



**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia

annual report  
**2008**



## **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.**

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**Chairman's message**

## CHAIRMAN'S MESSAGE

The year 2008 will be remembered for its uncertainty and change: uncertainty over the global economic environment that fed a crisis which radically affected the world's financial landscape. While Malaysia's capital market was not exposed to the kinds of imbalances and extreme adjustments that afflicted other markets, neither was it spared from the impact of global deleveraging, shrinking financial-sector balance sheets, and extreme prudence in the investment, consumption and portfolio decisions of people and firms.

The Securities Commission's work in 2008 therefore reflected the demands of this environment, specifically, to raise the level of preparedness by the market and by ourselves to systemic contingencies; and to ensure appropriate market behaviour through closer supervisory oversight and regulatory certainty. An immediate priority for us was to manage more actively risks posed by the global crisis; an important element of this was to engage closely with our stakeholders to ensure clarity on issues affecting the market. Our other priority was to ensure that, in spite of the global turmoil, the market did not lose sight of its longer term objectives – to be highly competitive and able to capitalise on opportunities presented by the changes taking place around the world.

### MANAGING RISKS

The capital market suffered a contraction along with the rest of the region, and it is only natural that comparisons were made with the Asian crisis in 1997–1998. Overall, the market adjusted to global events in a fair and orderly manner and I believe its relative resilience has to do with many of the measures put in place over the last 10 years. Our investor



base is more balanced, with a stronger domestic institutional presence. Our market intermediaries are more resilient and our corporate and household balance-sheets are healthier and better-managed. Nevertheless, our market has become steadily more exposed to growing macro risks and the indirect impact of global financial turbulence. The prospect of slower corporate earnings and tighter credit conditions has put further pressure on the bond and stock markets. This in turn has led to a more challenging business environment for the capital market services industry. Against this background, our business plan for 2008 focused on managing risks to capital market integrity and investor confidence.

### Stronger Oversight

A major thrust of our work involved strengthening market oversight. Programmes included stepping up our monitoring of market intermediaries; looking more closely at the soundness of market safety nets, such as circuit breakers and the clearing guarantee fund; and testing market crisis procedures and contingency plans, not just of the industry but those of our own as well. To facilitate these efforts, we enhanced our frameworks for assessing systemic risk and ensuring business continuity. We made greater use throughout the year of tools and methodologies such as scenario analysis, risk-profiling and stress-testing to understand and anticipate the implications of fast-changing market conditions. In addition, we intensified efforts to identify potential trouble spots early and escalate issues of systemic concern.

## Greater Market and Self Discipline

While we imposed a higher level of regulatory discipline through stronger oversight, we also sought to encourage greater self and market discipline in the conduct of business and market activities. As the revelations of massive fraud in various jurisdictions have highlighted, a deterioration in market conditions has a tendency to raise the incidence, or perhaps more accurately, lead to the discovery of market transgressions. Such episodes not only bring the market into disrepute; in the current climate, they generate uncertainty and fear that can pose a significant threat to market stability. In 2008, the SC released a number of guidelines to enhance market and self discipline, including those for principal advisers in corporate proposals, and market conduct and business practices by market intermediaries. In addition, we finalised the framework for an auditor oversight board independent of the industry under the auspices of the SC, as announced by the Prime Minister in his Budget 2008 speech. Once established, the board will enhance the integrity of the audit process through a stronger independent oversight of auditors.

## Wider Financial Literacy

Events in other markets have also highlighted the importance of investor education in mitigating the public impact of financial instability. Retail investors in several countries suffered huge losses from unsuitable products when the financial institutions issuing them collapsed. We strongly believe investors must be equipped to protect themselves. To this end, more than RM20 million from the Capital Market Development Fund was allocated to widen financial literacy among the Malaysian public. In 2008, RM3.6 million was spent on investor education programmes, such as the Kids & Cash, Parents & Cash, Be Money Wise, Cash@Campus and Cash@Work. The programmes were run by the Securities Industry Development Corporation (SIDC). The SC also worked closely with the industry and organisations at home and abroad to enhance their role in bringing about effective product disclosure and investor education.

## Swift and Effective Enforcement

Ultimately, when market abuse and other forms of misconduct are uncovered, the onus is on the regulator to

ensure swift and effective action. In 2008, we continued to apply civil and administrative remedies to a wide range of cases. Among them were the successful completion of restitution for investors of Powerhouse Asset Management; a landmark civil judgement against Swisscash; and a landmark suit against eight foreign and two local defendants in the Iris Corporation share manipulation case. In addition, the SC also pursued a number of criminal prosecutions, notably bringing charges against the managing director and executive director of Welli Multi Corporation Bhd, as well as compounding its former chief executive officer. There were also charges for Internet investment scams against FX Capital and Danafutures.

## PURSUING OPPORTUNITIES

While addressing issues arising from the global financial turmoil, we remained mindful of the longer term objectives for Malaysia's capital market – that it should continue to play its role in promoting and facilitating the economy's long-term growth by allocating resources, managing risks and absorbing shocks. Therefore, our work focused not only on making sure that the market could stand firm against systemic pressures, but also on positioning Malaysia appropriately for recovery.

Bigger opportunities are likely to present themselves in the area of Islamic finance, which is a source of competitive strength for Malaysia. In order to strengthen international participation in the domestic Islamic capital market, the SC issued additional licences to global players in the Islamic fund management segment. While continuing to hold international events at home, such as the semi-annual International Islamic Capital Market Forum, we also took the Malaysian market abroad. In collaboration with other bodies, we embarked on an extensive series of road shows to the Middle East and to potential markets in the region, including India, Indonesia, Japan and Hong Kong. Most notably, in November, we worked with the Securities and Exchange Board of India in organising a groundbreaking Joint India-Malaysia Capital Market Forum. Our speaking engagements on Islamic finance took us as far as Brazil, while Malaysia's experience in developing this market segment was featured in a host of international publications.

Despite its rapid growth, however, Islamic finance remains a nascent segment of the global financial system and there continues to be many misconceptions among Muslim and

non-Muslims participants alike. Therefore, we actively took steps to disseminate information and clarify issues through a range of books, documents and guidelines, including an Arabic version of the Shariah Advisory Council's resolutions book. And to ensure the market remains aligned with international views on Islamic finance, we set up an International Advisory Committee and initiated a visiting scholar programme.

## BUILDING MARKET CAPACITY

Our efforts at capacity building extended beyond Islamic finance into the wider market as well – not only to foster broader domestic investment but also to further strengthen the resilience of the capital market. To promote growth and competitiveness of the market, we streamlined regulations, relaxed rules, introduced greater flexibility and aligned our regulations with international standards and best practices for unit trusts, real-estate investment trusts, and bond- and equity-issuance. In keeping with our aim of striking a balance between effective regulation and appropriate liberalisation, these rule changes also contained measures to strengthen investor protection through promoting higher standards of conduct by market intermediaries and issuers.

Another thrust of our capacity-building efforts focused on market mechanisms and the global connectivity of Malaysia's capital market. In the primary market, we introduced a "green-shoe" option and price stabilisation mechanism for initial public offerings. In relation to the secondary market, Bursa Malaysia successfully concluded a number of projects in 2008, including the launch of Direct Market Access for the derivatives market, an electronic bond platform for bonds and a new trading platform for the stock market. In addition, we made good progress on a number of other initiatives involving the exchange, including finalising plans for a unified board structure and a market-making framework.

Aside from a strong framework of regulation and efficient infrastructure, a truly competitive market must also have a pool of skilled and capable professionals – the market's "software" as it were, entrusted with the responsibility for executing trades and advising and managing the funds of the investing public. For the Malaysian capital market to realise its full potential as a leading destination for investors' funds, a co-ordinated approach to capacity building is crucial. During the year, we collaborated with a number of

organisations to achieve this aim, most recently with Bank Negara Malaysia in launching the Financial Services Education Centre. FSEC's aim is to provide a platform for a co-ordinated collaborative approach to human capital development in the financial services industry. During the year, the SIDC began running courses under its Industry Transformation Initiative, on which we worked with them to provide a framework for building the market's talent pool. We also ran for a second year the *Advanced Business Programme for Capital Market Leaders* programme with IMD Lausanne, one of the world's top business schools.

## IMPROVING OURSELVES

In seeking to improve the quality of Malaysia's capital market, we are mindful of the need also to continuously improve our own capacity. The capital market environment in Malaysia has become more complex and the demands on our staff – in terms of skills, time and resource management, and leadership – have grown in tandem. This year, to upgrade the capabilities of our staff, we ran 25 in-house training programmes, including testing a specially-developed supervision programme for our market intermediary examiners. On top of technical skills, we continued to benchmark our professional conduct to the highest standards. Strong governance remains one of our highest priorities, and we introduced a revised staff handbook, a code of ethics and code of conduct to all members of staff to enable them to discharge their responsibilities in a fair, objective, accountable and transparent manner.

We also continued to raise our benchmarks on operational efficiency. For instance, we reduced our time charter for asset-backed securities applications from 28 to 14 days, and established centralised databases for unit trusts, bonds and enforcement. But operational efficiency, however, means more than cost-effective processes; it is about maintaining a high level of service to stakeholders at all times, especially in light of the current market environment. In this regard, we also enhanced our business continuity plan and successfully tested it at the end of the year against critical business and support functions to ensure no disruption to our business in the event of a contingency.

From a longer term perspective, our people remain our key asset, and the future of the organisation depends a great deal on how we develop the next generation of regulators. In



2008, we launched an executive progression scheme and developed a Leadership Pipeline curriculum. An important aspect of staff development is an awareness of how they engage with their subordinates, peers and supervisors. To facilitate this, we introduced a 360° feedback programme for all senior executives. The quality of our people also depends on the talent we attract and I am happy to note the success of our graduate management executive programme. This year, we increased its size and scope, as well as our scholarship programme and raised our intake of undergraduate interns.

### COMMUNICATING BETTER

Communication is a key element of our work and something on which we place a great deal of importance. We share many of the same concerns as our stakeholders. We believe that we are able to improve the quality of what we do and advance important goals for the capital market by engaging more closely with them. To manage capital market-related communications better, our Capital Market Promotions Unit, which began operations in April, pursued an international marketing communication strategy that includes developing a centralised calendar of all major road shows organised by the SC and other capital market stakeholders, and engaging and forging relationships with domestic and international investors, issuers and other market participants. We undertook a diverse set of engagements, with international benchmarking organisations, foreign intermediaries, the local and foreign diplomatic community, and the government. In addition, we participated in a number of international road shows and forums and received extensive foreign media coverage.

The media is of course an important channel of communication for us, and I am particularly glad for their strong support of our investor education programme. We engaged with several vernacular and English-language publications, as well as local television and radio stations during the year, and I look forward to deepening this partnership in future. At the same time, in managing market expectations and investor confidence, we paid close attention to our media communications to ensure fair and balanced coverage of market conditions. Another important channel is of course the Internet, and to improve the effectiveness of

this medium of communication, we revamped our corporate website, [www.sc.com.my](http://www.sc.com.my), for ease of navigation and to offer a high quality of service to all our stakeholders. I hope users will find not only more information about the SC and capital market, but also more guidance on regulations and on how to engage with us.

### LOOKING AHEAD

There is no doubt that the way the market is regulated plays a key role in instilling confidence among the investing public. In Malaysia, we have invested significant effort in strengthening the regulatory and supervisory framework, and I am pleased to note that these efforts have been recognised by our international peers. The Malaysian capital market's regulatory framework has been independently assessed and confirmed to be highly compliant with international standards for securities regulation. I am especially encouraged by feedback from the international expert assessors, who have indicated that Malaysia is at the top end of global assessments.

But this will continue to be put to the test. The year may have drawn to a close, but the world's capital markets have yet to find closure. The year 2009 will present more challenges and uncertainties, and as the financial meltdown continues to widen its reach across the globe, regulators the world over will continue to be kept extremely busy. History has yet again shown that once the spotlight wanes on individuals and companies who have transgressed the laws and indulged in excesses in risk taking, it will then inevitably fall on the regulators. Complacency is not an option.

This has been a challenging year. That we were able to achieve so much is to a large extent due to the strong support given to us by the industry and all our stakeholders. I would also like to record my deep appreciation to my fellow Commission members, the Shariah Advisory Council and our management team for their counsel and contributions. Last but not the least, I would like to extend my gratitude to SC staff for their hard work and dedication throughout the year.



Zarinah Anwar



## Part One

### Protect investors and maintain confidence

Malaysia has built a strong platform for corporate governance, with a comprehensive and robust regulatory and legal framework to protect the rights of investors. We have stepped up proactive enforcement through criminal prosecution, and civil action and administrative sanctions. Malaysia is ranked fourth for investor protection by the World Bank in its "Doing Business 2008" report.

# PROTECT INVESTORS AND MAINTAIN MARKET CONFIDENCE

## INTRODUCTION

In 2008, as in previous years, the SC took a multi-pronged approach in carrying out its core regulatory responsibility of protecting investors and ensuring market confidence. We continued to ensure that investors were provided with appropriate and sufficient means to make informed decisions by enhancing disclosure requirements. The roles of principal advisers who are key gatekeepers in ensuring the quality of IPOs and other corporate proposals were also amplified.

To detect dubious transactions early, we intensified our corporate and financial surveillance of PLCs and conducted engagement sessions with company directors and their auditors. Guided by our Investor Education Blueprint, we widened and intensified our investor education activities.

Notwithstanding the above, we vigorously pursued enforcement action focused on outcomes that best protect investors and maintain market confidence.

Reflecting the success of our strategy of pursuing civil action in cases where compensation to aggrieved investors is possible, this year we managed to obtain judgments totalling in excess of RM300 million. Criminal actions were pursued in cases involving market manipulation, misleading statements, unlicensed activities and fraudulent investment schemes.

## ENHANCING DISCLOSURE

### Prospectus Exposure

Public exposure of prospectuses for the initial listing of securities and collective investment schemes was

introduced in the first quarter. Prospectuses were made publicly available on the SC website prior to their actual registration to enable the public to submit their comments pertaining to the contents of such prospectuses.

The public exposure of prospectuses was intended to further enhance disclosure standards and transparency of fund-raising exercise, which was key to instilling confidence in the fund-raising process.

During the year, 13 prospectuses were posted on the SC website, all of which were registered following minimal comments from the public.

### Financial Information Disclosure Under the Prospectus Guidelines

We replaced the requirements for profit forecasts in prospectuses by enhancing requirements in the “Management Discussion and Analysis” (MDA) section of the prospectus.

The enhancements were intended to increase the quality of useful information made available to investors to assess a company’s prospects and to increase the accountability of directors for providing such information.

### Quality Proposals

The SC issued the *Guidelines on Principal Advisers for Corporate Proposals* (Principal Adviser Guidelines) and *Guidelines on Due Diligence Conduct for Corporate Proposals* (Due Diligence Guidelines) which came into effect on 1 February.

The Principal Adviser Guidelines clarified who can act as a

principal adviser for submitting corporate proposals to the SC. The guidelines imposed minimum competency standards for principal advisers submitting corporate proposals involving IPOs, distressed listed companies, and significant acquisitions or disposals that required the SC's approval under section 212 of the CMSA.

The Due Diligence Guidelines set out the obligations and standards expected of relevant parties in respect of the scope and quality of due diligence undertaken in the preparation and submission of corporate proposals to the SC.

## OVERSIGHT OF PLCs

### Financial and Corporate Surveillance

The SC continues to ensure that PLCs' compliance with the *Financial Reporting Standards* in Malaysia is based on the substance of transactions. This is to instil quality financial reporting so that accurate market dissemination of information will take place for informed decisions to be made.

In 2008, the Malaysian Accounting Standards Board (MASB), in consultation with the SC, formally announced its plan to bring Malaysia to full convergence with International Financial Reporting Standards (IFRS) by 1 January 2012.

The SC continues to maintain surveillance and engagement with relevant PLCs on their corporate developments in order to encourage good corporate governance practices through timely and accurate disclosures for market dissemination.

To facilitate our financial and corporate surveillance, we held a total of 160 meetings (2007:84) with directors of PLCs, auditors, advisers and other relevant parties. Our representatives also attended several PLCs' annual and extraordinary general meetings as observers.

### Framework for Independent Oversight of Auditors

The SC's investigative findings into spates of corporate accounting failures highlighted an urgent need for auditors to comply with established auditing standards when auditing

#### Highlights of financial reporting issues

- Manner in which gains or losses are accounted for deemed disposals of subsidiaries and associates by PLCs;
- Appropriate recognition of assets by respective companies under a sale and leaseback arrangement; and
- Appropriate basis for the recognition of contract revenue.

#### Highlights of corporate surveillance issues

- Creation of sales purportedly to a multi-national company which was subsequently "settled" via the use of a related company's clearing account;
- Cancellation of suppliers' invoices shortly after payment to these suppliers that were financed from bankers' acceptances facilities; and
- Purchase consideration of companies based on price earning ratios, the earnings sustainability of which is questionable.

the financial statements of PLCs. Due compliance with auditing standards must be strictly observed to maintain investor confidence in the quality and reliability of audited financial statements of PLCs and public interest entities.

In order to address weaknesses within the auditing profession, the government announced in the 2008 Budget that "a board responsible to monitor auditors of public companies would be set up under the auspices of the Securities Commission". The primary objective of this board would be to promote and develop an effective and robust audit oversight framework for Malaysia.

A high level task force comprising representatives from the SC, MIA, MICPA, BNM, Bursa Malaysia and PLCs made recommendations to the government for the appropriate audit oversight framework. Significant features of the task force's recommendations were—

- remit of AOB to include gatekeeping function to ensure that only fit and proper persons are allowed to audit companies;

- AOB will comprise a majority of suitably qualified non-practising accountants;
- regular and rigorous inspection by AOB on auditors of PLCs; and
- AOB to have the power to discipline errant auditors and audit firms through a broad range of sanctions.

The AOB is expected to be in place by end of 2009.

## ENFORCEMENT

### Focusing on Outcomes that Protect Investors

Focusing on outcomes that protect investors and maintain market confidence is at the heart of our strategic approach to enforcement. Using a wider range of legal remedies, we achieved better outcomes for investors. This year, we obtained judgments in excess of RM300 million from civil suits filed in 2007 while we continued to initiate new enforcement actions against those who breached securities laws.

### Good Governance and Accountable Directors

Having built a sound regulatory platform for corporate governance, we continued to drive changes in the behaviour

of directors and those who manage listed entities through swift and appropriate enforcement actions.

Falsifying company accounts is a very serious offence. It deceives investors and undermines confidence in the capital market. Holding directors responsible for this grave misconduct, we preferred 20 criminal charges against five directors for falsely reporting inflated revenues to the tune of RM343 million.

Taking a tougher approach against breaches of our Takeovers Code and other guidelines, we directed a company to remove its chief operating officer. Another director was

#### Actions against stockbroking companies

- MIDF Amanah Bank Bhd was fined RM400,000 and suspended from submitting any application to register new dealer's representatives' licences for the manipulation of Iris shares;
- PM Securities Sdn Bhd was fined RM200,000 and suspended from submitting any application to register new dealer's representatives' licences for the manipulation of Iris share; and
- HLG Securities Sdn Bhd was fined RM100,000 for the manipulation of Iris shares.

#### Actions against directors and officers

- False financial reporting by Welli Multi Corporation Bhd resulted in criminal charges against Ang Sun Beng and Ang Soon An, the former Managing Director and Executive Director and compounds imposed against Tan Chin Han, former Executive Director and Chief Executive Officer for RM100,000;
- 12 criminal charges were preferred against Jamaluddin Hassan, Gan Chin Sam and Hakim Sukirman. The three were being held accountable for the false reporting of Satang Holding Bhd's financial performance as directors and former directors of the company;
- Amanah Saham Sarawak Bhd was directed to remove its Chief Executive Officer (CEO), Shamsul Anuar Ahamad Ibrahim. The CEO was disqualified for instructing his subordinate to amend and print two Amanah Saham Sarawak (ASSAR) certificates relating to his investments in ASSAR under the EPF scheme;
- Datuk Teh Kian An was directed to disgorge to a charity the profits made for failure to undertake a mandatory offer on the acquisition of voting shares in Kumpulan Jetson Bhd; and
- Datuk Chan Ah Chye, the Managing Director of one of Talam's subsidiaries paid a compound of RM500,000 for contravening the SC's condition for subsidiaries' issuance of Islamic bonds.

ordered to disgorge to a charity profits made from failing to undertake a mandatory offer. We also compounded a director for contravening the SC's approval condition for the issuance of bonds.

### Extending Civil Enforcement to Market Manipulation

Market manipulation gives a false or misleading impression about the supply, demand, price or value of securities traded on an exchange. Its effect is far reaching, from undermining the integrity of the market to causing losses to investors deceived into purchasing or selling shares at artificial prices.

Our investigation into the manipulation of Iris shares revealed that approximately 2,000 investors bought IRIS shares from the perpetrators at artificial or inflated prices during the material period. Working together with six foreign regulators, we completed our investigations this year and filed civil action against Dato' Tan Miong Sing, Low Thiam Hock and eight foreign persons and companies from the US, Cayman Islands and British Virgin Islands. This action underscores the fact that nationality or geographical location of the perpetrators will not deter us from pursuing our enforcement efforts.

### Actions Against Intermediaries

In regulating licensed intermediaries, we no longer have prescriptive rules imposing detailed standards of conduct.

Instead, we expect greater accountability and require intermediaries to maintain high standards of professional and ethical conduct.

Pursuant to this, we intensified surveillance activities and examination of intermediaries and stepped up enforcement. We revoked the licence of a dealer's representative, suspended five licences and reprimanded a licence holder for failing to disclose bankruptcy status in a licence application.

We also held stockbroking companies accountable for the conduct of their representatives and for allowing their clients to engage in improper trading activities. These companies were fined and suspended from submitting

#### Profile of Swisscash investors

- 47% were aged between 35 to 49, while 32% were above 50 years;
- 75% were male;
- The largest pool were clerical staff/teachers (35.7%), those who ran their own businesses (26.2%) and professionals (25%); and
- A large number of investors were introduced by their friends, work colleagues, family members and attended talks and seminars with dinners at fancy hotels before investing.

#### Actions against licensed persons

- Lee Hooi Li from ECM Libra Investment Banks Bhd for transacting in Iris shares using five unauthorised accounts for a period of 27 days with purchase orders totalling approximately six billion shares;
- Patrick Taylor from ECM Libra Investment Bank Bhd for failing to stop or report Lee Hooi Li's activities when the Iris counter was highly volatile;
- Low Gee Seng from Hwang DBS Investment Bank Bhd for short selling;
- Emily Gan Puay Pin from Kenanga Investment Bank for facilitating odd-lot transactions at abnormal prices;
- Patrick Yap Eng Guan from Kenanga Investment Bank for facilitating odd-lot transactions at abnormal prices; and
- Chia Chin Ee from CIMB Investment Bank for facilitating odd-lot transactions at abnormal prices.

applications to register new dealer's representatives for a period of time.

### Tackling Illegal Fund-raising Activities

This year, the SC expanded on efforts in tackling various investment scams purporting to raise funds for investment in securities. These so-called investment programmes were pyramid schemes in which the returns paid to investors comprised nothing more than the principal investments made by other investors. While the initial investors were paid the sizeable promised returns to attract new investors, as the pool of money grew, the person running the scheme typically started using the money for personal use. Doomed to collapse, most investors did not get profits and also lost their principal investments.

Even though a significant number of the victims of this fraud were reluctant to come forward and hence could not be accounted for, our records showed that more than 2,000 people contacted us about these scams. The Internet task force we set up in 2007 blocked access to 12 such websites and issued various warnings. We analysed our records to identify who were the targets of these elusive operators.

One of the most publicised actions we took was for the Swisscash investment scam which raised a minimum of US\$83 million from investors. After blocking access to the website, we filed a civil action and froze accounts with orders

directing monies be transferred back to Malaysia. In September, we obtained a landmark judgment against three of the four defendants ordering them to pay US\$83 million and any further amounts traceable to compensate investors. Swisscash monies held overseas are being traced for repatriation to satisfy the judgment.

This year, we took criminal action against Phazaluddin Abu for the Danafutures scam and Raja Noor Asma Raja Harun of the FX Capital investment for breach of securities laws. Phazaluddin also faces several money laundering charges filed by the public prosecutor under the *Anti-money Laundering and Anti-terrorism Financing Act 2001* (AMLATFA). Our investigation uncovered that the Danafutures scam raised approximately RM65 million from 52,000 investors over three months while FX Capital raised RM100 million from 4,000 investors. The criminal charges under securities laws and AMLATFA can lead to imprisonment of up to 10 years under the SIA and five years under AMLATFA respectively on conviction.

Collaborating with the Attorney General's Chambers, a civil forfeiture proceeding under the AMLATFA was filed against the operators of Cambridge Capital Trading scam. The proceedings sought to forfeit RM2.2 million illegally raised from Australians by perpetrators of this scam operating out of Dubai.

Separately, Henny OT Borubui, Jomi @ Uni Kamandan, Kong Kim Fung and Emorevest Sdn Bhd were convicted in the sessions court in Kota Kinabalu for operating an illegal futures market. Siti Mariam Berahim Siti Mariam, a former freelance agent of Perdana Technology Ventures Sdn Bhd (PTV), was convicted for acting as a fund manager's representative of PTV without a licence. Dr Barjoyai Bardai, who was charged in his capacity as a director of PTV for breaching a condition of PTV's licence by allowing Siti Mariam Berahim and another person, Nublan Zaky Yusoff, to act as its fund manager's representatives without licences.

#### Actions against perpetrators of investment scams

- Swisscash investment scam – Judgment against Albert Lee Kee Sien, Kelvin Choo Mun Hoe and Dynamic Revolution. Proceedings against the fourth defendant Amir Hassan and Dreamkaya.biz is continuing;
- Danafutures investment scam – Criminal charges against Phazaluddin Abu. Working with the Attorney General's Chambers, criminal money laundering was also preferred against him;
- FX Capital Consultant Sdn Bhd scam – Criminal charges against Raja Noor Asma Raja Harun; and
- Cambridge Capital Trading – Civil forfeiture proceedings under AMLATFA for RM2.2 million.

#### Judgments Obtained in Civil Suits

Following the civil suit filed last year against Powerhouse Asset Management Sdn Bhd and Tan Kok Kheng, we entered into consent judgments with the defendants and restituted gold wafers worth approximately RM2.51 million

and a total of RM10 million cash to 75 investors. The civil suit was filed after Powerhouse was found to have breached a condition of its licence when it ventured into an unapproved investment scheme involving gold structured products.

In November, a consent Order was entered to dissolve the mareva injunction obtained by the SC in 2007 to prevent the dissipation of sales proceeds of the Ayer Molek Bhd's land up to the value of RM20 million. This was to enable the new management to rebuild the company's business operations.

## INVESTOR EDUCATION

### Implementation of Blueprint

The implementation of the investor education blueprint gathered considerable momentum in 2008 with tailored programmes run in schools, university campuses, work places, various social groups in urban and rural areas.

A key partner in the SC's efforts to educate investors is the Securities Industry Development Corporation (SIDC), the SC's education and training arm. The SIDC is tasked to develop and implement programmes and initiatives to meet the objectives of the SC's investor education blueprint. Programmes that were rolled out in 2008 included–

- Kids & Cash – Programmes to inculcate a money management culture among school children. They were attended by 11,054 school children aged 10-12 and were featured on TV9 and NTV7.
- Parents & Cash – Programmes to help parents support their children's journey in money management. A total of 1,210 parents participated in this programme.
- B.M.W. (Be Money Wise/Bijak Mengurus Wang) – Seminars to increase investor awareness and

understanding of the services and products available in the market, and rights and responsibilities of investors. These seminars reached out to 1,997 rural folk, women, and blue collar workers nationwide.

- Cash@Campus – Financial planning and investment seminars held at various universities across the country. A total of 2,054 students participated with 1,733 students becoming members of the virtual Cash@Campus Club.
- Money@Work – Programmes on smart investing (stocks, unit trusts/derivatives), retirement planning and money management. A total of 840 employees of government agencies and companies participated in the programmes.

In addition, the SC contributed articles and columns in the media and participated regularly at various industry road shows and on investor-related programmes in the broadcasting media. The SC became a member of the International Forum for Investor Education in August 2008.

### Listening to and Working with the Public

The SC provides the public and the market easy access to raise concerns, whether it be an enquiry about investment scams or a complaint on unfair market practices or on any other capital market issues. Members of the public are assured of confidentiality and a fair handling of their matters when they come to the SC to lodge complaints, voice grievances, make enquiries, or provide information.

Enquiries and complaints enable the SC to reach out to investors to alert them of investment scams and other pitfalls. Following our continuous efforts there was an increase in investor awareness, which in part was reflected by the type and nature of enquiries received and a decrease in scam-related complaints. There were also more enquiries made about scams before the public invested in such schemes.





## Part Two

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

Amidst greater volatility in markets, we heightened our supervisory effort to concentrate on firms that posed a higher risk and systemic impact on the industry. This was to ensure that investor protection mechanisms and conduct standards in the market place were firmly complied with in the current challenging environment.

# PROMOTE FAIR, EFFICIENT AND ORDERLY MARKET

## INTRODUCTION

The year was characterised by increased volatility and turbulence in global capital markets, initially triggered by problems in the US sub-prime mortgage market which then caused disruptions in global credit markets. The global financial crisis was extraordinary in terms of its reach and persistence. However, the Malaysian capital market was able to withstand the worst of the global contagion due to the structural reforms undertaken over the last decade. Continuous efforts at strengthening the regulatory and supervisory framework remained the key focus. This was to ensure that confidence was maintained and the market operated with relative stability.

The SC remained vigilant in its regulatory objectives and our supervisory resources were focused on regulatory oversight of market intermediaries. This was to ensure that they were well managed to cope with the prolonged global turbulence. Market intermediaries had to manage their risks prudently so that they remained financially sound and were able to fulfil their commitments to their clients.

The SC played a guiding role in promoting a fair, efficient and orderly market. Heightened supervision ensured that market intermediaries and players stayed alert to potential global contagion risks and made adequate preparations to mitigate the immediate effects of the global downturn.

## MONITORING MARKET INSTITUTIONS AND INTERMEDIARIES

### Bursa Malaysia

The SC continued to devote significant resources in

supervising market institutions, in particular Bursa Malaysia. As Bursa Malaysia expanded its horizons to adopt new technology in its exchange operations and explored collaboration with other partners, the SC's supervisory work was expanded beyond ensuring the fair and orderly functioning of markets. The supervision of Bursa Malaysia encompassed the consideration of new models and structures within the capital market, and in ensuring that public interest was served and investors were accorded the same level of protection within an ever-changing trading environment.

The operations of Bursa Malaysia were evaluated to see if they conformed with the requirements of law and the expectations of its stakeholders. We also conducted an annual assessment of Bursa Malaysia's activities where the findings were discussed and recommendations made for future improvement.

On 1 December, Bursa Trade Securities (BTS), a new trading platform for equities market developed by NYSE Euronext, was successfully launched by Bursa Malaysia. This technologically advanced trading system brought Bursa Malaysia on par with the performance and capabilities of the world's leading exchanges, in particular, the provision of greater accessibility for both local and international investors, as well as enhancement in trading efficiency and transparency.

The SC worked closely with Bursa Malaysia throughout the development of BTS to ensure that the new system underwent rigorous testing for capacity, integrity and stability. Verification by independent auditors and experts was conducted prior to its launch. It was imperative that Bursa Malaysia had a thoroughly tested Business Continuity Disaster Recovery Plan and adequate IT skill sets to effectively address any post-launch technical glitch with

minimal disruption to trading, clearing and settlement operations. Emphasis was also placed on having an effective communication plan for Bursa Malaysia to promote public awareness and manage investors' expectations of the new BTS system.

The SC ensured that Bursa Malaysia properly balanced its functions in operating the market being both a front-line regulator and a profit-making PLC. We continuously engaged Bursa Malaysia on steps to strengthen its governance structure and measures were put in place to mitigate any conflict of interest situation that may arise between its commercial and regulatory activities.

### Broking Intermediaries

Arising from the threat of sub-prime crisis, more attention was paid on high-risk firms. Efforts taken included directly engaging with the market intermediaries to gauge their exposures to sub-prime and indirect credit risk exposures.

In addition to ensuring compliance with regulatory obligations, proactive steps were taken to ascertain the financial strength of our market intermediaries. Simultaneously, the conduct and controls adopted by market operators were evaluated to see if they could withstand the global financial crisis. All in all, we observed that they were sufficiently robust to weather this challenging time.

The lessons learnt from the last Asian economic crisis had equipped the industry to be better prepared for sudden shocks to the system. The shareholders' funds and capital adequacy level of stockbroking intermediaries were maintained at a comfortable level to cushion their exposures against the market and counter-parties.

In 2008, the SC conducted risk-focused examinations and some surprise visits on stockbroking companies and investment banks to assess the effectiveness of supervision of activities. The table shows the common findings.

### Investment Management Intermediaries

In addition to the existing risk-based approach adopted in the profiling and examination process, emphasis was placed on the following intermediaries:

#### Examination on SBCs – common findings during onsite examinations

- Lack of effective supervision over the trading activities of representatives;
- Inadequate efforts in implementing customer due diligence processes;
- Independence of the compliance function to be enhanced to commensurate with the nature and size of the stockbroking companies' (SBCs) business;
- Insufficient involvement of the compliance function in monitoring the effectiveness of Chinese Wall measures;
- Better communication and awareness of compliance issues across the company; and
- Inadequate enforcement of employee trading policy and procedures.

- Those specialising in non-traditional asset classes; and
- Boutique fund managers (stand-alone and not part of a financial institution).

A total of seven examinations and 12 engagement sessions were conducted during the year. Major common findings included pocketing of rebates, poor compliance framework, absence of documented policies and procedures and inaccurate regulatory submissions.

In addressing the impact of the global financial crisis on the investment management industry, we intensified our supervisory efforts by expanding our reviews, increased reporting frequency and maintained constant interaction with asset management companies, unit trust management companies, trustees, rating agencies, government bodies and other regulators. Resulting from this, we were able to assess the impact of declining asset values and investment risks on the domestic investment management industry, as well as set out appropriate measures to prepare and update relevant stakeholders.

On 25 June, 85 representatives from asset management and unit trust management companies attended the Compliance Officers' Dialogue organised by the SC. The dialogue served as a platform for us to bring up common issues faced by the

fund management or unit trust industry and also to provide the market players the opportunity to highlight any issues requiring our attention.

### Bond Market Intermediaries

The SC conducted regular and timely oversight of bond intermediaries, namely, bond trustees and credit rating agencies (CRAs), by examining their submissions, reports and other documents to ensure that they continuously exercise high standards of professionalism and compliance to safeguard the interest of bond investors.

Subsequent to the registration process of bond trustees in 2007, the SC had enhanced off-site monitoring over the registered bond trustees by introducing semi-annual reporting in 2008, to ensure compliance with the practice note issued by the SC. Following the above reporting, we intensified our supervisory efforts by visiting bond trustees in 2008. Of the 15 bond trustees registered with the SC, we commenced visits to four of them. During the visits, we monitored their compliance with the requirements under the practice note, operational capabilities and also addressed various issues, including those raised by bond investors and other market participants on the role and performance of the bond trustee.

Recognising the critical role of CRAs in the bond market and the importance that their credibility and integrity were maintained at all times, we maintained strong oversight to promote high standards of professionalism in rating and monitoring corporate bonds, and in the adequate and timely dissemination of rating information. As a result of the enhanced oversight, we observed higher standards of compliance by both CRAs.

We continued to demand a high standard of professionalism among the bond market trading participants, who were largely the financial institutions and investment fund managers. We actively enquired into unusual trading practices including cross trades to ensure a fair and orderly market.

To facilitate a more comprehensive, co-ordinated and effective oversight of the bond market, we collaborated with BNM to conduct further enquiries or take appropriate actions on market participants, where necessary.

We enhanced our existing bond surveillance system to ensure timely and effective detection of market irregularities. Our system was equipped with more automatic alerts and comprehensive analytical tools to detect a wider range of irregular trading practices.

In addition, we continuously scanned the market environment by seeking views and feedback from various parties to safeguard investor interests and preserve market integrity.

The enhanced oversight and surveillance system enabled us to detect a wider range of unusual trading practices. In 2008, we observed that there were less irregular trading activities detected in the secondary market.

## STRENGTHENING LICENSING REGIME

### Supervisory Framework for Registered Persons

In order that investors dealing with different types of financial intermediaries are subjected to the same level of investor protection, the CMSA had abolished the concept of “exempt dealer” status and replaced it with the “registered person” concept. This enables such registered persons to carry out capital market activities without having to be licensed but they are required to comply with certain investor protection provisions. Registered persons are licensed financial intermediaries under the supervision of BNM.

In this regard, the SC held extensive discussions with BNM to develop a supervisory framework for registered persons that would ensure a level playing field between licensed capital market intermediaries and registered persons. This would serve to preserve market integrity and ensure investors are adequately protected which is the regulatory intention behind section 76 of the CMSA. A new set of guidelines to guide registered persons on their duties and responsibilities under this new regime is expected to be introduced in 2009.

### Licensing Criteria

The CMSA and *Licensing Handbook* provide for minimum fit and proper standards or criteria to be met by all licence

applicants. The SC adopted a transparent process in assessing whether an applicant is fit and proper to be licensed as an intermediary or a representative. The assessments took into account, among others, the appropriate level of professional and financial standards, professional qualifications; and skills and capabilities for the performance of the licence holder's functions and duties. The requirements imposed on the principal licence holder were extended to its directors, chief executive, controller and manager. Thus a person could be disqualified from these positions if they were found not to have met the fit and proper criteria.

## ENHANCING SUPERVISORY APPROACHES

### Clarification of Supervisory Expectations

We issued the *Guidelines on Market Conduct and Business Practices for Stockbrokers and Licensed Representatives* in April to provide further clarification on proper conduct. Malaysian capital market intermediaries and their representatives and employees must act with integrity

and adhere to appropriate standards with high levels of business conduct and professional skills.

The guidelines outlined the supervisory requirements of stockbrokers and their representatives, the expected market and business conduct standards of stockbrokers, their representatives and employees, the requirement for customer due diligence and the general principles and best practices to combat money laundering and terrorist financing. For enhanced clarity, we provided examples and scenarios to illustrate activities which constitute market abuses and unethical business conduct.

In the guidelines, we identified 11 core principles applicable to stockbrokers and their representatives under the principles-based approach to regulation. The board of directors and senior management of a stockbroking company will be held primarily accountable and responsible to meet these core principles.

All stockbrokers and licensed representatives were given a grace period of one year to comply with the requirements under these guidelines.

Table 1

The 11 Core Principles of Supervision

1.	Integrity	A holder of the Capital Markets Services Licence (CMSL) must conduct its business with integrity.
2.	Skill, care and diligence	A holder of the CMSL must conduct its business with due skill, care and diligence.
3.	Supervision and control	A holder of the CMSL must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management and supervisory system.
4.	Financial requirements	A holder of the CMSL must maintain adequate financial requirements.
5.	Market conduct	A holder of the CMSL must conduct its business activities in a manner which contributes to the maintenance of a fair and orderly market.
6.	Priority to client's interest	A holder of the CMSL must ensure priority is given to a client's interest.
7.	Communications with clients	A holder of the CMSL must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.
8.	Conflicts of interest	A holder of the CMSL must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.
9.	Safeguarding of clients' assets	A holder of the CMSL must arrange adequate protection for clients' assets.
10.	Compliance culture	A holder of the CMSL must inculcate good compliance culture.
11.	Dealing with regulators	A holder of the CMSL must deal with its regulators in an open and co-operative way.

## Self Regulation of the Industries

The concept of self regulation by market participants is internationally accepted and there are successful self-regulatory organisation (SRO) models that effectively complement the efforts of securities regulators to ensure a more efficient and effective regulatory regime. From the Malaysian perspective, the SCA states that it is a function of the SC “to encourage and promote self regulation by professional associations or market bodies in the securities and futures industries.” This is further encapsulated in Recommendation 121 of the *Capital Market Masterplan* which proposed that appropriate industry associations will be identified and recognised as SROs to complement the SC’s regulatory functions.

FMUTM, as an SRO, will help preserve market and financial integrity within the unit trust industry. It is expected to contribute towards the development of the industry, promote self regulation, introduce best practices and standards, and address market developments in an innovative, timely and sensitive manner.

In 2008, FMUTM made encouraging progress in gearing itself to becoming an SRO. It is expected to complement

the SC’s role in regulating the unit trust industry. During the year, ongoing discussions with FMUTM were held and deliberation on matters continued, with expected completion in 2009.

The SC issued a consultation paper to the industry and relevant stakeholders for feedback on the creation of an SRO for the stockbroking and futures broking industry. Following feedback, an industry working group comprising representatives from the industry, Bursa Malaysia and the SC will be established to spearhead this project.

It is envisaged that the SRO will complement the current roles of the SC and Bursa Malaysia with respect to conduct and ethical standards of its members as well as establish guidance for good business practices. The SRO will be subjected to direct oversight by the SC which will conduct an annual review of its operations to ensure that the mandates and objectives of the SRO are met. All intermediaries licensed to conduct dealing in securities (stockbroking) and trading in futures contracts (futures broking) activities will be required to be a member of the SRO.



## Part Three

### Strengthen market competitiveness

The SC's developmental priority is to focus on mitigating the immediate effects of a global downturn and to sustain long-term competitiveness.

This can be achieved through sharpening intermediation efficiency, capacity and competitiveness and exploiting opportunities for international expansion.

# STRENGTHEN MARKET COMPETITIVENESS

## INTRODUCTION

Malaysia sees a window of opportunity to strengthen its competitive positioning among regional markets. Driven by rising affluence and uncertainty in developed markets, domestic investors in Asia may increasingly seek to diversify their portfolios within the region. This trend is already evident in Malaysia where investors have demonstrated a keen appetite for foreign regional products and portends new opportunities for domestic intermediaries.

The country's strong investor protection framework and high level of domestic savings therefore provides a good base for the intermediation of domestic and international savings. Growth opportunities avails in fund-raising, product innovation and secondary market trading across a broad range of market segments, such as equities, bonds, derivatives, investment management and the Islamic capital market.

## STRENGTHENING EQUITY MARKET COMPETITIVENESS

### Additional Efficiencies for IPO

Malaysia already has a competitive market for IPOs with low direct listing costs and fast regulatory turnaround time for approvals. Additional measures were introduced to strengthen the positioning of Bursa Malaysia as a preferred market for fund-raising by both domestic and foreign companies.

The *Guidelines on the Offering of Equity and Equity-linked Securities* and the *Guidelines on the Offering of Equity and Equity-linked Securities for MESDAQ Market* were issued on 1 February. They streamlined the listing criteria for

companies with foreign-based assets or operations with those of domestic operations. They removed minimum land-bank requirements for property companies and the need for approval of asset acquisitions for core businesses, except those purchased through equity issuance. The guidelines also removed restrictions on acquisitions for MESDAQ companies and mandatory requirements for submissions of financial forecasts except for distressed-listed companies.

On 12 November, the Bumiputera allocation process for domestic IPOs were rationalised to provide for practical and effective compliance with Bumiputera-equity conditions. Under the revised process, unsubscribed shares by MITI-approved Bumiputera institutions and investors can now be made available for application to the wider Bumiputera public.

Bumiputera equity conditions imposed on subsequent corporate exercises were clarified to apply only to proposed transfers of listing to the Main Board, reverse take-overs (RTO) resulting in changes in controlling shareholders and for subsequent fund-raising exercises undertaken three years after listing involving the issuance of new shares to the public. The requirements apply in circumstances where there is a dilution in Bumiputera equity ownership under the corporate exercise. A company is only required to issue shares to reinstate the Bumiputera equity ownership to the pre-corporate exercise level.

In the primary market, an over-allotment option and price stabilisation mechanism was introduced to enhance the efficiency and competitiveness of the IPO price discovery process. The Unified Board initiative to merge the Main and Second Boards and rationalise listing requirements and reposition MESDAQ as a sponsor-driven market is being finalised.



## Strengthening Secondary Market Infrastructure

The new Bursa Trade Securities trading platform was launched in December. The new platform provides real-time continuous matching of orders to enhance trading efficiency and facilitates connectivity to other electronic delivery channels such as the Internet and Direct Market Access. Improvements were made to the clearing and settlement system to facilitate institutional transactions.

To further deepen liquidity in secondary trading, the SC has been working with Bursa Malaysia to formulate an overarching regulatory framework for market-making. Market making activities are carried out by registered players who have obligations to provide continuous two-way quotes and offer minimum sizes throughout the trading day in exchange for various incentives. Their ready presence in the market provides price immediacy and assists in narrowing the bid-ask spreads; thereby reducing price impact or the “spread” costs of transactions. Their presence in markets will attract more trading activities due to the improved liquidity.

The framework, which was approved by the SC, adopts a holistic approach across the various market segments to enable more inter-market arbitrage activities, and will initially cover the warrant, exchange-traded fund and derivatives markets. The framework will be implemented in 2009 and specifies the categories of eligible persons, the minimum entry requirements, the parameters for incentives and the supervisory requirements.

## INTERNATIONALISING THE BOND MARKET

### Centre for Origination, Distribution and Trading

Malaysia's bond market is among the most successful in Asia and has emerged as the third largest bond market in the Asian region in terms of percentage to GDP. From 1997 to 2008, the bond market (including listed bonds) has expanded four fold to RM526.3 billion. Corporate bonds now constitute 51.1% or RM269.1 billion of outstanding bonds, with 56% structured on Islamic principles. The domestic bond market provides an increasing source of long-term financing for the private sector with gross issuance by local corporates accounting for RM42.6 billion of the total RM49.7 billion issued in 2008.

The strength of the domestic market provides a strong foundation to explore new growth opportunities through internationalising our franchise. The facilitative tax environment – where corporate bond and *sukuk* issuances approved by the SC are exempted from withholding tax for payment of profit or interest made to foreign investors – provides a conducive platform to attract foreign issuance, listing and investments. Already, there is growing international interest in Malaysian bonds and this is reflected by the 3.7 times increase in foreign investments in Malaysian bonds to RM43.2 billion as at end-November from RM11.6 billion in 2004.

Further liberalisation was therefore undertaken to facilitate issuance of ringgit and non-ringgit bonds to position Malaysia as a significant centre for origination and distribution in the region, in tandem with the aspiration to establish Malaysia as a global hub for *sukuk*. Liberalisation will benefit local issuers, investors and market intermediaries in the long run as it attracts more participants and generates more activities onshore. This will raise the availability and range of intermediation services for issuers and investors, as skill sets congregate in Malaysia. These liberalisation measures were introduced only after implementing various regulatory and supervisory initiatives to strengthen the standards and conduct of bond market intermediaries.

In facilitating issuance of *sukuk* and bonds, flexibilities were now provided, such as the extension of the deemed approval process to all issuers rated AAA (local currency rating) or a minimum BBB (foreign currency rating). Under the deemed approved framework, qualifying issues were deemed to be approved upon making a full submission of the proposal to the SC. In addition, use of international documentation and ratings were also facilitated while exemptions from the trust deed and trustee requirements were also provided. Budget 2009 also provided tax incentives for the origination, distribution and trading of non-ringgit *sukuk* in Malaysia.

The liberalisation in the bond market was undertaken in tandem with the liberalisation in the foreign currency administration rules by BNM and has had initial success. In 2008, nine foreign entities from South Korea, Middle East, India and Singapore issued ringgit-denominated bonds amounting to RM7.1 billion. In December, Bursa Malaysia facilitated the listing of ringgit and foreign currency *sukuk* and bonds. Listing approval would be provided within one day of submission and *sukuk* and bonds listed in 2009

will be exempted from all listing fees. In addition, international credit rating agencies are now allowed to hold up to 49% equity interest in a third credit rating agency to be established in Malaysia.

### Further Strengthening Bond Market Infrastructure

The SC had recently strengthened the regulatory framework to increase the level of accountability and transparency in the bond market.

Additional requirements were put in place to provide clarity of information to investors in primary collateralised loan obligations (CLOs). In January, the SC released Practice Note 1 under the *Guidelines on the Offering of Asset Backed Securities* which set out additional regulatory and disclosure requirements to be met by principal advisers and originating banks, such as–

- due consideration in the selection of borrowers involved in the transaction;
- enhanced disclosures of relevant information pertaining to all borrowers, including their credit history and sources of loan repayment; and
- required adequate provisions in the loan agreements or facility agreements to protect the interest of investors.

In line with the mandate from the National Bond Market Committee to develop a single electronic trade reporting and trading platform, Bursa Malaysia launched the Electronic Trading Platform (ETP) in March. Registered as an electronic facility under section 34 of the CMSA, the ETP took over mandatory reporting of all secondary bond market transactions from the Bonds Information Dissemination system (BIDS) operated by BNM. It provides an electronic order platform for the matching of bid and ask quotes for Malaysian Government Securities; and provides an “advertisement and a negotiation” platform for transactions. The trading platform was developed through close co-operation between the SC, BNM and market participants, and was customised from the Korea Exchange’s bond trading system.

### ENHANCING VIBRANCY OF DERIVATIVES MARKET

Malaysia’s derivatives industry saw several significant developments in 2008 aimed at improving market access and liquidity. Bursa Malaysia launched the Direct Market Access platform for derivatives in March to facilitate sophisticated trading strategies, such as algorithmic trading and basket trading. The use of electronic contract notes for the equity and derivatives markets were also streamlined. The list of specified exchanges was expanded to include the Dubai Mercantile Exchange in April and the Central Japan Commodity Exchange in May. This allows Bursa Malaysia Derivatives to obtain reciprocal recognition from these exchanges and expands the range of derivatives products that can be offered by Malaysian brokers. In October, the SC approved a market-making framework to attract foreign and local market makers with a view to deepening liquidity in the derivatives market.

The SC collaborated with the International Monetary Fund (IMF) to host a regional derivatives workshop entitled “Derivatives in Emerging Markets: Improving Efficiency While Safeguarding Financial Stability” held from 17–19 November in Kuala Lumpur.

### FACILITATING INNOVATION IN INVESTMENT MANAGEMENT

#### Flexibilities for Collective Investment Schemes

To sustain the competitiveness of the unit trust industry, the SC provided greater flexibilities to fund managers to offer more sophisticated products by removing several investment limits and restrictions and facilitating the establishment of fund supermarkets. It also clarified the rules for online distribution of unit trusts to facilitate unit trust management companies, institutional unit trust advisers and other entities permitted by the SC to act as an “online provider”. The SC strengthened controls in terms of accountabilities, disclosure, documentation and safekeeping of monies. In addition, the *Prospectus Guidelines for Collective Investment Schemes*, issued in March, streamlined the minimum disclosure requirements for prospectuses of all collective investment schemes. It marked a full shift to disclosure-based regulation (DBR) for unit trust product approval with greater

accountability placed on intermediaries to provide accurate and adequate information while enhancing their ability to bring products more quickly to the market.

In April, to enhance liquidity in ETFs, permitted short selling (PSS) was introduced to facilitate participating dealers in undertaking their role of market-making more effectively.

In August 2008, the *Guidelines on Real Estate Investment Trust* were revised to enhance the competitiveness of Malaysian real estate investment trusts (REITs). The foreign equity holding limit of REIT managers was raised from 49% to 70% and investment rules, limits and restrictions were benchmarked to regional practices. Flexibilities were provided on sale for acquisitions and disposals while rules on unit offerings and listing requirements were streamlined with IPO listing requirements. The SC also waived the requirement for its prior approval of valuations of real estate in certain transactions by REITs, shifting its focus to conducting post-review on such transactions as part of its surveillance function. To promote REITs, the tax rate on dividends received by foreign institutional investors and individuals was reduced to 10% by the government.

### Attracting More Players in Fund Management and Venture Capital

Malaysia continues to attract foreign participants to its investment management industry. In March, Franklin Templeton Investments, a leading global player, was approved as the fifth foreign fund management company under the special scheme to be established in Malaysia. In August, the SC approved the application of Japan Asia Investment Co. Ltd (JAIC), one of the largest venture capital companies (VCCs) in Japan, to become the first foreign venture capital company in Malaysia. In addition, the approval of five new Islamic fund management firms was announced.

The SC continued to actively promote the growth of venture capital industry through the Malaysian Venture Capital Development Council (MVCDC). MVCDC is currently implementing recommendations from the study on "Funding to Achieve an Innovation Economy by 2020" completed in 2007. To promote greater awareness of the venture capital industry, the MVCDC produced an information booklet entitled "*Venture Capital and Private Equity in Malaysia*" providing an overview of the Malaysian

**Table 1**  
**MVCDC Members in 2008**

• Dato' Sri Zarinah Anwar (Chairman) Chairman, Securities Commission
• Dato' Ibrahim Mahaludin Puteh Deputy Secretary General (Policy), Ministry of Finance
• Dato' Abdul Hanan Alang Endut Secretary General, Ministry of Science, Technology and Innovation
• Darawati Hussain Director, Private Equity, CIMB Investment Bank Bhd
• Chok Kwee Bee Executive Director, BI Walden Management Sdn Bhd
• Husni Salleh Chief Executive Officer, Malaysia Venture Capital Management Bhd
• Norhalim Yunus Chief Executive Officer, Malaysian Technology Development Corporation
• Ismael Fariz Ali Executive Director of Investment, Khazanah Nasional Bhd

venture capital industry. The government provided further support for the venture capital industry. Budget 2009 granted a five-year tax exemption on venture capital companies investing at least 30% of their funds in seed, start-up or early stage financing. In May, the SC issued the *Guidelines and Best Practices on Islamic Venture Capital* as an initiative to promote the development of the Islamic venture capital industry.

### ISLAMIC CAPITAL MARKET

To reinforce our position as a leading Islamic capital market (ICM) hub, Malaysia launched Asia's first Islamic ETF in early 2008 while Budget 2009 provided incentives for foreign product listings and the origination, listing distribution and trading of non-ringgit *sukuk* to attract international deal-flow. There was strong international interest in response to the liberalisation of Islamic fund management industry which affirms the attractiveness of Malaysia as an Islamic hub. Other initiatives were taken, such as measures to build a bridge with other markets and deepen the Shariah relationship, and enhance Malaysia's Shariah profile.

## Capitalising on Global Opportunities in the Sukuk Market

The dislocation of global financial markets dampened issuance activities in the bond market but interest in *sukuk* issuance was moderately sustained. In 2008, the total value of bonds approved by the SC declined to RM140 billion from RM158.8 billion from last year but *sukuk* continued to account for a high percentage of bond approved by the SC at 30.9% with the Shariah principles of *musharakah* and *ijarah* as the popular structures.

Malaysia maintained its track record as a centre for *sukuk* origination. The largest domestic *sukuk* was the proposed RM10 billion<sup>1</sup> *sukuk musyarakah* programme by Danga Capital Bhd while the Tadamun Services Sdn Bhd's proposed Islamic trust certificate issuance programme of up to RM1 billion was the largest ringgit-denominated *sukuk* by a foreign issuer. The SC also approved a RM1 billion Islamic funding programme by UMW Toyota Capital Sdn Bhd.

The list of notable *sukuk* approved in 2008 is provided in Table 2.

In enhancing the international positioning of our ICM, the SC introduced a facilitative regulatory framework to promote Malaysia as a global hub for originating, listing, distribution and trading of *sukuk*. The deemed approval process was expanded to issuers rated AAA (local currency rating) or a minimum BBB (foreign currency rating). Use of international documentation and ratings were facilitated, exemptions from the trust deed and trustee requirements were provided while Bursa Malaysia would waive listing fees for bonds listed on its exchange before 2010 and provide listing approval within one day of submission.

Budget 2009 also provided tax incentives for the origination, distribution and trading of non-ringgit *sukuk* with tax exemption for a period of three years for the following:

- Fees earned by qualified institutions from arranging, underwriting and distributing of non-ringgit *sukuk* from Malaysia; and
- Profits received by qualified institutions from the trading of non-ringgit *sukuk* from Malaysia.

Table 2  
Notable Sukuk in 2008

Issuer	Instrument	Nominal Value (RM million)
Danga Capital Bhd	<i>Musharakah</i>	10,000
Plus SPV Bhd	<i>Musyarakah</i>	4,000
Dewa Ringgit Sukuk Limited	<i>Ijarah</i>	3,500
The Export-Import Bank of Korea	Note 1	3,000
Industrial Bank Of Korea	Note 1	3,000
National Bank of Abu Dhabi	Note 1	3,000
Seafield Capital Bhd	<i>Musyarakah</i>	1,500
Lingkar Trans Kota Sdn Bhd	<i>Musyarakah</i>	1,145
UMW Toyota Capital Sdn Bhd	<i>Musyarakah</i>	1,000
Tadamun Services Bhd	<i>Ijarah, Istisna' &amp; Murabahah</i>	1,000
Rim City Sdn Bhd	<i>Bai' Bithaman Ajil</i>	1,000
GS Caltex Corporation	Note 1	1,000

Note 1: A combination of conventional and *sukuk* programme.

<sup>1</sup> Multi-currency *sukuk* programme.

## Global Hub for Islamic Fund Management

The SC has been actively engaging with leading international fund managers to establish their Islamic fund management operations in Malaysia. In 2008, we approved Kuwait Finance House (Malaysia) Bhd, DBS Asset Management Ltd, CIMB-Principal Islamic Asset Management Sdn Bhd, Reliance Asset Management and Global Investment House to establish Islamic fund management companies (IFMCs).

In August 2008, Prudential Fund Management Bhd (PFMB) in Malaysia and Prudential Asset Management Limited in the Dubai International Financial Centre signed the MoU to expand marketing co-operation and distribution of Islamic funds in Malaysia and the Middle East. This MoU was signed following the mutual recognition agreement between the SC and the Dubai Financial Services Authority in March 2007 for cross-border marketing and distribution of Islamic funds. In addition, the Nomura Group was the first foreign stockbroker to be granted a stockbroking licence provided for under Budget 2008 to promote the intermediation of funds from the Middle East to Malaysia.

Malaysia continued to expand the range of attractive Shariah products and launched the region's first Shariah-compliant ETF, known as MyETF Dow Jones Islamic Market Malaysia Titans 25 in January. The fund is managed by i-VCAP Management Sdn Bhd and provides exposure to the leading Shariah-compliant companies listed on Bursa Malaysia. In July, the SC gave approval to Bursa Malaysia to operate a Shariah-compliant commodity exchange, the Commodity Murabahah House (CMH). This commodity exchange will facilitate Islamic banking transactions using crude palm oil as the underlying asset.

## Expansion of Shariah Regulatory Framework

The SC revised and introduced new guidelines to provide greater clarity and certainty on Shariah compliance in the following areas:

- *Guidelines and Best Practices on Islamic Venture Capital.* The new guidelines issued in May stipulate the minimum requirements for the establishment of an Islamic VCC and Islamic venture capital management company (VCMC). It also includes a set of best

practices to promote appropriate Islamic standards in the industry; and

- *Guidelines on Unit Trust Funds.* The guidelines were revised to set out additional requirements for the appointments of Shariah advisers and define the roles of the Shariah adviser and compliance officer.

## Shariah Advisory Council

The Shariah Advisory Council (SAC) has played a major role in contributing to the development of ICM and provides thought leadership on Shariah issues. The book on the *Resolutions of the Securities Commission Shariah Advisory Council* has become an essential reference for local and international market participants. Due to popular demand, the SC published an Arabic translation for wider distribution to the Middle East.

The SAC consists of 10 members. For the term 2008–2010, there were three newly appointed members; Prof Dr Hj Abdul Samat Musa, Assoc Prof Dr Isma-ae Alee and Assoc Prof Dr Shamsiah Mohamad. In 2008, the SAC held 15<sup>2</sup> meetings. The list of SAC members is provided in Table 3. Table 4 provides the key SAC resolutions made during the year.

## Islamic Capital Market Development Project

The SC's ICM Development Project received funding of RM17 million from the CMDP to profile Malaysia's international leadership in ICM and expand our role and contribution to global knowledge on Islamic Finance.

This included the hosting of several high-profile events, such as:

- The semi-annual International Islamic Capital Market Forum (IICMF) to serve as a platform for the exchange of ideas and views among international scholars, industry practitioners, regulators, intermediaries, and investors. Two IICMF were held on "Product Innovation: Islamic ETF and Commodity *Murabahah* and Product Innovation: Islamic Alternative Strategy Funds and Venture Capital in March and November,

<sup>2</sup> This included the Special SAC Meeting held to review the Shariah status of companies at the pre-IPO stage.

with attendance of over 300 participants;

- The third Islamic Markets Programme (IMP) based on the theme *Product Innovation: Integrating Shariah and Market Needs* attracted 64 participants; and

Table 3

Members of the SAC 2008–2010

<ul style="list-style-type: none"> <li>• Tan Sri Sheikh Ghazali Hj Abdul Rahman (Chairman) Shariah Legal Adviser, Shariah Section, Advisory Division, Attorney General's Chambers</li> </ul>
<ul style="list-style-type: none"> <li>• Tun Dato' Seri Abdul Hamid Haji Mohamad Former Chief Justice of the Federal Court, Malaysia</li> </ul>
<ul style="list-style-type: none"> <li>• Datuk Hj Md Hashim Hj Yahaya Very Distinguished Academic Fellow Ahmad Ibrahim Kulliyah of Laws International Islamic University Malaysia</li> </ul>
<ul style="list-style-type: none"> <li>• Sahibus Samahah Dato' Hassan Hj Ahmad Mufti of Penang</li> </ul>
<ul style="list-style-type: none"> <li>• Dato' Dr Abdul Halim Ismail Executive Director, BIMB Securities Sdn Bhd</li> </ul>
<ul style="list-style-type: none"> <li>• Prof Dr Abdul Samat Musa Dean, Faculty of Shariah and Law Islamic Science University of Malaysia (USIM)</li> </ul>
<ul style="list-style-type: none"> <li>• Dr Mohd Daud Bakar President/CEO, Amanie Business Solutions Sdn Bhd</li> </ul>
<ul style="list-style-type: none"> <li>• Prof Madya Dr Abdul Halim Muhammad Lecturer Law Faculty, Universiti Kebangsaan Malaysia (UKM)</li> </ul>
<ul style="list-style-type: none"> <li>• Assoc Prof Dr Isma-ae Alee Director, College of Islamic Studies Prince of Songkhla University, Pattani Campus, Thailand</li> </ul>
<ul style="list-style-type: none"> <li>• Prof Madya Dr Shamsiah Mohamad Lecturer, Department of Fiqh and Usul Academy of Islamic Studies, University Malaya</li> </ul>

- The Shariah adviser's workshop on derivatives products.

Under the initiative to strengthen collaboration among Shariah scholars, two MOUs were signed. The MoU with Universiti Sains Islam Malaysia will facilitate the compilation and publication of global *fatwas* with the first volume targeted for completion in the first quarter of 2009. An MoU with Universiti Malaya was also signed to establish a Visiting Scholar Programme.

To foster better understanding and to deepen the relationship with other markets, the SC established an International Advisory Committee (IAC) to provide strategic guidance and international perspectives on ICM issues. The six members of IAC comprised:

- Dato' Sri Zarinah Anwar, SC Chairman (Chair);
- Dr Mohamed Ali Elgari, Shariah Scholar, Saudi Arabia;
- Sheikh Nizam Yaqubi, Shariah Scholar, Bahrain;
- Abdulkader Thomas, President and CEO, SHAPE Financial Corporation, US and Kuwait;
- Dato' Salman Younis, Managing Director, Kuwait Finance House (Malaysia) Bhd; and
- Iqbal Khan, Founding Board Member and CEO, Fajr Capital, UK.

To enhance Malaysia's profile as a leading ICM centre, an Islamic finance journal was launched and the SC organised and participated in various road shows, conferences and seminars locally and abroad throughout the year:

- Road shows to Taiwan, Japan, Australia, Middle East, Singapore, Brazil and India;

Table 4

Resolutions of the SAC in 2008

Sukuk	
Islamic ETF	The SAC approved the Islamic securities selling and buying (iSSB) mechanism to facilitate Islamic ETF framework where the Shariah principle of <i>wa'd</i> (promise) is embedded. The mechanism is to replace the use of the conventional securities borrowing and lending (SBL).
Alternatives to short selling strategy	The SAC resolved two approaches were acceptable to be used namely regulated short selling (RSS) – using Shariah-compliant replicated iSSB, and Shariah principle of <i>bai salam</i> .

- Islamic Finance Funds Asia Conference, Kuala Lumpur;
- Seminar on Rating of Institutions Offering Islamic Financial Services and Islamic Financial Instruments, Kuala Lumpur;
- Malaysia Islamic Capital Market Conference 2008, Kuala Lumpur;
- Islamic Financial Services Board Summit, Amman, Jordan;
- Islamic Financial Services Board Seminar, Hong Kong;
- Islamic Venture Capital and Private Equity Conference, Kuala Lumpur;
- Malaysia Islamic Finance: Issuers and Investors Forum 2008, Kuala Lumpur;
- Kuala Lumpur Islamic Finance Forum 2008;
- Malaysia International Halal Showcase (MIHAS 2008), Kuala Lumpur; and
- Islamic Capital Market Seminar, Sao Paolo, Brazil.

## BUILDING MARKET CAPACITY

This year saw the inception and incorporation of the Financial Services Education Centre (FSEC) by the SC and BNM. It was a comprehensive approach taken by both organisations to enhance capacity and capability building for the financial services industry workforce.

FSEC is scheduled to begin operations in 2009 and is aimed at addressing human capital development more holistically across the entire value chain, with programmes to meet varying needs at different levels and taking into consideration the current and future needs of the entire financial services industry. It will focus on modernising the approach to capacity and capability development: in particular, the training will deliver higher competency standards demanded by the ongoing transformation of the Malaysian economic structure and increasing dynamism of the business and financial world.

Setting up FSEC will also pave the way for more effective

collaboration between the training institutes under the purview of the SC and BNM on mutual areas of interest. It will better facilitate formulation and achievement of mutually reinforced strategies and development goals which will significantly improve the quality of training, increase mobility of personnel, and optimise efficiency gains by reducing duplication. All this will further solidify the organisations' positions as premier providers of comprehensive training solutions for the financial services industry.

## Capital Market Leadership Development Programme

Continuing with our commitment in capacity building, the SC in 2008 again partnered with IMD, a top European business school based in Lausanne, Switzerland to organise the 2nd Advanced Business Management Programme (ABMP) for Senior Leaders of the Capital Market. The financial leader's forum was held from 26–30 May and 2–4 July, attended by 27 senior management members of the capital market industry. It was also a platform for industry players and regulators to share knowledge and experience on meeting the challenges posed by globalisation and technological advancements.

## Industry Training Initiative

The Industry Transformation Initiative (ITI) was launched in July 2007 by the SIDC, the training arm of the SC. It was intended to provide capital market participants the skills, knowledge and competencies to deal with the demands and challenges of the capital market. The objective was essentially to raise the service profile in the Malaysian capital market to reflect high standards of integrity and professionalism.

The ITI comprised two phases, where the first phase was undertaken in 2008 focusing on representatives carrying on the regulated activity of dealing in securities. The second phase, targeted for 2009, will be for representatives licensed for the regulated activity of fund management, trading in futures contracts, investment advice, financial planning and corporate finance.

In 2008, the ITI ran 115 programmes, attended by 8,834 participants. Six of the 12 core programmes were rolled out: Strategic Analytics 1: Essentials of Corporate Proposal

Analysis (EQ03); Corporate Governance & Ethics: Strengthening Professionalism Through Ethics (EQ04); Financial Planning: Putting Theory into Practice (FP01); Financial Planning: The Practice of Wealth Management (FP02); Debt Capital Market: Understanding the Bond Market” (DE01); “Options and Futures 1: Principles and Valuations” (DA02).

## INTERNATIONAL BENCHMARKING

### High Standing Among Global Securities Regulators

In 2008, the SC underwent an independent assessment to benchmark its compliance with the IOSCO Objectives and Principles of Securities Regulation (IOSCO Principles). After months of rigorous assessment by a team of independent experts, the Malaysian capital market regulatory framework was judged to have achieved an extremely high degree of compliance. It scored top marks in almost all the areas assessed, covering the responsibilities of the regulator, its enforcement powers, the regulation and supervision of primary and secondary markets, markets intermediaries and the management and operation of unit trusts. The assessment was based on 30 core principles developed by IOSCO and is the key global standard for securities market regulation.

In May, the SC Chairman, Dato’ Sri Zarinah Anwar, was elected the Vice-Chairman of the Emerging Markets Committee (EMC) of the IOSCO at its 33rd Annual Conference in Paris, France. The EMC members make up over 70% of the total IOSCO membership. As one of the key committees within IOSCO, the EMC discusses regulatory issues and challenges that are relevant to emerging market jurisdictions, with a view to developing international guidance and best practices to regulate the capital market.

The SC also continued to chair the IOSCO EMC Working Group on Secondary Market Regulation, which is currently working on a mandate on “Approaches to Surveillance in Emerging Markets”. The SC also participated as a member of the Working Group, led by the UK Financial Services Authority, which published in September, the *IOSCO Islamic Finance Report: Analysis of the Application of IOSCO’s Objectives and Principles of Securities Regulations for Islamic Securities Products*. This report

followed on the earlier *Islamic Capital Market Fact Finding Report* which the SC led in 2004.

Throughout the year, the SC continued to demonstrate its commitment to strengthening its relationship with fellow regulators through providing training and other forms of technical assistance to visiting regulators. In 2008, the SC hosted study visits from various foreign regulators from Indonesia, Kenya, Korea, Pakistan, Sri Lanka, Tanzania, Turkey, Uganda, Vietnam including high-level delegations from Jordan and Saudi Arabia. It also provided consultancy services to the Capital Market Authority of Saudi Arabia.

### Fostering Collaboration in ASEAN

The SC, together with the Ministry of Finance, chaired the ASEAN Infrastructure Financing Mechanism (AIFM) task force, set up under the auspices of the ASEAN Finance Ministers. At the 12th ASEAN Finance Ministers’ Meeting in Vietnam in April, the ASEAN Finance Ministers endorsed the task force’s proposed approach to creating a facilitative environment for infrastructure development and financing in the region and to facilitate greater bilateral co-operation. The task force aims to identify further potential areas for co-operation between the public and private sectors and to explore various aspects of strengthening linkages between infrastructure financing and capital markets in the region, with a view towards achieving an integrated ASEAN Economic Community (AEC) by 2015.

On 10 November, the SC and MOF hosted an international conference that brought together leading regional policy-makers and global infrastructure financing experts to explore opportunities to strengthen public-private sector co-operation to accelerate regional infrastructure development. The AIFM Conference 2008 attracted more than 200 participants comprising senior government delegates of the AIFM Task Force from the 10-member ASEAN countries, leading experts from multilateral agencies such as the World Bank and the Asian Development Bank (ADB), and leading infrastructure players.

The SC also participated actively to provide support to the ASEAN Finance Ministers process and also participated in the 5th Annual ASEAN Finance Ministers Investors’ Seminar held in Dubai in October. The investors’ seminar was intended to promote ASEAN as an asset class and carried



the theme “Dynamic ASEAN: Dependable partners for sustainable growth”.

### Promoting Integration of Regional Capital Markets

In August, the SC concluded its three-year chairmanship of the ASEAN Capital Markets Forum (ACMF), a high level grouping of ASEAN securities regulators created under the auspices of the ASEAN Finance Ministers to advise on capital market-related initiatives in the region and to discuss regulatory and developmental issues of common concern within ASEAN.

Under the chairmanship of the SC, the ACMF at its meeting in Kuala Lumpur in August, endorsed a set of harmonised ASEAN and Plus Standards to facilitate cross-border offerings within ASEAN. These standards were subsequently announced by the ASEAN Finance Ministers at the ASEAN Finance Ministers’ Investors Seminar in Dubai in October. The ASEAN and Plus Standards Scheme aims to promote the integration of the region’s capital markets, facilitate greater efficiency in cross-border capital-raising, and provide cost savings to issuers making multi-jurisdiction offerings within ASEAN. The scheme comprises a set of common ASEAN Standards, and additional requirements prescribed by individual members known as the Plus Standards. Under the scheme, issuers seeking to issue equity or debt securities in more than one ASEAN country will be required to prepare only one set of disclosure documents, with additional limited wrap-arounds for multi-jurisdiction offers.

In support of the vision set out by the Leaders in the ASEAN Economic Community (AEC) Blueprint to build a regional economic community by 2015, the ACMF – comprising the heads of securities regulators in ASEAN – is developing an Implementation Plan that will outline a cohesive strategy, identify specific initiatives and establish clear milestones for the sequential integration of capital markets in the region. The plan is due to be presented at the next ASEAN Finance Ministers Meeting in April 2009.

### Trade Negotiations

In July 2008, the SC participated in the Ministerial Meeting at the World Trade Organisation (WTO) for the Services

Signalling Conference in Geneva where the Doha Round was not concluded and negotiations were expected to continue into 2009. The negotiations at the 14th ASEAN-Australia-New Zealand Trade Negotiation Committee (AANZTNC) Meeting in Brisbane Australia held in April were successful resulting in a draft text that was acceptable to all parties.

### International Promotions and Profiling

Arising from the recommendations of the International Communications for the Capital Market (ICCM) committee, comprising the SC Chairman and senior representatives from the government and private sectors, the SC established a Capital Market Promotions Unit (CMPU). The unit was intended to function as the secretariat to the ICCM committee and to co-ordinate the overall communications and marketing efforts for the capital market.

In 2008, the SC jointly organised the first India-Malaysia Capital Market Forum in Mumbai, India, together with the Securities Exchange and Board of India (SEBI) and supported by the Malaysian High Commissioner to India and the Malaysian Consul General in Mumbai to raise awareness of investment opportunities in both capital markets. The forum attracted more than 200 participants – comprising regulators, exchanges, investment banks, corporate finance advisers, market intermediaries, fund managers, mutual fund advisers and PLCs from India’s capital market and a 30-strong senior delegation from Malaysia. The forum was a major success with significant coverage by the Indian and Malaysian media.

Throughout 2008, the SC actively participated in various road shows led by the MIFC and Bursa Malaysia. Road shows were organised in various financial centres and cities across North America, Europe, Middle East and Asia Pacific which included numerous one-on-one meetings with potential investors and issuers, including PLCs, regulators and foreign fund managers. The SC also actively engaged with both domestic and international media in 2008. The SC recommenced publication of *Capital.My* to communicate key regulatory developments and launched *The Reporter* to showcase SC’s enforcement actions to domestic and international stakeholders. The SC Chairman was also named communicator of the year by the Public Relations Consultants Association of Malaysia.



## Part Four

### Increase our capabilities and effectiveness

We continuously raise the efficiency of our services to meet the needs of our stakeholders. Working with industry, we encouraged good governance and social responsibility among PLCs while inculcating a high performance culture embedded with a strong sense of professional standard and integrity within our organisation.

# INCREASE OUR CAPABILITIES AND EFFECTIVENESS

## INTRODUCTION

Reflecting our commitment towards a more conducive market environment, we embarked on a wide range of measures in 2008 to further improve our operational efficiency, maintain a high level of service to our stakeholders and ensure effective communications with the industry.

We also improved our work processes, stepped up investments in human capital development, enhanced market infrastructure and streamlined rules and regulations to ensure the capital market remains competitive and efficient.

In the light of challenging market environment, we continued to strengthen investor protection by pushing for higher standards of conduct by market intermediaries and issuers. In an effort to reinforce our own professional conduct and maintain good governance, we launched a revised staff handbook, a code of ethics and a code of conduct for our staff.

## EFFECTIVE COMMUNICATION AND ENGAGEMENT

The effectiveness of everything we do in developing the Malaysian capital market is determined, to a large extent, by the level of support given by all parties and how we work with each other collectively in enhancing the competitiveness and attractiveness of our capital market.

The foundation to working together is, of course, a common goal and understanding. We undertook great efforts in establishing regular and meaningful engagements with our stakeholders which include government agencies,

fellow regulators, the industry, academics and the investing public. The year 2008 saw the participation of our senior management in approximately 130 strategic events including high-level dialogues, forums and conferences. As speakers and panelists, we communicated why we took specific initiatives and explained what we hope to achieve for the capital market. We also obtained useful feedback from the ground through such participation.

We also capitalised on a number of strategic media opportunities to shape perceptions and advance key messages to the masses. A total of 46 press releases were issued throughout the year on a wide range of topics, announcing new guidelines, issuances of new licences, enforcement cases, periodic scorecards, etc. This was complemented by another 25 media interviews/Q&As on top of roundtables and background briefings organised to help journalists develop a holistic understanding of pertinent issues affecting the capital market.

To further improve our communication with all our stakeholders, we redesigned our corporate website in December 2008 for easier navigation and better access to information published therein. This, together with stakeholder engagement and media positioning, served as essential channels to promote a general understanding of our capital market, and in keeping market players well informed of developments and issues affecting the capital market.

To promote market and self discipline, we aggressively worked with market participants to instil the importance of integrity and ethics. We also encouraged shareholder activism, especially of institutional shareholders. This fitted into our wider objective of promoting corporate governance where we worked towards further strengthening regulatory

discipline through greater adherence to Bursa Malaysia's listing requirements, and the *Malaysian Code on Corporate Governance*.

Encouraging corporate social responsibility (CSR) among PLCs, the SC continued to educate PLCs on the true meaning of CSR. We remained a panel adviser for the Institute of Corporate Responsibility, Malaysia. We also participated in the National Mirror Committee on Social Responsibility by providing a national perspective to the proposed ISO Guidance on Social Responsibility.

Capitalising on global Malaysian Islamic capital market (ICM) opportunities was another business goal which demonstrated how strategic engagements with (i) the industry, (ii) scholars and (iii) media (local and foreign) had helped to profile ICM as an integral segment of our financial landscape, and one which created new opportunities and value for market players and investors.

## GREATER EFFICIENCY AND CAPACITY BUILDING

### Faster Approvals

In terms of operational efficiency, we launched a number of initiatives to benchmark ourselves to higher standards. For example, we reduced our time charter for asset-backed securities approval process to 14 days from 28 days. This will enable companies to tap funding from the bond market in a more timely and cost-efficient manner.

The shorter approval process will not compromise the necessary safeguards for investor protection. In fact the shorter approval period is in line with the deemed approval process which is granted to other highly-rated private debt securities and *sukuk* issuances.

On top of that, we will review fund-raising guidelines involving private debt securities (PDS) and *sukuk* issuers to encourage more disclosures, and to enhance the role and responsibilities of relevant parties in the transactions, including principal advisers and bond trustees.

### Human Capital Development

In 2008, we managed our internal talent by focusing on nurturing their capabilities and competencies as part of

succession management. We also provided challenging and broad-ranging opportunities for staff to grow their careers by leveraging on internal recruitment, internal transfers, promotions, attachments, secondments and job rotations. Recruitment of new staff was bolstered by various scholarship, internship, capital market placement and graduate management executive programmes.

The SC Capital Market Placement Programme was our latest initiative this year, in support of the Ministry of Higher Education and local universities. The programme offered exposure to Malaysian regulatory work as part of formal course requirements and qualifications, and of the many applicants, six came on board this year.

We continued to ensure our remuneration packages remained attractive and competitive, exercising flexibility where required to attract critical skills needed to help deliver our business mandates. We continued our journey in driving and entrenching a high performance culture.

### Learning and Development

Learning and development opportunities were based on learning needs identified through performance appraisals and mapped against the SC competency framework.

We also developed set curricula for core functions to ensure progressive learning and specialisation. These included the Supervision Certification Programme for examiners, as well as Corporate Finance and Forensic Accounting modules. Staff were also encouraged to enhance professional qualifications through *PROFOUND*, a financial award scheme available for staff to pursue professional courses that would lead to improved skills, knowledge and understanding.

This year saw the development of the Leadership Pipeline Curriculum (LPC) to develop our managers and leaders. The curriculum identified core leadership skills by levels and identified appropriate learning interventions to develop and retain people with the right skills. In addition, succession planning was also taken into account in drawing up individual learning programmes over the medium- to long-term.

We introduced a 360-degree feedback programme for all senior executives to improve their competencies and how

they engage with their supervisors, peers and subordinates. The SC leadership competency framework was also aligned to reflect clearly our brand manifesto and promote further professionalism and excellence.

### Integrity and Accountability

Consistent with practices that the SC expects from the market, we undertook several initiatives in 2008 to enhance the level of professionalism of our staff. We issued three booklets in 2008 to provide clarity and guidance on the core information and principles needed by staff to maintain and grow a reputation for the SC as an organisation that is admired, respected and trusted for the way in which we respond to our stakeholders.

- *Life @ SC* was a staff handbook which provided guidance on expected staff behaviour as a member of the SC family;
- *Code of Ethics* set forth key guiding principles which represented our firm stance and staff obligations to adhere to the highest ethical standards; and
- *What We Stand For* was our brand manifesto which articulated the essence of the SC, of who we are as an organisation, and what we stand for. This manifesto aimed to strengthen our sense of identity and take us forward in the coming years.

We maintained our mandatory declaratory approach towards disclosure of assets and securities owned by staff and dependents. This requirement was part of our effort to instil, maintain and foster public confidence in the ability of the SC to fulfil its statutory duties and functions. In July, all SC staff made a full and comprehensive declaration. Thereafter, annual update of changes on disposals and new acquisitions would be required until another full declaration is made in five years' time.

The SC initiated a mechanism to formally inform suppliers, consultants and vendors on the need to maintain integrity in the procurement of goods and services, in line with our prevailing ethics and procedures. The integrity pact, benchmarked to international practice and a first for a Malaysian public sector body, is an agreement between the SC and its service providers which contain written rights and obligations that neither side will pay,

demand or accept bribes or collude with competitors to obtain the contract. The SC started implementing the integrity pact in July by embedding it within the procurement process at various stages, i.e. request for proposal, submission of bids, and the selection of service providers.

We engaged an independent party to conduct a detailed assessment of our disciplinary and internal whistle-blowing procedures and to make recommendations to increase their effectiveness. The review found that these processes were benchmarked to the highest standards and were suitably fair. Some recommendations to further strengthen the procedures will be put in place in 2009.

### Sharing Intelligence and Information

The SC continuously leverages and embeds information technology (IT) into core business processes across numerous areas; from network upgrade initiatives to systems enhancements to going green.

We introduced and enhanced various systems this year in support of regulatory work and business goals. Of notable importance were the successful completion of systems to facilitate more robust and effective surveillance and enforcement to allow proactive measures in all areas of investor protection. In addition, to support efficient and timely submission of statistical and compliance returns by the unit trust management companies (UTMCs), the TIM-ERS system was introduced to improve reporting capabilities.

This year, the new network upgrade started with designing an infrastructure for a capable, reliable, robust and scalable network. Such a new network with the necessary security and maintainability will allow us to cope with the growing requirements of maximum systems availability and demands of leading edge technology. We constantly monitored and augmented security and disaster recovery to protect the SC's information availability and resources so that we have the ability to continue business in the event of a disaster or cyber attack.

### Health and Safety

In 2008, we started replacing workstations to revitalise workplaces and office chairs which satisfy ergonomics

requirements. We upgraded our building surveillance and recording system to the latest state-of-the art technology. Building evacuation simulations were conducted to ensure staff awareness and familiarity to the evacuation procedure during any disaster.

The SC Safety and Health Committee and the Corporate Responsibility Working Group worked together to create

not just a healthier and safer environment, but instilled a more environmental-friendly and responsible culture among staff. Blood donation campaigns, health screenings, employee volunteerism in community work, tree-planting, recycling of un-used items, banning of the use of styrofoam packaging in the cafeteria were some examples where we engaged with the staff to create a better work environment which would lead to higher productivity and effectiveness.



## **Part Five**

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

# CAPITAL MARKET REVIEW AND OUTLOOK

## INTRODUCTION

Stresses on financial markets worsened in 2008 as the turmoil in mortgage and money markets in 2007 deepened and spread worldwide. Although fragile, market sentiment managed to endure a steady stream of news about mounting losses, declining asset quality, uncertainty over funding availability and surges in fund redemptions. However, the failure of several large and systemically important financial institutions, as well as a string of sovereign defaults from September onwards, proved to be a

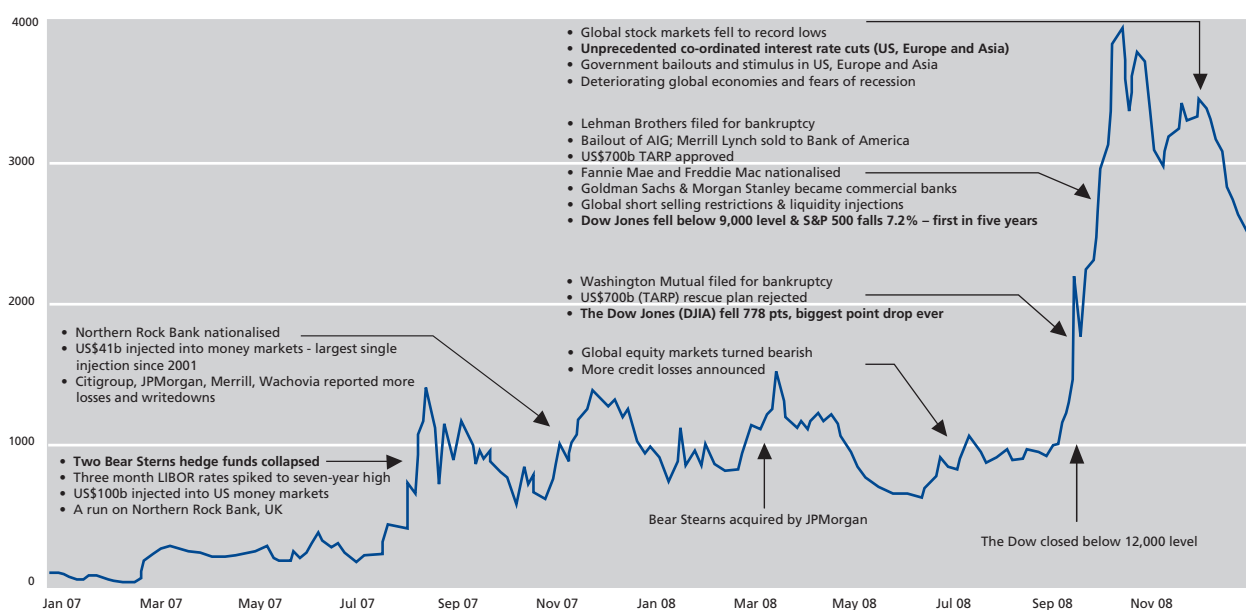
tipping point. Global market conditions deteriorated sharply thereafter, triggering a wave of contagion that swept over a wide range of asset classes, including stocks, bonds and commodities, in developed and emerging markets alike (Chart 1). As the turmoil intensified, it became clear that private-sector initiatives and ad-hoc public interventions faced difficulties or failed to alleviate market concerns. The sudden escalation of turbulence in the fourth quarter prompted authorities worldwide to respond with a series of massive and wide-ranging interventions (Table 1).

Chart 1

### Global Financial Market Conditions

Indicator of global stock, money and emerging bond market stress (1 Jan 2007 = 100)

Average of MSCI World Equity Index volatility, TED spread (three month US\$ LIBOR over US Treasury bill) and JPM EMBI Global Diversified Composite Bond Index spread over US Treasury. All variables normalised to Jan 2007–Dec 2008



Sources: Securities Commission, Thomson Financial Datastream



Table 1

**Intervention by Authorities in Response to Financial Turmoil (selected examples)**

Intervention	Global	Malaysia
Bank recapitalisation/asset purchase	<ul style="list-style-type: none"> <li>The US unveiled a US\$700 billion Troubled Asset Relief Program.</li> <li>The Bank of England unveiled £50 billion plan to swap bank risky mortgage debt.</li> <li>UK government injected US\$63 billion into three of the biggest British banks.</li> <li>The Royal Bank of Scotland, HBOS and Lloyd's received unprecedented £37 billion bailout from the UK government.</li> <li>Belgium – Injection of 4.7 billion euro in Fortis bank for a 49% stake.</li> </ul>	<ul style="list-style-type: none"> <li>The domestic banks remain resilient on stronger balance sheets and risk management standards.</li> <li>Ample liquidity in the domestic financial system to facilitate the orderly functioning of economic and financing activities.</li> </ul>
Liquidity injections/debt guarantee	<ul style="list-style-type: none"> <li>The US Federal Reserve injected US\$70 billion into the US money markets to ease the credit squeeze.</li> <li>The Bank of Japan provided US dollars at fixed interest rates for an unlimited amount against pooled collateral.</li> <li>Six EU states pledged US\$2.3 trillion in guarantees and other emergency measures.</li> <li>Japan, Australia, India injected US\$27 billion into money markets in September.</li> <li>The European Central Bank injected 70 billion euro into money market.</li> <li>The US Federal Reserve announced US\$85 billion rescue package for AIG.</li> <li>European central banks injected US\$180 billion into the crisis hit markets.</li> <li>The Hong Kong Monetary Authority pumped HK\$15.5 billion into the banking system in October.</li> </ul>	<ul style="list-style-type: none"> <li>Domestic financial sector have negligible exposure to both sub-prime related securities and the current financial turmoil.</li> <li>Foreign market intermediaries in Malaysia are locally incorporated and have a high level of capital that is committed to support their operations.</li> </ul>
Deposit guarantee	<ul style="list-style-type: none"> <li>The US government increased guarantees to US\$250,000 from US\$100,000 per depositor.</li> <li>Australia guaranteed its entire deposit base of A\$600 billion–A\$700 billion for three years.</li> <li>Indonesia increased its bank deposits guarantee to US\$200,000 from US\$10,000.</li> </ul>	<ul style="list-style-type: none"> <li>Malaysia guarantees 100% of bank deposit until 2010.</li> </ul>
Market closures	<ul style="list-style-type: none"> <li>Indonesia suspended trading on the Jakarta Stock Exchange for three days.</li> <li>The Russian stock exchange halted trading three times since mid-September and delayed trading on 10 October.</li> </ul>	<ul style="list-style-type: none"> <li>Market-wide trading halt (circuit breakers) in place to maintain fair and orderly trading.</li> <li>Price limits on individual stocks.</li> </ul>
Stimulus package	<ul style="list-style-type: none"> <li>China unveiled its economic stimulus package of US\$586 billion in November.</li> <li>US government approved a US\$162 billion economic packages in February and subsequently another rescue package worth US\$200 billion in March.</li> <li>The UK government launched a £35 billion bank rescue plan in October.</li> <li>Japan unveiled 5 trillion yen spending package.</li> <li>Euro commission revealed 200 billion euro economic recovery plan.</li> </ul>	<ul style="list-style-type: none"> <li>The Malaysian government announced economic stimulus package of RM7 billion.</li> </ul>
Short-selling ban	<ul style="list-style-type: none"> <li>US temporary banned short selling in 900 financial institutions, ban lifted on 8 October.</li> <li>UK banned short selling in 34 financial institutions stocks until 16 January 2009.</li> <li>South Korea banned short selling for local stocks and allowed listed firms to buy back 10 times more of their own shares than previously they could.</li> </ul>	<ul style="list-style-type: none"> <li>Regulated short-selling framework already in place unlike many other markets.</li> </ul>
Interest rate cuts	<ul style="list-style-type: none"> <li>Co-ordinated interest rate cuts by the US and EU by 50 basis points on 7 October.</li> <li>The US Central Bank lowered interest rate by 425 basis points (bps) from 2007 to 2008; the Bank of England (-350 bps); the Bank of Canada (-275 bps); the European Central Bank (-150bps).</li> <li>In the Asian economies, the Hong Kong Central Bank lowered its base rate by 525bps; China (-216bps) and India (-225bps).</li> </ul>	<ul style="list-style-type: none"> <li>Bank Negara Malaysia cut the Overnight Policy Rate by 25 bps to 3.25% in November.</li> </ul>

Sources: Various news reports, Securities Commission

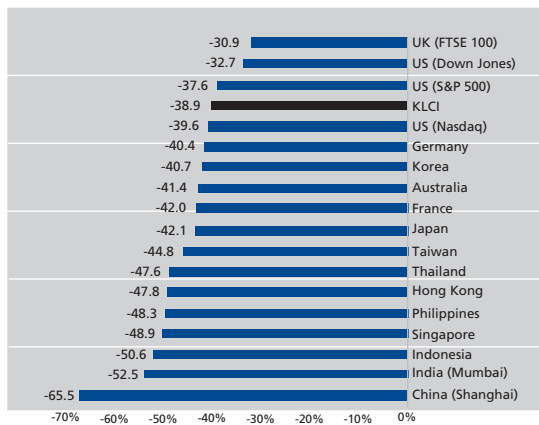
## EXTREME STOCK MARKET VOLATILITY

Stock markets around the world experienced a severe decline in prices, capitalisation and trading activity. The year was marked by huge, and in some cases record-breaking, fluctuations in stock indices, reflecting both extreme risk aversion and the impact of global deleveraging. On 15 October, the Dow Jones Industrial Average and Standard & Poor's 500 Composite indices recorded their largest percentage falls since the 1987 Black Monday

crash, dropping 7.9% and 9% respectively. Some stock markets suffered such severe declines that authorities were forced to close their exchanges. The Jakarta Stock Exchange shut down for three days in succession after the JSE Composite index fell 22% over the preceding three days; similarly, the Russian stock exchange stopped trading after its key stock index fell 19% in two days. Huge intraday swings also triggered market-wide trading halts, for instance, in Thailand, the Philippines, India, Japan and Korea.

**Chart 2**  
**Stock Market Performance**

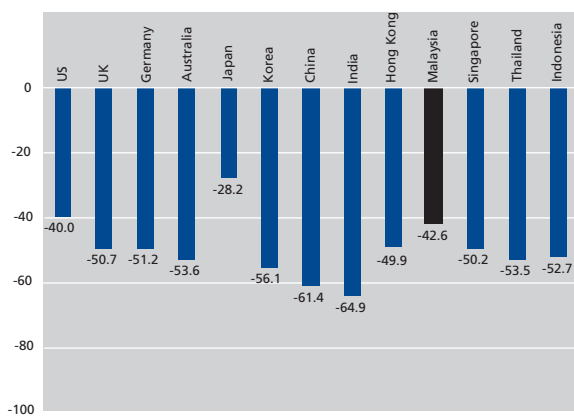
% change in benchmark stock indices 1 Jan–31 Dec 2008



Source: Bloomberg

**Chart 3**  
**Stock Market Value**

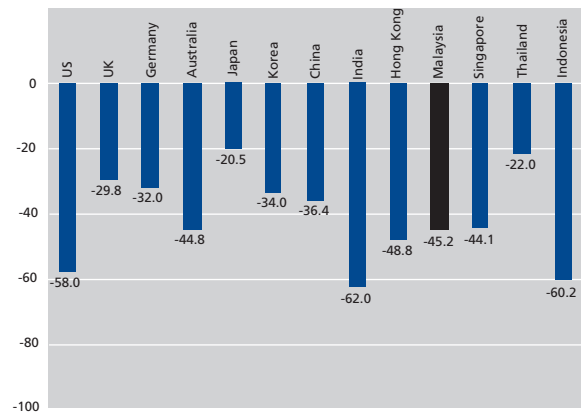
% change in market capitalisation 1 Jan–31 Dec 2008



Source: Bloomberg

**Chart 4**  
**Stock Market Activity**

% change in trading value 1 Jan–31 Dec 2008



Source: Bloomberg

**Chart 5**  
**Global Stock Price**

MSCI World and Emerging Markets Indices, and the Kuala Lumpur Composite Index, rebased 31 Dec 2007 = 100 (local currency)



Source: Thomson Financial Datastream

## FLIGHT TO QUALITY

Global deleveraging and concerns over the soundness of the banking system, as well as sovereign defaults by a number of countries prompted a massive flight-to-quality in the fourth quarter. The benchmark 10-year United States Treasury bond yield fell to an eight-year low of 2.05% while the five-year Treasury benchmark similarly dropped to 1.26%. Demand for short-term US government paper also surged, sending the three-month US Treasury bill yield effectively to zero percent. Meanwhile, the cost of US dollar short-term credit soared to record highs when the three-month dollar London Interbank Offered Rate (LIBOR) reached 4.82% on 10 October, a near-200 basis point rise in a matter of weeks. Emerging market credits were also not spared; displaying a jump in sovereign bond yields in October, coupled with plunging US Treasury yields, drove spreads wider to more than 600 basis points for the rest of the year.<sup>1</sup>

## HIGHER GLOBAL MACROECONOMIC RISKS

The worsening financial turmoil and a sharp deceleration of economic activity around the world led to a reassessment of macroeconomic risks. In particular, a consensus view quickly formed over where the balance of risks lay. Just a few months before, markets were still not convinced that the spectre of inflation had been laid to rest; as an adverse feedback loop between the financial system and global economy became increasingly apparent, markets swiftly re-rated equity valuations, corporate credit and sovereign risk downwards, in anticipation of global deflation.

World gross domestic product grew at a real rate of 3.7% in 2008 from 5% the year before amid rising rates of unemployment.<sup>2</sup> Global business activity fell sharply as banks cut back on lending, while consumption in developed economies contracted due to declining household wealth and asset values. By the third quarter, several economies, including Singapore, Hong Kong, Japan and Germany, had recorded negative growth. Emerging economies did not suffer as severe a slowdown in 2008

Table 2

Summary of World Real GDP (Annual % change)

	2006	2007	2008e	2009f
World	5.1	5.0	3.4	0.5
US	2.8	2.0	1.1	-1.6
Euro area	2.8	2.6	1.0	-2.0
Japan	2.4	2.1	-0.3	-2.6
Developing Asia	9.8	10.0	7.8	5.5
– China	11.6	11.9	9.0	6.7
– India	9.8	9.3	7.3	5.1
– Malaysia*	5.8	6.3	5.7	4.8
– Indonesia*	5.5	6.3	6.1	5.5
– Philippines*	5.4	7.2	4.4	3.8
– Thailand*	5.1	4.8	4.7	4.5

e = estimate; f = forecast

\*Source: IMF – World Economic Outlook Update November 2008

Source: IMF – World Economic Outlook Update January 2009

but did lose growth momentum from deterioration in export demand and global trade-financing difficulties. In addition, a reversal in international commodity prices; by more than 60% from their peaks contributed to slower export earnings. Many developing countries also experienced significant capital outflows and currency depreciation not seen since the 1997–1998 crisis on the back of global deleveraging.

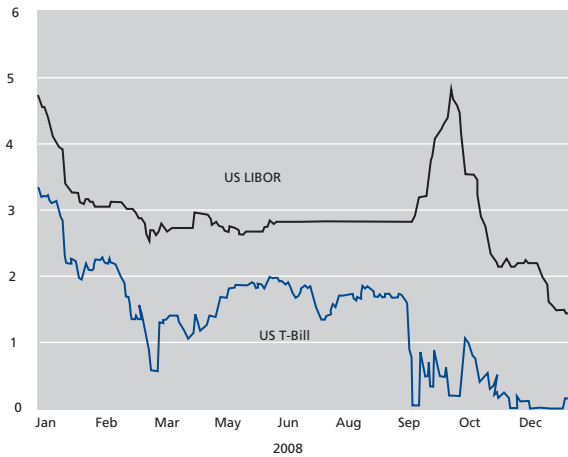
In response to financial market strains and rising economic risks, governments around the world unveiled massive stimulus packages. After much uncertainty as to its endorsement, the US government eventually unveiled in September a US\$700-billion Troubled Assets Relief Program aimed at restoring financial stability. Other governments followed suit, including China's US\$586 billion stimulus package in November to boost domestic demand, and Germany's US\$30 billion fiscal stimulus. At the same time monetary authorities co-ordinated interest rate cuts and multilateral currency swap arrangements to facilitate the supply of US dollars worldwide. Notably in December, the US Federal Reserve cut its policy rate to a record low of 0%–0.25%.

<sup>1</sup> Based on J.P. Morgan EMBI Globally Diversified index of emerging-market sovereign bonds.

<sup>2</sup> Source: *World Economic Outlook Update*, International Monetary Fund, November 2008.

**Chart 6**  
**Increased Global Financial Stress**

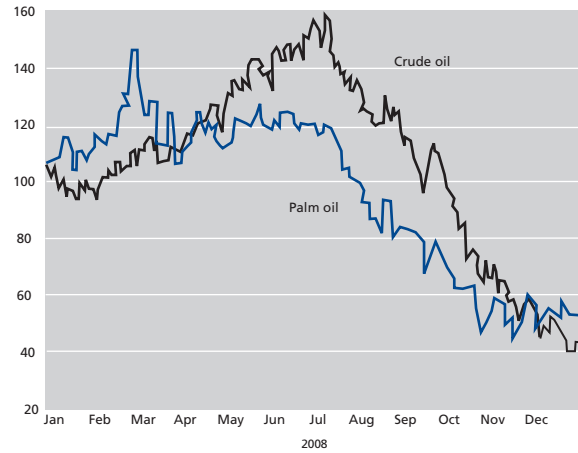
Yields of US three-month bills (%) and three-month London Interbank Borrowing Rate (%)



Source: Bloomberg

**Chart 8**  
**Commodity Price Performance**

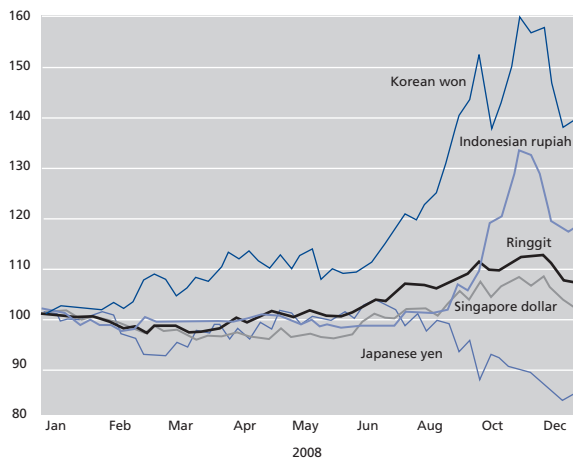
Crude oil and crude palm oil prices, Jan 2008 = 100



Source: Thomson Financial Datastream

**Chart 7**  
**Regional Currency Performance**

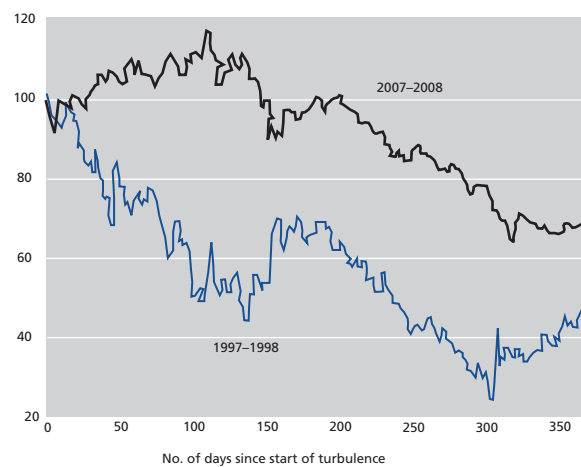
Selected regional currencies against the US dollar, Jan 2008 = 100



Source: Bloomberg

**Chart 9**  
**Stock Market Performance 1997–1998 and 2007–2008**

Kuala Lumpur Composite Index, rebased 9 Aug 2007 / 2 Jul 1997 = 100



Source: Thomson Financial Datastream, Securities Commission

## ORDERLY ADJUSTMENT TO GLOBAL DEVELOPMENTS BY MALAYSIAN CAPITAL MARKET

On the whole, the Malaysian capital market adjusted to global developments in an orderly way, and the impact of the financial turmoil was proportionally smaller than during the 1997–98 financial crisis, when the capital market was less diversified than it is today (Chart 9). In addition,

domestic financial institutions and market intermediaries had little or no direct exposure to the global sources of risk. Nevertheless, Malaysia's capital market was not altogether spared from global contagion. Concerns about earnings and credit quality, as well as domestic developments, led to deterioration in capital market conditions, although by significantly less than in other comparable markets (Chart 10).<sup>3</sup>

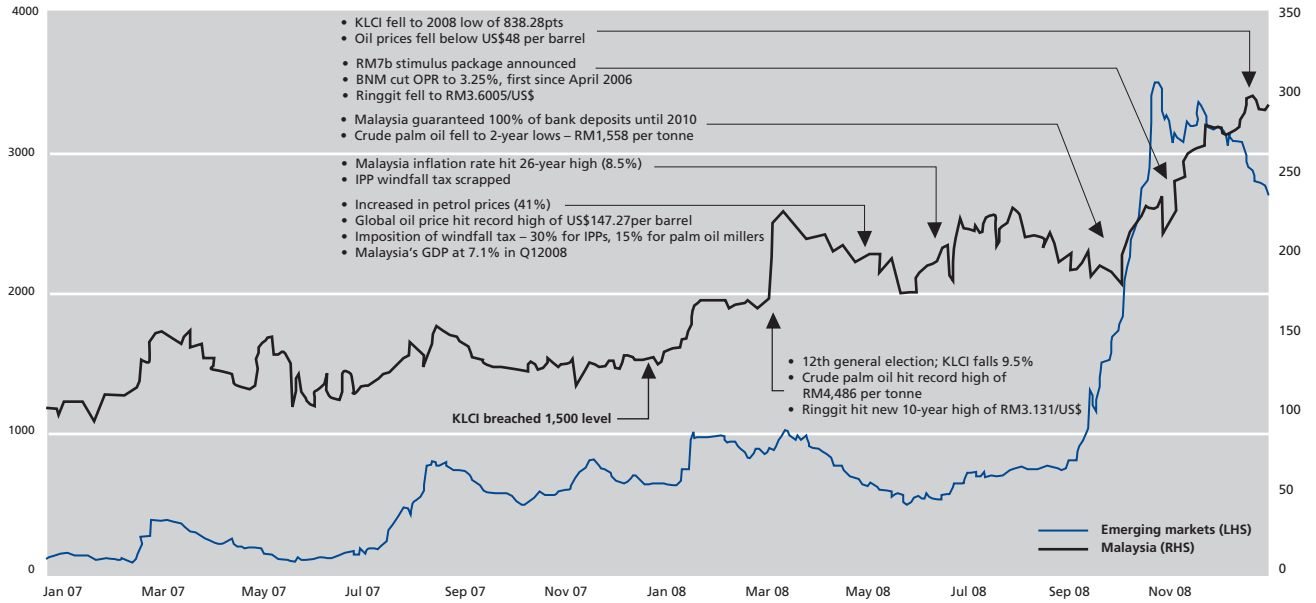
<sup>3</sup> A capital market conditions index for Malaysia increased by 300% during 2008, compared to a similar index for emerging markets as a whole, which grew by 3,000%. See note in chart 10 for details on the calculation of the indices.

Chart 10

**Capital Market Conditions in Malaysia and Emerging Markets**

Indicator of stock and bond market stress (1 Jan 2007 = 100)

Malaysia: Average of KLCI volatility and yield spread between AAA, AA1 and A1 rated corporate bonds over 5-year MGS. Emerging markets: Average of MSCI EM Stock Index volatility and JPM EMBI Global Diversified Composite Bond Index spread over US Treasury. All variables normalised to Jan 2007–Dec 2008.

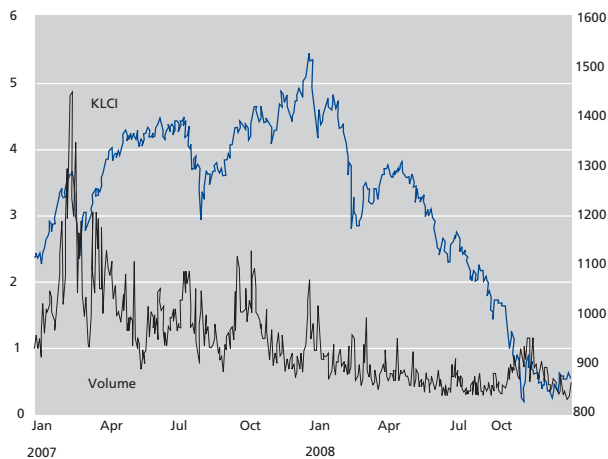


Sources: Securities Commission, Thomson Financial Datastream, Bondweb.

Chart 11a

**Malaysian Stock Market Performance**

Kuala Lumpur Composite Index (index points) and total market turnover (billion of shares)

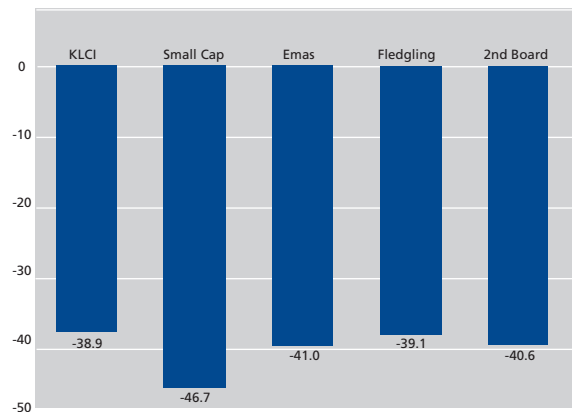


Source: Bloomberg

Chart 11b

**Malaysian Stock Market Performance**

Kuala Lumpur Composite Index, FTSE-Bursa Malaysia Emas, Small Cap, Fledgling and Second Board Indices (% change 2 Jan–31 Dec 2008, closing prices)



Source: Bloomberg

The stock market was weighed down by domestic developments early in the year, but enjoyed a short-lived recovery in the second quarter. However, global deleveraging and higher risk aversion among investors dragged prices along a downtrend thereafter. The Kuala Lumpur Composite ended the year down 39% on higher volatility, although its performance remained favourable compared to the regional average of -49%. Other segments, including second-liners, recorded similar performances for the year. Overall, market capitalisation shrank by 43% while trading value fell by almost 45%, in tandem with the rest of the world.

Corporate bond yields rose gradually as the global turmoil deepened in the first half of the year. Liquidity fell and yield spreads widened in the third quarter in response to higher inflation risk and the planned introduction of a windfall tax on independent power producers, many of whom were among the larger issuers of corporate debt. Spreads increased sharply from November on lingering credit concerns and expectations of monetary easing, which pushed MGS yields proportionately lower. By year end, spreads had widened by 120–200 basis points for A1

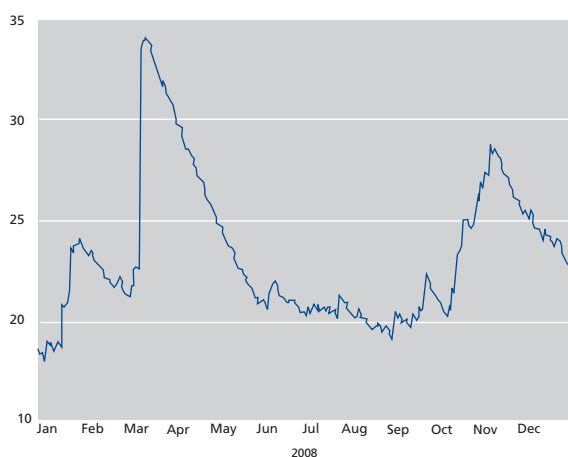
credits and above. Nevertheless, the primary market for corporate credit remained active: the value of corporate bonds issued amounted to RM49.1 billion, compared with RM45.2 billion during the same period in 2007.<sup>4</sup> The Malaysian Islamic capital market also proved relatively resilient to global shocks. In 2008, the SC approved 47 *sukuk* issues worth RM43.2 billion, which accounted for 31% of all corporate bonds approved. During the same period, a total of RM25.5 billion was released onto the market.

## OUTLOOK

Ongoing deleveraging in the global financial system is expected to continue into 2009 and this could exacerbate the global economic downturn. An adverse feedback loop between the financial system and the broad-based economy has become more apparent. Around the world, consumers appear to be cutting back on spending, unemployment is on a rising trend and global export numbers are deteriorating. This risks a further deterioration in loan portfolios and continuing weakness of the financial system. As a result, the

**Chart 11c**  
**Stock Market Volatility**

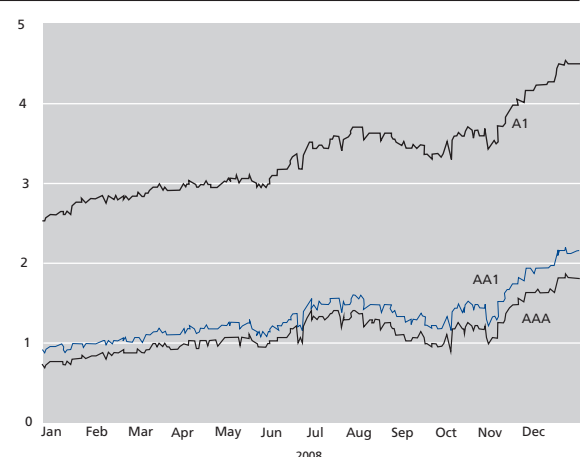
Exponential moving average of squared daily percentage change of Kuala Lumpur Composite index (% , annualised)



Source: Securities Commission

**Chart 12**  
**Malaysian Domestic Credit Risk**

Corporate yield spread against Malaysian Government Securities (% points)



Source: Bondweb

<sup>4</sup> As of October.

outlook for global growth is more uncertain, and this has been reflected in the continuous downward revision in forecasts during 2008.

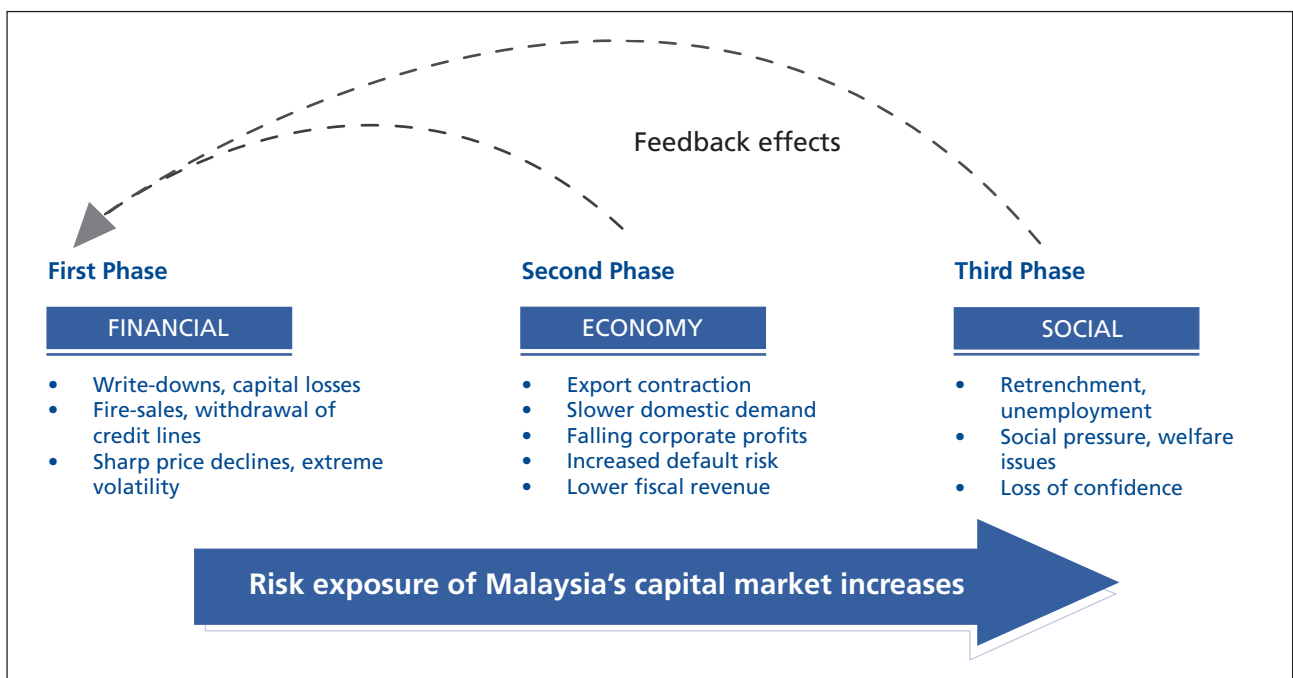
Current projections suggest that global growth in 2009 will decelerate to 0.5% in 2009.<sup>5</sup> While the global economy is not expected to plunge into a depression, the recovery process could be unusually slow and gradual. As a result of continued uncertainties in the financial markets, world output risks being depressed until 2010.

A deceleration in the global economy could have a marked effect on the business environment for Malaysia's corporate and financial sectors (the key risks are set out in Table 3). Nevertheless, the exposure of Malaysia's capital market to global financial turmoil is indirect and in many respects, the market and industry is fundamentally and prudentially stronger than during the 1997–98 crisis. The corporate sector has managed capital more prudently and returned them to shareholders, resulting in the Malaysian market having among the highest dividend yields in the region. Companies are also less geared and less reliant on foreign borrowings than before. Domestic market intermediaries today are more highly capitalised and thus in a stronger position to deal with external shocks, and have strengthened risk management and prudential frameworks. Moreover, market safety nets

**Table 3**  
**Risks to the Malaysian Capital Market as a Result of the Global Economic Slowdown**

Risk Sector	Risk Element
Corporates	Slowdown in exports and domestic sales Slower earnings growth Counterparty risk Financing difficulties
Bond market	Ratings downgrades Market illiquidity Wider corporate yield spreads Lower issuances
Stock market	Lower IPOs Market illiquidity
Market intermediaries	Lower revenues Lower operating margins

are in place to ensure orderly adjustments to market disturbances. These include explicit and transparent rules on market-wide trading halts (circuit-breakers), regulated short-selling and enhanced market transparency in relation to trading; there are also a number of other financial safety nets in the form of clearing guarantee funds and investor compensation funds.



<sup>5</sup> Source: World Economic Outlook Update, International Monetary Fund, January 2009.



## **Part Six**

### **Statements and statistics**



## MEMBERS OF THE COMMISSION



### **Members of the Commission**

Left to right: Francis Tan Leh Kiah, Fazlur Rahman Ebrahim, Dato' Mohd Bakke Salleh, Datuk Siti Hadzar Mohd Ismail, Dato' Sri Zarinah Anwar, Datuk Wira Ismail Saleh, Dato' Muhammad Ibrahim, Dato' Gumuri Hussain.

**DATO' SRI ZARINAH ANWAR**

Appointed 1 December 2001

Dato' Sri Zarinah Anwar was appointed the Chairman of the Securities Commission, Malaysia on 1 April 2006. She had served as the Deputy Chief Executive of the SC and Member of the Commission since 1 December 2001. Dato' 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 National Economic Consultative Council (NECC), a member of the Labuan Offshore Financial Services Authority (LOFSA), Foreign Investment Committee (FIC), Malaysia International Islamic Financial Centre (MIFC), National Innovation Council (NIC) and Board of Directors of the Institut Integriti Malaysia (IIM).

Dato' Sri Zarinah is also the Vice Chairman of the Emerging Markets Committee of IOSCO. Prior to joining the SC, Dato' Sri Zarinah was the Deputy Chairman of Shell Malaysia.

**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.

**DATUK SITI HADZAR MOHD ISMAIL**

Appointed 1 February 2000

Datuk Siti Hadzar is the Adviser to the Ministry of Finance. She was previously the Deputy Secretary General (Policy) of the Ministry. Prior to her appointment at the Ministry of Finance, she was attached to the Economic Planning Unit, holding posts in, among others, the FIC and the Macroeconomics Section. Datuk Siti Hadzar obtained a master's degree in arts (development economics) from Williams College, US in 1976.

**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 banks 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, 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 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 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 Malaysian Institute of Certified Public Accountants (MICPA).

**DATO' MOHD BAKKE SALLEH****Appointed 1 August 2004**

Dato' Mohd Bakke is 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.

**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/Chief Executive Officer of Bank Muamalat Malaysia Bhd. He currently sits on the boards of Pengurusan Danaharta Group, Pelaburan Hartanah Bumiputera Bhd, Syarikat Jaminan Kredit Perumahan 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 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/Regional Relations Division of the Ministry of International Trade and Industry (MITI). Datuk Wira Saleh was also the Malaysian Trade Commissioner in Singapore, Paris, and the US.

## SENIOR MANAGEMENT



**Senior Management**

Left to right: Datuk Kris Azman Abdullah, Datuk Ranjit Ajit Singh, Dato Dr Nik Ramlah Mahmood, Datin Teh Ija Mohd Jalil, Goh Ching Yin

**DATO DR NIK RAMLAH MAHMOOD**

Dato Dr Nik Ramlah Mahmood is the Managing Director and the Executive Director of Enforcement. She assists the SC Chairman with day-to-day operations related to the broad areas of regulation, and the co-ordination and delivery of key projects. She drives the strategic approach to enforcement by ensuring co-ordinated, appropriate and effective regulatory responses to breaches of securities law. The enforcement team investigates into possible violations of securities and futures laws in both the primary and secondary markets, and recommends appropriate actions. Where criminal enforcement is necessary to maintain and reinforce a fair and orderly market, the team will, having first obtained consent from the public prosecutor, conduct criminal prosecution.

**DATUK RANJIT AJIT SINGH**

Datuk Ranjit Ajit Singh is the Managing Director and Executive Director of Market Supervision. He assists the SC Chairman with day-to-day operations related to the broad areas of development, and the co-ordination and delivery of key projects. He is also responsible for all matters pertaining to the supervision of the markets and oversees Bursa Malaysia and related market institutions and intermediaries, the licensing and authorisation framework, corporate and market surveillance, and supervision of the bond market. His team works to maintain market integrity, ensure proper conduct by market players and ensure investor confidence in the capital market.

**DATUK KRIS AZMAN ABDULLAH**

Datuk Kris Azman is Executive Director of Issues and Investments. He is responsible for all matters pertaining to considerations and recommendations for issues and investments, which include evaluation of applications for the issuance of securities, corporate transactions, take-overs and mergers, collective investment schemes and registration of prospectuses. Besides seeking to create a fair, equitable and transparent environment for fund-raising, his team also looks at making the process more efficient and in line with our regional peers.

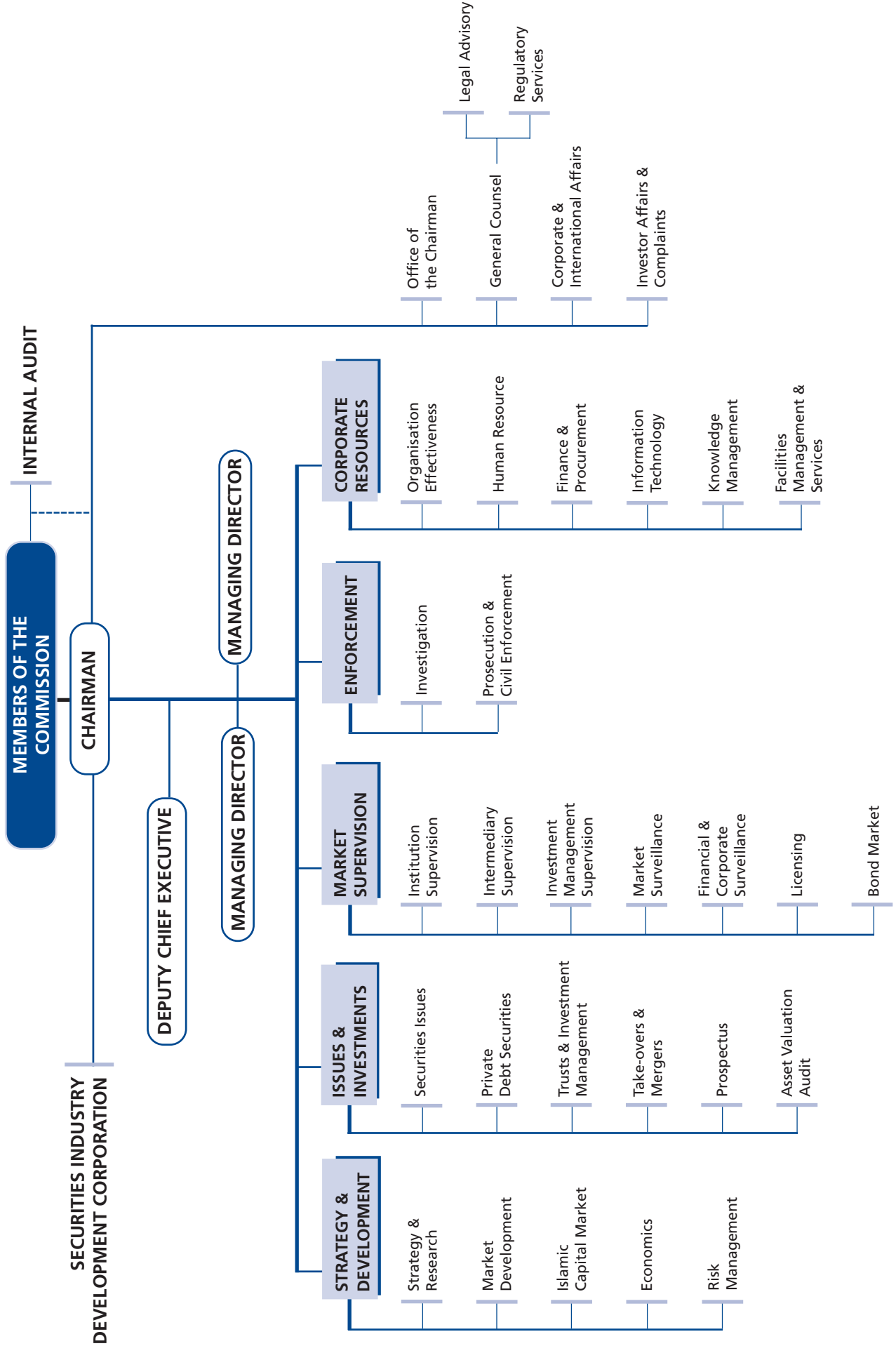
**DATIN TEH IJA MOHD JALIL**

Datin Teh Ija is Executive Director of Corporate Resources. She is responsible for organisation effectiveness, human resource, finance and procurement, information technology and knowledge management. Her team acts as a strategic partner to all business groups, thereby ensuring policies, strategies and operations are aligned with the strategic and business objectives, and that staff possess the necessary skills to effectively deliver our regulatory goals.

**GOH CHING YIN**

Goh Ching Yin is the Executive Director of Strategy and Development. He is responsible for strategy and research, market development, Islamic capital market (ICM), economics and risk management. His team conceptualises and formulates capital market strategy, developmental initiatives and the business plan, and provides policy analysis of key issues and input to the government on wider issues affecting the broader economy and the capital market. They also identify and manage macro risks to the SC's regulatory objectives, and oversee initiatives to develop the Malaysian capital market, including the ICM.

# ORGANISATION STRUCTURE 2008



## STATEMENT ON GOVERNANCE

The SC is responsible for regulating and developing the capital market. As the oversight regulator of PLCs, we fully support the principles and best practices in the *Malaysian Code on Corporate Governance* which applies to PLCs, as required by the *Listing Requirements* of Bursa Malaysia Securities Bhd. We, therefore, seek to comply with the code's key principles and best practices, wherever possible.

### MEMBERS OF THE COMMISSION

Members of the Commission consist of the Chairman, Deputy Chief Executive, four members representing the government, and three others. The Chairman and Deputy Chief Executive are executive positions. Dato' Sri Zarinah Anwar assumed the position of Chairman on 1 April 2006, taking over from Tan Sri Md Nor Yusof. Prior to that, Dato' Sri Zarinah held the position of Deputy Chief Executive.

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;

Table 1

Attendance at Commission Meetings in 2008

Commission Member	Number of Meetings Attended
Dato' Sri Zarinah Anwar	12
Francis Tan Leh Kiah	12
Datuk Siti Hadzar Mohd Ismail	12
Dato' Muhammad Ibrahim	8
Dato' Gumuri Hussain	10
Dato' Mohd Bakke Salleh	9
Datuk Wira Ismail Saleh (Appointed on 15 July 2008)	4
Fazlur Rahman Ebrahim	12

- All members must disclose their interest, whether direct or indirect, on any matter under discussion by the Commission; and
- Remuneration and allowances payable to members of the Commission are determined by the Minister of Finance and are in line with the government's remuneration framework for public sector entities.

### COMMISSION MEETINGS

Twelve Commission meetings were held in 2008. The quorum required was five.

## COMMITTEES OF THE COMMISSION

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

## MEETING PROCEDURES

The agenda and papers for consideration at Commission and Committee meetings are distributed well ahead of each meeting so that members have sufficient time to study them. Detailed background papers are required for issues tabled for the consideration of a Committee and the members rigorously discuss and debate on them. Management representatives may be invited to attend Commission and

Committee meetings when necessary to advise on any matter under discussion.

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

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The Commission exercised due care and took reasonable

Table 2

Committees of the Commission in 2008

Committee	Responsibility	Members
1. Audit Committee	Review effectiveness of the SC's internal controls and risk management systems and the annual financial statements.	<ul style="list-style-type: none"> <li>Dato' Gumuri Hussain (Chairman)</li> <li>Francis Tan Leh Kiah</li> <li>Datu Dr Michael Dosim Lunjew (retired on 25 May 2008)</li> <li>Fazlur Rahman Ebrahim</li> </ul>
2. Issues Committee	Evaluate any proposed issue of new securities by PLCs.	<ul style="list-style-type: none"> <li>Dato' 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>Dato' 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>Dato' 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, recommend and approve licence applications.	<ul style="list-style-type: none"> <li>Dato' Sri Zarinah Anwar (Chairman)</li> <li>Datuk Siti Hadzar Mohd Ismail</li> <li>Dato' Mohd Bakke Salleh</li> <li>Dato' Muhammad Ibrahim</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> <li>Datuk Kris Azman Abdullah</li> </ul>



steps to ensure that the financial statements for the year 2008 presented a fair assessment of our financial position and that the requirements of accounting standards were fully met.

### **Internal Control**

The Commission acknowledged its responsibility for ensuring that a system of internal control is in place and for reviewing its adequacy, integrity and effectiveness. The system is designed to protect and safeguard the SC's assets, provide reasonable assurance against material mis-statement, fraud or loss, and manage risks. It includes formal policies and operating procedures for safeguarding assets, maintaining proper accounting records, reliability of financial information and compliance with applicable legislation, regulation and best practices.

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

An elaboration of the manner in which the Commission ensures the soundness of our internal controls is represented in the Statement of Internal Control.

### **Relationship with External Auditors**

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

# STATEMENT ON INTERNAL CONTROL

## INTRODUCTION

The SC is fully committed to the maintenance of a sound internal control environment to ensure 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 seeks to comply with many related established key principles and best practices, including the issuance of a Statement on Internal Control, with necessary adaptations in its context.

## RESPONSIBILITIES FOR RISK MANAGEMENT AND INTERNAL CONTROL

The Commission members affirm their overall responsibility and accountability to ensure that the SC achieves its published mission and the organisation's business goals and objectives. The Commission members recognise that the SC's risk management and internal control systems are designed to manage risks that impede the achievement of the organisation's mission, goals and objectives. Therefore, they provide reasonable assurance against the risk of failure to achieve its mission, goals and objectives.

The Audit Committee assists the Commission in fulfilling their oversight responsibilities by reviewing the system of internal control which management and Commission members have established, among others, as set out in the Audit Committee Charter of the SC.

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.

## RISK MANAGEMENT

The Management Committee holds the overall accountability for the SC's risk management policies and processes, and considers risk management as an integral part of internal control governance.

There is an established risk management process for identifying, evaluating, managing and reporting on significant risks that may affect the achievement of the SC's business goals and objectives. This is done through the Integrated Risk Management Framework established in 2006, which is used to identify key risk areas that can significantly influence the SC's work priorities and ability to meet the SC's goals and objectives. A major part of the work is in determining and ensuring a clear understanding of the SC's risk profile. The risk management process had been subject to continuous improvement since its establishment, taking into consideration emerging best practices and the changing business and capital market environment.

An annual risk assessment cycle drives the SC's integrated risk management process. It runs parallel to the annual business planning process and builds on an initial strategic risk assessment at the beginning of the year. Every quarter, departmental risk reviews take place, and where necessary revisions to the SC's risk profile are made. The risk management process employs "Dimension", an online dashboard and reporting system that was designed and developed in-house, to capture and document the SC's risk profile.

Among others, the risk profile discloses:

- The sources of risks – both external (e.g. economy, market players, laws and regulation, public institutions,

market structure, international competition) and internal (e.g. processes, people, technology, data, facilities);

- The areas of impact – e.g. achievement of goals and objectives, reputation, safety, market stability etc; and
- The SC's ability to control risks.

Risk management reports the SC's risk profile to the Commission members on a quarterly basis.

## INTERNAL AUDIT

The Internal Audit Department is the corporate resource to assist 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 subject to revision on an annual basis. The Annual Audit Plan is primarily developed using a risk-based approach and is subject to feedback from the Management Committee, review and approval by the Audit Committee, and 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, including key performance indicators, is monitored closely by the Management Committee and reported to the Commission on a half yearly basis;
- The risk management reports of the SC's risk profile to the Commission members on a quarterly basis;
- 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 on at least a quarterly basis; 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 are approved by the Commission members;
- The *Code of Conduct* and *Code of Ethics* which set out the expectations required of staff on ethical conduct and standards of behaviour;
- 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 compulsory attendance of all SC staff for talks on integrity and ethics by relevant agencies as part of the SC's continuous efforts to ensure staff members uphold high standards of professionalism and are imbued with universally accepted values of integrity, resilience and efficiency in carrying out their duties;
- The Policies and Procedures on Procurement which were established to ensure that purchases are executed in a streamlined and orderly manner, standardise the purchasing activity, ensure that all purchases are made within the approved budget and approvals governed by authority limits;
- The Integrity Pacts with vendors and advisors 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; and
- The Business Process Flows which are available on the SC's intranet to serve as a guide to all staff, particularly new recruits, and for better understanding and appreciation of how one function impacts other areas of the SC.

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

The Commission members acknowledge the representations in this Statement and is of the view that the risk management and internal control systems have been adequately reflected. The Commission members and the Management Committee will continue to strengthen the internal control environment in 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 2008.

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 members have adopted in the review of the adequacy and integrity of the system of internal control.

# AUDIT COMMITTEE REPORT

The Commission is pleased to present the Audit Committee Report for the financial year ended 31 December 2008.

## MEMBERS AND MEETINGS

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

- Dato' Gumuri Hussain (Chairman);
- Francis Tan Leh Kiah (Alternate Chairman);
- Fazlur Rahman Ebrahim; and
- Datu Dr Michael Dosim Lunjew (retired on 25 May 2008).

The Committee convened five meetings, which were attended by the majority of its members, during the financial year.

## AUTHORITY

The Audit Committee is authorised by the Commission to review and investigate any activity within its terms of reference, or as otherwise directed by the Commission, to determine the resources required and to seek any information it requires from any employees of the SC.

The Audit Committee is authorised to obtain independent professional or other advice when needed and to secure the attendance of outsiders with relevant experience and expertise if required.

## TERMS OF REFERENCE

The Audit Committee is a committee of the Commission and the Commission members determine the membership of the Audit Committee. Audit Committee members and the Chairman of the Committee are appointed by the Commission members. The Audit Committee meets at least four times a year or as frequently as required and needs a quorum of two. The proceedings are recorded and the minutes of meetings are tabled at Commission meetings.

The Head of Internal Audit Departments attends all meetings of the Committee. The Head of the Finance and Procurement Department and the external auditors attend meetings of the Committee whenever required. The SC Chairman and other officers of the SC attend when invited.

The duties of the Audit Committee are—

- (i) to consider and recommend the appointment of the external auditors, their remuneration and any issues regarding their performance;
- (ii) to discuss with the external auditors, their scope and plans of the audit;
- (iii) to assist the Commission in its review of the adequacy and effectiveness of the internal control system;
- (iv) to review the risk management policies and practices of the SC to ensure their effectiveness;
- (v) to review the annual financial statements, before submission to the Commission, 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 review the external auditors' management reports and management's responses.
- (vii) to support and provide direction to the Internal Audit Department to ensure its effectiveness.
- (viii) 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 action required of the management; and
- (ix) to follow-up on the implementation of all recommendations made by the Internal Audit Department.
- Review of the financial statements for the financial year ended 31 December 2007 prior to presentation to the Commission members;
  - Review and approve the external audit plan for the financial year ended 31 December 2008. Various audit and accounting issues were discussed at the Audit Committee meetings;
  - Review and approve the internal audit plans for the financial year ended 31 December 2008 and the financial year ending 31 December 2009;
  - Review of internal audit reports, recommendations made and management responses to these recommendations. The Committee also monitored implementation of agreed actions and suggestions for improvements arising from the audits performed; and
  - Review the SC risk profile to ensure their effectiveness of risk management system.

## ACTIVITIES OF THE COMMITTEE

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

- Review audit findings, audit report and management letter, and management's responses arising from the statutory audit for the financial year ended 31 December 2007;

## 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 compliance with internal controls 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 and liaison in various projects undertaken by management.

## FINANCIAL STATEMENTS

### BALANCE SHEET

at 31 December 2008

	Note	2008 RM'000	2007 RM'000
<b>Non-current assets</b>			
Property, plant and equipment	3	201,178	211,125
Prepaid lease payments	4	7,864	7,956
Long term receivables	5	36,878	47,682
Other investments	6	24,669	24,580
		<u>270,589</u>	<u>291,343</u>
<b>Current assets</b>			
Trade and other receivables	7	21,898	28,460
Cash and cash equivalents	8	646,276	593,219
Current tax assets		323	323
		<u>668,497</u>	<u>622,002</u>
<b>Total assets</b>		<u>939,086</u>	<u>913,345</u>
<b>Reserves</b>			
Accumulated surplus		778,216	769,255
BMSB compensation fund reserve	9	100,000	100,000
Human Capital Development (HCD) fund reserve	10	10,000	–
<b>Total reserves</b>		<u>888,216</u>	<u>869,255</u>
<b>Long-term liabilities</b>			
Retirement benefits	11	23,177	20,285
		<u>23,177</u>	<u>20,285</u>

The notes on pages 6-21 to 6-36 are an integral part of these financial statements.

**BALANCE SHEET (CONTINUED)**

at 31 December 2008

	<b>Note</b>	<b>2008 RM'000</b>	<b>2007 RM'000</b>
<b>Current liabilities</b>			
Other payables	12	<u>27,693</u>	<u>23,805</u>
		<u>27,693</u>	<u>23,805</u>
<b>Total liabilities</b>		<u>50,870</u>	<u>44,090</u>
<b>Total reserves and liabilities</b>		<u>939,086</u>	<u>913,345</u>

The notes on pages 6-21 to 6-36 are an integral part of these financial statements.



**INCOME AND EXPENDITURE STATEMENT**

for the year ended 31 December 2008

	Note	2008 RM'000	2007 RM'000
<b>Income</b>			
Levies		74,575	146,778
Fees and charges		33,507	46,588
Income received from fixed deposits and other investment		23,867	21,120
Other income		3,103	3,830
		<hr/>	<hr/>
		135,052	218,316
		<hr/>	<hr/>
<b>Less: Expenditure</b>			
Staff costs	13	72,845	70,420
Administration expenses		27,254	26,348
Depreciation of property, plant and equipment	3	13,219	12,062
Human Capital Development expense	10	2,200	–
Amortisation of prepaid lease payments	4	92	92
Rental expenses		461	433
Charge/(Reversal) of impairment loss	3	20	(10)
		<hr/>	<hr/>
		116,091	109,345
		<hr/>	<hr/>
<b>Surplus before taxation</b>	14	18,961	108,971
Taxation	15	–	5,659
		<hr/>	<hr/>
<b>Surplus after taxation</b>		18,961	114,630
<b>Accumulated surplus brought forward</b>		769,255	654,625
		<hr/>	<hr/>
<b>Accumulated surplus carried forward</b>		788,216	769,255
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 6-21 to 6-36 are an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 December 2008

	<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 2007</b>	100,000	–	654,625	754,625
Net surplus for the year	–	–	114,630	114,630
At 31 December 2007/ 1 January 2008	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</b>	<u>100,000</u>	<u>10,000</u>	<u>778,216</u>	<u>888,216</u>
	Note 9	Note 10		

The notes on pages 6-21 to 6-36 are an integral part of these financial statements.

**CASH FLOW STATEMENT**

for the year ended 31 December 2008

	Note	2008 RM'000	2007 RM'000
<b>Cash flows from operating activities</b>			
Surplus before taxation		18,961	108,971
Adjustments for:			
Income received from fixed deposits and other investment		(23,867)	(21,120)
Gain on disposal of property, plant and equipment	14	–	(172)
Change/(Reversal) of impairment loss	14	20	(10)
Depreciation of property, plant and equipment	3	13,219	12,062
Amortisation of prepaid lease payments	4	92	92
Provision for retirement benefits	11	3,055	4,569
		<hr/>	<hr/>
Operating surplus before working capital changes		11,480	104,392
Changes in working capital:			
Trade and other receivables		5,777	5,713
Other payables		3,888	1,229
		<hr/>	<hr/>
Cash generated from operations		21,145	111,334
Tax paid		–	(408)
		<hr/>	<hr/>
<b>Net cash generated from operating activities</b>		<b>21,145</b>	<b>110,926</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(3,292)	(7,060)
Long term receivables		10,804	1,590
Proceeds from disposal of property, plant and equipment		–	172
Proceeds from investments in Malaysian Government Securities		–	5,000
Income received from fixed deposits and other investment		24,563	19,378
Increase in restricted deposits		(2,850)	(150)
Retirement benefits paid		(163)	(303)
		<hr/>	<hr/>
<b>Net cash generated from investing activities</b>		<b>29,062</b>	<b>18,627</b>

The notes on pages 6-21 to 6-36 are an integral part of these financial statements

**CASH FLOW STATEMENT (CONTINUED)**

for the year ended 31 December 2008

	Note	2008 RM'000	2007 RM'000
<b>Net increase in cash and cash equivalents</b>		50,207	129,553
<b>Cash and cash equivalents at beginning of year</b>		578,517	448,964
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>		628,724	578,517
		<hr/>	<hr/>
<b>Cash and cash equivalents comprise:</b>			
Cash and bank balances	8	1,236	1,229
Deposits placed with licensed banks	8	613,040	566,990
Deposits placed with Malaysian Building Society Bhd ("MBSB")	8	32,000	25,000
		<hr/>	<hr/>
		646,276	593,219
<b>Less: Restricted deposits</b>	8	(17,552)	(14,702)
		<hr/>	<hr/>
		628,724	578,517
		<hr/>	<hr/>

The notes on pages 6-21 to 6-36 are an integral part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS

The Securities Commission (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 its registered office is as follow:

### Registered office

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

The financial statements were approved by the members of the Commission on 20 January 2009.

## 1. BASIS OF PREPARATION

### (a) Statement of compliance

The financial statements of the SC has 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 (including its consequential amendments) and interpretations that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective:

FRSs / Interpretations	Effective date
FRS 7, <i>Financial Instruments: Disclosures</i>	1 January 2010
FRS 139, <i>Financial Instruments: Recognition and Measurement</i>	1 January 2010
IC Interpretation 9, <i>Reassessment of Embedded Derivatives</i>	1 January 2010

The impact of applying FRS 7 and FRS 139 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 respective FRSs. The initial application of the above standards (and its consequential amendments) and interpretations is not expected to have any material impact on the financial statements of the SC.

### (b) Basis of measurement

The financial statements of the SC have been prepared on the historical cost basis except as disclosed in the notes to the financial statements.

### (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 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.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all previous years presented in these financial statements, and have been applied consistently by the SC, unless otherwise stated.

**(a) 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.

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.

*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 statement as incurred.

*Depreciation*

Depreciation is recognised in the income 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 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%

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

**(b) 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. The SC treats such a 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.

**(c) Trade and other receivables**

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

**(d) 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.

**(e) Other investment**

Investments in Malaysian Government Securities held as long term investments are stated at cost less allowance for diminution in value. An allowance is made when the SC is of the view that there is a diminution in their value, which is other than temporary.

**(f) Impairment**

The carrying amounts of assets other than financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 statements. Impairment losses recognised in prior periods are assessed at each reporting date 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. 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 the income statements in the year in which the reversals are recognised.

**(g) Liabilities**

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

**(h) 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.

**(i) Taxation**

The SC was granted approval from the Minister of Finance to be exempted from taxation with effect from Year Assessment (YA) 2007 onwards. The SC is not liable for current and future income tax.

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

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

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

**(k) 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 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

Cost	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
At 1 January 2007	232,387	87,913	64,194	2,709	1,395	388,598
Additions	-	309	1,803	365	4,583	7,060
Disposal	-	-	(532)	(845)	-	(1,377)
Transfer (to)/from	-	979	408	-	(1,387)	-
At 31 December 2007/1 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	232,387	89,559	72,792	2,229	606	397,573

**3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	Note	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>							
At 1 January 2007:							
Accumulated depreciation		35,045	74,498	60,620	2,248	-	172,411
Accumulated impairment loss		69	-	-	-	-	69
Depreciation for the year							
Reversal of impairment loss	14	4,652	74,498	60,620	2,248	-	172,480
Disposal	14	(10)	5,249	2,080	81	-	12,062
		-	-	(531)	(845)	-	(10)
		-	-	-	-	-	(1,376)
At 31 December 2007/1 January 2008:							
Accumulated depreciation		39,697	79,747	62,169	1,484	-	183,097
Accumulated impairment loss		59	-	-	-	-	59
Depreciation for the year							
Charge of impairment loss	14	39,756	79,747	62,169	1,484	-	183,156
	14	4,648	4,657	3,633	281	-	13,219
		20	-	-	-	-	20
At 31 December 2008:							
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

**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>Carrying Amounts</b>						
At 1 January 2007	197,273	13,415	3,574	461	1,395	216,118
At 31 December 2007/1 January 2008	192,631	9,454	3,704	745	4,591	211,125
At 31 December 2008	187,963	5,155	6,990	464	606	201,178

#### 4. PREPAID LEASE PAYMENTS

	<b>Leasehold land Unexpired period more than 50 years RM'000</b>
<b>Cost</b>	
At 1 January 2007 / 31 December 2007/ 1 January 2008 / 31 December 2008	9,154
<b>Amortisation</b>	
At 1 January 2007	1,106
Amortisation for the year	92
At 31 December 2007 / 1 January 2008	1,198
Amortisation for the year	92
At 31 December 2008	1,290
<b>Carrying Amount</b>	
At 1 January 2007	8,048
At 31 December 2007 / 1 January 2008	7,956
At 31 December 2008	7,864

#### 5. LONG-TERM RECEIVABLES

	<b>2008 RM'000</b>	<b>2007 RM'000</b>
Loan to staff	48,580	61,042
Less: Unearned profit		
– Islamic financing on house and car	(5,429)	(6,708)
	43,151	54,334
Amount due within twelve months (Note 7)		
– Loan to staff	6,273	6,652
Amount due after twelve months		
– Loan to staff	36,878	47,682

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 (2007: 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>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Within 1 year	6,273	6,652
More than 1 year and up to 5 years	9,975	10,893
More than 5 years	26,903	36,789
	<u>43,151</u>	<u>54,334</u>

## 6. OTHER INVESTMENTS

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Malaysian Government Securities	24,669	24,580
Market value:		
Malaysian Government Securities	25,516	25,189

## 7. TRADE AND OTHER RECEIVABLES

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Levies	4,082	9,884
Fees and charges	1,741	1,897
Income receivable	8,164	8,949
	<u>13,987</u>	<u>20,730</u>
Less: Allowance for doubtful debts	(1,635)	(1,924)
	<u>12,352</u>	<u>18,806</u>
Other receivables	3,273	3,002
Loan to staff (Note 5)	6,273	6,652
	<u>21,898</u>	<u>28,460</u>

## 8. CASH AND CASH EQUIVALENTS

	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash and bank balances	1,236	1,229
Deposits placed with licensed banks	613,040	566,990
Deposits placed with MBSB	32,000	25,000
	<u>646,276</u>	<u>593,219</u>

Included in deposits placed with licensed banks are amounts of approximately RM17.6 million (2007: RM14.7 million) which are restricted for security deposits.

## 9. BMSB COMPENSATION FUND RESERVE

This represents an amount of RM100 million (2007: RM100 million) allocated from the accumulated surplus for the Bursa Malaysia Securities Bhd ("BMSB") Compensation Fund.

## 10. HUMAN CAPITAL DEVELOPMENT (HCD) FUND RESERVE

This represents an amount of RM12.2 million (2007: nil) 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 (5) years.

During the year, the amount of RM2.2 million has been charged to income and expenditure statement.

## 11. RETIREMENT BENEFITS

The amounts recognised in the balance sheet are as follows:

<i>Post retirement medical benefits</i>	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>
Present value of unfunded obligations	22,755	19,863
Unrecognised actuarial gains	422	422
	<u>23,177</u>	<u>20,285</u>

**Movements in the net liability recognised in the balance sheets:**

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Net liability at 1 January	20,285	16,019
Benefits paid	(163)	(303)
Expenses recognised in the income statements	3,055	4,569
	<hr/>	<hr/>
Net liability at 31 December	<u>23,177</u>	<u>20,285</u>

**Expenses recognised in the income statements:**

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Current service cost	1,638	1,566
Interest on obligation	1,417	1,222
Amortisation of net transitional liability	–	1,781
	<hr/>	<hr/>
	<u>3,055</u>	<u>4,569</u>

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

	<b>2008</b>	<b>2007</b>
Discount rate	7.0%	7.0%
Price inflation	3.5%	3.5%
Medical cost inflation	5.0%	5.0%
	<hr/>	<hr/>

**12. OTHER PAYABLES**

	<b>2008</b> <b>RM'000</b>	<b>2007</b> <b>RM'000</b>
Other payables	5,095	5,815
Accrued expenses	5,046	3,288
Security deposits	17,552	14,702
	<hr/>	<hr/>
	<u>27,693</u>	<u>23,805</u>



**13. STAFF COSTS**

	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>
Employees Provident Fund	10,085	8,208
Other staff costs	62,760	62,212
	<u>72,845</u>	<u>70,420</u>

Included in other staff costs are expenses relating to retirement benefits of RM3,055,303 (2007: RM4,568,996).

**14. SURPLUS BEFORE TAXATION**

	<b>Note</b>	<b>2008</b>	<b>2007</b>
		<b>RM'000</b>	<b>RM'000</b>
Surplus before taxation is arrived at after charging:			
Allowance for doubtful debts		70	1,613
Amortisation of prepaid lease payment	4	92	92
Auditors' remuneration:			
– Audit services		40	30
– Other services		–	3
Depreciation	3	13,219	12,062
Impairment loss	3	20	–
Executive members:			
– Emoluments		1,044	1,014
Non-executive members' allowance		282	282
And crediting:			
Gain on disposal of property, plant and equipment		–	172
Reversal of impairment loss	3	–	10
Reversal of allowance for doubtful debts		18	–
		<u>18</u>	<u>–</u>

**15. TAXATION**

	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>
Current tax expense		
Under provision in prior years	–	16
	<u>–</u>	<u>16</u>
Deferred tax expense		
Reversal of provision in prior years	–	(5,675)
	<u>–</u>	<u>(5,659)</u>
	<u>–</u>	<u>(5,659)</u>
<b>Reconciliation of effective tax</b>		
Surplus before taxation	18,961	108,971
	<u>18,961</u>	<u>108,971</u>
Tax calculated using Malaysian tax rate of Nil% (2007: Nil%)	–	–
Reversal of provision in prior years	–	(5,675)
Under provision in prior years	–	16
	<u>–</u>	<u>(5,659)</u>
	<u>–</u>	<u>(5,659)</u>

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

**16. RELATED PARTIES**

A partner of one of the legal firms appointed by the SC is a Commission member of the SC. The amounts transacted with the SC by the firm amounted to RM17,096 (2007: RM87,000) being legal fees and there were no outstanding balances as at 31 December 2008 (2007: nil). Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

**Other transactions**

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 2008, the SIDC had incurred RM284,000 (2007: RM142,000), being management fees paid to the SC, out of which RM24,000 (2007: RM24,000) is still outstanding from SIDC. In addition, the SC had made a grant of RM5 million to SIDC in 2008 (2007: RM5 million).

**17. CAPITAL COMMITMENTS**

	<b>2008</b>	<b>2007</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Capital expenditure commitments</b>		
<b>Plant and equipment</b>		
<i>Approved but not contracted for:</i>		
Within one year	13,100	18,036
	<u>13,100</u>	<u>18,036</u>
	<u>13,100</u>	<u>18,036</u>

**18. 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 and repricing analysis*

	<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>
As at 31 December 2008					
<b>Financial assets</b>					
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	–
		<u>669,709</u>	<u>309,988</u>	<u>360,721</u>	<u>–</u>

**18. FINANCIAL INSTRUMENTS (CONTINUED)***Effective rates and repricing analysis*

	Effective rates per annum %	Total RM'000	Within 1 year RM'000	1-5 years RM'000	After 5 years RM'000
As at 31 December 2007					
<b>Financial assets</b>					
Deposits placed with licensed banks	3.72	566,990	422,490	144,500	–
Deposits placed with MBSB	4.20	25,000	25,000	–	–
Malaysian Government Securities	4.29	24,580	–	24,580	–

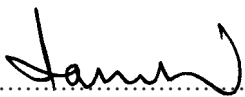
*Recognised financial instruments*

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.

## STATEMENT BY THE MEMBERS OF THE SECURITIES COMMISSION

In the opinion of the members, the financial statements set out on pages 6-15 to 6-36 are drawn up in accordance with *Financial Reporting Standards* and the accounting principles generally accepted in Malaysia so as to give a true and fair view of the state of affairs of the Securities Commission as at 31 December 2008 and of its income and expenditure and its cash flows for the year ended on that date.

On behalf of Members of the Securities Commission:



.....  
**Dato' Sri Zarinah Anwar**  
Chairman



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

Kuala Lumpur,

Date: 20 January 2009

## STATUTORY DECLARATION

I, Vignaswaran A/L Kandiah, the officer primarily responsible for the financial management of Securities Commission, do solemnly and sincerely declare that the financial statements set out on pages 6-15 to 6-36 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 20 January 2009.



.....  
Vignaswaran A/L Kandiah

Before me:



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

### Report on the Financial Statements

We have audited the financial statements of Securities Commission, which comprise the balance sheet as at 31 December 2008, 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 6-21 to 6-36.

### Commission's Responsibility for the Financial Statements

The members of the Commission are 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'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's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the members of the Commission, 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 as of 31 December 2008 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, as a body, and to the Minister of Finance, 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: 20 January 2009



## CORPORATE PROPOSALS

One of the SC's key regulatory functions is to regulate the offerings and issues of securities, including the listing of such securities on Bursa Malaysia, as well as 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 237 corporate submissions, which showed a decrease of 42% compared with 406 submissions received in 2007. Of these submissions, together with 41 submissions brought forward from 2007, we managed to consider 255 or 92% of the total submissions on-hand for the year. A total of six submissions were withdrawn and the remaining 17 were carried forward to the next year. Of the 255 submissions processed, 251 or 98% were approved, three were rejected and one was deferred.

There were 31 approvals for new listings on Bursa Malaysia in 2008 compared to 26 in 2007. Of the 31 applications approved for listing, 14 were for the Main Board, seven for the Second Board and 10 for the MESDAQ Market. Of the 14 Main Board companies approved, seven were big market capitalisation companies with at least RM500 million market capitalisation, compared to only two companies in 2007.

The various corporate proposal exercises approved were expected to raise RM144.9 billion in 2008.

### PROSPECTUSES

(Table 5)

In 2008, we received 147 new prospectuses for registration comprising 36 public offering/base prospectuses, 75 term sheets, 28 abridged prospectuses and eight supplementary base prospectuses. There were 29 prospectuses brought forward from 2007, bringing the total number of prospectuses at hand in 2008 to 176. Of these, 143 were registered, seven were withdrawn/returned and 26 are to be carried forward to 2009. In addition, 25 applications for relief from compliance with the *Prospectus Guidelines* were submitted and reviewed.

### PRIVATE DEBT SECURITIES

(Table 6)

In 2008, the SC approved 99 private debt securities (PDS) issues amounting to RM140 billion as compared with 120 PDS issues amounting to RM158.8 billion in 2007. Of the total 99 approved PDS issues in 2008, four with an aggregate value of RM23.2 billion were asset-backed securities (ABS), two issues amounting to RM7.8 billion were by multilateral development bank, five issues amounting to RM13.9 billion were by agencies of foreign government and seven issues amounting to RM15.0 billion were by foreign multinational corporations.

Bonds accounted for 40.4% of the total number of PDS issues approved, followed by medium-term notes 38.4%, commercial papers/medium-term notes (CP/MTN)

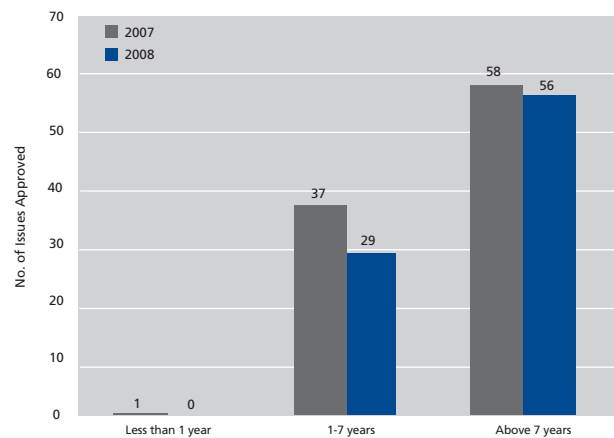
programme 14.1%, loan stocks 4.0%, and commercial papers/short-term notes 3.0%. We also approved one issue of negotiable certificate of deposits.

For 2008, conventional PDS issues accounted for 69.1% of the total size of PDS issues approved whereas *sukuk* issues accounted for 23.7%. The remaining 7.2% comprised a combination of conventional PDS and *sukuk* where their issue size were combined. With regard to maturity profile, 56 or 65.9% of the total number of PDS issues (excluding 14 CP/MTN programmes) approved in 2008 had maturity periods of more than seven years and 29 or 34.1% had maturity periods of between one to seven years (Chart 1).

In 2008, a total of 121 ratings (based on initial rating) were assigned by the credit rating agencies (CRAs) to the respective PDS issues, out of which 16 had a short-term rating of between P1/MARC-1 and P3/MARC-3, 101 had a long-term rating of between AAA and BBB while four issues had long-term ratings between BB and B. Twenty-four issues 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 issues, the SC approved two US dollar denominated PDS offers amounting US\$1.3 billion and one Singapore dollar denominated PDS offer amounting to SG\$425.0 million by three local issuers. The SC also approved two US dollar denominated PDS offers in Malaysia by two foreign issuers (as part of global offerings) in 2008.

Chart 1  
Maturity Profile



Note: Above maturity profile excludes 14 CP/MTN programmes as the maturity profiles are determined only at the point of issuance.

With regard to issuance of structured products, we approved nine programmes issuance of structured products amounting to approximately RM39.0 billion in 2008.

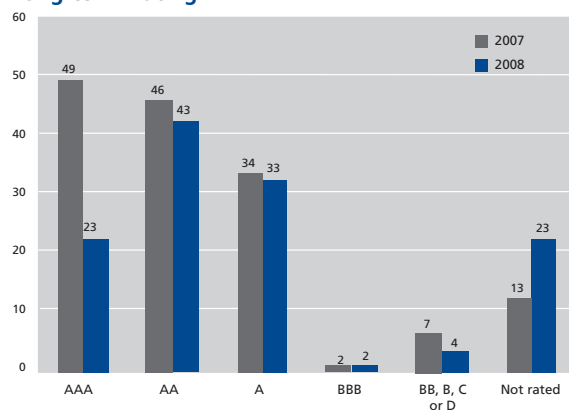
## TAKE-OVERS AND MERGERS

(Tables 7–8)

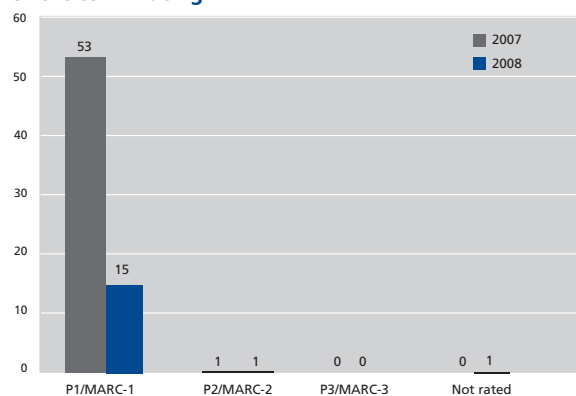
In 2008, the SC considered a total of 297 applications relating to the *Malaysian Code on Take-overs and Mergers 1998* (Take-overs Code) [2007: 412 applications].

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 297 applications considered, 81 were for exemption from mandatory offer obligation. This represented a decrease of 14.7% from the 95 applications in year 2007. The SC also cleared 41 offer documents in 2008, which was a decrease of 21.2% from 2007. The remaining applications were for appointment of independent advisers, clearance of independent advice circulars, extension of time, requests for rulings and other ancillary applications.

The number of applications considered in 2008 showed a significant decrease of approximately 27.9% compared to the number of applications considered in 2007. The decrease was mainly attributed to the poor market sentiments due to the global credit crunch and other uncertainties. Further, the high percentage of applications considered in 2007 was contributed by the number of applications made under the merger exercise of the Sime Darby Bhd Group, the Golden Hope Plantations Group and the Kumpulan Guthrie Bhd Group. The merger exercise had contributed 80 applications, or 19.4% of the total applications considered for 2007.

### Compliance Under the FIC Guidelines

In 2008, the SC considered 238 applications for compliance with the *FIC Guidelines*, comprising proposals to raise funds via equities and debt instruments, acquisition of interests involving M&A, appointment of unit trust management companies and market intermediaries under the CMSA.

### Highlights in Take-overs and Mergers

The 42 offers undertaken in 2008, which amounted to a total of RM8.3 billion in value, included offers made following the privatisation of Magnum Corporation Bhd by Multi-Purpose Holdings Bhd, the restructuring of UEM Group Bhd and the transformation of UBG Bhd into a construction company after the disposal of its core investment in Rashid Hussain Bhd. The largest take-over offers, in terms of value, were the take-over of UEM Builders Bhd by UEM Group Bhd of RM905 million and Pacificmas Bhd by OCBC Capital (Malaysia) Sdn Bhd of RM735 million. Out of 19 voluntary offers, 16 were undertaken as part of the companies' privatisation process by their respective major shareholders, which included an exit offer to delist Ye Chiu Metal Smelting Bhd.

As in the past years, the SC is continuously enhancing its efforts in safeguarding and protecting the interest of minority shareholders in relation to take-overs and mergers. Following the enforcement of the *Capital Market and Services (Price Stabilisation Mechanism) Regulations 2007*, the SC had issued a statement on the applicability of the Take-overs Code in relation to over-allotment option and price stabilisation mechanism. This took effect from 11 January 2008.

In this regard, where the demand for securities of a company exceeded the amount originally allotted in an IPO, the underwriter may borrow securities from the major shareholders of the company or the underwriter may exercise the over allotment option, namely a grant of an option by the issuer to the underwriter where the issuer will issue additional new shares to the underwriter. After the issuance of the new shares, following the exercise of the over-allotment option and/or shares acquired from the market during the stabilisation period, the underwriter will return the same number of shares borrowed from the major shareholders. The return of the shares may result in a major shareholder triggering a mandatory offer obligation for the remaining voting shares of the company.

In line with the SC's intention to facilitate and promote fund-raising activities, an avenue for exemption is provided to the affected major shareholder if it can confirm to the SC that the borrowed shares will be returned to the major shareholder no later than five business days following the date on which the shares were purchased from the market or issued by the issuer to the underwriter. The placees must be independent and not act in concert with the stabilising manager and the affected major shareholder and its concert parties in screening or selecting the placees. In addition, the affected major shareholder has to provide to the SC the actual changes of interest held in the company following an over-allotment option and/or price stabilisation mechanism.

Further, the SC also allows applications for exemption from mandatory offer obligation under PN 2.9.1 of the Take-overs Code arising from the exercise or conversion of convertibles for a longer validity period up to the expiry date of the convertibles. Nevertheless, the exemption may be granted if the applicant complies with certain conditions on disclosures. There must also be no disqualifying transactions and acquisition of the convertibles, unless

there is entitlement on a pro-rata basis by the offeror and persons acting in concert throughout the tenure of the exemption. In the past, such an application could only be made just before the intended conversion date.

## ASSET VALUATION AUDIT

*(Table 9)*

The SC reviewed 246 valuation reports submitted by 29 public companies for various corporate proposals. Acquisition of assets took the lead with 35% of the proposals while fund-raising via IPO at 28%. There was an increase of 59% in the number of properties reviewed despite a drop of 24% in the proposals with property assets.

Of the total market value reviewed at RM15.8 billion, IPO cases were the highest at 31%, followed by the acquisition of assets by listed companies and listed REITs at 26%.

In the M-REITs market, the SC considered and approved one IPO; and acquisitions of properties by AmFIRST REIT, Al-Hadharah Boustead REIT and Al-'Aqar KPJ REIT which were funded by issuance of new units. The year also saw a much higher market value of property assets being approved at RM2.86 billion for M-REITs as compared with only RM628 million in 2007.

The SC cleared 21 prospectuses pertaining to valuation certificates and considered six waiver applications with regard to conditions imposed as compared with 34 and 13 in 2007.

## KEY STATISTICS

Table 1

## Status of Submissions

Submissions	2008	2007
Submissions brought forward from the previous year	41	43
Submissions received during the year	237	406
Submissions on-hand for the year	278	449
Submissions considered during the year	(255)	(390)
Submissions withdrawn/returned during the year	(6)	(18)
Submissions carried forward to the next year	17	41

Table 2

## Listing Proposals Considered

	Main Board		Second Board		MESDAQ		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Approved	14	9	7	13	10	4	31	26
Rejected	0	1	1	2	0	0	1	3
Deferred	1	0	0	0	0	2	1	2
<b>Total</b>	<b>15</b>	<b>10</b>	<b>8</b>	<b>15</b>	<b>10</b>	<b>6</b>	<b>33</b>	<b>31</b>

Table 3

## Number of Submissions Considered by Types of Proposal

Type of Proposals	Approved		Rejected		Deferred		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Initial public offering:								
– Main Board	14	9	0	1	1	0	15	10
– Second Board	7	13	1	2	0	0	8	15
– MESDAQ	10	4	0	0	0	2	10	6
Transfer to Main Board	13	21	0	0	0	0	13	21
Fund raising via issues of equity <sup>1</sup>	48	123	0	1	0	0	48	124
Fund raising via issues of private debt securities	92	102	0	0	0	0	92	102
Restructuring	11	11	1	13	0	0	12	24
Acquisition and merger	21	20	1	3	0	0	22	23
Disposal	6	21	0	0	0	0	6	21
Others <sup>2</sup>	29	44	0	0	0	0	29	44
<b>Total</b>	<b>251</b>	<b>368</b>	<b>3</b>	<b>20</b>	<b>1</b>	<b>2</b>	<b>255</b>	<b>390</b>

Table 4

## Amount of Funds Raised/To Be Raised by Type of Issues

Type <sup>3</sup>	Funds Raised/To Be Raised			
	(RM million)		(% )	
	2008	2007	2008	2007
IPOs				
– Amount raised by PLCs	1,518.55	966.57	1.05	0.56
– Amount raised by offerors	1,319.91	1,033.31	0.91	0.60
Funds raised via equity				
– Listed	2,020.02	11,807.15	1.40	6.84
– Unlisted	0	0	0	0
Funds raised via debt				
– Conventional	96,757.89	36,700.03	66.80	21.26
– <i>Sukuk</i>	33,234.00	31,802.24	22.94	18.43
– Combination	10,000.00	90,300.00	6.90	52.31
<b>Total</b>	<b>144,850.37</b>	<b>172,609.30</b>	<b>100.00</b>	<b>100.00</b>

<sup>1</sup> Includes rights issues, restricted issues, private placements, issues of warrants, etc.

<sup>2</sup> Includes proposals by unlisted companies.

<sup>3</sup> Refers to each type of individual issues approved to be undertaken by listed/unlisted companies.

**Table 5**  
**Equity Prospectuses Considered**

	2008						2007					
	Full	Modified	Term Sheets	Abridged	Supplementary	Total	Full	Modified	Term Sheets	Abridged	Supplementary	Total
Balance brought forward	27	1	0	1	0	29	22	1	3	0	0	26
Received during the year	26	10	75	28	8	147	38	9	159	41	12	259
<b>Total</b>	<b>53</b>	<b>11</b>	<b>75</b>	<b>29</b>	<b>8</b>	<b>176</b>	<b>60</b>	<b>10</b>	<b>162</b>	<b>41</b>	<b>12</b>	<b>285</b>
Less:												
Prospectus registered	(20)	(11)	(75)	(29)	(8)	(143)	(27)	(8)	(157)	(40)	(12)	(244)
Withdrawn/returned	(7)	0	0	0	0	(7)	(6)	(1)	(5)	0	0	(12)
<b>Pending registration</b>	<b>26</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>26</b>	<b>27</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>29</b>

**Table 6**  
**PDS Issues Approved**

	2008		2007	
	No. of Issues	Size of Issues (RM million)	No. of Issues	Size of Issues (RM million)
<b>Conventional</b>				
Short-term notes/CPs	–	–	4	2,410.00
MTNs	18	59,250.00	9	9,530.00
CP/MTN programmes	6	4,064.00	13	5,005.00
Bonds	24	31,580.27	25	16,458.00
Loan stocks	4	1,863.62	9	3,297.03
	<b>52</b>	<b>96,757.89</b>	<b>60</b>	<b>36,700.03</b>
<b>Sukuk</b>				
Short-term notes/CPs	3	1,000.00	2	270.00
MTNs	16	15,375.00	17	11,610.00
CP/MTN programmes	8	2,853.00	11	1,960.00
Bonds	16	14,006.00	22	17,962.24
	<b>43</b>	<b>33,234.00</b>	<b>52</b>	<b>31,802.24</b>
<b>Combination</b>	<b>4</b>	<b>10,000.00</b>	<b>8</b>	<b>90,300.00</b>
<b>Total</b>	<b>99</b>	<b>139,991.89</b>	<b>120</b>	<b>158,802.27</b>

Table 7

**Applications Considered in Respect of Take-overs and Mergers**

Types of Applications	2008	2007
Extension of time	10	16
Clearance of offer document	41	52
Appointment of independent adviser	64	63
Clearance of independent advice circular	57	65
Exemption from mandatory offer obligation	81	95
Request for rulings and other ancillary applications	44	121
<b>Total</b>	<b>297</b>	<b>412</b>

Table 8

**Number of Submissions Considered in Respect of Compliance with FIC Guidelines**

Types of Proposal <sup>4</sup>	2008	2007
Flotation on Main Board and Second Board	22	31
Flotation on MESDAQ	10	5
Special issue/rights issue	3	6
Fund-raising via debt	3	7
Private placement/restricted issue	30	76
Composite scheme <sup>5</sup>	32	35
Acquisition	23	28
Transfer listing	13	18
Take-overs and mergers	29	55
UTMC/REIT management company/market intermediaries under the CMSA	17	35
Others	56	52
<b>Total</b>	<b>238</b>	<b>348</b>

<sup>4</sup> Types of proposals listed are on a stand-alone basis except for composite schemes.

<sup>5</sup> Composite schemes consist of a combination of a multiple types of proposals which may include any of the proposals listed in the table.



Table 9

## Valuation Reviewed by Type of Proposals

Type of Proposals	Number of Companies (No. of reports)		Number of Properties		Market Value (RM million)	
	2008	2007	2008	2007	2008	2007
Flotation						
– Main Board	6 (87)	3 (37)	229	83	2,781	234
– IPOM REIT <sup>6</sup>	1 (3)	0 0	3	0	2,030	0
– Second Board	1 (3)	7 (41)	3	140	19	92
– MESDAQ Market	0 0	2 (4)	0	4	–	5
Acquisition	7 (96)	10 (14)	1,592	1,266	3,334	1,023
Acquisition by REITs	3 (11)	3 (11)	68	16	832	628
Bonus issues	0 0	0 0	0	0	0	0
Restructuring, reorganisation and revaluation	7 (41)	5 (14)	1,273	56	3,957	549
Change in utilisation of proceeds	0 0	1 (1)	0	1	0	15
Utilisation of proceeds from–						
– rights issues	2 (3)	0 0	3	0	2,552	0
– private placements	0 0	0 0	0	0	0	0
– bonds	0 0	0 0	0	0	0	0
– ICULS	0 0	0 0	0	0	0	0
Combination	0 0	0 0	0	0	0	0
Unlisted companies	0 0	1 (7)	0	8	0	1,081
Disposal	2 (2)	6 (13)	2	423	289	1,105
<b>Total</b>	<b>29 (246)</b>	<b>38 (142)</b>	<b>3,173</b>	<b>1,997</b>	<b>15,795</b>	<b>4,732</b>

<sup>6</sup> Refers to the establishment and listing of REITS on the Main Board.

## INVESTMENT MANAGEMENT

As at 31 December 2008, total funds managed by licensed fund management companies in Malaysia fell by 5.7% to RM223.5 billion as compared to 2007. Other types of funds under management included funds of charitable bodies, corporate bodies, EPF and EPF contributors, government bodies and agencies, individuals and private pension funds (Table 1).

The five largest fund management companies' account for 64.7% of total funds under management, as compared to 72.5% at the end of 2007 (Chart 1). Fund management companies in Malaysia still rely more on equities for their asset allocation strategies, both for investments inside and outside of Malaysia (Chart 2).

### COLLECTIVE INVESTMENT SCHEMES

Unit trust funds continued to make up the largest share of the Malaysian collective investment scheme (CIS) industry. It comprised locally-constituted funds operated and administered by 39 locally-incorporated unit trust management companies. A total of 86 new unit trust funds were launched in 2008, bringing the total number of unit trust funds available to investors to 557. This was an increase of 12.5% from end-2007 (Table 2).

The Malaysian unit trust industry comprised mainly equity funds. Due to the bearish domestic and global market conditions during the second half of 2008, the total industry net asset value (NAV) fell from RM169.4 billion (as at 31 December 2007) to RM134.4 billion (as at 31 December 2008). However, the industry's NAV declined at a lower percentage (20.7%) compared to

the market capitalisation of Bursa Securities (40%). As a result of the lower percentage decline, the unit trust industry made up 20.3% of Bursa Securities' market capitalisation, as opposed to 15.3% at the end of 2007 (Table 2).

Following on from the phenomenal growth in 2007, unit trust managers continued to launch equity-based funds, in the first half of 2008 to meet investors' demand. However, as investors' preference shifted to "safer" funds, as a result of the bearish market conditions, unit trust managers launched mainly money market funds and capital protected funds in the later part of 2008.

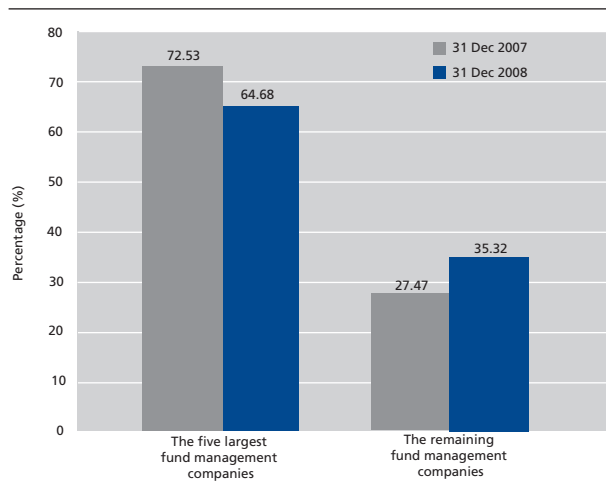
For other types of CIS:

- A total of 12 new restricted investment schemes (RIS) were launched in 2008 for sophisticated and institutional investors, thus raising the number of RIS in the market to 29. The total NAV of RIS as at 31 December was RM893.1 million.
- As at 31 December 2008, there were 13 real estate investment trusts (REITs) listed on the Main Board of Bursa Securities and one unlisted REIT. One new REIT approved was pending listing. The market capitalisation of the 13 listed REITs as at 31 December was RM4.07 billion while the total asset size was RM8.58 billion.
- One new exchange-traded fund (ETF) was listed on the Main Board of Bursa Securities in 2008. The market capitalisation of the three listed ETFs as at 31 December was RM1.0 billion, while the total NAV was RM1.0 billion.

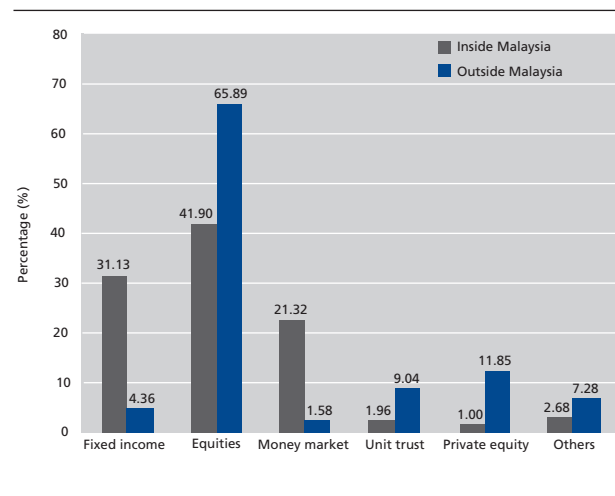
- There was no new listing of closed-end fund (CEF) on the Main Board of Bursa Securities in 2008. However, two new CEF approved by us were pending listing. The market capitalisation of the one listed CEF as at 31 December 2008 was RM194.6 million, while its NAV was RM220.2 million.

In total, we considered 729 applications as at December relating to CIS, comprising applications to establish new funds, applications to increase fund size and other types of application (Table 3). Comparatively, this is less than the applications considered for 2007 by 27.7%.

**Chart 1**  
Percentage of Funds Managed by Fund Management Companies



**Chart 2**  
Asset Allocation as at 31 December 2008



**Chart 3**  
Funds Invested In and Outside of Malaysia

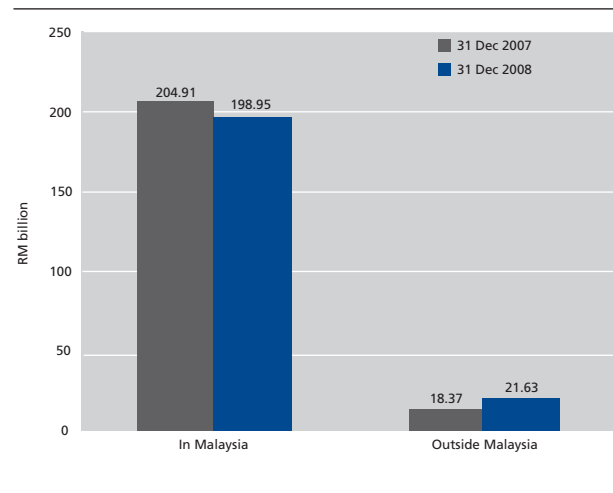


Table 1  
Source of Clients' Funds Under Management

	Local (RM million)		Foreign (RM million)	
	2008	2007	2008	2007
Private pension fund	1,007.22	1,450.91	524.51	3.73
Employees provident fund	21,207.53	21,564.01	0	0
Unit trust funds	134,406.40	169,414.26	584.90	1,635.12
Restricted investment schemes	893.09	957.40 **	0	0
Corporate bodies	16,429.36	14,559.20	3,861.5	5,014.26
Individual	2,148.26	3,510.95	156.20	337.53
Charitable bodies	253.42	391.42	0	3.68
Other funds*	39,585.08	15,700.62	2,480.19	2,143.80
<b>Total</b>	<b>215,930.36</b>	<b>227,548.77</b>	<b>7,607.30</b>	<b>9,138.11</b>

\* Other funds would include funds sourced from government agencies, insurance companies, exchange traded funds and closed end funds.

\*\* This figure was reported last year under "Other funds".

Table 2  
Overall Status of Unit Trust Industry

	31 December 2008	31 December 2007
No. of funds launched	557	495
– Conventional	410	367
– Shariah-compliant	147	128
Total approved fund size (billion units)*	543.50	473.94
Units in circulation (billion units)	241.06	208.34
No. of accounts (million)**	13.53	12.68
Total NAV (RM billion)	134.41	169.41
– Conventional (RM billion)	117.22	152.55
– Shariah-compliant (RM billion)	17.19	16.86
% of NAV to Bursa Malaysia's market capitalisation	20.25	15.32

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

\*\* Including unit holders' account at Institutional Unit Trust Advisers (UTA) that operates nominee account system.

Table 3

**Applications in Respect of Various Matters Relating to Collective Investment Schemes**

Type of Applications	Number of Applications					
	Considered		Approved		Pending Consideration	
	December 2008	December 2007	December 2008	December 2007	December 2008	December 2007
Establishment of collective investment schemes	113	143	113	142	7	12
– Unit trust funds	93	121	93	121	6	8
– Real estate investment trusts	2	1	2	0	0	1
– Closed-end funds	1	1	1	1	0	0
– Restricted investment schemes	16	20	16	20	1	2
– Exchange-traded funds	1	0	1	0	0	1
Change in fund size limit	42	120	42	120	0	1
– Unit trust funds	35	116	35	116	0	1
– Real estate investment trusts	3	2	3	2	0	0
– Closed-end funds	0	0	0	0	0	0
– Restricted investment schemes	4	2	4	2	0	0
– Exchange-traded funds	0	0	0	0	0	0
Exemption/variations from guidelines	20	33	17	31	0	0
Revaluation of property	1	3	1	3	0	0
Registration of prospectus	182	244	182	244	9	11
Registration of deeds	249	179	249	179	8	36
Appointment of CEO, directors, investment committee members	40	159	40	159	0	9
Other applications	82	127	81	126	4	2
<b>Total</b>	<b>729</b>	<b>1,008</b>	<b>725</b>	<b>1,004</b>	<b>28</b>	<b>71</b>

## ISLAMIC CAPITAL MARKET

### SUKUK

In 2008, the SC approved 99 private debt securities issues amounting to RM140 billion, of which 47 issues were *sukuk* valued at RM43.2 billion.<sup>1</sup> The value represented 30.9% of total new bond issues approved (Chart 1).

As in 2007, *sukuk musyarakah* and *sukuk ijarah* dominated the Malaysian *sukuk* market in terms of approval size. The combination of these *sukuk* represented RM28.5 billion or 65.9% of the total size of *sukuk* approved (Chart 2). The remaining 34.1% or RM14.8 billion *sukuk* approved were structured using *murabahah*, *mudharabah*, *bai` bithaman ajil*, *istisna`*, a combination between conventional bonds and *sukuk* and also a multiple Shariah principles issuances.

### SHARIAH-BASED UNIT TRUST FUNDS

(Table 1)

In 2008, the SC approved 15 new Shariah-based unit trust funds. This brought the total of Shariah-based unit trust funds to 149 or 25.7% of the total of 579 approved funds. Of the Shariah-based unit trust funds, 68 were equity funds, 21 were balanced funds, 18 were *sukuk* funds while the remainder comprised money market funds, structured products, feeder funds, fixed income funds and mixed asset funds (Chart 3).

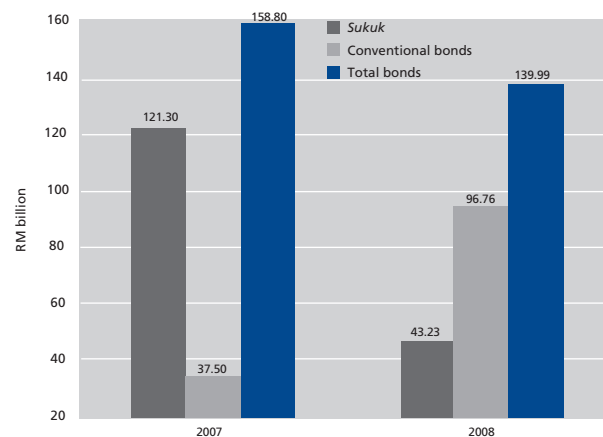
The NAV of Shariah-based unit trust funds for the last five years grew at a compounded annual growth rate of 26.3% while the total industry recorded a growth rate of 11.4% in the same period.

### SHARIAH-COMPLIANT SECURITIES

(Table 2)

This year, the updated lists of Shariah-compliant securities were published on 30 May and 28 November. Throughout

Chart 1  
Sukuk Approved by the SC



<sup>1</sup> Includes the approval of a combination issuances (conventional bonds and *sukuk*).

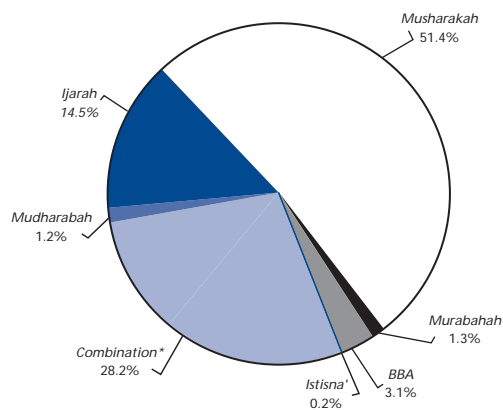
the year, 48 securities were added to the list of Shariah-compliant securities by the SAC while 14 were removed.<sup>2</sup> As at November, there were 855 Shariah-compliant securities or 87.2% of the total listed securities on Bursa Malaysia.

The Malaysian capital market continued to attract the interest of companies seeking to raise funds in 2008 despite the weakened IPO markets worldwide. Throughout the year,

31 IPO applications were approved and they are expected to raise RM2 billion of funds. Out of this, 20 IPOs were approved as Shariah-compliant securities by the SAC including six approved at pre-IPO stage.

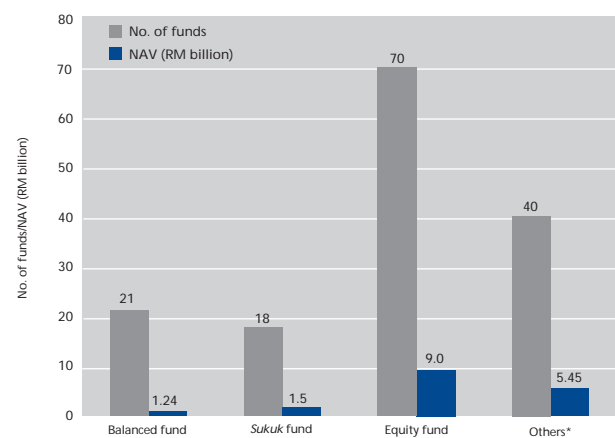
As at end-2008, the market capitalisation of Shariah-compliant securities stood at RM426.4 billion or 64.2% of total market capitalisation.

**Chart 2**  
Size of Sukuk Approved in 2008 by Shariah Principle



\* A combination between conventional and sukuk and also a multiple Shariah principle issuances.

**Chart 3**  
Shariah-based Unit Trust Funds by Category



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

**Table 1**  
Shariah-based Unit Trust Funds

	2008	2007
Number of approved funds		
Shariah-based	149	134
Total industry	579	521
Total approved fund size (billion units)		
Shariah-based	121.8	102.6
Total industry	543.5	473.9
Units in circulation (billion units)		
Shariah-based	49.9	36.4
Total industry	241.0	208.3
NAV (RM billion)		
Shariah-based	17.2	16.9
Total industry	134.4	169.4
% of Shariah-based NAV to total industry NAV	12.79	10.00

<sup>2</sup> Throughout 2008, 32 Shariah-compliant equities were also excluded from the list as their shares were delisted from Bursa Malaysia.

Table 2

**Shariah-compliant Equities**

	2008	2007
Number of securities		
Shariah-compliant securities	855	853
Total listed securities	980	991
% of Shariah-compliant to total listed securities	87%	86%
Market capitalisation		
Shariah-compliant securities	426.4	705.1
Total listed securities	663.8	1,106.2
% of Shariah-compliant to total listed securities	64.2	63.7



## VENTURE CAPITAL

The number of venture capital companies (VCC) and venture capital management companies (VCMC) registered with the SC under the *Guidelines for the Registration of Venture Capital Corporations and Venture Capital Management Corporations* increased to 108 (Table 1) as at 31 December representing a growth of 10% year-on-year.

Out of the 108 VCCs and VCMCs registered with the SC, 98 were 100% locally owned while nine were joint ventures. In August, the industry also saw the entrance of Japan Asia Investment Co. Ltd (JAIC) as the first 100% foreign-owned VCC.

The total number of investee companies benefiting from venture capital funding rose from 433 to 450, an increase of 4% year-on-year. Additionally, the number of venture capital professionals increased from 132 to 248 as at end of 2008 representing a substantial increase of 88%.

The total committed funds for venture capital investment grew significantly to RM4.6 billion (Table 2) as at 31 December, compared to RM3.3 billion in 2007 representing an overall increase of 38%. The increase was largely due to a higher contribution by government agencies amounting to RM2 billion in 2008 as opposed to RM1.2 billion in 2007. Similarly, contributions from corporations, banks, pension and provident fund also showed an increase from last year.

The total amount of venture capital investments as at end of 2008 stood at RM1.9 billion, an increase of 8% from RM1.8 billion invested as at end of 2007. During the year, RM477 million were invested in 134 investee

companies (Table 3) as compared to 2007 where RM479 million were invested in 121 investee companies. The overall increase seen in almost all of the key indicators reflect the steady and sustained growth and expansion of the venture capital industry.

Out of RM4.6 billion committed funds under management as at end of 2008, RM2.2 billion (Chart 1) was sourced from government agencies. Although government agencies continued to provide the largest portion of total funds under management, the contribution from local companies had also increased from RM1.1 billion in 2007 to RM1.2 billion in 2008. The percentage committed by local companies represented 27% of total funds committed to the industry. Overall contribution from foreign companies and individuals had also increased from RM308 million in 2007 to RM532 million in 2008. The contribution from pension and provident funds and insurance companies remained relatively small compared to contributions from other sources.

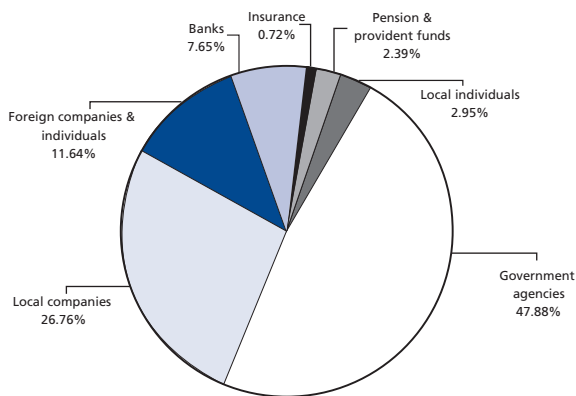
Out of RM477 million (Table 3) invested in 2008, 62% amounting to RM299 million were invested in 65 investee companies at the expansion/growth stage. Additionally, 17% of the total investments made during 2008 were for investee companies at the early stage.

Total amount invested in companies at the seed stage continued to be comparatively small, representing only 3% of total investments made in 2008. Malaysia Venture Capital Management Bhd (MAVCAP) continued to play a lead role in financing investee companies at the seed stage where 28 out of the 31 investee companies were recipients of MAVCAP's funds.

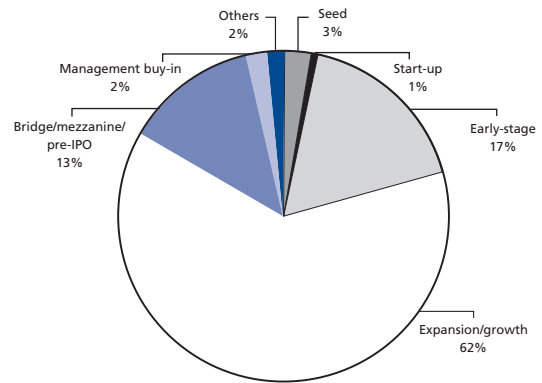
In terms of sector classification, 27.4% (Chart 3) of total investments during 2008 were made in the manufacturing sector compared to 18.5% in the IT and communication sector and 18.0% in life sciences. Investment in sectors classified under the category of ‘Others’ were mainly contributed to investments in sectors such as education, transportation, electricity and power generation and transport, storage and communication, signaling the increased diversity of investments by the VCCs/VCMCs.

Table 4 shows that the total amount divested during the year was RM45 million. 90% of divestments of nine investee companies were made at the expansion/growth or bridge/mezzanine/pre-IPO stages. The category “Others” includes funds disposed via selling of shares in the secondary market.

**Chart 1**  
**Source of Venture Capital Funds (2008: RM4.57 billion)**



**Chart 2**  
**Investment by Financing Stage (2008: RM477 million)**



**Chart 3**  
**Investment by Sectors**

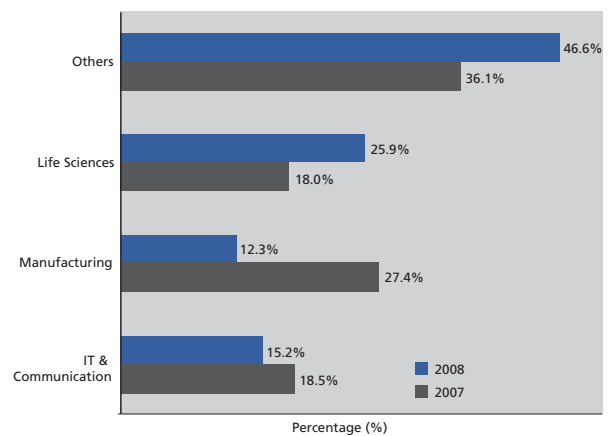


Table 1

**Venture Capital Industry Participants**

	31 December 2008	31 December 2007
Number of registered venture capital funds/companies	56	52
Number of registered VCMCs	52	46
Number of investee companies	450	433
Number of venture capital professionals	248	132
<b>Shareholding Structure</b>		
100% local ownership	98	93
Joint ventures	9	5
100% foreign ownership	1	0

Table 2

**Venture Capital Investments**

	31 December 2008 (RM million)	31 December 2007 (RM million)
Total committed funds under management	4,570	3,308
Total investment as at end of the period	1,929	1,784
	<b>2008</b>	<b>2007</b>
Investment in investee companies	477	479
Divestments	45	105

Table 3

**Amount of Investments and Number of Investee Companies by Financing Stage**

Business Stage	Total Investment (RM '000)	% of Total Investment	No. of Investee Company
Seed	12,757	3	31
Start-up	3,000	1	3
Early-stage	82,785	17	21
Expansion/growth	298,632	62	65
Bridge/Mezzanine/pre-IPO	60,366	13	11
Management buy-in	11,500	2	2
Others	7,571	2	1
<b>Total</b>	<b>476,611</b>	<b>100</b>	<b>134</b>

Table 4  
Divestments During 2008

Business Stage	Total (RM '000)	Share of Total (%)	No. of Venture Company
Seed	–	–	–
Start-up	–	–	–
Early-stage	262	0.58	1
Expansion/growth	17,605	39.02	4
Bridge/mezzanine/pre-IPO	22,982	50.94	5
Management buy-out	6	0.01	2
Management buy-in	–	–	–
Turnaround	–	–	–
Cashing-out	3,316	7.35	3
Others	946	2.10	3
<b>Total</b>	<b>45,117</b>	<b>100</b>	<b>18</b>

## MARKET INTERMEDIARIES

### LICENCE APPLICATIONS

To position Malaysia as an international Islamic financial centre, three new licences were issued to leading financial institutions to operate as Islamic fund managers while two other companies were approved to establish Islamic fund management companies. Islamic fund managers were accorded various tax incentives and privileges which reduced the cost of doing business and allowed faster market entry.

Following the liberalisation measure announced in Budget 2005 for the issuance of five foreign fund management licences; one new foreign fund management company, Credit Agricole Asset Management Malaysia Sdn Bhd, was licensed during the year, while another, Franklin Templeton Asset Management, was given the approval to establish a foreign fund management company.

Following the Budget 2008 announcement on the issuance of three new stockbroking licences to leading stockbroking companies that are able to source and intermediate business and order flows from the Middle East, one Japan-based company, the Nomura Group, was given the approval to establish a stockbroking company. Several others showed great interest to participate in this segment of the market.

The year saw 30 new company licences and 860 new representative licences approved, an increase of 25% and 14% from 2007. The increase in new company licences was primarily due to the issuance of 12 new licences for dealing in securities restricted to unit trust products to existing UTMCs.

Under the CMSA, UTMCs are required to be licensed to

deal in securities due to its function of dealing in units in its funds. Accordingly, 25 UTMCs which were previously licensed to conduct fund management activities were also licensed for dealing in securities restricted to unit trust products.

There was a marginal decrease in entry of new companies for advisory activities in 2008, with eight companies approved to conduct corporate finance, investment advice or financial planning activities, compared to 13 companies in 2007. The first fund supermarket offering a range of unit trust funds, iFast Capital Sdn Bhd, received a licence to deal in securities restricted to unit trust products, and to conduct investment advice. Also, during the year, two companies which were licensed for financial planning also registered as corporate unit trust advisers, allowing them to deal in unit trust products following a financial plan.

In terms of new licences issued to representatives, of the 860 applications approved in 2008, 364 or 42% were for dealing in securities including dealing in securities restricted bonds. There was a significant increase in the number of licences issued for corporate finance activities. The increase was primarily due to applications from investment banks and stockbroking companies for their corporate finance divisions, where 85 new representatives' licences were approved.

The CMSA allows the granting of licensing periods of more than 12 months upon renewal as an incentive to those with high standards of corporate governance and market conduct. In 2008, 65 companies were granted a two-year renewal period while another three were granted a three-year renewal period. Companies that were granted a 12-month renewal were mainly due to having adverse records or not meeting certain licensing requirements.

Table 1

## Capital Markets Services Licence Holders

Categories	Regulated Activities <sup>1</sup>	2008	2007
Investment banks	Dealing in securities Advising on corporate finance Investment advice Fund management	1	1
	Dealing in securities Trading in futures contract Advising on corporate finance Investment advice	1	1
	Dealing in securities Trading in futures contract Advising on corporate finance	2	2
	Dealing in securities Advising on corporate finance Investment advice	6	6
	Dealing in securities Advising on corporate finance	3	3
		<b>13</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 contract Advising on corporate finance Investment advice	1	1
	Dealing in securities Advising on corporate finance Investment advice	4	4
		<b>5</b>	<b>5</b>
Stockbroking companies with at least one merger partner	Dealing in securities Trading in futures contract Advising on corporate finance Investment advice	1	0
	Dealing in securities Trading in futures contract Investment advice	1	1
	Dealing in securities Advising on corporate finance Investment advice	1	1
	Dealing in securities Investment advice	4	5
		<b>7</b>	<b>7</b>
Stand-alone stockbroking companies	Dealing in securities Investment advice	3	3
	Dealing in securities	5	5
		<b>8</b>	<b>8</b>
Issuing houses	Dealing in securities	2	2
		<b>2</b>	<b>2</b>
Future brokers	Trading in futures contract	14	13
		<b>14</b>	<b>13</b>

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

Table 1 (con't)

## Capital Markets Services Licence Holders

Categories	Regulated Activities	2008	2007
Unit trust management companies (UTMC)	Dealing in securities restricted to unit trust	12	0
	Fund management Dealing in securities restricted to unit trust	26	0
	Fund management Financial planning Dealing in securities restricted to unit trust	2	0
	Financial planning Dealing in securities restricted to unit trust	1	0
	Fund management Financial planning	0	1
	Financial planning	0	2
		<b>41</b>	<b>3</b>
Fund managers	Fund management	51	73
	Fund management Dealing in securities restricted to unit trust	24	0
	Fund management Financial planning Dealing in securities restricted to unit trust	2	0
	Fund management Financial planning	0	1
		<b>77</b>	<b>74</b>
Special scheme foreign fund managers	Fund management	4	3
		<b>4</b>	<b>3</b>
Islamic fund managers	Fund management Dealing in securities restricted to unit trust	2	0
	Fund management	1	0
		<b>3</b>	<b>0</b>
Fund supermarket	Investment advice Dealing in securities restricted to unit trust	1	0
		<b>1</b>	<b>0</b>
Corporate unit trust advisers (CUTA)	Financial planning Dealing in securities restricted to unit trust	2	0
		<b>2</b>	<b>0</b>
Advisory companies	Advising on corporate finance	34	35
	Advising on corporate finance Investment advice	4	3
	Advising on corporate finance Financial planning	2	2
	Investment advice	21	21
	Financial planning	25	26
		<b>86</b>	<b>87</b>
Individuals	Financial planning	11	13
		<b>11</b>	<b>13</b>

Total licensed companies

- at as 31 December 2008: 236
- at as 31 December 2007: 216

Table 2

## Capital Markets Services Representative's Licence Holders

	2008	2007
Dealing in securities <sup>1</sup>	6,595	6,604
Trading in futures contract <sup>2</sup>	553	507
Fund management	474	425
Advising on corporate finance <sup>3</sup>	534	558
Investment advice	148	144
Financial planning	241	176
	8,545	8,414

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 Under CMSA

Regulated Activities	Dealing in Securities		Trading in Futures Contract		Fund Management		Advising on Corporate Finance		Investment Advice		Financial Planning		Financial Planning (Individual)	
	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*
Issued	13 <sup>4</sup>	0	2	2	9	2	4	1	0	1	3	5	1	0

\* Period from September to December.

Note:

<sup>4</sup> Includes companies licensed for dealing in securities restricted to unit trust products for 2008 – 12 UTMCs and one fund supermarket.

Table 4

## Application for New Representative's Licences Under CMSA

Regulated Activities	Dealing in Securities		Trading in Futures Contract		Fund Management		Advising on Corporate Finance		Investment Advice		Financial Planning	
	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*
Issued	361 <sup>5</sup>	95	104	21	124	26	112 <sup>6</sup>	5	44	5	110	20
Withdrawn	3	2	7	1	1	0	0	1	0	0	7	0
Returned	17	6	2	0	14	2	1	0	2	0	11	5

\* Period from September to December.

Note:

<sup>5</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.

<sup>6</sup> 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 Under CMSA**

Regulated Activities	Dealing in Securities		Trading in Futures Contract		Fund Management		Advising on Corporate Finance		Investment Advice		Financial Planning		Financial Planning (Individual)	
	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*
Issued	26	11	4	8	65	25	34	8	18	4	18	9	5	7
Withdrawn	1	0	0	0	1	0	0	0	0	0	0	1	0	0
Returned	0	0	0	0	0	1	0	0	0	0	0	0	0	0

\* Period from September to December.

Table 6

**Application for Renewal of Representative's Licences Under CMSA**

Regulated Activities	Dealing in Securities		Trading in Futures Contract		Fund Management		Advising on Corporate Finance		Investment Advice		Financial Planning	
	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*
Issued	5,438	1,531	528	101	307	103	448	16	108	14	108	45
Withdrawn	2	0	0	0	0	1	0	0	0	0	0	0
Returned	1	0	1	0	1	0	2	0	0	0	2	1

\* Period from September to December.

Table 7

**Cessation of Company/Individual Licences Under CMSA**

Regulated Activities	Dealing in Securities		Trading in Futures Contract		Fund Management		Advising on Corporate Finance		Investment Advice		Financial Planning		Financial Planning (Individual)	
	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*
Ceased	1	0	1	1	3	0	3	1	1	0	2	1	3	1

\* Period from September to December.

Table 8

**Cessation of Representative's Licences Under CMSA**

Regulated Activities	Dealing in Securities		Trading in Futures Contract		Fund Management		Advising on Corporate Finance		Investment Advice		Financial Planning	
	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*
Ceased	371 <sup>7</sup>	62	57	6	76	21	137 <sup>8</sup>	3	40	4	43	8

\* Period from September to December.

Note:

<sup>7</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.

<sup>8</sup> 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**

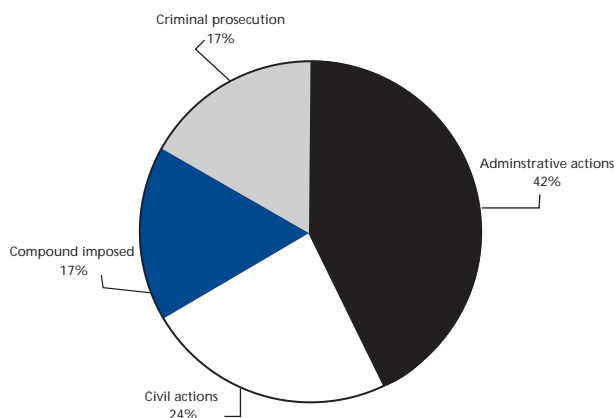
	2008	2007
Applications brought forward from previous year	0	0
New applications received	11	24
Granted	8	23
Withdrawn	1	0
Rejected	0	0
Returned	2	1
Applications carried forward to next year	0	0

## ENFORCEMENT

As part of the SC's continuous efforts to maintain market integrity and promote investors' confidence, we continued to take enforcement actions for breaches of securities laws. This involved the use of an array of enforcement tools to combat activities, such as market misconduct, investment scams and financial fraud in PLCs, together with other relevant agencies and money laundering activities.

In 2008, the SC used administrative, civil and criminal actions as well as compounds in employing its strategic approach in enforcement. The SC filed a civil suit against individuals locally and outside jurisdiction allegedly involved in market manipulation. Administrative actions, such as suspension and revocation of licences were taken against licensed persons whose conduct had not met the standards required by the securities laws.

*Chart 1*  
**Enforcement Actions in 2008**



The components of the statistics on administrative sanctions taken in 2008 comprised private reprimands, public reprimands, directives, fines and revocation/suspension of licences that were meted out following issuance of show cause notices under the various provisions of the SCA and the CMSA that empower the SC to take administrative enforcement actions. The administrative action statistics reported in previous years had included regulatory tools such as issuance of warning letters and reminders.

*Table 1*  
**Enforcement Actions in 2008**

Type	Total
Administrative actions (No. of sanctions)	18
Civil actions (No. of individuals)	10
Compounds imposed (No. of individuals)	7
Criminal prosecution (No. of individuals/entity)	7

*Table 2*  
**Administrative Actions Taken in 2008**

Type	Total
Revocation/suspension of licences	6
Directives	4
Private reprimands	5
Imposition of fines	3

Table 3  
Details of Criminal Prosecution

No.	Nature of Offence	Offender(s)	Facts of Case	Date Charged
<b>CRIMINAL PROSECUTION INITIATED – PERSON CHARGED</b>				
1.	Holding out as a fund manager without a licence.  Money laundering.	Phazaluddin Abu	Phazaluddin Abu was charged under section 15A of the SIA and section 4(1) <i>Anti Money Laundering and Anti Terrorism Financing Act 2001</i> , where he was charged to have held himself out to be a fund manager without a licence. He was alleged to have committed the offence through the Internet website www.danafutures.com.	Phazaluddin was charged on 29 February 2008.
2.	Furnishing misleading statement to the SC and Bursa Malaysia.	Ang Sun Beng Ang Soon An	Ang Sun Beng and Ang Soon An, the former Managing Director and Executive Director of Welli Multi Corporation Bhd (WMCB), were both charged with four counts under section 122B(a)(bb) SIA read together with section 122(1) SIA for furnishing to the SC and Bursa Malaysia misleading statements in WMCB's annual report FYE 2005 and quarterly report for the financial period ended 31 March 2006, 30 June 2006 and 30 September 2006.	Ang Sun Beng and Ang Soon An were charged on 15 April 2008.
3.	False Statements to Bursa Malaysia in four of Satang Holding Bhd's quarterly financial reports.	Jamaluddin Hassan Gan Chin Sam Hakim Sukirman	Jamaluddin (Executive Chairman and Managing Director), Gan (Executive Director) and Hakim (Executive Director) had knowingly authorised the furnishing of false statements to Bursa Malaysia in four of its quarterly financial reports.	Jamaluddin, Gan and Hakim were charged on 4 December 2008.
4.	Directly employing a scheme to defraud in connection with trading in futures contracts and trading on behalf of another without a licence.	Raja Noor Asma Raja Harun	Raja Noor Asma was charged for employing a scheme to defraud investors of FX Capital Consultant (M) Sdn Bhd and FX Consultant and trading futures contracts on behalf of another without a licence.	Raja Noor Asma Raja Harun was charged on 17 December 2008.
No.	Nature of Offence	Offender(s)	Facts of Case	Punishment
<b>OUTCOME OF CRIMINAL PROSECUTION – PERSONS FINED</b>				
1.	Multiple IPO share applications.	Gan Yew Chok	The SC's investigation found that Gan had used the identity cards of several individuals living in rural Kelantan when he applied for the IPO shares of Ulbon Bhd and Metrod (M) Bhd in 1995 and 1996. He made a profit of RM57,000 from the sale of these shares, when 11 of the multiple share applications he put in were successfully balloted.	Gan pleaded guilty and was convicted of both offences and fined (in total) RM70,000, in default six months imprisonment.
2.	Short selling.	Ahmad Skhri Ramli	Ahmad Skhri short sold 202 lots of AKN Technology Bhd shares.	Ahmad Skhri was charged on 16 January 2002.

Table 3 (con't)

Details of Criminal Prosecution

No.	Nature of Offence	Offender(s)	Facts of Case	Punishment
<b>OUTCOME OF CRIMINAL PROSECUTION – PERSONS FINED</b>				
				<p>On 21 December 2006, he was convicted of two charges under section 41(1)(a) SIA read together with section 122C(c) of the same Act for abetting PBSN in the short selling of 202 lots of AKN Technology Bhd shares.</p> <p>Ahmad Shkri was fined RM300,000 (in default 12 months imprisonment).</p> <p>Ahmad Shkri filed an appeal against the sentence to the High Court.</p>
3.	Acting as a fund manager's representative without a licence.	Siti Mariam Berahim	Siti Mariam acted as a fund manager's representative for Perdana Technology Ventures Sdn Bhd (PTV) without a licence.	Siti Mariam and Dr Barjoyai were both convicted of the offences on 13 March 2008.
	Engaging unlicensed persons to carry out the activities of a fund manager's representative.	Dr Barjoyai Bardai	Dr Barjoyai Bardai, was charged in his capacity as a director of PTV for breaching PTV's licence condition of allowing Siti Mariam Berahim and another person, Nublan Zaky Yusoff, to act as its fund manager's representatives without licences.	<p>On 25 March 2008, the Sessions Court fined Siti Mariam RM50,000, in default six months imprisonment and Dr Barjoyai RM100,000 in default eight months imprisonment.</p> <p>The accused and prosecution respectively filed an appeal against the sentence at the High Court.</p>
4.	Operating an illegal futures market.	Jomi @ Umi Kamandan	Jomi, Kong, Henny and Emorevest operated an illegal futures market at the premises of Emorevest Sdn Bhd.	<p>On 28 May 2008, all four accused persons pleaded guilty and were convicted for the offence.</p> <p>The court imposed the following sentences:</p> <ul style="list-style-type: none"> <li>• RM50,000 fine in default one year imprisonment each against the first and second accused;</li> <li>• RM30,000 fine in default eight months imprisonment against the third accused; and</li> <li>• RM50,000 fine against the fourth accused.</li> </ul>
		Emorevest Sdn Bhd		
		Kong Kim Fung		
		Henny O Borubui		
<b>OUTCOME OF CRIMINAL PROSECUTION</b>				
1.	Short selling.	CIMB Securities Sdn Bhd (CIMB Securities)	CIMB Securities, Credit Lyonnais and Ng short sold 141,000 units of Proton Bhd shares.	<p>CIMB Securities, Credit Lyonnais and Ng were charged on 11 December 1997.</p> <p>CIMB Securities, Credit Lyonnais and Ng were convicted on 17 May 2004. CIMB Securities and Credit Lyonnais were fined RM400,000 each and Ng was fined RM200,000 (in default one year's imprisonment). The fine was paid.</p>
		Credit Lyonnais Securities (Singapore) Pte Ltd (Credit Lyonnais)		
		Ng Wai Hong		

Table 3 (con't)

## Criminal Prosecution Initiated in 2007

No.	Nature of Offence	Offender(s)	Facts of Case	Punishment
<b>OUTCOME OF CRIMINAL PROSECUTION</b>				
				<p>CIMB and Credit Lyonnais filed an appeal against the conviction and sentence to the High Court. The prosecution also filed cross appeals against all parties on the sentences.</p> <p>The High Court ruled that it can proceed to hear the appeals in the absence of written grounds of decision by the late Sessions Court judge.</p> <p>CIMB and Credit Lyonnais' appeals to the Court of Appeal and the Federal Court against the High Court's ruling were dismissed. The case is now remitted back to the High Court for the hearing of the appeals on its merits.</p>
<b>OUTCOME OF CRIMINAL PROSECUTION – PERSONS ACQUITTED</b>				
1.	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 that contained false information on the allocation of pink form shares to the employees to be submitted to the SC.	<p>Tan was acquitted and discharged by the High Court on 6 March 2008.</p> <p>The prosecution filed an appeal against the acquittal at the Court of Appeal.</p>
2.	Submission of false statements in connection to: <ul style="list-style-type: none"> <li>an application for licence; and</li> <li>an application for renewal of the above licence.</li> </ul>	Tam Kut Hing	Tam, the Managing Director of PI Capital Asset Management Sdn Bhd (PI Capital), submitted false statements in connection with PI Capital's application for a fund manager's licence and an application for the renewal of the licence a year after.	<p>Tam was charged on 15 April 1998.</p> <p>He was acquitted by the Sessions Court on 29 November 2002 and by the High Court on 28 February 2006.</p> <p>The public prosecutor's appeal against the acquittal was dismissed by the Court of Appeal on 10 October 2008.</p>

Table 4  
Details of Civil Actions Taken

No.	Offence	Plaintiff(s)	Brief facts of the case
1.	<p>Market rigging.</p> <p>Market manipulation.</p> <p>Use of fraudulent scheme and device in connection with the purchase or sale of securities.</p> <p>Acting as an investment adviser/ investment representative without licence.</p>	<ul style="list-style-type: none"> <li>• Aeneas Capital Management, LP</li> <li>• Thomas R. Grossman</li> <li>• Richard Cohen</li> <li>• John Suglia</li> <li>• Priam Holdings Ltd</li> <li>• Aeneas Evolution Portfolio, Ltd</li> <li>• Aeneas Portfolio Company, LP</li> <li>• Acadian Worldwide Inc</li> <li>• Dato' Tan Mong Sing</li> <li>• Low Thiam Hock</li> </ul>	<p>On 9 April 2008, the SC filed a civil suit against eight foreign defendants and two local individuals. The SC sought for–</p> <ul style="list-style-type: none"> <li>• a declaration that all the defendants conspired to manipulate the market and share price of Iris, and defrauded investors;</li> <li>• a declaration that all profits earned by the defendants to be held in constructive trust for the benefit of the affected investors;</li> <li>• orders that all the assets and properties of each of the defendants be traced and followed, and then paid to the SC for the purpose of compensating the affected investors;</li> <li>• permanent injunction to restrain each of the defendants from trading in Iris shares;</li> <li>• permanent injunction to restrain each of the defendants from trading in any counter on Bursa Malaysia or MESDAQ; and</li> <li>• general and exemplary damages.</li> </ul>

Table 5  
Details of Compound Offered

No.	Nature of Offence	Offender(s)	Facts of Case	Compound Offered
<b>COMPOUND OFFERED</b>				
1.	Breach of condition of approval for proposal.	Chan Ah Chye	<p>On 14 June 2001, Talam Corporation Bhd (TCB) through its adviser, Abrar Discounts Bhd (Abrar) submitted a proposal to the SC for a proposed issuance of RM600 million <i>al bai bithaman ajil</i> Islamic debt securities (BalDS) by Maxisegar Sdn Bhd, a wholly-owned subsidiary of TCB.</p> <p>Purpose of the issuance of the BalDS was to part finance the construction of the main campus of Universiti Industri Selangor (UNISEL) and the development of three pieces of land alienated by the Selangor State Government to Maxisegar Sdn Bhd.</p> <p>On 7 September 2001, the SC approved the proposal subject to certain conditions, among others, any variation to the terms and conditions of the issuance must be approved by the SC.</p> <p>RM90 million of the BalDS proceeds was withdrawn and utilised for purposes other than the approved purpose without seeking the SC's prior approval.</p>	Chan was compounded RM500,000 for the offence.
2.	Abet in the making of a statement that is misleading in material particular.	Lo Chok Ping	<p>Lo was compounded for abetting Transmile Group Bhd (TGB) in making a statement that was misleading in a material particular in TGB's quarterly report on unaudited consolidated results for the financial year ended 31 December 2006.</p> <p>At the material time, Lo was the Chief Financial Officer and Executive Director of TGB respectively.</p>	Lo was compounded RM700,000 for the offence.
3.	Opened securities accounts under names of nominees who were not the beneficial owners.	Patric Lim Hong Koon	Opened accounts at Omega Securities Sdn Bhd and Amsteel Securities Sdn Bhd under the name of various nominees for Soh Chee Wen.	Patric was compounded RM500,000 for the offence.
4.	Giving a misleading statement to the stock exchange relating to affairs of the company.	Tan Chin Han	Tan Chin Han, WMCB's former Executive Director and Chief Executive Officer, was compounded RM100,000 for knowingly authorising the furnishing of a misleading statement to Bursa Malaysia on 28 February 2007, in breach of section 122B SIA. The misleading statement related to the revenue figures in WMCB's quarterly report for the financial period ended 30 September 2006.	Tan was compounded RM100,000 for the offence.



Table 5 (con't)

## Details of Compound Offered

No.	Nature of Offence	Offender(s)	Facts of Case	Compound Offered
<b>COMPOUND OFFERED</b>				
5.	Causing to be issued a prospectus which contained false information.	Ng Chee Loong	Ng, principal of Messrs Michael Ng and Associates (Reporting Accountant of Energro Bhd), was charged for causing to be issued Energro Bhd's prospectus that contained false information, namely Milan Auto (M) Sdn Bhd's turnover for 2003 was RM82.336 million.	Ng's charge was withdrawn after he paid a compound of RM800,000.
6.	Knowingly permits the making of misleading statement to Bursa Malaysia.	Lee Yoon Wah	Lee knowingly permitted the making of a misleading statement to Bursa Malaysia with regards to United U-Li Corporation Bhd's profit before tax as reported in the audited financial statements for the year ended 31 December 2004.  At the material time, Lee was a Managing Director and CEO of United U-Li Corporation Bhd.	Lee was compounded RM200,000 for the offence.
7.	Abet in the making of a false statement to Bursa Malaysia.	Yue Chi Kin	Yue abetted United U-Li Corporation Bhd in making a misleading statement to Bursa Malaysia with regards to its profit before tax as reported in the audited financial statements for the year ended 31 December 2004.  At the material time, Yue was the auditor of Roger Yue, Tan and Associates which audited the said financial statements.	Yue was compounded RM200,000 for the offence.

Table 6

## Administrative Actions

No.	Nature of Offence	Offender(s)	Facts of Case	Date
<b>SUSPENSION OF LICENCE</b>				
1.	<p>Breached the minimum criteria as set out in the Schedule of the SIA with regard to probity, competence and soundness of judgment in fulfilling his responsibilities as a dealer's representative.</p> <p>Failed to perform duties efficiently, honestly or fairly.</p>	Patrick Taylor	Failed to carry out supervisory duties over dealer's representative Lee Hooi Li which resulted in unauthorised use of five clients' accounts for the trading of Iris Corporation Bhd (Iris) shares continuously for 27 days.	Suspension of dealer's representative licence for six months effective 23 April 2008.
2.	<p>Breached the fit and proper criteria set out in the Schedule to the SIA.</p> <p>Breached the fit and proper criteria set out in section 65(1)(g) (iv) and (v) of the CMSA.</p>	Chia Chin Ee	<p>Executed sales transactions for odd lots that far exceeded the prevalent market price then.</p> <p>Failure to inform management of CIMB Securities of the said suspicious transactions.</p>	Suspension of licence for four weeks effective 24 July 2008.
3.	<p>Breached condition of dealer's representative's licence.</p> <p>Breached the fit and proper criteria set out in the Schedule to the SIA.</p>	Gan Puay Pin	<p>Allowed unlicensed trading clerk to directly receive and execute client's orders.</p> <p>The orders to buy odd lots far exceeded the prevalent market price then and failed to inform the management of Kenanga Investment Bank Bhd (Kenanga Investment) of the suspicious transactions.</p>	Suspension of licence for four weeks effective 14 August 2008.
4.	<p>Breached condition of dealer's representative's licence.</p> <p>Breached the fit and proper criteria set out in the Schedule to the SIA.</p> <p>Breached proper and fit criteria set out in section 65(1)(g) (iv) and (v) CMSA.</p>	Yap Eng Guan	<p>Allowed unlicensed trading clerk to directly receive and execute client's orders.</p> <p>The orders to buy odd lots far exceeded the prevalent market price then.</p> <p>Executed further odd-lot transactions despite the client's failure to settle earlier trades.</p> <p>Failed to inform the management of Kenanga Investment of the suspicious transactions.</p>	Suspension of licence for eight weeks effective 14 August 2008.

Table 6 (Con't)

**Administrative Actions**

No.	Nature of Offence	Offender(s)	Facts of Case	Date
<b>REVOCAION OF LICENCE</b>				
1.	Breached the minimum criteria as set out in the Schedule of the SIA with regard to probity, competence and soundness of judgment in fulfilling the responsibilities as a dealer's representative.  Failed to perform duties efficiently, honestly or fairly.	Lee Hooi Li	Used five clients' accounts for the trading of Iris shares without their prior consent, displaying total disregard to the regulatory controls put in place for clearing accounts, continuously for 27 trading days.	Lee dealer's representative's licence was revoked on 23 May 2008.

**Enquiries and Complaints Received**

The nature of enquiries or complaints which the SC received spanned the spectrum of market activities that involved possible breaches of securities laws, unfair market conduct, tip-offs and whistle-blowing information. A trend analysis of complaints and enquiries helped us identify areas of potential concern (as was the case with Internet scams), persistent market misconduct, gaps in market processes or investor knowledge, and issues of regulatory or policy concern. This assisted the SC in its preventative enforcement efforts and often steps were taken to prevent adverse impact on investors.

Chart 3

**Complaints Received in 2008**

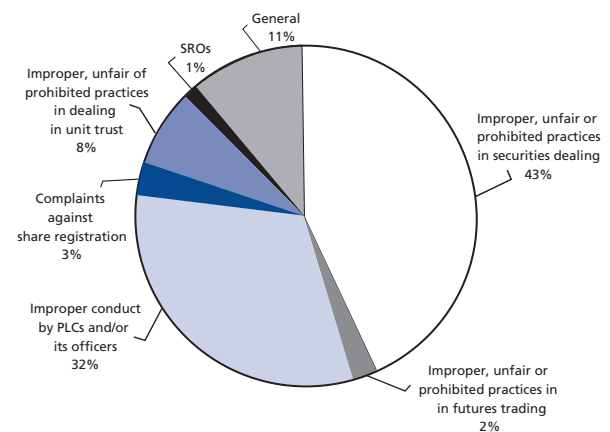


Chart 2

**Enquiries Received in 2008**

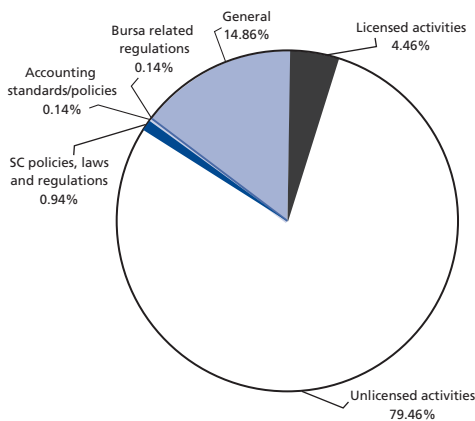
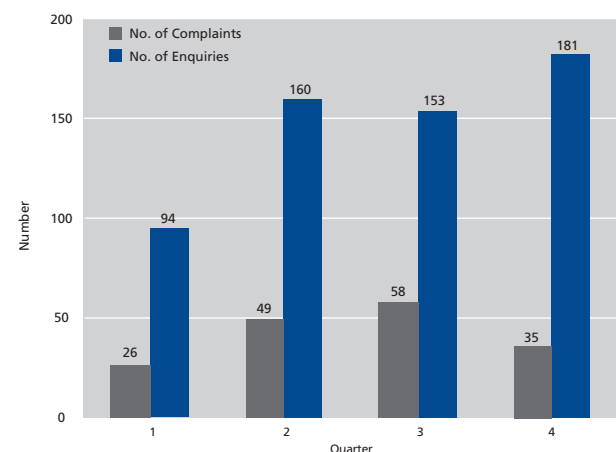


Chart 4

**Complaints and Enquiries on Scams in 2008**



## PUBLICATIONS ISSUED IN 2008

### GUIDELINES AND CODES

*Prospectus Guidelines for Collective Investment Schemes*

(Issued: January)

*Application for Establishment of a New Stockbroking Company*

(Issued: 8 January)

*The Application of the Malaysian Code on Take-Overs and Mergers, 1998 in Relation to Over-allotment Option and Price Stabilisation Mechanism*

(Effective Date: 11 January)

*Guidelines on Securities Borrowing and Lending*

(Issued: 27 December 2006)

(Amended as at 11 January 2008)

*Guidelines on the Offering of Equity and Equity-linked Securities*

(Effective Date: 1 February)

*Guidelines on the Offering of Equity and Equity-linked Securities for the MESDAQ Market*

(Effective Date: 1 February)

*Guidelines on Principal Advisers for Corporate Proposals*

(Effective Date: 1 February)

*Prospectus Guidelines*

(Issued: May 2003)

(Amended as at 1 February 2008)

*Guidelines on Due Diligence Conduct for Corporate Proposals*

(Effective Date: 1 February)

*Guidelines on Unit Trust Funds*

(Issued: 3 March)

*Guidelines on Marketing and Distribution of Unit Trust Funds*

(Issued: 3 March)

*Guidelines on Unit Trust Advertisement and Promotional Materials*

(Issued: 3 March)

*Guidelines for the Appointment of Related-party Trustees*

(Revised Edition: 3 March)

*Guidelines on Market Conduct and Business Practices for Stockbrokers and Licensed Representatives*

(Issued: 8 April)

*Guidelines and Best Practices on Islamic Venture Capital*

(Issued: 7 May)

*Guidelines on Online Transactions of and Online Activities in Relation to Unit Trusts*

(Revised Edition: 19 August)

*Guidelines for the Offering, Marketing and Distribution of Foreign Funds*

(Revised: 3 March 2008)

(Issued: 21 August 2008)

*Guidelines on Electronic Contract Notes*

(Issued: 28 April 2005)

(Revised: 18 November 2008)

### BOOKS, REPORTS AND CONSULTATION PAPERS

*Resolutions of the Securities Commission Shariah Advisory Council (Arabic version)*

(Issued: 4 March)

*Securities Commission Annual Report 2007*  
(Issued: 31 March)

*Laporan Tahunan 2007 Suruhanjaya Sekuriti*  
(Issued: 31 March)

## 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 28 November)

### Bulletins

*Malaysian ICM*  
(Issued: January, April, July and November)

*Capital.My*  
(Issued: August and October)

*The Reporter*  
(Issued: January, July and December)

### Pamphlets

*Dynamic – Innovative – Comprehensive*  
*Malaysia: Asia's Gateway for Islamic Investments*  
(Issued: 4 January)

*Investment in Unit Trust Funds That are Listed and Traded on the Stock Exchange – Islamic ETF*  
(Issued: 4 January)

### SECURITIES COMMISSION WEBSITES

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

## CALENDAR OF EVENTS

JANUARY	
8	A delegation from the National Iranian Copper Company and Tehran Stock Exchange visited the SC.
11	The SC introduced “green shoe” option and price stabilisation mechanism for IPOs.
13–15	The SC participated as co-exhibitor under the MIFC in the inaugural MATRADE Malaysia Services Exhibition at Sharjah Expo Centre, Sharjah, United Arab Emiriyyah.
14	The Executive Director, Strategy and Development represented the SC in the MIFC road show to Hong Kong.
24	A group of 30 representatives from Indonesian PLCs, investment banks, national rating agency and academia visited the SC.
24	The SC Chairman delivered a commemorative lecture entitled, “Enhancing Confidence in the Capital Market” at the Annual MICPA Anniversary Commemorative Lecture in Kuala Lumpur.
25	The SC and SIDC co-hosted the launch of StarBiz-ICR Malaysia Corporate Responsibility Awards in Kuala Lumpur.
28	The SC Managing Director and Executive Director, Enforcement, delivered the keynote address at the MICG Conference on “Recent Changes in the Corporate Legal Framework Towards Better Corporate Governance – Its implications on Directors’ Duties” in Kuala Lumpur.
30–31	The SC participated in the Zakat Workshop for Islamic Financial Institutions and Products, organised by Lembaga Zakat Selangor.
31	The SC issued a set of new and revised guidelines as part of its efforts to create a more competitive capital market environment through the liberalisation of fund-raising requirements and raising standards of advisory and due diligence conduct by market intermediaries.
FEBRUARY	
21–25	The SC Managing Director and Executive Director, Enforcement represented the SC in the MIFC road show to Japan. The delegation was led by BNM Governor and met with potential issuers and investors.
26	The SC Managing Director and Executive Director, Enforcement attended the 9th OECB-ADBI roundtable on Capital Market Reform in Asia, in Tokyo, Japan and delivered a presentation on “Bond Market Development in Malaysia.”
26	The SC Chairman delivered a speech and presented awards at the annual The Edge-Lipper Unit Trust Fund Awards 2008 in Kuala Lumpur.

FEBRUARY	
27	The SC Chairman delivered a regulatory keynote address on “Setting the Framework for Further Development of Malaysian Capital Market: What Has Been Done and What Should Be Done?” at the MIBA’s Regional Capital Market Conference 2008 in Kuala Lumpur.
27	A delegation from the Monetary of Singapore visited the SC.
29	The SC charged Phazaluddin Abu for holding out as a fund manager without a licence.
MARCH	
3	The SC issued the revised <i>Guidelines on Unit Trust Funds</i> and the new <i>Prospectus Guidelines for Collective Investment Schemes</i> to facilitate continued growth and enhance competitiveness of the unit trust industry.
3	All registrable prospectuses for the issuance of shares or securities relating to the IPO of companies and collective investment schemes to be listed on Bursa Malaysia Securities were made publicly available on the SC website to enable the public to assess the documents and submit their comments to the SC.
10	Trading on Bursa Malaysia Securities and on KLCI Futures (FKLI), KLCI Options (OKLI) and single stock futures (SSF) derivatives products on Bursa Malaysia Derivatives Bhd was temporarily halted. The SC and Bursa Malaysia assured the public that market integrity remained intact, in spite of the activation of the market-wide circuit breaker.
11	The SC Chairman delivered the keynote address on “Regional Regulatory Update: Developing a More Islamic Friendly Asia” at the Islamic Funds Asia 2008 Conference organised by Terrapin Singapore, in Kuala Lumpur.
11	Representatives from the Capital Market Board of Turkey visited the SC.
14	The SC chaired the meeting of the ASEAN Heads of Securities Regulators in Kuala Lumpur.
22	The SC Chairman delivered the keynote address on “The New Frontiers of Financial Planning” at the FPAM’s International financial Planning Advisers Conference 2008 in Kuala Lumpur.
24	A delegation from the National Assembly’s National Policy Committee, South Korea visited the SC.
27	The SC organised the International Islamic Capital Market Forum themed “Product Innovation: ETF and Commodity <i>Murabahab</i> ”. The Deputy Finance Minister I delivered the keynote address at the forum.
27	The SC announced several new initiatives which reinforced its role as a leading advocate of ICM development. The initiatives included– <ul style="list-style-type: none"> <li>• strengthening partnerships through collaborative efforts;</li> <li>• the establishment of an International Advisory Committee; and</li> <li>• convening of the semi-annual International Islamic Capital Market Forum.</li> </ul>
31	The SC released its <i>Annual Report 2007</i> .
APRIL	
8	The SC introduced <i>Guidelines on Market Conduct and Business Practices</i> to strengthen investor protection by promoting responsible conduct among stockbrokers and their representatives.
9	The SC initiated a milestone civil enforcement action against eight foreign parties and two Malaysians for the manipulation, market rigging and fraud of Iris Corporation Bhd shares.
15	The SC charged Ang Sun Beng and Ang Soon An, the former Managing Director and Executive Director of Welli Multi Corporation Bhd, for four counts of furnishing misleading statements to the SC and Bursa Malaysia.

APRIL	
16–18	The SC participated in the <i>Muzakarah</i> of Shariah Council Members of Financial Institutions in Malaysia organised by the Malaysian Islamic Development Department (JAKIM) in Melaka.
19–27	The SC participated in the Minggu Saham Amanah Malaysia 2008 (MSAM 2008) exhibition organised by Permodalan Nasional Bhd in Melaka.
21–22	Representatives from the Capital Markets and Securities Authority of Tanzania paid a study visit to the SC.
28–29	The board members of the Capital Market Board of Uganda visited the SC.
28	A delegation from the Hong Kong Securities Institute including its Chairman and senior representatives visited the SC.
MAY	
7	The SC warned members of the public against investing in any investment product purportedly marketed under the names “Credit Suisse Investment” or “CSI” or any other investment products offered by or through Beneficence International investment (Group) Company Limited or any other related entities.
7	The SC introduced the <i>Guidelines and Best Practices on Islamic Venture Capital</i> to promote the adoption of appropriate standards for the development of the Islamic venture capital industry.
7	The SC Managing Director and Executive Director, Enforcement delivered a keynote address entitled, “Taking the Lead in Developing a Robust Islamic Venture Capital and Private Equity Industry” at the Islamic VC and Private Equity Conference 2008 in Kuala Lumpur.
7–11	The SC participated in the Malaysia International Halal Showcase (MIHAS 2008) at the MATRADE Exhibition and Convention Centre.
13	The SC Chairman presented a paper on “Regional Integration of Islamic Capital Markets” at the 5th IFSB Summit in Jordan.
16	The SC Managing Director and Executive Director, Market Supervision, delivered the keynote address on “Malaysian Corporate Governance and Its Impact on the Competitiveness of the Country” at the Malaysian Corporate Governance Conference organised by the ASLI.
21–23	The Executive Director, Strategy and Development, represented the SC and participated in the panel session on Asia at the Annual International Auditor Regulatory Conference in Washington DC, US. The conference was organised by the Public Company Accounting Oversight Board.
21	Representatives from Kuwait Finance House Group Treasurers paid a courtesy visit to the SC.
22	The SC Managing Director and Executive Director, Enforcement delivered a keynote address at the 6th ACCA Malaysia Environmental and Social Reporting Awards (MESRA) 2007 in Kuala Lumpur.
26–29	The SC participated in the 33rd Annual Conference of the IOSCO in Paris, France. The SC Chairman was elected as the Vice-Chairman of the IOSCO EMC during the conference.
28	A delegation comprising 15 officials from the Ministry of Finance, Lao PDR, headed by the Vice Minister of Finance visited the SC.
30	The SC released an updated list of Shariah-compliant securities by the SAC which took effect from 30 May 2008.



<b>JUNE</b>	
2	A group of officials from Kuwait Stock Exchange visited the SC.
13	Senator Tan Sri Datuk Amirsham Abdul Aziz, Minister at the Prime Minister's Department visited the SC.
16	The SC Managing Director and Executive Director, Enforcement, represented the SC as a panelist at the ASEAN Roundtable on "Sustainability and Eco-responsibility Efforts" in Kuala Lumpur.
16-18	Representatives from Bapepam-LK Indonesia visited the SC.
17	The SC Managing Director and Executive Director, Market Supervision delivered the opening address at the 4th Asia-Pacific Audit and Governance Summit in Kuala Lumpur.
17	A few officials from the Hong Kong Monetary Authority and the Securities and Futures Commission, Hong Kong visited the SC.
18	The SC Chairman delivered the special address on "Sustainability in the New Islamic Capital Market Frontier" at the Malaysian Islamic Capital Market Programme, organised by Bursa Malaysia in Kuala Lumpur.
23	The SC Chairman delivered a speech entitled, "Building Linkages and Promoting Cross-border Activities" at the Islamic Finance Asia Summit 2008 in Kuala Lumpur.
26	The SC Chairman delivered a keynote address entitled, "Accelerating ASEAN Integration and Strengthening Capital Market" at the Citi ASEAN Conference 2008 in Kuala Lumpur.
<b>JULY</b>	
1	Representatives from the US Department of Treasury and the US Embassy in Malaysia visited the SC.
2-4	The SC and the Institute of Management Development (Switzerland) co-organised the 2nd Financial Leaders Forum.
6-11	The SIDC organised the Islamic Markets Programme 2008 themed, "Product Innovation: Integrating Shariah and Market Needs".
7 & 10	A few officials from the Securities and Exchange Commission of Pakistan visited the SC.
9-11	A 12-member delegation comprising representatives from the Jordanian Securities Commission, Amman Stock Exchange, the Securities Depository Centre and senior representatives from the private sector in Jordan visited the SC.
14	The SC approved the applications of three leading financial institutions to establish Islamic fund management companies in Malaysia. The three were Kuwait Finance House (Malaysia) Bhd, DBS Asset Management Ltd and CIMB-Principal Islamic Asset Management Sdn Bhd.
22	The SC hosted the SC-Bursa Malaysia high-level management meeting.
<b>AUGUST</b>	
7	The SC hosted the first ACMF and ADB Workshop on Regional Integration of Capital Markets in ASEAN: Vision and Implementation, in Kuala Lumpur.
8	The SC chaired the 9th ACMF meeting in Kuala Lumpur. At the meeting, ACMF endorsed a set of harmonised ASEAN and Plus standards to facilitate cross-border offerings across ASEAN.

AUGUST	
11	The SC Chairman and the BNM Governor launched the MIFC Communications campaign during the 3rd Malaysian Issuers and Investors Forum (MIF) in Kuala Lumpur.
12	The SC Chairman delivered a keynote address entitled, “Malaysia’s Islamic Capital Market – Evolving from Meeting the Needs of Muslim Savers to Becoming a Global Hub” at the Malaysian Islamic Finance (MIF) Issuers and Investors Forum 2008 in Kuala Lumpur.
13	A delegation from Egypt headed by the Minister of Investment visited the SC.
14	The SC Chairman delivered a keynote address entitled, “Malaysian Bond Market: Weathering the Storm” at the Rating Agency Malaysia (RAM) Annual Bond Conference in Kuala Lumpur.
19	The SC participated in The Edge-Bursa Malaysia Rat Race, which was organised by <i>The Edge</i> and hosted by Bursa Malaysia.
20	Representatives from BMD Securities, Turkey visited the SC.
21	The SC issued the revised <i>Guidelines on Real Estate Investment Trusts</i> to enhance the attractiveness of Bursa Malaysia as a destination for REIT listings and promote a vibrant and competitive REIT industry domestically and regionally.
21–26	The SC Managing Director and Executive Director, Enforcement represented the SC in the MIFC road show to Australia.
25	The SC Chairman delivered a keynote address at the FELDA Finance Conference in Langkawi.
SEPTEMBER	
25	The SC approved Nomura Group’s application to establish a stockbroking company in Malaysia. The licence granted is one of three stockbroking licences available to be issued to leading stockbroking companies.
29	The SC obtained a landmark High Court judgement against three defendants involved in the Swisscash investment scam which would ultimately lead to the scam’s investors being compensated.
29	The SC approved the application of Japan Asia Investment Co. Ltd (JAIC), one of the largest VCCs in Japan, to undertake venture capital activities in Malaysia. The registration of JAIC marked the entry of the first foreign VCC in Malaysia.
OCTOBER	
8–10	The SC participated in the IOSCO EMC and the EMC Advisory Board meetings in Marrakech, Morocco.
15	The SC completed its efforts to restitute investors of Powerhouse Asset Management Sdn Bhd (Powerhouse) following the SC’s civil suit in November 2007 against Powerhouse and its Singaporean Executive Director and shareholder Tan Kok Kheng.
15	The SC Managing Director and Executive Director, Enforcement delivered a keynote address at the 4th Asian Venture Capital Journal Forum in Kuala Lumpur.
18–24	The SIDC organised the annual Emerging Markets Programme (EMP) in Kuala Lumpur with the theme “Competition, Collaboration and Compliance”.
20–26	The SC participated in the Financial Awareness Week organised by BNM in Johor Bahru.

<b>OCTOBER</b>	
22	The SC held its Hari Raya Open House for its stakeholders and a Hari Raya luncheon for all SC staff on the same day.
22–27	The SC participated in the MIFC road show to the Middle East.
23	The High Court ruled in favour of the SC and dismissed with costs Nasioncom Holdings Bhd’s application for a judicial review of the SC’s directive issued in 2007 for the company to rectify and reissue its financial statements for the financial year ended 31 December 2005.
30	A delegation from the State Securities Commission of Vietnam and the Ministry of Finance Vietnam visited the SC.
30	The SC participated in the IOSCO APRC and APRC Enforcement Director’s meetings in Bali, Indonesia.
<b>NOVEMBER</b>	
5	Representatives from the Serious Organised Crime Agency (SOCA), UK visited the SC.
10	The SC and the Ministry of Finance co-organised the inaugural ASEAN Infrastructure Financing Mechanism (AIFM) Conference in Kuala Lumpur.
12	Dato’ Sri Mohd Najib Tun Abdul Razak, Deputy Prime Minister and Finance Minister visited the SC.
13	The SC organised the 2nd International Islamic Capital Market Forum.
18	The SC approved applications from Reliance Asset Management and Global Investment House to establish Islamic fund management operations in Malaysia.
20	The SC Chairman delivered the keynote address at the India-Malaysia Capital Market Forum, Mumbai, India.
28	The SC released the second updated list of Shariah-compliant securities by the SAC which took effect on 28 November 2008.
<b>DECEMBER</b>	
4	The Malaysian capital market regulatory framework scored top marks and achieved a very high level of compliance in an independent assessment conducted. The assessment was based on the IOSCO Objectives and Principles of Securities Regulation, the key global benchmark for the regulation of the capital market.
4	The SC Chairman delivered a special address entitled, “Coping with the Global Financial Turmoil, Restoring Investor Confidence” at the 13th Malaysian Capital Market Summit 2008 in Kuala Lumpur.
4–8	The Managing Director and Executive Director Enforcement and Executive Director, Issues and Investments participated in the MIFC road show to Brazil organised by the SC and Merrill Lynch.
9	The SC Chairman was named as “Communicator of the Year” by PR Consultants’ Association of Malaysia at the 2nd Malaysia Public Relations Awards in Kuala Lumpur.
11	The SIDC organised the “Kids and Cash” programme.
17	The SC charged Raja Noor Asma Raja Harun, Director of FX Capital Consultant (M) Sdn Bhd and FX Consultant for four counts of employing a scheme to defraud investors and for holding out as a futures broker without a licence.
26	Tan Sook Geok @ Tan Soon Leng, Executive and Managing Director of General Soil Engineering Holdings Bhd pleaded guilty and was imposed a fine of RM150,000 for submitting false information to the SC.

## 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
ASLI	Asian Strategy and Leadership Institute
BNM	Bank Negara Malaysia
Bursa Malaysia	Bursa Malaysia Bhd
Bursa Malaysia Securities	Bursa Malaysia Securities Bhd
BTS	Bursa Trade Securities
CCM	Companies Commission of Malaysia
CDS	Central Depository System
CIS	Collective investment scheme
CMDF	Capital Market Development Fund
CMP	Capital Market Masterplan
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
FIA	<i>Futures Industry Act 1993</i>
FIC	Foreign Investment Committee
FLR	Front-line regulator
FMUTM	Federation of Malaysian Unit Trust Managers
FPAM	Financial Planning Association of Malaysia
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
KLCI	Kuala Lumpur Composite Index
KLIBOR	Kuala Lumpur Interbank Offered Rate
KLSI	Kuala Lumpur Syariah 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
MVDCD	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 company
REIT	Real estate investment trust
SAC	Shariah Advisory Council
SBC	Stockbroking company
SC	Securities Commission
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