



**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia

annual report  
**2009**



## **Mission statement**

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



# CONTENTS

<b>Chairman’s Message</b>	iii
<b>Part One: Protect Investors and Maintain Market Confidence</b>	
Introduction	1-1
Enforcement	1-1
Protecting Rights of Minority Shareholders in Take-overs and Mergers	1-3
Strengthening Corporate Governance	1-4
Investor Education	1-5
Effective Complaints Management	1-7
Alternative Dispute Resolution Mechanism	1-8
<b>Part Two: Promote Fair, Efficient and Orderly Market</b>	
Introduction	2-1
Ensuring Systemic Stability	2-2
Prudential Supervision of Market Institutions and Intermediaries	2-3
Managing the Conduct of Business to Promote Market Integrity	2-4
Regulatory Development Encouraging Market Efficiency	2-5
<b>Part Three: Strengthen Market Competitiveness</b>	
Introduction	3-1
Structural Reforms to Capitalise on Regional Growth Opportunities	3-1
Liberalisation of Bumiputera Equity Requirements for PLCs	3-1
Competitive Fund-raising Platform for Malaysian and Foreign Companies	3-1
Expanding Product Range	3-4
Enhancing Secondary Market Efficiency	3-4
Industry Transformation Initiative	3-4

Facilitating Further Growth in Investment Management Industry	3-4
Islamic Capital Market	3-5
Venture Capital Industry	3-8
International Developments	3-9

#### **Part Four: Increase Our Capabilities and Effectiveness**

Introduction	4-1
Capacity Building and Efficiency	4-1
Effective Communication and Engagement	4-3

#### **Part Five: Capital Market Review and Outlook**

Global Developments	5-1
Domestic Developments	5-4
Outlook	5-6

#### **Part Six: Statements and Statistics**

Commission Members	6-1
Senior Management	6-4
Organisation Structure 2009	6-5
Statement on Governance	6-6
Statement on Internal Control	6-10
Audit Committee Report	6-13
Financial Statements	6-15
Corporate Proposals	6-40
Investment Management	6-47
Islamic Capital Market	6-51
Venture Capital	6-53
Licensing and Authorisation	6-56
Enforcement	6-62
Publications	6-72
Calendar of Events	6-74
Acronyms and Abbreviations	6-80



## **Chairman's message**



## CHAIRMAN'S MESSAGE



The capital market went through a far better year than many had expected at the start of 2009. Markets had anticipated the ongoing deleveraging in the global financial system to continue; the risk was that it would worsen the global economic downturn and feed back to the financial system. However, unprecedented intervention by governments and monetary authorities, as well as encouraging news on the economic front early in the year prompted markets to stage a strong rally after the first quarter.

In Malaysia, share prices rose around 46% on average, while narrowing corporate yield spreads suggested a much-improved view on credit quality. Securities issuance turned around sharply from the past year, reflecting a return of confidence in the capital market as a source of financing; indeed, the market saw Malaysia's biggest capital-raising exercise, in the form of Maxis Bhd's RM11.2 billion initial public offering. The capital market industry also attracted stronger international interest, and several top global firms received approval to operate in Malaysia.

But as events during the year had also shown, the effects of the credit crunch of 2007–08 were still felt. The response by markets to Dubai World's postponement of its repayments and to burgeoning fiscal deficits around the world reminded us just how fragile sentiments could still be. Paradoxically, markets attached a high-risk premium to efforts at managing the debt overhang, fearing that such actions could be premature and could pull the rug from under a nascent global recovery. While markets regained some appetite for risk, they clearly had not lost their aversion to it.

Such uncertainty posed a big challenge for securities

regulators. Given the strong nexus between access to finance and economic growth, and the growing role of the capital market in providing long-term financing in many emerging economies, an erosion of trust and confidence in the capital market would increase the cost of allocating resources and managing financial risks in the economy. It would also distort incentive structures and encourage poor governance and misconduct, and thus dim the prospect for recovery even further. Ultimately, and unfortunately, it would be the person on the street that suffers.

### PROMOTING CONFIDENCE AND TRUST

In view of this, over the past year, the SC focused its efforts on promoting confidence and trust in Malaysia's capital market. Learning from events in other markets, and taking into account our own circumstances, we heightened vigilance over systemic risks, enhancing in particular our surveillance of the bond market, and supervision over the conduct and prudential limits of investment management firms and stockbroking companies. Bursa Malaysia's trading, clearing and settlement systems also came under our close scrutiny.

#### Strengthening market resilience

We took care to respond early to incidents of stress and widened our scope for risk identification through heightened surveillance of systemic risks, greater co-operation with regulatory agencies, and engagement with industry participants. Given the increased focus on credit and default risks globally, we naturally paid closer attention to the domestic corporate bond market for signs of market stress and potential exposure in other

parts of the capital market. We found no immediate concerns over system-wide risks, with bond default rates for 2009 of less than 1%.

While we stepped up monitoring of intermediaries' prudential limits, our risk assessment suggested that conduct of business by intermediaries was a more significant issue to investor confidence. In the bond market, we focused our supervision of bond trustees and credit rating agencies, and I am pleased to report that Malaysian rating agencies were quick to adopt the revised *Code of Conduct Fundamentals for Credit Rating Agencies* issued during the year by the International Organization of Securities Commissions (IOSCO).

Rapid growth of the investment management sector has led to increased concerns over the conduct of business, in particular, client asset protection, investment in non-traditional securities, fitness and properness, and business viability. We paid particular attention to these issues during the year and conducted some 23 engagements with investment management companies. Where necessary, we acted swiftly to contain impropriety that could have reduced confidence in this important segment of the market. One such example was our investigation in August into the activities of two unlicensed foreign firms with RBTR Asset Management, a licensed fund manager. Based on our findings, we appointed an independent auditor to examine RBTR's activities and monitor its transactions.

### Assuring the integrity of markets

In promoting confidence in the integrity of our market, we also sought to assure investors by taking action against misleading, manipulative or fraudulent practices. In particular, we strove to provide appropriate recourse to justice and held wrongdoers accountable for their actions. The landmark settlement of RM31 million for the Swisscash investment scam in November was a major achievement in this regard. This is by far the largest settlement in the history of Malaysia's capital market and we will be using the amount to compensate victims of the scam. Other enforcement results in 2009 were also encouraging. We secured custodial sentences in three cases this year relating to fraud, deceit and falsifying of accounts. And in the first such ruling against a company director following civil enforcement by the SC, the High Court ordered Kenneth Vun, the

former managing director and shareholder of FTEC Resources Bhd, to repay the company RM2.4 million of IPO proceeds that he had used for his personal benefit.

However, not all cases will yield such success. The first line of defence must be investors themselves. The Securities Industry Development Corporation (SIDC), our training and development arm, reached out to more than 20,000 people, including school children, teachers and parents, on financial literacy. Nevertheless, there were still those who continued to fall for quick-rich schemes. Therefore in June, we warned the public on an increase in such scams and gave advice on how to spot them. We also issued general warnings and conducted campaigns to raise awareness about investment misconduct.

Boards of PLCs are another important line of defence against misconduct and fraud, and they must address concerns expressed by investors. We worked with the Minority Shareholders Watchdog Group (MSWG) to increase their coverage of annual general meetings. We also held the first SC-Bursa Malaysia Corporate Governance Week to reinforce the importance of good corporate governance in the capital market. We were encouraged by the contributions of industry: Bursa Malaysia, for instance, published a *Corporate Governance Guide* for directors while MSWG in partnership with University of Nottingham Business School and Corporate Governance and Financial Reporting Centre of the National University of Singapore launched the Malaysian Corporate Governance Index to better monitor the quality of practices.

Nevertheless, we recognise that strong enforcement is the ultimate defence against wrongdoing. Those who cheat and defraud must be punished, and we have equipped ourselves with better enforcement tools. Under two new sections of the *Capital Markets & Services Act* (317A and 320A), the SC can now act against directors and officers of PLCs who cause wrongful loss to their company. We can also act against any person who misleads the public through falsely preparing or auditing the financial statements of PLCs.

### HELPING THE MARKET TO FUNCTION EFFICIENTLY

A competitive environment demands well-functioning markets and low costs of financing. During the year, we sought to improve regulatory certainty, reduce time-to-market and lower regulatory costs. To provide better access to the capital

market, along with Bursa Malaysia, we introduced important changes to the capital-raising framework. Bursa Malaysia's Main Board and Second Board were merged into the Main Market, a single board for established corporations. The MESDAQ market was transformed into the new ACE market, through which companies could list through the support of sponsors in a fully-disclosure-based regime. At the same time, Bumiputera equity requirements for listed companies were eased to facilitate primary offerings. On our part, we streamlined approval processes and widened the scope for our disclosure-based approach to regulating corporate finance submissions. To complement this, we also introduced new procedures on prospectus exposure to enhance the quality of disclosure.

A competitive environment also requires the participation of more players in the capital market. In 2009, several capital market segments were liberalised as part of a set of wider initiatives to open up the economy. As a result, foreign ownership limits for both wholesale and retail fund management, stockbroking companies, corporate finance advice and financial planning all increased significantly.

## **ENCOURAGING INTERNATIONAL CO-OPERATION AND DIALOGUE**

The year 2009 marked a high-point in terms of efforts by policymakers and financial market practitioners to find ways of dealing with the global financial crisis. The group of 20 biggest economies, or G-20, met several times to discuss its proposals. At the same time, the UN appointed an international panel of experts to find ways to respond to the crisis. Financial and capital market regulators and supervisors, through their respective international bodies, held almost continuous discussions on the design and implementation of new regulations. And there were similar endeavours by the industry and academicians as well.

To provide a forum for wider public debate on the crisis, the SC organised and hosted the inaugural World Capital Markets Symposium in August. The event brought together a group of outstanding thought-leaders, policymakers, regulators, economists, finance practitioners and members of the public to discuss the global financial crisis and the way forward. Over 500 people took part in the symposium, whose speakers included the Honourable Prime Minister, His Royal Highness Raja Nazrin Shah and ministers from

Malaysia, Singapore and Hong Kong. Other eminent speakers included Paul Krugman, the economics Nobel laureate, Laura Tyson, an economic adviser to President Barack Obama and Raghuram Rajan, formerly the chief economist of the International Monetary Fund.

The holding of an international conference on capital markets in Malaysia was timely. As Malaysia's investors increasingly look abroad to diversify their portfolios, the SC's own regulatory activities have necessarily become more international in terms of both outlook and accountabilities. We also signed a mutual recognition agreement for the development of Islamic capital market instruments and collective investment schemes with the Hong Kong Securities and Futures Commission.

In the area of international regulatory policy, we continued to work closely within IOSCO to gain a better understanding of pertinent global financial policy issues and to develop international regulatory policies and standards. As the vice-chairman of IOSCO's Emerging Markets Committee, we co-chaired the Task Force looking into the impact on and responses of the emerging markets to the financial crisis. The subsequent report, which was published by IOSCO in September, was widely quoted by the world's press. Among other things, the Task Force identified key regulatory and supervisory challenges faced by emerging markets and provided recommendations to address vulnerabilities in these markets and to provide the basis for future sound regulatory approaches. Relevant parts of the recommendations were also conveyed to the G20 for its meeting in April.

On regional matters, we remained closely involved with the ASEAN regional integration initiative, which is aimed at achieving the objectives of the ASEAN Economic Community Blueprint 2015. Through the ASEAN Capital Markets Forum, we worked on developing an implementation plan to promote the development of an integrated capital market. In June, the SC, along with our counterparts in Singapore and Thailand, was among the first to implement the ASEAN and Plus Standards Scheme for cross-border offering of securities within the region.

## **DELIVERING BETTER REGULATION**

Demands on regulatory capacity increase with more

challenging times. Throughout the year, we continued to emphasise on our delivery standards, and I am happy to note that we dealt with over 99% of licensing applications and 94% of corporate proposals within our time charter. Nevertheless we are committed to better regulation, and have been instituting many measures to enhance our capabilities in such areas as people development, knowledge management and risk management.

Human capital development is a key aspect of the government's approach towards transforming Malaysia into a high-income economy. The SC pursued a number of initiatives to enhance the level of skills both within the organisation and of the industry. This included the implementation of a pilot programme on Leadership Excellence and Development, which consisted of 13 programmes covering 260 members of staff with the aim of improving their skills as supervisors, managers and leaders. To develop competencies and skills for the industry, we launched the SC Executive Enhancement and Development programme to provide training for 500 Malaysian graduates as a complement to the government's wider graduate-training efforts.

We continued to work on enhancing our institutional capacity, including launching the SC e-Payment system and Electronic Licensing Reporting, as well as improvements to licensing, securities approval and complaint management processes. Information management is a critical factor to the success of our work, so the development of important databases on enforcement cases, integrated PLC accounts and share ownership, as well as the completion of a records management framework and pilot-testing were important achievements in this regard.

We also made enhancements to organisation-wide systems and controls, which included implementing the first phase of a new enterprise-risk framework as well as putting in place internal service level agreements to enhance corporate services. Lastly, to ensure operational resilience as part of broader efforts to enhance risk management by the SC, we integrated various operational contingency measures into a single business continuity framework and are in the midst of relocating and enhancing the SC's disaster-recovery site.

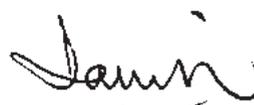
## LOOKING FORWARD

The quality and future success of our capital market rests greatly on how well its stakeholders govern themselves. Since the Asian financial crisis of 1997–1998, Malaysia has succeeded in improving its governance frameworks. Unfortunately, although the frameworks in place comply with international standards, many observers continue to raise concerns about their implementation. The way governance is practised by some companies and players in our market suggests there is still much to be done before negative perceptions can change.

To give such assurance, we will be focusing our attention on building governance capacity both in the market and for ourselves. For the market, we plan on instituting a comprehensive programme that will target market participants at all levels – to raise the level of governance practices by boards, senior and operational management and staff. As for the SC, we will continue to raise the bar on our delivery standards and will be looking closely to see where and how we can make ourselves more transparent and accountable in the pursuit of our core mandate and objectives.

Poor governance has played a significant role in most financial crises. Steps to reduce systemic risk, protect investors, and uphold fairness and efficiency in the capital market will come to naught if they are not coupled with the practise of strong governance. The frameworks are in place; now, stakeholders need to walk the talk. They must internalise those governance principles and reflect them in the way they conduct business. Only then can we all be truly assured of sustaining confidence and trust in our capital market in the years to come.

As ever, the contributions of my fellow Commission members, the Shariah Advisory Council and the management team have been invaluable during the year. I thank them wholeheartedly for their counsel and support throughout the year. The staff of the SC have continued to work extremely hard, and I am grateful for their diligence and dedication to their jobs.



**Zarinah Anwar**



## **Part One**

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

**We continue to foster and expect high standards of corporate behaviour among PLCs. At the same time, we empower investors through awareness and literacy programmes and by promoting shareholder activism. Where securities laws are breached, we use appropriate regulatory tools to exact swift and effective enforcement.**



# PROTECT INVESTORS AND MAINTAIN MARKET CONFIDENCE

## INTRODUCTION

The objective of protecting investors and maintaining market confidence can only be achieved by an approach to regulation that fosters high standards of corporate behaviour among PLCs, empowers investors through education, promotes shareholder activism, and facilitates swift and appropriate enforcement action for breaches of securities laws. Consistent with this, in 2009, our enforcement efforts were strongly complemented by measures designed to raise the standards of corporate conduct and accountability, and equip investors with the necessary knowledge, skills and means to bring about an informed and vigilant investor base.

In November 2009, Parliament passed amendments to the SCA which provided for the establishment of the Audit Oversight Board (AOB) while amendments to the CMA introduced new provisions to strengthen the regulation of PLCs by holding those responsible for causing wrongful loss to the company accountable for their actions. Guidelines were also introduced to ensure fair treatment of minority shareholders in take-over situations. Work on the establishment of an Alternative Dispute Resolution mechanism also recorded significant progress. All these measures were intended to underpin a regime of high corporate accountability and effective investor protection.

Our role as an advocate of investors was strengthened by putting in place an effective complaints management process and expanding the realm and range of our investor education programmes. This is premised on the firm belief that even as we continue to use our statutory powers to ensure investor protection and market confidence, investors must be held accountable for responsible investing and therefore, should be better empowered to make informed investment

decisions. In 2009, more than 28,000 participants benefited from our financial literacy programmes targeted at schools, universities, work places, urban and rural social groups, parents, women and blue collar workers. We also leveraged on the print and electronic media to highlight specific issues affecting investors and address queries from the broader public. Our website was actively used to inform the public on a range of common issues and concerns.

In the area of enforcement, while we continued to press criminal charges for major offences, especially those committed by licensed intermediaries, PLCs and their directors and principal officers, our strategy in employing other regulatory tools to achieve outcomes that benefit the market as a whole, yielded extremely favourable results.

## ENFORCEMENT

### Civil actions

A landmark settlement in the amount of RM31 million was reached in the Swisscash investment scam. Efforts are underway to retribute eligible investors who were defrauded in this elaborate and illegal scheme. We appointed PricewaterhouseCoopers to act as the administrator of the scheme and will be seeking court approval for the eligibility criteria for payouts to be made.

In July, we completed efforts to retribute 13 investors who traded in the shares of Malaysian Oxygen Bhd (MOX). The restitution was made possible following an early settlement with Tan Sri Dato' Chua Ma Yu when he agreed, without the admission of liability, to make a payment of RM1,213,084.14. This amount constituted a disgorgement of twice the profits arising from alleged

irregularities in his trading of MOX shares between 16 February 2007 and 22 February 2007.

On 11 November, the SC obtained another first when the High Court ruled against Kenneth Vun @ Vun Yun Liun (Kenneth Vun), the former managing director and shareholder of FTEC Resources Bhd (FRB), for the restitution of RM2.4 million to FRB, being the amount of company funds he had misused for his personal benefit. This was the first time a company director was ordered by the High Court to reconstitute company funds. He was further ordered to be refrained from directly or indirectly managing the funds of FRB.

### Criminal prosecution

The hallmark of an efficient securities market is the ability of investors to access accurate and reliable financial information. Strong enforcement action will pursue companies and their directors who deliberately issue misleading financial statements. In our continued efforts to raise the level of corporate governance among PLCs, several criminal prosecutions were initiated for misleading financial information and corporate fraud.

In March, Welli Multi Corporation Bhd's former Chief Executive Officer and Executive Director of Welli Multi Corporation Bhd (WMCB), Tan Chin Han, was charged for knowingly authorising the furnishing of misleading statements in WMCB's quarterly report for the financial period ended 30 September 2006.

Also in the same month, the SC charged Toh Chun Toh Gordon, the former Managing Director of Multi-code Electronics Industries (M) Bhd (Multi-code) for engaging in an act that operated as a fraud by causing the uplifting of fixed deposits belonging to Multi-code amounting to RM18,146,168.74 out of which RM17,552,275.20 was used to purchase of 11.1 million units of Multi-code shares. In the alternative, he was also charged for criminal breach of trust under the *Penal Code*. Subsequently, Abul Hasan Mohamed Rashid, the former Executive Director of Multi-code, was also charged for abetting Toh Chun Toh Gordon in committing the offence. He was also charged for criminal breach of trust under the *Penal Code*.

In April, the SC charged Ooi Boon Leong and Tan Yeow Teck, former directors of MEMS Technology Bhd, for

### Receiver appointed for fund manager

In August, the SC received complaints from clients of RBTR Asset Management Bhd (RBTR) citing their inability to redeem their investments. We launched an investigation into the affairs of RBTR and the activities of Locke Capital Investment (BVI) Ltd and Locke Guaranty Trust (NZ) Ltd, which allegedly held themselves out as fund managers in Malaysia. We then appointed an independent auditor which raised various concerns on the measures taken by the company to secure and protect its clients' assets. An order was obtained from the High Court for the appointment of a receiver of the affairs, assets and properties of RBTR to protect the funds from being fraudulently dissipated.

knowingly authorising the furnishing of misleading statements to Bursa Malaysia Bhd. MEMS Technology was also asked to restate and reissue its financial statements for its financial year ending 2007, 2008 and for the first two quarters of 2009.

Advisers and experts involved in the process of financial reporting and disclosure are critical in providing credible information to the market. On 28 April, the SC charged Yue Chi Kin, the auditor of United U-Li Corporation Bhd for abetting the company in submitting false information to Bursa Malaysia.

We impose high standards of conduct on our licensed intermediaries. They are expected to carry out their responsibilities with the highest standards of integrity and professionalism and those who abuse their licence to operate are severely dealt with.

On 30 June, Wahid Ali Kassim Ali, a Director of Aiwanna Management Assets Sdn Bhd (Aiwanna) and a licensed fund manager, was found guilty of providing misleading statements to a client, Eastern Pacific Industrial Corporation Bhd (EPIC), on the investments of Aiwanna. The Sessions Court convicted Wahid Ali and sentenced him to a fine of RM3 million and one year imprisonment.

On 1 April, the Sessions Court found Ghazali Atan and Mohamad Abdul Wahab guilty for unlawful withdrawal of

monies in a trust account and they were fined RM200,000 each. They were charged in 2003 for withdrawing RM50 million from Lembaga Tabung Haji's (LTH) trust account, managed by Metrowangsa Asset Management (Metrowangsa) for the purposes of payment to MIMOS Sdn Bhd, a party which was not entitled to LTH's funds. Mohamad Abdul Wahab was also charged for knowingly authorising misleading statements to be submitted to the SC in Metrowangsa's semi-annual reports for 2000 and 2001. However, the court acquitted and discharged Mohamad Abdul Wahab for these charges. The SC filed an appeal against this decision.

In August, the SC obtained a conviction against K. Sivachandran for falsifying books in the business of AOF Futures Sdn Bhd (AOF Futures). Sivachandran, who was a futures broker representative of AOF Futures, was found guilty of falsifying the order form and order books by altering the details in the trading futures contracts prepared by AOF Futures. AOF Futures suffered losses of approximately RM200,000 as a result of the falsification. The Sessions Court sentenced him to one year imprisonment and a fine of RM30,000.

### Administrative actions

In addition to court-based enforcement actions (whether civil or criminal), the SC has also pursued administrative actions to achieve swift and effective resolutions. In 2009, the SC meted out 56 administrative sanctions.

In total, we imposed administrative fines amounting to RM770,000. The administrative actions taken involved PLCs, their substantial shareholders or market intermediaries and professionals. Several actions were taken against substantial shareholders of PLCs for breaches of the Take-overs Code due to failures in carrying out mandatory offers.

As part of our heightened surveillance of our intermediaries, we also issued a total of 132 supervisory letters.

## PROTECTING RIGHTS OF MINORITY SHAREHOLDERS IN TAKE-OVERS AND MERGERS

A key pillar of take-over regulation is ensuring that minority shareholders are treated fairly and accorded the right to participate in a take-over offer. Minority shareholders

must be provided access to timely and accurate information in order to make informed decisions.

On 7 August, the Kuala Lumpur High Court ordered Up & Famous Sdn Bhd and six other defendants to make an Offer and Compensation Scheme to all the relevant shareholders of Takaso Resources Bhd as a result of their failure to carry out a mandatory offer under the Take-overs Code. The breach had occurred on 17 January 2002 when the defendants acquired shares in Takaso, which had necessitated a mandatory offer to be made.

In another case, the SC directed the independent adviser of Goh Ban Huat Bhd (GBH) to issue a revised independent advice circular (IAC) following a revised offer by the offeror, Tan Sri Dato' Tan Hua Choon. To correspond with the timing of the issuance of the revised IAC and to ensure the shareholders of GBH had sufficient time to consider the offer, the offeror was required to extend the closing date of the offer.

### Rulings issued under the Take-overs Code

One issue which came to the fore in 2009 was that of protecting the rights of remaining shareholders in a growing number of privatisation exercises, including those which were carried out by way of selective capital reduction (SCR). To safeguard the interest of minority shareholders, we published a ruling on this. In essence, a company undertaking a SCR is required to appoint an independent adviser to provide an independent view to the affected shareholders on the proposed SCR. Interested parties are to abstain from voting on the SCR and the pricing of the company's shares must comply with the requirement of the Take-overs Code.

To ensure that minority shareholders are provided with up-to-date information on take-over offers, any company subjected to a take-over offer (which has announced an intention to seek a competing offer) must make a follow-up announcement on the status of the competing offer. We also mandated that if there is a competing offer, the offeror must make an immediate announcement giving the details of its offer.

In the take-over offer by Media Prima Bhd (MPB) for New Straits Times Press (Malaysia) Bhd (NSTP) shares, the original terms were revised by MPB. The SC's involvement was to ensure that clear and unambiguous disclosure was provided in the revised offer document to shareholders of NSTP so they could make an informed assessment of the offer. In addition, in view that the revision to the offer was very close to the mandated time line to dispatch the IAC, the SC agreed to an extension of time to dispatch the IAC so that the remaining shareholders of NSTP could assess the independent views based on the revised terms.

## STRENGTHENING CORPORATE GOVERNANCE

### New provisions extend SC's enforcement reach

Two new provisions, namely, sections 317A and 320A of the CMSA were passed by Parliament in December to enable the SC to take effective enforcement action against errant directors and officers of PLCs and their related corporations. Previously, the SC's ability to take action against directors was limited to disclosure-related offences in the CMSA.

Section 317A enables the SC to take enforcement action against anyone who does anything or cause anyone to do anything with the intention of causing wrongful loss to the listed corporation or its related corporation. Section 320A makes it an offence for directors and officers of listed corporations to influence any person who prepares or audits the financial statement of a listed corporation to cause the financial statement to be false or misleading. Both provisions carry a maximum imprisonment term of 10 years and fine not exceeding RM10 million.

Amendments to sections 368 and 371 of the CMSA were also passed by Parliament to make it an offence for anyone to falsify or destroy any accounting records or books of a listed corporation or its related corporation.

### Promoting compliance with financial reporting standards

Consistent with our three-pronged approach of pursuing regulatory, self and market discipline, we enhanced our surveillance over PLCs' compliance with Financial Reporting Standards (FRS). There were increased engagements and

## Establishment of the Audit Oversight Board

Past accounting scandals serve to emphasise the important role of external auditors in providing reliable verification of the financial statements of a PLC. In December, Parliament passed amendments to the SCA to regulate the audit practices of auditors of PLCs. The establishment of the Audit Oversight Board (AOB) is intended to promote investor confidence in the quality and reliability of audited financial statements of public interest entities in Malaysia and to establish a framework for independent, effective and robust oversight of auditors. The responsibilities of the AOB are as follows:

- (a) Register individuals and firms that wish to audit public interest entities;
- (b) Establish auditing and ethical standards;
- (c) Inspect audit firms to ensure compliance of standards required of registered auditors;
- (d) Conduct inquiries;
- (e) Impose sanctions; and
- (f) Provide education and awareness on domestic and international auditing and quality standards.

collaboration with auditors, advisers and other relevant parties to inculcate greater awareness of professional roles, duties and obligations. Based on our corporate surveillance findings, we conveyed our concerns to professionals and directors to be mindful of their responsibilities in ensuring the dissemination of accurate and timely information to the investing public, especially in view of contradictory and misleading statements issued by certain PLCs and related counterparties on several transactions.

In line with the global shift to a common financial reporting standard, Malaysia has committed to fully converging with International Financial Reporting Standards (IFRS) by 1 January 2012. During the transitory period, PLCs will be encouraged to upgrade their

## Inaugural Corporate Governance Week

The SC, in collaboration with Bursa Malaysia, launched the inaugural Corporate Governance Week on 8 June. The CG Week was intended to provide a platform to bring together the many stakeholders involved in the corporate governance process to exchange experiences and knowledge of best practices. In conjunction with the CG Week:

- Bursa Malaysia launched its *Corporate Governance Guide* to help directors deepen their understanding of their roles and responsibilities;
- The Minority Shareholder Watchdog Group (MSWG), in partnership with the University of Nottingham Business School, and the Corporate Governance and Financial Reporting Centre at the National University of Singapore, launched the *Malaysian Corporate Governance Index 2009*. This initiative was funded by the Capital Market Development Fund (CMDf);
- The Malaysian Alliance of Corporate Directors (MACD) was established to be the advocate

association representing the interests of corporate directors, professionals and business leaders with the vision to promote corporate governance in Malaysia and extend its influence internationally;

- The Malaysian Institute of Accountants (MIA) launched two standard-setting boards. The Audit Assurance Board was launched to support the development of high-quality professional standards and international convergence of standards. The Ethical Standards Board promotes adherence to high quality professional and ethical standards; and
- Dialogue sessions were held by the Malaysian Institute of Integrity (IIM), MIA, Institute of Internal Auditors Malaysia (IIAM), Association of Chartered Certified Accountants (ACCA), Malaysian Institute of Corporate Governance (MICG), Malaysian Institute of Chartered Secretaries and Administrators (MAICSA), and the MACD.

capabilities to comply with the international standards in financial reporting.

### Further advancing the corporate governance agenda

The SC conducted several dialogue sessions to promote corporate governance and shareholder activism among institutional investors. Given their influence and resources, institutional investors are expected to play a more effective role in upholding corporate governance standards within PLCs.

In addition, we continue to support and encourage the MSWG in highlighting shareholder concerns via their engagements with boards and through their attendances at AGMs. The SC and Bursa Malaysia also increased engagements with PLC boards on corporate governance issues. We hope to see more investors, whether institutional or retail, increase their involvement in raising important

issues to corporate boards as an effective approach towards strengthening the practice of corporate governance.

The SC actively participated in regional and international corporate governance fora to share our experiences and exchange views with other regulators and international bodies. To achieve a greater understanding of our efforts to improve corporate governance in Malaysia, we participated in the OECD Asian Roundtable and 2009 International Corporate Governance Networks (ICGN) Annual Conference. We also contributed an article outlining Malaysia's approach to strengthening its regulatory framework and our enforcement efforts for the *2009 ICGN Yearbook*.

### INVESTOR EDUCATION

We continue to implement our investor education strategy towards the ultimate goal of an informed and vigilant investor base that has the necessary knowledge

and skills to safely participate in the market. The thrust of our investor education blueprint not only seeks to address the need to raise the overall level of financial literacy across investor segments but also to grow their understanding into one of financial capability that is in tandem with their developing investment objectives and risk profiles.

The initiatives undertaken were developed to address not just the immediate and medium-term needs of investors but the longer-term need to build a base where such knowledge becomes a given. In effect, our purpose is to help investors help themselves. Protection comes not just from the regulatory framework but from investors possessing the knowledge and skills to take ownership and responsibility for their investment decisions.

We have progressed well in the development and implementation of investor education initiatives to increase both the financial literacy and capability of targeted investor groups. In this regard, we have been assisted by our training and education arm, the SIDC.

The challenge continues to be one of increasing effective reach across investor segments.

Through the SIDC, we implemented financial literacy programmes for three main target groups comprising–

- schools;
- rural folk, blue collar workers and housewives; and
- universities, government agencies and companies.

Our investor education programmes in 2009 reached out to more than 28,000 participants.

The Malaysian Investor ([www.min.com.my](http://www.min.com.my)) website underwent a major revamp to be more customer-focused and systematic. The new-look website was promoted in various media resulting in an increased hit rate for the year, with 1.5 million hits registered in December and making the Malaysian Investor website a popular source of investor education information for the general public.

*Table 1*  
**Investor education initiatives**

Programme	Description	Reach
Industry road shows and exhibitions	The SC participated in industry road shows and exhibitions to provide a platform for enquiries and complaints, and educate investors.  Examples:  (i) Minggu Saham Amanah Malaysia (MSAM) 2009 in Johor Bahru and mini MSAM 2009 in Kuching – an investor forum organised by PNB;  (ii) Minggu Halal Malaysia 2009 – organised by MITI; and  (iii) Minggu Kesedaran Kewangan 2009 (M2K) – A financial education event organised by BNM and other agencies.	279,000 investing public
Talks and presentations	Talks and presentations on unlicensed activities and scams were held with the objective to increase awareness and create a knowledgeable and vigilant investor base.  Attendees included students, military and police personnel, state agencies and constituents across various states.	24 talks and presentations  1,130 participants
Media articles	The SC partnered with the media to deliver on investor education and investor alerts, through articles in the print media and magazines.	17 articles
Media interviews	Media interviews on investor education, financial literacy, and illegal investment scheme.	TV interviews: 2 Radio interviews: 2 Newspaper interviews: 4

## EFFECTIVE COMPLAINTS MANAGEMENT

Over the years, we have increasingly learnt to harness value from managing public complaints. This aspect of our work exemplifies the importance we place on our relationship with investors as key stakeholders. Public complaints not only provide the SC with the opportunity to assist investors on issues of conduct and unfair practices but also with useful information on possible areas requiring regulatory or policy review.

Under our public complaints process, we categorise contacts as enquiries or complaints. We have seen an improvement in the quality of enquiries and complaints received, reflecting increased understanding by investors of their rights. Generally, most enquiries have centred on—

- status of a company or individual and their licensed activities;
- whether or not a scheme has the characteristics of a scam, prior to investing;
- their rights with regard to an intermediary; and
- seeking assistance to understand a product or market process or regulation.

Complainants come to us generally to highlight possible scams, breaches of law, unfair market practices or incidences of poor corporate governance. They generally demonstrate an understanding of shareholders' rights and the unfair practices or misfeasance on the part of the

Table 2

List of investor education programmes

Programme	Description	Reach
Kids & Cash and Teens & Cash	A fun, interactive and engaging programme aimed at inculcating a money management culture and a basic understanding of investment.	20,187 students
B.M.W (Be Money Wise) seminar	A practical and sensible programme conducted via seminars that helps parents, rural communities, blue collar workers and women to understand money management, increase familiarity with investing, create awareness of investors' rights and responsibilities and develop resistance to scams.	5,788 participants
Cash@Campus	A programme specially tailor-made for university students to increase their capacity in managing savings and developing investment capability.	1,379 students
Money@Work	A basic hands-on programme where employees of public and private organisations learn how to take control of their finances and plan for a safe and secure future.	1,210 employees
Media articles	A series of editorials published in major newspapers and magazines discussing smart investing, the basic of financial management and spotting fraudulent investment schemes.	57 articles
	A series of articles on corporate governance and board responsibilities published in <i>The Star</i> newspaper.	26 articles
Educational leaflets	A total of four leaflets were developed. They were: <ul style="list-style-type: none"> <li>• How to Check Out a Listed Company;</li> <li>• Secrets of Savy Investors: Unit Trust Investing;</li> <li>• Questions that Every Unit Trust Investor Must Ask; and</li> <li>• How to Spot Scams.</li> </ul>	214,256 leaflets distributed
TV segments	A series of infomercials promoting money management and wise investing were broadcasted on various TV channels.	1,139 spots in TV3, TV9, ASTRO and Hot FM
Malaysian investor website (www.min.com.my)	A dedicated website serving as the main point of reference for the public and investors alike. Content on the website focused on the basics of money management and investment techniques. Investors who need clarification can submit their queries through the website.	<ul style="list-style-type: none"> <li>• monthly hits reaching up to 1.5 million</li> <li>• two new articles every month</li> </ul>
Campus kaChing!	An annual inter-varsity money management competition that aims to assess students' ability to promote the concept of money management and investing in a creative and entertaining manner via the peer-to-peer approach.	15 universities

market participant. Whistle blowers are able to disclose specific information on breaches of law or on their corporate governance concerns. The complaints represent an extremely valuable source of market intelligence and assist us in accelerating enforcement for unlicensed activities, false or misleading disclosures and other possible breaches of securities laws. Early information also assists us in employing pre-emptive measures and enables us to take the necessary steps at an early stage to prevent escalation of issues and to mitigate potential risks.

We believe that the more proactive stance of investors, with increased vigilance and activism, reflects the benefits of past programmes to increase investor awareness, and also a desire on their part to equip themselves with the necessary knowledge to make well-informed decisions. The rising awareness level among investors is reflected by the rising ratio of enquiries to complaints

with enquiries outnumbering complaints over the last two years.

## ALTERNATIVE DISPUTE RESOLUTION MECHANISM

The SC sees the need to close the existing gap in redress mechanisms available to retail investors, and for this purpose, we have endorsed the setting up of an alternative dispute resolution (ADR) body to resolve monetary disputes involving market intermediaries and retail investors. Active consultations with industry players and comprehensive jurisdictional studies took place to facilitate the conceptual design of an appropriate ADR framework. The project is currently at the implementation stage where industry players have been engaged as members of the Implementation Steering Committee for the establishment of the ADR body in 2010.

### Listening to investors

The SC has continuously improved its complaints management process over the years. Efforts in 2009 focused on improving the efficiency and quality of the SC's initial response to complaints and enquiries at the point of receipt whether by mail, fax or e-mail. In 2009, 1,002 or 80 % of enquiries and complaints were effectively dealt with within 15 days after receipt. About 256 or 20% resulted in a file being opened, reflecting either the complexity or seriousness of the enquiry which required further follow-up.

Table 3

#### Analysis of complaints and enquiries

	2009	% of total*
Complaints received	493	39
Enquiries received*	765	61
<b>Total complaints and enquiries received</b>	<b>1,258</b>	<b>100</b>
Files opened**	256	20
Complaints/enquiries addressed within 15 working days	1,002	80

\* Excludes phone enquiries

\*\* Excludes Swisscash claims



## **Part Two**

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

**Our supervision framework continues to be strengthened in the areas of systemic stability, prudential supervision, and conduct of business. The underlying objective behind the structuring of the framework is to reinforce investor protection. We also look at developments in regulation which will encourage market efficiency.**



## PROMOTE FAIR, EFFICIENT AND ORDERLY MARKET

### INTRODUCTION

The year 2009 was a challenging one for financial markets around the world, with regulatory consolidation and reforms occupying centre stage. Global concerns over market resilience and investor protection brought about an extensive range of supervisory efforts. With the view that the effects of the credit crunch are impartial towards geographic and demographic differences, we proactively placed our supervisory function on heightened alert and instituted pre-emptive measures in ensuring investor protection, and maintaining a fair and orderly market.

The first quarter of 2009 was a period of uncertainty for global markets, following through from the events of 2008. Equities, commodities and bonds were experiencing free fall and many were predicting a repeat of the Great Depression. The uncertainties and lack of confidence translated into heightened risks for our markets. We enhanced our vigilance to manage the increasing risk and to avoid any shocks that would disrupt the market. We also enhanced our market surveillance efforts to ensure fair and orderly markets prevail. When global markets turned around in March 2009 and kept steadily rising through the year, investor confidence returned and we experienced a strong market rally in the second quarter of the year. However, we remained alert to manipulative activities and continued to take pre-emptive action to maintain market orderliness. Our surveillance efforts were directed at detecting market abuse early and taking prompt action to prevent market fallout.

As evident by regulatory developments abroad, reliance on checklist-based methods of monitoring compliance and adopting reactive supervisory methods has proven inadequate. Supervisory tools and methodologies were

further strengthened to detect and pre-empt risks. Notwithstanding our supervisory approach which was progressively enhanced since the Asian financial crisis, the SC continued to introduce gradual regulatory reforms and devote substantial resources towards augmenting our supervisory function.

Among them, our risk-based supervisory approach was expanded beyond assessing an intermediary's state of compliance and its market conduct, to identifying potential sources of systemic risk – with emphasis placed on intermediaries posing significant risks and bearing systemic importance. In meeting this specific focus, we augmented existing supervisory tools with a combination of methods ranging from stress testing, analytical reviews and enhancing reporting requirements. These enabled timely and accurate assessment of possible stress points, while ensuring optimum utilisation of supervisory resources.

A fundamental element in ensuring effective supervision resides in having timely, accurate and relevant information. Hence, in accelerating such information flow, we intensified collaboration and engagement with relevant stakeholders. Through this interactive rapport, we were able to identify regulatory gaps and mitigate the risks posed, while keeping the industry abreast with our expectations. Another positive development was performing more frequent assessment on the industry's state of affairs, namely on issues pertaining to infrastructure, resources, as well as operational and technical capabilities in meeting challenges through thematic reviews.

Collectively, they proved effective in improving the resilience of the Malaysian capital market, which operated sturdily during the crisis and recovered at a faster pace. There were no systemic disruptions, no compromise in

market conduct and no adverse impact that would have jeopardised investors' interest and protection levels.

Going forward, we intend to continue to enhance our existing supervisory approach to cater to the rapidly changing operating landscape. Paramount to this is to continuously exert resources to review and strengthen procedures and processes. This will enable us to effectively and efficiently discharge our oversight responsibilities.

Our supervision framework is focused on systemic stability, prudential supervision and conduct of business and in this section, we will look at how we have managed these areas over the past year. We will also look at developments in regulation that encourage market efficiency.

## ENSURING SYSTEMIC STABILITY

Developments in the global capital markets have highlighted the intricacies and interdependencies of financial institutions and markets, which became particularly evident from the global financial crisis, emphasising the crucial role for supervision of systemic risk. This involves increased vigilance and monitoring over the interconnectivity of firms and possible spill-over effects that could arise from our intermediaries, institutions and markets, as well as market-wide systemic risks.

As part of our continuous oversight on Bursa Malaysia, we paid particular attention to the operational efficiency of its trading, clearing and settlement systems. The Bursa Trade Securities trading platform, which was launched last year operated smoothly and recorded no trading, clearing and settlement disruptions. In assessing the adequacy of operational support, we reviewed Bursa Malaysia's information technology (IT) capabilities in terms of personnel skills and vendor support. We also monitored the developments of Bursa Malaysia's Business Continuity Disaster Recovery Plan to ascertain its readiness in addressing the event of a contingency or crisis.

As Bursa Malaysia moves into its fifth year of being listed, the SC's supervisory work included ensuring that the exchange adequately balances its functions in operating the market being both the front-line regulator, as well as a profit-making PLC. The operations of Bursa Malaysia were continuously evaluated for conformity to the requirements of law and the expectations of stakeholders. This was complemented

by the annual regulatory assessment of Bursa Malaysia's activities, which included examining the resilience of the risk management framework of Bursa Malaysia's clearing houses against any systemic risks emanating from the financial crisis. Moving forward, a major focus area for the SC will be in intensifying monitoring of risk areas and enhancing oversight processes, including strengthening the market and self-disciplinary mechanisms of market institutions.

With regard to the broking industry, we have enhanced our risk-based approach with micro supervisory tools. This includes conducting more frequent monitoring of financial and capital adequacy positions of broking intermediaries to identify risks at an early stage. Complementing this is continuous risk profiling, examination of market intermediaries and the application of stress testing to assess the industry's robustness, with emphasis placed on individual firms' resilience against market shocks.

To better appreciate their issues, concerns and developing trends, we directly engaged with broking intermediaries on their business plans and risk outlooks. Concurrently, we sought assurance and assessed that they had in place mitigating controls and procedures to address these challenges. These sessions also served as an interactive platform to strengthen regulatory rapport with our intermediaries, particularly on areas involving mutual understanding of industry issues, policies and regulatory expectations. To permanently address the need to enhance regulatory-intermediaries relationship, we established clear and dedicated contact points within the SC to provide an interactive communication platform.

Direct engagements with investment management intermediaries were also conducted together with examination exercises. The SC's supervisory scope was extended to focus on key areas impacting fund managers' resilience. This encompassed areas such as liquidity and redemption management, investment exposure, financial soundness, adequacy of resources, business trends and plans, and sales practices. This exercise proved effective in early detection of risk areas and adverse findings, while enabling us to conduct our risk profiling assessment and resource allocation effectively.

In anticipation of potential spill-over effect from the global financial crisis on to our domestic corporate bond market, in tandem with other domestic capital market segments,

the SC strengthened its risk assessment over the corporate bond market and enhanced our oversight on domestic bond market intermediaries. We intensified our analysis on bond trades and performed risk assessments on price volatility to identify any emerging risk factors in the secondary market. These measures were necessary in ensuring that the domestic corporate bond market continued to play its role in providing sizeable and cost-efficient funding to productive economic sectors. Following the above, we observed steady growth in the bond market in 2009, recording an increase of RM58 billion to RM644 billion of which, RM301 billion were private debt securities (PDS) (Dec 2008: RM586 billion of which, RM283 billion were PDS).

As at end-December 2009, total bond defaults were RM1.1 billion, which was higher than the RM0.6 billion recorded the previous year. However, this accounted for less than 1% of total outstanding debt securities of RM644 billion. These defaults mostly occurred among companies from selected industries, namely manufacturing, trading and property sectors. In this regard, the SC has continuously engaged with bond trustees in order to raise their vigilance in monitoring the compliance of covenants by bond issuers. Timely and appropriate actions from bond trustees are crucial in protecting the interest of bond holders upon occurrence of credit events or breaches of covenants.

During the year, credit ratings for private debt securities issues amounting to RM9.3 billion were downgraded by domestic credit rating agencies (CRAs), higher than the RM5.7 billion recorded for last year. Nevertheless, it is observed that the pace of decline in the credit quality in the domestic bond market slowed down in the second half of 2009. In addition, concerns on the corporate bond market were restricted to certain industry sectors in the economy and not expected to pose any systemic risk to the financial market.

The SC participates as a member of the Corporate Debt Restructuring Committee (CDRC), which commenced operations in July 2009. The CDRC provides a platform for corporate borrowers and their creditors to work out feasible debt resolutions without having to resort to legal proceedings. CDRC is currently reviewing a number of applications from companies to resolve their debt restructuring scheme.

The High Level Financial and Market Stability Group; co-chaired by the SC and BNM met regularly to ensure issues that can have an impact on both the financial and capital markets are identified and managed well in advance. It aims to look at stability and systemic issues.

## **PRUDENTIAL SUPERVISION OF MARKET INSTITUTIONS AND INTERMEDIARIES**

The dynamic nature of the capital market and the introduction of innovative financial instruments have contributed towards increasing market complexity. Thus, we have continued to enhance and strengthen our day-to-day supervision over institutions and intermediaries, in line with global regulatory developments.

Intermediaries have been encouraged to play their role in achieving a fair and orderly market. During our engagements, we clarified our expectations on maintaining collective effort in preventing market abuse, and reminded them it was their business' responsibility to identify risks, having regard of the financial market as a whole and develop appropriate systems and controls in managing these risks.

We enhanced our supervisory approach on the fund management industry utilising a combination of macro prudential policies and micro prudential supervisory efforts, with the view of minimising the domestic fund management industry's exposure to the crisis while recovering in tandem with the respective markets' resurgence.

The existing risk-based approach adopted in the on-site and off-site supervision process was complemented with enhanced measures focused on key risk areas, such as client asset protection and investment exposure to non-traditional asset classes. Hence, in addition to being able to assess the state of regulatory compliance and asset growth, proactive interaction with participants in the fund management industry facilitated the establishment of appropriate measures in preparing and updating relevant stakeholders.

Based on the lessons in other jurisdictions on risks posed by complex investment instruments with unclear underlying attribution of ownership, we strengthened our assessment of investments by fund managers into alternative asset classes.

This involved revision of submission requirements to obtain timely and accurate assessment of investment holdings and engaging with custodians to ensure that they understand the importance of having in place adequate client asset protection measures unique to such investments. Resulting from these efforts, we conducted a detailed assessment of the nature and types of non-traditional asset classes. In addressing regulatory gaps, we require fund managers to seek prior approval for direct or indirect investments in assets other than those permitted by the *Licensing Handbook*.

Additionally, fund managers who pool clients' monies through special purpose vehicles or similar structures are required to establish such arrangements within the framework of the *Guidelines on Wholesale Funds*.

In line with regulatory changes made to client asset protection rules by other regulatory counterparts, proactive measures were put in place to review and enhance our existing regulatory requirements, particularly client asset protection. To effectively safeguard clients' assets, emphasis was placed on the fund managers' role in ensuring that custodians discharge their responsibilities effectively. Additionally, other supervisory efforts undertaken included enhancing submission requirements to include custodian's declaration on assets under their control and engagements with fund managers and custodians.

## MANAGING THE CONDUCT OF BUSINESS TO PROMOTE MARKET INTEGRITY

Our key supervisory emphasis throughout the year for all intermediaries was the observance of "proper standards of market conduct" which meant more than just trying to avoid engaging in market abuse activities. Intermediaries were expected to have due regard for the operation of financial markets as a whole particularly when, through their overall market share or their ability to trade positions of size, they can drive a market in a particular direction or disrupt its operational effectiveness. The standards observed by the "systematically important market intermediaries" would impact on the overall quality of the market in terms of efficiency and competitiveness and hence, overall confidence in the market. We had a series of dialogues with the intermediaries to communicate our expectations of "proper standards of market conduct".

The SC expects intermediaries to consistently maintain high standards of professionalism, independence and

avoid conflicts of interest in performing their duties. Intermediaries must also have adequate resources, good operational systems and sound technical capabilities at all times to effectively perform the role and responsibilities expected of them.

The role of surveillance has become an increasingly challenging affair, requiring continuous enhancements to our surveillance scope and function. Greater focus was placed on uncovering market abuse and early detection of market misconduct which included market manipulation, short selling, misuse of information, improper disclosure, distortion and misleading behaviour.

We reiterated the importance of compliance officers in ensuring the establishment and proper implementation of internal controls and procedures. To build a sound understanding of their roles and responsibilities, we adopted a facilitative stance by keeping an open communication channel with compliance officers to discuss compliance findings and concerns. We also reviewed the entry requirements and examinations for compliance officers as part of our initiative to facilitate a steady flow of new skills into the capital market's compliance community without compromising on quality. The new requirements included the option of going through preparatory courses and the need to successfully complete at least three relevant Industry Transformation Initiative (ITI) courses.

Consistent with our three-pronged approach of regulatory, self and market disciplines, we enhanced our surveillance effort in ensuring PLCs' compliance with Financial Reporting Standards (FRS) in substance. We pre-empted and debated implementation issues through collaboration with auditors, advisers and other relevant parties to inculcate awareness of their respective roles, duties and obligations. A key message that was conveyed related to their responsibility in ensuring the dissemination of accurate and timely information to the investing public, especially in light of contradictory and misleading statements issued by certain PLCs and their counterparties for the same transactions, which we detected from our surveillance activities.

As a move towards enhancing corporate governance and shareholder activism among institutional investors, dialogue sessions were conducted. These sessions provided valuable opportunity in disseminating our expectations of institutional investors in being at the forefront of leading corporate governance, particularly given their investment influence and resources as well as exploring facilitative

measures to further enhance the corporate governance standards within the companies.

Our supervisory focus during the year was also on the resilience and readiness of bond market intermediaries in upholding investors' interest and preserving market integrity. On the secondary bond market, we actively enquired into any unusual trading patterns undertaken by the local intermediaries as a pre-emptive measure in maintaining market integrity. Our close surveillance on the domestic bond market was well supported by new enhancements made to the bond surveillance system which provided additional surveillance features and market data. This improved our capabilities in performing active monitoring and detailed trade analysis on secondary market activities.

During the year, we initiated on-site visits to all 15 registered bond trustees. Through these visits, we were satisfied that these bond trustees had broadly complied with the relevant regulatory requirements. To further strengthen the SC's oversight on bond trustees, we will perform more detailed examinations on these intermediaries with the purpose of ensuring their adherence to regulatory requirements in critical areas, namely governance structure, internal audit and risk management functions, as well as operational, compliance and monitoring capabilities.

Ensuring credit rating agencies (CRAs) maintain high professional standards is a critical part of our effort in maintaining investor confidence in the domestic bond market. Consequently, we took proactive steps in ensuring that the CRAs in Malaysia operated according to international best practices. The two domestic CRAs i.e. RAM Rating Services Bhd (RAM) and Malaysian Rating Corporation Bhd (MARC) were required to benchmark themselves against IOSCO's *Code of Conduct for Credit Rating Agencies* (IOSCO Code) and adopt this into their own code of conduct. RAM and MARC met the requirements, placing them ahead of many other major CRAs based on the results of the review undertaken by the IOSCO Task Force on Credit Rating Agencies in March. Only seven out of the 21 CRAs reviewed, including the three largest international CRAs, had implemented the 2008 IOSCO CRA Code provisions, while 14 of the CRAs reviewed did not address the 2008 revisions of the IOSCO CRA Code.

We take cognisance of the ongoing efforts by many

jurisdictions in enhancing the oversight on CRAs in the aftermath of the global financial crisis. In this regard, the SC will review the registration framework on CRAs in order to harmonise with international best practices and will engage with our stakeholders on the appropriate revisions.

Licensed capital market intermediaries in Malaysia remained resilient in 2009 as a result of the heightened supervisory mode adopted. In assessing the viability of licensed intermediaries, focus was placed on their status of compliance with licensing and regulatory requirements, particularly in areas concerning internal controls and investor protection. In addition to enforcing strict timelines in complying with our licensing requirements, enhancements were made to our supervisory efforts by focusing on intermediaries who scaled down their operations, be it in terms of resources or business activity. Where doubts over going concern surfaced, we engaged these companies for further assessment and monitored their operating models and business viability under prevailing economic climate.

In ensuring that our capital market players maintain the highest level of regulatory compliance, and a strong operating business environment, a variety of supervisory methods were utilised, including engagements and enhancing licensing renewal assessment. Stricter licensing conditions were also imposed, where necessary, for the financial and operating soundness of our licensed intermediaries.

In addressing market misconduct and upholding market integrity, we instituted several measures on licensed intermediaries. (See Table 1).

We also actively engaged the Federation of Investment Managers Malaysia (FIMM) in assessing its preparations to assume the role of a self regulatory organisation. As an interim measure, the FIMM was accorded recognition as an approved body under section 76(1)(d) of the CMSA for one year until 27 September 2010.

## REGULATORY DEVELOPMENT ENCOURAGING MARKET EFFICIENCY

### Exchange collaborations

In September, Bursa Malaysia entered into a partnership with CME Group Inc, the world's largest and most diverse derivatives marketplace, to further develop the Malaysian

Table 1

**Heightened supervision on licensed capital market intermediaries**

Supervisory function	Details
Market Surveillance	<ol style="list-style-type: none"> <li>Enhanced review was conducted on 53 cases involving suspected market misconduct, of which 32 cases involving more than 300 suspects were considered for enforcement action.</li> <li>Detection of two counters for creating false or misleading trades. We took measures requiring these positions to be unwound in an orderly manner to minimise any possible adverse impact on the market. Investigation is ongoing.</li> <li>Identification of suspicious trades involving five counters, where Proprietary Day Trader's trading activities were disproportionately dominative. We directed Bursa Malaysia to intervene at an early stage to prevent the problem from worsening and at the same time to clarify and encourage good trading practices within the industry.</li> <li>Early detection of trades conducted without necessary client's authorisation and transacted with no change of beneficial owners. This was done with the intention to influence the volume weighted average price at the time of trading. The broker upon engagement with the SC and Bursa Malaysia, had on its own accord taken administrative action against its representatives, who were found to have conducted the breaches.</li> </ol>
Licensing	<ol style="list-style-type: none"> <li>During the year, 43 companies had their licences renewed with conditions imposed. Approximately half of these companies were involved in fund management activities, where stricter conditions imposed were in accordance with greater emphasis placed on client asset protection. As a result of our enhanced monitoring, five CMSL holders involved in fund management reconsidered their operating model and took the opportunity to exit the capital market.</li> <li>We did not renew one fund manager's licence under section 64 of the CMSA. Consequently, we disqualified its licensed director under section 65 of the CMSA.</li> <li>We also took action against market indiscipline which included intra-day short selling offences and negligence in handling trades, which saw us suspending licences and imposing conditions on CMSRL holders.</li> </ol>
Investment Management Supervision	<ol style="list-style-type: none"> <li>Based on our examinations, four fund managers were cautioned, mainly for having inadequate compliance frameworks, and poor implementation of policies and procedures.</li> <li>Conducted strategic engagements with 11 fund managers, focusing on their custodial arrangements, business-viability and investment in non-traditional assets.</li> </ol>
Financial and Corporate Surveillance	<ol style="list-style-type: none"> <li>Our surveillance efforts uncovered the following transgressions: <ul style="list-style-type: none"> <li>Contradictory statements issued by certain PLCs and their counterparties for the same transactions. We referred them to Bursa Malaysia.</li> <li>PLCs applying FRS in form rather than in substance, rendering the financial statements misleading. We engaged with the affected PLCs and their auditors.</li> <li>PLCs window dressing their financial statements by undertaking their own restricted interpretation of FRS to limit the extent of losses required to be recognised. We engaged with the affected PLCs and their auditors.</li> <li>A range of corporate governance issues, including false representations by PLCs' key officers, non-transparent corporate deals and circumvention of regulatory requirements, among others. We engaged with the affected PLCs and their auditors, issued show cause letters, and referred them to Bursa Malaysia.</li> </ul> </li> </ol>

Supervisory function	Details
Intermediary Supervision	<ol style="list-style-type: none"> <li>1. Completed risk-based examination of five stockbroking companies, focusing on compliance with regulatory requirements, including the companies' anti-market abuse systems and controls.</li> <li>2. Conducted various meetings with the senior management of the stockbroking companies to discuss regulatory concerns identified via our off-site supervision and to obtain the latest information about their business strategies and plans for our ongoing monitoring.</li> <li>3. Based on off-site monitoring, we reprimanded one broking intermediary and imposed a fine of RM100,000 relating to short selling offences.</li> <li>4. Conducted industry wide forum with heads of compliance and internal audit for exchange of ideas and information on compliance and regulatory issues, current issues and developments to better protect investors.</li> </ol>
Bond Market	<ol style="list-style-type: none"> <li>1. Conducted onsite visits on all 15 registered bond trustees.</li> </ol>

derivatives industry and gain greater global visibility. This strategic partnership agreement involved three collaborative efforts – equity participation, licensing of Bursa Malaysia Derivatives Bhd's crude palm oil futures (FCPO) settlement price and the provision of CME Globex services. The partnership was aimed at globalising the Malaysian FCPO market and facilitating expertise and knowledge transfer to develop a competitive and robust derivatives exchange. Assessing Bursa Malaysia's strategic collaboration with global partners is under the SC's supervisory ambit. The SC will continue its oversight over the partnership during the post implementation phase.

### Promoting electronic payments

In enhancing operational efficiency in the broking industry, two technology-driven areas have been earmarked for development, namely Electronic Share Payment and e-Dividends. These areas are expected to generate greater cost savings to market intermediaries and greater convenience, while accelerating fund availability to investors.

On the Electronic Share Payment project, we jointly chair a working group with BNM to resolve pertinent issues and identify action plans. The working group also includes representatives from Bursa Malaysia,

Association of Stockbroking Companies Malaysia, Association of Banks Malaysia and Malaysian Electronic Payment System Sdn Bhd (MEPS). The importance of this initiative was reiterated in the 2010 Budget speech, which stipulated that all stockbroking companies will provide e-Payment options for clients to receive and make payments. The targeted full fledge implementation of this project is scheduled for the first half of 2010.

On e-Dividends, the SC and Bursa Malaysia are working on developing an e-dividend model which will enhance efficiency and competitiveness of our capital market. The e-dividend service is expected to be launched in the third quarter of 2010.

### Liberalisation of brokerage commissions

In line with the process of deregulating the market, we have liberalised commission sharing arrangements between stockbroking companies and remisiers in two stages. The first stage, which is already in effect, allows flexible brokerage sharing with a minimum rate of 40% for remisiers. Commission-sharing will be fully liberalised during the second stage, which comes into effect on 1 January 2011. These measures will provide a better reflection of industry performance and remuneration, which commensurate with the intermediaries' structure and business model.





## **Part Three**

### **Strengthen market competitiveness**

**Asia's rising prominence as a hotbed of capital market activities will attract many global and regional players, and competition will intensify in the region. Domestic capital market intermediaries will benefit from "home ground" advantage and proximity to new growth opportunities but they must quickly adjust to operating in an increasingly cross-border environment.**



## STRENGTHEN MARKET COMPETITIVENESS

### INTRODUCTION

Structural changes in the global economy portend a migration of savings intermediation from market centres in the West to Asia. Asia's rising prominence as a hotbed of capital market activities will attract many global and regional players, and undoubtedly, competition will intensify among the region's intermediaries and markets.

Nonetheless, domestic capital market intermediaries, issuers and investors will benefit from "home ground" advantage and proximity to new growth opportunities. It is critical, therefore, for intermediaries and investors to adjust to operating in an increasingly cross-border environment. In this regard, expanding geographical boundaries provide intermediaries and investors the opportunity to capture positive scale and diversification effects by expanding product range and distribution channels to a customer base enlarged by regional integration.

### STRUCTURAL REFORMS TO CAPITALISE ON REGIONAL GROWTH OPPORTUNITIES

Malaysia already has a competitive open economy and is well positioned to adjust to the dynamic regional landscape. To capitalise on regional opportunities, the government initiated a series of reforms as part of its strategy for higher growth and structural change. The Prime Minister announced key reforms to increase international participation in the capital market through fully liberalising foreign ownership for wholesale fund management, corporate finance and financial planning while raising the foreign shareholding limit in retail fund management and stockbroking to 70%. Measures to fast-track visa applications were also announced to facilitate attracting talent to Malaysia's capital market industry.

### LIBERALISATION OF BUMIPUTERA EQUITY REQUIREMENTS FOR PLCS

Bumiputera equity requirements for companies seeking listing on Bursa Malaysia were liberalised to enhance its competitiveness as a listing destination. On 30 June, Bumiputera equity requirements for companies with Malaysian-based operations seeking listing on the Main Market were subsumed under the public spread requirements to provide greater opportunities for retail Bumiputera investors to increase their equity ownership. Bumiputera equity requirements for companies seeking listing on the ACE Market were rationalised, with companies now only required to allocate 12.5% of their enlarged issued and paid-up share capital to MITI-recognised Bumiputera investors, within one year after achieving the required profit record or five years after listing.

In addition, secondary fund-raising exercises were no longer subjected to equity requirements. This would facilitate listed companies to raise funds more easily and minimise post-listing equity compliance costs.

### COMPETITIVE FUND-RAISING PLATFORM FOR MALAYSIAN AND FOREIGN COMPANIES

There was a comprehensive revamp of the equity fund-raising framework and board structure to improve access to the capital market and to position Bursa Malaysia as an attractive fund-raising platform for domestic and foreign companies. The new board structure saw the merger of Bursa Malaysia's Main Board and Second Board into a single board known as the Main Market while the MESDAQ Market was transformed into the ACE Market, an alternative market open to companies of all sizes and economic sectors under a sponsor-based system.

## The new fund-raising framework and board structure

On 6 February, the SC and Bursa Malaysia published consultation papers seeking public feedback on a proposed new framework for listings and equity fund-raising in Malaysia. The comprehensive reform was aimed at allowing efficient access to capital and investments, and making Bursa Malaysia a more attractive listing and fund-raising platform for both Malaysia and foreign corporations.

On 8 May, the SC and Bursa Malaysia launched the new fund-raising framework, known as the Main Market, which also entailed the merging of Bursa Malaysia's Main Board and Second Board into a single board for established corporations. In addition, it involved transforming the MESDAQ Market into the ACE Market which is an alternative market open to corporations of all sizes and from all economic sectors. The two new markets came on-stream on 3 August.

The new structure was complemented by an enhanced market-based regulatory approach and further streamlining of rules and processes for equity fund-raising to ensure greater efficiency and competitiveness without compromising investor protection.

Under the new regulatory approach, the SC's approval under section 212 of the CMSA would only be required

for the following substantive main market corporate proposals:

- IPOs;
- Acquisitions resulting in a significant change in business direction or policy of a listed corporation (reverse take-overs and back-door listings);
- Secondary listings and cross listings of foreign corporations; and
- Transfer of listings from the ACE Market to the Main Market.

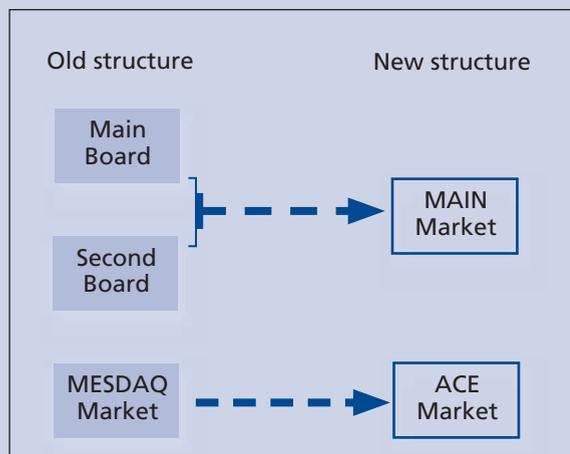
In reviewing corporate proposals, the SC will focus on the following aspects:

- Compliance with minimum requirements;
- Standards of corporate governance;
- Resolution of conflicts of interest;
- Preservation of public interest; and
- Adequacy of disclosures to enable investors to make informed investment decisions.

All other equity-based corporate proposals, such as acquisitions (other than reverse take-overs and back-door listings), disposals, placements of securities, rights offerings and issuance of warrants will no longer require the SC's approval. The SC will continue to vet and register prospectuses to ensure accurate, adequate and meaningful disclosures of all material statements and information to investors. Bursa Malaysia will take on a more active role as the front-line regulator for secondary market equity fund-raising, with the SC overseeing Bursa Malaysia in the carrying out of these functions.

As for the ACE Market, apart from being sponsor-driven and open to corporations of all sizes and from all sectors, there will be no prescribed minimum operating history or profit track record requirements for entry. The roles and responsibilities of the sponsors will be

Figure 1  
Merger of Main Board and Second Board into Main Market and transformation of MESDAQ Market into ACE Market



significantly enhanced to include the assessment of the quality and suitability of listing applicants. The sponsors will be empowered with greater flexibility and certainty to advise prospective corporations on access to the capital market both at the time of listing and subsequently through further fund-raising exercises. The sponsors will remain with the listed issuers for a period of at least three years after listing to guide the listed issuers and their directors in complying with the listing rules. Listing on the ACE Market requires Bursa Malaysia's approval and prospectuses to be registered with the SC.

As part of the effort to inject both breadth and depth into the Malaysian capital market, the SC and Bursa Malaysia also introduced rules for the listing of special purpose acquisition companies (SPACs). SPACs are corporations that have no operations or income generating business at the point of IPO. In line with their objective of enhancing shareholder value, SPACs are required to undertake corporate exercises, such as merging with or acquiring operating corporations or businesses by utilising a substantial amount of their IPO proceeds within a stipulated time frame, post IPO. The listing of SPACs will promote private equity activity, spur corporate transformation and encourage mergers and acquisitions.

A total of five guidelines were issued to give effect to the new regulatory approach. They were the *Equity*

*Guidelines, Principal Adviser Guidelines, Prospectus Guidelines, Asset Valuation Guidelines and Structured Warrants Guidelines*. In addition, Bursa Malaysia also revamped its listing requirements for the Main Market and ACE Market.

The new guidelines and the revamped listing requirements took effect on 3 August, giving industry participants ample time to familiarise themselves with the new equity fund-raising framework. The *Structured Warrants Guidelines* and the related structured warrant prospectus requirements took effect on 8 May.

The new regulatory framework and board structure marked a milestone in the development of the capital market for fund-raising in Malaysia, aligning the prevailing framework with those of the developed markets in the region. In order to remain competitive in the current market which requires diversity of financial instruments, investors and issuers, the role of all market players, including listed corporations, corporate finance advisers and auditors are significantly enhanced under the new regulatory framework to bring about greater certainty, shorter time-to-market and lower regulatory costs. This new approach to regulation is premised on stronger regulatory capabilities coupled with enhanced surveillance of the market and greater reliance on enforcement. The SC's objectives of regulation remain uncompromised – to preserve investor confidence and integrity of the capital market.

This will provide greater flexibility for fund-raising, balanced with clear accountabilities for sponsors and other checks and balances to protect investors. (See box article)

In implementing the new framework, rules and processes for equity fund-raising were streamlined to shorten time-to-market, reduce regulatory costs, and facilitate improved access to the equity and bond markets. This included:

- Rights issues by listed companies being exempted from the SC's approval;
- Issuance and offerings of equity securities by unlisted public companies being exempted from the SC's

approval while the Take-overs Code no longer applied to private limited companies;

- Simplified reporting requirements for bonds and sukuk for amendments to terms and conditions already approved by bond holders; and
- Convertible and exchangeable bonds exempted from mandatory ratings.

Enhancements were also made to the "green shoe" mechanism with the amendment of the *Capital Markets and Services (Price Stabilization Mechanism) Regulations 2008* to expand its usage to all listed securities and reduce the qualifying threshold to RM100 million.

## EXPANDING PRODUCT RANGE

To further enhance the attractiveness of the exchange, there were continued efforts to broaden the array of products to meet the needs of investors and issuers. The listing rules were revised to facilitate the listing of foreign IPOs and this was followed by the listing of three China-based IPOs on Bursa Malaysia. The establishment of SPACs was facilitated to provide more avenues for fund-raising.

On 8 May, the range of underlyings for structured warrants was expanded to include local and foreign exchange-traded funds. Subsequently, in August, the issuance of put warrants on local or foreign shares, ETFs and indices were facilitated. For purposes of maintaining fair and orderly markets, the issuances of put warrants on local underlying shares were limited to approved securities by Bursa Malaysia under the regulated short-selling framework.

Flexibility was also provided to structured warrant issuers to opt for market-making in lieu of fulfilling the spread requirement with a view to ensuring tighter bid-offer spreads for less liquid issues. Issuers were also allowed to appoint market makers registered with Bursa Malaysia and to disclose the market-making obligations in the prospectus so that they were transparent to investors. As a result of the structured warrant framework, 104 new listings were made between May and December. As at the end of December, there were 172 structured warrants listed on Bursa Malaysia.

On 12 June, the SC revised the *Guidelines on Exchange-traded Funds* (ETF Guidelines) to allow exchange-traded funds from recognised jurisdictions to be cross-listed on Bursa Malaysia. The provisions of the ETF Guidelines were also streamlined with the revisions made to the *Guidelines on Unit Trust Funds* and the *Guidelines on Real Estate Investment Trusts* for easier reference. As at December, there were three ETFs listed on Bursa Malaysia Securities Bhd and they were ABF Malaysia Bond Index Fund, FBM 30 ETF and the MyETF Dow Jones Islamic Market Malaysia Titans 25.

To support the introduction of non-ringgit denominated listed products, Bursa Malaysia implemented its multi-currency securities framework to support the listing, trading, clearing and settlement of non-ringgit securities and listed products on 13 July. The establishment of a multi-currency platform will facilitate domestic investors to diversify their portfolios onshore and will facilitate future

regional linkages requiring settlement in multiple currency denominations.

## ENHANCING SECONDARY MARKET EFFICIENCY

Initiatives were also undertaken to deepen secondary market liquidity through various schemes aimed at ensuring more efficient price discovery. Tick sizes on equity products were reduced and a market-making framework for ETFs and structured warrants was introduced to facilitate tighter bid-offer spreads. The Securities Borrowing and Lending Negotiated Transaction (SBLNT) model was introduced on 17 August to offer the option for SBL transactions to be made on an over-the-counter (OTC) basis as an alternative to the Central Lending Agency (CLA). The revised SBL Guidelines by the SC also provided clarification on the tax treatment applicable to SBLNT.

## INDUSTRY TRANSFORMATION INITIATIVE

The Industry Transformation Initiative (ITI), funded by the CMDF, was launched in July 2007 with the objective of enhancing market professionalism by strengthening technical skills and competencies of market intermediaries to boost investor confidence. Since its launch in 2007, a total of 25,983 participants have been trained under ITI. In 2009, 14 modules were run with 188 courses conducted as compared to only eight modules with 114 courses in 2008. A total of 16,589 participants attended ITI courses in 2009, an increase of more than 86% from the previous year.

## FACILITATING FURTHER GROWTH IN INVESTMENT MANAGEMENT INDUSTRY

The *Guidelines on Wholesale Funds* was introduced to provide greater flexibility for licensed fund managers to manufacture more innovative products, including those incorporating alternative investment strategies. The new wholesale fund guidelines replaced the *Guidelines on Restricted Investment Schemes* and the provisions on wholesale funds contained in the *Guidelines on Unit Trust Funds*. It represents a rationalisation exercise for the guidelines on wholesale and retail products.

In this regard, wholesale funds can now be offered to

qualified investors and flexibilities are provided through easing restrictions on leverage, expanding the list of qualified investors, removing limits to the number of investors with other flexibilities for some administrative requirements.

Consistent with the higher levels of product sophistication, investor safeguards are strengthened with more stringent disclosure provisions. Fund managers are required to provide clear disclosure to investors and to comply with the minimum content requirement of the information memorandum. The frequency of reporting to investors has also been increased to quarterly from annually.

The SC was also tasked to make recommendations to develop the private pension industry, which represents the third pillar in a multi-pillar pension framework. The development of a vibrant private pension industry was a key recommendation of the *Capital Market Masterplan* which envisaged enlarging the role of the private sector in providing Malaysian savers with additional saving vehicles to meet their retirement needs.

## ISLAMIC CAPITAL MARKET

Malaysia continues to strengthen its position as the largest and most comprehensive Islamic capital market through continuous innovation to enhance its value proposition.

### Launch of Bursa Suq Al-Sila'

Malaysia's position as a centre of innovation was reinforced with the launch of the world's first Shariah-based commodity trading platform, Bursa Suq Al-Sila' on 17 August. This was a collaborative effort of the SC, BNM and Bursa Malaysia; supported by Malaysian Palm Oil Board, Malaysian Palm Oil Association and Malaysian Palm Oil Council.

The electronic multi-currency trading platform enables Shariah-based financing and liquidity management based on the principles of *murabahah*, *tawarruq* and *musawwamah*. The trading platform is operated by Bursa Malaysia Islamic Services Sdn Bhd. The initial underlying commodity is crude palm oil and it is intended that the range of commodities will be subsequently expanded in the future.

### Achieving new heights in the sukuk market

The fall-out from the global financial crisis dampened domestic sukuk issuance activities with sukuk proposals approved by the SC declining to RM34 billion in 2009 from RM43 billion in the previous year.

Nonetheless, Malaysia continued to make significant strides in promoting its sukuk market. Within a year of introducing its facilitative listing framework for sukuk, Bursa Malaysia overtook other international stock exchanges to emerge as the exchange with the highest value of sukuk listings. As at the end of 2009, Bursa Malaysia had 12 sukuk listings with a value of RM60.1 billion (US\$17.6 billion).

Petroleum Nasional Bhd (Petronas) and Cagamas MBS Bhd (Cagamas MBS) were the first to list their sukuk in August. Petronas, via its special purpose vehicle (SPV), listed its maiden US\$1.5 billion foreign currency global EMAS Sukuk based on *ijarah* and conventional bonds amounting to US\$3 billion on Bursa Malaysia, Labuan International Financial Exchange (LFX) and Luxembourg Stock Exchange with maturity periods of five and ten years respectively.

Cagamas MBS listed its RM4 billion sukuk based on *musharakah* and RM6 billion bonds issued under its five residential mortgage-backed securitisation transactions (RMBS) with tenures of between three and 20 years. In 2009, we also witnessed the inaugural foreign listing of US\$500 million sukuk issued by GE Capital based on *ijarah*.

On the domestic sukuk market, notable exercises included the approval of up to RM20 billion issuance, comprising an Islamic medium-term notes programme and Islamic commercial papers programme by Pengurusan Air SPV Bhd. The company is a wholly-owned subsidiary of Pengurusan Aset Air Bhd to finance the acquisition of water assets in Peninsular Malaysia and Labuan.

To sustain the tax competitiveness of Malaysia's ICM, the government extended the tax deductions on sukuk issuance expenses. In addition, the government established a financial guarantee institution to provide credit enhancements for sukuk<sup>1</sup> which would increase the

creditworthiness of Malaysian sukuk and reduce the time required to place new issues. In tandem with this, the SC introduced several measures to further reduce time-to-market and transaction costs, such as facilitating revisions to approved terms of sukuk.<sup>2</sup>

### Islamic fund management hub

The attractiveness of Malaysia as a hub for Islamic fund management was reaffirmed with the granting of seven new licences for Islamic fund management companies. (For names of companies granted licences, see page 6-56).

Malaysia also inked another mutual recognition agreement (MRA) for cross-border distribution of Islamic fund products. The SC and the Securities and Futures Commission of Hong Kong (SFC) signed an MRA to facilitate capital market intermediaries to distribute their Islamic fund products in both countries with minimal regulatory intervention. Both regulators also agreed to collaborate in capacity-building and information-sharing for the development of Islamic collective investment scheme regulatory frameworks.

### Shariah Advisory Council

The SAC continues to enhance its reputation as a scholarly reference centre for Shariah ICM-related issues. Throughout 2009, 15 meetings were held to deliberate various issues with several key resolutions as presented in Table 2.

### Expansion of the regulatory and tax framework

The SC further strengthened the Shariah regulatory framework to provide more clarity on Shariah compliance and to offer greater flexibilities as follows:

- *Registration of Shariah Advisers Guidelines* – The registration process was streamlined so that Shariah advisers can provide advice on a broad range of Shariah-based products and services regulated by the SC.
- *Guidelines on Wholesale Funds* – The guidelines gave effect to the requirement for fund managers managing wholesale Islamic funds to comply with the *Guidelines on Islamic Fund Management* and the resolutions of the SAC.

The government, in Budget 2010, outlined several measures to ensure the rapid development of ICM by extending the following incentives to 2015:

- Stamp duty exemption of 20% on Islamic financing instruments;
- Double deduction on expenditure incurred in promoting Malaysia as international Islamic financial centre;
- Deduction on expenditure incurred on the establishment of Islamic stockbroking companies; and

Table 1  
Selected sukuk approvals in 2009

Issuer	Shariah principle	Amount (billion)
Pengurusan Air SPV Bhd	<i>Ijarah, Musharakah</i>	RM20.0
Petronas	<i>Ijarah</i>	US\$1.5
Sime Darby	<i>Musharakah</i>	RM4.5
Cagamas MBS	<i>Musharakah</i>	RM4.0
CIMB Islamic Bank Bhd	<i>Musharakah</i>	RM2.0

<sup>1</sup> Also applicable to conventional bonds.

<sup>2</sup> The SC would previously evaluate the rationale for amendments/revisions, the impact on credit rating and the basis of other disclosures.

- Deduction on expenditure incurred on issuance of Islamic securities approved by the SC.

### Strengthen international collaboration and building capacity

The SC intensified its efforts to strengthen international discussion and collaboration among Shariah scholars to promote the growth of the global ICM. Several high-profile conferences and various capacity-building programmes were undertaken to deepen knowledge and develop the talent pool for the ICM.

- The Visiting Scholar Programme under the auspices of the SC and University of Malaya (UM) brought in eminent international scholars to be attached with the UM. In 2009, Professor Mervyn Lewis from University of South Australia and Dr Abbas Mirakhor, the former Executive Director of the International Monetary Fund (IMF), participated in SC programmes and lectures, assisted in academic research, and provided consultation on dissertations and theses of postgraduate students.
- The 4th Islamic Markets Programme (IMP) is an SC flagship training programme and was themed “Seizing Opportunities While Strengthening Resilience”. The programme enhanced Malaysia’s reputation as an Islamic financial centre of educational excellence imparting knowledge in key areas, such as corporate governance, securitisation, risk management and transaction processes to promote sustainable growth for ICM. It was attended by more than 40 delegates from several countries, including Cambodia, Cote d’Ivoire, Croatia, Gambia, Iran, Laos, Kyrgyz Republic, Morocco, Pakistan, Philippines, Republic of Djibouti, Turkey and Uzbekistan.
- The 3rd International Islamic Capital Market Forum on “Islamic Structured Products and Current Issues in Islamic Finance” addressed current views on the landscape, regulatory approaches and philosophies and reviewed case studies. It attracted more than 250 participants comprising industry players, Shariah advisers, regulators and academicians.
- The inaugural seven-week Islamic Capital Market Graduate Training Scheme (ICMGTS) was jointly developed by the SC and the SIDC to provide an avenue for graduates to acquire the necessary skills and knowledge of ICM to enter the industry. Participants were placed with the industry for 11 months to gain practical experience.
- Three series of Expert Talks were held to educate the industry on various specialised topics, namely, Islamic venture capital, the Bursa commodity house and the role of trustees in sukuk structuring.
- A Shariah Advisers Workshop on Islamic Alternative Strategy Funds was organised to enhance Shariah advisers’ knowledge on Shariah issues in alternative investment strategies.

Efforts were also channelled towards providing authoritative sources of information and references on Islamic market practices, conventions and processes. These publications, produced for the benefit of a broad

Table 2  
Key resolutions by the SAC in 2009

Naming of sukuk involving the application of multiple Shariah principles	The SAC agreed that the sukuk should be named according to issuer’s name or as <i>sukuk istithmar</i> , where appropriate, in cases where multiple Shariah principles are involved/ applied in a sukuk structure. This is to avoid confusion and potential elements of misleading information to investors.
Using <i>wakalah</i> principle in structuring sukuk	The SAC resolved that the Shariah principle of <i>wakalah</i> can be used in structuring sukuk in Malaysia and agreed to the issuance of <i>sukuk wakalah bi al-istithmar</i> .
Structuring <i>sukuk murabahah</i> based on combination of fixed and floating rate	The SAC agreed to the structure of <i>sukuk murabahah</i> based on combinations of fixed and floating rates subject to conditions.
Islamic structured warrants	The SAC resolved that only collateralised structured warrants are permissible. In cases where the reference underlying assets comprise Shariah-compliant index/indices, the underlying components of the index/indices must have features of deliverability prior to any cash settlement.

range of stakeholders, included:

- *Malaysian ICM* quarterly bulletin – 14 issues have been published by the SC since its first publication in 2006.
- Islamic capital market book series – the book series form the basic modules for the ICMGTS and aims at providing an understanding of basic concepts and the philosophy of Islamic finance. It explores regulatory issues, legal and accounting frameworks and the governing principles of Islamic commercial law.
- *Sukuk* is the first volume of another *Islamic Capital Market* Series by the SC. The book is a contribution of articles written by professionals in the Islamic finance industry as well as Shariah scholars and legal practitioners, both internationally and locally. The book attempts to give readers a clear understanding and guidance on *fiqh*, its practical workings from both the perspective of instruments and players including the various structures and features, insights of legal and ratings experts and the outlook for sukuk in the global context.
- *Malaysian Debt Securities and Sukuk Market – A Guide for Issuers and Investors*. The SC worked together with BNM to jointly publish a comprehensive guidebook on the Malaysian debt securities and sukuk market. A soft copy is available at [www.sc.com.my](http://www.sc.com.my).

### Promoting Malaysia's ICM

A high level of international marketing, mainly under the MIFC banner, was sustained to extend Malaysia's ICM outreach and open up new opportunities to attract issuers and investors around the world. Road shows were held in the UK, France, United Arab Emirates, Singapore, Qatar, Bahrain, Saudi Arabia, Korea and Australia.

In addition, the SC participated in high-level conferences, such as the:

- Seminar on Islamic Finance in Seoul, Korea;
- Potential and Opportunities in Islamic Asset Management – Post 2008 Global Crisis, Kuala Lumpur;
- The 3rd Islamic Funds Asia 2009, Kuala Lumpur;
- Konvensyen Baitulmal Kebangsaan: Baitulmal Masihkah Relevan? Kuala Lumpur;
- Malaysia International Halal Showcase 2009 (MIHAS), Kuala Lumpur;
- The 2nd Islamic Venture Capital Conference, Kuala Lumpur;
- Islamic Finance Asia Summit 2009, Kuala Lumpur;
- London Sukuk Summit 2009;
- Malaysia-UK Islamic Finance Forum, Kuala Lumpur;
- IFN 2009 Issuers & Investors Asia Forum, Kuala Lumpur;
- The 4th IFSB Seminar on Legal Issues in the Islamic Financial Services Industry, Kuala Lumpur; and
- The 6th Kuala Lumpur International Islamic Finance Forum 2009.

Reflecting international recognition of Malaysia's developmental role, the SC Chairman received the "Most Outstanding Contribution to the Development of an Islamic Capital Market" award in conjunction with the London Sukuk Summit in July.

### VENTURE CAPITAL INDUSTRY

Various initiatives were undertaken by the SC and the MVCDC to promote the venture capital industry.

To raise further awareness of the venture capital industry, the first *Malaysian Venture Capital & Private Equity Directory 2009* was published in May by the MVCDC in collaboration with MVCA. It is a reference for entrepreneurs and investors and contains articles on industry developments, industry statistics, and regulatory requirements. It also provides details on registered venture capital corporations (VCC) and venture capital management corporations (VCMC) operating in Malaysia.

A dialogue session themed "Venture Capital and Private

**MVDC members in 2009**

- **Tan Sri Zarinah Anwar (Chairman)**  
Chairman, SC
- **Datuk Latifah Datuk Abu Mansor**  
Deputy Secretary General of Treasury
- **Dato' Madinah Mohamad**  
Secretary General, Ministry of Science, Technology and Innovation
- **Darawati Hussain**  
Director, Private Equity, CIMB Investment Bank Bhd
- **Chok Kwee Bee**  
Managing Director, Teak Capital Sdn Bhd
- **Husni Salleh**  
Chief Executive Officer, Malaysia Venture Capital Management Bhd
- **Norhalim Yunus**  
Chief Executive Officer, Malaysian Technology Development Corporation

Equity – A Viable Investment Alternative” was held in June to promote investments in venture capital funds to insurance companies and pension funds.

On 29 September, the *Venture Capital Tax Incentives Guidelines* was revised to incorporate the new incentive which provides a five-year tax exemption for VCCs investing at least 30% of their invested funds in the form of seed capital, start-up and/or early stage financing in qualified investee companies.

## INTERNATIONAL DEVELOPMENTS

### International regulatory standard setting

The SC continues to contribute significantly towards the IOSCO's development of international regulatory standards. As Vice-Chairman of the IOSCO Emerging

Markets Committee<sup>3</sup> (EMC) since May 2008, the SC Chairman co-chairs the EMC Crisis Task Force that reviewed the experience of emerging market jurisdictions in responding to the financial crisis. The findings of the task force were provided to the Group of 20 Leaders for their meeting in April. The task force published its report in September on the *Impact on and Responses of the Emerging Markets to the Financial Crisis*. The report identified key regulatory and supervisory challenges faced by emerging markets and provided recommendations to address vulnerabilities in these markets which may form the basis of future regulatory approaches.

The SC Chairman is also a member of the IOSCO Strategic Direction Task Force, a high-level grouping formed to review IOSCO's key goals and priorities over the next five years. Issues under consideration includes re-examining the role of IOSCO and securities regulators in identifying and mitigating emerging systemic risks and other threats to financial stability, approaches to strengthening regulatory capacity through systematic implementation of the IOSCO Principles of Securities Regulation, completion of the implementation of the IOSCO Multilateral Memorandum of Understanding Concerning Consultation and Co-operation and the Exchange of Information and the building of research capacity within IOSCO.

As chair of the IOSCO EMC Working Group on Secondary Market Regulation, the SC led the drafting of the *EMC Report on Approaches to Market Surveillance in Emerging Markets*, which was published by IOSCO in December. The report identified key regulatory issues and challenges affecting market surveillance and critical issues specific to emerging markets. The report also examined the approaches adopted by the regulators and exchanges in monitoring markets and detecting adverse situations; the development of human capital; and surveillance skill sets. It also identified the supplementary efforts required to complement the surveillance function.

The working group was also tasked with a new mandate to review the *Effectiveness of Trading Interventions in Emerging Markets*, which will examine the experience of emerging market in imposing trading interventions, such as circuit breakers, market and trading halts, and their effectiveness in addressing extreme market conditions.

<sup>3</sup> The IOSCO EMC has approximately 80 members, constituting more than over 70% of the total IOSCO membership.

Throughout the year, the SC demonstrated its commitment to share its experience and knowledge with fellow regulators through providing training and other forms of technical assistance to visiting regulators. The 10th Annual Emerging Markets Programme (EMP) with the theme “Managing the Regulatory Pendulum – Striking a Balance” was held on 24–30 October. There were 51 senior international capital market regulators from 19 emerging economies attending the week-long programme to share their practical experiences and knowledge on the regulatory issues affecting emerging capital markets.

In 2009, the SC also hosted 38 study visits on areas which included market supervision, collective investment schemes, securities issues, Islamic capital market and investor education by international regulators from Cambodia, Chinese Taipei, Korea, Indonesia, Saudi Arabia, Tanzania, Uganda and Pakistan. There were also high-level visits from Laos, People’s Republic of China, and a business delegation led by the Lord Mayor of London. The SC responded to approximately 200 foreign enquiries on various aspects of the regulatory framework governing the Malaysian capital market.

### Promoting regional collaboration

The SC actively supported the Ministry of Finance through participation in the ASEAN Finance Ministers process to expand the role of capital markets in promoting growth in the region. At the 13th ASEAN Finance Ministers’ Meeting in Thailand in April, the ASEAN Finance Ministers endorsed the partnership between the World Bank and ASEAN to establish the ASEAN Infrastructure Finance Network (IFN).

The IFN provides a knowledge-sharing platform for innovative approaches in mobilising financing, disseminating knowledge on global best practices, strengthening the policy dialogue with the private sector and global experts, establishing credit culture in public sector infrastructure operations, and building public sector capacity at the national and sub-national levels.

In May, the SC collaborated with the World Bank and the Ministry of Finance of Indonesia to organise the first IFN policy seminar in Bali, Indonesia. The policy seminar

focused on enhancing the role of the local and central governments and multilateral agencies to fast-track infrastructure development in the current financial crisis. The first “How-to” workshop was on “Primer for Sub-national Governments on Municipal Bonds Issuance” through the World Bank’s Global Distance Learning Network with participants from Jakarta, Manila and Kuala Lumpur in June.

The SC also played a significant role in developing the Implementation Plan to promote the development of an integrated regional capital market under the auspices of the ASEAN Capital Markets Forum (ACMF) – a grouping of the chairs of the ASEAN securities regulators. The plan was endorsed by the ASEAN Finance Ministers in Thailand in April.

The Implementation Plan provides a clear roadmap and identifies a comprehensive set of strategic initiatives with specific implementation actions and established milestones to promote integration of capital markets in the region. The initiatives aim to–

- create an enabling environment for regional integration through mutual recognition and harmonisation process of expanding scope and country coverage;
- create the market infrastructure for greater intra-ASEAN trades and regionally-focused products and intermediaries;
- strengthen the implementation process by aligning domestic capital market development plans in each ASEAN country; and
- strengthen ASEAN working mechanisms to enhance the co-ordination of regional integration initiatives and monitor and support its implementation at country level.

Under the Implementation Plan, the SC leads the Working Group to promote cross-listings in ASEAN. In June, the SC, together with securities regulators in Singapore and Thailand, implemented the ASEAN and Plus Standards Scheme for the cross-border offering of securities within ASEAN. This scheme, developed by the ACMF during the chairmanship of the SC, facilitates multi-jurisdictional offerings by prescribing common disclosure standards, known as the ASEAN Standards, with

limited additional requirements by respective jurisdictions (Plus Standards).

The SC also hosted the Asian Bond Markets Conference on 2–3 December where about a hundred Asian policymakers and bond market participants gathered to discuss regulatory standards and market practices that will facilitate cross-border transactions, and collaboration to deepen Asian bond markets. The conference was jointly organised with the Ministry of Finance and in collaboration with the Asian Development Bank (ADB). The findings of the conference will be escalated by the SC, which co-chairs a task force with the Japanese Ministry of Finance on developing regulatory frameworks, to the Asian Bond Markets Initiative (ABMI) meetings.

### International promotions

In 2009, the SC worked closely with Bursa Malaysia and the MIFC Promotions Unit on numerous international investor road shows, promotional events and media engagements in financial centres across Europe, North America, Middle East and the Asia Pacific regions. The road shows included many one-on-one meetings with global

and regional institutional investors, issuers and regulators. The intensive market promotions resulted in several global firms establishing Islamic fund management operations, new MRAs being signed or in discussion with other jurisdictions and rising interest among foreign companies to raise equity or debt financing in Malaysia.

The SC also collaborated with Wisma Putra and Institute of Diplomacy and Foreign Relations Malaysia (IDFR) to organise briefing sessions and explore the leveraging of Malaysia's existing international networks to promote the capital market. The SC continued to receive positive feedback on *Capital.My* which provided key regulatory updates and topical issues in Malaysia to international stakeholders. As part of a broader strategy to promote reverse road shows by bringing highly influential investors to Malaysia, the SC organised the World Capital Markets Symposium (WCMS) on 10–11 August. The WCMS was an outstanding success in generating wide positive international media coverage, highlighting the country's liberalisation policies. It provided extensive networking opportunities for all from the gathering of the regional Finance Ministers, leading policy-makers and global securities regulators, global thought leaders and top regional investors and businessmen. (See box article).

## World Capital Markets Symposium

The SC organised the inaugural World Capital Markets Symposium, themed “Global Financial Crisis – the Way Ahead”, on the 10–11 August, in Kuala Lumpur, Malaysia. It was positioned as a thought leadership initiative to highlight Asian views on the reshaping of the regulatory architecture in response to the global financial crisis. Notable speakers included Paul Krugman (Nobel laureate; Professor of Economics, Princeton University), Laura D’Andrea Tyson (Professor, Haas School of Business; and Economic Adviser to President Barack Obama), Raghuram Rajan (Professor of Finance, University of Chicago; Economic Adviser to the Indian Prime Minister; and former IMF Chief Economist), Charles Prince (Former Chairman and CEO-Citigroup Inc. and Senior Counselor, Albright Stonebridge Group and Albright Capital Management) and Mark Mobius (Executive Chairman of Templeton).

The event was officiated by the Prime Minister of Malaysia, Dato’ Sri Mohd Najib Tun Abdul Razak, who delivered a keynote address calling for the establishment of a clear and shared vision for global regulation. The symposium featured special sessions for finance ministers from the region and global capital market regulators discussed the need for Asian economies to deepen financial market reform to address global structural imbalances, enhance financial stability in the region and also discussed the need for Asia to be

more assertive in shaping the agenda for global reform. His Royal Highness Raja Dr Nazrin Shah, the Crown Prince of Perak and an ambassador for the MIFC, spoke of the need to “put faith back into finance” and on the increasing relevance of Islamic finance to contribute to a more stable global financial system.

The symposium attracted more than 500 high-level participants. This included 24 Chairmen and senior management of securities regulators, about 20 CEOs/ Presidents and senior management of stock exchanges, and other senior officials of governments, agencies, embassies, PLCs, law firms, financial institutions and fund managers. Several side meetings were also held between the senior policy-makers, key speakers and top industry players, boosting the reputation of WCMS as a high-level networking event.

The symposium received extensive positive international profiling of Malaysia with more than 152 registered media, including media partners CNN, CNBC, International Herald Tribune, Dow Jones, WSJ, Bloomberg, Reuters, FT and Economic Times of India, covering the event. There was extensive pre-event publicity in the form of special focus, editorials, interviews and advertisements. Media coverage remained high throughout the event with more than 70 interviews with key speakers and delegates.

*“Challenges arising from the current crisis should be viewed as an opportunity to address matters which are not working in our local, regional, and global economic environments. By choosing opportunity and co-operation, we can ensure that the rising economic tide will benefit all, and together, we can lay the groundwork for a truly global community.”*

*Prime Minister of Malaysia, Dato’ Sri Mohd Najib Tun Abdul Razak,  
World Capital Markets Symposium*



## **Part Four**

### **Increase our capabilities and effectiveness**

**We focus on capacity building across the board, with emphasis on the areas of supervision, enforcement and leadership, to align with post-crisis global developments. Work processes are made more efficient so that we can remain agile in coping with the evolving economic environment.**

**Communication with stakeholders is intensified to provide a better understanding of pertinent issues and build confidence.**



## INCREASE OUR CAPABILITIES AND EFFECTIVENESS

### INTRODUCTION

The challenging market conditions in 2009 highlighted the importance of building the necessary capabilities to cope with emergent issues in the regulation and supervision of capital market participants. The SC enhanced its capacity building programmes to strengthen the skills and institutional capacity with particular emphasis on the regulatory and supervisory oversight functions.

The SC also emphasised on increasing responsiveness to the needs of stakeholders and the markets, and appropriate programmes were initiated to strengthen staff competence and improve the efficiency levels of product and service delivery. One of the focus areas was the provision of supportive learning and development interventions that would strengthen individual and organisational skills and experience. The SC also complemented the initiatives to enhance organisational capabilities and efficiencies with targeted communication initiatives.

### CAPACITY BUILDING AND EFFICIENCY

#### Strengthening organisational capacity

Reflecting our commitment to invest in training our workforce, the SC consistently allocates 4% of staff salary annually for learning and development. An intensive training programme, comprising both on-the-job and course programmes, combined with a skills-enhancement roadmap is targeted at building expertise and leadership and providing career advancement opportunities.

In 2009, special emphasis was accorded to enhancing skills in supervision, enforcement and leadership. Allocation

to programmes in these areas was raised to about 75% of the learning budget; doubling the previous year's. The programmes for supervision and enforcement were specifically tailored for staff involved in undertaking risk-based examinations of market intermediaries and institutions.

The SC launched its Leadership Excellence and Development (LEAD) pilot programme, which focused on strengthening management and leadership skills in 13 priority areas. The LEAD programme covered 260 staff in 2009. Fresh graduates hired into the Graduate Management Executive Programme (GMEP) and new hires also benefited from the substantial participation of the SC senior management team in the Induction Programmes.

In addition, staff were also sent for attachment and attended various workshops and conferences locally and overseas to keep abreast of new industry developments. Prominent local and foreign industry experts, and experienced securities regulators were brought in from the Hong Kong Securities and Futures Commission, the Australian Securities and Investments Commission, and the US Securities and Exchange Commission to lecture on topical and complex capital market issues. The lectures covered a broad range of sophisticated financial products and services, surveillance, enforcement and issues relating to the global financial crisis. Twenty-six staff attended securities market development and regulation programmes organised by the Financial Services Authority UK, and IOSCO. Eleven staff were attached to investment banks, research houses and Bursa Malaysia as part of their training programme.

At senior levels, a structured approach was adopted for succession planning and talent management with the identification of future potential leaders for development.

## Staff performance systems

The SC uses a performance management system that provides guidance on job competencies at every level. It helps staff identify specific skills required to close competency gaps. A number of enhancements were made following a holistic review of the SC technical and core competencies and job descriptions. These enhancements allowed for greater clarity and line of sight to organisational and business goals, more focused execution of strategic, business and operational functions, and improved understanding of performance standards.

## SC Executive Enhancement and Development Programme

In response to the initiative announced during the Second Stimulus Package, the Minister of Finance II launched the SC Executive Enhancement and Development (SEED) Programme on 26 May. This programme was aimed at enhancing the employability and career mobility in the capital market for 500 graduates over the next two years through training and on-the-job attachment.

SEED is a unique training programme aimed at increasing the supply of skilled graduates. The training programme is divided into three schemes as illustrated in Table 1. It employs structured learning for knowledge acquisition and experiential learning for skills acquisition. This approach has proven effective as graduates have

been able to satisfy the competency requirements set by employers.

## Leveraging on technology

The SC's IT infrastructure and various application systems formed an integral aspect of our core business processes and regulatory service delivery. We made continuous enhancements to the SC's web applications and expanded the range of online facilities to improve timeliness and efficiency by facilitating regulatees in their submission of statistical and compliance information to the SC.

A simulation programme, where candidates can undergo a preparatory course to assist in preparing for the licensing examination was added to our computer-based examination (CBE) system. An online public recruitment system was also developed where external applicants could submit their applications to the SC via the web.

## Knowledge infrastructure

To strengthen knowledge management, the SC formalised its records management policy and commenced on a three-year records management infrastructure implementation plan. A records management policy was established to improve efficiency for managing records in line with international practices for the capture, retention,

Table 1

Scheme	Description	Status
Graduate Executive Training (GET)	A programme to develop graduates as entry level regulators through employment at the SC, SIDC and Bursa Malaysia.	A total of 46 graduates were recruited since its inception in July.
Islamic Capital Market Graduate Training (ICMGTS)	A programme to develop graduates as Islamic capital market professionals. The programme provides a comprehensive overview of ICM based on a variety of teaching methodologies to help equip them with the necessary technical knowledge and skills to enter the industry.	Commenced on 1 July, a total of 37 degree holders went through intensive classroom training and 29 were successfully placed in the industry.
Graduate Development Programme (GDP)	A programme to recruit a pool of 180 entry level market professionals. Graduates benefit from intensive classroom training and sit for the SC licensing examinations.	32 participants were successfully placed at various licensed intermediaries.

retrieval and disposal of organisational records. This project will enhance the SC's business continuity management and facilitate the organisation of our intellectual property.

### Service delivery

The SC continues to place significant emphasis on improving internal processes and enhancing service delivery systems from the perspective of timeliness, quality and ensuring that adequate controls are in place.

The SC's licensing application process was reviewed for efficiencies in terms of the assessment process and delivery timeliness. Reflecting the process improvements, 99% of licensing applications received in 2009 were reviewed and processed within the time frame committed by the SC. In tandem with the launch of the new fund-raising framework and board structure, the internal processes to evaluate corporate proposals were also reviewed. As a result of the review, corporate proposal processes achieved 94% completion within their respective time charter while maintaining the standards of diligent assessment.

We also undertook a comprehensive review of our complaints management process to enhance the channel of communication between the public and the SC. This included improvements to our automated acknowledgement system for a more effective and customer-friendly response system and improved customer focus given to each complainant.

## EFFECTIVE COMMUNICATION AND ENGAGEMENT

The support and collaboration between the SC and all relevant parties has always been critical in ensuring our effectiveness in developing and regulating the Malaysian capital market. The effort of working together towards a common goal arises from the meaningful engagements with stakeholders that have enabled us to achieve successful

outcomes in many of the initiatives introduced over the years.

In 2009, our senior management participated in almost 80 strategic events, including high-level conferences at home and abroad. They shared our philosophy and initiatives for the capital market, garnered feedback from stakeholders and global investors, and fostered greater collaboration within the capital market. For the new equity fund-raising framework and board structure, we held numerous brainstorming sessions and focus group discussions with various stakeholders.

We also strengthened our partnership with the media to—

- work towards addressing the challenging situations in 2009;
- improve public understanding of key issues in the capital market;
- strengthen investor confidence; and
- improve international perceptions of the Malaysian capital market.

Throughout 2009, the SC issued almost 60 media releases and hosted 30 press conferences, interviews and briefings, covering a wide range of topics, including new policy initiatives, enforcement cases and periodic releases of the SC scorecard. The SC also invited the media to attend selected training programmes so that they could enhance their technical knowledge on various issues affecting the capital market.

Following the revamp of our website, the SC attracted almost 25 million hits in 2009, an increase of over 30% as compared to 2008. We also produced a corporate video to strengthen the SC's brand and provide the general public and potential recruits with a better understanding of the SC and the conduct of its regulatory and development functions.





## **Part Five**

### **Capital market review and outlook**



## CAPITAL MARKET REVIEW AND OUTLOOK

### GLOBAL DEVELOPMENTS

The world economy did not contract in 2009 by as much as expected through heavy support by governments and monetary authorities. Global output began to recover in the second half on strong growth by China and other Asian economies and a return to economic stability among the larger advanced economies (Table 1).

Table 1  
Output and inflation (annual % change)

Real GDP	2008	2009e	2010f
World	3.0	-1.1	3.1
Advanced economies	0.6	-3.4	1.3
– US	0.4	-2.7	1.5
– European Union	1.0	-4.2	0.5
– Japan	-0.7	-5.4	1.7
Other advanced economies	1.2	-2.7	2.1
Emerging and developing economies	6.0	1.7	5.1
Developing Asia	7.6	6.2	7.3
– Malaysia	4.6	-3.6	2.5
Consumer prices	2008	2009e	2010f
Advanced economies	3.4	0.1	1.1
– US	3.8	-0.4	1.7
– European Union	3.7	0.9	1.1
– Japan	1.4	-1.1	-0.8
Other advanced economies	3.8	1.3	1.6
Emerging and developing economies	9.3	5.5	4.9
Developing Asia	7.5	3.0	3.4
– Malaysia	5.4	-0.1	1.2

e = estimate; f = forecast

Sources: World Economic Outlook October 2009, International Monetary Fund.

Monetary authorities kept interest rates at historically-low levels throughout the year (Table 2), with those of the US and other major countries maintaining their programme of “quantitative easing” – essentially, printing money – to simulate their economies. Government spending continued to grow at a rapid pace in the US, EU and Japan, and jumped sharply higher in other advanced economies and among emerging and developing economies (Table 3).

Table 2  
Policy rates (end period)

	2008	2009
Canada	1.50	0.25
US	0.25	0.25
Denmark	3.75	1.20
European Union	2.50	1.00
Norway	3.00	1.75
Russia	13.00	8.75
Sweden	2.00	0.25
Switzerland	0.50	0.25
Turkey	15.00	6.50
UK	2.00	0.50
Australia	4.25	3.75
China	5.31	5.31
India	6.50	4.75
Indonesia	9.25	6.50
Japan	0.10	0.10
Korea	3.00	2.00
Malaysia	3.25	2.00
New Zealand	5.00	2.50
Philippines	5.50	4.00
Taiwan	2.00	1.25
Thailand	2.75	1.25
Brazil	13.75	8.75

Sources: Reuters, Bank Negara Malaysia.

Table 3  
Fiscal balance of central government (% of GDP)

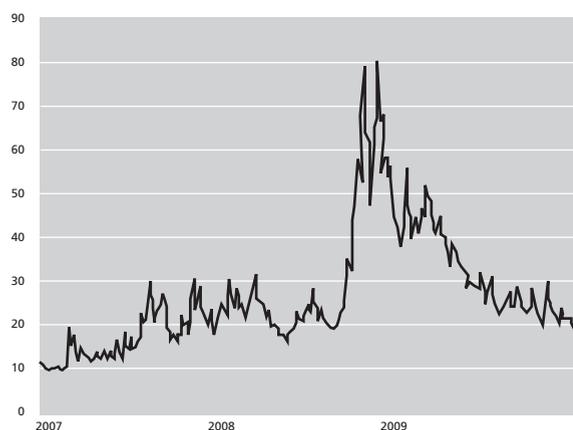
	2008	2009	2010
Advanced economies	-2.7	-7.1	-6.3
– US	-4.5	-11.4	-9.1
– European Union	-1.7	-3.9	-4.2
– Japan	-3.6	-5.5	-5.3
Other advanced economies	-0.4	-4.5	-4.9
Emerging and developing economies	0.1	-3.5	-2.4
Developing Asia	-1.7	-3.5	-3.2
– Malaysia	-4.8	-7.4	-5.6

Sources: World Economic Outlook October 2009, International Monetary Fund; Ministry of Finance, Malaysia.

Amid these developments, asset markets stabilised, then rebounded as investors regained an appetite for risk. By the beginning of the second quarter, the VIX index, a measure

Chart 1  
Risk aversion

CBOE VIX index of implied volatility of Standard & Poor's index options



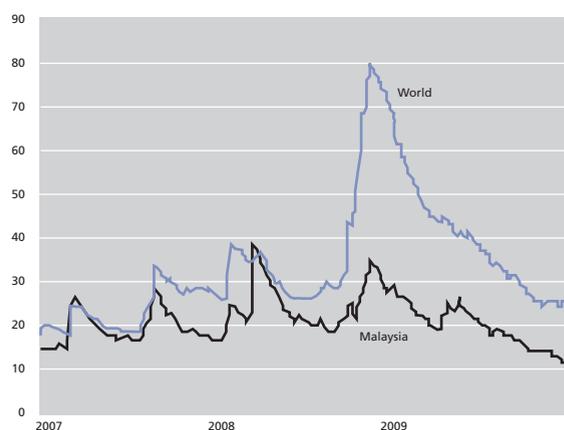
Source: Thomson Reuters Datastream

of market uncertainty, had declined by more than half its peak in late 2008, while volatility in most markets trended downwards (Chart 1). The main beneficiaries of this turnaround were emerging equity and bond markets, especially those of the so-called BRIC economies<sup>1</sup> (Charts 2–5). Commodity markets also experienced a sharp rebound, with metals and oil seeing the biggest gains (Charts 6–7).

Several countries, including Brazil, were forced to impose ad hoc capital controls as they faced a surge in demand for their assets. Some US\$80.3 billion is believed to have flowed into emerging markets in 2009.<sup>2</sup> Nevertheless, markets remained resilient although market quality issues appeared to surface in some of the larger markets, as heavy buying reportedly pushed up transaction costs.<sup>3</sup>

Chart 2  
Stock market volatility (annualised %)

Volatility of MSCI Malaysia index and average volatility of selected other market indices in US dollars



Source: Securities Commission Malaysia

<sup>1</sup> Brazil, Russia, India and China.  
<sup>2</sup> EPFR Global figures.  
<sup>3</sup> Elkin/McSherry Newsletter, August 2009.

Chart 3

**World stock prices** (31 Dec 2008 = 100)

Morgan Stanley Capital International Emerging Markets, World and Malaysia indices in US dollars

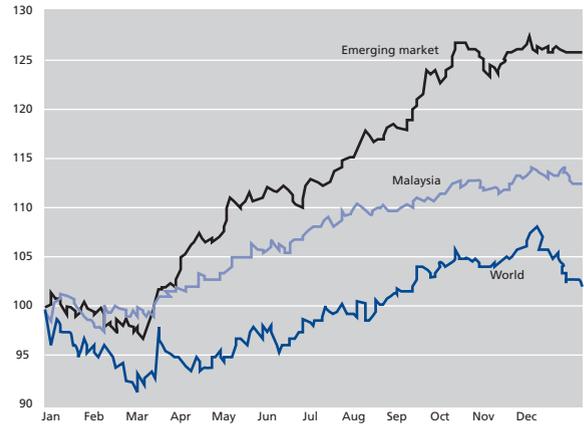


Source: Thomson Reuters Datastream

Chart 5

**World government bond prices** (31 Dec 2008 = 100)

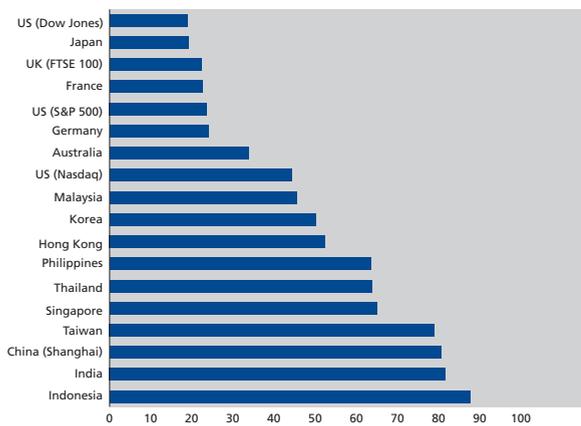
JPM EMBI + Emerging Market and Malaysia indices, CGBI World WCGBI index in US dollars



Source: Thomson Reuters Datastream

Chart 4

**Stock market indices** (% change in 2009)



Source: Thomson Reuters Datastream

Chart 6

**Global commodity prices**

Goldman Sachs commodities indices



Source: Bloomberg

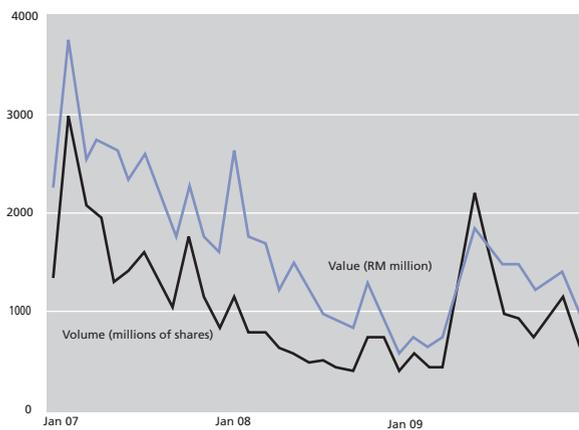
**Chart 7**  
**Oil prices** (1 Jan 2009 = 100)

Brent 1-mo. forward (US dollars); Kuala Lumpur futures. nr mo. Contract (RM)



Source: Thomson Reuters Datastream

**Chart 8**  
**Daily Malaysian stock market trading activity**



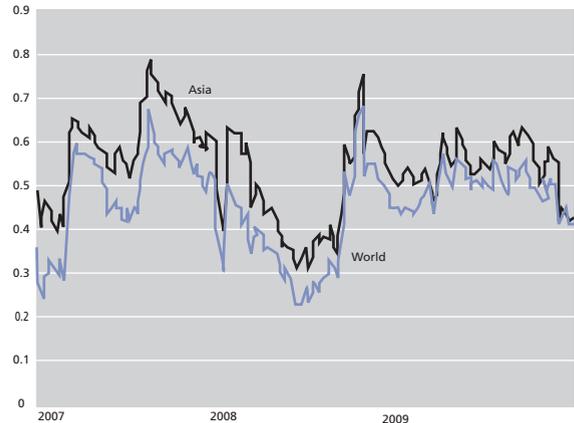
Source: Bursa Malaysia

## DOMESTIC DEVELOPMENTS

In Malaysia, significantly-reduced interest rates, a comprehensive programme of fiscal stimulus and relatively resilient private consumption contributed to a V-shaped recovery in the economy. After shrinking by more than 6% in the first quarter, real output declined more slowly in subsequent quarters supported by better performance of the external sector.

**Chart 9**  
**International correlation of Malaysian stocks with other markets**

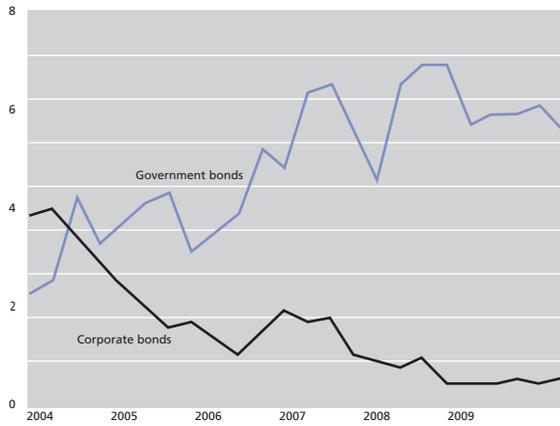
Average correlation of MSCI Malaysia index returns with selected other markets in US dollars



Source: Securities Commission Malaysia

Global trends were also reflected in the Malaysian capital market, with stock and bond prices climbing in line with world markets (Chart 8). Malaysia's correlation with world stock markets continued to be high and positive, especially with Asian counterparts (Chart 9). The primary market made a significant recovery from 2008 and attracted more issuers across a spectrum of securities – including Malaysia's biggest capital-raising exercise, in the form of Maxis Bhd's RM11.2 billion initial public offering. Malaysia continues to be the third-largest domestic currency bond market in Asia (ex-Japan). Total amount outstanding of debt securities and sukuk grew 10% in 2009 to reach RM644 billion from RM586 billion in 2008. Private debt securities constituted RM301 billion or 47% of this outstanding amount, a 6% growth in the overall domestic bond market in 2009. The primary market for corporate credit remained active; the value of corporate bonds and sukuk issued were RM61 billion in 2009 compared to RM50 billion in 2008. There has also been strong interest in the Malaysian sukuk market – in 2009, total sukuk issuance was RM32 billion compared to RM24 billion in 2008. Secondary market activity was also buoyant, particularly for stocks and government bonds, while corporate bond turnover continued to be stable but low relative to the size of the market (Chart 10).

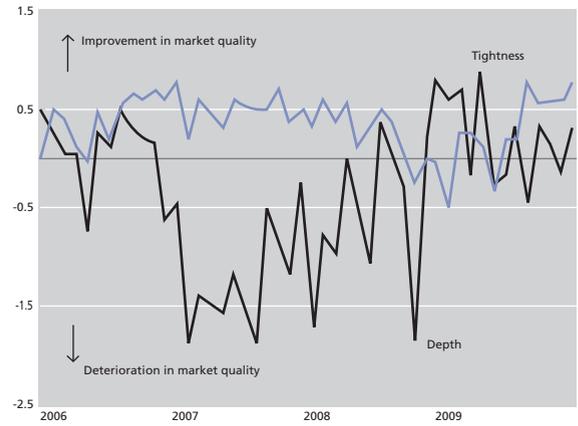
**Chart 10**  
**Malaysian bond market turnover value**  
 (As proportion of bonds outstanding)



Source: Asian Development Bank

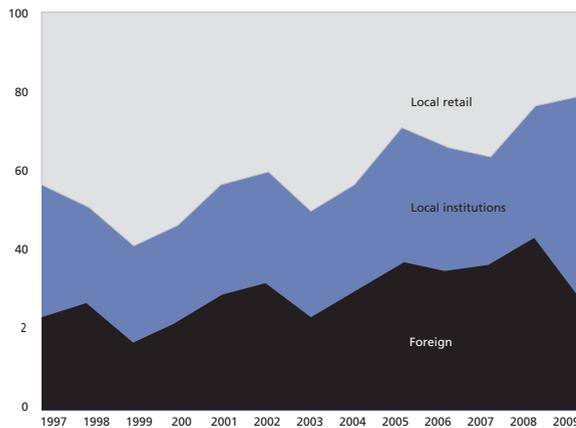
**Chart 12**  
**Stock market liquidity indicators**

Tightness index is based on the average spread between end-month bid and ask prices of KLCI component stock. Depth is based on market turnover value and monthly volatility of the KLCI. A level of more than 1.5 indicates capital market stress, while a level of less than -1.5 shows exuberance.



Source: Securities Commission Malaysia

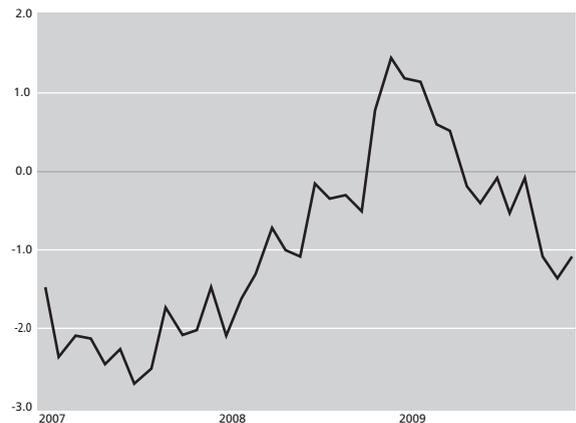
**Chart 11**  
**Malaysian stock market investors** (% of turnover value)



Source: Bursa Malaysia

**Chart 13**  
**Malaysian capital market stress indicator**

Measures pressure arising from market uncertainty, financial services risk and market liquidity risk. A level of more than 1.5 indicates capital market stress, while a level of less than -1.5 shows exuberance.



Source: Securities Commission Malaysia

Heightened competition for international portfolio capital during the year, led to a drop in foreign investor participation to below 30%. However, institutional investors increased their share substantially, accounting for more than 50% of annual stock market turnover for the first time, as increasing numbers of retail investors

took to collective investment schemes (Chart 11).

Market quality of the stock market, in terms of trading costs and market impact, stabilised after having been on a declining trend since 2007. Broad indicators of stock market tightness suggested that the average cost of matching

order supply with demand significantly decreased amid the stock market rally.<sup>4</sup> Market depth, i.e. the ability of the stock market to absorb larger trade flows without significantly impacting prices, stayed consistent around normal levels throughout the year (Chart 12).<sup>5</sup>

There were no major instances of capital market stress during the year. Pressures emanating from market uncertainty, financial services risk, and market liquidity risk were within an acceptable range (Chart 13).

## OUTLOOK

Growth in world output is projected to accelerate in 2010, with advanced economies enjoying the fastest gains. Developing Asia is again expected to lead the world with the highest rates of economic growth. However, the sustainability of growth will depend on how well policy-makers address a number of important trade-offs.

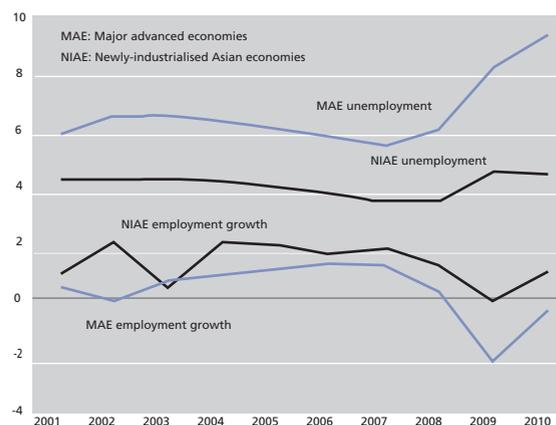
Monetary authorities will need to strike a balance between maintaining supportive monetary conditions, while managing the risk of credit and inflationary bubbles. Long-term bond yields in advanced economies have reportedly begun pricing in an inflation premium, while observers have noted the sharp rise in China's credit growth. While authorities are expected to raise policy rates at some point, markets will be monitoring closely the timing and magnitude of their decisions.

A second trade-off involves how governments address the need to maintain spending while ensuring fiscal positions do not deteriorate significantly. A big challenge for advanced economies in particular is the growing spectre of unemployment, which has risen sharply over the last two years and is projected to reach over 9% in 2010 (Chart 14).

Meanwhile, job prospects in these economies remain bleak, with employment growth expected to be stagnant next year after having fallen by more than 2% in 2009. The situation does not appear to be as severe among newly-industrialised Asian economies, although labour market conditions are not expected to improve significantly in the next 12 months.

Chart 14

World labour market trends (unemployment as % of GDP; employment growth)



Source: World Economic Outlook October 2009, International Monetary Fund

A decisive and effective resolution to these trade-offs and other challenges will improve the likelihood of a sustained recovery along the prevailing growth path. Nevertheless, however beneficial such prospects may seem, they can carry seeds of future problems if markets do not address issues highlighted by the 2007–08 crisis, such as perverse incentive structures and weak supervision.

The possibility of a second sharp downturn in markets could increase if current global and domestic efforts to sustain growth and address structural issues are met with significant obstacles. Under such circumstances, fundamental and structural strengths will be key to market resilience. Perhaps counter-intuitively, niche opportunities may also present themselves.

However, a situation in which policy efforts are simply constrained or slowed-down by frictions involving public pressure and political resistance can heighten the prospect of a prolonged bear-market, punctuated by “bounces” and corrections thereafter. While possibly attractive to traders, such a bear market if prolonged will require careful monitoring and a proactive stance to support confidence and sustain the vitality of the capital market.

<sup>4</sup> This is typically measured by the difference, or spread, between a stock's bid and ask price.

<sup>5</sup> A common measure of this, and one used here, is the ratio of turnover value to price volatility.



## **Part Six**

### **Statements and statistics**



## COMMISSION MEMBERS



### **TAN SRI ZARINAH ANWAR**

Appointed 1 December 2001

Tan Sri Zarinah Anwar was appointed the Chairman of the Securities Commission Malaysia (SC) on 1 April 2006. She had served as the Deputy Chief Executive of the SC and member of the Commission since 1 December 2001. Tan Sri Zarinah is also the Vice Chairman of the Emerging Markets Committee of IOSCO and was the Chairman of the ASEAN Capital Markets Forum from 2006–2008. Tan Sri Zarinah currently chairs the Malaysian Venture Capital Development Council (MVCDC) and the Capital Market Development Fund (CMDf). She is also a member of the Labuan Offshore Financial Services Authority (LOFSA), the Financial Reporting Foundation (FRF), Malaysia International Islamic Financial Centre (MIFC), and the board of directors of the Institut Integriti Malaysia (IIM) and the Asian Institute of Finance Malaysia.

Prior to joining the SC, Tan Sri Zarinah was the Deputy Chairman of Shell Malaysia. She graduated with an LLB (Hons) from the University of Malaya.

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

Appointed 18 May 1999

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





### **DATO' MUHAMMAD IBRAHIM**

Appointed 15 May 2004

Dato' Muhammad Ibrahim is the Assistant Governor of BNM responsible for the regulatory sector. The regulatory sector covers Islamic and takaful banks, insurance, development financial institutions and financial markets. He has been with BNM since 1984 and has served in the areas of central banking, including finance, banking supervision and regulation, strategic planning, payment systems, insurance, offshore banking, treasury and financial markets. He was the Managing Director of Danamodal Nasional Bhd. He is a trustee of the Tun Ismail Ali Chair Council and Shariah Fund, a former council member of the Malaysian Institute of Accountants (MIA) and an Associate Fellow of the Institute of Bankers Malaysia. He sits on the board of the government pension agency. He graduated with an accounting degree from the University of Malaya, a post-graduate diploma in Islamic banking and finance from the International Islamic University Malaysia and a master's degree from Harvard University.

### **DATO' GUMURI HUSSAIN**

Appointed 1 August 2004

Dato' Gumuri is the Chairman of SME Bank, a position he has held since October 2005. He was the Managing Director and Chief Executive Officer of Penerbangan Malaysia Bhd from 2002 to 2004. Prior to this, he was a Senior Partner and Deputy Chairman of Governance Board of PricewaterhouseCoopers Malaysia. He sits on the boards of Kurnia Setia Bhd, Metrod (Malaysia) Bhd and Media Prima Bhd. He has also served as a non-executive director of Bank Industri & Teknologi Malaysia Bhd, Malaysia Airline System Bhd and Sabah Bank Bhd. Dato' Gumuri is a fellow of the Institute of Chartered Accountants in England and Wales (ICAEW), and a member of the MIA and the Malaysian Institute of Certified Public Accountants (MICPA).



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

Appointed 1 August 2004

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

**DATUK WIRA ISMAIL SALEH**

Appointed 15 July 2008

Datuk Wira Ismail Saleh is the Secretary General of the Ministry of Plantation Industries and Commodities. He was the Melaka State Secretary from 2005 to 2008. Having been in the public service since 1975, Datuk Wira Ismail has more than 30 years of working experience in the government sector. Positions that he has held included the Deputy Chief Executive of the Malaysian External Trade Development Corporation (MATRADE) and the Senior Director, Bilateral and Regional Relations Division of the Ministry of International Trade and Industry (MITI). Datuk Wira Ismail was also the Malaysian Trade Commissioner in Singapore, France and the US.

**FAZLUR RAHMAN EBRAHIM**

Appointed 1 May 2006



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

**DATUK LATIFAH DATUK ABU MANSOR**

Appointed 14 June 2009

Datuk Latifah is the Deputy Secretary General (Policy) of the Ministry of Finance. She was previously the Director of Budget Management Division of the Ministry. Datuk Latifah currently sits on the boards of Lembaga Tabung Haji, Employees Provident Fund (EPF), Retirement Fund (Incorporated), Lembaga Kumpulan Wang Amanah Negara, Malaysian Co-operative Commission, CMDF, UDA Holdings Bhd and Syarikat Jaminan Pembiayaan Perniagaan Bhd. She is also an alternate board member of Malaysian International Shipping Corporation Bhd and formerly served the board of Johor Corporation. Datuk Latifah is a member of the MVCDC and a trustee to the International Partnership Against Cyber Threat (IMPACT). She obtained her MBA from Universiti Kebangsaan Malaysia in 1992.



## SENIOR MANAGEMENT



**DATO DR NIK RAMLAH MAHMOOD**  
Managing Director  
and Executive Director, Enforcement



**DATUK RANJIT AJIT SINGH**  
Managing Director  
and Executive Director, Market Supervision



**GOH CHING YIN**  
Executive Director  
Strategy and Development

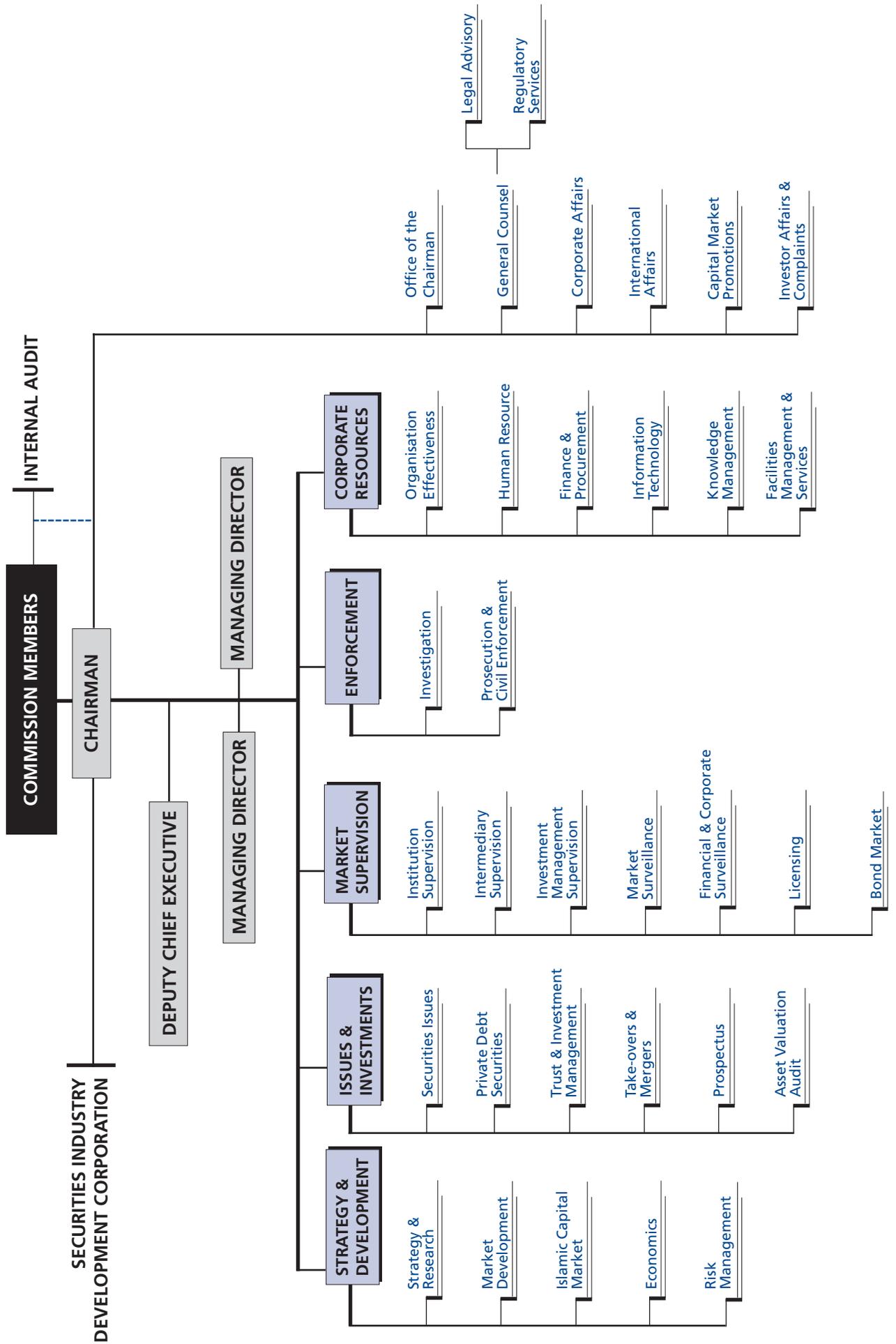


**DATIN TEH IJA MOHD JALIL**  
Executive Director  
Corporate Resources



**EUGENE WONG WENG SOON**  
Executive Director  
Issues and Investments

# ORGANISATION STRUCTURE 2009



## STATEMENT ON GOVERNANCE

The SC is established under the *Securities Commission Act 1993* (SCA) to regulate and develop the Malaysian capital market. Our functions, powers and the manner in which our powers are exercised, and governance arrangements are stipulated in the SCA.

As the statutory regulator for the Malaysian capital market, the SC advocates high standards of corporate governance and fully supports the principles and best practices of the *Malaysian Code on Corporate Governance*. We seek to observe the code's principles and best practices, including the issuance of a Statement on Governance, with necessary adaptations in its context.

The SC is also a member of the International Organization of Securities Commissions (IOSCO) and is committed to the IOSCO principles of securities regulation to reduce systemic risk, protect investors, and ensure fair, efficient and transparent markets.

### MEMBERS OF THE COMMISSION

Members of the Commission comprise the Chairman, four members representing the government, and three others. The Chairman is an executive position. Tan Sri Zarinah Anwar has assumed the position of Chairman since 1 April 2006.

A profile of the members is provided on pages 6-1 to 6-3. The members also sit on various committees established by the Commission. All Commission members are appointed by the Minister of Finance. The terms of their appointment include:

- A member cannot hold full-time office in any PLC;
- A member is appointed for not more than three years;

- A member is eligible for reappointment;
- The Minister of Finance can revoke the appointment of any member at any time;
- All members must disclose their interest, whether direct or indirect, on any matter under discussion by the Commission; and
- Remuneration and allowances payable to Commission members are determined by the Minister of Finance.

### FUNCTIONS OF THE COMMISSION

The SC's regulatory functions include:

- Supervising exchanges, clearing houses and central depositories;
- Approving authority for issuance of securities;
- Registering authority for prospectuses of corporations;
- Regulating all matters relating to securities and futures contracts;
- Regulating the take-over and mergers of companies;
- Regulating all matters relating to unit trust schemes;
- Licensing and supervising all licensed persons;
- Oversight over self-regulatory organisations; and
- Ensuring proper conduct of market institutions and licensed persons.

The discharge of its regulatory duties is towards achieving the key objectives of investor protection, fair and orderly markets, and market stability. The SC is also obliged by statute to encourage and promote the development of the securities and futures markets in Malaysia.

## COMMISSION MEETINGS

Ten Commission meetings were held in 2009. The quorum required is five. The attendance record is set out in Table 1.

## COMMITTEES OF THE COMMISSION

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

## MEETING PROCEDURES

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

All Commission members have access to the Commission Secretary who ensures that the Commission has sufficient

information, support and resources to make informed decisions. The Commission Secretary and the various Committee Secretariats keep a full set of minutes of all Commission and Committee meetings, respectively.

## ACCOUNTABILITY AND AUDIT

The SCA provides that the Chairman is entrusted with the day-to-day administration of the SC. Since 6 February 2008, Managing Directors (Dato Dr Nik Ramlah Nik Mahmood and Datuk Ranjit Ajit Singh) have been appointed by the Commission to assist the Chairman with day-to-day operations related to the broad areas of regulation and development. The Management Committee, which is the highest executive body and chaired by the Chairman, meets weekly generally and is supported by other committees including the Sanctions Committee, the Resources Committee, and the IT Steering Committee.

### Risk management

The Commission considers risk management integral to the successful pursuit of the SC's mission, objectives and goals. Accountability for the SC's capacity to manage risks to its mission, objectives and goals rests with the Management Committee. It defines the various roles and responsibilities with regard to risk management throughout the organisation, and sets the SC's risk profile and risk appetite. The Management Committee also takes responsibility for shaping and reinforcing the SC's risk culture.

### Internal control

The Commission acknowledges its responsibility for ensuring that a system of internal control is in place and for reviewing its adequacy and effectiveness. The Statement of Internal Control is set out in pages 6-10 to 6-12.

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

### Financial reporting

The Commission exercised due care and took reasonable steps to ensure that the financial statements for the year 2009 presented a fair assessment of the SC's financial position and that the requirements of accounting standards

Table 1

Attendance at Commission Meetings in 2009

Commission member	Number of meetings attended
Tan Sri Zarinah Anwar	10
Datuk Siti Hadzar Mohd Ismail (retired 13 June 2009)	5
Datuk Latifah Datuk Abu Mansor (appointed 14 June 2009)	2
Dato' Muhammad Ibrahim	8
Dato' Mohd Bakke Salleh	9
Datuk Wira Ismail Saleh	7
Francis Tan Leh Kiah	9
Dato' Gumuri Hussain	8
Fazlur Rahman Ebrahim	9

Table 2

**Committees of the Commission in 2009**

Committee	Responsibility	Members
1. Audit Committee	Review effectiveness of the SC's internal controls and risk management systems and review the annual financial statements.	<ul style="list-style-type: none"> <li>• Dato' Gumuri Hussain (Chairman)</li> <li>• Francis Tan Leh Kiah</li> <li>• Fazlur Rahman Ebrahim</li> <li>• Datuk Wira Ismail Saleh (appointed 20 January 2009)</li> </ul>
2. Issues Committee	Evaluate any proposed issue and listing of securities by PLCs and corporate exercises involving reverse take-overs of PLCs.	<ul style="list-style-type: none"> <li>• Tan Sri Zarinah Anwar (Chairman)</li> <li>• Datuk Siti Hadzar Mohd Ismail*</li> <li>• Francis Tan Leh Kiah</li> <li>• Fazlur Rahman Ebrahim</li> <li>• Dato' Gumuri Hussain</li> <li>• Dato' Muhammad Ibrahim</li> </ul>
3. Take-overs and Mergers Committee	Assess requests for waivers from the mandatory general offer obligation. Evaluate exemptions from provisions of the take-overs and mergers code.	<ul style="list-style-type: none"> <li>• Tan Sri Zarinah Anwar (Chairman)</li> <li>• Datuk Siti Hadzar Mohd Ismail*</li> <li>• Francis Tan Leh Kiah</li> <li>• Dato' Gumuri Hussain</li> </ul>
4. Trusts and Investment Management Committee	Evaluate and approve the establishment of a unit trust or property fund and any other form of collective investment schemes.	<ul style="list-style-type: none"> <li>• Tan Sri Zarinah Anwar (Chairman)</li> <li>• Datuk Siti Hadzar Mohd Ismail*</li> <li>• Fazlur Rahman Ebrahim</li> <li>• Dato' Mohd Bakke Salleh</li> <li>• Dato' Muhammad Ibrahim</li> </ul>
5. Licensing Committee	Evaluate and approve (or reject) applications for the grant of a new CMSL, together with accompanying CMSRLs, directors, key management personnel and compliance officer. The Committee also considers applications for exemptions from SC licensing examinations and, deliberates and decides on policies relating to licensing issues.	<ul style="list-style-type: none"> <li>• Tan Sri Zarinah Anwar (Chairman)</li> <li>• Dato' Muhammad Ibrahim</li> <li>• Dato' Mohd Bakke Salleh</li> <li>• Datuk Siti Hadzar Mohd Ismail*</li> <li>• Datuk Latifah Datuk Abu Mansur (appointed 27 October 2009)</li> </ul>
6. Compensation Fund Appellate Committee	Hear appeals arising from the determination of the Compensation Committee of Bursa Malaysia on claims against the Bursa Malaysia Compensation Fund.	<ul style="list-style-type: none"> <li>• Francis Tan Leh Kiah (Chairman)</li> <li>• Dato' Muhammad Ibrahim</li> <li>• Dato' Mohd Bakke Salleh</li> <li>• Dato Dr Nik Ramlah Nik Mahmood</li> </ul>
7. Nomination and Remuneration Committee	Formulate the remuneration package of the Chairman and Deputy Chief Executive and make related recommendations to the Minister of Finance. It also determines the individual remuneration package of the Managing Directors.	<ul style="list-style-type: none"> <li>• Dato' Gumuri Hussain (Chairman)</li> <li>• Dato' Mohd Bakke Salleh</li> <li>• Francis Tan Leh Kiah</li> <li>• Fazlur Rahman Ebrahim</li> </ul>

\* Retired 13 June 2009.

were fully met. The Commission had decided on the early adoption of FRS 139 (before its effective date) for the preparation of the 2009 financial statements.

### Relationship with external auditors

The Commission ensures that there are formal and transparent arrangements for the maintenance of a professional relationship with the external auditors through

the Audit Committee. The role of the Audit Committee in relation to the external auditors is stated in the Audit Committee Report.

### EXTERNAL STAKEHOLDER AND PUBLIC COMMUNICATION

Effective and ongoing communication with capital market participants is necessary to facilitate the discharge of the

SC's responsibilities. We regularly meet our constituents to discuss operational matters and gather feedback on long-term measures for the development of the capital market. All press releases, publications, various guidelines and annual reports are posted on the official website – [www.sc.com.my](http://www.sc.com.my).

The SC has an Investor Affairs and Complaints Department that receives and resolves public complaints.

## CORPORATE SOCIAL RESPONSIBILITY

The SC is a strong advocate of corporate social responsibility which is an integral aspect of good governance. In 2009, we demonstrated this commitment by carrying out a broad range of organisation-wide activities involving staff participation.

The SC has pledged support to a global initiative by the World Wildlife Foundation in addressing environmental issues. We joined over 200 million people in 88 countries to switch off their lights on the Earth Hour on 28 March 2009 (8.30pm) as a symbolic vote to call for stronger action against climate change by the United Nations. The SC continued with its own Earth Hour campaign on the last Friday of each month where all non-essential lights were switched off between 12.30-2.30pm to conserve energy as well as to remind staff members that a little effort by each individual does make a big difference. In addition, the SC maintains its commitment in towards a greener environment by continuing its recycle-reuse campaign (and

continued ban of the use of styrofoam container in the SC cafeteria) as well as participation in a tree planting project at Taman Bukit Kiara.

The year 2009 also saw various divisions within the SC kicking off their respective corporate responsibility projects under the co-ordination of the Corporate Responsibility Committee. The activities, which focused on the objective of promoting education and financial literacy, capitalised on our intellectual asset and leverage on our large talent pool.

Several under-privileged groups benefited from the corporate responsibility projects adopted by the respective divisions. They include the Malaysian Association for the Blind, Kampung Orang Asli Serendah, children with special needs in SMK Bandar Sunway, abused children in Rumah Shelter as well as a group of poor single mothers.

These corporate responsibility activities provided a platform for SC staff to channel their time and effort in support of a worthy cause – conducting reading sessions and educational visit to Petrosains, donating used computers and books for a mini library and a computer lab, providing pro-bono services in accounting, providing simple education on financial management/ investment (For the blind, this even includes facilitating in the production of learning materials in Braille documents audio tapes). These activities have helped to highlight the plights of the less-fortunate individuals, as well as underscored the commitment and responsibility of the SC towards the community around it.

## STATEMENT ON INTERNAL CONTROL

### INTRODUCTION

The SC is fully committed to the maintenance of a sound system of internal control to ensure that its operations are aligned towards the achievement of the SC's mission, business goals and objectives. As the statutory regulator of the Malaysian capital market advocating high standards of corporate governance, the SC fully supports the principles and best practices of corporate governance, which among others, include the maintenance of a sound system of internal control. Although not subjected to any requirement to make a statement on internal control, the Commission acknowledges and follows the good governance practice.

### RESPONSIBILITIES FOR RISK MANAGEMENT AND INTERNAL CONTROL

The Commission affirms its overall responsibility and accountability to ensure that the SC achieves its published mission and the organisation's business goals and objectives. The Commission recognises that broadly, the SC's risk management and internal control systems are designed to provide reasonable assurance regarding the achievement of the organisation's mission, goals and objectives.

The SC's Management Committee is accountable to the Commission for ensuring the maintenance of sound risk management and internal control systems and for providing assurance to the Commission that it has done so.

The Audit Committee assists the Commission in fulfilling their oversight responsibilities by reviewing the adequacy and effectiveness of the SC's risk management and internal

control systems, as set out in the Audit Committee Charter of the SC. An elaboration of the terms of reference of the Audit Committee is set out in the Audit Committee Report.

### RISK MANAGEMENT

The Management Committee has instituted an enterprise risk framework for identifying, assessing and mitigating risks at the strategic, business and operational levels of the organisation. Strategic risks are those that are organisation-wide or have a significant impact on the SC's core regulatory objectives. Business risks are more specific to the SC's functional areas, while operational risks relate mainly to internal factors.

Risks are identified and assessed by business functions and recorded through the SC's Dimension risk system. The Management Committee reviews and validates these risks in aggregate and sets mitigation strategies, which it then reviews periodically. The Commission oversees the effectiveness of risk management, providing high-level guidance and an avenue for challenge on the assessment of strategic risk issues.

In 2009, the Enterprise Risk Management framework was enhanced to improve the way the SC identifies and assesses risks and controls, and manages or responds through business and operational mitigation controls and contingency plans. The Business Continuity Management framework was also formulated to better manage risks and impact of sudden major disruptions to the organisation's ability to continuously function. Continuity plans for critical business processes were developed to prioritise resumption and a new disaster recovery site was determined.

## INTERNAL AUDIT

The Internal Audit department assists the Audit Committee in the discharge of its duties and responsibilities. It independently reviews the risk profile and control processes implemented by the SC's management, and reports directly to the Audit Committee on at least a quarterly basis.

The Internal Audit practices are governed by the Internal Audit Charter, which is subjected to periodic review. The Annual Audit Plan is primarily developed using a risk-based approach and is subjected to feedback from the Management Committee; and review and approval by the Audit Committee. It is reviewed during the middle of the year for relevancy and possible reprioritisation.

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

## MONITORING AND REVIEW

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

- The delegation of responsibilities to Committees of the Commission through clearly defined terms of reference;
- The Management Committee's representation to the Commission on the control environment of the SC;
- The Management Committee's regular review to discuss operational and strategic issues at senior management level to ensure the focus on the achievement of its business plan and goals;
- The SC Business Plan, is monitored closely by the Management Committee and reported to the Commission;
- The SC's risk profile is reported to the Commission periodically;
- The Internal Audit's independent assessments on the effectiveness of internal controls in selected areas in accordance with the Annual Audit Plan approved by the Audit Committee. The significant issues and recommendations for improvements are highlighted from these assessments to the Management Committee and Audit Committee, and implementation of action plans are monitored and reported periodically; and
- The Audit Committee reviews of the internal control issues identified by Internal Audit and the external auditors' reports, and evaluation of the effectiveness and adequacy of the SC's internal control system.

## CONTROL ENVIRONMENT

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

- An organisation structure with clearly defined responsibilities and delegation of responsibilities to its committees to assist the Commission in performing its key regulatory functions, which is also set out in this annual report;
- The annual Business Plan containing the SC's business goals, strategies, key projects, resource needs and budget, which is approved by the Commission;
- The Code of Ethics and the Code of Conduct (including The Code of Practice on the Prevention and Eradication of Sexual Harassment) which set out the expectations required of staff on ethical conduct and standards of behavior;
- The Internal Whistleblowing Procedure which was established in 2007 as a safe channel of communication for individuals to expose or report internal wrongdoing or suspected breaches of law within the organisation.
- The Policies and Procedures on Procurement which were established to ensure that purchases are executed in a streamlined and orderly manner; purchasing activities are standardised; all purchases are made within the approved budget; and approvals are governed by authority limits;

- The Integrity Pacts with vendors and advisers at the various stages of the procurement process, introduced in July 2008, as a preventive control measure to demonstrate and ensure arm's length transactions;
- The IT User Policy established to ensure the effective protection and proper usage of SC computer systems. It is a guide for efficient and disciplined IT department management and provides unambiguous and precise reference for IT department personnel in carrying out their duties and for users in utilising the computer systems;
- The Records Management Policy 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; and
- The Business Process Flows which are available on the SC's intranet to serve as a guide to all staff, particularly new recruits, in understanding the SC's operations.

#### **REVIEW OF THE STATEMENT BY THE COMMISSION**

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

#### **REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS**

The external auditors have reviewed this Statement on Internal Control for the inclusion in the SC's annual report for the financial year ended 31 December 2009.

Based on their review, the external auditors have reported to the Audit Committee that nothing had come to their attention that caused them to believe that the Statement on Internal Control is inconsistent with their understanding of the process the Commission has adopted in the review of the adequacy and integrity of the system of internal control.

## AUDIT COMMITTEE REPORT

The SC is pleased to present the Audit Committee Report for the financial year ended 31 December 2009.

### MEMBERS AND MEETINGS

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

- Dato' Gumuri Hussain (Chairman);
- Francis Tan Leh Kiah (Alternate Chairman);
- Fazlur Rahman Ebrahim; and
- Datuk Wira Ismail Salleh (appointed 20 January 2009).

The Committee convened five meetings, which were attended by the majority of its members, during the financial year. It was a practice since 6 August 2009 to invite a member of senior management to the Audit Committee meetings.

### TERMS OF REFERENCE

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

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

Committee are recorded and the minutes of meetings are tabled at Commission meetings.

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

The main responsibilities of the Audit Committee are:

- (i) to assist the Commission in its review of the adequacy and effectiveness of the SC's risk management and internal control systems;
- (ii) to consider and recommend the appointment of the external auditor, their remuneration and any issues regarding their performance;
- (iii) to review the external auditor's audit scope and plans of audit, including coordination of audits efforts with internal audit;
- (iv) to review the accounting policies and practices adopted by the SC in the preparation of its financial statements and integrity of the financial reporting processes;
- (v) to review the annual financial statements and make appropriate recommendation(s) to the Commission regarding the adoption of the SC's annual financial statements and the level of disclosure, focusing in particular on:
  - compliance with applicable accounting standards;
  - changes in significant accounting policies and practices;

- significant adjustments arising from the audit; and
  - significant unusual events.
- (vi) to support and provide direction to the Internal Audit department to ensure its effectiveness;
- (vii) to consider and review the findings arising from internal audit reports or other internal investigations and responses by the management, and to determine appropriate corrective actions required of the management;
- (viii) to follow-up on the implementation of all recommendations made by the Internal Audit department; and
- (ix) to review the effectiveness of processes and procedures to ensure compliance with laws, regulations and contracts.

### ACTIVITIES OF THE COMMITTEE

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

- Review of the audit findings, auditor's report and management letter and management's responses arising from the statutory audit for the financial year ended 31 December 2008;

- Review of the financial statements for the financial year ended 31 December 2008 prior to presentation to the Commission;
- Review and approval of the external audit plan for the financial year ended 31 December 2009. Various audit and accounting issues were discussed at the Audit Committee meetings;
- Review and approval of the internal audit plan for the financial year ending 31 December 2010; and
- Review of internal audit reports, recommendations made and management responses to these recommendations. The Audit Committee also monitored implementation of agreed actions and suggestions for improvements arising from the audits performed.

### INTERNAL AUDIT

The Internal Audit department assists the Audit Committee in the discharge of its duties and responsibilities. During the financial year, Internal Audit department regularly reported to the Audit Committee on the adequacy and effectiveness of internal controls and compliance with policies and procedures. The department also monitored to ensure that the recommendations to improve controls were followed through by management. In addition, the Internal Audit department played an advisory role in the course of performing its audit activities.

## FINANCIAL STATEMENTS

### BALANCE SHEET

as at 31 December 2009

	Note	2009 RM'000	2008 RM'000
<b>Non-current assets</b>			
Property, plant and equipment	3	198,222	201,178
Prepaid lease payments	4	7,772	7,864
Long term receivables	5	23,824	36,878
Other investments	6	139,781	24,669
		<u>369,599</u>	<u>270,589</u>
<b>Current assets</b>			
Trade and other receivables	7	27,222	21,898
Cash and cash equivalents	8	564,172	646,276
Current tax assets		–	323
		<u>591,394</u>	<u>668,497</u>
<b>Total assets</b>		<u>960,993</u>	<u>939,086</u>
<b>Reserves</b>			
Accumulated surplus		768,675	778,216
BMSB compensation fund reserve	9	100,000	100,000
Human Capital Development (HCD) fund reserve	10	10,000	10,000
<b>Total reserves</b>		<u>878,675</u>	<u>888,216</u>
<b>Long-term liabilities</b>			
Retirement benefits	11	26,383	23,177
		<u>26,383</u>	<u>23,177</u>
<b>Current liabilities</b>			
Other payables	12	55,935	27,693
		<u>55,935</u>	<u>27,693</u>
<b>Total liabilities</b>		<u>82,318</u>	<u>50,870</u>
<b>Total reserves and liabilities</b>		<u>960,993</u>	<u>939,086</u>

The notes on pages 6-20 to 6-35 are an integral part of these financial statements.

**INCOME AND EXPENDITURE STATEMENT**

for the year ended 31 December 2009

	Note	2009 RM'000	2008 RM'000
<b>Income</b>			
Levies		77,361	74,575
Fees and charges		19,524	33,507
Income received from fixed deposits and other investments		23,757	23,867
Other income		3,246	3,103
		<u>123,888</u>	<u>135,052</u>
<b>Less: Expenditure</b>			
Staff costs	13	82,311	72,845
Administration expenses		27,504	27,254
Depreciation of property, plant and equipment	3	11,805	13,219
Rental expenses		559	461
Amortisation of prepaid lease payments	4	92	92
Human Capital Development expense	10	–	2,200
Impairment loss	3	–	20
		<u>122,271</u>	<u>116,091</u>
<b>Net surplus</b>	14	<u>1,617</u>	<u>18,961</u>

The notes on pages 6-20 to 6-35 are an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2009

	<b>BMSB compensation fund reserve RM'000</b>	<b>HCD fund reserve RM'000</b>	<b>Accumulated surplus RM'000</b>	<b>Total RM'000</b>
<b>At 1 January 2008</b>	100,000	–	769,255	869,255
Net surplus for the year	–	–	18,961	18,961
Transfer from accumulated surplus to HCD fund reserve	–	12,200	(12,200)	–
Charge for the year	–	(2,200)	2,200	–
Movement in equity unrecognised in the income and expenditure statement	–	10,000	(10,000)	–
<b>At 31 December 2008/1 January 2009</b>				
– as previously stated	100,000	10,000	778,216	888,216
– effect of adopting FRS 139 (Note 18)	–	–	(11,158)	(11,158)
At 1 January 2009, restated	100,000	10,000	767,058	877,058
Net surplus for the year	–	–	1,617	1,617
<b>At 31 December 2009</b>	100,000	10,000	768,675	878,675
	Note 9	Note 10		

The notes on pages 6-20 to 6-35 are an integral part of these financial statements.

**CASH FLOW STATEMENT**

for the year ended 31 December 2009

	Note	2009 RM'000	2008 RM'000
<b>Cash flows from operating activities</b>			
Net surplus		1,617	18,961
Adjustments for:			
Depreciation of property, plant and equipment	3	11,805	13,219
Provision for retirement benefits	11	3,361	3,055
Amortisation of prepaid lease payments	4	92	92
Income received from fixed deposits and other investments		(23,756)	(23,867)
Gain on disposal of property, plant and equipment	14	(120)	–
Impairment loss on property, plant and equipment	14	–	20
		<hr/>	<hr/>
Operating (deficit)/surplus before working capital changes		(7,001)	11,480
Changes in working capital:			
Trade and other receivables		(4,215)	5,398
Other payables		28,241	3,888
		<hr/>	<hr/>
Cash generated from operations		17,025	20,767
Tax refund		323	–
		<hr/>	<hr/>
<b>Net cash generated from operating activities</b>		<b>17,348</b>	<b>20,767</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(8,905)	(3,292)
Proceeds from long term receivables		4,818	11,183
Proceeds from disposal of property, plant and equipment		176	–
Additional investments in Malaysian Government Securities		(115,112)	–
Income received from fixed deposits and other investments		19,726	24,563
Increase in restricted deposits		(25,189)	(2,850)
Retirement benefits paid	11	(155)	(163)
		<hr/>	<hr/>
<b>Net cash (used in)/generated from investing activities</b>		<b>(124,641)</b>	<b>29,441</b>
		<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(107,293)</b>	<b>50,207</b>
		<hr/>	<hr/>
<b>Cash and cash equivalents at beginning of year</b>		<b>628,724</b>	<b>578,517</b>
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>		<b>521,431</b>	<b>628,724</b>
		<hr/>	<hr/>

The notes on pages 6-20 to 6-35 are an integral part of these financial statements.

**CASH FLOW STATEMENT (continued)**  
for the year ended 31 December 2009

	Note	2009 RM'000	2008 RM'000
<b>Cash and cash equivalents comprise:</b>			
Cash and bank balances	8	8,403	1,236
Deposits placed with licensed banks	8	518,769	613,040
Deposits placed with Malaysian Building Society Bhd (MBSB)	8	37,000	32,000
		<hr/>	<hr/>
		564,172	646,276
Less: Restricted deposits	8	(42,741)	(17,552)
		<hr/>	<hr/>
		521,431	628,724
		<hr/>	<hr/>

The notes on pages 6-20 to 6-35 are an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

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

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

The financial statements were approved by the Commission on 26 January 2010.

### 1. Basis of preparation

#### (a) Statement of compliance

The financial statements of the SC have been prepared in accordance with Financial Reporting Standards (FRS) and accounting principles generally accepted in Malaysia.

The SC has not applied the following accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) which are not yet effective or available for early adoption:

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2009

- FRS 8, *Operating Segments*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2010

- FRS 4, *Insurance Contracts*
- FRS 7, *Financial Instruments: Disclosures*
- FRS 101, *Presentation of Financial Statement*
- FRS 123, *Borrowing Costs* (revised)
- Amendments to FRS 1, *First-time Adoption of Financial Reporting Standards*, and FRS 127(2010), *Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendments to FRS 2, *Share-based Payment: Vesting Conditions and Cancellations*
- Amendments to FRS 7, *Financial Instrument: Disclosure*
- Amendments to FRS 132, *Financial Instruments: Presentation* and FRS 101, *Presentation of Financial Statement – Puttable Financial Instrument and Obligation Arising on Liquidation*
- Improvements to FRSs (2009)
- IC Interpretation 9, *Reassessment of Embedded Derivatives*

- IC Interpretation 10, *Interim Financial Reporting and Impairment*
- IC Interpretation 11, *FRS 2 - Group and Treasury Share Transactions*
- IC Interpretation 13, *Customer Loyalty Programmes*
- IC Interpretation 14, *FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2010

- FRS 1, *First-time Adoption of Financial Reporting Standards* (revised)
- FRS 3, *Business Combinations* (revised)
- FRS 127, *Consolidated and Separate Financial Statement* (revised)
- Amendments to FRS 2, *Share-based Payment*
- Amendments to FRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- Amendments to FRS 138, *Intangible Assets*
- IC Interpretation 12, *Service Concession Agreements*
- IC Interpretation 15, *Arrangement for the Construction of Real Estate*
- IC Interpretation 16, *Hedges of a Net Investment in a Foreign Operation*
- IC Interpretation 17, *Distribution of Non-cash Assets to Owners*
- Amendments to IC Interpretation 9, *Reassessment of Embedded Derivatives*

In this set of financial statements, the SC has chosen to early adopt FRS 139, *Financial Instruments: Recognition and Measurement*, which is effective for annual period beginning on or after 1 January 2010. The effect of the early adoption of FRS 139 is set out in Note 18.

The SC will adopt the abovementioned standards, amendments and interpretations:

- from the annual period beginning 1 January 2010 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, except for FRS 2, FRS 4, FRS 8, FRS 123, FRS 127, IC Interpretation 9, IC Interpretation 10, IC Interpretation 11 and IC Interpretation 13 which are not applicable to the SC; and
- from the annual period beginning 1 January 2011 for those standards, amendments or interpretations that will be effective for annual periods beginning on or after 1 July 2010, except for FRS 3, FRS 5, FRS 138, IC Interpretation 12, IC Interpretation 15, IC Interpretation 16, IC Interpretation 17 and Amendments to IC Interpretation 9 which are not applicable to the SC.

The impact of applying FRS 7 on the financial statements upon first adoption as required by paragraph 30(b) of FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors* is not disclosed by virtue of the exemptions given in the FRS. The initial application of the other standards, amendments and interpretations is not expected to have any material impact on the financial statements or any material change in accounting policy.

**(b) Basis of measurement**

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

**(c) Functional and presentation currency**

These financial statements are presented in ringgit Malaysia (RM), which is the SC's functional currency. All financial information is presented in RM unless otherwise stated.

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

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

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

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

**2. Significant accounting policies**

The accounting policies set out below have been applied consistently to the periods presented in these financial statements, and have been applied consistently by the SC, other than those disclosed in Note 2(a) – Financial Instruments.

**(a) Financial instruments**

Arising from the early adoption of FRS 139, with effect from 1 January 2009, financial instruments are categorised and measured using accounting policies as mentioned below. Before 1 January 2009, different accounting policies were applied. Significant changes to the accounting policies are discussed in Note 18.

**(i) Initial recognition and measurement**

A financial instrument is recognised in the financial statements when, and only when, the SC becomes a party to the contractual provisions of the instrument.

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

**(ii) Financial instrument categories and subsequent measurement**

The SC categorises financial instruments as follows:

Financial assets**(a) Financial assets at fair value through profit or loss**

Fair value through profit or loss category comprises financial assets that are held for trading, including derivatives (except for a derivative that is a designated and effective hedging instrument) or financial assets that are specifically designated into this category upon initial recognition.

## (b) Held-to-maturity investments

Held-to-maturity investments category comprises debt instruments that are quoted in an active market and the SC has the positive intention and ability to hold to maturity.

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

## (c) Loans and receivables

Loans and receivables category comprises debt instruments that are not quoted in an active market.

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

## (d) Available-for-sale financial assets

Available-for-sale category comprises investment in equity and debt securities instruments that are not held for trading.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Other financial assets categorised as available-for-sale are subsequently measured at their fair values with the gain or loss recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair value hedges which are recognised in income and expenditure statement. On derecognition, the cumulative gain or loss recognised in other comprehensive income is reclassified from equity into income and expenditure statement. Interest calculated for a debt instrument using the effective interest method is recognised in income and expenditure statement.

All financial assets, except for those measured at fair value through profit or loss, are subject to review for impairment (see Note 2[g]).

Financial liabilities

All financial liabilities are subsequently measured at amortised cost other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are held for trading, derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities that are specifically designated into this category upon initial recognition.

## (iii) Derecognition

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

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

**(b) Property, plant and equipment**

Recognition and measurement

Items of property, plant and equipment are stated 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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within “other income” or “other expenses” respectively in the income and expenditure statement.

Subsequent costs

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

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

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

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

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

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

**(c) Prepaid lease payments**

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

The SC had previously classified a lease of land as finance lease and had recognised the amount of prepaid lease payments as property within its property, plant and equipment. Since 2007, the SC treats such lease as an operating lease, with the unamortised carrying amount classified as prepaid lease payments in accordance with the transitional provisions in FRS 117.67A.

The prepaid lease payments are amortised over the lease term of ninety nine (99) years.

**(d) Trade and other receivables**

Prior to 1 January 2009, receivables are initially recognised at their cost and subsequently, stated at cost less allowance for doubtful debts.

Following the adoption of FRS 139, trade and other receivables are categorised and measured as loans and receivables in accordance with policy Note 2(a).

**(e) Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand, balances and deposits with banks and highly liquid investments which have an insignificant risk of changes in value. For the purpose of cash flow statement, cash and cash equivalents are presented net of restricted deposits.

Cash and cash equivalents are categorised and measured as loans and receivables in accordance with policy Note 2(a).

**(f) Other investments**

Prior to 1 January 2009, investments in Malaysian Government Securities held as long-term investments are stated at cost less allowance for diminution in value.

Following the adoption of FRS 139, investments in Malaysian Government Securities are categorised and measured as held-to-maturity in accordance with policy Note 2(a).

**(g) Impairment****(i) Financial assets**

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

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

An impairment loss for available-for-sale financial assets is recognised in the income and expenditure statement and is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and the asset's current fair value, less any impairment loss previously recognised.

An impairment loss for unquoted equity instrument that is carried at cost is recognised in income and expenditure statement and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

(ii) **Non-financial assets**

The carrying amounts of assets (except for financial assets) are reviewed at each end of the 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 groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income and expenditure statement. 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 income and expenditure statement in the year in which the reversals are recognised.

**(h) Liabilities**

Prior to 1 January 2009, payables are measured initially and subsequently at cost.

Following the adoption of FRS 139, payables are categorised and measured as financial liabilities in accordance with policy Note 2(a).

**(i) Provisions**

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

**(j) Taxation**

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

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

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

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

**(I) Employee benefits**

**(i) Short-term benefits**

Wages and salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the SC. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when absences occur.

**(ii) Defined contribution plans**

As required by law, eligible employers in Malaysia make contributions to the state pension scheme, the Employees Provident Fund (EPF). Such contributions are recognised as an expense in the income and expenditure statement as incurred.

**(iii) Post-retirement medical benefits**

The SC provides post retirement medical benefits to eligible employees engaged prior to 1 January 2003. The SC's obligations under this scheme are determined based on actuarial valuation (conducted every three years) where the amount of benefit that employees have earned in return for their service in the current and prior years is estimated. That benefit is determined by the actuaries using the Projected Unit Credit actuarial method. Actuarial gains and losses are recognised as income or expense over the expected average remaining working lives of the participating employees when the cumulative unrecognised actuarial gains or losses for the scheme exceed 10% of the higher of the present value of the benefit obligation and the fair value of plan assets. Past service cost is recognised immediately to the extent that benefits are already vested, and otherwise, is amortised on a straight line basis over the average period until the amended benefits become vested.

### 3. Property, plant and equipment

	Buildings RM'000	Office equipment, furniture and fittings RM'000	Computer and application system RM'000	Motor vehicles RM'000	Capital- work-in- progress RM'000	Total RM'000
<b>Cost</b>						
At 1 January 2008	232,387	89,201	65,873	2,229	4,591	394,281
Additions	–	358	1,934	–	1,000	3,292
Transfer (to)/from	–	–	4,985	–	(4,985)	–
At 31 December 2008/1 January 2009	232,387	89,559	72,792	2,229	606	397,573
Additions	–	1,271	2,812	373	4,449	8,905
Disposal	–	(115)	(4)	(811)	–	(930)
Write-off	–	(530)	(985)	–	–	(1,515)
Transfer (to)/from	–	393	299	–	(692)	–
At 31 December 2009	232,387	90,578	74,914	1,791	4,363	404,033
<b>Depreciation and impairment loss</b>						
At 1 January 2008:						
Accumulated depreciation	39,697	79,747	62,169	1,484	–	183,097
Accumulated impairment loss	59	–	–	–	–	59
Depreciation for the year	39,756	79,747	62,169	1,484	–	183,156
Charge of impairment loss	4,648	4,657	3,633	281	–	13,219
	20	–	–	–	–	20
At 31 December 2008/1 January 2009:						
Accumulated depreciation	44,345	84,404	65,802	1,765	–	196,316
Accumulated impairment loss	79	–	–	–	–	79
	44,424	84,404	65,802	1,765	–	196,395

14

14

### 3. Property, plant and equipment (continued)

		Buildings RM'000	Office equipment, furniture and fittings RM'000	Computer and application system RM'000	Motor vehicles RM'000	Capital- work-in- progress RM'000	Total RM'000
<b>Depreciation and impairment loss</b>							
<b>(continued)</b>							
	14	4,648	3,025	3,862	270	-	11,805
Depreciation for the year		-	(115)	(3)	(756)	-	(874)
Disposal		-	(530)	(985)	-	-	(1,515)
Write-off							
<b>At 31 December 2009:</b>							
Accumulated depreciation		48,993	86,784	68,676	1,279	-	205,732
Accumulated impairment loss		79	-	-	-	-	79
		49,072	86,784	68,676	1,279	-	205,811
<b>Carrying amounts</b>							
At 1 January 2008		192,631	9,454	3,704	745	4,591	211,125
At 31 December 2008/1 January 2009		187,963	5,155	6,990	464	606	201,178
At 31 December 2009		183,315	3,794	6,238	512	4,363	198,222

**4. Prepaid lease payments**

	<b>Leasehold land Unexpired period more than 50 years</b>	
	<b>2009 RM'000</b>	<b>2008 RM'000</b>
<b>Cost</b>		
At 1 January/31 December	9,154	9,154
	<u>          </u>	<u>          </u>
<b>Amortisation</b>		
At 1 January	1,290	1,198
Amortisation for the year (Note 14)	92	92
	<u>          </u>	<u>          </u>
At 31 December	1,382	1,290
	<u>          </u>	<u>          </u>
<b>Carrying amounts</b>		
At 31 December	7,772	7,864
	<u>          </u>	<u>          </u>

**5. Long-term receivables**

	<b>2009 RM'000</b>	<b>2008 RM'000</b>
Loan to staff	30,395	48,580
Less: Unearned profit		
– Islamic financing on house and car	(4,483)	(5,429)
	<u>          </u>	<u>          </u>
	25,912	43,151
	<u>          </u>	<u>          </u>
Amount due within twelve months (Note 7)		
– Loan to staff	2,088	6,273
	<u>          </u>	<u>          </u>
Amount due after twelve months		
– Loan to staff	23,824	36,878
	<u>          </u>	<u>          </u>

Loan to staff relates to Islamic and conventional housing loans, Islamic and conventional motor vehicle loans, computer loans and study loans. The housing and motor vehicle loans are secured over the properties and motor vehicle of the borrowers respectively. The loans are repayable over a maximum period of 25 years, seven years, five years and four years respectively. The rate charged on these loans ranges from 2% to 4% per annum (2008: 2% to 4% per annum).

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

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Within 1 year	2,088	6,273
More than 1 year and up to 5 years	6,612	9,975
More than 5 years	17,212	26,903
	<u>25,912</u>	<u>43,151</u>

## 6. Other investments

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Held-to-maturity investments		
– Malaysian Government Securities	139,781	24,669
	<u>139,781</u>	<u>24,669</u>
Market value:		
Malaysian Government Securities	140,725	25,516
	<u>140,725</u>	<u>25,516</u>

## 7. Trade and other receivables

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Levies	6,874	4,082
Fees and charges	1,873	1,741
Income receivable	13,484	8,164
	<u>22,231</u>	<u>13,987</u>
Less: Allowance for doubtful debts	(1,635)	(1,635)
	<u>20,596</u>	<u>12,352</u>
Other receivables	4,538	3,273
Loan to staff (Note 5)	2,088	6,273
	<u>27,222</u>	<u>21,898</u>

## 8. Cash and cash equivalents

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Cash and bank balances	8,403	1,236
Deposits placed with licensed banks	518,769	613,040
Deposits placed with MBSB	37,000	32,000
	<u>564,172</u>	<u>646,276</u>

Included in deposits placed with licensed banks are amounts restricted for brokers' security deposits of approximately RM15.9 million (2008: RM15.1 million), restitution of eligible investors from Swisscash transactions of RM18.5 million (2008: RMNil) and miscellaneous deposits of RM0.8 million (2008: RM2.5 million).

Included in cash and bank balances is an amount of approximately RM7.5 million (2008: RMNil) which is restricted for stockbroking industry development.

## 9. BMSB compensation fund reserve

This represents an amount of RM100 million (2008: RM100 million) allocated from the accumulated surplus for the Bursa Malaysia Securities Berhad (BMSB) Compensation Fund.

## 10. Human Capital Development (HCD) fund reserve

This represents an amount of RM12.2 million (2008: RM12.2 million) allocated from the accumulated surplus for the SC's long-term commitment to support the human capital development in the financial services industry. The amount will be utilised over a period of five years.

During the year, there were no charges (2008: RM2.2 million) to the income and expenditure statement.

## 11. Retirement benefits

The amounts recognised in the balance sheet are as follows:

<i>Post-retirement medical benefits</i>	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Present value of unfunded obligations	28,538	22,755
Unrecognised actuarial (losses)/ gains	(2,155)	422
Net liability	<u>26,383</u>	<u>23,177</u>

Movements in the net liability recognised in the balance sheets:

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Net liability at 1 January	23,177	20,285
Benefits paid	(155)	(163)
Expense recognised in the income and expenditure statements	3,361	3,055
Net liability at 31 December	<u>26,383</u>	<u>23,177</u>

Expenses recognised in the income and expenditure statements:

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Current service cost	1,694	1,638
Interest on obligation	1,667	1,417
	<u>3,361</u>	<u>3,055</u>

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

	<b>2009</b>	<b>2008</b>
Discount rate	6.6%	7.0%
Price inflation	3.5%	3.5%
Medical cost inflation	5.0%	5.0%

## 12. Other payables

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Accrued expenses	6,404	5,046
Brokers' security deposits	15,857	15,101
Other payables	33,674	7,546
	<u>55,935</u>	<u>27,693</u>

## 13. Staff costs

	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Remuneration, bonus, staff medical, staff training and overtime	69,931	61,086
Employees Provident Fund	9,018	8,704
Retirement benefits	3,362	3,055
	<u>82,311</u>	<u>72,845</u>

## 14. Net surplus

	<b>Note</b>	<b>2009</b> <b>RM'000</b>	<b>2008</b> <b>RM'000</b>
Net surplus is arrived at after charging:			
Allowance for doubtful debts		48	70
Amortisation of prepaid lease payment	4	92	92
Auditors' remuneration:			
– Audit services		55	40
– Other services		5	3
Property, plant and equipment			
– Depreciation	3	11,805	13,219
– Impairment loss	3	–	20
Executive members:			
– Emoluments		1,251	1,044
Non-executive members' allowance		246	282
		<u>          </u>	<u>          </u>
And crediting:			
Gain on disposal of property, plant and equipment		120	–
Reversal of allowance for doubtful debts		–	18
		<u>          </u>	<u>          </u>

## 15. Related parties

The Chairman of the SC is also the Chairman of the Securities Industry Development Corporation (SIDC) which is a company limited by guarantee. For the financial year ended 31 December 2009, the SIDC had incurred RM284,000 (2008: RM284,000), being management fees paid to the SC, out of which RM24,000 (2008: RM24,000) is still outstanding from the SIDC. In addition, the SC had made a grant of RM5 million to the SIDC in 2009 (2008: RM5 million).

## 16. Capital commitments

	2009 RM'000	2008 RM'000
<b>Capital expenditure commitments</b>		
<b>Plant and equipment</b>		
<i>Approved but not contracted for:</i>		
Within one year	11,710	13,100

## 17. Financial instruments

### Financial risk management

The SC has policies and guidelines on the overall investment strategies and tolerance towards risk. Investments are managed in a prudent manner to ensure the preservation and conservation of the fund.

### Credit risk

The SC has a formal credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Fixed deposits are placed with licensed banks and with MBSB. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

### Liquidity risk

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

### Effective rates

	Effective rates per annum %	Total RM'000	Within 1 year RM'000	1 – 5 years RM'000	After 5 years RM'000
<b>As at 31 December 2009</b>					
<b>Financial assets</b>					
Deposits placed with licensed banks	3.39	518,769	518,769	–	–
Deposits placed with MBSB	2.85	37,000	–	37,000	–
Malaysian Government Securities	3.83	139,781	–	139,781	–

**Effective rates (continued)**

	<b>Effective rates per annum %</b>	<b>Total RM'000</b>	<b>Within 1 year RM'000</b>	<b>1 – 5 years RM'000</b>	<b>After 5 years RM'000</b>
<b>As at 31 December 2008</b>					
Financial assets					
Deposits placed with licensed banks	3.76	613,040	271,988	341,052	–
Deposits placed with MBSB	4.10	32,000	32,000	–	–
Malaysian Government Securities	4.29	24,669	5,000	19,669	–

**Recognised financial instruments**

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

**18. Change in accounting policies**

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 31 December 2009. The changes in accounting policies arising from the early adoption of FRS 139, *Financial Instruments: Recognition and Measurement*.

The effects of this change in accounting policies are as follows:

	<b>2009 RM'000</b>	<b>2008 RM'000</b>
<b>Statement of changes in equity</b>		
Accumulated surplus brought forward at 1 January	778,216	769,255
Effect of adoption of FRS 139		
– Remeasurement of staff loans	(11,158)	–
	—————	—————
Accumulated surplus brought forward At 1 January, restated	767,058	769,255
	=====	=====

Prior to the adoption of FRS 139, staff loans with interest rates ranging from 2% to 4% per annum, were recorded at cost. With the adoption of FRS 139, staff loans are now recognised initially at their fair values, which are estimated by discounting the expected cash flows using the current market interest rate of a loan with similar risk and tenure. Interest income is recognised in income and expenditure statement using the effective interest method.

## STATEMENT BY COMMISSION MEMBERS

In the opinion of the members, the financial statements set out on pages 6-15 to 6-35 are drawn up in accordance with Financial Reporting Standards and accounting principles generally accepted in Malaysia so as to give a true and fair view of the state of affairs of the Securities Commission Malaysia as at 31 December 2009 and of its income and expenditure and its cash flows for the year ended on that date.

On behalf of the Commission members:



.....  
**Tan Sri Zarinah Anwar**  
Chairman



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

Kuala Lumpur,

Date: 26 January 2010

## STATUTORY DECLARATION

I, **Vignaswaran A/L Kandiah**, the officer primarily responsible for the financial management of Securities Commission Malaysia, do solemnly and sincerely declare that the financial statements set out on pages 6-15 to 6-35 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the *Statutory Declarations Act, 1960*.

Subscribed and solemnly declared by the abovenamed in Kuala Lumpur on 26 January 2010.



.....  
**Vignaswaran A/L Kandiah**

Before me:



Alamat tempat perniagaan  
Medan Selera Duta  
Jalan Duta  
50480 Kuala Lumpur

## **INDEPENDENT AUDITORS' REPORT TO THE COMMISSION MEMBERS**

### **Report on the financial statements**

We have audited the financial statements of Securities Commission Malaysia, which comprise the balance sheet as at 31 December 2009, and the income and expenditure statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 6-15 to 6-35.

### **Commission's responsibility for the financial statements**

The Commission is responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Securities Commission Malaysia's preparation and fair presentation of the financial statements 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 Securities Commission Malaysia's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Commission members, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Securities Commission Malaysia as at 31 December 2009 and of its financial performance and cash flows for the year then ended.

## Other matters

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



**KPMG**

Firm Number: AF 0758

Chartered Accountants



**Johan Idris**

Approval Number: 2585/10/10(J)

Chartered Accountant

Petaling Jaya,

Date: 26 January 2010

## CORPORATE PROPOSALS

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

### SECURITIES ISSUES

(Tables 1–4)

During the year, we received a total of 133 corporate submissions, which showed a decrease of 44% when compared with 237 submissions received in 2008. This was mainly due to slow market sentiments during the year and the new fund-raising framework adopted by the SC whereby secondary fund-raising proposals involving equities were exempted from the need to obtain the SC's approval effective 3 August. These proposals were only subjected to Bursa Malaysia's approval.

Out of these submissions, together with 17 brought forward from 2008, we managed to consider 114 of the total submissions on-hand for the year. Twelve submissions were withdrawn and the remaining 24 carried forward to the next year. Of the 114 submissions processed, 110 or 96% were approved and four rejected. Proposals related to fund-raising via issues of private debt securities formed the bulk of proposals approved, being 36% of the total number of approvals.

There were 12 approvals for new listings on Bursa Malaysia in 2009 compared to 31 in 2008. Of the 12 applications approved, nine were for the Main Board and three for the Second Board. Effective 3 August, the Main and the Second Boards were merged into a single unified board called the Main Market. In addition, Bursa Malaysia assumed the

approving authority for MESDAQ market which became the ACE Market.

The various corporate proposals approved by the SC were expected to raise RM85.9 billion in 2009, of which 67% would be raised via debt securities while the remaining via equity securities.

### PROSPECTUSES

(Table 5)

In 2009, we received 199 prospectuses for registration comprising 41 public offering and base prospectuses, 124 term sheets, 21 abridged prospectuses and 14 supplementary prospectuses. There were 26 prospectuses brought forward from 2008, bringing the total number of prospectuses at hand in 2009 to 225. Of these, 177 were registered, six were withdrawn or returned and 43 carried forward to 2010. In addition, 17 applications for relief from compliance with the *Prospectus Guidelines* were submitted and reviewed.

### PRIVATE DEBT SECURITIES

(Table 6)

In 2009, the SC approved 34 PDS proposals amounting to RM57.5 billion as compared with 99 PDS proposals amounting to RM140 billion in 2008. Of the total 34 approved PDS proposals in 2009, two with an aggregate value of RM3.3 billion were asset-backed securities.

Bonds accounted for 44.1% of the total number of PDS proposals approved, followed by loan stocks 23.5%, commercial papers and medium-term notes (CP/MTN) programme 17.7% and medium-term notes 14.7%.

For 2009, sukuk issues accounted for 59.1% of the total size of PDS proposals approved whereas conventional PDS issues accounted for 40.9%.

With regard to maturity profile, 17 or 60.7% of the total number of PDS proposals (excluding six CP/MTN programmes) approved in 2009 had maturity periods of more than seven years and 11 or 39.3% had maturity periods of between one to seven years (Chart 1).

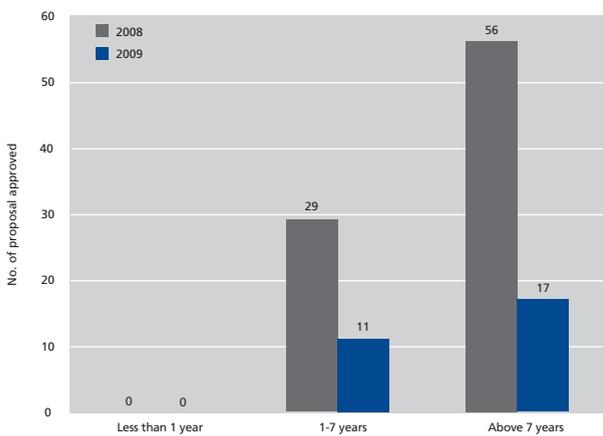
In 2009, a total of 45 ratings (based on initial rating) were assigned by the credit rating agencies (CRAs) to the

respective PDS proposals, out of which five had a short-term rating of P1/MARC-1, 30 had a long-term rating of between AAA and BBB while one proposal had a long-term rating of B. Nine proposals were not rated as they were either not required or were granted exemption from the rating requirement (Chart 2).

In addition to the ringgit-denominated PDS proposals, the SC approved two US dollar-denominated PDS proposals amounting to US\$4.01 billion by two local issuers. The SC also approved four US dollar-denominated PDS proposals in Malaysia by four foreign issuers (as part of global offerings).

With regard to structured products proposals, we approved 16 ringgit-denominated structured products proposals amounting to approximately RM80.0 billion and one foreign currency denominated structured products proposal amounting to S\$1.0 billion.

**Chart 1**  
Maturity profile



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

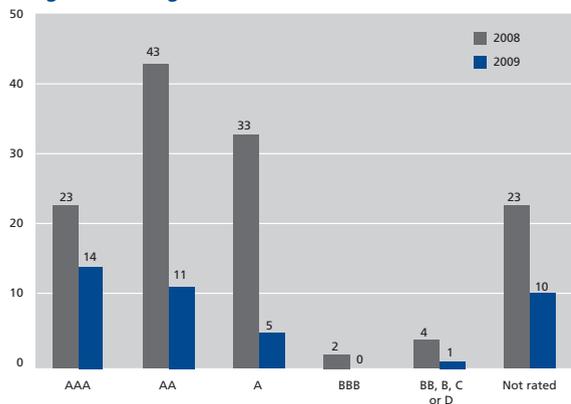
**TAKE-OVERS AND MERGERS**

(Table 7)

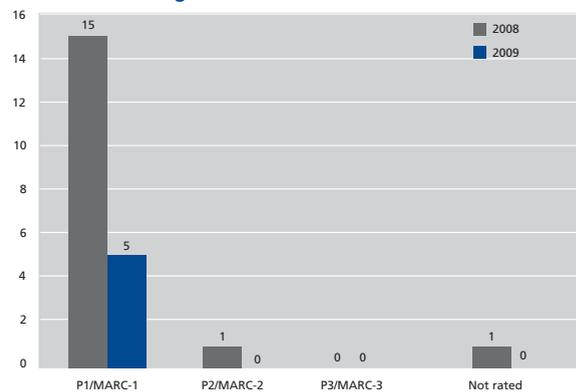
In 2009, the SC considered a total of 170 applications relating to the *Malaysian Code on Take-overs and Mergers 1998* (Take-overs Code). The number of applications considered showed a significant decrease of approximately 44.1% compared to the number of applications considered in 2008 (2008:297 applications).

**Chart 2**  
Rating summary

**Long-term rating**



**Short-term rating**



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

Out of the 170 applications considered, 57 were for exemption from mandatory offer obligations. This represented a decrease of 29.6% from the 81 applications in 2008. The SC also cleared 13 offer documents in 2009, which was a decrease of 68.3% from 2008. The remaining applications were for the appointment of independent advisers, clearance of independence adviser circulars, extension of time, requests for rulings, and others.

There were 12 take-overs offers undertaken in 2009 amounting to a total of RM3.26 billion in value. Even though the number of take-overs in the first half of the year was similar to the second half of the year, following the emergence of a better economic environment, the value of the take-overs improved in the second half and accounted for 78.6% of the total value. The two highest offers were the RM1.4 billion voluntary offer in Sarawak Energy Bhd by Delegates Sdn Bhd and the RM670 million mandatory offer by Tradewinds (M) Bhd for shares in Padiberas National Bhd. Both offers were undertaken in November. Generally, 2009 recorded the lowest offer value as compared to the previous two years (2008: RM8.3 billion, 2007: RM62.7 billion).

The SC saw seven voluntary offers for the year where five were part of the companies' delisting process. Under the second stimulus package to cushion the economy of Malaysia from the severe global recession and to spur further growth, the SC removed Practice Note 1.2 under

the Take-overs Code. This measure came into effect on 16 July to facilitate greater access to the capital market.

## ASSET VALUATION AUDIT

*(Table 8)*

With the launch of the new regulatory framework in August, only valuations of property assets for substantive corporate proposals fall within the ambit of section 212 of the CMSA. Valuations for all other equity-based corporate proposals are submitted to Bursa Malaysia for their consideration. Bursa Malaysia may refer such valuations to the SC for review.

During the year, we reviewed 57 valuation reports submitted by nine corporations for various corporate proposals. Of the nine submissions that required the SC's approval, fund-raising via IPO took the lead at 89%. We also cleared 20 prospectuses pertaining to valuation certificates and disclosures on property assets as compared to 21 in 2008. Two waiver applications and 15 applications on extension of time to comply with conditions imposed were considered as against six and 21 in 2008. Overall, the year saw a drop in all statistics.

Since August, 15 valuation reports and certificates submitted by 12 corporations were referred to the SC by Bursa Malaysia which resulted in enhanced disclosures in the valuation certificates.

## KEY STATISTICS

Table 1

### Status of submissions

Submissions	2009	2008
Submissions brought forward from the previous year	17	41
Submissions received during the year	133	237
Submissions on-hand for the year	150	278
Submissions considered during the year	(114)	(255)
Submissions withdrawn/returned during the year	(12)	(6)
Submissions carried forward to the next year	(24)	(17)

Table 2

### Listing proposals considered

Submissions	Main Board		Second Board		MESDAQ		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Approved	9	14	3	7	0	10	12	31
Rejected	1	0	1	1	0	0	2	1
Deferred	0	1	0	0	0	0	0	1
<b>Total</b>	<b>10</b>	<b>15</b>	<b>4</b>	<b>8</b>	<b>0</b>	<b>10</b>	<b>14</b>	<b>33</b>

Table 3  
Number of submissions considered by types of proposal

Type of proposals	Approved		Rejected		Deferred		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
Initial public offering: <sup>1</sup>								
– Main Board	9	14	1	0	0	1	10	15
– Second Board	3	7	1	1	0	0	4	8
– MESDAQ	0	10	0	0	0	0	0	10
<b>Subtotal</b>	<b>12</b>	<b>31</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>14</b>	<b>33</b>
Transfer to Main Board	4	13	0	0	0	0	4	13
Fund-raising via issues of equity <sup>2</sup>	25	43	0	0	0	0	25	43
Fund-raising via issues of private debt securities	40	92	0	0	0	0	40	92
Restructuring	8	11	2	1	0	0	10	12
Acquisition and merger	2	21	0	1	0	0	2	22
Disposal	5	6	0	0	0	0	5	6
Structured warrants/warrants	7	5	0	0	0	0	7	5
Others <sup>3</sup>	7	29	0	0	0	0	7	29
<b>Total</b>	<b>110</b>	<b>251</b>	<b>4</b>	<b>3</b>	<b>0</b>	<b>1</b>	<b>114</b>	<b>255</b>

Table 4  
Amount of funds raised/to be raised by type of issues

Type <sup>4</sup>	Funds raised/to be raised			
	(RM million)		(% )	
	2009	2008	2009	2008
IPOs				
– Amount raised by PLCs	668.58	1,518.55	0.78	1.05
– Amount raised by offerors	12,095.91	1,319.91	14.08	0.91
Funds raised via equity	15,649.86	2,020.02	18.22	1.40
Funds raised via debt				
– Conventional	23,530.45	96,757.89	27.39	66.80
– Sukuk	33,955.00	33,234.00	39.53	22.94
– Combination	0	10,000.00	0	6.90
<b>Total</b>	<b>85,899.80</b>	<b>144,850.37</b>	<b>100.00</b>	<b>100.00</b>

<sup>1</sup> Since 3 August 2009, the Main and Second Boards have been merged into a single unified board called the Main Market. The MESDAQ Market is now known as the ACE Market.

<sup>2</sup> Includes among others rights issues, restricted issues and private placements.

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

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

Table 5  
Equity prospectuses considered

	2009						2008					
	Full	Modified	Term Sheets	Abridged	Supplementary	Total	Full	Modified	Term Sheets	Abridged	Supplementary	Total
Balance brought forward	26	0	0	0	0	26	27	1	0	1	0	29
Received during the year	35	6	124	21	14	199	26	10	75	28	8	147
<b>Total</b>	<b>60</b>	<b>6</b>	<b>124</b>	<b>21</b>	<b>14</b>	<b>225</b>	<b>53</b>	<b>11</b>	<b>75</b>	<b>29</b>	<b>8</b>	<b>176</b>
Less: Prospectus registered	(13)	(6)	(124)	(20)	(14)	(177)	(20)	(11)	(75)	(29)	(8)	(143)
Withdrawn/returned	(6)	0	0	0	0	(6)	(7)	0	0	0	0	(7)
Pending registration	42	0	0	1	0	43	26	0	0	0	0	26

Table 6  
PDS issues approved

	2009		2008	
	No. of proposals	Size (RM million)	No. of proposals	Size (RM million)
<b>Conventional</b>				
Short-term notes/CPs	–	–	–	–
MTNs	2	2,600.00	18	59,250.00
CP/MTN programmes	2	2,250.00	6	4,064.00
Bonds	11	17,411.33	24	31,580.27
Loan stocks	8	1,269.12	4	1,863.62
	<b>23</b>	<b>23,530.45</b>	<b>52</b>	<b>96,757.89</b>
<b>Sukuk</b>				
Short-term notes/CPs	–	–	3	1,000.00
MTNs	3	3,350.00	16	15,375.00
CP/MTN programmes	4	25,750.00	8	2,853.00
Bonds	4	4,855.00	16	14,006.00
	<b>11</b>	<b>33,955.00</b>	<b>43</b>	<b>33,234.00</b>
<b>Combination</b>	–	–	<b>4</b>	<b>10,000.00</b>
<b>Total</b>	<b>34</b>	<b>57,485.45</b>	<b>99</b>	<b>139,991.89</b>

Table 7

**Applications considered in respect of take-overs and mergers**

Type of applications	2009	2008
Extension of time	6	10
Clearance of offer document	13	41
Appointment of independent adviser	37	64
Clearance of independent advice circular	37	57
Exemption from mandatory offer obligation	57	81
Request for rulings and other ancillary applications	20	44
<b>Total</b>	<b>170</b>	<b>297</b>

Table 8

**Valuation reviewed by types of proposal**

Type of proposals	Number of companies (No. of reports)		Number of properties		Market value (RM million)	
	2009	2008	2009	2008	2009	2008
Initial Public Offering:						
– Main Board*/Main Market	6 (45)	6 (87)	101	229	705	2,781
– Real estate investment trust	–	1 (3)	–	3	–	2,030
– Second Board*	2 (11)	1 (3)	19	3	36	19
– MESDAQ*/ACE Market	–	–	–	–	–	–
Acquisition	–	7 (96)	–	1,592	–	3,334
Acquisition by real estate investment trust	–	3 (11)	–	68	–	832
Restructuring	1 (1)	7 (41)	1	1,273	6	3,957
<b>Total</b>	<b>9 (57)</b>	<b>25 (241)</b>	<b>121</b>	<b>3,168</b>	<b>747</b>	<b>12,953</b>
Cases referred by Bursa Malaysia:						
<b>Main Market</b>						
– Acquisition and disposal	11 (13)	–	41	–	1,499	–
– Bonus issues	–	–	–	–	–	–
<b>ACE Market</b>						
– Acquisition and disposal	1 (2)	–	2	–	4	–
– Bonus issues	–	–	–	–	–	–
<b>Total</b>	<b>12 (15)</b>	<b>–</b>	<b>43</b>	<b>–</b>	<b>1,503</b>	<b>–</b>

\* Up to August 2009.

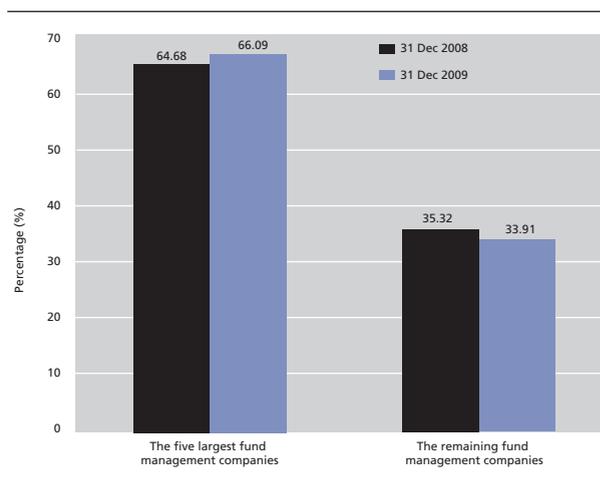
## INVESTMENT MANAGEMENT

### INTRODUCTION

As at 31 December, total funds managed by licensed fund management companies in Malaysia had risen by 40.9% to RM315.0 billion as compared to 2008 (RM223.5 billion). The types of funds under management included private pension funds, Employees Provident Fund (EPF), unit trust funds, corporate bodies and charitable bodies (Table 1).

The five largest fund management companies accounted for 66.1% of total funds under management, as compared to 64.7% at the end of 2008 (Chart 1). The amount of onshore investment by fund management companies increased from RM199.0 billion as at end-2008 to RM270.1 billion as at end-2009 (Chart 2). The fund management companies in Malaysia relied more on equities for their asset allocation strategies, with the allocation in equities increasing from 44.4% as at end-2008 to 54.6% as at end-2009 (Chart 3).

**Chart 1**  
Percentage of funds managed by fund management companies



**Table 1**

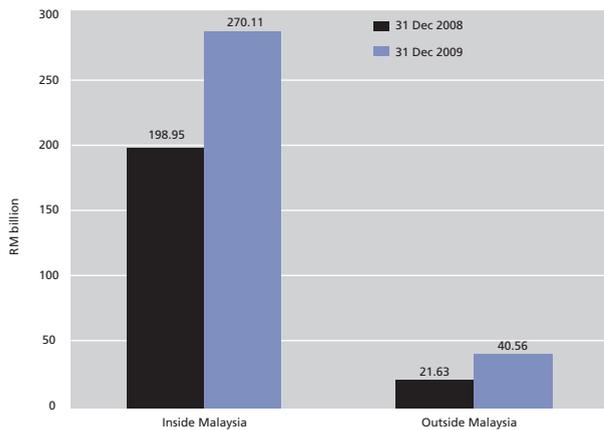
Source of clients' funds under management

Type of funds	Local (RM million)		Foreign (RM million)	
	2009	2008	2009	2008
Unit trust funds*	191,706.28	130,435.82	1,620.69	584.90
Corporate bodies	36,787.02	16,429.36	6,070.41	3,861.50
Employees Provident Fund	27,861.16	21,207.53	–	–
Wholesale funds**	13,958.74	4,863.67	140.10	–
Individual	2,740.07	2,148.26	227.79	156.20
Private Pension Funds	1,274.88	1,007.22	1,059.03	524.51
Charitable bodies	224.45	253.42	20.74	–
Other funds	27,629.86	39,585.08	3,701.79	2,480.19
<b>Total</b>	<b>302,182.46</b>	<b>215,930.36</b>	<b>12,840.55</b>	<b>7,607.30</b>

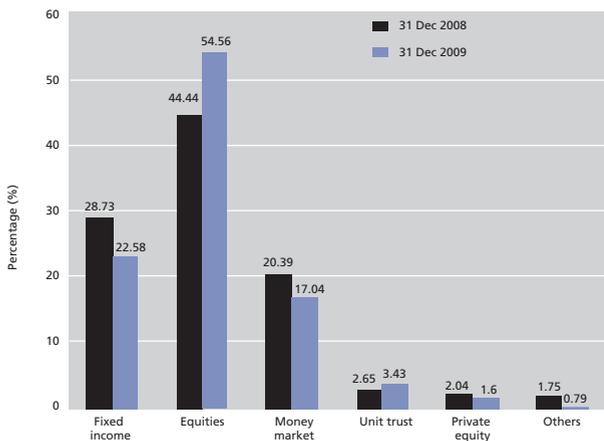
\* Includes Islamic unit trust funds

\*\* The figure in previous year was reported under "restricted investment scheme"

**Chart 2**  
Funds invested inside and outside of Malaysia



**Chart 3**  
Asset allocation

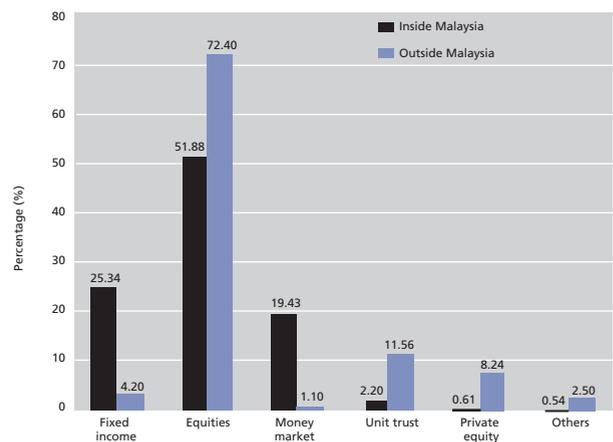


This reliance on equities in the asset allocation strategies was also evident for investments inside and outside of Malaysia (Chart 4).

**COLLECTIVE INVESTMENT SCHEMES**

Unit trust funds continued to make up the largest share of the Malaysian collective investment scheme (CIS) industry. These are the locally-constituted funds operated

**Chart 4**  
Asset allocation inside and outside of Malaysia as at 31 December 2009



and administered by 39 locally-incorporated unit trust management companies. A total of 42 funds were launched, 20 funds were terminated<sup>1</sup> while 13 funds had matured in 2009, bringing the total number of funds available to investors to 541. This was an increase of 1.7% from end-2008 (Table 2).

The year 2009 saw growth in the NAV of unit trust funds owing to the improved market conditions as compared to the end of 2008. The total NAV grew 47% year-on-year from RM130.4 billion recorded on 31 December 2008 to RM191.7 billion on 31 December 2009. This makes up 19.2% of Bursa Securities’ market capitalisation, which is a slight decline from 19.7% at the end of 2008 (Table 2).

Following the bearish market condition in 2008, unit trust managers continued to launch fixed-income funds<sup>2</sup> during the first half of 2009. However, as market improved and investors’ demand increased, more equity-based funds<sup>3</sup> were launched by unit trust managers.

For other types of CIS (Table 3):

- A total of 35 new wholesale funds were launched in 2009 for sophisticated and institutional investors, thus raising the number of wholesale funds in the market to 88. The total NAV of wholesale funds as at 31 December was RM14.0 billion.

<sup>1</sup> Mostly due to the small size of funds wherein the affected unit holders were given an option to switch to another fund.  
<sup>2</sup> Eleven fixed-income funds were launched during the first half of the year (as compared to four equity funds launched during the same period).  
<sup>3</sup> Eleven equity-based funds were launched during the second half of the year (Note: Nine fixed-income funds were launched during the same period).

- There was no new listing of real estate investment trusts (REITs) on the Main Board of Bursa Securities. The total number of REITs listed on Bursa Securities was 12 (after Amanah Harta Tanah PNB 2 was delisted on 30 November). The total asset size of the REIT industry was RM9.2 billion and the market capitalisation of the 12 REITs was RM5.3 billion as at 31 December.
- There was no new listing of exchange-traded fund (ETF) on the Main Board of Bursa Securities in 2009. The total market capitalisation of the three ETFs was RM1.2 billion as at 31 December.
- There was no new listing of closed-end funds (CEF) on the Main Board of Bursa Securities in 2009. There was only one CEF listed with market capitalisation of RM243.6 million.

In total, we considered 486 applications up to December relating to CIS, comprising applications to establish new funds, increase fund size and others (Table 3). Comparatively, this is 33% less than the applications considered for 2008, partly due to the change of procedures, whereby certain activities no longer require the SC's approval.

Table 2

**Overall status of unit trust industry**

Type of applications	31 December 2009	31 December 2008 <sup>#</sup>
No. of funds launched	541	532
– Conventional	397	392
– Shariah-compliant	144	140
Total approved fund size (billion units)*	568.36	525.39
Units in circulation (billion units)	273.88	236.39
No. of accounts (million)	14.60**	13.53**
Total NAV (RM billion)	191.71	130.44
– Conventional	169.63	114.32
– Shariah-compliant	22.08	16.12
% of NAV to Bursa Malaysia's market capitalisation	19.18	19.65

<sup>#</sup> Data was adjusted to exclude wholesale funds.

\* For funds approved, including those not yet launched.

\*\* Including unit holder accounts at institutional unit trust advisers (IUTA) that operate nominee account system.

Table 3

**Applications for various matters relating to collective investment schemes**

Type of applications	Type of applications					
	Considered		Approved		Pending Consideration	
	December 2009	December 2008	December 2009	December 2008	December 2009	December 2008
Establishment of collective investment schemes:	93	113	93	113	18	7
– Unit trust funds	58	93	58	93	11	6
– Real estate investment trusts	0	2	0	2	0	0
– Closed-end funds	0	1	0	1	0	0
– Wholesale funds	35	16	35	16	5	1
– Exchange-traded funds	0	1	0	1	2	0
Change in fund size limit:	37	42	37	42	0	0
– Unit trust funds	30	35	30	35	0	0
– Real estate investment trusts	0	3	0	3	0	0
– Closed-end funds	0	0	0	0	0	0
– Wholesale funds	7	4	7	4	0	0
– Exchange-traded funds	0	0	0	0	0	0
Exemption/variations from guidelines	7	20	7	17	0	0
Revaluation of property	0	1	0	1	0	0
Registration of prospectus	167	182	167	182	10	9
Registration of deeds	111	249	111	249	11	8
Appointment of CEO, directors, investment committee members	0	40	0	40	0	0
Other applications	71	82	70	81	0	4
<b>Total</b>	<b>486</b>	<b>729</b>	<b>485</b>	<b>725</b>	<b>39</b>	<b>28</b>

## ISLAMIC CAPITAL MARKET

### SUKUK

In 2009, the SC approved 34 private debt securities issues amounting to RM57.5 billion, of which 11 issues were sukuk valued at RM34.0 billion. The value represented 59.1% of total new bond issues approved (Chart 1).

This year *sukuk musharakah* dominated the Malaysian sukuk market in terms of approval size. *Sukuk musharakah* represented RM33.5 billion<sup>1</sup> or 99.6% of the total size of sukuk approved (Chart 2). The remaining 0.4% or RM150 million sukuk approved was structured using *murabahah*.

### SHARIAH-COMPLIANT FUNDS

In 2009, the SC approved nine new Shariah-compliant funds. This brought the total of Shariah-compliant funds to 150 or 26.5% of the total of 565 approved funds. Of the Shariah-compliant funds, 72 were equity funds, 22 were balanced funds, 20 were sukuk funds while the remainder comprised money market funds, structured products, feeder funds, fixed-income funds and mixed-asset funds (Chart 3).

The NAV of Shariah-compliant funds for the last five years grew at a compounded annual growth rate of 27.0% while the total industry recorded a growth rate of 18.1% in the same period.

Chart 1  
Sukuk approved by the SC

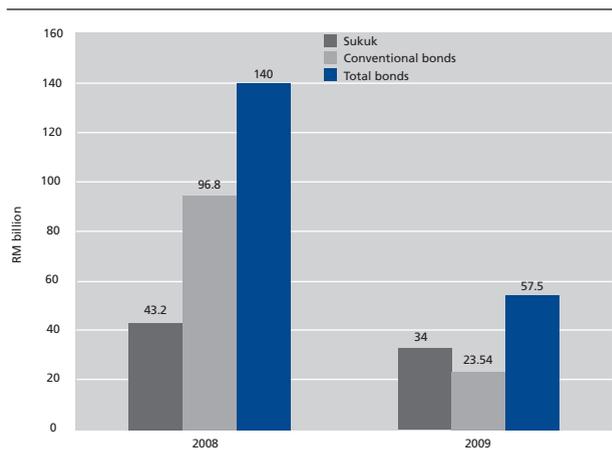
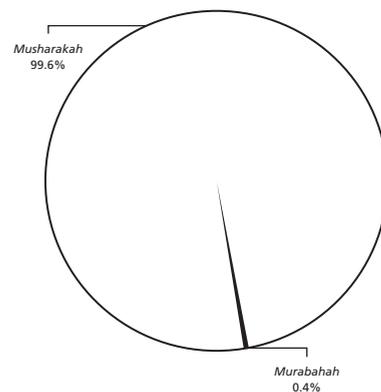
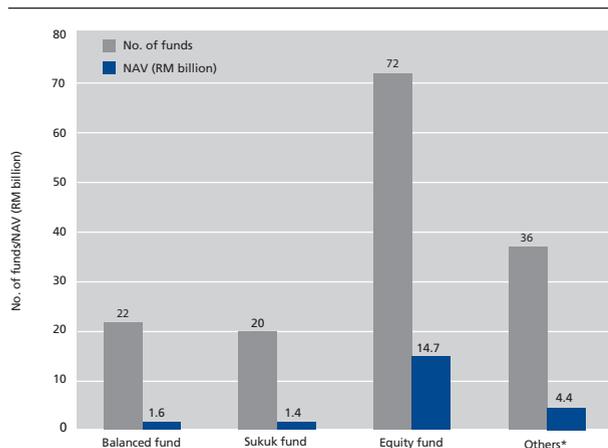


Chart 2  
Size of sukuk approved in 2009 by Shariah principle



<sup>1</sup> This amount include an approval of sukuk by Pengurusan Air SPV Bhd valued at RM20 billion which was based on a combination of Shariah principles, *musharakah* and *ijarah*.

**Chart 3**  
**Shariah-compliant funds by category**



\* Including feeder funds, fixed income funds, money market funds, structured products and mixed asset funds.

## SHARIAH-COMPLIANT SECURITIES

This year, the updated lists of Shariah-compliant securities were published on 29 May and 30 November. Throughout the year, 26 securities were added to the list of Shariah-compliant securities by the SAC while five were removed.<sup>2</sup>

As published in the November list, there were 846 Shariah-compliant securities or 88.0% of the total listed securities on Bursa Malaysia. The Malaysian capital market continued to attract the interest of companies seeking to raise funds in 2009 where 12 IPO applications were approved and they are expected to raise RM12.8 billion of funds. All 12 IPOs were approved as Shariah-compliant securities by the SAC, including four approved at pre-IPO stage.

As at end-2009, the market capitalisation of Shariah-compliant securities stood at RM637.9 billion or 63.8% of total market capitalisation.

**Table 1**  
**Shariah-compliant funds**

	2009*	2008#
Number of approved funds		
Shariah-compliant	150	141
Total industry	565	550
Total approved fund size (billion units)		
Shariah-compliant	128.5	115.5
Total industry	568.4	525.4
Units in circulation (billion units)		
Shariah-compliant	56.8	48.9
Total industry	273.9	236.4
NAV (RM billion)		
Shariah-compliant	22.1	16.1
Total industry	191.7	130.4
% of Shariah-compliant to total industry	11.53%	12.79%

\* Effective January 2009, the above statistics exclude the statistics for wholesale funds.

# Data was adjusted to exclude wholesale funds.

**Table 2**  
**Shariah-compliant equities**

	2009	2008
Number of securities		
Shariah-compliant securities	846	855
Total listed securities	959	980
% of Shariah-compliant to total listed securities	88%	87%
Market capitalisation (RM billion)		
Shariah-compliant securities	637.9	426.4
Total listed securities	999.5	663.8
% of Shariah-compliant to total listed securities	63.8%	64.2%

<sup>2</sup> Throughout 2009, 30 Shariah-compliant securities were also excluded from the list as their shares were delisted from Bursa Malaysia.

## VENTURE CAPITAL

The number of registered venture capital companies (VCC) and venture capital management companies (VCMC) stood at 59 and 55 respectively (Table 1) as at 31 December 2009.

During the year, six VCCs and five VCMCs were deregistered due to closure of funds or their inactive status. There were nine and eight new additions to the list, of registered VCCs and VCMCs in 2009 out of which two were Islamic VCCs and one Islamic VCMC. The Islamic VCCs were Intrapreneur Development Sdn Bhd and COPE Opportunities 2 Sdn Bhd while the Islamic VCMC was Permodalan Teras Sdn Bhd. Other new registrants were Istismar Capital Sdn Bhd, QMA Capital Sdn Bhd, Ingenious Growth Fund Bhd, NewGen Ventures Sdn Bhd, Mindhub Pegasus Sdn Bhd, MGF Series 1 Sdn Bhd and HCP One Sdn Bhd. The newly registered VCMCs include Nuetree Capital Sdn Bhd, Mindhub Capital Sdn Bhd, Astra Partners Sdn Bhd, QuestMark Capital Management Sdn Bhd, NewGen Capital Managers Sdn Bhd, Hadrons Capital Partners Sdn Bhd and MGIP Capital Sdn Bhd.

Out of the 114 registered VCCs and VCMCs as at end of 2009, 104 were 100% locally owned, nine were joint ventures and one was a 100% foreign owned VCC.

As compared to 2008, the total committed funds as at end of 2009 stood at RM5.4 billion which represented an increase of 17% year-on-year (Table 2).

Similarly, total venture capital investments as at the end of 2009 increased by 34% to RM2.6 billion from RM1.9 billion as at the end of 2008. Investments made in 2009 stood at RM597 million as compared to RM477 million in 2008 representing an increase of 25% year-on-year. A total of 99 investee companies received venture capital funding in 2009.

On the other hand, the amount received from divestments declined slightly to RM43 million as compared to RM45 million in 2008. Divestments were mainly in the form of share redemptions and trade sale.

Table 1

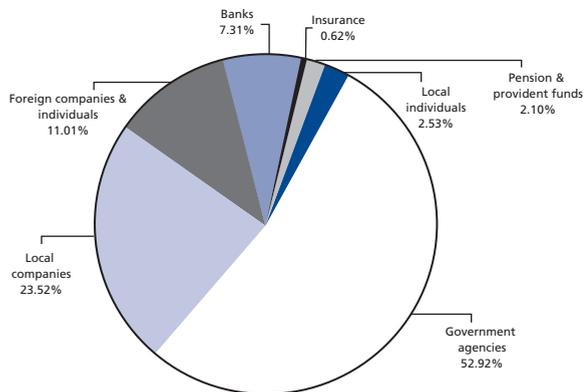
### Venture capital industry participants

	31 December 2009	31 December 2008
Number of registered venture capital funds/companies	59	56
Number of registered VCMCs	55	52
Number of investee companies	445	450
Number of venture capital professionals	313	248
<b>Shareholding structure</b>		
100% local ownership	104	98
Joint ventures	9	9
100% foreign ownership	1	1

**Table 2**  
**Venture capital investments**

	31 December 2009 (RM million)	31 December 2008 (RM million)
Total committed funds under management	5,347	4,570
Total investment as at end of the period	2,586	1,929
	During 2009 (RM million)	During 2008 (RM million)
Investment in investee companies	597	477
Divestments	43	45

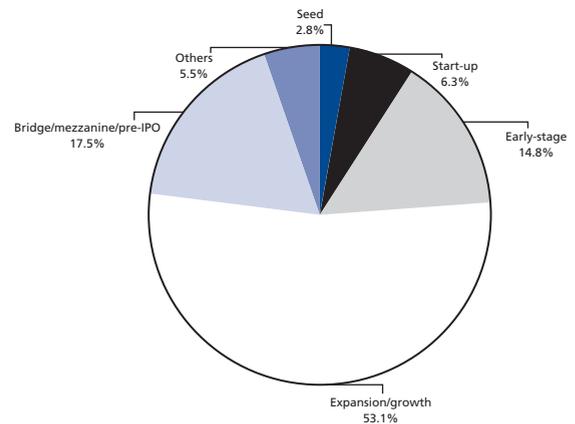
**Chart 1**  
**Sources of venture capital funds**  
(2009: RM5.347 billion)



As at the end of 2009, the government continued to play a significant role in the venture capital industry by contributing 52.9% of total committed funds, equivalent to approximately RM2.8 billion (Chart 1).

Local companies contributed to 23.5% while foreign companies and individuals contributed to 11.0% respectively. Contributions from banks, insurance companies, pension and provident funds and local individuals remain almost unchanged at 12.6% collectively. The top three venture capital players based on fund size as at 31 December 2009 were Malaysia Venture Capital Management Bhd, Kumpulan Modal Perdana Sdn Bhd, and Malaysian Life Sciences Capital Sdn Bhd.

**Chart 2**  
**Investment by financing stage**  
(2009: RM597 million)



**Chart 3**  
**Investment by sectors**

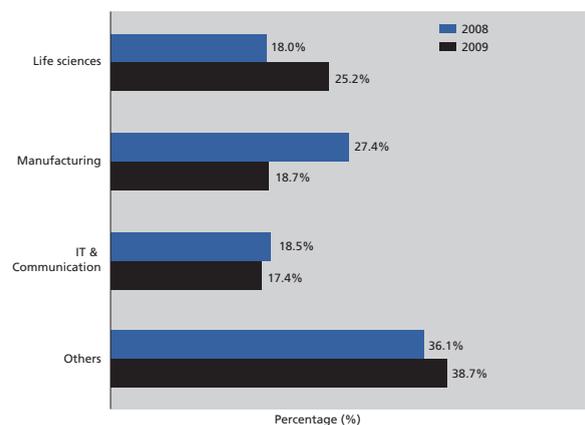


Table 3

**Amount of investments and number of investee companies by financing stage**

Business stage	During 2009		
	Total investment (RM '000)	% of total investments	No. of investee company
Seed	16,553	2.8	8
Start-up	37,714	6.3	9
Early-stage	88,429	14.8	16
Expansion/growth	317,387	53.1	49
Bridge/mezzanine/pre-IPO	104,372	17.5	12
Others	32,897	5.5	5
<b>Total</b>	<b>597,352</b>	<b>100</b>	<b>99</b>

Investee companies at the expansion and growth stage continued to receive bulk of the funding from venture capital funds where RM317 million were invested in 49 investee companies (Table 3) representing 53.1% of total investments made.

Investments into seed and start-up stages were 9% collectively where they were channelled into only 17 investee companies compared to last year where 4% of total investments were made into 34 investee companies (Chart 2).

In terms of sector classification, 38.7% (Chart 3) of total investments during 2009 were made in sectors such as education; electricity and power generation; and transport,

storage and communication, which were categorised under “others”. The higher investment in this category indicated that VCCs and VCMCs were increasingly moving away from traditional to new growth areas. Investments into the life sciences sector increased from 18% in 2008 to 25.2% in 2009 while investments in the manufacturing, and IT and communication sectors recorded a decrease to 18.7% and 17.4% respectively.

Table 4 shows that the total amount divested during the year was RM43 million. Most investee companies were divested at the bridge/mezzanine/pre-IPO stage. In 2009, 12 investee companies were divested at this stage, representing 60% of the total value realised.

Table 4

**Divestments during 2009**

Divestment by business stages	Amount divested (RM '000)	Share of total (%)	No. of venture company
Seed	–	–	–
Start-up	3,645	9	1
Early-stage	2,560	6	3
Expansion/growth	10,894	25	5
Bridge/mezzanine/pre-IPO	26,069	60	12
<b>Total</b>	<b>43,168</b>	<b>100</b>	<b>21</b>

## LICENSING AND AUTHORISATION

Although 2009 was a challenging year for global financial markets, it saw the entry of several leading global market intermediaries into the Malaysian capital market. Overall, 21 companies were granted new Capital Markets Services Licences, eight of which were approved for companies to carry on fund management activities.

The granting of the new fund management licences reflected the continued confidence in this segment of the capital market, particularly the Islamic fund management segment as seven of the eight licences were for Islamic fund management companies. They included:

- Nomura Islamic Asset Management Sdn Bhd;
- Aberdeen Islamic Asset Management Sdn Bhd;
- AmIslamic Fund Management Sdn Bhd;
- BNP Paribas Islamic Asset Management Malaysia Sdn Bhd;
- Reliance Asset Management (Malaysia) Sdn Bhd;
- Prudential Al-Wara' Asset Management Bhd; and
- Credit Agricole Asset Management Islamic Malaysia Sdn Bhd.

At the end of 2009, there were a total of 11 Islamic fund management companies operating in the local market, seven of which are wholly foreign owned.

These foreign fund management companies have all made commitments to leverage on their international investment management experience to build their Malaysian subsidiaries and the majority are planning to develop these subsidiaries into their regional hub for Shariah-compliant investments.

Meanwhile, the eighth licence for fund management issued last year was to Franklin Templeton Asset Management (Malaysia) Sdn Bhd. The entry of the US-based leading fund management company signalled the group's confidence in our capital market.

Another significant milestone in 2009 was the entry of Nomura Securities Malaysia Sdn Bhd (Nomura). Nomura became the first company to be issued a stockbroking licence following Budget 2008's announcement on the issuance of three new licences to stockbroking companies that are able to encourage greater flow of funds from the Middle East to Malaysia. The Japanese-based group, which has been present in Malaysia since 1974, was also granted an investment banking licence by the Capital Market Authority of the Kingdom of Saudi Arabia in 2008 which strengthened its proposition for the Malaysian market.

Further to this, approvals to set up operations were also granted to BMB Zakat Management Sdn Bhd and Franklin Templeton GSC Asset Management Sdn Bhd to carry out Islamic fund management activities, while Goldman Sachs (Malaysia) Sdn Bhd received the nod to set up operations relating to conventional fund management and corporate finance. It is anticipated that the licensing and approval of these global firms will accelerate the transfer of global skills, standards and operations into the Malaysian capital market.

In recognition of the need for additional advisory companies to further develop depth within the capital market, four new companies received corporate finance and investment advisory licences while five new licences were issued to companies carrying on financial planning activities.

Overall, we remain focused on allowing the entry of strong companies that are able to address changing investors' demands.

Table 1

## Capital Markets Services Licence holders

Categories	Regulated activities <sup>1</sup>	2009	2008
Investment banks	Dealing in securities Advising on corporate finance Investment advice Fund management	0	1
	Dealing in securities Trading in futures contracts Advising on corporate finance Investment advice	1	1
	Dealing in securities Trading in futures contracts Advising on corporate finance	2	2
	Dealing in securities Advising on corporate finance Investment advice	7	6
	Dealing in securities Fund management Advising on corporate finance Investment advice Financial planning	1	0
	Dealing in securities Advising on corporate finance	3	3
		<b>14</b>	<b>13</b>
Universal brokers	Dealing in securities Advising on corporate finance Investment advice	1	1
		<b>1</b>	<b>1</b>
Special scheme foreign stockbroking companies	Dealing in securities Trading in futures contracts Advising on corporate finance Investment advice	1	1
	Dealing in securities Advising on corporate finance Investment advice	4	4
	Dealing in securities Investment advice	1	0
		<b>6</b>	<b>5</b>
Stockbroking companies with at least one merger partner	Dealing in securities Trading in futures contracts Advising on corporate finance Investment advice	1	1
	Dealing in securities Trading in futures contracts Investment advice	1	1
	Dealing in securities Advising on corporate finance Investment advice	2	1
	Dealing in securities Investment advice	2	4
		<b>6</b>	<b>7</b>

<sup>1</sup> Regulated activities refer to the activities that the companies are licensed to conduct.

Table 1 (continue)

## Capital Markets Services Licence holders

Categories	Regulated activities <sup>1</sup>	2009	2008
Stand-alone stockbroking companies	Dealing in securities Investment advice	1	3
	Dealing in securities	5	5
	Dealing in securities Investment advice Financial planning	1	0
		<b>7</b>	<b>8</b>
Issuing houses	Dealing in securities	2	2
		<b>2</b>	<b>2</b>
Future brokers	Trading in futures contracts	13	14
		<b>13</b>	<b>14</b>
Unit trust management companies (UTMC)	Dealing in securities restricted to unit trust	12	12
	Fund management Dealing in securities restricted to unit trust	28	26
	Fund management Financial planning Dealing in securities restricted to unit trust	2	2
	Financial planning Dealing in securities restricted to unit trust	0	1
		<b>42</b>	<b>41</b>
Fund managers	Fund management	55	51
	Fund management Dealing in securities restricted to unit trust	28	24
	Fund management Financial planning Dealing in securities restricted to unit trust	2	2
		<b>85</b>	<b>77</b>
Special scheme foreign fund managers	Fund management	5	4
		<b>5</b>	<b>4</b>
Islamic fund managers	Fund management Dealing in securities restricted to unit trust	1	2
	Fund management	10	1
		<b>11</b>	<b>3</b>
Fund supermarket	Investment advice Dealing in securities restricted to unit trust	1	1
		<b>1</b>	<b>1</b>
Corporate unit trust advisers (CUTA)	Financial planning Dealing in securities restricted to unit trust	4	2
Institution unit trust advisers (IUTA)	Financial planning Dealing in securities restricted to unit trust	1	0
		<b>5</b>	<b>2</b>

Table 1 (continue)

## Capital Markets Services Licence holders

Categories	Regulated activities	2009	2008
Advisory companies	Advising on corporate finance	35	34
	Advising on corporate finance Investment advice	5	4
	Advising on corporate finance Financial planning	1	2
	Investment advice	21	21
	Financial planning	23	25
		<b>85</b>	<b>86</b>
Individuals	Financial planning	11	11
	Investment advice	1	0
		<b>12</b>	<b>11</b>

Total licensed companies:

- at as 31 December 2009: 237
- at as 31 December 2008: 236

Total licensed individuals:

- at as 31 December 2009: 12
- at as 31 December 2008: 11

Table 2

## Capital Markets Services Representative's Licence holders

	2009	2008
Dealing in securities <sup>1</sup>	6,656	6,595
Trading in futures contracts <sup>2</sup>	570	553
Fund management	517	474
Advising on corporate finance <sup>3</sup>	505	534
Investment advice	169	148
Financial planning	280	241
	<b>8,697</b>	<b>8,545</b>

Note:

<sup>1</sup> Includes representatives licensed for dealing in securities restricted to bonds and representatives licensed for dual activities – dealing in securities and trading in futures contract.

Excludes representatives licensed for dual activities – advising on corporate finance and dealing in securities restricted to underwriting activities.

<sup>2</sup> Includes representatives licensed for dual activities – dealing in securities and trading in futures contract.

<sup>3</sup> Includes representatives licensed for dual activities – advising on corporate finance and dealing in securities restricted to underwriting activities.

Table 3

## Application for new company/individual licences

Regulated activities	Dealing in securities		Trading in futures contract		Fund management		Advising on corporate finance		Investment advice		Financial planning		Financial planning (individual)	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Issued	3*	13	1	2	8	9	2	4	2	0	5	3	0	1

Note:

\* Includes company licensed for dealing in securities restricted to unit trust products – 1 UTMIC.

Table 4

**Application for new representative's licences**

Regulated activities	Dealing in securities		Trading in futures contract		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Issued	309*	361	103	104	111	124	98**	112	56	44	77	110
Withdrawn	3	3	0	7	0	1	0	0	1	0	0	7
Returned	22	17	0	2	6	14	0	1	0	2	7	11

Note:

\* Includes representatives licensed for dealing in securities to bonds and representatives licensed for dual activities – dealing in securities and trading in futures contracts.

\*\* Includes representatives licensed for dual activities – advising on corporate finance and dealing in securities restricted to underwriting activities.

Table 5

**Application for renewal company/individual licences**

Regulated activities	Dealing in securities		Trading in futures contract		Fund management		Advising on corporate finance		Investment advice		Financial planning		Financial planning (individual)	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Issued	46*	26	4	4	58	65	22	18	8	34	11	18	6	5
Withdrawn	0	1	0	0	0	1	1	0	0	0	1	0	0	0
Returned	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Note:

\* Includes companies licensed for dealing in securities restricted to unit trust products.

Table 6

**Application for renewal of representative's licences**

Regulated activities	Dealing in securities		Trading in futures contract		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Issued	3,061	5,438	351	528	205	307	254	448	60	108	93	108
Withdrawn	0	2	0	0	0	0	0	0	0	0	0	0
Returned	2	1	0	1	0	1	0	2	0	0	2	2

Table 7

**Cessation of company/individual licences**

Regulated activities	Dealing in securities		Trading in futures contract		Fund management		Advising on corporate finance		Investment advice		Financial planning		Financial planning (individual)	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Ceased	2	1	2	1	8	3	1	3	2	1	5	2	0	3

Table 8

**Cessation of representative's licences**

Regulated activities	Dealing in securities		Trading in futures contract		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Ceased	433*	371	71	57	57	76	123**	137	32	40	33	43

Note:

\* Includes representatives licensed for dealing in securities to bonds and representatives licensed for dual activities – dealing in securities and trading in futures contracts.

\*\* Includes representatives licensed for dual activities – advising on corporate finance and dealing in securities restricted to underwriting activities.

Table 9

**Application for registration of local participants**

	2009	2008
Applications brought forward from previous year	0	0
New applications received	7	11
Granted	7	8
Withdrawn	0	1
Rejected	0	0
Returned	0	2
Applications carried forward to next year	0	0

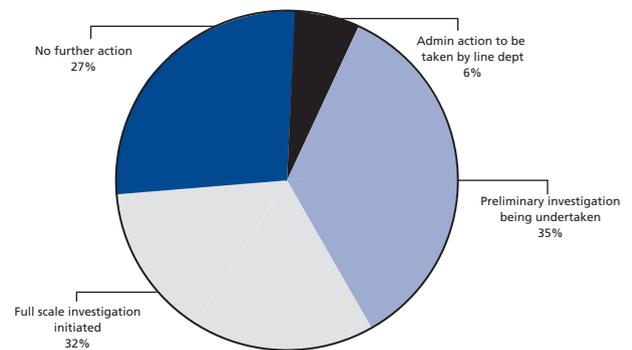
## ENFORCEMENT

In 2009, the SC received 49 referrals for investigation. Of the 49 referrals, 32% led to full-scale investigations while no further action was taken in respect of 27% as there was insufficient basis to support an offence under the securities law. In addition, administrative actions were initiated for 6% of the referrals (Charts 1 and 2).

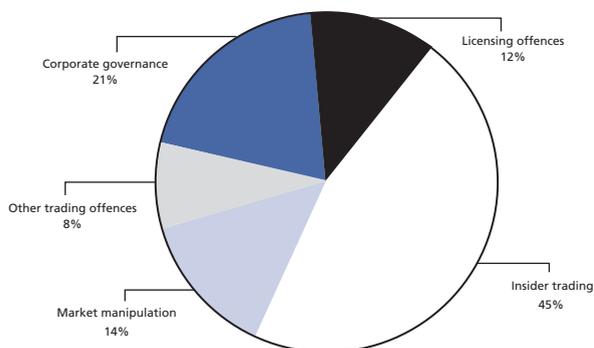
Altogether, there were 75 active investigation files and substantial resources were devoted to cases involving large and complex transactions (Chart 3).

Throughout the year, we exercised the full spectrum of our investigation powers, which included conducting raids, recording statements from witnesses and seeking assistance from foreign regulators. If suspects were believed to likely leave

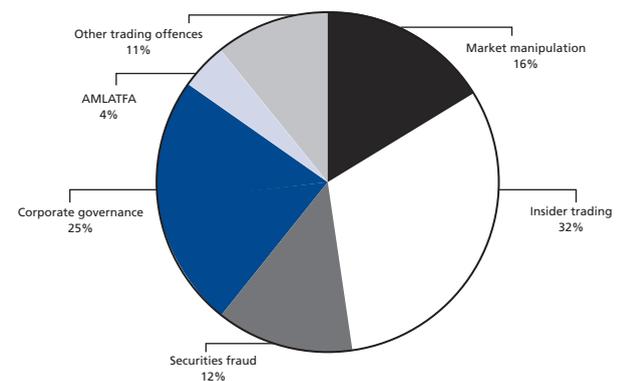
**Chart 2**  
Referrals: Outcome



**Chart 1**  
Referrals: Type of offence



**Chart 3**  
Active investigation files



Malaysia, we requested that they surrendered all their travel documents.

Arising from reviews conducted, the SC conducted raids at the premises of three PLCs and a licensed asset management company. There was sufficient reason to believe that there were breaches of securities law and the raids would prevent the destruction of relevant documents that could assist in investigation. Concurrently, we also secured relevant documents from the offices of five audit firms, four company secretarial firms and an investment bank.

Statement taking forms an integral part of the investigation process. In 2009, we recorded statements from 384 witnesses, including company directors, auditors, lawyers, investment bankers and company secretaries (Chart 4).

Over the years, an increase in crimes involving cross-border transactions heightened the complexity of investigations. This required the SC to seek assistance from our foreign counterparts under the IOSCO’s Multilateral Memorandum of Understanding Concerning Consultation and Co-operation and the Exchange of Information (IOSCO MMOU). We worked closely with our counterparts from 17 countries for 31 of our investigation files (Table 1).

This year, the SC brought criminal charges against four persons who submitted or were involved in submitting false financial information to the SC. The SC also took

criminal action against two individuals for their role in defrauding a listed company of its funds. We also filed a civil suit to appoint a receiver over the affairs, assets and properties of a fund management company (Chart 5; Table 2).

Table 1  
Countries rendering assistance to the SC

No.	Countries	Investigation files
1.	Australia	3
2.	Austria	1
3.	British Virgin Islands	1
4.	Canada	1
5.	China	2
6.	Hong Kong	2
7.	India	2
8.	Korea	1
9.	Netherlands	1
10.	New Zealand	1
11.	Singapore	7
12.	Syria	1
13.	Tanzania	1
14.	Thailand	1
15.	United Arab Emirates	3
16.	UK	2
17.	US	1
	<b>Total</b>	<b>31</b>

Chart 4  
Statements recorded from witnesses

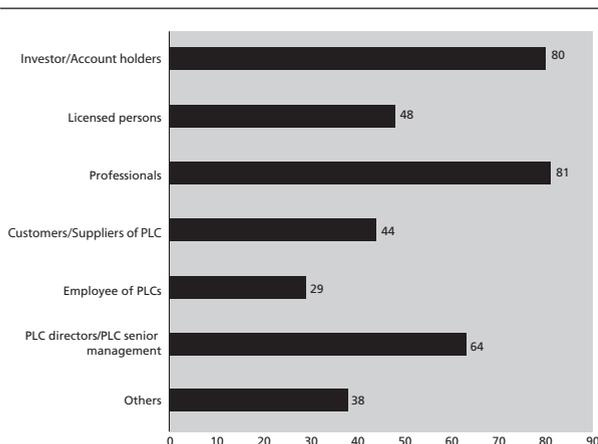
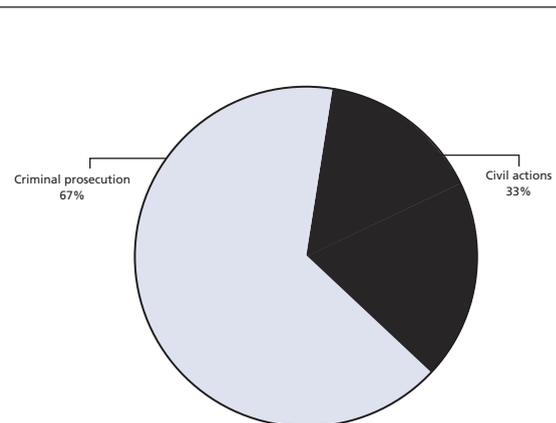


Chart 5  
Enforcement actions



**Table 2**  
**SC enforcement actions for breaches of securities laws as at 31 December 2009**

Type	No. of individuals/entities
Civil actions	3
Criminal prosecution	6

### Administrative actions

(Charts 6–10; Tables 3–4)

We meted out a total of 56 administrative sanctions in 2009. Out of the 56 sanctions, 34 (43%) were private reprimands, 20 (36%) were directives, eight (14%) were revocations, non-renewal or suspension of licences and four (7%) were financial penalties.

The sanctions were directed at:

- Substantial shareholders (63%);
- Licensed intermediaries (30 %);
- PLCs (5%); and
- Corporate advisers (2%).

The types of administrative sanctions invoked in 2009 ranged from reprimands to financial penalties and directives. The types of directives imposed were also diverse, ranging from the imposition of extra CPE points (on licensed intermediaries) to depriving persons in breach of access to stock exchange facilities, and directing the reissuance of financial statements. The total amount of financial penalties imposed was RM770,000.

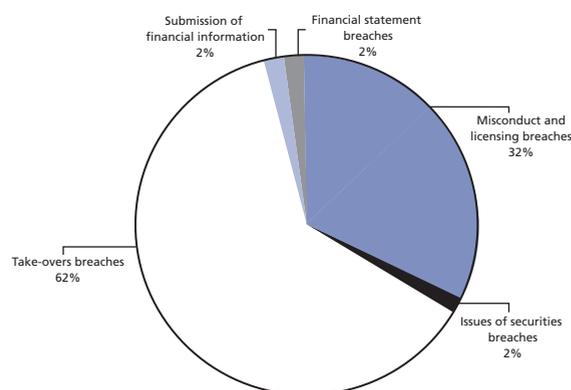
**Table 3**  
**Number of administrative actions taken**

Type of administrative actions	Number
Public reprimand	–
Revocation/suspension of licence	8
Directives	20
Private reprimand	24
Imposition of fine	4
<b>Total</b>	<b>56</b>

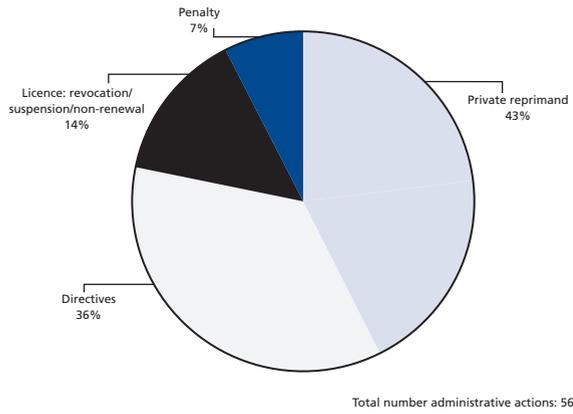
**Table 4**  
**Number of supervisory letters issued**

Type	Number
Warning/caution	45
Reminder issued	87
<b>Total</b>	<b>132</b>

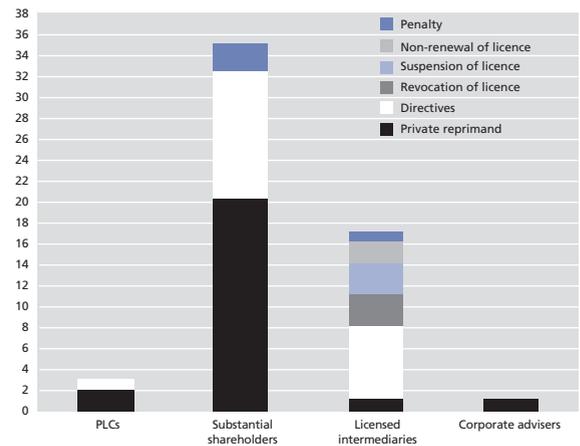
**Chart 6**  
**Administrative actions: Nature of breaches**



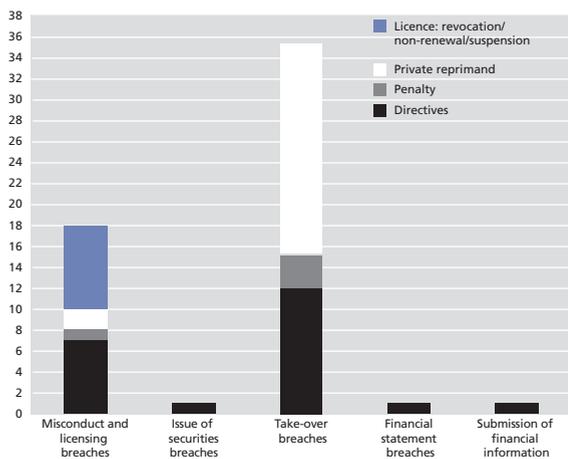
**Chart 7**  
Administrative actions: Type of sanctions



**Chart 9**  
Administrative actions and parties in breach



**Chart 8**  
Administrative actions and type of breaches



**Chart 10**  
Type of directives

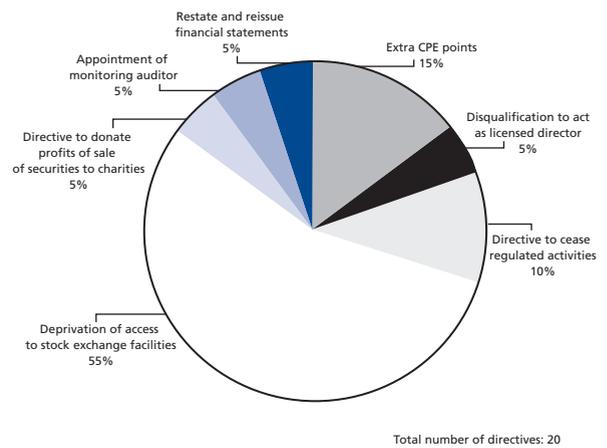


Table 5

## Details of criminal prosecution

No.	Nature of offence	Offender(s)	Facts of case	Date charged
<b>CRIMINAL PROSECUTION INITIATED – PERSONS CHARGED</b>				
1.	Furnished misleading statement to the stock exchange.	Tan Chin Han	Tan Chin Han, the former Chief Executive Officer and Executive Director of Welli Multi Corporation Bhd (WMCB), was charged for knowingly authorising the furnishing of a misleading statement in WMCB's quarterly report for the financial period ended 30 September 2006 to Bursa Malaysia Securities Bhd.	Tan Chin Han was charged on 11 March upon failure to pay compound.
2.	Engaged in an act which operated as a fraud in connection with the purchase of securities.	Toh Chun Toh Gordon	Toh Chun Toh Gordon, the Director of Multi-code Electronics Industries (M) Bhd (Multi-code), was charged for engaging in an act which operated as a fraud on Multi-code, by utilising RM17.6 million of its funds to finance the purchase of 11.1 million Multi-code shares.  Toh was also charged for committing criminal breach of trust involving RM26 million of Multi-code's funds.	Toh Chun Toh Gordon was charged on 13 March.
	Abetted Toh Chun Toh Gordon to engage in an act which operated as a fraud in connection with the purchase of securities.	Abul Hasan Mohamed Rashid	Abul Hasan, the Director of Multi-code, was charged for abetting Toh Chun Toh Gordon to engage in an act which operated as a fraud on Multi-code, in utilising RM17.6 million of its funds to finance the purchase of 11.1 million Multi-code shares.  Abul Hasan was also charged for committing criminal breach of trust involving RM26 million of Multi-code's funds.	Abul Hasan was charged on 13 March.
3.	Knowingly authorised the furnishing of a misleading statement to Bursa Malaysia relating to affairs of a listed corporation.	Ooi Boon Leong	Ooi Boon Leong, the Director and substantial shareholder of MEMS Technology Bhd (MEMS), was charged for knowingly authorising the furnishing of a misleading statement to Bursa Malaysia. The misleading statement was about MEMS group's revenue for year ended 31 July 2007 contained in its condensed consolidated income statements for the 12 month period ended 31 July 2007.	Ooi Boon Leong was charged on 16 April.

No.	Nature of offence	Offender(s)	Facts of case	Date charged
<b>CRIMINAL PROSECUTION INITIATED – PERSONS CHARGED</b>				
4.	Knowingly authorised the furnishing of a misleading statement to Bursa Malaysia relating to affairs of a listed corporation.	Tan Yeow Teck	Tan Yeow Teck, the former Director and Chief Financial Officer of MEMS, was charged together with Ooi Boon Leong for knowingly authorising the furnishing of a misleading statement to Bursa Malaysia.  The misleading statement was about MEMS group's revenue for year ended 31 July 2007 contained in its condensed consolidated income statements for the 12 month period ended 31 July 2007.	Tan Yeow Teck was charged on 16 April.
5.	Abetted the Director cum CEO of United U-Li Corporation Bhd (U-Li) in furnishing a false statement to Bursa Malaysia.	Yue Chi Kin (William)	William Yue was the engagement and signing partner of Roger Yue, Tan & Associate which audited U-Li's accounts for FYE 31 December 2004. He was charged for abetting the Director of U-Li in furnishing the false statement which included the creation of RM4 million fictitious sales.	William Yue was charged on 28 April upon his failure to pay the compound.
No.	Nature of offence	Offender(s)	Facts of case	Punishment
<b>OUTCOME OF CRIMINAL PROSECUTION – PERSONS FINED</b>				
1.	Directors conspiring to withdraw money from trust account.	Ghazali Atan Mohamed Abdul Wahab	Ghazali and Mohamed were charged with conspiring to withdraw RM50 million from a Tabung Haji's trust account under the management of Metrowangsa Asset Management Sdn Bhd (MAM) to be paid to MIMOS.	Ghazali and Mohamad were found guilty and convicted by the Sessions Court on 1 April.  On 7 April, both the accused were fined RM200,000 each and in default one year imprisonment.
2.	Maintaining more than one CDS account at the authorised depository agent (ADA).	Yunus M. Haniff Ramly Hussain	Yunus had maintained seven CDS accounts at two ADAs for the purpose of applying for IPO shares of K&N Kenanga Holdings Bhd in 1996.  Ramly was charged for abetting Yunus in the above.	On 6 July, the Sessions Court convicted both Yunus and Ramly. They pleaded guilty to both charges preferred against each of them.  During sentencing on 7 July, both Yunus and Ramly were fined RM10,000 for the first charge (in default two months imprisonment) and RM15,000 for the second charge (in default three months imprisonment) respectively.
3.	Short selling.	Ahmad Skhri Ramli	Ahmad Skhri short sold 202 lots of AKN Technology Bhd shares.	Ahmad Skhri was charged on 16 January 2002.  On 21 December 2006, at the end of the case he was convicted of two charges under section 41(1)(a) SIA read together with section 122C(c) of the same Act for abetting Permodalan Bank Simpanan Nasional in the short selling of 202 lots of AKN Technology Bhd shares.

No.	Nature of offences	Offender(s)	Facts of case	Punishment
<b>OUTCOME OF CRIMINAL PROSECUTION – PERSONS FINED</b>				
				<p>Ahmad Skhri was fined RM300,000 (in default 12 months imprisonment). Ahmad Skhri appealed against the decision of the Sessions Court.</p> <p>On 4 August, the High Court dismissed the appeal. Both convictions on the short selling and the respective sentences of fine were upheld.</p>
4.	Abetted Megan Media Holdings Bhd in furnishing false statement to Bursa Malaysia.	Kok Hen Sen	Kok Hen Sen, the former financial controller of Megan Media Holdings Bhd (MMHB), abetted MMHB who had with intent to deceive, furnished false statements to Bursa Malaysia. The false statements were about MMHB's revenue figures in its financial statements for the year ended 30 April 2006 and quarterly reports on consolidated results for the financial period ended 31 July 2006, 31 October 2006 and 31 January 2007 respectively.	<p>Kok was charged on 10 December 2007.</p> <p>On 18 August, Kok pleaded guilty to the first charge and the other three charges were taken into consideration under section 171A of the <i>Criminal Procedure Code</i> (CPC) for sentencing.</p> <p>He was fined RM350,000 (in default one year imprisonment).</p> <p>Prosecution filed an appeal against the sentence to the High Court.</p>
5.	Knowingly authorising the furnishing of false statements to Bursa Malaysia	Ng Kim Weng	Ng, former Group Managing Director of Polymate Holdings Bhd (PHB) and Managing Director of ABI Malaysia Sdn Bhd (its wholly owned subsidiary), was charged for knowingly authorising the furnishing of false statements to Bursa Malaysia, namely the inflated revenue and trade receivables of PHB for the year ended 30 September 2003, as contained in PHB's 2003 annual report.	<p>Ng was charged on 7 February 2007.</p> <p>He pleaded guilty on 20 October after the prosecution has called three witnesses.</p> <p>Court convicted him on the charge and he was fined RM300,000, in default one year imprisonment.</p> <p>The prosecution filed an appeal against the sentence to the High Court.</p>
6.	<p>Criminal breach of trust under section 409 of the <i>Penal Code</i>; in the alternative.</p> <p>Breach of condition of the SC's approval under section 32(6) SCA read together with section 40 and section 109 of the <i>Penal Code</i>.</p>	Dato' Tan Hooi Chong	<p>Dato' Tan, a director of Kiara Emas Asia Industries Bhd (KEAIB), was charged with criminal breach of trust for RM16,937,739.20 of the rights issue proceeds of KEAIB on three occasions.</p> <p>He was also charged with three alternative charges of abetting KEAIB in breaching the terms and conditions imposed by the SC for the utilisation of KEAIB's rights issue proceeds.</p>	<p>Tan was charged on 16 September 2004.</p> <p>On 10 November, Tan pleaded guilty to three alternative charges under section 32(6) SCA for contravening the condition imposed in paragraph 4(i) of the SC's letter of approval dated 14 November 2006 for the utilisation of the rights issue proceeds of KEAIB.</p> <p>Tan was imposed a fine of RM200,000 for each charge (total RM600,000) and in default the accused would be liable for six months imprisonment for respective charge.</p>

No.	Nature of offences	Offender(s)	Facts of case	Punishment
<b>OUTCOME OF CRIMINAL PROSECUTION – PERSONS ACQUITTED</b>				
1.	Director knowingly submitted misleading statement to the SC.	Mohamed Abdul Wahab	Mohamed was charged for knowingly allowing a misleading statement to be submitted to the SC in Metrowangsa Asset Management Sdn Bhd's semi-annual report from 2000 to 2001.	Mohamad was found not guilty and was acquitted and discharged by the Sessions Court on 1 April.  The prosecution filed an appeal against the acquittal to the High Court.
2.	Market manipulation.	Mohd Raffique Ibrahim Sahib	Mohd Raffique and Ariffin faced one charge each for instructing the purchase of Actacorp Holdings Bhd warrants (AW) in December 1997 where such purchases were intended to raise the price of AW, creating a misleading appearance on the price of AW on the KLSE.	Both the accused Ariffin Abdul Majid and Raffique Ibrahim were acquitted and discharged by the Sessions Court on 1 April.  The prosecution filed an appeal against the acquittal to the High Court.
		Ariffin Abdul Majid		
3.	Submission of false statement to the SC in connection with proposal submitted.	Tan Siew Hui	Tan, the Group Financial Controller of TCL Premier Holdings Bhd, had caused a letter dated 6 January 1997 which contained false information to be submitted to the SC.	On 15 July, the Court of Appeal held that there was no falsity in the information submitted to the SC. The decision of the High Court in not calling for Tan's defence to be entered upheld. Tan was acquitted and discharged.
No.	Nature of offences	Offender(s)	Facts of case	Punishment
<b>OUTCOME OF CRIMINAL PROSECUTION – PERSONS FINED AND JAILED</b>				
1.	Misleading statements in connection with the purchase of securities.	Wahid Ali Kassim Ali	Wahid Ali, the Director of Aiwanna Management Assets Sdn Bhd (Aiwanna) was charged with three counts for omitting to state a material fact which was misleading, pertaining to the investment of Aiwanna's client, Eastern Pacific Industrial Corporation Bhd (EPIC), in the purchase of bonds.  The statements were updates of EPIC's RM5 million investment when in fact the money had already been dissipated.	On 30 June, Wahid Ali was found guilty of all three charges and was convicted to a fine of RM3 million (in default three years imprisonment) and an imprisonment term of one year.  The sentence was stayed pending appeal to the High Court.
2.	Falsification of records of a futures broker.	Sivachandran a/l Kuhiappan	Sivachandran, a licensed futures broker's representative, was charged for having caused information contained within the order forms and order book of AOF Futures Sdn Bhd, a licensed futures broker, to be falsified. The falsified information was for account numbers belonging to clients under Sivachandran's management.	Sivachandran was charged on 7 May 2004.  On 6 August, the Sessions Court convicted Sivachandran. He was sentenced to one year imprisonment and a fine of RM30,000 (in default six months imprisonment).  The sentence is stayed pending appeal to the High Court.

No.	Nature of offences	Offender(s)	Facts of case	Punishment
<b>OUTCOME OF CRIMINAL PROSECUTION – PERSONS FINED AND JAILED</b>				
3.	Engaged in an act which operated as a deceit.	Ashari Rahmat	Ashari, an operating officer of Malaysian Issuing House Sdn Bhd, was charged in 2000 for engaging in an act which operated as a deceit on UPA Corporation Bhd's IPO exercise by switching the successful applications with those not put through the balloting process.	<p>Ashari was convicted on 25 March by the Sessions Court.</p> <p>He was sentenced to three years imprisonment and a fine of RM1 million (in default one year imprisonment).</p> <p>The sentence is stayed pending appeal to the High Court.</p>
No.	Nature of offences	Offender(s)	Facts of case	Punishment
<b>OUTCOME OF CRIMINAL PROSECUTION – PERSONS JAILED</b>				
1.	Short selling.	Lua Yik Hor	Lua, a dealer's representative of Seagrott & Campbell Sdn Bhd, was charged on 22 May 1996 for short selling 960 lots of The North Borneo Timbers Bhd shares.	<p>Lua was convicted on 10 November 2000 for all 30 offences of short selling.</p> <p>He was sentenced to two years imprisonment for each offence, on a concurrent basis.</p> <p>He appealed against the conviction and the sentence, and prosecution filed a cross appeal against the sentence. The sentence is stayed pending appeal.</p> <p>On 27 February, the High Court dismissed all appeals. The conviction and imprisonment terms were upheld. Lua filed an appeal to the Court of Appeal against the decision of the High Court on 27 February.</p> <p>He is on bail of RM100,000 with two sureties.</p>

Table 6

**Details of civil actions taken**

No.	Offence	Plaintiff(s)	Brief facts of the case
1.	Company's failure to comply with the requirements of CMSA, the SCA, the <i>Guidelines on Compliance Function for Fund Managers</i> and the <i>Licensing Handbook</i> .	RBTR Asset Management Bhd (RBTR) Al Alim Mohd Ibrahim	<p>The SC in August launched an investigation into the affairs of RBTR and the activities of Locke Capital Investment (BVI) Ltd and Locke Guaranty Trust (NZ) Ltd, which had allegedly held themselves out as fund managers in Malaysia in association with RBTR. The SC had also directed RBTR to cease soliciting new funds from the public, either directly or through its representatives, until further notice.</p> <p>An audit exercise conducted on RBTR which raised various concerns on the protection of its clients' assets. This was also confirmed by complaints received from RBTR's clients, citing their inability to redeem their investments made through RBTR.</p> <p>On 20 October, the SC obtained a Court order from the High Court of Kuala Lumpur for the appointment of BDO Governance Advisory Sdn Bhd as a receiver over the affairs, assets and properties of RBTR, as well as the assets and properties held by it on behalf of its clients.</p>

**Regulatory settlement**

In July, the SC completed its efforts to reconstitute 13 investors who traded in the shares of Malaysian Oxygen Bhd (MOX). The restitution was made possible following an early settlement with Tan Sri Dato' Chua Ma Yu when he agreed, without admission of liability, to make a payment in the sum of RM1,213,084.14 which constituted a disgorgement of twice the profits arising from alleged irregularities in his trading of MOX shares between 16 February 2007 and 22 February 2007. This outcome of restituting aggrieved investors was achieved as a result of a letter of demand issued by the SC against Chua in February 2009.

## PUBLICATIONS

### GUIDELINES AND CODES

*Guidelines on Wholesale Funds*  
(Issued/Effective: 18 February 2009)

*Equity Guidelines*  
(Issued: 8 May 2009)  
(Updated/Effective: 3 August 2009)

*Asset Valuation Guidelines*  
(Issued: 8 May 2009)  
(Updated/Effective: 3 August 2009)

*Principal Adviser Guidelines*  
(Issued: 8 May 2009)  
(Updated/Effective: 3 August 2009)

*Prospectus Guidelines*  
(Issued: 8 May 2009)  
(Updated/Effective: 3 August 2009)

*Exchange-traded Funds Guidelines*  
(Issued: 11 June 2009)  
(Updated: 12 June 2009)

*Registration of Shariah Advisers Guidelines*  
(Issued: 10 August 2009)

*Venture Capital Tax Incentives Guidelines*  
(Issued/Effective: 29 September 2009)

*Guidelines for the Offering, Marketing and Distribution of Foreign Funds*  
(Issued: 3 March 2008)  
(Effective: 9 November 2009)

*Guidelines on Issuer Eligibility – Structured Warrants*  
(Issued/Effective: 1 December 2009)

### BOOKS, REPORTS AND CONSULTATION PAPERS

*Consultation Paper: Proposed Equity and Equity-linked Securities Guidelines for the Unified Board*  
(Issued: 6 February 2009)

*Securities Commission Annual Report 2008*  
(Issued: 11 March 2009)

*Laporan Tahunan 2008 Suruhanjaya Sekuriti*  
(Issued: 11 March 2009)

*Islamic Capital Market (series of books)*  
(Issued: 30 July 2009)

*Sukuk*  
(Issued: 11 August 2009)

*Consultation Paper: Introduction of Issuer Eligibility Guidelines – Structured Warrants*  
(Issued: 16 September 2009)

*Malaysian Debt Securities and Sukuk Market – A Guide for Issuers and Investors*  
(SC-BNM Joint Publication)  
(Issued: 12 November 2009)

### BOOKLETS, BULLETINS AND PAMPHLETS

#### Booklets

*List of Syariah-compliant Securities by the Syariah Advisory Council of the Securities Commission / Senarai Sekuriti Patuh Syariah oleh Majlis Penasihat Syariah Suruhanjaya Sekuriti*  
(Issued: 28 May and 30 November 2009)

## **Bulletins**

*Malaysian ICM*

(Issued: March, June and September 2009)

*Capital.My*

(Issued: January, April, July and October 2009)

*The Reporter*

(Issued: August and October 2009)

**SECURITIES COMMISSION MALAYSIA WEBSITE**

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

## CALENDAR OF EVENTS

JANUARY	
13	The SC Chairman delivered the keynote address at the Seminar on Islamic Finance organised by the IFSB in Seoul, Korea.
20	A delegation from the Cambodian National Accounting Council and the High Commissioner of Canada visited the SC.
24	A delegation from the Royal Monetary of Bhutan visited the SC.
29	The SC approved three new foreign Islamic fund management companies to start operations in Malaysia. They were Aberdeen Islamic Asset Management Sdn Bhd, BNP Paribas Islamic Asset Management Sdn Bhd and Nomura Islamic Asset Management Sdn Bhd.
FEBRUARY	
6	The SC hosted a students' open day at the SC. Three hundred students from five local universities and colleges attended the event.
12	The SC Chairman delivered a special regulatory address and presented the award at the CSR Award Ceremony organised by the MICG, FPLC and OWW Consulting in Kuala Lumpur.
12	A delegation from the Securities and Exchange Commission, Cambodia visited the SC.
16–17	A delegation from the Capital Market Authority, Uganda visited the SC.
18	The SC introduced the <i>Guidelines on Wholesale Funds</i> which give greater flexibility for licensed fund managers to provide innovative products, including those which incorporate alternative investment strategies.
19	A delegation from the Securities and Exchange Organisation, Iran visited the SC.
MARCH	
3	The SC Managing Director and Executive Director, Market Supervision delivered the keynote address at the 3rd Islamic Funds Asia 2009 organised by Terrapinn Pte Ltd in Kuala Lumpur.
5	The SC hosted the SC-Bursa Malaysia high-level meeting.
6	A delegation from the Asian Development Bank visited the SC.
10	Representatives from the Bombay Stock Exchange Training Institute, India visited the SC.
11	The SC released its <i>Annual Report 2008</i> .
11	The SC charged Tan Chin Han for knowingly authorising the provision of a misleading statement to Bursa Malaysia Securities regarding Welli Multi Corporation Bhd's revenue.
13	The SC and the Attorney General's Chambers charged Toh Chun Toh Gordon and Datuk Abul Hasan Mohamed Rashid for defrauding Multi-Code Electronics Industries (M) Bhd and criminal breach of trust.
16	The SC released a statement following the announcement of the second stimulus package by the Deputy Prime Minister on 10 March, which specifies new measures to facilitate greater access to the capital market.

<b>MARCH</b>	
25	The Kuala Lumpur Sessions Court convicted Ashari Rahmat under section 87A(b) of the SIA for engaging in an act that operated as a deceit on UPA Corporation Bhd.
27	The SC Chairman chaired a dialogue with auditors in the SC. Fifty representatives from various auditors' firms attended the dialogue.
<b>APRIL</b>	
7	Tan Sri Mohd Sidek Hassan, the Chief Secretary to the government, visited the SC and was briefed on the capital market issues by the management.
9	A delegation from the China Taiwan Securities Association visited the SC.
16	The SC charged Ooi Boon Leong and Ronnie Tan Yeow Teck, for knowingly authorising the provision of a misleading statement by MEMS Technology Bhd (MEMS) to Bursa Malaysia Securities. Ooi was a substantial shareholder and Director of MEMS while Tan was the Executive Director and Chief Financial Officer of the company.
16	The SC organised a public lecture by Professor Mervyn K Lewis, the first visiting scholar under the SC-University of Malaya Visiting Scholar Programme.
16	A delegation from the Central Bank of Kenya visited the SC.
17–18	The SC organised the Judiciary Programme 2009 for the senior members of the judiciary at the Palace of Justice, Putrajaya.
20	The SC released its first quarterly scorecard for the year.
20–27	The SC participated in the Minggu Saham Amanah Malaysia 2009 (MSAM 2009) exhibition organised by Permodalan Nasional Bhd in Johor Bahru.
28	The SC Chairman delivered a speech at the Islamic Finance Asia Summit organised by Euromoney in Kuala Lumpur.
28	The SC charged Yue Chi Kin, the external auditor of the United U-Li Corporation Bhd for abetting the company in submitting false information to Bursa Malaysia Securities.
29	The SC Chairman delivered the opening address at the Malaysian Accounting Standard Board (MASB) Conference on International Accounting Standards jointly organised by MASB and the SC.
<b>MAY</b>	
4	A delegation from Bank of Sudan visited the SC.
4–5	Representatives from Securities and Exchange Commission, Ghana visited the SC.
6	A delegation from Dubai Financial Services Authority (DFCA) visited the SC.
6–10	The SC participated in the annual Malaysia International Halal Showcase (MIHAS) held at the MATRADE Exhibition and Convention Centre, Kuala Lumpur.
8	The Minister of Finance II, the SC Chairman, Bursa Malaysia Chairman and CEO jointly officiated the launching of the new fund-raising framework and unveiling of the new board structure.
8	A delegation from Woori Investment and Securities, Korea visited the SC.
11	A few officials from the Prime Minister's Office, Laos visited the SC.
19	The SC organised the technical briefing on the unified board for MIBA members as part of the series of briefings for stakeholders.
20	The SC Executive Director, Strategy and Development delivered the keynote address at the 2nd Islamic Venture Capital and Private Equity Conference organised by the Islamic Banking and Finance Institute Malaysia (IBFIM) and Malaysian Venture Capital and Private Equity Association (MVCA) in Kuala Lumpur.

MAY	
22–24	The SC participated in the “Program Bersama PNB” organised by Permodalan Nasional Bhd in Kuching, Sarawak.
26	The Minister of Finance II officially launched the SC Executive Enhancement and Development (SEED) programme.
26	A delegation from the Bank of Indonesia and Ministry of Finance, Indonesia visited the SC.
28	A delegation of Nigerian Parliamentarians visited the SC.
28	Representatives from the Capital Market Authority, Saudi Arabia visited the SC.
28	The SC released an updated list of Shariah-compliant securities approved by its SAC. The updated list of Shariah-compliant securities features a total of 848 securities which constitute 88% of the listed securities on Bursa Malaysia.
JUNE	
3–5	The SC Managing Director and Executive Director, Market Supervision participated in the Bursa Malaysia road show to Hong Kong.
8	The SC Chairman launched the SC-Bursa Malaysia Corporate Governance Week and also jointly launched the <i>Corporate Governance Guide</i> and web-section with Bursa Malaysia’s Chairman and CEO.
11	The SC issued the revised <i>Guidelines on Exchange-traded Funds</i> to allow exchange-traded funds from recognised jurisdictions to be cross-listed on Bursa Malaysia.
12	The SC, together with securities regulators in Singapore and Thailand, announced that it has implemented the ASEAN and Plus Standards Scheme for the cross-border offering of securities within ASEAN.
16	The SC ordered Bestino Group Bhd to cease issuing preference shares or securities of any kind to the public with immediate effect. Bestino Group had failed to seek the SC’s approval for the offering of their preference shares to the public and to register a prospectus with the SC as required under section 232 of the CMSA.
22–26	The SC held the 4th Islamic Markets Programme (IMP) with the theme “Seizing Opportunities While Strengthening Resilience” at the SC. The programme organised by the SIDC was attended by delegates from 15 countries.
24	The SC Chairman participated as a panellist at a dialogue with the Malaysian Ambassadors organised by Wisma Putra in Putrajaya.
25	The SC Managing Director and Executive Director, Enforcement delivered a paper at the International Forum on Investor Education (IFIE) webcast at the SC.
30	The SC awarded nine scholarships as part of ongoing efforts to develop the Malaysian capital market talent pool.
JULY	
1	Wahid Ali Kassim Ali, the former Director and Fund Manager of Aiwanna Manage Asset Sdn Bhd was convicted for securities fraud and sentenced to a one-year imprisonment and a fine of RM3 million in default three years imprisonment.
2	A group of officials from the Securities and Exchange Commission of Nigeria visited the SC.
2	The SC Chairman received the prestigious “Most Outstanding Contribution to the Development of an Islamic Capital Market” award held in conjunction with the London Sukuk Summit. She also delivered a keynote address.
7	The Kuala Lumpur Sessions Court fined Yunus M. Haniff and Ramly Hussain for two counts of charges using third party names in a multiple IPO share application scheme. Each of them were fined RM10,000 for the first charge (in default two months imprisonment) and RM15,000 for the second charge (in default three months imprisonment).

JULY	
8	The SC Managing Director and Executive Director, Enforcement participated as a moderator while the Executive Director, Strategy and Development delivered a speech at the Malaysia-UK Islamic Finance Forum in Kuala Lumpur.
9	The Lord Mayor of London, Alderman Ian Luder, visited the SC, accompanied by a delegation of 14 persons comprising the British High Commissioner, First Secretary of Trade and Investment and several prominent business leaders.
16	The SC disapplied the Practice Note 1.2 of the Take-overs Code to private companies under a gazette order that came into effect on 16 July.
21	The SC Managing Director and Executive Director, Enforcement delivered a keynote address at a Seminar on Managing International Financial Reporting Standards (IFRS), organised by the SIDC/Deloitte Malaysia at the SC.
23	Tan Sri Nor Mohamed Yacop, Minister in the Prime Minister's Department, delivered a keynote address at the Private Pension Forum organised by the SC.
30	The SC Chairman launched a book series on the Islamic capital market at the International Islamic Capital Market Forum in Kuala Lumpur. The book series formed the basic module for the Islamic Capital Market Graduate Training Scheme (ICMGTS).
AUGUST	
1	Eugene Wong Weng Soon was appointed the Executive Director, Issues and Investments Division of the SC.
4	The SC and Bursa Malaysia announced the introduction of securities borrowing and lending negotiated transaction (SBLNT). The SC also released the revised SBL Guidelines while Bursa Malaysia issued the relevant rules, procedures and guidelines to provide for SBLNT. The SBLNT model was implemented on 17 August.
5	The SC directed MEMS Technology Bhd (MEMS) to rectify and reissue its financial statements for the financial years ended 31 July 2007 and 31 July 2008. The SC also directed MEMS to rectify and reannounce to Bursa Malaysia, MEMS' unaudited condensed consolidated income statements for the six months period ended 31 January 2009.
7	The Kuala Lumpur High Court directed Up & Famous Sdn Bhd and six others to make an offer and compensation scheme to all relevant shareholders of Takaso Resources Bhd for their failure to carry out a mandatory offer under the Take-overs Code.
7	The Kuala Lumpur Sessions Court sentenced K. Sivachandran a/l Kuhiappan, a former futures broker, to one year imprisonment and a fine of RM30,000 (in default of six months imprisonment) for falsifying the order forms and order books in relation to the business of AOF Futures Sdn Bhd. He was granted bail pending his appeal to the High Court, but his bail sum was increased from RM60,000 to RM100,000.
9	The SC issued the <i>Registration of Shariah Advisers Guidelines</i> which will make it easier for individuals and corporations providing advice on Islamic capital market products and services. The guidelines took effect on 10 August.
10–11	The SC hosted and organised the World Capital Markets Symposium in Kuala Lumpur which was attended by several key Asian ministers and more than 500 local and international delegates, speakers and media representatives.
11	The SC participated in the Edge-Bursa Malaysia Kuala Lumpur Rat Race held in Kuala Lumpur.
19	A delegation from OIC exchanges (Iran, Dhaka and Muscat) visited the SC.
20	The SC launched an investigation into the activities of Locke Capital Investment (BVI) Ltd (Locke Capital) and Locke Guaranty Trust (NZ) Ltd (Locke Guaranty), as well as RBTR Asset Management Bhd (RBTR), a licensed fund manager.

AUGUST	
21	The SC filed an appeal against the Kuala Lumpur Sessions Court's sentence on Kok Hen Sen @ Kok Liew Sen, the former personal assistant to the Executive Chairman of Megan Media Holdings Bhd (MMHB), for furnishing false information on the revenue of MMHB.
21	The SC Chairman delivered a speech at the KPMG Shareholder Value Awards.
SEPTEMBER	
3	Representatives from Legislative Affairs Office, China visited the SC.
15	The SC warned the public on unauthorised parties soliciting for donations in its name or its senior officers' names.
24	The SC Managing Director and Executive Director, Enforcement delivered a speech on 'Regulation – Reassessing the Rationale and Practice of Financial Regulation' at the SEACEN-BNM Banking and Financial Law School 2009 organised by BNM in Kuala Lumpur.
28	The SC released the <i>Venture Capital Tax Incentives Guidelines</i> to incorporate the new tax incentive for the venture capital industry as stipulated in the <i>Income Tax (Exemption)(Amendment) Order 2009</i> .
29	The SC organised the SC-University of Malaya Visiting Scholar Programme: Public Lecture by Dr Abbas Mirakhor at the SC. The programme was also attended by the Regent of Perak, Raja Dr Nazrin Shah.
OCTOBER	
5	A delegation from the Securities Board of Nepal (SEBON), Nepal visited the SC.
7	Representatives from the Ministry of Finance and Economic Affairs, Tanzania visited the SC.
7	The SC Managing Director and Executive Director, Market Supervision delivered the opening address at the Malaysian Capital Market Conference 2009 organised by Reuters Malaysia in Kuala Lumpur.
14	A delegation from the Embassy of Korea visited the SC.
16	The SC held its Hari Raya Open House for its stakeholders and a Hari Raya luncheon for all SC staff on the same day.
19	The SC Chairman launched and delivered a keynote address at the 2009 Asian Confederation of Institute of Internal Auditors (ACIIA) Conference on Internal Auditing organised by IIAM in Kuala Lumpur.
20	Ng Kim Weng, former Group Managing Director of Polymate Holdings Bhd was fined RM300,000 (in default 12 months imprisonment) by the Kuala Lumpur Sessions Court following Ng's guilty plea for submitting a false statement to the Malaysian Securities Exchange Bhd (now known as Bursa Malaysia Securities) in 2003.
20	The SC obtained a court order from the High Court of Kuala Lumpur for the appointment of BDO Governance Advisory Sdn Bhd as a receiver over the affairs, assets and properties of RBTR Asset Management as well as the assets and properties held by it on behalf of its clients.
22–24	The SC participated in 'Minggu Kesedaran Kewangan 2009' (M2K 2009) organised by BNM held at the Terengganu Trade Centre, Kuala Terengganu.
23	The SC Chairman presented a paper at the Asia-Pacific Regional Committee (APRC) Meeting in Melbourne, Australia.
26	The SC Chairman launched the 10th Emerging Markets Programme (EMP) "Capital Market Regulation Post Global Financial Crisis: Striking the Right Balance" and delivered the keynote address at the event organised by the SIDC.
26	The SC announced some new capital market initiatives following the Budget 2010 speech by the Prime Minister at the Parliament.
26	A delegation from the Ministry of Justice Investigation Bureau, Taipei visited the SC.
29	The SC Managing Director and Executive Director, Enforcement presented a paper on Islamic Finance at an event held in Frankfurt, Germany organised by the Federal Financial Supervisory Authority (BaFin).

NOVEMBER	
4	The SC Managing Director and Executive Director, Enforcement delivered a keynote address at the 6th Kuala Lumpur Islamic Finance Forum (KLIFF) organised by CERT.
5	A delegation from the Securities and Exchange Organization of Iran and Tehran Stock Exchange Technology Management Co. visited the SC.
5–10	The SC Managing Director and Executive Director, Market Supervision participated in the Invest Malaysia in London and New York. The event was organised by Bursa Malaysia.
9	The SC Chairman and the Securities and Futures Commission Hong Kong (SFC) Chairman, signed a Mutual Recognition Agreement (MRA) in Kuala Lumpur, witnessed by the Minister of Finance II and Ms Au King Chi, Permanent Secretary for Financial Services and the Treasury, the Government of Hong Kong Special Administrative Region.
10	Dato' Tan Hooi Chong was fined RM600,000 by the Sessions Court for abetting Kiara Emas Asia Industries Bhd in the misappropriation of the rights issue proceeds amounting to RM16,937,739.20 between 16 December 1996 and 31 December 1996.
11	Kenneth Vun @ Vun Yun Liun, the former Managing Director and a shareholder of FTEC Resources Bhd, was ordered by the Kuala Lumpur High Court to restitute RM2.5 million in IPO funds.
13	The SC obtains RM31 million for investors in Swisscash settlement.
19	The SC Managing Director and Executive Director, Enforcement attended the Korea Exchange-MIFC Islamic Finance Conference on 'Capital Raising and Investment Opportunities in the Aftermath of the Global Financial Crisis – Tapping into the Malaysian Islamic Financial Markets' organised by Bursa Malaysia in Seoul, Korea.
19	A delegation from the Royal Thai Police, Thailand and the Royal Malaysian Police Force (PDRM) visited the SC.
24	The SC's directors attended the BNM High-level Conference on Financial Stability organised by BNM.
26	A delegation from the Central Bank of Nigeria and PricewaterhouseCoopers, Nigeria and UK visited the SC.
30	The SC released an updated list of Shariah-compliant securities approved by its SAC, featuring a total of 846 Shariah-compliant securities. These counters constitute 88% of the total 959 listed securities on Bursa Malaysia.
DECEMBER	
1	The SC released the <i>Issuer Eligibility Guidelines – Structured Warrants</i> which will enable the SC to continue to assess the suitability of structured warrants issuers, as part of the efforts to maintain market confidence and enhance investor protection.
2	The SC Managing Director and Executive Director, Market Supervision delivered the welcome remarks at the Asian Bond Markets Conference 2009, co-hosted by Malaysia and the Asian Development Bank in Kuala Lumpur.
3	The SC Managing Director and Executive Director, Market Supervision delivered a luncheon address at the 14th Malaysian Capital Market Summit 2009 in Kuala Lumpur.
4	The SC hosted the IOSCO APRC Enforcement Directors' meeting in Kuala Lumpur.
8	The SC approved an application by Goldman Sachs to establish fund management and corporate finance advisory operations in Malaysia.

## ACCRONYMS AND ABBREVIATIONS

ABS	Asset-backed debt securities
ACMF	ASEAN Capital Markets Forum
ADB	Asian Development Bank
AMLA	<i>Anti-Money Laundering Act 2001</i>
APEC	Asia-Pacific Economic Co-operation
APRC	Asia-Pacific Regional Committee
ASEAN	Association of South-East Asian Nations
BNM	Bank Negara Malaysia
BTS	Bursa Trade Securities
Bursa Malaysia	Bursa Malaysia Bhd
Bursa Malaysia Securities	Bursa Malaysia Securities Bhd
CCM	Companies Commission of Malaysia
CDS	Central Depository System
CIS	Collective investment scheme
CMDF	Capital Market Development Fund
CMP	<i>Capital Market Masterplan</i>
CMSA	<i>Capital Markets and Services Act 2007</i>
CMSL	Capital Market Services Licence
CMSRL	Capital Market Services Representative's Licence
CPE	Continuing Professional Education
CP/MTN	Commercial papers/medium term notes
CPO	Crude palm oil
CRA	Credit rating agency
CSR	Corporate social responsibility
DBR	Disclosure-based regulation
EMBI	Emerging Markets Bond Index
EMC	Emerging Markets Committee
EPF	Employees Provident Fund
ETF	Exchange-traded fund
FAQs	Frequently-asked questions
FBMKLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FIA	<i>Futures Industry Act 1993</i>
FIC	Foreign Investment Committee
FIMM	Federation of Investment Managers Malaysia
FLR	Front-line regulator
FPAM	Financial Planning Association of Malaysia

FPLC	Federation of Public Listed Companies
FRS	Financial Reporting Standards
FTSE	Financial Times Stock Exchange
GDP	Gross domestic products
GLC	Government-linked company
ICM	Islamic capital market
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPO	Initial public offering
ISO	International Standards Organization
IT	Information technology
KLIBOR	Kuala Lumpur Interbank Offered Rate
KLSI	Kuala Lumpur Shariah Index
LOFSA	Labuan Offshore Financial Services Authority
M&A	Merger and acquisition
MAICSA	Malaysian Institute of Chartered Secretaries and Administrators
MASB	Malaysian Accounting Standards Board
MATRADE	Malaysia External Trade Development Corporation
MAVCAP	Malaysian Venture Capital Management Bhd
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation
MGS	Malaysian Government Securities
MIA	Malaysian Institute of Accountants
MIBA	Malaysian Investment Banks Association
MICG	Malaysian Institute of Corporate Governance
MICPA	Malaysian Institute of Certified Public Accountants
MIFC	Malaysia International Islamic Financial Centre
MITI	Ministry of International Trade and Industry
MoU	Memorandum of understanding
MSCI	Morgan Stanley Capital International
MVCA	Malaysian Venture Capital and Private Equity Association
MVDC	Malaysian Venture Capital Development Council
NAV	Net asset value
OECD	Organisation for Economic Co-operation and Development
PDS	Private debt securities
PE	Price to earnings
PLC	Public-listed companies
REIT	Real estate investment trust
SAC	Shariah Advisory Council
SBC	Stockbroking company
SC	Securities Commission Malaysia
SCA	<i>Securities Commission Act 1993</i>
SIA	<i>Securities Industry Act 1983</i>
SICDA	<i>Securities Industry (Central Depositories) Act 1991</i>
SIDC	Securities Industry Development Corporation
SPV	Special purpose vehicle
SRO	Self-regulatory organisation
SSF	Single stock futures
Take-overs Code	<i>Malaysian Code of Take-overs and Mergers 1998</i>

UB	Universal broker
UK	United Kingdom
US	United States
UTMC	Unit trust management company
VCC/VCMC	Venture capital company/venture capital management company
WTO	World Trade Organisation







**SECURITIES COMMISSION MALAYSIA**

3 Persiaran Bukit Kiara, Bukit Kiara

50490 Kuala Lumpur

**Tel:** +603 6204 8000

**Fax:** +603 6201 5078

**E-mail:** [cau@seccom.com.my](mailto:cau@seccom.com.my)

**[www.sc.com.my](http://www.sc.com.my)**