by the SC as an independent think-tank initiative that aims to promote sustainable development of the Malaysian capital market through providing focused, pragmatic and evidence-based research and solutions. ICMR undertakes research projects through a multi-stakeholder and collaborative approach, drawing insights and best practices from international experts as well as harnessing knowledge and experience of Malaysia's regulators, policymakers, industry players and academia.





#### INTRODUCTION

Fostering a culture of integrity in the capital market remains a priority for the SC. It continues to expect high standards of governance and accountability among all participants to protect investors and maintain market confidence.

The focus in 2019 was to implement measures to strengthen the resilience of listed companies and capital market intermediaries against the threat of corruption, in line with the goals of the National Anti-Corruption Plan (2019-2023). Among measures undertaken were the introduction of requirements for listed companies to have robust anti-corruption frameworks in place.

The SC also enhanced its supervision and surveillance approach as well as capabilities, particularly to respond to the growing prominence of digital assets and the need to facilitate the development of innovative market structures.

#### PROMOTING THE ADOPTION OF **CORPORATE GOVERNANCE BEST PRACTICES**

#### Monitoring and enhancing transparency on adoption of corporate governance best practices

The SC published its inaugural edition of the Corporate Governance Monitor 2019 (CG Monitor), which was launched by the Minister of Finance, YB Tuan Lim Guan Eng (represented by YB Tuan Tony Pua, Political Secretary) on 6 May 2019. An annual publication, the CG Monitor presents data and the SC's observations in relation to the adoption of the Malaysian Code on Corporate Governance (MCCG), quality of disclosures in corporate governance reports of listed companies and thematic reviews selected for the year.

The CG Monitor 2019 highlighted positive levels of adoption across a majority of the MCCG best practices and found that the best practices with the highest levels of adoption are those related to board responsibilities, audit committee, and risk

#### DID YOU KNOW?

The CG Monitor 2019 featured thematic reviews on:

- Long-serving independent directors policies and practices on tenure and reappointment;
- Gender diversity on boards and senior management; and
- CEO remuneration of the top 100 listed companies on the Main Market of Bursa Malaysia.

management and internal control framework. Some highlights from the CG Monitor are presented in Diagram 1.

The SC also observed that there were several early adopters of the newly introduced practices such as the detailed disclosure of senior management remuneration and setting a tenure limit of nine years for independent directors without further extension. A more encouraging observation is that mid-cap and small-cap companies<sup>1</sup> were among the trailblazers.

Mid-cap companies are those with market capitalisation of between RM1 billion and RM2 billion. Small-cap companies are those with market capitalisation of below RM1 billion.

# LAUNCH OF THE CORPORATE GOVERNANCE MONITOR 2019

6 MAY 2019





Today's launch of the *Corporate Governance Monitor* marks a new chapter in the SC's journey in driving and promoting good corporate governance. This report, which is the outcome of thoughtful collection and analysis of data from corporate governance reports, will enable the SC to track and highlight year-on-year progress (or gaps) in the adoption of corporate governance practices in the corporate governance code and the quality of disclosures.

- Syed Zaid Albar, Chairman, SC







A panel discussion moderated by Julian Ng, BFM where discussions focused on the findings of the *Corporate Governance Monitor 2019*. On the panel were:

- Johan Mahmood Merican, Director, National Budget Office, Ministry of Finance
- Ami Moris, Chief Executive Officer, Maybank Kim Eng
- Jamie Allen, Founding Secretary General, Asian Corporate Governance Association

#### Diagram 1

#### **Highlights from the CG Monitor 2019**

#### **MCCG Adoption**



MCCG best practices had an adoption level of above 70%



74% of listed companies adopted at least one Step Up practice

12 listed companies adopted at Mid-cap and small-cap least 3 Step Up practices companies 25 listed companies disclosed detailed Mid-cap and small-cap senior management remuneration companies **163** 135 listed companies have a 9-year Mid-cap and small-cap tenure limit with annual shareholders companies approval for extension 14 listed companies have a 9-year tenure Mid-cap and small-cap

#### Gender diversity on boards and senior management



634 listed issuers have at least 1 woman director on the board

23.68%

(2016: 16.6%) of board positions on the top 100 listed issuers were held by women

134 listed issuers with 30% or more

**15.69%** 

(2016: 12%) of board positions on all listed issuers were held by women

limit without further extension

16 listed issuers have 50% or more

women directors

#### **Target achieved**

#### No all-male boards

companies

on the top 100 listed companies

Note: In January 2018, the SC announced the 7 top 100 listed companies with all-male boards. All 7 companies have since appointed a woman director



#### **Long-serving independent directors**

24.2%

of independent board positions were served by the same director for more than 9 years

women directors

resolutions were voted using the 2-tier voting process

116

independent directors with tenure > 12 years resigned from the board after the introduction of the 2-tier voting process

Grant Thornton, 2018

#### **CEO** remuneration

(Top 100 listed companies)

#### RM168 million

highest CEO remuneration

#### RM33.9 million

highest CEO remuneration among GLCs

#### RM7.98 million

highest median by sector – Telecommunications and Media 81%

of CEOs on the top 100 listed companies received RM10 million or less in remuneration

#### SC'S CORPORATE GOVERNANCE STRATEGIC PRIORITIES (2017-2020) **IMPLEMENTATION PROGRESS**

The SC continued to implement the initiatives identified under the SC's Corporate Governance Strategic Priorities 2017-2020 (CG Priorities). In 2019, measures were undertaken for the implementation of 'Strategic Priority 1 – Enhancing the Corporate Governance Regulatory Framework' in particular supporting the effective discharge of directors' duties and 'Strategic Priority 2 – Strengthening the Corporate Governance Ecosystem'. A progress update on the implementation of the CG Priorities is presented in the diagram below.

#### STRATEGIC PRIORITY 1 – ENHANCING THE CORPORATE GOVERNANCE REGULATORY FRAMEWORK

#### **Strategic initiatives**

- Strategic and differentiated approach in the new MCCG to drive internalisation of corporate governance values.
- Introduce corporate governance guidelines for capital market intermediaries.
- Enhance surveillance and enforcement framework for serious corporate governance breaches.

#### **Status**

- Completed The new MCCG was released in April 2017.
- Ongoing This strategic initiative will be implemented in 2020/2021.
- Ongoing The SC is currently developing a framework to promote the effective discharge of directors' duties. This initiative is among the SC's measures endorsed by the Cabinet Special Committee on Anti-Corruption chaired by the Prime Minister, YAB Tun Dr Mahathir Mohamad.

#### STRATEGIC PRIORITY 2 - STRENGTHENING THE CORPORATE GOVERNANCE ECOSYSTEM

- Establish the Corporate Governance Council (CG Council).
- Promote shareholder activism.

- On-Target The CG Council will begin undertaking its functions in Q1 2020.
- On-Target The SC has developed an Annual General Meeting Corporate Governance Checklist (AGM Checklist) in collaboration with the Institutional Investors Council (IIC) and the Minority Shareholders Watch Group (MSWG). The Checklist aims to promote meaningful dialogue between shareholders and boards at AGMs, and will be released in Q1 2020.

#### STRATEGIC PRIORITY 3 - PROMOTING GREATER GENDER DIVERSITY ON BOARDS

- Engage boards to accelerate adoption of gender diversity on boards.
- Ongoing The SC continues to collaborate with lead advocates such as the 30% Club Malaysia Chapter.

#### STRATEGIC PRIORITY 4 - EMBEDDING CORPORATE GOVERNANCE CULTURE EARLY IN THE LIFE CYCLE OF COMPANIES AND AMONG YOUTH

- Develop a corporate governance toolkit for SMEs.
- Introduce corporate governance curriculum in tertiary education.
- **Ongoing** This strategic initiative will be implemented in 2020/2021.
- Ongoing This strategic initiative will be implemented in 2020/2021.

#### STRATEGIC PRIORITY 5 - LEVERAGING TECHNOLOGY TO ENHANCE MONITORING OF CORPORATE GOVERNANCE PRACTICES AND SHAREHOLDER ACTIVISM

- Leverage advanced analytics capabilities to monitor and gain deeper insights into corporate governance practices.
- Facilitate electronic voting and remote shareholders' participation.
- Completed The SC developed an internal system leveraging advanced analytics to analyse quantitative and qualitative data on corporate governance.
- **Ongoing** This strategic initiative will be implemented in 2020/2021.

#### The strategic initiative is:

Completed • • • • • Completed

On-Target •••••• On target to be completed by the target date

• • • • • Ongoing and is targeted for completion in 2020/2021

**Delayed** • • • • • • Delayed from the target implementation date

Following the CG Monitor 2019, the SC continued to observe encouraging adoption of the MCCG best practices by listed companies, including an increase in the use of the two-tier voting approach<sup>2</sup> for the reappointment of independent directors with a tenure of more than 12 years.

The information presented in the CG Monitor will assist boards and senior management to reflect on their practices and put in place initiatives to close any identified gaps. It is also intended to support shareholders and other stakeholders in evaluating the corporate governance practices of companies, and the engagements with boards and management accordingly.

#### **Introducing Annual Transparency Reporting for Audit Firms**

To promote accountability among audit firms and uphold audit quality, the SC's Audit Oversight Board (AOB) on 14 August 2019 introduced requirements for the Annual Transparency Reporting for audit firms registered with the AOB.

Under the requirements, audit firms are required to disclose in their transparency reports, the audit

#### DID YOU KNOW?

The Annual Transparency Reporting is compulsory for audit firms that meet the following criteria for two consecutive years:

- Audit firms with more than 50 public-interest entities (PIEs) audit clients; and
- Total market capitalisation of the audit firm's PIE clients is more than RM10 billion.

firm's legal and governance structure, measures taken by the firm to uphold audit quality and manage risks, and information on the firm's indicators for audit quality. The report provides boards and shareholders relevant information for consideration in the evaluation and appointment of auditors.

#### STRENGTHENING THE RESILIENCE OF THE CAPITAL MARKET AGAINST CORRUPT PRACTICES

One of the key priorities in 2019 was the implementation of holistic anti-corruption measures for the SC and the capital market in line with the National Anti-Corruption Plan 2019-2023 (NACP), which was launched by the Prime Minister, YAB Tun Dr Mahathir Mohamad on 29 January 2019. The NACP identified six priority areas and 115 initiatives to combat corruption. These include strengthening the effectiveness of public service delivery and inculcating good governance in corporate entities.

#### **Establishment of the SC Anti-Corruption Committee**

To ensure the national anti-corruption initiatives are efficiently and systematically implemented, the Government has established a multi-level anticorruption governing structure through the issuance of a directive by the Prime Minister's Office in 2018.

Under the directive, all ministries and public institutions at the federal and state levels are required to establish their respective Anti-Corruption Committees, which would be chaired by the respective heads of institutions.

Refer to Practice 4.2, MCCG for details on the two-tier voting approach.



#### **OVERVIEW OF THE SC'S ANTI-CORRUPTION MEASURES**

#### THE SC AND **ITS AFFILIATES**

#### LISTED COMPANIES AND CAPITAL **MARKET INTERMEDIARIES AND AFFILIATES**



Review of the anti-corruption policies of listed companies found that only 59% of listed companies have anticorruption policies in place.



Endorsement of the SC's action plan to support the NACP including strengthening the anti-corruption measures of listed companies by the Special Cabinet Committee on Anti-Corruption (JKKMAR).



The SC conducted an engagement session with SC affiliates on the requirements under the NACP.



Advocacy sessions on corporate liability provision, organised in collaboration with the MACC, involving close to 600 senior representatives of listed companies, capital market intermediaries and the SC's affiliates.



**Listing Requirements amended** to require listed companies to have anti-corruption and whistleblowing policies in place, and to conduct annual assessment of corruption risk.

# **APR**

Establishment of the **SC Anti-Corruption Committee** 



Recognition of a senior SC employee as a **Certified Integrity Officer** 

#### **ONGOING**

Development of the SC's **Organisational Anti-Corruption Plan** 

The SC Anti-Corruption Committee was established on 1 April 2019 to identify improvement opportunities to strengthen governance, integrity and anti-corruption measures within the SC. The committee is chaired by the Chairman of the SC and members comprise representatives from the SC board and management. The committee is responsible for overseeing the implementation of the SC's initiatives under the NACP.

#### **Development of the SC's Organisational Anti-Corruption Plan**

A mandatory initiative under the NACP is for all public institutions to develop and implement an Organisational Anti-Corruption Plan (OACP), which is a policy document that addresses governance, integrity and anti-corruption issues within an organisation. The SC undertook a planning exercise to implement the OACP, which led to the establishment of the OACP Development Team in November. The SC's OACP is scheduled to be in place in the first half of 2020. The SC will also be conducting an internal corruption risk assessment with the assistance of the MACC in 2020.

#### **Certified Integrity Officer Initiative**

The Certified Integrity Officer (CelO) initiative by the MACC Academy (MACA) is a measure by the Government to instil a culture of integrity in the Malaysian public and private sectors. The CelO is a programme to train senior officers from the public and private sectors to combat corruption by implementing appropriate governance, integrity and anti-corruption measures. The programme is monitored by the Lembaga Pengiktarafan Pegawai Integriti Bertauliah (LPPIB), which is chaired by the MACC Chief Commissioner, and five members, including the SC Chairman, who are appointed by the Chief Secretary to the Government. The SC has two officers who have completed the programme and are qualified CelOs.

#### Review of the anti-corruption policies of listed companies

In light of the corporate liability provision (Section 17A<sup>3</sup>) in the *Malaysian Anti-Corruption Commission* Act 2009, which comes into force on 1 June 2020, the SC undertook a review of the anticorruption policies of listed companies. The review found that only 59% of listed

companies had anti-corruption policies in place, and the majority of these policies required enhancements to bring them in line with the Guidelines

listed companies have anti-corruption measures in place

on Adequate Procedures issued by the Prime Minister's Department.

#### **Endorsement of the SC's measures by** JKKMAR, including strengthening the anti-corruption measures of listed companies

Findings of the SC's review on anti-corruption policies of listed companies and the SC's action plan to support the NACP were presented to the Cabinet Special Committee on Anti-Corruption (JKKMAR) chaired by the Prime Minister, YAB Tun Dr Mahathir Mohamad in July 2019. As part of

Section 17A imposes liability on a commercial organisation if a person associated with that commercial organisation corruptly gives, agrees to give, promises or offers to any person gratification whether for the benefit of that or another person with the intent to obtain or retain business for the commercial organisation or to obtain or retain an advantage in the conduct of business for the commercial organisation.

the action plan, amendments were made to the Listing Requirements to strengthen the anticorruption framework of all listed companies. The amendments require all listed companies to have policies and procedures on anti-corruption and whistleblowing, and to include corruption risk in the company's annual risk assessment framework.

#### Advocacy sessions on corporate liability provision

The SC collaborated with MACC to organise three awareness sessions for directors of listed companies, capital market intermediaries and the SC's affiliates. These sessions, attended by close to 600 participants, were aimed at raising awareness and understanding on the impact of the corporate liability provision, and the importance of having anti-corruption measures in place.

Diagram 2

### THE NATIONAL ANTI-CORRUPTION PLAN (NACP) **GOVERNANCE STRUCTURE**



### **PARLIAMENT**

- To receive the Annual Monitoring and Evaluation report by the GIACC on the NACP
- Acts as a check and balance mechanism



#### **GOVERNANCE, INTEGRITY** AND ANTI-CORRUPTION **CENTRE (GIACC) AS SECRETARIAT**

Evaluate the yearly performance and the effectiveness of the initiatives carried out through the monitoring report



#### **CABINET SPECIAL COMMITTEE ON ANTI-CORRUPTION** (JKKMAR)

Chaired by the Prime Minister of Malaysia

- Endorse policies

on the NACP

- Make key decisions in line with national interest
- Identify good solutions

 To receive the Annual Monitoring Evaluation report by the GIACC



#### ANTI-CORRUPTION COMMITTEE

National Level, Chaired by Chief Secretary to the Government

State Government Level, Chaired by State Secretaries

Agency Level, Chaired by Head of Department / Agency

Source: National Anti-Corruption Plan (2019-2023)

- Make key decisions in line with the interest of organisations and agencies
- Identify good solutions
- Recommend policies

#### **ENSURING MARKET RESILIENCE**

The year started with concerns on synchronised slowdown in global growth due to the re-emergence of trade tensions and uncertainties surrounding geopolitical tensions. Markets, however, have been supported by easing through central banks' rate cuts to support growth. Similarly, the Malaysian capital market saw movements that reflected such sentiments, with the main equity index experiencing continued downward pressure as growth on earnings remained muted along with declining yields for bonds.

Notwithstanding the challenging global environment and domestic market activities, Malaysia's capital market remained resilient and continued to finance the crucial segments of the domestic economy.

The SC has continuously strengthened its monitoring and surveillance of any emerging risk from the heightened uncertainties. This is to detect and assess any trends and vulnerabilities that could contribute to the build-up of systemic risks.

Concurrently, the SC adopts robust and up-todate approaches for identification, monitoring, mitigation and management of systemic risk. In this regard, while the SC has in place an integrated approach through formalised processes and arrangements, it constantly reviews and enhances the framework to ensure relevance and adequacy. Business continuity also plays an integral role in the management of systemic risk within the SC, the capital market and the broader financial system. In 2019, the SC took steps to further accelerate the SC's as well as the capital market's capacity and capability in managing vulnerabilities to ensure continuity of critical functions and operational resiliency.

#### Surveillance and assessment of vulnerabilities and risks to the stability of the capital market

The SC undertakes a methodological and integrated approach to its systemic risk surveillance and assessment function (Diagram 3). The established governance structure in the form of Market Risk Working Group (MRWG) and the Systemic Risk Oversight Committee (SROC) ensures a streamlined and structured escalation of the systemic risk surveillance and assessment.

The focus in 2019 centred on both domestic and external developments such as geopolitical and trade tensions, monetary policy easing, and Malaysia's position in global equity and fixed income indices, which could serve as potential headwinds to the stability of the domestic capital market.

Given the interconnectedness of the financial and capital markets, the SC is an active participant of various joint regulatory discussions with other authorities via a combined working group – the Macro Risk Focus Group with BNM, as well as being a member of the Financial Stability Committee of the Labuan IBFC. These regulatory discussions were organised collaboratively throughout the year to identify areas of risks within the financial and capital markets in Malaysia.

Recognising the importance of understanding and assessing interplay between various markets and participants in the broader financial system, an internal macro stress test model was developed to provide a more holistic form of surveillance and to complement other assessments undertaken by other relevant regulators or market participants. The SC also engaged market participants and subject matter experts to gain better insights of current or emerging market trends and risks, and to validate its risk assessment work.



#### Diagram 3

#### Assessment on various components in the capital market

CAPITAL MARKET SEGMENTS	ASSESSMENT
Equity market and Infrastructu	Circuit breaker was triggered.
\$ Bond mark	<ul> <li>Yields declined in tandem with other regional markets amidst monetary policy easing environment.</li> <li>Corporate bond default risk remained low with 0.39% of the outstanding amount falling within the vulnerable category.</li> </ul>
Public-listed companies	<ul> <li>Corporate earnings continued to be affected by the challenging operating environment whereas corporate leverage increased due to the implementation of MFRS 16.</li> </ul>
Investment	<ul> <li>Foreign investors as a percentage of shareholding in the equity market dropped slightly below the 3-year average amidst net outflows.</li> <li>For bond market, foreign holdings remained stable amidst net inflows but capped due to issuances that have matured.</li> </ul>
Investment manageme	management framework to safeguard against any adverse market conditions.
Stockbrokii intermedia	

Various components of the Malaysian capital market continue to function normally despite domestic and external headwinds. The SC's assessments in 2019 indicated that there were no immediate major systemic risk concerns given the prevailing market, liquidity and infrastructure conditions.

#### **Crisis Preparedness Programme**

A two-day Crisis Preparedness Programme was jointly organised with the Toronto Centre (TC) to further strengthen and enhance both internal and external crisis communication and co-ordination to ensure preparedness for any untoward events that may affect the capital market.

The main objective of the programme was to ensure relevant departments within the SC will be able to apply organisational contingency arrangements to address risks during times of crisis. The intended outcome of the simulation was to increase awareness on the importance of timely and effective communication, identify improvements to the existing incident management framework and regulatory parameters as well as to consider ways to address gaps identified from the simulation.

#### **Macro Stress Test**

he SC has a clear mandate to monitor, mitigate and manage systemic risks arising from activities in the securities and derivatives markets as provided under the Securities Commission Malaysia Act 1993 (SCMA) and Capital Markets and Services Act 2007 (CMSA). This is also in line with Principle 6 of the IOSCO Objectives of Securities Regulation where a securities regulator has the obligation to undertake functions of monitoring, mitigating and managing systemic risk.

In this regard, as liquidity risks of CIS would have an impact across various market segments given the allocation to various asset classes, investment funds have been selected as the first segment for the macro stress test exercise. For purposes of this exercise, the SC conducted a macro stress test focusing on liquidity risk vis-à-vis redemption pressures on unit trust funds and wholesale funds (herein collectively referred to as 'investment funds'). This exercise was not meant to replace existing stress tests undertaken at the portfolio level by market participants. Rather, it was intended to complement them with a broader system-wide understanding of potential transmission channel and amplification of shocks that could undermine the stability of the capital market and their interactions with the overall financial ecosystem.

There were various considerations made in the scenario design, namely the number and type of shock factors that would be applied to the investment portfolios and the hypothetical liquidation method that would be applied by fund managers on their respective funds. The macro stress test employed sensitivity analysis where only a single shock factor of large redemption pressure was applied to the liability side of the funds i.e. redemption pressure. Three broad scenarios of redemption pressure were applied in the macro stress test exercise based on historical redemption patterns.

In order to satisfy the redemption pressures, two common liquidation approaches were considered: by selling the most liquid to the least liquid investments (waterfall liquidation method<sup>4</sup> or horizontal slicing<sup>5</sup>), or by selling the investments on a pro-rata basis (pro-rata liquidation method or vertical). After weighing the pros and cons between these two liquidation approaches, it was determined that the horizontal slicing approach would best fit the overall objectives of the macro stress test at this juncture as it allows for a more pronounced observation of potential transmission channel with other segments of the financial markets i.e. cross-contagion effect arising from the deposits and money market placements in the banking sector, and the fixed income and equities investments in the capital market.

Since each investment fund is unique, an internal model was developed to ensure that all underlying assumptions and methodologies can be applied to the hundreds of investment funds before the results were aggregated at the macro level. Results of the macro stress test showed that the investment funds were resilient to the range of redemption pressures applied in this exercise and the liquidity within each fund was sufficient to meet the redemption request. Overall, there was minimal contagion impact to the other segments of the capital market.

Liquidity Stress Tests for Investment Funds: A Practical Guide, IMF Working Paper, October 2017.

Arora, Rohan, et al. Bond Funds and Fixed-Income Market Liquidity: A Stress Testing Approach, Technical Reports No. 115, Bank of Canada, August 2019.

#### **Guiding Principles on Business Continuity**

As part of the SC's ongoing efforts to enhance the systemic resiliency of the capital market, the Guiding Principles on Business Continuity (Guiding Principles) was issued in May 2019.

The principles set out the SC's expectations on the business continuity management approach of capital market entities to ensure timely continuity of critical services and the fulfilment of business obligations in the event of disruptions.

A comprehensive business continuity management approach will also help mitigate any possibility of wider systemic risk implications to the capital market, taking into consideration the rapidly changing landscape of the market.

The principles, developed in close consultation with the industry, highlighted six focus areas:

- Board and senior management's responsibility in ensuring sound and effective business continuity protocol;
- The importance of risk identification, in particular interdependency and concentration risks;
- Risk-based recovery strategy;
- Annual testing of business continuity protocols;
- Comprehensive escalation procedures and communication plans in the event of major disruptions; and
- Ongoing review of business continuity arrangements.

The Guiding Principles are applicable to all licensed intermediaries which include entities regulated by the SC either via licensing, authorisation, approval or registration as required under the CMSA. Currently, entities that are excluded are Cagamas, PLCs and financial institutions under the purview of BNM as well as financial institutions that are categorised as registered persons under Part 1, Schedule 4 of the CMSA. Any financial institutions that are licensed by the SC are also subject to the requirements of these principles.

#### **Proactive surveillance of corporate** activities

The SC continues to conduct surveillance through active monitoring of risk areas, corporate transactions, disclosures and financial reporting of listed companies to ensure high quality, reliable and accurate information is disseminated for investors to make informed investment decisions.

To achieve these objectives, aside from conducting comprehensive intelligence gathering, the SC engages listed companies, statutory auditors and relevant stakeholders through meetings and query letters. These proactive surveillance measures enable the SC to detect corporate transgressions and instances of non-compliance with accounting standards.

To ensure the surveillance of listed companies remains robust and dynamic, the SC continues to strengthen the effectiveness of its surveillance function through collaboration with other authorities, both local and international.

On the regional front, the SC is part of the Financial Statements Surveillance Group (FSSG), which comprises peer regulators in Asia. The FSSG organises annual workshops to share and exchange regulatory knowledge and experiences in the area of corporate financial reporting. This includes discussions on the adoption and implementation of accounting standards as well as emerging regulatory challenges faced by respective jurisdictions. In 2019, the SC participated in a workshop hosted by the Securities and Exchange Commission of Thailand.

#### **Ensuring quality financial reporting**

Compliance with the Malaysian Financial Reporting Standards (MFRS) is crucial for listed companies to produce high quality financial information that faithfully represents the financial position and performance of their businesses. In 2019, the SC continued to review financial statements of listed companies to detect any potential non-compliance with MFRS. The

regulatory actions taken in 2019 for corporate transgressions and non-compliance with approved accounting standards are presented in Diagram 4.

To create awareness and manage potential impact of recent changes made in the Agenda Decision on Overtime Transfer of Constructed Good (IAS 23 Borrowing costs), the SC facilitated four dialogues which were attended by 124 participants, including representatives from the Malaysian Accounting Standards Board, listed companies, statutory auditors, research analysts and bankers.

Diagram 4

#### **REGULATORY ACTIONS FOR**

## **CORPORATE TRANSGRESSION** AND NON-COMPLIANCE

WITH APPROVED ACCOUNTING STANDARDS IN 2019

#### FORMS OF CORPORATE TRANSGRESSIONS

- Used proceeds raised from private placement for questionable purchases
- Made payments to suppliers without receiving goods
- Recorded false or misleading cash and bank balances
- Subsidiaries acting as guarantor for a director's personal loans
- Furnished false documents to the regulatory authority
- Falsely recorded loss of inventories

#### **ACTIONS TAKEN**



Detected issues involving breaches of securities laws amounting to RM11.4 million for further investigation



Administrative actions taken against three listed companies and 13 directors, former directors and CFOs



Four warning letters issued to directors and former directors

#### AREAS OF NON-COMPLIANCE WITH **APPROVED ACCOUNTING STANDARDS**

- IMPAIRMENT ASSESSMENT Impairment assessment on plant and equipment was not performed
- VALUATION OF INVENTORIES Carrying value of the inventories was not properly assessed
- OPERATING SEGMENT DISCLOSURE Wrongly disclosed figures in relation to geographical revenue
- RECOGNITION ON WAIVER OF DEBT Incorrect recognition

#### **ACTIONS TAKEN**



**Issued supervisory letters** to two listed companies and their directors, and five former director

#### Surveillance through risk-focused approach

Given the fast-changing landscape of the capital market, the SC's surveillance function goes beyond monitoring broad-based development of listed companies. It includes a risk-focused approach through thematic reviews of specific sectors, capital market products, financial reporting and earnings, and impact of global risks. These thematic reviews enable the SC to identify trends and developments as well as emerging risks in the capital market.

The SC regularly conducts earnings analysis across all listed companies, which forms the basis of in-depth assessments into a specific sector to identify internal and/or external factors that may affect the listed companies within that sector.

In 2019, a downward trend was observed in the earnings of listed companies in the real estate sector over the period of 2015-2018. An in-depth assessment of the real estate sector revealed the following:

- Impairment of receivables and inventories, and write-off of development expenditure in a number of listed companies; and
- Interest coverage ratio deteriorated despite consistent corporate gearing level.

The resilience of the listed companies was therefore tested under several stress scenarios. Findings from the stress testing however showed that the overall risk of the listed companies within the sector is manageable. An overview of the entire exercise is presented in Diagram 5.

Diagram 5

#### THEMATIC REVIEW ON LISTED COMPANIES IN THE REAL ESTATE SECTOR



#### **SCOPE OF REVIEW**

The focus was on listed companies in the real estate sector. Areas of review included analysing the earnings and assessing the gearing and interest coverage ratio of the listed companies.



#### **OBSERVATIONS**

- Downward trend in the earnings of listed companies in the real estate sector. The identified key factors that affected the earnings of the listed companies were:
  - Impairment of receivables and inventories; and
  - Write-off of development expenditure.
- The interest coverage ratio deteriorated despite consistent corporate gearing, which triggered a stress test exercise.



#### STRESS TESTING

Using projected financials over four years in terms of revenue, gross profit and earnings against the growth of nominal gross domestic product and property sales.

#### STRESS SCENARIO I

Nominal GDP is assumed to initially decline by 8%, followed by a strong rebound of 12% in 2020, before normalising towards baseline by 2022.

#### STRESS SCENARIO II

Nominal GDP is assumed to initially decline by 8%, followed by prolonged period of flattish growth (0%) in the 2020 and 2021, before recovering only slightly by 2% in 2022.



#### **OBSERVATIONS**

Findings from the stress testing revealed that the overall risks of the listed companies in the sector were manageable.

2019

#### **Enhancing cyber resilience**

The SC is cognisant of the importance of cyber resiliency for the capital market given the evolving cyber threats in financial markets worldwide. Enhancing cyber risk management is critical given the diversity of market players in the capital market.

The SC conducted thematic reviews and a cybersimulation in 2019 to assess the capabilities of selected market players. (Diagram 6)

#### **Capital Market Cyber Simulation**

For the 2019 capital market simulation exercise, multiple scenarios were simulated to ensure the participants' internal incident response protocols are capable to remediate cyber incidents and maintain orderly market. Results from the cyber simulation exercise showed a 12% improvement compared to 2018's exercise despite the increased difficulties in the assessment scenarios. Some participants demonstrated maturity in their level of cyber resilience and were better prepared in the event of cyber-attack.

#### Diagram 6

#### THEMATIC ASSESSMENT ON INTERMEDIARIES AND REVIEW ON TECHNOLOGY SERVICE PROVIDERS RISK MANAGEMENT

#### **BACKGROUND**

The SC conducted a series of assessments of selected capital market participants with high technology and cyber risk profile to assess their compliance with the SC's Cyber Risk Guidelines.

An assessment was conducted by the SC on the effectiveness of outsourcing risk management to technology service providers given that the use of third-party service providers in core market operations is becoming a common practice due to cost and efficiency benefits.



#### **OBSERVATIONS**

There are several areas for improvement to enhance cyber resilience including the need for greater accountability by the board and senior management on technology systems management as well as to ensure consistency of practice with the policies and procedures that are in place.

On outsourcing technology to service providers, while the SC observed that there was improvement in governance structure and third-party's technology processes, the oversight on the performance measurement can be increased to align with the service level agreements.



#### **OUTCOME**

Firms should undertake continuous improvement process to ensure the effectiveness of their cyber resilience. For example, firms can leverage findings of an effective third line of defence i.e. internal audit to manage any gaps for improvement.



Identified gaps will require participants to exercise due attention and diligence to strengthen their cyber security. The simulation also promoted close interaction between capital market entities with the SC and the National Cyber Security Agency (NACSA) to co-ordinate responses and share information on cyber incident handling.

protocols to prevent data breaches. The SC has also emphasised on effective information-sharing and timely incident reporting by intermediaries to reinforce their ability to oversee cyber risk management and provide critical information to monitor the responsiveness of the industry.

#### **Cyber Risk Working Group**

The Cyber Risk Working Group (CRWG) met on a quarterly basis since March 2018 to gain insights on the macro landscape of cyber risks and to raise cyber awareness for protection and preventive measures. Key outcomes from the CRWG is presented in Diagram 7. As the capital market grows, the nature and scale of underlying cyber risks evolves rapidly. The major contributing factors include the changing nature of technologies, higher deployment of financial technology, aggressive lead times for launching electronic financial services as well as the expanding roles of fintech and technology service providers, with some operating outside the SC's regulatory ambit.

As the capital market advances with new players embracing technology in their core business operations, there is growing importance for both the incumbent and fintech firms to establish a robust cyber risk management framework for cyber security resilience as well as better data protection

#### **REINFORCING ORDERLY TRADING CONDUCT AND GOVERNANCE AMONG** MARKET PARTICIPANTS

#### **Preserving market integrity and** facilitating a vibrant marketplace

The SC seeks to strike a balance between facilitating a vibrant marketplace and the need to preserve market integrity. Therefore, the SC takes into consideration diversity in trading practices and strategies when analysing trading conduct. As part of its proactive oversight, the SC conducted regular engagements with the frontline regulator to ensure regulatory responses commensurate with the risks and gravity of trading anomalies detected.

The SC continued to remain vigilant in addressing trading irregularities that may pose risks to the integrity of the capital market. Measures were undertaken in collaboration with Bursa Malaysia to heighten the level of accountability among intermediaries by communicating the standards of conduct and governance expected of them.

Diagram 7

#### **OUTCOMES OF THE CYBER RISK WORKING GROUP**

Established platform for industry to highlight and discuss cyber issues

Continuously raise cyber security awareness

Firm understanding of global perspectives on cyber risk and its implications on the industry

Information-sharing channel among the among members on experiences and techniques

These measures included engagements and communication to raise awareness of emerging risks and market trends, as well as to guide and facilitate the intermediaries in ensuring orderly trading conduct and discharge of their selfregulation responsibilities.

#### **Detecting market abuses and other** questionable trading conduct

In 2019, the SC detected several cases of serious market misconduct involving possible stock market manipulation, insider trading, securities fraud and front running. These cases have been escalated for further investigation to be carried out.

The SC also observed questionable trading conduct that fell short of control levels and monitoring standards expected from intermediaries. Certain transactions executed by intermediaries, although harmless on their own, were subsequently found to be related to possible illegal investment schemes. Surveillance observations were often shared with internal stakeholders to facilitate the SC's supervisory efforts in strengthening intermediaries' governance standards and accountability. The cross functional collaboration within the SC has led to convergence of common areas of regulatory interest, which in turn, allowed the SC to address issues of concern in a holistic manner.

#### Addressing emerging risks from internet and automated trading

In 2019, the SC continued to undertake proactive surveillance measures to curb trading anomalies caused by automated trading. This ensures undesirable trading practices were addressed at an early stage.

To complement the SC's proactive measures, a thematic review was carried out by the frontline regulator on intermediaries' trade surveillance of automated trading. The review covered areas such as intermediaries' risk controls, governance and compliance framework as well as front office monitoring in relation to electronic trading. The findings revealed different degrees of intermediaries' understanding and management of risks associated with automated trading. The review findings were shared with the intermediaries to facilitate improvements in their respective controls and ongoing monitoring in relation to automated trading by their clients.

#### Surveillance oversight of Digital **Asset Exchanges**

Following the registration of three exchanges as Recognised Market Operators (RMOs) to operate Digital Asset Exchanges (DAX) in Malaysia, the SC enhanced its processes to ensure effective oversight of DAX and the trading activities conducted on their platforms.

The DAX are responsible to ensure that their platforms operate in a fair, orderly and transparent manner. As RMOs, they are also expected to conduct real-time market surveillance and put in place adequate measures to deter and detect manipulative trading activities on their platforms.

As part of the SC's oversight of DAX, it conducts regular engagements and discussions with them to ensure that real-time surveillance functions are discharged effectively. The SC will also focus on post-trade analysis of trading misconduct that may be in breach of securities laws such as false trading and market manipulation.

In 2019, the SC embarked on initiatives to further leverage the use of technology in carrying out its market surveillance functions. Investments were made on system upgrades. The SC is also looking into potential acquisitions or development of new analytical tools to facilitate its oversight of DAX and analysis of trading of regulated digital assets.



### Market Study on Misconduct by Licensed and Registered Persons

he SC conducted a market study on misconduct by Licensed and Registered Persons in November 2019. Rigorous quantitative analysis was conducted on 30,000 data points spanning over nine years. The market study has uncovered insights to the trends of market misconduct in Malaysia. The findings from this were used to support the SC's regulatory policymaking and behavioural economics work. This was undertaken in the spirit of the SC's Evidence-Based Regulatory Policy Framework.

Based on the available data from administrative and supervisory actions (excluding civil and criminal cases) between 2010 to 2018, there were 498 individuals who were suspected to have engaged in misconduct (Alleged Persons) in 561 instances. The majority of them were found to be male (56%), less-experienced (40% had less than five years of industry experience) and aged between 30 – 49 years old (55% of Alleged Persons).

Analysis further showed that larger Principals, with their bigger market share and wider base of Licensed and Registered Persons, generally had more Alleged Persons. However, once scaled for their base of Licensed and Registered Persons, smaller Principals were found to have a higher proportion of their population suspected to have engaged in market misconduct. This suggests that there remains scope to strengthen self-discipline, particularly among smaller Principals.

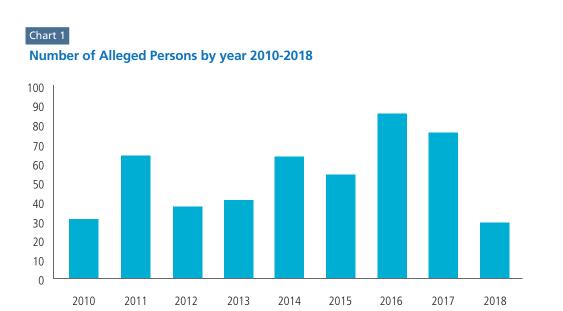
Overall, these 498 individuals represent less than 1% of the population of Licensed and Registered Persons, indicating that the incidence of market misconduct in Malaysia remains sporadic and that the overall compliance level in the industry remains robust.

There were 19 types of misconduct identified and grouped into the following five key categories:

- Unauthorised trading and investment;
- Misuse of client information and/or money;
- Misrepresentation to client or improper sales practices;
- False trading/market manipulation/insider trading; and
- Others (including conflict of interest, failure to conduct customer due diligence / KYC, failure to declare as a bankrupt, etc.).

Trends indicated that the incidence of market misconduct has decreased in recent years after trending upwards between 2012 and 2016. There were mixed trends among the various types of misconduct, suggesting that there was no evidence of systematic regulatory risk from a particular type of misconduct.

Market misconduct had affected 502 investors, resulting in an estimated total loss of RM54 million or about RM108,000 per affected investor. This is about 1.7 times the Malaysian median annual income of RM62,736 (based on 2016 data from the Department of Statistics Malaysia). Hence, while data showed that market misconduct cases may be sporadic, the harm to an affected investor can be very large.



In response to these market misconduct cases, relevant authorities including the SC, Bursa Malaysia, FIMM and SIDREC have imposed monetary fines and penalties totaling RM22 million. In addition to monetary fines and penalties, the authorities also took other types of regulatory actions on Licensed and Registered Persons who were found guilty of market misconduct. Non-monetary penalties, among others, include issuing directives/warning letters, suspension/revocation of licenses and reprimands. Some cases remain under investigation and action will be taken where appropriate.

Evidence showed that regulatory disciplinary actions have been important to strengthen market integrity. Only 4% of Alleged Persons were repeat offenders, suggesting that sanctions by authorities have been effective in preventing future misconduct.

Preserving market integrity is a shared responsibility by all stakeholders in the capital market ecosystem. In addition to regulatory actions by authorities, the market study indicated that Principals played an important frontline role in elevating firm-level discipline. Principals and senior management should remain vigilant of potential misconduct and step up their supervisory efforts on Licensed and Registered Persons by setting the tone of strong compliance culture and self-discipline.



#### STRENGTHENING CONDUCT AND **GOVERNANCE OF INTERMEDIARIES**

#### **Supervisory strategy**

The SC adopts a forward-looking and risk-focused approach to supervision with emphasis on culture and conduct. The strategy is geared towards ensuring that an intermediary has the right compliance culture and governance framework in place for the promotion of responsible corporate conduct and governance.

In this regard, the SC expanded the scope of its intermediary supervision mandate beyond ensuring micro-prudential soundness and compliance to include assessing the strength of governance, oversight and risk functions of intermediaries. This approach helps to ensure that an intermediary has adequate and effective oversight of critical risk elements and to ensure that an intermediary's risk fundamentals are recognised as strategically important to its operations.

#### **Leveraging integrated data analytics** framework to strengthen supervisory oversight

The SC has further strengthened its data collection and assessment methodology through the utilisation of an integrated data analytics framework. This information allows the SC to update intermediaries' risk profiles, determine appropriate examination programmes and establish its supervisory priorities.

The framework has resulted in an enhancement to the quality of risk identification and risk assessments in monitoring historical trends and detecting regulatory non-compliance by intermediaries.

#### **Compliance with anti-money** laundering/counter terrorism financing/counter proliferation financing (AML/CFT/CPF) requirements

In view of the updated recommendations<sup>6</sup> issued by the Financial Action Task Force (FATF) on virtual asset (VA), virtual assets service provider (VASP) and the upcoming Follow Up Assessment (FUA) with respect to Malaysia's adherence with the recommendations of the FATF, the SC is committed to enhance its oversight on new players and activities, and raise the compliance standards of reporting institution. The SC will provide further guidance and organise continuous awareness programmes focused on the areas of improvement under assessment, including supervision and compliance with counter proliferation financing (CPF) requirements.

#### DID YOU KNOW?

The SC's thematic review in 2019 focused on the proliferation financing requirements for capital market intermediaries, standards of fiduciary duties and responsibilities of bond trustees, controls by fund management companies (FMC) to prevent misuse of material non-public information (MNPI), and a follow up from 2018's review on liquidity risk management.

#### **Continuous guidance and awareness** of AML/CFT/CPF requirements

Following the SC's thematic review on market intermediaries' compliance with the *Guidelines on* Implementation of Targeted Financial Sanctions Relating to Proliferation Financing for Capital Market Intermediaries (TFS-PF Guidelines), the SC issued a Ouick Guide to TFS-PF Guidelines (Ouick Guide) on 29 October 2019 to facilitate understanding and compliance with proliferation financing requirements among market intermediaries.

International Standards on Combatting Money Laundering and the Financing of Terrorism and Proliferation.

The Quick Guide provides a snapshot of the obligations under the TFS-PF Guidelines and a case study. Details of the thematic review is provided in Diagram 9.

The SC also held various engagements with market intermediaries including ECF and P2P operators to strengthen their understanding of the AML/CFT/ CPF requirements.

In addition, the SC continues to strengthen its supervisory capabilities in respect of proliferation financing by engaging representatives from the Ministry of International Trade and Industry and Ministry of Foreign Affairs for training on matters under the Strategic Trade Act 2010 and United Nations sanctions in relation to proliferation financing.

#### **Inclusion of new reporting institutions** under the Anti-Money Laundering, **Anti-Terrorism Financing and Proceeds** of Unlawful Activities Act 2001

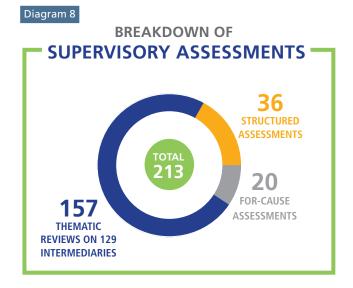
The rise of fintech and digitisation has led to the emergence of new players and activities in the capital market including ECF, P2P Financing, PCF and DAX. Given the potential money laundering and terrorism financing risks posed by these activities and players, the SC continues to strengthen its anti-money laundering, counter terrorism financing and counter proliferation financing (AML/CFT/CPF) regulatory framework to detect and prevent potential money laundering, terrorism financing and proliferation financing activities in Malaysia.

Cognisant of the revised Recommendation 157 of FATF Recommendations 2012 relating to new technologies, VA and VASP, the SC together with BNM are reviewing the First Schedule of the Anti-Money Laundering, Anti-Terrorism Financing

and Proceeds of Unlawful Activities Act 2001 (AMLATFAPUAA) to expand the list of reporting institutions in the capital market by adding these new players and activities. These new capital markets institutions are expected to become full reporting institutions under AMLATFAPUAA and will be required to comply with the SC's Guidelines on the Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries once the review exercise is completed in early 2020.

#### **Supervisory assessments and thematic** reviews

In 2019, a total of 213 assessments were carried out as illustrated in Diagram 8. This comprised 36 structured assessments and 157 thematic reviews involving 129 intermediaries on identified areas of risk. Thematic reviews are typically employed upon the identification of cross-sector trends, risks and compliance lapses that require prompt regulatory responses. Additionally, the SC carried out 20 for cause assessment arising from complaints and referrals received with regards to misconduct. The purpose of such examinations are to enable swift intervention to be taken in identifying the root-cause or control failures of intermediaries.



Recommendation 15 – Countries and financial institutions should identify and assess the money laundering/terrorism financing risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products. Countries should take appropriate measures to manage and mitigate the risks including by ensuring that virtual asset service providers are regulated for AML/CFT purposes, and licensed or registered and subject to effective systems for monitoring and ensuring compliance with the relevant measures called for in the FATF Recommendations.

#### **Thematic Reviews**

#### **Proliferation Financing**

The SC conducted a comprehensive review on selected market intermediaries with a view to assess intermediaries' compliance to the TFS-PF

Guidelines. A range of supervisory tools which included on-site assessments and analysis of Reporting Institution (RI)<sup>8</sup> questionnaire responses were utilised for the review.

Diagram 9

#### THEMATIC REVIEW ON PROLIFERATION FINANCING REQUIREMENTS FOR CAPITAL MARKET INTERMEDIARIES

#### **BACKGROUND**

The SC issued the TFS-PF Guidelines on 6 April 2018.

On 9 July 2019, a TFS-PF Questionnaire was issued to 118 RIs to assess their understanding and compliance of TFS-PF requirements. A series of group engagements was held with the RIs to further enhance their understanding on TFS-PF requirements.

The SC also conducted on-site assessments on selected RIs, to review the intermediaries' implementation on the TFS-PF requirements. In carrying out the review, the SC placed particular emphasis on assessment of the following areas:

- The risk awareness of market intermediaries in relation to the sanctions list, risk detection and mitigation of proliferation financing risks;
- The effectiveness of framework and controls for countering proliferation financing; and
- Intermediaries' approach in identifying and monitoring higher risk customers and transactions.



#### OBSERVATIONS

- Most RIs have adequate understanding of their obligations under the sanctions regime.
- RIs have put in place a governance process for their respective boards and senior management to be adequately apprised of PF risks relating to their business;
- RIs have established policies and procedures for the implementation of the TFS-PF requirements, including:
  - Processes to update the sanctions list database and perform ongoing screening;
  - Staff training on regulatory changes; and
  - Conduct regular audits and compliance testing of key sanctions-related controls.
- Larger RIs use some level of automation to undertake sanctions screening while the process remains mostly manual for smaller RIs.



### **SUPERVISORY OUTCOME**

RIs to strengthen the implementation of the TFS-PF requirements, including ensuring effective documentation of the justifications for disposing of potential name matches, if any.

Reporting Institution means a person carrying on regulated activities under the CMSA as specified under the First Schedule of the AMI ATFAPUAA

Diagram 10

#### **OVERVIEW OF THE**

## TFS-PF OBLIGATIONS

OF REPORTING INSTITUTIONS



#### **MAINTAIN UPDATED SANCTIONS LIST**

RIs must maintain a list of designated persons on TFS-PF as specified in the **United Nations Security** Council Consolidated List.

List must be continually updated, and adopted without delay.

Database may be maintained by the RI (whether internally generated or sourced from an external vendor).



#### **SCREENING AGAINST SANCTIONS LIST**

Sanctions list must be used to screen potential/new and existing clients.

Screening against current terrorist and sanction designations must be carried out:-

- (a) upon the establishment of the business relationship; and
- (b) thereafter against any new or updated designations (without delay).

Screening function can be performed manually or via an automated financing sanction checking facility.



#### FREEZE/BLOCK/REJECT

#### **Existing customers**

Should the identity be matched with the designated person, the intermediary must freeze the funds, properties or accounts of the customer.

#### Potential or new customer

Should the identity be matched with designated person, the intermediary must reject the customer if the transaction has not yet commenced.



To report to the SC immediately on any freezing, blocking or rejection actions taken, and any changes to the frozen assets by 31 January in the next calendar year.

To submit suspicous transaction report to the Financial Intelligence and Enforcement Department of BNM

- Positive name matches arising from ongoing screening of customer database; and
- Any attempted transaction by any of the designated person or its related party.

#### Thematic review on bond trustees

Bond trustees form an integral part of the bond market ecosystem and play a critical role in safeguarding and upholding bondholders' interests and rights. A thematic review was carried out on identified bond trustees, with a view to assess their standards of fiduciary duties and responsibilities.

The review focused on the following areas:

- Fiduciary duties an assessment of the ongoing conduct obligations of bond trustees in carrying out their duties;
- Governance adequacy of current structures to ensure the required governance processes are in place;

- Operational areas evaluation of critical areas of bond trustee operations; and
- Conflict of interest adequacy of policies and procedures to address the identification, elimination, avoidance and management of conflict of interest.

The observations and outcome are summarised in Diagram 11.

Diagram 11

#### THEMATIC REVIEW ON BOND TRUSTEES

#### **BACKGROUND**

The thematic review was conducted to assess the standards of fiduciary duties and responsibilities of bond trustees as well as to understand and evaluate crucial areas of operations. The review was carried out through on-site engagements and issuance of questionnaires to the identified bond trustees.



#### **OBSERVATIONS**

- While our findings on the 4 focused areas showed no major concerns in the industry, the SC observed that generally, the overall standards of bond trustees' operations can be improved to further safeguard the interest of bondholders, particularly the need for active monitoring in addressing their fiduciary duties.
- Currently, bond trustees do not have direct access to the list of bondholders except through the respective Authorised Depository Institutions, which remain a concern to the operations of a bond trustee.
- There is a need for bond trustees to identify aspects of their operations, which can be enhanced for greater efficiency namely through the use of digital solutions.
- Bond trustees need to ensure that their officers have the required competencies and undergo continuous professional development.



### **SUPERVISORY OUTCOME**

The SC will develop its supervisory framework on bond trustees based on insights gained from the thematic review to ensure that the bond trustees play their roles effectively. This is imperative in complementing and supporting the SC's ongoing supervision and continued regulatory oversight on bond trustees.

2019

#### **Preventing misuse of MNPI by FMC**

Due to the nature of the fund management business, an FMC may inadvertently come into possession of MNPI. When such information is not effectively managed by intermediaries via the implementation of adequate controls, this may lead to the risk of market abuse. A thematic review of intermediaries' controls was carried out to assess the quality of FMC's controls to prevent and manage misuse of MNPI.

The review focused on the following areas:

- 1. **Governance** – adequacy of current structures to ensure the required governance processes are in place;
- 2. Policies and procedures – adequacy of policies and procedures on managing conflict of interest;
- 3. Controls – assessing the effectiveness of controls implemented by the intermediaries to prevent misuse of MNPI; and

Diagram 12

#### THEMATIC REVIEW ON PREVENTING MISUSE OF MNPI BY FMC

#### **BACKGROUND**

Through the interactions between the FMCs and existing or potential investee companies, fund managers and their research analysts may inadvertently come into possession of MNPI. Thus, FMCs must have adequate controls and processes in place to mitigate the risk of misuse of such information. A thematic review was carried out to assess the controls adopted by FMCs to prevent the misuse of MNPI.



#### **OBSERVATIONS**

- The range, level and quality of controls adopted by FMCs in managing MNPI vary according to the size of the FMCs.
- The policies and procedures of some small-and medium-sized FMCs could be improved in terms of comprehensiveness.
- Although a majority of FMCs have expressed that employees in possession of MNPI are expected to inform the compliance function and are restricted from trading on such information, some have yet to formalise the procedures.
- Only a limited number of large FMCs use surveillance systems for purposes of managing the dissemination of MNPI. This may potentially lead to the risk of market abuse.



#### **SUPERVISORY OUTCOME**

The SC will issue a circular on best practices for managing and preventing misuse of MNPI.

4. **Training** – measures undertaken by the intermediaries on awareness and training for their employees and representatives on preventing the misuse of MNPI and the risk of market abuse.

The observations and outcomes are summarised in Diagram 12.

#### **Guidance for intermediaries**

As part of its efforts to ensure business resilience of intermediaries, the SC issued Guidance Notes on Liquidity Risk Management (LRM) for Fund Management and Unit Trust Management Companies on 16 December 2019. Salient features of the guidance notes are presented in Diagram 13.

Diagram 13

## SALIENT FEATURES

OF THE GUIDANCE NOTES ON LRM

### LRM IN DIFFERENT STAGES THROUGHOUT THE LIFECYCLE OF OPEN-ENDED FUNDS



#### **GOVERNANCE**

Establish effective governance structure to oversee the LRM function



#### INITIAL PRODUCT DESIGN

Evaluate liquidity risks when considering the key product features at the product design stage



### ONGOING LRM

Day to day monitoring and managing liquidity risks of a product throughout its lifecycle to anticipate or identify emerging liquidity shortage before it occurs, and take appropriate steps to minimise disruption or detriment



#### **STRESS TESTING**

Conduct ongoing fund stress testing based on multiple scenarios to assess the impact of market disruptions on the liquidity and redemption levels of the funds



## **LRM TOOLS AND**

Proactively consider LRM tools that enable the company to readily assess and decide on actions required in a liquidity distruption, or stress and periodically test contingency plans to meet short-term bridging requirement

#### PROMOTING MARKET INTEGRITY

#### **Reinforcing Bursa Malaysia's risk** governance and regulatory independence

The SC continues to undertake a comprehensive supervisory approach to ensure Bursa Malaysia discharges its regulatory and market functions effectively and acts as a prudent central counterparty. Such actions include:

- Regular regulatory assessments;
- Review of Bursa Malaysia's reporting submissions;
- Oversight supervision of intermediaries participating in Bursa Malaysia;
- Oversight of Bursa Malaysia's surveillance of trading activities conducted on its exchanges;
- Review and approval of Bursa Malaysia's rules and rule amendments; and
- Close and regular engagements with the board and senior management of Bursa Malaysia.

Given the importance of Bursa Malaysia as a single integrated exchange in the country, the SC continued to strengthen the governance arrangements and practices of Bursa Malaysia. The independence of Bursa Malaysia's regulation is a key focus area to mitigate the risk of conflict of interest arising from an exchange group with both commercial and regulatory objectives. In 2019, the SC intensified engagements with Bursa Malaysia to address potential conflict of interest between its commercial and regulatory role.

In relation to the oversight of Bursa Malaysia's cyber risk management, the SC focused on reducing risk, achieving greater transparency and improving efficiency to establish a safer market environment. Bursa Malaysia participated in the capital market cyber simulation to assess cyber preparedness as well as response and recovery from cyber incidents – the results of which were satisfactory.

The SC also facilitated the implementation of the shortening of Bursa Malaysia equity market settlement cycle from T+3 to T+2 in April 2019, which is on par with practices of global and developed exchanges for global settlement harmonisation.

The shortening of the settlement cycle is expected to yield important benefits including reduced settlement risk as well as lower margin requirements and clearing risk from a central counterparty perspective.

To strengthen accountability in the market, the SC approved the increase in the derivatives clearing default fund to augment the default risk management of Bursa Derivatives Clearing. The current clearing fund size will be increased from RM23 million to RM41.5 million, which is expected to be sufficient to cover potential losses of its clearing participants' trading exposures.

#### DID YOU KNOW?

The SC has approved the increase in the derivatives clearing default fund size from RM23 million to RM41.5 million.

This will be implemented in stages over a period of five years beginning 2020 by way of additional contributions from Bursa Malaysia and its clearing participants.

#### Strengthening FIMM's discharge of self-regulatory duties

The oversight of the Federation of Investment Managers Malaysia (FIMM) as an industry selfregulatory organisation (SRO) remains a key supervisory emphasis for the SC. In 2019, the supervision of FIMM centred on further strengthening the governance framework and practices within FIMM to effectively regulate the



marketing and distribution of unit trust and private retirement schemes (PRS) products given the increased focus on digital marketing efforts.

The goal for FIMM is to promote ethical industry practices and improve the conduct of consultants and distributors in the marketing and distribution of these products. Education programmes using e-learning technology have been embraced in this respect. The SC focused on enhancing the effectiveness of FIMM's enforcement actions through the bilateral Referral Working Group process between the SC and FIMM, which facilitates co-ordination on complaints or breaches reported to FIMM.

Introduced in 2018, this process has helped to ensure more timely and efficient case management as well as improve the effectiveness of enforcement actions. The SC has also sought to broaden the range of expertise of the board of directors by ensuring diversity through the appointment of directors with backgrounds in financial services and the law.

#### **Ensuring the PPA performs its public** interest role efficiently

The Private Pension Administrator (PPA) plays a critical role as the central administrator for the PRS industry, providing online PRS services and consolidating records of PRS investments of its members. In addition to its existing online PRS services such as member enrolment, unit top-up of members' contribution, withdrawal and beneficiary nomination, the SC facilitated the implementation of an online bulk enrolment service for employers and corporates in 2019. This has eased membership enrolment for corporates and facilitated collaboration between PRS providers and corporates.

The SC's oversight of PPA centres on ensuring its continuous delivery of efficient and effective central administrative services as well as long-term operational sustainability. Given PPA's increased use of technology in its operations, in 2019, the SC focused on ensuring operational compliance and adequate cyber risk management.

#### **Facilitating development of** innovative market structures through proactive supervisory approach

The universe of market operators under the SC's Guidelines on Recognized Markets (RMO) Guidelines) has expanded in 2019 with the introduction of new market structures, i.e. DAX and PCF, as well as the registration of additional ECF and P2P platform operators.

With the Capital Markets and Services (Prescription of Securities) (Digital Currency and Digital Token) Order 2019 coming into force, the SC revised the RMO Guidelines in January 2019 to include the regulatory framework, governing the trading of digital assets. The same Guidelines was further revised in May 2019 to introduce an alternative financing venue for first time home buyers through a PCF platform, utilising technology to benefit investors by democratising access to investment while broadening home financing options available for Malaysians.

The supervisory approach adopted for all RMOs is aimed at facilitating the development of innovative market structures while providing adequate customer protection and robust risk management. The SC has undertaken close and regular engagements with the RMOs to set minimum standards emphasising:

(i) Adequate and enhanced client onboarding processes in compliance with anti-money laundering, fraud and proliferation financing prevention requirements;

- (ii) Stronger cyber and operational risk management that fulfil the obligations set out in the SC's Guidelines on Management of Cyber Risk and SC's Guiding Principles on Business Continuity. The ECF and P2P operators are required to participate in the annual cyber drill exercises organised by the SC to strengthen their cyber threat preparedness;
- (iii) Stronger clients' asset protection and custody arrangements based on the SC's engagement with the Association of Trust Companies Malaysia (ATCM) to clarify obligations and duties in ensuring clients'

- monies / assets are managed appropriately; and
- (iv) Increased transparency for P2P operators. Based on the SC's review of the default rate methodology, it has provided standardisation of the default calculation for transparent disclosure on their platforms.

Moving forward, the SC will continue to closely supervise the RMOs through regular engagements and reporting activities. Oversight efforts will also consist perusing business plans of RMOs, which include business strategy as well as compliance reports on all areas of the business.

# **ENFORCEMENT HIGHLIGHTS 2019**

### ACHIEVING EFFECTIVE DETERRENCE



The SC believes that effective deterrence is best achieved when the enforcement action is swift and its outcomes are certain. Thus, the SC has recalibrated its strategy to ensure robust application of its enforcement powers to ensure that the intended outcomes from the enforcement actions are achieved.

#### **ADMINISTRATIVE ACTION**

Various types of administrative sanctions were imposed against capital market intermediaries, professional advisors, listed companies and their directors to ensure accountability for their misconduct:

**24** PENALTIES IMPOSED AMOUNTING TO

RM5,384,500

64 REPRIMANDS

**LICENCES** 

**DIRECTIVES** 

#### **SANCTIONS WERE IMPOSED FOR:**

**ADMINISTRATIVE SANCTIONS IMPOSED** 

- Failure to comply with the Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries.
- Failure to report to the SC on irregularities which would materially affect the ability of a sukuk issuer to perform its financial obligation.

The SC imposed reprimands and penalties totalling RM2.2 million on Deloitte PLT for failure to immediately report to the SC on irregularities, which may have a material effect on the ability of Bandar Malaysia Sdn Bhd to fulfil its obligations in repaying its sukukholders under the Sukuk Murabahah Programme.

- Knowingly authorising false and/or misleading statements to the SC.
- The SC reprimanded China based PLC, listed on Bursa Malaysia namely China Stationery Ltd (CSL), Maxwell International Holdings/Bhd (Maxwell) and Xingguan International Sports Holdings Ltd (Xingguan) together with some of its directors for knowingly causing the lodgement of false or misleading financial statements to Bursa Malaysia. The SC also issued a public statement that the retention of office by Chan Fung of CSL, Li Kwai Chun of Maxwell and Dato' Wu Qinguan of Xingguan as directors of those companies as being prejudiced to the public interest.
- Committing an act with the intention of causing wrongful loss to a related corporation of a listed entity.

#### **CIVIL ENFORCEMENT**



#### **SUCCESSFUL DISGORGEMENT AMOUNTING TO** RM33.8 MILLION

in relation to civil enforcement action on insider trading and false disclosure

## **INDIVIDUALS**



Regulatory settlements were entered between the SC and 16 individuals in 5 cases in relation to insider trading breaches where the sum disgorged amounted to RM16,037,061.19

## **INDIVIDUALS**



Consent judgements were obtained by the SC against 9 individuals for insider trading and submission of false information where the sum disgorged amounted to RM17,775,986.93

## **CIVIL PENALTY** obtained amounting to RM8.8 MILLION

#### **RESTITUTION TO INVESTORS:**

RM1,264,882.00

have been restituted to investors

619

investors have been restituted

RM1,170,187.53

have been earmarked for further restitution

214

investors have been earmarked for further restitution



Civil enforcement actions were initiated against

#### 8 INDIVIDUALS

7 Individuals for insider trading; and 1 individual for submission of misleading statement to Bursa Malaysia

Judgment amounting to

#### **RM12.4 MILLION**

obtained from the High Court against a deputy managing director of a PLC for causing wrongful loss

#### **RESTRAINING AND BARRING ORDER:**

- Barring order against 3 directors of PLCs from becoming a director in any PLCs for a period of 5 years; and
- Restraining order against a CMSRL holder and 2 PLC **directors** from dealing in any securities in the Malaysian stock market for a period of **5 years**.

#### **CRIMINAL PROSECUTION**



#### **CONVICTION SECURED**

against 14 individuals for offences of insider trading, false financial reporting, failure to register prospectus and failing to assist in investigation



Court meted out jail sentences of up to **5 years** 

#### **CONVICTIONS INCLUDE OFFENCES SUCH AS:**

- Committing insider trading with the disposal of 10,200,800 shares while in possession of MNPI;
- Furnishing false statements to Bursa Malaysia in relation to revenue figures ranging from RM7 million to RM40 million, which contain fictitious sales; and
- Furnishing false statements to Bursa Malaysia in relation to false announcement of acceptance of RM1.6 billion project.

#### **ENFORCEMENT - DIGITAL ASSET**

**CEASE AND DESIST ORDERS** 

Issued to persons carrying out unauthorised activities



The SC noted that there was an increase in regulatory issues pertaining to digital assets, unauthorised DAX and ICO, which affected members of the public. This required the SC to take swift enforcement actions through issuance of cease and desist orders.

#### **Enforcement collaborations and** co-operations

#### Establishment of the National Anti-Financial Crime Centre

The National Anti-Financial Crime Centre Act 2019 (NFCC), which was gazetted on 31 December 2019 provides for the establishment of a centre to carry out activities relating to the prevention of financial crime. Essentially, NFCC is a vehicle to optimise collaboration among Law Enforcement Agencies (LEAs) through co-ordination and collaboration in integrated operation between the LEAs in matters relating to financial crime. The NFCC will have three main functions:

- To co-ordinate and collaborate in integrated operation with enforcement agencies on matters relating to financial crimes and to advise the agencies on related matters;
- To establish, administer and maintain a centralised data system relating to financial crimes, in order to provide support for the integrated operation and to transmit information in the centralised data system to other government agencies; and

To carry out activities relating to the prevention of financial crimes.

The SC together with several other LEAs such as the Royal Malaysian Police, the MACC, BNM and the Royal Malaysian Customs are among the pioneer LEAs in the establishment of the new centre.

#### Launch of Public-Private Partnership to combat money laundering

The SC is one of the agencies in the collaboration and co-operation initiative between BNM, LEAs and financial institutions, which was launched by the Prime Minister, YAB Tun Dr Mahathir Mohamad on 5 November 2019 to enable closer collaboration between LEAs and selected financial institutions. Essentially, the Public-Private Partnership (PPP) facilitates rapid and effective exchange of financial information and intelligence in combating money laundering and other financial crimes through improved quality of Suspicious Transactions Reporting (STR) from financial institutions in the PPP. This objective is achieved through effective, timely and seamless sharing of financial intelligence from financial institutions for the purpose of crime prevention and law enforcement.









### INTRODUCTION

In order to create a capital market that is Accessible, Agile and Accountable, the SC itself needs to embody these three values. Throughout 2019, the SC has taken steps to be a collaborative, open and accessible institution, with an agile and adaptable workforce that upholds the highest standards of integrity and accountability.

#### **COLLABORATIVE, OPEN AND ACCESSIBLE REGULATOR**

#### **Driving collaborative regulatory** co-operation

Affirming the role of the Malaysian capital market in the global economy, the SC continued to actively contribute to international standard setting and thought leadership through its membership in the International Organization of Securities Commissions (IOSCO), the international standardsetter for securities regulation.

The SC's active involvement and contribution to IOSCO were reinforced with the election of the SC Chairman as Vice Chair of IOSCO's Growth and Emerging Markets (GEM) Committee, which is the largest IOSCO grouping representing close to 80% of the membership, including 11 of the G20 members. As Vice Chair of the GEM Committee, the SC is a member of the IOSCO Board, which enables the SC to raise issues of primary concern to emerging markets and ensure continuous discussion on these issues in an effective manner.

The IOSCO Asia Pacific Hub, hosted by the SC at the SC building since 2017, continues to play an important role in strengthening the regulatory capabilities of securities regulators globally. To date, the Hub has collectively trained more than 500 participants from over 50 countries. In 2019, over 150 domestic participants from the Labuan Financial Services Authority, Bursa Malaysia, Financial Planning Association of Malaysia, CyberSecurity Malaysia and the SC benefitted from the Hub's programmes. The Hub's programmes also saw a

40% increase in participation from the SC staff, from 97 participants in 2018 to 135 participants in 2019.

#### **Embracing digitisation and** leveraging technology

The SC aspires to become an institution that is collaborative and future-ready by embracing digitisation and leveraging technology to help improve communication, collaboration and social networking as well as enhance employee experience to face the Future of Work in the Fourth Industrial Revolution.

In 2019, the SC focused on improving its industry interfaces, which include an upgrade of the Electronic Licensing Application (ELA) and enhancements to the electronic submission of lodged unlisted capital market products. The SC employee onboarding and induction programme also leveraged technology to transform classroomstyle learning into mobile learning. This allows employees to access learning 'anytime, anywhere' with bite-sized content focused on knowledge retention.

The SC also improved its surveillance and supervision capabilities by enhancing the relevant systems and introducing new tools and processes to effectively surveil capital market products. Enforcement capabilities were also enhanced through greater adoption of new technology in the areas of digital-based evidence and case management.

#### Diagram 1

#### International regulatory co-operation

#### Argentina

Together with Comisión Nacional de Valores Argentina (CNV), the SC led the GEM Committee Working Group on Sustainability in Emerging Markets, resulting in a report on Sustainable Finance in Emerging Markets and the Role of Securities Regulators.

## Financial Action

In ensuring effective and consistent implementation of FATF Recommendations<sup>1</sup> in Malaysia2, the SC together with other financial regulators (BNM, Labuan FSA) and other enforcement/ government agencies3 actively participate in FATF Working Groups and Plenary Meetings organised by FATF where issues relating to FATF Recommendations were tabled and discussed. In 2019, the revision / updates to FATF recommendations for the supervision of Virtual Assets (VA) and Virtual Assets Service Provider (VASP) were discussed and finalised.

The SC also participated in **FATF Supervisors Meetings** and Forums to strengthen its technical expertise and supervisory capabilities, as these meetings provide a forum for regulators to discuss enablers and obstacles for effective supervision.

#### **OECD CG** Committee

The SC participates in the semi-annual meetings of the Organisation for Economic Co-operation and Development (OECD) Corporate Governance Committee (CG Committee), which is responsible for the formulation and implementation of the G20 / OECD Principles on Corporate Governance. In 2019, the focus was on the legal or regulatory framework with respect to the duties and responsibilities of boards in company groups.

#### **Vietnam**

The SC co-chairs the Working Committee on Capital Market Development (WC-CMD) with the Ministry of Finance Vietnam. Among its initiatives are those related to infrastructure and sustainable financing, as elaborated in Part 1 of this Annual Report.

#### China

The SC continues to share strong regulatory relationships with China Securities Regulatory Commission and China Ministry of Finance. In 2019, the SC held bilateral meetings with the two authorities as part of efforts to enhance collaboration and co-operation between the two jurisdictions.

#### **Cambodia**

The SC co-chairs the **ASEAN Capital Markets** Forum (ACMF) Market Development Programme with the Securities and Exchange Commission Cambodia, aimed at facilitating the development of member countries through capacity building programmes.

#### **Philippines**

The SC co-chairs the ACMF's Sustainable Finance Working Group with the Securities and Exchange Commission of the Philippines to develop the Roadmap for ASEAN Sustainable Capital Markets.

**ASEAN** 

Together with the Securities and Exchange Commission of the Philippines, the Monetary Authority of Singapore and the Securities and Exchange Commission Thailand, the SC entered into a Memorandum of Understanding (MoU) to allow cross-border distribution of research reports, as part of Phase I of the ACMF's professional mobility framework.

Policies and international standards issued by FATF for combating of money laundering, financing of terrorism and financing of proliferation of weapons of mass destruction.

Malaysia is a member of FATF, an intergovernmental organisation responsible to develop and promote policies and international standards for combating of money laundering, financing of terrorism and financing of proliferation of weapons of mass destruction.

Attorney General's Chambers, Royal Malaysian Police, Royal Malaysian Customs, Malaysian Anti-Corruption Commission, Ministry of International Trade and Industry, Ministry of Foreign Affairs and Inland Revenue Board of Malaysia.

#### Moving towards an open and accessible regulator

The sharing of knowledge, experience and expertise through secondments and work attachments is critical to foster better understanding and co-operation between the SC and other regulators. In 2019, four employees were seconded to an international body, government agencies and a capital market intermediary. The SC also hosted two regulators from the Capital Market Authority of Saudi Arabia and Autoriti Monetari Brunei Darussalam.

A total of 19 interns were hosted in 2019 through the Internship@SC programme where undergraduate students gained first-hand experience of working at a regulatory body while enhancing their knowledge on the capital market.

In 2019, the SC participated in the inaugural Corporate Fellowship Programme organised by the Ministry of Youth and Sports for selected youths to undergo internships under the mentorship of chief executive officers in the Malaysian private sector or Government-linked companies. The SC hosted two Corporate Fellows for two months under the mentorship of the SC Deputy Chief Executive.

#### **BUILDING AN AGILE WORKFORCE**

#### **Developing an adept workforce**

Overseeing a capital market that is constantly evolving in response to the changes in the economic landscape and user demands requires an agile and adept workforce. Towards this end, the SC has fostered internal career mobility across

Diagram 2

#### **Diverse workforce**

#### **GENDER DIVERSITY**

**HEADCOUNT: 739** 







#### **WORKFORCE DISTRIBUTION BY AGE**









#### YEARS OF SERVICE

BELOW 5 YEARS	5 - 10 YEARS	10 - 20 YEARS	ABOVE 20 YEARS
37%	21%	20%	22%

### **SC Corporate Values Redefined**

In conjunction with the SC's 25<sup>th</sup> anniversary in 2018, the SC undertook a review of its Values, which were established since its early days. The SC-wide exercise drew feedback from across the ranks to identify the Values that define the SC as it moves towards becoming an institution that is Accessible, Agile and Accountable. These redefined Values were unveiled at a Townhall held on 3 May 2019.

# SC VALUES - APIC



### **ACCOUNTABLE**

**INTEGROUS** 

**COURAGEOUS** 

**PROFESSIONAL** 

**RESPONSIBLE** 

- We do the right thing even when no one is watching
- We have the moral courage to speak up and uphold our decisions
- We act in a consistent, fair and transparent manner
- We have clarity on our goals and make
- We take ownership in all that we do



### PROACTIVE

**PROGRESSIVE** 

**DYNAMIC** 

**FORWARD THINKING** 

- We think ahead and keep abreast with developments, locally and globally, to assess impact on our own functions and respond accordingly
- We 'connect-the-dots' by exercising active listening to formulate better solutions
- We are responsive in all that we do by applying dynamic and innovative ideas



**COLLABORATIVE** 

**RESPECTFUL** 

**HUMILITY** 

**TEAMWORK** 

- We are genuine and considerate in our interactions
- We are open-minded and eager to better understand our stakeholders
- We respect all ideas and views, no matter how diverse
- We work together as a team and leverage the diversity of skills and talents



**DEDICATED** 

A HIGHER SENSE OF CALLING

- We are purposeful and take pride in everything we do
- We continuously raise the bar of our performance

2019

functions and business units, enabling 135 employees to enhance their skills as well as experience different aspects of regulatory work via job rotation exercises and internal restructuring in 2019.

While the SC seeks to fill up job openings with internal candidates where possible, it is also important to infuse the SC with external talents to provide new ideas and perspectives. In 2019, 68 new hires joined the SC including 29 middle and senior management.

The SC's young talent pipeline is supported by the Model Regulator (MORE) Programme, specifically designed to cater to fresh graduates including its returning scholars. It is a one-year programme whereby graduates who are designated as graduate management executives (GMEs) will be exposed to various functions within the SC. The job rotation provides them the opportunity to acquire practical exposure to the various development and regulatory functions of the SC. In 2019, the SC recruited 13 GMEs of whom six are its scholars.

#### **Instilling a knowledge culture**

As part of continuous efforts to nurture a knowledge culture in the SC and promote greater collaboration, a Knowledge Week was held in 2019 to provide opportunity for employees to connect, engage and learn from each other on various topics such as cyber security, blockchain and cryptocurrency.

In April 2019, the second edition of the Knowledge Management Conference (KM Exchange 2019) was held at the SC, aimed at exploring and sharing in-depth knowledge management practices and application among participants from various ministries and agencies. Participants were also introduced to the newly established Knowledge Management Standard - ISO 30401.

The SC's Financial Scheme for Continuous Professional Development (PROFOUND) continued to receive applications from employees in 2019. Two employees are currently pursuing their parttime doctorate degree in Islamic finance under this scheme, giving them the opportunity to not only demonstrate their ability to conduct independent research, but also utilise their in-depth knowledge in Islamic finance, particularly from a regulatory perspective.

#### **Ensuring well-being at the workplace**

In 2019, the SC undertook a renovation of its workspace to create an open office which helps foster greater communication. More importantly, the new workspace enabled all SC employees to be housed under one roof, which enhances networking and teamwork. Previously, some were working at a secondary site due to insufficient workspace.

The SC is also cognisant of the growing trend of work-related and mental health risks brought on by work-life demand. Several workshops on mental wellness, personal safety and self-defence were organised to enable its employees to better recognise and respond to such risks and threats.

#### **UPHOLD THE HIGHEST STANDARDS OF INTEGRITY AND ACCOUNTABILITY**

#### **Enhancing awareness**

As the SC continues to raise standards of governance and conduct among capital market participants, employees of the SC are, at the same time, expected to uphold the highest possible standards of integrity and public service delivery.

A series of education and awareness programmes, mainly revolving around the themes of personal integrity, conflict of interest and feedback channels,



2019

were executed throughout the year to deepen employees' understanding of their individual role in upholding institutional integrity.

In addition, the SC held Integrity Day in October 2019, which featured an interactive session titled 'The Truth Behind Integrity and Me' by a governance expert from Transparency International Malaysia. The discourse focused on four cornerstones of integrity – Honesty, Reliability, Humility and Stewardship – and how these traits guide a person in all aspects of life. The agenda also included an online guiz relating to the SC's various internal governance standards.

The SC effectively leveraged technology to implement an educational initiative to reinforce its internal governance standards. The Compliance and Ethics programme, an interactive e-learning tool to help the SC employees understand the principles of its internal governance standards, was implemented in August 2019.

The programme aimed to reaffirm the importance of maintaining high standards of ethical conduct that the SC and its employees must continue to adhere to and be associated with. Beginning 2019, it is compulsory for every employee to successfully complete this assessment once every two years.

#### **DID YOU** KNOW?

The SC currently has two senior officers trained as Certified Integrity Officers (CelO) working in the areas of governance, risk and compliance. The CelOs gained their recognition after completing the CelO programme organised by the MACC Academy.

#### **Supporting Government-led** initiatives

As elaborated in Part 3 of this Annual Report, the SC supports the Government's efforts to instil a culture of integrity in the Malaysian public and private sectors. The programme trains senior officers from the public and private sectors to combat corruption by implementing appropriate governance, integrity and anti-corruption measures. It is monitored by a board which is chaired by the MACC Chief Commissioner, and comprises five members, including the SC Chairman, who are all appointed by the Chief Secretary to the Government.



## **OVERVIEW**

The Malaysian economy continued to be resilient in 2019, upheld by sustained strength in domestic private sector activities amidst a challenging external environment. Against this backdrop, the Malaysian capital market continued to play a vital role in financing the domestic economy with notable improvement in fundraising activities across all market segments. In terms of performance, the domestic bond market registered positive returns while the equity market experienced a positive shift in sentiments towards small and mid-cap companies, especially in the energy, construction and technology sectors. Going forward into 2020, the Malaysian economy is expected to remain on a steady growth path. Although the domestic capital market continues to be influenced by key external developments, it is expected to remain resilient and orderly, underpinned by Malaysia's strong macroeconomic fundamentals, ample domestic liquidity and supportive capital market infrastructure.

#### **GLOBAL DEVELOPMENTS IN 2019**

Growth of the global economy continued to soften in 2019, characterised by a synchronised slowdown across most economies in the developed and emerging world. This was driven primarily by significant weakness in global manufacturing and trade activities amidst the ongoing trade tensions and geopolitical uncertainties throughout the year. The slowdown in the global economy led the International Monetary Fund (IMF) to continue to downgrade its global growth projections (Chart 1). In October 2019, the IMF lowered its global growth forecast for the fifth consecutive time since April 2018 to 3.0% in 2019 – the weakest since the Global Financial Crisis (GFC). However, in contrast to the manufacturing sector, the services sector remained relatively resilient across the globe, particularly in Advanced Economies (AEs) on the back of positive labour market conditions and continued growth in consumer spending.

Global policy uncertainty continued to significantly affect the performance of the global economy

and shape the performance of the global financial market during the year. This was reflected by measures of policy uncertainty which reached new highs in 2019 (Chart 2). In particular, the World Trade Uncertainty Index – a measure of global trade policy uncertainty - rose nearly ten-fold in Q4 2019 compared to a year earlier. The year 2019 commenced with a temporary US-China trade truce since December 2018, but experienced sharp escalations in tariff war between May and August 2019. Apart from tariffs, the US had also imposed business restriction on China's technology companies via its entity list in May and declared China as a currency manipulator in August. In September 2019, trade negotiation between the two nations took a positive turn. While overall global policy uncertainty remained high, this set the stage for a shift in investor sentiments for the remainder of the year, with the US and China officially agreeing to a phase-one trade deal in mid-December<sup>1</sup>. However, trade tensions were not isolated only to the US and China but also between the US and its other major trading partners in Europe and Latin America, as well as among other countries such as between Japan and South Korea.

On 13 December 2019, the US agreed to halve the 15% duties on US\$120 billion of Chinese poducts but maintained a 25% levy on US\$250 billion of goods. US also agreed to avert new duties on US\$160 billion of Chinese goods. China meanwhile pledged to increase total purchases of US goods by at least US\$200 billion over the next two years and as much as US\$50 billion of US farm products annually, and make commitments on currency and intellectual property enforcement.



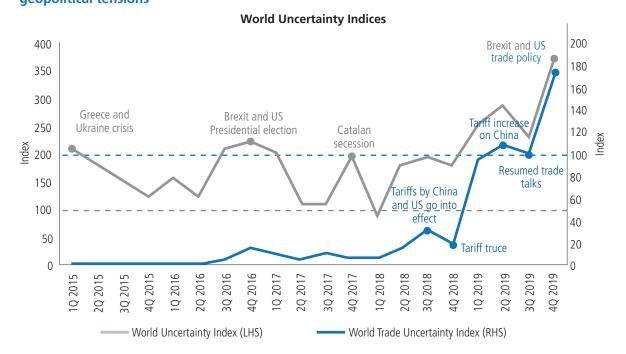
### Chart 1

### Global economy experienced synchronised slowdown, leading to downward revisions in global growth projection by the IMF



Source: IMF World Economic Outlook (WEO) Databases

Chart 2 Measures of economic uncertainty were at an all-time high, due mainly to rising trade and geopolitical tensions



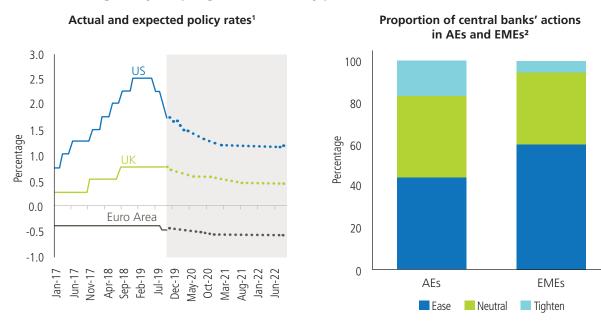
Source: Ahir, H, N Bloom, and D Furceri (2018), "World Uncertainty Index", Stanford mimeo

Amidst slower global growth and higher policy uncertainty, global monetary policy turned towards greater easing. This marked a turning point in the global monetary cycle and a shift in expectations of global liquidity after a period of normalisation in some economies. More than half of the economies globally adopted a more accommodative monetary stance in 2019. Notably, after increasing the benchmark federal funds rate to 2.5% in December 2018, the US

Federal Reserve (Fed) lowered the benchmark rate by a cumulative 75 basis points (bps) to 1.75% in three separate moves in 2019. The more accommodative shift in monetary policy was also mirrored by other major central banks in AEs. Similarly, about two-thirds of emerging market economies' (EMEs) central banks eased their respective monetary policies (Chart 3).

#### Chart 3

#### Global monetary policy broadly shifted towards a greater easing bias, with more than half of the economies globally adopting easier monetary policies



#### Notes:

- Expectation of policy rates are based on the federal funds rate futures for the US, the sterling overnight interbank average rate for the UK, and the euro interbank offered forward rate for the Euro Area.
- Based on Bloomberg Global Central Bank Monitor, which comprised 18 AEs and 35 EMEs.

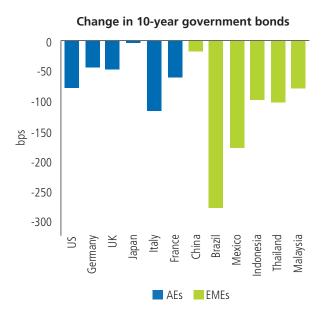
Source: Bloomberg, IMF, SC's calculations

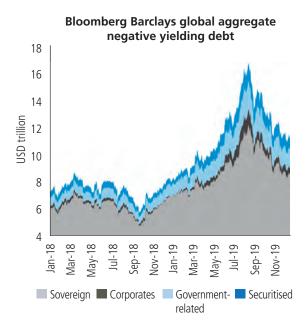
The shift in global monetary policy direction had contributed to the improvement in global financial conditions and shaped the overall global capital market's performance during the year. In line with the increase in overall risk aversion amidst fears of possible global recession, global bond yields declined to reach unprecedented lows. This resulted in a flattening trend of the global bond yield curve and even temporary inversions in some AEs, where longer-tenured notes yielded lower

than those with shorter-dated maturities. Notably, the spread between 10-year US Treasury (UST) and three-month Treasury bills turned negative between May and August 2019 following the sharp escalation of US-China trade tensions during the period. Overall, the amount of sub-zero yield debt securities surged to an all-time high of US\$17 trillion in August to account for more than 30% of total global bonds (Chart 4).

#### Chart 4

#### Global bond yields declined across the board, accompanied by a surge in negative yielding debt





Source: Bloomberg, SC's calculations

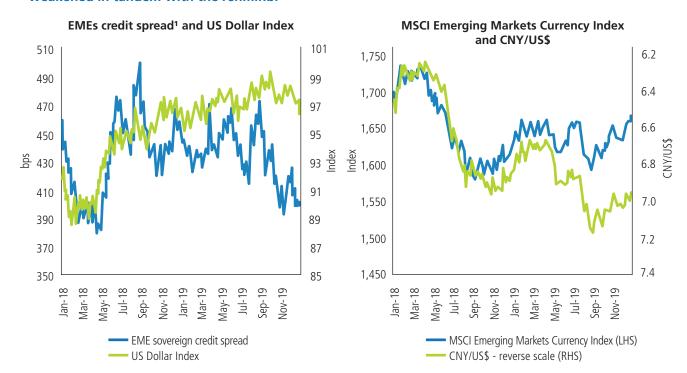
2019

The improvement in global financial conditions, aided by the shift in AE's monetary policy direction, supported the rebound in portfolio flows in EMEs. This is especially visible in the bond market as higher yielding dollar-denominated debt became more attractive than that of AEs'. Although the EMEs' sovereign bond yields largely mirrored the performance of those in AEs, the spread between EMEs sovereign bond and UST yields narrowed in the second half of the year (Chart 5 – left panel).

However, capital market performance in EMEs continued to be volatile, driven largely by the unexpected turns in the US-China trade dispute and overall weakening in economic growth. Growth outlook had gradually shifted downward, weighed down by deteriorating global growth prospects and a slower than expected growth in China. China's economic growth slowed further to a multi-decade low of 6.2% in the first three quarters of 2019 with the renminbi weakening to 7.0 per US dollar in August – its lowest level since the GFC. Reflecting these developments, overall EMEs' currencies also weakened in tandem with the renminbi (Chart 5 – right panel).

#### Chart 5

#### EMEs' sovereign credit spread narrowed in the second half of the year, while EMEs' currencies weakened in tandem with the renminbi



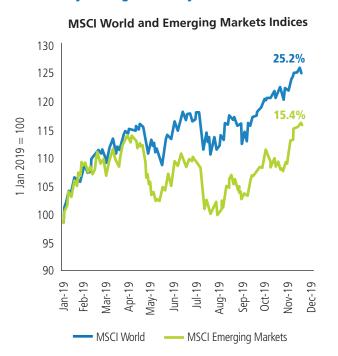
<sup>1</sup> JPMorgan Government Bond Index (JPM GBI) Emerging Market spread over 10-year UST.

Source: Bloomberg, Thomson Reuters Datastream, SC's calculations



#### Chart 6

#### Global equities and bonds rebounded to register positive returns in 2019 despite continued volatility throughout the year





Source: Thomson Reuters Datastream, SC's calculations

Overall, despite continued volatility throughout the year, the global capital market ended the year on a positive note, aided by relatively accommodative global financial conditions. In the equity market, the MSCI World Index ended the year 25.2% higher (2018: -10.4%) while the MSCI Emerging Markets Index rose 15.4% (2018: -16.6%). Likewise, the global bond market registered positive returns throughout the year as lower global interest rates and stronger risk aversion drove bond yields to touch multi-year lows. The JPMorgan Government Bond Index (JPM GBI) Global rose 3.9% in 2019 (2018: -1.2%) while the JPM GBI Emerging Market gained 12.9% (2018: 4.9%) (Chart 6).

#### **MALAYSIAN CAPITAL MARKET DEVELOPMENTS IN 2019**

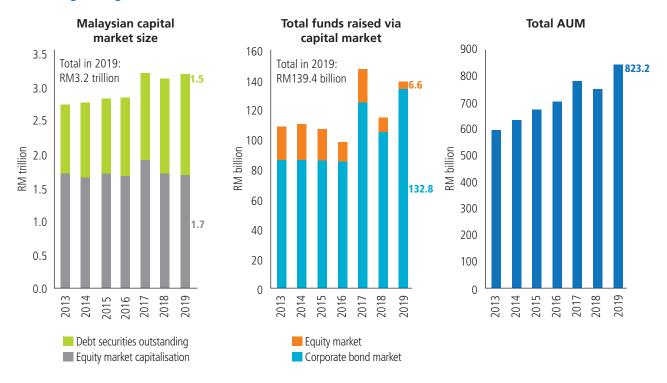
Despite the challenging global environment, the Malaysian economy remained on a steady growth path in 2019, underpinned by sustained resilience in domestic private sector activities. The economy grew 4.3% in 2019 (2018: 4.7%), driven primarily by robust growth in private consumption amidst continued positive labour market conditions and steady income growth. On the supply side, the economy continued to be supported by expansion in key sectors, led by manufacturing and services.

Over the year, the domestic capital market continued to play an important role in financing

**REPORT** 2019

#### Chart 7

#### The Malaysian capital market continued to play a vital role in financing the domestic economy and mobilising savings



Source: SC, BNM, Bursa Malaysia

the Malaysian economy. The total size of the capital market expanded to RM3.2 trillion in 2019 from RM3.1 trillion the year before (Chart 7), with debt securities outstanding and equity market capitalisation of RM1.5 trillion and RM1.7 trillion respectively (2018: RM1.4 trillion and RM1.7 trillion respectively).

Notwithstanding the challenging global backdrop and ongoing domestic policy reforms, the Malaysian capital market witnessed a higher level of fundraising activities during the year, with total funds raised in the bond and equity market amounting to RM139.4 billion in 2019 compared to RM114.6 billion in 2018. Alternative fundraising avenues have also continued to gain

traction, especially in ECF and P2P financing, with total funds raised more than doubled to RM443.8 million (2018: RM195.9 million)2.

A total of RM132.8 billion was raised in the corporate bond and sukuk market<sup>3</sup> compared to RM105.4 billion in 2018, with issuances mainly in utilities and financial services. Sukuk made up 77.1% of total bond issuances in 2019. Meanwhile, RM6.6 billion was raised via the equity market (2018: RM9.2 billion), of which RM2.0 billion was through new equity listings with a total of 30 IPOs and RM4.6 billion raised via secondary fundraising. In 2019, four companies were listed on the Main Market, 11 companies on the ACE Market, and the

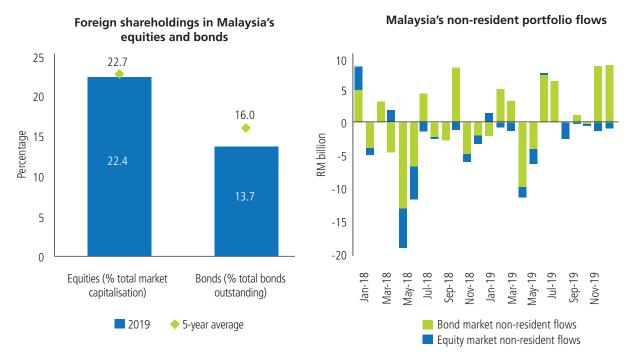
Further information on ECF and P2P financing are provided in Part 1 (Enhancing Access to the Capital Market) and Part 6 (Venture Capital and Private Equity) of this Annual Report.

Including sukuk issuance worth RM27.6 billion by Urusharta Jemaah Sdn Bhd as part of Lembaga Tabung Haji's (Malaysian Haji Pilgrims Fund Board) restructuring plan in May 2019.



#### Chart 8

#### Foreign shareholdings were broadly stable while non-residents remained net-buyers of Malaysia's financial assets



Source: BNM, CEIC, SC's calculations

remaining on the LEAP Market. Notably, the size of issuances via the LEAP Market grew by 60.6% y-o-y to RM92.2 million in 2019 (2018: RM57.4 million).

In the fund management industry, total AUM rose to RM823.2 billion (2018: RM743.6 billion) amidst an increase in market value, driven by robust performance of small and mid-cap equities and higher net injection from dividend reinvestment. Total net sales for the unit trust segment amounted to RM30.5 billion in 2019, a decrease of -19.5% y-o-y (2018: RM37.9 billion).

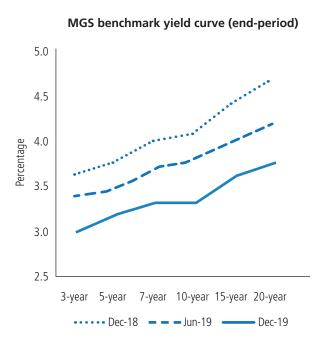
In terms of portfolio flows, total non-resident inflows amounted to RM8.7 billion in 2019 (2018: portfolio outflows of -RM33.6 billion), mirroring regional trends. The bond market recorded total inflows of RM19.9 billion (2018: outflows of -RM21.9 billion) while the equity market recorded

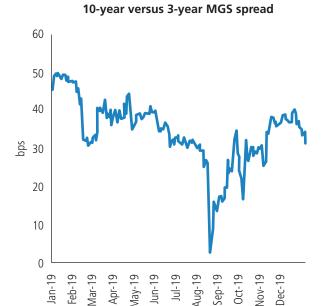
total outflows of -RM11.1 billion (2018: outflows of -RM11.7 billion). In the bond market, nonresidents accounted for 13.7% of total outstanding ringgit bonds as at end December (end-2018: 13.1%) - most of which were Malaysian Government Securities (MGS) at 80.1% of total foreign holdings (end-2018: 79.1%). In the equity market, foreign holdings remained stable at 22.4% of total market capitalisation in 2019, in line with its five-year average (Chart 8). The high level of domestic liquidity in the capital market continued to allow for orderly market adjustments of fund flows between non-residents and local investors.

The Malaysian bond market grew 7.1% from RM1.4 trillion in 2018 to RM1.5 trillion as at end 2019. This was supported by higher levels of debt fundraising, sustained demand by domestic

#### Chart 9

#### MGS yields faced downward pressure across tenures in 2019





Source: Bloomberg, SC's calculations

institutional investors, and favourable domestic macroeconomic conditions. Despite the challenging environment, Malaysia was also among the emerging East Asian economies that saw local currency bond markets expand in 2019. In 2019, as a percentage of GDP, Malaysia remained the third largest local currency bond market in Asia after Japan and South Korea. However, ongoing trade tensions, the shift in global monetary policy expectations, and general concern over slower global growth continued to drive volatility in the bond market throughout the year.

MGS yields experienced downward pressure across tenures (Chart 9), tracking global trends, on the back of major central banks' shift in monetary policy stance and overall higher global risk aversion. It also reflected the lower domestic growth and inflation expectations alongside the

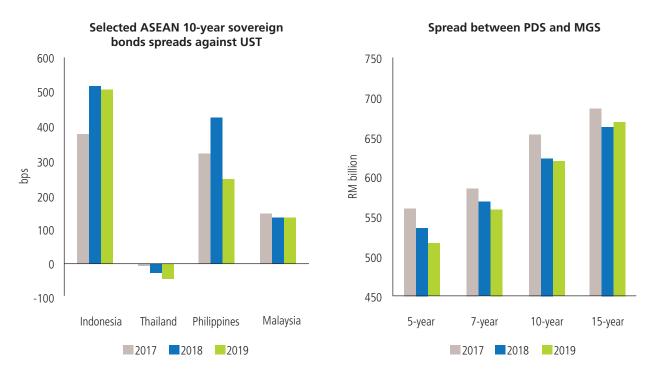
Overnight Policy Rate (OPR) cut by BNM in May 2019. As such, yields reduced across the board while the overall curve was relatively flatter for the year.

Reflecting regional trends, the 10-year UST/MGS spread remained relatively tight at 140.6 bps as at end 2019 from 140.4 bps as at end 2018 (Chart 10 – left panel). The decline in bond yields was broad-based across the ASEAN region, with the spread between the 10-year UST and 10-year local currency sovereign bonds mostly narrowing, reflecting improved global demand on regional assets. Meanwhile, spread between private debt securities (PDS) and MGS tightened throughout the year across shorter tenures, reflecting higher demand for PDS, partly driven by higher issuances on the back of a more favourable interest rate environment (Chart 10 - right panel).



#### Chart 10

#### ASEAN-UST bond spread mostly narrowed, while sentiment towards MGS and PDS remained positive



Source: Bloomberg, Thomson Reuters Datastream, BNM, BPAM, SC's calculations

For the Malaysian equity market, overall market capitalisation ended the year marginally higher by 0.7% to RM1.71 trillion in 2019 from RM1.70 trillion in 2018. This was despite the challenging external environment with heightened headwinds mainly from the ongoing US-China trade tensions and weaker global growth. Overall, while the FBMKLCI moderated in 2019, some segments in the broader domestic equity market gained significant traction, partly reflecting a shift in investors' preference. This occurred as sentiments swayed in favour of constituents with better valuation and corporate earnings prospects, particularly in the small and mid-cap segment.

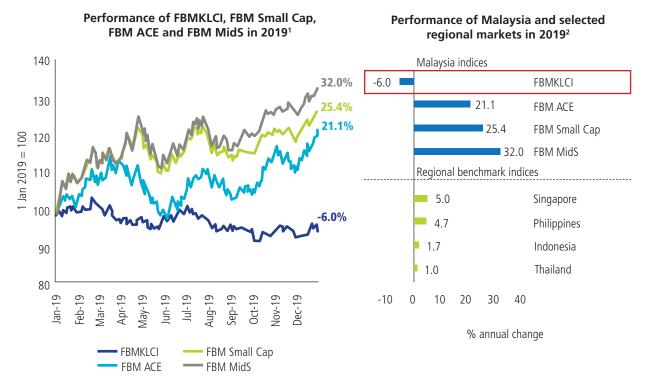
The FBMKLCI declined by -6.0% y-o-y to close the year at 1,588.76 points (2018: -5.9% y-o-y to 1,690.58 points), influenced by a year of event-

driven volatility in sentiments as well as subdued corporate earnings, which continued to be a pressure point on the benchmark index. Additionally, the FBMKLCI was also weighed down by major counters subjected to key policy adjustments in 2019, aimed at longer-term improvement. Nevertheless, the non-FBMKLCI components in the Malaysian equity market performed favourably in 2019. It registered higher growth despite the challenging external headwinds, as improved earnings outlook garnered investor interest into this segment. The FBM MidS, FBM Small Cap and FBM ACE indices increased at robust double-digit rates of 32.0% y-o-y, 25.4% y-o-y, and 21.1% y-o-y respectively in 2019 (Chart 11).

2019

#### Chart 11

#### The domestic equity market experienced positive shift in sentiment towards small and mid-cap companies



#### Notes:

- FBMKLCI consists of the largest 30 companies r anked by full mark et capitalisation in the FTSE Bursa Malaysia EMAS Index; FBM Small Cap consists of all constituents of the FTSE Bursa Malaysia EMAS Index that are not constituents of the FTSE Bursa Malaysia Top 100 Index: FBM MidS comprises constituents from the FTSE Bursa Malaysia EMAS Index with a full mark et capitalisation range of RM200 million to RM2 billion; FBM ACE comprises all companies listed on the ACE Market.
- Referenced composite indices: Philippines PCOMP, Singapore STI, Thailand SET, Indonesia JCI.

Source: Bloomberg, SC's calculations

The significant growth in small and mid-cap indices was mainly driven by the energy, construction, and technology sectors, which benefitted from stronger fundamentals and better valuation prospects of their key companies during the year. Excluding the FBMKLCI components, the energy sector specifically recorded the largest increase, rising by 50.7% y-o-y (2018: -17.3% y-o-y<sup>4</sup>), while the construction sector increased by

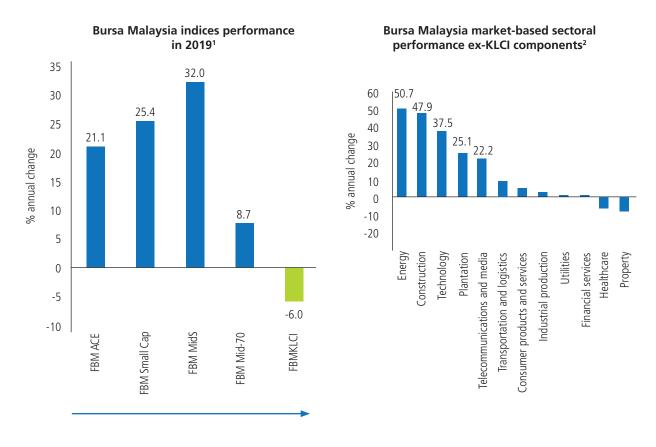
47.9% y-o-y (2018: -46.0% y-o-y), owing partly to the revival of public projects by the government. The technology sector, in turn, rose by 37.5% y-o-y (2018: -9.32% y-o-y), benefitting from the 5G network rollout, higher global smartphone shipments, and potential trade diversion stemming from the ongoing US-China trade war (Chart 12).

Percentage change from September to December 2018, due to Bursa Malaysia's updated sectoral classification for the energy sector.



#### Chart 12

#### Energy, construction and technology sectors spearheaded the domestic equity market's performance

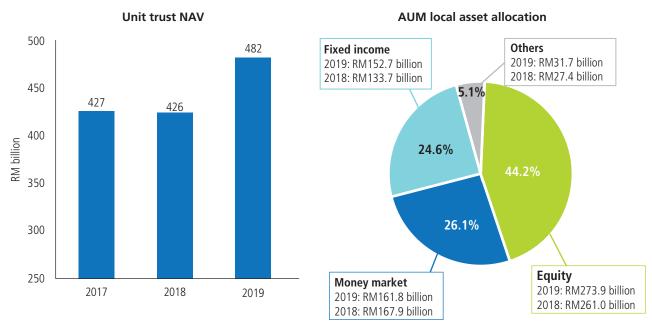


- FBM ACE comprises all companies listed on the ACE Market; FBM Small Cap consists of all constituents of the FTSE Bursa Malaysia EMAS Index that are not constituents of the FTSE Bursa Malaysia Top 100 Index; FBM MidS comprises constituents from the FTSE Bursa Malaysia EMAS Index with a full market capitalisation range of RM200 million to RM2 billion; FBMKLCI consists of the largest 30 companies r anked by full market capitalisation in the FTSE Bursa Malaysia EMAS Index; FBM Mid-70 consists of the next 70 companies ranked by full market capitalisation in the FTSE Bursa Malaysia EMAS Index.
- Annual percentage change in market capitalisation based on sectoral classification by Bursa Malaysia as of 2019, excluding KLCI and REITs.

Source: Bursa Malaysia, Bloomberg, SC's calculations

#### Chart 13

#### Unit trust remained the largest source of funds under management, with a higher portion invested locally in 2019, mostly in local equities and fixed income assets



Source: SC's calculations

Meanwhile, in the fund management industry, the unit trust segment remained the largest source of funds towards the AUM, with net asset value (NAV) amounting to RM482.1 billion in 2019 (2018: RM426.2 billion). Overall, 75.3% of the fund management industry's AUM was invested locally, of which 44.2% was in domestic equities,

followed by 26.1% in money market placements, and 24.6% in fixed income (Chart 13). Compared to 2018, investment in local equities and fixed income rose in value by RM12.9 billion and RM19.0 billion respectively, while the domestic money market placements decreased by RM6.1 billion.



### **Financial Development: Catalysing Economic Development** in Malaysia

conomic development often entails a structural transformation of the economy from the production of low value-added goods and services towards higher value-added economic activities. An important enabler for such transformation is financial development. A well-developed financial sector provides greater opportunities for high-growth potential projects to receive financing, laying the foundation for new sources of growth in the economy to take root, develop, and scale up. Given that financial development exerts a strong influence on overall economic development, Malaysia's financial development is a key dimension to focus on in the pursuit to transform Malaysia into an advanced economy.

This box article will first explore the existing body of research studying the nexus between financial development and economic development, highlighting key insights and stylised facts or features from studies on the general impact and consequences of financial development. The article will then look into Malaysia's relative positioning in the world in terms of its financial development and contextualise Malaysia's potential as the country progresses towards advanced economy status.

#### Financial Development – Economic Development Nexus

The financial system is integral to the proper functioning of today's modern economy. Without such system, it would be impossible to save, invest, borrow, transact, and trade. However, its importance extends far beyond this. The financial system, by virtue of directing the flow of funds among various agents in the economy, implicitly steers the direction of economic activities and sets the trajectory of future economic potential of the country. This is reflected in two primary functions that the financial system carries out:

- Resource allocation. The financial system performs an intermediary role by linking funds from savers and investors with agents - households, firms, or governments - that require capital. The search for productive uses of capital dictate where these funds are ultimately channelled to, and which in turn is enabled by the financial sector via their services such as information collection, profitability assessment, as well as writing and enforcing contracts.
- Risk and resource management. The financial system allows agents in the economy to tailor their financial positions to suit their respective risk and investment preferences. This is performed through portfolio diversification, minimising specific or concentrated risk exposure, investment monitoring, overseeing firm behaviour as creditors or shareholders, as well as exercising corporate governance to improve the likelihood of positive outcomes from the investment.

As a country's banking system and capital market become more developed, the financial sector's capacity to allocate and manage resources also evolves, expanding the types of projects and activities that the economy is able to undertake. The interplay between the evolution of the financial sector and the types of economic

activities it enables, ties together the extent of a country's financial development with the economic potential unlocked by its financial sector. From the body of research written on the nexus between financial development and economic development, three general stylised facts of this nexus emerge:

- Stylised fact 1: Financial development fuels economic growth up to a point For a developing country, financial development matters, given the important role of investment in driving economic growth (Estrada et al., 2010). However, this relationship is not linear. As financial development continues past the advanced economy stages, it could have a lower or even negative impact to growth. Factors such as rising prevalence of household credit relative to enterprise credit (Beck et al., 2012) as well as talent drain from economically productive sectors towards the financial services industry could hamper a country's economic potential (Cecchetti and Kharroubi, 2015).
- Stylised fact 2: Financial structure shapes the nature of economic development Financial structure, which is the mixture of capital market and banks operating in an economy, has an impact on the nature of economic development as it determines the way resources are channelled into investments (Xu, 2015). Banks are better at reducing market frictions related to financing standardised, lower risk, and well-collateralised projects, whereas capital markets are generally suited to finance more innovative and higher-risk projects that rely more on intangible inputs such as human capital and intellectual property. The specific blend of these two intermediation channels would funnel resources into economic activities that are best suited to the risk-reward profile of the prevalent financial structure, which in turn would help steer the trajectory of the country's economic development.
- Stylised fact 3: Capital market development can stimulate resource allocation towards high-growth potential industries

As an economy advances, capital market-based development becomes even more important for economic growth (Gambacorta et al., 2014). Indeed, growth in advanced economies are generally anchored on activities that are driven by innovation and geared for export-orientation - activities that are riskier but entail higher rewards. Such activities induce structural upgrading of the economy, turning it into a knowledge-based economy that relies on high quality human capital to drive economic growth. Developments in capital markets are therefore better suited to spur these types of projects, either through direct fundraising via the capital market (Manova, 2008) or avenues for PE or VC firms to generate value (Hall and Lerner, 2010). This would unlock new forms of higher value creation potential to power future economic growth.

When combined, the three features illustrate how financial development induces economic development. The production possibility frontier (Figure 1) shows how different stages of financial development stimulates different forms of economic development.

#### Financial Development: Catalysing Economic Development in Malaysia

(Continued)

#### Figure 1

#### How financial development contributes towards a country's economic development



Visualisation based on synthesising the stylised facts from existing research exploring the financial development - economic development nexus.

#### Where Malaysia Stands: Contextualising the Country's Financial Development

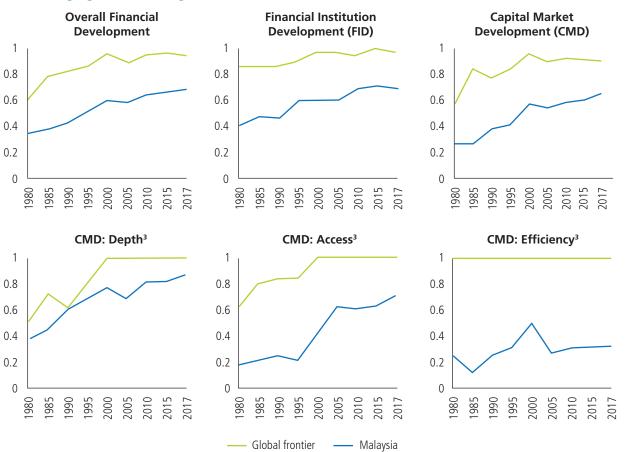
To measure a country's financial system's development, the depth, access, and efficiency of the financial system serve as important markers. Recognising the multidimensional nature of financial development, the IMF has developed indices of financial development (Svirydzenka, 2016) aimed at distilling diverse concepts and data into a composite indicator that captures the extent of the country's financial development along the three dimensions. The result is a broad-based index that illustrates how the system is structured and how well it performs its designated functions.

Cross-country comparisons of financial development between Malaysia and advanced economies provide useful insights into our positioning today vis-à-vis the global frontier. The financial development index measurements (Chart 1) show that Malaysia's overall financial sector development has by and large improved significantly since 1980, gradually converging with the financial development of the global frontier.

Moving forward, Malaysia stands to gain as it converges towards the frontier of capital market development. Enhancements that increase the efficiency of the capital market – such as widening the pool of investors and investible projects, developing tools that facilitate efficient price discovery for growth segments of the market, or expanding international intermediation capabilities – can improve the market's vibrancy and ability to uncover new sources of value creation in the economy. In turn, this would expand the avenues for high-growth potential economic activities such as high-tech manufacturing or modern services to receive the financing needed to develop and scale. Continuous development and improvements to Malaysia's capital market would bring about positive structural transformation for the country and unlock Malaysia's full economic potential.

#### Chart 1

#### From a long-term perspective, Malaysia's capital market (CM)<sup>1</sup> development is largely converging towards the global frontier<sup>2</sup>



#### Notes:

- IMF uses the term 'Financial Market', which comprises bond and equity markets, to designate the capital market (CM). For consistency, Financial Market is referred to as CM in this article.
- Global frontier refers to the highest ranked country for each year for any given financial development index and sub-index. All six charts plot the financial development index and sub-indices for the global frontier and Malaysia in five-year intervals.
- The indices summarise how developed a CM is in terms of (a) depth (measures of size and liquidity of markets relative to gross domestic product (GDP)), (b) access (percent of market capitalisation outside of top 10 largest companies and total number of debt issuers), and (c) efficiency (stock market turnover ratio), all of which contribute towards the overall level of a country's financial development.

Source: IMF Financial Development Index database, 2019



#### Financial Development: Catalysing Economic Development in Malaysia

(Continued)

Alternative means of fundraising via private markets such as VC and PE and new digital platforms such as ECF and P2P financing solutions, also add value to the country's financial development. It supplements traditional fundraising avenues by attracting a wider pool of potential investors, expanding the universe of investible projects, and diversifying the types of activities that could receive funding. The development of these alternative investment sources also ensures that the capital market caters not only to large and established companies, but to the young and rising businesses as well. The role that the SC plays in facilitating the development of these markets is designed to foster a healthy and holistic capital market ecosystem that provides the groundwork for positive structural transformation of the Malaysian economy.

Through continuous development of the wider capital market ecosystem, the economy gains a powerful platform to cultivate firms with the potential to structurally upgrade the economy. The capital market catalyses precisely these types of investments that spur new growth opportunities for the country – ones that are capable of materialising Malaysia's potential of becoming a knowledge-based, export-driven, and high-income nation.

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#### **OUTLOOK FOR 2020**

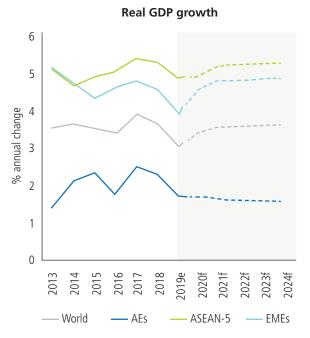
Growth of the global economy is projected to improve to 3.4% in 2020 from an estimated 3.0% growth in 2019<sup>5</sup>. This outlook, however, will continue to remain uncertain, subject to sustained de-escalation of global trade tensions following the finalisation of the phase one trade deal between US and China, as well as the expected stabilisation and rebound in activities in some EMEs. In addition, geopolitical tensions remain key risks to the outlook. Given its strong interconnectivity with the global economy, the growth outlook of the ASEAN region will be subject to downside risks, arising from prevalent global trade and policy uncertainties. Nonetheless, ASEAN is expected to remain the world's fastest

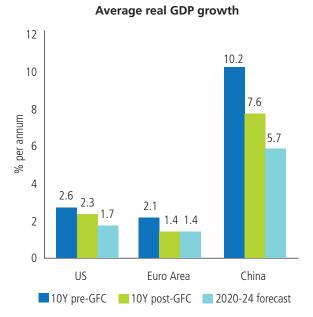
growing region, underpinned by strong macroeconomic fundamentals and a supportive policy environment. In addition, deeper economic integration within the ASEAN region will continue to provide underlying support for economic growth.

Activities in the global capital market will continue to be shaped by developments in the global economy and the relatively easy global financial conditions, aided by the prospect of continued accommodative global monetary policies. Volatility, however, will likely persist, given heightened downside risks to growth. The prospect of global equities is expected to remain generally positive, underpinned by continued commitment from global policymakers to support growth.

#### Chart 14

#### Global growth to be sustained by continued expansion across major economies while ASEAN economies will remain the fastest growing region





Source: IMF World Economic Outlook Database, October 2019

IMF World Economic Outlook, October 2019.



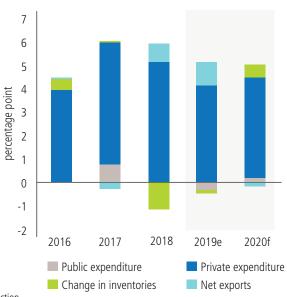
#### Chart 15

#### The Malaysian economy is expected to be driven by continued growth in private sector activities going forward

#### Malaysia's real GDP long-term projection<sup>1</sup>

#### 5.7 6 5.0 4.7 4.7 5 4.4 4.3 4 per annum 3 % 1 0 2016 2017 2018 2019 2020 - 2030 2015

#### Contribution to real GDP by demand components



Growth in 2020-2030 is based on Malaysia's Shared Prosperity Vision 2030 projection. Source: DOSM, Ministry of Economic Affairs, SC's calculations

Nevertheless, a prolonged period of a low-interest rate environment will likely intensify yield-seeking trends, further contributing to already stretched valuations in some equity markets. In the global bond market, performance will continue to be reflective of the overall trends in global risk aversion, with the shape of the yield curve anticipated to remain relatively flat. Meanwhile, credit spreads between EMEs and AEs are projected to remain relatively contained, given the more favourable growth outlook in the former. However, the overall performance on EMEs will be differentiated, favouring those with stronger macroeconomic fundamentals.

**The Malaysian economy** is expected to remain on a steady growth path, backed by firm domestic private sector activities (Chart 15). Growth will be underpinned by sustained manufacturing activities and further supported by resilient services sector expansion, especially in the wholesale and retail trade sub-sector. On the demand side, a stable labour market amidst relatively subdued inflation will continue to drive private consumption

expansion, while the resumption of strategic public projects is expected to provide impetus to investment growth.

The outlook for the domestic capital market in 2020 will continue to be influenced by key global developments, with volatility driven primarily by the direction and pace of global economic growth and global monetary policy stance, and the uncertainty in relation to the ongoing trade and geopolitical tensions. In addition, the performance will also be influenced by greater clarity in ongoing domestic policy reforms. Nevertheless, the Malaysian capital market will continue to support economic growth through the financing of business expansion and infrastructure.

Overall, the domestic capital market is expected to remain resilient and orderly, underpinned by Malaysia's strong macroeconomic fundamentals, ample domestic liquidity, and supportive capital market infrastructure, which will continue to support the growth of the Malaysian economy in 2020.



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# **BOARD MEMBERS**



**AHMAD FARIS RABIDIN** 

DATO' WEE HOE SOON @ GOOI HOE SOON

TAN SRI DR NOORUL **AINUR MOHD NUR** 

**DATUK ZAINAL IZLAN ZAINAL ABIDIN** 



**DATUK SYED ZAID ALBAR** 

**DATUK DR KHAW LAKE TEE** 

DATUK D.P. **NABAN** 

**JOHAN MAHMOOD MERICAN** 

Securities Commission Malaysia

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DATUK SYED ZAID ALBAR Appointed 1 November 2018

Datuk Syed Zaid Albar is the Executive Chairman of the Securities Commission Malaysia (SC). Prior to his appointment as the SC Chairman on 1 November 2018, he was the Managing Partner of Albar & Partners.

Currently, Datuk Syed Zaid chairs the Capital Market Development Fund (CMDF) and is a member of the Board of the Financial Reporting Foundation, as well as a member of the Debt Management Office, Ministry of Finance. Datuk Syed Zaid has been elected as the Vice Chairman of the Growth and Emerging Markets (GEM) Committee of the International Organization of Securities Commissions (IOSCO), and co-chairs the IOSCO GEM Committee Working Group on Sustainability in Emerging Markets. He is also a member of the governing Board of IOSCO.

He has over 38 years experience in legal practice predominantly in the fields of corporate law, capital market, conventional banking and Islamic finance. He has been recognised for his contribution and achievements in the legal practice through numerous domestic and international awards.

With his experience in finance and law, Datuk Syed Zaid has served on the Islamic Law Review Committee of BNM and the Appeals Committee of Bursa Malaysia Bhd. He has also served on the boards of several PLCs in Malaysia.

Datuk Syed Zaid has a degree in law from the United Kingdom (UK). He is a Barrister at Law of the Lincoln's Inn, UK and an Advocate and Solicitor of the High Court of Malaya.



#### DATUK ZAINAL IZLAN ZAINAL ABIDIN Appointed 5 April 2018

Datuk Zainal Izlan Zainal Abidin was appointed Deputy Chief Executive of the SC on 5 April 2018.

He joined the SC in January 2011 as Executive Director, Islamic Capital Market and was appointed Managing Director, Development and Islamic Markets in November 2016. He currently provides direct oversight on the SC's Surveillance and Supervision functions as well as the People and Corporate Resources division. He is also Chairman of Capital Markets Malaysia, an entity established by the SC to promote the Malaysian capital market.

Datuk Zainal Izlan has almost 30 years experience in the financial services industry. He began his career with Citibank before moving to MIDF Amanah Asset Management. Just before joining the SC, Datuk Zainal Izlan was the CEO of i-VCAP Management, an Islamic fund management firm based in Malaysia.

Datuk Zainal Izlan holds a Bachelor of Science in Economics (dual concentration in Accounting and Finance) from The Wharton School, University of Pennsylvania, US, and is a Chartered Financial Analyst (CFA) charterholder.



TAN SRI DR NOORUL AINUR MOHD NUR Appointed 5 April 2018

Tan Sri Dr Noorul Ainur Mohd Nur has over 38 years' experience in the public sector spanning several ministries, including serving as Secretary-General of the Ministry of Higher Education; Ministry of Science, Technology and Innovation; and Ministry of Women, Family and Community Development.

She has also held key positions in the Ministry of Finance, Ministry of Education, Ministry of Information, and the National Institute of Public Administration Malaysia (INTAN).

In the international arena, she has served as Senior Advisor in the Southeast Asia Group for the World Bank in Washington DC from 2006 to 2008. In 2013, she was appointed as the Vice President of the Intergovernmental Council of the Management of Social Transformations Programme of the United Nations Educational, Scientific and Cultural Organisation (UNESCO) for the Asia Pacific region, a post she held until 2015.

Tan Sri Noorul was also the first Malaysian to be elected as President of the Science Commission, UNESCO Paris from 2015 to 2017. Tan Sri Dr Noorul obtained her PhD in Political Science from the Graduate Centre, City University of New York, and holds a Masters of Social Science degree (MSocSci) in Development Administration from the University of Birmingham.



DATUK DR KHAW LAKE TEE Appointed 17 August 2018

Datuk Dr Khaw Lake Tee was former Vice Chairperson of the Human Rights Commission of Malaysia (SUHAKAM). Until her retirement from University of Malaya, Datuk Dr Khaw was a professor at the Faculty of Law, University of Malaya, which she joined as a lecturer in 1982. At the University, she was the Deputy Vice-Chancellor of Development from 2007 to 2010 and the Dean of the Faculty of Law from 2004 to 2007.

Datuk Dr Khaw, who graduated with a Bachelor of Law (LLB) degree from the University of Malaya, obtained her PhD from the London School of Economics and a Masters of Law (LLM) degree from Monash University, Melbourne, and was called to the Malaysian Bar as an Advocate and Solicitor of the High Court of Malaya in 1979.

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**JOHAN MAHMOOD MERICAN** Appointed 17 August 2018

Johan Mahmood Merican is currently the Director, National Budget Office of the Ministry of Finance. Prior to his appointment at the National Budget Office in 2018, Johan was the Deputy Director General (Human Capital) at the Economic Planning Unit (EPU) under the Prime Minister's Office from 2016.

Johan was the CEO of Talent Corporation Malaysia from its inception in January 2011 until 2016. He has also served as Principal Private Secretary to the Minister in the Ministry of Finance and subsequently, in the EPU. Before joining the Government in 2004, Johan worked in the private sector for 9 years in corporate finance and accounting roles at MRCB, Sime Darby and PricewaterhouseCoopers.

Johan trained as a Chartered Accountant, being a member of the Institute of Chartered Accountants of England and Wales since 1998. He holds a degree in Economics from the University of Cambridge.



AHMAD FARIS RABIDIN Appointed 4 November 2018

Ahmad Faris Rabidin is a member of the Debt and Liability Management Committee. He is also a board member of Petroliam Nasional Bhd (Petronas) and a member of the investment panel for Kumpulan Wang Amanah Pencen (KWAP).

Faris had served as an independent consultant with the Asian Development Bank (ADB), providing technical assistance to Badan Pengawas Pasar Modal dan Lembaga Keuangan (Bapepam-LK) and the Otoritas Jasa Keuangan (OJK) of Indonesia between 2006 and 2018. He has been involved in various strategic leadership roles in market development initiatives for the Indonesian financial and capital markets. He was also the Lead Advisor for the OJK Financial Market Masterplan and designed the Indonesian Bond Market Development Plan. Prior to this, Faris was the Regional Director of MainStream & Co Ltd, where he was responsible for the Enterprise Risk management solutions, financial market architecture framework and incubated Bond Pricing Agencies in Malaysia and Indonesia. Faris was also a member of the 1MDB Investigating Committee and Secretariat of the Council of Eminent Persons until September 2018.

Faris graduated from Heriot Watt University, Edinburgh with a degree in Actuarial Mathematics and Statistics.



DATO' WEE HOE SOON@ GOOI HOE SOON

Appointed 1 January 2019

Dato' Gooi Hoe Soon has over 35 years of experience in the fields of accounting and corporate finance. He was instrumental in the successful implementation of several corporate exercises, which included merger and acquisition and corporate debt restructuring exercises by PLCs. He currently sits on the Board of Yinson Holdings Bhd, Red Ideas Holdings Bhd, Perusahaan Sadur Timah Malaysia Bhd and is an alternate director of Hup Seng Industries Bhd. Dato' Gooi is also a member of the Debt and Liability Management Committee.

Dato' Gooi was former Chairman of the Board of EON Bank Bhd from 2009 to 2012, Chairman of Amity Bond Sdn Bhd, Deputy Chairman of Avenue Capital Resources Bhd and board member of AIA Bhd. He was also the CEO/Executive Director-Dealing of Avenue Securities Sdn Bhd.

Dato' Gooi is a Member of the Malaysian Association of Certified Public Accountants and Malaysian Institute of Accountants.



DATUK D.P. NABAN Appointed 1 January 2019

Datuk Naban is currently a Senior Partner of Lee Hishamuddin Allen & Gledhill. He was called to the Malaysian Bar in 1981. He is a litigator who specialises in civil, commercial and tax disputes.

Datuk Naban holds a Bachelor of Laws from the University of London and is a member of the Lincoln's Inn, England.

# **EXECUTIVE TEAM**



**DATUK SYED ZAID ALBAR** Chairman



**DATUK ZAINAL IZLAN ZAINAL ABIDIN Deputy Chief Executive** 



**KAMARUDIN HASHIM Executive Director, Market and Corporate Supervision** 



**EUGENE WONG WENG SOON\* Managing Director, Corporate Finance and Investments** 

\*Completed tenure on 31 December 2019



**NURULHUDA NUR'AINI MOHAMAD NOR Executive Director, Enforcement** 



**FOO LEE MEI Chief Regulatory Officer** 



**ONG LIANG HENG Executive Director, Chairman's Office** 



**CHIN WEI MIN Executive Director, Digital Strategy and Innovation** 



**SALMAH BEE MOHD MYDIN Executive Director, Market Development** 



**NADIAH ABDULLAH Executive Director, People and Corporate Resources** 



**SHARIFATUL HANIZAH SAID ALI Executive Director, Islamic Capital Market Development** 



**ASSOCIATE PROFESSOR** DR SYED MUSA **SYED JAAFAR** ALHABSHI

**ASSOCIATE PROFESSOR DR MOHAMED FAIROOZ ABDUL KHIR** 

DATO' AHMAD **TAJUDIN HAJI ABDUL RAHMAN** 

**PROFESSOR DR ASHRAF MD HASHIM** 

**ASSOCIATE PROFESSOR** DR AZNAN HASAN Deputy Chairman

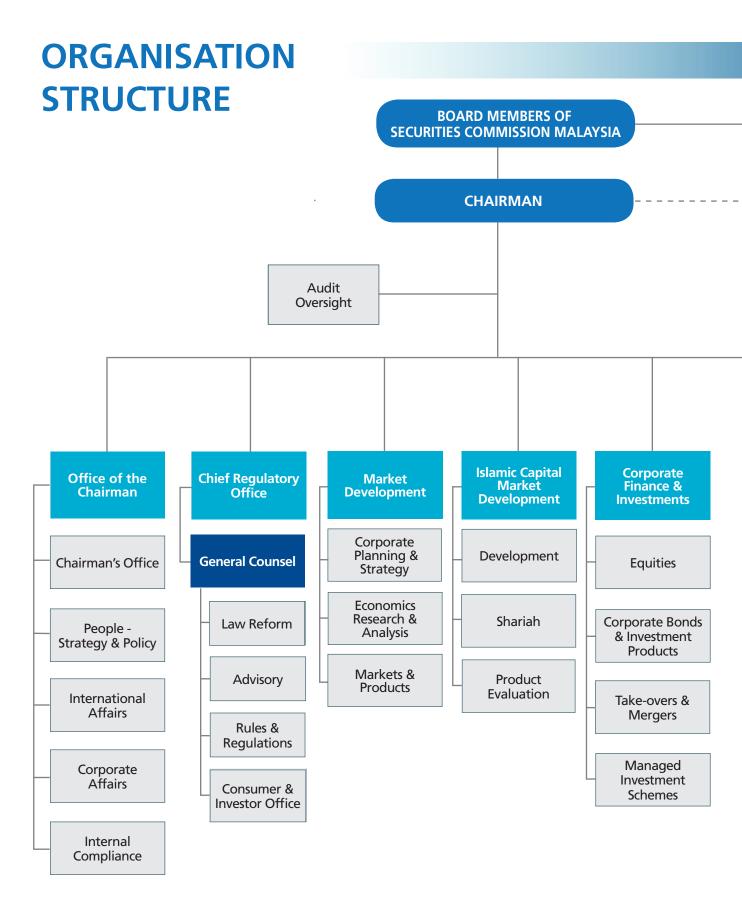


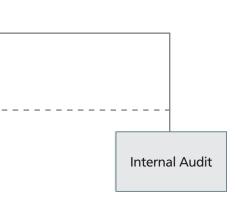
DATUK DR MOHD **DAUD BAKAR** Chairman

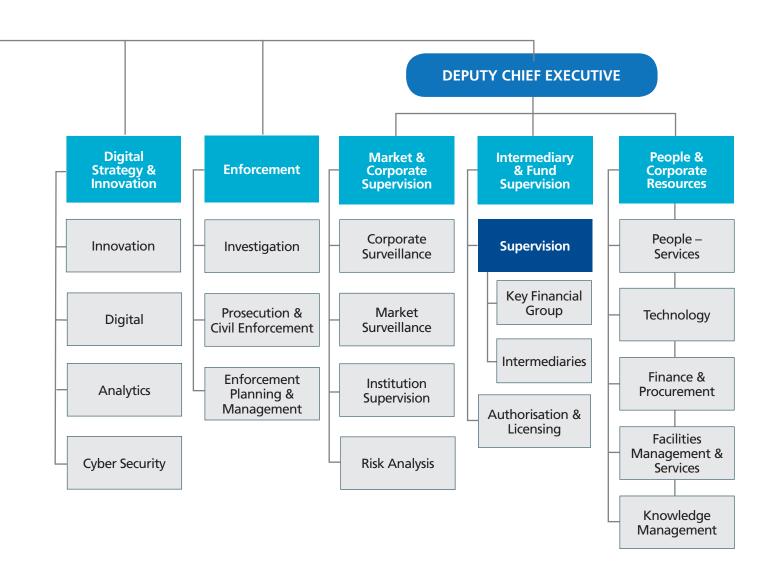
**PROFESSOR** DR ENGKU RABIAH **ADAWIAH ENGKU ALI**  DR SHAMSIAH **MOHAMAD** 

**PROFESSOR** DR ASMADI **MOHAMED** NAIM











# STATEMENT ON GOVERNANCE

Securities Commission Malaysia (SC) is a statutory body established under the Securities Commission Malaysia Act 1993 (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, Capital Markets & Services Act 2007 (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 a Chairman, a Deputy Chief Executive and 7 other members who may include persons representing the government and private sector. The 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 Chairman on 1 November 2018. A profile of Board members is featured on pages 116 to 119 and their involvement in the various committees established by the Board is provided on page 128.

The 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. Further, 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

2019

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 public-interest entities (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**

There were 9 Board meetings held in 2019. 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.

## Table 1

## **Attendance at Board meetings**

Board Member	Number of meetings attended
Datuk Syed Zaid Albar	9/9
Datuk Zainal Izlan Zainal Abidin	9/9
Tan Sri Noorul Ainur Mohd Nur	8/9
Datuk Dr Khaw Lake Tee	9/9
Johan Mahmood Merican	5/9
Ahmad Faris Rabidin	9/9
Dato' Gooi Hoe Soon <sup>1</sup>	8/9
Datuk D.P Naban <sup>2</sup>	9/9

Appointed to the Board on 1 January 2019.

## Table 2

## **Board Committees**

	ard Committees	
Со	mmittee	Key Responsibility
1.	Audit Committee	Review effectiveness of the SC's risk management and internal control systems and review the annual financial statements.
2.	Issues Committee	Evaluate any proposed issuance and listing of securities of a corporation on the main market; corporate proposals involving acquisition of assets, 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 2 or more corporations listed on the main market; and registration of listing prospectus.
3.	Take-overs and Mergers Committee	Review take-over and merger related applications of a novel and/ or complex nature and matters relating to national policy.
4.	Managed Investment Schemes Committee	Approve the establishment of listed schemes.
5.	Licensing Committee	Evaluate and approve (or reject) application for the grant of a new Capital Markets Services Licence (CMSL), applications 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.
6.	Nomination and Remuneration Committee	Assess and formulate the remuneration of the Chairman and Deputy Chief Executive (DCE) and make appropriate recommendations to the Minister of Finance.

Appointed to the Board on 1 January 2019.

## Members

- Dato' Gooi Hoe Soon (Chairman)
- Tan Sri Noorul Ainur Mohd Nur
- Datuk Dr Khaw Lake Tee
- Ahmad Faris Rabidin
- Datuk Sved Zaid Albar (Chairman)
- Datuk Zainal Izlan Zainal Abidin
- Ahmad Faris Rabidin
- Dato' Gooi Hoe Soon
- Datuk D.P Naban

- Datuk Syed Zaid Albar (Chairman)
- Datuk Zainal Izlan Zainal Abidin
- Tan Sri Noorul Ainur Mohd Nur
- Johan Mahmood Merican
- Datuk D.P Naban
- Datuk Syed Zaid Albar (Chairman)
- Datuk Zainal Izlan Zainal Abidin
- Tan Sri Noorul Ainur Mohd Nur
- Datuk Dr Khaw Lake Tee
- Datuk Syed Zaid Albar (Chairman)
- Datuk Zainal Izlan Zainal Abidin
- Datuk Dr Khaw Lake Tee
- Ahmad Faris Rabidin
- Dato' Gooi Hoe Soon
- Ahmad Faris Rabidin (Chairman)
- Dato' Gooi Hoe Soon
- Datuk D.P Naban

## **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 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 7 meetings.

## **Shariah Advisory Council**

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

Members of the SAC are appointed by DYMM Seri Paduka Baginda Yang di-Pertuan Agong. The 9 SAC members serve for a 3-year period commencing 1 July 2017, as listed in Table 3.

## 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.	Dato' Ahmad Tajudin Haji Abdul Rahman
4.	Professor Dr Ashraf Md Hashim
5.	Professor Dr Engku Rabiah Adawiah Engku Ali
6.	Professor Dr Asmadi Mohamed Naim
7.	Associate Professor Dr Syed Musa Syed Jaafar Alhabshi
8.	Associate Professor Dr Mohamed Fairooz Abdul Khir
9.	Dr Shamsiah Mohamad

## Table 4

## **Audit Oversight Board members**

No.	AOB Members
1.	Dato' Gumuri Hussain (Non-Executive Chairman)
2.	Alex Ooi Thiam Poh (Executive Officer)
3.	Eugene Wong Weng Soon <sup>1</sup>
4.	Hew Ee-Lu
5.	Dato' Zahrah Abd Wahab Fenner²
6.	Wong Chong Wah³
7.	Dato' Darawati Hussain

Completed statutory term as Board Member on 31 December

## **Audit Oversight Board**

The Audit Oversight Board (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).

## **RISK MANAGEMENT AND INTERNAL CONTROLS**

Risk management and internal controls continue to be an integral part of the SC's governance framework. The risk management and control framework is embedded into the culture, structure and processes of the SC. The risk management and internal control approach of the SC is organised through an established arrangement involving the Board, Board Committees, management committees and supported by internal governance processes.

The Chairman with the assistance of the Executive Team is responsible for the effectiveness of risk management and internal controls in the SC. Further, a risk management committee led by the SC Chairman with members comprising all Executive Team members is responsible to provide the necessary challenge, deliberation and strategic direction on risk management issues of the SC. The Audit Committee, on behalf of the Board, reviews the adequacy and effectiveness of the SC's risk management and internal control systems. The Enterprise Risk Report is also tabled and deliberated at the Board.

Resigned as Board Member on 1 July 2019.

Completed statutory term as Board Member on 31 December

Risk management, internal controls and compliance are three related components that are established to assure the SC achieves its objectives, addresses uncertainty, responds appropriately to risks and acts with integrity. Risk management is about anticipating and managing risks that could prevent the SC from achieving its objectives. Internal controls are systematic procedures implemented for the SC to conduct its operations in an orderly and efficient manner. Compliance is about driving initiatives to ensure a strong culture of ethical conduct and adherence to internal governance standards, while promoting individual integrity.

The SC faces various operational risks, which may impact its financial position or result in operational disruption. In this regard, a system of risk oversight, risk management and internal control is in place through the Enterprise Risk Management and Business Continuity Management Frameworks. The SC continuously enhances its approach to risk management to promote strong risk culture among employees including the management and escalation of risks. The SC has also put in place internal controls to manage risks in its day-to-day operations.



## **PEOPLE RISK**

Managing integrity and ethical conduct of employees and stakeholders

- A Code of Conduct for Members of the Board sets out the expectation required of Board Members in the discharge of their duties.
- A Code of Conduct sets out the expectations required of employees on ethical conduct and standards of behaviour.
- 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.
- 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.
- The Framework for Handling External Complaints Against the SC Employees, which 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.
- Conflict of Interest Declaration processes in which Board members and employees must comply with when faced with a conflict of interest situation.
- 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 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.
- Several in-house programmes to refresh awareness of employees on security. Periodic review of security measures is also being carried out. This includes formalisation of a guidance for employees in handling threats.



Managing confidentiality, integrity and availability of data, both internally and externally

- The Data Loss Mitigation Guidelines acts as a reference point for employees in handling both physical and electronic records containing sensitive information. The Guidelines ensures 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 is 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.



## **PROCESS RISK**

**Ensuring efficient and** adequate internal processes that may have negative impact on the SC

- As part of building the employees' understanding of the SC's operations, the Business Process Flows which serve as guides are available on the SC's
- The revised Procurement Policy and Guidelines which came into effect on 1 July 2019 encompasses the end-to-end procurement process enhancement as well as the reinforcement of good procurement governance and control.



## **INFRASTRUCTURE RISK**

Adequacy and effectiveness of IT, physical assets and operating premises

- Business continuity management is integral to the SC's risk management arrangement to mitigate operational disruptions. It entails the enterprise business continuity strategies and arrangements to enable the continuation or timely resumption of critical functions, and eventual restoration to normal operations following a business interruption. Business continuity plans are reviewed and tested annually to ensure applicability and comprehensiveness of the plans.
- The IT User Policy and IT Policy are established to ensure the effective protection and proper usage of the SC's computer systems.
- 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.

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## **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 2019 include performing predominantly riskbased audits for the areas identified in the internal audit plan. The result of the audits and activities performed by the internal audit function was presented to the Audit Committee for its review. Where applicable, the internal audit 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, IAD played an advisory role in the course of performing its audit activities.

IAD also reviewed the Audit Committee Charter and 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. The SC also provides updates on its work via social media through Twitter.

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.

The Securities Industry Dispute Resolution Center (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. They comprise banks, stockbrokers, futures brokers, fund managers, unit trust management companies, PRS providers and distributors as well as 2 specified developmental finance institutions (DFI). SIDREC provides an independent and impartial avenue for redress for disputes between investors and SIDREC's members. Provision for effective and affordable access to redress forms part of international best practice and it supports the Commission's investor protection and empowerment initiative.

Under SIDREC's Mandatory Scheme for claims below 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 mediation.

Apart from its involvement during the dispute resolution process with both SIDREC's members and investor claimants, 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 share and provide insights on positive observations as well as concerns that come through from its dispute resolution process. This provides valuable

## **DID YOU** KNOW?

In 2019, SC conducted over 1,300 engagements with diverse stakeholders in relation to market and product development, encourage innovation in services and product offerings, and provide regulatory guidance through consultations.'

feedback to the market, investors and the regulator. Also, SIDREC has an obligation to report to the Commission on issues of systemic concern that may arise from disputes received.

# FINANCIAL | STATEMENTS |

Financial statements for the year ended 31 December 2019



# **STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019**

	Note	2019 RM'000	2018 RM'000
Non-current assets			
Property, plant and equipment	3	152,515	163,377
Right-of-use assets	4	6,843	-
Other receivables	5	5,207	6,324
Other investments	6	165,182	475,052
		329,747	644,753
Current assets			
Other investments	6	581,421	262,459
Trade and other receivables	7	27,141	23,722
Cash and cash equivalents	8	95,230	64,024
		703,792	350,205
Total assets		1,033,539	994,958
Reserves			
Compensation fund reserve	9	100,000	100,000
Accumulated surplus		767,234	757,165
Total reserves		867,234	857,165
Non-current liabilities			
Post-employment benefits	10	80,650	75,690
Deferred income	11	607	3,331
		81,257	79,021
Current liabilities			
Deferred income	11	1,984	1,244
Other payables and accruals	12	83,064	57,528
		85,048	58,772
Tagal liabilisia		166 305	127.702
Total liabilities		166,305	137,793
Total reserves and liabilities		1,033,539	994,958

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# STATEMENT OF PROFIT OR LOSS AND OTHER **COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	2019 RM'000	2018 RM′000
Revenue Levies		130,880	150,354
Fees and charges		12,188	15,392
Licence fees		3,223	3,236
Finance income		32,166	31,976
Registration fees		3,099	3,130
Other income		36,572	5,452
	13	218,128	209,540
Less: Expenditure			
Staff costs	14	155,744	157,575
Administrative expenses		32,211	32,122
Depreciation of property, plant and equipment	3	10,896	10,962
Depreciation of right-of-use assets	4	92	-
Rental expense		1,816	1,775
		200,759	202,434
Net operating surplus		17,369	7,106
Less: Funds to affiliates	15	(7,300)	(9,150)
Surplus/(Deficit) before tax	16	10,069	(2,044)
Tax expense	17		
Surplus/(Deficit) after tax and total comprehensive income/(expense) during the year		10,069	(2,044)



# STATEMENT OF CHANGES IN **EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019**

	Compensation fund reserve RM'000	Accumulated surplus RM'000	Total RM'000
At 1 January 2018	100,000	759,209	859,209
Deficit and total comprehensive expense for the year	-	(2,044)	(2,044)
At 31 December 2018/1 January 2019	100,000	757,165	857,165
Surplus and total comprehensive income for the year	-	10,069	10,069
At 31 December 2019	100,000	767,234	867,234
	Note 0		

Note 9

## **ANNUAL REPORT** 2019

# **STATEMENT OF CASH FLOWS** FOR THE YEAR ENDED **31 DECEMBER 2019**

	Note	2019 RM'000	2018 RM'000
Cash flows from operating activities			
Surplus/(Deficit) before tax  Adjustments for:		10,069	(2,044)
Depreciation of property, plant and equipment Depreciation of right-of-use assets Amortisation of deferred income Recognition of recovery of legal/enforcement costs Finance income Gain on disposal of plant and equipment Adjustment of property, plant and equipment costs	3 4	10,896 92 (1,984) (11,210) (32,166) (50) 396	10,962 - (1,244) - (31,976) (120)
Operating deficit before working capital changes		(23,957)	(24,422)
Changes in working capital:			
Post-employment benefits Trade and other receivables Other payables and accruals		4,960 (1,086) 14,240	4,932 9,432 (1,844)
Net cash used in operating activities		(5,843)	(11,902)
Cash flows from investing activities  Maturity of investments in Malaysian Government Securities and Government Guaranteed Bonds Increase in restricted deposits Increase in investments in deposits placed with licensed banks Finance income received Proceeds from recovery of legal/enforcement costs Proceeds from disposal of plant and equipment Acquisition of plant and equipment		91,251 (12,730) (100,343) 30,950 22,506 59 (7,374)	31,464 (6,479) (43,664) 32,830 - 332 (7,137)
Net cash from investing activities		24,319	7,346
Net increase/(decrease) in cash and cash equivalents Cash and cash equivalents at 1 January		18,476 26,077	(4,556) 30,633
Cash and cash equivalents at 31 December		44,553	26,077
Cash and cash equivalents comprise: Cash and bank balances Deposits placed with licensed banks  Less: Restricted deposits	8	23,155 72,075 95,230 (50,677)	16,242 47,782 64,024 (37,947)
		44,553	26,077



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# **NOTES TO THE** FINANCIAL STATEMENTS

The Securities Commission Malaysia (SC) is a statutory body established under the Securities Commission Malaysia Act 1993 (SCMA) 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 authorised for issue by the Board Members on 30 January 2020.

#### 1. **Basis of preparation**

## (a) Statement of compliance

The financial statements of the SC have been prepared in accordance with Malaysian Financial Reporting Standards (MFRS) and International Financial Reporting Standards.

The following are accounting standards, amendments and interpretations 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 2020

- Amendments to MFRS 3, Business Combinations Definition of a Business
- Amendments to MFRS 101. Presentation of Financial Statements and MFRS 108. Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
- Amendments to MFRS 9, Financial Instruments, MFRS 139, Financial Instruments: Recognition and Measurement and MFRS 7, Financial Instruments: Disclosures – Interest Rate Benchmark Reform

## MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

MFRS 17, Insurance Contracts

## MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

Amendments to MFRS 10, Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The SC plans to apply the above mentioned accounting standards, amendments and interpretations that are applicable and effective from its annual period beginning on or after 1 January 2020, except for amendments to MFRS 3, which are not applicable to the SC.

The SC does not plan to apply MFRS 17, Insurance Contracts that is effective for annual periods beginning on or after 1 January 2021 as it is not applicable to the SC.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the SC.



## (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 the financial statements in conformity with MFRS 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 other than the following:

#### (i) **Post-employment benefits**

The provision is determined using actuarial valuation prepared by an independent actuary. The actuarial valuation involved making assumptions about discount rate, medical inflation rate, retirement age and life expectancy. As such, the estimated provision amount is subject to significant uncertainty. The assumptions used to estimate the provision are disclosed in Note 10.

#### 2. Significant accounting policies

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

Arising from the adoption of MFRS 16, Leases, the accounting policy of the SC for lease contracts was changed during the financial year as compared to that in previous financial statements. The impacts arising from the changes are disclosed in Note 23.

#### (a) **Financial instruments**

#### (i) **Recognition and initial 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.



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> A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

An embedded derivative is recognised separately from the host contract where the host contract is not a financial asset, and accounted for separately if, and only if, the derivative is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

#### (ii) Financial instrument categories and subsequent measurement

## Financial assets

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the SC changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

## Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely for payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2(e)(i)) where the effective interest rate is applied to the amortised cost.

## Financial liabilities

## Amortised cost

Financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense is recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

#### (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 are transferred, or control of the asset is not retained or substantially all of the risks and rewards of ownership



of the financial asset are transferred to another party. 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) 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, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. 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.

#### (iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the SC currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

## (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" or "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.



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#### (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 from the date that they are available for use. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

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

Leasehold land	Current –	Prior year Over the lease period of 99 years
		expiring in 2094 and 2096
Buildings	50 years	50 years
Office equipment, furniture and fittings	5 – 10 years	5 – 10 years
Computer and application systems	3 years	3 years
Motor vehicles	5 years	5 years

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

#### (c) Leases

The SC has applied MFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported under MFRS 117, Leases and related interpretations.

## **Current financial year**

#### (i) **Definition of a lease**

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the SC assesses whether:

- The contract involves the use of an identified asset this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- As a leasee, it has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- As a leasee, it has the right to direct the use of the asset. The SC has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the SC has the right to direct the use of the asset if either the SC has the right to operate the



asset; or the SC designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the SC allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which the SC is a lessee, it has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

#### (ii) **Recognition and initial measurement**

## As a lessee

The SC has classified leasehold land which in substance was a finance lease as rightof-use assets. For leases that were classified as finance lease under MFRS 117, the carrying amounts of the right-of-use asset and the lease liability at 1 January 2019 are determined to be the same as the carrying amount of the leased asset and lease liability under MFRS 117 immediately before that date.

The SC has elected not to recognise right-of-use assets and lease liabilities for shortterm leases that have a lease term of 12 months or less and leases of low-value assets. The SC recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### (iii) Subsequent measurement

## As a lessee

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

## **Previous financial year**

## As a lessee

#### (i) **Finance lease**

Leasehold land which in substance was a finance lease was classified as property, plant and equipment, or as investment property if held to earn rental income or for capital appreciation or for both.

## (ii) Operating lease

Leases, where the SC did not assume substantially all the risks and rewards of ownership were classified as operating leases and the leased assets were not recognised on the statement of financial position.

Payments made under operating leases were recognised in profit or loss on a straightline basis over the term of the lease. Lease incentives received were recognised in profit or loss as an integral part of the total lease expense, over the term of the lease.



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Contingent rentals were charged to profit or loss in the reporting period in which they were incurred.

Leasehold land which in substance was an operating lease was classified as prepaid lease payments.

## (d) 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, and are used by the SC in the management of their short-term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of restricted deposits.

#### (e) **Impairment**

#### (i) **Financial assets**

The SC recognises loss allowances for expected credit losses on financial assets measured at amortised cost. Expected credit losses are a probability-weighted estimate of credit losses.

The SC measures loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and cash equivalents for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the SC considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the SC's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the SC is exposed to credit risk.

The SC estimates the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, the SC assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.



The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the SC determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the writeoff. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the SC's procedures for recovery of amounts due.

#### (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 financial year in which the reversals are recognised.

#### **(f)** Revenue and other income

#### (i) Revenue

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring services to a customer, excluding amounts collected on behalf of third party. The SC recognises revenue when (or as) it transfers control over a service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

The SC transfers control of a good or service at a point in time unless one of the following over-time criteria is met:

- (a) The customer simultaneously receives and consumes the benefits provided as the SC performs;
- The SC's performance creates or enhances an asset that the customer controls (b) as the asset is created or enhanced; or

(c) The SC's performance does not create an asset with an alternative use and the SC has an enforceable right to payment for performance completed to date.

#### (ii) **Government grants**

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the SC will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the SC for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same period in which the expenses are recognised.

#### (iii) Registration fees and licence fees

Registration fees and licence fees are recognised as they accrue in profit or loss.

#### (iv) Interest income

Interest income is recognised as it accrues using the effective interest method in profit or loss.

#### (q) **Employee benefits**

#### (i) **Short-term employee benefits**

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

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) **State plans**

The SC's contributions to statutory pension funds are charged to profit or loss in the year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

#### (iii) **Defined benefit plans**

## Post-employment benefits

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

The SC'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 then 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.

## (h) Funds to affiliates

The SC provides funds to eligible affiliates to undertake capital market activities. These funds are recognised in profit or loss when payments have been made.

#### (i) **Contingencies**

## **Contingent assets**

When an inflow of economic benefit of an asset is probable where it arises from past events and where existence will be confirmed only by the occurance or non-occurance of one or more uncertain future events not wholly within the control of the entity, the asset is not recognised in the statements of financial position but is being disclosed as a contingent asset. When the inflow of economic benefit is virtually certain, then the related asset is recognised.

#### (i) Fair value measurement

Fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the SC uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the SC can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the

asset or liability, either directly or indirectly

Unobservable inputs for the asset or liability Level 3:

The SC recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

#### 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 2018	9,154	232,162	109,347	72,477	2,635	3,325	429,100
Additions	9,134	232,102	902	945	2,033	5,290	7,137
Disposals	_	-	(98)	(53)	(933)	-	(1,084)
Transfer from/(to)	-	-	3,199	3,196	-	(6,395)	-
At 31 December 2018/ January 2019	9,154	232,162	113,350	76,565	1,702	2,220	435,153
At 1 January 2019, as previously reported Adjustment on initial	9,154	232,162	113,350	76,565	1,702	2,220	435,153
application of MFRS 16	(9,154)	-	-	-	_	_	(9,154)
At 1 January 2019, restated Additions	-	232,162	113,350 891	76,565 2,854	1,702 51	2,220 3,578	425,999 7,374
Disposals	_	_	(194)	(1,127)	-	-	(1,321)
Write off	-	-	_	(983)	-	-	(983)
Transfer from/(to)	-	-	161	2,463	-	(2,624)	-
Adjustment	-	-	-	-	-	(396)	(396)
At 31 December 2019	-	232,162	114,208	79,772	1,753	2,778	430,673

Depreciation and	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
impairment loss							
At 1 January 2018  Accumulated depreciation  Accumulated impairment loss	2,127	85,997 109	104,683 -	67,013 -	1,757 -	-	261,577 109
Depreciation for the year Disposals At 31 December 2018/	2,127 92 -	86,106 4,643 -	104,683 1,841 (96)	67,013 4,008 (45)	1,757 378 (731)	- - -	261,686 10,962 (872)
1 January 2019 Accumulated depreciation Accumulated impairment loss	2,219	90,640 109	106,428 -	70,976 -	1,404 -	-	271,667 109
	2,219	90,749	106,428	70,976	1,404	-	271,776
At 1 January 2019, as previously reported Adjustment on initial application of MFRS 16	2,219 (2,219)	90,749	106,428 -	70,976 -	1,404	-	271,776
At 1 January 2019, restated Depreciation for the year Disposals Write off	- - - -	90,749 4,643 - -	106,428 1,963 (193)	70,976 4,105 (1,119) (983)	1,404 185 - -	- - - -	269,557 10,896 (1,312) (983)
At 31 December 2019 Accumulated depreciation Accumulated impairment loss	-	95,283 109	108,198 -	72,979 -	1,589 -	-	278,049 109
	-	95,392	108,198	72,979	1,589	-	278,158
Carrying amounts At 1 January 2018	7,027	146,056	4,664	5,464	878	3,325	167,414
At 31 December 2018/ 1 January 2019	6,935	141,413	6,922	5,589	298	2,220	163,377
At 31 December 2019	-	136,770	6,010	6,793	164	2,778	152,515



#### 4. **Right-of-use assets**

	Leasehold land RM'000
At 1 January 2019, as previously reported Adjustment on initial application of MFRS 16	- 6,935
At 1 January 2019, restated Depreciation	6,935 (92)
At 31 December 2019	6,843

The SC leases two leasehold land that run for 99 years which expire in 2094 and 2096.

#### Other receivables 5.

	2019 RM'000	2018 RM'000
Staff financing Less: Unearned profit	6,486	8,043
- Islamic financing on housing and motor vehicles	(286)	(388)
Less: Amount due within 12 months (Note 7)	6,200 (993)	7,655 (1,331)
Amount due after 12 months	5,207	6,324

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 vehicles are secured over the properties and motor vehicles of the borrowers, respectively. The staff financing are repayable over a maximum period of 25 years, 7 years, 5 years and 4 years. The rate charged on these staff financing ranges from 2.0% to 4.0% per annum (2018: 2.0% to 4.0% per annum).

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

	2019 RM′000	2018 RM'000
Within 1 year More than 1 year and up to 5 years More than 5 years	993 3,218 1,989	1,331 3,762 2,562
	6,200	7,655

#### 6. Other investments

		Non-	current	Curr	ent	To	tal
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Am -	ortised costs: Malaysian Government Securities and Government Guaranteed Bonds	131,182	151,972	20,108	90,569	151,290	242,541
_	Deposits placed with licensed banks	34,000	323,080	561,313	171,890	595,313	494,970
		165,182	475,052	581,421	262,459	746,603	737,511

Included in deposits placed with licensed banks are amounts restricted for stockbroking industry development of RM13.6 million (2018: RM13.2 million) and amount restricted for planning and implementing capacity building programmes in relation to the accounting and auditing profession of approximately RM1.6 million (2018: RM0.7 million).

#### Trade and other receivables 7.

		2019 RM′000	2018 RM'000
	Levies	12,854	9,670
	Interest receivable	8,564	7,348
	Other receivables	1,031	2,115
	Deposit	624	718
	Prepayments	3,075	2,540
	Short-term staff financing (Note 5)	993	1,331
		27,141	23,722
8.	Cash and cash equivalents		
		2019 RM′000	2018 RM'000
	Cash and bank balances	23,155	16,242
	Deposits placed with licensed banks	72,075	47,782
		95,230	64,024

The deposits placed with licensed banks earned income at rates ranging from 3.15% to 3.75% per annum (2018: 3.15% to 3.75% per annum).

Included in deposits placed with licensed banks are amounts restricted for brokers' security deposits of approximately RM1.3 million (2018: RM1.2 million), stockbroking industry development of RM nil



(2018: RM3.2 million) and cash and deposits of approximately RM49.4 million (2018: RM33.5 million) held on behalf of government agencies or funds.

The bank balances are placed with licensed banks.

#### 9. **Compensation fund reserve**

This represents an amount allocated from the accumulated surplus for the Capital Market Compensation Fund Corporation.

## 10. Post-employment benefits

	2019 RM′000	2018 RM'000
Net defined benefit liability Expense recognised in profit or loss Benefits paid	75,690 6,747 (1,787)	70,758 6,419 (1,487)
Total employee benefit liabilities	80,650	75,690 ———

The defined benefit plan is an unfunded post-employment medical plan, which provides medical benefits for participants and their eligible dependents after retirement age until the death of the participant or spouse, or for child dependents 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 dependents, 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 approximately RM1.8 million in contributions to its defined benefit plans in 2020.

## Movement in net defined benefit liability

	2019 RM'000	2018 RM'000
Net defined benefit liability at 1 January	75,690	70,758
Included in profit or loss		
Current service cost	2,321	2,307
Interest cost	4,426	4,112
	6,747	6,419
Other		
Benefits paid	(1,787)	(1,487)
Net defined benefit liability at 31 December	80,650	75,690

## **Defined benefit obligation Actuarial assumptions**

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

	2019	2018
Discount rate	5.8%	5.8%
Medical cost inflation	10%, reducing	10%, reducing
	to 5% in 4 years	to 5% in 4 years
Normal retirement age	60 years	60 years

Assumptions regarding future mortality are based on published statistics and mortality tables.

At 31 December 2019, the weighted-average duration of the defined benefit obligation was 20.6 years (2018: 20.6 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.

		Defined benderease RM'000	efit obligation Decrease RM'000
	2019		
	Discount rate (1% movement) Medical cost inflation rate (1% movement)	(13,630) 16,856	17,501 (13,388)
	2018		
	Discount rate (1% movement)	(12,782)	16,425
	Medical cost inflation rate (1% movement)	15,819	(12,565)
11.	Deferred income	2019	2018
		RM'000	RM'000
	At 1 January 2019/2018	4,575	5,819
	Less: Recognised in profit or loss during the year	(1,984)	(1,244)
	Deferred income	2,591	4,575
	Current liabilities	1,984	1,244
	Non-current liabilities	607	3,331
		2,591	4,575



## 12. Other payables and accruals

		2019 RM′000	2018 RM'000
Other payables Accruals Brokers' security deposits		75,909 5,475 1,680	52,331 3,972 1,225
		83,064	57,528
Revenue		2040	2040
	Note	2019 RM'000	2018 RM′000
Revenue	13.1	146,291	168,982
Other income			
- finance		32,166	31,976
- others		39,671	8,582
		71,837	40,558
Total revenue		218,128	209,540
	Other payables Accruals Brokers' security deposits  Revenue  Revenue  Other income - finance - others	Other payables Accruals Brokers' security deposits  Revenue  Note  Revenue  13.1  Other income - finance - others	2019 RM/000         Other payables Accruals Brokers' security deposits       75,909 5,475 1,680         Brokers' security deposits       1,680         83,064         Revenue         Revenue       13.1       146,291         Other income - finance - others       32,166 39,671 71,837

## 13.1 Nature of goods and services

The following information reflects the typical transactions of the SC:

Nature of services	Significant payment term	Timing of recognition or method used to recognise revenue
Levies	30 days	Revenue is derived from Malaysia and are recognised at a point in time.
Fees and charges	Not applicable	Revenue is derived from Malaysia and are recognised at a point in time.
Licence	Not applicable	Revenue is derived from Malaysia and are recognised at a point in time.

## 14. Staff costs

	2019 RM'000	2018 RM′000
Remuneration, bonus, staff medical, staff training and overtime Employees Provident Fund and SOCSO contribution	129,710 17,442	131,719 17,840
Private Retirement Scheme	1,845	1,597
Post-employment benefits	6,747	6,419
	155,744	157,575

## 15. Funds to affiliates

SC provides funds to various entities involved in projects and programmes that develop, promote and enhance the well-being of the Malaysian capital market.

## 16. Surplus/(Deficit) before tax

	Note	2019 RM′000	2018 RM'000
Surplus/(Deficit) before tax is arrived at after charging:			
Auditors' remuneration		100	100
Executive members' emoluments*		4,287	4,410
Executive member's gratuity		-	1,925
Non-executive members' allowance		1,288	1,177
Rental expense:			
Property		1,540	1,573
Plant and equipment		276	202
Depreciation of property, plant and equipment	3	10,896	10,962
Depreciation of right-of-use assets	4	92	-
Adjustment of property, plant and equipment costs		396	-
and after crediting:			
Gain on disposal of plant and equipment		50	120

Included in executive members' emoluments are leave encashment of RM nil (2018: RM194,000).

## 17. 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.



## 18. Related parties

## **Identity of related parties**

For the purpose of these financial statements, parties are considered to be related to the SC if the SC has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the SC and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the SC either directly or indirectly.

The SC has related party relationship with Securities Industry Development Corporation (SIDC), as the Deputy Chief Executive of the SC is also the Chairperson of SIDC.

Lee Hishammuddin Allen & Gledhill (LHAG) is also the related party of the SC as the Board Member of the SC is also a partner of LHAG.

## Significant related-party transactions

The significant related-party transactions of the SC are shown below:

	2019 RM′000	2018 RM'000
Related party		
Management fee	509	502
Legal fees	(289)	-
Provision of funds to affiliates	(2,500)	(2,500)
Key management personnel		2.42
Proceeds from disposal of motor vehicles	<del>_</del>	242

The balances as at 31 December 2019 which arose from the transactions above are included in Note 7 and Note 12.

## 19. Capital commitments

	2019 RM'000	2018 RM'000
Capital expenditure commitments		
Plant and equipment		
Approved but not contracted for:		
Within one year	25,470	18,616
•		

## 20. Financial instruments

## 20.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as amortised costs (AC).

	Carrying amount RM'000	AC RM'000
2019		
Financial assets Other receivables Other investments Trade and other receivables* Cash and cash equivalents	5,207 746,603 24,066 95,230	5,207 746,603 24,066 95,230
	871,106	871,106
Financial liabilities		
Other payables and accruals*	(71,624)	(71,624)
2018		
Financial assets Other receivables Other investments Trade and other receivables* Cash and cash equivalents  Financial liabilities Other payables and accruals	6,324 737,511 21,182 64,024 829,041	6,324 737,511 21,182 64,024 829,041
* Exclude non-financial instruments		
Gains arising from financial instruments	2019 RM'000	2018 RM'000
Financial assets at amortised cost	32,166	31,976
	Financial assets Other receivables Other investments Trade and other receivables* Cash and cash equivalents  Financial liabilities Other payables and accruals*  2018 Financial assets Other receivables Other investments Trade and other receivables* Cash and cash equivalents  Financial liabilities Other payables and accruals  * Exclude non-financial instruments  Gains arising from financial instruments  Gains on:	2019 Financial assets Other receivables Other investments Trade and other receivables* Cash and cash equivalents  Financial liabilities Other payables and accruals*  Other receivables Other payables and accruals*  Other receivables Other receivables Other payables Other receivables Other receivables Other receivables Other receivables Other receivables Other receivables Other investments Trade and other receivables* Cash and cash equivalents  Financial liabilities Other payables and accruals  Cash and cash equivalents  Financial liabilities Other payables and accruals  Financial liabilities Other payables and accruals  Sexual cash and cash equivalents  Financial liabilities Other payables and accruals  Sexual cash equivalents  Cains arising from financial instruments  Cains arising from financial instruments

## 20.3 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; and
- Market risk.

## 20.4 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 exposure to credit risk arises principally from the individual characteristics of each customer. There are no significant changes as compared to prior periods.

## **Receivables**

## Risk management objectives, policies and processes for managing the risk

The SC has a formal credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

## Recognition and measurement of impairment loss

In managing credit risk of receivables, the SC manages its debtors and take appropriate actions (including but not limited to legal actions) to recover long overdue balances. Generally, receivables will pay within 30 days.

The SC uses an allowance matrix to measure ECLs of trade receivables for all segments. Consistent with the debt recovery process, invoices which are past due 90 days will be considered as credit impaired.

The following table provides information about the exposure to credit risk and ECLs for receivables as at 31 December 2019 which are grouped together as they are expected to have similar risk nature.

	Gross- carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
2019 Not past due Past due 1 - 30 days Past due 31 - 90 days Past due 91 - 180 days Past due more than 180 days	32,087 -	- -	32,087 -
	- - 261	- - -	- - 261
	32,348	-	32,348
2018 Not past due Past due 1 - 30 days Past due 31 - 90 days Past due 91 - 180 days Past due more than 180 days	29,525 - - - - 521 30,046	- - - - -	29,525 - - - - 521 30,046



The receivables that are past due has not recognised any loss allowance as the receivables are supported by collateral in the form of residential properties with respective fair value exceeding its outstanding debts.

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

No impairment was performed on the receivables.

#### Cash and cash equivalents

The cash and cash equivalents are held with banks and financial institutions. As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

These banks and financial institutions have low credit risk. In addition, some of the bank balances are insured by government agencies. Consequently, the SC is of the view that the loss allowance is not material and hence, it is not provided for.

#### 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.

#### 20.5 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. There is no contractual interest rate for other payables and accruals.

	Carrying amount RM'000	Contractual cash flow RM'000	Under 1 year RM'000
2019			
Financial liabilities			
Other payables and accruals	71,624	71,624	71,624
2018			
Financial liabilities			
Other payables and accruals	57,499	57,499	57,499

#### 20.6 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.

#### 20.6.1 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:

	2019 RM′000	2018 RM'000
<b>Fixed rate instruments</b> Financial assets	818,678	785,293

#### 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.

#### 20.7 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

The carrying amount of fixed deposits is assumed to reasonably approximate their fair values.

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.

1	Fair value of financial instruments not carried at fair value				Carrentes as
2019 Non-current Financial assets	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
Long-term receivables Malaysian Government Securities and Government	-	-	5,207	5,207	5,207
Guaranteed Bonds	-	133,206	-	133,206	131,182
	-	133,206	5,207	138,413	136,389

### 2018 Non-current **Financial assets**

Long-term receivables Malaysian Government Securities and Government Guaranteed	-	-	6,324	6,324	6,324
Bonds	-	152,533	-	152,533	151,972
	-	152,533	6,324	158,857	158,296

#### 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 (2018: no transfer in either directions).

#### Level 3 fair value

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

#### Financial instruments not carried at fair value

Туре	Description of valuation technique and input used
Long term receivables	Discounted cash flows using a rate based on the current market rate of borrowing.

#### 21. 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. 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.

### 22. Contingencies

The SC is of the opinion that the recognition of the following penalty imposed and corresponding receivable is not required, as the case is currently still on-going.

## **Contingent asset**

During the year, the Audit Oversight Board (AOB) has imposed 3 sanctions to an audit firm and its partners amounting to RM631,000 for breaching the AOB's registration condition imposed under section 31O(3) of the SCMA.



The involved parties have applied to the High Court for judicial review on the AOB's decision and was granted an interim stay to all actions taken by the AOB until the stay application hearing which was adjourned to a date yet to be confirmed.

## 23. Significant changes in accounting policies

During the year, the SC adopted MFRS 16.

#### Definition of a lease

On transition to MFRS 16, the SC elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied MFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under MFRS 117 and IC Interpretation 4, Determining whether an Arrangement contains a Lease were not reassessed. Therefore, the definition of a lease under MFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

#### As a lessee

Since the SC applied the requirements of MFRS 16 retrospectively with the cumulative effect of initial application at 1 January 2019, there are no adjustments made to the prior period presented.

The SC used the following practical expedient when applying MFRS 16 to leases previously classified as operating lease under MFRS 117:

Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term as at 1 January 2019.

For leases that were classified as finance lease under MFRS 117, the carrying amounts of the rightof-use asset and the lease liability at 1 January 2019 are determined to be the same as the carrying amount of the leased asset and lease liability under MFRS 117 immediately before that date.

#### 23.1 Impacts on financial statements

The following table shows the measurement category under MFSR 117 and the new measurement category under MFRS 16 for the leasehold land as at 1 January 2019.

	31 December 2018 RM'000	1 January 2019 RM'000
Property, plant and equipment	6,935	-
Right-of-use assets	-	6,935

There is no significant impact to the accumulated surplus of the SC arising from the adoption of MFRS 16.



## **ANNUAL REPORT** 2019

## **STATEMENT** BY BOARD MEMBERS

In the opinion of the Board Members, the financial statements set out on pages pages 136 to 164 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Securities Commission Malaysia as of 31 December 2019 and of its financial performance and cash flows for the financial year then ended.

On behalf of the Board Members:

Syed Zaid Albar

Wee Hoe Soon @ Gooi Hoe Soon

Member

Kuala Lumpur

Date: 30 January 2020



**ANNUAL REPORT** 2019

## **STATUTORY DECLARATION**

I, Vignaswaran A/L Kandiah, the officer primarily responsible for the financial management of the Securities Commission Malaysia, do solemnly and sincerely declare that the financial statements set out on pages 136 to 164, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the abovenamed Vignaswaran A/L Kandiah, NRIC No. 561128-10-6171, at Kuala Lumpur in the Federal Territory on 30 January 2020.

Vignaswaran A/L Kandiah Officer

Before me: W641 MOHD IBRAHIM BIN YAAKOB 01 Januari 2019 hingga 31 Disember 2021 MALAYSI nit 50-10-1, Tingkat 10 isma UOA Damansara No. 50, Jalan Dungun **Bukit Damansara** 50490 Kuala Lumpur. Tel: +603-2081 3770

## Securities Commission Malaysia **ANNUAL REPORT** 2019

## INDEPENDENT AUDITORS' REPORT TO THE BOARD MEMBERS OF THE **SECURITIES COMMISSION MALAYSIA**

## **Report on the Audit of the Financial Statements**

#### Opinion

We have audited the financial statements of the Securities Commission Malaysia (SC), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 136 to 164.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the SC as at 31 December 2019, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

#### **Basis for Opinion**

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence and Other Ethical Responsibilities**

We are independent of the SC in accordance with the By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (By-Laws), and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

#### Responsibilities of Board Members of the SC for the Financial Statements

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

In preparing the financial statements of the SC, the Board Members are responsible for assessing the SC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board Members either intend to liquidate the SC or to cease operations, or have no realistic alternative but to do so.

#### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the SC as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the SC, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the SC.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members.
- Conclude on the appropriateness of the Board Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the SC to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of the SC or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the SC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the SC, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the Board Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

#### **Other Matter**

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

(LLP0010081-LCA & AF 0758) **Chartered Accountants** 

Petaling Jaya, Malaysia

Date: 30 January 2020

Foong Mun Kong

Approval Number: 02613/12/2020 J

Chartered Accountant

# **CORPORATE PROPOSALS**

## **EQUITY**

The SC received 5 equity applications in 2019 of which 2 applications were for initial public offerings (IPOs) and 3 were for transfer of listings. A total of 5 equity applications were considered in 2019 (Table 1).

In 2019, the SC approved 4 IPOs for the Main Market with total funds approved to be raised from these IPOs estimated at RM0.46 billion with an aggregate market capitalisation of RM1.68 billion (Table 2).

There were 30 new listings for 2019, highest since 2006. Of these 30 listings, 4 were on the Main Market, 11 were on the ACE Market and the remaining 15 were on the LEAP Market. The total amount of funds raised from these new listings in 2019 was approximately RM2.02 billion.

The SC registered 25 equity prospectuses in 2019, comprising 13 prospectuses for IPO and 12 abridged prospectuses (Table 3).

### Table 1

### Status of equity applications

Applications	2019	2018
Brought forward from the previous year	4	3
Received during the year	5	11
Total for consideration	9	14
Approved during the year	(5)	(9)
Not approved during the year	-	(-)
Returned during the year	-	(-)
Total considered during the year	(5)	(9)
Withdrawn during the year	(1)	(1)
Carried forward to the next year	3	4



#### Equity applications approved by type of proposals

	2019		20 <sup>-</sup>	2018	
Type of proposals	No. of proposals approved	Estimated amount to be raised (RM million)	No. of proposals approved	Estimated amount to be raised (RM million)	
IPO on Main Market:  – Domestic companies	4	459.94	5	5,567.79	
Transfer from ACE Market to Main Market	1	-	4	-	
TOTAL	5	459.94	9	5,567.79	

#### Table 3

#### **Registration of equity prospectuses**

Applications	2019	2018
Prospectus	13	15
Abridged prospectus	12	27
TOTAL	25	42

## **CORPORATE BONDS AND SUKUK**

The Malaysian corporate bonds and sukuk market reported total issuances of RM132.82 billion in 2019, a 25.96% increase from RM105.45 billion issued in 2018.

In 2019, the SC received 77 lodgements under the Lodge and Launch (LOLA) Framework and 1 application for issuances of corporate bonds and sukuk, as compared to 57 lodgements and 2 applications received in the previous year (Table 4). Ringgit-denominated corporate bonds and sukuk issues continued to form the majority of the proposals approved by / lodged with the SC with a total nominal value of RM164.27 billion, of which 57% or RM93.64 billion were sukuk (Table 5).

There has been an overall increase in the maturity profile of ringgit-denominated corporate bonds and sukuk approved by / lodged with the SC in 2019. The number of ringgit-denominated corporate bonds and sukuk with tenures of 8 to 15 years and above 15 years increased by 26.67% and 57.69%, respectively. There was a decrease of 38.89% in the corporate bonds and sukuk with tenures of 1 to 7 years (Chart 1).

In 2019, a total of 39 ratings were assigned by credit rating agencies to ringgit-denominated corporate bonds and sukuk issues approved by/ lodged with the SC. The number of unrated issues has risen by 19.44% compared to previous year (Chart 2). The mandatory rating requirement for corporate bonds and sukuk has been removed effective January 2017.

There were 7 foreign currency-denominated corporate bonds and sukuk lodged with the SC in 2019, comprising 4 sukuk by foreign issuers and 3 corporate bonds by Malaysian issuers.

## Number of corporate bonds and sukuk lodgements and applications

(i) Lodgements <sup>1</sup>	2019	2018
Received during the year	77	57
(ii) Applications	2019	2018
Brought forward from the previous year	-	1
Received during the year	1	2
Total for consideration	1	3
Approved during the year	(1)	(3)
Not approved during the year	-	-
Returned during the year	-	-
Total considered during the year	(1)	(3)
Withdrawn during the year	-	-
Carried forward to the next year	-	-

## Table 5

## Lodged/approved ringgit-denominated corporate bonds and sukuk issues

	20	19	20	18
Type of issues	No. of issues	Nominal amount (RM million)	No. of issues	Nominal amount (RM million)
Corporate bonds  - Commercial papers/Medium-term notes	26	36,788.00	19	26,224.00
<ul><li>Bonds</li><li>Loan stocks</li></ul>	6 1	13,670.00 172.47	2 3	10,080.00 802.88
Subtotal	33	50,630.47	24	37,106.88
Sukuk  - Islamic commercial papers/ Islamic medium-term notes  - Islamic bonds  - Islamic loan stocks	33 3 -	88,943.84 4,700.00	32 - -	50,965.00 - -
Subtotal	36	93,643.84	32	50,965.00
Combination of corporate bonds and sukuk  - Commercial papers/Medium-term notes	2	20,000.00	2	1,800.00
Subtotal	2	20,000.00	2	1,800.00
TOTAL	71	164,274.31	58	89,871.88

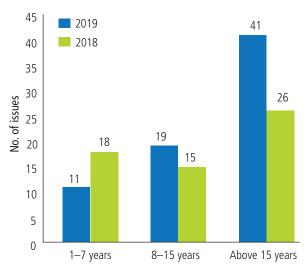
<sup>&</sup>lt;sup>1</sup> Pursuant to the Lodge and Launch Framework



## **ANNUAL REPORT** 2019

#### Chart 1

## Tenure of lodged/approved ringgitdenominated corporate bonds and sukuk issues



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

## **TAKE-OVERS AND MERGERS**

In Malaysia, take-overs and mergers, including schemes of control, are regulated by the SC under the Capital Markets and Services Act 2007 (CMSA), the Malaysian Code on Take-overs and Mergers 2016 (Code) and the Rules on Take-overs, Mergers and Compulsory Acquisitions (Rules) to ensure that the acquisition of voting shares or control of companies takes place in an efficient, competitive and informed market. The Code / Rules provides an orderly framework within which take-overs, mergers and compulsory acquisitions are to be conducted.

In 2019, the SC considered 81 applications under the Rules, compared to 72 applications in 2018. A total of 22 offer documents were cleared by the SC in 2019 involving a total offer value of RM4.90 billion or an average of RM222.50 million per offer,

#### Chart 2

#### Rating summary of lodged/approved ringgit-denominated corporate bonds and sukuk issues

#### **Short-term rating** Long-term rating 12 2019 2019 38 40 2018 2018 10 35 10 No. of ratings assigned 30 No. of ratings assigned 26 8 25 6 18 20 5 15 4 10 7 2 5 0 0 0 0 0 0 0 0 AAA AA BBB BB, B, P1/MARC-1 P2/MARC-2 P3/MARC-3 Not Α Not C or D Rated Rated

A corporate bond or sukuk issue may be assigned more than 1 credit rating (e.g. for commercial papers/medium-term notes programmes, both short-term rating accorded for commercial papers and long-term rating for medium-term notes are taken into account).

which represented a decrease of RM2.42 billion against the previous year (2018: 18 offers with total offer value of RM7.32 billion and 1 cash compensation scheme to shareholders to address an earlier trigger of the mandatory offer obligation). Of the 22 offers, 6 were undertaken by way of schemes (2018: 4 schemes).

The largest offer for the year was in relation to Lafarge Malaysia Bhd (a cement producer now known as Malayan Cement Bhd) at RM1.56 billion in offer value and constituting 32% of the total offer value for 2019. Also of note were the proposed privatisations of Kian Joo Can Factory Bhd and Selangor Properties Bhd (undertaken by way of scheme) with offer values of RM0.92 billion and RM0.69 billion, respectively.

In 2019, there were 11 privatisation offers (2018: 7 privatisation offers). However, MAA Group Bhd's scheme failed to obtain the requisite approval from its shareholders while the offer for LTKM Bhd did not meet the acceptance condition.

In addition, 3 take-over offers were undertaken by PLCs as offerors and constituted RM2.08 billion or 42% of the total offer value, namely Scientex Bhd, YTL Cement Bhd and YTL Corporation Bhd (for the take-over offers in Daibochi Bhd, Lafarge Malaysia Bhd and YTL Land and Development Bhd, respectively).

The industrial products and services sector garnered the most interest with total offer value of RM3.05 billion (representing 62% of total offer value involving 7 target companies or 32% of total number of offers). The consumer products and services sector recorded the highest number of offers involving 8 target companies with total offer value of RM0.52 billion (representing 36% of total number of offers or 11% of total offer value).

Additionally, the SC cleared 26 independent advice circulars comprising 22 circulars in relation to take-over offers / schemes and 4 circulars in relation to exemptions from the mandatory offer obligation pursuant to the whitewash procedures / share

#### Table 6

## Applications considered in relation to takeovers, mergers and compulsory acquisitions

Type of applications/ documents cleared	2019	2018
Clearance of offer/ scheme documents	22	19*
Clearance of independent advice circulars	26	25
Applications for exemption from mandatory offer obligation	17	15
Other applications	16	13
TOTAL	81	72

Includes clearance of a cash compensation scheme document to shareholders which was implemented concurrently with a take-over scheme to address an earlier trigger of the mandatory offer obligation in respect of the same offeree company.

buy-back. The SC also approved 17 applications for exemptions from having to undertake a mandatory take-over offer and 16 applications for various ancillary matters under the Rules and other rulings (Table 6).

As part of its mandate, the SC also undertakes surveillance on take-over transactions to ensure compliance with the take-over requirements. Non-compliances identified during the year included furnishing of false or misleading information to the SC, delay in providing dealing disclosures during an offer period and dealings in shares during a restricted period, for which appropriate actions have been taken ranging from the issuance of reprimand and imposition of fine to infringement notices.

The SC encourages consultations to clarify the application of the Code/Rules and its expectations to ensure compliance. In 2019, consultations with the SC involved various aspects of take-overs regulation including on concert party matters, pre-conditions to take-over offers, possible favourable deals, frustration of offer, downstream offer implications and other general enquiries.

# **INVESTMENT MANAGEMENT**

### **FUND MANAGEMENT**

Total AUM of licensed FMCs in Malaysia increased by 10.71% to RM823.19 billion compared to RM743.58 billion in 2018. In 2019, top 5 FMCs contributed to 56.57% of total AUM compared to 57.42% in 2018 (Chart 1).

Source of funds under management were largely from unit trust funds, EPF, corporate bodies and wholesale funds (Table 1). These funds were allocated in various asset classes and locations, of which, investment inside Malaysia by FMCs amounted to RM620.15 billion, representing 75.33% of the total AUM as at end of 2019 (Chart 2). The bulk of investment was allocated in equities with 48.61% at end of 2019, as compared to 47.24% in 2018 (Chart 3). Similar trend was observed on assets allocation inside and outside Malaysia (Chart 4).

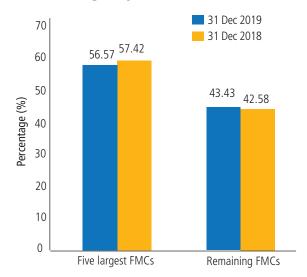
#### Table 1

### Source of clients' funds under management

Source of funds	2019 (RM billion)	2018 (RM billion)
Unit trust funds	482.09	426.18
EPF	131.42	112.13
Wholesale funds	58.10	64.96
Corporate bodies	80.67	73.11
Statutory bodies and government agencies	32.35	32.81
Others	21.52	19.57
Individuals	13.04	10.06
Private pension funds	4.00	4.76
TOTAL	823.19	743.58

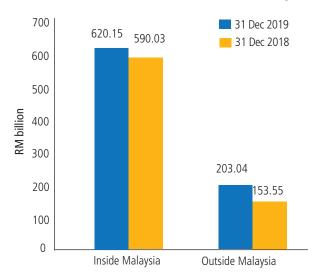
#### Chart 1

#### **Assets managed by FMCs**



## Chart 2

#### Assets invested inside and outside of Malaysia



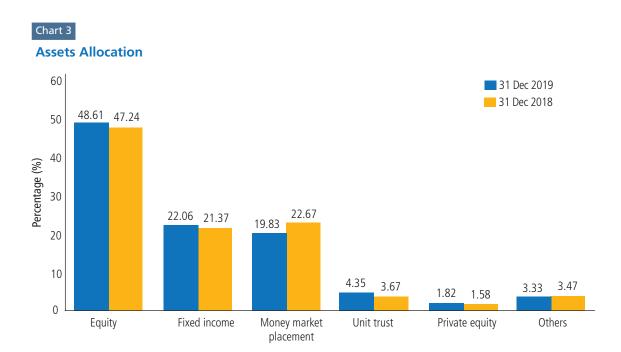
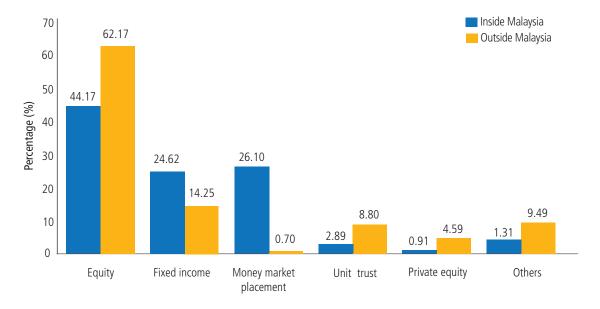


Chart 4 Assets allocation inside and outside of Malaysia as at 31 December 2019





## **COLLECTIVE INVESTMENT SCHEMES** AND PRIVATE RETIREMENT SCHEMES

Unit trust funds continued to be the largest component of the Malaysian collective investment schemes (CIS) industry with a total NAV of RM482.09 billion recorded as at 31 December 2019, an increase of 13.12% from RM426.18 billion as at 31 December 2018. There were 39 locally-incorporated unit trust management companies approved to offer unit trust funds as at 31 December 2019. The percentage of the total NAV of unit trust funds industry against Bursa Malaysia's market capitalisation is 28.16% (2018: 25.06%) (Table 2).

In 2019, 58 new unit trust funds were launched while 8 funds were terminated and 15 funds matured, bringing the total number of unit trust funds available to investors to 685 as at 31 December 2019. Of these, 449 funds were conventional unit trust funds while the remaining 236 were Shariah-compliant unit trust funds.

The unit trust funds industry recorded a total gross sales (excluding reinvestment of distribution) of RM249.87 billion, the majority of which were distributed by unit trust management companies with total gross sales of RM131.55 billion (Table 3).

In the wholesale funds segment, 60 new funds were launched under the LOLA Framework (Table 4) to sophisticated investors while 37 funds were terminated and 7 funds matured in 2019, which brought the total number of wholesale funds offered by 44 FMCs to 323 as at 31 December 2019. Of these, 265 funds were conventional wholesale funds while 58 were Shariah-compliant wholesale funds. Total NAV of RM58.10 billion (2018: RM64.96 billion) was recorded as at 31 December 2019.

In 2019, 3 funds qualified as SRI funds under the Guidelines on SRI Funds while 1 was terminated during the year. With this, a total of 6 SRI funds qualified under the SC's Guidelines on SRI Funds

were available to investors as at 31 December 2019. Of these, 3 were unit trust funds and 3 were wholesale funds.

As at 31 December 2019, a total of 18 REITs were listed on Main Market of Bursa Malaysia with a total market capitalisation (including a stapled group) of RM43.83 billion (2018: RM41.43 billion). The total asset size grew marginally from RM52.77 billion to RM54.44 billion for the same period. There was 1 unlisted REIT offered to sophisticated investors as at 31 December 2019.

With the listing of 4 L&I ETFs on 29 November 2019, i.e. TradePlus NYSE® FANG+™ Daily (2x) Leveraged Tracker, TradePlus NYSE® FANG+™ Daily (-1x) Inverse Tracker, TradePlus HSCEI Daily (2x) Leveraged Tracker and TradePlus HSCEI Daily (-1x) Inverse Tracker, the total ETFs listed on the Main Market of Bursa Malaysia as at 31 December 2019 was 15 with a total market capitalisation of RM2.14 billion. This represents an increase of 8.08% from a total market capitalisation of RM1.98 billion as at 31 December 2018.

As at 31 December 2019, there continued to be only 1 closed-end fund (CEF) listed on the Main Market of Bursa Malaysia with a market capitalisation of RM336 million (2018: RM345.80 million).

The number of PRS remained unchanged with 12 schemes offered by 8 PRS providers. A total of 2 new private retirement funds were launched while 1 fund was terminated in 2019, which brought the total number of private retirement funds in operation to 57 as at 31 December 2019. Of these, 31 were conventional funds while 26 were Shariah-compliant funds. Total NAV of RM3.50 billion as at 31 December 2019 represented an increase of 30.60% compared to a total NAV of RM2.68 billion as at 31 December 2018.

In 2019, the SC considered 419 applications relating to CIS and PRS, comprising applications to establish new funds, register prospectuses, register deeds and other ancillary matters (Table 4).

## Overall status of unit trust fund industry

	31 December 2019	31 December 2018
No. of funds launched	685	650
<ul> <li>Conventional</li> </ul>	449	426
– Shariah-compliant	236	224
Units in circulation (billion units)	696.40	629.24
No. of accounts (million)*	20.65	21.06
Total NAV (RM billion)	482.09	426.18
<ul><li>Conventional (RM billion)</li></ul>	374.77	342.72
<ul> <li>Shariah-compliant (RM billion)</li> </ul>	107.32	83.46
% of NAV to Bursa Malaysia market capitalisation^	28.16	25.06

#### Notes:

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

## Table 3

## **Distribution channels**

	31 December 2019 RM billion	31 December 2018* RM billion
Unit trust management company	131.54	83.84
Institutional UTS advisers	63.95	61.81
Unit trust consultant	51.07	47.58
Corporate UTS advisers	1.39	0.72
Others	1.92	2.04
TOTAL	249.87	195.99

\* 2018 figures were revised as a result of the resubmission of data.



## **ANNUAL REPORT** 2019

## Table 4

## Number of applications and lodgements relating to CIS and PRS

(i) Lodgement	Lodged		Laun	ched		
(i) Lodgement	20	19	20	18	2019	2018
Wholesale funds (WF)	59	9	45	5 <sup>1</sup>	60	43
	Consid	dered	Appr	oved	Pending co	nsideration
(ii) Application	2019	2018	2019	2018	As at 31 December 2019	As at 31 December 2018
Establishment of CIS  - Unit trust funds (UTF)  - ETF	<b>60</b> 54 6	<b>43</b> 42 1	<b>60</b> 54 <sup>2</sup> 6	<b>43</b> 42 <sup>3</sup> 1	<b>10</b> 7 3	<b>5</b> 5 -
Establishment of private retirement funds	2	-	2	-	-	-
Recognition of foreign Qualifying CIS	1	-	1	-	-	-
Increase in fund size limit	1	2	1	2	-	-
<ul><li>Unit trust funds</li><li>REITs</li></ul>	1 0	1 1	1 0	1 1	-	-
Exemption / Variation from guidelines	17	9	17	8	3	3
Registration of prospectuses / disclosure documents	162	124	162	124	21	8
Registration of deeds	152	120	152	120	19	7
Other applications	24	52	244	51	-	3
TOTAL	419	350	419	348	53	26

#### Notes:

- Includes 2 funds which were qualified as SRI funds under the SC's Guidelines on SRI Funds.
- Includes 1 fund which was qualified as SRI fund under the SC's Guidelines on SRI Funds.
- Includes 2 funds which were qualified as SRI funds under the SC's Guidelines on SRI Funds.
- Includes 2 existing funds which were qualified as SRI funds under the SC's Guidelines on SRI Funds.

### **INVESTMENT PRODUCTS**

#### **Structured warrants**

There were 6 eligible issuers of structured warrants in 2019. The SC received and registered 6 base prospectuses and 12 supplementary prospectuses from these issuers in 2019 (Table 5).

A total of 1,106 term sheets for the offering of structured warrants were registered in 2019, representing an increase of 6.7% compared to the 1,037 term sheets registered in 2018. The increase was attributable to the active issuance by issuers in meeting investor interest in 2019. The year also saw an increase in issuances of structured warrants based on shares from 879 in 2018 to 916 in 2019.

## Table 5

#### Structured warrants considered

	2019	2018
No. of eligible issuers	6	6
Base prospectuses registered	6	6
Supplementary prospectuses registered	12	9
Term sheets registered	1,106	1,037
Issue size (billion warrants)	56.87	53.19

In addition, issuances of structured warrants based on indices increased to 173 in 2019 compared to 140 in the previous year.

The term sheets registered in 2019 enabled the structured warrants issuers to offer up to a total of 56.87 billion structured warrants.

## Structured products

In 2019, 5 issuers lodged 6 new structured product programmes with the SC under the LOLA Framework for unlisted capital market products. These programmes comprised a variety of underlying references and had an aggregate size of RM30 billion with each programme having a size limit of up to RM5 billion (Table 6).

#### **Contracts for difference**

In line with the SC's Capital Market Masterplan 2 to promote and develop the derivatives market, the SC introduced the Guidelines on Contracts for Difference (CFD) on 6 April 2018. A CFD is a leveraged derivatives product that allows investors to participate in the price movement of an underlying instrument. Given the complexity of CFDs, the framework is implemented on a phased approach starting with sophisticated investors.

In 2019, there was 1 CFD provider that has started to offer CFD in Malaysia based on shares.

#### Table 6

## Structured product programmes considered

	2019		2018		
No. of issuers lodged new programmes	5		5 16		6
New programmes lodged	No. of programmes	Size (RM billion)	No. of programmes	Size (RM billion)	
Principle  - Conventional  - Islamic	5 1	25 5	17 4	85.00 15.05	
TOTAL	6	30	21	100.05	



# **ISLAMIC CAPITAL MARKET**

Malaysia's Islamic capital market continues to garner a larger share of the overall capital market, with a commanding 63.57%. Its market size recorded RM2,035.58 billion as at end 2019 in comparison with RM1,880.73 billion as at end 2018. This comprises total market capitalisation of Shariahcompliant equities of RM1,096.62 billion and total sukuk outstanding amounting to RM938.96 billion (Chart 1 and Table 1).

**Shariah-compliant securities** 

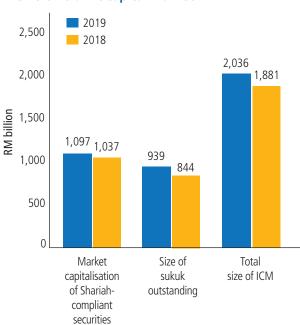
As at December 2019, Shariah-compliant securities increased from 689 as at end 2018 to 714, which constituted 76.86% of the 929 listed securities on

Bursa Malaysia. The market capitalisation of Shariah-compliant securities stood at RM1,096.62 billion or 64.06% of the total market capitalisation, an increase of 5.80% as compared to end 2018 (Chart 2 and Table 2). The industrial products and services sector constitutes the most Shariah-compliant securities, with 218 (30.53%) securities, followed by consumer products sector with 145 securities (20.31%), technology with 81 securities (11.34%) and property with 78 securities (10.92%).

## Sukuk

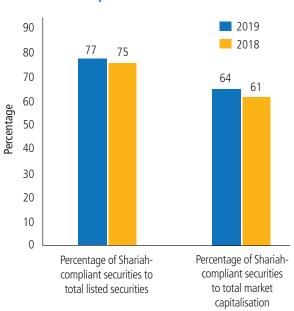
Corporate sukuk issuance represented 77.09% (2018: 68.92%) of total corporate bonds and sukuk

## Chart 1 Size of Islamic capital market



### Chart 2

## Percentage of number and market capitalisation of Shariah-compliant securities



issuances while corporate sukuk outstanding accounted for 79.58% (2018: 76.01%) of total corporate bonds and sukuk outstanding (Table 3).

Sukuk issuances by Government and corporates in 2019 represented 61.11% (2018: 51.80%) of total bonds and sukuk issuances whereas total sukuk outstanding represented 63.01% (2018: 60.05%) of total bonds and sukuk outstanding (Table 4).

In 2019, 4 new corporate issuers had issued SRI sukuk focusing on renewable energy, bringing the total SRI sukuk issuers to 10 since 2015. The total corporate SRI sukuk issuances increased from RM0.47 billion in 2018 to RM2.16 billion, which is 2.11% of total corporate sukuk issuances. Corporate SRI sukuk outstanding grew from RM2.61 billion in 2018 to RM4.71 billion as at end 2019, constituting 0.85% of total corporate sukuk outstanding.

## Islamic fund management

The Islamic AUM as at end 2019 stood at RM180.52 billion, registering 13.66% increase from RM158.83 billion as at end 2018 (Chart 3 and

## Chart 3 **AUM of Islamic fund management**

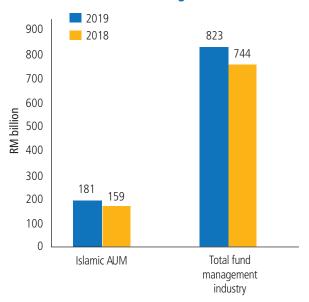


Table 5). The number of Islamic CIS (UTF, WF, PRS, REIT and ETF) stood at 330 as at end 2019 including 2 SRI Islamic unit trust funds. There were 54 FMCs managing Islamic funds, with 23 full-fledged Islamic FMCs and 31 FMCs offering Islamic windows as at end 2019.



## **KEY STATISTICS**

## Table 1

## **Size of ICM**

Islamic capital market	2019 RM billion	2018 RM billion
Market capitalisation of Shariah-compliant securities	1,096.62	1,036.52
Size of sukuk outstanding	938.96	844.21
Total size of ICM	2,035.58	1,880.73
% ICM to total capital market	63.57%	60.55%

## Table 2

## **Shariah-compliant securities**

	2019	2018
Number of securities:		
Shariah-compliant securities	714	689
Total listed securities	929	915
% of Shariah-compliant to total listed securities	76.86%	75.30%
Market capitalisation (RM billion):		
Shariah-compliant securities	1,096.62	1,036.52
Total market capitalisation	1,711.84	1,700.37
% of Shariah-compliant securities to total market capitalisation	64.06%	60.96%

## **Corporate sukuk**

Total issuance (RM billion) (long-term)	2019	2018
Sukuk issuance	102.39	72.68
Total corporate bonds and sukuk issuances	132.82	105.45
% of sukuk to total corporate bonds and sukuk issuances	77.09%	68.92%
Total sukuk outstanding (RM billion) (long-term)	2019	2018
Total sukuk outstanding (RM billion) (long-term)  Sukuk outstanding	<b>2019</b> 555.50	<b>2018</b> 497.21
3.0		

## Table 4

## **Government and corporate sukuk**

Total issuance (RM billion)	2019	2018
Sukuk issuance	235.20	199.90
Total bonds and sukuk issuances	384.85	385.93
% of sukuk to total bonds and sukuk issuances	61.11%	51.80%
Total sukuk outstanding (RM billion)	2019	2018
Total sukuk outstanding (RM billion)  Sukuk outstanding	2019 938.96	2018 844.21

## Table 5

## **Islamic AUM**

	2019	2018
Islamic AUM (RM billion)	180.52	158.83
Total fund management industry (RM billion)	823.19	743.58
% Islamic AUM to total fund management industry	21.93%	21.36%



## **Islamic UTF**

	2019	2018
Islamic UTF	236	224
Total industry	685	650
NAV of Islamic UTF (RM billion)	107.32	83.45
NAV of total industry (RM billion)	482.09	426.18
% NAV of Islamic UTF to total industry	22.26%	19.58%

## Table 7

## **Islamic WF**

	2019	2018
Islamic WF	58	76
Total industry	323	307
NAV of Islamic WF (RM billion)	12.33	23.58
NAV of total industry (RM billion)	58.10	64.95
% NAV of Islamic WF to total industry	21.22%	36.30%

## Table 8

## **Islamic PRS funds**

	2019	2018
Islamic PRS	26	25
Total industry	57	56
NAV of Islamic PRS (RM billion)	1.06	0.82
NAV of total industry (RM billion)	3.50	2.68
% NAV of Islamic PRS to total industry	30.29%	30.60%

## **Islamic REIT**

	2019	2018
Islamic REIT	4	4
Total industry	18	18
Market capitalisation of Islamic REIT (RM billion)	18.24	17.19
Market capitalisation of total industry (RM billion)	43.83	41.43
% market capitalisation of Islamic REIT to total industry	41.62%	41.49%

## Table 10

## **Islamic ETF**

	2019	2018
Islamic ETF	6	6
Total industry	15	10
Market capitalisation of Islamic ETF (RM billion)	0.55	0.55
Market capitalisation of total industry (RM billion)	2.14	1.98
% market capitalisation of Islamic ETF to total industry	25.70%	27.78%



# **VENTURE CAPITAL AND PRIVATE EQUITY**

The total number of registered corporations increased to 122 as at 31 December 2019 (Table 1). The venture capital segment accounted for 105 registered corporations (venture capital management companies and venture capital companies -VCMCs and VCCs), while the private equity segment consisted of 17 registered corporations (private equity management companies and private equity companies – PEMCs and PECs).

The number of investee companies decreased from 387 in 2018 to 304 in 2019. As of end 2019, the number of professionals employed by the industry, with at least four years' experience stood at 220.

Total committed funds in the industry as at end of 2019 stood at RM5,998.07 million (Table 2). This

decrease is due to some funds meeting the end of their tenure. The year 2019 saw a 7.6% decrease in investment activity amounting to RM566.37 million invested during the year from RM613.28 million in 2018. At the end of the year under review, the total cumulative investments stood at RM2,961.11 million.

There was an increase in divestment activity from RM161.0 million in 2018 to RM631.16 million in 2019. In this regard, the divestments, either partial or full, involved 149 investee companies were divested in 2019 as compared to 75 companies in 2018. Divestments saw a sharp increase during the year, largely contributed to a restructuring exercise of a major VC firm with a number of investments exited through trade sale, share buybacks or were written-off.

#### Table 1

### **Statistics of industry participants**

	31 December 2019	31 December 2018
Number of registered corporations	122	117
Number of registered VCMCs and VCCs	105	105
Number of registered PEMCs and PECs	17	12
Number of investee companies	304	387
Number of VC and PE professionals <sup>1</sup>	220	235

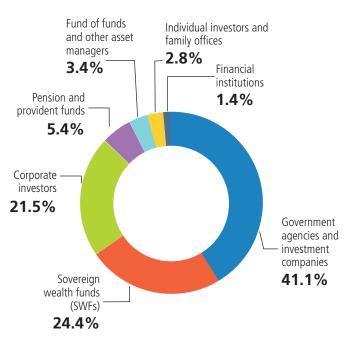
<sup>&</sup>lt;sup>1</sup> Professionals with more than 4 years experience.

#### **Industry key statistics (Figures in RM million)**

	31 December 2019	31 December 2018
Total committed funds under management [1]	5,998.07	6,084.19
Total drawn capital [2]	4,285.08	4,102.12
Estimated capital available for investment [3]=[1]-[2]	1,712.99	1,982.06
Total investment as at end of the period	2,961.11	3,116.33
	During 2019	During 2018
Investments in investee companies	566.37	613.28
Divestments	631.16	160.96

#### Chart 1

#### Sources of funds (2019: RM5,998.07 million)



#### Note:

Government agencies and investment companies: Include ministerial investment companies (e.g. Minister of Finance (Incorporated)), government agencies, statutory bodies and GLICs established for the purpose of managing investments of public funds (e.g. PNB, Ekuinas).

Public funds remain the largest source of capital for the industry with government agencies and investment companies making up 41.1%, while sovereign wealth funds contributed 24.4%. Private sector contribution to the industry were led by corporate investors (21.5%), followed by pension and provident funds (5.4%), asset managers (3.4%) and individual investors and family offices (2.8%).

The top 3 registered corporations by amount of investor commitments as at end 2019 were Xeraya Capital, Malaysia Venture Capital Management Berhad (MAVCAP) and COPE Private Equity Sdn Bhd.

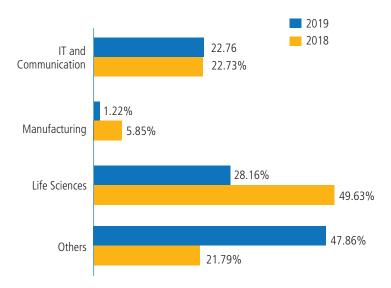
Growth investments saw a significant share of deal activity in 2019 with a total of RM387.22 million invested in 63 companies, representing 73.3% of investments done in 2019. This was followed by early stage investments with RM167.72 million and 29.6% share. (Table 3).



Share of investments into IT and communications remained steady at 22.76% while manufacturing and life sciences decreased to 1.22% and 28.16% respectively. Other sectors recorded a significant increase in investments in 2019 with a share of 47.86%. These sectors include investments in wholesale and retail trading, logistics and financial services. (Chart 2).

Divestments in 2019 were mainly in investee companies in the growth stage amounting to approximately RM316.30 million, representing 50.1% of total divestments during the year. (Table 4)

## Chart 2 Investments in 2019, percentage by sectors



#### Table 3

### **Investments during 2019**

Business stage	New investments (RM'000)	% of all investment	No. of companies
Start-up	4,192.76	0.7	3
Early stage	167,715.02	29.6	30
Growth	387,218.29	68.4	63
Bridge / mezzanine / pre-IPO	5,500.00	1.0	1
Turnaround / restructuring	1,739.13	0.3	5
All investments	566,365.20	100.0	102

## Table 4

### **Divestments during 2019**

Business stage	Divestments (RM '000)	% of all divestments	No. of companies
Seed	102,423.42	16.2	24
Start-up	24,282.28	3.9	13
Early stage	158,092.14	25.0	34
Growth	316,297.02	50.1	58
Bridge / mezzanine / pre-IPO	22,475.36	3.6	6
Turnaround / restructuring	7,592.73	1.2	14
All divestments	631,162.94	100.0	149

# **EQUITY CROWDFUNDING AND** PEER-TO-PEER FINANCING

## **EQUITY CROWDFUNDING**

Since 2016, total capital raised stood at RM73.74 million (Chart 1) through 80 campaigns, with 85% campaign success rate. These campaigns have benefitted 77 issuers.

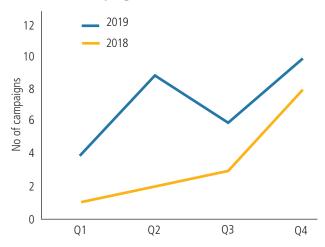
## **Campaigns**

In 2019, RM25.16 million in capital was raised by 29 campaigns. 59% of these campaigns were funds raised for technology-focused projects. Similar to 2018, there is a general uptrend in the number of successful campaigns throughout 2019 (Chart 2). Majority of the 2019 campaigns have raised within the range of RM500,000 and below (Chart 3).

As a result, campaigns that have raised more than RM500,000 have decreased from 64% in 2018 to 45% in 2019 (Chart 3).

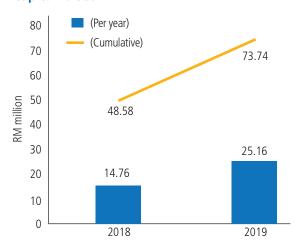
## Chart 2

## Successful campaigns



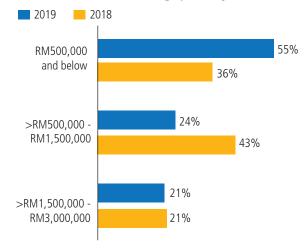
#### Chart 1

#### **Capital raised**



#### Chart 3

#### Distribution of fundraising quantity

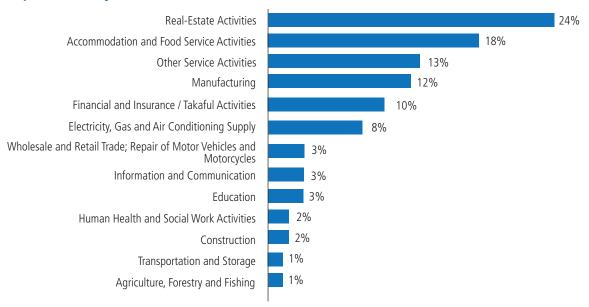


Note: 2018 numbers have been adjusted according to the Recognised Market Operators' (RMO) latest reported numbers.



## Chart 4

## Capital raised by sectors in 2019

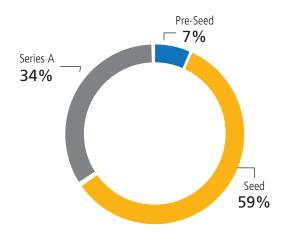


The top 3 sectors that received the most funding in 2019 were Real Estate Activities (24%), Accommodation and Food Service Activities (18%), and Other Service Activities\* (13%) (Chart 4).

## **Issuers**

A total of 29 issuers have successfully raised funds on the ECF platforms in 2019. A total of 83% of these issuers were largely based in Kuala Lumpur / Selangor. Issuers from the seed stage received the bulk of the funding in 2019, representing 59% of the total funds raised (Chart 5). Majority of these issuers sought fundraising for their business expansion.

## Chart 5 Stage of fundraising in 2019



Note: \* The Other Service Activities sector includes activities of membership organisations, repair of computers, personal and household goods and other personal service activities.

#### **Investors**

Table 1 represents the investor demographics in 2019.

#### Table 1

## **Investor demographics in 2019**

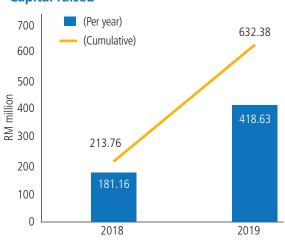
		Percentage of total investors
Nationality	Malaysian	96
	Foreign	4
Gender	Female	31
	Male	69
Age	Below 35	46
	35 to 45	31
	>45 to 55	14
	Above 55	9
Type	Retail	52
	Angel	15
	Sophisticated	31
	Institutional	2

## PEER-TO-PEER FINANCING

Since 2017, total capital raised stood at RM632.38 million (Chart 6) through 8,102 successful campaigns, with 99% success rate. These campaigns have benefitted 1,866 issuers.

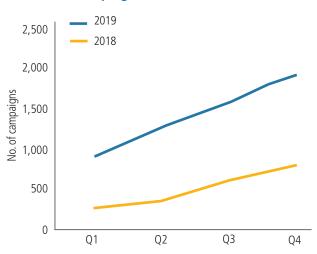
### Chart 6

#### **Capital raised**



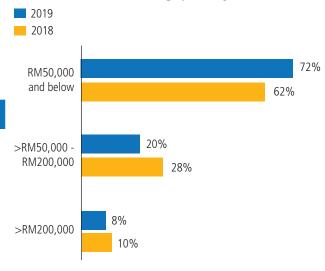
## Chart 7

#### Successful campaigns



#### Chart 8

### Distribution of fundraising quantity



## **Campaigns**

Total capital raised grew by 131% in 2019, which amounted to RM418.63 million (Chart 6). A total of 5,583 successful campaigns contributed to this growth in capital in 2019. Similar to 2018, there is a steady rise of campaigns throughout 2019 (Chart 7). In terms of campaign size, there remains a preference towards smaller fundraising amounts, with 72% of campaigns at RM50,000 and below (Chart 8).

Note: 2018 numbers have been adjusted according to the RMOs' latest reported numbers.



## Chart 9 Type of investment notes 2019 2018 41% **Business** financing 40% 31% Invoice 56% financing Micro financing 4%

19%

A total of 72% of the investment notes issued in 2019 are business and invoices financing notes (Chart 9). Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles sector has received the majority of the funding in 2019 (Chart 10) while 11% of the total 2019 campaigns are technology-focused projects.

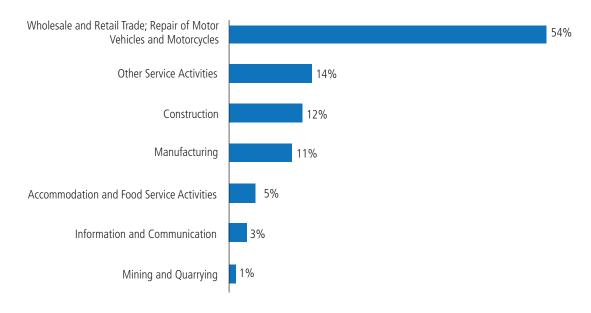
#### **Issuers**

A total of 1,420 issuers have successfully raised funds via the P2P platforms in 2019. A total of 51% of these issuers are based outside of Kuala Lumpur / Selangor (e.g. Penang, Sarawak, Johor). A total of 88% of these issuers raised funds to support their day-to-day business operations (i.e. working capital).

## Chart 10

Others

### Capital raised by sectors in 2019



## **Investors**

Table 2 represents the investor demographics in 2019.

## Table 2

## **Investor demographics in 2019**

		Percentage of total investors
Nationality	Malaysian	98
	Foreign	2
Gender	Female	28
	Male	72
Age	Below 35	62
	35 to 45	24
	>45 to 55	9
	Above 55	5
Туре	Retail	99
	Non-Retail*	1

<sup>\*</sup> Non-retail includes Sophisticated, Angel and Institutional investors.

# **AUTHORISATION** AND LICENSING

In 2019, the number of licensed intermediaries including individual licensees for financial planning and investment advice stood at 234 compared with 242 in 2018. The net number licence holders have reduced following 10 cessations of CMSLs, 1 cessation of CMSL-individual, 1 revocation and 2 CMSLs, which moved to the registration regime. Cessations were mainly due to business realignment, group rationalisation and restructuring, and shift in geographical focus. There were also 6 new licences issued during the year of which 2 were issued for fund management, 2 for advising on corporate finance, 1 for dealing in derivatives and 1 for financial planning. The SC continues to see interest in the fund management and financial planning segments especially in the digital fund management segment.

The number of licensed representatives increased marginally to 9,660 compared with 9,587 in 2018. In 2019, a total of 920 new licences were issued for Capital Markets Services Representative's Licence (CMSRLs) to undertake various regulated

activities. The advisory segment continued to attract new entrants, particularly financial planning.

There was a decrease in the number of registered Marketing Representatives from 541 as at December 2018 to 367 as at December 2019. Similarly, the number of registered Trading Representatives declined slightly to 107 in 2019 as compared to 126 in 2018. In 2019, the SC also approved 10 new registrations for PECs, PEMCs, VCCs and VCMCs1.

Effective 2 January 2019, entities providing trustee services for a UTS and prescribed investment scheme, PRS, corporate bonds, sukuk or any other products as may be specified by the SC, and issuing houses are required to be registered under section 76A of the CMSA, pursuant to the introduction of the Guidelines on the Registration and Conduct of Capital Market Services Providers (CMSP Guidelines). To date, there is a total of 19 CMSPs, comprising 17 trustees and 2 issuing

<sup>&</sup>lt;sup>1</sup> 1 PEC, 4 PEMC, 3 VCC and 2 VCMC.

## **Capital Markets Services Licence holders**

By core activity <sup>2</sup>	2019	2018
Dealing in securities <sup>3</sup>	36	39
Dealing in derivatives	7	8
Fund management	97	98
Advising on corporate finance	42	42
Investment advice	15	16
Investment advice (individual)	1	1
Financial planning	34	35
Financial planning (individual)	2	3
TOTAL	234	242

By regulated activity	2019	2018
Dealing in securities		
Investment banks	10	10
Universal brokers	1	1
1+1 stockbroking companies	12	12
Special scheme foreign stockbroking companies	7	7
Issuing houses	-	2
	30	32
Dealing in derivatives		
Investment banks	5	5
1+1 stockbroking companies	3	3
Special scheme foreign stockbroking companies	2	2
Others	7	8
	17	18
Clearing		
Investment banks	5	5
1+1 stockbroking companies	3	3
Special scheme foreign stockbroking companies	2	2
Others	6	7
	16	17

For entities licensed for more than 1 regulated activity, core activity means the activity that the intermediary is primarily licensed

Includes 5 CMSLs for dealing in securities restricted to unit trust and 1 CMSL for dealing in securities restricted to listed securities.



## **Capital Markets Services Licence holders** (Continued)

By regulated activity	2019	2018
Fund management		
Portfolio management		
Investment banks	1	1
Unit trust management companies	244	25
Special scheme foreign fund managers	5	5
Islamic fund managers	234	21
Boutique fund managers	4	3
Digital Investment Manager	2	1
Others	21	24
Asset management		
REITS	18	19
	98	99
Advising on corporate finance		
Investment banks	10	10
1+1 stockbroking companies	6	6
Special scheme foreign stockbroking companies	5	6
Others / standalone / boutique corporate finance companies	43	43
	64	65
Investment advice		
Investment banks	9	8
1+1 stockbroking companies	8	8
Special scheme foreign stockbroking companies	7	7
Unit trust management companies	3	2
Others / standalone / boutique investment advice companies	22	23
	49	48
Financial planning		
Unit trust management companies	5	5
Corporate unit trust advisers	17	17
Others / standalone / boutique financial planning companies	20	21
	42	43

<sup>&</sup>lt;sup>4</sup> Including 1 company licensed for DIM.

#### Table 1

#### **Capital Markets Services Licence holders** (Continued)

By regulated activity	2019	2018
Dealing in securities restricted to unit trusts		
Unit trust management companies	29	30
Islamic fund managers	10	8
Corporate unit trust advisers	17	17
Others	1	1
	57	56
Dealing in securities restricted to listed securities		
Others	1	1
	1	1
Dealing in securities restricted to over-the-counter (OTC) bond		
Others	1	1
	1	1
Dealing in PRS schemes		
Investment banks	1	1
Unit trust management companies	9	9
Corporate PRS advisers	17	17
Others	3	2
	30	29
GRAND TOTAL	405	409

#### Table 2

#### **Capital Markets Services Representative's Licence holders**

By core activity	2019	2018
Dealing in securities	6,326	6,373
Dealing in derivatives	469	495
Fund management	819	818
Advising on corporate finance	768	761
Investment advice	301	307
Financial planning	977	833
GRAND TOTAL	9,660	9,587



#### Table 3

#### **Application for new company licences**

Regulated activities		ng in rities		ng in atives	7	nd Jement	corp	ng on orate ince		tment vice	Fina plan	ncial ning
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Issued	-	-	1	-	2	5	2	-	-	-	1	2

### Table 4

#### Application for new representatives' licences

Regulated activities		ng in rities	Deali deriva	ng in atives	Fu manag	nd ement	corp	ing on orate ince	Invest adv	tment vice		ncial ning
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Issued	417	317	43	40	90	100	131	128	43	52	196	168
Withdrawn*	70	43	13	9	44	83	27	23	4	7	52	77
Returned*	159	145	27	20	103	84	69	54	16	24	135	128

Note:

### Table 5

#### **Cessation of company/individual licences**

Regulated activities		ng in rities		ng in atives	Fui manag		corp	ing on orate ance	Invest adv	ment vice	Fina plan		plan	ncial ning ridual)
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Ceased	1*	-	2	-	2	-	2	1	1	-	2	-	1	-
Revoked	-	-	-	-	1	-	-	-	-	-	-	-	-	-
Suspended	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Note:

#### Table 6

#### Cessation of representatives' licences

Regulated activities		ing in rities		ng in atives	Fu manag	nd Jement	corp	ng on orate ince		tment vice		ncial ning
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Ceased*	514	453	107	88	88	97	121	135	46	39	47	47
Revoked	1	2	-	-	-	-	-	1	-	-	-	-
Suspended	1	-	-	-	-	-	-	-	-	-	-	-

<sup>\*</sup> By regulated activities

Dealing in securities restricted to unit trust

By regulated activities.

# **ENFORCEMENT**

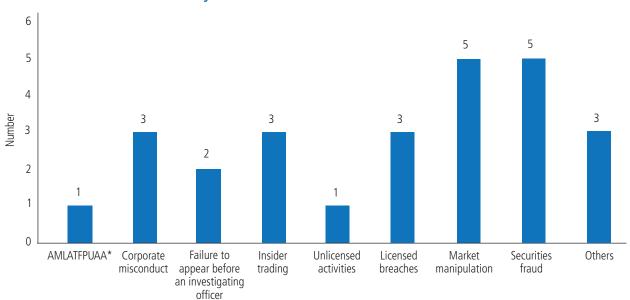
In 2019, the SC reviewed 26 cases relating to possible violations of securities offences, which is a result of its active surveillance of market and corporate activities, supervision, complaints as well as referrals from local authorities. The largest portion of these cases related to market manipulation and securities fraud (Chart 1).

As at 31 December 2019, there were a total of 48 active investigations. Most notably,

2019 saw an increase in securities fraud investigations, which constituted a guarter of the SC's active investigations in 2019 (Chart 2). This is consistent with the previous years' trend, which has shown an annual increase in securities fraud cases since 2017. Meanwhile, the portion of insider trading investigations continued its yearly decrease, marking an overall significant reduction in insider trading investigations since 2014 (Chart 3).

#### Chart 1

#### Total enforcement referrals by nature of offence



Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001.



### Chart 2 Active investigations by nature of offence

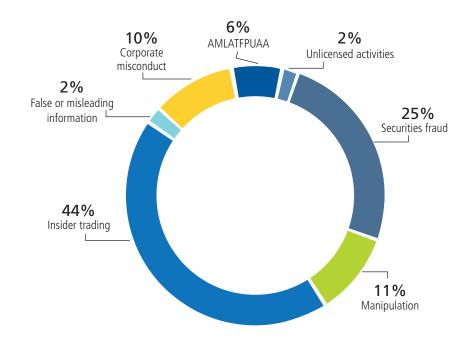
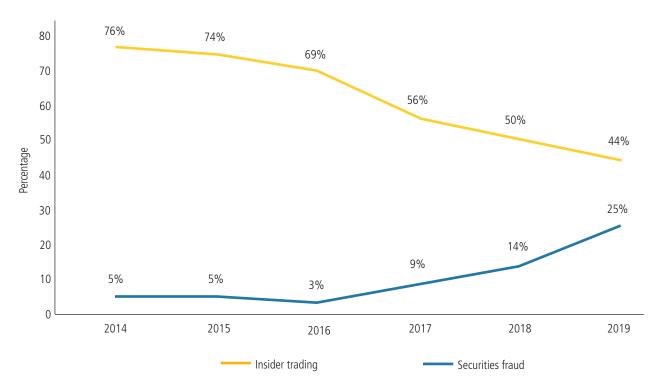


Chart 3 Insider trading and securities fraud offences from 2014 to 2019



The SC's Investigating Officers are given an array of investigative powers under the SCMA to facilitate the gathering of admissible evidence. This includes the power to obtain documentary and oral evidence, which form a central part of the investigative process.

In 2019, the SC's Investigating Officers recorded formal witness statements from 208 individuals. More than half of these statements were recorded from professionals (which included auditors, bankers, lawyers, company secretaries), directors and senior management of PLCs as well as securities accountholders (Chart 4).

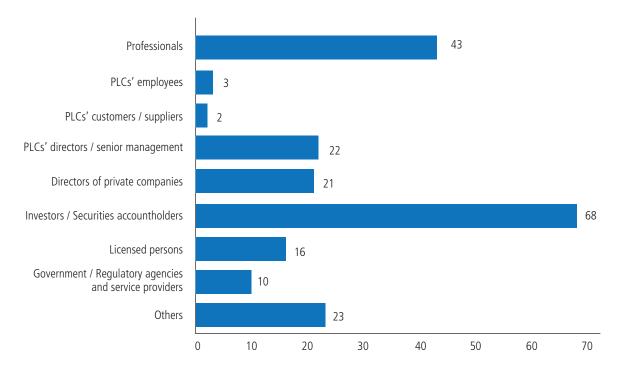
Cross-border transactions commonly feature in the SC's investigations. Through the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Co-operation and the Exchange of Information (MMoU), the SC is able to seek assistance from foreign supervisory authorities, particularly in recording statements from witnesses located abroad and obtaining documents relating to banking and securities transactions from foreign entities.

In 2019, the SC made 28 requests for investigative assistance to 12 foreign supervisory authorities (Table 1). As part of the MMoU, the SC also rendered assistance to 5 foreign supervisory authorities in relation to 10 requests for investigative assistance.

#### **Administrative actions**

In 2019, a total of 99 administrative sanctions were imposed by the SC for various misconducts

Chart 4 Witness statements recorded by type of witness in 2019



#### Table 1

#### Foreign assistance sought by the SC in 2019 by jurisdiction

Jurisdictions	No. of requests
Belgium	1
British Virgin Islands	3
China	1
Hong Kong	6
Japan	1
Korea	1
Labuan	1
Luxembourg	2
Singapore	6
Switzerland	2
United Kingdom	2
United States	2
TOTAL	28

and breaches of securities laws including making false or misleading statements to the SC, breaches of licensing conditions, failure to comply with approved accounting standards in the preparation of audited financial statements and for late submission of documents under the Lodge and Launch (LOLA) Framework.

Sanctions imposed on the parties in breach comprised reprimands, revocation of licences, imposition of penalties, and directives and issuance of public statements (Table 2).

In 2019, a total of RM5.38 million in penalties were imposed against the following parties:

An audit firm for failing to immediately report to the SC on irregularities that may have had a material effect on the ability of an issuer to repay an amount under a sukuk programme, and for the audit firm's

#### Table 2

#### Administrative actions taken by types of sanction and parties in breach in 2019

		Ту	pes of sanctio	n	
Parties in breach	Reprimand	Revocation / Suspension of Licence	Penalty	Directive	Issuance of Public Statement
Persons acting in concert	1	-	1	-	-
Licensed persons	6	2	8	5	-
Registered persons	-	-	1	-	-
PLCs or company applying for listing	7	-	-	-	-
Directors / senior management of PLC or company applying for listing	40	-	5	-	4
Private company	1	-	-	-	-
Audit firm	4	-	4	-	-
Other individuals <sup>1</sup>	5	-	5	-	-
TOTAL	64	2	24	5	4

<sup>2</sup> individuals who allowed third persons who were unauthorised nominees to use their securities trading accounts, an individual found to be the beneficial owner of deposited securities in the CDS account of 2 other individuals, the said 2 individuals who had engaged in trading securities in relation to deposited securities while evidence showed that a third party (the aforementioned individual) was the beneficial owner and 2 individuals who are deemed to have operated a recognised market without the SC's authorisation under Section 34 of the CMSA.

failure to send a copy of the issuer's audited financial statements to a trustee within the stipulated time;

- A director for failure to inform the SC of material developments to a company prior to its listing;
- 6 licensed intermediaries for delay in submitting the monthly statistical returns for wholesale funds and annual reports under the LOLA framework;
- A registered person for delay in submitting the monthly post-issuance report for its structured product under the LOLA framework;
- A responsible party for delay in submitting the post-issuance notice for a sukuk programme under the LOLA framework;
- A licensed individual for failure to comply with the condition of her licence which requires her to remain fit and proper at all times;
- 2 individual directors of a PLC for their recording of information that is false or misleading in the PLC's books and for furnishing of false or misleading information in relation to the PLC's agreements and audited financial statements to Bursa Malaysia;
- A person acting in concert in relation to a take-over offer who knowingly authorised the furnishing of information that is false or misleading to the SC;
- 2 individuals who allowed third persons who were unauthorised nominees to use their securities trading accounts;
- An individual found to be the beneficial owner of deposited securities in the CDS account of 2 other individuals; and

2 individuals who engaged in trading securities in relation to deposited securities while evidence showed that a third party was the beneficial owner.

#### **Infringement notices**

Apart from administrative actions under its statutory powers, the SC also utilises other forms of nonstatutory enforcement tools in the exercise of its monitoring, gatekeeping and supervisory functions.

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 action.

Infringement notices issued by the SC include the following:

- Supervisory letters involving infringement
  - issued pursuant to the exercise of a supervisory function or the conduct of an examination under section 126 of the SCMA.
- Warning letters issued pursuant to the discharge of the SC's gatekeeping function such as the issuance of licences, approval of corporate proposals and review of prospectuses. Warning letters may be issued to licensed, registered persons or other professionals or experts.
- Non-compliance letters issued pursuant to the discharge of SC's gatekeeping function for minor breaches.
- Cease and desist letters 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 2019, 99 infringement notices were issued by the SC as detailed in Table 3.

#### Table 3

#### Types of infringement notices

Туре	Total
Supervisory letters involving infringement	33
Warning letters	16
Non-compliance letters	26
Cease and desist letters	24
TOTAL	99

#### **Ongoing court cases for 2019**

In 2019, there were 34 ongoing criminal and civil cases at various levels of courts (Table 4).

In terms of the nature of the cases, 53% are related to insider trading while 26% related to corporate governance breaches such as financial misstatement and false disclosure. This is followed by 9% of cases involving securities fraud, 6% unlicensed activities and 6% market manipulation (Chart 5 and Table 5).

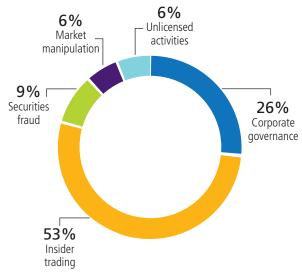
#### Table 4

#### **Cases currently pending in courts**

Courts	No. of cases	No. of individual
Sessions Court	16	24
High Court (Criminal)	12	24
Court of Appeal	1	1
High Court (Civil)	5	14
TOTAL	34	63

#### Chart 5

#### Ongoing court cases for 2019 by nature of cases



#### Table 5

#### Breakdown of ongoing court cases by nature of cases for 2019

Courts	No. of cases
Corporate governance	9
Insider trading	18
Securities fraud	3
Market manipulation	2
Unlicensed activities	2
TOTAL	34

### **Civil enforcement actions and** regulatory settlements in 2019

In 2019, the SC obtained judgment against a former deputy managing director for causing wrongful loss and securities fraud in the amount of RM11.54 million and RM1 million civil penalty. A total of RM17,775,986.93 was disgorged from 9 individuals by way of consent judgment following the filing of civil suits while a further RM16,037,061.19 was disgorged from 16 individuals by way of regulatory settlements.

Further details are set out in Tables 6 and 7.

Pursuant to its civil action and regulatory settlement, in 2019, the SC saw a huge increase in the amount disgorged in comparison to 2018. The SC successfully disgorged RM33.8 million through settlements in 2019 compared to RM9.2 million disgorged in 2018.

There was also an increase in the amount of civil penalty obtained in 2019. The SC had obtained RM8.7 million of civil penalty compared to RM1.4 million obtained in 2018. Following from the disgorgement amount obtained by the SC, as at 31 December 2019, RM1,264,882 have been restituted to investors while a further RM1,170,187.53 have been earmarked for

further restitution. In relation to this, a total of 619 investors have been identified for restitution while another 214 investors have been earmarked for further restitution.

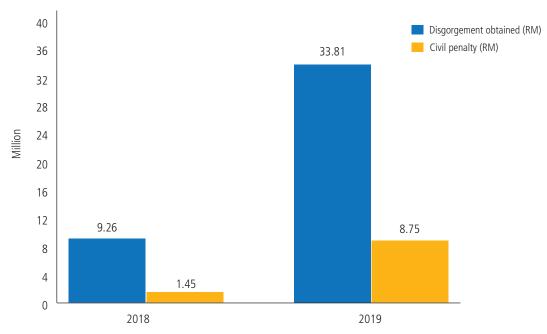
#### **Criminal convictions secured in** 2019

In 2019, a total of 14 convictions were secured by the SC. There were 12 individuals convicted after full trial by the Sessions Courts for various securities offences including insider trading, false financial reporting and failure to register prospectus. The criminal convictions of the other 2 individuals were affirmed by the High Court.

The sentences meted out include jail terms of up to 5 years and fines in the range of RM70,000 to RM3 million.

Further details are set out in Table 9.

Chart 6 Comparison of disgorgement and civil penalty obtained by the SC in 2018 and 2019





#### Table 6

#### Outcome of civil action taken in 2019

No.	Breach	Defendants	Outcome
1.	Insider trading in the shares of Bolton Bhd.	Lim Chiew	On 8 December 2005, the SC filed a civil suit against Lim Chiew.
			On 28 September 2017, the Kuala Lumpur High Court declared that the SC had successfully proven its claim against Lim Chiew. The High Court ordered Lim Chiew to pay the sum of RM1,242,061.08 claimed by the SC and a civil penalty of RM50,000.
			On 7 January 2019, the Court of Appeal allowed Lim Chiew's appeal and set aside the High Court's order.
2.	Knowingly authorising the furnishing of a misleading statement in relation to a failure to disclose 4 individuals as parties acting in concert in an announcement dated 29 September 2008 to Bursa Malaysia.	Lei Lin Thai (Lei LT)	On 20 February 2019, a civil action was filed against Lei LT.  On 8 March 2019, the High Court recorded a Consent Judgment between the SC and Lei LT in the sum of RM2,258,578.53.
3.	Insider trading in the shares of Three-A Resources Bhd.	Dato' Mohd Nor Abdul Wahid (Dato' Mohd Nor)	On 27 February 2019, the SC filed a civil suit against Dato' Mohd Nor.  On 14 March 2019, the High Court recorded a Consent Judgment between the SC and Dato' Mohd Nor granting the orders which were sought by the SC, including payment in a sum of RM50,201.40 and a civil penalty of RM1 million.
4.	Insider trading in the shares of Malaysia Pacific Corporation Bhd shares.	Dato Ch'ng Poh @ Ch'ng Chong Poh (Dato Ch'ng Poh).	On 26 March 2019, the SC filed a civil suit against Dato Ch'ng Poh.  On 2 April 2019, the High Court recorded a Consent Judgment between the SC and Dato Ch'ng Poh, granting the orders which were sought by the SC, including payment in a sum of RM390,777 and a civil penalty of RM1 million.

#### Table 6

#### Outcome of civil action taken in 2019 (Continued)

No.	Breach	Defendants	Outcome
5.	<ul> <li>Making a statement or disseminating information that is false or misleading and likely to induce the sale and purchase of securities by other persons by making press statements attributed concerning the affairs of Kenmark Industrial Company (M) Bhd (Kenmark) from 3 June 2010 to 9 June 2010.</li> <li>Insider trading in the shares of Kenmark.</li> </ul>	<ul> <li>Datuk Ishak Ismail (First Defendant)</li> <li>BHLB Trustee Bhd (Second Defendant)</li> </ul>	On 24 September 2010, the SC filed a civil suit against Datuk Ishak and BHLB Trustee Bhd.  On 6 May 2019, the High Court recorded a Consent Judgment between the SC and Datuk Ishak, granting the orders which were sought by the SC, including payment in a sum of RM18,906,849 and a civil penalty of RM1 million  The suit against the Second Defendant was withdrawn with no order as to costs.
6.	Insider trading in the shares of Ranhill Power Bhd.	<ul> <li>Amran Awaluddin (First Defendant)</li> <li>Nooralina Mohd Shah (First Defendant)</li> </ul>	On 19 April 2019, the SC filed a civil suit against the defendants.  On 23 May 2019, the High Court recorded a Consent Judgment between the SC and the Defendants, granting the orders which were sought by the SC, including payment in a sum of RM359,061 and a civil penalty of RM1 million from each Defendant.  The SC was also awarded a sum of RM50,000 in costs.
7.	Insider trading in the shares of TH Group Bhd.	<ul> <li>Ang Pok Hong (Ang PH)</li> <li>Wendy Wong Soon Soon (Wendy Wong)</li> </ul>	On 8 August 2019, a civil action was filed against Ang PH and Wendy Wong for breach of insider trading provisions.  On 11 September 2019, the High Court recorded a Consent Judgment between the SC and Ang PH and Wendy Wong for the sum of RM2,190,729.
8.	Insider trading in the shares of Hirotako Holdings Bhd.	Ng Ee-Fang (Ng EF)	On 12 July 2019, a civil action was initiated against Ng EF for breach of insider trading provisions.  On 30 August 2019, the High Court recorded a Consent Judgment between the SC and Ng EF for the sum of RM578,640 and a civil penalty of RM750,000.
9.	<ul> <li>Use of manipulative and deceptive devices.</li> <li>Causing wrongful loss to a listed corporation.</li> </ul>	Datin Chan Chui Mei (Datin Chan)	On 26 September 2016, the SC filed a civil suit against Datin Chan.  After a full trial, the High Court on 17 December 2019 granted the orders which were sought by the SC, including payment of a sum of RM11.54 million, a civil penalty of RM1 million and costs of RM150,000 to the SC.



#### Table 7

#### **Regulatory settlements in 2019**

No.	Offence	Offender(s)	Settlement
1.	<ul> <li>Insider trading in the shares of Johor Land Bhd (JLand).</li> </ul>	Dato' Harjit Singh Gurdev Singh (Dato' Harjit)	On 29 January 2019, Dato' Harjit entered into a settlement with the SC in the sum of RM173,352.
	<ul> <li>Communicating inside information in relation to the proposed privatisation of JLand. to Dato' Harjit.</li> </ul>	A.F.M Shafiqul Hafiz (Shafiqul)	On 30 January 2019, Shafiqul entered into a settlement with the SC in the sum of RM173,352.
2.	Insider trading in the shares of Malaysia Airlines Bhd (MAS).	<ul> <li>Datuk         Kamarudin         Meranun (Datuk         Kamarudin)</li> <li>Abdul Radzim         Abdul Radzim         Abdul Radzim)</li> <li>Mohamed Radzif         Mohamed         Shamsudin         (Mohamed         Radzif)</li> </ul>	On 2 April 2019, Datuk Kamarudin entered into a settlement with the SC in the sum of RM3,637,252.  On 9 April 2019, Abdul Radzim and Mohamed Radzif entered into a settlement with the SC in the sum of RM750,000 respectively.
3.	Insider trading in the shares of MAS.	Terence Wong @ Huang Thar-Rearn (Terence Wong)	On 8 April 2019, Terence Wong entered into a settlement with the SC in the sum of RM573,150.
4.	Insider trading in the shares of EON Capital Bhd.	Poh Yang Hong (Poh YH)	On 15 April 2019, Poh YH entered into a settlement with the SC in the sum of RM260,160.
		Ong Saw Peng (Ong SP)	On 3 July 2019, Ong SP entered into a settlement with the SC in the sum of RM1,546,300.59.
5.	Insider trading in the shares of Harn Len Corporation Bhd.	Chong Ah Kaim (Chong AK)	On 5 May 2019, Chong AK entered into a settlement with the SC in the sum of RM65,157.
	5.16.	Low Kok Yong (Low KY)	On 7 May 2019, Low KY entered into a settlement with the SC in the sum of RM85,596.
6.	<ul> <li>Insider trading in the shares of DIS Technology Holdings Bhd (DIS Tech).</li> <li>Communicating inside information in relation to the misstatement of the financial results in the quarterly reports of DIS Tech (financial misstatement) to Law Cheng Tiang (Law CT).</li> <li>Procuring Law to dispose the DIS Tech shares.</li> </ul>	Lim Eu Keong (Lim EK)	On 23 July 2019, Lim EK entered into a settlement with the SC in the sum of RM87,669.
	• Insider trading in the shares of DIS Tech.	Law Cheng Tiang (Law CT)	On 24 July 2019, Law CT entered into a settlement with the SC in the sum of RM87,669.

2019

#### Table 7

### **Regulatory settlements in 2019** (Continued)

No.	Offence	Offender(s)	Settlement
	<ul> <li>Communicating inside information pertaining to the financial misstatement to Lee Weng Wai (Lee WW).</li> </ul>	Lim EK	In addition to the above, on 23 July 2019, Lim EK also entered into a settlement with the SC in the sum of RM83,700.
	<ul> <li>Procuring Lee WW to dispose the DIS Tech shares.</li> </ul>		
	<ul> <li>Insider trading in the shares of DIS Tech.</li> </ul>	Lee WW	On 23 July 2019, Lee WW entered into a settlement with the SC in the sum of RM83,700.
7.	Insider trading in the shares of Putrajaya Perdana Bhd.	Dato' Seri Tham Ka Hon (Dato' Seri Tham)	On 15 October 2019, Dato' Seri Tham entered into a settlement with the SC in the sum of RM4,180,309.80.
		Loo Soo Loong (Loo SL)	On 18 October 2019, Loo SL entered into a settlement with the SC in the sum of RM2,106,257.20.
		Chu Yoke Fong (Chu YF)	On 15 October 2019, Chu YF entered into a settlement with the SC in the sum of RM1,393,436.60.

#### Table 8

### **Details of criminal prosecution in 2019**

No.	Nature of offence	Offender(s)	Date charged
1.	Insider trading in the shares of DIS Tech.	Cheah Yew Keat	10 October 2019



#### Table 9

#### Outcome of criminal trials and appeals in 2019

Outc	Outcome of criminal trials and appeals in 2019			
No.	Nature of offence	Offender(s)	Outcome	
1.	Insider trading in the shares of TH Group Bhd.	Lei Lin Thai (Lei LT)	Lei LT was charged on 29 January 2015.  All charges were withdrawn on 11 March 2019 following a Consent Judgment recorded between the SC and Lei LT on 8 March 2019.	
2.	Insider trading in the shares of JLand.	Dato' Harjit Singh Gurdev Singh (Dato' Harjit)	Dato' Harjit was charged on 22 February 2018.  All charges were withdrawn on 14 February 2019 following a settlement entered into between the SC and Dato' Harjit on 29 January 2019.	
	Communicating inside information in relation to the proposed privatisation of JLand to Dato' Harjit.	A.F.M. Shafiqul Hafiz (Shafiqul)	Shafiqul was charged on 22 February 2018.  The charge was withdrawn on 4 March 2019 following a settlement entered into between the SC and Shafiqul on 30 January 2019.	
3.	Furnishing false statements in relation to the revenue of Axis Incorporation Bhd (Axis) to Bursa Malaysia.	<ul> <li>Koh Tee Jin (Koh TJ)</li> <li>Lee Han Boon (Lee HB)</li> <li>Saipuddin Lim Abdullah (Saipuddin Lim)</li> </ul>	Koh TJ, Lee HB and Saipuddin Lim were charged on 21 March 2013.  On 10 July 2017, Lee TJ and Saipuddin Lim each pleaded guilty to 1 charge of furnishing false statements to Bursa Malaysia. The other 4 charges were taken into consideration by the court under section 171A of the <i>Criminal Procedure Code</i> (CPC) when meting out the sentence. Lee HB was sentenced to 7 months' imprisonment and a RM200,000 fine while Saipuddin Lim was sentenced to 12-month imprisonment.  On 21 March 2019, Koh TJ pleaded guilty to 1 charge of furnishing false statements to Bursa Malaysia. Three other similar charges were taken into consideration by the court under section 171A of the CPC when meting out the sentence. Koh was sentenced to 1-day imprisonment and a fine of RM200,000.  The fifth charge against Koh TJ was withdrawn by the prosecution following Koh TJ's guilty plea.	
4.	Abetting United U-Li Corporation Bhd (U-Li) in making a misleading statement in its <i>Annual</i> <i>Report</i> and Financial Statements for the financial year ended 31 December 2004 to Bursa Malaysia.	Yue Chi Kin (Yue CK)	Yue CK was charged on 28 April 2009.  On 21 October 2015, the Sessions Court found Yue CK guilty and sentenced him to 1-year imprisonment and a fine of RM400,000 (in default, 6-month imprisonment)  On 10 March 2019, the High Court allowed Yue CK's appeal and set aside the Sessions Court's conviction and sentence. The SC filed an appeal to the Court of Appeal on 25 March 2019 against the High Court's decision.	

#### Table 9

No.	Nature of offence	Offender(s)	Outcome
5.	Insider trading in the shares of Three-A Resources Bhd.	Dato' Mohd Nor Abdul Wahid (Dato' Mohd Nor)	Dato' Mohd Nor was charged on 13 February 2018.  The charge was withdrawn on 15 April 2019 following a Consent Judgment recorded between the SC and Dato' Mohd Nor on 14 March 2019.
6.	Allowing a person who is not an authorised nominee of a deposited security to effect dealings in respect of the deposited security (shares of Three-A Resources Bhd).	Azuzay Zamani (Azuzay)	Azuzay was charged on 13 February 2018.  The charge was withdrawn on 15 April 2019 following an administrative action initiated against him on 20 March 2019.
7.	Submission of false information to the SC in relation to the status of the utilisation of proceeds from a rights issue by Kiara Emas for the financial years ended 31 March 1997, 1998, 1999 and 2000.	Ravandaran Thangeveloo (Ravandaran)	Ravandaran was charged on 13 August 2004.  On 5 April 2019, Ravandaran pleaded guilty to the first, second and third charges against him and was sentenced to a fine of RM150,000 (in default, 1-year imprisonment) for each of the 3 charges.  The fourth charge was taken into consideration by the court under section 171A of the CPC when meting out the sentence.
8.	Furnishing a false statement in relation to Kosmo Technology Industrial Bhd's (Kosmo Tech) eight quarterly reports on the unaudited consolidated results for the financial years 2006 and 2007 to Bursa Malaysia.  Abetting Kosmo Tech in furnishing the false statements to Bursa Malaysia.	<ul> <li>Norhamzah Nordin (Norhamzah)</li> <li>Mohd Azham Mohd Noor (Mohd Azham)</li> </ul> Lim Hai Loon (Lim LH)	Both Mohd Azham and Lim Hai Loon were charged on 26 May 2011.  Norhamzah was charged on 7 June 2011.  On 23 September 2016, all 3 were acquitted and discharged by the Sessions Court at the end of the prosecution's case.  On appeal, the High Court allowed the Prosecution's appeal and ordered all 3 to enter their defence.  On 29 April 2019, the Sessions Court convicted Norhamzah, Mohd Azham and Lim HL and sentenced them as follows:  Norhamzah was sentenced to 2-year imprisonment and a fine of RM1.45 million.  Mohd Azham was sentenced to 2-year imprisonment and a fine of RM1.45 million.  Lim HL was sentenced to 1-year imprisonment and a fine of RM560,000.  The Sessions Court Judge allowed a stay of the jail terms pending the accused persons' respective appeals



#### Table 9

No.	Nature of offence	Offender(s)	Outcome
9.	Failing to appear before an Investigating Officer of the SC to be examined orally in connection with an ongoing investigation.	Chok Chew Lan (Chok CL)	Chok CL was charged on 24 October 2017.  On 12 June 2018, the Sessions Court ruled that the Prosecution had proven a <i>prime facie</i> case and ordered Chok CL to enter her defence.  On 23 July 2018, Chok CL pleaded guilty to both charges and was sentenced to a fine of RM35,000 for each charge.  On appeal, the High Court on 20 March 2019 affirmed the sentence imposed by the Session Court.
10.	Insider trading in the shares of Malaysia Pacific Corporation Bhd.	Dato Ch'ng Poh @ Ch'ng Chong Poh (Dato Ch'ng Poh)	Dato Ch'ng Poh was charged on 10 January 2014.  The charges were withdrawn on 16 April 2019 following a Consent Judgment recorded between the SC and Dato' Ch'ng Poh on 2 April 2019.
11.	Insider trading in the shares of Ranhill Power Bhd (RPB).  Abetting Amran in the insider trading of RPB shares.	Amran Awaluddin (Amran) Nooralina Mohd Shah (Nooralina)	Amran and Nooralina were charged on 31 July 2015.  All charges were withdrawn on 27 May 2019 following a Consent Judgment recorded between the SC and both Amran and Nooralina on 23 May 2019.
12.	Distribution of application forms for securities without a copy of prospectus registered by the SC.	<ul> <li>Chong Yuk Ming (Chong YM)</li> <li>Balachandran A. Shanmugam (Balachandran)</li> </ul>	Chong YM and Balachandran were charged on 21 April 2011.  On 28 June 2019, Chong was sentenced to 1-day imprisonment and a fine of RM600,000 (in default, 6 months' imprisonment). Balachandran was sentenced to 1-day imprisonment and a fine of RM400,000 (in default, 4 months' imprisonment).
13.	<ul> <li>Misleading statement in a material particular</li> <li>Insider trading in the shares of Kenmark Industrial Co. (M) Bhd</li> </ul>	Datuk Ishak Ismail (Datuk Ishak)	Datuk Ishak was charged on 13 June 2016.  All charges were withdrawn on 10 June 2019 following a Consent Judgment recorded between the SC and Datuk Ishak on 6 May 2019.

#### Table 9

No.	Nature of offence	Offender(s)	Outcome
14.	Furnishing of false information to Bursa Malaysia in relation to the revenue in Megan Media Holdings Bhd's (MMHB) Quarterly Report on Consolidated Results for the Financial Period ended 31 January 2007.	Dato' Dr Haji Mohd Adam Che Harun (Dato' Adam)	Dato' Adam was charged on 10 December 2007.  On 17 May 2017, the Sessions Court found Dato' Adam guilty and sentenced him to 18 months' imprisonment and a fine of RM300,000 (in default, 1-year imprisonment)  On appeal, the High Court on 21 June 2019, affirmed the conviction by the Sessions Court. The appeal against his sentence was allowed in part, whereby the imprisonment term of 18 months was reduced to 6 months while the fine of RM300,000 was maintained.  The High Court also allowed Dato' Adam's application for a stay of execution of the imprisonment term pending his appeal to the Court of Appeal.
15.	Using a scheme to defraud Liqua Health Corporation Bhd (Liqua) in connection with the purchase of 45,960,450 units of Liqua shares.  Abetting Alice Poh in the commission of the scheme to defraud Liqua.	Alice Poh Gaik Lye (Alice Poh)  Goh Bak Ming (Goh BM)	Alice Poh was charged on 14 June 2010.  Goh BM was charged on 8 June 2010.  On 14 February 2017, the Sessions Court ruled that the Prosecution had proven a <i>prima facie</i> case and ordered both Alice Poh and Goh BM to enter their defence.  On 1 July 2019, the Sessions Court acquitted and discharged Alice Poh and Goh BM at the end of the defence case.  On 8 July 2019, the Prosecution filed an appeal to the High Court against the acquittals.
16.	Furnishing a false statement in relation to an announcement made by Linear Corporation Bhd to Bursa Malaysia that its wholly owned subsidiary had accepted a construction project at RM1.6 billion to design and construct a district cooling plant in Manjung, Perak, for what was termed as the 'King Dome Project'.	Alan Rajendram Jeya Rajendram (Alan)	Alan was charged on 9 July 2015.  On 28 December 2017, Alan was acquitted and discharged by the Sessions Court at the end of the Prosecution's case.  On appeal, the High Court on 31 July 2019, overturned the Sessions Court's decision and ordered Alan to enter his defence.  Alan pleaded guilty to the charge and was sentenced to 7-month imprisonment and a fine of RM100,000 (in default, 6-month imprisonment).



#### Table 9

No.	Nature of offence	Offender(s)	Outcome
17.	Submission of false information to the SC in relation to the status of the utilisation of proceeds from a rights issue by Kiara Emas for the financial years ended 31 March 1997, 1998, 1999 and 2000.	Tan Kam Sang (Tan KS)	Tan KS was charged on 13 August 2004.  On 18 November 2019, Tan KS pleaded guilty to the first, second and third charges against him and was sentenced to a fine of RM150,000 (in default, 1-year imprisonment) for each of the 3 charges.  The fourth charge was taken into consideration by the court under section 171A of the CPC when meting out the sentence.
18.	Insider trading in the shares of Three-A Resources Bhd (3A).	Fong Chiew Hean (Fong CH)	Fong CH was charged on 25 October 2016.  On 22 August 2019, Fong CH pleaded guilty to 9 charges of insider trading. The Sessions Court convicted Fong CH on the first charge and took into consideration the subsequent 8 charges when meting out the sentence as per section 171A of the CPC during sentencing. Fong CH was sentenced to 1-day imprisonment and a fine of RM1 million.
	Abetting Fang Siew Yee (Fang SY) in the insider trading of 3A shares.	Tan Bee Geok (Tan BG)	Tan BG was charged on 25 October 2016.  On 22 August 2019, Tan BG pleaded guilty to 8 charges of abetting Fang SY in insider trading. The Sessions Court convicted Tan BG on the first charge and took into consideration the subsequent 7 charges when meting out the sentence as per section 171A of the CPC. Tan BG was sentenced to 1-day imprisonment and a fine of RM1 million.
	<ul> <li>Communicating inside information in relation to the collective venture between the businesses of 3A and Wilmar International Limited to Fang Ciew Hean.</li> <li>Abetting Fang SY in the insider trading of 3A shares.</li> </ul>	Fang Ciew Hean (Fang CH)	Fang CH was charged on 25 October 2016.  On 3 September 2019, Fang CH pleaded guilty to the charge of communicating inside information to Fang CH and was sentenced to 1-day imprisonment and a fine of RM1 million.  On 3 September 2019, Fang CH pleaded guilty to 7 charges of abetting Fang SY in insider trading. The Sessions Court convicted Fang CH on the first charge and took into consideration the subsequent 6 charges when meting out the sentence as per section 171A of the CPC. Fang CH was sentenced to 1-day imprisonment and a fine of RM1 million.
19.	Insider trading in the shares of Malaysian Merchant Marine Bhd.	Ramesh Rajaratnam (Ramesh)	Ramesh was charged on 29 April 2015.  On 11 September 2019, the Sessions Court found Ramesh guilty and sentenced him to 5-year imprisonment and a fine of RM3 million (in default, 3-year imprisonment).  The Sessions Court allowed a stay of the jail term pending Ramesh's appeal to the High Court.

#### Table 9

No.	Nature of offence	Offender(s)	Outcome
20.	Insider trading in the shares of Hirotako Holdings Bhd (Hirotako)	Ng Ee-Fang (Ng EF)	Ng EF was charged on 13 March 2018.  The charges were withdrawn on 10 September 2019 following a Consent Judgment recorded between the SC and Ng EF on 30 August 2019.
	Allowing a person who is not an authorised nominee of a deposited security to effect dealings in respect of the deposited security (Hirotako shares)	Daniel Yong Chen-l (Daniel Yong)	Daniel Yong was charged on 13 March 2018.  The charge was withdrawn on 10 September 2019 following an administrative acton initiated against him on 30 August 2019.
21.	Insider trading in the shares of TH Group Bhd (TH Group)	Ang Pok Hong (Ang PH)	Ang PH was charged on 5 February 2015.  The charges against Ang PH were withdrawn on 13 September 2019, following a Consent Judgment recorded between the SC and Ang PH on 11 September 2019.
	Abetting Ang PH in the insider trading of TH Group shares.	Wendy Wong Soon Soon (Wendy Wong)	Wendy Wong was charged on 5 February 2015.  The charges against Wendy Wong were withdrawn on 13 September 2019 following a Consent Judgment recorded between the SC and Wendy Wong on 11 September 2019.
22.	Distribution of application forms for securities without a copy of prospectus registered by the SC (Bestino Group Bhd)	<ul> <li>Chong Yuk Ming (Chong YM)</li> <li>Balachandran A. Shanmugam (Balachandran)</li> </ul>	Chong YM and Balachandran were charged on 21 April 2011.  On 28 June 2019, Chong YM was sentenced to 1-day imprisonment and fine of RM600,000 (in default, 6-month imprisonment). Balachandran was sentenced to 1-day imprisonment and a fine of RM400,000 (in default, 4-month imprisonment).  Chong YM filed an appeal to the High Court against his conviction and sentence and the Prosecution filed a cross appeal against the sentence.  On 22 October 2019, Chong YM withdrew his appeal against the conviction and the SC withdrew its appeal against the sentence.



#### Table 9

# Outcome of criminal trials and appeals in 2019 (Continued)

No.	Nature of offence	Offender(s)	Outcome
23.	Offering securities without having prospectus registered by the SC (JPG Holdings Bhd)	ring prospectus Raja Muhammad charged on 1 June 2016. istered by the SC (JPG (Raja Samsul)	On 12 November 2019, the Sessions Court acquitted
	Issuance of securities without having prospectus registered by SC (JPG Holdings Bhd)	<ul> <li>Dato' Abdul Malek Yusof (Dato' Malek)</li> <li>Noor Aida Abdullah (Noor Aida)</li> </ul>	and discharged all 3 at the end of the defence case.
24.	Insider trading in the shares of Sime Darby Bhd, Maxis Communication Bhd, UEM World Bhd and VADS Bhd.	Sreesanthan Eliathambhy (Sreesanthan)	Sreesanthan was charged on 20 July 2012 with 7 counts of insider trading.  In 2018, Sreesanthan filed a revision to the High Court against dismissal of his striking out application and discovery application for all recorded statements during investigation.  On 12 July 2019, the High Court dismissed Sreesanthan's revision for both the striking out and discovery application for all recorded statements during investigation.

# Table 10

#### Compounds in 2019

No.	Nature of offence	Offender(s)	Compound Offered
1.	Falsify or cause to be falsified any matter that is entered, recorded or stored in any books in relation to the business of Eastspring Investments Bhd, a holder of a Capital Market Services Licence	Nor Azlina Mohd Akhir	The SC compounded the offence for RM150,000.

# **INVESTOR EMPOWERMENT INITIATIVES**

# InvestSmart® Fest 2019

18 - 20 October 2019

Mid Valley Exhibition Centre, Kuala Lumpur



13,000+ Visitors



**50+ Exhibitors** 



Speakers



#FinPlan4u **Participants** 



The SC held its annual flagship investor education event, InvestSmart® Fest 2019 themed 'Invest Smart • Bijak Labur' from 18 to 20 October 2019 at Mid Valley Exhibition Centre, Kuala Lumpur. The event was officiated by YB Datuk Seri Saifuddin Nasution Ismail, Minister of Domestic Trade and Consumer Affairs. Visitors to the event were exposed to various investment opportunities available through the capital market. This includes opportunities for alternative investment platforms such as ECF, P2P financing, DIM and DAX, which were showcased at the Digital Pavilion, a dedicated space within the exhibition hall. The 3-day event also offered over 400 free consultations with licensed financial planners at the #FinPlan4U financial services desk, enabling the public to seek initial assessment of their financial status and information on how to manage their savings and investment. This year's #FinPlan4U also featured the retirement advisory services by the Employees Provident Fund (EPF).

#### **ScamBuster Walk Hunt 2019**

In conjunction with the InvestSmart® Fest 2019, the SC also organised the ScamBuster Walk Hunt on 20 October 2019, participated by 19 teams. Following the success of its ScamBuster Run held for the past two years, the objective of the ScamBuster Walk Hunt was to raise awareness among Malaysians on illegal investment schemes via a fun-themed educational activity. All proceeds raised were channelled to the SC HEART, the regulator's corporate social responsibility and charity initiative.











#### Description

The inaugural East Malaysia flagship investor education event titled 'Bersama InvestSmart® @ Borneo-Sabah 2019' was held in Kota Kinabalu on 29 and 30 June. The 2-day event aimed to equip investors in Sabah with the fundamentals on making sound investment decisions, which included learning about investment opportunities and protecting against investment scams.

The opening ceremony was officiated by Sabah State's Assistant Minister of Finance, YB Tuan Sarifuddin Hata, representing the Chief Minister of Sabah, YAB Datuk Seri Panglima Haji Mohd Shafie Haji Apdal.





### SC-IN-THE-COMMUNITY



#### Description

Face-to-face community engagement initiative where the SC provides information on smart investing including ways to avoid scams. The team also handled investor queries and organised surveys to gauge investor behaviour.

#### InvestSmart® @ Bursa Malaysia's The Marketplace Fair, Penang

5 January 2019 Penang

8,500 **Participants** 

#### Description

The Marketplace Fair@Penang is a 1-day share investment event organised by Bursa Malaysia to educate and inculcate a share investment culture among the public. Held in a fun and interactive environment at the Setia Spice Convention Centre, Penang, the InvestSmart® team engaged with visitors to share knowledge about the Malaysian capital market. The event was officiated by the Minister of Finance, YB Tuan Lim Guan Eng.

#### InvestSmart® @ BNM's Karnival Kewangan, Miri

23 - 24 February 2019 Miri, Sarawak

17,000 **Participants** 

#### **Description**

BNM hosted its first Karnival Kewangan event for the year at the Permaisuri Imperial City Mall, Miri, Sarawak. The event aimed to engage the community of Miri to empower them with knowledge, awareness and tools about financial products and services. About 17,000 visitors attended the 2-day event. The InvestSmart® team took the opportunity to create awareness and share information on the capital market products and services with the visitors. The InvestSmart® team also took part in the 'Forum Jenayah Kewangan' alongside with BNM, Royal Malaysia Police (PDRM) and Malaysian Communications and Multimedia Commission (MCMC).

#### InvestSmart® @ Agensi Kaunseling and Pengurusan Kredit's Public Programme on Women in Finance

23 March 2019 Institut Kefahaman Islam Malaysia, Kuala Lumpur

**150** Participants

#### **Description**

'Women in Finance' is AKPK's first public programme, which was planned in conjunction with the International Women's Day. The programme aimed to expose concerns on women's financial well-being (provide avenues in cases of emotional imbalance, legal and entrepreneurship). This event was organised in collaboration with the Institute of Islamic Understanding Malaysia (IKIM). The InvestSmart® team engaged with women participants to spread awareness on the SC, the InvestSmart® brand and the Malaysian capital market.

#### InvestSmart® @ BNM's Karnival Kewangan, Kuala Terengganu

4 – 6 April 2019 Kuala Terengganu, Terengganu

**25,000 Participants** 

#### **Description**

BNM hosted its Karnival Kewangan event at TH Hotel & Convention Centre, Kuala Terengganu. The event aimed to engage with the community in Kuala Terengganu to empower them with knowledge, awareness and tools about financial products and services. The InvestSmart® team took this opportunity to exchange knowledge with visitors and raise awareness about capital market products and services.



#### InvestSmart® @ Minggu Saham **Amanah Malaysia 2019**

19 - 25 April 2019 Sungai Petani, Kedah

163,000 **Participants** 

#### Description

The InvestSmart® team participated again in the Minggu Saham Amanah Malaysia (MSAM) organised by Permodalan Nasional Bhd's in Sungai Petani, Kedah. As in previous years, InvestSmart® team played the lead role together with representatives from the PPA to engage visitors during the week-long event and spread awareness on the Malaysian capital market as well showcase the InvestSmart® brand and its initiatives. Investment games, 'Where Investment Drops!' and 'Wheel of Wisdom' were the attractions among the visitors.

#### InvestSmart® @ MCMC

13 May 2019 MCMC Headquarter, Cyberjaya

95 **Participants** 

#### Description

The MCMC invited InvestSmart® to hold a half-day talk session titled `Pengurusan Kewangan: Asas-Asas Pelaburan' to staff at its headquarter in Cyberjaya. The event was also broadcasted via a live feed to include MCMC's staff at 4 regional offices. Organised by the Akademi MCMC, the event promoted the general understanding among its staff on legitimate investment products and created awareness on the importance of retirement planning.



#### InvestSmart® @ BNM's Karnival Kewangan, Melaka

13 - 14 July 2019 Melaka

28,800 **Participants** 

#### Description

BNM hosted their financial carnival at AEON Bandaraya Melaka. The event is a one-stop edutainment centre to elevate public's awareness on financial matters and financial literacy. The InvestSmart® team took the opportunity to engage and raise awareness about capital market products and services. The InvestSmart® team also took part in the forum on financial crime along with BNM, PDRM and MCMC.

#### InvestSmart® @ Malaysian Financial **Planning Council's National Financial Literacy Workshop for Youth 2019**

27 July 2019 Ipoh, Perak

**300 Participants** 

24 August 2019 Kota Bharu, Kelantan 300

2 November 2019 Petaling Jaya, Selangor

**300 Participants** 

**Participants** 

#### Description

The InvestSmart® team was invited to set up booth and speak at three workshops organised for youth by the Malaysian Financial Planning Council. Held in Ipoh, Kota Bharu and Petaling Jaya, in collaboration with the Malaysian Youth Council, these workshops aimed to promote the importance of financial planning and cultivate good saving habits and smart investment culture among youth.

#### InvestSmart® @ Universiti Sains Islam Malaysia

3 September 2019 USIM Campus, Negeri Sembilan

200 **Participants** 

#### **Description**

The InvestSmart® team participated in a programme organised by Bursa Malaysia for final-year students of Universiti Sains Islam Malaysia (USIM). The event, titled `Program Kebolehpasaran Graduan IPT 2019', was organised to prepare the students for employment and expose them to the stock market and other opportunities available in the capital market. The half-day event featured speakers who presented various topics such as career overview and an introduction on capital market products, financial planning as well as fundamental and technical analysis.

#### InvestSmart® @ BNM's Karnival Kewangan, Perlis

28 - 29 September 2019 Kangar, Perlis

7,568 **Participants** 

#### Description

BNM hosted its Karnival Kewangan event in Kangar, attracting nearly 8,000 visitors. It was aimed at widening the outreach of financial education by engaging with the community in Perlis. The InvestSmart® team raised awareness about the SC and the capital market. The team also took part in the forum on financial crime along with BNM and PDRM.

#### InvestSmart® @ MOF's Living in Future Time (LIFT) Festival 2019

28 - 29 December 2019 Menara PERKESO, Putrajaya

7,000 **Participants** 

#### Description

MOF in collaboration with BNM organised a finance and technology festival to showcase and promote literacy in financial technology. The InvestSmart® team engaged retail investors in Putrajaya and its surrounding areas, particularly the civil servants. This event provided a good platform to raise awareness on the SC's role in the capital market and its investor education initiatives under the InvestSmart® brand.



# **INVESTSMART® @SC**



#### **Description**

This half-day event, held at the SC building is targeted to a specific investor demography, where issues of common interest were shared. The event exposed participants to various investment opportunities in the Malaysian capital market and alternative investments such as ECF and P2P financing.

#### Melabur Untuk Masa Hadapan Anda

13 April 2019 Civil Servants from Institut Tadbiran Awam Negara and Spearheading & Pioneering Malaysian Indian Equity **Enhancement Association** 

144 **Participants** 

#### **Invest Smart • Bijak Labur**

9 December 2019 Members of Malaysia Co-operatives in Klang Valley

130 **Participants** 

# DIGITAL CHANNELS

- The InvestSmart® website attracted 35,053 users;
- InvestSmart® Mobile Application to-date has 1,607 registered users;
- InvestSmart® Facebook Page garnered 63,702 followers;
- InvestSmart® Instagram has more than 1,350 followers;
- InvestSmart® Twitter garnered 340 followers;
- Jump2Invest has been downloaded 301 times.

#### MEDIA AND BROADCAST



- The SC, in collaboration with the Ministry of Communications and Multimedia Malaysia released 4 public service announcements:
  - Public service announcements on radio stations
    - Radio announcements were made from 15 January 2019 to 31 March 2019 on all Malaysian radio stations to remind the public not to invest in something they do not fully understand.
    - A 30-second audio titled 'T.I.P.U', highlighting the modus operandi of scammers is aired on all radio stations starting from 1 December 2019 to 31 March 2020.
  - 'Silap Labur, Duit Lebur' jingle
    - A 30-second anti-scam awareness video jingle 'Silap Labur, Duit Lebur' was televised on all local TV stations and public transportations operated by Prasarana Malaysia beginning 23 March until 30 September 2019.
  - TV crawler public service message
    - Broadcast on all TV channels during news segments starting from 1 December 2019 to 31 March 2020, with the following messages:
      - o English

Be a smart investor! Do not invest in something you do not understand. This message is brought to you by the Securities Commission Malaysia. www.investsmartsc.my

#### o Bahasa Malaysia

Jom jadi pelabur bijak! Jangan labur di dalam produk yang anda tidak faham. Pesanan oleh Suruhanjaya Sekuriti Malaysia www.investsmartsc.my

- In conjunction with the IOSCO World Investor Week 2019 (WIW2019) from 30 September to 6 October 2019, the SC:
  - Broadcasted a 3-minute InvestSmart® Series edumercial on digital assets that was aired on BFM89.9 radio station with Chin Wei Min, the SC Executive Director, Digital Strategy and Innovation. He shared his views on digital assets and what investors should look out for.
  - Multiple messaging campaigns such as 'Silap Labur, Duit Lebur' and the 'T.I.P.U' audio messaging were played on 3 main radio stations namely Hot FM, Fly FM and One FM. These audio messagings aimed to raise awareness among Malaysians about the features and modus operandi of illegal investment schemes.



# **COMPLAINTS AND ENQUIRIES**

For the period ending 31 December 2019, the SC received:

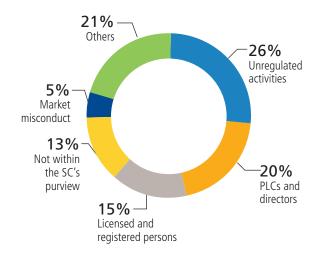
- 821 complaints; and
- 1,336 enquiries.

#### Table 1

	2019	2018	2017
Complaints	821	558	444
Enquiries	1,336	1,104	626

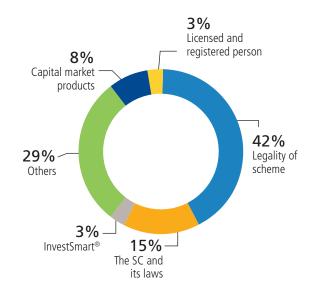
#### Chart 1

#### **Classification of complaints**



#### Chart 2

#### **Classification of enquiries**



# **PUBLICATIONS**

#### **ACTS, GUIDELINES AND CODES**

Guidelines on Marketing and Distribution of **Unit Trust Funds** Revised | 4 March 2019

Guiding Principles on Business Continuity Issued | 13 May 2019

Vendor Code of Conduct Issued | 13 May 2019

Guidelines on Recognized Markets Revised | 17 May 2019

Guidelines on Registration of Credit Rating Agencies Revised | 14 May 2019

Guidelines on Registration of Bond Pricing Agencies Revised | 14 May 2019

Guidelines on the Registration and Conduct of Capital Market Services Providers Revised | 14 May 2019

Guidelines on Financial Markets Infrastructures Revised | 14 May 2019

Guidelines on Compliance Function for Fund Management Companies Revised | 14 May 2019

Guidelines on Recognized Markets (ECF, P2P, DAX and Property Crowdfunding Framework) Revised | 17 May 2019

Prospectus Guidelines for Collective Investment Schemes Revised | 23 May 2019

Guidelines on Listed Real Estate Investment Trusts Revised | 18 June 2019

Guidelines on Seasoned Corporate Bonds and Sukuk Revised | 19 July 2019

Quick Guide on Guidelines on Implementation of Targeted Financial Sanctions Relating to Proliferation Financing for Capital Market Intermediaries Issued | 29 October 2019

Licensing Handbook Revised | 8 November 2019

Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors Revised | 19 July and 26 November 2019

Prospectus Guidelines Revised | 26 November 2019

Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework Revised | 26 November 2019

Guidelines on Sales Practices of Unlisted Capital Market Products Revised | 26 November 2019

Guidelines Note on Liquidity Risk Management for Fund Management and Unit Trust Management Companies

Issued | 16 December 2019

#### **BOOKS, REPORTS AND CONSULTATION PAPERS**

Public Consultation Paper No. 1/2019: Proposed Regulatory Framework for the Issuance of Digital Assets through Initial Coin Offerings Issued | 6 March 2019



> Public Consultation Paper No. 2/2019: Proposed Regulatory Framework for Property Crowdfunding Issued | 6 March 2019

Securities Commission Malaysia Annual Report 2018 / Laporan Tahunan 2018 Suruhanjaya Sekuriti Malaysia

Issued | 14 March 2019

Islamic Green Finance - Development, Ecosystem and Prospects

Issued | March 2019

Proceedings of the SC-OCIS Roundtable 2018 Issued | 25 March 2019

Corporate Governance Monitor 2019

Issued | April 2019 Revised | May 2019

Audit Oversight Board Annual Report 2018 / Laporan Tahunan Lembaga Pemantauan Audit 2018 Issued | 25 June 2019

Audit Oversight Board Annual Inspection Report – Findings and Insights 2018 Issued | 25 June 2019

Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market Issued | 26 November 2019

Sustainable and Responsible Investment Sukuk Framework – An Overview Issued | 26 November 2019

#### **BOOKLETS, BULLETINS AND PAMPHLETS**

SC-OCIS Scholar-in-Residence Issued | March 2019

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 2019

Malaysian Islamic Capital Market Issued | June 2019

The Reporter Issued | June 2019

Resolutions of the Shariah Advisory Council of the Securities Commission Malaysia / Keputusan Majlis Penasihat Shariah Sekuriti Malaysia 2018 Issued | 31 December 2019

#### **WEBSITES**

www.sc.com.my

www.investsmartsc.my

# 2019 AT A **GLANCE**



The SC urges investors who had invested in 2 illegal futures and equity trading schemes to file claims for restitution

> AOB reprimands auditors for failure to comply with the International Standards on **Auditing**



SC amends

guidelines digital asset platform operators must register KUALA LUMPUR: The Securities sion (SC) has added a new chap Guidelines on Recognised Marl quire digital asset platform op

SC Annual Report 2018 released

AOB bans firm and its partners for failure to comply with the International Standards on Auditing and Quality Control

**MARCH** 

The SC reprimands and fines Deloitte for RM2.2 million over 4 breaches

The SC introduces framework to facilitate trading of digital assets in Malaysia

**FEBRUARY** 

The SC Chairman elected as Vice Chair of the IOSCO Growth and **Emerging Markets** 

# Committee SC Chairman elected Vice Chair of IOSCO



# SC fines Deloitte RM2.2m Action due to four breaches related to 1MDB

10th SC-OCIS Roundtable in London



The SC reprimands 3 China-based companies and stated that retention of the 4 directors are prejudicial to public interest





Regional Supervisory College for Asia Pacific hosted by the SC



16th SC-BNM Bilateral Meeting



SC-World Bank-IOSCO Asia Pacific Hub Conference at the SC themed 'Islamic Finance: A Catalyst for Financial Inclusion'











- The SC issues Guiding Principles on Business Continuity for Capital Market **Entities**
- SC Fintech Rountable New ECF, P2P Financing Operators and Property Crowdfunding Framework announced at the SC Fintech Rountable

AOB fines audit firm and revokes registration of audit partner for breach of independence requirement



The SC launches the inaugural Corporate Governance Monitor 2019



- The SC Townhall
- Former Kosmo directors and accounts manager jailed and fined for false disclosures

MAY

#### Auditors urged to adopt more structured root cause analysis framework



The SC registers 3 DAX

**AOB** issues Annual Report and Annual Inspection Report 2018

Former directors of Bestino Group found guilty of distributing application forms for securities without prospectus



SC InvestSmart® @Borneo, Kota Kinabalu, Sabah



JULY



The SC Hari Raya Open House

The SC cautions investors against unauthorised ICO and DAX

Securities Commission Malaysia

**ANNUAL REPORT** 2019

#### SC sees changes in senior management

BY WONG EE LIN	experience in management con- sulting, corporate transformation.	risk landscape," said the regulat Moreover, in line with the Si
KUALA LUMPUR: The Securities	leadership and talent management	vision of promoting innovation
Commission Malaysia (SC), which	as well as business integration and technology at Accenture. Sime	drive competitive advantage wi
is undergoing a reorganisation, has appointed and redesignated sever-	Darby Bhd, EY and AirAsia Bhd.	in the capital market, the regular said the development and Isla
appointed and recessionated sever- al senior management executives.	party and, are and Arrasia and,	ic markets business group will
Following the reorganisation.	The current SIDC CEO Shorifa.	separated to facilitate a more pr
SC deputy chief executive Datuk	tul Hanizah Said Ali will join the	nounced focus on the longer-te
Zainal Irlan Zainal Abidin will now	SC as executive director, heading	development of the broader capi
have direct oversight over super-	the Islamic capital market devel-	market and Islamic capital mark
vision and surveillance functions	opment business group effective	Salmah Bee Mohd Mydin, w
as well as the enlarged corporate resources business group, which	Aug 10, 2019. Sharifatul Hanizah, a financial	has served the SC for 25 years various roles including enforc
will now include the technology	services industry professional with	ment, supervision and licensis
department and the people and	more than three decades of expe-	was promoted to the role of ears
organisation development depart-	rience, will be tasked with identi-	tive director of the market develo
ment, according to a statement yesterday.	fying new areas of growth for the Islamic capital market towards a	ment business group effective Au "To develop more holis
Meanwhile, the regulator has	future-ready global positioning,	policies that will drive the futs
appointed Nadiah Abdullah as its new executive director of corporate	said the SC. To foster greater financial in-	growth and competitiveness of t capital market, the market dev
new executive director or corporate resources effective Aur 5, replacing	novation through the use of tech-	capital market, the market dev coment business group will str
Teneku Zarina Teneku Chik, who	nology, the restructured digital	the SC's overall corporate planni
will assume a new role as the chief	strategy and innovation business	and strategy," said the SC, addi
executive officer of Securities In-	group will consolidate the SC's	that this department will be I
dustry Development Corp (SIDC)	efforts in promoting innovative	by Dr Wong Huei Ching, who I
effective Sept 1.	market-based financing models	also been promoted to the po
Nadiah has over 27 years of	and monitoring the evolving cyber	tion of director.

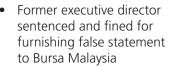




The SC announces its organisation review and senior management appointments



discussion



SC Merdeka Leadership Talk





Launch of the Malaysia National Strategy for Financial Literacy 2019-2023 by FEN - the SC joint collaboration with BNM











Visit by Lord Mayor of the City of London, Alderman Peter Estlin



Securities Commission Malaysia

**ANNUAL REPORT** 2019

# EdgeProp registered as first property crowdfunding operator

SEPTEMBER



Former deputy executive chairman sentenced to a 5-year jail term and RM9 million fine for insider trading

> Former exec deputy chairman jailed five years and fined RM9mil for insider trading

The SC registers 1<sup>st</sup> property crowdfunding platform in Malaysia



#### **VCB Capital's** appeal against licence revocation fails

KUALA LUMPUR: The Securities Commission Malaysia (SC) has dismissed an appeal brought by VCB Capital Sdn Bhd after its fund management licence was revoked by the regulator on June 19. VCB's licence was revoked after the SC found that the manner in which VCB conducted its business had cast a doubt on its competence and soundness of judgement as a fund manager.

In a statement yesterday, the SC said VCB was found to have breached the Guidelines on Compliance Function for Fund Management Companies and Guidelines on Prevention of Monagement Gongard and Terrorism Financing for Capital Market Intermediaries.



The SC revokes fund management licence of VCB Capital Sdn Bhd



The SC charges former managing director for insider trading









SC InvestSmart® Fest 2019

1st ScamBuster Walk Hunt

**DECEMBER** 

The SC wins suit against Stone Master former Deputy Managing Director for causing RM11.54 million in wrongful loss



AOB fines auditor for non-compliance with the International Standards on Auditing



#### Auditor fined RM63,000 for not adhering to international auditing standards

RUALA LUMPUR: The Audit Oversight Board (ACB) of the Securities Commission of Malaysia (SCM) has fined an auditor. Huang Rhen Yeong RMea.000 for failing to compily with the International Auditing Standards when carrying out a Public Interest Entity (PIE).

ACB said in a statement yesterday that it had informed Huang, who is a partner of Delotice PLT, that he had failed to create and implement auditing procedure involving various PIE auditing location.

\*\*Ruang it sate found to have carried out auditing procedure that was incomplete, among others amalgamation group, construction contract and goodwill. according to the statement.

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\*\*Huang it also found to have carried out auditing procedure that was incomplete, among others amalgamation group.

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The SC launches the SRI Roadmap for the Malaysian Capital Market and the revised SRI Sukuk Framework -An Overview



The SC hosts the 6<sup>th</sup> edition of SCxSC Fintech Conference





# **ACRONYMS** AND ABBREVIATIONS

**ABMI** Asian Bond Market Initiative **ACMF ASEAN Capital Markets Forum** 

ΑE Advanced economies **AGM** Annual general meeting

Autoriti Monetari Brunei Darussalam **AMBD** 

**AMLATFPUAA** Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful

Activities Act 2001

**AOB** Audit Oversight Board

Association of South-East Asian Nations **ASEAN** 

ASEAN Green Bond Standards **ASEAN GBS ASEAN SBS** ASEAN Social Bond Standards

**ASEAN SUS** ASEAN Sustainability Bond Standards ATCM Association of Trust Companies Malaysia

AUM Assets under management

A-MDP ACMF Market Development Programme

**BNM** Bank Negara Malaysia

**BPS** Basis points

Brokerage Industry Digitisation Group **BRIDGe CAGR** Compounded annual growth rate

**CCAF** Cambridge Centre for Alternative Finance

CelO Certified Integrity Officer CEO Chief Executive Officer CG Corporate governance

**CG** Monitor Corporate Governance Monitor CIS Collective investment schemes

CMA Capital Market Authority of Saudi Arabia

CMD Capital Market Development CMM Capital Markets Malaysia CMP 2 Capital Market Masterplan 2

Capital Markets and Services Act 2007 **CMSA CMSL** Capital Market Services Licence **CMSP** Capital Market Services Providers

**CMSRL** Capital Markets Services Representative's Licence

CPC Criminal Procedure Code **CRWG** Cyber Risk Working Group DAX Digital asset exchanges

DFI Developmental financial institutions

DCE Deputy Chief Executive

DIM Digital investment management DRP Dividend reinvestment plan DOSM Department of Statistics Malaysia

**ECF** Equity crowdfunding **EME** Emerging market economy ESG Environmental, social and governance

ETF Exchange-traded fund FATF Financial Action Task Force

FBMKLCI FTSE Bursa Malaysia Kuala Lumpur Composite Index

FID Financial Institution Development
FEN Financial Education Network

FIMM Federation of Investment Managers Malaysia

Fintech Financial technology

FMC Fund management companies

FSSG Financial Statements Surveillance Group

G20 Group of 20 – International forum for the governments and central bank

governors from 19 countries and the European Union

GBI-Global Government Bond Index - Global

GBI-EM Government Bond Index - Emerging Maket

GDP Gross domestic product
GEM Growth and emerging m

GEM Growth and emerging markets
GFC Global financial crisis

GIACC Governance, Integrity and Anti-Corruption Centre

GLIC Government-linked investment companies
IBFC International Business and Financial Centre

ICM Islamic capital market

ICMR Institute for Capital Market Research Malaysia

ICO Initial coin offering

ICULS Irredeemable convertible unsecured loan stock
IFWMB Islamic Fund and Wealth Management Blueprint

IMF International Monetary Fund

IOSCO International Organization of Securities Commissions

IPO Initial public offering

JC3 Joint Committee on Climate Change

JKKMAR Special Cabinet Committee on Anti-Corruption LEAP Leading Entrepreneur Accelerator Platform

L&I Leveraged and Inverse

LOLA Framework
LRM
Lodge and Launch Framework
Liquidity Risk Management

MACC Malaysian Anti-Corruption Commission
MCCG Malaysian Code on Corporate Governance

MESTECC Ministry of Energy, Science, Technology, Environment and Climate Change

MFRS Malaysian Financial Reporting Standards
MGFT Malaysian Green Financing Taskforce
MGS Malaysian Government Securities
MNPI Material non-public information

MOF Ministry of Finance

MoU Memorandum of understanding MRWG Market Risk Working Group

MSCI Morgan Stanley Capital International
MSWG Minority Shareholders Watch Group
MSME Micro, small and medium enterprise
MyCIF Malaysia Co-investment Fund

MVCDC Malaysian Venture Capital and Private Equity Development Council

NACP National Anti-Corruption Plan NACSA National Cyber Security Agency



NAV Net asset value

OACP Organisational Anti-Corruption Plan

**OECD** Organisation for Economic Co-operation and Development

Oxford Centre for Islamic Studies **OCIS** 

OPR Overnight policy rate P2P Peer-to-peer financing **PCF** Property crowdfunding **PDS** Private debt securities

PF Private equity

PEC/PEMC Private equity companies / Private equity management companies

PIE Public interest entity PLC Public-listed company

PPA Private Pension Administrator Malaysia

**PROFOUND** Financial Scheme for Continuous Professional Development

PRS Private retirement schemes PSS Permitted short selling QP **Qualified Person** 

Qualified Senior Personnel QSP

**RCFP** Regional Comprehensive Economic Partnership

**REIT** Real estate investment trust

**Reporting Institution** RΙ

**RMO** Recognised market operator **RPA** Recognised principal adviser SAC Shariah Advisory Council SC Securities Commission Malaysia

**SCMA** Securities Commission Malaysia Act 1993 **SCxSC** Synergistic Collaborations by the SC SDG Sustainable Development Goals

Securities Industry (Central Depositories) Act 1991 **SICDA** 

SFN Sustainable Finance Network

**SIDREC** Securities Industry Dispute Resolution Center Sustainable and responsible investment SRI

SRO Self-regulatory organisation

Systematic Risk Oversight Committee **SROC** 

**TFS-PF Guidelines** Guidelines on Implementation of Targeted Financial Sanctions Relating to

Proliferation Financing

UK United Kingdom

United States of America US **US Fed US Federal Reserve** 

UST **US Treasury** UTS Unit trust scheme VA Virtual assets

**VASP** Virtual assets service provider

VC Venture capital

**VCC/VCMC** Venture capital corporation / venture capital management corporation

WC-FSL Working Committee on Financial Services Liberalisation WC-CMD Working Committee on Capital Market Development

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The Securities Commission Malaysia promotes sustainability pratices. This publication was printed entirely on environment-friendly paper.