Suruhanjaya Sekuriti
Securities Commission
Malaysia

annual report 2014

MISSION STATEMENT

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

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CHAIRMAN'S MESSAGE

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I am pleased to present the annual report of Securities Commission Malaysia, which provides an account of our activities and organisational performance in 2014.

As the regulator for the Malaysian capital market, the SC is responsible for ensuring its orderly functioning as an efficient and effective conduit for the mobilisation of savings and investments into financing the real economy.

A key measure of the capital market is the extent to which it facilitates capital formation as well as income growth through the ability of individuals to benefit from opportunities in the capital market, be it directly or indirectly.

Such an appreciation for the capital market's role in the real economy underpins the philosophy of the SC, and continued to shape our policy direction and operations in 2014.

Facilitating capital formation

Over the year, the capital market continued to serve as a vital source of financing for Malaysian businesses with RM92 billion raised through private debt securities issuances and initial public offerings.

With corporate sukuk accounting for 76% of total PDS issuances in 2014, Malaysia further strengthened its position as the world's leading Islamic capital market and largest sukuk issuer. Debut sukuk issuances by international financial centres including London, Hong Kong and Luxembourg further attested to growing global interest in Islamic finance.

The scale of capital market-based financing in Malaysia has also deepened significantly over the last decade, with an annual average of RM111 billion raised through corporate bonds and IPOs over the last three years, which is more than double the corresponding average of RM48 billion one decade ago.

This sustained capital-raising activity has enabled the capital market to weather external headwinds and grow to RM2.76 trillion by end-2014. This is almost three times the size of the Malaysian economy, illustrating the breadth and depth of its long-term financing capacity.

Broadening access for investors

Growth in the fund management industry has been an important driver of capital market deepening, with total funds under management rising to RM630 billion in 2014 compared to RM588 billion in 2013.

Islamic assets under management also grew to RM111 billion from RM98 billion a year ago, having registered a 24% annualised growth rate over the last five years, reflecting the industry's ability to develop under Malaysia's facilitative Islamic capital market environment. Recognising the importance of this market segment, the SC has begun work on a comprehensive review and set of measures to promote further growth in the Islamic fund and wealth management industry which we hope to announce in 2015.

A key contributor to the growth in fund management has been the expansion of collective investment schemes, including Malaysia's RM343 billion unit trust industry – the largest in Southeast Asia – as well as more diversified product offerings including real estate investment trusts and the Private Retirement Scheme (PRS) which serve as additional conduits for the mobilisation of domestic savings. The PRS industry, in particular, has registered encouraging growth since its launch in 2012 with 128,977 members across the nation and assets under management of RM716 million by end-2014.

By providing the benefits of portfolio diversification at a relatively low cost, greater availability of collective investment products has played an important role in broadening access to retail investors, enabling them to participate in the growth of the Malaysian capital market. The SC continues to welcome initiatives by the private sector in developing such cost-effective entry points for retail investors as we seek to promote more inclusive participation in the market.

Our efforts to this end were given impetus by the operationalisation of the ASEAN Framework for cross-border offering of collective investment schemes in August 2014. This framework is an important first step towards an eventual single passporting regime and provides Malaysian investors and intermediaries with opportunities to gain access to one of the most economically dynamic regions in the world.

Enhancing efficiencies

In 2014, the SC continued to pursue efficiencies within our regulatory framework to further optimise processes and enhance the competitive positioning of the capital market.

In line with SC's commitment to regulatory proportionality, we have pursued several rationalisation measures, including the upcoming lodge and launch framework which will significantly reduce time to market for wholesale products, the removal of several regulatory requirements for certain classes of intermediaries, as well as the liberalisation of the credit rating industry which would contribute towards lower cost of bond issuances and promote greater competition.

Such measures are an outcome of our on-going regulatory review which, like many of SC's other initiatives, benefited from regular engagements with stakeholders including those taking place via platforms such as the SC Annual Industry Dialogue and consultations with our high-level advisory groups. This consultative approach enables the SC to respond more swiftly to market developments and appropriately calibrate our initiatives to industry needs.

Preserving trust and confidence

The Malaysian capital market's ability to register positive overall growth in a challenging year is a testament to public trust and investor confidence in its integrity and soundness, which form the bedrock of liquidity necessary for its on-going functioning.

The preservation of such trust and confidence is the SC's overarching regulatory objective and has continued to inform our supervisory priorities in 2014.

In cognisance of potential risks arising from market uncertainties, over the year we have placed significant emphasis on strengthening the capital market's resilience to external headwinds.

Furthermore, we continued to foster a culture of good conduct among market participants through regulatory, market and self-disciplinary levers, while also establishing more robust cross-border supervisory mechanisms and advocating inclusive international regulatory reforms.

Strengthening resilience

In 2014, global market conditions continued to be a key driver of short-term sentiments in many emerging and regional markets. In Malaysia, this manifested in heightened market activity with average daily trading volume in the equity market rising to 2.16 billion shares in 2014, compared to 1.57 billion in 2013.

At the global level, financial markets remained in transition as investors responded to shifts in expectations arising from asynchronous normalisation of extraordinary monetary accommodation by major central banks as well as the decline in world commodity prices during the latter half of the year.

Recognising the potential for external volatility to be transmitted via cross-border linkages, SC has intensified our monitoring and surveillance activities to proactively anticipate such sources of risk and maintain fair and orderly market conditions.

Supervisory safeguards such as micro-prudential requirements on intermediaries and market infrastructure operators also ensured that they remain solvent and well-capitalised. Moreover, the adequacy of these safeguards was routinely stress-tested against a range of adverse scenarios, including tail-risk events.

These safeguards, as well as ample domestic institutional liquidity, have enabled the market to absorb the increased level of activity with adjustments by both domestic and foreign participants taking place in a gradual and orderly manner, thus resulting in the sustained resilience of the Malaysian capital market throughout 2014.

Advocating inclusive international reforms

These episodes of volatility, however, illuminate the crucial need for international policy and supervisory co-ordination, particularly as emerging markets including Malaysia continue to pursue greater cross-border interlinkages within global financial markets.

Through SC's leadership role in the International Organization of Securities Commissions (IOSCO), where I chair the Growth and Emerging Markets (GEM) Committee and serve as Vice-Chair of the Board, we have consistently advocated for global financial market participants to commit to international solutions which reflect the needs and circumstances of both emerging and advanced markets, instead of resorting to unilateral measures which may result in unintended consequences.

In particular, commitment by regulators to common international standards forms the basis for mutual reliance on supervisory arrangements, which facilitates greater cross-border capital market activities. Such arrangements have enabled the SC to leverage on a global information-sharing network among 103 securities regulators, thus expediting cross-border supervisory and enforcement efforts.

Raising standards of conduct

In building long-term resilience, the SC is mindful that the conduct of market participants remains one of the most important factors influencing investor confidence in the capital market.

The level of conduct risk posed by an entity is determined by various facets of its operations, requiring regulators to adopt a holistic view on factors ranging from corporate governance to the effectiveness of internal controls and assurance processes, as well as incentives shaping the behaviour of individual employees.

Conduct risk becomes an increasingly acute concern as financial innovation results in the lengthening of the risk intermediation chain, which may potentially exacerbate information asymmetries between investors and market intermediaries.

Recognising the need for early mitigation of such risks, the SC continued to strengthen our efforts to foster a culture of good conduct among market participants. Our supervisory activities in 2014 therefore concentrated on the effectiveness of governance and controls within intermediaries, involving close regulatory scrutiny of board and management deliberations, corporate culture and the effectiveness of critical functions such as client asset protection and conflict of interest management.

We also significantly reinforced our capabilities to detect and prevent potential money laundering and terrorism financing activities in the Malaysian capital market. Reforms effected to SC's anti-money laundering and counter-terrorism financing regime include the issuance of new internal guiding principles for supervision and enforcement against non-compliance by reporting institutions, as well as the initiation of parallel money-laundering investigation for high risk areas identified in Malaysia's National Risk Assessment exercise.

During the year, the SC also participated in the assessment undertaken by Malaysia with respect to its adherence with the recommendations of the Financial Action Task Force (FATF), an independent inter-governmental body responsible for developing and promoting policies to protect the global financial system against money laundering, terrorism financing and the financing of proliferation of weapons of mass destruction.

Enforcing discipline in markets

At the heart of our commitment towards preserving public trust and investor confidence in the capital market is a rigorous enforcement regime which enables the SC to take swift and decisive action against breaches of securities law.

Our ability to deploy a wide range of enforcement tools, including criminal prosecution, civil action and administrative sanctions, enables the SC to enforce the law in a manner that corresponds with the gravity of the offence, while also providing credible deterrence against future wrong doings.

This approach sends a clear message on the SC's commitment towards addressing behaviour that may compromise the integrity and fairness of the capital market, such as the abuse of privileged access to information.

As at year-end, a total of 41 trials and appeals are pending in the courts, including three cases at the apex Federal Court. By securing regulatory settlements from 11 individuals in 2014, we were also able to provide restitution to investors who suffered financial loss from such breaches.

Furthermore, a number of orders were successfully obtained from the High Court, including those barring individuals from serving on the board of listed companies and prohibiting them from trading on the exchange. Administrative sanctions were also meted out to licence holders and auditors that were found to have breached their respective regulatory requirements, further reinforcing the SC's commitment to ensuring good conduct among market participants.

Empowering investors

Our commitment to a rigorous enforcement regime is further complemented by efforts to enhance levers of self and market discipline. Investors, in particular, are in a strong position to deploy such levers as they have both legal and economic nexus to exert influence on an entity's conduct, thus enabling them to incentivise *ex-ante* internalisation of a culture of honest dealings and sound corporate governance.

Therefore, in 2014 we have taken steps to strengthen the capabilities of both institutional and retail investors in driving improvements in market conduct and corporate governance.

In June, SC and the Minority Shareholders Watchdog Group (MSWG) launched the *Malaysian Code for Institutional Investors* which outlines broad principles of effective stewardship in areas such as voting activities as well as monitoring and engagement of investee companies. The formulation and adoption of this Code by the country's largest institutional investors is a resounding indication of private sector leadership in promoting sound governance practices and marks an important milestone in Malaysia's corporate governance landscape.

At the same time, SC's efforts to encourage broader and more informed retail investor participation were further boosted by the launch of **InvestSmart™** – our new suite of investor outreach programmes premised on delivering easy-to-understand information via multiple platforms including Facebook, Twitter and a mobile app, which supplement existing modalities such as roadshows and workshops.

The adoption of this multi-modal strategy enabled the SC's reach to be widened across all segments of the investing public, particularly the younger and increasingly tech-savvy generation of investors. Our outreach programmes aim to promote more informed investor participation by educating them on their rights and responsibilities, as well as existing regulatory safeguards and available redress mechanism including the Securities Industry Dispute Resolution Center (SIDREC) and the Capital Market Compensation Fund (CMCF).

Financing the future

As a regulatory institution, the remit of the SC requires us to look beyond the immediate. In this regard, we are responsible for ensuring that the capital market is equipped with the capacity to meet not only the present, but also the future financing needs of the Malaysian economy.

One of the most significant concerns across the world today is the ability of economies to sustain their growth momentum and pace of job creation. For such expansion to continue, access to long-term financing is essential – particularly for sectors which play a catalytic role in economic development including infrastructure as well as small and medium enterprises.

However, the growing demand for long-term financing has been met with supply-side constraints in traditional financing channels, necessitating a shift towards greater reliance on private capital and market-based financing.

Recognising the urgency of this matter, the SC has taken the initiative to lead a global effort among securities regulators to identify and address impediments to the mobilisation of private capital into long-term financing. The findings of the IOSCO Task Force on Long-term Financing, jointly chaired by SC and the Ontario Securities Commission, were published in a report presented to the G20 Finance Ministers and Central Bankers in September 2014.

For the SC, ensuring availability of long-term financing through the capital market to meet Malaysian investment needs is a clear national imperative, as it is not only vital to economic growth but also mitigates potential sources of systemic risk such as maturity and currency mismatches. The development of the corporate bond market, in particular, has been instrumental in meeting Malaysia's demand for long-term financing, such as the construction of the Klang Valley Mass Rapid Transit (MRT) public transportation system.

Building on to recent initiatives such as the introduction of retail bonds, which has broadened the investor base for fixed-income securities in Malaysia, the SC will continue to facilitate further market deepening in anticipation of the nation's future long-term financing needs and pursue greater efficiencies in the capital-raising process.

Spurring innovation

With private sector vibrancy increasingly correlated with economic dynamism, in 2014 the SC focused our developmental efforts on building new avenues for the financing of innovative and sustainable ventures which will be critical drivers of Malaysia's long-term growth.

One of our key target areas is SMEs, which account for 99% of businesses in Malaysia and 59% of employment but cite access to financing as one of their most important constraints. To address gaps in the SME financing ecosystem, the SC had developed the SME Investment Partners programme which enables private investors to provide businesses with non-collateralised financing and management expertise.

Work on a revised set of guidelines to spur further development in Malaysia's venture capital and private equity industry has also reached an advanced stage. The revised guidelines aim to accord greater flexibilities to participating firms while addressing limitations within the existing rules, and are slated for release in early 2015.

At the same time, digital disruption and innovations in financial technology are already beginning to have a profound effect in both advanced and emerging markets. Such developments not only address growing demand by consumers of financial services but also hold promise for greater democratisation of markets by disrupting traditional channels of intermediation, enabling fundraisers and investors to benefit from accessibility and cost savings.

At the SC, we believe that socially-beneficial financial innovation should be encouraged. Hence, one of our initiatives in this regard is the development of a framework for equity-based crowdfunding which provides a regulatory safe harbour for this particular class of fundraising activities and facilitates its development under appropriate safeguards.

Incentivising sustainability

As worldwide interest in sustainable and socially responsible investment gathers momentum, it is critical to ensure that the growing demand is met by an adequate supply of investible assets which is supported by an information architecture which facilitates accurate assessments of a venture's sustainability credentials.

Given the close alignment between socially responsible investment principles and the ethics of Islamic finance, it was clear that the nascent market segment would benefit from leveraging on Malaysia's well-established Shariah governance and regulatory framework, as it promotes standardisation and facilitates investor assessment.

This led to the launch of the Sustainable and Responsible Investment (SRI) sukuk framework in August 2014, which establishes a capital market-based financing avenue for eligible SRI projects, including those that aim to protect the environment, develop renewable energy sources and improve overall quality of life for society.

The SC also worked with market participants to adopt more effective means for disclosing performance along the dimensions of governance, environmental and social responsibility. The launch of the FTSE4Good Bursa Malaysia index in December and ongoing efforts by issuers and the accounting industry to explore the feasibility of integrated reporting in Malaysia are developments which attest to the private sector's commitment in this area.

Moving forward

In pressing ahead with our regulatory and developmental agenda, the SC is mindful of the need to preserve fair and orderly market conditions. Strong fundamentals in the capital market, such as our robust regulatory framework, well-capitalised intermediaries and market infrastructure operators as well as large and liquid pools of domestic institutional funds, continue to be important sources of resilience. Moving forward, the SC will remain vigilant over the global risk environment and monitor drivers of external uncertainty which may influence market sentiments and investor behaviour.

In building long-term resilience, the SC is also cognisant of opportunities and potential risks arising from the increasing digitisation of markets and greater reliance on electronic systems, both within firms as well as in their interface with investors and other market participants. As interconnectivity and technology become a systemic feature of markets, the potential for cyber-threats to compromise the soundness of individual firms and overall market integrity has emerged as an important source of concern for securities regulators globally.

Hence, one of our key priorities will be the strengthening of the cyber-resilience of firms and institutions in the Malaysian capital market. Existing supervisory safeguards will be reinforced against risks to cybersecurity and data integrity, while the SC will also heighten our oversight of the capital market to ensure its systemic robustness against such potential threats.

From a developmental perspective, the establishment of the ASEAN Economic Community in 2015 will be an important influence on our work, given the SC's role as chair of the ASEAN Capital Markets Forum (ACMF). Enhancing the ability of ASEAN capital markets to finance economic development will be a crucial imperative, as urbanisation and population growth continue to drive the region's need for greater investments in physical and technological infrastructure. At the same time, the SC will also continue to facilitate the regionalisation of our market participants as they capitalise on the opportunities arising from ASEAN integration.

The progress that we have made this year in further strengthening the capital market would not have been possible without the commitment and expertise of the staff members of the SC. I would like to take this opportunity to record my warmest appreciation for their important contributions and dedication. The counsel and support provided by members of the Commission, the Shariah Advisory Council as well as my management team also have been invaluable, and for that I am grateful.

RANJIT AJIT SINGH

Part 1

GROWING OUR MARKET

PART 01 GROWING OUR MARKET

INTRODUCTION

The developmental agenda for the Malaysian capital market is premised on growing vibrant and competitive market segments that serve domestic investors, issuers and intermediaries as well as regional and international market participants. This strategic objective of competitively positioning our capital market and ensuring its vibrancy is set out in the *Capital Market Masterplan 2* (CMP2).

In today's increasingly complex and interconnected environment, the role of the capital market is becoming more important than ever as it represents a vital source of financing for the economy and provides both wealth generation and preservation opportunities. Capital market-based financial instruments afford greater options to investors and issuers with varying risk profiles and needs to meet their respective investment and funding requirements. It is therefore crucial that the capital market continues to have the necessary depth and breadth of market structures and products for fair and effective intermediation.

The Securities Commission Malaysia (SC) aims to ensure the fundraising environment remains sustainable and inclusive in providing companies, including the smaller and more innovative enterprises, continued access to the capital market to finance their business growth and expansion. Whilst the traditional financing avenues – the equity and bond markets – remain the main source of domestic funding, alternative capital raising channels are slowly emerging. These channels require necessary regulatory safeguards to ensure that they are effective and reliable intermediation conduits for investments.

Efficient intermediation of funds improves market vibrancy and increases the appeal of the Malaysian capital market to both local and foreign market participants. We leverage upon established as well as new regulatory and strategic linkages to tap into regional and international demand for cross-border products and services which can contribute towards the dynamism of different market segments.

In providing regulations that are responsive to the needs of today's capital market and continue to foster market integrity, we continually review our regulatory framework. Regulation has to allow for broader oversight that enables responsible innovation in the market. In this regard, we strive to ensure regulatory requirements facilitate growth and development, deliver operational efficiencies, yet remain fit for purpose.

These priorities are complemented by a more holistic approach towards the promotion of the market where competitive niche has been built, particularly in Islamic capital market (ICM). This allows the Malaysian capital market to continue enabling domestic growth while supporting the country's regional and global positioning.

SUSTAINABLE AND INCLUSIVE CAPITAL RAISING ENVIRONMENT

The capital market continues to play its role in mobilising financing to support Malaysia's economic transformation. Despite a challenging economic environment, domestic fundraising activities remained strong throughout the year. This is reflected by steady capital raising by domestic corporations, with primary market issuances totalling RM91.9 billion.

The bulk of capital market-based financing was through bond issuances of RM86.0 billion, of which close to four fifths constituted sukuk. The remaining RM5.9 billion was raised via initial public offerings (IPOs). Notable IPOs in 2014 were the listings of IOI Properties Group Bhd and Boustead Plantations Bhd.

Equity crowdfunding for financing innovative small businesses

Technological innovation has become a game-changer for many businesses, requiring capital market-based financing solutions that cater for new business ideas and young entrepreneurs.

In view of this, a regulatory framework for equity crowdfunding (ECF) is being developed to widen the range of fundraising and investment products, as well as improve market access to a broader spectrum of issuers and investors. We aim to provide regulatory balance to promote a vibrant and functioning market space with the appropriate safeguards for capital formation.

A public consultation paper on the proposed ECF framework was published in August, with feedback received generally supportive of the proposed regulatory framework. This provided input for the refinement to

BOX 1

Introducing Equity Crowdfunding

Crowdfunding typically involves individuals providing funding for a project, a business or personal loan and other needs through an online web-based platform. ECF allows start-ups and small businesses to obtain financing through the capital market via small investments from both sophisticated and retail investors in return for equity ownership.

One of the earliest recorded instances of crowdfunding was when the citizens of France and the United States raised funds to build the Statue of Liberty and its stone base respectively. In Malaysia, the collection of public contributions by a local newspaper to pay for the live telecast of World Cup football matches during the early 1980s was an example of community-based crowdfunding.

With over 600 platforms worldwide and total funds of US$5 billion raised at the end of 2013, crowdfunding has the potential to assist in the democratisation of wealth, prosperity and ideas across the entire economy, and as such foster greater inclusiveness of finance[1].

[1] *Massolution 2013CF – The Crowdfunding Industry Report.*

the framework in several areas including permissible and non-permissible activities applicable to an ECF operator, due diligence on and disclosure by issuers as well as eligibility of microfunds to raise financing on an ECF platform. A public response paper was subsequently issued in September.

In addition, public awareness was cultivated through a forum on ECF that highlighted its role as a source of funds as well as an alternative investment asset class.

Supporting growth of small and medium enterprises

Acknowledging the critical role of small and medium enterprises (SMEs), Malaysia emphasises the development of SMEs in achieving its aspiration to become a developed nation by the year 2020. This is reflected in the various 5-year Malaysia Plans, the Industrial Master Plans as well as the *SME Masterplan 2012–2020.*

With SME Corporation Malaysia (SME Corp) as the co-ordinating agency for the Government's High Impact Programmes (HIP) to help SMEs achieve economies of scale and move up the value chain, the SC leads HIP3 to address the scarcity of financing for SMEs in Malaysia, especially for start-ups and early stage companies. HIP3 is aimed at developing a private sector driven initiative to provide non-bank, non-collateralised financing. This is also in line with SC's initiative in its CMP2 to broaden access to finance through the capital market.

The SC introduced the SME Investment Partners Programme (SIP), a financing framework approved by the National SME Development Council and announced by the Prime Minister YAB Dato' Sri Mohd Najib Tun Abdul Razak in the 2015 Federal Budget. As the first fully integrated SME financing framework, the SIP covers the entire continuum of financing avenues complemented by a Technical Guidance and Management Support Facility as well as a legal, administrative and institutional framework.

Globally, this has put the ability of entrepreneurs to raise funds into the hands of "the crowd" and not just wealthy investors and investment banks.

The SC's Synergy and Crowdfunding Forum (SCxSC) was held in September to build awareness on ECF as an alternative method of fundraising for startups and SMEs. The forum was a collaborative effort with key stakeholders including the Malaysian Venture Capital Development Council (MVCDC), Malaysian Business Angels Network (MBAN), Cradle Fund Sdn Bhd and Multimedia Development Corporation, with The Edge Malaysia as media partner.

SCxSC drew a large and diverse crowd of over 600 participants comprising policymakers, crowdfunding experts, venture capitalists, angel investors, young local entrepreneurs, academicians as well as members of the public. Notable forum speakers included Jason Best (co-author of the crowdfund investing framework in the Jumpstart Our Business Startups Act or JOBS Act in the US), Kieran Garvey from Crowdcube and Khailee Ng from 500 Startups.

This two-day event also attracted participation from food & beverage and tech start-ups pitching their businesses to potential investors, and featured a crowdfunding workshop run by the founders of crowdfunding platforms as well as an angel investing workshop by MBAN.

It is envisaged that SIP would be able to provide continuous financing options to SMEs in getting funding for their various developmental stages by addressing gaps in the ecosystem, providing follow-through financing, allowing flexible requirements for funding and emphasising the sustainability of the programme in totality.

Core to the framework are the SME Partners, intermediaries appointed to seek funds from private investors. These funds will be matched by SME Corp at a 1:2 ratio to provide direct funding to eligible SMEs. The SME Partners, would in turn, assist SMEs to build the necessary skill sets to grow their business and will be rewarded through a new funding structure of loan financing incorporating a small percentage of gross revenue. Ultimately, this group of professionals or serial entrepreneurs will create a virtuous cycle, generating new ventures and promoting an entrepreneurial culture in Malaysia.

Enhancing attractiveness of Malaysian bond market

Improvements to credit assessment capabilities and transparency within the bond market has provided the foundation for a market-driven environment, with demand for credit ratings to be determined by industry rather than mandated by regulation. The removal of mandatory rating requirements will enable corporations to issue bonds without a rating and at a lower cost. It will also broaden and diversify the corporate bond market, and allow investors to select from a wider set of risk profiles.

The SC undertook a holistic review of the requirements related to credit ratings, resulting in the decision for the removal of mandatory credit rating requirement effective from 1 January 2017. In tandem, we allow the trading of unrated bonds and sukuk effective from 1 January 2015, subject to conditions set out in the *Guidelines on Private Debt Securities* and *Guidelines on Sukuk*. This gradual approach is adopted to provide the industry with sufficient time to refine the necessary mechanisms to operate under the new regime.

Spurring the growth of venture capital and private equity

The *Guidelines on Registration of Venture Capital and Private Equity Corporations and Management Corporations* was developed to replace the *Guidelines for the Registration of Venture Capital Corporations and Management Corporations*, for release in early 2015. Feedback from the Malaysian Venture Capital and Private Equity Association (MVCA) as well as practitioners and professionals within the venture capital and private equity industries was taken into consideration in formulating the revised Guidelines to ensure a smooth implementation process.

The revised Guidelines aims to spur the further development of the venture capital and private equity industries and address the limitations of the previous guidelines. Revisions encompass the inclusion of private equity activities, giving further flexibility to registered venture capital corporations to invest in listed securities subject to a certain threshold and enhancing the current reporting requirements to allow for better data capture for developmental and future policy making purposes.

As chair of the MVCDC, the SC continued to actively promote the growth and development of the industry through various initiatives. Tasked to advise and assist the government on the overall development of the venture capital industry, MVCDC aims to support and co-ordinate strategies to align with the government's efforts to encourage an innovation-led economy.

MVCDC also continues to support MVCA through various capacity building programmes with a view to develop new talent and strengthen the skill sets of industry participants. In this regard, the Venture Capital and Private Equity Conference and Islamic Venture Capital and Private Equity Conference were held in June and September respectively, to promote understanding of market practices in the industry. This was followed by the Venture Capital and Private Equity Workshop and Boot Camp which were used to exchange ideas, increase awareness and strengthen networking opportunities among venture capitalists and entrepreneurs.

INTERMEDIATION EFFICIENCY AND PRODUCT EXPANSION FOR MARKET VIBRANCY

A deep and broad capital market possesses a range of appropriate investment products for different risk profiles, in addition to being characterised by the efficiency of intermediation services provided. High levels of diverse intermediation services positively contribute to better and more active secondary market trading and hedging activities.

To meet the differing investment needs of the public, we continue to widen product options and intermediation avenues to effectively channel domestic savings into the capital market. In tandem, investment advisors are encouraged to improve the quality of investment advice, to match the growing range and complexity of market-based products available.

Accelerating growth of the private retirement schemes

The private retirement scheme (PRS) was introduced in 2012 to allow a wider cross-section of the public to access the capital market for their retirement needs. Awareness on the importance of retirement savings among Malaysians has steadily grown through various targeted programmes undertaken by the SC and the PRS industry. This is reflected by the positive growth in assets under management (AUM) and number of members. By the end of 2014, AUM more than doubled to RM716.05 million from RM299.82 million in 2013. This growth is also evident in the increase in membership to 128,977 at the end of 2014 from 64,710 in 2013.

Inculcating retirement planning from an early age remains integral to the PRS initiative. The government PRS Youth Incentive of RM500 to members aged 20 to 30 has been well received, with the number of young members having grown more than six times to over 28,000 since 2013. Currently 22% of members are youths compared to just 7% in 2013.

Greater portfolio diversification

PRS facilitates the provision of greater investment choice to members. Funds approved in 2014 include a property related fund, which invests in real estate investment trusts within the Asia Pacific region. This provides members with the opportunity to diversify their portfolio through an exposure to the property market. Members also enjoy greater international investment opportunities as this is the second PRS fund that invests predominately in the Asia Pacific region.

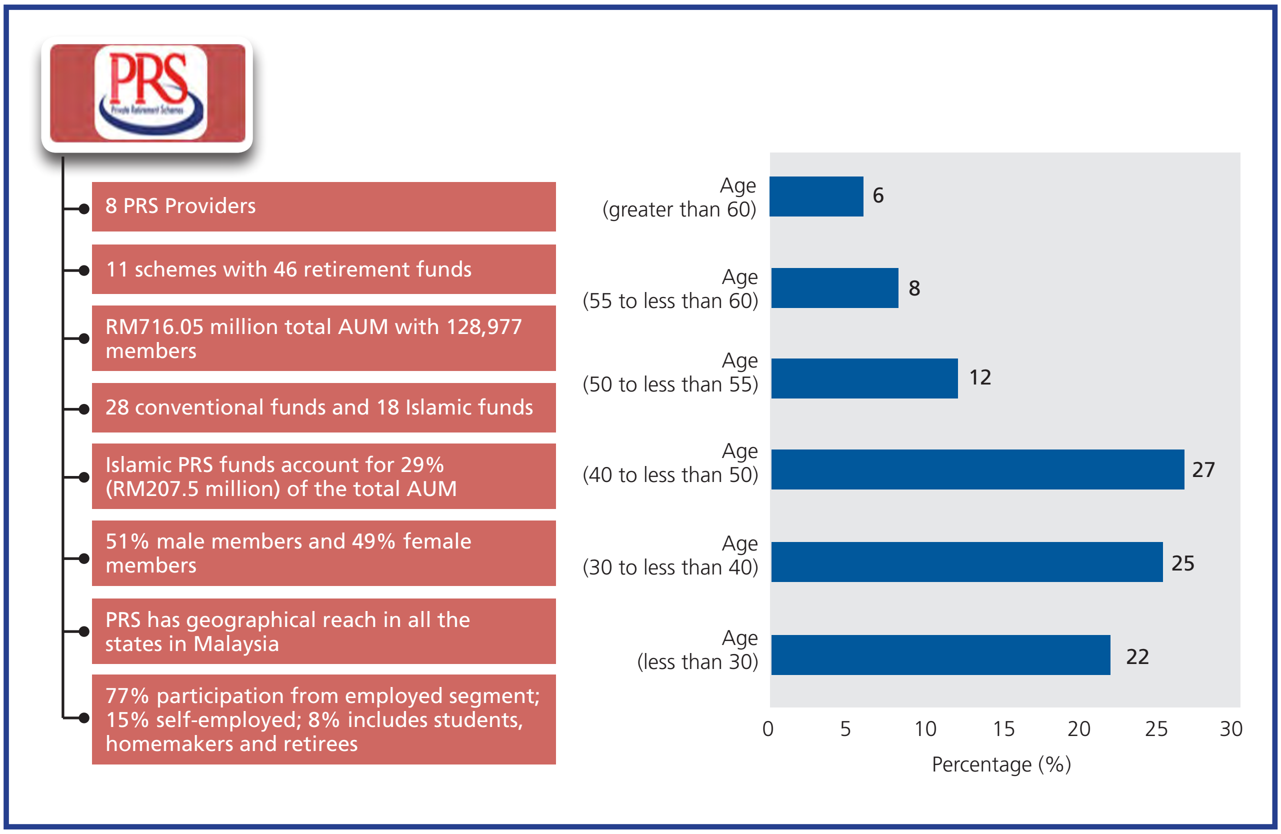
New category of intermediaries

The distribution channel for PRS is being expanded to include a new category of intermediaries, namely insurance and takaful brokers. With the inclusion of these skilled professionals, the growth of the PRS market can be further accelerated. Their main clientele consist of corporates, which are a highly valued segment for PRS.

Increased resources for distribution

A new familiarisation programme has also been introduced to encourage the growth of distribution channels for PRS by providing alternative avenues to fulfilling minimum requirements for individual distributors. The programme aims to ensure higher standards of conduct and facilitate a wider outreach of

Diagram 1
Statistics for PRS



PRS by permitting investment-linked agents to be part of the PRS distribution network.

The implementation of the PRS familiarisation programme will grow the number of consultants and enhance the competitiveness of the PRS industry.

Promoting sustainability

Sustainability has been identified as one of the three key drivers to transform Malaysia into a high income nation by 2020 under the New Economic Model, and has gained substantial momentum among Malaysia's corporates.

The role of capital market in enabling sustainable and inclusive economic growth in Malaysia was reiterated in the Business Leaders Dialogue in April. Participants of the dialogue recognised that the environmental, social and governance aspect of business can benefit both the company and its operating environment. This was highlighted in the *Corporate Governance Blueprint 2011* (CG Blueprint) which emphasises the importance for companies to formulate strategies that address sustainability and stakeholder interest through internal policies.

The introduction of an Environmental, Social and Governance (ESG) Index by Bursa Malaysia Securities Bhd (Bursa Malaysia) is part of an effort to advance sustainability practices in the capital market. The Malaysian ESG Index is an intrinsic component of our strategic framework for sustainable and responsible investment (SRI) and was launched in December. The index will adopt FTSE4Good branding and methodology. After undergoing assessments based on globally recognised inclusion criteria which include performance, impact and responses to emerging ESG issues, a total of 24 public-listed companies (PLCs) were selected as index constituents. In addition to increasing the profile and exposure for Malaysian companies with leading ESG practices, the ESG index is expected to attract more global SRI funds into Malaysia and provide alternative investment options for Malaysian investors.

Revitalising the financial planning industry

Financial planners (FPs) play an increasingly fundamental role in the Malaysian capital market, especially in an environment where better yields are sought as investors look to maximise returns on their funds. The rapidly evolving and complex investment product landscape has also spurred investor demand for quality and comprehensive professional advice.

During the year, we initiated several significant measures to encourage the overall growth of the financial planning industry. These initiatives encompassed the revision of entry requirements, easing of distribution requirements and expansion of advisory scope.

To increase the talent pool for the industry, the entry requirements for individual financial planning representatives have been revised, whereby only relevant modules of the Malaysian Financial Planning Council (MFPC) and the Financial Planning Association of Malaysia are required. In addition, we recognise MFPC's iShariah Registered Financial Planner certification as one of the qualifications for the granting of a financial planning licence.

An apprenticeship framework is also being developed with the Federation of Investment Managers Malaysia (FIMM) to encourage the professional development of unit trust and PRS consultants to transition into higher-tiered FP.

To incentivise licensed FPs to apply for additional licences to market and distribute unit trusts (UT) or PRS, they are no longer required to increase their paid-up capital and shareholders' fund to RM100,000 from RM50,000. This measure is expected to grow the distribution channel by lowering FP's cost of capital.

In broadening the scope of financial planning advisory services, the range of capital market products that can be recommended to clients now include exchange traded funds and real estate investment trusts. In addition, FPs who carry out the regulated activities of dealing in securities restricted to UT or dealing in PRS are permitted to distribute products without being tied to a financial plan. This measure ensures parity with other UT and PRS distribution channels.

Recognising the breadth of services offered by an FP, a framework has been set out in the SC's *Licensing Handbook* to permit referral activities in the course of providing financial planning services in a manner that promotes investor confidence in the industry. The referral framework encompasses parameters that include transparency obligations which require appropriate disclosures to be made to clients as well as the establishment of proper policies and controls. This is based on the core principles of acting with honesty and integrity towards ensuring high standards of market conduct.

These enhancements will allow FPs to offer better quality advice across capital market products and distinguish themselves as an important intermediary. The development of FPs will ultimately help ensure Malaysians have access to higher value added services provided by well-trained FPs.

Easing licensing requirements

We released the revised *Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives* to further facilitate the provision of higher value-add services by licensed representatives. Dealer's representatives are now able to provide additional activities, including discretionary trading on behalf of clients subject to controls that ensure investor protection. The guidelines also provides clarification on the practice of discretionary account trading services that were previously conducted privately between the licensed representatives and their clients.

With effect from August, Chartered Financial Analyst (CFA) Charter Holders seeking to be licensed for dealing in securities, derivatives, fund management, advising on corporate finance and investment advice have been exempted from taking the relevant technical papers of the licensing examinations. Having considered the relevance of CFA examinations and its governance process in administering the examination and curriculum development as well as other regulatory recognition, the SC granted the waivers to CFA Charter Holders as they have demonstrated competence in carrying out these regulated activities. With this, more professionals are now able to leverage on their professional qualifications to gain entry into the capital market.

Liberalising foreign shareholding requirements

The SC continues to liberalise equity ownership to widen the range of products and capital market services available to investors. In 2014, the equity shareholding requirement for unit trust management companies (UTMCs) was liberalised, with foreign corporations now allowed to have 100% ownership from the previous maximum 70% shareholding requirement. This enables wholly-owned foreign fund managers to now launch and distribute retail funds in Malaysia.

The measure is part of a phased approach to the removal of barriers to entry, and is timely given the expected increase in demand and supply of cross-border collective investment schemes upon the realisation of the ASEAN Economic Community (AEC) in 2015.

The presence of foreign-owned UTMCs in the local market will enable investors to have access to a wider choice of fund managers and investment products, and further diversify their investment portfolios. This facilitates greater growth and increased sophistication in the industry. Potential collaboration with foreign UT firms will provide opportunities to local UTMCs to expand their capabilities and offerings of regional products and services.

In addition, the policy on foreign shareholdings in credit rating agencies (CRAs) will be relaxed to allow the entry of international CRAs with 100% foreign ownership with effect from 1 January 2017. Concurrently, regulations regarding foreign shareholding limit for existing domestic CRAs will be lifted. This move is expected to have a positive impact on the entire bond market with competition driving better rating standards and services whilst lowering the cost of issuing bonds as well as enhancing Malaysia's profile in the global bond market.

Broadening product range in derivatives market

The ability of market participants to access instruments to manage their risks as well as market volatility greatly influences the level of trading that occurs both in the underlying market as well as in its related derivative market. A vibrant capital market therefore is supported by a dynamic derivatives market with a wide and appropriate range of futures and options contracts.

We approved the reintroduction of two futures contracts to assist investors in broadening their trading and investment opportunities as well as provide suitable hedging instruments for physical trade users.

Palm Olein Futures (FPOL), a commodity futures contract, was reintroduced to the market on 16 June. It was originally launched by the Kuala Lumpur Commodity Exchange in 1990 but not traded. Its reintroduction is timely as there is a larger base of commodity players to support the contract and the Malaysian palm oil industry has evolved and experienced rapid growth over the past 20 years. FPOL will serve the palm olein community's hedging and price discovery needs as well as broaden trading and investment opportunities for investors in commodity futures. It also complements existing crude palm oil futures contract, which has established itself as the pricing benchmark for palm oil globally.

The 5-Year Malaysian Government Securities Futures (FMG5) contract specifications were revised to ensure that the contract continues to serve as a good proxy for market participants to hedge and trade their exposures more effectively. The FMG5 contract was first introduced to the Malaysian derivatives market in 2002 but trading declined with the industry opining that the contract was no longer reflective of the underlying Malaysian Government Securities (MGS) market. The revisions have improved the contract by making the eligible bond baskets more reflective of the underlying benchmark bonds and provide greater certainty on the final settlement price. The revised FMG5 contract was relisted on Bursa Malaysia Derivatives Bhd (BMD) on 1 December.

Facilitating access to derivatives market

To attract new intermediaries into the derivatives market in order to enhance vibrancy and liquidity, the SC carried out a revamp on the Preference Share[2] participantship structure for the derivatives market. This structural development will expand the distribution channel by facilitating access into the market.

Following our approval of amendments to the *Rules of Bursa Derivatives*, a 'single trading right' is created to replace the Preference Share structure to grant access across all product categories at an entry cost which is comparable with regional derivatives exchanges. Whilst previously a broker would need to buy Preference Shares A, B and C to trade in equity, financial and commodity products respectively, the 'single trading right' enables the broker to trade in all products on BMD.

Building capacity of market participants

Greater importance and accountabilities are increasingly placed on boards to maintain the highest standards of good governance and business conduct as well as professional ethics. SC's supervisory findings on the performance and effectiveness of the boards of intermediaries show differing levels of understanding in relation to effective board leadership and the appreciation for technical aspects and risks of the business, as well as expectation on transparency and accountability.

We are committed to strengthening good governance and professional ethics. Therefore, in early 2015 we will be introducing the Capital Market Director Programme (CMDP) designed to enhance board effectiveness by helping directors understand their roles, responsibilities and fiduciary duties. The CMDP also aims to raise the standards of professionalism among directors by advocating a culture of integrity and ethical awareness.

CMDP is a modular programme which consists of four modules encompassing directors' roles, duties and responsibilities as gatekeepers; regulatory expectations on a board and challenges in the implementation and conformance with relevant guidelines; board's role in building and sustaining an effective ethics and compliance framework; as well as emerging issues

2 Trading Participants (TPs) of Bursa Malaysia Derivatives are required to purchase Preference Share A, B or C in order to trade in equity, financial or commodity products respectively.

potentially affecting business and identification of potential misconducts. CMDP accentuates impactful knowledge transfer through experiential learning using interactive foreign and local case studies.

Under the Graduate Representatives Programme (GRP1000), about 1,400 applicants had expressed interest to join the stockbroking and derivative industry through the GRP1000 portal. The talent pool of young graduates have widened with 58% of these graduates were deemed eligible for industry selection. In order to improve the graduates' employability, 14 preparatory programmes on the overview of the capital market and interviewing techniques were carried out. Two comprehensive technical training which also encompass preparatory course for licensing examinations were completed. More than 80% of these graduates passed their licensing examination on first sitting.

RATIONALISATION OF REGULATION IN THE CAPITAL MARKET

The SC continually reviews the Malaysian capital market regulatory framework in line with the expansion of services and products, investor protection and global standards, among others, to ensure regulations are fit for purpose. In 2014, we embarked on a substantial review of our regulations in line with our approach on proportionality of regulation.

In this regard, we reviewed securities laws to strengthen provisions pertaining to governance, crisis management, investor protection as well as supervision and enforcement in the *Securities Commission Act 1993* (SCA). Amendments were also made to the *Capital Markets and Services Act 2007* (CMSA) to cater for new business and market structures.

To ensure that regulation remain relevant and facilitate market development, we also worked towards simplifying and streamlining existing regulatory requirements to improve business efficiencies and reduce time to market.

Introducing the lodge and launch framework

We have enhanced our fundraising and product offering regime by moving away from a one size fits all approach, taking into account the differing levels of investor sophistication. Sophisticated investors, given their financial means or specific skill sets, are expected to have greater ability or resources to protect themselves against risks associated with their investment choice. Our review therefore seeks to calibrate regulation with their risk appetite and resources.

In 2014, we announced the introduction of a new regulatory framework for the wholesale market with the objective of significantly reducing time to market for wholesale products. Under this framework, offerings for wholesale products are exempted from SC's authorisation under section 212 of the CMSA, subject to lodgement of the requisite information and documents. This framework will come into effect in 2015.

Under this new approach, we will focus surveillance and supervisory efforts on enhancing disclosures and ensuring good sales practices among distributors. Data analysis from periodic submissions will also enable the SC to detect emerging trends and risks, and take early pre-emptive measures to protect investors.

Streamlining regulatory requirements for business efficiencies

We also seek to promote industry efficiency by reviewing our regulatory requirements to:

- improve time-to-market in relation to applications submitted to the SC;
- accord an appropriate level of regulation based on the risks posed by a regulated activity or capital market service; and
- reduce the costs of carrying out regulated activities in the capital market.

One-time approval of unit trust management companies and trustees

A management company or trustee will only be required to seek a one-time approval for the purposes of section 289 of the CMSA compared to the previous approach of "per-fund" approval. Approved management companies and trustees will be admitted into an 'Approved List' and shall be deemed approved for future issuances, offerings or invitations to subscribe for or purchase of unit trusts. This will expedite the approval process for the establishment of new funds.

Notification for outsourcing of material functions

We removed the requirement for SC's approval before an intermediary outsources a material function. Instead, licensed intermediaries only need to notify the SC within two weeks upon signing the service level agreement for any material outsourcing arrangement. The shift from a pre-approval to a notification process removes the prescriptive requirement and sets out guidance for intermediaries in assessing an outsourcing arrangement.

Removal of Anniversary Reporting for Authorisation of Activity Form 6

Following the removal of licence renewal for all licensed persons (companies and licensed representatives) on 3 October 2011, the Anniversary Reporting for Authorisation of Activity (ARAA) form is required to be submitted on each anniversary date of their licences. The purpose of the form is to determine whether the licensee continues to be fit and proper.

To achieve greater operational and reporting efficiencies, the submission of ARAA Form 6 for licensed representatives on the licence anniversary date has been replaced with a semi-annual Fit and Proper Compliance Report with effect from 1 December. Companies are now required to affirm the fit and proper standing of their licensed representatives. With the change in the reporting requirements, it is expected that licensed intermediaries will continue to be vigilant in respect of the fit and proper assessment of their representatives.

Non-issuance of physical licence

The SC has removed the issuance of physical licences to enhance efficiency in maintenance of records by licensed intermediaries and representatives. Details of the licensed intermediaries and representatives are now maintained under a Public Register of Licensed Holder. The Public Register serves as a reference for investors to verify the status of those who offer them investment services or products.

Trading of capital market products by employees through own principal or other CMSL holders

We liberalised requirements to allow Capital Market Services Licence (CMSL) employees to trade in capital market products through their own principal or other CMSL holders. This liberalisation, subject to safeguards specified by the SC, promotes self-regulation and accountability among CMSL and their employees over trades conducted.

Streamlining of reporting requirements relating to auditor's report

The requirement to submit annual reports of trustee-managers and management companies under the CMSA was removed, as these entities being licensed persons, are required to submit an auditor's report under section 127 of the CMSA. The SC regards the compliance with section 127 as being sufficient for SC's supervision of trustee-managers and management companies.

Repeal of the Securities Industry (Reporting of Substantial Shareholding) Regulations 1998

The *Securities Industry (Reporting of Substantial Shareholding) Regulations 1998* was repealed in 2014 as similar requirements are already stipulated in the *Companies Act 1965*. In the case of a PLC, Bursa Malaysia's Listing Requirements mandate a substantial shareholder to make an immediate announcement to the exchange on changes in shareholdings.

ISLAMIC CAPITAL MARKET'S VALUE PROPOSITION

The Islamic capital market (ICM) is a key segment of the overall capital market in Malaysia, functioning in parallel with the conventional capital market. ICM plays a crucial role in broadening and deepening the Islamic financial market in Malaysia as it continues to grow through the development of various capabilities within a facilitative environment governed by a sound regulatory framework.

While it is clear that ICM has supported domestic growth by offering a multitude of financing and investment opportunities to domestic businesses and investors, ICM also continues to leverage on our core strengths to make significant strides in the international arena and is now increasingly making a presence in the international market. With the opening up of new markets for ICM products and services, enhanced international linkages, liberalisation of economic and financial markets and greater participation among market players, Malaysia is well-positioned to further strengthen its status as the premier destination for ICM businesses and transactions.

ICM recorded a 12% annualised growth rate over the last five years and now amounts to RM1.59 trillion, accounting for 58% of the overall capital market. As at the end of 2014, 74% of companies listed on Bursa Malaysia were designated as Shariah-compliant. Malaysia also continued to dominate the global sukuk market with 58% share of total global sukuk outstanding and maintained our position as the largest sukuk issuer in the world, accounting for 66% of global sukuk issuance.

As part of on-going efforts to develop new growth areas for ICM, we undertook several significant initiatives aimed at promoting greater innovation to expand the range of products and to offer more choices in the marketplace to domestic and international stakeholders.

Strengthening the Shariah governance framework

The SC's Shariah Advisory Council (SAC) is a key pillar in the development of Malaysia's ICM especially in facilitating innovation and ensuring a robust Shariah governance process. The SAC, given the expertise of its members, also plays an instrumental role in strengthening the country's position as a leading ICM marketplace. In 2014, the SC released a new line-up of 11 SAC members, who were appointed for a three-year term by His Majesty the King of Malaysia under section 316C of the CMSA. Members of the new SAC comprise reputable and internationally-recognised scholars and market practitioners, with relevant experience and expertise among others, in Islamic jurisprudence, legal advisory and Islamic finance.

A compilation of the SAC's Shariah resolutions made in 2013 and up to June 2014, including updates on some of the existing resolutions, was published to further strengthen the Shariah governance framework and support the internationalisation of Malaysia's ICM. The Shariah resolutions cover principles and concepts of muamalat, products from a Shariah perspective and relevant Shariah matters in relation to ICM. The issuance of the compilation is expected to enhance transparency, foster harmonisation of Shariah standards and promote innovation and orderly development of ICM in the marketplace.

Encouraging sustainable and responsible investment through sukuk

Investors are increasingly showing interest for socially responsible investment options given their concerns over environmental and social impact of businesses as well as greater demand for stronger governance and ethics from businesses. Malaysia's sukuk market is poised to leverage on this trend.

The SRI sukuk framework was thus launched on 28 August to facilitate the financing of sustainable and responsible investment initiatives. As the principles underlying SRI are similar to those underlying Islamic finance, the SRI sukuk initiative is timely as it brings together the growing SRI sector and Malaysia's well-developed Islamic finance industry.

The SRI sukuk framework capitalises on the existing sukuk framework set out in the *Guidelines on Sukuk*. Additional requirements addressed in the framework for the issuance of SRI sukuk include the utilisation of proceeds, eligible SRI projects, disclosure requirements, appointment of independent party and reporting requirements. Eligible SRI projects as prescribed under the framework aim to preserve and protect the environment and natural resources, conserve use of energy, promote use of renewable energy, reduce greenhouse gas emission and improve the quality of life for society.

In addition to meeting the demand of both retail and sophisticated investors for access to a wider range of investment products, this framework will further enhance the country's value proposition as a centre for Islamic finance and sustainable investments.

Growing Islamic fund and wealth management

The *Shariah Parameters on Islamic Exchange-Traded Fund (i-ETF) Based on Gold and Silver* were released in October, making it the first Shariah parameters for Islamic funds issued by the SC and endorsed by the SAC. The parameters serve as guidance and reference from a Shariah perspective to facilitate product development by the industry, and form part of our ongoing effort to further deepen and broaden Malaysia's ICM for enhanced global competitiveness.

The Mutual Co-operation on Development of Islamic Capital Markets and Islamic Collective Investment Schemes initiative between the SC and the Securities and Futures Commission of Hong Kong (SFC) has facilitated the offering of two Malaysian Islamic funds to retail investors in Hong Kong. This initiative by Malaysia's fund managers reflects the competitiveness of industry players as they progress beyond geographical boundaries.

As part of the ongoing mutual co-operation between the SC and the SFC on ICM, a joint seminar was also organised in Hong Kong in response to growing interest in Islamic funds. The half-day event, held in June, brought together participants comprising policymakers, regulators and fund managers from Hong Kong and Malaysia to discuss a wide range of topics relating to Islamic finance, focusing on practical issues such as structuring and regulatory aspects of Islamic funds as well as the outlook for the Islamic fund landscape.

Promoting waqf as an alternative asset class

With Islamic finance gaining traction across many parts of the world there has been renewed interest to revive the institution of *waqf* to contribute more significantly towards serving the economic and social needs of society. This is timely, given the significant size of *waqf* assets in various jurisdictions across the world, with assets worth up to US$1 trillion estimated for potential development. ICM, with its numerous products and services, is capable of offering innovative solutions to the development of *waqf* assets.

BOX 2

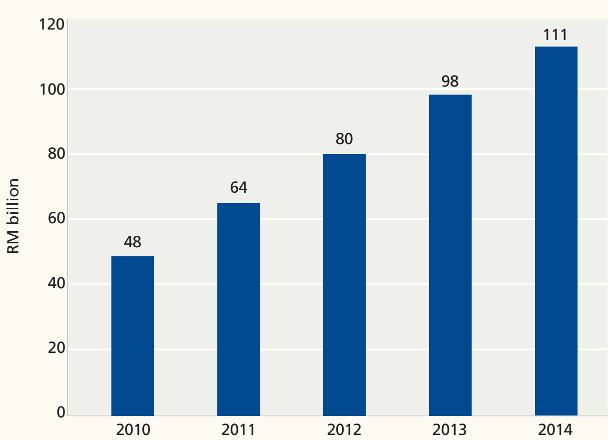
Malaysia, A Global Centre for Islamic Wealth Management

Islamic wealth management encompasses all customer segments, as it benefits those seeking to preserve and enhance their wealth within the Shariah framework as well as investors pursuing an ethical perspective to managing wealth. Islamic wealth management offers a myriad of financial solutions that can range from conservative investments to more aggressive plans for capital growth. These solutions focus on not only the accumulation and preservation of wealth, but also its redistribution, with tax-favoured treatments for long-term investments and platforms for inter-generational wealth transfer.

In 2014, the size of the global Islamic AUM stood at approximately US$73 billion. The market was led by Saudi Arabia and Malaysia, which together held more than 62% of Islamic AUM.

In Malaysia, Islamic AUM registered a 24% annualised growth rate over the last five years. The significant growth of the Islamic fund management industry in the country reflects the growing preference for Shariah-compliant investments among both retail and institutional investors. The industry has benefitted from a comprehensive ecosystem, comprising a facilitative Shariah, regulatory and governance framework, wide range of Shariah-compliant assets as well as diverse selection of fund managers and other service providers.

Chart 1
Islamic AUM



Source: SC

Looking ahead, the development of Islamic wealth management industry globally is expected to catalyse further growth of Islamic fund management activities. Global private financial wealth is projected to increase from US$152 trillion in 2013 to US$198 trillion in 2018[3], an annualised growth rate of 5.4% over the five-year period. Asia Pacific ex Japan, home to majority of the Muslim population, will be the main growth driver as the size of wealth in the region is expected to expand by US$24 trillion, accounting for 52% of the total projected global increase. This is attributed to the expectation of continued strong Gross Domestic Product growth and high savings rate in developing economies that are expanding rapidly[4].

[3] The Boston Consulting Group – Global Wealth 2014 *"Riding A Wave Of Growth"*.
[4] *Ibid.*

Malaysia, with its well-developed Islamic fund management industry, is poised to capitalise on the opportunities arising from the projected growth in private wealth and strengthen its competitive positioning in the global Islamic fund and wealth management space. There will be continued emphasis on strengthening the ecosystem with due focus on enhancing scale and strengthening market infrastructure.

Malaysia offers breadth and depth in terms of the availability of Islamic assets and securities. These include Shariah-compliant equities, sukuk and Islamic money market which facilitate the establishment of Islamic collective investment schemes as well as the creation of structured products to meet the diverse return requirements and risk profiles of different groups of individual and institutional investors. This is further supported by active product innovation and development by market players.

Several measures have been implemented in recent years specifically aimed at spurring further growth and internationalisation of Malaysia's Islamic fund management industry. This includes the issuance of licence to operate Islamic fund management businesses by the SC, with allowance to invest their entire AUM abroad. There are presently 20 licensed Islamic fund management companies operating in the country, out of which 10 are foreign-owned, eight are locally-owned and two are local-foreign joint ventures.

Initiatives to establish and strengthen bilateral and multilateral arrangements for cross border offering of Islamic funds are on-going with a view to promoting further expansion of markets, thereby providing new opportunities for Islamic fund and wealth managers to grow their business. The Government has also accorded tax exemption until 2016 for all fund management companies on fees derived from the management of Shariah-compliant investment mandates, including Islamic real estate investment trusts and Islamic business trusts.

Leveraging on our strong base in the Islamic funds industry, we will continue to strengthen the ecosystem to promote market vibrancy, pave the way for further growth and support greater internationalisation, establishing Malaysia as the global marketplace for Islamic fund and wealth management.

Following the growing interest on *waqf*, the SC published a book entitled *Waqf Assets: Development, Governance and Role of Islamic Capital Market*. The book serves as a guide for parties who wish to explore opportunities in developing *waqf* assets globally through the ICM and provides recommendations on governance best practices for *waqf* institutions that intend to undertake ICM-related activities specifically for fundraising and investment.

The book incorporates, among others, matters deliberated at the 5th Annual Roundtable which was jointly organised by the SC and the Oxford Centre for Islamic Studies in March in Kuala Lumpur. Themed 'Harnessing Waqf into a Bankable Social Financing and Investment Asset Class', the roundtable was graced by His Royal Highness Sultan Nazrin Muizzuddin Shah. A select international group of senior industry practitioners, academicians, Shariah scholars, standard setters and regulators participated in the closed-door roundtable and had in-depth discussions on various key issues surrounding the development and potential of *waqf* assets.

Recognising outstanding contribution to Islamic Finance

Held once every two years, the Royal Award for Islamic Finance (RAIF) recognises Islamic finance visionaries who contribute significantly to the growth of the global economy and social progress of communities around the world. RAIF is spearheaded by the SC and Bank Negara Malaysia (BNM) under the Malaysia International Islamic Financial Centre initiative. In 2014, the award was presented to its third recipient, Dato' Dr Abdul Halim Ismail, by His Majesty the King of Malaysia at an award dinner held in conjunction with the Global Islamic Finance Forum 2014 in September.

Dr Abdul Halim, the first Malaysian to receive the award, was recognised for his pivotal role in establishing the organisational structure and operating procedures of the first Islamic bank in 1983. He was the Managing Director of Bank Islam and Chairman of the board of Syarikat Takaful Malaysia, the nation's first Islamic insurance company. In 1994, Dr Abdul Halim also set up BIMB Securities, the first Islamic stockbroking company in Malaysia. Under his stewardship, both the industry and financial institutions he led flourished, making Islamic finance an increasingly attractive alternative and complement to conventional finance. He is also a member of the SC's SAC.

Building ICM knowledge

The SC continues to organise various ICM capacity building initiatives and forums throughout the year to enhance the skills and knowledge of both local and international market participants, and ensure continuous supply of talent pool to the ICM marketplace.

Our diverse training and capacity building programmes were customised for various segments, ranging from graduates to industry practitioners and regulators. The SC collaborates closely with the Securities Industry Development Corporation (SIDC), its training arm, to conduct programmes such as the Islamic Capital Market Graduate Training Scheme, i-Advisor Programme and Islamic Markets Programme.

We also organised the annual programme for Shariah advisers. Themed 'Exploring the Potential of Gold as Underlying Asset in ICM Products', the programme served as a platform for participants to understand Shariah perspective and requirements on gold trading, and enabled participants to explore the potential of gold as an underlying asset in ICM products.

International collaboration and profiling

The SC continues to play a pivotal role in positioning Malaysia's ICM in the international arena. During the third Standing Committee for Economic and

Commercial Co-operation (COMCEC) Capital Market Regulators Forum of Organisation of Islamic Co-operation member countries held in November, the SC was re-elected as Chair of the COMCEC Islamic Finance Task Force. As part of initiatives to enhance potential collaboration and co-operation in ICM for COMCEC member countries, specific work programmes have been identified for implementation in 2015 in areas including capacity building and development of industry infrastructure.

The SC also sustained its international profiling efforts through several initiatives including the 7th International Islamic Capital Market Forum with the theme, 'Malaysia's ICM: Moving to A New Frontier'. The forum featured senior industry practitioners who deliberated on new growth areas for the ICM such as integrating the halal market with Islamic finance and profiling Islamic investing alongside ethical and responsible investing.

CONSULTATION WITH STAKEHOLDERS

The SC actively collaborates with industry participants to develop a robust and comprehensive capital market. To keep pace with the changing market environment and identify emerging issues effectively, we carry out regular dialogues with various stakeholders.

These dialogues are integral to aligning our regulatory and development plans with stakeholders, including market institutions, self-regulatory organisations and intermediaries. The engagements also serve as a platform for sharing trends in the capital market and preparing stakeholders in responding to emerging opportunities and future challenges. Stakeholders' perspectives help to better shape the formulation of policies and strategies in the overall development of the capital market.

Annual Industry Dialogue

Building on this relationship, we organised the SC Industry Dialogue 2014 with various capital market associations and organisations to share and exchange views, as well as build consensus on focus areas to further accelerate the growth and quality of the Malaysian capital market.

Through this dialogue, we shared key initiatives that we are currently undertaking. In addition, we tapped on the industry's knowledge in formulating strategic priorities aimed at increasing the vibrancy of the Malaysian capital market. Areas of discussion include provision of product and investment choices, cost of doing business, conducive regulation, investment literacy, regionalisation as well as talent and capacity building.

Leveraging on these industry engagements, efforts will be directed at further strengthening the competitiveness and positioning of our capital market.

High-level advisory groups

The SC introduced a new consultative framework for capital market policy and regulatory reforms. Three advisory groups were established to provide global perspectives on capital market issues and emerging risks. Members of these groups, comprising eminent and experienced global capital market professionals, provide proposals and feedback to the SC to further enhance the growth and vibrancy of our market within a safe, efficient and transparent environment. Since establishment in 2013, the advisory groups have convened their inaugural meetings.

The Capital Market Advisory Group held a high-level discussion on the developmental aspects of the Malaysian capital market. At the meeting, the SC shared our insight on the competitiveness and strategic positioning of our market within a regional and global context. The meeting provided significant feedback on the strengths and challenges in the domestic market and proposed initiatives to build a deeper, more resilient and globally competitive market.

In 2014, the SC tapped on the expertise of certain members of the Capital Raising Advisory Group to solicit feedback on facilitating access to capital for specific types of issuers, whilst ensuring investor protection. The feedback obtained was applied to further refine policy and operational considerations.

The Secondary Market Advisory Group discussed liquidity issues in the Malaysian capital market with an initial focus on equities and derivatives. In this regard, the group will be undertaking an assessment on current market liquidity conditions, investor demography and trading participation to enhance the enablers for liquidity.

STRATEGIC INTERNATIONAL LINKAGES

Globalisation presents both challenges and opportunities for stakeholders in the capital market. It has resulted in financial deepening and convergence to international standards, which enables greater mobility amongst issuers, investors, and intermediaries. The SC continuously endeavours to ensure that Malaysia is at the forefront to capitalise and embrace such developments. This is in tandem with our efforts to strike a balance between liberalisation and investor protection through a multipronged approach, ranging from cross-border regulatory standard setting to realignment of our domestic capabilities in meeting international standards.

Malaysia's participation in international standard setting bodies and discussions allows for the views of emerging capital markets to be heard and taken into account in ensuring mutually-beneficial international rules and regulations are formulated.

The SC is also a committed member of the ASEAN Capital Markets Forum (ACMF), participating in various initiatives towards an integrated regional capital market. In addition, the SC contributes to various international trade co-operation negotiations and discussions with the aim of ensuring such agreements and linkages bring added benefits to participants in Malaysia's capital market.

Leadership role in International Organization of Securities Commissions

Through its standard setting and co-operative efforts, leading international standard-setter for securities regulation, the International Organization of Securities Commissions (IOSCO) plays an instrumental role in shaping the long-term architecture of global capital markets with a view to maintaining trust and confidence. The SC's contibution and leadership in IOSCO complements our efforts in developing the Malaysian capital market through the adoption of best practices. Maintaining an internationally benchmarked regulatory framework is key to ensuring that the Malaysian capital market remains competitive and efficient given the increasing demand for well-regulated and better-supervised markets.

In recognition of the leadership role played by the SC on various fronts, we hosted the meeting of the IOSCO Board in February. This was the first time the governing board of IOSCO met in Asia and in an emerging market. More than 100 delegates from the largest capital markets around the world gathered in Kuala Lumpur to discuss significant issues affecting global capital markets – including matters relating to risk and resilience, liquidity in corporate bond markets, audit quality, enforcement and investor education. The Board further discussed measures that delivered on its commitments to the Group of 20 (G20) Leaders and the FSB reform priorities.

The SC's commitment towards global policymaking was reaffirmed when the SC Chairman, Datuk Ranjit Ajit Singh, was re-elected as Chair of IOSCO's Growth and

Emerging Markets (GEM) Committee and the Vice-Chair of the governing Board of IOSCO during the 39th IOSCO Annual Conference in September. The GEM Committee, being IOSCO's largest Committee accounting for 91 members worldwide (including 10 G20 members), is directing its efforts towards developing greater regulatory capacity, deepening policy work on emerging market issues and strengthening risks and vulnerabilities assessments.

The GEM Committee also aims to ensure that key regulatory issues affecting emerging markets are appropriately taken into consideration in the development of global policymaking. This has become

BOX 3

Market-Based Long-Term Financing Solutions for SMEs and Infrastructure

Long-term financing (LTF) is essential to support economic recovery, boost job creation and drive sustainable growth and investment. Whilst the demand for LTF continues to rise, particularly in the areas of SMEs and infrastructure, the supply side is facing constraints due largely to banking reforms that have in some cases led to significant deleveraging as well as government austerity measures which have resulted in reduced public funding. This widening gap between the supply and demand for LTF indicates that traditional sources of funding no longer suffice and alternative avenues of sustainable financing are required to fulfil LTF needs.

Against this backdrop, a gradual shift from a predominantly bank-funded model for LTF towards greater capital market-based funding has been observed, emphasising the importance of having deep, liquid, transparent and well-regulated capital markets.

The Long-term Financing Task Force (LTFTF) published a report on Market Based Long-Term Financing Solutions for SMEs and Infrastructure which was presented to the G20 Finance Ministers and Central Bankers in September. LTFTF engaged in 86 consultations with market stakeholders from across developed and emerging markets, and a conference on Long-Term Financing through Capital Markets was held at the margins of the 2014 IOSCO Growth and Emerging Markets Committee Annual Meeting to garner further input. LTFTF undertook a comprehensive review of numerous capital market-based financing solutions based on feedback received.

IOSCO's work in this area was carried out in parallel to the policy work of various international organisations including the Financial Stability Board (FSB), International Monetary Fund (IMF), World Bank and the Organisation of Economic Co-operation and Development (OECD) following the call made by the G20 Leaders at St. Petersburg to address impediments to the mobilisation of private capital for LTF. The work of IOSCO contributed to global discussions and reinforced the growing importance of capital market-based financing as a key source of LTF.

The report on Market-Based Long-Term Financing Solutions for SMEs and Infrastructure showcases 20 recent innovative and practical capital market structures and products in equity capital markets, debt capital markets, securitisation and pooled investment vehicles in developed and emerging markets that have contributed to the financing of SMEs and infrastructure, and informs about the role that capital market-based financing can play.

Whilst individually they are unique solutions, several common themes were identified. These include the findings that the regulatory framework can directly impact the ability and willingness of SMEs and infrastructure project companies to access the capital market, and that regulatory incentives have a strong influence on issuer and investor participation. All examples also highlighted the capability of capital markets in improving financing conditions by increasing the availability of funding, providing an alternate source of financing and lowering the cost of capital raising.

all the more significant given the growing role of emerging markets in the international financial system, and the need for a more balanced debate on international regulatory reforms to ensure that outcomes are inclusive and relevant.

Given the increasing role that capital markets play in intermediating sustainable long-term capital, Datuk Ranjit co-chairs the LTFTF with the Chairman of the Ontario Securities Commission. IOSCO established the LTFTF to review issues and challenges facing long-term financing and opportunities for growth.

In addition, the SC holds leadership positions in various other international organisations, putting Malaysia at the forefront of global regulatory policymaking. In representing IOSCO at the FSB, Datuk Ranjit is part of discussions that shape global financial market architecture, widening the overall influence of emerging markets in this area.

The International Integrated Reporting Council (IIRC) is another global body in which the SC is a council member as the IOSCO representative, and provides views towards raising the profile of integrated reporting (IR). The work of the IIRC is central in facilitating the development of more responsible and holistic corporate reporting regime.

Collaborative arrangements for greater cross-border capital market activities

Cross-border collaborations and supervisory arrangements that are beneficial to the industry will continue to be pursued to add value to the capital market. In 2014, the SC signed an MoU with the Autorité des Marchés Financiers of France, bringing the total number of MoUs signed under the European Union (EU) Alternative Investment Fund Managers Directive co-operative framework on the supervision of cross-border offering of alternative investment funds to 27.

These supervisory arrangements will pave the way for Malaysian fund managers to manage and market alternative investment funds on behalf of EU fund managers, including private equity and infrastructure funds. EU fund managers will also be able to manage Malaysian alternative investment funds, providing a gateway for Malaysia to attract international capital from foreign investors.

The sharing of knowledge and experience is another important aspect in developing regulatory capacity and effectiveness. As the Malaysian capital market regulatory framework has been widely regarded as being of high quality and aligned with international standards and best practices for securities regulation, the SC continued to receive numerous requests from its foreign regulatory counterparts to share technical expertise and experience. This year, the SC hosted 10 study visits by international regulators including from Brunei Darussalam, Dubai, Japan, Korea and Lao PDR, to discuss various developments relating to the capital market.

Moving towards greater institutional interconnectivity in the ASEAN capital markets

The SC assumed the Chairmanship of the ACMF in September. In line with AEC 2015 aspirations, ACMF will be placing greater focus on areas it considers critical to building the foundation of an integrated regional capital market, including:

- **Market development:** Fundamental to the success in regional integration are initiatives targeted at ensuring markets are developed in accordance with globally benchmarked standards. ACMF has introduced several capacity building, training and technical assistance programmes that facilitate the improvement of regulations and benchmark practices to internationally accepted standards. Building on this, ACMF works with individual member countries on specific areas to assist in the implementation of the necessary preconditions for regional market integration.

- **Dispute resolution regime:** It is critical that the process of integration does not reduce or undermine investor protection. The ACMF is thus developing a dispute settlement regime for investors who invest in products from other ASEAN countries. The objective of this effort is to ensure investors who invest in or receive services from licensed persons or entities within ASEAN enjoy equal access to protection in addressing disputes involving financial loss, irrespective of the ASEAN member country they invest in.

- **Capital Market Professionals:** Another key area for the ACMF going forward is to enhance facilitation of cross-border activities and harmonisation of standards related to capital market professionals as an important component to market connectivity in the region.

Regional cross-border transactions in collective investment schemes

In August, the ACMF launched the ASEAN Collective Investment Schemes (CIS) Framework for cross-border offering of CIS which is now operational in Malaysia, Singapore and Thailand, following an Memorandum of Understanding (MoU) signed by the three parties in October 2013.

The framework is a milestone towards a single Association of Southeast Asian Nations (ASEAN) passporting regime, enabling fund managers operating in a member jurisdiction to offer CIS, including Islamic CIS, across other member jurisdictions under a streamlined authorisation process. While fund managers benefit from gaining cross border access, it also provides Malaysian investors with a wider range of investment products as well as greater opportunities to invest directly into foreign funds. Qualified fund managers have a direct and efficient channel for cross-border distribution of funds across three markets.

A *Handbook for CIS Operators of ASEAN CIS* was also published by the participating jurisdictions. This handbook provides guidance to CIS operators seeking to offer their CIS under the ASEAN CIS Framework on various administrative and procedural matters including the application procedures, the use of local distributors in the offering process and the procedures for remittance of funds.

Signatory countries have seen three funds approved at their home jurisdiction, with a number currently being processed by their home regulator.

Greater co-operation to facilitate cross-border trade and services

ASEAN trade integration

The Working Committee on Financial Services Liberalisation was established within the ASEAN Framework Agreement on Services (AFAS) to facilitate negotiations for the liberalisation of the financial services sector in ASEAN. The SC leads negotiations on capital market services for Malaysia.

Liberalisation of the financial services sector in ASEAN has been achieved through several packages of financial services commitments. While Malaysia's commitments in relation to the capital market have already exceeded the pledged areas under the AEC Blueprint, the country continues to reaffirm its commitment by continuously enhancing its liberalisation efforts. This is reflected in the recently concluded negotiations on the Sixth Package of Financial Services Commitments (Sixth Package) where further commitment was made in relation to the capital market subsector. As a result, ASEAN financial services' suppliers are now allowed equity ownership in existing locally incorporated companies licensed to carry on the regulated activity of dealing in securities with no foreign equity restrictions.

Following the conclusion of the Sixth Package, negotiations of the Seventh Package of Financial Services Commitments commenced in September and the SC remains strongly committed to the integration efforts as set forth in the AEC Blueprint.

In addition to AFAS, Malaysia continues to pursue bilateral and regional trade arrangements with its key trading partners. The SC supports the government's initiatives to enhance co-operation and economic ties with its strategic partners by providing capital market advice and input in government-to-government trade negotiations.

Free trade agreements and policy reviews

Malaysia, on its own or together with its ASEAN counterparts, participates in a number of ongoing trade negotiations, namely the Trans Pacific Economic Partnership Agreement, Malaysia – European Free Trade Area, the Regional Comprehensive Economic Agreement and the ASEAN – Japan Comprehensive Economic Partnership. The SC plays an advisory role on financial services negotiations. Initial meetings have also taken place to explore potential parameters of a free trade agreement between ASEAN and Hong Kong.

Malaysia, as a member of the World Trade Organisation (WTO), is subject to the Trade Policy Review (TPR) mechanism on a periodic basis. The objective of the TPR is to increase the transparency and understanding of a member country's trade policies and practices. It also enables a multilateral assessment of the effects of policies on the world trading system.

Malaysia completed its sixth TPR, following which the WTO Secretariat report was published in January. The WTO Secretariat report acknowledged that Malaysia has undertaken major liberalisation efforts in its services sector since 2009, removing or reducing restrictions on foreign equity participation in a swathe of services subsectors including financial services. With particular regard to the financial services sector, it was recognised that Malaysia has undertaken comprehensive modernisation and streamlining of its financial services legislation. Malaysia's substantial progress in improving the regulatory framework for corporate governance was also positively highlighted by the Secretariat.

PROMOTING THE MALAYSIAN CAPITAL MARKET

Capital markets must enhance the international dimension of their value proposition to maintain their competitiveness against a changing market landscape. A co-ordinated, harmonised promotional effort among key stakeholders is vital to position Malaysia internationally. The strength of our well-established equity and bond markets as well as the growing fund management and alternative asset segments must be complemented with holistic promotional efforts to draw new and existing players into the capital market.

The Capital Markets Promotion Council was established in 2013 as part of efforts by the Malaysian Government and the SC to promote the country's value proposition across various segments of the capital market both in the domestic and international arena. In 2014, we launched the Capital Markets Malaysia (CM^2) brand, representing the multi-faceted Malaysian capital market with its wide range of conventional and Islamic products, supported by a strong governance infrastructure. With a tagline 'Financing the Future', it clearly showcases the significance of our capital market in facilitating future financial growth, innovation and wealth creation.

CM^2 will serve as a platform to ensure consistency and coordination between various stakeholders of the capital market in promoting the offerings and expertise of the market and through different communication channels.

An integrated international agenda will facilitate the promotion of the Malaysian capital marketplace, bringing together investors and investment opportunities.

In 2014, we participated in the 10th World Islamic Economic Forum in Dubai, United Arab Emirates. This platform served to position Malaysia as an Islamic financing and investment hub. This was a key international event for the Islamic finance industry with over 2,500 participants comprising influential political, business and government leaders from around the world.

Part 2

UPHOLDING MARKET INTEGRITY THROUGH SUPERVISION AND DISCIPLINE

PART 02

UPHOLDING MARKET INTEGRITY THROUGH SUPERVISION AND DISCIPLINE

INTRODUCTION

The environment within which the capital market operates is constantly evolving. Shifting investor demands, as well as continuing technological and financial innovation are driving unprecedented change in global capital markets. Against this backdrop, investor trust remains integral to the proper functioning of capital markets and the financial system as a whole.

Our supervisory strategy is focused on maintaining resilience of market intermediaries and institutions. We are committed to ensuring investors' needs are prioritised and managed by firms that are fit and proper, with the right governance mechanisms, and internal checks and balances. We adopt a risk-focused supervisory approach, premised on dynamic monitoring and assessment of intermediary, institution as well as industry risks, enabling the SC to address regulatory concerns among market institutions and intermediaries in a timely and proactive manner.

The SC also continues with the active surveillance of market and corporate activities. We monitor risks from major developments in the economy and identify emerging trends in the market environment that may require regulatory response. We aim to achieve early detection of market irregularities and take pre-emptive remedial actions as necessary. We also focus on the conduct of PLCs through monitoring of corporate disclosures as well as compliance with Financial Reporting Standards.

Regulatory objectives however cannot be met on the strength of regulatory efforts and discipline alone. For good governance to become a part of the capital market, regulatory discipline must be complemented by robust market-disciplinary mechanisms. In this regard, we continue to strengthen our corporate governance efforts to instill a strong, internally-driven culture of governance among issuers and intermediaries.

Maintaining public trust and confidence in the capital market also requires a stronger ethical dimension to individual participants' actions. Good behaviour cannot merely be legislated and regulated, it must be encouraged and internalised. Market growth will only be sustainable if our regulatory and governance framework is underpinned by a culture of accountability and propriety. In this regard, greater self-discipline among market participants will reinforce efforts undertaken by the SC in areas that include culture, level of professionalism and fair treatment of investors.

SUPERVISION OF MARKET INTERMEDIARIES

The SC's supervisory efforts are targeted at safeguarding and ensuring the integrity and soundness of capital market intermediaries with the objective of raising the standards of market conduct. To align our supervisory activities with the risk profiles of intermediaries, calibrated assessments encompassing both quantitative and qualitative aspects are considered and applied with appropriate supervisory judgements.

Internally developed tools for data analysis were employed for early detection and pre-emptive measures were taken to address potential regulatory non-compliances by intermediaries. Electronic submission of information by market intermediaries also allowed for regulatory efficiency. Various supervisory tools, including off-site reviews, on-site examinations and engagements with industry stakeholders, continue to be used to arrive at a holistic view of the industry's state of affairs.

Supervision activities for the year focused on governance functions and the quality of controls within intermediaries. This included assessing organisational structure, the quality of board and senior management deliberations, corporate culture as well as the quality of internal controls for critical functions such as clients' assets protection, anti-money laundering/counter-terrorism financing (AML/CFT) practices and management of conflicts of interest.

While conduct, governance and compliance structures are critical assessment areas, there was also emphasis on micro-prudential risks relating to the financial position of intermediaries, primarily originating from business strategies adopted, sustainability of those strategies and impact on the intermediaries.

Strengthening of Supervisory Approach

As we review our regulatory framework, we aim to ensure the degree with which we regulate markets, products, firms and activities commensurates with risks posed, standards of conduct practiced and our desired outcome. Complementing this, we strengthened our supervisory approach to adjust the scope and intensity of supervision in relation to the level of risk posed. This allows for a more pro-active assessment of market-wide exposures, and encompasses both prudential and conduct supervision.

Risk-Focused Supervisory Framework

Recognising the growing complexity of market intermediaries, we have moved to a supervisory approach that is more risk-focused, concentrating on material risks posed by market intermediaries. Our Risk-Focused Supervisory Framework (RSF) emphasises assessment of market intermediaries' risk profiles in relation to their business strategies and exposures, as well as the adequacy of internal controls to monitor and mitigate relevant risks.

The RSF leverages on judgment formed through effective risk identification, assessment and mitigation. This enables the SC to conduct dynamic and forward-looking supervision. The RSF supports the SC's supervisory efforts in achieving intended objectives of:

- ensuring financial soundness of market intermediaries;
- monitoring, mitigating or managing systemic risks; and
- preserving market confidence and providing adequate protection to investors.

Under RSF, the key outcomes focus on the four spectrums of supervision:

i. **Microprudential** – the strength of market intermediaries' financial and capital positions to safeguard its financial soundness and to minimise the effect of their failure on investors and other market participants.

ii. **Conduct** – the behaviour of market intermediaries to determine whether there is alignment of interests between investors and market intermediaries in promoting market confidence.

iii. **Anti-Money Laundering and Counter Financing of Terrorism** – intermediaries' understanding of money laundering and terrorist financing (ML/TF) risks as well as their ability to take appropriate measures to manage and mitigate such risks to protect the integrity of the capital market.

iv. **Macroprudential** – the interconnectedness of market intermediaries to chart vulnerabilities and potential threats to the stability of the capital market in order for the SC to take appropriate action to reduce the likelihood of such an event and minimise its impact in the event of systemic failure.

There is greater intensity of supervisory efforts on market intermediaries that pose higher risks to the stability and integrity of the capital market.

In line with this, the Intermediaries at Risk Intervention Framework was also revised to achieve:

- consistency and transparency in supervisory and intervention approaches to licensed market intermediaries, including their cross-border activities;
- greater emphasis on early identification of emerging risks and system-wide issues; and
- effective allocation of supervisory attention and resources.

Stress testing as a supervisory tool

The SC has developed and implemented a stress testing model for market intermediaries to identify and measure potential risks as well as impact on stockbroking, derivatives broking and fund management entities. This enables assessment of the overall resilience of market intermediaries, in addition to facilitating a focused review on vulnerabilities of each intermediary under prescribed stress scenarios.

The result of the stress tests has enabled the SC to initiate early interventions as part of our forward-looking supervisory approach.

Supervisory outcomes for 2014

Of a total 61 examinations and engagements carried out during the year, 23 of these were on stock and derivatives broking intermediaries while 38 were on fund and unit trust management companies. The primary focus of supervision was on the assessment of Systemically Important Financial Institutions (SIFIs) and as such, sufficient time and resources were allocated to the examination and engagement of these entities. However, in view of the large number of non-SIFIs, the assessment of these intermediates was given similar attention to address critical issues such as governance structure and internal controls.

Common areas requiring improvement by these intermediaries include risk management framework, compliance programme and management of conflict of interest. While intermediaries are continuously looking to improve processes and controls, the findings broadly showed that the quality of documentation and surveillance mechanisms need further work. The SC held discussions with the senior management and directors of these intermediaries to address the supervisory findings and communicate our regulatory expectations.

In addition, instances of unlicensed persons carrying out regulated activities such as soliciting and referring clients for commissions were noted within the fund management industry. Appropriate regulatory actions have been taken, and we will continue with efforts to detect and deter such activities.

The SC emphasises the need for adequate controls of client asset protection. We require intermediaries to extend the scope of external audit engagements to include verification of client's assets in fund management companies. Supervisory assessments also found the need for enhancement in the treatment and processes surrounding third party receipts among stockbroking and derivatives broking businesses.

Capital requirements

The SC reviews market intermediaries' capital requirements relative to their liquidity and solvency. We aimed to assess material risks faced by intermediaries and the adequacy of regulatory capital requirements in mitigating such risks. Based on the preliminary outcome, quality of liquid assets held by intermediaries and their risk exposure will be further assessed. The next phase of review will entail assessment on the costs and benefits of introducing revised capital standards.

In 2014, intermediaries involved in stockbroking were found to comply with capital requirements based on their business complexity and size. Non-investment banks have an average industry capital adequacy ratio of 12.3 times, with the numbers ranging from 1.4 times to 38.0 times while the average risk weighted capital ratio of investment banks was at 35.4%, ranging from 20.9% to 96.3% as at December.

Cybersecurity

Cyber threats are increasingly a cause for regulatory concern given their evolving nature with diverse origins and motivations. It is therefore vital for intermediaries to have in place preventive, detection and recovery measures to cope with different forms of threats, ranging from threats to confidentiality and availability of services to integrity of data.

The SC has begun examinations of cybersecurity preparedness among intermediaries. Positive steps have been taken including survey of measures that intermediaries take or adopt to reduce their vulnerability to cyber-attack.

Ten intermediaries were selected for thematic assessment to review their ability to detect, protect from and respond to cyber threats to their online trading systems. The review focused on understanding intermediaries' controls and processes to ensure their systems are not vulnerable to cyber based disruption that could impact client assets.

The examination revealed that there is room for improvement in relation to intermediaries' cyber risk assessment, cybersecurity education and awareness as well as the information sharing environment among industry groups. In this regard, intermediaries were reminded to exercise vigilance in identifying current and emerging cyber threats.

Anti-Money Laundering and Counter-Financing of Terrorism

Detecting and preventing ML/TF activities remain a priority for the SC. In 2014, we undertook a Sectoral Risk Assessment (SRA) for the stockbroking, derivatives broking and fund management sectors. The SRA was intended to provide an overall sectoral position on ML/TF, and allowed for the identification and understanding of ML/TF risks in the respective sectors. This also assisted in supervisory resource allocation.

The SRA drew reference from the National Risk Assessment (NRA) undertaken by the National Co-ordinating Committee on Anti-Money Laundering and Terrorism Financing (NCC), in which SC is a member. The NRA determines the overall risks on money laundering and terrorism financing activities, as well as sectoral and institutional vulnerabilities in Malaysia.

Based on the outcome from the NRA, a framework was designed to implement broad-based reforms to the existing ML/TF regime in the capital market which includes recalibration of priorities, policies and action plans to mitigate ML/TF risks. To this end, the SC has effected several policy changes to our supervisory function, including issuing new internal guiding

BOX 1

Malaysia's Joint Mutual Evaluation Exercise by the Financial Action Task Force and Asia Pacific Group on Money Laundering

Malaysia participated in its 3rd mutual evaluation exercise (MEE) in 2014. The MEE was significant for Malaysia, as it was a joint mutual evaluation exercise by the Asia Pacific Group on Money Laundering (APG) and the Financial Action Task Force (FATF), an international body that sets global standards on anti-money laundering, counter-terrorism financing and counter-proliferation of financing for weapons of mass destruction. The joint assessment was conducted in view of Malaysia's attainment of an observer status at the FATF plenary meeting in October. The results of the MEE will be a significant consideration with regard to Malaysia's full membership status at FATF.

The MEE was conducted based on FATF's revised 40 Recommendations released in February 2012. The new recommendations sought to address emerging threats, clarify and strengthen previous recommendations as well as maintain stability and rigour in enforcing global standards on AML/CFT. The SC issued the revised *Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries* in January, which adopted FATF's new standards and requirements.

Malaysia was one of the first few countries globally to be assessed under the new FATF methodology issued in February 2013. The FATF methodology consists of the following elements:

- identifying the 'Risk and Context' of the country in relation to threats and vulnerabilities;
- displaying the 'Technical Compliance' in relation to legal and institutional frameworks; and
- demonstrating the 'Effectiveness' of mitigating laws, rules, standards and operating procedures.

Together with other members of the NCC, the SC outlined various measures taken in the capital market to combat money laundering, terrorism financing and proliferation financing when the FATF/APG assessors conducted their onsite inspection from 13 to 25 November.

The result and the national report on Malaysia's mutual evaluation exercise is expected to be discussed and adopted at the FATF plenary in June 2015 and APG plenary meeting in July 2015.

principles for enforcement of non-compliance on ML/TF by reporting institutions.

We also conducted supervisory examination with particular focus on intermediaries' level of oversight over money laundering, controls and processes, adherence to regulatory requirements and the intermediaries' vulnerabilities in this area. Findings highlighted the need for improvements in risk profiling processes and transactions monitoring, documentation on rights, responsibilities and expectations of AML/CFT initiatives undertaken by third parties as well as AML training for both board of directors and employees.

Supervision of bond market service providers

Bond market service providers, mainly CRAs, BPAs and bond trustees contribute towards maintaining market disicpline, thus complementing SC's regulatory efforts. In our oversight and supervision of these service providers, we rely on a variety of supervisory tools that allow for appropriate identification and mitigation of risks associated to the operation of the bond market.

Through on-site examinations and regulatory engagements, the SC ascertains whether specific key areas such as financial soundness, corporate governance, risk management systems and internal controls commensurate with their risk and business profiles. These areas are also assessed to determine their effectiveness in exemplifying good business practices and standards of market conduct.

In 2014, we carried out follow-up on-site examinations on the credit rating agencies. The scope of these follow-up examinations included areas such as financial requirements, corporate governance, rating processes and methodologies, conflict of interest as well as human resource and expertise. The findings generally indicated that the CRAs had sufficiently addressed previously identified gaps, particularly in the areas of corporate governance and compliance awareness across all levels within the firms.

We also conducted a follow-up examination of the bond pricing agency. The scope of the examination included corporate governance and compliance, bond pricing operations and expertise, information systems and human resource. While the findings were generally satisfactory, there was a need for increased governance and compliance awareness within the company.

The SC's ongoing off-site supervision includes the review of periodic submissions of relevant information and the monitoring of material events and business developments. The outcomes of these reviews provide input for the identification of areas of focus for further examination.

OVERSIGHT OF INSTITUTIONS

As the capital market continues to develop and become increasingly sophisticated, there is a greater need for all stakeholders within the industry to carry out their roles effectively. Our oversight of market institutions focuses on ensuring that these fundamental elements remain intact.

Bursa Malaysia

Bursa Malaysia undertakes multiple key roles in the capital market – as provider of a market for securities and derivatives products, clearing, settlement and depository services as well as a front-line regulator. Given its significance, the SC constantly monitors and evaluates Bursa Malaysia to ensure that it fulfills its regulatory obligations and acts in the interests of the investing public, as well as meet Main Market Listing Requirements as a listed entity.

In carrying out its functions, Bursa Malaysia is expected to strike a balance between its commercial interests and regulatory obligations. Having an appropriate and robust governance arrangement within the exchange is an important part of ensuring adequate accountability and controls to enable the exchange to mitigate potential conflict of interest situations.

Our supervision of Bursa Malaysia includes conducting on-site regulatory assessment, periodic reviews of gaps identified and engagements with the Board and management of Bursa Malaysia to ensure remedial measures are taken.

Following the gaps identified in the 2013 regulatory assessment on Bursa Malaysia's governance and controls the SC supervisory focus in 2014 was on strengthening governance arrangements and risk management of Bursa Malaysia, ensuring compliance and assurance as well as managing the conflict of interest and the independence of Bursa Malaysia's regulatory functions. These areas of focus are imperative as intensified competitive pressures and technological advancements challenge front-line regulation and responsibilities of exchanges, requiring appropriate structure and framework to be in place so that Bursa continues to allocate sufficient resource in fulfilling its regulatory mandate.

In addition, Bursa Malaysia's procurement and share trading polices, amongst others, were refined to strengthen compliance and assurance. A centralised compliance function is being established to enhance governance and adherence to policies and procedures as well as conduct requirements that govern Bursa Malaysia.

Given the emerging risks arising from system failure, glitches and cyber threats, the scope of our regulatory examination includes assessing Bursa Malaysia's systems reliability, recoverability and its resilience.

During the year, the SC granted concurrence for the re-election of four incumbent Independent Non-Executive Directors (INED), appointment of a new INED and re-appointment of the Chief Executive Officer/ Executive Director of Bursa Malaysia. We also conducted onboarding sessions for Bursa Malaysia's newly appointed directors, particularly public interest directors who are entrusted to act in the broader public interest rather than in relation to any particular group of shareholders. Public interest directors are to uphold the role of the exchange as its functions serve a broader range of stakeholders, not just shareholders.

The audit of 2014 also included follow-up of compliance gaps to the Principles for Financial Market Infrastructures with respect to the clearing house's stress testing methodologies and business continuity management recovery time.

Federation of Investment Managers Malaysia

As a self-regulatory organisation (SRO) recognised by the SC under the CMSA, the FIMM is empowered to regulate the marketing, and distribution and sales practices of unit trust and PRS. Its functions include the conduct of supervision, surveillance, registration, examination and taking appropriate disciplinary actions against its members and registered persons and ensure that public interest and investor protection are continuously upheld.

An effective governance culture and a strong operating environment is integral to FIMM's role as an SRO. In ensuring that FIMM is able to discharge its supervisory functions effectively, refinements in relation to governance, operational controls and regulatory requirements were assessed and approved, taking into consideration impact on investors as well as industry at large.

In 2014, the SC approved the appointment of the Chairman and the Chief Executive Officer of FIMM. We also continued to emphasise high standards of professionalism and sales conduct among distributors and consultants in safeguarding the investing public. The revised *Continuing Professional Development Guidelines* was approved taking into account that the competency, skill and knowledge of consultants need to remain relevant to current industry conditions.

Additionally, we facilitated development initiatives with the objective to grow the unit trust and PRS industry by expanding the distribution channels for product offering as well as establishing flexibility in business relationship among distributors to increase accessibility of product diversity. With these development initiatives, FIMM needs to now further strengthen its supervision and monitoring over its members and distributors and to raise standards of sales practices beyond compliance, to a level where the spirit of best practices and their intent are fully embraced.

Private Pension Administrator

Underpinning our oversight of the Private Pension Administrator (PPA), which is the central administrator of the PRA industry, is a supervisory framework that spans the governance, operations, financials and industry development remit of the PPA. Our supervision objective is to monitor and assess PPA's compliance with its statutory obligations as well as terms and conditions imposed.

In this regard, we have developed principles for consolidating and managing data which PPA is to adopt in their operations and information systems. Continous enhancements to these principles will be undertaken for any additional duties and responsibilities accorded to PPA.

The SC continues to facilitate PPA's initiatives to promote the PRS industry. This includes, amongst others, cultivating a retirement savings culture and creating awareness on PRS-related incentives. We developed eligibility and operationalisation requirements which PPA will observe with regards to implementation of these incentives.

SURVEILLANCE FOR FAIR AND ORDERLY FUNCTIONING OF MARKET

Developments in the capital market have highlighted the intricacies and interdependencies of firms and markets. Bursa Malaysia experienced an elevated level of market activity in 2014 through the introduction of new products and enhanced trading platform. This resulted in the average daily trading value and volume consistently surpassing the 2 billion mark. The local bourse displayed signs of depth and maturity by being able to absorb huge volumes and movement without disrupting market orderliness.

In view of this, our supervision and surveillance activities continue to focus on systemic stability as well as conduct of businesses and individuals.

Enhancing operational efficiency through technology

Bursa Malaysia had upgraded its trading engine in early 2014 to cater to the growing demands for speed and sophistication by the investing public. In tandem, the SC introduced an upgraded version of our surveillance system to expedite the analytics process and carried out rigorous tests and recalibration of its existing alerts for more refined triggers.

We also developed quantitative approaches to detect trading irregularities. We implemented scenario analysis models and tools with the ability to detect potential crisis as well as trading irregularities on a timely basis for pre-emptive measures to be instituted. This has heightened our monitoring and surveillance capabilities across markets.

Strengthening market discipline through pre-emptive actions

The SC strongly believes that market misconduct must be pre-emptively curbed. SC and Bursa Malaysia have increased our emphasis on pre-emptive measures such as engagements with participating organisations and the issuance of unusual market activity queries or market alerts on questionable transactions. Approximately 14,000 alerts were analysed in 2014, some of which were assessed for further investigation. In 200 instances, pre-emptive actions stopped trading activities deemed improper.

We continued to intensify our market surveillance and oversight activities to ensure quick and timely detection of market abuse activities, as well as deter others from such behaviour. These comprehensive oversight activities have resulted in enforcement action by Bursa Malaysia increasing by more than four-folds in 2014.

Our surveillance efforts also encompass the derivatives market, which has seen increased liquidity in recent years. This is monitored through a newly introduced

Derivatives Surveillance System as well as closer coordination with Bursa Malaysia Derivatives. A more advanced monitoring system for the derivatives market will be deployed in 2015 to enhance SC's surveillance capabilities. The system will enable comprehensive data analysis of demography and participants ranking, allowing each participants' contract and its impact on the market to be closely reviewed.

Strengthening cross-border surveillance co-operation

Cross-border surveillance and the sharing of information on market flows are paramount for regulators to make timely and thorough assessments of risks. The SC continues to focus on strengthening international co-operation and supervision to ensure effective oversight of the capital market.

In 2014, inter-jurisdictional regulatory co-operation was exemplified through the Asia-Pacific Regulators Dialogue on Market Surveillance (ARMS), which was initiated by the SC and the Australian Securities and Investments Commission (ASIC). ARMS members have grown to eight regional regulators with the inclusion of Indonesia. The emphasis this year was on cross-border market abuses, risks and challenges faced by regulators as well as the importance of sharing information amongst regulators to prevent such abuses. Co-operation has expanded beyond sharing of information to include the sharing of surveillance expertise. This is expected to expedite the investigation of market abuse behaviour.

Financial and corporate surveillance

The SC enhanced our approach to corporate surveillance to achieve early detection of questionable corporate conduct by PLCs and to improve the quality of disclosures. Accelerated detection of suspected corporate transgressions was made possible through scrutiny of disclosures at an early stage. The increased rigour of our assessment of PLCs, particularly on the adequacy, accuracy and transparency of disclosures, has resulted in better quality disclosures and governance.

In addition, surveillance activities were intensified by increasing the frequency of engagements with directors of PLCs, auditors as well as other relevant parties on corporate transactions and matters relating to corporate conduct. The engagements served to remind directors of their role in upholding good corporate governance, as well as emphasised the need to consistently act in the best interest of the PLCs and their shareholders in undertaking corporate transactions.

Apart from surveillance of PLCs, we also conduct thematic assessments to determine trends, developments and issues among PLCs that may impact the capital market or pose systemic risks. During the year, we completed three thematic assessments on emerging issues covering about 100 PLCs. The thematic assessments have provided insights on macroeconomic concerns facing these PLCs and the consequent impact to the overall capital market. These assessments have allowed us to formulate our responses swiftly.

As a member of the Financial Reporting Foundation (FRF) and in its advisory role to the Malaysian Accounting Standards Board, the SC continues to actively participate in reviewing issues relating to the development of financial reporting standards that may have a material and pervasive impact on corporate reporting. The SC's efforts are targeted at ensuring coherent and consistent implementation of Financial Reporting Standards.

MANAGEMENT OF SYSTEMIC RISKS

Our risk-based approach to supervision of markets, products and firms contribute to our process in monitoring, mitigating and managing systemic risks in the capital market. Consolidated deliberation, assessment and review of emerging risks in the capital is undertaken by a dedicated committee, Systemic Risk Oversight Committee (SROC).

Whilst the equity and derivatives markets remained orderly in 2014, developments in the domestic and global markets continue to be monitored closely using an enhanced surveillance alert system which detects excessive market movements as well as events such as trading halts, suspensions or delayed exchange openings. Similarly, while the bond market remained resilient, surveillance is carried out to identify systemic risks in the event of potential defaults by large issuers or issuers from the same sectors. These efforts are further augmented by thematic assessments on emerging risks relating to PLCs in selected sectors.

Gatekeeping function continues to be the SC's key tool in safeguarding investors from systemic risk posed by high risk products. In this regard, we have taken steps to mitigate the exposure of high risk and complex products to the market, particularly to retail investors.

BOX 2

Systemic Risk Oversight Committee

The monitoring of systemic risk requires regulators to take a forward-looking approach to ensure early detection of risk build-ups in specific sectors in the capital market. This complements the shift in intermediaries' focus from returns and performance only to encompass risk, compliance and regulations.

In line with IOSCO Principles requiring securities regulators to have a process to monitor, mitigate and manage systemic risk, the CMSA and SCA were amended to enable the SC to undertake this function in October 2011. In this regard, we aim to reduce the risk of failure and the impact in event of such failure, as well as to isolate the risk of failing entities within the system.

We established SROC to monitor, mitigate and manage systemic risk as provided for in the CMSA. The functions of this committee include:

- monitoring systemic stability of the Malaysian capital market as well as capital market intermediaries and institutions that are deemed systemically important;
- deliberation and coordination of responses to systemic risks that pose threats to the Malaysian financial system and economy;
- review the perimeter of regulation and standards to mitigate systemic systems; and
- propose intervention and resolution measures on institutions or markets that may pose threats to the stability of the capital market.

To manage contagion systemic risk to the Malaysian financial system emanating from the capital market, SROC will also assess and strategise issues to be brought for discussion and deliberation with focus groups established with BNM pursuant to the SC-BNM MoU signed in October 2012. Discussions are centred on macro risks, payment and clearing issues as well as systemic stability of the overall financial system. This platform enables the SC to cooperate with BNM and facilitate early intervention when necessary.

Our capital market intermediaries remain strong and resilient. Their strong capital base will allow them to cushion any setback or deterioration in market conditions. The risks inherent in their business are being monitored on a dynamic and continuous basis with the introduction of RSF. SIFIs are subject to a more rigorous risk assessment covering all key activities.

In addition, we work closely with BNM to enable us to continuously monitor, mitigate and manage concerns that may have financial stability implications.

RAISING STANDARDS OF CORPORATE GOVERNANCE

The SC is dedicated towards promoting the internalisation of a culture of good governance among capital market participants. To strengthen corporate governance best practices, our initiatives are multi-faceted, targeting various components of corporate governance. Sustainability and transparency, in particular, remain at the heart of the capital market's corporate governance agenda.

In 2014, we continued the implementation of the remaining work programmes recommended under the CG Blueprint. We have achieved several milestones in the areas of IR and the adoption of an industry-driven institutional code.

Malaysia has continuously been highly rated in regional and international corporate governance assessments, contributing to the attractiveness of our capital market.

Creating an enabling environment for Integrated Reporting

The evolution of corporate reporting in Malaysia is led by the transition from an efficiency-driven to an innovation-driven economy with greater emphasis on knowledge and technological know-how. The adoption of IR will provide the necessary architecture to support and capture these changing information requirements. It will also involve a change in mindset as it fosters a culture that focuses on the full spectrum of value drivers to elevate performance and attract financial capital for investment.

Numerous efforts were undertaken with assistance from the IIRC and Association of Chartered Certified Accountants (ACCA) Malaysia as well as local institutions to create an enabling environment for IR. Initial feedback indicated that IR is still a nascent concept in Malaysia, and as such, a structured programme was undertaken to create greater awareness and promote IR.

A forum themed 'Revolutionising the Way We Communicate Value in Malaysia' was organised in April to create awareness and discuss topical issues around the implementation of IR. Notable speakers included Paul Druckman of IIRC and Mikkel Larsen of DBS Bank Ltd. The event culminated in Sime Darby Bhd pledging to be an early adopter of IR by 2016 making it the first company in Malaysia to do so, as announced by the Prime Minister in his speech at the Business Leaders Dialogue in August. A technical workshop for potential early adopters was subsequently held in October to discuss the specificities of the IR framework and create understanding on its various elements as well as to share experiences as corporates move towards adopting IR.

The establishment of the Integrated Reporting Network led by the Malaysian Institute of Accountants was another milestone. This special interest group, comprising ACCA Malaysia, Chartered Institute of Management Accountants (CIMA), accounting firms and Sime Darby Bhd, will receive guidance from the IIRC and serve as a platform to discuss issues and drive the implementation of a strategy-aligned integrated business reporting framework. The Network Steering Committee held its first meeting on 3 October to discuss its administrative structure and the roadmap towards adopting IR in Malaysia.

Encouraging investor activism

Institutional investors have a critical and proactive role to play in the governance and corporate sustainability agenda of companies due to the significant stakes they hold. In this regard, the Malaysian Code for Institutional Investors (MCII) was jointly launched by the SC and Minority Shareholder Watchdog Group (MSWG) in June. The MCII was formulated through an industry-driven, consultative and collective effort spearheaded by the MSWG together with key representatives from Malaysia's institutional investors fraternity which includes the Employees Provident Fund (EPF), Permodalan Nasional Bhd, Kumpulan Wang Persaraan, Social Security Organisation, Lembaga Tabung Angkatan Tentera and Lembaga Tabung Haji.

Assessing the effectiveness of corporate governance efforts

With approximately 80% of recommendations in the 5-year CG Blueprint implemented, an Interim Progress Survey was conducted to seek public opinion and perception on the effectiveness of selected initiatives. The survey was conducted between April to May, covering among others, issues on rights of shareholders, role of institutional investors, board effectiveness and disclosure and transparency. A total of 160 responses were received from senior leaders and key representatives of the industry, following which, engagement sessions were organised to share general findings and gather further feedback as well as to discuss the challenges and issues faced by the industry.

An industry study on directors' compensation was also undertaken to gain insights into remuneration practices of boards in Malaysia. The 2013 Board Fees Survey was conducted by an independent consultant in collaboration with MSWG and supported by the SC. Published in March, the findings of survey indicated that larger companies paid more than smaller companies and traditional remuneration structures are still common, with benefits, perquisites and equity (stock options and restricted stock) less commonly used.

Promoting diversity on boards

Diversity is a critical attribute of a well-functioning board and an essential measure of good governance, enabling optimal decision making by harnessing different insights and perspectives and challenging conventional wisdom.

Gender diversity gained prominence in August 2004 when the government announced a target of at least 30% of women holding decision-making positions in the public sector. This was reiterated in June 2011 by the Prime Minister, who announced that the corporate sector must have at least 30% women representation on boards by 2016.

The SC's support of a diverse and inclusive workforce was reflected in the CG Blueprint and the *Malaysian Code on Corporate Governance 2012*. In this regard, emphasis was placed on the Nominating Committee to ensure that women candidates are sought as part of the recruitment exercise, and a recommendation was made for boards to disclose gender diversity policies, targets and measures in their annual report. Bursa Malaysia's Listing Requirement was amended in 2013 to reflect this recommendation.

Based on Bursa Malaysia's assessment in 2014, the percentage of women on board stood at 10.2%. In driving efforts to encourage greater board diversity which underscores good corporate governance practices in companies, board leadership and strong commitment would be essential.

BOX 3

The Malaysian Code for Institutional Investors

In June, the SC and MSWG jointly launched the MCII, a set of best practices that calls upon institutional investors to discharge their stewardship responsibilities.

Aspirational in nature and voluntary in implementation, the MCII sets out broad principles and guidance on effective stewardship by institutional investors in areas such as engagement and monitoring of investee companies, voting activities and managing conflicts of interest.

Beginning 2016, signatories of the MCII are expected to report annually on an "apply and explain" basis on their extent of observance to the principles of the code in their website, annual report or in other accessible forms.

The launch of MCII was well-received with Malaysia being recognised as the first Southeast Asian country as well as the second in Asia and emerging markets to issue a code for institutional investors aimed at improving corporate governance among their investee companies. The 2014 corporate governance assessment by ACGA-CLSA (CG Watch 2014) also attributed Malaysia's upward trajectory in corporate governance partly to the launch of the MCII.

An industry-led council for institutional investors will be established to monitor the effective adoption of MCII, represent the common interest of all institutional investors and be a platform to shape and influence the wider sphere of corporate governance culture.

The diversity agenda has been further expanded to encapsulate not only gender but also age and ethnicity. During the Business Leaders Dialogue in April 2014, the Prime Minister communicated the need for PLCs to establish and disclose their diversity policies covering gender, ethnicity and age for board and management.

Bursa Malaysia has clarified that its Listing Requirements will necessitate PLCs to disclose their diversity policies for board and workforce in all annual reports issued on or after 2 January 2015.

Enhancing the value proposition of ASEAN public-listed companies

On 18 June, the Association of Southeast Asian Nations (ASEAN) Capital Markets Forum (ACMF) released the second edition of the *ASEAN Corporate Governance Scorecard Country Reports and Assessments 2013-2014.* This assessment of ASEAN PLCs continued to gain traction under the leadership of the SC. To date, six ASEAN countries with stock exchanges namely Malaysia, Singapore, Thailand, Indonesia, Philippines and Vietnam participated in this ranking exercise.

BOX 4

Malaysia's Corporate Governance Standards Recognised Globally

In the biennial *Corporate Governance Watch 2014 Report* (CG Watch) by the Asian Corporate Governance Association in collaboration with CLSA Asia-Pacific Markets, Malaysia achieved an overall score of 58% in 2014 relative to 49% in 2007, maintaining its fourth position in the region. The report drew attention to the sustained and concerted efforts in driving governance reforms, resulting in Malaysia being the only market among Asia-Pacific countries assessed that consistently improved its scores in each of the last four surveys. Areas of consistent improvement include corporate governance culture, rules and practices, enforcement, accounting and auditing.

Malaysia was also recognised for its strength in financial reporting and auditing standards, jointly ranking first with Singapore in the category of accounting and auditing. The report further acknowledged the SC's Audit Oversight Board (AOB) as "one of the better organised and transparent audit regulators in the region". Malaysia further showed commendable improvement in the area of enforcement with scores in this category rising by 8% from the 2012 assessment.

The country received further accolades in corporate governance from the ACCA-KPMG study entitled *Balancing Rules and Flexibility* where Malaysia was ranked fourth alongside Australia and India. The study was conducted on 25 markets globally and Malaysia was acknowledged as one of the few emerging markets to have received scores above the average of developed markets.

A total of 529 PLCs were assessed, most with a market capitalisation of more than US$1 billion. ASEAN PLCs were noted to continue improving their corporate governance practices, with PLCs from Thailand ranked the highest followed closely by those from Malaysia and Singapore. Regardless of the varying stages of development, participating countries were able to balance national standards with global corporate governance principles espoused by the scorecard, to converge towards international best practices to meet the integration objectives of the ACMF.

Review of OECD Principles of Corporate Governance

In recognition of our sustained and visible role in promoting corporate governance, SC was one of the few institutions from non-OECD countries invited to participate in the review of the OECD Principles by the OECD Corporate Governance Committee. The committee consists of senior government and agency representatives with direct responsibilities for corporate governance. Its mandate is to contribute to economic efficiency, sustainable growth and financial stability by improving corporate governance policies and supporting good practices. Our participation in this review exercise enabled us to provide direct input in the review of the Principles.

OECD Asian Roundtable on CG

The SC continued its active participation in international forums and discussions such as the OECD Asian Roundtable on Corporate Governance held in Mumbai, India in February and Yangon, Myanmar in July. These meetings provided valuable platforms for networking and knowledge sharing among policy makers, regulators as well as regional and international experts to improve global standards and best practices on corporate governance.

SELF-DISCIPLINE IN SETTING HIGH STANDARDS OF PROFESSIONALISM AND ETHICS

Given the important role of financial services professionals in dealing with consumers, investors, financial markets and the greater economy, a strong culture of ethical conduct in the financial industry is central to its long-term sustainability.

Based on a shared vision for high standards of ethics and professionalism to become synonymous with the financial services industry, the SC and BNM established the Financial Services Professional Board (FSPB). As an industry-led standard setting body, FSPB will focus on developing practical and applicable standards of professionalism and ethics for the industry and its workforce.

The FSPB is governed by a board which will identify areas for development of standards, advocate harmonisation of professional standards and ethical practices as well as guide the adoption of these standards. The FSPB board's membership of eminent experts and financial practitioners from the UK, Europe, Australia and Asia provides a valuable global perspective that will enhance the relevance of the standards developed by the FSPB and their universal application.

FSPB will undertake this task in a collaborative manner, with the support and commitment of all participating stakeholders.

Part 3

PROTECTING OUR INVESTORS THROUGH ENFORCEMENT AND EDUCATION

PART 03

PROTECTING OUR INVESTORS THROUGH ENFORCEMENT AND EDUCATION

INTRODUCTION

A strong imperative in maintaining the integrity of the market is ensuring that we respond with credible enforcement when securities laws are breached. This provides investors with the confidence that our markets operate in a fair and orderly manner and that unwarranted behaviour is properly punished. In this respect, we have continued to take enforcement action for various breaches of securities laws, particularly for market misconduct such as insider trading and market manipulation.

Investors and their preferences are strong drivers for initiatives undertaken for the capital market. The SC's efforts to broaden investor participation are premised holistically on empowering investors to exercise good judgement and discretion in making investment decisions, intervening only where investors are most at risk.

This enforcement regime works in tandem with our efforts to create informed and confident investors. Empowered investors possess the ability to take ownership and responsibility for their investment decisions. The SC's investment literacy programmes underscore our commitment towards developing investors who are aware and capable of investing in the capital market while being cognisant of their rights.

Coupled with these programmes are our efforts to strengthen our complaints handling mechanisms, promote an independent dispute resolution process through the Securities Industry Dispute Resolution Center (SIDREC), and administer the Capital Market Compensation Fund (CMCF), all of which demonstrate our multi-pronged approach in dealing with investor issues.

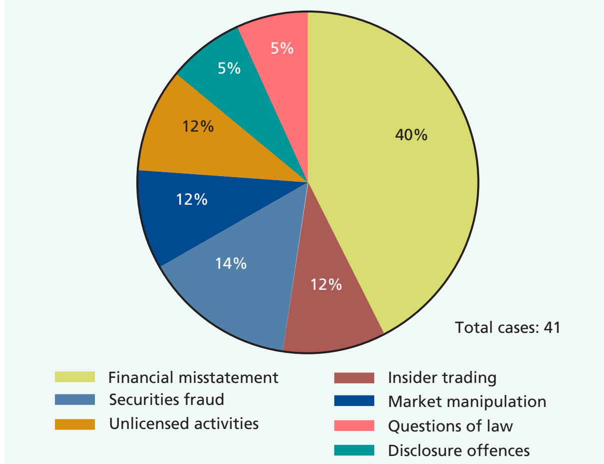
MARKET DISCIPLINE THROUGH ENFORCEMENT

Our enforcement efforts continued to be focused on sending a clear message to the public that action will be taken for breaches of law. Where the infractions were egregious in nature, individuals were charged for these offences. At the same time, monetary penalties were actively pursued to deny offenders of ill-gotten gains. In instances where investors suffered financial loss as a result of breaches, we undertook efforts to restitute the impacted investors. We continued to be vigilant against unlicensed activities by deploying enforcement teams to halt these scams from being perpetrated. Our civil action powers were utilised to seek a range of orders from the High Court, including orders to bar individuals from acting as directors of PLCs and prohibiting them from trading on the stock exchange. Administrative sanctions were imposed against licensed intermediaries for breaches of guidelines, underscoring our commitment to instil and maintain high standards of conduct in the industry we regulate.

Market abuse continued to be a focal area and we intensified our efforts in dealing with market manipulation and insider trading. A multi-disciplinary taskforce was established to address these abuses from the onset, leveraging on both the SC's expertise as well as our collaboration with Bursa Malaysia. In 2014, a significant amount of our resources were dedicated towards the investigation and prosecution of insider trading breaches – 76% of our active investigations were focused on insider trading, an increase of 6% from 2013. A significant portion, 40% of total enforcement actions initiated were insider trading breaches. This underscores the seriousness with which the SC views the abuse of informational asymmetry in the marketplace.

Chart 1

Ongoing cases in 2014 – by type of breach



Criminal charges for insider trading

The SC charged five individuals with insider trading offences under section 188 of the CMSA. Three of these individuals were corporate insiders who held fiduciary positions in the companies concerned. Two individuals were charged specifically for the offence of communicating material, non-public information to others.

We charged the former Chief Executive Officer of Malaysian Pacific Corporation Bhd (MPAC), Ch'ng Poh @ Ch'ng Chong Poh with 58 counts of insider trading on MPAC shares between 14 May and 20 August 2008, while in possession of material, non-public information relating to a multi-million ringgit proposed joint venture between Oriental Pearl City Properties Sdn Bhd, MPAC's wholly-owned subsidiary, and AmanahRaya Development Sdn Bhd, a wholly-owned subsidiary of Amanah Raya Bhd. The proposed joint venture was to undertake and manage the development, construction and completion of Lakehill Resort City, Asia Pacific Trade & Expo City and Taman Nusa Damai comprising 638 acres of development situated in Nusa Damai, Iskandar Malaysia, Johor.

Table 1

Cases currently pending in courts

Sessions Court	15
High Court (Criminal)	10
High Court (Civil)	8
Court of Appeal	5
Federal Court	3
TOTAL	**41**

Charges were also preferred against Thai Kim Sim, the former Chief Executive Officer of APL Industries Bhd (APLI Bhd) as well as the then Group Executive Director of APLI Bhd, Tan Bee Geok for communicating non-public information in relation to the audit adjustments proposed by the company's auditors for the financial year ended 30 June 2007 and the classification of APLI Bhd as a PN17 company. Thai was charged with communicating the information to Tiong Kiong Choon, who was charged for disposing 6,208,500 APLI Bhd shares whilst in possession of the said inside information. Tan Bee Geok's charge related to communicating inside information to her sister, Tan Bee Hong, between 23 October and 31 October 2007. One charge was also preferred by the SC against Tan Bee Hong for disposing 350,000 units of APLI Bhd shares held in her account while in possession of the same non-public information.

Criminal cases are initiated in the Sessions Court, and we pursue and defend our cases at the High Court and the Court of Appeal. In two criminal cases where specific constitutional issues were raised by accused persons, namely in the cases of PP v Gan Boon Aun and PP v Sreesanthan Eliathamby, the questions of law were referred to the Federal Court. A total of 41 trials and appeals, including the questions of law which were referred, are pending in the courts (Table 1).

Barring orders for market manipulation

The diversity in the range of enforcement tools available under the securities laws provide us with the ability to pursue a variety of enforcement actions.

In July, the SC filed a civil action at the High Court against Kenneth Vun @ Vun Yun Liun and six others for allegedly engaging in false trading and market rigging transactions and stock market manipulation in respect of DVM Technology Bhd shares from 14 March until 21 March 2006. Aside from seeking specific declarations that the defendants had engaged in manipulative activities on DVM Technology Bhd shares during the respective period, the SC also sought an order to bar the defendants from being directors of any PLC for a period of five years.

Regulatory settlements as a precursor to civil suits

The securities laws allow the SC to institute civil proceedings for various breaches of the law and the CMSA in particular allows us to claim three times the gains made or losses avoided by those in breach of the market manipulation as well as insider trading provisions. This year a total of 11 individuals entered into regulatory settlements with the SC following letters of demand which we issued to them claiming insider trading and market manipulation breaches. In each of the insider trading cases, the persons involved agreed to disgorge three times the financial gain made or loss they avoided as a result of the insider trading.

In one market manipulation case, Wong Thean Soon entered into a settlement with the SC, agreeing to pay a sum of RM7 million following the alleged manipulation of MyEG Services Bhd (MyEG) shares between 16 January and 24 April 2007. Wong had entered into the agreement to settle SC's claim against him and 13 other individuals for the manipulation of the MyEG shares.

In another case, Vincent Ng Chee Yee entered into a settlement with the SC for the sum of RM200,000 following SC's claim against him for the manipulation of DRB-Hicom shares which took place on 25 July 2011.

Two other individuals, Chua Siow Leng and Tam Kin Kok entered into regulatory settlements with the SC following claims that the SC initiated against them for insider trading in the shares of WCT Bhd in December 2008 and January 2009. Chua paid a sum of RM1,099,231.44 while Tam disgorged a sum of RM505,095.72.

In another settlement, Siva Kumar M Jeyapalan and Dato' Azmil Khalili Dato Khalid paid a sum of RM782,839.17 and RM249,750 respectively following letters of demand issued to them with respect to insider trading in the shares of Metacorp Bhd in February 2008.

In December, another three individuals entered into regulatory settlements with us for breaches of the insider trading provisions in the *Securities Industry Act 1983* (SIA). Lim Teck Seng and Yap Moy Kheng paid a sum of RM327,487.80 to settle SC's claim for insider trading in the shares of Inti Universal Holdings Bhd (Inti) in September 2007. Separately, Tan Yew Sing paid a sum RM778,258.92 following our letter of demand claiming the communication of material information relating to Inti, a breach under section 89E of the SIA.

Restitution of investors following regulatory settlement

The total amounts paid by individuals following regulatory settlements entered into with the SC in 2014 was RM9,858,916. Our efforts to restitute investors who have suffered losses as a result of these breaches are on going.

In 2014, the SC restituted a total of RM758,202 to 182 investors who had invested in the call warrants of DRB-Hicom Bhd which were issued by OSK Investment Bank Bhd on 8 February 2011. The restitution was made possible following a regulatory settlement that OCBC Bank (M) Bhd entered into in 2013 with the SC following our claim against it for the manipulation of DRB-Hicom shares which took place in July 2011.

Administrative sanctions against intermediaries

Market intermediaries play a critical role in the capital market, and are therefore expected to comply with the high standards of conduct that are applicable to them. In instances where the relevant guidelines and rules are breached, the SC takes swift administrative action to ensure that sanctions are meted out in a timely

BOX 1

Manipulation Conviction Affirmed by High Court

On 18 March 2014, the High Court dismissed the appeals by Dato' Phillip Wong Chee Kheong and Francis Bun Lit Chun and affirmed their convictions for manipulation charges which were preferred by the SC against them in 2005 under section 84(1) of the SIA read together with section 34 of the *Penal Code*.

Both Wong and Bun were tried by the Sessions Court between 2007 and 2011. They were found guilty after a full trial involving the detailed testimony of 38 witnesses who provided evidence on the role of both individuals in creating a misleading appearance of active trading of Suremax shares between 24 November 2004 and 22 March 2005. The court had found that during the 4-month period, the accused persons had instructed for trades to be transacted within and among nine accounts, with no change of beneficial ownership of the said shares. These findings of the Sessions Court were affirmed by the High Court this year.

Dato' Phillip Wong's sentence of two years jail and a fine of RM3 million was affirmed by the High Court. Francis Bun's jail sentence of three months however, was reduced to one day while his fine of RM2 million was maintained. The SC is appealing to the Court of Appeal against the decision on Bun's sentence while he is appealing against his conviction. Wong is appealing to the Court of Appeal against his conviction and sentence.

The High Court Judge held that the sentence imposed on Wong was appropriate in light of public interest, in particular the integrity of the Malaysian stock market and need for investor confidence. He held that the crime was serious and could bring about a direct, negative impact to the economy.

manner and remedial action is firmly in place. In 2014, the SC instituted administrative actions against two licence holders for allowing unlicensed persons to carry out regulated activities without a licence. A total of RM200,000 in administrative fines were imposed for the said breaches.

AmInvestment Bank Bhd was found to have allowed unlicensed persons to solicit fund management clients, including receiving trading orders directly from them. Similarly Apex Investment Services Bhd allowed unlicensed persons to deal in securities by facilitating referral arrangements for its unit trust consultants. It also received rebates from clients' transactions without directing these rebates back to their respective accounts.

Capital Dynamics Asset Management Sdn Bhd (CDAM), a fund management company was found to have failed to disclose the deferred performance fees chargeable annually in statements issued to its clients. The SC directed CDAM to disclose to its clients, by 31 December 2014, the chargeable performance fees as prescribed under Paragraph 7.01 and 7.03 of the *Guidelines on Compliance Function for Fund Management Companies.*

Sanctions by Audit Oversight Board

In 2014, the AOB sanctioned two individual auditors and one audit firm. The sanction imposed upon the audit firm, which is the first since AOB's inception, involved prohibiting the audit firm from accepting any public interest entity as its client for a period of 12 months as well as a monetary penalty of RM30,000. The audit firm was sanctioned for failure to comply with regulations, guidelines and other applicable laws that governed the activities carried out by the firm as well as a failure to comply with auditing and ethical standards in Malaysia. The audit firm breached the requirements in the *By–Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (MIA)* which deals with independence, more specifically the key audit engagement partner rotation requirement.

The sanctions against the two individual auditors involved non-compliance of the International Standards on Auditing relating to the failure by the auditors to perform audit procedures to obtain sufficient and appropriate audit evidence to support their audit opinion.

Strengthening cross-border enforcement co-operation

Cross-border securities offences reinforce the importance of enforcement co-operation and exchange of information with our foreign regulatory counterparts.

Being a signatory to the IOSCO Multilateral Memorandum of Understanding (MMoU) since 2007 has been instrumental in the success of many of the SC's cross-border enforcement efforts, and at the same time strengthening the effectiveness of regulatory capabilities in dealing with cross-border market abuse. The MMoU has enabled the SC to obtain valuable and timely information to support our enforcement actions, including relevant securities and banking records, affidavits and locating key witnesses abroad.

The SC also shared insights on issues relating to the enforcement of laws and management of investigations and litigation at the Asia Pacific Regional Committee's Enforcement Directors' meeting in Hong Kong in January to further strengthen enforcement and co-ordination linkages and to be apprised of recent investigative trends and innovative tools.

In 2014, the SC received and responded to 19 requests for assistance from five foreign jurisdictions. The nature of assistance provided by the SC included obtaining documents and information such as securities transactions documents, beneficial ownership information, banking records, telephone records and corporate registration information, among others. Conversely, the SC made a total of 16 requests to six foreign jurisdictions. As a result of the co-operation provided by various foreign counterparts, we were able to obtain documents and information located abroad, witness statements, affidavits and other transaction records involving foreign entities.

THE NEXT PHASE OF INVESTOR EDUCATION AND EMPOWERMENT

The empowerment of investors is a holistic strategy premised on all stakeholders contributing to an environment that fosters investor confidence in the capital market. Empowered investors will have the ability to:

- enter into and exit from markets, investments and dealings with intermediaries with little or no cost or impediment;
- access timely and quality information with little or no cost;
- exercise their rights effectively, equitably and be accountable for their actions; and
- access effective avenues for recourse with little or no cost.

A key component of investor empowerment is investment education. Centred on the objective of promoting greater and more informed participation in the market, investor education raises awareness of the benefits of investing in the capital market as well as provides the requisite skills, knowledge and tools to better safeguard investor rights and investment choices.

Investor education has been a priority area for the SC since its inception and was formalised in our *Investor Education Blueprint* (IE Blueprint) in 2007. The IE Blueprint mapped out strategies to help investors acquire basic long-term financial planning as well as investment product knowledge and skills, and these efforts were successfully implemented from 2008 to 2013.

Our investor education efforts focus broadly on the two key objectives of investor protection and empowerment as well as financial literacy, capability and inclusion.

The SC's efforts in investor education continue with the commencement of our 2014–2017 Strategy for Investor Education and Empowerment. Progressing from our previous efforts to instill financial literacy, the strategy over the next four years will focus on inculcating investment literacy.

The implementation of our investor education initiatives, from 2008 up until 2017, has been and will be largely funded through the Capital Market Development Fund, with additional contributions from the SC.

Advancing our approach to literacy

The growing complexity of the capital market requires investors to be actively engaged in managing their investments. With technological advancement and innovation, investors are offered increasingly sophisticated investment products. This creates the need for investors to understand concepts beyond saving and budgeting.

Our investment literacy programmes aim to provide the skills required to understand the risk/reward associated with an investment product and critically evaluate its performance. Informed participants help create a more competitive and efficient market, as knowledgeable investors demand products that meet their needs and providers compete to create the most suitable product in response.

We will draw on our strengths and provide more focus on initiatives that target new and active investors in the capital market. We will also continue with the broader aspects of investor education, such as money management and scam awareness. These aspects are essential and cut across all segments of the population.

As investor education should also take into account investor biases and prejudices, we will be undertaking measures to better understand investor preferences and behaviours, which will assist in planning our investment literacy programmes.

Our enhanced investor education strategy is underpinned by three key principles:

- **Comprehensiveness** – we target all segments of the Malaysian investing population to educate them with fundamentals to make sound investment decisions.
- **Simplicity** – our education and outreach efforts must demystify investments and investing by using plain language and employing impactful methods.
- **Multiple modalities** – our efforts will be carried out through multiple channels, both conventional and digital, in addition to face to face engagements through seminars and outreach events.

This strategy is embodied in **InvestSmart™**, our new investor education initiative launched in 2014. **InvestSmart™** is a comprehensive investment awareness and literacy campaign to provide the public, particularly the next generation of investors, with investment information presented in an easily understood format, leveraging new technology and multimedia platforms to supplement existing investor education channels. Digital and social media enable us to disseminate reliable and independent information and investment tools to the public in a bite-sized manner and is available on-the-go.

On the ground activation

Exhibitions and roadshows are effective means to building the **InvestSmart™** brand presence. The **InvestSmart™** campaign was officially launched in June by YB Khairy Jamaluddin, Minister of Youth and Sports, at Taylor's University Lakeside Campus in Subang Jaya. The choice of venue and activities, which included a panel discussion with successful young entrepreneurs and interactive games, was in line with our objective of reaching out to the young. A total of 500 university students from the Klang Valley attended the half-day event.

In September, the **InvestSmart™** Fest 2014 was held at the 1 Utama Shopping Centre and launched by Second Finance Minister, YB Dato' Seri Ahmad Husni Hanadzlah. The SC and industry worked together to educate investors and raise the level of financial and investment literacy among Malaysians. The **InvestSmart™** Fest demonstrated the commitment of the SC and 37 other key stakeholders to deliver regulatory and product information directly to the public in a way that demystifies investment in the capital market for ordinary Malaysians. Investor education programmes such as Money@Work, Cash@Campus and Be Money Wise were conducted in a cineplex for the first time, attended by 735 people.

Through our "SC Reach" programme, investor education was brought to the community's doorstep across the nation to spread the message of smart investing and allow for more personal one-on-one engagement sessions. Our mobile unit supported this effort, serving as a convenient exhibition space and mobile office in small towns and rural areas.

Media

In conjunction with the launch of **InvestSmart™**, we rolled-out a dedicated website, Facebook page, mobile app and starter kit.

- The **InvestSmart™** website www.InvestSmartSC.my caters to retail investors, providing information on the capital market, its products and services, relevant tools as well as details on events and programmes. This user-friendly website is also optimised for smartphones as well as computers. Since its launch, the **InvestSmart™** website has seen an average of 2.1 million hits per month.

- The **InvestSmart™** SC Facebook page provides helpful resources on the capital market and allows social interaction between users and the **InvestSmart™** team. The page has garnered 39,000 likes since its launch.

- The **InvestSmart™** mobile app, which contains information on licensed intermediaries, tips to detect fraudulent schemes as well as financial calculators, has been downloaded more than 5,000 times in its Apple iOS and Android versions.

- The **InvestSmart™** starter kit is a handy booklet containing basic information on investing in the capital market. A total of 200,000 starter kits were distributed nationwide.

- A series of media articles were also published in various local magazines such as *Personal Money, Money Compass, Ringgit,* and *Financial 1st.* The media articles covered a range of topics, with a view to educate the Malaysian public on wise investing, money management and protection from scams.

Targeted programmes

In support of the overall national agenda to increase the level of financial literacy, programmes such as Kids & Cash, Teens & Cash, Money@Work, Cash@Campus and Be Money Wise were conducted throughout the country, drawing 4,276 participants across various age and demographic groups.

We also developed and implemented two new seminars, namely *Stock Market Seminar for Retail Investors* and *Unit Trust Seminar for Retail Investors.* Conducted by experienced and knowledgeable speakers, these seminars were geared towards the needs of Malaysians who were seeking a higher level of capital market knowledge and expertise. These seminars were subsequently offered across the country, reaching out to 2,015 intermediate level retail investors.

REINFORCEMENT OF INVESTOR RIGHTS

An important aspect of implementing investor protection is the effective handling of complaints and enquiries, providing a direct and confidential avenue for the public to submit complaints, make enquiries or provide useful market intelligence. In turn, complaints provide the SC with trending issues, as well as tips and referrals that feed into our education and enforcement efforts. This is further supported by the availability of dispute resolution and redress mechanisms.

The SC employs several means to ensure that investor rights are addressed in a holistic manner. The SC's Investor Affairs and Complaints department receives complaints and enquiries from the public through various channels. Where complainants have a monetary claim against a capital market intermediary, SIDREC provides a free avenue for mediation and adjudication for individuals. Completing the investor redress framework is the consolidated CMCF.

Complaints handling

Our main objective in handling complaints is preventing transgressions from occurring. In support of this, we ensure ease of access to all complainants and enquirers. Confidentiality of identity and information is given utmost importance, and protection is conferred on eligible whistle-blowers by the provisions of our securities laws as well as the *Whistleblower Protection Act 2010.*

Table 2
Statistics on complaints and enquiries

	2013	2014
Complaints	415	516
Enquiries	1,010	729
Total	**1,425**	**1,245**
Files opened during the year*	163	141
Files closed during the year	204	207
Total complaints/ enquiries resolved within 15 days	716	708
Total complaints/ enquiries of similar issues that are inserted into existing files*	709	396
	%	**%**
% of files opened against total receipt	11.44	11.33

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

In our interactions with complainants, we remind the public of their rights and responsibilities as investors, in that it is critical to be well informed about the companies they invest in, the representatives they deal with and the product they purchase. We also post names of companies and websites operating unlicensed investment activities on the SC website to warn the public against investing in such schemes. We have included a hyperlink in our Investor Alerts page to BNM's Consumer Alerts page, and vice versa, for visitors to see a full list of unlicensed companies that are on the radar of both regulators.

Securities Industry Dispute Resolution Center

SIDREC provides an alternative dispute resolution channel for investors seeking redress for disputes involving capital market products. The sustained level of awareness of SIDREC's role has been reflected in the number of enquires and claims that have come to the dispute resolution body, from a total of 21 in 2011 to 363 in 2014. The rise in the number of enquiries shows that investors are becoming much more well-informed of their rights, contributing to the SC's overall objective of empowering investors. SIDREC mediated five cases, of which one has been successfully resolved through mediation and three cases have been adjudicated, with one case pending adjudication.

Through its early intervention SIDREC finds that many cases are amicably resolved prior to mediation. SIDREC employs the dispute resolution process to enhance investor understanding of capital market processes and products and specifically of their rights and responsibilities when investing. In addition to being a useful gauge on the level of awareness of SIDREC, enquiries alert SIDREC to areas of the capital market investment process in which disputes are likely to arise and enable SIDREC to share these concerns with its members.

SIDREC continues to engage with members through industry associations and one-on-one discussions, and collaborates with its fellow peers in Malaysia and other jurisdictions as well as regionally at the ACMF Working Group for Dispute Resolution and Enforcement Mechanisms.

Capital Market Compensation Fund

The CMCF and the Capital Market Compensation Fund Corporation (CMC) is in the second year of operation following their establishment in December 2012. The CMC continues to work closely with the SC and SIDREC to ensure a seamless and holistic framework within the investor protection regime.

In 2014, CMC made a total of three compensation payouts amounting to RM2,004,429.54 pursuant to a determination made by Bursa Malaysia under the previous compensation framework, being transitional cases submitted prior to the establishment of CMC.

The SC had, through the *Capital Markets and Services (Capital Market Compensation Fund)(Contribution)(Exemption) Regulations 2014*, provided clarification that persons licensed for both fund management and dealing in securities restricted to unit trust were required to make a single contribution of RM150,000 only to the CMCF. The said regulation came into force on 12 December.

Part 4

OPTIMISING OUR RESOURCES AND CAPABILITIES

PART 04

OPTIMISING OUR RESOURCES AND CAPABILITIES

INTRODUCTION

The evolution of the capital market requires the SC to be responsive to change, keep pace with international practices and foster a culture of innovation and creativity within the organisation. We continuously strive to be progressive, effective and efficient in meeting our mandate.

We value the skills, competence and professionalism of our employees in delivering outcomes to our stakeholders as we continue to reposition and balance the need for better regulation with growth and innovation in the capital market. In this regard, we adopt a holistic approach to enhance the efficacy of our delivery system.

In 2014, we undertook initiatives to increase our capabilities through streamlining the organisational structure and processes, enhancing employee competencies, strengthening the talent pipeline as well as improving knowledge and information infrastructure.

ORGANISATIONAL ENHANCEMENTS

Moving into our third decade, we are strengthening our core functions and adjusting how we work to augment our capacity to deliver the SC's dual mandate of regulating and developing the capital market.

Organisation structure refinement

The organisation structure was streamlined to respond to changes in the business environment, drive strategic priorities and build a stronger supervision team. We also enhanced the relevant micro structures to improve job profiles and accountability.

Upgrading of human capital management metrics and systems

The SC undertook initiatives to maximise the value of its workforce investment with applied analytics for human capital management. Efforts were taken to enhance our human capital management metrics and reporting, with meaningful indicators and measurement on emerging human resource trends internally and their impact on the delivery of our organisational goals. This facilitates more effective decision making and alignment of SC's human resource strategies with organisational strategies.

Attention and focus were channelled towards recalibrating the human resource information management system to optimise system usage and to provide the necessary information to effectively manage our resources.

The SC on-line recruitment engine was refined to effectively drive recruitment initiatives and to attract suitable talents. The integrated recruitment and profiling system was augmented to deliver a more robust assessment process.

Changes were also made to our performance management system, allowing employees to better align their individual job goals with those of their business group and the SC.

RESOURCE DEVELOPMENT

Building and honing organisational capability to deliver sustainable business results is a key focus area of the SC. Attaining an optimum resource level remains our biggest challenge, given dynamic market conditions where competition in recruiting skilled and experienced employees is intense. We thus undertook differentiated efforts in some of our people practices to be at the forefront in recruiting and developing talents to fulfil our resource requirements in a timely manner.

We also remained committed to training and developing employees at all levels utilising the latest learning and development techniques to enable them to perform their job functions competently and prepare them for progression in the organisation.

Recruitment and career mobility

We leveraged on business-oriented social networking services and capitalised on professional associations to create awareness of career opportunities in the capital market and the SC. The efforts resulted in the successful recruitment of 35 senior hires and five non-executive hires. In addition, 16 scholarships were awarded as part of our effort to build a continuous supply of talent for the organisation.

The SC strongly believes in providing opportunities for its employees to grow their skills and realise their full potential. Vacancies are made available to employees to enable them to expand their skills set, resulting in 58 promotions and 14 lateral transfers.

Grooming young talent

The SC attracted fresh graduates from local and overseas universities to join its Graduate Management Executive (GME) programme. Our participation in Career Fairs in the UK, Kuala Lumpur and Sarawak resulted in 30 GMEs being recruited. Regular engagements were held with the GMEs to understand their career aspirations and ensure that the management trainee programme meets the objectives of both the individuals and the organisation.

A total of 13 internship positions were offered to undergraduates to give them exposure to real work situations. In support of the capacity building initiatives for the ASEAN region which was announced by the Prime Minister in August, we developed the MY ASEAN-SC Internship framework to complement TalentCorp's initiative. Under this framework, the SC will offer five internship positions for ASEAN nationals studying in Malaysia in 2015.

Nurturing skills through secondments

The SC explored opportunities to expand employee work exposure with foreign regulatory bodies through secondment and attachment programmes. Two employees were seconded, one with the OECD in France for a year and another with the Australian Securities and Investments Commission (ASIC) for three months.

Conversely, staff from fellow regulators in Japan, South Korea and Nigeria were seconded to the SC to gain valuable insights and knowledge on the various aspects of the Malaysian capital market. At the same time, they were able to share their regulatory experiences with the SC employees, providing a platform to exchange ideas and to learn from each other.

Developing our leaders

The Leadership Excellence and Development curriculum entered its fifth year of implementation and continues to provide the interventions to hone the leadership skills of our employees in-line with our high performance culture.

A new initiative known as Knowledge and Idea Sharing Session was introduced for senior employees to share their knowledge and expertise on technical topics with colleagues. We also continued to leverage on our partnership with IMD, Lausanne, Switzerland by hosting talks by their visiting professors.

In conjunction with Merdeka, the SC organises the annual Merdeka Leadership Series, whereby outstanding individuals who have contributed to the country are invited as guest speakers to share their thoughts on various topics. For the 2014 edition, Datuk Mohammad Nor Khalid, or fondly known as Datuk Lat, was invited for the Merdeka Leadership Series and spoke on the topic of 'Unity in Diversity'.

Development of professional and specialised skills

To further develop professional and specialised skillsets, the enhanced Corporate Finance and Investments, and Financial Corporate Surveillance curriculum were implemented. 27 employees involved in investigative work obtained the Certified Fraud Examiner (CFE) certificate. The CFE qualification enhances the credibility of our employees in carrying out their investigation work and in providing evidence in court. In addition, 12 employees completed the Institute of Chartered Accountant in England and Wales International Standards on Auditing certification programme.

Continuous Professional Development

To improve their professional knowledge, we encourage the Financial Scheme for Continuous Professional Development (PROFOUND). Qualified employees are supported financially to pursue post-graduate professional qualifications aimed at developing skills, knowledge and understanding in focused areas related to the SC's work. Twelve employees have completed their qualification under the PROFOUND scheme.

Knowledge sharing with foreign regulators

The SC also exposes its employees to new industry developments through attachments, workshops and conferences locally and abroad. As a strong supporter of the Asia-Pacific Economic Co-operation Finance Regulators Training Initiative (APEC FRTI), we believe in the importance of learning from other regulators. Besides sending our employees as participants for the various APEC FRTI programmes, senior employees of the SC also contributed to these programmes as speakers. Senior employees also attended programmes organised by the STI-IMF in Singapore on topics related to risks, macroeconomic and financial management, and related legal and statistical issues.

The SC also organised sessions by foreign regulators and international subject matter experts to share views on capital market related issues with our employees. Among areas discussed are SRO Examinations by the Financial Industry Regulatory Authority, international regulatory development with the Secretary General of IOSCO, hedge funds with Pacific Alternate Asset Management

Company, examinations with the Ontario Securities Commission and exchange-traded funds with State Street Global Advisors.

Promotion of innovation and encouraging creativity

The SC is committed to embedding a culture of innovation among our employees.

We introduced the Best Practices Series on Leadership and Innovation where speakers from companies known for their innovative practices, were invited to inspire our employees to embrace an innovation mindset and develop foundations for best practice.

We organised an Innovation Week with a selection of relevant programmes aimed at cultivating an innovative mindset among employees. The programmes included workshops, an experiential learning session replicating the challenges of today's competitive work environment, and a talk by a prominent captain of industry on innovative practices in an organisation. During the week, some employees also had the opportunity to visit a company known for its innovative revolutions and accomplishments.

The Chairman's Award for Innovation, launched in 2013, continues to spark innovative thinking. Three awards were given to employees contributed innovative ideas to improve the institution.

Developing our non-executives

The SC places equal importance on various learning initiatives for non-executives. The Reaching for Excellence and Career Advancement (REACH) curriculum was launched to develop both technical mastery and personal skills of non-executives. It is the aim of REACH to assist non-executives to improve their productivity and professionalism.

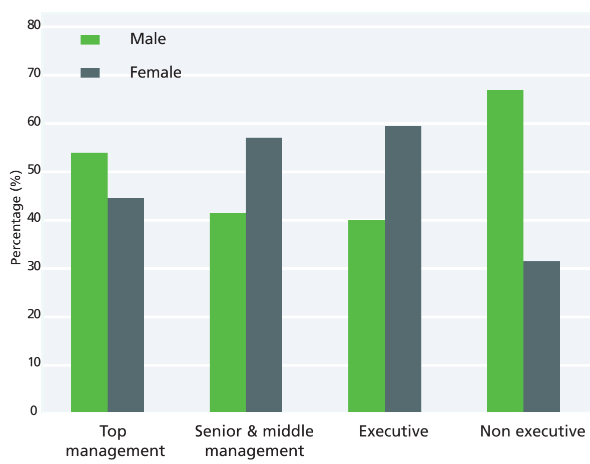
Six of the SC's Auxiliary Police attended the Personal Bodyguard training to develop the skills necessary to protect VIPs in emergency situations. Sixteen of them also attended the Combat without Weapons training as part of their technical development needs. The stringent regime also tested their physical and emotional endurance and motivated them to continuously acquire new skills.

WORKFORCE DIVERSITY AT THE SC

The SC has long supported efforts for diversity in the workplace to allow the organisation to maximise and capitalise on different skillsets and styles of employees. Diversity in terms of gender (Chart 1), age (Chart 2) and ethnicity (Chart 3) permeates throughout the SC's workforce from the top management right down to the non-executive level.

As a strong supporter of gender diversity, measures have been put in place to create a conducive environment for female staff while maintaining that career progression

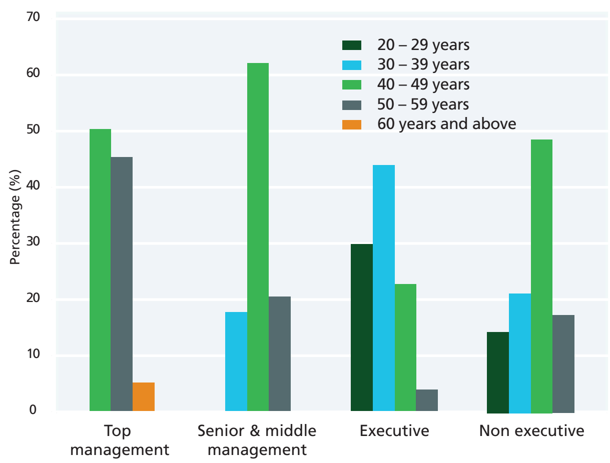
Chart 1
Gender breakdown based on management level



Source: SC

Chart 2

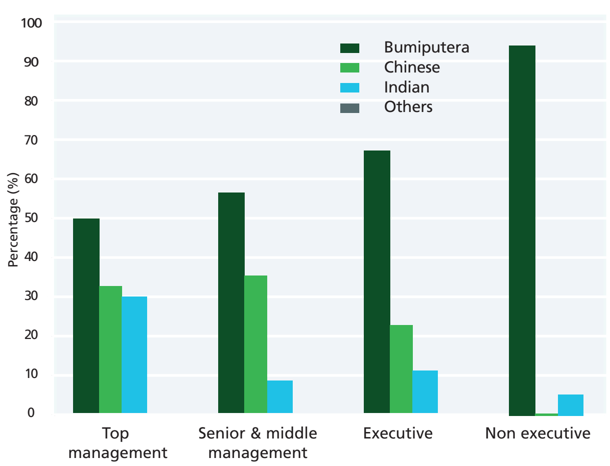
Age group breakdown based on management level



Source: SC

Chart 3

Ethnicity breakdown based on management level



Source: SC

continues to be based on performance and merit across the board. Flexible working hours are also allowed to help staff achieve better work-life balance.

KNOWLEDGE AND INFORMATION INFRASTRUCTURE

As a knowledge-based organisation, our knowledge and information infrastructure are critical to all aspects of our work and overall organisational productivity, be it in the way we supervise, regulate, learn, research, communicate and collaborate.

IT infrastructure and systems

We continue to leverage on technology to streamline operations and increase overall efficiency and effectiveness, building on the progress made over the years. In 2014, the development and maintenance of the SC's IT infrastructure, systems and facilities were based on a long-term IT Strategic Plan that was formulated to enable the institution to optimise the use of its resources and technology to achieve its overall information strategies, and to effectively support our business functions and organisational productivity.

To improve internal efficiency and cater for changes in the business environment, system enhancements were implemented, including the system to support our property valuation function and the system used to assist in the screening of stocks in determining Shariah-compliance.

Our monitoring and surveillance systems have been further improved for the equity, derivatives and bond markets, enabling a more comprehensive and detailed analysis hence allowing for better decision making.

Managing cybersecurity

The SC places great importance on information security. Controls put in place are continuously being measured against international standards while overall compliance with policies and procedures are frequently assessed to make sure good IT governance is practised and adhered to and the SC's information security is safeguarded at all times.

Our efforts were validated by SIRIM where we again successfully achieved our recertification in Information Security Management System ISMS/ISO 27001 (ISMS). A major recertification exercise is undertaken every three years through an audit performed by a certification body to ensure that the IT platform and systems under the ISMS coverage is secure, controls are in place and overall compliance is achieved.

Apart from the ISMS, there are other measures the SC performs to strengthen its overall IT security position, such as to undertake periodic infrastructure and vulnerability assessments. This is to assess risks and formulate mitigation plans to address possible threats originating from cyber space and to put in place adequate security measures and defence mechanisms to combat the constantly evolving nature of cyber-attacks due to the increasing exposure to the internet.

The SC continues to provide input, recommendations and feedback on cybersecurity issues related to the Malaysian capital market specifically and the financial sector generally to combat cyber threats to the nation's Critical National Information Infrastructure under the National Cyber Crisis Management Policy.

Assessment of knowledge management function

Knowledge management has been one of our key organisational development initiatives towards supporting business functions and enhancing organisational productivity. This year the Knowledge Management Department conducted its first assessment to gauge the maturity of the various knowledge management enablers that SC has been nurturing since its introduction.

The areas of assessment focused on four key enablers for effective knowledge management within the SC, namely leadership and organisation, process and governance, technology, as well as people and culture.

The assessment is the first step towards strengthening the impact of knowledge management in supporting organisational performance of which the input will be translated into enhancement programmes and initiatives for the year 2015.

REACHING OUT TO STAKEHOLDERS

Featuring our initiatives

The SC embarked on a multi-channel approach to engage with various stakeholders in the capital market. We issued press releases, participated in thought-leader speaking platforms and engaged with the media resulting in over 1,500 news articles publicised on the regulatory outcomes and policy work that the SC has done. We also initiated more than 60 key engagements to sustain longer term relationships, creating shared value by engaging early and often.

The SC has also initiated conversations with the younger audience through social media with the launch of **InvestSmart™**. The SC corporate website on a monthly basis receives over 200,000 pages views with unique visitors of more than 40,000. The Royal Award for Islamic Finance (RAIF) website was revamped with the brand messaging and imagery used for the print.

In addition, the SC produces various corporate publications. The second capital market development book titled *Capital Market Development in Malaysia:*

Growth, Competitiveness and Resilience was launched by Prime Minister, YAB Dato' Sri Mohd Najib Tun Razak. The book traces the narrative of the Malaysian capital market's successful positioning regionally from 2003–2013. A unique feature is the inclusion of the rationale for strategies and actions taken by the Commission in providing a better understanding of regulatory and development efforts in the Malaysian capital market.

Enhancing internal communication

To connect employees across the organisation, an interactive internal forum LetSCh@t was introduced in August. In addition to promoting open discussion and keeping employees up-to-date on important information, the forum enables dissemination of experiences and ideas rapidly and informally.

WORKING WITH THE COMMUNITY

Our employees participated actively in corporate social responsibility activities aimed at encouraging volunteerism to strengthen their relationship with colleagues and create greater goodwill in the community in which we operate.

The Staff Retreat held in January brought together our employees and beneficiaries from four homes – Rumah Bakti Cheras and Kajang, Ray of Hope, Calvaryland and Victory Homes. A variety of joint team building activities were held including the assembling of 30 bicycles which were then donated to these homes.

The SC presented a cheque for RM100,000 to the Selangor and Federal Territory Association for the Mentally Handicapped in August during the SC Staff Hari Raya Open House. These funds were raised during the corporate social responsibility initiative on 'Impacting Lives' at the inaugural Charity Jogathon organised in 2013. Following on, the second jogathon themed "Run for Me, Run for Funds" collected RM60,000 that will be disbursed in 2015.

The end of 2014 saw the East Coast being hit by one of the worst floods in history. As part of the SC's community service and corporate social responsibility, we carried out a donation drive to provide affected families with school-going children with basic school necessities. Among the items donated by our employees were new school uniforms, shoes and bags. We also received a cash donation totalling RM31,450 from our Commission members and employees which will be channelled to further initiatives to help flood victims rebuild their lives.

The Treasure Trove, a charity shop managed by a group of volunteers selling new and pre-loved items, organised the Pre-Ramadan Bazaar in June and the Holiday Bazaar in December raising RM48,545 to be donated to the Spastic Children's Association of Selangor and Federal Territory, and Majlis Kanser Nasional (MAKNA).

Part 5

CAPITAL MARKETS REVIEW AND OUTLOOK

PART 05

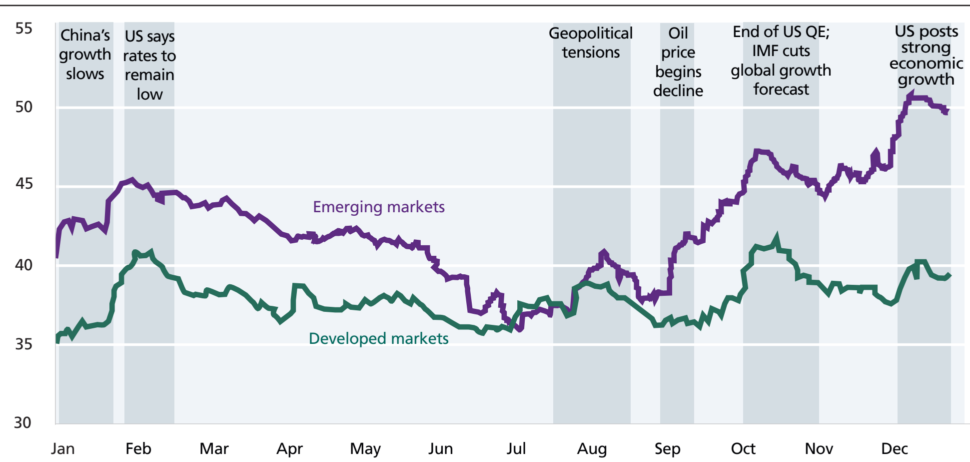
CAPITAL MARKETS REVIEW AND OUTLOOK

GLOBAL CAPITAL MARKET

Global capital market conditions in 2014 were largely influenced by uncertainty over the economic performance of major world economies namely US, Japan, China and the Eurozone, and the resultant monetary policy actions (Chart 1). This was similar to 2013 when capital market movements globally were affected by investors' reaction towards the conduct of monetary accommodation by the US and other advanced economies.

Signs of economic recovery in the US were in contrast to a deceleration of growth in the Eurozone and Japan. The differences in growth paths resulted in opposing policy reactions by these economies. The US Federal Reserve (Fed) announced the end of its bond purchasing programmes in October, followed by expectation for the normalisation of interest rates in 2015. Weak economic data led the Bank of Japan to further expand its quantitative easing (QE) programme while the European Central Bank started its own form of QE through the purchase of covered bonds and asset-backed

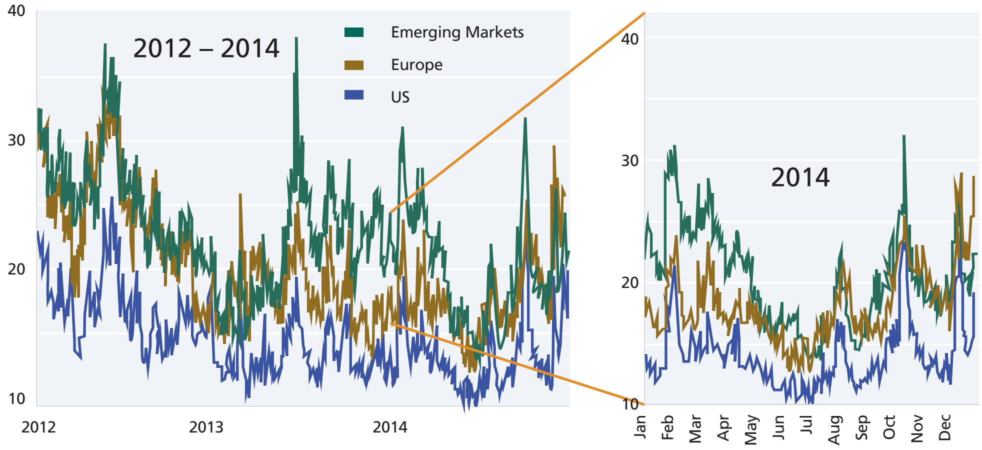
Chart 1
Capital market conditions (min=0, max=100)



Source: SC using Thomson Reuters Datastream

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

Chart 2
Investor risk aversion



Source: SC using Thomson Reuters Datastream

Note: US: VIX Volatility Index, Europe: VSTOXX Volatility Index, Emerging Markets: CBOE EM Volatility Index. Europe constitutes larger countries such as Belgium, France, Spain, Germany, Italy, Netherlands and Finland.

securities in a move to encourage banks to lend more and revive the economy.

Continuing uncertainties emanating from concerns over the outlook for US and China economic conditions increased investor risk aversion in early 2014. Improvements observed in US macroeconomic conditions coupled with accommodative monetary policies of major advanced economies subsequently boosted investor sentiment, sending the VIX and the VSTOXX near historical lows (Chart 2).

Market conditions however worsened in the second half of 2014. Geopolitical tensions in Ukraine and the Middle East led to investors adopting a cautious stance towards perceived riskier markets. A downward revision of global economic outlook by the IMF amid growing concerns over deteriorating economic conditions in the emerging economies and increasing deflationary pressures in the Eurozone, followed by a sharp decrease in oil prices triggered a sell-off in global equity markets.

Over the course of 2014, growing policy and macroeconomic divergence in countries increased dispersion between global markets, resulting in markets being seen as individual units with risks and merits of their own. Improving economic conditions and expectations for higher rates in the US amplified fundamental differences between healthy and vulnerable economies across the world.

Stock market

The stock market in emerging economies began the year with a dip in January. Interest in these markets declined in reaction to concerns over financial market and Chinese economic outlook, better prospects in advanced economies and tightening liquidity conditions in the US. In view of this, investors turned to safe haven assets, leading to a sell-off in emerging markets' assets and currencies while equity market performance in advanced economies maintained their upward trend.

Chart 3
MSCI Indices (1 Jan 2014 = 100)

Source: Bloomberg

Announcement of the Fed's intention to keep interest rates low in late January led to renewed interest in emerging market indices. Monetary policy actions by some emerging economies resulted in improvement in emerging market performance from mid-February until August (Chart 3).

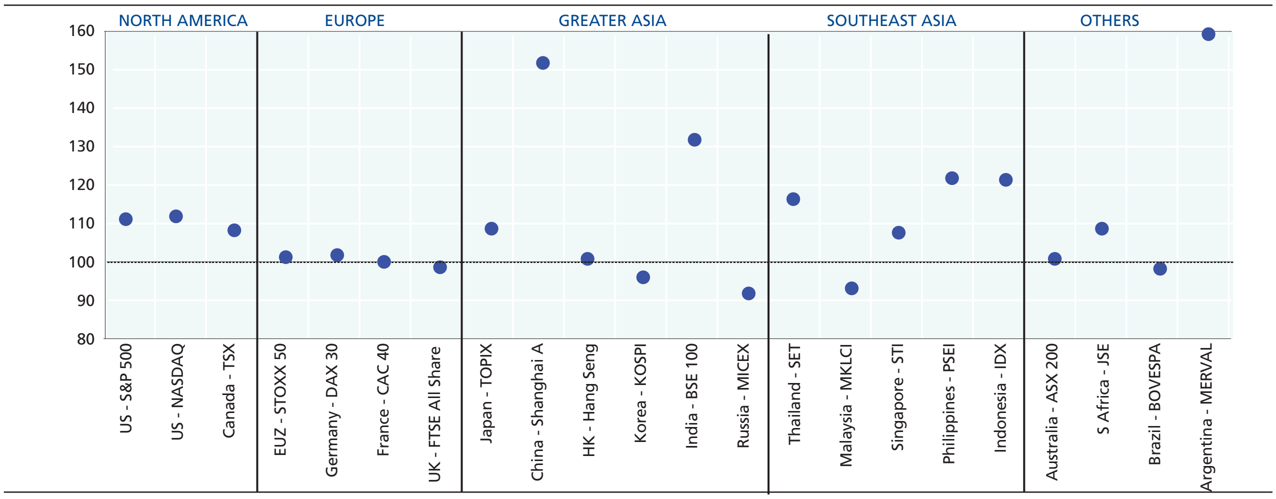
Investor confidence in stocks dropped significantly in September due to subdued economic prospects in Japan and core European countries as well as escalating geopolitical conflicts. This was exacerbated by expectations that the Fed would raise interest rates earlier than anticipated on the back of improving US economic health. Investor sentiment for global stocks was further hit in December by views of a prolonged depression in oil prices.

Among advanced economies, the S&P500 ended the year 11.4% higher, supported by the strengthening US economy. Japan's Topix rose 8.1% buoyed by measures introduced by the Bank of Japan to stimulate the economy. However, in Europe, performance of the main bourses were more muted with the DAX in Germany rising by 2.7%, while the UK's FTSE All Share and France's CAC 40 were down by 2.1% and 0.5% respectively.

The best performing index in 2014 was the Argentinian Merval Index which logged an annual gain of 58.9% followed by the Shanghai A Share which closed 53.1% higher. Other stock markets that performed relatively well include India, Philippines and Indonesia, closing higher at 32.0%, 22.8% and 22.3% respectively. On the other hand, Russia's MICEX and Brazil's BOVESPA were among the worst performing stock markets in 2014 having ended the year in negative territory (Chart 4). In general emerging economies faced a challenging year, with the MSCI Emerging Market Index ending 2014 at -4.6%.

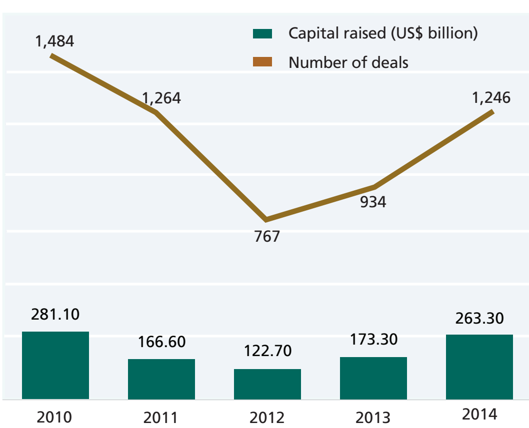
Prolonged low interest rates resulted in investors seeking higher growth investment opportunities, spurring many well-known companies to make their IPO debuts. This was particularly pronounced in the technology and financial sectors. Consequently, global IPOs recorded a strong growth of 51.9% in

Chart 4
Stock market performance in 2014 (31 Dec 2013 = 100)



Source: Bloomberg

Chart 5
Global IPOs (US$ billion and number of deals)



Source: Dealogic

2014, raising US$263.3 billion, the highest since 2010. The number of IPO deals similarly increased by 33.4% to 1,246 in 2014 (Chart 5).

Bond market

In 2014, global bond markets continued to be characterised by low yields. Government bond yields fell across major markets as investors appear to have priced in forecasts of a gradual rate increase by the US Fed. For emerging market bonds, after a period of declining yields which lasted until the third quarter, markets corrected at year end. The sharp decline in oil prices, escalation of the Russian crisis and continued rise in the US dollar triggered the largest outflow since the 'taper tantrum' of June 2013 (Chart 6).

Against a backdrop of gloomier outlook on global growth, investors rebalanced their portfolios away from perceived riskier emerging markets to safe haven government bonds, resulting in yields on developed market sovereigns falling (Chart 7). In the case of the

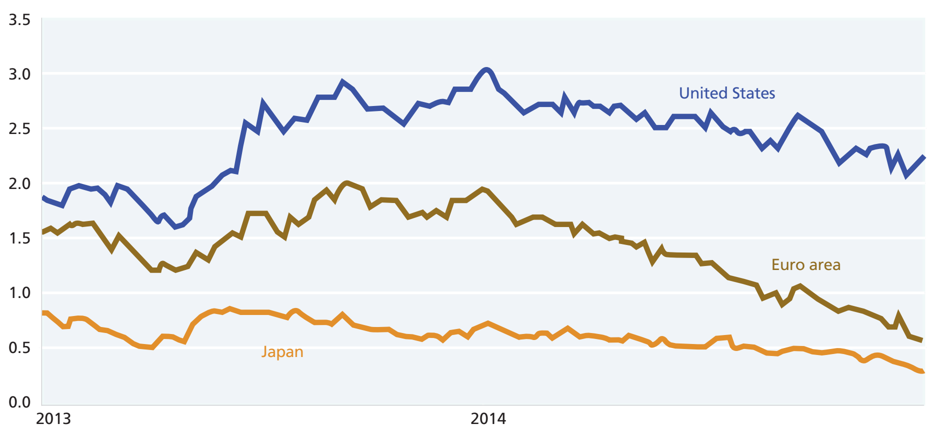
Chart 6

Government bond yields (basis points)

Source: Bloomberg

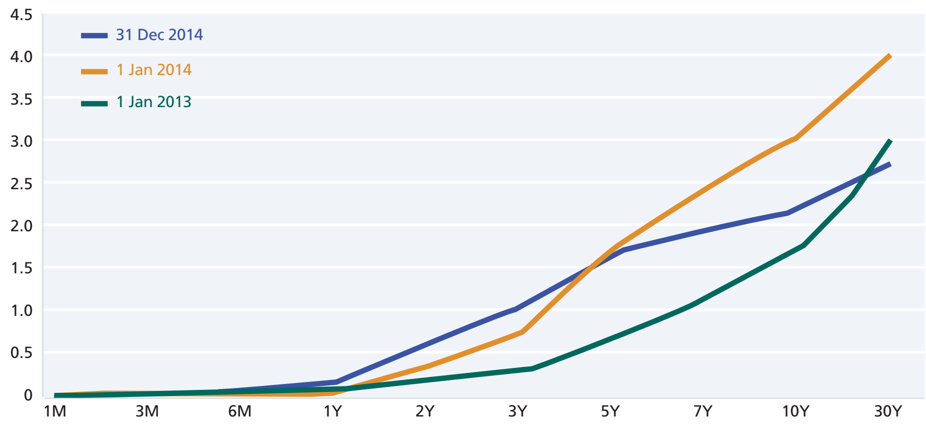
Chart 7

10-year advanced economies government bond yields (percent)



Source: Bloomberg

Chart 8
US Treasury yield curve (percent)



Source: Bloomberg

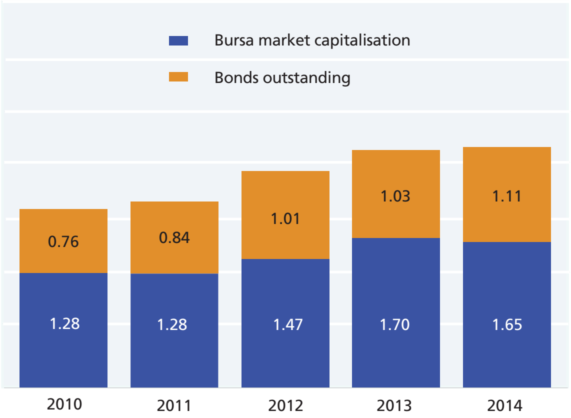
Eurozone and Japan, this was further supported by accommodative monetary measures.

An environment characterised by low global growth and accommodative monetary policies pushed investors to also search for yields by extending their duration. In the US, the Treasury yield curve flattened, driven by investor sentiments, price disinflation and desire to own relatively liquid US government bonds. These factors drove long-maturity Treasury yields lower while shorter-maturity yields moved higher (Chart 8).

MALAYSIAN CAPITAL MARKET

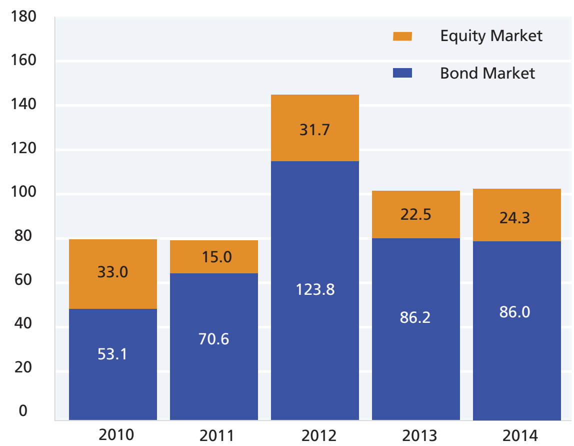
Despite challenging conditions, the Malaysian capital market continued to expand and play a major role in financing the domestic economy. The overall size of the capital market grew to RM2.76 trillion (Chart 9).

Chart 9
Malaysian capital market (RM trillion)



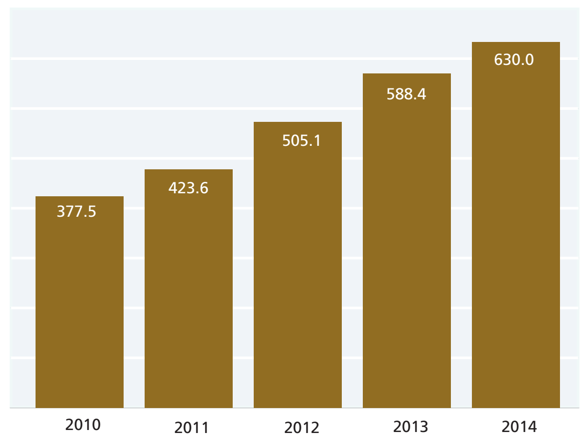
Source: SC, BNM

Chart 10
Total funds raised via capital market (RM billion)



Source: SC, Bursa Malaysia, BNM

Chart 11
Assets under management (RM billion)



Source: SC

In 2014, the capital market remained a key avenue for corporate fundraising. During the year, primary market issuances amounted to RM91.9 billion. Approximately 24.3% of total equity fundraising, equivalent to RM5.9 billion was raised via IPOs, while the remaining was raised via the secondary market. A total of 14 new companies were listed on Bursa Malaysia via IPO. Eleven companies sought listing on the Main Market with the remaining three on the ACE Market. The three biggest equity IPOs were IOI Properties Group Bhd (RM1.87 billion), Boustead Plantations Bhd (RM1.05 billion) and Icon Offshore Bhd (RM0.94 billion). Fundraising activity in the corporate bond market remained healthy with RM86.0 billion, approximating the amount raised in 2013 (Chart 10).

The fund management industry also registered strong growth in 2014, reflecting investors' confidence in the Malaysian capital market. Total funds under management increased by 7.1% to RM630.0 billion, from RM588.4 billion in December 2013 (Chart 11).

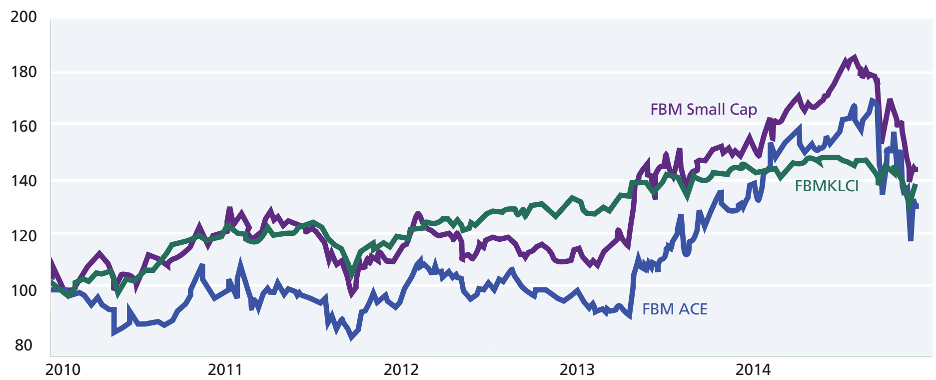
MALAYSIAN STOCK MARKET

Subdued earnings sentiments and growth expectations, along with stretched valuations, weighed on the relative performance of the Malaysian stock market in 2014. Stock market capitalisation contracted by 2.9% to RM1.65 trillion, while the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBMKLCI) ended the year 5.7% lower, closing at 1,761.25 points on the last day of trade. The Small Cap and ACE Market indices also ended the year lower by 4.2% and 0.4% respectively (Chart 12).

For the better part of the first three quarters of the year, earnings of FBMKLCI stocks came under pressure as counter-specific issues overwhelmed the backdrop

Chart 12

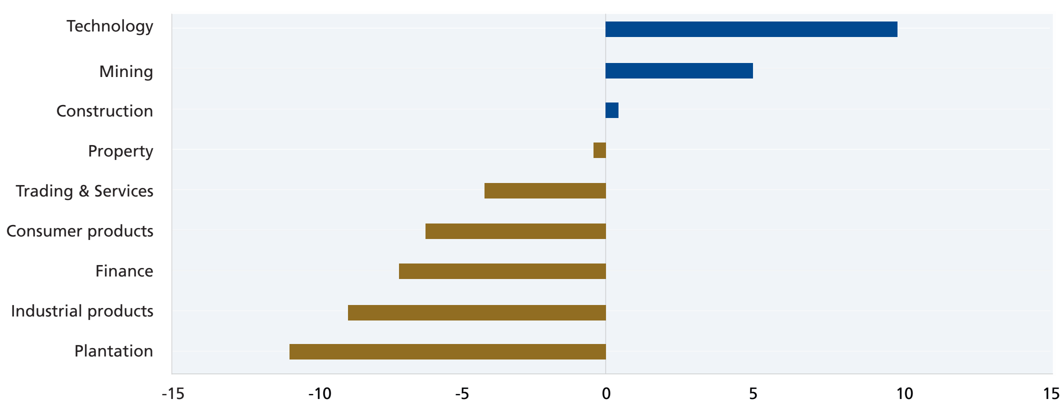
Performance of FBMKLCI, Small Cap and ACE Market Indices



Source: SC

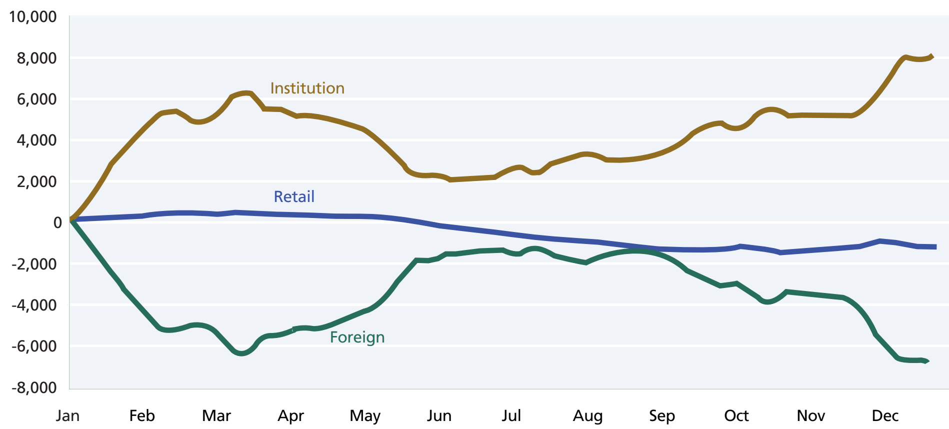
Chart 13

Malaysian stock market performance in 2014 by sector (percent)



Source: SC

Chart 14
Cumulative net trading position in the equity market (RM million)



Source: SC

of Malaysia's strong underlying macroeconomic fundamentals. In particular, heavyweight plantations grappled with a decline in palm oil prices, consumer and banking stocks saw slower revenue growth amidst the country's fiscal consolidation and subsidy rationalisation push, while oil and gas related counters faced capital expenditure hurdles.

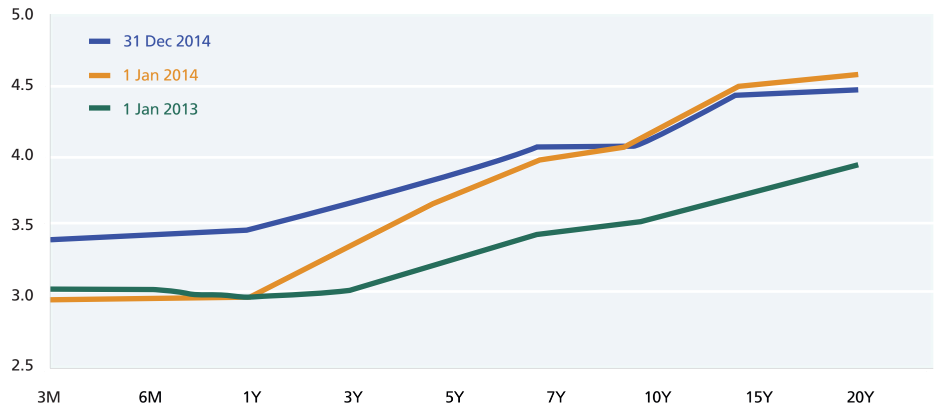
A two-speed equity market was in play until October, with lower-liners surging ahead of heavyweight counters. Small-cap Malaysian equities charted gains as high as 20% for the year amid active buying in penny stocks. The small-cap rally was powered by the technology and oil and gas sectors, as well as corporate exercises.

A turn of events in the fourth quarter, led by a slump in oil prices and fresh growth concerns in Europe, sent global markets into a soft spot. Malaysian equity markets consolidated in October, with the FBMKLCI touching a one-year low on 15 December. Malaysia's equity markets subsequently staged a turnaround on positive external sentiments to close the year.

Technology, mining and construction sectors were gainers in 2014, with the technology sector gaining close to 10%, while the remaining sectors of finance, industrial products, plantation and others registered negative growth (Chart 13).

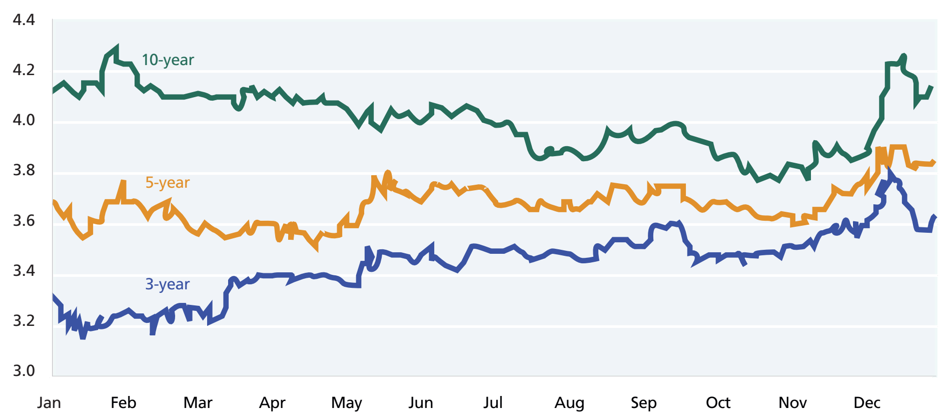
Foreign investors were net sellers as the market registered cumulative outflow of approximately RM6.8 billion at the end of 2014 (Chart 14). Foreign interest in key heavyweights however remained intact. Domestic institutional investors acted as a strong counterbalance to foreign selling in the equity market, while local retail investors largely remained on the sidelines.

Chart 15
Benchmark yield curve (percent)



Source: Bloomberg

Chart 16
Benchmark yields (percent)



Source: Thomson Reuters Datastream

MALAYSIAN BOND MARKET

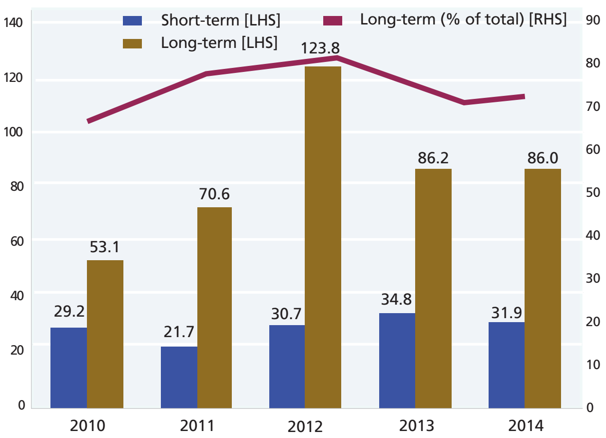
The size of Malaysian bond market totalled RM1.11 trillion as at 31 December 2014 compared to RM1.03 trillion at the end of 2013. Malaysia maintained its position as the third largest local currency bond market as a percentage of GDP in Asia, after Japan and South Korea.

The MGS market had mixed performance in early 2014. Yields on short-term and medium-term MGS increased due to heightened expectation of an Overnight Policy Rate hike in the second half of the year. Long-term MGS yields meanwhile fell on foreign buying before reverting to levels at the beginning of 2014 (Chart 15). At the end of the year, trading sentiments turned into a more cautious note as investors reacted to a prolonged decline in oil prices and the soft ringgit performance (Chart 16).

In the corporate bond market, low foreign ownership spared the market of the impact of global volatility. Foreign ownership of corporate bonds was mainly concentrated in AAA-rated papers and typically held for the longer term. The maturity profile of local corporate bond issuance has lengthened due to local institutional investor demand coupled with the need for financing long-term infrastructure projects, suggesting lower refinancing risk overall (Chart 17).

Foreign ownership of bonds issued in Malaysia decreased by 3.0% to RM225.9 billion in 2014 from RM233.0 billion in 2013, accounting for 20.4% of total bonds outstanding. Reaching a peak of RM257.2 billion in July, ownership levels modulated due to uncertainties in developed markets monetary policy and mixed global economic news. Foreign investors further trimmed about 10% of their holdings from October to December over concerns of the Government's fiscal position. Foreign outflows were however relatively well absorbed by strong domestic liquidity.

Chart 17
PDS issuance by maturity (RM billion)



Source: BNM

OUTLOOK FOR 2015

The divergence in performance among advanced economies is likely to have a key influence on world capital market conditions in 2015. While recent data show that there are clear signs of economic recovery in the US, Japan and the Eurozone are struggling to keep their economies from a deflationary spiral. The differences in the growth trajectory of these economies have led to opposing policy reactions.

The playbook so far has seen the end of QE and the prospect of interest rates normalisation in the US, which is likely to affect global liquidity flows. The strong liquidity that resulted from the unconventional monetary policies in the US had supported increase in market performances in recent years particularly in the emerging economies. The low interest rate environment that has prevailed since 2009 and the search for yield had led to appreciation of asset valuations including the more-risky and less-liquid asset classes.

As investors remain focussed on the timing and trajectory of the normalisation of interest rates, further rounds of volatility in emerging economies are likely to be witnessed in both asset and currency markets. The extent of the volatility may be less to that observed in 2013, predicated on Bank of Japan's (BoJ) decision to accelerate its QE programmes coupled with the start of asset purchase programme by the European Central Bank (ECB). The maintenance of these monetary policies should help sustain global liquidity and offset the impact on capital markets from the imminent US rate hike. Yet the question remains as to what extent the monetary accommodation by both the BoJ and the ECB will be able to match the opposing policy of the Fed.

Meanwhile, several major economies have already begun taking decisive monetary policy actions, which amongst others, are designed to bolster the competitiveness of their respective currencies. As the global economy continues to experience mixed growth, with favorable growth in the US offset by challenges in Eurozone and Japan, such currency predicated monetary policy adjustments may continue to feature during the year. In addition, investor sentiment and market volatility is likely to continue to be affected by trends observed at the close of 2014, namely, the severe declines in oil prices and the appreciation of the US dollar against other currencies.

The global economic growth is expected to improve in the year 2015. The emerging economies, led by a subdued economic growth in China, will continue to be key drivers of world growth, supported by the stronger momentum from the recovery in the advanced economies. The US economy is expected to grow by more than 3% contributed by a strong growth in private consumption and softening of the fiscal drag. In the Eurozone, economic recovery is expected to remain fragile with inflation expectations declining and well below ECB's target of 2%. While Japan is expected to record relatively higher growth than in 2014 (0.2%), with soft oil prices supporting recovery, challenges remain in implementing necessary structural reforms. Meanwhile, economic growth in China is forecast to remain robust in spite of a managed slowdown as it implements measures to contain the build-up of financial vulnerabilities and address excess capacity in certain sectors of the economy. There may be some differences in attractiveness of emerging markets based on the impact of lower commodity prices but ultimately fundamentals will dictate long-term performance.

The Malaysian economy in 2015 is expected to grow between 4.5 to 5.5% mainly driven by sustained domestic demand and the recovery in the advanced economies. Private investment is expected to remain vibrant with on-going implementation of the projects identified under the 10th Malaysia Plan, the Economic Transformation Programme (ETP) and the Government Transformation Programme (GTP). External demand is also anticipated to remain steady supported mainly by better growth prospects in the advanced economies particularly the US. Private consumption, while expected to moderate, will continue to play a key role in supporting growth.

The Malaysian capital market may be impacted by global liquidity flows emanating from the monetary policy stance of major economies. Notwithstanding that, coupled with local institutional investors, the market is resourced with ample domestic liquidity to countervail any excessive volatility. The resetting of FBMKLCI valuation to its long term average at the end of 2014 together with the relative appreciation of other currencies vis a vis the Ringgit may lend further support to the attractiveness of the Malaysian market. On the bond market front, yields are likely to respond to upward pressures arising from the prospective normalisation of US interest rates. This may alleviate any adverse impact from any sell-off by investors and may even attract new fund flows into the capital market.

Fund raising activity in relation to several large ETP-related projects are expected to be carried out in 2015 and will contribute to the growth of the capital market. Sectors likely to source long term financing through sukuk and corporate bonds include infrastructure and oil and gas. In view of these factors and reflecting the Malaysian economy's diversity, long term fundamentals and prudent macroeconomic management, the capital market in 2015 is expected to continue to record positive growth and remain resilient against any externally driven volatility in markets.

Part 6

STATEMENTS AND STATISTICS

COMMISSION MEMBERS

Seated (from left)
Datuk Tan Leh Kiah @ Francis Tan
Datuk Ranjit Ajit Singh
Dato Dr Nik Ramlah Mahmood

Standing (from left)
Tan Sri Dr Madinah Mohamad
Tan Sri Dato' Hasmah Abdullah
Tan Sri Dato' Seri Mohamed Jawhar Hassan
Dato' Gumuri Hussain
Fazlur Rahman Ebrahim
Dato' Fauziah Yaacob

DATUK RANJIT AJIT SINGH
Appointed 1 April 2012

Datuk Ranjit Ajit Singh is the Executive Chairman of the SC. He was previously Managing Director of the SC and has extensive experience in the field of finance and securities market regulation and has spearheaded many key initiatives in the development and reform of Malaysia's capital market.

Datuk Ranjit was appointed the Vice-Chairman of the governing Board of the International Organization of Securities Commissions (IOSCO), the global body of capital market regulators and was elected as the Chairman of IOSCO's Growth and Emerging Markets Committee (GEM) which represents 93 countries. In 2014, Datuk Ranjit was appointed Chairman of the ASEAN Capital Markets Forum (ACMF), a body tasked to spearhead market integration efforts within the region and comprises capital market authorities from ASEAN.

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

Datuk Ranjit is trained as a financial economist and accountant. He holds a Bachelor of Economics (Honours) degree and a Master of Economics degree in Finance from Monash University, Melbourne. He was also conferred the degree of Doctor of Laws *honoris causa* by Monash University Melbourne. He is fellow of CPA Australia and has worked in academia, consulting and accounting in Australia and Malaysia.

DATO DR NIK RAMLAH MAHMOOD
Appointed 1 April 2012

Dato Dr Nik Ramlah Mahmood was appointed Deputy Chief Executive of the SC on 1 April 2012. With more than 20 years experience in SC, she joined in 1993 as Manager of Law Reform and went on to become Director of the Policy and Development Division in 1997. She was made Managing Director and Executive Director of the SC's Enforcement Division in 2008. Dato Dr Nik Ramlah has worked in areas ranging from legal and regulatory reform, product and market development, Islamic capital market, investor education and enforcement.

Currently, she sits on the board of the SIDC and CMDF. She is also a member of the Professional Development Panel of the International Centre for Education in Islamic Finance (INCEIF), the global university of Islamic finance. Dato Dr Nik Ramlah holds a First Class Honours in Law from University Malaya and a LLM and PhD from the University of London. Prior to joining the SC, Dato Dr Nik Ramlah was an Associate Professor in the Faculty of Law, University Malaya.

DATUK TAN LEH KIAH @ FRANCIS TAN
Appointed 18 May 1999

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

DATO' GUMURI HUSSAIN
Appointed 1 August 2004

Dato' Gumuri Hussain is the immediate past Chairman of SME Bank and served in this capacity from 2005 to 2013. He was also the Managing Director and Chief Executive Officer of Penerbangan Malaysia Bhd from 2002 to 2004. Prior to this, he was a Senior Partner and Deputy Chairman of Governance Board of PricewaterhouseCoopers Malaysia. He currently sits on the board of KUB Malaysia Bhd, Metrod Bhd and Media Prima Bhd. He has also served as a Non-Executive Director of Bank Industri & Teknologi Malaysia Bhd, Malaysian Airline System Bhd, Sabah Bank Bhd and Rangkaian Hotel Seri Malaysia Bhd. Dato' Gumuri is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW) and a member of the Malaysian Institute of Accountants (MIA) and Malaysian Institute of Certified Public Accountants (MICPA).

FAZLUR RAHMAN EBRAHIM
Appointed 1 May 2006

Fazlur Rahman Ebrahim is the former Managing Director of Prokhas Sdn Bhd, a company wholly owned by the Minister of Finance, Incorporated. He is currently the Corporate Advisor of Johor Corporation and sits on the Board of Pelaburan Hartanah Bhd, Felda Global Ventures Holdings Bhd, Permodalan Felcra Sdn Bhd, Credit Counseling and Debt Management Agency and Dana Amal Jariah. He is also a member of the Shariah Council of BNP Paribas, Malaysia, the Audit Committee of Razak School of Government and Investment Committee of Majlis Amanah Rakyat. Fazlur holds a bachelor's degree in Business Administration from Ohio University, US and a master's degree in Business Administration (Finance) from Universiti Kebangsaan Malaysia.

TAN SRI DATO' SERI MOHAMED JAWHAR HASSAN
Appointed 15 May 2010

Tan Sri Mohamed Jawhar is Chairman of The Institute of Strategic and International Studies (ISIS) Malaysia.

He was its Chairman and Chief Executive Officer from 2006–2010. He joined ISIS as the Director-General in 1997. Tan Sri Mohamed Jawhar has served in various government positions, among others, the Director-General, Department of National Unity; Under-Secretary, Ministry of Home Affairs; Director (Analysis) Research Division, Prime Minister's Department; and Principal Assistant Secretary, National Security Council. He has also served as Counselor in the Malaysian embassies in Indonesia and Thailand.

Tan Sri Jawhar is also Non-Executive Chairman, The New Straits Times Press (Malaysia) Bhd; Member, Economic Council Working Group; Member, Advisory Board, Malaysian Anti-Corruption Commission; Distinguished Fellow, Institute of Diplomacy and Foreign Relations (IDFR); Distinguished Fellow, Malaysian Institute of Defence and Security (MiDAS); Fellow, Institute of Public Security of Malaysia (IPSOM), Ministry of Home Affairs; Board member, Institute of Advanced Islamic Studies (IAIS); Member, Laureate Advisory Board, INTI International University and Colleges; and Chairman, Malaysian National Committee of the Council for Security Cooperation in the Asia Pacific (CSCAP). He is also Malaysia's Representative as Expert and Eminent Person, ASEAN Regional Forum (ARF).

TAN SRI DATO' HASMAH ABDULLAH
Appointed 10 March 2011

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

TAN SRI DR MADINAH MOHAMAD
Appointed 15 February 2012

Tan Sri Dr Madinah Mohamad is the Secretary General, Ministry of Education Malaysia (MOE), a position she has held since June 2013. She is involved in policy guidance and the administration of the ministry and is directly involved in driving the education transformation agenda.

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

DATO' FAUZIAH YAACOB
Appointed 1 July 2014

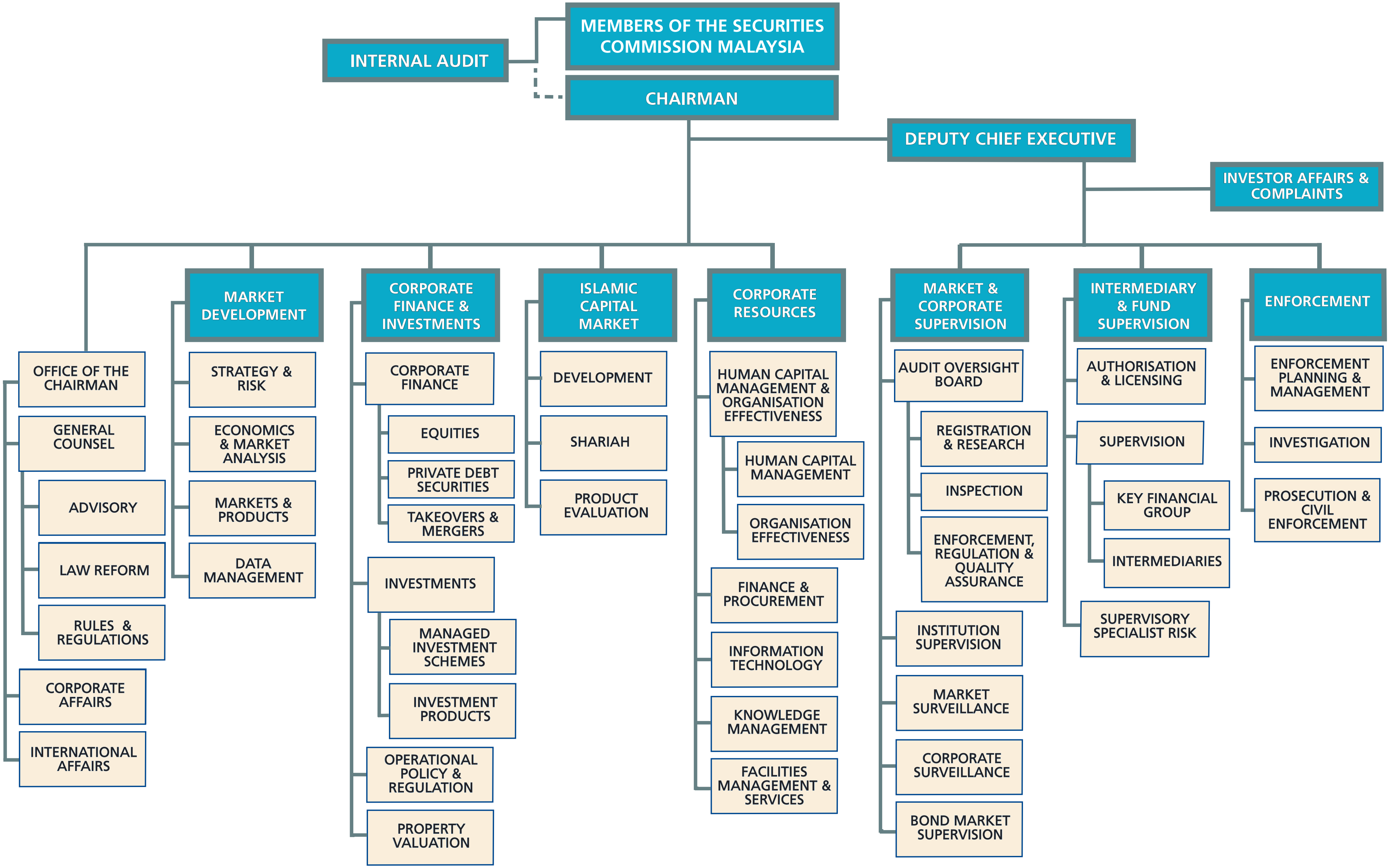
Dato' Fauziah Yaacob is currently the Deputy Secretary General (Investment), Ministry of Finance (MOF). Having been in the public service since 1981, Dato' Fauziah has more than 30 years of working experience in the government sector. She started her career in the Ministry of Education as Assistant Secretary and was appointed Principal Assistant Secretary in the same ministry from 1986 until 1987. She also has served as Assistant Secretary in the MOF and posted to the Ministry of Transport as Assistant Director and later to Kuala Lumpur International Airport Bhd as Senior Manager. Dato' Fauziah returned to MOF in 1999 and was appointed Principal Assistant Director in the Budget Division. Since then she has served in various capacities in the MOF including as Deputy Secretary General (Systems & Controls).

She graduated with a bachelor's degree in Arts (Honours) and a diploma in Education from University of Malaya. She obtained a diploma in Public Administration from the National Institute of Public Administration (INTAN) in 1981 and a diploma in Administrative Studies and a master's degree in Public Administration from University of Liverpool, UK.

EXECUTIVE TEAM


Ahmad Fairuz Zainol Abidin
Foo Lee Mei
Eugene Wong Weng Soon
Shamsuflan Shamsuddin
Dato Dr Nik Ramlah Mahmood

ORGANISATION STRUCTURE



STATEMENT ON GOVERNANCE

The SC is a statutory body established under the *Securities Commission Act 1993* (SCA) to regulate and develop the Malaysian capital market. The SC's mission is to promote and maintain fair, efficient and transparent securities and derivatives markets and to facilitate the orderly development of an innovative and competitive capital market. It is committed to ensuring investor protection, fair and orderly markets, and reducing systemic risks. The SC's responsibilities, powers and authorities are clearly defined and transparently set out in securities laws, namely the SCA, CMSA and *Securities Industry (Central Depositories) Act 1991*.

ABOUT THE COMMISSION

Members of the Commission

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

Datuk Ranjit Ajit Singh assumed the position of Executive Chairman since 1 April 2012. A profile of Commission members is featured on pages 84 to 87 and their involvement in the various committees established by the Commission are provided on page 93.

A Commission member may serve a maximum of three years, and is eligible for reappointment upon completion of his or her term. A person is disqualified from holding the office of a Commission member if he or she holds full time office in any public-listed company. Further, a Commission member must also vacate his or her office when he or she is:

- convicted of an offence under the law;
- declared a bankrupt;
- not capable of discharging his or her duties; or
- fails to attend three consecutive meetings of the Commission without leave.

The SCA requires a Commission member to manage conflict of interest by disclosing his or her interest in any matter under discussion by the Commission or any committee. Once a disclosure has been made, he or she:

- shall not take part nor be present in any deliberation or decision of the Commission or committee; and
- shall be disregarded for the purposes of constituting quorum of the Commission or committee, relating to the matter.

Functions of the Commission

The SC's regulatory functions include:

- Advising the Minister of Finance on all matters relating to the Malaysian capital market;
- Supervising exchanges, clearing houses and central depositories;
- Approving authority for issuance of securities, including corporate bond and sukuk;
- Registering authority for prospectuses of corporations;
- Regulating all matters relating to securities and derivatives contracts;
- Regulating the take-over and mergers of companies;
- Promoting and regulating all matters relating to fund management, including unit trust schemes;
- Regulating and supervising all intermediaries in the PRS industry;
- Licensing, registering, authorising and supervising all persons engaging in regulated activities or providing capital market services;
- Oversight over self-regulatory organisations;
- Promoting proper conduct of market institutions and licensed persons;
- Developing an effective audit oversight framework and registering or recognising all auditors of public interest entities;
- Undertaking reasonable measures to monitor, mitigate and manage systemic risks arising from the securities and derivatives markets;
- Promoting and regulating corporate governance and approved accounting standards of listed corporations;
- Setting and approving standards for professional qualification for the securities and derivatives markets; and
- Promoting the development of securities and derivatives markets in Malaysia, including research and training.

These regulatory functions are carried out with the view to ensure that:

- Investors have confidence in our capital market by ensuring that they are adequately protected;
- Markets operate in a fair and orderly manner; and
- Systemic risk posed by the capital market is adequately managed.

Commission meetings

Eleven Commission meetings were held in 2014. The quorum required is five. The attendance record is set out in Table 1.

Committees of the Commission

The work of the SC is facilitated by various board committees established under section 18 of the SCA, as listed in Table 2.

Table 1

Attendance at Commission meetings in 2014

Commission Member	Number of meetings attended
Datuk Ranjit Ajit Singh	11/11
Dato Dr Nik Ramlah Mahmood	10/11
Datuk Francis Tan Leh Kiah	11/11
Dato' Gumuri Hussain	9/11
Fazlur Rahman Ebrahim	11/11
Tan Sri Mohamed Jawhar Hassan	8/11
Tan Sri Dato' Hasmah Abdullah	11/11
Tan Sri Dr Madinah Mohammad	9/11
Dato' Fauziah Yaacob[1]	6/6
Dato' Mat Nor Nawi[2]	3/5

[1] Appointed on 1 July 2014.
[2] Resigned on 30 June 2014.

Table 2
Committees of the Commission in 2014

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

[2] Resigned 30 June 2014.

The SAC is given the mandate to ensure that the implementation of the ICM complies with Shariah principles. It advises the Commission on all matters related to the development of the ICM and functions as a reference centre for all ICM issues.

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

SAC Members	
1.	Tun Abdul Hamid Haji Mohamad
2.	Tan Sri Sheikh Ghazali Haji Abdul Rahman
3.	Datuk Dr Mohd Daud Bakar
4.	Dato' Dr Abdul Halim Ismail
5.	Sahibus Samahah Dr Haji Zulkifly Muda
6.	Professor Dr Ashraf Md Hashim
7.	Professor Dr Engku Rabiah Adawiah Engku Ali
8.	Professor Dato' Mohamed Ismail Mohamed Shariff
9.	Professor Madya Dr Aznan Hasan
10.	Professor Madya Dr Asmadi Mohamed Naim
11.	Dr Shamsiah Mohamad

The AOB was established under Part IIIA of the SCA and its mandate is to assist the Commission in discharging its regulatory function in respect of developing an effective audit oversight framework, promote confidence in the quality and reliability of audited financial statements and regulate auditors of public-interest entities (PIE).

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

AOB Members	
1.	Nik Hasyudeen Yusoff (Executive Chairman)
2.	Goh Ching Yin
3.	Datuk Nor Shamsiah Mohd Yunus
4.	Cheong Kee Fong
5.	Chok Kwee Bee
6.	Dato' Gumuri Hussain
7.	Dato' Mohd Naim Daruwish[3]

[3] Retired on 16 September 2014.

OPERATIONAL ACCOUNTABILITY

The Chairman is entrusted with the day-to-day administration of the SC as provided by section 4(2) of the SCA. In managing the day-to-day operations of the SC, the Chairman is assisted by the Deputy Chief Executive and the Executive Directors, and collectively they are known as the Executive Team. The Deputy Chief Executive, by virtue of section 4(3) of the SCA, deputises the Chairman in the event the Chairman is not available or unable to discharge his authority or duties. There are various operating committees established by the Chairman to advise and assist in the day-to-day operations of the SC, such as the Risk Management Committee, Systemic Risk Oversight Committee, Sanctions Committee, the Resources Committee, and the IT Committee.

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

The SROC was established in line with the SC's mandate and authority established under section 15(1)(p) of the SCA, which empowers the SC to take all reasonable measures to monitor, mitigate and manage systemic risks arising from activities in the securities and derivatives markets. The SROC's primary functions include considering systemic risk issues and coordinating market crisis management issues, as well as deliberating and advising on relevant policies and pre-emptive regulatory action.

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

- An organisation structure with clearly defined responsibilities and delegation of responsibilities to its committees to assist the Commission in performing its key regulatory functions, which is also set out in this annual report;
- The annual Business Plan containing the SC's business goals, strategies, key projects, resource needs and budget, which is approved by the Commission;
- The Code of Ethics and the Code of Conduct (including the Code of Practice on the Prevention and Eradication of Sexual Harassment) which set out the expectations required of staff on ethical conduct and standards of behaviour;
- The Internal Whistleblowing Procedure established as a safe channel of communication for individuals to expose or report internal wrongdoing or suspected breaches of law within the organisation;
- The Statement of SC's Principles and Standards established to facilitate efficient and ethical engagement between the SC and its external stakeholders, which include the suppliers, contractors, vendors and consultants. In relation to this, the SC also expects its business stakeholders and all market participants engaging with the SC to emulate similar ethical principles. The Statement of SC's Principles and Standards include the expected governance standards with regards to ethics and integrity, conflicts of interest, transparency and disclosure, adherence to client charters, maintenance of confidentiality, providing a safe environment and workplace, commitment to environmental and social responsibilities and the SC's expectations of the people with whom the SC does business with;
- The Conflict of Interest Declaration which is required of Commission members and staff when faced with a conflict situation;
- The SC Policy-making Framework established to ensure greater accountability, more robust challenge and validation to improve consistency of policies and policy-actions;
- The Enterprise Risk Management (ERM) framework to provide Management and the Commission a holistic view of risks to help them set priorities and make well-informed decisions. The ERM framework is supported by the roll-out of Risk Control Self-Assessment throughout the organisation to provide a structured, systematic and consistent approach for the SC to continuously evaluate the management of

key risks as well as effectiveness and adequacy of internal controls;

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

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

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

- The IT User Policy was established to ensure the effective protection and proper usage of the SC's computer systems. It is a guide for efficient and disciplined IT department management and provides unambiguous and precise reference for IT department personnel in carrying out their duties and for users in utilising the computer systems;

- The Records Management Policy which was established to give clear guidance of the standards and procedures that need to be put in place to ensure that records are fit to be used as evidence and/or information by the SC, in carrying out business operations or legal obligations;

- The SC Document Confidentiality Levels which was established to protect classified documents managed by the SC; and

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

EXTERNAL STAKEHOLDER AND PUBLIC COMMUNICATION

Effective and ongoing communication with capital market participants is necessary to facilitate the discharge of the SC's responsibilities. We regularly meet our constituents to discuss and gather feedback on issues and measures to enable us to provide a facilitative policy and regulatory framework, and encourage continuous growth and development of the capital markets. All press releases, publications, various guidelines and annual reports are posted on the official website – www.sc.com.my.

The SC has an Investor Affairs and Complaints Department that receives and handles public complaints against the SC, or a staff of the SC, in relation to misconduct in the discharge of the SC's function.

SIDREC is a body approved by the SC to handle monetary claims by investors against stockbrokers, futures brokers, fund managers and unit trust management companies, amongst others, who are licensed under the CMSA to conduct regulated activities in Malaysia.

AUDIT COMMITTEE REPORT

The SC is pleased to present the Audit Committee Report for the financial year ended 31 December 2014.

Members and meetings

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

- Dato' Gumuri Hussain (Chairman);
- Datuk Francis Tan Leh Kiah;
- Fazlur Rahman Ebrahim; and
- Tan Sri Dato' Hasmah Abdullah.

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

Terms of reference

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

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

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

The main responsibilities of the Audit Committee are:

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

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

iii. to review the external auditors' audit scope and plans of audit, including co-ordination of audit efforts with internal audit;

iv. to review the accounting policies and practices adopted by the SC in the preparation of its financial statements and integrity of the financial reporting processes;

v. to review the annual financial statements and make appropriate recommendation(s) to the Commission regarding the adoption of the SC's annual financial statements and the level of disclosure, focusing in particular on:

   - compliance with applicable accounting standards;
   - changes in significant accounting policies and practices;
   - significant adjustments arising from the audit; and
   - significant unusual events.

vi. to approve the Internal Audit Charter and support as well as provide direction to the Internal Audit Department to ensure its effectiveness;

vii. to consider and review the findings arising from internal audit reports or other internal investigations and responses by management, and to determine appropriate corrective actions required of management;

viii. to review the implementation of action plans to address key audit observations raised by the Internal Audit Department; and

ix. to review the effectiveness of processes and procedures to ensure compliance with laws, regulations and contracts.

Activities of the Committee

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

Financial Reporting

- Review of the financial statements for the financial year ended 31 December 2013 prior to presentation to the Commission Members.

External Audit

- Review of the audit findings, auditors' report and management letter and management's responses arising from the statutory audit for the financial year ended 31 December 2013.

- Review and approval of the external audit plan for the financial year ended 31 December 2014. Various audit and accounting issues were discussed at the Audit Committee meetings.

- Recommendation to the Commission to re-appoint the existing external auditors for the financial year ending 31 December 2014.

Internal Audit

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

- Review the achievement of the 2014 internal audit plan, which provided an overall indication of the performance of the internal audit function for the year.

- Consideration of the adequacy of scope and comprehensive coverage of internal audit's activities, and approved the internal audit plan for the financial year ending 31 December 2015.

- Review of the representation on risk management and internal controls to be included in the Statement on Governance for the *Annual Report 2014.*

- Approve the revised Internal Audit Charter.

Internal Audit

The Internal Audit Department assists the Audit Committee in the discharge of its duties and responsibilities. The internal audit function reports directly to the Audit Committee, which determines the adequacy of scope and function of the department. The internal audit function accomplishes its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control and governance processes.

The Internal Audit Department carries out its responsibilities by conducting reviews based on the approved internal audit plan, which is developed using a risk-based methodology. The main activities of the internal audit function for the year 2014 included performing predominantly risk-based audits for the areas identified in the internal audit plan.

The result of the audits and activities performed by the internal audit function is presented to the Audit Committee for their review. Where applicable, the internal audit function conducted follow-up audits to ensure that Management's corrective actions were implemented appropriately and provided updates on the status of the key actions to the Audit Committee. In addition, the Internal Audit Department played an advisory role in the course of performing its audit activities.

Securities Commission Malaysia

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	31.12.2014 RM'000	31.12.2013 RM'000 Restated	1.1.2013 RM'000 Restated
Non-current assets				
Property, plant and equipment	3	185,348	190,337	196,045
Long term receivables	4	12,346	14,256	19,331
Other investments	5	213,904	480,958	310,669
		411,598	685,551	526,045
Current assets				
Trade and other receivables	6	27,202	26,499	22,320
Other investments	5	522,567	225,015	415,287
Cash and cash equivalents	7	51,303	55,661	36,295
		601,072	307,175	473,902
Total assets		1,012,670	992,726	999,947
Reserves				
Accumulated surplus		820,973	812,705	804,836
Compensation fund reserve	9	100,000	100,000	100,000
Human Capital Development (HCD) fund reserve	10	–	610	3,110
Total reserves		920,973	913,315	907,946
Non-current liability				
Post-employment benefits	11	45,721	41,388	37,441
Current liability				
Other payables and accruals	12	45,976	38,023	54,560
		91,697	79,411	92,001
Total reserves and liabilities		1,012,670	992,726	999,947

The notes on pages 105 to 129 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 RM'000	2013 RM'000
Income			
Levies		131,776	124,287
Fees and charges		31,608	26,744
Finance income	13	25,808	24,901
License fees		3,284	2,785
Registration fees		1,830	1,885
Other income		2,365	1,490
		196,671	182,092
Less: Expenditure			
Staff costs	14	138,306	123,941
Administrative expenses		31,450	34,031
Depreciation of property, plant and equipment	3	11,429	10,943
Rental expenses		2,544	2,308
		183,729	171,223
Net operating surplus		12,942	10,869
Less: Grants		(4,674)	(3,000)
HCD expense	10	(610)	(2,500)
Surplus before tax		7,658	5,369
Tax expense	19	–	–
Surplus/Total comprehensive income for the year		7,658	5,369

The notes on pages 105 to 129 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Compensation fund reserve RM'000	HCD fund reserve RM'000	Accumulated surplus RM'000	Audit Oversight Board reserve RM'000	Total RM'000
At 31 December 2012, as previously stated		100,000	3,110	803,908	928	907,946
Reclassification	21	–	–	928	(928)	–
At 1 January 2013, restated		100,000	3,110	804,836	–	907,946
Surplus/Total comprehensive income for the year		–	–	5,369	–	5,369
HCD charge for the year		–	(2,500)	2,500	–	–
At 31 December 2013, as restated		100,000	610	812,705	–	913,315
At 31 December 2013, as previously stated		100,000	610	811,826	879	913,315
Reclassification	21	–	–	879	(879)	–
At 1 January 2014		100,000	610	812,705	–	913,315
Surplus/Total comprehensive income for the year		–	–	7,658	–	7,658
HCD charge for the year		–	(610)	610	–	–
At 31 December 2014		100,000	–	820,973	–	920,973

The notes on pages 105 to 129 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 RM'000	2013 RM'000 Restated
Cash flows from operating activities			
Surplus before tax		7,658	5,369
Adjustments for:			
Depreciation of property, plant and equipment	3	11,429	10,943
Finance income		(25,808)	(24,901)
Loss on disposal of property		39	–
Provision for post-employment benefits		4,756	4,414
Operating deficit before working capital changes		(1,926)	(4,175)
Changes in working capital:			
Trade and other receivables		4,176	(7,590)
Other payables and accruals		7,953	(16,537)
Net cash generated from/(used in) operating activities		10,203	(28,302)
Cash flows from investing activities			
Acquisition of investment in Malaysian Government Securities and Government Guaranteed Bonds		(33,179)	(28,749)
(Increase)/Decrease in restricted deposits		(10,582)	13,883
Increase in investments in deposits placed with licensed banks		2,681	48,732
Interest income received		20,929	28,312
Post-employment benefits paid		(423)	(467)
Proceeds from disposal of property		130	–
Purchase of property, plant and equipment		(6,609)	(5,235)
Repayment from long term receivables		1,910	5,075
Net cash (used in)/from investing activities		(25,143)	61,551
Net (decrease)/increase in cash and cash equivalents		(14,940)	33,249
Cash and cash equivalents at 1 January		49,682	16,433
Cash and cash equivalents at 31 December		34,742	49,682
Cash and cash equivalents comprise:			
Cash and bank balances	7	1,020	5,101
Deposits placed with licensed banks	7	50,283	50,560
		51,303	55,661
Less: Restricted deposits		(16,561)	(5,979)
		34,742	49,682

The notes on pages 105 to 129 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

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

These financial statements were approved by the Commission on 29 January 2015.

1. Basis of preparation

(a) Statement of compliance

The financial statements of the SC have been prepared in accordance with Malaysian Financial Reporting Standards (MFRSs) and International Financial Reporting Standards (IFRSs).

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

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

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011–2013 Cycle)*
- Amendments to MFRS 2, *Share-based Payment (Annual Improvements 2010–2012 Cycle)*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010–2012 Cycle and 2011–2013 Cycle)*
- Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010–2012 Cycle)*
- Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010–2012 Cycle and 2011–2013 Cycle)*
- Amendments to MFRS 116, *Property, Plant and Equipment (Annual Improvements 2010–2012 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Defined Benefit Plans: Employee Contributions*
- Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010–2012 Cycle)*
- Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010–2012 Cycle)*
- Amendments to MFRS 140, *Investment Property (Annual Improvements 2011–2013 Cycle)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012–2014 Cycle)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012–2014 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
- MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 116, *Property, Plant and Equipment and MFRS 138, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment and MFRS 141, Agriculture – Agriculture: Bearer Plants*
- Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012–2014 Cycle)*
- Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012–2014 Cycle)*
- Amendments to MFRS 101, *Presentation of Financial Statements: Disclosure Initiative*
- Amendments to MFRS 10, *Consolidated Financial Statements,* MFRS 12, *Disclosure of Interests in Other Entities* and MFRS 128, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- MFRS 15, *Revenue from Contracts with Customers*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*

The SC plans to apply the abovementioned standards, amendments and interpretations that are applicable and effective from the annual periods beginning on or after 1 July 2014, 1 January 2016, 1 January 2017 and 1 January 2018, respectively.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the SC except as mentioned below:

MFRS 9, Financial Instruments

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

2. Significant accounting policies

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

(a) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the SC becomes a party to the contractual provisions of the instrument.

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

(ii) Financial instrument categories and subsequent measurement

The SC categorises financial instruments as follows:

Financial assets

(a) *Held-to-maturity investments*

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

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

(b) *Loans and receivables*

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

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost.

(iii) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss.

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

(b) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts, if any, of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the SC and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment from the date that they are available for use. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the SC will obtain ownership by the end of the lease term.

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

Leasehold land	Over the leased period of 99 years expiring in 2094
Buildings	50 years
Office equipment, furniture and fittings	5 – 10 years
Computer and application systems	3 years
Motor vehicles	5 years

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

(c) Cash and cash equivalents

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

(d) Impairment

(i) Financial assets

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

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

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

(ii) Other assets

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

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

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

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

(e) Revenue

(i) Levies and license fees

Levies and license fees income are recognised in profit or loss on an accrual basis.

(ii) Fees and charges

Fees and charges income are recognised in profit or loss when payments have been received.

(iii) Finance income

Finance income received from fixed deposits and other investments are recognised as it accrues using the effective interest method in profit or loss.

(f) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid if the SC has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) State plans

The SCs contributions to statutory pension funds are charged to profit or loss in the financial year to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Defined benefit plans

Post-employment benefits

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

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

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

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

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

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

(g) Grants

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

(h) Fair value measurement

Fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the SC uses observable market data as far as possible. Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the SC can access at the measurement date.
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: unobservable inputs for the asset or liability.

The SC recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

3. Property, plant and equipment

	Leasehold land RM'000	Buildings RM'000	Office equipment, furniture and fittings RM'000	Computer and application systems RM'000	Motor vehicles RM'000	Capital work-in progress RM'000	Total RM'000
Cost							
At 1 January 2013	9,154	232,387	101,611	61,511	1,818	3,121	409,602
Additions	–	–	813	1,834	1,087	1,501	5,235
Transfer from/(to)	–	–	1,244	1,795	–	(3,039)	–
At 31 December 2013/ 1 January 2014	9,154	232,387	103,668	65,140	2,905	1,583	414,837
Additions	–	–	767	1,965	841	3,036	6,609
Disposal	–	(225)	–	–	–	–	(225)
Transfer from/(to)	–	–	1,573	1,423	–	(2,996)	–
At 31 December 2014	9,154	232,162	106,008	68,528	3,746	1,623	421,221
Depreciation and impairment loss							
At 1 January 2013							
Accumulated depreciation	1,663	62,830	90,621	57,216	1,091	–	213,421
Accumulated impairment loss	–	136	–	–	–	–	136
	1,663	62,966	90,621	57,216	1,091	–	213,557
Depreciation for the year	93	4,647	2,900	2,993	310	–	10,943
At 31 December 2013/ 1 January 2014							
Accumulated depreciation	1,756	67,477	93,521	60,209	1,401	–	224,364
Accumulated impairment loss	–	136	–	–	–	–	136
	1,756	67,613	93,521	60,209	1,401	–	224,500
Depreciation for the year	93	4,647	3,145	3,071	473	–	11,429
Disposal	–	(56)	–	–	–	–	(56)
At 31 December 2014							
Accumulated depreciation	1,849	72,068	96,666	63,280	1,874	–	235,737
Accumulated impairment loss	–	136	–	–	–	–	136
	1,849	72,204	96,666	63,280	1,874	–	235,873
Carrying amounts							
At 31 December 2013/ 1 January 2014	7,398	164,774	10,147	4,931	1,504	1,583	190,337
At 31 December 2014	7,305	159,958	9,342	5,248	1,872	1,623	185,348

4. Long term receivables

	31.12.2014 RM'000	31.12.2013 RM'000
Staff financing	14,753	18,691
Less: Unearned profit		
– Islamic financing on house and car	(1,056)	(2,894)
	13,697	15,797
Less: Amount due within 12 months (Note 6)	(1,351)	(1,541)
Amount due after 12 months	12,346	14,256

Staff financing relates to Islamic financing and conventional housing loans, Islamic financing and conventional motor vehicle loans, computer loans and study loans. The financing for housing and motor vehicle are secured over the properties and motor vehicle of the borrowers, respectively. The staff financing are repayable over a maximum period of 25 years, seven years, five years and four years, respectively. The rate charged on these staff financing ranges from 2% to 4% per annum (2013: 2% to 4% per annum).

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

	31.12.2014 RM'000	31.12.2013 RM'000
Within 1 year	1,351	1,541
More than 1 year and up to 5 years	5,163	5,751
More than 5 years	7,183	8,505
	13,697	15,797

5. Other investments

	Non-current		Current		Total	
	31.12.2014 RM'000	31.12.2013 RM'000 Restated	31.12.2014 RM'000	31.12.2013 RM'000 Restated	31.12.2014 RM'000	31.12.2013 RM'000 Restated
Held-to-maturity investments:						
– Malaysian Government Securities and Government Guaranteed bonds	213,904	255,718	74,993	–	288,897	255,718
Loans and receivables:						
– Deposits placed with licensed banks and a scheduled institution	–	225,240	447,574	225,015	447,574	450,255
	213,904	480,958	522,567	225,015	736,471	705,973
Fair value:						
– Malaysian Government Securities and Government Guaranteed bonds	216,228	256,520	75,038	–	291,266	256,520

The carrying amount of fixed deposits is assumed to reasonably approximate their fair values.

6. Trade and other receivables

	31.12.2014 RM'000	31.12.2013 RM'000 Restated
Levies	11,726	14,882
Income receivable	11,200	6,321
Other receivables	359	919
Deposit and prepayments	2,566	2,838
Short-term staff financing (Note 4)	1,351	1,541
	27,202	26,501
Less:		
Impairment loss on short term staff financing	–	(2)
	27,202	26,499

7. Cash and cash equivalents

	31.12.2014 RM'000	31.12.2013 RM'000 Restated
Cash and bank balances	1,020	5,101
Deposits placed with licensed banks	50,283	50,560
	51,303	55,661

The deposits placed with licensed banks earned income at rates ranging from 3.15% to 3.30% per annum (2013: 3.00% to 3.10% per annum).

Included in deposits placed with licensed banks are amounts restricted for brokers' security deposits of approximately RM1.2 million (2013: nil), stockbroking industry development of approximately RM2.0 million (2013: RM2.0 million) and other miscellaneous deposits of approximately RM13.3 million (2013: RM4.0 million).

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

8. Audit Oversight Board

On 1 April 2010, the SC established the Audit Oversight Board (AOB) under section 31C of the *Securities Commission Act 1993* (SCA). AOB was established for the purposes set out in section 31B of the SCA, namely:

a. to promote and develop an effective and robust audit oversight framework in Malaysia;
b. to promote confidence in the quality and reliability of audited financial statements in Malaysia; and
c. to regulate auditors of public-interest entities.

To facilitate the abovementioned purposes, a fund known as the AOB Fund was established under section 31H of the SCA. The Fund is administered by the SC. The SC provides administrative and accounting support to the AOB Fund and the accounts are kept separately from the accounts of the SC in accordance with section 31L(5) of the SCA. The assets and liabilities of the AOB are aggregated with the assets and liabilities of the SC.

9. Compensation fund reserve

This represents an amount allocated from the accumulated surplus for the Capital Market Compensation Fund Corporation (CMC).

10. Human Capital Development (HCD) fund reserve

This represents an amount allocated from the accumulated surplus for the SC's long-term commitment to support the human capital development in the financial services industry.

During the year, an amount of RM0.6 million (2013: RM2.5 million) has been charged to the statement of profit or loss and other comprehensive income.

11. Post-employment benefits

	31.12.2014 RM'000	31.12.2013 RM'000
Net defined benefit liability	41,388	37,441
Expense recognised in profit or loss	4,756	4,414
Benefits paid	(423)	(467)
Total employee benefit liabilities	45,721	41,388

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

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

Funding

The plan is unfunded. Employer contributions to the plan refer to the medical claim amounts paid directly by the SC. The SC expects to pay approximately RM540,000 in contributions to its defined benefit plans in 2015.

Movement in net defined benefit liability

	2014 RM'000	2013 RM'000
Net defined benefit liability at 1 January	41,388	37,441
Included in profit or loss		
Current service cost	1,862	1,800
Interest cost	2,894	2,614
	4,756	4,414
Other		
Benefits paid	(423)	(467)
Net defined benefit liability at 31 December	45,721	41,388

Defined benefit obligation
Actuarial assumptions

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

	2014	2013
Discount rate	7.0%	7.0%
Medical cost inflation	5.0%	5.0%

At 31 December 2014, the weighted-average duration of the defined benefit obligation was 29.4 years (2013: 29.4 years).

Sensitivity analysis

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

	Defined benefit obligation	
	Increase RM'000	Decrease RM'000
2014		
Discount rate (1% movement)	(9,556)	13,030
Medical cost inflation rate (1% movement)	12,756	(9,510)
2013		
Discount rate (1% movement)	(8,905)	12,163
Medical cost inflation rate (1% movement)	11,906	(8,891)

12. Other payables and accruals

	31.12.2014 RM'000	31.12.2013 RM'000 Restated
Other payables	40,400	32,201
Accruals	4,345	4,142
Brokers' security deposits	1,231	1,680
	45,976	38,023

13. Finance income

	Note	2014 RM'000	2013 RM'000
Fixed deposits and other investments		25,808	25,888
Staff financing	13.1	–	(987)
		25,808	24,901

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

14. Staff costs

	2014 RM'000	2013 RM'000
Remuneration, bonus, staff medical, staff training and overtime	116,384	104,111
Employees Provident Fund	17,166	15,416
Post-employment benefits	4,756	4,414
	138,306	123,941

15. Surplus before tax

	Note	2014 RM'000	2013 RM'000
Surplus before tax is arrived at after charging:			
Auditors' remuneration		100	100
Executive members' emoluments		4,118	3,714
Non-executive members' allowance		1,258	1,217
Rental expense:			
Property		2,194	2,085
Plant and equipment		350	223
Depreciation of property, plant and equipment	3	11,429	10,943
Loss on disposal of property, plant and equipment		39	–
and after crediting:			
Reversal of impairment loss on receivables		2	7

16. Related parties

The Chairman of the SC is also the Chairman of Securities Industry Development Corporation (SIDC) which is a company limited by guarantee. For the financial year ended 31 December 2014, the SIDC paid management fee of RM266,400 (2013: RM266,400) to the SC, of which RM22,200 (2013: RM22,200) is still outstanding from SIDC. In addition, the SC had made a grant of RM3.5 million to SIDC in 2014 (2013: RM1.5 million).

17. Capital commitments

	2014 RM'000	2013 RM'000
Capital expenditure commitments		
Plant and equipment		
Approved but not contracted for:		
Within one year	9,920	9,530

18. Financial instruments

18.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:
(a) Loans and receivables (L&R);
(b) Held-to-maturity investments (HTM); and
(c) Financial liabilities measured at amortised cost (FL).

	Carrying amount RM'000	L&R/ (FL) RM'000	HTM RM'000
31.12.2014			
Financial assets			
Long term receivables	12,346	12,346	–
Other investments	736,471	447,574	288,897
Trade and other receivables*	25,610	25,610	–
Cash and cash equivalents	51,303	51,303	–
	825,730	536,833	288,897
Financial liabilities			
Other payables and accruals	(45,976)	(45,976)	–
31.12.2013, Restated			
Financial assets			
Long term receivables	14,256	14,256	–
Other investments	705,973	450,255	255,718
Trade and other receivables*	24,440	24,440	–
Cash and cash equivalents	55,661	55,661	–
	800,330	544,612	255,718
Financial liabilities			
Other payables and accruals	(38,023)	(38,023)	–

* Excludes prepayments

18.2 Gains arising from financial instruments

	2014 RM'000	2013 RM'000
Gains on:		
Held-to-maturity investments	10,153	8,547
Loan and receivables	15,655	16,354
	25,808	24,901

18.3 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

18.4 Credit risk

Credit risk is the risk of a financial loss to the SC if a counterparty to a financial instrument fails to meet its contractual obligations. The SC has a formal credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Fixed deposits are placed with licensed banks and with a scheduled institution. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The ageing of receivables as at the end of the reporting year was:

	Gross RM'000	Individual impairment RM'000	Net RM'000
31.12.2014			
Not past due	37,394	–	37,394
Past due 1 – 30 days	–	–	–
Past due 31 – 90 days	–	–	–
Past due 91 – 180 days	–	–	–
Past due more than 180 days	562	–	562
	37,956	–	37,956

	Gross RM'000	Individual impairment RM'000	Net RM'000
31.12.2013, Restated			
Not past due	37,744	–	37,744
Past due 1 – 30 days	–	–	–
Past due 31– 90 days	67	–	67
Past due 91 – 180 days	–	–	–
Past due more than 180 days	887	(2)	885
	38,698	(2)	38,696

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

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

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

	2014 RM'000	2013 RM'000
At 1 January	2	21
Impairment loss written off	(2)	(12)
Impairment loss reversed	–	(7)
At 31 December	–	2

Investments and other financial assets

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

18.5 Liquidity risk

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

Maturity analysis

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

	Carrying amount RM'000	Contractual cash flow RM'000	Under 1 year RM'000
31.12.2014			
Financial liabilities			
Other payables and accruals	45,976	45,976	45,976
31.12.2013, Restated			
Financial liabilities			
Other payables and accruals	38,023	38,023	38,023

18.6 Market risk

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

18.6.1 Interest rate risk

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

	31.12.2014 RM'000	31.12.2013 RM'000 Restated
Fixed rate instruments		
Financial assets	497,857	500,815

Interest rate risk sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

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

18.7 Fair value information

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

The carrying amount of fixed deposits is assumed to reasonably approximate their fair values.

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

	Fair value of financial instruments not carried at fair value				
	Level 1 RM'000	**Level 2 RM'000**	**Level 3 RM'000**	**Total fair value RM'000**	**Carrying amount RM'000**
31.12.2014					
Non-current financial assets					
Long-term receivables	–	12,346	–	12,346	12,346
Malaysian Government Securities and Government Guaranteed bonds	216,228	–	–	216,228	213,904
	216,228	12,346	–	228,574	226,250
31.12.2013					
Non-current financial assets					
Long-term receivables	–	14,256	–	14,256	14,256
Malaysian Government Securities and Government Guaranteed bonds	256,520	–	–	256,520	255,718
	256,520	14,256	–	270,776	269,974

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

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

Transfers between Level 1 and Level 2 fair values
There has been no transfer between Level 1 and 2 fair values during the financial year. (2013: no transfer in either directions)

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

19. Tax expense

The SC was granted approval from the Minister of Finance to be exempted from taxation with effect from Year Assessment (YA) 2007 until YA 2014.

20. Reserves management

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

21. Comparatives figures

(i) Explanation of reclassification of cash and cash equivalents

During the financial year, SC reclassified its fixed deposits that have maturity of more than three months with licensed banks and a scheduled institution to other investments in accordance to the guidance in FRSIC Consensus 22, *Classification of Fixed Deposits and Similar Instruments as Cash and Cash Equivalents*. In the previous financial years, all deposits with licensed banks and that have maturity of more than three months were classified as cash and cash equivalents.

(ii) Explanation on reclassification of the assets, liabilities and results of the AOB

In previous financial years, the total assets and liabilities of the AOB were disclosed as a separate line item in the SC's financial statements while the details of the total assets and liabilities of the AOB were disclosed separately in the note to the SC's financial statements.

During the financial year, the assets and liabilities of the AOB are now aggregated with the assets and liabilities of the SC. Accordingly, reclassifications have been made to the comparative figures to align with the current year presentation.

These are now applied retrospectively and the affects are as follows:

21.1 Statement of financial position

	31.12.2013		1.1.2013	
	As previously stated RM'000	As restated RM'000	As previously stated RM'000	As restated RM'000
Non-current assets				
Other investments	255,718	480,958	226,969	310,669
Current assets				
Trade and other receivables	27,856	26,499	22,239	22,320
Other investments	–	225,015	–	415,287
Cash and cash equivalents	503,670	55,661	534,405	36,295
Total assets of AOB	909	–	991	–
Reserves				
Accumulated surplus	811,826	812,705	803,908	804,836
AOB reserve	879	–	928	–
Current liabilities				
Other payables and accruals	38,013	38,023	54,530	54,560
Total liabilities of AOB	30	–	63	–

21.2 Surplus/Total comprehensive income for the year ended 31 December 2013

	As previously stated RM'000	As restated RM'000
Finance income	(24,835)	(24,901)
Registration fees	–	(1,885)
Other income	(1,475)	(1,490)
Staff costs	119,691	123,941
Administrative expenses	33,577	34,031
Rental expenses	1,997	2,308

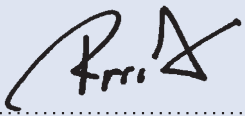
21.3 Statement of cash flows for the year ended 31 December 2013

	As previously stated RM'000	As restated RM'000
Cash and cash equivalents at 1 January	504,254	16,433
Cash and cash equivalents at 31 December	484,839	49,682

STATEMENT BY COMMISSION MEMBERS

In the opinion of the Commission Members, the financial statements set out on pages 101 to 129 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Securities Commission Malaysia as at 31 December 2014 and of its financial performance and cash flows for the financial year then ended.

On behalf of the Commission Members:



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Datuk Ranjit Ajit Singh
Chairman

....

Dato' Gumuri Hussain
Member

Kuala Lumpur

Date: 29 January 2015

STATUTORY DECLARATION

I, Vignaswaran A/L Kandiah, the officer primarily responsible for the financial management of Securities Commission Malaysia, do solemnly and sincerely declare that the financial statements set out on pages 101 to 129 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 29 January 2015.

………………………………………………..
Vignaswaran A/L Kandiah

Before me:

PESURUHJAYA SUMPAH
No. W 350
SHAFIE B. DAUD
MALAYSIA

38A, JALAN TUN MOHD FUAD 1
TAMAN TUN DR. ISMAIL
60000 KUALA LUMPUR

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

Report on the Financial Statements

We have audited the financial statements of Securities Commission Malaysia (SC), which comprise the statement of financial position as at 31 December 2014, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 101 to 129.

Commission Members' Responsibility for the Financial Statements

The Commission Members are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Commission Members are also responsible for such internal control as the Commission Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the SC's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SC's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Commission Members, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the SC as of 31 December 2014 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Other Matters

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

KPMG
Firm Number: AF 0758
Chartered Accountants

Loh Kam Hian
Approval Number: 2941/09/16(J)
Chartered Accountant

Petaling Jaya, Malaysia

Date: 29 January 2015

CORPORATE PROPOSALS

EQUITY

The SC received 37 equity applications in 2014, of which 11 applications were received in the last two months of the year, as compared to 25 in 2013. A total of 23 equity applications were considered in 2014 as compared to 25 in the previous year (Table 1).

In 2014, the SC approved 12 IPOs for the Main Market. The approved IPOs were expected to raise nearly RM4.0 billion in proceeds (Table 2), with an expected aggregate market capitalisation of RM9.24 billion. While the number of IPOs approved in 2014 was similar to 2013, the total amount of proceeds expected to be raised was lower as the IPOs approved in 2014 were relatively smaller in size.

There were 14 new listings in 2014, comprising 11 listings on the Main Market and three listings on the ACE Market. Among the sizeable listings in 2014 were IOI Properties Group Bhd, a property developer which raised RM1.87 billion; Boustead Plantations Bhd, an oil palm plantation company which raised RM1.05 billion; ICON Offshore Bhd, an offshore support vessel company servicing the oil and gas industry which raised RM0.94 billion and 7-Eleven Malaysia Holdings Bhd, a convenience stores chain operator which raised RM0.73 billion.

The SC registered a total of 53 equity prospectuses in 2014, comprising 14 IPO prospectuses and 39 abridged prospectuses (Table 3). Eleven of the IPO prospectuses registered were in relation to Main Market IPOs while the remaining three were for ACE Market IPOs.

For abridged prospectuses registered, 31 were from corporations listed on the Main Market while the remaining eight were from those listed on the ACE Market.

Table 1
Status of equity applications

Applications	2014	2013
Brought forward from the previous year	9	11
Received during the year	37	25
Total for consideration	**46**	**36**
Approved during the year	(20)	(20)
Not approved during the year	(1)	(4)
Returned during the year	(2)	(1)
Total considered during the year	**(23)**	**(25)**
Withdrawn during the year	(3)	(2)
Carried forward to the next year	**20**	**9**

Table 2
Equity applications approved by type of proposals

Type of proposals	2014		2013	
	No. of proposals approved	Amount to be raised (RM million)	No. of proposals approved	Amount to be raised (RM million)
IPO on Main Market: – Domestic companies – Foreign companies	12 –	3,997 –	12 –	12,300 –
Subtotal	**12**	**3,997**	12	**12,300**
Restructuring / Mergers and acquisitions	3		3	
Cross listing of Malaysian companies	–		1	
Transfer from ACE Market to Main Market	5		3	
Others*	–		1	
TOTAL	**20**	**3,997**	**20**	**12,300**

Note:
* Proposal for offering of securities approved for listing on a stock exchange outside Malaysia, to prescribed persons in Malaysia.

Table 3
Registration of equity prospectuses

	2014	2013
Prospectus	14	18
Abridged prospectus	39	43
TOTAL	**53**	**61**

PRIVATE DEBT SECURITIES

In 2014, the SC received a total of 105 applications for issuances of private debt securities (PDS), an increase of 8.2% compared to 97 applications received in the previous year (Table 4). Ringgit-denominated PDS issues continued to form the majority of proposals approved with a total nominal value of RM138.15 billion, of which 55.1% were sukuk (Table 5).

Table 4
Status of PDS applications

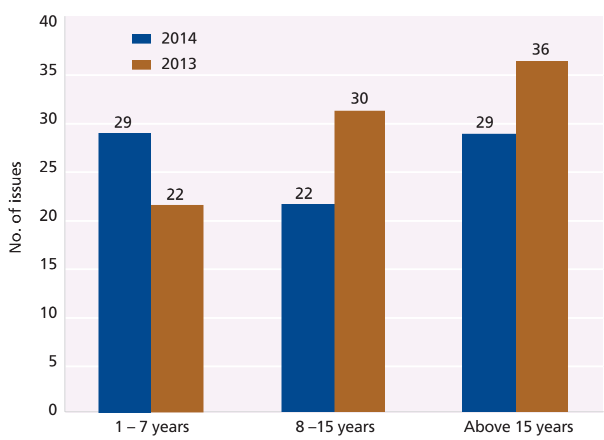
Applications	2014	2013
Brought forward from the previous year	4	15
Received during the year	105	97
Total for consideration	**109**	**112**
Approved during the year	(97)[1]	(103)[2]
Rejected during the year	–	–
Returned during the year	(1)	(1)
Total considered during the year	**(98)**	**(104)**
Withdrawn during the year	(5)	(4)
Carried forward to the next year	**6**	**4**

Note:
[1] 97 applications comprising 80 ringgit-denominated and 17 foreign currency-denominated PDS issues.
[2] 103 applications comprising 88 ringgit-denominated and 15 foreign currency-denominated PDS issues.

Table 5
Approved ringgit-denominated PDS issues

Type of issues	2014		2013	
	No. of issues	Amount (RM million)	No. of issues	Amount (RM million)
Conventional PDS				
– Commercial papers/Medium-term notes	20	40,800	28	46,908
– Bonds	2	320	4	1,280
– Loan stocks	9	956	5	257
Subtotal	**31**	**42,076**	**37**	**48,445**
Sukuk				
– Islamic commercial papers/Islamic medium-term notes	46	75,495	37	82,590
– Islamic bonds	1	575	12	16,539
Subtotal	**47**	**76,070**	**49**	**99,129**
Combination of conventional PDS and sukuk				
– Commercial papers/Medium-term notes	2	20,000	2	500
TOTAL	**80**	**138,146**	**88**	**148,074**

Chart 1
Tenure of approved ringgit-denominated PDS issues



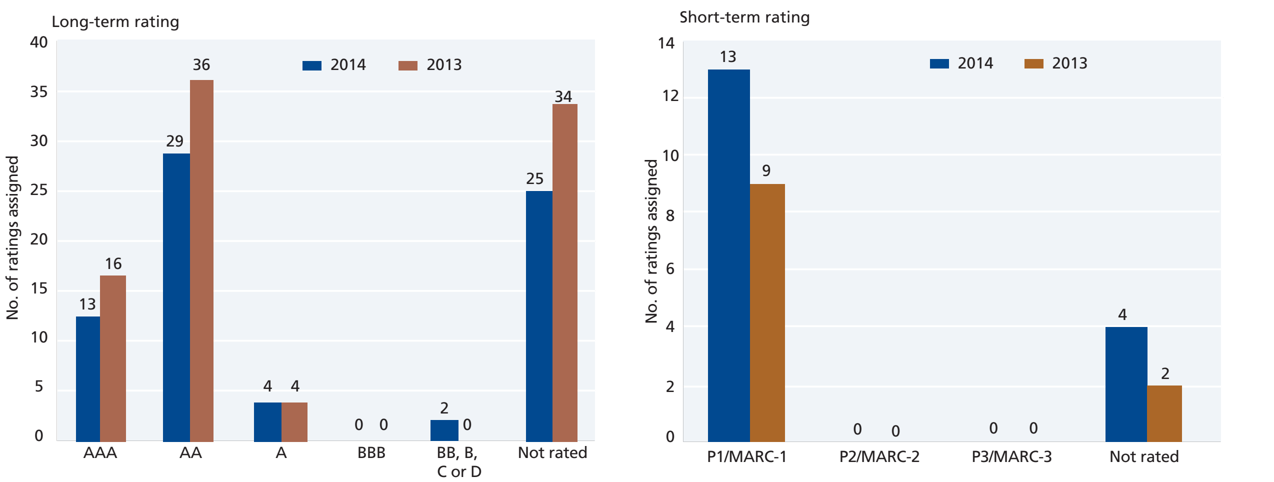
Note: Tenure of facility, and not the respective notes or papers issued under the facility.

The maturity profile of approved ringgit-denominated PDS exhibited a 31.8% increase in the number of issues that have tenures of less than seven years. There was also a 22.7% drop in the total number of ringgit-denominated PDS issues with tenures of more than seven years, which include three issues with perpetual maturities (Chart 1).

A total of 61 initial ratings were assigned by CRAs to approved ringgit-denominated PDS issues. The number of unrated issues dropped by 19.4% (Chart 2). Issues that are exempted from the mandatory rating requirement are those that are convertible into listed shares or are issued on a non-tradeable or non-transferable basis.

The SC also approved 17 foreign currency-denominated PDS issues, comprising 11 sukuk and one conventional PDS by foreign issuers, as well as two sukuk and three conventional PDS by Malaysian issuers.

Chart 2
Rating summary of approved ringgit-denominated PDS issues



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

TAKE-OVERS AND MERGERS

The SC considered a total of 118 applications relating to the *Malaysian Code on Take-overs and Mergers 2010* (TOM Code), a decrease of 17.5% as compared to 143 applications considered in 2013.

A total of 22 documents in relation to take-over offers (comprising take-over bids and schemes) were cleared by the SC involving a total offer value of RM6.78 billion as compared to 33 documents involving a total offer value of RM18.33 billion in 2013.

The two with offer values exceeding RM1.0 billion were IGB Corporation Bhd at RM2.65 billion and Malaysian Airline System Bhd (MAS) at RM1.38 billion, and these represented in aggregate 59.4% of the year's total offer value.

Out of the 22 take-over offer documents cleared during the year, eight involved proposed privatisations of listed companies. This represented a decrease of 68.0% in the number of privatisation proposals received in 2013. Notable privatisations during the year included the privatisation of MAS, JT International Bhd and Padiberas Nasional Bhd.

The SC also cleared 34 independent advice circulars whereby 24 circulars were in relation to take-over offers and the remaining were in relation to whitewash procedures from the mandatory offer obligation. The SC also approved 17 applications seeking exemption from having to undertake a mandatory take-over offer and 45 other applications for various matters under the TOM Code including eligibility to act as independent adviser for take-over proposals, extension of time, rulings and other related decisions (Table 6).

Table 6

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

Type of applications/ documents cleared	2014	2013
Clearance of offer documents	22	33
Clearance of independent advice circulars	34	47
Applications for exemption from mandatory offer obligation	17	28
Other applications	45	35
TOTAL	**118**	**143**

PROPERTY VALUATION

In 2014, there were eight corporate proposals which involved the review of property asset valuations. Whilst this number was 60.0% higher when compared to the preceeding year, the aggregate market value of the property assets and the number of valuation reports and certificates reviewed decreased from RM34.03 billion and 100 reports and certificates in 2013 to RM4.25 billion and 56 reports and certificates in 2014. Of the eight corporate proposals, four were IPOs on the Main Market, two were acquisitions by listed real estate investment trusts (REITs) and two were for the qualifying acquisition by a Special Purpose Acquisition Company and the restructuring of a listed corporation.

Of the reports reviewed, the restructuring proposal of GW Plastic Bhd had the largest property asset valuation with a total market value of RM1.47 billion. Other sizeable valuations included the valuations of a petroleum asset in Thailand for Sona Petroleum Bhd's qualifying acquisition at RM900.0 million and the Platinum Sentral office building for the proposed acquisition by Quill Capita Trust at RM740.0 million.

The number of referrals from Bursa Malaysia of valuation reports and certificates prepared in compliance with the Bursa Malaysia Listing Requirements was 52 compared to 59 in 2013. The reviews involved 104 valuation reports and certificates. The total market value of the property assets reviewed showed an increase from RM19.04 billion in 2013 to RM24.96 billion in 2014.

Sizeable valuations reviewed included the valuations of material property assets of IGB Corporation Bhd in conjunction with the take-over offer by Goldis Bhd for the shares in IGB Corporation Bhd, the material property assets of IJM Land Bhd pursuant to the proposed privatisation by IJM Corporation Bhd and the property assets acquired by Eco World Development Bhd.

Table 7

Valuation reviewed by type of proposals

	2014			2013		
	Number of corporate proposals (No. of reports)		Market value (RM million)	Number of corporate proposals (No. of reports)		Market value (RM million)
Initial public offering:						
– Main Market	4	(43)	1,020	4	(99)	33,281
– ACE Market	–	–	–	–	–	–
Acquisition by REITs	2	(2)	818	1	(1)	750
Restructuring/mergers and acquisitions	2	(11)	2,412	–	–	–
TOTAL	**8**	**(56)**	**4,250**	**5**	**(100)**	**34,031**
Cases referred by Bursa Malaysia						
– Main market transactions	52	(104)	24,958	57	(164)	18,895
– ACE market transactions	–	–	–	2	(4)	146
TOTAL	**52**	**(104)**	**24,958**	**59**	**(168)**	**19,041**

INVESTMENT MANAGEMENT

FUND MANAGEMENT

Total AUM of licensed fund management companies in Malaysia rose by 7.1% to RM629.98 billion compared to RM588.41 billion in 2013. Sources of funds under management included private pension funds, EPF, unit trust funds, corporate bodies and charitable bodies (Table 1).

The five largest fund management companies accounted for 62.3% of total funds under management, as compared to 64.4% as at the end of 2013 (Chart 1). The amount of onshore investment by fund management companies increased from RM490.4 billion as at end-2013 to RM520.3 billion (Chart 2). Asset allocation in equities decreased from 51.3% as at end 2013 to 48.1% (Chart 3). The bulk of investments inside and outside of Malaysia were in equities (Chart 4).

COLLECTIVE INVESTMENT SCHEMES AND PRIVATE RETIREMENT SCHEMES

Locally-constituted unit trust funds remained the largest component of the Malaysian collective investment scheme (CIS) industry. These funds are operated and

Table 1
Source of clients' funds under management

	2014		2013	
	Local (RM million)	Foreign (RM million)	Local (RM million)	Foreign (RM million)
Unit trust funds*	342,397.5	618.4	334,057.3	1,094.4
Corporate bodies	65,991.8	8,823.8	59,776.1	10,105.2
Employees Provident Fund	87,054.1	–	74,988.1	–
Wholesale funds	73,083.2	575.5	60,415.2	474.0
Individual	7,944.2	532.8	6,526.6	488.4
Private pension funds	1,513.8	2,025.9	2,698.2	1,462.1
Charitable bodies	372.9	315.9	436.6	271.1
Other funds	35,040.6	3,689.7	34,007.7	1,608.7
TOTAL	**613,398.1**	**16,582.0**	**572,905.8**	**15,503.9**

Note:
* Includes Islamic unit trust funds.

Chart 1

Percentage of funds managed by fund management companies

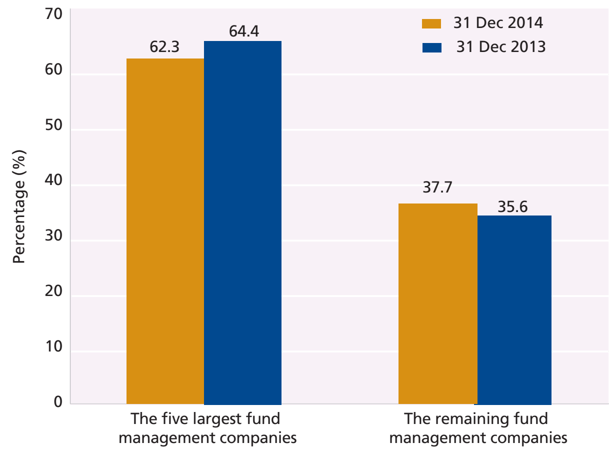


Chart 3

Asset allocation

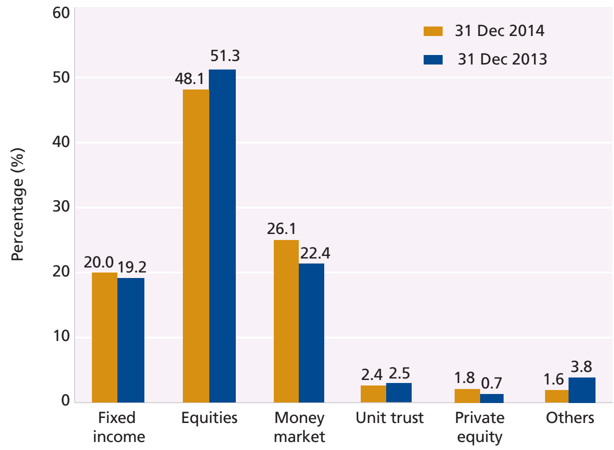


Chart 2

Funds invested inside and outside of Malaysia

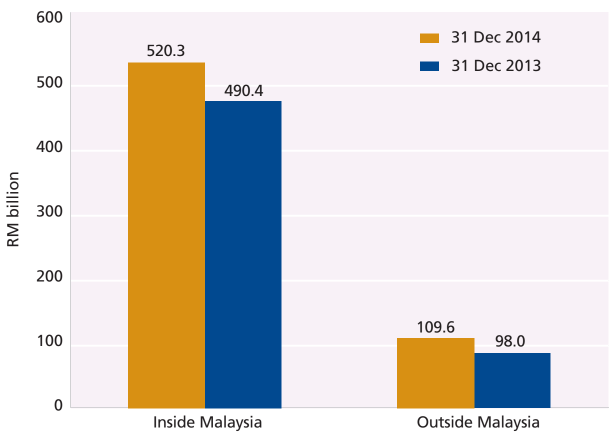
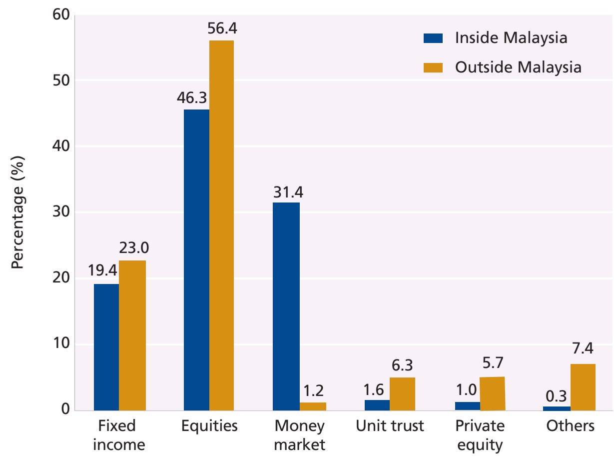


Chart 4

Asset allocation inside and outside of Malaysia as at 31 December 2014



administered by 36 locally-incorporated unit trust management companies. In the year under review, a total of 39 new unit trust funds were launched, 11 funds were terminated and 11 funds matured, bringing the total number of unit trust funds available to investors to 612 as at 31 December 2014. This was a slight increase of 2.9% from end 2013 (Table 2).

The total net asset value (NAV) of unit trust funds grew by 2.2%, from RM335.51 billion as at 31 December 2013 to RM343.02 billion as at 31 December 2014. The size of the unit trust industry is equivalent to 20.8% of Bursa Malaysia's market capitalisation as at 31 December 2014, as compared to 19.7% as at 31 December 2013 (Table 2).

Institutional unit trust advisers were the major distributors of units with sales amounting to RM63.69 billion, representing 45.0% of the total sales of unit trust funds (Table 3).

There were 47 new wholesale funds launched in 2014 for sophisticated and institutional investors whilst 10 were terminated or matured, raising the number of wholesale funds in the market from 193 as at 31 December 2013 to 230 in 2014. The total NAV of wholesale funds at the end of 2014 was RM73.30 billion as compared to RM59.45 billion in 2013.

One REIT, namely Al-Hadharah Boustead REIT, was delisted from the Main Market of Bursa Securities on 19 February 2014. There were 16 REITs listed on Bursa Malaysia as at 31 December 2014 with a market capitalisation (including a REIT which is a stapled security) of RM35.67 billion and total asset size of RM41.75 billion, as compared to a total of 17 REITs with a market capitalisation of RM33.13 billion and total asset size of RM41.05 billion as at 31 December 2013.

One new i-ETF, namely MyETF MSCI Malaysia Islamic Dividend, was listed on 21 March 2014. There were six exchange-traded funds (ETFs) listed on the Main Market of Bursa Malaysia as at 31 December 2014 with a total market capitalisation of RM1.01 billion, as compared to a total market capitalisation of RM1.03 billion at end of 2013.

Table 2
Overall status of unit trust industry

	31 Dec 2014	31 Dec 2013
No. of funds launched	**612**	**595**
– Conventional	424	417
– Shariah compliant	188	178
Units in circulation (billion units)	425.43	388.52
No. of accounts (million)[1]	17.99	17.36
Total NAV (RM billion)	**343.02**	**335.51**
– Conventional	296.36	292.69
– Shariah compliant	46.66	42.82
% of NAV to Bursa Securities market capitalisation[2]	20.8	19.7

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

Table 3
Distribution channels

	31 Dec 2014 (RM billion)	31 Dec 2013 (RM billion)
Management company	55.49	51.96
Institutional unit trust advisers	63.69	72.69
Unit trust consultant	18.26	22.87
Corporate unit trust adviser	0.39	0.15
Others	3.59	4.39
TOTAL	**141.42**	**152.06**

As at 31 December 2014, only one closed-end fund was listed on the Main Market of Bursa Malaysia with a market capitalisation of RM326.20 million compared to a market capitalisation of RM336.0 million at the end of 2013.

In 2014, two private retirement funds were launched. As at 31 December, there were 11 PRS comprising 46 retirement funds in the market, compared to 44 funds at the end of 2013. The total NAV of RM716.05 million at end 2014 represented an increase of 138.8% compared to a NAV of RM299.82 million at end 2013.

In 2014, the SC considered 525 applications relating to CIS and PRS, comprising applications to establish new funds, increase fund size and other ancillary matters (Table 4).

Table 4

Applications relating to collective investment schemes and private retirement schemes

Type of applications	Number of applications					
	Considered		Approved		Pending consideration	
	2014	2013	2014	2013	As at 31 Dec 2014	As at 31 Dec 2013
Establishment of collective investment schemes	**91**	**78**	**91**	**78**	**58**	**39**
– Unit trust funds	45	37	45	37	19	13
– Real estate investment trusts	–	1	–	1	1	–
– Closed-end funds	–	–	–	–	–	–
– Wholesale funds	45	38	45	38	37	19
– Exchange-traded funds	1	2	1	2	1	7
Establishment of retirement funds	**2**	**12**	**2**	**12**	**2**	**–**
Increase in fund size limit	**4**	**4**	**4**	**4**	**1**	–
– Unit trust funds	3	3	3	3	–	–
– Real estate investment trusts	1	1	1	1	1	–
Exemption/variation from guidelines	**13**	**19**	**12**	**19**	**4**	**3**
Registration of prospectus	**187**	**179**	**187**	**179**	**25**	**17**
Registration of deeds	**155**	**164**	**155**	**164**	**24**	**21**
Other applications	**73**	**86**	**69**	**82**	**6**	**5**
TOTAL	**525**	**542**	**520**	**538**	**120**	**85**

INVESTMENT PRODUCTS

Structured warrants

There were seven eligible issuers of structured warrants in 2014. The SC received and registered six base prospectuses and 13 supplementary prospectuses from these issuers in 2014 (Table 5).

Table 5
Structured warrants considered

Structured warrants	2014	2013
No. of eligible issuers	7	6
Base prospectuses registered	6*	6
Supplementary prospectuses registered	13	7
Term sheets registered	546	410
Issue size (billion warrants)	37.21	27.65

Note:
* One issuer did not renew its base prospectus which had expired in 2014.

A total of 546 term sheets relating to the offering of structured warrants were registered in 2014, an increase of 33.2% compared to 410 term sheets registered in 2013. A new issuer had contributed to 50.7% of the increase in the number of term sheets registered. The year also saw a greater mix of underlying references of structured warrants, including 24 issuances of structured warrants based on indices in 2014 compared to none in 2013 and 34 issuances of structured warrants based on foreign underlying references in 2014 compared to 21 in 2013.

The registered term sheets in 2014 would allow the structured warrants issuers to offer a total of up to 37.21 billion structured warrants.

Structured products

Eight issuers applied for 14 new structured products programmes in 2014 and all 14 programmes were authorised by the SC. These programmes comprised a variety of underlying references and had an aggregate size of RM70.0 billion with each programme typically having a limit size of up to RM5.0 billion (Table 6).

Table 6
Structured products programmes considered

Structured products	2014		2013	
No. of issuers applied for new programmes	8		8	
No. of new programmes authorised	**No. of programmes**	**Size (RM billion)**	**No. of programmes**	**Size (RM billion)**
Principle				
– Conventional	14	70	16	80
– Islamic	–	–	1	5
TOTAL	**14**	**70**	**17**	**85**

ISLAMIC CAPITAL MARKET

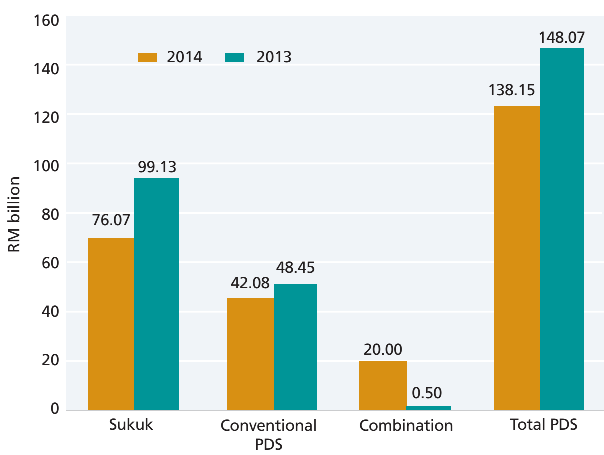
SUKUK

In 2014, the SC approved 80 PDS issues amounting to RM138.15 billion, of which 47 issues were sukuk valued at RM76.07 billion. The sukuk value represented 55.1% of total new PDS issues approved (Chart 1).

During the year, the SC approved four ringgit-denominated sukuk issuance by foreign issuers. They were Bumitama Agri Ltd (Singapore), TF Varlik Kiralama Anonim Sirketi (Turkey), Alef II S.A. (France) and Mahco Malaysia Sdn Bhd (Saudi Arabia) with total approved size of RM6.3 billion. The SC also approved 13 foreign currency-denominated sukuk issuances. Apart from Malaysia, the issuers were from Bahrain, Hong Kong, Indonesia, Japan, Luxembourg, Turkey, South Africa, United Arab Emirates and UK as well as a multilateral development institution.

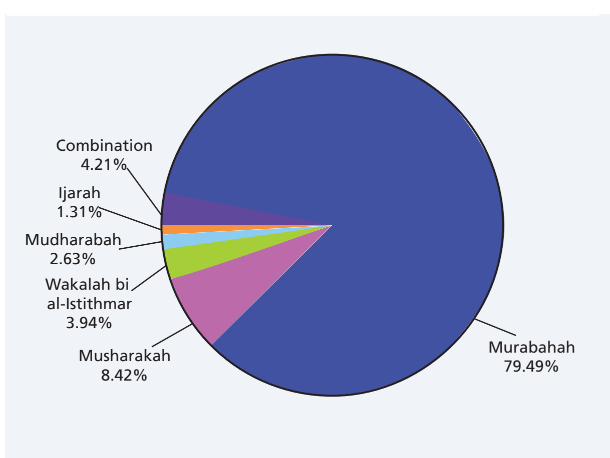
In terms of the underlying Shariah principle, sukuk *murabahah* led the Malaysian sukuk market this year based on approval size. Sukuk *murabahah* represented RM60.47 billion or 79.5% of the total size of sukuk approved (Chart 2).

Chart 1
Sukuk approved by the SC



Source: SC

Chart 2
Size of sukuk approved in 2014 by Shariah principle



Source: SC

In 2014, corporate sukuk issuances represented 76.1% of total PDS issuances, while corporate sukuk outstanding accounted for 70.4% of total PDS outstanding. Overall, sukuk issuances represented 52.9% of total bond issuances, whereas sukuk outstanding represented 54.8% of total bonds outstanding.

SHARIAH-COMPLIANT SECURITIES

The SC released the updated list of Shariah-compliant securities approved by its SAC on 30 May and 28 November 2014.

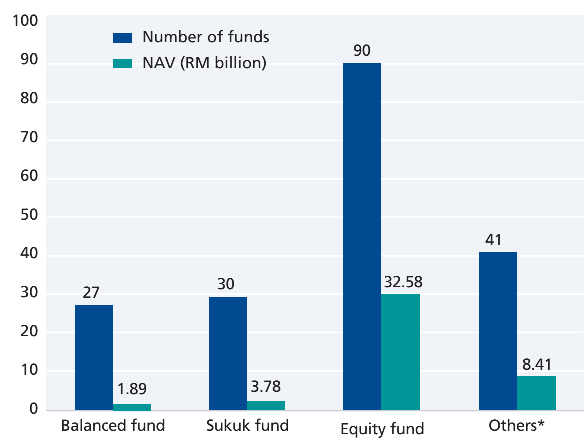
The latest updated list, which took effect on 28 November 2014, featured a total of 673 Shariah-compliant securities. The list included 40 newly classified Shariah-compliant securities and excluded 30 from the previous list issued in May 2014.

At end December, these securities constituted 74.3% of the 906 listed securities on Bursa Malaysia. The market capitalisation of Shariah-compliant securities stood at RM1.01 trillion or 61.3% of total market capitalisation, a decrease of 1.7% as compared to end 2013.

ISLAMIC UNIT TRUST FUNDS

As at end 2014, the number of funds was 188 funds compared to 178 funds as at end 2013. The NAV of these funds saw a 9.0% increase from RM42.82 billion in 2013 to RM46.66 billion in 2014. By category, equity funds still dominated the market with 90 funds. This was followed by 30 sukuk funds and 27 balanced funds while the remainder of 41 comprised feeder funds, fixed income funds, money market funds and mixed-asset funds (Chart 3).

Chart 3
Islamic unit trust funds by category



** Including feeder funds, fixed income funds, money market funds and mixed asset funds.*
Source: SC

KEY STATISTICS

Table 1
Sukuk

Corporate sukuk issuance (RM billion)	2014	2013
Corporate sukuk issuance	65.43	65.15
Total PDS issuance	86.00	86.20
% of corporate sukuk to total PDS	76.1	75.6
Total corporate sukuk outstanding (RM billion)	**2014**	**2013**
Outstanding corporate sukuk	325.91	288.93
Outstanding PDS	462.76	433.40
% of corporate sukuk to outstanding PDS	70.4	66.7

Source: SC

Table 2
Islamic assets under management

	2014	2013
Islamic AUM (RM billion)	110.60	97.50
Total Industry (RM billion)	629.98	588.41
% of Islamic AUM to total industry	17.6	16.6

Source: SC

Note:
Includes foreign funds managed in Malaysia.

Table 3
Shariah-compliant securities

	2014	2013
Number of securities		
Shariah-compliant securities	673	650
Total listed securities	906	911
% of Shariah-compliant to total listed securities	74.3	71.4
Market capitalisation (RM bil)		
Shariah-compliant securities	1,012.14	1,029.62
Total listed securities	1,651.17	1,702.15
% of Shariah-compliant to total listed securities	61.3	60.5

Source: Bursa Malaysia

Table 4
Islamic unit trust funds

	2014	2013
No. of funds launched		
Islamic	188	178
Total industry	612	595
Units in circulation (billion units)		
Islamic	94.64	80.31
Total industry	425.43	388.52
NAV (RM billion)		
Islamic	46.66	42.82
Total industry	343.02	335.51
% of Islamic to total industry	13.6	12.8

Source: SC

Table 5
Islamic wholesale funds

	2014	2013
No. of funds launched		
Islamic	69	52
Total industry	230	193
Units in circulation (billion units)		
Islamic	21.65	14.75
Total industry	73.43	59.76
NAV (RM billion)		
Islamic	23.45	16.43
Total industry	73.43	59.45
% of Islamic to total industry	32.0	27.6

Source: SC

Table 6
Islamic private retirement schemes

	2014	2013
No. of funds launched		
Islamic	18	17
Total industry	46	44
Units in circulation (million units)		
Islamic	539.98	220.24
Total industry	1,919.26	793.06
NAV (RM billion)		
Islamic	207.50	79.52
Total industry	716.05	299.82
% of Islamic to total industry	29.0	26.5

Source: SC

Table 7
Islamic exchange-traded funds

	2014	2013
Islamic ETFs	2	1
Total industry	6	5
Market capitalisation (RM billion)		
Islamic ETFs	0.31	0.31
Total industry	1.01	1.03
% of Islamic ETFs to total industry	31.0	30.1

Source: SC

Table 8
Islamic real estate investment trusts

	2014	2013
Islamic REITs	3	4
Total industry	16	17
Market capitalisation (RM billion)		
Islamic REITs	15.06	14.14
Total industry	35.67	33.13
% of Islamic REITs to total industry	42.2	42.7

Source: SC

VENTURE CAPITAL

The number of registered venture capital corporations (VCCs) and venture capital management corporations (VCMCs) both stood at 56 respectively as of 31 December (Table 1). Seven VCCs and VCMCs were deregistered due to closure of funds.

Out of the 112 registered VCCs and VCMCs, 100 are locally-owned, 10 are joint ventures while two are foreign-owned. The number of venture capital professionals employed in the industry with at least four years of experience stood at 111.

Total committed funds at end 2014 stood at RM6.21 billion which represented an increase of 7.2% year-on-year (Table 2).

The total venture capital investments decreased by 5.4% to RM3.25 billion from RM3.43 billion at end 2013. Investments made in 2014 stood at RM318 million, a 20.5% increased from RM264 million in 2013. A total of 74 investee companies received venture capital funding as compared to 56 investee companies which received funding in 2013.

Table 1

Venture capital industry participants

	31 Dec 2014	31 Dec 2013
Number of registered venture capital funds/corporations	56	61
Number of registered VCMCs	56	58
Number of investee companies	376	356
Number of venture capital professionals*	111	103
Shareholding structure		
Local ownership	100	99
Joint ventures	10	15
Foreign ownership	2	5

Note:

* Professionals with more than four years of experience.

Table 2

Venture capital key statistics

	(RM million)	
	31 Dec 2014	31 Dec 2013
Total committed funds under management	6,211	5,796
Total investment as at end of the period	3,246	3,433
	During 2014	During 2013
Investments in investee companies	318	264
Divestments	421	287

As for divestments, there was an increase of 46.7% from RM287 million in 2013 to RM421 million in 2014. In this regard, 59 investee companies were divested in 2014 as compared to 33 companies in 2013. Divestments were mainly through share redemptions and trade sale.

The government remained as the main source of funds to the venture capital industry with a contribution of 65.9% of total committed funds, equivalent to RM4.09 billion (Chart 1). Local companies contributed 18.9% while foreign companies and individuals contributed 7.8% of total funds. Contributions from banks, insurance companies, pension and provident funds as well as local individuals have decreased from 8.4% to 7.4% collectively.

As in previous year, Malaysia Venture Capital Management Bhd, Kumpulan Modal Perdana Sdn Bhd and Malaysian Life Sciences Capital Fund Ltd remained the top three industry participants based on size of AUM.

Investee companies at the early-stage up to pre-IPO stages received the bulk of venture capital funding. A total of 60 investee companies received funding amounting to RM295.57 million, representing 93.0% of total investments (Table 3).

Investments into seed and start-up stages collectively stood at 7% of total investments. These were channeled into 14 investee companies compared to last year where 10.9% of total investments were made into 13 investee companies. Investments in these companies were mainly by the government and selected VCCs/VCMCs.

Investments made in IT and communication in 2014 increased by 8.1% relative to 2013 (Chart 3). Investments in life sciences and manufacturing also showed an increase of 11.6% and 11.5% respectively.

Investments in electricity and power generation, education, transportation and storage and construction sectors recorded a 31.2% decline.

Chart 1

Sources of venture capital funds (2014: RM6.21 billion)

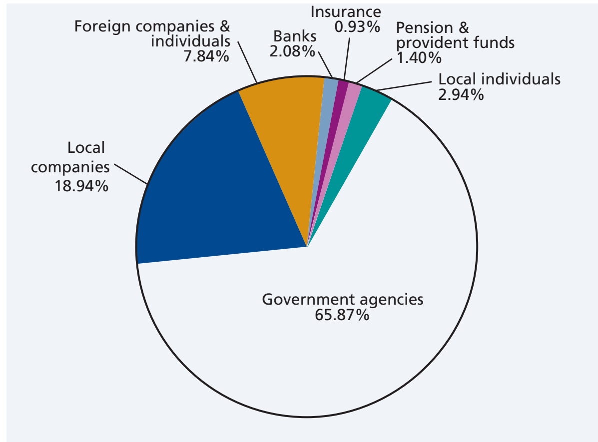


Chart 2

Investments by financing stage (2014: RM318 million)

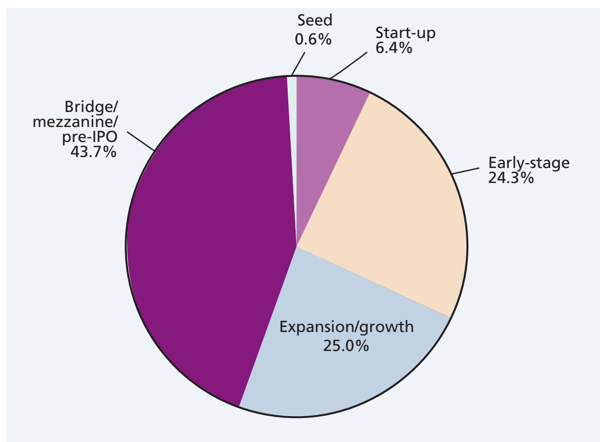


Table 3
Investments in 2014

Business stages	Total investment ('000)	% of total investment	No. of investee company
Seed	2,000	0.63	1
Start-up	20,239	6.37	13
Early-stage	77,240	24.30	19
Expansion/ growth	79,362	24.97	20
Bridge/ mezzanine/ pre-IPO	138,969	43.73	21
TOTAL	**317,810**	**100.0**	**74**

Chart 3
Investments by sectors

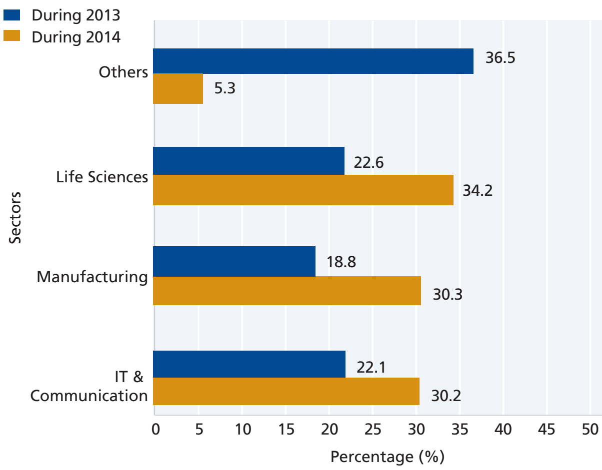


Table 4
Divestments in 2014

Business stages	Total divestment ('000)	% of total divestment	No. of investee company
Seed	9,978	2.37	9
Start-up	6,312	1.50	4
Early-stage	12,225	2.90	4
Expansion/ growth	41,674	9.90	12
Bridge/ mezzanine/ pre-IPO	4,780	1.14	3
Management Buy-out/ Cashing-out	345,931	82.19	27
TOTAL	**420,900**	**100.0**	**59**

Table 4 shows that the total amount divested in 2014 amounted to RM420.9 million. There is an increase of 46.7% from 2013, where 33 investee companies worth RM287 million were divested. Divestments were mainly in investee companies at the expansion/growth and management buy-out/cashing-out stages. Proceeds from divestments of investee companies at these stages amounted to approximately RM387.6 million, representing 92.1% of total proceeds from divestments.

AUTHORISATION AND LICENSING

In 2014, the number of capital market intermediaries stood at 231 firms with 9,770 licensed representatives. The market had a broad representation of domestic and foreign players serving the different needs of the capital market. Overall, the number of Capital Markets Services Representative's Licence holders increased by 2.5% with a total of 951 new licences being issued. The breadth of market participation among the Registered Representatives has increased almost quadruple compared to 66 registered representatives in 2013. As at end 2014, 240 Trading and Introducing Representatives have been registered since the initiative was first introduced in 2012.

As part of the consolidation of the stockbroking industry, the SC had, in 2010, introduced an alternative mechanism policy requiring the standalone stockbroking companies to commit investments to strengthen their operational framework and to contribute to an industry development fund. Following our assessment of their strengthened operational framework in 2014, the SC recognised six standalone stockbroking companies as having fulfilled the requirement of the alternative mechanism policy and accorded them the status of 1+1 stockbroking companies.

Several consolidation activities took place during the year which saw four mergers between Affin Investment Bank and HwangDBS Investment Bank, MAAKL Mutual Bhd and Manulife Asset Management Services Bhd, Hwang Investment Management Bhd and Affin Fund Management Bhd as well as AmInvestment Management Sdn Bhd and AmInvestment Services Bhd. The consolidation exercises are expected to synergise the industry from greater economies of scale, improved cost efficiency and wider product offerings.

In order to continuously support the expansion of ICM intermediation activities, the SC had granted a licence to an Islamic fund management company namely Threadneedle Asset Management Malaysia Sdn Bhd. The SC also issued a fund management licence to VCAP Asset Managers Sdn Bhd which focuses on promoting ESG and SRI initiatives. Other companies that were licensed during the period include two REIT managers, two corporate advisory companies and one financial planning company.

Table 1
Capital Markets Services Licence holders

Categories	Regulated activities[1]	2014	2013
Investment banks	Dealing in securities Dealing in derivatives Advising on corporate finance Investment advice	2	2
	Dealing in securities Dealing in derivatives Advising on corporate finance	1	1
	Dealing in securities Fund management Advising on corporate finance	1	1
	Dealing in securities Advising on corporate finance Investment advice	4	4
	Dealing in securities Advising on corporate finance	1	2
	Dealing in securities Dealing in private retirement scheme Advising on corporate finance Investment advice	1	1
		10	**11**
Universal brokers	Dealing in securities Advising on corporate finance Investment advice	–	1
	Dealing in securities	1	–
		1	**1**
Special scheme foreign stockbroking companies	Dealing in securities Dealing in derivatives Advising on corporate finance Investment advice	2	1
	Dealing in securities Advising on corporate finance Investment advice	4	5
	Dealing in securities Investment advice	1	1
		7	**7**

Categories	Regulated activities[1]	2014	2013
Stockbroking companies with at least one merger partner	Dealing in securities	1	–
	Dealing in securities Advising on corporate finance	1	–
	Dealing in securities Dealing in derivatives Investment advice	1	1
	Dealing in securities Advising on corporate finance Investment advice	3	3
	Dealing in securities Investment advice	4	–
	Dealing in securities Dealing in derivatives	1	1
	Dealing in securities Dealing in derivatives Advising on corporate finance	1	1
		12	**6**
Standalone stockbroking companies	Dealing in securities Investment advice	–	4
	Dealing in securities	–	1
	Dealing in securities Advising on corporate finance	–	1
		–	**6**
Issuing houses	Dealing in securities	2	2
		2	**2**
Futures brokers	Dealing in derivatives	11	11
		11	**11**

Categories	Regulated activities[1]	2014	2013
Unit trust management companies (UTMC)	Fund management Dealing in securities restricted to unit trust	24	26
	Dealing in securities restricted to unit trust	5	5
	Fund management Financial planning Dealing in securities restricted to unit trust	–	1
	Fund management Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	3	2
	Fund management Dealing in private retirement scheme Dealing in securities restricted to unit trust	3	3
	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	–	1
	Fund management Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	2	2
	Dealing in private retirement scheme Dealing in securities restricted to unit trust	1	2
		38	**42**
Fund managers	Fund management	58	57
	Fund management Dealing in securities restricted to unit trust	24	26
	Fund management Financial planning Dealing in securities restricted to unit trust	–	1
	Fund management Advising on corporate finance	1	1
	Fund management Investment advice	–	1
	Fund management Dealing in private retirement scheme Dealing in securities restricted to unit trust	3	3
	Fund management Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	2	2
	Fund management Dealing in private retirement scheme	1	2
	Fund management Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	3	2
		92	**95**

Categories	Regulated activities[1]	2014	2013
Special scheme foreign fund managers	Fund management	5	5
		5	**5**
Islamic fund managers	Fund management Dealing in securities restricted to unit trust	4	5
	Fund management Dealing in securities restricted to unit trust Dealing in private retirement scheme	1	–
	Fund management	15	14
		20	**19**
Fund supermarket	Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	1	1
		1	**1**
Dealing in private retirement scheme	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	9	7
	Dealing in private retirement scheme Financial planning	–	1
	Fund management Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	2	2
	Fund management Dealing in private retirement scheme Dealing in securities restricted to unit trust	3	3
	Fund management Dealing in private retirement scheme	1	2
	Fund management Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	3	2
	Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	1	1
	Dealing in private retirement scheme Dealing in securities restricted to unit trust	1	2
	Dealing in private retirement scheme Dealing in securities restricted to unit trust Advising on corporate finance Investment advice	1	1
		21	**21**

Categories	Regulated activities[1]	2014	2013
Corporate unit trust advisers (CUTA)	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	9	6
		9	**6**
Advisory companies	Advising on corporate finance	39	38
	Advising on corporate finance Investment advice	4	4
	Investment advice	18	19
	Financial planning	19	21
	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	9	7
	Dealing in private retirement scheme Investment advice Dealing in securities restricted to unit trust	1	1
	Dealing in private retirement scheme Financial planning	–	1
		90	**91**
Corporate PRS advisers	Dealing in private retirement scheme Financial planning Dealing in securities restricted to unit trust	9	6
	Dealing in private retirement scheme Financial planning	–	1
		9	**7**
Individuals	Financial planning	8	8
	Investment advice	1	1
		9	**9**

Notes:

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

Total licensed companies:
- at as 31 December 2014: 231
- at as 31 December 2013: 237

Total licensed individuals:
- at as 31 December 2014: 9
- at as 31 December 2013: 9

Table 2
Capital Markets Services Representative's Licence holders

By core activity	2014	2013
Dealing in securities[1]	6,807	6,698
Dealing in derivatives	751	772
Fund management	760	708
Advising on corporate finance[2]	703	668
Investment advice	249	245
Financial planning	500	440
	9,770	**9,531**

Notes:

[1] Includes representatives licensed for dealing in securities restricted to bonds and representatives licensed for dual activities – Dealing in securities and dealing in derivatives.
Excludes representatives licensed for dual activities – Advising on corporate finance and dealing in securities restricted to underwriting activities

[2] Includes representatives licensed for dual activities – Advising on corporate finance and dealing in securities restricted to underwriting activities.

Table 3
Application for new company licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Issued	–	–	–	–	4	17	2	2	–	1	1	2

Table 4
Application for new representative's licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Issued	447	383	85	117	129	195	142	164	53	49	95	104
Withdrawn*	53	41	12	13	12	24	11	9	4	4	46	38
Returned*	288	229	42	66	86	95	73	61	39	38	108	144

Note:

* By regulated activities.

Table 5
Cessation of company/individual licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning		Financial planning (individual)	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Ceased	1	3	–	2	6	2	2	4	1	2	2	1	–	–
Revoked	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Suspended	–	–	–	–	–	–	–	–	–	–	–	–	–	–

Table 6
Cessation of representative's licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Ceased*	387	528	123	154	75	79	105	93	50	43	32	46
Revoked	–	–	–	–	–	–	–	–	–	–	–	–
Suspended	6	2	–	–	–	–	–	–	–	–	–	–

Note:
* By regulated activities.

ENFORCEMENT

In 2014, there were 61 active investigations out of which 83% consisted of insider trading and market manipulation cases (Chart 1). This is in line with the higher number of referrals relating to the said offences.

There were 36 referrals received by the Investigation Department this year from various sources including Bursa Malaysia and other regulatory authorities. 64% of these referrals were in connection with insider trading and market manipulation offences. Other referrals include possible breaches in connection with corporate governance practices (Chart 2).

Investigative powers are utilised in accordance with law to ensure admissible evidence are gathered during the course of each investigation. The powers include taking statements of witnesses such as those from professional firms, financial institutions, private and public listed companies, regulated entities, investors and individuals. In 2014, witness statements were recorded from a total of 445 witnesses of which the majority comprised

Chart 1

Active investigation by nature of offence

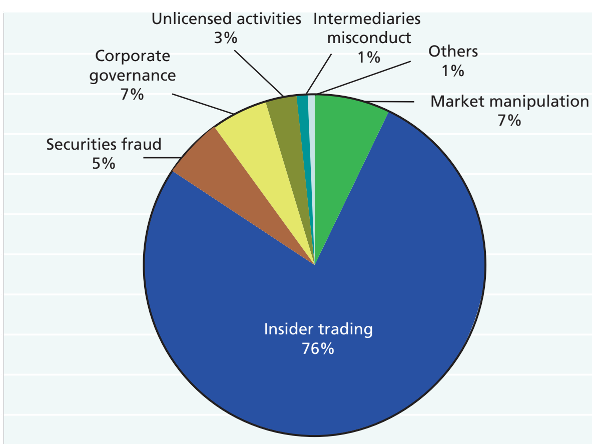
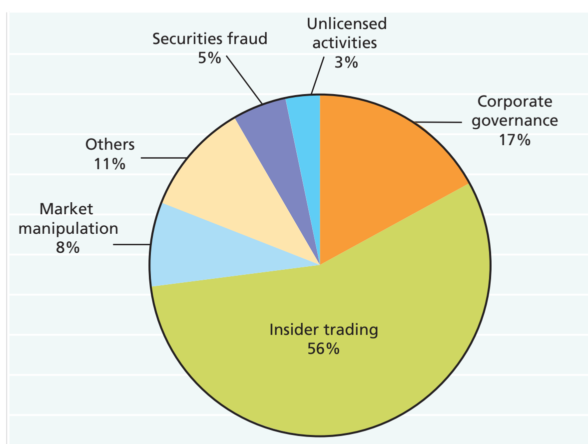


Chart 2

Referrals received in 2014 by nature of offence



directors and senior management of public listed companies and professionals (Chart 3).

Cross border transactions feature commonly in many of SC's investigations. We continued to co-operate with our foreign supervisory counterparts through the IOSCO MMoU. We made 16 requests for assistance in our investigations (Table 1). At the same time, we attended to 19 requests for assistance from foreign supervisory authorities of five jurisdictions.

Table 1
Foreign assistance sought by SC in 2014 by jurisdiction

Jurisdictions	No. of requests
British Virgin Islands	1
Hong Kong	4
Singapore	8
UK	1
Indonesia	1
Philippines	1
TOTAL	**16**

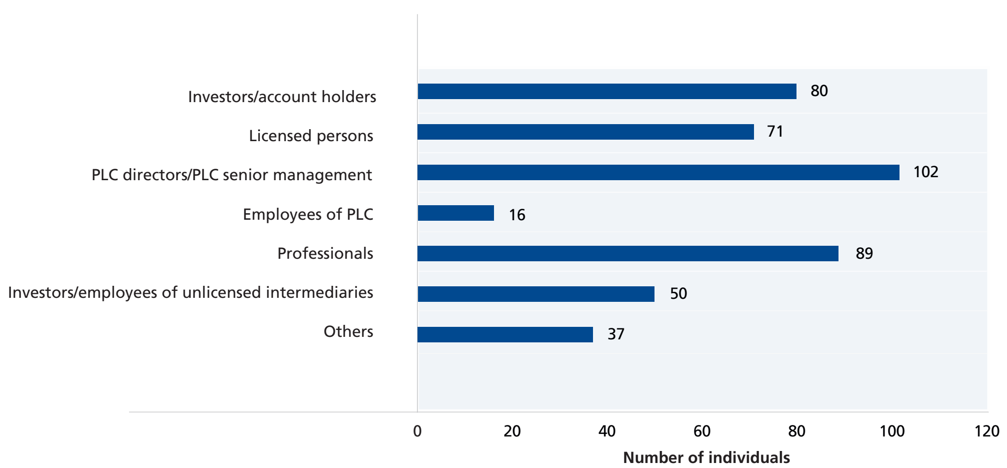
Administrative actions

In 2014, a total of three administrative actions were instituted by the SC against licensed intermediaries for the following breaches:

- failure to ensure that persons carrying on regulated activities are appropriately licensed;
- receiving rebates from transactions of clients; and
- failure to disclose the deferred performance fees chargeable annually in the statement to its clients.

The SC imposed RM200,000 in penalties against two licensed fund management companies for breaches. Further, a directive was also issued against a fund management company to disclose to its clients the chargeable performance fees in the statement issued to its clients.

Chart 3
Witness statements recorded in 2014 by type of witness



Source: SC

Infringement notices

In addition to administrative sanctions, SC has utilised other forms of non-statutory enforcement tools in discharging its monitoring, gatekeeping and supervisory functions.

In 2014, 77 infringement notices were issued where breaches of securities laws do not warrant the initiation of a criminal/civil action or an administrative sanction (Table 2).

Types of infringement notices comprised the following:

- **Non-compliance letter** – issued pursuant to the discharge of SC's gate-keeping function for minor breaches;
- **Warning letter** – issued pursuant to the discharge of SC's gate-keeping function such as the issuance of licences, approval of corporate proposals and review of prospectuses; and
- **Supervisory letter** – issued in the discharge of SC's supervisory function.

Table 2
Infringement notices issued in 2014

Type of infringement notices	Total
Supervisory letters	8
Warning letters	23
Non-compliance letters	46
TOTAL	**77**

Table 3
Details of criminal prosecution in 2014

No.	Nature of offence	Offender(s)	Description of charge(s)	Date charged
CRIMINAL PROSECUTION INITIATED – PERSONS CHARGED				
1.	Insider trading	Ch'ng Poh @ Ch'ng Chong Poh	Ch'ng was charged with 58 counts of insider trading under section 188(2)(a) of the CMSA. He was alleged to have acquired 5,775,700 of Malaysia Pacific Corporation Bhd (MPAC) shares between 14 May 2008 and 20 August 2008 while in possession of inside information relating to a multi-million ringgit joint venture between Oriental Pearl City Properties Sdn Bhd, a wholly-owned subsidiary of MPAC and AmanahRaya Development Sdn Bhd, a wholly-owned subsidiary company of Amanah Raya Bhd.	10 January 2014
2.	Insider trading	Tiong Kiong Choon	Tiong was charged with two counts of insider trading under s188(2)(a) CMSA. He is alleged to have disposed of 6,208,500 APL Industries Bhd (APLI) shares on 26 and 29 October 2007 while in possession of inside information in relation to the audit adjustments proposed by APLI's auditors which would result in APLI reporting a higher loss for the financial year ended 30 June 2007, as compared to the previously reported unaudited fourth quarter results for the same financial year and that APLI would be classified as an affected issuer pursuant to the *Listing Requirements of Bursa Malaysia Securities Bhd* and *Practice Note 17/2005*.	9 December 2014
		Tan Bee Hong	Tan was charged with insider trading under section 188(2)(a) CMSA as she is alleged to have disposed of 350,000 APLI shares on 31 October 2007 while in possession of inside information in relation to the audit adjustments proposed by APLI's auditors which would result in APLI reporting a higher loss for the financial year ended 30 June 2007, as compared to the previously reported unaudited fourth quarter results for the same financial year and that APLI would be classified as an affected issuer pursuant to the *Listing Requirements of Bursa Malaysia Securities Bhd* and *Practice Note 17/2005*.	15 December 2014
		Thai Kim Sin	Thai was charged under section 188(3)(a) CMSA for having communicated to Tiong Kiong Choon between 26 to 29 October 2007 inside information in relation to the audit adjustments proposed by APLI's auditors which would result in APLI reporting a higher loss for the financial year ended 30 June 2007, as compared to the previously reported unaudited fourth quarter results for the same financial year and that APLI would be classified as an affected issuer pursuant to the *Listing Requirements of Bursa Malaysia Securities Bhd* and *Practice Note 17/2005*.	15 December 2014
		Tan Bee Geok	Tan was charged under section 188(3)(a) CMSA for having communicated to Tan Bee Hong between 23 to 31 October 2007 inside information in relation to the audit adjustments proposed by APLI's auditors which would result in APLI reporting a higher loss for the financial year ended 30 June 2007, as compared to the previously reported unaudited fourth quarter results for the same financial year and that APLI would be classified as an affected issuer pursuant to the *Listing Requirements of Bursa Malaysia Securities Bhd* and *Practice Note 17/2005*.	15 December 2014

Table 4

Outcome of criminal court cases and appeals in 2014

Nature of offence	Offender(s)	Description	Punishment
OUTCOME OF CRIMINAL COURT CASES AND APPEALS – PERSONS FINED AND JAILED			
Market manipulation	Wong Chee Kheong Bun Lit Chun	Both Wong and Bun were charged on 25 October 2005, in furtherance of their common intention with one Ng Chong Yeng, for creating a misleading appearance as to the price of Suremax Group Bhd (Suremax) shares on Bursa Malaysia through 153 central depository securities accounts. They were also charged in the alternative for creating a misleading appearance as to active trading in Suremax shares through transactions that did not involve any change in beneficial ownership on Bursa Malaysia through nine central depository securities accounts. On 7 January 2011, Wong and Bun were convicted by the Sessions Court on the alternative charge. On 12 January 2011, Wong was sentenced to 24 months imprisonment and a fine of RM3 million (in default six months imprisonment). Bun was sentenced to three months imprisonment and a fine of RM2 million (in default six months imprisonment).	On 18 March 2014, the Kuala Lumpur High Court affirmed the conviction and dismissed the appeal by both Wong and Bun. On 27 March 2014, Bun's appeal to the High Court against sentence was allowed in part where the sentence of imprisonment was reduced from three months to one day. The fine of RM2 million imposed by the Sessions Court was affirmed. Prosecution has filed an appeal to the Court of Appeal against the reduction of Bun's jail sentence. On 9 April 2014, the High Court dismissed Wong's appeal against sentence and affirmed the sentence of 24 months imprisonment and a fine of RM3 million (in default six months imprisonment) imposed by the Sessions Court.

Table 5
Civil enforcement actions in 2014

Nature of offence	Offender(s)	Description
Market manipulation	Kenneth Vun @ Vun Yun Liun Teng Choo Teik Simon Ling Siang Hock Lye Pei Ling Chuah Hock Soon Choong Lay Ti Gui Boon Huat	On 22 July 2014, the SC filed a civil suit against the seven defendants. The SC is seeking, among others: • A declaration that the defendants engaged in false trading and market rigging transactions in respect of DVM shares from 14 March 2006 until 21 March 2006; • A declaration that the defendants engaged in stock market manipulation in respect of DVM shares from 14 March 2006 until 21 March 2006; • A declaration that all profits earned by each of the defendants by reason of their false trading and market rigging transactions and stock market manipulation of DVM shares are held on constructive trust for the benefit of the affected investors; • An order that all assets and properties of each of the defendants be traced and/or followed, and thereafter paid over to the SC for the purpose of compensating any materially affected investors of DVM shares; • General and/or aggravated and/or exemplary damages against all the defendants; • Special damages; • Civil penalty of RM1,000,000 against each of the defendants for breach of sections 84 and 85 of the *Securities Industry Act 1983* (SIA); • Interest; • An injunction to restrain each of the defendants from trading in any counter on Bursa Malaysia for a period of five years; • An order that each of the defendants be barred from being a director of any public listed company for a period of five years; • Costs.

Table 6
Regulatory settlements in 2014

No.	Nature of offence	Parties Involved	Description
1.	Market manipulation	Vincent Ng Chee Yee	On 20 February 2014, Vincent Ng entered into a settlement with the SC when he agreed without admission or denial of liability, to settle a civil claim that the SC was proposing to institute against him with respect to the manipulation of DRB-Hicom Bhd shares on 25 July 2011, contrary to section 176(1)(b) of the CMSA. The settlement of RM200,000 was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws. The amount recovered from this settlement will be applied in accordance with section 200 of the CMSA. Earlier in December 2013, OCBC Bank (M) Bhd (OCBC) entered into a settlement with the SC for the sum of RM2,475,000 following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws. The sum of RM2,475,000 was equivalent to three times the pecuniary gain of RM825,000 which OCBC had made as a result of the breach.
2.	Insider trading	• Chua Siow Leng • Tam Kin Kok	On 8 August 2014, Chua entered into a settlement with the SC in the sum of RM1,099,231.44 when he agreed without admission or denial of liability, to settle a claim that the SC was proposing to institute against him for insider trading in the shares of WCT Bhd between 2 January and 5 January 2009, contrary to section 188(2) of the CMSA. The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum Chua was required to disgorge was equivalent to three times the difference between the price at which the shares were disposed and the price at which they would have been likely to have been disposed of at the time of the disposal, if the information had been generally available. The monies recovered will be applied in accordance with section 201(7) CMSA. On 8 August 2014, Tam entered into a settlement with the SC in the sum of RM505,095.72 when he agreed without admission or denial of liability, to settle a claim that the SC was proposing to institute against him for insider trading in the shares of WCT Bhd between 30 December 2008 and 2 January 2009, contrary to section 188(2) of the CMSA. The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum Tam was required to disgorge was equivalent to three times the difference between the price at which the shares were disposed and the price at which they would have been likely to have been disposed of at the time of the disposal, if the information had been generally available. The monies recovered will be applied in accordance with section 201(7) CMSA.

Table 6
Regulatory settlements in 2014 (*continued*)

No.	Nature of offence	Parties Involved	Description
3.	Insider trading	• Mohd Irtiza Azmel Mohd Ismail • Mohd Ismail Yahya	On 11 August 2014, Mohd Irtiza Azmel and Mohd Ismail Yahya entered into a settlement with the SC in the sum of RM22,000 when they agreed without admission or denial of liability, to settle a claim that the SC was proposing to institute against them for insider trading in the shares of Boustead Properties Bhd (Boustead) on 14 May 2008, contrary to section 188(2) of the CMSA. The settlement was reached following letters of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sums both of them were required to disgorge was equivalent to three times the difference between the price at which the shares were acquired and the price at which they would have been likely to have been acquired at the time of the acquisition, if the information had been generally available. The monies recovered will be applied in accordance with section 201(7) CMSA.
4.	Market manipulation	• Wong Thean Soon • Chia Hang Kian • Choo Weng Wah • Tan Men Siong • Ng Hong Sing • Chung Siang Hien • Ng Wee Kiat • Tan Chiu Keong • Tan Khei Chuan • R Mahalingam a/l A Renganathan • Hon Kok Sing • Mah Hoong Meng • Ng Wee Lun • Jayakumar a/l Paneer Selvam	On 26 September 2014, Wong entered into a settlement with the SC in the sum of RM7,000,000 when he agreed without admission or denial of liability, to settle a claim that the SC was proposing to institute against him and 13 others for the manipulation of MyEG Services Bhd shares between 16 January and 24 April 2007, contrary to section 84(1) of the SIA. The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws.

Table 6
Regulatory settlements in 2014 (*continued*)

No.	Nature of offence	Parties Involved	Description
5.	Insider Trading	• Siva Kumar a/l M Jeyapalan • Dato' Azmil Khalili Dato' Khalid	On 3 October 2014, Siva Kumar entered into a settlement with the SC in the sum of RM782,839.17 when he agreed without admission or denial of liability, to settle a claim that the SC was proposing to institute against him for insider trading in the shares of Metacorp Bhd (Metacorp) between 14 February and 22 February 2008, contrary to section 188(2) of the CMSA. The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum Siva Kumar was required to disgorge was equivalent to three times the difference between the price at which the shares were acquired and the price at which they would have been likely to have been acquired at the time of the acquisition, if the information had been generally available. The monies recovered will be applied in accordance with section 201(7) CMSA. On 3 October 2014, Dato' Azmil Khalili entered into a settlement with the SC in the sum of RM249,750.00 when he agreed without admission or denial of liability, to settle a claim that the SC was proposing to institute against him for insider trading in the shares of Metacorp between 20 February 2008 and 22 February 2008, contrary to section 188(2) of the CMSA. The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum Dato' Azmil Khalili was required to disgorge was equivalent to three times the difference between the price at which the shares were acquired and the price at which they would have been likely to have been acquired at the time of the acquisition, if the information had been generally available. The monies recovered will be applied in accordance with section 201(7) CMSA.
6.	Insider Trading	• Tan Yew Sing • Lim Teck Seng • Yap Moy Kheng	On 4 December 2014, Tan Yew Sing entered into a settlement with the SC in the sum of RM778,258.92 when he agreed without admission or denial of liability, to settle a claim that the SC was proposing to institute against him for communicating inside information pertaining to one Puan Chan Cheong (Puan) who then traded in the shares of Inti Universal Holdings Berhad (Inti) between 18 September 2007 and 19 September 2007. The information related to the proposal by Laureate Education Inc. to acquire a controlling interest in Inti. The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum Tan was required to disgorge was equivalent to three times the difference between the price at which Puan acquired the shares and the price at which they would have been likely to have been acquired at the time of the acquisition, if the information had been generally available. The monies recovered will be applied in accordance with section 90A(7) of the SIA. On 8 December 2014, Lim Teck Seng and Yap Moy Kheng entered into a settlement with the SC in the sum of RM327,487.80 when they agreed without admission or denial of liability, to settle a claim that the SC was proposing to institute against them for insider trading in the shares of Inti Universal Holdings Berhad (Inti) between 14 September 2007 and 19 September 2007, contrary to section 89E(2) of the *Securities Industry Act 1983* (SIA). The settlement was reached following letters of demand sent by the SC pursuant to its civil enforcement powers under the securities laws, where the sum both of them were required to disgorge was equivalent to three times the difference between the price at which the shares were acquired and the price at which they would have been likely to have been acquired at the time of the acquisition, if the information had been generally available. The monies recovered will be applied in accordance with section 90A(7) of the SIA.

Table 7
Enforcement actions by Audit Oversight Board in 2014

No.	Nature of misconduct	Parties Involved	Description
1.	Breach of AOB's Registration Condition	Chan Kee Hwa (Partner, Khoo Wong & Chan)	Chan Kee Hwa is an AOB registered individual auditor and engagement partner in the audit of a PIE for the financial year ended 31 March 2011. He was reprimanded on 18 February 2014 for breach of section 31O(4) of the *Securities Commission Act 1993* (SCA) for failure to comply with certain requirements of the International Standards on Auditing (ISA) in discharging his professional duties in the performance of an audit of the PIE.
2.	Breach of AOB's Registration Condition	Lim Kok Beng (Partner, Ong Boon Bah & Co)	Lim Kok Beng is an AOB registered individual auditor and engagement partner in the audit of a PIE for the financial year ended 30 June 2011. He was reprimanded and imposed a monetary penalty of RM10,000 on 18 February 2014 for breach of section 31O(4) of the SCA for failure to comply with certain requirements of the ISA in discharging his professional duties in the performance of an audit of the PIE.
3.	Breach of AOB's Registration Condition	Wong Weng Foo & Co. (Audit Firm)	The Audit Firm is an AOB registered Audit Firm and was prohibited from accepting any PIE as client for a period of 12 months and imposed a monetary penalty of RM30,000 on 30 May 2014. The above sanction was in relation to the failure of the Audit Firm to comply with section 31N (1) of the SCA which requires audit firms to be registered with AOB when acting as auditor. The Audit Firm had also failed to comply with the *By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (MIA)* requirement which relates to independence of an auditor. On 5 June 2014, the Audit Firm appealed to the SC pursuant to section 31ZB of the SCA, against the above decision made by the AOB. On 26 June 2014, the SC decided to reject the appeal and the prohibition on the Audit Firm to accept any PIE as its clients for a period of 12 months took effect from 30 June 2014.

INVESTOR EDUCATION PROGRAMMES

PROGRAMME

18–19 Mar 2014

SC Reach

Kolej Poly-Tech MARA, Cheras

4 talks
400 participants

DESCRIPTION

Invitation to engage with students and staff of KPTM and speak on smart investing.

PROGRAMME

20–27 April 2014

Minggu Saham Amanah Malaysia

Kota Bharu

3 talks
215,000 visitors

DESCRIPTION

Permodalan Nasional Bhd's premier annual event, held with the objective to showcase their investment services and products; and educate the public on the importance of investing.

PROGRAMME

19 June 2014

InvestSmart™ Launch

Taylor's University Lakeside Campus, Subang Jaya

500 visitors

DESCRIPTION

Launch of **InvestSmart™** campaign.

PROGRAMME

9–14 September 2014

InvestSmart™ Fest 2014

1 Utama, Damansara

11,000 visitors
735 participants for talk series

DESCRIPTION

SC's inaugural and biggest retail investor event, participated by members of industry, associations and institutions of the capital market and Government agencies.

PROGRAMME

19–21 June 2014

Financial Literacy & Community Outreach Programme

Nanga Dap, Song and Sibu, Sarawak

871 visitors

DESCRIPTION

SC community outreach programme targeting the public in remote areas. Talks and a mini exhibition on the capital market and smart investing were held.

PROGRAMME	DESCRIPTION	NUMBER OF INDIVIDUALS REACHED
Mobile Community Transformation Centre (CTC), Ministry of Finance: Chuping, Perlis 22 February	MOF's Mobile CTC programme brings services of government agencies to the community's doorstep throughout the country. The SC participated in the roadshow through its own mobile unit; providing information on the capital market, raising awareness on smart investing and warning the public of the dangers of investing in unlicensed investment schemes. We do this through talks as well as private engagement sessions with members of the public. Other participating agencies include MOF CTC itself, Polis Diraja Malaysia's Rakan Cop, Companies Commission Malaysia, Federal Agricultural Marketing Authority (consisting of Kedai 1Malaysia, Syarikat Perumahan Negara Bhd and National Population and Family Development Board) and the Public Services Department, who participated via their own mobile units.	2,500 visitors
MOF's Mobile CTC: Balik Pulau, Penang 16 March	As described above.	2,500 visitors
SC Reach at Kolej Poly-Tech MARA (KPTM): Cheras 18–19 March	Engagement with students and staff of KPTM to speak on smart investing.	4 talks, 400 participants
SC Reach at Treasury Department, MOF: Putrajaya 15 April	Internal training for Treasury staff, where SC spoke on the capital market and smart investing.	1 talk, 150 participants
Minggu Saham Amanah Malaysia: Kota Bharu 20–27 April	Permodalan Nasional Bhd's premier annual event, held with the objective to showcase their investment services and products; and educate the public on the importance of investing. As in previous years, SC showcased its functions at its own booth, which included information on the capital market and other information to raise awareness on investors' rights and responsibilities. In addition, we also participated in talks held throughout the event.	3 talks: • Wanita UMNO Tanah Merah • Wanita UMNO Machang, Rantau Panjang • Wanita UMNO Tumpat, Pasir Mas 252 participants MSAM visitors: 215,000
Karnival Hari Guru, National level: PWTC Kuala Lumpur 14–19 May	The event was held in conjunction with the celebration of Teacher's Day. It consisted of one to one engagements, talks and exhibitions for participants, which mainly comprised teachers.	10,000 visitors
InvestSmart™ Launch: Taylor's University Lakeside Campus, Subang Jaya 19 June	Launch of **InvestSmart™** campaign, which is described in further detail in Part 3.	500 visitors

PROGRAMME	DESCRIPTION	NUMBER OF INDIVIDUALS REACHED
Financial literacy and community outreach programme: Nanga Dap, Song and Sibu, Sarawak 19–21 June	SC community outreach programme targeting the public in remote areas. Talks and a mini exhibition on the capital market and smart investing were held. Engagement sessions were also held for the community in Nanga Dap long houses, teachers and staff of SMK Nanga Dap, Kanowit Chinese Business Chambers and Dewan Usahawan Bumiputra Sibu.	871 participants
Engagement with Iskandar Regional Development Authority's (IRDA) change agents: Johor 23 June	SC community outreach community programme targeting the general public, potential investors and community leaders in the Iskandar region of Johor.	50 participants
MOF's Mobile CTC: Grik, Perak 23 August	As described in the MOF's Mobile CTC programme above.	2,500 visitors
InvestSmart™ Fest 2014: 1 Utama, Damansara 9–14 September	SC's inaugural and biggest retail investor event, participated by members of industry, associations and institutions of the capital market and Government agencies. Event consisted of an exhibition, talk series and various stage activities. Further details in Part 3.	11,000 visitors and 735 participants for talk series
MOF's Mobile CTC: Felda Ketengah Jaya, Dungun 20 September	As described in the MOF's Mobile CTC programme above.	2,000 visitors
MOF's Mobile CTC: Karnival Pesara: Serdang 23–24 September	This particular event in MOF's Mobile CTC series had the additional objective to educate government staff and retirees on entrepreneurial skills and money management.	4,000 visitors
Iskandar Learning Festival 2014: Johor 29–30 Sept	Kids & Cash, Teens & Cash seminars and **InvestSmart™** outreach.	600 participants
MOF's Mobile CTC: Kulim 11 October	As described in the MOF's Mobile CTC programme above.	2,500 visitors
HP Finance Carnival: Cyberjaya complex 15 October	SC community outreach programme on the capital market targeting the general public. An exhibition and direct engagements were held.	1,500 visitors
Engagement with IRDA's change agents: Johor 14 October	SC community outreach programme targeting the public. A talk for retail investors/women entrepreneurs in the Iskandar Region in Johor was held.	50 participants
MOF's Mobile CTC: Triang, Bera, Pahang 19 October	As described in the MOF's Mobile CTC programme above.	2,500 visitors

PROGRAMME	DESCRIPTION	NUMBER OF INDIVIDUALS REACHED
2nd MFPC National Financial Planning Quiz Tournament: UiTM Puncak Alam 3 November	The **InvestSmart™** team was invited to take up a speaking slot and to exhibit during the MFPC's quiz tournament for universities. The quiz was also recognised as an investor education effort under the **InvestSmart™** education initiative. This programme, organised by MFPC, involved more than 10 public and private universities nationwide.	500 participants
MOF's Mobile CTC: Ampang, Selangor 9 November	As described in the MOF's Mobile CTC programme above.	2,500 visitors
Labuan Offshore Financial Services Authority (LOFSA) Investor Education Day 13 November	SC community outreach community programme targeting the general public, held in collaboration with LOFSA. Talks were held for retail investors and a Cash@Campus seminar for Universiti Malaysia Sabah students.	500 participants
Media Prima Bhd: Awareness Session for Staff: Media Prima offices in Bangsar and Bandar Utama 14, 19 and 20 November	SC community outreach programme on the capital market targeting the general public. Talks and engagement sessions were held for staff of Media Prima Bhd.	400 participants
MOF Mobile CTC: Felda Tenggaroh 3, Mersing December	As described in the MOF's Mobile CTC programme above.	2,500 participants
TOTAL REACHED TO-DATE		**266,008**

List of investor education programmes by SIDC in 2014

PROGRAMMES	SESSIONS	PARTICIPANT REACHED
Kids & Cash and Teens & Cash	10	1,379
Cash@Campus	5	502
Be Money Wise (B.M.W.)	14	1,760
Money@Work	4	635
Stock Market Seminar for Retail Investors	6	1,013
Unit Trust Seminar for Retail Investors	9	1,002
TOTAL	**48**	**6,291**

Funded by CMDF
Dana Pembangunan Pasaran Modal
Capital Market Development Fund

Suruhanjaya Sekuriti
Securities Commission
Malaysia

PUBLICATIONS

GUIDELINES AND CODES

Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries
Updated
15 January 2014

Venture Capital Tax Incentives Guidelines
Amended
18 April 2014

Guidelines on Compliance Function for Fund Management Companies
Updated
25 April 2014

Malaysian Code for Institutional Investors
Issued
27 June 2014

Guidelines on Unit Trust Funds
Revised
25 August 2014

Handbook for Collective Investment Scheme Operators of ASEAN CIS
Issued
25 August 2014

Prospectus Guidelines for Collective Investment Schemes
Revised
25 August 2014

Guidelines on Private Debt Securities
Revised
28 August 2014

Guidelines on Sukuk
Revised
28 August 2014

Shariah Parameters on Islamic Exchange-traded Fund Based on Gold and Silver
Issued
7 October 2014

Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives
Revised
20 November 2014

Licensing Handbook
Revised
4 December 2014

BOOKS, REPORTS AND CONSULTATION PAPERS

Completing the Islamic Financial System Cycle from a Shariah-Compliant to a Shariah-Based Approach: Proceedings of the 4th SC-OCIS Roundtable 2013
Issued
January 2014

Consultation Paper – Joint Public Consultation Paper on Malaysia Code for Institutional Investors 2014
Issued
15 January 2014

Securities Commission Annual Report 2013 Laporan Tahunan 2013 Suruhanjaya Sekuriti Malaysia
Issued
12 March 2014

Audit Oversight Board Annual Report 2013/ Laporan Tahunan 2013 Lembaga Pemantauan Audit
Issued
12 May 2013

Public Response Paper – The Malaysian Code for Institutional Investors 2014
Issued
26 June 2014

Capital Market Development in Malaysia: Growth, Competitiveness and Resilience
Issued
August 2014

Consultation Paper – Proposed Regulatory Framework for Equity Crowdfunding
Issued
21 August 2014

Public Response Paper – Proposed Regulatory Framework for Equity Crowdfunding
Issued
25 September 2014

Waqf Assets: Development, Governance and the Role of Islamic Capital Market
Issued
November 2014

Aset Wakaf: Pembangunan, Tadbir Urus dan Peranan Pasaran Modal Islam
Issued
December 2014

BOOKLETS, BULLETINS AND PAMPHLETS

The Reporter
Issued
January, April and August 2014

Malaysian ICM
Issued
February and August 2014

Capital.My
Issued
March and November 2014

List of Shariah-compliant Securities by the Shariah Advisory Council of the Securities Commission Malaysia/Senarai Sekuriti Patuh Syariah oleh Majlis Penasihat Syariah Suruhanjaya Sekuriti Malaysia
Issued
29 May and 28 November 2014

Capital Markets Malaysia: Financing the Future – Facts & Figures
Issued
October 2014

Equity Crowdfunding for Malaysia
Issued
October 2014

Malaysia's Islamic Capital Market
Issued
October 2014

WEBSITES

www.sc.com.my

www.investsmartsc.my

www.worldcapitalmarketssymposium.org

www.capitalmarketsmalaysia.com

www.theroyalaward.com

2014 AT A GLANCE

JANUARY

10–12 Jan
Staff Retreat and 'Impacting Lives' Initiative

10 Jan
SC charges former MPAC CEO for insider trading

FEBRUARY

19–21 Feb
SC hosts IOSCO Board Meeting and first Growth and Emerging Markets (GEM) Committee Meeting in Kuala Lumpur

25 Feb
Secondary Advisory Group members' first meeting

MARCH

11 Mar
SC Annual Report 2013 released

10–12 Mar
SC hosts International Forum of Independent Audit Regulators Inspection Workshop in Kuala Lumpur

13 Mar
Preliminary ASEAN Audit Regulators Group Meeting

18 Mar
High Court affirms conviction on manipulation case of Suremax shares

21–24 Mar
SC- OCIS 2014 Roundtable Meeting on developing waqf through Islamic Finance

APRIL

9 Apr
Business Leaders Dialogue with the Prime Minister

9 Apr
High Court maintains two-year jail sentence and RM3 million fine on market manipulation

9–12 Apr
SC participates in the Malaysia International Halal Showcase in Kuala Lumpur

11 Apr
SC Annual Report 2013 Industry Briefing

20–27 Apr
SC participates in the Minggu Amanah Saham Malaysia in Kota Bharu, Kelantan

MAY

7 May
SC investigates five companies for unlicensed dealing in futures contracts

15 May
Study visit by Laos PDR Securities Exchange Commission delegation to the SC

27 May
SC hosts Young Journalists from The Edge for programme on capital markets

JUNE

2 Jun
Audit Oversight Board prohibits firm from accepting PIEs as client for 12 months

18 Jun
Malaysia PLCs among the Top Scorers in ASEAN Corporate Governance Scorecard

19 Jun
Launch of **InvestSmart™** by Youth & Sports Minister, YB Khairy Jamaluddin

27 Jun
SC and MSWG launch the Malaysian Code for Institutional Investors to drive effective stewardship

JULY

22 July
SC takes enforcement action against seven for share manipulation

AUGUST

8 Aug
Staff Hari Raya gathering and SC presents cheque to the Selangor & Federal Territory Association for the Mentally Handicapped and SC Merdeka Leadership Series with Datuk Lat

15 Aug
Briefing to newly appointed Deputy Finance Minister YB Dato' Chua Tee Yong

25 Aug
ASEAN capital market regulators launch framework for cross-border offering for CIS

26 Aug
Business Leaders Dialogue and launch of 20th anniversary book on 'Capital Market Development in Malaysia – Growth, Competitiveness and Resilience' by the Prime Minister

28 Aug
SC introduces sustainable and responsible investment sukuk

SEPTEMBER

2 Sept
Dato' Dr Abdul Halim Ismail, founding CEO of Bank Islam Malaysia named recipient of the Royal Award for Islamic Finance 2014

5 Sept
SC takes over as Chair of ASEAN Capital Markets Forum

6 Sept
SC Charity Jogathon 2014 'Run with Me, Run for Funds' with 440 runners and RM60,000 collected

9–14 Sept
SC and industry collaborate for **InvestSmart™** Fest, officiated by Second Finance Minister, YB Datuk Seri Ahmad Husni Mohamad Hanadzlah at 1 Utama

19–20 Sept
Equity Crowdfunding Forum to build awareness on alternative fund raising channel

24 Sept
BNM-SC launch Financial Services Professional Board

OCTOBER

7 Oct
SC issues Shariah parameters for i-ETF based on gold and silver

8 Oct
Office opening of Capital Markets Malaysia at Wisma UOA2, Kuala Lumpur

9 Oct
Malaysia records higher scores in regional corporate governance assessment

28–30 Oct
PM witnesses signing of MoU between SC and Securities Commission Authority Saudi Arabia for capacity building for ICM at 10th WIEF in Dubai

NOVEMBER

4 Nov
Capital Market Advisory Group members first meeting

7 Nov
SC Annual Dinner 'A Night with the Stars'

DECEMBER

9 Dec
SC charges individual for insider trading for APL Industry Bhd shares

15 Dec
SC charges former CEO and group executive director of APL Industries Bhd for insider trading

ACRONYMS AND ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
ACMF	ASEAN Capital Markets Forum
AEC	ASEAN Economic Community
AFAS	ASEAN Framework Agreement on Services
AML/CFT	Anti-money laundering/counter-terrorism financing
AOB	Audit Oversight Board
APEC FRTI	Asia-Pacific Economic Cooperation Finance Regulators Training Initiative
ARAA	Anniversary Reporting for Authorisation of Activity
ASEAN	Association of Southeast Asian Nations
AUM	Assets under management
BMD	Bursa Malaysia Derivatives Bhd
BNM	Bank Negara Malaysia
BoJ	Bank of Japan
Bursa Malaysia	Bursa Malaysia Securities Bhd
CDAM	Capital Dynamics Asset Management Sdn Bhd
CFA	Chartered Financial Analyst
CFE	Certified Fraud Examiner
CG Blueprint	*Corporate Governance Blueprint 2011*
CIS	Collective investment scheme
CM^2	Capital Markets Malaysia
CMC	Capital Market Compensation Fund Corporation
CMCF	Capital Market Compensation Fund
CMDF	Capital Market Development Fund
CMDP	Capital Market Director Programme
CMP2	*Capital Market Masterplan 2*
CMSA	*Capital Markets & Services Act 2007*
CMSL	Capital Market Services Licence
COMCEC	Committee for Economic and Commercial Co-operation
CRA	Credit rating agency
CTC	Communication Transformation Centre
ECB	European Central Bank
ECF	Equity crowdfunding
EPF	Employees Provident Fund
ERM	Enterprise risk management
ESG	Environmental, social and governance
ETF	Exchange-traded Fund

ETP	Economic Transformation Programme
EU	European Union
FATF	Financial Action Task Force
FBMKLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FIMM	Federation of Investment Managers Malaysia
FMG5	5-Year Malaysian Government Securities Futures
FP	Financial Planner
FPOL	Palm Olein Futures
FSB	Financial Stability Board
G20	Group of 20
GDP	Gross Domestic Product
GEM	Growth and Emerging Markets
GRP1000	Graduate Representative Programme
HIP	High Impact Programme
ICM	Islamic capital market
i-ETF	Islamic Exchange-traded Fund
IIRC	International Integrated Reporting Council
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPO	Initial public offering
IR	Integrated reporting
IRDA	Iskandar Regional Development Authority
ISMS	Information Security Management System ISMS/ISO/27001
KPTM	Kolej Poly-Tech MARA
LTF	Long-term financing
LTFTF	Long-Term Financing Task Force
MBAN	Malaysian Business Angels Network
MCII	Malaysian Code for Institutional Investors
MEE	Mutual evaluation exercise
MGS	Malaysian Government Securities
MIA	Malaysian Institute of Accountants
ML/TF	Money laundering and terrorist financing
MoU	Memorandum of understanding
MFPC	Malaysian Financial Planning Council
MSWG	Minority Shareholder Watchdog Group
MVCA	Malaysian Venture Capital and Private Equity Association
MVCDC	Malaysian Venture Capital Development Council
NAV	Net asset value
NCC	National Co-ordinating Committee on Anti-Money Laundering and Terrorism Financing
NRA	National risk assessment
OCIS	Oxford Centre for Islamic Studies
OECD	Organisation for Economic Co-operation and Development

PDS	Private debt securities
PIE	Public-interest entities
PLC	Public-listed company
PPA	Private Pension Administrator
PRS	Private retirement scheme
QE	Quantitative easing
RAIF	The Royal Award for Islamic Finance
REACH	Reaching for Excellence and Career Advancement
REIT	Real estate investment trust
RSF	Risk-focused supervisory framework
SAC	Shariah Advisory Council
SC	Securities Commission Malaysia
SCA	*Securities Commission Act 1993*
SCxSC	SC's Synergy and Crowdfunding Forum
SFC	Securities and Futures Commission of Hong Kong
SIA	*Securities Industry Act 1983*
SIDC	Securities Industry Development Corporation
SIDREC	Securities Industry Dispute Resolution Center
SIFI	Systematically important financial institutions
SIP	SME Investment Partners Programme
SME	Small and medium enterprises
SME Corp	SME Corporation Malaysia
SRA	Sectoral risk assessment
SRI	Sustainable and responsible investment
SRO	Self-regulatory organisation
SROC	Systemic Risk Oversight Committee
TOM Code	*Malaysian Code on Take-overs and Mergers 2010*
TPR	Trade policy review
UK	United Kingdom
US	United States
US Fed	US Federal Reserve
UT	Unit trust
UTMC	Unit trust management company
VCC/VCMC	Venture capital corporation/venture capital management corporation
WIEF	World Islamic Economic Forum
WTO	World Trade Organization

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