

Suruhanjaya Sekuriti
Securities Commission
Malaysia

Annual Report 2018

Rationale for Cover Design

The cover design depicts an upward fluid weaving pattern. It represents a facilitative, dynamic, innovative and interconnected ecosystem of the SC and its stakeholders.



CONTENTS

Chairman's Message

Part 1

Enabling Shared Value Growth

- 3 Introduction
- 3 Towards a Capital Market Which Caters to Societal and Environmental Needs through SRI and ICM
- 10 Broadening Alternative Financing Avenues
- 18 Facilitating Greater Investor Inclusiveness
- 25 Spurring Greater Vibrancy and Efficiency in the Capital Market
- 30 Collaborating for Growth and Innovation

Box Article

- 5 Brighter Future with Green Finance
- 6 Aligning Sustainable Finance with the Sustainable Development Goals
- 14 Case Study on Successful ECF Issuers
- 24 aFINity
- 28 Compliance Requirements for IDSS

Part 2

Shaping Market Conduct

- 37 Introduction
- 37 Inculcating Good Governance Culture
- 39 Cultivating Good Conduct Through Surveillance and Supervision
- 48 Pursuing Credible Deterrence Through Enforcement
- 50 Ensuring Resilience of the Capital Market
- 55 Empowering Investors

Box Article

- 44 Thematic Review on Liquidity Risk Management
- 45 Thematic Review on Structured Warrants
- 46 Thematic Review on Suspicious Transactions Reports
- 47 Thematic Review on Supervision and Management of Remisiers

Part 3

Engaging and Developing Our People and Community

- 61 Introduction
- 61 Developing Adept Regulators for the Capital Market
- 64 Enhancing Employee Wellness
- 65 Leveraging Digital Technology
- 66 Responsible Corporate Citizen

Part 4 Capital Market Review and Outlook

- 71 Overview
- 71 Global Developments in 2018
- 77 Malaysian Capital Market
Developments in 2018
- 86 Outlook for 2019

Box Article

- 83 Growth of the Malaysian Capital
Market in the Last 25 Years:
Mobilising Financial Resources
for Economic Development

Part 5 Statements, Statistics and Activities

- 92 Board Members
- 98 Executive Team
- 100 Shariah Advisory Council Members
- 102 Organisation Structure
- 104 Statement on Governance
- 112 Audit Committee Report
- 115 Financial Statements
- 151 Corporate Proposals
- 157 Investment Management
- 162 Islamic Capital Market
- 168 Venture Capital and Private Equity
- 172 Equity Crowdfunding and Peer-to-Peer Financing
- 176 Authorisation and Licensing
- 181 Enforcement
- 203 Investor Empowerment Initiatives
- 212 Complaints and Enquiries
- 213 Publications
- 215 2018 At a Glance
- 219 Acronyms and Abbreviations

CHAIRMAN'S MESSAGE

“The SC remains committed to a proportionate and facilitative regulatory approach – one which fosters innovation and competitiveness within a sensible and proactive oversight regime.”



I am privileged to present my first annual report as Chairman of the Securities Commission Malaysia, a role which I assumed in November 2018.

It was a year of historic change on the domestic front, which coincided with the 25th anniversary of the SC's establishment. Though occasionally tempered by uncertainties stemming from rising trade tensions and tightening global financial conditions, all segments of the Malaysian capital market nevertheless remained resilient, which is a testament to the safeguards implemented by policymakers and market participants.

Structural forces also continued to reshape markets – both global and domestic – with technology transforming financial services in tandem with demographic trends which underscore the need for a more inclusive and sustainable development philosophy.

These factors paint a backdrop against which the SC pursued its 2018 work programme in line with its regulatory and development mandate, an account of which is provided in this annual report.

HIGHLIGHTS OF 2018

The overall capital market stood at RM3.1 trillion as at 31 December 2018, equivalent to 2.2 times the size of the domestic economy. This comprised domestic bonds and sukuk outstanding, which rose to RM1.4 trillion and equity market capitalisation of RM1.7 trillion. On the buy-side, the fund management industry with assets under management of RM743.6 billion continued to play a key role in savings intermediation.

The capital market sustained its role in financing for the real economy, with total funds raised through bond, sukuk and equity issuances amounting to RM114.6 billion. While relatively nascent, alternative fundraising channels for micro, small and medium enterprises (MSMEs) such as equity crowdfunding (ECF) and peer-to-peer (P2P) financing gained traction, with RM261.5 million raised by 693 issuers to-date.

Despite emerging competition, Malaysia remained a global leader in the Islamic capital market with RM1.9 trillion in Shariah-compliant equity and sukuk outstanding. Malaysia also continued to be the world's largest sukuk market.

In 2018, the SC focused on building an enabling ecosystem which provides accessibility while ensuring investor protection and intermediation efficiency. Our priorities therefore centred on facilitating inclusive and sustainable growth, raising standards of governance and conduct, as well as safeguarding integrity and resilience.

Facilitating inclusive and sustainable growth

The SC broadened retail access to the bond and sukuk market by liberalising regulatory requirements for primary issuances and introducing a seasoning framework to allow access to existing corporate bonds and sukuk. Disclosure requirements were revised to allow issuers who meet specific criteria to issue a product highlight sheet instead of a full prospectus, thus reducing cost to issuer.

Following the entry of a digital equity broker in the preceding year, in 2018 the SC continued to facilitate digitisation of capital market services by granting a licence to Malaysia's first digital investment manager – a new class of intermediaries which aim to offer an accessible and cost-effective channel for investors to manage and grow their wealth.

Building on our strength in the Islamic capital market, we pursued initiatives to establish Malaysia as a regional centre for sustainable finance. Following the internationally recognised issuance of the world's first green sukuk in Malaysia in 2017, the SC established a RM6 million Green SRI Sukuk Grant Scheme in 2018 to incentivise issuances of green SRI sukuk by defraying up to 90% of external review costs in relation to obtaining green certification. Four applications have since been approved, supporting RM2.2 billion in funds raised. Attesting to growing demand for SRI assets, the world's first ESG sukuk fund was also launched in Malaysia in 2018 under the SC's *Guidelines on SRI Funds*.

Recognising the need to stimulate equity market vibrancy – an issue which requires co-ordination across multiple factors and stakeholders – measures were rolled-out to encourage trading, which includes liberalising rules on margin financing and intraday short selling while also introducing new categories of traders.

Raising standards of governance and conduct

Efforts to promote growth were complemented by measures to strengthen discipline among market participants. In particular, cultivating a strong and internally-driven culture of corporate governance remained an important pursuit.

The SC's efforts culminated in an overall improvement in our corporate governance ranking, with Malaysia rising from sixth to fourth out of 12 Asia Pacific countries in the 2018 *CG Watch Report* published by the Asian Corporate Governance Association (ACGA) and CLSA. As the top mover in the survey, Malaysia was commended for the launch of the new *Malaysian Code on Corporate Governance* (MCCG) as well as market fairness and transparency.

Underpinned by the belief that investors themselves have an important role to play in exerting market discipline, the SC also organised programmes to empower investors with the ability to make informed decisions. Our investor outreach initiatives throughout the year engaged over 280,000 participants, while the InvestSmart® Fest 2018 alone received 14,000 visitors.

Safeguarding market integrity and resilience

Supervisory efforts focused on intermediary conduct, prudential soundness as well as effectiveness of control functions and governance, with entity-based audits complemented by thematic reviews on industry-wide issues identified through a forward-looking risk assessment. In 2018, thematic reviews were conducted on liquidity risk management, effectiveness of broker supervision over remisiers, suspicious transaction reporting and structured warrants. Observations indicated that firms generally meet expected standards of business conduct and controls, with some areas for improvement identified and communicated.

We also enhanced surveillance efforts in line with developments in the market, including increasingly sophisticated trading strategies, introduction of new

products and expansion of trading order types. Close monitoring of listed company activities and financial reporting remained an important component of corporate surveillance work, which aimed to deter potential transgressions and ensure compliance with approved accounting standards. As part of the SC's systemic risk oversight mandate, we assessed systemic implications of various drivers of risk including global monetary policy decisions, escalating trade tension and geopolitical developments. To strengthen market integrity against emerging threats, we conducted a cyber simulation and enhanced cyber risk management within the industry.

Where breaches were identified, the SC deployed a range of enforcement tools under its administrative, civil and criminal powers. As a result, 80 administrative sanctions were imposed, 14 criminal charges preferred, and over RM30 million in disgorgements and fines issued. Custodial sentences on six individuals also reflected increasing judicial recognition on the gravity of securities offences.

PRIORITIES FOR 2019

As a dual-mandate regulator, the SC's greatest challenge remains its ability to strike a balance between facilitating growth while safeguarding stakeholders and upholding discipline – particularly in the face of heightened competition and continual financial innovation.

Moving forward, the SC remains committed to a proportionate and facilitative regulatory approach – one which fosters innovation and competitiveness within a sensible and proactive oversight regime. This will be reinforced by efforts to galvanise the entire capital market ecosystem, including issuers, intermediaries and investors, into playing their respective roles to uphold market discipline. Supporting this will be greater openness and collaboration between the SC and industry, as well as other stakeholders in the Malaysian economy.

Fostering innovation and competitiveness

Access to financing is an important catalyst for private enterprise, which is critical for Malaysia's long-term growth. Recognising this, the SC will continue to expand pathways for market-based financing by facilitating fundraising by larger existing firms while enhancing access to capital from both traditional and alternative avenues for high-growth and innovative MSMEs.

Supply of capital, particularly to alternative financing avenues, will be augmented by efforts to grow Malaysia's venture capital and private equity industry. To this end, our efforts will focus on diversifying sources of funding beyond government-backed funds while also encouraging investments at different stages of investee companies' life cycle.

To facilitate equity fundraising, the SC will collaborate with intermediaries to infuse greater market perspectives into the IPO process and improve time-to-market for proposals that comply with requisite investor protection criteria. We will continue to place accountability on intermediaries, issuers and professionals for high standards of disclosure, professionalism and governance.

To enhance market vibrancy, the SC will also support changes in the trading landscape by allowing for varied trading strategies, including greater use of derivatives. Building on our efforts to facilitate digitisation while ensuring relevant safeguards for investors and the market at large, the SC will also introduce a framework to facilitate the trading of digital assets in Malaysia.

In relation to intermediaries, the SC remains supportive of new business models and efforts to reposition existing firms. Building on ongoing liberalisation efforts, the SC will review its authorisation and licensing framework to enable greater flexibility and responsiveness in recognising innovative intermediation models. Where appropriate, we will encourage greater competition to allow for a wider range of services, prices, products of a higher quality and ultimately, an expanded investor base.

Driving long-term value creation

Moving forward, the SC aims to foster growth which is premised on long-term value creation, with due consideration for social and environmental as well as financial returns. This pursuit should be aligned with principles of stewardship, shareholder activism and responsible intermediation.

Given the congruence of such ideals with the principles of Islamic finance, where Malaysia retains global competitive advantage, the SC will intensify efforts to further expand the Islamic capital market as well as the closely-linked sustainable finance segment. Among others, we will continue to broaden the SRI sukuk framework and introduce Islamic SRI positive screening for equity offerings. Another area of focus will be the development of social enterprises via the *waqf* model, where sustainable returns can be generated from endowments and channelled towards financing socially-beneficial endeavours.

Given directors' fiduciary responsibilities to drive corporate value creation and preservation, the SC will collaborate with stakeholders to strengthen board diversity and performance. Quality of corporate disclosure is also paramount, as issuers should articulate how they deliver value for all their stakeholders, not just the financial market. In tandem, we will promote greater demand for sustainable, long-term growth through channelled voices and shareholder activism.

We will also emphasise a culture of responsible intermediation, where firms pursue growth that is both financially profitable and instilled with a sense of shared responsibility to current and future generations. Ultimately, we want market participants to take greater responsibility - individually and collectively - for their own contributions to a sustainable and fair capital market.

Preserving trust and confidence

While the SC emphasises the need for an enabling market environment, we are cognisant that these measures bring both opportunities and risks. Hence, we will heighten efforts to monitor, mitigate and manage risks within the capital market.

We will continue to strengthen our proactive approach to supervision and surveillance, which will see us engaging more closely and frequently with market participants guided by forward-looking judgements on risks associated with their business models, strategies and governance structures. This will entail forming a view not just on where market participants are currently placed, but also where they may be in the future given prevailing business and market trends.

At the same time, we will further refine our enforcement strategy to ensure that our powers are holistically deployed against a broad range of capital market offences, thus achieving credible deterrence. This requires our enforcement resources to be effectively utilised with due regard for the impact of each case on a wide range of factors including market integrity as well as the confidence of market participants.

Strengthening regulatory capability and efficiency

Executing these strategies require a highly-skilled and motivated workforce, and the SC will continue to invest in attracting and retaining the best talent. As a statutory body, economy and efficiency govern our approach to resources, and the SC continuously reviews its internal processes to ensure that the organisation is efficient, effective and future-ready.

The SC also expects no less from ourselves than we do from our stakeholders, and will continue to meet the same standards of integrity, professionalism, transparency and accountability that we expect from market participants.

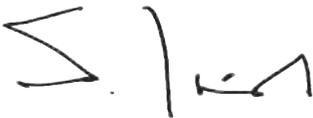
ACKNOWLEDGMENTS

The SC has come a long way since its establishment a quarter-century ago – both as a regulator and member of the wider Malaysian institutional framework. This is, to a large extent, due to the unwavering commitment of its staff and support from various stakeholders.

I wish to record my appreciation to my predecessor as well as retired members of the board for their contribution to the organisation.

It gives me great pleasure to welcome Tan Sri Noorul Ainur, Datuk Dr Khaw Lake Tee, Johan Mahmood Merican, Ahmad Faris Rabidin, Dato' Gooi Hoe Soon and Datuk D.P. Naban as board members to the Commission.

I am deeply honoured to have been appointed to this role. I am positive about the possibilities that lie ahead of us, and look forward to working with the capable staff members of the SC and the capital market community.



Syed Zaid Albar

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.



PART 1 ENABLING SHARED VALUE GROWTH

INTRODUCTION

Following greater recognition of the global impact of various economic, social and environmental issues, the clarion call for more inclusive, sustainable and equitable economic growth has amplified. There is now a greater need for companies to consider longer-term interests of society and the environment in their business models and decisions.

The concept of creating shared value¹ outlines that both economic and social value growth can be achieved as long as companies are willing to reconceive products and markets to cater to unmet needs, redefine productivity in the value chain to improve resource utilisation and enable community or ecosystem development.

Within the context of Malaysian capital market development, this requires the industry to (1) consider societal and environmental needs aligned with Sustainable and Responsible Investment (SRI) and Islamic capital market (ICM); (2) drive greater inclusiveness for issuers through alternative financing avenues; (3) facilitate greater investor inclusiveness through expansion of product offerings; (4) improve efficiencies across the capital market value chain for more productive use of capital and market vibrancy; and (5) enable innovation and growth through international, regional and domestic collaborations. Recognising the importance of shared value, the SC has over the years put in place policies and initiatives to enable shared value growth.

TOWARDS A CAPITAL MARKET WHICH CATERS TO SOCIETAL AND ENVIRONMENTAL NEEDS THROUGH SRI AND ICM

As the largest market in sustainable investment in Asia (ex-Japan)² and a global leader in ICM, Malaysia

is well-positioned to drive the sustainable finance agenda further, given the alignment of principles underlying Shariah investing with those of sustainable finance.

The SC continues to be guided by its “5i Strategy” to develop the SRI ecosystem, leveraging Malaysia’s leadership in ICM. The introduction of these strategies in 2014 allowed greater focus on activities or initiatives that support the United Nations’ Sustainable Development Goals (SDGs) through the capital market. Since then, the SC has seen increased interest by investors seeking to integrate environmental factors into their investment decision-making, connecting financial returns with greater good.

DID YOU KNOW?

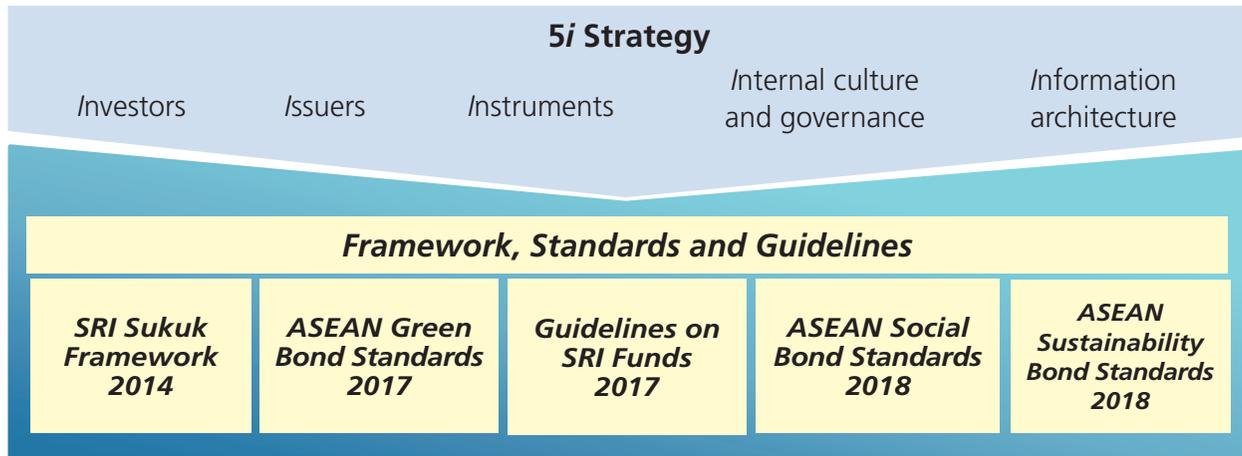
- A total of RM882.30 million green bonds and sukuk were issued through the Malaysian capital market for environmental benefits in 2018.
- The world’s first Environmental, Social and Governance (ESG) sukuk fund, launched in 2018 under the SC’s *Guidelines on SRI Funds in Malaysia*, integrates ESG criteria together with financial and non-financial metrics in its portfolio investment strategy.

¹ Shared Value Concept was introduced by Michael E Porter and Mark R Kramer in the *Harvard Business Review* article titled *Creating Shared Value* in 2011.

² As at 2016, Malaysia has 30% of sustainable and responsible investment assets in Asia (ex-Japan) (*Global Sustainable Investment Review 2016*).

Diagram 1

The 5i Strategy anchors the development of the SRI ecosystem



Continued growth of sustainable finance asset classes

In developing a facilitative ecosystem to strengthen Malaysia's position as a regional leader in sustainable investment, the SC has intensified its efforts in promoting and introducing green, social and sustainable asset classes:

- **Green SRI Sukuk**

In 2014, the SC introduced the SRI Sukuk Framework to facilitate financing of projects that also benefit the environment and society. Designed to be versatile, it provides for the issuance of green, social and sustainability sukuk, offering greater financing options for issuers. In 2018, two new green SRI sukuk amounting to RM467.3 million were issued. This followed the three issuances in 2017, including the world's first green SRI sukuk in Malaysia, bringing the total green SRI sukuk issuances to five with amounts raised of RM2.4 billion.

- **Green SRI Sukuk Grant Scheme**

To encourage more issuances of green SRI sukuk, the SC established a RM6 million Green SRI Sukuk Grant Scheme in 2018 to incentivise issuers by offsetting up to 90% of external review costs incurred in relation to the issuance of green SRI sukuk. Administered by Capital Markets Malaysia (CMM), four applications received approvals for the Grant as at end 2018.

- **ASEAN Green Bond Standards**

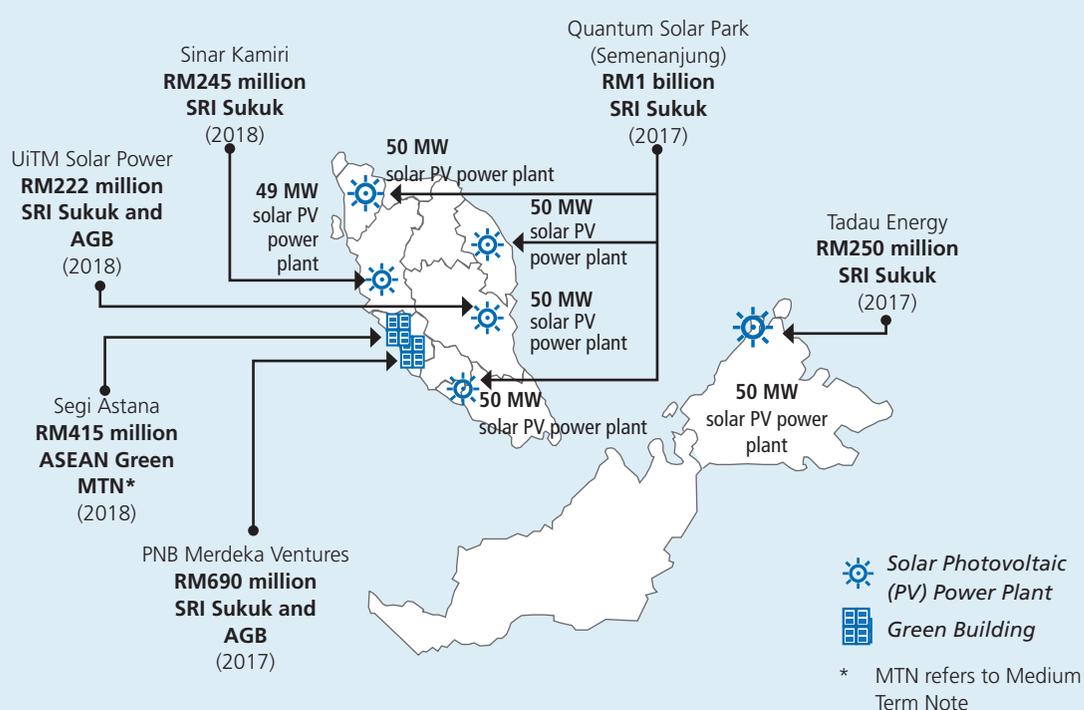
To support the development of green asset classes in the ASEAN region, the ASEAN Capital Markets Forum (ACMF)³ introduced the *ASEAN Green Bond Standards* (ASEAN GBS) in November 2017. Following the inaugural issuance of an ASEAN Green Bond (AGB) in 2017 by a Malaysian issuer that was also recognised as a green SRI sukuk, four more ASEAN green bonds under the ASEAN GBS were issued in Malaysia and Singapore. In addition, the first sovereign sukuk in ASEAN issued by Indonesia is aligned to the ASEAN GBS.

³ The SC is a part of the ACMF, which comprises capital market regulators from the 10 ASEAN jurisdictions. The ACMF was established in 2004 to achieve greater integration of the region's capital markets.

BRIGHTER FUTURE WITH GREEN FINANCE

Over the last two years, Malaysia has seen encouraging growth in the number of green projects financed through the SRI Sukuk Framework and the ASEAN GBS. Besides funding green buildings, green finance has also facilitated the development of a growing number of solar power plants, supplying up to a total of approximately 299 megawatts for Malaysia.

Green projects financed under SRI Sukuk Framework and ASEAN GBS



In 2018, following the International Capital Market Association's (ICMA) issuance of its revised *Green Bond Principles* (GBP), the ASEAN GBS was correspondingly revised in October to ensure its alignment with ICMA's GBP. The revised edition provides, among others, additional guidance and updated definitions as well as encourages timely reporting of material developments.

- **ASEAN Social Bond Standards and ASEAN Sustainability Bond Standards**

In line with the growing importance of sustainable finance in ASEAN, one of ACMF's key initiatives in 2018 was the development

of sustainable asset classes. To support ASEAN's sustainable development needs, the ACMF developed:

- ASEAN Social Bond Standards* (ASEAN SBS), based on ICMA's *Social Bond Principles*, for financing projects that are socially beneficial; and
- ASEAN Sustainability Bond Standards* (ASEAN SUS), based on ICMA's *Sustainability Bond Guidelines*, for financing a combination of both green and social projects that offer environmental and social benefits.

ALIGNING SUSTAINABLE FINANCE WITH THE SUSTAINABLE DEVELOPMENT GOALS

Globally, there is increasing attention on the need to unlock private investments to meet the Sustainable Development Goals (SDGs). The gap in financing needed to realise the SDGs in developing countries is estimated at US\$5 to US\$7 trillion annually until 2030⁴. While government funding is important, most of the investments would need to be sourced from the private sector. There is a need to tap into the capital market to mobilise financing to meet the SDGs' funding needs.

This can be achieved by promoting the development of sustainable finance, which integrates ESG criteria that are aligned to the 17 SDGs in investment decisions. Table 1 highlights how the SC's framework and ACMF's standards on sustainable finance align with the SDGs.

The SRI Sukuk Framework, together with the ASEAN GBS, ASEAN SBS and ASEAN SUS, play an important role in facilitating the region's infrastructure and social development financing needs. To demonstrate the alignment of the project categories under these frameworks and standards to the SDGs, the SC reviewed the 17 SDGs to identify those that may be relevant. Of the 17 SDGs, 15 are deemed relevant to the project categories.

Table 1

Projects	SDGs
SRI Sukuk Framework	
1. Natural resources	
2. Renewable energy and energy efficiency	
3. Community and economic development	
4. Waqf properties / assets	
ASEAN Green Bond Standards	
1. Renewable energy	
2. Energy efficiency	
3. Pollution prevention and control	
4. Environmentally sustainable management of living natural resources and land use	
5. Terrestrial and aquatic biodiversity conservation	

⁴ UN Commission on Trade and Development (UNCTAD) estimates.

Projects	SDGs	SDGs Description
ASEAN Green Bond Standards		
6. Clean transportation		Goal 1: No Poverty Goal 2: Zero Hunger Goal 3: Good Health and Well-Being Goal 4: Quality Education Goal 5: Gender Equality Goal 6: Clean Water and Sanitation Goal 7: Affordable and Clean Energy Goal 8: Decent Work and Economic Growth Goal 9: Industry, Innovation and Infrastructure Goal 10: Reduced Inequalities Goal 11: Sustainable Cities and Communities Goal 12: Responsible Consumption and Production
7. Sustainable water and waste water management		
8. Climate change adaptation		
9. Eco-efficient and/or circular economy adapted products, production technologies and processes		
10. Green buildings which meet regional, national or internationally recognised standards or certifications		
ASEAN Social Bond Standards		
1. Affordable basic infrastructure		Goal 13: Climate Action Goal 14: Life Below Water Goal 15: Life on Land Goal 16: Peace, Justice and Strong Institutions Goal 17: Partnerships for the Goals
2. Access to essential services		
3. Affordable housing		
4. Employment generation		
5. Food security		
6. Socioeconomic advancement and empowerment		

Note: This illustration for ASEAN GBS and ASEAN SBS is aligned with the High Level Mapping to the SDGs 2018 as published by ICMA. This illustration serves as a reference and the projects should be reviewed individually for alignment. Alignment with the SDGs does not automatically ensure alignment with the SRI Sukuk Framework, ASEAN GBS, ASEAN SBS and ASEAN SUS (combination of green projects under ASEAN GBS and social projects under ASEAN SBS).

Promoting the sustainable finance agenda in 2018

WORLD BENCHMARKING ALLIANCE

5 February

Consultation by World Benchmarking Alliance (WBA) with key stakeholders in Malaysia to understand how corporate SDG benchmarks can be designed to create value

WORLD CAPITAL MARKETS SYMPOSIUM

6 & 7 February

SC-WORLD BANK- IOSCO ASIA PACIFIC HUB CONFERENCE

14 & 15 May

(Events featured on
pages 9 and 32)

SC-OCIS 9TH ROUNDTABLE

24 & 25 March

An annual collaboration between the SC and the Oxford Centre for Islamic Studies (OCIS) on the advancement of global thought leadership in Islamic finance. Focus in 2018 was on 'Enhancing the Value of Islamic Capital Market through Social and Impact Investment'

GREEN FINANCE WORKSHOP

12 April

Raising awareness of how capital market products, especially Islamic finance instruments, align with the medium to long-term financing needs of renewable energy project owners

SUSTAINABLE INVESTMENT ROUNDTABLE

16 July

Promoting sustainability in the capital market through greater awareness of regional and global initiatives, adoption of SRI among retail investors and the need for a Malaysian standard incorporating ESG and Islamic principles

UNDP-IsDB-SC FORUM

27 September

Held on the sidelines of the 73rd UN General Assembly, global industry leaders discussed how Islamic finance can provide an innovative financing mechanism for the private sector to support the 2030 Agenda for Sustainable Development

GREEN FINANCE FORUM

17 October

The forum provided potential fundraisers and financial intermediaries an update of initiatives by the government agencies in the area of green financing and funding options offered by ICM

MINISTER'S DIALOGUE WITH CORPORATE SUSTAINABILITY MANAGERS

4 December

A dialogue with the Minister of MESTECC, CMM, Bursa Malaysia and public listed companies to collectively aim towards achieving the UN's 2030 Agenda for Sustainable Development

- **Guidelines on SRI Funds**

To facilitate and encourage greater growth of SRI funds, the SC introduced the *Guidelines on SRI Funds* in December 2017. This was intended to strengthen Malaysia's leadership position in the SRI fund market in the region. Since then, four qualified SRI funds have been launched by the industry under these Guidelines in 2018. This includes the world's first ESG sukuk fund.

Profiling Malaysia as a growing sustainable finance hub

The SC's participation in various events and leadership role in forums related to SRI and SDGs ensures continued awareness on sustainable finance and Malaysia's growing presence in this domain. These events provide a platform for the SC to connect and engage with thought leaders, market practitioners, policymakers and other stakeholders. This helps shape policies and explore new ways of engaging with the capital market community in order to meet the goals of sustainable development.

SC-WORLD BANK-IOSCO ASIA PACIFIC HUB CONFERENCE 2018: MALAYSIA LEADS IN ADVOCATING CONVERGENCE OF ISLAMIC AND GREEN FINANCING

Securities Commission Malaysia
14 & 15 May 2018

The Conference is the second collaboration between the SC and World Bank Group Global Knowledge and Research Hub in Malaysia, with a new co-organiser, International Organization of Securities Commissions (IOSCO) Asia Pacific Hub.

Themed 'Harnessing Islamic Finance for a Green Future', the conference gathered 200 industry practitioners, policymakers and experts in Islamic finance and the sustainable investment space to discuss key policy, regulatory and institutional elements needed to further increase market adoption of Islamic finance for climate mitigation and adaptation efforts.

"The pioneering issuance of green sukuk in Malaysia demonstrates the substantial potential of deploying Islamic finance instruments to support the green agenda. This was accomplished through the partnership between the World Bank's Malaysia Hub, the Malaysian government and other stakeholders. We intend to build on these accomplishments to foster the use of such instruments to finance sustainable development and build resilience to climate change and natural disasters in our client countries."

Richard Record⁵, Acting Country Manager for the World Bank's Global Knowledge and Research Hub in Malaysia

Selected panellists for the programme:



**Datuk Zainal Izlan
Zainal Abidin**

Deputy Chief Executive
Securities Commission Malaysia



Abayomi A Alawode

Head, Islamic Finance
World Bank



Sean Kidney

Chief Executive Officer
and Co-founder
Climate Bonds Initiative



**Datuk Dr Mohd
Daud Bakar**

Founder and Chairman
Amanie Group



Mushtaq Kapasi

Chief Representative for
Asia-Pacific
International Capital
Market Association



Nezha Hayat

President
Moroccan Capital
Market Authority

⁵ Richard Record is currently Lead Economist, Macroeconomics, Trade and Investment Global Practice, World Bank.

In September 2018, the SC expressed support for the Financial Stability Board's (FSB) Task Force on Climate-Related Financial Disclosures (TCFD) recommendations that aim to facilitate companies' disclosure of the financial impact in relation to climate-related risks and opportunities. To date, over 500 organisations including regulators have expressed support for the TCFD.

The SC also participated in several global initiatives to increase the profiling of Malaysia as a centre for sustainable finance:

CREATING GREEN BOND MARKETS: INSIGHTS, INNOVATIONS AND TOOLS FROM EMERGING MARKETS



Sharing Experience on Malaysian Green Bond and Sukuk Market – A Sustainable Banking Network Report

With the aim of raising visibility and awareness of green bonds and supporting issuers in the green bond market, the SC participated in the International Finance Corporation (IFC) and Climate Bonds Initiative (CBI) project for Sustainable Banking Network (SBN) on green bond markets. Published in September 2018, the report includes a case study on the Malaysian green bond and sukuk market.

The report concludes that green bonds are effective instruments to help achieve the SDGs. Additionally, national guidance is essential to the creation of green bond markets in emerging markets.

Sustainable Stock Exchanges Initiative – Sharing of best practices on how securities regulators can support the SDGs

The SC contributed as an Advisory Group member to the Sustainable Stock Exchanges (SSE) initiative, sharing best practices on how securities regulators can support the SDGs.

HOW SECURITIES REGULATORS CAN SUPPORT THE SDGs: A SHARING OF EXPERIENCE IN PROMOTING SUSTAINABLE FINANCE



The report, published in October 2018, provides an extensive overview of sustainable finance around the world with 35 examples from 19 markets, including initiatives by the SC and ACMF. It examines how actions are being taken on sustainability-related risks within securities regulators' existing mandates and also looks at how regulators can promote the SDGs.

IOSCO Growth and Emerging Markets Committee Working Group on Sustainable Financing

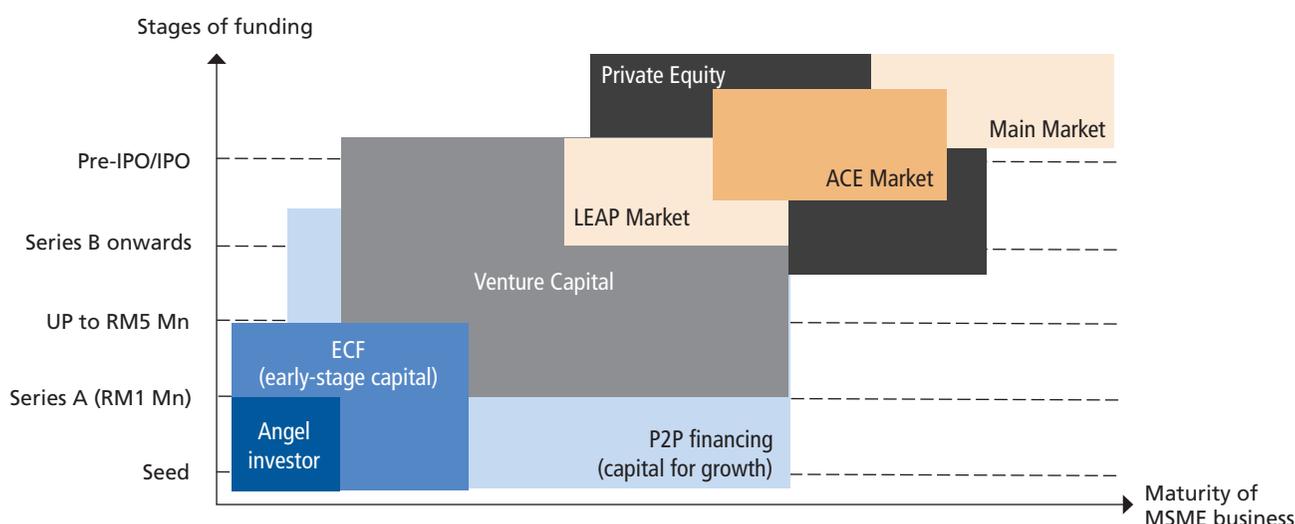
The SC co-chairs the IOSCO Growth and Emerging Markets (GEM) Committee Working Group on Sustainable Financing. The work will culminate in a report that will address, among others, the development of sustainable instruments such as green and social impact bonds as well as encourage the quality of disclosures and strengthen overall capacity and expertise on ESG issues within capital markets. The work is also expected to facilitate a degree of international consistency given the cross-border and global nature of sustainable instruments.

BROADENING ALTERNATIVE FINANCING AVENUES

Micro, small and medium enterprises (MSMEs) and entrepreneurs constitute the backbone of the Malaysian economy, accounting for 66% of total employment and 37.1% to total GDP in 2017. Along with the growth of the digital economy, MSMEs too have seen a shift from traditional brick and mortar businesses to more digitally-led businesses, changing the way they interact with

Chart 1

Diversity in financing opportunities for businesses



Source: SC

consumers. Recognising the importance of the digital economy in fuelling economic growth and opportunities, initiatives in Budget 2019 were proposed towards supporting new technology development and ensuring sufficient funding for entrepreneurs through conventional as well as alternative financing sources.

In line with these developments, capital markets too have evolved to cater to a wider spectrum of MSMEs. While traditional sources of funding such as banking, public equity and debt remain relevant, alternative avenues of financing such as Equity Crowdfunding (ECF), Peer-to-Peer (P2P) Financing, Venture Capital (VC), Private Equity (PE) and Leading Entrepreneur Accelerator Platform (LEAP) are fast gaining acceptance as complements to traditional funding channels.

These alternative financing avenues succeed because they enable underserved issuers to connect with traditionally untapped pools of investors, while

offering cheaper, faster and more convenient delivery channels. Each avenue is also tailored to meet the unique needs of businesses at every stage of their business lifecycles.

DID YOU KNOW?

- 693 businesses have been financed via ECF and P2P financing since 2015.
- Malaysia's six P2P financing platforms raised RM180.05 million in 2018 – this is a growth of 452% from 2017. 93% of P2P investors are repeat investors.

ECF and VC are structured to help budding entrepreneurs and start-ups secure pre-seed, seed and early stage financing. On the other hand, P2P financing, PE and LEAP are well-suited for more mature companies seeking working capital or capital for growth. Eventually, when businesses reach a certain scale, they will be able to leverage traditional methods such as public equity or debt. Together, these financing avenues can help meet some of the financing needs of Malaysian businesses, towards growing the nation's economy.

ECF and P2P financing as platforms for MSMEs to raise funds

Although challenges persist in MSME's access to finance, the visible growth in alternative financing avenues has been very positive and reflects the role of the private sector in providing financing to companies at various stages of development. Since 2015, 693 MSMEs have successfully raised capital amounting to RM261.52 million through ECF and P2P platforms. In 2018 alone, 616 MSMEs raised a total of RM195.11 million through these platforms.

ECF*



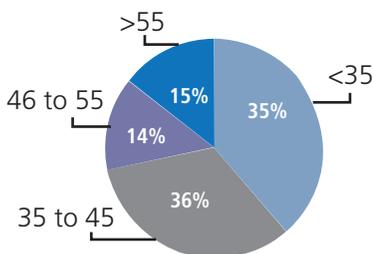
7 ECF platform operators



51 ECF campaigns



50 MSMEs raised capital successfully



Age of ECF investors



54% are retail investors



RM48.87 million raised to date



47% of campaigns raised RM500,000 and below



94% of investors are Malaysian

* Data is cumulative since inception in 2015.

The data suggests a strong, growing demand for both ECF and P2P financing as alternative avenues for MSMEs to raise early stage financing and capital for growth. This is in line with one of the objectives set out in the SC's Digital Markets Strategy to enhance access to financing. In support of the SC's financial inclusion agenda, ECF and P2P financing have also attracted strong participation from retail and youth investors aged below 35 at 82% and 54% of total investors respectively.

On 5 July 2018, the SC invited new applications for ECF and P2P financing operators. These applications are currently being assessed and the SC is expected to make an announcement on successful operators in the first half of 2019. The potential introduction of new ECF and P2P financing operators is intended to serve a wider range of businesses and investors across different sectors and segments.

P2P Financing*



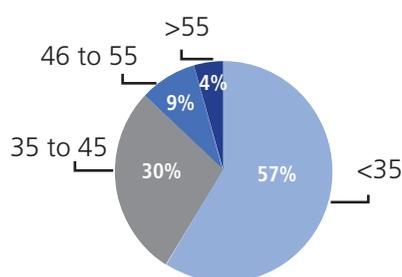
6 P2P financing platform operators



2,505 P2P financing campaigns



643 MSMEs raised capital successfully




22% are repeat issuers



RM212.65 million raised to date

Age of P2P financing investors



93% are repeat investors across multiple campaigns



91% of campaigns raised RM200,000 and below



99% of investors are Malaysian

* Data is cumulative since inception in 2015.

CASE STUDY ON SUCCESSFUL ECF ISSUERS

mecapan

TAGLA

iTalentPRO

signature market

	MECAPAN	TAGLA	ITALENTPRO	SIGNATURE MARKET
 Website	mecapan.com	tagla.com.my	italentpro.com	signaturemarket.co
 Year Of Campaign	2018	2017	2016	2017
 Amount Raised	RM300,000.00	RM755,000.00	RM1,046,703.49	RM1,507,080.00
 Industry	Beauty & Cosmetics	Technology	Technology	Food & Beverage
 Platform	Ata Plus	CrowdPlus	FundedByMe	PitchIN
Description of business	Mecapan was established in 2017 as a beauty service platform in Indonesia with a vision – #BreakingBarriersForBeauty. The platform allows women of all ages to find the right beauty service provider that matches their schedule, needs, location and budget.	TAG La's focus is to create a worry-free world. One of its products, TAG La, is an item finder that helps people keep track of misplaced items in seconds by using a mobile application.	ITalentPro is a user-friendly digitised HR platform. It is a cloud-based human capital solution provider that enables organisations to realise their current and future workforces' potential.	Signature Market is an e-commerce platform which sells packaged goods directly to consumers.

				
	MECAPAN	TAGLA	ITALENTPRO	SIGNATURE MARKET
MSME's reason(s) for choosing ECF and their fundraising experience	Ata Plus prepared Mecapan well for its fundraising campaign by giving useful feedback and facilitating meetings with a diverse group of influential people.	CrowdPlus gave TAG La access to a diverse group of investors and resources. These investors could ultimately become its brand ambassadors.	FundedByMe helped expand ITalentPro's network through ECF investors, who may choose to contribute to its business expansion. This fundraising method also allowed ITalentPro to receive helpful suggestions from like-minded investors.	PitchIN has assisted Signature Market to leverage ECF as an efficient method to raise capital.
Main benefits and challenges	<p>Benefit(s)</p> <ul style="list-style-type: none"> • Provides access to a pool of new investors; • Allows investors to provide constructive feedback for further growth; and • Offers an avenue for seed-stage companies to obtain requisite guidance and fundraising support. 	<ul style="list-style-type: none"> • Allows investors to contribute and participate in the business as mentors and brand ambassadors. 	<ul style="list-style-type: none"> • Provides access to a wide range of investors – local, foreign, retail and sophisticated; and • Offers more equitable terms and conditions for all parties compared to other fundraising methods. 	<ul style="list-style-type: none"> • Provides a useful platform for business validation; and • Enhances visibility for follow-on funding.
	<p>Challenges</p> <ul style="list-style-type: none"> • Learning the tools of effective fundraising; • Managing legal documents; and • Learning to accept critical feedback. 	<ul style="list-style-type: none"> • Managing a pool of investors with differing mindsets and opinion while remaining firm on the direction of the company. 	<ul style="list-style-type: none"> • Learning to communicate with a variety of investors from different countries; • Managing a wider group of investors' expectations; and • Managing legal documentation efficiently. 	<ul style="list-style-type: none"> • Yet to encounter any challenges so far.

** Note: The above interview responses have been edited for brevity.

LEAP market continues to progress

The LEAP market launched by Bursa Malaysia continues to progress in meeting its objective of providing a capital-raising platform for SMEs that complements other forms of capital-raising channels. In 2018, 10 SMEs⁶ successfully raised RM57.43 million on the LEAP market, bringing the total raised since inception in July 2017 to RM69.93 million.

The 13 locally incorporated companies currently on the LEAP market come from diverse sectors including technology, healthcare, consumer and industrial products and services, as well as telecommunications and media.

VC and PE – supporting the funding ecosystem

VC and PE are essential components in the Malaysian entrepreneurship funding ecosystem. In addition to providing financial capital, VC and PE managers also provide guidance to businesses in order to accelerate and realise their growth potential. As an asset class, investments in VC and PE funds offer institutional investors and high net worth individuals avenues for portfolio diversification.

As at 2018, the Malaysian VC and PE industry saw total fund commitments of RM6.08 billion. The key growth challenge lies in the limited participation of institutional and private investors. As a result, a significant share of funding in the industry is sourced from government funds. To address this issue, development efforts in 2018 focused on:

1. Promoting awareness of VC and PE in the Malaysian capital market; and
2. Encouraging private investor participation in VC and PE.

To promote awareness of VC, a half-day workshop for VC firms and start-ups from the ASEAN region

was held on 8 February 2018 in conjunction with the World Capital Markets Symposium. Through collaboration with CMM and selected industry representatives, the workshop provided participants with an overview of the Malaysian VC landscape ranging from regulations to available incentives in the funding and entrepreneurship ecosystem.

The SC also supported the Southeast Asia Venture Capital & Private Equity Conference 2018 held on 31 July 2018. Organised by the Malaysian Venture Capital and Private Equity Association, the conference covers in-depth discussions on investment trends and opportunities in Southeast Asia.

Following Budget 2018, the Venture Capital Fund Coordination Committee (VCFCC) was formed to implement the RM1 billion VC fund allocation programme. This allocation serves to, among others, encourage formation of new VC funds, address the funding gap in the entrepreneurship ecosystem and strengthen the expertise of Malaysian VC professionals. The VCFCC, which is chaired by the SC and comprises representatives from key domestic institutional investors, determines the minimum eligibility criteria for the allocation as well as facilitates the review and selection of fund proposals for this allocation.

A Request for Proposal was launched on 3 May 2018 to call for submissions by interested VC managers seeking funding commitments from investors in the VCFCC. The programme garnered interest from both domestic and international VC managers with a total of 60 proposals received and reviewed by the VCFCC.

Initial coin offerings and digital asset exchanges

The SC continues to remain vigilant in monitoring the activities in the digital assets space as well as other regulatory developments globally. Throughout 2018, steps were taken to engage with the market

⁶ Total number of SMEs listed in 2018 on the LEAP market was 11, with one in the form of 'proposed listing by way of introduction of the entire issued share capital', without raising funds.



Fintech Conference 2018

Embracing Technology

The SC organised the Synergistic Collaborations by SC (SCxSC) FinTech Conference on 28 & 29 November 2018. In its fifth installment, this conference aimed to explore the applications of increased awareness regarding emerging Fintech innovations, in line with the theme, "Embracing Technology". The conference hosted multiple interactive panel discussions and workshops featuring internationally renowned speakers encompassing topics such as artificial intelligence (AI), cybersecurity and blockchain technology in the context of financial services.



Clara Durodie
Executive Chair,
Cognitive Finance
Group



Zoe Rose
Ethical
Hacker, Baringa
Partners



Michael Casey
Co-Author
The Age of
Cryptocurrency and
The Truth Machine



Lim Guan Eng,
Minister of Finance

"The adoption of these new technologies is important for Malaysia to break away from the middle income trap and start roaring again as the proud Asian tiger."

"MSMEs are not only the titans of the future but they also serve as a space to nurture creativity and innovation."

Datuk Syed Zaid Albar,
SC Chairman



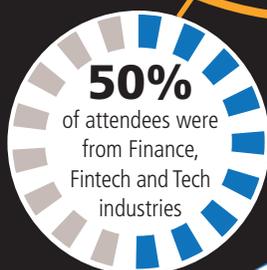
The completion of Project Castor has resulted in the publication of the "Capital Market Architecture Blueprint in a Decentralised World" which outlines a market infrastructure where decentralised markets are enabled by Distributed Ledger Technology.

KEY ANNOUNCEMENTS

CO INVESTMENT FUND
RM50 million fund will match investors from private sectors on a 1-to-4 basis for ECF and P2P investments.

BREAKOUT SESSIONS

- Equity Crowdfunding Investor Day
- P2P financing demonstrations by registered platform operators
- Digital investment management demonstrations
- Supercharger Demo Day



as well as key stakeholders to bring about greater understanding of digital assets and initial coin offerings (ICOs). This includes amplifying educational efforts on scams, particularly through InvestSmart® programmes. Where necessary, the SC undertook regulatory actions, and will continue to do so, to deter and halt schemes that contravene securities laws.

Digital assets and ICOs can become an alternative avenue for early-stage financing as well as a new investment class for investors, provided they are harnessed in the right way with the appropriate safeguards in place. Regulations are being put in place to bring digital assets within the remit of securities laws to promote fair and orderly trading and ensure investor protection. The SC will regulate issuances of digital assets via ICOs and the trading of digital assets on digital asset exchanges in Malaysia. In order to implement the regulatory framework on digital assets, the SC and Bank Negara Malaysia (BNM) will enter into co-ordination arrangements to ensure compliance with laws and regulations under the purview of both regulators. The regulatory frameworks are targeted to be launched early 2019.

FACILITATING GREATER INVESTOR INCLUSIVENESS

There is increasing awareness among Malaysians on the need for greater emphasis in managing and growing their wealth. Malaysia's population of about 32 million features a diverse workforce, sizeable youth population and growing segment of affluent and sophisticated investors. Given the range of investors with differing investing goals and risk appetites, a comprehensive set of capital market products as well as access to investment advice and services are essential. It presents investors with a myriad of choices and enables them to make informed investment decisions.

For these reasons, the SC has focused not just on product innovation but also on bolstering the availability of investment advice, financial planning and portfolio management services in the market. Having a wider selection of investment choices would serve to diversify investors' risks, helping them balance risk and return. From a broader perspective, it would also encourage mobilisation of

Diversity in the Malaysian population leads to different investing needs



52% youth*



3% established business owners**



3% addition to the workforce in the past year*



18% working women*



8% to retire in the next 5 years*



84% subscribe to internet banking***



6% skilled workers*



32% housewives and retirees*



15% early stage entrepreneurs**

Note:

* Department of Statistics Malaysia, 3Q 2018

** Global Entrepreneurship Monitor 2017/18

*** BNM Payment Statistics 3Q 2018

investors' savings to match the funding needs of issuers within the capital market.

In 2018, the SC embarked on a series of initiatives to improve and ensure a broad range of opportunities to cater to the diverse needs of all investors – from young retail to sophisticated seasoned investors – to help manage and grow their wealth.

Introducing a framework for the offering of OTC Contracts for Difference

Recognising investors' need for more sophisticated trading instruments, the SC introduced its first framework for an over-the-counter (OTC) derivatives product – Contracts for Difference (CFD). Following industry consultation, the *Guidelines on Contracts for Difference* was issued on 1 April 2018 and came into effect on 1 July 2018.

CFDs allow investors to participate in the price movements of an underlying instrument on a leveraged basis. Given the complexity of CFDs, the framework is implemented on a phased approach, starting with sophisticated investors. In addition, underlying instruments of CFD are limited to shares and equity indices.

To access this product, investors trade directly with licensed CFD providers who will act as principal until the position is closed. Given the bilateral nature of the trade, the SC will closely monitor the internal risk management and control systems of the CFD providers to ensure that the credit risk exposure to and from their clients are well-managed. In addition, the SC allows clients of CFD providers access to the Capital Market Compensation Fund (CMCF) in the event of a default by any of the CFD providers⁷.

This new framework is in line with the SC's continuous efforts to encourage growth through widening intermediaries' scope of business in the derivatives market.

DID YOU KNOW?

- Corporate bonds and sukuk previously only made accessible to sophisticated investors can now be offered to retail investors in Malaysia without a prospectus if they meet specific requirements. In addition, the range of corporate bonds and sukuk that can be offered to retail investors have also been expanded beyond plain vanilla bonds.

Supporting the need for diversification of portfolios through an enhanced retail bonds and sukuk framework

Access has long been an issue for individual investors interested in investing in Malaysian corporate bonds and sukuk. Companies have traditionally concentrated on issuing corporate bonds and sukuk to institutional investors. As such, while Malaysia is the third largest bond market in Asia (relative to GDP)⁸ and the world's largest sukuk market,⁹ participation by retail investors remains low. Significant efforts were made throughout 2018 to increase retail investors' access to this segment of the market.

In September 2018, various measures to revise the retail bond and sukuk framework were launched. A new seasoning framework was introduced to enhance retail investors' access to existing corporate bonds and sukuk currently traded by sophisticated investors in the OTC market. To be eligible for access by retail investors under this framework, corporate bonds and sukuk are required to have been in the market for at least 12 months and have a minimum credit rating of A, among other requirements.

⁷ All CFD providers contribute to CMCF.

⁸ Asian Bonds Online – <https://asianbondsonline.adb.org>.

⁹ Malaysian International Islamic Financial Centre (MIFC).

Guidelines were also enhanced to allow issuers who meet specific criteria to issue a product highlight sheet instead of a full prospectus. The range of corporate bonds and sukuk that may be offered to retail investors has also been expanded beyond plain vanilla bonds to include subordinated debt as well as perpetual bonds and sukuk issued by licensed banks.

Enhancing disclosure requirements on listed corporations

Disclosure requirements were also revised for abridged prospectuses and the relevant circulars. The *Prospectus Guidelines* and *Equity Guidelines* amended in December 2018 serve to guide listed corporations in making such documents more reader-friendly. It also requires disclosures to focus on meaningful information to help shareholders make informed investment decisions.

Allowing for specialised exchange traded funds

On 26 November 2018, the *Guidelines on Exchange-Traded Funds* was enhanced to allow the issuance of specialised Exchange Traded Funds (ETFs) such as futures-based ETFs, leveraged and inverse (L&I) ETFs, synthetic ETFs, conventional physically-backed commodity ETFs and smart beta ETFs.

Physically-backed commodity ETFs typically track the price of a certain commodity such as gold and silver. Smart beta ETFs track the performance of alternative rule-based indices – which are constructed differently from typical market cap-weighted indices – taking into account various factors such as volatility and dividends, with the aim of enhancing returns.

Leveraged ETFs aim to provide a multiple of the underlying index's daily returns. Inverse ETFs, on the other hand, are constructed with the aim of benefitting from a downward market. The revisions allow up to a maximum factor of two times (2x) for Leveraged ETFs, while Inverse ETFs are restricted to a maximum factor of one time (-1x).

Apart from the potential growth in market capitalisation due to the expansion on the types of permissible ETFs, the introduction of L&I ETFs can stimulate an increase in ETF turnover due to their short investment holding period by active-trading oriented investors.

Due to the complexity of the L&I ETFs, prospective retail investors must meet certain pre-qualification criteria before they can invest in these products. Retail investors who do not meet the pre-qualification criteria must undergo an e-learning module developed by Bursa Malaysia as well as a performance simulator provided by management companies of L&I ETFs before they can invest in L&I ETFs.

Launch of new ETF

2018 also saw the first foreign denominated ETF listed on Bursa Malaysia which tracks the Dow Jones Islamic Market US Titans 50 Index. This brings the total number of ETFs listed to 10. The Malaysian ETF market continues to chart a positive trajectory with market capitalisation reaching RM1.98 billion as at end 2018.

Private retirement scheme as an avenue to meet retirement needs

As a vehicle to strengthen the country's retirement pillars, the private retirement scheme (PRS) enables members to better plan their well-being after retirement using PRS funds that best match their needs. While there has been continued growth in the industry with total assets under management (AUM) reaching RM2.7 billion and 416,000 members, there is still a need to raise the level of awareness among Malaysians on their retirement needs. This underscores the crucial role played by the Private Pension Administrator Malaysia (PPA) in driving awareness and participation.

To increase the reach and provide better services for investors, enhancements were made to the ecosystem with the digitisation of PRS by PPA,

including the introduction of a mobile application and online enrolment. There has been growing adoption of these digital channels, with a total of RM61 million transacted online since inception.

To encourage youths to save early for retirement, a five-year PRS Youth Incentive was rolled out in early 2014. At the conclusion of the incentive in 2018, membership of youth below the age of 30 increased to 33% as at end December 2018 from only 7% of total PRS membership in 2014.

Boosting financial inclusion through Digital Investment Management

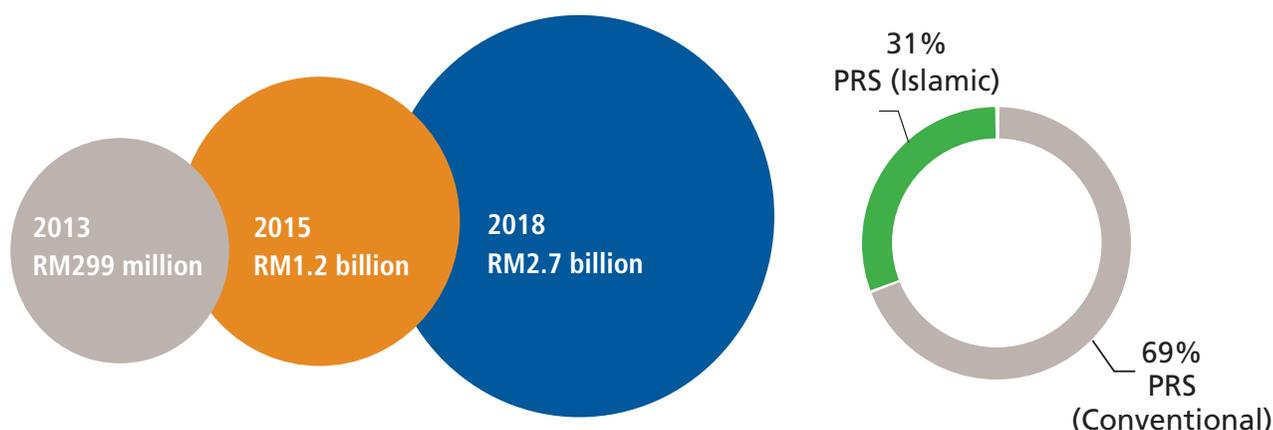
The SC recognises that the introduction of investment services through digital channels complements the existing suite of offline investments and enables more investors, particularly those who have been underserved, to access these services at an affordable cost. This forms part of the SC's ongoing efforts to encourage financial inclusion using technology.

The launch of the Digital Investment Management (DIM) framework in May 2017 was targeted at encouraging both new and existing market players to develop innovative and more effective ways of delivering high-quality products and services to investors by embracing digitisation.

Following the launch of the framework, the SC has received strong interest from local and regional players – both incumbents and start-ups – to apply for DIM licences. Through the Alliance of FinTech Community (aFINity) engagement labs, the SC has been conducting ongoing engagements with these players to guide them in meeting readiness requirements when applying for a DIM licence. DIM engagements form 41% of the total engagements carried out under the aFINity engagement labs held in 2018.

In October 2018, StashAway Malaysia was issued the first DIM licence followed by an approval-in-principle to another firm in November. With the entry of a more diverse range of DIM firms, investors will be able to access a new mode of investment which is convenient, affordable and accessible, to manage and grow their wealth.

Diagram 2
Growth of PRS AUM



* Data as at end 2018.

Source: SC

Diagram 3

Key PRS milestones

Kick off the 5-year PRS Youth Incentive

Youth aged 20-30 years will be given a RM500 one-off incentive by the government with a minimum contribution of RM1,000 in any PRS fund.

Enhancements to the PRS Youth Incentive

Government will match RM1,000 accumulated savings in the youth's account with a RM1,000 government co-contribution.

Launch of PRS online top up platform

The first phase of the digital solution journey saw an online top-up platform for current members. Operated by PPA, the platform provides access to PRS funds of all eight PRS providers.

The end of the journey for PRS Youth Initiative

At the end of the 5 years, the objective of getting more youth to save for their retirement was met, with RM104.05 million disbursed by the government.

Introduce mobile application and online enrolment

The development of the enrolment module marks the second phase of the digital solution with the aim of attracting new members to save for their retirement via PRS. A PRS mobile application was also introduced to provide members with easy accessibility to their PRS accounts.

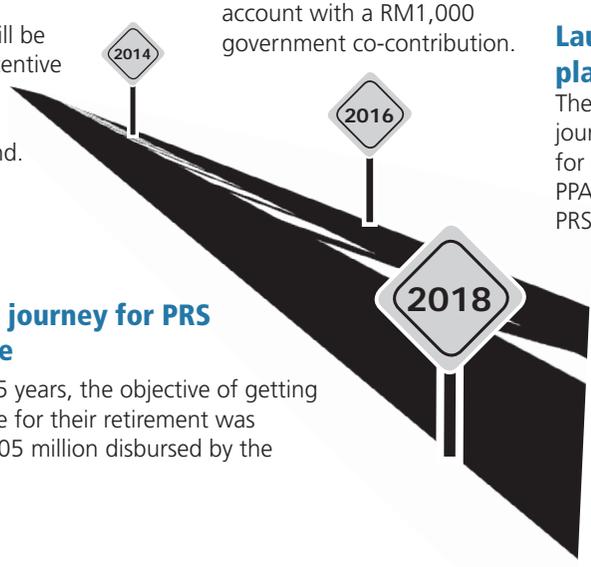


Diagram 4

PRS members by age group

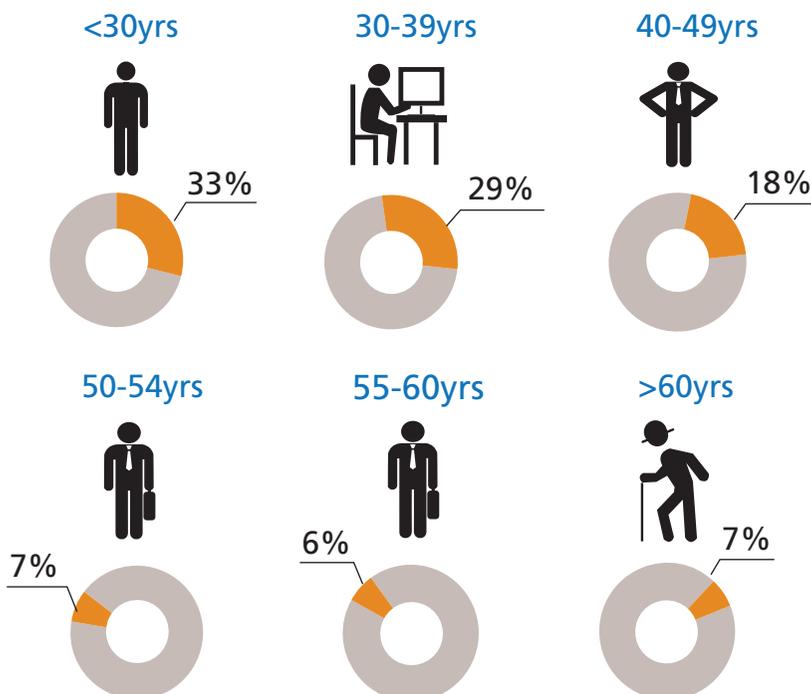


Diagram 5

PRS members by gender

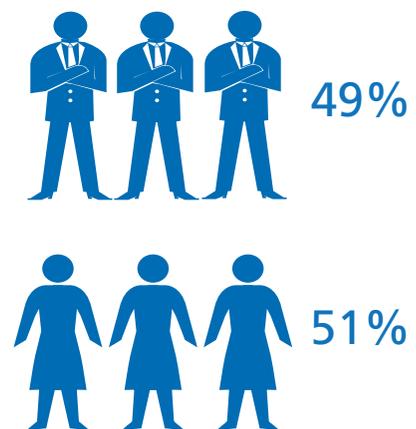


Diagram 6

PRS members' fund preference

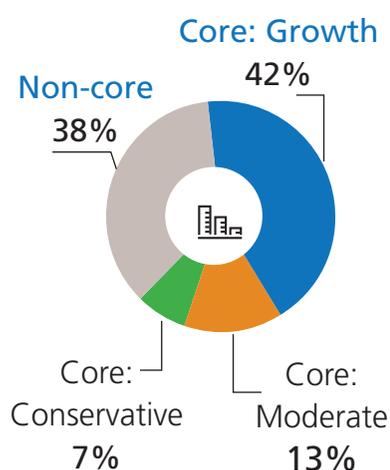


Diagram 7

Withdrawal by PRS members

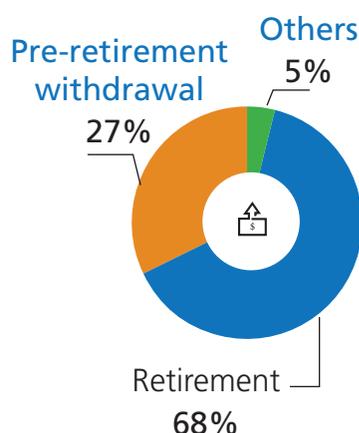
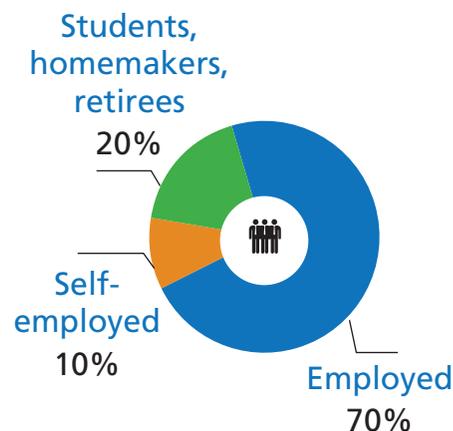


Diagram 8

PRS members by type of employment



Facilitating expansion of financial planners

With increased product innovation, financial planners continue to play a crucial role in providing appropriate and professional advice to investors. Recognising this, the SC continues to drive the growth of the industry.

In 2018, the SC liberalised the fee structures for Corporate Unit Trust Scheme Advisors (CUTA) and Corporate Private Retirement Scheme Advisors (CPRA). Cognisant of the different business strategies employed, the liberalisation provided more flexibility for CUTA and CPRA to determine their respective business and remuneration models.

As a result, all 17 CUTA and CPRA¹⁰ are allowed to establish and operate a mentorship model within their firms. Under this structure, junior financial planners are assigned to seniors to gain practical knowledge and build soft-skills, while helping to

retain intellectual knowledge within the firm. In exchange for mentorship and guidance, remuneration may then be shared between the mentor and mentee.

The liberalised fee structure for CUTA and CPRA facilitates the expansion of the industry as it encourages the professional development of new entrants in the financial services industry to transition into licensed financial planners. Investors stand to benefit from higher quality and comprehensive advice offered by financial planners in CUTA and CPRA firms.

Another initiative to grow the segment is the launch of the SmartFinance website at the annual financial planning conference in July 2018. Funded by the Capital Market Development Fund (CMDf), the portal aims to reach a wider investor audience and is a collective industry effort led by Financial Planning Association of Malaysia (FPAM).

¹⁰ Data as at end December 2018.

aFINity

aFINity serves as a focal point for development initiatives in the Fintech sphere. Through operationalisation of the Fintech bridge agreements, aFINity also serves as a nexus to other innovation hubs. In 2018, aFINity saw 109 engagements involving 91 participants. To complement this, the SC organised two streams of Innovation Labs, each focused on specific areas:

Engagement Labs



Carried out to test and evaluate key business concepts such as ECF, P2P financing, Digital Investment Management Services and Alternative Trading Systems.

Technology Labs



Typically arise from a specific industry need or use case and can be employed to develop a proof of concept solution. These labs were held in partnership with a technology provider, with participation from industry players. In November 2018, the SC unveiled Project Castor – a pilot project to explore the usage of Distributed Ledger Technology (DLT) in the regulated capital market space. This has culminated in an industry blueprint entitled *Capital Market Architecture Blueprint in a Decentralised World*.

aFINity currently has 210 registered members as part of its community and has undertaken over 216 engagements since inception.

Diagram 9

aFINity member demographics*

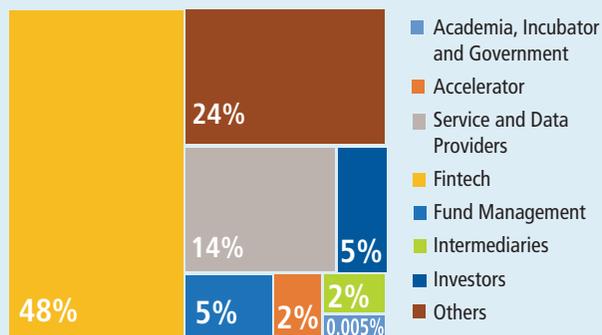
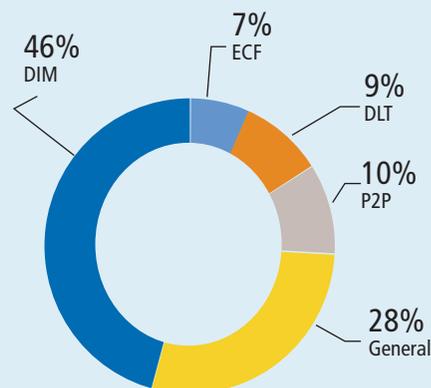


Diagram 10

aFINity topic of engagements*



* Data is cumulative since inception in 2015.

SmartFinance features fair and independent content complemented by financial toolkits. It adopts an interactive approach in educating the public via videos on investing, retirement planning and money management, among others. Uniquely, investors are able to connect directly with licensed financial planners based on location, areas of specialisation and range of planning fees.

SPURRING GREATER VIBRANCY AND EFFICIENCY IN THE CAPITAL MARKET

The capital market is a vital engine of growth for the country's economy – it facilitates the conversion of investor savings into capital for businesses, which allows the flow of funds to entrepreneurs, in turn generating returns for investors either in the form of capital gains or dividends, or both.

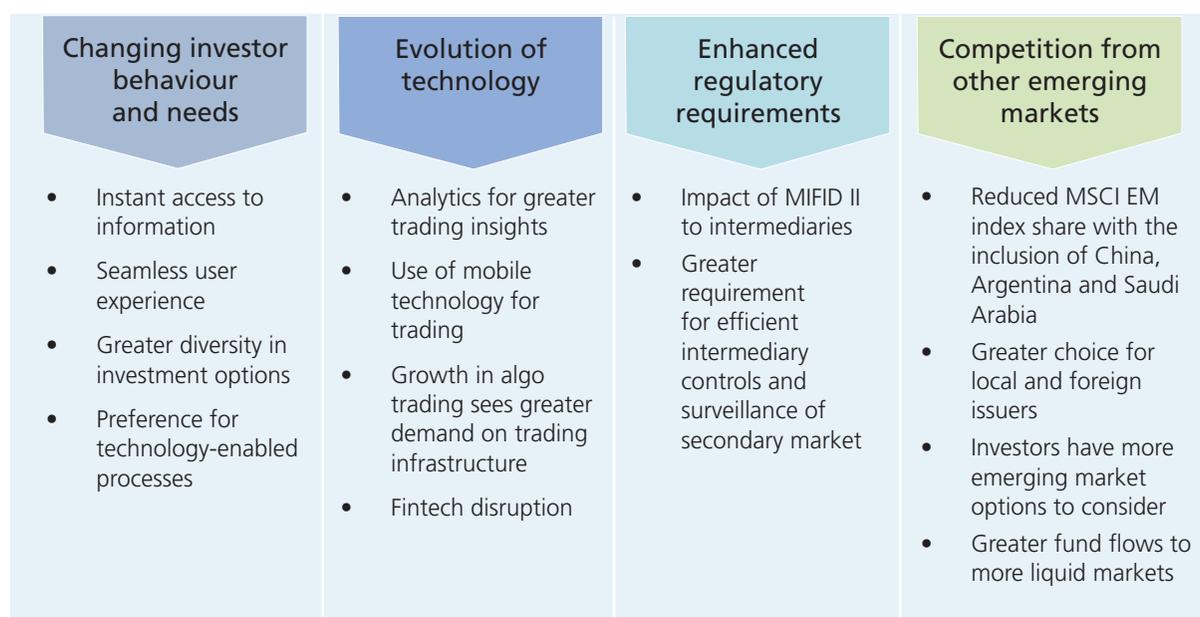
A capital market that is vibrant and efficient will see greater participation from investors and issuers. This will lead to increased market liquidity, improvements in price discovery, and reduction in cost of raising capital, thereby facilitating capital formation, wealth creation and resource allocation.

The equities market in particular has seen changing dynamics in recent years arising from shifting investor behaviour and needs, the evolution of technology as well as greater regulatory demand for transparency and better risk management. In addition to this, Malaysia's equity market has also seen greater competition from other emerging market economies.

These trends disrupt not only the way investors trade securities, but also impacts the value of intermediaries and types of services offered, revenue models and settlement efficiency. To remain competitive, the Malaysian equity market and its ecosystem will need to evolve to see greater vibrancy and efficiency.

Diagram 11

Changing market dynamics



Towards a more vibrant and efficient secondary market

The SC focuses on identified levers across three key areas:

1. **Promoting efficiency of market structure:** In order to meet the diverse needs of a wider range of investors, efficient market structure with diverse intermediaries and instruments are needed. Investors and issuers should be able to participate in the market seamlessly.
2. **Enhancing value recognition of issuers:** Malaysia is home to a multitude of models and sizes of businesses, presenting diverse value propositions to investors. Better value recognition of listed issuers promote greater investor interest and more trading activities.
3. **Encouraging greater diversity in investor participation:** A larger pool of diverse investors, complemented by application of a wide range of trading strategies can lead to better liquidity and vibrancy in the market.

While efforts are in place to address the market and its ecosystem, the macroeconomic landscape plays a key role in the vibrancy of the equity market.

Greater diversity in trading instruments and strategies

Following the introduction of Malaysia's first digital-only equity broker in 2017, the industry experienced a paradigm shift in its approach in calibrating customer acquisition, fee structure and business model. The focus in 2018 has been on empowering

investors through a greater variety of trading instruments and strategies to encourage trading activity.

- **Intraday Short Selling for all investors**

Previously applicable only to Proprietary Day Traders, Intraday Short Selling (IDSS) allows investors to perform day trading i.e. selling the securities first and then buying back later to close off the position within the same trading day. In April 2018, IDSS was extended to all investors to provide greater flexibility for position taking and risk management, while improving liquidity of the Malaysian equity market.

- **Spurring further growth of Listed Real Estate Investment Trusts**

The revised guidelines released by SC in March 2018 on listed Real Estate Investment Trusts (*Guidelines on Listed REITs*) include measures that accord greater opportunities for REITs¹¹, permitting among others:

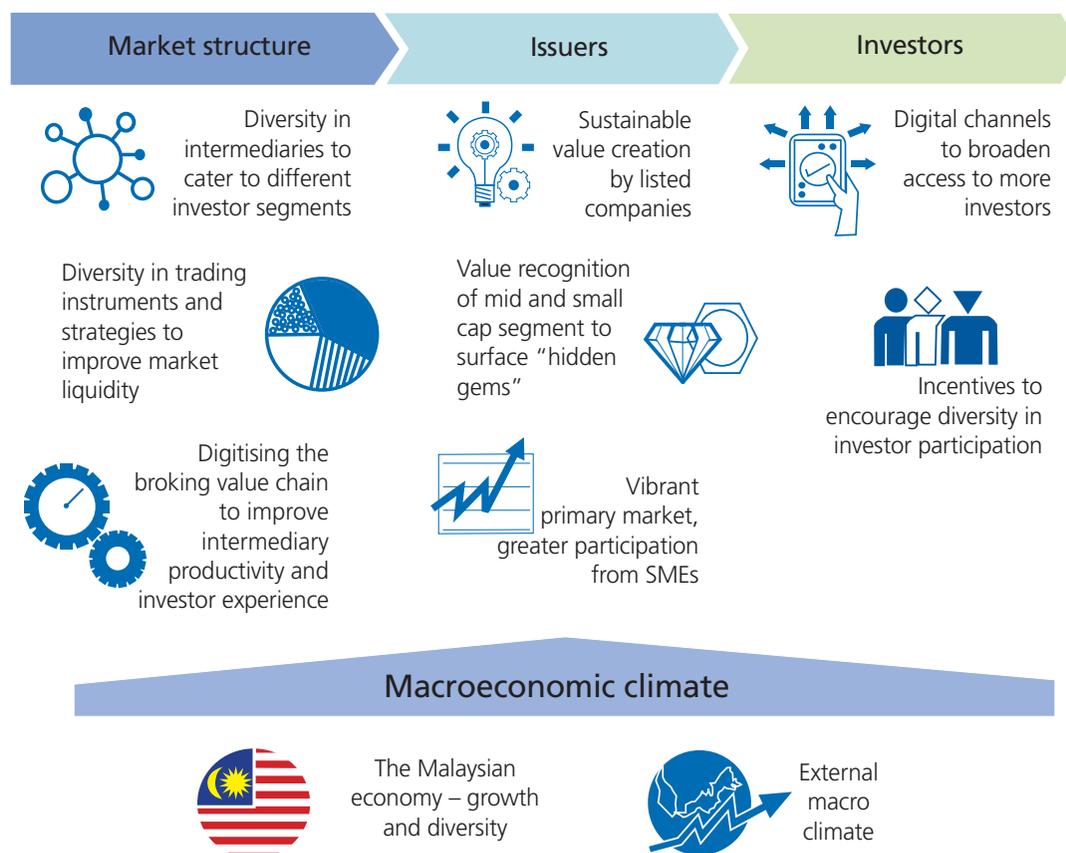
- redevelopment of existing properties and acquiring land for purposes of developing new properties to increase their portfolio of income-generating real estate; and
- entering into long-term leases of real estate.

An expansion of the REIT's permitted activities allow for potential improvements in REIT performance, which will increase its attractiveness as an investment option.

¹¹ REITs embarking on any of these activities would be subject to investment limits, additional disclosure requirements, and in some cases, unit holder approval.

Diagram 12

Levers towards a vibrant and effective secondary securities market



Greater growth across the industry value chain

To remain competitive and relevant, it is imperative for intermediaries to optimise existing resources, enhance productivity and improve investor experience. Recognising this, the SC intensified its focus in 2018 to work with industry players to identify and reduce barriers to growth.

- **Liberalising margin financing rules**

Prior to the liberalisation, the exchange rules limited the aggregate margin financing of a Participating Organisation (PO) under a risk-based regime as well as imposed a hard

limit of $\leq 200\%$ of their effective shareholders' funds. Non-bank-backed brokers often reach the limit on margin financing, and find it hard to compete with bank-backed brokers that leverage the bank's capital to offer margin financing.

Effective March 2018, the existing 200% limit for margin financing was removed but the overall prudential safeguards under the risk-based regime remained. This provided brokers with greater flexibility in providing margin financing facilities to their clients, allowing them to be more competitive through better utilisation of their capital base.

COMPLIANCE REQUIREMENTS FOR IDSS

To ensure that IDSS activities are subject to adequate controls, Rules of Bursa Malaysia Securities Bhd have been amended to incorporate the necessary safeguards. These include the following compliance requirements:



Maintain market stability

- IDSS suspension if a stock price falls by more than 15% from the previous day's closing price or if the gross short-selling volume exceeds the limit of 3% of outstanding shares per security.
- All sell positions must be closed off on the same day with buy positions to minimise potential system disruption.



Safeguard investors' interests

- Enter into an agreement to borrow or purchase securities to settle any potential failed trades in the event the sell position is not closed out by end of day.
- Execute IDSS risk disclosure statement.
- Provide written declaration that they fully understand IDSS requirements.



Ensure adequate broker control

- Robust Know Your Client and suitability assessment.
- Tagging of all proposed IDSS orders.

• BRIDGe-ing the gap

Digitising the brokerage industry is key towards enhancing broker's growth, expanding reach to new and younger investors as well as improving customer experience. Engagements with industry players reveal that digitisation opportunities exist across the value chain, starting with customer onboarding to settlement of trades and execution of corporate actions. These opportunities will however need the support of a wider financial services ecosystem.

The Brokerage Industry Digitisation Group (BRIDGe), comprising representatives from the SC, BNM, Bursa Malaysia and industry panels including banks, payment service providers,

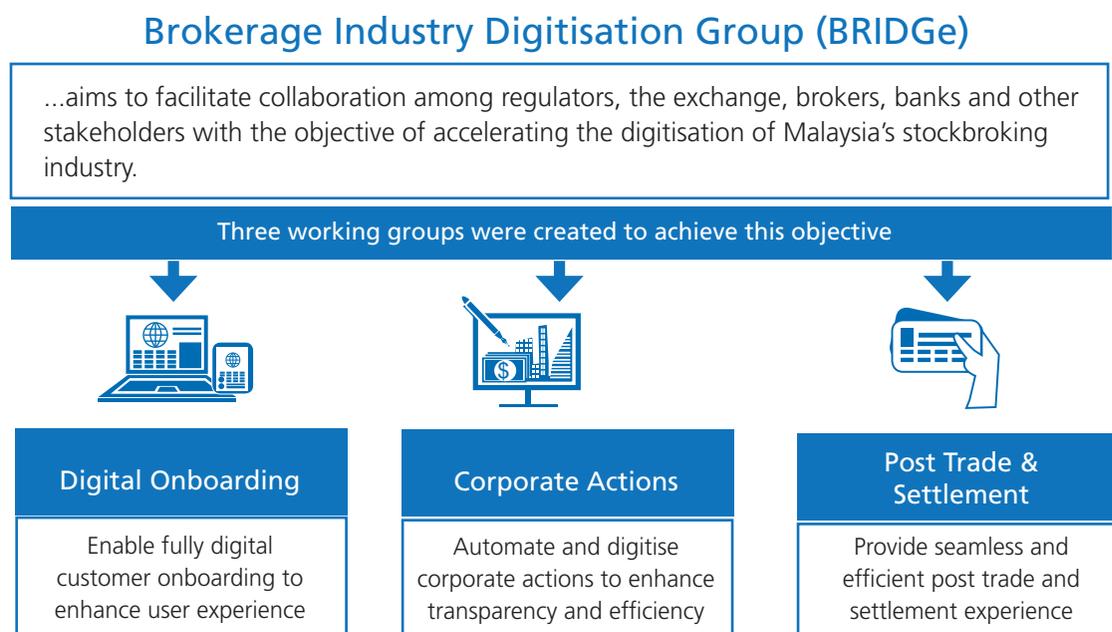
brokers as well as share registrars was established in August 2018. Together, BRIDGe serves to accelerate the digitisation of the country's stockbroking business.

• Brokerage Industry Consultative Committee as an open channel of communication

Brokerage Industry Consultative Committee (BrICC) was established to ensure that issues specific to the capital market sub-sector are addressed. It convened its first meeting in October 2018, engaging the stockbroking industry on issues relating to market development, operational efficiency and regulation.

Diagram 13

Objective of BRIDGE



Greater value recognition of mid and small cap companies

In 2017, the MidS Research Scheme with the objective of creating better value recognition of mid and small cap companies was operationalised. Additionally, Government-linked Investment Companies had committed to direct investments of up to RM2 billion to this segment.

2018 saw additional efforts targeted at enhancing trading activities for the mid and small cap companies – this includes lowering the trading cost for this segment and enabling opportunities to gain exposure or hedge with a new derivatives contract based on the FTSE Bursa Malaysia Mid 70 Index.

- **Greater MidS research coverage**

The number of MidS research reports has increased 3 times, from 421 reports in 2017¹² to 1,259 in 2018, covering 94 companies.

¹² The MidS research scheme was operationalised in May 2017.

- **Three-year stamp duty waiver on the trading of shares in mid and small cap companies**

Applicable to 351 companies with a market capitalisation of between RM200 million to RM2 billion, the stamp duty waiver will lower the cost of trading in this segment.

- **Mini FTSE Bursa Malaysia Mid 70 Index Futures (FM70)**

Launched in August 2018, the cash settled futures contract is based on the FTSE Bursa Malaysia Mid 70 Index. Designed to be a smaller contract in both size and value, the FM70 exhibits greater volatility inherent in the underlying mid-cap stocks.

The introduction of FM70 contract enables investors to hedge or gain exposure into the FTSE Bursa Malaysia Top 100 stocks when

trading in both the FM70 and FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures (FKLI) contracts. This saw 173,132 contracts traded and 327 open interest as at end 2018.

Greater diversity in investors

The Malaysian securities market has traditionally seen a high concentration of long-only investors i.e. investors that take a buy position in the market. In addition, Malaysia suffers from an ageing retail trading population, with many above 40 years old.

To improve market liquidity, an infusion of other investor groups is needed. In line with this, the SC has focused its efforts in 2018 on bringing new investors and liquidity providers to the market.

- **Incentivising new investors to join the market**

From March to August 2018, exchange trading and clearing fees were waived for first-time individual investors with new Central Depository System (CDS) accounts. This is to rejuvenate the pool of investors, especially those from the younger demography. It resulted in bringing 11,083 new investors into the market, with over RM1.2 billion value traded over the six months.

- **Incentivising liquidity providers**

Incentive programmes were implemented by Bursa Malaysia targeting two categories of investors:

- Trading specialists who are eligible high volume individual traders sponsored by brokers; and
- Proprietary traders (both non-PO and PO)

To enjoy a reduction in clearing fees, these investor groups are required to trade volumes exceeding a defined target.

In 2018, 11 proprietary traders and 12 trading specialists registered as part of this programme. In the most part of 2018, registered participants were on the whole, trading above their 2017 average and as a result provided a buffer in times of low Average Daily Value (ADV).

COLLABORATING FOR GROWTH AND INNOVATION

To accelerate growth and innovation within the capital market, the SC has put in place several enablers to support the capital market community. These efforts are centred around five key pillars: thought leadership, co-operation with global regulators, international integration and ASEAN

Diagram 14

Five key pillars for growth and innovation

Thought Leadership

Thought leadership events held in collaboration with global and regional committees enable industry stakeholders and regulators to identify global trends, growth opportunities and/or risks.

Regulatory Co-operation

Facilitates sharing of relevant expertise, insights and support to develop the Malaysian market, and contribute to overall regional or global development.

International Integration and ASEAN Connectivity

Greater regional connectivity through improved market access, cross-border product offering and increased mobility of licensed persons.

Capacity Building

Capacity building hubs and programmes serve to develop skills and knowledge of both regulators and industry players.

Engagement

Opportunities for regulators and industry stakeholders to engage, dialogue and work towards greater alignment of policies and industry initiatives on development and innovation.

connectivity, capacity building and purpose-driven engagements.

Contributing to global and regional thought leadership

In 2018, the SC led international policy work in several areas that support and complement domestic priorities. Through the SC's leadership role within IOSCO, Islamic Financial Services Board (IFSB) and Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation (COMCEC), the SC remained at the forefront of global discussions and played a pivotal role in several areas of thought leadership.

As part of IOSCO, the SC's participation covered areas such as:

- Cybersecurity, where a *Guidance Note on Cybersecurity for Regulators in Emerging Markets (Guidance Note)* was developed in April 2018. This is the first time that guidance has been developed for securities regulators globally with measures relating to governance frameworks, mechanisms and controls on the identification, protection, detection, response and recovery. The Guidance Note also discusses approaches to enhance international collaboration and information sharing as well as strengthening of regulatory capabilities in this area. Furthermore, it helps provide a basis for emerging market regulators to develop their own domestic cybersecurity policies; and
- Regulation of secondary markets, where issues relating to liquidity in bond markets, mechanisms used by exchanges to manage volatility and the regulation of crypto asset trading platforms were reviewed.

The SC's commitment to sustainable finance at the global level is also reflected through its leadership in the IOSCO GEM Committee Working Group on Sustainable Financing. The output is expected to facilitate a degree of international consistency given

the cross-border and global nature of sustainable finance instruments.

In the area of ICM, the SC continues to play its role as a global thought leader by:

- Contributing to development of standards and research through IFSB and COMCEC respectively to guide policies and developmental work. In 2018, two reports titled *Islamic Fund Management* and *The Role of Sukuk in Islamic Capital Markets* were published by COMCEC. Malaysia was used as a reference case as a mature ICM in both reports; and
- Championing research on topics of contemporary relevance to Islamic finance through the annual Scholar in Residence Programme, a key initiative under the SC-OCIS collaboration.

Biennially, the SC and BNM recognise and honour Islamic finance global thought leaders through the Royal Award for Islamic Finance. In 2018, the Award was bestowed upon Tan Sri Dr Zeti Akhtar Aziz.

A key milestone of the SC's role in global thought leadership, the WCMS was held in February 2018. With the theme 'Renaissance of Capitalism: Markets for Growth', WCMS brought together global thought leaders, policymakers and industry experts on the future of finance and its sustainability for future generations.

Furthering regulatory co-operation and linkages

The SC continues to strengthen regulatory co-operation and linkages with international counterparts to help shape domestic policies as well as ensure that the approach is in line with global best practices. The relationships that the SC has cultivated over the years have enabled it to tap relevant expertise, insight and requests for necessary assistance to support the SC's role and functions.

WORLD CAPITAL MARKETS SYMPOSIUM 2018 RENAISSANCE OF CAPITALISM: MARKETS FOR GROWTH

Kuala Lumpur
6 & 7 February 2018

The World Capital Markets Symposium (WCMS) biennially brings together global thought leaders, providing a platform to promote informed discussion by prominent policymakers, thought leaders and key industry experts.

The fifth installment hosted by the SC and organised by Capital Markets Malaysia, was themed 'Renaissance of Capitalism: Markets for Growth'. It explored the future of finance and ways it can produce sustainable outcomes for the present and future generation. The Symposium discussed the reorientation of financial markets, including how innovation and technology can be leveraged to create greater efficiencies and facilitate steady, sustainable and inclusive growth.

As external conditions evolve, good governance becomes all the more critical in enabling organisations to manage and sustain growth. The Symposium also discussed ways to achieve a balance between meeting short-term imperatives while focusing on long-term optimisation and value creation.

The Symposium gathered expertise on the importance of various segments of society, including the role of women in leadership and youth empowerment.

Selected Speakers



Helen Clark
Former Prime Minister
New Zealand



Ashley Alder
Chief Executive Officer
Securities & Futures Commission
Hong Kong



Dr Michael Spencer
Chief Economist Asia
Deutsche Bank
Hong Kong



Jin Liqun
President & Chairman
Asian Infrastructure
Investment Bank
China



Fareed Zakaria
Host
CNN's Fareed Zakaria GPS
US



Douglas Flint
Former Group Chairman
HSBC
UK



Junko Nakagawa
Senior Managing
Director
Nomura Holdings
Japan



Nicol David
Eight-time World Squash
Champion & UNDP
National Goodwill
Ambassador
Malaysia



Riz Khan
International Journalist
& Broadcaster
UK



Yanis Varoufakis
Former Finance
Minister
Greece



Edwin Macharia
Partner, Dalberg Africa
Kenya

In the area of Fintech, following the innovation co-operation agreements (Fintech bridges) entered into by the SC in 2017, a new Fintech bridge with Finansinspektionen Sweden was established in 2018. The Fintech bridges facilitate information sharing on emerging trends, regulatory developments in digital finance, referrals of innovative businesses seeking to operate in respective jurisdictions and potential joint innovation projects. This is complemented by the SC's involvement in the IOSCO Fintech and ICO Networks, which enables members to foster dialogue in the exchange of information and potential collaboration.

In October 2018, the SC hosted a series of discussions among senior capital market regulators from the Asia Pacific. The dialogues focused on, among others, supervisory issues and challenges as well as the investigation and enforcement of capital market offences across borders. In conjunction with these meetings, the SC also hosted the third European Union-Asia Pacific Forum on Financial Regulation. Senior regulators from the European Union (EU) and the Asia Pacific region shared views on cross-border regulation and development, including the implementation of EU regulations and developments relating to Brexit and the implications to markets within the Asia Pacific region. Through such discourse, the SC is able to gain insights and tap on relevant experience and expertise of other markets.

Enhancing international integration and promoting ASEAN connectivity

To safeguard the interests of Malaysia's overall international trade and economic agenda, cross-border investments and corporate expansions, the SC has been actively involved in various regional and international committees as well as trade agreements. This includes participation in:

- Asian Bond Market Initiative to facilitate greater market development and integration of regional bond markets; and

- Regional Comprehensive Economic Partnership (RCEP), an ASEAN-led trade agreement comprising all 10 ASEAN member states as well as Australia, China, India, South Korea, Japan and New Zealand, to create a mutually beneficial agreement by reducing trade barriers and providing certainty of market access for businesses and investors.

To promote a more connected, sustainable ASEAN capital market with greater market access, the SC encouraged liberalisation through the ASEAN Working Committee on Financial Services Liberalisation. The SC also led efforts through the ASEAN Working Committee on Capital Market Development and ACMF.

A key thrust of the ACMF is to support greater regional connectivity including through promoting ASEAN asset classes, cross border product offerings and the mobility of capital market professionals.

Achievements in 2018 include the launch of the ASEAN SBS and ASEAN SUS. In addition, 15 funds have been recognised since October 2014 as Qualifying Collective Investment Schemes (six of which have commenced cross-border offering) since the launch of the ASEAN Collective Investment Schemes (CIS) Framework. In 2018, the ASEAN CIS Framework was enhanced to promote greater cross-border offerings of ASEAN funds by allowing fund managers to offer a broader range of products to investors in the region. The ACMF's key corporate governance (CG) initiative, the ASEAN CG Scorecard Assessment continued to highlight governance standards and promote investability of ASEAN public-listed companies (PLCs), with Malaysia having the most number of companies with 14 companies listed among the top 50 ASEAN PLCs honoured at the ASEAN CG Awards in November.

Another important aspect of enhancing greater regional connectivity is the mobility of capital market talent within the region. In October 2018, the Memorandum of Understanding (MoU) on the

ASEAN Capital Market Professional Mobility Framework was first signed by four ASEAN regulators, to be followed by the participation of other countries in due course. This forms part of Phase 1, which will see the creation of the 'ACMF Pass' to facilitate cross-border movement of investment advisers, thereby allowing ASEAN investors access to professionals with home-market expertise.

Strengthening capacity building

Since its establishment in 2017, the IOSCO Asia Pacific Hub has initiated various capacity building initiatives to facilitate closer cross-border regulatory co-operation and strengthen regulatory capabilities within the region. The Hub has trained more than 200 participants from over 35 countries from developed and emerging countries, including domestic stakeholders.

Programmes conducted by the Hub in 2018 included Self-Assessments of the IOSCO Principles of Securities Regulation, Countering Money Laundering and Terrorism Financing in Securities Markets, Application of Behavioural Economics for Investor Education and Protection as well as Climate-Related Financial Disclosures.

In addition, the SC together with Securities Industry Development Corporation (SIDC) continues to run the Islamic Capital Market Graduate Training Scheme programme to produce entry-level professionals with strong fundamental knowledge and skills for the ICM. This eight-week programme, held twice a year, has trained over 762 participants since its inception in 2009.

Engaging the industry

To drive greater growth and innovation in the capital market, regular engagements and dialogues are held to better align the SC's developmental policies and industry initiatives.

During the annual SC Industry Dialogue 2018, discussions were held with market participants including securities and derivatives brokers and other stakeholders involved in corporate finance activities, investment management, financial planning and CG. Discussions centred on the necessity for digitisation, further internalisation of CG culture in the capital market ecosystem, promotion of green financing and Malaysia's position as a regional SRI hub as well as capacity building for sustainable talent development.

At the dialogue, the SC announced several initiatives to facilitate continued growth, greater market flexibility and efficiency. These included reconfiguration of the primary market approval process; establishment of a working committee to develop strategies to further strengthen Malaysia's position as a regional market leader in sustainable finance; and a policy review for the offering of the Undertaking for the Collective Investment in Transferable Securities (UCITs) to Malaysian investors, taking into consideration fair treatment of local fund managers.





PART 2 SHAPING MARKET CONDUCT

INTRODUCTION

Maintaining public trust and investor confidence remains a priority of the SC, as they are important to the functioning of the capital market and the pursuit of sustainable and inclusive growth. Key components in maintaining trust and confidence in the capital market are the preservation of market integrity and continuous efforts to reinforce proper standards of market conduct. In this regard, the SC continues to take measures to maintain market integrity and shape market conduct by (1) advocating the internalisation of corporate governance; (2) promoting a fair and orderly market through surveillance; (3) reinforcing good conduct through supervision; and (4) achieving credible deterrence through enforcement actions. These are complemented by efforts to empower investors to make informed investment decisions.

INCULCATING GOOD GOVERNANCE CULTURE

Promoting the internalisation of corporate governance

Over the years, the SC has implemented several measures to strengthen the corporate governance framework and advocate the adoption of corporate governance best practices as an integral component of maintaining trust and confidence in the capital market. The SC's *Corporate Governance Strategic Priorities (2017-2020)* aims to raise the standards of corporate governance in the capital market; moving beyond mere compliance. One of the key deliverables of the Corporate Governance Priorities (CG Priorities) was the enhanced *Malaysian Code on Corporate Governance (MCCG)* released in April 2017.

The SC has observed a deeper appreciation of corporate governance among listed companies including small and mid-sized companies reflected in their adoption of best practices recommended in the MCCG.

Diagram 1

Adoption of the MCCG (as at 31 December 2018)



153

PLCs adopted the 2-tier voting approach to decide on the reappointment of independent directors who have served >12 years



227

PLCs adopted tenure limit of 9 years for independent directors with annual shareholders' approval for extension



25

PLCs adopted tenure limit of 9 years for independent directors without further extension



24%

of board positions are held by women (Top 100 PLCs)



131

PLCs disclosed senior management remuneration in bands of RM50,000



25

PLCs disclosed detailed remuneration of senior management on a named basis

In 2018, the SC continued to engage various stakeholders to drive the adoption of corporate governance best practices. In collaboration with Bursa Malaysia, engagement sessions were held with close to 600 directors of listed companies on the new reporting approach for corporate governance, its rationale and expectations. The SC also worked closely with the 30% Club Malaysia and engaged chairmen of listed companies to drive gender diversity on boards. Chairmen and CEOs of companies with all male boards were invited to these discussions to enable the SC to better understand the efforts and challenges in sourcing women candidates. As a result, the number of all male boards in the top 100 listed companies has reduced from 20 as at 31 December 2017 to only one listed company as at 31 December 2018.

Using data analytics to gain deeper insight on corporate governance

In line with the CG Priorities, the SC began leveraging data analytics to monitor the corporate governance practices and disclosures of listed companies. The system allows the SC to have

up-to-date information on corporate governance, obtain deeper insight on trends and enhance information sharing with stakeholders. Observations gathered from the system were shared with various stakeholders including at the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) Annual Conference 2018 attended by nearly 500 MAICSA members, the OECD Asian Roundtable on Corporate Governance 2018 and at a session with members of the Institutional Investors Council of Malaysia.

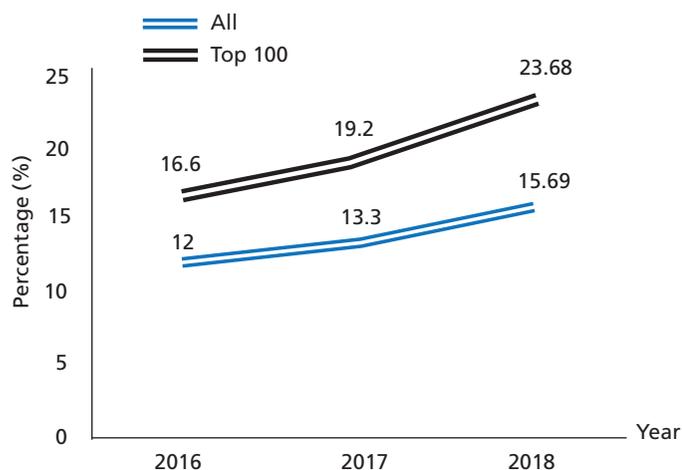
The SC will be releasing its first thematic report based on data gathered through the system in the first quarter of 2019. The report will include a focus on shareholder activism and voting patterns observed in the reappointment of long-serving independent directors.

Strengthening the effectiveness of directors and supporting board leadership

Recognising the important role of individual directors in driving board performance and corporate

Diagram 2

Gender diversity on boards of listed companies



Source: SC



Companies with >30% women directors

Overall: 116 PLCs (14%)

- Large* PLCs: 28
- Non-large PLCs: 88



Companies with at least one woman director

Overall: 571 PLCs (70%)

- Large* PLCs: 105
- Non-large PLCs: 466

Note:

* Large companies as defined in the MCCG

governance excellence, the SC spearheaded the establishment of the Institute of Corporate Directors Malaysia (ICDM), which was officially launched by the Minister of Finance, Lim Guan Eng on 1 October 2018.

ICDM offers an array of services including programmes to meet the professional development needs of directors, board effectiveness evaluations and housing a registry of profiles for companies to source for board candidates.

ICDM has also established linkages with other institutes of directors within the ASEAN region and globally to facilitate greater collaboration and knowledge sharing as well as to stay abreast of business and governance developments.

Greater involvement in international efforts on corporate governance

The SC continues to participate and contribute towards international efforts to advocate the adoption of corporate governance practices through its participation at the Organisation for Economic Co-operation and Development (OECD) Corporate Governance Committee (CGC). The CGC co-ordinates and guides the OECD's work on corporate governance and is responsible for the formulation and implementation of the *G20/OECD Principles on Corporate Governance* – a globally accepted reference point for corporate governance standards.

In 2018, the SC's participation status in the CGC was upgraded from Invitee to Participant in recognition of its commitment and efforts to advance corporate governance standards and involvement in various OECD initiatives since 2013.

On 7 and 8 November 2018, the SC hosted the OECD Asian Roundtable on Corporate Governance (Roundtable) meeting in Kuala Lumpur, which was attended by over 100 regulators, investors, listed companies and corporate governance advocates from across Asia to discuss the latest corporate governance developments. Among the issues

discussed were the impact of technology and innovation on corporate governance, board practices in relation to climate-related risks and disclosures as well as the use of flexibility and proportionality in corporate governance frameworks. The Roundtable also saw the launch of the second edition of the *OECD Asian Equity Market Review 2018* and the *OECD Report on Flexibility and Proportionality in Corporate Governance*.

The SC also participated in the biennial Corporate Governance Watch (CG Watch) regional survey undertaken by the Asian Corporate Governance Association (ACGA) in collaboration with CLSA. The survey reviews 12 Asian markets on their standards of corporate governance in relation to seven areas including the strength of rules and regulations, efforts made by regulators to improve corporate governance standards, corporate governance practices of listed companies and effectiveness of audit regulation. In CG Watch 2018, Malaysia was the biggest gainer moving from sixth (2016) to fourth position. Malaysia's best performing category was in relation to the role of regulators, where the consistent effort of regulators in promoting corporate governance reforms was recognised. This includes the use of innovative approaches to address corporate governance concerns including the two-tier voting process for the reappointment of independent directors and the use of technology to review the adoption of the MCCG. The SC's Audit Oversight Board was also commended as one of the region's most effective audit regulator.

CULTIVATING GOOD CONDUCT THROUGH SURVEILLANCE AND SUPERVISION

Promoting fair and orderly market through surveillance

A robust and effective corporate surveillance framework is needed to promote and maintain a fair, efficient, and transparent capital market.

To ensure the monitoring of corporate activities remain effective, the SC continues to carry out thematic studies on listed companies to identify potential risks in the areas of financial reporting and corporate transactions. These were followed by focused reviews on the identified listed companies to facilitate early detection of breaches. Based on the identified risks and focus in 2018, the SC conducted 54 engagements involving over 120 individuals comprising representatives from listed companies, statutory auditors and other stakeholders. The SC also issued 48 query letters to listed companies seeking clarification on the identified issues.

Detecting and deterring transgressions

In 2018, the SC continued to detect and deter corporate transgressions through its active monitoring and review of corporate transactions, disclosures and financial reporting by listed companies. Examples of corporate transgressions that commonly occurred are highlighted in Diagram 3.

Maintaining quality of financial reporting

High quality, reliable and accurate financial reporting facilitates informed investment decisions. Hence, the SC continues to review financial statements of listed

companies to ensure compliance with approved accounting standards. In 2018, several areas of non-compliance with approved accounting standards were identified with subsequent regulatory actions taken (Diagram 4).

Creating awareness on new accounting standards

MFRS 16, a new accounting standard which supersedes *MFRS 117* takes effect and applies to financial statements of listed companies with annual periods beginning on or after 1 January 2019. The principles of *MFRS 16* bring about changes to a lessee's accounting model as most operating leases will need to be recognised in the Statement of Financial Position.

A survey was conducted by the SC to gauge the awareness and readiness of listed companies in implementing *MFRS 16*. It showed that almost all of the selected 245 listed companies were aware of the new standard and a majority had undertaken efforts to prepare for its adoption through training and stakeholder engagement. Following the conclusion of the survey, the SC issued a circular to listed companies in November 2018 to reiterate the importance of timely implementation and provided guidance on the disclosures required.

Diagram 3

Common areas of corporate transgression and regulatory actions taken in 2018

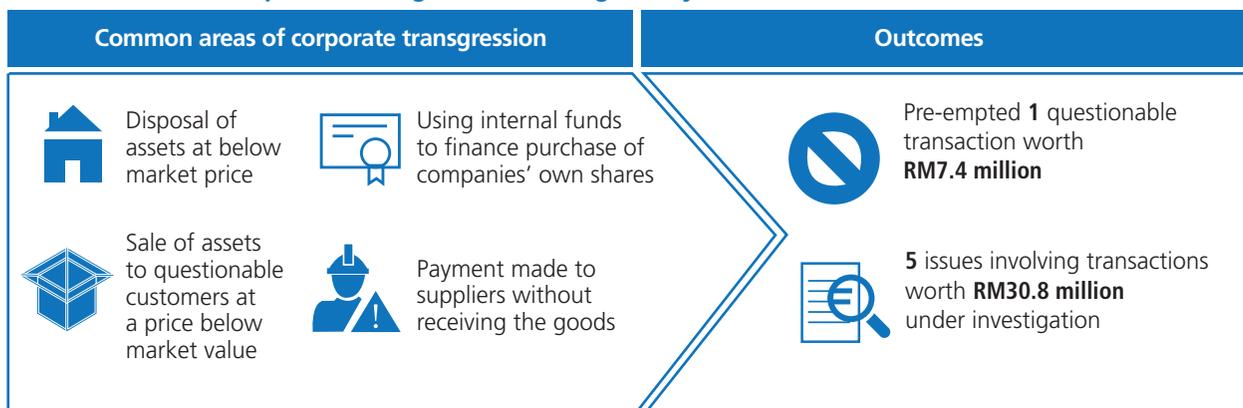
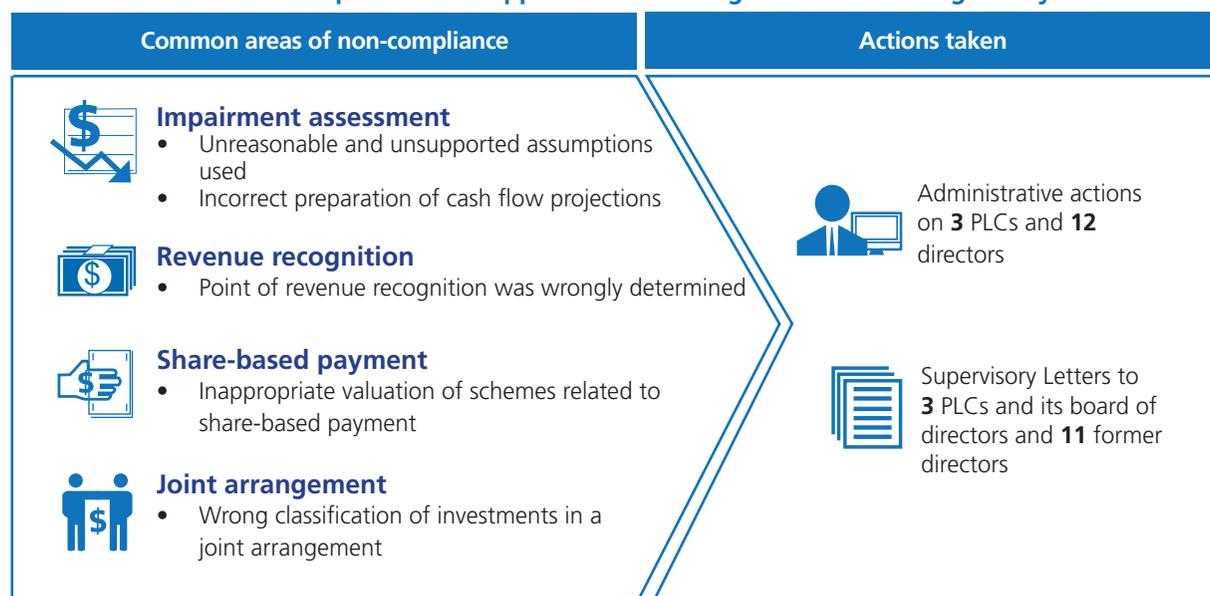


Diagram 4

Common areas of non-compliance with approved accounting standards and regulatory actions taken



Ensuring orderly trading conduct through proactive surveillance

The SC continues to reinforce orderly trading conduct and governance among market participants through market surveillance. Pre-emptive measures were undertaken in collaboration with Bursa Malaysia as the frontline regulator, to address undesirable trading practices that can pose risks to the integrity of the capital market. These measures also serve as a reminder to market participants of their roles and responsibilities in maintaining a fair and orderly market. When necessary, engagements were held to communicate the standards of conduct and governance expected of them.

To complement the SC’s pre-emptive surveillance measures, communication notes were issued by Bursa Malaysia to provide clarity on the expectations of trading conduct by intermediaries. It also encourages the adoption of recommended controls and best practices to deter and prevent market misconduct.

There was an encouraging trend of increasing proactiveness by intermediaries in addressing concerns on trading irregularities. Intermediaries actively initiated communications with Bursa Malaysia on potential trading irregularities. The number of intermediaries with trade surveillance system also doubled in the last three years.

Regulatory actions against pump-and-dump schemes on the internet and social media

The SC continues to dedicate its market surveillance and enforcement efforts towards protecting investors from falling prey to pump-and-dump schemes on the internet and social media. A range of actions were undertaken to halt the operations of identified pump-and-dump schemes. This included engagements with the perpetrators which resulted in them ceasing their activities.

In 2018, the SC also issued a cautionary statement on pump-and-dump activities to raise public awareness on the questionable motives and mode of operations behind such schemes. The public was also reminded to be vigilant and take steps to verify stock promotions on blogs, chat forums and social media platforms.

Strengthening cross-border surveillance collaboration

Cross-border collaboration with foreign regulators is critical to support the SC’s surveillance efforts to detect or prevent corporate transgression by parties outside Malaysia. The SC’s ability to obtain and share information with international regulatory counterparts through the IOSCO Multilateral Memorandum of Understanding (MMoU) has strengthened its enforcement capabilities and reach in dealing with cross-border market misconduct.

The SC and China’s Ministry of Finance (MOF China) signed a Memorandum of Understanding (MOU) on 20 August 2018 to facilitate cross-border regulatory co-operation on accounting and audit matters. Signatories were MOF China Minister Liu Kun and the former SC Chairman, Tan Sri Dato’ Seri Ranjit Ajit Singh. The signing ceremony was witnessed by the Prime Minister of Malaysia, Tun Dr Mahathir Mohamad and the Premier of the People’s Republic of China, Li Keqiang.

Reinforcing good conduct among intermediaries

The SC employs a wide range of supervisory tools encompassing structured assessments, thematic reviews and for-cause assessments to ensure that intermediaries adhere to standards of business conduct and assess the soundness of their operational and prudential framework. In 2018, the SC conducted supervisory assessments on 138 intermediaries.

Diagram 5

Supervisory tools and objectives

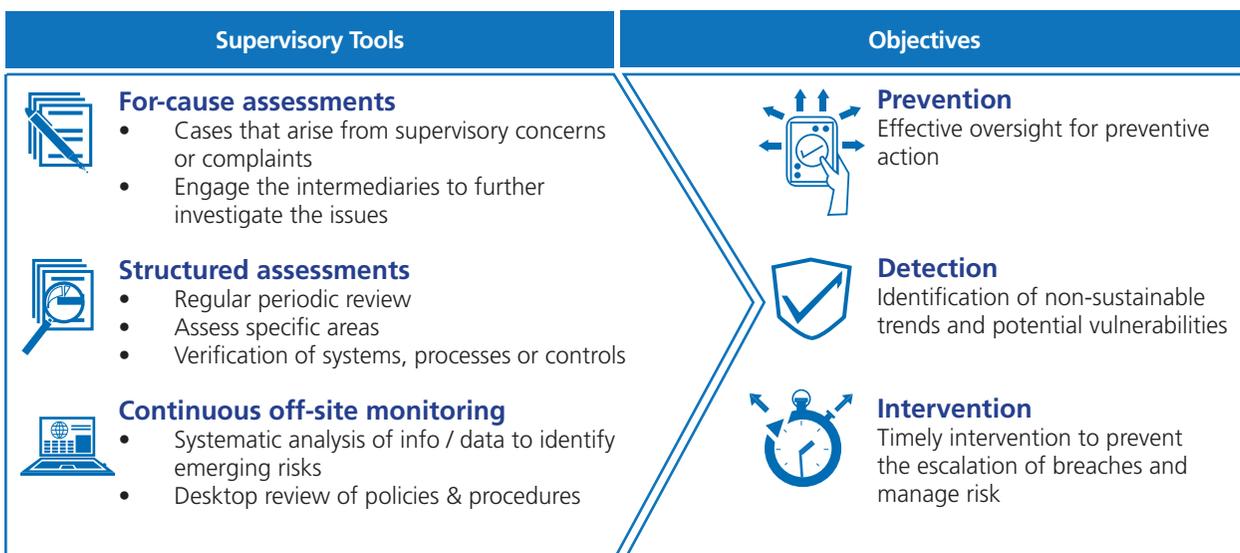
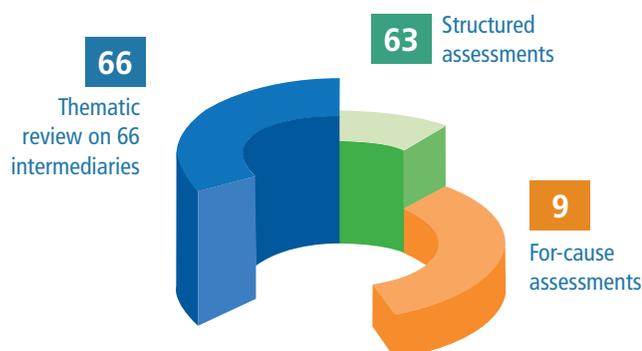


Diagram 6

Supervisory assessments in 2018



Source: SC

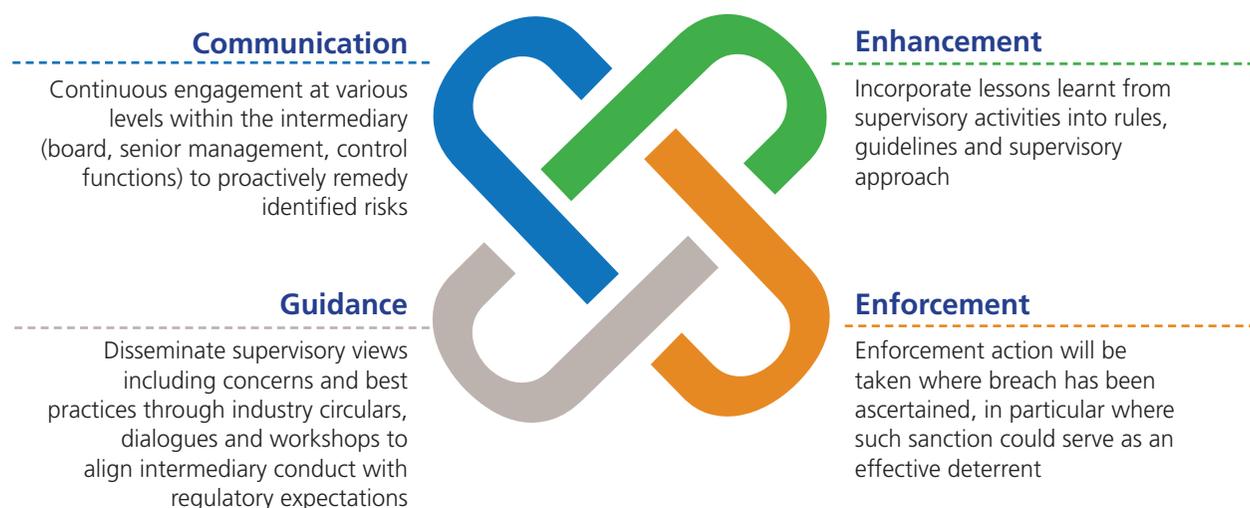
In addition, the SC continuously conducts analysis on market data, trade and performance data as well as media screening to monitor and detect emerging trends and irregularities in a timely manner. Any regulatory concerns arising from these ongoing supervisory activities are communicated to intermediaries through various channels to ensure alignment of intermediaries' conduct with the SC's regulatory expectations.

Supervisory thematic reviews

The SC continues to emphasise the use of thematic reviews as an effective means to assess identified trends, emerging risks and compliance lapses. These reviews have enabled the SC to prioritise resources to achieve sector-wide outcomes, progressing from the previous traditional firm-centric approach.

Diagram 7

Supervisory outcomes



THEMATIC REVIEW ON LIQUIDITY RISK MANAGEMENT



BACKGROUND

In 2018, IOSCO issued a set of best practices and recommendations on managing the liquidity risks of collective investment schemes (CIS) to protect the interests of investors, particularly in stressed market conditions and to mitigate systemic risk.

Following IOSCO's recommendations, the SC conducted a thematic review on the liquidity risk management (LRM) framework of CIS funds.



SUPERVISORY OUTCOME

Issue guidance to industry to improve LRM practices of open-ended CIS.



OBSERVATIONS

- The liquidity risks in the fund management sector remain well-managed, and generally, fund management companies have taken steps to enhance their liquidity risk management frameworks.
- In the product design phase, most fund management companies take into consideration liquidity risks and assess the ability to meet the relevant liquidity requirements that will apply to the CIS. However, there is a need to enhance the policies and procedures to guide managers in their decisions.
- Fund management companies set internal liquidity indicators or thresholds and continuously assess the liquidity position of the funds against these thresholds. Nevertheless, sophistication of indicators can be enhanced to strengthen oversight of the liquidity profile of individual funds.
- All systemically important financial institutions (SIFIs) and a number of other fund managers are performing liquidity stress testing of their funds on an ongoing basis.
- Some fund management companies have put in place contingency plans to ensure that applicable liquidity management tools can be exercised in a prompt and orderly manner in the event of potential failures to meet redemptions in time.

THEMATIC REVIEW ON STRUCTURED WARRANTS



BACKGROUND

Malaysia's structured warrants market has grown over the years on the back of greater retail interest.

Between 2014 and 2017, annual turnover of structured warrants increased by 177% from RM2.35 billion to RM6.51 billion with annual structured warrants issued increasing by 69.4% from 546 to 925 issues.

A thematic review was conducted in 2018 to assess the adequacy and consistency of control measures put in place across issuers to ensure market stability.



SUPERVISORY OUTCOME

Issue industry circulars on best practices for:

- liquidity assessment by issuers during product design; and
- market making and hedging activities of issuers.



OBSERVATIONS

- Generally, there is sufficient volume in the underlying stocks chosen by issuers to allow for orderly hedging and unwinding of hedges.
- Issuers are ensuring compliance with rules and requirements on market making which are intended to provide liquidity for investors to sell their structured warrants in the market at a reasonable price.
- Some areas for improvement include the need for more conscious consideration and deliberation on potential market impact of hedging and unwinding activities. Policies and procedures on liquidity assessment and design process of structured warrants can also be strengthened to avoid large holdings of shares close to the expiry of the structured warrants.
- The review of investors' behaviour indicates that investors in structured warrants have a reasonable understanding of the product. However, some investors exhibit loss aversion biases, resulting in them failing to cut losses despite their warrants being deep out of the money and close to maturity.

THEMATIC REVIEW ON SUSPICIOUS TRANSACTIONS REPORTS



BACKGROUND

The suspicious transactions reports (STR) submitted by licensed intermediaries to the Financial Intelligence and Enforcement Department (FIED) of BNM are important sources of financial intelligence to measure the effectiveness of the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) framework.

A thematic review was conducted to assess and evaluate the quality of STR submissions as well as internal practices put in place by intermediaries to identify, analyse and document suspicious transactions. Observations and expectations arising from the thematic review were shared during a compliance workshop held in July 2018.



SUPERVISORY OUTCOME

Issue an industry communiqué to all intermediaries on SC's observations and expectations in relation to STRs.



OBSERVATIONS

- STRs are generally lodged with BNM FIED within an acceptable timeframe.
- Majority of the licensed intermediaries have adequate detection, escalation and reporting mechanism on unusual or suspicious transactions.
- Intermediaries have proper record-keeping measures to ensure sensitive information and documents relating to suspicious transactions are kept in a secured environment.
- Most of the STRs lodged were initiated from the law enforcement agencies' investigation orders or adverse reports posted via BNM's Financial Intelligence System (FINS).
- Some of the STR submissions provided adequate description of the nature and circumstance of suspicion with analysis to support the suspicious transactions.
- There is a need for intermediaries to review the efficiency and effectiveness of their suspicious transaction reporting process and the timeliness as well as the quality of their STRs.

THEMATIC REVIEW ON SUPERVISION AND MANAGEMENT OF REMISIERS



BACKGROUND

Remisiers' remuneration are directly tied to the volume of transactions they execute. Hence, there is a risk that remisiers may not act in the best interest of their clients in their efforts to maximise brokerage generated.

A thematic review was conducted to evaluate the adequacy and effectiveness of intermediaries' supervision and management of remisiers.



SUPERVISORY OUTCOME

Issue a report on industry best practices and guidance to the board and senior management of intermediaries.

Intermediaries were required to ensure that remisiers are provided with continuous training to maintain a culture that promotes professionalism and ethical behaviour.



OBSERVATIONS

- Arising from supervisory issues raised by the SC from earlier examinations, the board and senior management of intermediaries have generally strengthened their oversight and functional governance structures as well as the relevant policies and procedures. Monitoring mechanisms are also in place to ensure the interest of clients are protected. Investors should however continue to closely monitor the performance of their investments.
- Intermediaries' remuneration structure for their remisiers is aligned with fair treatment of investors.
- Intermediaries generally display ability to identify and address issues brought forward by clients in a prompt manner through effective escalation and reporting framework.
- Sufficient internal reporting structures have been established to report misconduct with designated internal committees comprising senior management personnel tasked to deliberate on issues and take appropriate remedial action.

Enhancing regulatory framework for capital market services providers

In 2018, the SC introduced a registration framework for capital market services providers with the release of the *Guidelines on Registration and Conduct of Capital Market Services Providers* (CMSP Guidelines). Under these new guidelines, all trustees and issuing houses are required to register with the SC effective 2 January 2019.

The new registration framework streamlines the requirements and introduces registration criteria such as entry standards and ongoing conduct obligations to create a level-playing field among trustees. To enhance efficiency, the new CMSP Guidelines will implement a one-time registration instead of the current product-based registration, which requires trustees for unit trust funds to renew registration periodically.

The new registration framework is consistent with the SC's efforts to ensure proportionality in regulation and realigning the SC's regulatory approach in order to enhance capital market efficiency. It also seeks to ensure that capital market services providers prioritise investors' interest in all their decision-making processes. The framework places greater emphasis on the responsibilities of board and management by holding them accountable for the conduct of the registered entities and their representatives.

PURSuing CREDIBLE DETERRENCE THROUGH ENFORCEMENT

Enforcement remains an integral part of the SC's ongoing efforts to instil a culture of good governance. The SC's enforcement approach is premised on achieving credible deterrence through the exercise of its administrative, civil and criminal powers.

Pre-emptive measures through cease and desist directives

The SC also issues cease and desist directives to entities and individuals who are suspected of carrying out illegal schemes or unlicensed activities. Where necessary, the cease and desist orders were accompanied by media releases to ensure the public is sufficiently warned about these illegal or unlicensed schemes or activities.

In 2018, the SC issued five cease and desist orders:

January

- CopyCash Foundation was directed to immediately cease all its activities including a purported plan to launch an ICO in Malaysia.

April & May

- AlgoMerchant and Dagang Algomecs were directed to cease providing trading solutions and investment strategy to investors.
- These activities fall within the definition of providing investment advice, dealing in securities and/or fund management under Schedule 2 of the CMSA.

July

- Lendingstar Malaysia was directed to cease its activities of operating a recognised market and providing automated trading facilities as these activities require registration with or a licence from the SC under the securities laws.

September

- Lavidacoin was directed to cease all promotional activities pending further review.
- A media release from the SC reminded investors to be cautious and exercise due diligence before participating in any investment schemes particularly those involving cryptocurrencies and digital tokens.

ENFORCEMENT HIGHLIGHTS 2018

The SC continues to focus its enforcement efforts to achieve credible deterrence and instil a culture of good governance among market participants.



ADMINISTRATIVE ACTION

Holding professionals and directors accountable for their misconduct:

80 administrative sanctions were imposed:

- 32 reprimands
- 3 licences revoked
- 1 licence suspended
- 32 penalties totaling RM6.39 million imposed
- 10 directives
- 2 public statements against retention of public office by a director

Penalties and reprimands were imposed in various entities, their directors, reporting accountant and principal adviser for, among others:

1. Knowingly authorising the furnishing of false or misleading financial statements to Bursa Malaysia
2. Failure to disclose material developments relating to its listing on the Main Board of Bursa Malaysia
3. Failure to conduct proper due diligence during a listing exercise, in breach of the *Guidelines of Due Diligence Conduct for Corporate Proposals*



CIVIL ENFORCEMENT

RM9,259,608.60 disgorged from 18 individuals for insider trading and market manipulation

Disgorgement of illegal proceeds from market abuse:

1. Insider trading by one individual:
 - Ordered to pay RM3,238,760.55 – 3 times the loss avoided
 - Civil penalty of RM500,000 imposed by High Court
2. Market manipulation by 7 individuals:
 - Consent judgement for 3 times the profit earned, amounting to **RM3,073,231.92**
 - Joint civil penalty of **RM750,000**
 - Barred from being directors of PLCs and from trading on Bursa Malaysia for **5 years**



CRIMINAL PROSECUTION

14 criminal charges were preferred against 8 individuals in 2018

Judicial recognition on the gravity of securities offences:

1. Fines between RM70,000 to RM7 million against **7 individuals, totaling RM19.27 million**
2. **6 individuals** sentenced between 6 months to 5 years of imprisonment for:
 - Committing insider trading with the disposal of 350,000 shares while in possession of material non-public information
 - Furnishing false statements to Bursa Malaysia in relation to fictitious purchases worth RM119 million
 - Defrauding a co-operative of RM350,000 by representing to be a remiser when he was not licensed

ENSURING RESILIENCE OF THE CAPITAL MARKET

Systemic risk surveillance in the capital market

The Malaysian capital market remained resilient, despite the challenges and volatilities in global markets. Uncertainties heightened across global markets throughout 2018 with escalating trade tensions, geopolitical issues and normalisation of monetary policies in developed economies. These have affected risk sentiments, amid increased volatility and liquidity tightening in global financial markets.

These developments underscore the need for the SC to continuously monitor and assess systemic risk concerns. This includes early detection of emerging risk trends and vulnerabilities that could contribute to the build-up of systemic risks in the capital market. The SC's assessment of risks in 2018 were deliberated at various levels to enable the involvement and participation of various stakeholders in relation to markets, firms and products.

Given the importance of having in place robust and up-to-date approaches for identification, monitoring, mitigation and management of systemic risks, the SC continues to review and enhance its market risk surveillance framework to ensure its effectiveness and adequacy. The SC also took steps to strengthen business continuity arrangements at both industry and the SC's level as part of its efforts to better manage systemic risks.

Assessing vulnerabilities and risks to systemic stability

The SC continued to exercise its market risk oversight function through the Systemic Risk Oversight Committee (SROC), which is the overarching committee for the deliberation of risks and corresponding safeguards. Continuing from its work in 2017, the focus in 2018 centred on geopolitical issues and normalisation of monetary policies. The SC monitored among others,

developments in the Korean Peninsula, the US mid-term election, Turkish currency crisis as well as US-China trade tensions. Impact assessments were undertaken to ascertain potential spill-over effects to the global and emerging markets as well as the domestic financial markets. Risk assessments were also carried out on fund flows following further tightening of financial conditions in light of progressive interest rate hikes by the US Federal Reserve.

The development in the relevant Morgan Stanley Capital International (MSCI) Index constituents was monitored closely, particularly the inclusion of China A Shares. The proposed inclusion of Saudi Arabia, Kuwait and Argentina into the MSCI Emerging Market Index in 2019 may adversely affect the overall weightage of Malaysian companies in the index. To ensure the Malaysian equity market remains attractive to foreign investors, measures are being considered together with industry stakeholders, to enable listed companies to be allocated higher weightage in the index.

In addition, the potential impact to the local market and participants following the EU Resolution to phase-out the use of biofuels based on vegetable oils by 2020, as well as the change in Overnight Policy Rate (OPR) in January 2018 were also reviewed. The impact to the capital market was observed to be negligible.

The SC also continued to collaborate closely with BNM in areas of common interest and concern, given the interconnectedness of the financial and capital markets. In 2018, the SC exchanged information and shared assessment outcomes on global risk trends and developments as well as the movement of funds across different market segments to ascertain potential vulnerabilities.

To gain better insight of market trends and risks in the increasingly volatile market environment amid tightening liquidity conditions, the SC increased the frequency and intensity of its engagements with market participants. The engagements were important not only to validate the risk assessment work, but also to understand trading and investment sentiments in the market.

Diagram 8

Risk assessment of various components in the Malaysian capital market

 <p>Equity Market and Infrastructure</p>	<ul style="list-style-type: none"> • Sufficient domestic liquidity to facilitate efficient investment activities • Market-wide circuit breaker and price limit on equity are part of the risk management mechanism to address excessive market volatility. In 2018, no circuit breaker was triggered • Safety nets i.e. Securities and Derivatives Clearing Guarantee Funds are in place to manage sudden surge of stress
 <p>Bond Market</p>	<ul style="list-style-type: none"> • Marginal yield movements relative to other regional markets, supported by ample domestic liquidity • Internal bond-at-risk model indicated the stress level within the corporate bond market was minimal
 <p>Listed Companies</p>	<ul style="list-style-type: none"> • Corporate earnings in 2018 declined due to general economic conditions and increase in impairments by PLCs • Overall, corporate leverage remained healthy with stable trend of gearing ratios
 <p>Investment Flow</p>	<ul style="list-style-type: none"> • Net outflows in the equity market is among the lowest in the region. Foreign investors as a percentage of shareholdings saw minimal fluctuations and remained above the 3-year average • For bond market, foreign holdings reduction was attributed to issuances that have matured. Currently, more than 55% of foreign investors are long-term in nature i.e. central banks, sovereign wealth funds, pension funds and insurance
 <p>Investment Management</p>	<ul style="list-style-type: none"> • Fund managers have measures in place to manage liquidity risk i.e. liquidity management framework to safeguard against any adverse market conditions • Cash and liquid assets held are sufficient to meet investors' redemption
 <p>Stockbroking Intermediaries</p>	<ul style="list-style-type: none"> • Stockbrokers are well-capitalised, supported by sufficient liquidity buffers to address any realised or potential losses that may arise during times of stress • Current risk-based capital position remained above the prescribed minimum financial requirement

Various components of the Malaysian capital market continue to function normally despite the pressure points, particularly the tightening of monetary policies in advanced markets and US-China trade tensions. Assessments indicated that there were no immediate major systemic risk concerns given the prevailing market, liquidity and infrastructure conditions (Diagram 8).

Enhancing approach in surveillance of systemic risks

The surveillance of systemic risks is conducted based on approaches outlined in an integrated framework.

This encompasses products and macro prudential surveillance, with focus on risks and vulnerabilities of products and firms. The framework has clear data requirements to assist the SC in identifying and assessing pressure points from these segments of the capital market.

Recognising that surveillance of systemic risks is a multifaceted process, the SC is developing a set of risk surveillance indicators as part of its efforts to continue enhancing the systemic risk surveillance framework. Under this initiative, the SC intends to leverage technology to gain access to more reliable and quality data for systemic risk surveillance purposes.

In addition to improving efficiency, the risk surveillance indicators will provide an overall view on key risk areas, enabling early detection of risk build up and the consideration of appropriate interventions.

Augmenting business continuity capabilities

Efforts in ensuring overall systemic resilience in the capital market were complemented by a focus group consultation on the proposed framework on Business Continuity (Business Continuity Framework). 75 responses were received from a cross-section of capital market intermediaries and market participants. Feedback was encouraging, constructive and provided additional input for refinement of the framework.

The proposed Business Continuity Framework aims to set out six broad principles articulating the SC's expectation for market institutions and intermediaries. The framework is expected to be issued in 2019. (Diagram 9)

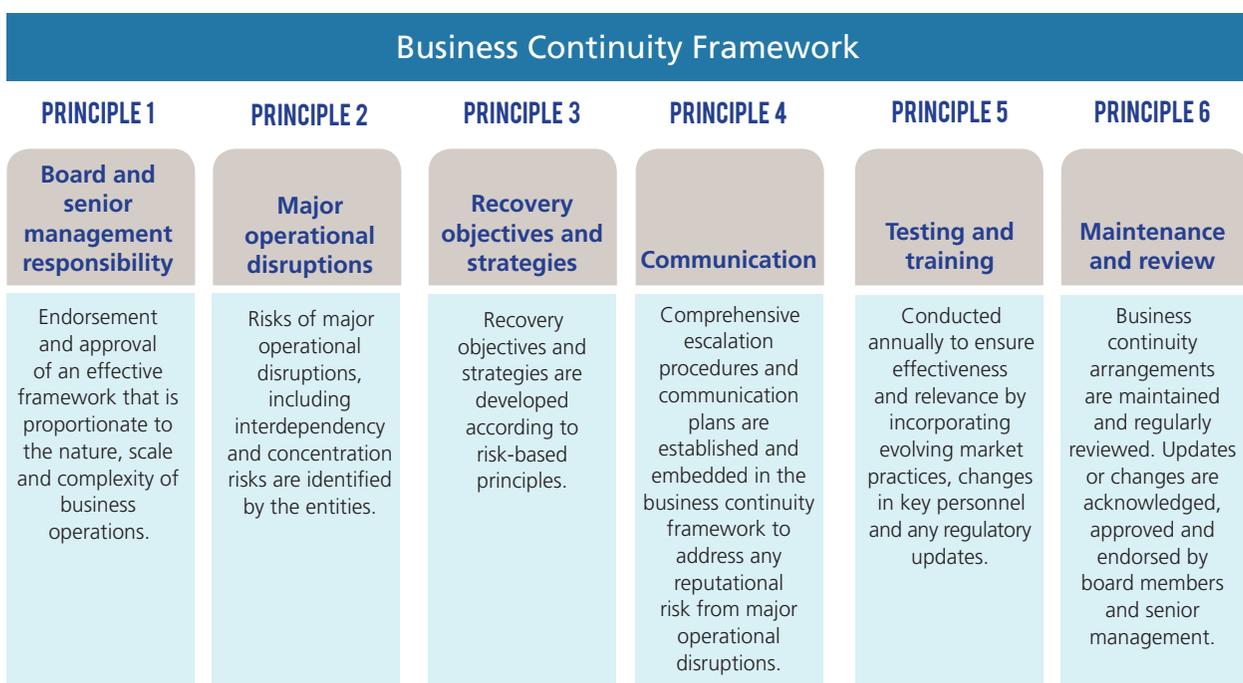
Within the SC, periodic reviews were carried out on the state of preparedness of key functions in managing incidents from external developments. In 2018, internal incident management procedures were reviewed and tested based on several scenarios. The scenario testing showed that the SC is able to manage and respond to incidents to ensure orderly functioning of the capital market. Additionally, departments in the SC have in place their own dedicated business continuity plans which were also tested through desktop simulations.

Strengthening cyber risk management

The SC is committed to put in place effective and efficient cyber resilience practices given the increased use and dependence on data and electronic communications, greater complexity of technologies in the financial markets and evolving cyber threats from a variety of sources.

Diagram 9

Principles embedded in the Business Continuity Framework



With cyber threats on the rise, supervisory focus was placed on cyber risk management by capital market entities. In 2018, several initiatives were undertaken to enhance and improve cyber risk management within the industry, including regular monitoring and review of cyber security issues on regulated entities through on-site and off-site engagements.

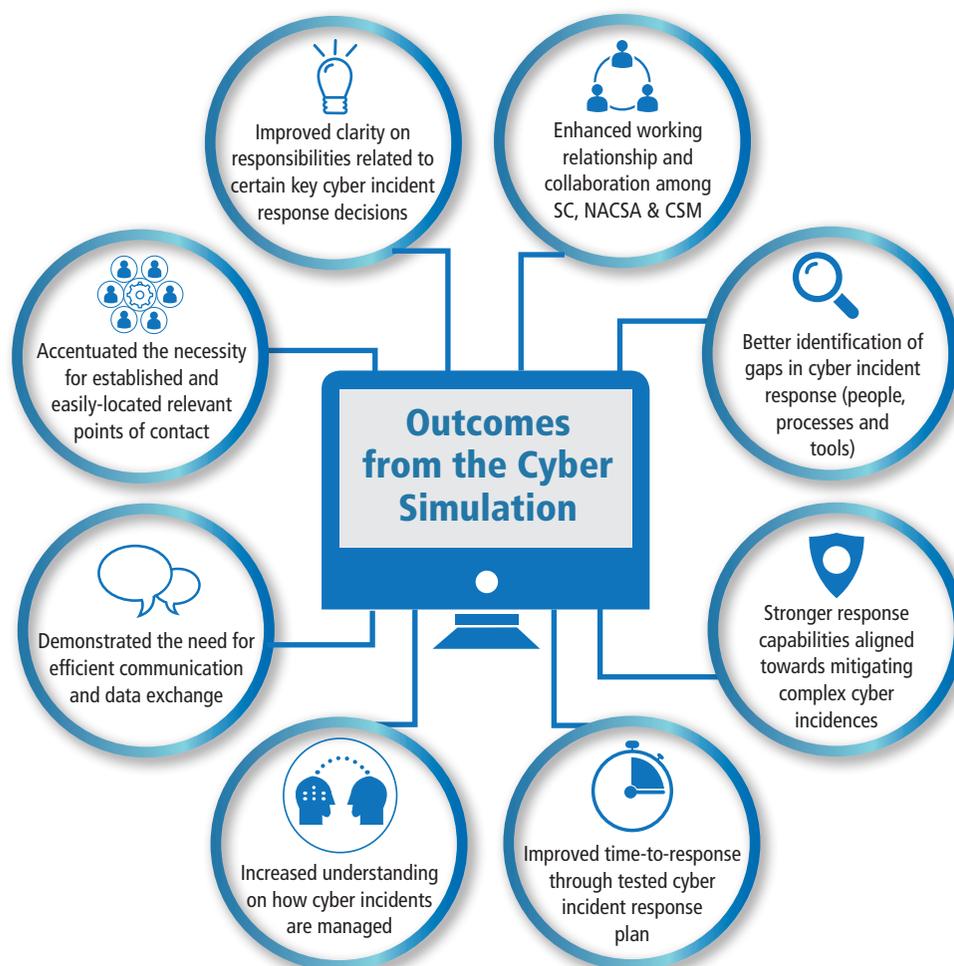
In December 2017, self-assessment questionnaires were issued to the industry to gauge controls on data management. Following the assessment, an industry circular was issued detailing several areas of improvement.

To strengthen cyber security resilience of capital market participants, focused and theme-based cyber risk examinations are planned for 2019. Targeted scrutiny, as and when required, will also be conducted to inform the SC's policy and supervisory interventions.

As part of its efforts to strengthen the industry's cyber defence, the SC hosted the first sector-led cyber simulation in October 2018. In collaboration with the National Cyber Security Agency (NACSA) and facilitated by Cyber Security Malaysia (CSM), the simulation involved 38 capital market entities that were selected based on the size of their business operations and reliance on technology.

Diagram 10

Capital market cyber simulation to strengthen cyber resilience



The simulation was structured around multiple scenarios involving various types of cyber-attacks to assess:

- Participants' internal incident response protocol to remediate or resolve the situation;
- Interaction between capital market entities, the SC, NACSA and other law enforcement agencies with a focus on co-ordination, information sharing or request for assistance; and
- Industry-wide communications, information sharing, threat monitoring and decision-making during cyber-attack.

The simulation has enabled the capital market entities to improve protocols for incident preparedness, response and recovery as well as allowed the SC to refine industry best practices.

Establishing a centralised cyber security platform for the industry

With organisations increasingly relying on digitised information and sharing vast amount of data across the globe, financial institutions have become exposed to different forms of cyber-attack.

The SC has developed a central platform to enable capital market entities to swiftly and securely report their cyber incidents. The platform was launched on 5 July 2018 for its pilot users while the remaining capital market entities would be able to access the system by January 2019.

Through this portal, capital market entities will be able to leverage information to enhance situational awareness and detection capabilities as well as more effectively respond to and recover from incidents based on the broadcasted threat information. The SC's engagement with stakeholders continued in 2018 with quarterly engagement sessions with

representatives from industry associations to discuss cyber related issues via the Cyber Risk Working Group (CRWG). The CRWG was established to facilitate collaboration and information sharing between members to enable the industry to collectively benefit from their respective experiences and raise the level of cyber security within the capital market.

Greater oversight of Bursa Malaysia's cyber risk management and outsourcing

In 2018, the SC also focused its regulatory assessment on Bursa Malaysia's management of cyber and outsourcing risks in light of its function as an exchange operator and other key financial market infrastructures that depend significantly on IT systems, network infrastructure and connectivity as well as third-party service providers. The regulatory assessment was also a follow-up review to gauge the cyber risk management and compliance practices of Bursa Malaysia with the SC's *Guidelines on Management of Cyber Risk*.

Oversight of Federation of Investment Managers Malaysia

Oversight of industry self-regulatory organisations (SRO) remains a key supervisory focus for the SC. In 2018, supervision of the Federation of Investment Managers Malaysia (FIMM), a SRO for the unit trust and PRS industry, focused on enhancing the effectiveness of enforcement to achieve better deterrence outcome particularly for more serious misconducts among unit trust and private retirement scheme distributors and consultants.

The case referral framework was further enhanced in 2018 with the establishment of a Referral Working Group within the SC as a central point for referrals of serious misconduct cases. The Referral Working Group also covered cases which are not within the

enforcement jurisdiction of FIMM such as breaches of securities laws and fraud. Enhanced referral processes and procedures were also put in place to ensure more timely and efficient case management as well as effectiveness of enforcement actions.

Oversight of Private Pension Administrator

Private Pension Administrator (PPA) plays a key role as the central administrator for PRS, providing record-keeping and electronic PRS services such as PRS member enrolment, unit top-up of member's contribution, withdrawal and beneficiary nomination. Efficiency and continuity in the operations of PPA are therefore critical to the PRS industry.

The SC's oversight of PPA continues to focus on ensuring the efficiency and robustness of PPA's operational and risk management practices in discharging its central administration function. In 2018, the SC facilitated the introduction of additional PRS electronic services, including the PRS online enrolment and the MyPPA mobile application that would enable greater public access to PRS. Supervisory priorities were focused on ensuring that PPA has put in place systems security and controls, system readiness testing prior to the introduction of new electronic services, business continuity arrangements including setting up a data recovery centre and business continuity testing as well as safeguards to protect confidentiality of members' personal data.

Focused engagement with equity crowdfunding and peer-to-peer financing operators

As equity crowdfunding (ECF) and peer-to-peer (P2P) financing are relatively new segments in the capital market, the SC's priority for supervisory oversight on ECF and P2P operators is to ensure compliance

with the *Guidelines on Recognized Markets*. The SC leverages its periodic engagements with operators to exchange views on trends and developments in the industry, clarify regulatory issues and communicate supervisory expectations related to products offered, fundraising campaigns and disclosure practices.

In 2018, engagements focused on deepening the industry's understanding of anti-money laundering (AML) regulatory requirements and ensuring operators have sufficient controls in meeting the AML requirements, particularly on the soundness of know-your-customer (KYC) assessment during onboarding of issuers and investors. Supervisory oversight also included emphasis on the resilience of operators' IT systems and infrastructure, given the importance of these infrastructure in supporting fund-raising campaigns and information held by operators such as issuers and investors' details and securities data. ECF and P2P operators were required to participate in cyber drill exercises organised by the SC as part of cyber threat preparedness.

The SC also emphasised the role of platform operators in enhancing investors' awareness of the risks, rights and obligations attached to their investments as well as the issuers' understanding of these alternative financing channels.

EMPOWERING INVESTORS

The SC continues to take measures to ensure investors are protected, empowered and able to make informed investment decisions. Critical components of the SC's investor protection mandate are implemented through the Securities Industry Dispute Resolution Centre (SIDREC) that provides investors access to redress mechanisms in the event of a dispute, and the SC's ongoing investor education efforts through InvestSmart® an investor empowerment initiative to increase investor awareness and knowledge of the capital market.

Widening the investor redress framework

SIDREC received 440 claims and enquiries in 2018; more than 90% of the eligible claims going through SIDREC's dispute resolution were resolved through case management and mediation.

Following the expansion of SIDREC's purview in 2017 to include a structured voluntary scheme component, SIDREC began receiving claims under this scheme in 2018. As the scheme involves claims

that either have entered the court process or exceed RM250,000, it is subject to a reasonable fee and requires the agreement of both parties to use SIDREC's dispute resolution service. The scheme also permits legal counsels of both parties to participate in the process.

However, the Mandatory Scheme for claims not exceeding RM250,000 will remain a priority to ensure that retail investors continue to have free access to redress through an independent and impartial expert platform.

Investor Empowerment Initiatives

An informed investor is a protected investor. The SC's investor empowerment initiative, InvestSmart® continues to reach out to members of the public to increase awareness on the need to make informed investment decisions. In 2018, campaigns were designed with targeted messages on investment scams, directed at vulnerable segments of the public.

InvestSmart® Fest 2018



Over
14,000
visitors
45
exhibitors

InvestSmart® Fest is the SC's annual flagship investor education event held jointly with capital market intermediaries and other regulatory agencies to promote awareness and enhance knowledge of the Malaysian capital market.



Themed 'Investing for a Sustainable Future', the event was officiated by Syed Saddiq Abdul Rahman, Minister, Youth and Sports. In a tweet post event, the Minister urged the youth to foster a culture of saving and investing for a sustainable future.

Two exclusive cartoon pieces by Datuk Lat on the SC ScamBuster Run 2018 and the annual InvestSmart® Fest.



#FinPlan4U Service Desk

397 individuals

Benefitted from a complimentary initial assessment with licensed financial planners to establish short and long-term goals.



Talks and Forums

Experts and professionals lent their support in educating investors. Two well-known personalities, Jeffrey Ong, former Malaysian Olympic swimmer and Datuk Mohammad Nor Mohammed Khalid (Datuk Lat) also shared their experiences in investing, and emphasised the need to remain vigilant at all times to avoid falling prey to scams.



Datuk Lat



Jeffrey Ong

Anti-Scam Initiatives



In conjunction with InvestSmart® Fest 2018, a charity fun run was organised with the hashtag #RunFromScams with participation of 2,558 runners. All proceeds collected were channelled to Persatuan Kebajikan Suara Kanak-Kanak Malaysia (SUKA Society) which aims to protect and preserve the best interests of children including empowering indigenous communities by providing greater access to education.



The SC launched an Anti-Scam Poster Competition in August, where contestants produced creative entries that best deliver anti-scam messages. The winning posters were featured in all Investsmart® channels to raise awareness on scams.



A new jingle 'Silap Labur Duit Lebur' was released at the fest.

InvestSmart® Outreach

SC-in-the-Community

**Over
300,000
participants
across 7 cities
and towns**



This is a face-to-face community engagement initiative which provides information on smart investing including ways to avoid scams.

InvestSmart® Targeted Programmes

**1,708
participants**



In collaboration with the Securities Industry Development Corporation (SIDC), 17 Kids & Cash, Teens & Cash, Cash@Campus, Money@Work and Be Money Wise (BMW) programmes were held to promote awareness on good financial management opportunities in the Malaysian capital market.

InvestSmart®@SC

407 participants

In 2018, the SC launched the InvestSmart®@SC programme. This half-day event held at the SC targeted specific investor demography to share issues of common interest.



Three events were held during the year in collaboration with the Financial Planning Association of Malaysia, Malaysia Financial Planning Council, Bursa Malaysia and the Private Pension Administrator.

InvestSmart® Day

**12
seminars
1,225
participants**



The InvestSmart® Day programme is targeted at individuals who are keen to invest in the capital market but have limited knowledge about investing.

Experts were invited to share investment strategies particularly on shares and unit trust.

Jump2Invest



The SC launched an educational game, 'Jump2Invest' in October 2018 to promote and spur interest in the capital market.

The game allows players to build a simple portfolio of investments and educates players on basic capital market knowledge.

Public Service Announcements

The SC in collaboration with the Ministry of Communications and Multimedia, released two public service announcements.



The 30-second 'T.I.P.U.' video highlights the modus operandi of scammers, and was televised from 31 May to 31 December on all local TV stations and public transportation operated by Prasarana Malaysia.

A crawler message reminding the public to only deal with licensed persons when investing in capital market products was also aired during the news segment of local TV stations from 15 August to 31 December.

IOSCO WIW 2018

IOSCO
World Investor
Week 2018



In conjunction with IOSCO's World Investor Week 2018, an InvestSmart® Series produced by the SC was aired on BFM Radio 89.9 from 1 to 7 October to educate listeners on the risks of investing in ICOs.

A series of infographics to educate the public on the risks of investing in ICOs was also published in The Star, Harian Metro and Sin Chew Jit Poh newspapers.

InvestSmart® Tools



The InvestSmart® website and mobile application were revamped to refresh the look and feel.

New content was also introduced including infographics on the 'Dos and Don'ts of Investing' and several 'Investor Guides' on various capital market products.

The SC continues to leverage the InvestSmart® social media platforms i.e. Facebook, Instagram and Twitter to disseminate information on events, activities and relevant news.



PART 3 ENGAGING AND DEVELOPING OUR PEOPLE AND COMMUNITY

INTRODUCTION

The SC takes pride in its people and has invested in efforts to create a dynamic workplace that promotes a culture of accountability, proactiveness and inclusiveness with a commitment to build communities and the nation.

The SC's talent pipeline is built through succession planning combined with several graduate programmes. Employees are encouraged to raise the bar individually and collectively. The SC also prioritises governance and has put in place internal control systems to ensure the highest level of integrity.

As a responsible organisation, a strong sense of volunteerism among employees is also important. To strengthen employee engagement and interaction as well as foster a sense of belonging,

the SC introduced a structured programme that supports various community needs.

DEVELOPING ADEPT REGULATORS FOR THE CAPITAL MARKET

The SC has adopted a balanced approach to recruitment. It leverages the skills and experience from within the organisation, as well as brings in new capabilities to further strengthen the SC's talent mix.

The SC's Recruitment in 2018



57%

of vacant positions filled internally, encouraging internal career mobility



108

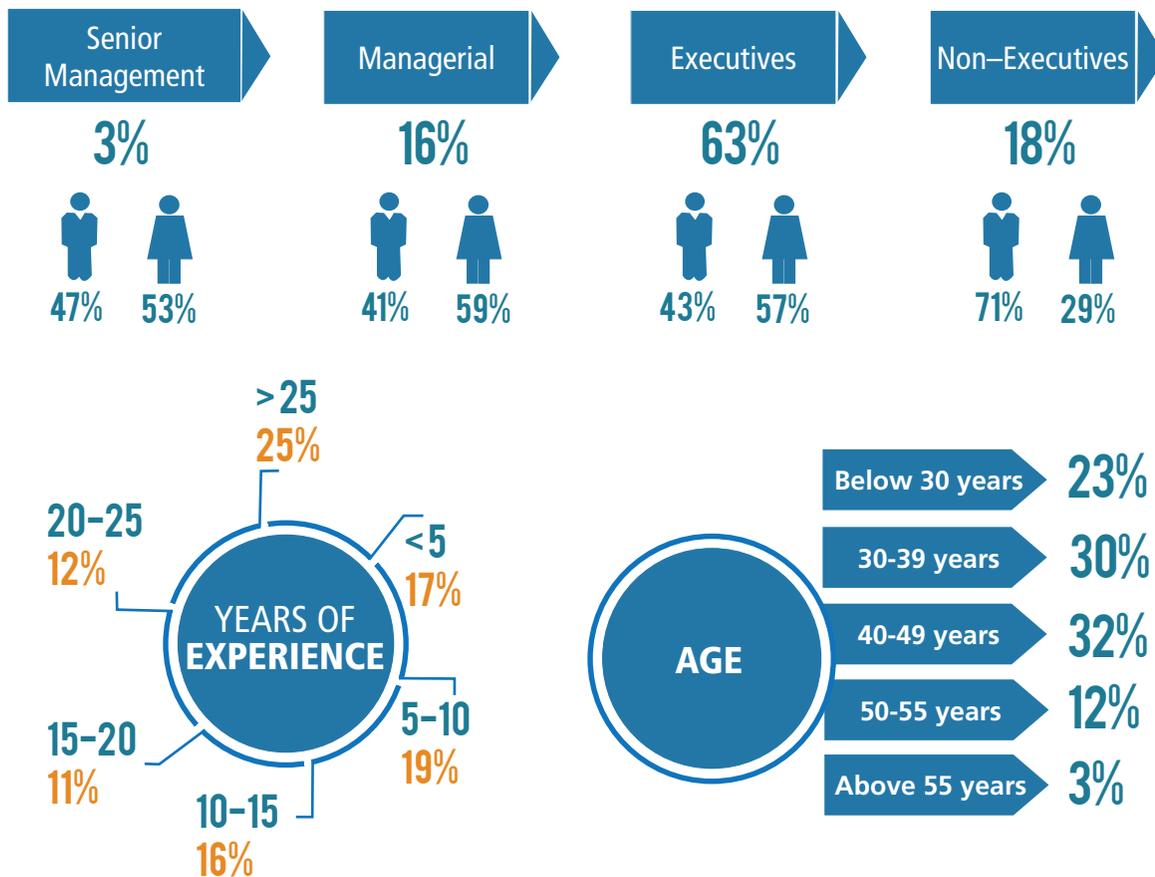
employees embraced new roles to encourage sharing of expertise and acquisition of new skills



43

new hires including 25 middle and senior management

Diverse and Inclusive Workforce



Preparing future leaders

The SC's unique role as the capital market regulator provides its talent with diverse experience and exposure to the capital market. Its development interventions are focused on experiential learning through projects, secondments and stretched roles; exposure through speaking engagements; and formal learning programmes.

The SC's structured development programme, the Leadership Learning Curriculum (LLC), aims to equip employees with the skills and knowledge to be effective at their current leadership level and prepare them for future upward mobility.

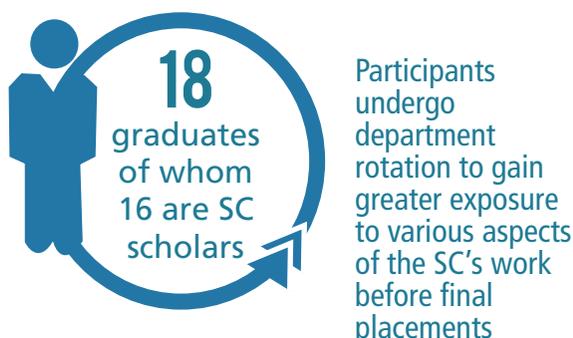
Grooming young talent

The SC continues to attract aspiring young talent through its scholarship programme which has been running for 22 years. In 2018, nine high-performing individuals were awarded scholarships for undergraduate programmes at local and foreign universities in diverse areas of study particularly Law, Actuarial Science, Communications, Cyber Security, Digital Technology, Economics and Mathematics.

The SC also collaborates with vocational and technical training institutes to prepare skilled technical workforce for the industrial sector through a 6-month industrial training stint.

Diagram 1

Model Regulator Programme or MORE@SC Programme



Internship



The trainees were given assignments related to electrical, mechanical and other building services under the supervision of the SC's technicians. The exposure provided them with the practical skills and knowledge needed in entering the workforce.

Nurturing a knowledge culture

As a knowledge-based institution, the SC invests generously in the learning and development of its employees to enhance their competencies and skills. Its learning and development programme is based on a 70:20:10 learning philosophy of On-the-Job; Relationship (mentoring and coaching); and Classroom interventions. The initiative comprises core, leadership and technical programmes as

well as scholarships for postgraduate studies for employees. The SC also provides opportunities for learning through secondments, participation in international meetings and project work.

The SC views the sharing of knowledge and experience between regulators as critical in developing regulatory capacity co-operation and effectiveness. To this end, it continues to share technical expertise and experience with foreign regulatory counterparts. In 2018, the SC hosted two regulators from the Australian Securities and Investments Commission, one from the Capital Markets Authority of Kenya and another two from the Securities and Exchange Commission of Cambodia.

At the same time, six SC employees were seconded to the National Cyber Security Agency (NACSA), the Monetary Authority of Singapore (MAS), The World Bank and the International Organization of Securities Commissions (IOSCO) Asia Pacific Hub. The SC also hosted seven study visits by international regulators from, among others, Bangladesh, Egypt, Morocco, Oman and Saudi Arabia to discuss developments relating to the capital market.

Recognising the importance of retaining institutional knowledge to ensure seamless continuity of its operations, the SC captures employees' insights and experience through different touch points. Various initiatives were undertaken to encourage its employees to expand their knowledge beyond the capital market such as leadership talks and activities conducted at the SC Knowledge Day, which aims to promote a reading and learning culture throughout the organisation.

Instilling the highest level of integrity

As a statutory body entrusted to regulate and develop the Malaysian capital market, the SC is committed to ensuring that its employees uphold the highest level of integrity when discharging their

roles and responsibilities. It continuously undertakes efforts to instil a strong sense of integrity, accountability, professionalism and ethical conduct among its people.

This includes the strengthening of its framework for institutional governance to promote a culture of compliance and ethical conduct to maintain the trust and confidence of the industry as well as the broader community.

The SC further enhanced its risk management practices through periodic engagements with key departments to ensure controls are in place in managing information confidentiality, ensuring compliance with business processes and managing conflicts of interest. Effective 1 July 2018, the SC also adopted a 'No Gift Policy' to safeguard against conflicts of interest.

ENHANCING EMPLOYEE WELLNESS

The SC firmly believes in building a healthy and caring work environment supported by well-being policies that create a positive, vibrant and dynamic culture among its employees. This in turn results in effective delivery of the organisation's objectives.

Promoting work-life balance

Policies have been strengthened to promote the SC as a family-friendly organisation, building on the existing facilities such as on-site crèche, nursing room, work from home and flexi-time, to allow employees to better integrate their personal and professional commitments. The maternity leave entitlement was increased from 60 to 90 consecutive days and paternity leave extended to five consecutive work days from the two work days previously.

In tandem with the global change in workplace trends which indicate that employees value human interaction and the freedom to choose where to

DID YOU KNOW?

- In September, the SC received an Appreciation Award from the Malaysian Institute of Certified Public Accountants (MICPA) and Chartered Accountants Australia and New Zealand (CAANZ) as an Approved Training Organisation (ATO) under Stream II for training CPA students.

work, the SC café was renovated to provide greater flexibility in workspace utilisation for its employees. Unveiled in March, Teratai Café is now a favoured venue for discussions and collaborations. New Wi-Fi connectivity, access to power points for laptops and flexible furniture arrangement provide greater mobility to employees, helping them boost their creativity and productivity.

To support a healthy lifestyle and collaborative culture, activities organised by the SC's Sports & Recreation Club (KSRSS) also encouraged its people to participate in activities that promote wellness and build team cohesiveness.

Enabling a safe work environment

Various measures were undertaken in 2018 to ensure the safety of its employees and create a secure work environment. Several briefing sessions were held to increase employees' awareness on personal and road safety as well as self-protection. The SC's Auxiliary Police underwent training to enhance their skills and competencies in handling high-rise Search and Rescue operations. As part of an ongoing security infrastructure enhancement initiative, the digital CCTV was upgraded to strengthen the surveillance capabilities of the SC's Auxiliary Police.



LEVERAGING DIGITAL TECHNOLOGY

Embracing digitisation

In 2018, as part of efforts to encourage the usage of financial technology among employees and vendors, the SC introduced cashless payment options at the Teratai café and the SIDC Bookshop. In less than five months from its introduction, more than 23% of the café total retail sales was made through the cashless option, indicating a positive adoption of this payment mode.

The SC also strengthened its call centre and customer relationship management solutions to enhance interaction with stakeholders and reduce 'islands' where vital information resides in pockets of business areas. These systems also optimise workforce productivity in the management of information, tracking of complaints and monitoring of incoming and outgoing calls.

Strengthening IT capacity

The SC regularly conducts comprehensive evaluation and enhancement of its data protection systems, including the Compromise Assessment and Distributed Denial-of-Service (DDOS) Mitigation Assessment. It also has in place strategies, technologies, policies and procedures for optimal information security assurance as reflected in its continued accreditation of the Information Security Management System (ISMS) ISO/IEC 27001 standard from SIRIM.

Proactive steps have also been taken to safeguard data against possible internal exploits either intentionally or unintentionally. This has resulted in a more efficient management and governance of privileged access. Additionally, the reinforcement of the Disaster Recovery site perimeter of defence allowed for proactive discovery and deflection of suspicious threats before the SC's systems are compromised.

RESPONSIBLE CORPORATE CITIZEN

Sustainability efforts

The SC is committed to ensure that a culture of sustainability is embraced across the organisation. Its efforts in 2018 expanded beyond raising awareness of sustainability issues and focused on catalysing change to optimise resources, eliminate wastage and encourage greener living among employees.

Encourage employee volunteerism

To further encourage its employees to give back to the community, the SC has rebranded and streamlined its Corporate Social Responsibility initiatives through the SC HEART programme to:

- Foster greater employee engagement;
- Nurture relationships between the SC and the community; and
- Promote an appreciation of arts & culture, sustainability and societal well-being.

A fundraising programme under the SC HEART initiative, called RELIEF (Relief Effort for Life by SC staff), was formed to aid humanitarian support for both crisis and non-crisis situations. In 2018, more than RM12,000 was raised and more than 370 kilograms of staple food items were collected by employees through various in-house fundraising activities. Of this amount, RM10,000 was donated to the 'The Lost Food Project', a pioneering food bank in Malaysia that rescues quality, nutritious surplus food which is still in date and edible, and redistribute them to those in need. The SC's donation was able to provide 50,000 nutritious meals.

In conjunction with World Autism Awareness Day in April, the SC organised its own Autism Acceptance Day to educate employees on Autism Spectrum

Sustainability efforts



CAMPAIGN

Say No to Plastics!

- Promote zero usage of single-use plastics and straws throughout the building
- #SayNOtoPlasticStraws #StrawlessInSC
- Encourage the use of personal containers and cups for food and drink takeaway



CAMPAIGN

Reduce Carbon Footprint

- Participate in HP® Malaysia's 'Go Green Rewards Programme' by returning and recycling more than 435 used toner cartridges
- QR codes to download the digital versions of SC and AOB Annual Reports 2017
- Implement digital subscription at the SC Library
- Discourage printing #BeGreenLeaveltOnScreen

Disorder. Activities included an exhibition and sale of visual art pieces by three young gifted artists on the spectrum.

In addition to the SC HEART programme, the SC InvestSmart® ScamBuster Run returned for the second year to raise awareness on scams and illegal investment schemes. The 6km and 4km runs attracted 2,558 participants. A total of RM104,240 was collected, of which the SC employees contributed RM18,580. The collection was channelled to a non-governmental organisation, SUKA Society, to support their efforts in providing education for Orang Asli children through the sponsorship of one pre-school for three years, the printing of pre-school syllabus for six schools for one year and the training of Orang Asli Community teachers.



CAMPAIGN

Electric Vehicle (EV) Charging Station

- Provide EV charging bays for electric vehicles



CAMPAIGN

Electricity Savings

- Optimise usage of high energy-consumption electrical equipment
- SC Weekly Earth Hour Campaign – Lights off every Friday at lunchtime



CAMPAIGN

Smoke-free Building

- Enforce a no-smoking rule with a designated outdoor smoking area



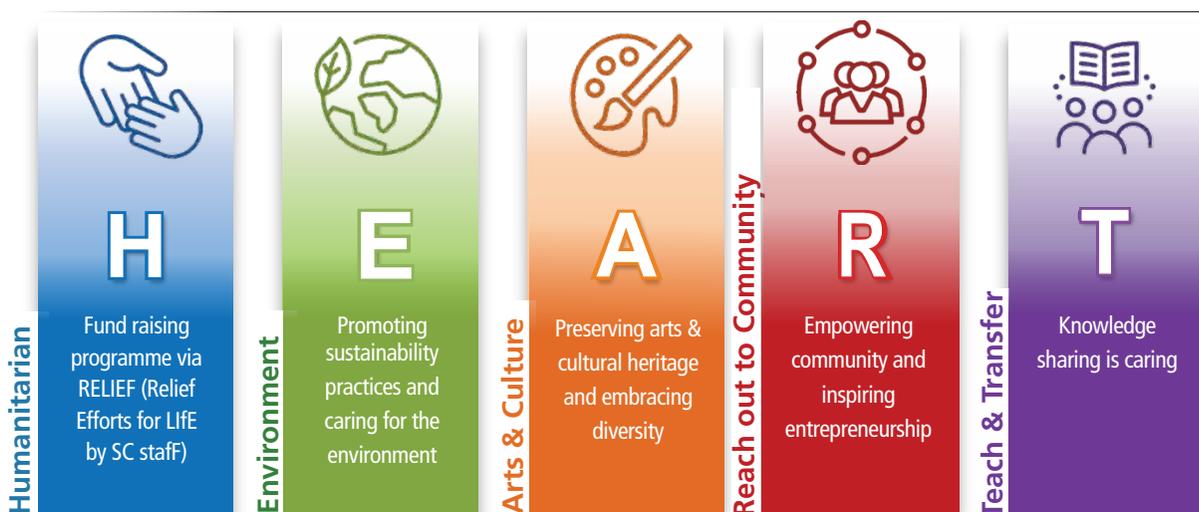
CAMPAIGN

Recycling Efforts

- Increase accessibility of recycling bins



SC HEART pillars



Giving back to the Community



The InvestSmart® team at the pre-school run by SUKA Society and a group photo to remember the visit



Children of SUKA Society on the day of visit by the InvestSmart® team



The panel discussion on Autism acceptance



The displayed art pieces by the three young gifted artists drew much attention and interest

Bringing Our People Together

Recycle @ SC



A total of RM2,320 was collected from recycling efforts. This was distributed to 29 cleaners and gardeners in appreciation of their efforts in ensuring the recycled items are sorted and ready for collection.

SC Sustainability Day 2018

Environmental protection at the workplace and home. Activities included a composting workshop, environmental film screening, and a photo contest.



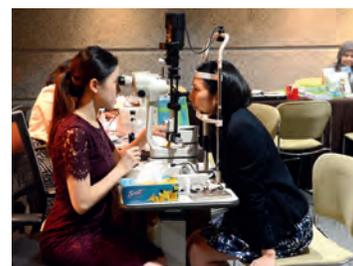
SC Merdeka Leadership Series

Malaysia's first Astrophysicist, Professor Datuk Dr Mazlan Othman on the topic 'Becoming an Inter-Planetary Species', an inspiring session on leadership and forward thinking.



Health & Safety Week

Encourage and promote a healthy lifestyle among the SC staff as well as awareness on the importance of self-protection, personal and road safety. Activities include health screenings, talks and the 'Jom Naik Tangga Challenge'.



SC Knowledge Day 2018

Awareness on the importance of knowledge sharing, knowledge retention and continuous learning through talks on the economy and Fintech, an exhibition by Fintech start-ups, competitions and book sale.



CENDANA @ SC HEART

As part of its art activation activities to expose Malaysians to local art, Malaysia's Cultural Economy Development Agency (CENDANA) conducted a free art workshop by local artists at the SC.





PART 4 CAPITAL MARKET REVIEW AND OUTLOOK

OVERVIEW

Global growth softened in 2018, with uneven performances across major economies. The year, which started on a positive footing, subsequently saw materialisation of key downside risks to growth, particularly the increase in trade tensions and tightening of global financial conditions. The global capital market ended the year with markedly higher levels of global financial market stress and volatility. Notwithstanding the challenging global environment, the Malaysian capital market remained resilient compared to global and regional market performance and continued to play a vital role in financing the domestic economy.

The global economy is expected to grow at a more moderate pace in 2019, with synchronised deceleration across all major economies including the US and China. The global capital market will continue to be shaped by uncertainties surrounding key developments, including the pace of developed economies' monetary policy normalisation, the prospects of further increase in trade tensions and the risk of slower global growth. Against a backdrop of a more challenging and uncertain global environment, the Malaysian economy is expected to remain on a steady growth path, underscored by the continued resilience of domestic private sector activities. Domestic capital market performance will continue to be influenced by developments on the external front and the general increase in volatility of global financial markets. Nevertheless, the domestic market is expected to remain stable on the back of Malaysia's strong macroeconomic fundamentals, deep domestic liquidity and well-developed capital market infrastructure.

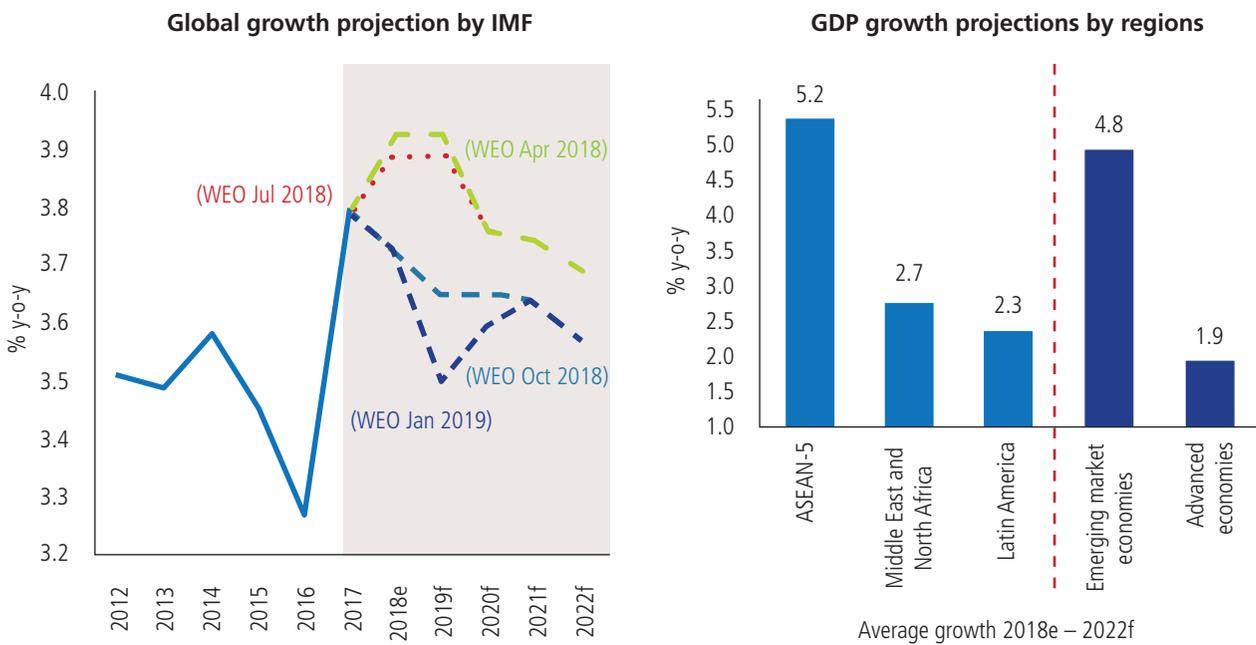
GLOBAL DEVELOPMENTS IN 2018

Global growth moderated in 2018, with most major markets witnessing uneven performances throughout the year. It started on a positive footing with the continuation of low level of financial markets volatility from the year before, underpinned by higher global growth expectations after a synchronised acceleration in 2017. As the year progressed, economic growth gradually became weaker than initially expected amid materialisation of key downside risks to growth, particularly the continued increase in trade tensions and tightening of global financial conditions. The International Monetary Fund (IMF) downgraded the global growth forecast during the year (Chart 1).

The US economy in 2018 was driven by robust consumer spending, underpinned by strong labour market conditions, coupled with the continued rise in private capital expenditure due to sizeable

Chart 1

Global economic outlook revised downward in 2018 amid materialisation of downside risks but ASEAN economies continued to stand out as a global growth centre



Source: IMF World Economic Outlook (WEO)

fiscal stimulus introduced in late 2017. In addition to weaker exports and unfavourable weather conditions, growth in Europe was hindered by rising political risks. China’s real gross domestic product (GDP) growth, meanwhile, slowed as expected, reflecting weaker investment momentum as the government continued to tighten regulations on the property and non-bank sectors. Nevertheless, China’s economy remained resilient, given the government’s proactive policy response to offset difficulties arising from challenging external demand.

In the region, the Association of Southeast Asian Nations (ASEAN) economies continued to experience sturdy growth but at a more moderate pace, supported by strong domestic demand that helped offset challenging external environment. Real GDP growth remained close to or above potential for the region as rising infrastructure needs helped

sustain investment momentum, and favourable demographic profile supported private consumption activities.

Global monetary policy tightened in 2018 led by continued rate hikes by the US Federal Reserve (Fed), while other major central banks such as the European Central Bank (ECB) and Bank of Japan (BOJ) cautiously adjusted their policies, given the subdued inflationary pressures and continued weakness in economic growth. The Fed raised the benchmark federal funds rate by a cumulative 100 basis points (bps) to a range of 2.25% to 2.50% in four separate moves on the back of strong labour market conditions and stable inflation. The ECB maintained its key refinancing rate at 0%, pledging to keep rates at the current level at least until summer 2019 and retired its asset purchases programme in December 2018. The BOJ,

meanwhile, adjusted its yield curve control policy in July 2018 by allowing for wider deviation band for the benchmark 10-year yield around an unchanged target of about 0%.

Several emerging markets economies' (EMEs) central banks have also raised policy rates in order to limit the currency and financial market pressures. The People's Bank of China (PBOC), on the other hand, maintained its benchmark one-year lending rate but reduced its reserve requirement ratio four times to prevent a sharp deceleration in growth.

Conditions in global financial markets deteriorated throughout most of 2018 compared to 2017 (Chart 2). Stress in the global financial markets was rising steadily since February 2018 with financial

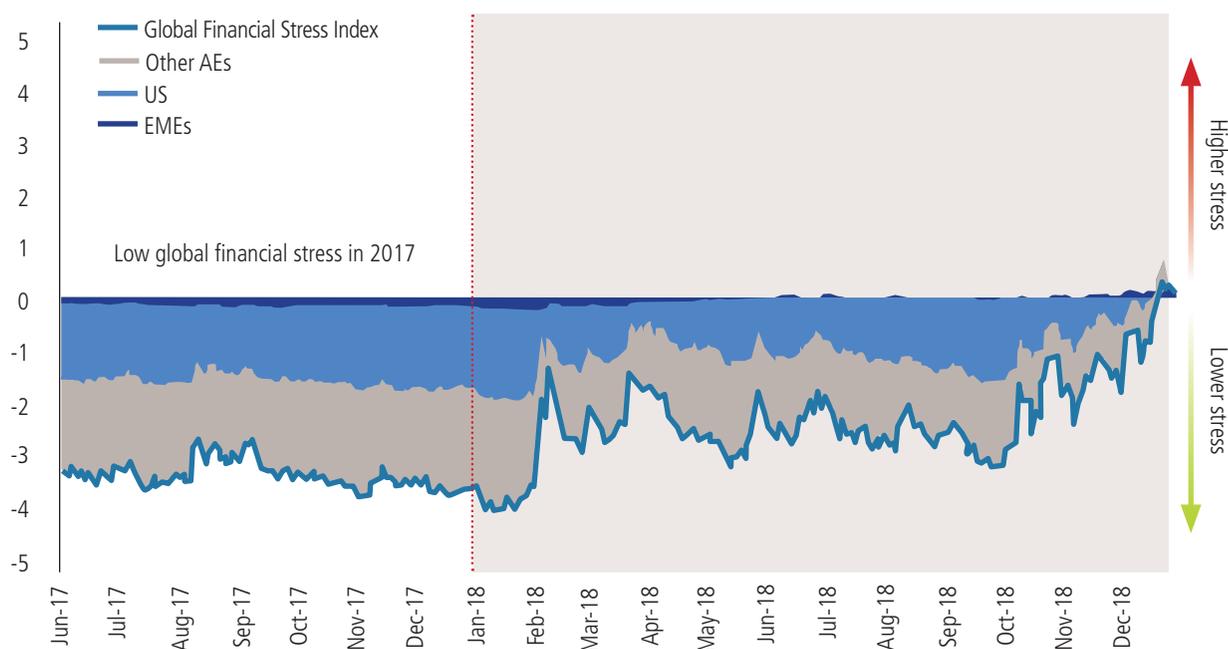
conditions tightening considerably towards the latter part of 2018 for the advanced economies (AEs). EMEs, on the other hand, faced significant financial market pressures since June 2018, driven by the shift in global liquidity, particularly from economies with weaker macroeconomic fundamentals and large financing needs. Overall, global financial market conditions in 2018 were shaped by three key inter-related developments, namely escalation of the US-China trade war, pressures on EMEs arising from a stronger US dollar and the general increase in global financial market volatility especially towards the end of the year.

The intensification of global trade tensions had led to a repricing of risks that resulted in volatility in the global financial markets. The escalation began after

Chart 2

Conditions in global financial markets deteriorated in 2018 as compared to 2017

Global Financial Stress Index by the US Office of Financial Research (OFR FSI)



Note:

The OFR FSI is a daily market-based snapshot of stress in global financial markets. It is constructed from 33 financial market variables such as yield spreads, valuation measures and interest rates. The OFR FSI is positive when stress levels are above average, and negative when stress levels are below average.

Source: Office of Financial Research, US Department of the Treasury

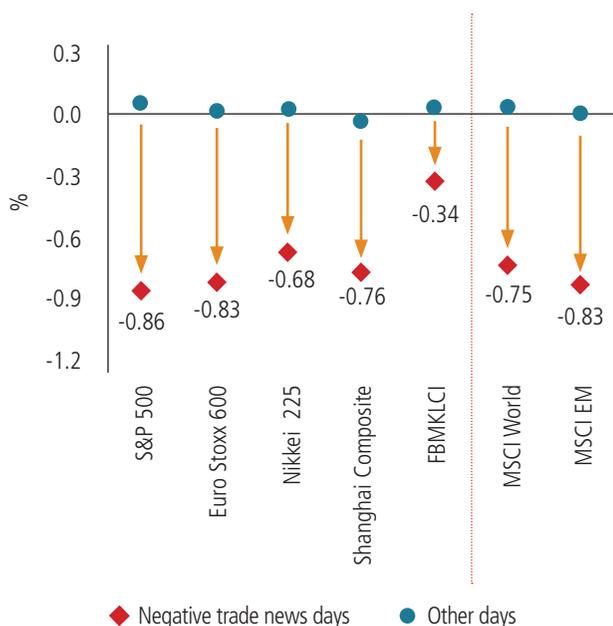
the US imposed tariffs on imported steel and aluminium in March, following earlier tariffs on washing machines and solar panels imposed in January. Subsequently, tensions heightened as the US shifted its focus to China from the second quarter onwards, which resulted in a series of tariffs and counter-tariffs imposed by the two countries. This adversely affected investors' sentiments (Chart 3), particularly for EMEs which are more dependent on trade.

In addition, financial conditions also tightened in EMEs vis-à-vis that of AEs in 2018 due to the shift in global liquidity arising from the US monetary policy normalisation and the consequent appreciation of the US dollar. Wider growth and interest rates differentials between the US and other major economies also contributed to the strength in the US dollar, especially in the middle of the year, leading to pressures on EMEs' assets. EMEs' sovereign bond

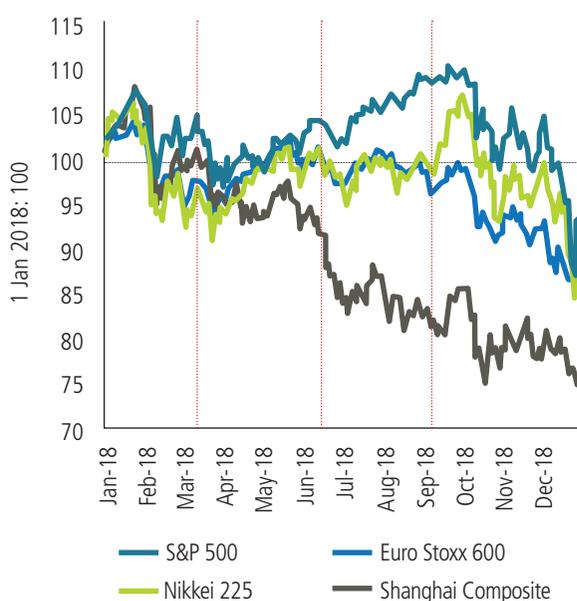
Chart 3

Trade war negatively affected investors' sentiments, leading to a marked increase in price volatility

Average daily return on selected equity markets during negative news days¹ versus normal days



Selected major equity markets performances²



Notes:

¹ Negative trade news days: 1 March 2018 (US announced plans to impose steel and aluminium tariffs); 22-23 March 2018 (US announced US\$60 billion tariffs on imports from China pursuant to USTR Section 301 investigation, and triggered subsequent retaliation from China); 19 June 2018 (US announced additional tariffs of US\$200 billion on imports from China); 25 June 2018 (Harley-Davidson announced to shift production overseas to offset EU tariffs); 6 July 2018 (US and China imposed tariffs on US\$34 billion of each other's imports); 10 July 2018 (US announced additional US\$200 billion tariffs on China); 20 July 2018 (US threatened to impose tariffs on all imports from China); 23 August 2018 (US and China imposed tariffs on another US\$16 billion of each other's imports); 17 September 2018 (US finalised US\$200 billion tariff list that is subject to 10% rate to be increased to 24% on 1 January 2019); 24 September 2018 (US imposed tariffs on US\$200 billion imports from China, and China retaliated with tariffs on US\$60 billion of US imports); 6-7 December 2018 (Huawei CFO arrested for alleged violation of US sanctions on Iran).

² Key events affecting equity market performances, as depicted by the red vertical lines: 22-23 March 2018 (US announced US\$60 billion tariffs on imports from China pursuant to USTR Section 301 investigation, and triggered subsequent retaliation from China); 19 June 2018 (US announced additional tariffs of US\$200 billion on imports from China); and 17 September 2018 (US finalised US\$200 billion tariff list that is subject to 10% rate, to be increased to 24% on 1 January 2019).

Source: Bloomberg, SC's calculations

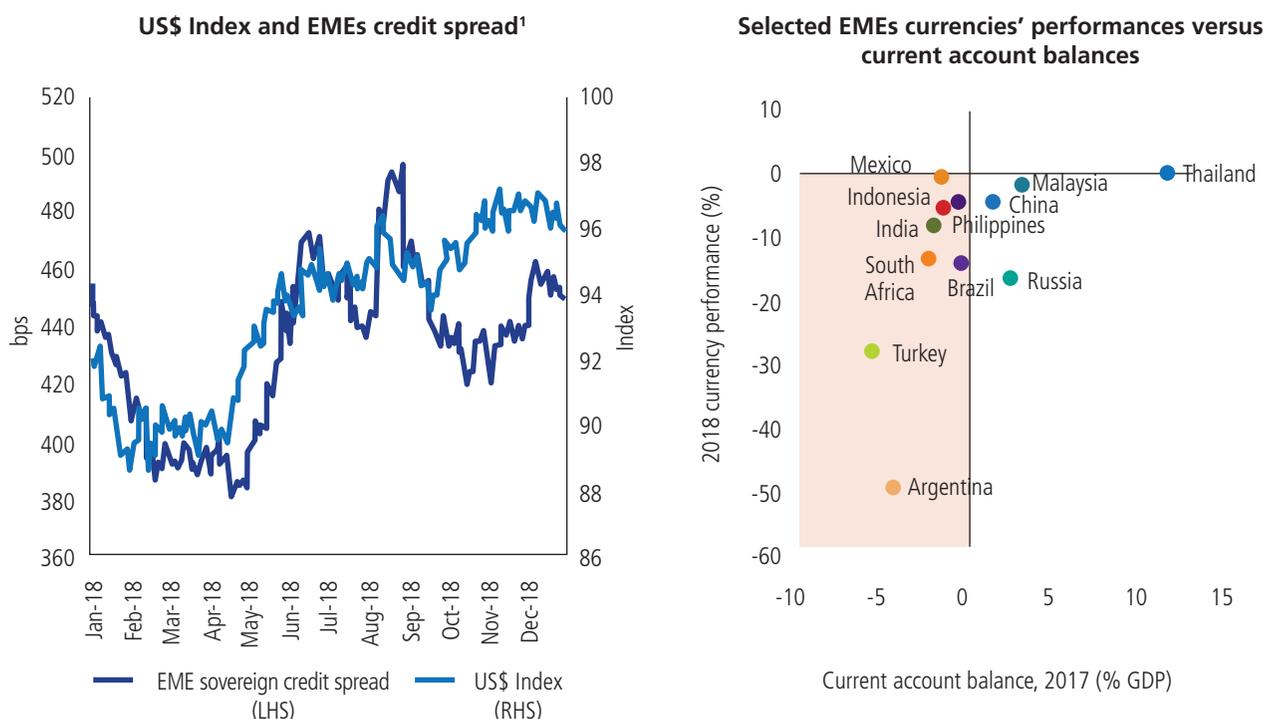
spreads also widened in line with the exchange rate dynamics. Nevertheless, the pressures were uneven across EMEs, reflecting differentiated stress conditions related mostly to economic fundamentals and policy frameworks. Emerging Asia, in particular, continued to exhibit resilient financial market performance, given the region's solid macroeconomic fundamentals and lesser dependence on external financing (Chart 4).

After a prolonged period of low volatility in the preceding year, 2018 marked the return of global financial market volatility (Chart 5), with broad-based increase in volatility across all asset classes especially in the latter part of the year. The strong equity prices at the start of the year was short-

lived as the release of stronger-than-expected US labour market data led to the upward shift in US interest rates expectations. The rise in US Treasury (UST) yields accelerated in late January, preceding the US equity market correction. This subsequently spread to other major markets. Market correction re-occurred in October, triggered by unsustainably high US equity valuations on the back of challenging global macroeconomic outlook. The trend exacerbated through the final part of the year, wiping off 2018 gains as the abrupt decline in oil prices in November, alongside the inversion of the UST 5/3 yield curve in early December, collectively contributed to the widespread risk-off sentiments across all markets.

Chart 4

EMEs faced increased pressure with the strengthening of the US dollar, but the effect was not generalised and was differentiated based on macroeconomic fundamentals



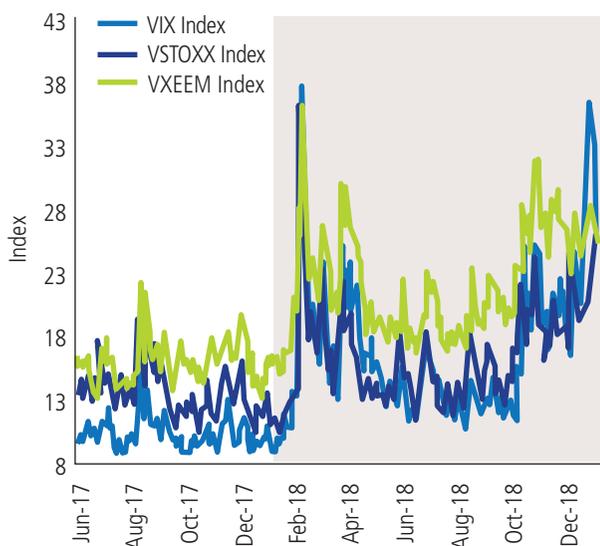
Note:
¹ JP Morgan Government Bond Index-Emerging Market (GBI-EM) spread over 10-year US Treasury

Source: Thomson Reuters Datastream, Bloomberg, IMF, SC's calculations

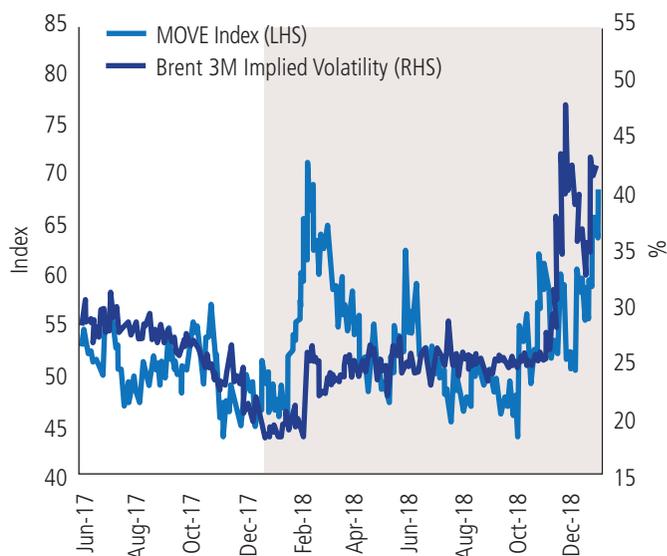
Chart 5

2018 marked the return of global financial market volatility especially in the latter part of the year

Volatility measures of major equity markets
(VIX, VSTOXX, VXEEM)



Volatility measures of the US bond market
and Brent crude oil prices (MOVE Index and
Brent 3-month Implied Volatility)



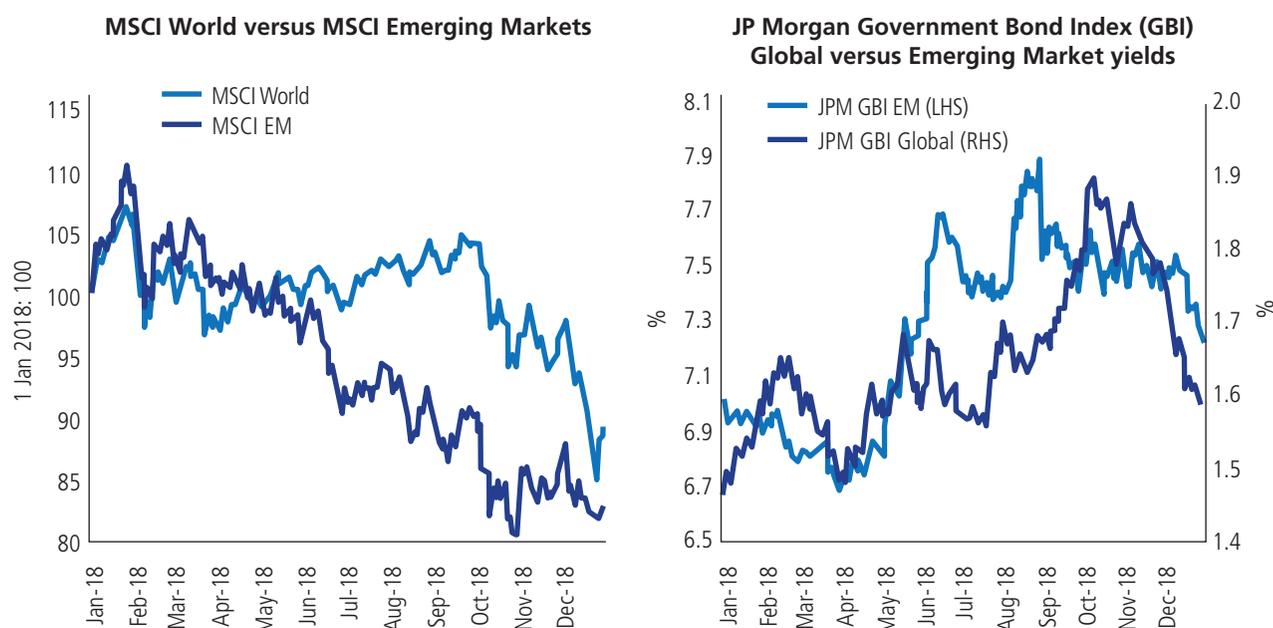
Source: Bloomberg

Overall, the global capital markets ended significantly weaker in 2018 (Chart 6), with higher levels of global financial market stress and volatility. In the equity market, the MSCI World ended the year -10.4% lower to 1,883.93 points (2017: 20.1% to 2,103.45 points), marking its worst annual performance since the Global Financial Crisis (GFC) in 2008. Similarly, the MSCI Emerging Markets declined by a double-digit rate of -16.6% to 965.67 points (2017: 34.3% to 1,158.45 points), and down by -24.1% from its peak of 1,273.07 points on 26 January 2018.

Meanwhile, the global bond market also ended relatively weaker as higher global interest rates drove bond yields higher with notable upward pressure among EMEs local currency sovereign bonds. However, stronger risk aversion particularly in the latter part of the year had kept long-term yields anchored, leading to a further flattening and even an inversion of the yield curve as experienced in the UST mid-range tenures in early December 2018.

Chart 6

Global capital markets ended weaker in 2018, especially for equities



Source: Bloomberg, Thomson Reuters Datastream

MALAYSIAN CAPITAL MARKET DEVELOPMENTS IN 2018

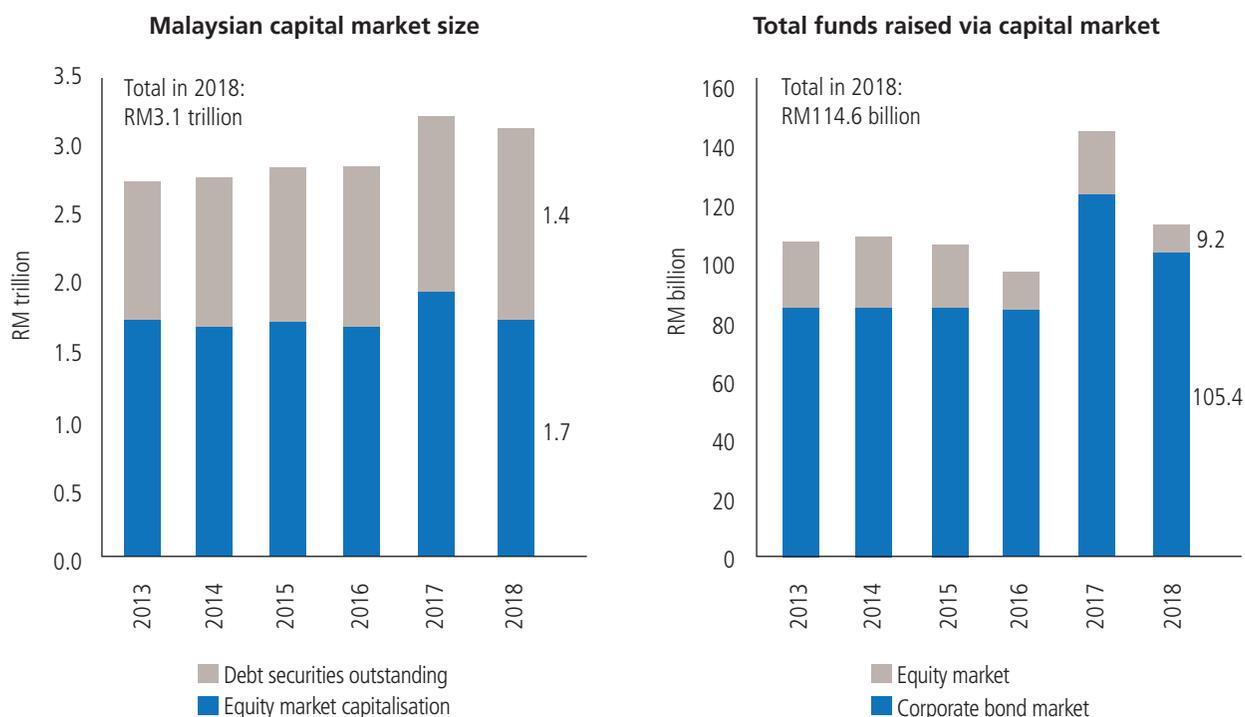
The Malaysian economy grew steadily in 2018, driven by sustained resilience in private sector activities amid a challenging global environment. Against this backdrop, the Malaysian capital market continued to play a vital role in financing the domestic economy. The total size of the capital market amounted to RM3.1 trillion in 2018, retaining above the RM3 trillion mark (Chart 7), with debt securities outstanding rising to RM1.4 trillion, while equity market capitalisation contracted to RM1.7 trillion. Overall, the non-resident portfolio outflows amounted to -RM33.6 billion in 2018 (2017: inflow of +RM2.8 billion) in tandem with regional trend, albeit at a lesser degree. A sum of 65% of the net outflow was from the bond market at -RM21.9 billion, while the remainder of -RM11.7 billion was from the equity market.

Given the challenging global environment and ongoing domestic policy reforms, the Malaysian capital market witnessed a more moderate level of fundraising activities during the year with total funds raised amounting to RM114.6 billion in 2018 (Chart 7). A total of RM105.4 billion was raised in the corporate bond and sukuk market, while RM9.2 billion was raised via the equity market. Total bond and sukuk issuance exceeded the five-year average of RM97.7 billion with new issuances mainly in utilities and financial services. Sukuk made up 68.9% of total issuances in 2018. Meanwhile, out of the total funds raised in the equity market, RM0.7 billion was raised via Initial Public Offerings (IPOs)¹ with 21 new equity listings in the primary market, and RM8.5 billion via secondary fundraising. In 2018, two companies were listed on the Main Market, nine companies on the ACE market and the remainder on the LEAP Market.

¹ Total number of IPO listing for 2018 was 22, with one IPO in a form of 'proposed listing by way of introduction of the entire issued share capital' in the LEAP market, without raising funds.

Chart 7

The Malaysian capital market continued to play a vital role in financing the domestic economy



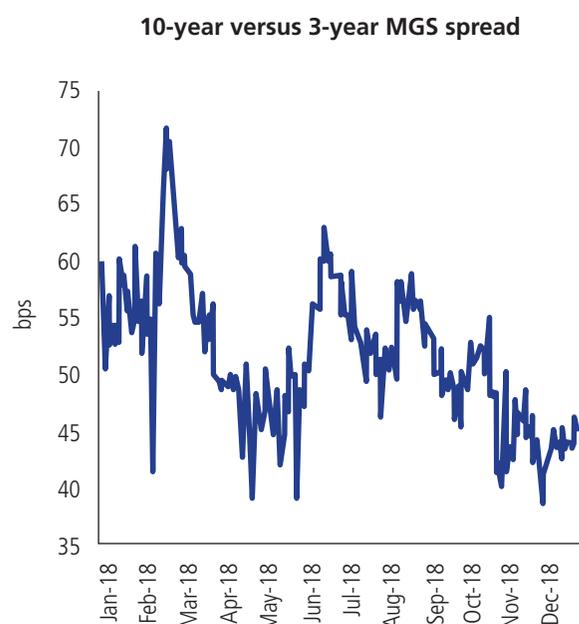
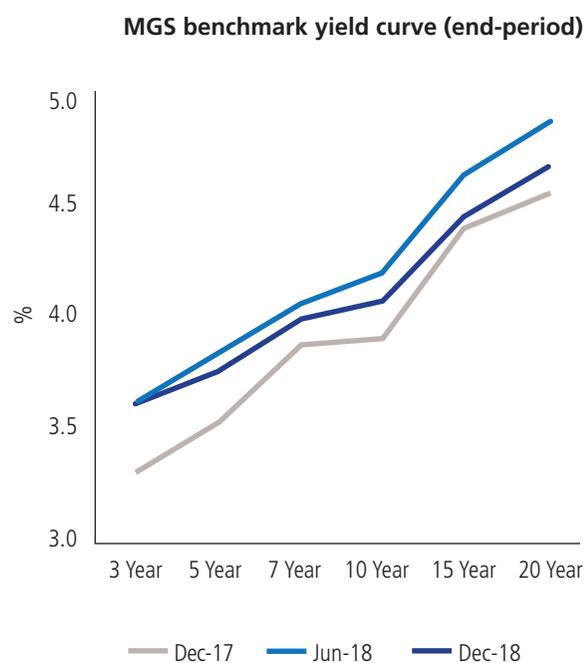
Source: SC, BNM, Bursa Malaysia

The Malaysian bond market grew 8.8% from RM1.3 trillion in 2017 to RM1.4 trillion as at end of December 2018, with Malaysia remaining as the third largest local currency bond market as a percentage of GDP in Asia in 2018, after Japan and South Korea. Ongoing trade tensions, tighter financial conditions globally due to monetary policy normalisation by major central banks and general risk-off sentiments towards emerging markets stemming from contagion fears, however, drove volatility in the bond market throughout 2018.

Malaysian Government Securities (MGS) yields experienced upward pressure across tenures during the year (Chart 8). In June, however, yields eased amid weaker inflation outlook, and as the government's focus on consolidating its fiscal position bolstered market confidence. The yield reduction extended to all tenures in July as lower inflation expectations and market's interpretation of a dovish hint by Bank Negara Malaysia (BNM) in its July Monetary Policy Committee meeting supported demand. Yields remained broadly stable thereafter

Chart 8

MGS spreads tightened in 2018



Source: Bloomberg

but with varying performances for longer- and shorter-term tenures. Yields on shorter tenures trended upwards over trade tension concerns and EMEs pressure while longer-term tenures trended downwards on the back of solid macroeconomic fundamentals.

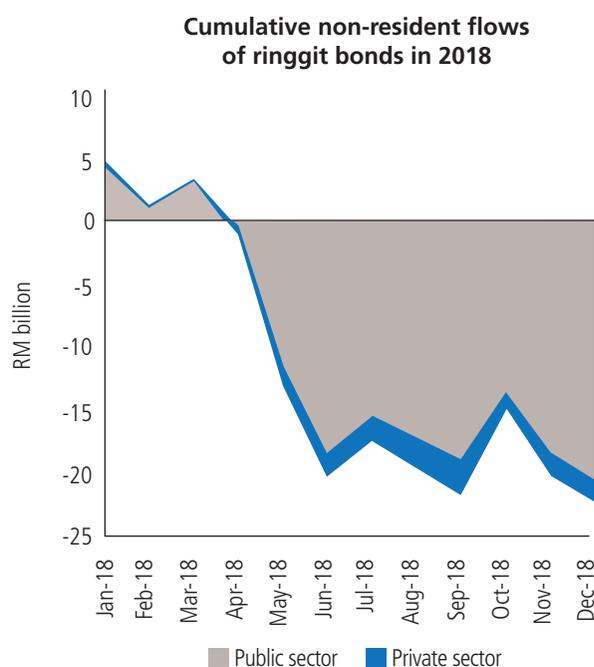
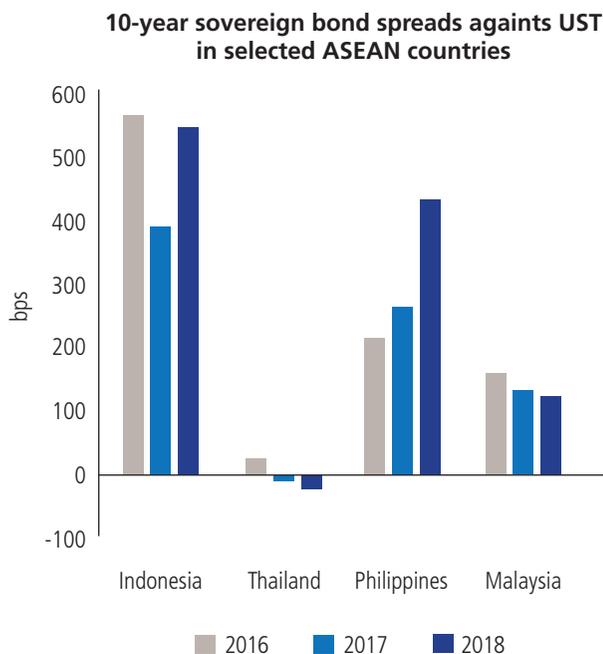
The upward pressure on sovereign bond yields was not limited to Malaysia as yields ended the year higher across other ASEAN bond markets after having fluctuated significantly throughout the year. The spread between the 10-year UST and 10-year MGS however continued to narrow on the back of strong fundamentals in the Malaysian economy and solid demand from local institutional investors. The 10-year UST/MGS spread narrowed to 139 bps as at end-2018 (Chart 9). Overall, notwithstanding the increase in Overnight Policy Rate (OPR) in January 2018, Malaysian sovereign bond yields recorded

relatively small increases compared to others in the region.

Foreign holdings in domestic bonds started to decline in the first half of the year (Chart 9), in line with the shift in global liquidity away from the EMEs. Nonetheless, foreign outflows were largely absorbed by local institutions on the back of ample domestic liquidity. Total foreign ownership of domestic bonds stood at RM184.8 billion, representing 13.1% of total bonds outstanding in 2018. Foreign holdings in MGS accounted for 38.4% of total MGS outstanding, reflecting investors' long-term positive outlook on Malaysia. Meanwhile, foreign ownership in corporate bonds was little changed despite the outflows. Corporate bonds owned by foreigners remained concentrated on highly rated papers ranging from mid- to long-term tenures.

Chart 9

Sentiment towards MGS remained positive, supported by strong economic fundamentals



Source: Bloomberg, BNM

The Malaysian equity market capitalisation contracted by 10.8% to RM1.7 trillion in 2018 from RM1.9 trillion in 2017, amid challenging external developments. The domestic stock market commenced the year on a stronger footing, mirroring global equity markets performances but settled lower towards the end of the year amid heightened external headwinds from the escalating trade tensions between the US and China, the uncertainties surrounding US monetary policy tightening, fear of contagion from the EMEs and volatile oil prices.

Following a year of event-driven fluctuations in sentiment, the FBMKLCI however, remained resilient compared to global and regional markets performance, declining by 5.9% to close at 1,690.58 as at end December 2018. The FBMKLCI was weighed by construction, technology and

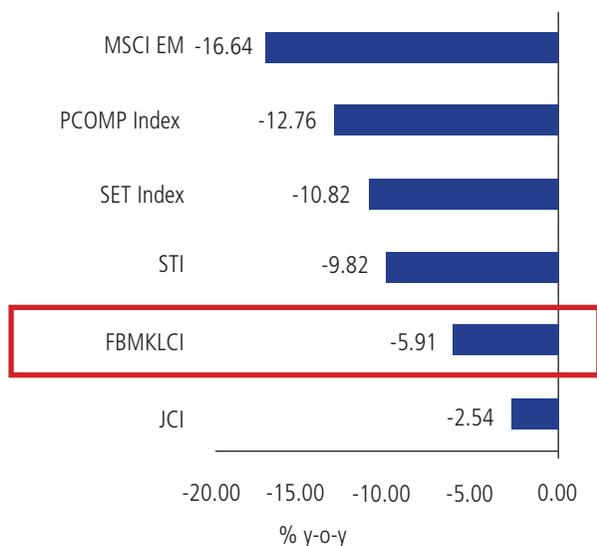
property sectors in 2018. Weak corporate earnings was also a pressure point for the FBMKLCI for the year. The Small Cap and ACE Market indices ended 2018 lower by 33.7% and 34.6% respectively, declining more towards year end on profit-taking activities (Chart 10).

The challenging global environment also resulted in shifts in foreign investor positions throughout the year. Foreign investors registered a net outflow at the end of the year amounting to -RM11.7 billion (Chart 10). Local institutional investors turned net buyers for the year to the tune of RM7.7 billion, with the remainder taken up by retail investors, thus cushioning foreign equity outflows. The high level of domestic liquidity in the capital market allowed for sustained orderly market adjustments of funds between non-resident and local investors.

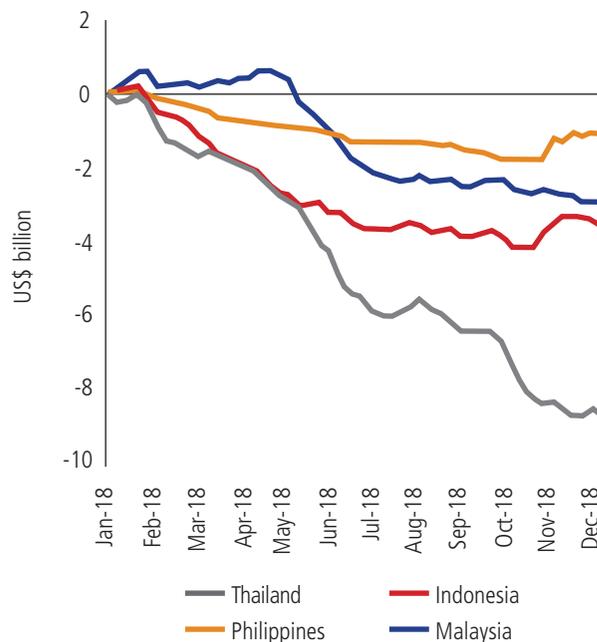
Chart 10

FBMKLCI performed relatively well in comparison to regional peers

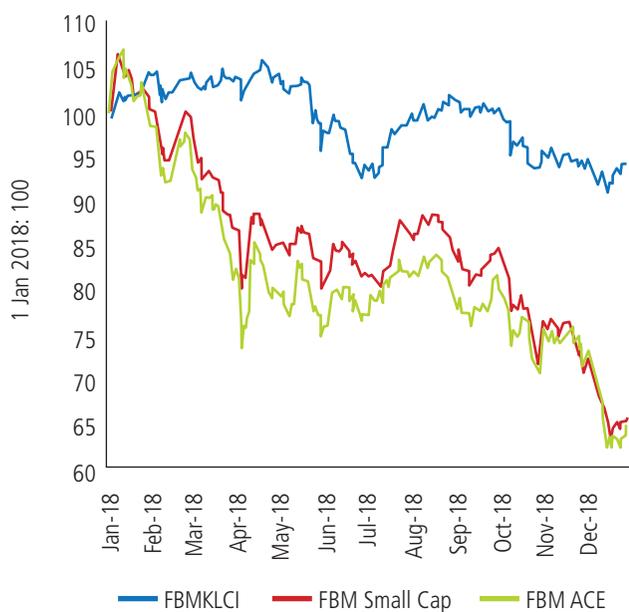
Performance of selected regional equity markets in 2018



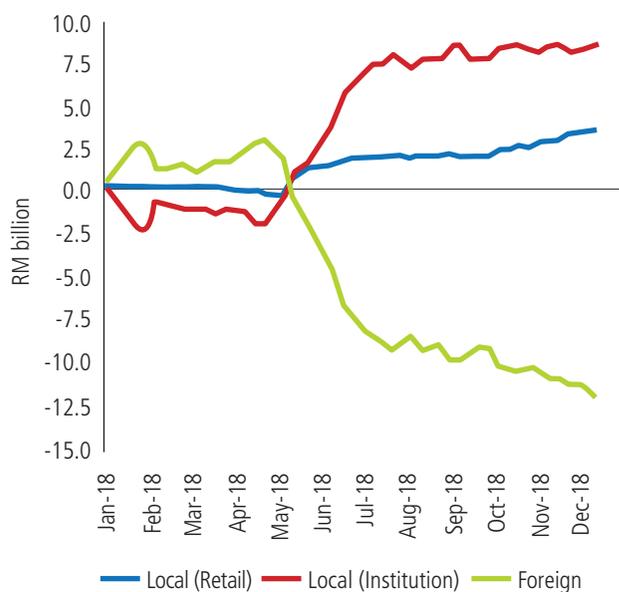
Cumulative fund flow into regional equity markets in 2018



Performance of FBMKLCI, FBM Small Cap, and FBM ACE



Cumulative net buy and sell in Bursa Malaysia in 2018



Source: SC, Bloomberg, Bursa Malaysia

Regionally, the FBMKLCI performed relatively well. The local bourse performed better than Singapore's STI, Thailand's SET and the Philippines' PCOMP, which declined by 9.8%, 10.8% and 12.8% respectively, but behind Indonesia's JCI which fell by 2.5% for the year (Chart 10). In addition, Malaysia had a more contained outflow of funds compared to its ASEAN-4 counterparts. The outflow of funds for Malaysia was less severe than Indonesia and Thailand which both recorded net cumulative outflows to a tune of -US\$3.7 billion and -US\$8.9 billion respectively (Chart 10).

Meanwhile, in the fund management industry, total assets under management (AUM) for 2018 stood at RM743.6 billion (2017: RM776.2 billion). The unit trust industry remained the largest source of funds under management, with net asset value (NAV) amounting to RM426.2 billion in 2018 (2017: RM427 billion). Overall, 79.4% of the fund management industry's AUM was invested locally, of which 44.2% was in domestic equities, followed by 28.5% in money market placements and 22.7% in fixed income. Compared to 2017, investment in local equities declined in value by RM36.2 billion whereas domestic money market placements and fixed income increased by RM5 billion and RM7 billion respectively.

GROWTH OF THE MALAYSIAN CAPITAL MARKET IN THE LAST 25 YEARS: MOBILISING FINANCIAL RESOURCES FOR ECONOMIC DEVELOPMENT

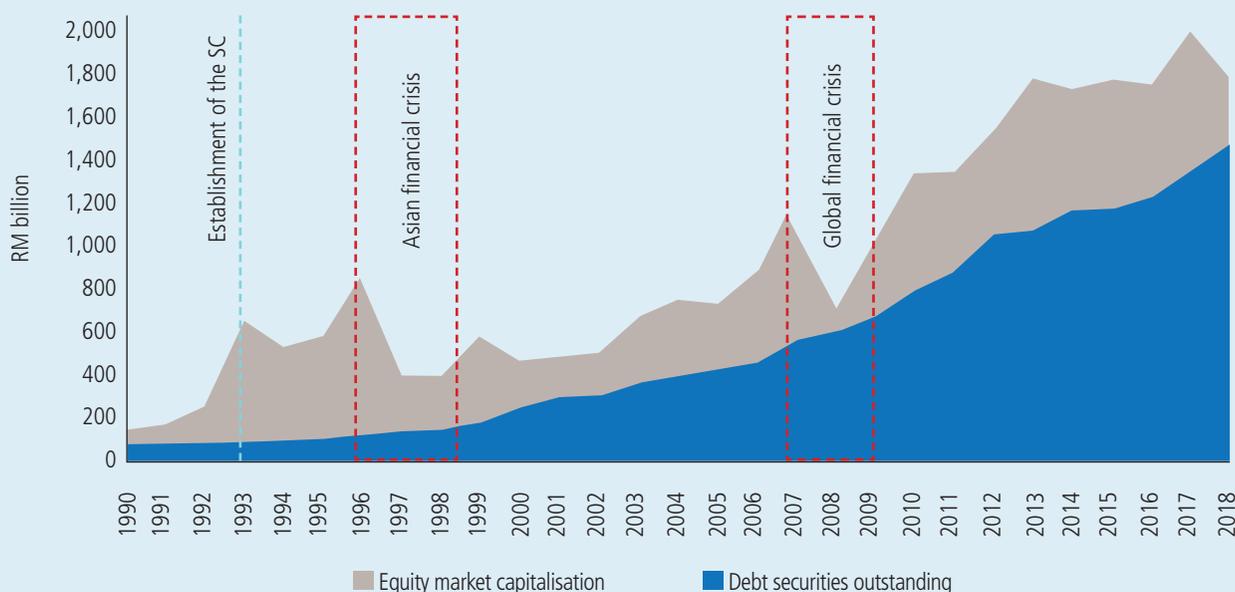
In the economic development of a country, the financial system plays an essential role in mobilising financial resources for business activities and long-term investment for future growth. This includes the capital market, which typically grows in importance as an economy becomes more developed.

The size of the Malaysian capital market was at RM699.5 billion when the Securities Commission Malaysia (SC) was established in 1993. Since then, it has increased by 4.4 times over the past 25 years – notwithstanding the adverse impacts of the 1997-98 and 2007-08 financial crises – to RM3.1 trillion as at end-2018 (Chart 11). Importantly, the capital market has also expanded its funding capacity from mainly equity financing to include debt financing. The bond market grew at a compound annual growth rate (CAGR) of 12.1% per annum (p.a.) since 1993 to account for 45.3% of the Malaysian capital market in 2018 (1993: 11.6%). The ringgit bond market is the third largest as a percentage of GDP in Asia after Japan and South Korea, and the second largest in terms of absolute size in ASEAN after Thailand.

The growth in market-based financing was in line with the structural change in the Malaysian economy, particularly following the 1997-98 Asian financial crisis. Malaysia has also been able to diversify its market-based funding avenues by developing the Islamic capital market (ICM), particularly the sukuk segment. Malaysia's ICM expanded at a CAGR of 10.9% p.a. from RM294 billion in 2000 to RM1.9 trillion as at end 2018. Sukuk continued to comprise the majority of domestic bonds outstanding in 2018, making Malaysia the largest sukuk market in the world.

Chart 11

The Malaysian capital market grew 4.4 times over the past 25 years, at a CAGR of 6.1% p.a.



Source: SC, BNM

GROWTH OF THE MALAYSIAN CAPITAL MARKET IN THE LAST 25 YEARS: MOBILISING FINANCIAL RESOURCES FOR ECONOMIC DEVELOPMENT *(Continued)*

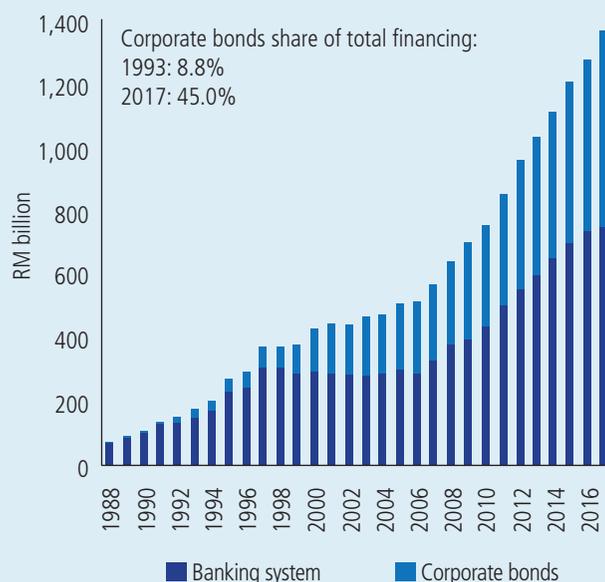
The continued growth and more diversified structure of the economy has increased the funding requirement for domestic businesses, with the debt capital market developing to become an important alternative for business financing, complementing bank credit. Corporate bonds accounted for 45% of total business financing in Malaysia as at end 2017, compared to only 8.8% in 1993.

Pension funds, insurance companies and other institutional investors have also played an important role in mobilising savings by investing in the domestic capital market. This has allowed the capital market to continue to provide long-term financing – with the thrust more pronounced in corporate bond issuances – for businesses to fund their activities and for the country’s long-term economic development, including managing infrastructure development needs. The bond market has contributed to more than half of the private-sector infrastructure investments since the early 1990s. The increase in investment is characterised by the secular increase in gross fixed capital formation (GFCF) over the years (Chart 12).

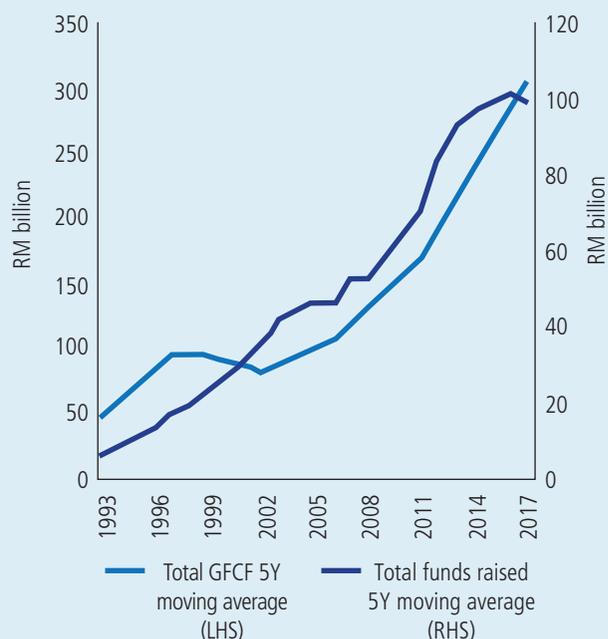
Chart 12

The Malaysian capital market continued to grow in importance, providing finance and mobilising capital to support economic development

Business financing extended via the banking system and corporate bonds



Trends of nominal GFCF^(1,2) and total funds raised moving in tandem



Notes:

¹ The 5-year moving average illustrates the direction of the trend for each category.

² Total GFCF refers to private and public investment in fixed assets in the services, manufacturing, mining & quarrying, agriculture, and construction sectors. It includes land improvements; plant, machinery and equipment purchases; and the construction of roads, railways and buildings.

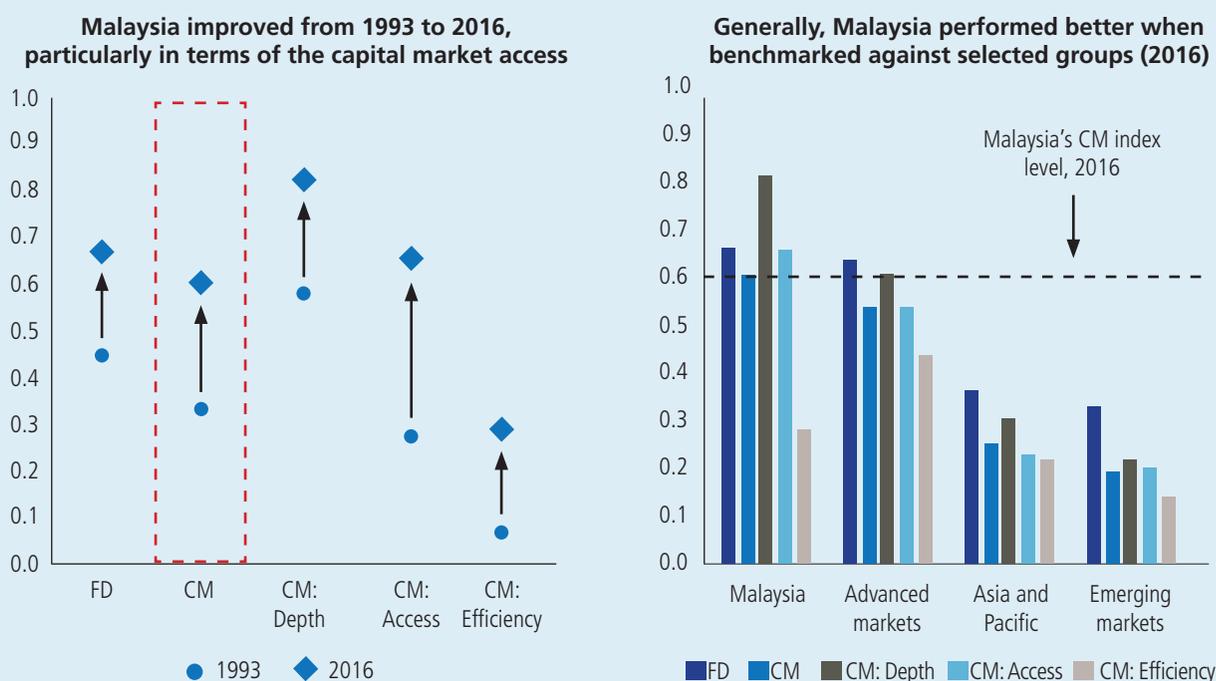
Source: SC, BNM, Department of Statistics Malaysia (DOSM)

The growth of the Malaysian capital market has not been just in terms of size, as witnessed by the robust and comprehensive development in terms of infrastructure, institutions, regulations and products over the years. This progress is clearly reflected in IMF's index of financial development for Malaysia, which allows for consistent comparisons across time and between countries. Based on IMF's index, the development of the capital market can be assessed through three key dimensions – depth, access and efficiency².

The IMF's measurement shows that Malaysia's overall financial sector development has improved significantly between 1993 and 2016 on the back of advancement in all three dimensions (Chart 13). Notably, in terms of international comparison, Malaysia has achieved commendable performance overall and is ahead of emerging market peers and in some aspects, advanced markets (Chart 13).

Chart 13

The development of the Malaysian capital market¹ had contributed to improvement in the country's overall financial development (FD) index²



Notes:

¹ IMF uses 'Financial Market', which comprises bond and equity markets, to designate the capital market (CM). For consistency purposes, Financial Market is referred to as CM in this article.

² The indices summarise how developed a CM is in terms of (a) depth (size and liquidity of markets), (b) access (ability of individuals to access financial services), and (c) efficiency (provision of financial services at low cost and with sustainable revenues, and the level of activity of capital markets), all of which contribute towards the overall level of a country's FD.

Source: IMF Financial Development Index database, 2017

² *Rethinking Financial Deepening: Stability and Growth in Emerging Markets, IMF Discussion Note, May 2015.*

GROWTH OF THE MALAYSIAN CAPITAL MARKET IN THE LAST 25 YEARS: MOBILISING FINANCIAL RESOURCES FOR ECONOMIC DEVELOPMENT *(Continued)*

Over the past 25 years, the SC has invested and put in place efforts to create a facilitative ecosystem for the capital market to develop and provide productive and efficient financing of the economy. Among others, a holistic Digital Markets Strategy was rolled out in 2016 to facilitate innovative market-based solutions and develop a conducive digital finance ecosystem. In particular, to ensure that the capital market continues to provide financing for the needs of not only larger businesses but also smaller firms, alternative market-based financing avenues such as equity crowdfunding and peer-to-peer financing were introduced. This is an area in which the benefits of utilising newer technology can clearly be seen by lowering the costs of obtaining capital and enhancing transparency for smaller firms, making them more accessible and attractive to potential investors.

Going forward, as Malaysia continues to undergo structural reforms in its transition to a high-income economy, it will continue to challenge the SC in driving new initiatives that will help to facilitate the evolution of the capital market and enhance access to financing of new growth areas necessary for a more modern economy while ensuring that it remains sustainable and inclusive.

OUTLOOK FOR 2019

Global economic expansion is expected to continue in 2019, although at a more moderate pace. Major economies are on track for a synchronised deceleration in growth. Although the US economy is anticipated to grow further on the back of robust consumer spending, the momentum is expected to gradually moderate amid diminishing impact from the fiscal stimulus. In Europe, economic growth is projected to moderate as economic activities will continue to be weighed down by political uncertainties. Growth in China is poised to slow further as policymakers continue to aim for a more balanced and sustainable growth path for the economy. Against the backdrop of moderating global demand, major commodity prices are expected to remain subdued and continue to be volatile, driven by supply-related developments alongside policy and geopolitical-related risks.

Given its significant interconnectedness to the global economy, the ASEAN region is not immune to a weaker global environment and greater downside risks to global growth. Nevertheless, the region is anticipated to remain a global growth centre, anchored by firm macroeconomic fundamentals as well as favourable demographic profile and large infrastructure needs which will continue to support domestic demand. Deeper economic integration within the region will also allow the ASEAN economies to secure the benefits of higher productivity and efficiency to sustain growth over the longer term.

Meanwhile, the prospect of rising trade protectionism will remain a key downside risk to not only the global economy, but also global capital markets in 2019 and beyond, especially in EMEs. Although the impact thus far remained largely contained, a protracted period of US-China trade dispute can significantly derail the growth of the global economy. Over the short to medium term, continued negative trade developments

could affect investor sentiments, heighten market volatility and disrupt global trade networks, thus affecting overall economic performance. Over the longer term, persistent trade uncertainties could hit real investment activities that may lead to an even lower economic growth potential because of limited productive capacity. While some Asian economies, including Malaysia, may benefit from the reconfiguration of the global trade production chain, all economies stand to lose due to overall weaker global trade and investment activities.

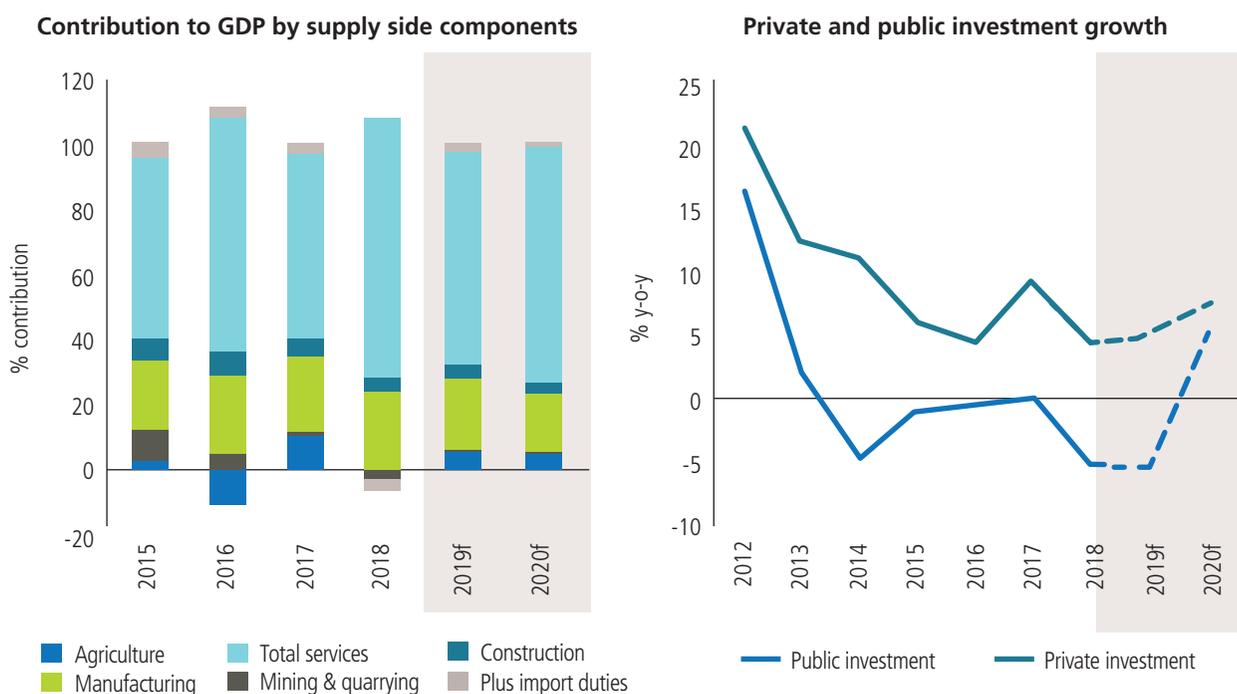
The global capital markets will also be characterised by the ongoing shift in global financial liquidity, mainly driven by developed markets' monetary policy normalisation. However, heightened downside risks to global growth have induced most major

central banks, including the Fed, to communicate that the future pace of monetary tightening will likely be gradual and data-dependent. The flattening trend of the global bond yield curves will likely persist, catalysed by higher global risk aversion.

On the other hand, the prospects of global equities are expected to remain subdued, given persistently stretched valuations in selected key markets and diminishing earnings growth outlook. Meanwhile, credit spreads between EMEs and AEs are projected to remain relatively contained, amid the possible turnaround in global portfolio flows favouring EMEs' assets as a result of a potentially less aggressive Fed. However, investors' appetite towards EMEs' assets are likely to remain selective and in favour of economies with strong fundamentals.

Chart 14

Malaysian economy will be driven by continued expansions in manufacturing and services sector, and supported by recovery in private investment spending



Source: DOSM, Ministry of Economic Affairs, SC's calculations

Domestically, against the backdrop of a more challenging and uncertain global environment, the Malaysian economy is anticipated to remain on a steady growth path, backed by firm domestic private sector activities (Chart 14). Growth will be underpinned by sustained manufacturing activities and further supported by resilient services sector expansion, especially in wholesale and retail trade sub-sectors. On the demand side, steady wage and employment growth will continue to drive private consumption expansion while new and ongoing projects in the services and manufacturing sectors will remain supportive of private investment growth. The government's effort to promote the adoption of digital technology and automation will also be an important catalyst for future investment activities.

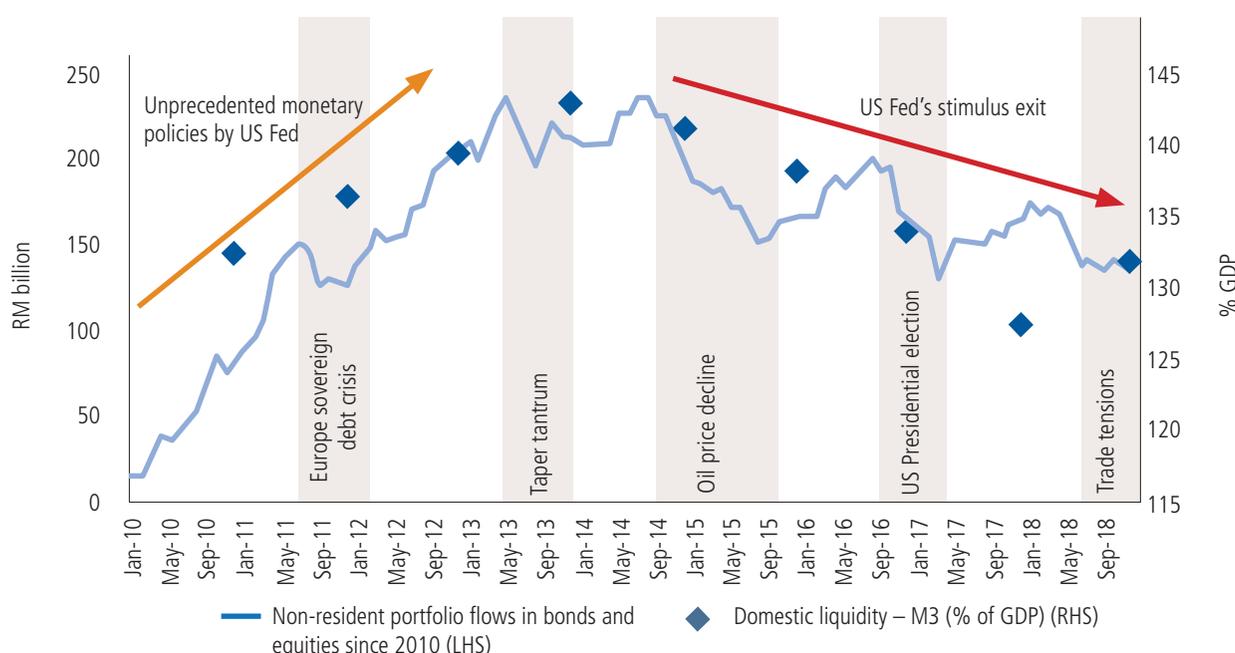
The domestic capital market will continue to play an important role in supporting economic growth through financing of business expansion and infrastructure. Total capital raising through primary and secondary issuances is expected to remain robust especially in the bond market.

Meanwhile, trading activities in the secondary market will continue to be driven by external developments, mainly movements in portfolio flows arising from the shift in global liquidity and the general increase in global financial market volatility.

Notably, the developments observed in the aftermath of the GFC indicate that the underlying trend movement in non-resident portfolio flows was, to a large extent, determined by major central banks' monetary policy directions, especially the Fed (Chart 15). Beyond the trend movement, episodes of financial market volatility post-GFC could be attributed to specific negative events ranging from the European debt crisis, taper tantrum, China's surprise yuan devaluation, the collapse in oil prices, US presidential election and more recently, the trade tension. The outlook for the domestic capital market in 2019 will continue to be influenced by key global developments, mainly the direction and pace of global monetary policy with volatility driven by continued uncertainty surrounding major risks,

Chart 15

The US monetary policy is a key factor in the underlying trend of non-resident portfolio flows in Malaysia's capital markets



Source: Bursa Malaysia, BNM, SC's calculations

especially in relation to ongoing trade tension and concerns over global growth.

Nevertheless, the domestic capital market is expected to remain resilient and orderly, underpinned by Malaysia's strong macroeconomic fundamentals, deep domestic liquidity and well-developed capital market infrastructure. Importantly,

the progressive development of the domestic capital market will enable it to continue to play an instrumental role in supporting longer-term economic growth through financing of business expansion and infrastructure investment as Malaysia transitions towards becoming a high-income country in the coming decade.



PART 5 STATEMENTS, STATISTICS AND ACTIVITIES

- Board Members
- Executive Team
- Shariah Advisory Council Members
- Organisation Structure
- Statement on Governance
- Audit Committee Report
- Financial Statements
- Corporate Proposals
- Investment Management
- Islamic Capital Market
- Venture Capital and Private Equity
- Equity Crowdfunding and Peer-to-Peer Financing
- Authorisation and Licensing
- Enforcement
- Investor Empowerment Initiatives
- Complaints and Enquiries
- Publications
- 2018 At a Glance
- Acronyms and Abbreviations

BOARD MEMBERS



**JOHAN MAHMOOD
MERICAN**

**TAN SRI DR NOORUL
AINUR MOHD NUR**

**TAN SRI DATO' SERI
MOHAMED JAWHAR
HASSAN**

**DATUK ZAINAL
IZLAN ZAINAL
ABIDIN**



**DATUK SYED
ZAID ALBAR**

**DATUK FAZLUR
RAHMAN
EBRAHIM**

**TAN SRI DATO'
HASMAH
ABDULLAH**

**DATUK DR KHAW
LAKE TEE**

**AHMAD FARIS
RABIDIN**

BOARD MEMBERS



DATUK SYED ZAID ALBAR

Appointed 1 November 2018

Datuk Syed Zaid Albar was appointed the Executive Chairman of the SC on 1 November 2018. He was previously the Managing Partner of Albar & Partners. Before joining the SC, Datuk Syed Zaid has relinquished all his interest in Albar & Partners.

He has over 38 years' experience in legal practice predominantly in the fields of corporate law, capital market, conventional banking and Islamic finance.

Datuk Syed Zaid has served on the Islamic Law Review Committee of BNM and the Appeals Committee of Bursa Malaysia Bhd. He has also served on the boards of several PLCs in Malaysia, and Secretary to the Perdana Leadership Foundation and the Perdana Global Peace Foundation.

He has a degree in law from the UK. He is a Barrister at Law of the Lincoln's Inn, UK and an Advocate and Solicitor of the High Court of Malaya.

Datuk Zainal Izlan Zainal Abidin was appointed Deputy Chief Executive of the SC on 5 April 2018.

He joined the SC in January 2011 as Executive Director, Islamic Capital Market and was appointed Managing Director, Development and Islamic Markets in November 2016. He is also Chairman of Capital Markets Malaysia, an entity established by the SC to promote the Malaysian capital market.

Datuk Zainal Izlan has over 25 years' experience in the financial services industry. He began his career with Citibank before joining MIDF Amanah Asset Management. Before joining the SC, Datuk Zainal Izlan was the Chief Executive Officer of i-VCAP Management, an Islamic fund management firm based in Malaysia. He holds a Bachelor of Science in Economics (dual concentration in Accounting and Finance) from The Wharton School, University of Pennsylvania, US, and is a Chartered Financial Analyst (CFA) charter holder.



DATUK ZAINAL IZLAN ZAINAL ABDIN

Appointed 5 April 2018



DATUK FAZLUR RAHMAN EBRAHIM

Appointed 1 May 2006

Datuk Fazlur Rahman Ebrahim is currently the Corporate Advisor of Johor Corporation. He sits on the Board of Pelaburan Hartanah Bhd, Bank Simpanan Nasional, Permodalan Felcra Sdn Bhd, Credit Counselling and Debt Management Agency, Johawaki Holdings Sdn Bhd, DEMC Management Sdn Bhd and Dana Amal Jariah.

He is also a member of the Shariah Council of BNP Paribas Malaysia Bhd, the Business Advisory Council of International Islamic University Malaysia, the Audit Committee of Razak School of Government, the Investment Committee of Lembaga Kemajuan Johor Tenggara (KEJORA), the Investment Committee of Majlis Amanah Rakyat and the Advisory Council of Faculty of Economics and Management, Universiti Kebangsaan Malaysia.

Datuk 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 was the Chairman and Chief Executive of the Institute of Strategic and International Studies (ISIS) Malaysia. He was also previously the Non-Executive Chairman of the New Straits Times Press (Malaysia) until August 2016.

He has served the Malaysian government in various senior leadership positions, including Director-General, Department of National Unity; Undersecretary, Ministry of Home Affairs; Director (Analysis) Research Division, Prime Minister's Department; and Principal Assistant Secretary, National Security Council.

He served as Counselor in the Malaysian Embassies in Indonesia and Thailand, and was a member of the Advisory Board, Malaysian Anti-Corruption Commission. He was also Co-Chair, Network of East Asia Thinktanks (NEAT) 2005-2006 and Co-Chair, Council for Security Co-operation in the Asia Pacific (CSCAP) 2007-2009.

Tan Sri Jawhar is a member of the Consultative Council on Foreign Policy Malaysia and Malaysia's Expert and Eminent Person to the ASEAN Regional Forum.



TAN SRI DATO' SERI MOHAMED JAWHAR HASSAN

Appointed 15 May 2010

BOARD MEMBERS



TAN SRI DATO' HASMAH ABDULLAH

Appointed 10 March 2011

Tan Sri Dato' Hasmah Abdullah was former Director General and Chief Executive Officer of the Inland Revenue Board Malaysia (IRBM) and had served the agency for almost 38 years. After retirement, she joined PricewaterhouseCoopers Taxation Services Sdn Bhd as a Tax Advisor 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 also sits on the Board of Trustees of the Malaysian Tax Research Foundation, Dana Amal Jariah, Yayasan Allammiyyah and Alzheimers Disease Foundation Malaysia (since 7 June 2018), and a member of the Executive Council of the Selangor and Federal Territory Association for the Mentally Handicapped (SAMH). Tan Sri Hasmah graduated in 1973 with a bachelor's degree in Arts (Honours) from University of Malaya.

Tan Sri Dr Noorul Ainur Mohd Nur has over 38 years' experience in the public sector spanning several ministries, including serving as Secretary-General of the Ministry of Higher Education; Ministry of Science, Technology and Innovation Malaysia; and Ministry of Women, Family and Community Development.

She has also held key positions in the Ministry of Finance, Ministry of Education, Ministry of Information, and the National Institute of Public Administration Malaysia (INTAN).

In the international arena, she has served as Senior Advisor in the Southeast Asia Group for the World Bank in Washington DC from 2006 to 2008. In 2013, she was appointed as the Vice President of the Intergovernmental Council of the Management of Social Transformations Programme of the United Nations Educational, Scientific and Cultural Organisation (UNESCO) for the Asia Pacific region, a post she held until 2015.

Tan Sri Noorul was also the first Malaysian to be elected as President of the Science Commission, UNESCO Paris from 2015 to 2017. Tan Sri Dr Noorul obtained her PhD in Political Science from the Graduate Centre, City University of New York, and holds a Masters of Social Science degree (MSocSci) in Development Administration from the University of Birmingham.



TAN SRI DR NOORUL AINUR MOHD NUR

Appointed 5 April 2018



JOHAN MAHMOOD MERICAN

Appointed 17 August 2018

Johan Mahmood Merican is currently the Director, National Budget Office of the Ministry of Finance. Prior to his appointment at the National Budget Office in 2018, Johan was the Deputy Director General (Human Capital) at the Economic Planning Unit (EPU) under the Prime Minister's Office from 2016.

Johan was Chief Executive Officer of Talent Corporation Malaysia from its inception in January 2011 until 2016. He has also served as Principal Private Secretary to the Minister in the Ministry of Finance and subsequently, in the Economic Planning Unit (EPU). Before serving the Government, Johan worked in the private sector for nine years in corporate finance and accounting roles at MRCB, Sime Darby and PricewaterhouseCoopers.

Johan trained as a Chartered Accountant, being member of the Institute of Chartered Accountants of England & Wales since 1998. He holds a degree in Economics from the University of Cambridge.

Datuk Dr Khaw Lake Tee was former Vice Chairperson of the Human Rights Commission of Malaysia (SUHAKAM). Until her retirement from University of Malaya, Datuk Dr Khaw was a professor at the Faculty of Law, University of Malaya, where she joined as a lecturer in 1982. At the University, she was the Deputy Vice-Chancellor of Development from 2007 to 2010 and the Dean of the Faculty of Law from 2004 to 2007.

Datuk Dr Khaw, who graduated with a Bachelor of Law (LLB) degree from the University of Malaya, obtained her PhD from the London School of Economics and a Masters of Law (LLM) degree from Monash University, Melbourne, and was called to the Malaysian Bar as an Advocate and Solicitor of the High Court of Malaya in 1979.



DATUK DR KHAW LAKE TEE

Appointed 17 August 2018



AHMAD FARIS RABIDIN

Appointed 4 November 2018

Ahmad Faris Rabidin served as an independent consultant with the Asian Development Bank (ADB) providing technical assistance to the Otoritas Jasa Keuangan (OJK) of Indonesia between 2006 and 2018.

He has been involved in various strategic leadership roles in market development initiatives for the Indonesian financial and capital markets. He was also the Lead Advisor for the OJK Financial Market Masterplan and designed the Indonesian Bond Market Development Plan. Prior to this, Faris was the Regional Director of MainStream & Co Ltd, where he was responsible for the Enterprise Risk management solutions, financial market architecture framework and incubated Bond Pricing Agencies in Malaysia and Indonesia. Faris was also a member of the 1MDB Investigating Committee and Secretariat of the Council of Eminent Persons until September 2018.

Faris graduated from the Heriot Watt University, Edinburgh with a degree in Actuarial Mathematics and Statistics.

EXECUTIVE TEAM



**SALMAH BEE
MOHD MYDIN**
Director
Intermediary
and Fund
Supervision

CHIN WEI MIN
Executive Director
Innovation,
Digital and
Strategy

FOO LEE MEI
Chief Regulatory
Officer

**DATUK ZAINAL IZLAN
ZAINAL ABIDIN**
Deputy Chief Executive



**DATUK SYED
ZAID ALBAR**
Chairman

**EUGENE WONG
WENG SOON**
Managing Director
Corporate Finance and
Investments

**KAMARUDIN
HASHIM**
Executive Director
Market and
Corporate
Supervision

**NURULHUDA
NUR'AINI
MOHAMAD**
Executive Director
Enforcement

**TENGGU ZARINA
TENGGU CHIK**
Director
Corporate Resources

SHARIAH ADVISORY COUNCIL MEMBERS



**ASSOCIATE
PROFESSOR DR SYED
MUSA SYED JAAFAR
ALHABSHI**

**DATO' AHMAD
TAJUDIN HAJI
ABDUL RAHMAN**

**PROFESSOR DR
ASHRAF
MD HASHIM**

**ASSOCIATE
PROFESSOR
DR AZNAN HASAN**
Deputy Chairman



**PROFESSOR DR
ENSKU RABIAH
ADAWIAH ENSKU ALI**

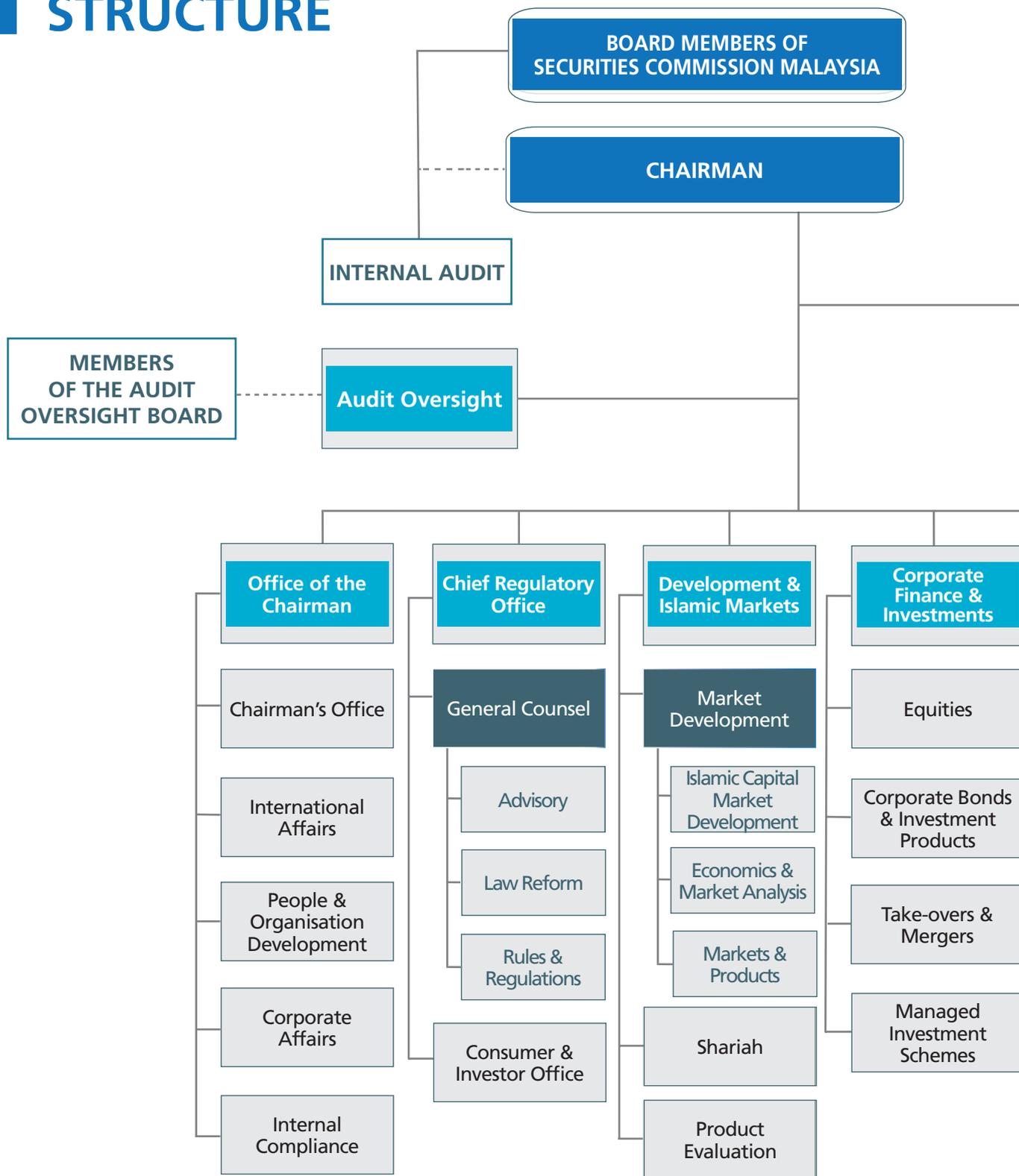
**DR SHAMSIAH
MOHAMAD**

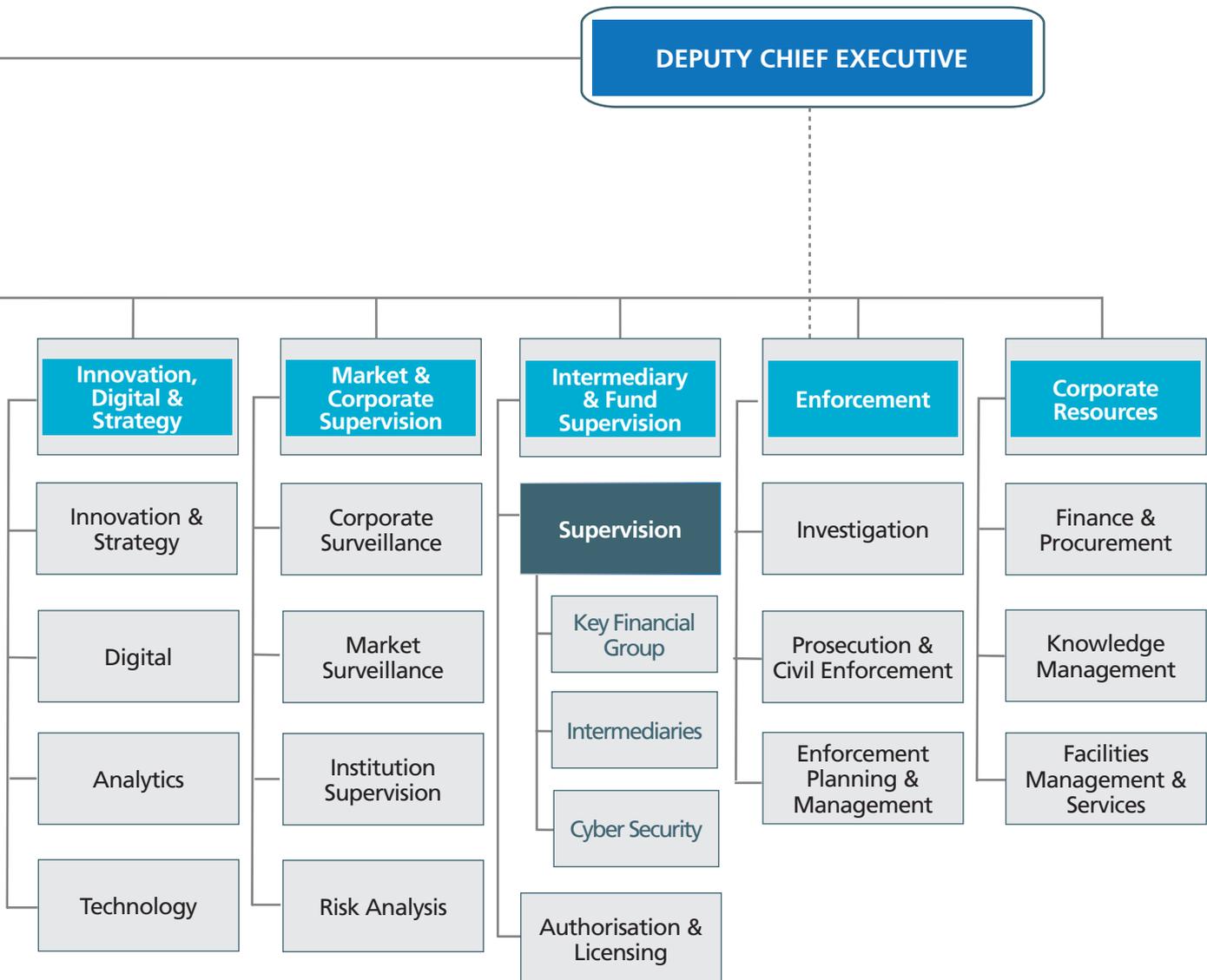
**DATUK DR MOHD
DAUD BAKAR**
Chairman

**PROFESSOR
DR ASMADI
MOHAMED
NAIM**

**ASSOCIATE
PROFESSOR
DR MOHAMED
FAIROOZ
ABDUL KHIR**

ORGANISATION STRUCTURE





STATEMENT ON GOVERNANCE

The Securities Commission Malaysia (SC) is a statutory body established under the *Securities Commission Malaysia Act 1993* (SCMA) to regulate and develop the Malaysian capital market. The SC's mission is to promote and maintain fair, efficient and transparent securities and derivatives markets and to facilitate the orderly development of an innovative and competitive capital market. It is committed to ensure investor protection, fair and orderly markets, and monitor, mitigate and manage systemic risks arising from the capital market. The SC's responsibilities, powers and authorities are clearly defined and transparently set out in securities laws, namely the SCMA, *Capital Markets and Services Act 2007* (CMSA) and *Securities Industry (Central Depositories) Act 1991* (SICDA).

ABOUT THE COMMISSION

Board Members

The Board is responsible for the overall governance of the Commission. The Minister of Finance appoints Board members. The Board comprises a Chairman, a Deputy Chief Executive and seven other members who may include persons representing the government and private sector. The Chairman is entrusted with the day-to-day administration of the SC as provided by section 4B(1) of the SCMA.

Datuk Syed Zaid Albar assumed the position of Chairman on 1 November 2018. This follows the retirement of Tan Sri Dato' Seri Ranjit Ajit Singh on 31 October 2018. A profile of the Board members is featured on pages 94 to 97 and their involvement in

the various committees established by the Board is provided in Table 2.

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

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

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

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

- shall neither take part nor be present in any deliberation or decision of the Board or its committees; and
- shall be disregarded for the purposes of constituting quorum of the Board or its committees, relating to the matter.

Functions of the Commission

The Commission shall have the following functions:

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

- to take all reasonable measures to monitor, mitigate and manage systemic risks arising from the capital market;
- to promote and regulate corporate governance and approved accounting standards of listed corporations; and
- to set and approve standards for professional qualification for the capital market.

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

Board Meetings

Eleven Board meetings were held in 2018. The quorum required is 5. The attendance record is set out in Table 1.

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

Shariah Advisory Council

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

Members of the SAC are appointed by DYMM Seri Paduka Baginda Yang di-Pertuan Agong. The 9 SAC members will serve for a three-year period commencing 1 July 2017, as listed in Table 3.

Table 1

Attendance at Board meetings

Board Member	Number of meetings attended
Datuk Syed Zaid Albar ¹	1/1
Tan Sri Dato' Seri Ranjit Ajit Singh ²	10/10
Dato' Ahmad Fairuz Zainol Abidin ³	2/2
Datuk Francis Tan Leh Kiah ⁴	3/4
Datuk Fazlur Rahman Ebrahim ⁵	10/11
Tan Sri Dato' Seri Mohamed Jawhar Hassan ⁶	10/11
Tan Sri Dato' Hasmah Abdullah ⁷	11/11
Dato' Dr Mohd Isa Hussain ⁸	1/2
Emeritus Professor Dato' Dr Hassan Said ⁹	4/5
Datuk Zainal Izlan Zainal Abidin ¹⁰	8/8
Tan Sri Noorul Ainur Mohd Nur ¹¹	6/8
Datuk Dr Khaw Lake Tee ¹²	3/4
Johan Mahmood Merican ¹³	2/4
Ahmad Faris Rabidin ¹⁴	1/1

¹ Appointed to the Board as Executive Chairman of the SC on 1 November 2018

² Retired from the Board on 31 October 2018

³ Completed tenure as Deputy Chief Executive on 31 March 2018

⁴ Retired from the Board on 17 May 2018

⁵ Retired from the Board on 31 December 2018

⁶ Retired from the Board on 31 December 2018

⁷ Retired from the Board on 31 December 2018

⁸ Retired from the Board on 10 March 2018

⁹ Resigned from the Board on 26 June 2018

¹⁰ Appointed to the Board as Deputy Chief Executive of the SC on 5 April 2018

¹¹ Appointed to the Board on 5 April 2018

¹² Appointed to the Board on 17 August 2018

¹³ Appointed to the Board on 17 August 2018

¹⁴ Appointed to the Board on 4 November 2018

Table 2

Board Committees

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.	<ul style="list-style-type: none"> Tan Sri Dato' Hasmah Abdullah⁷ (Chairman) Datuk Fazlur Rahman Ebrahim⁵ Tan Sri Noorul Ainur Mohd Nur¹¹ Datuk Dr Khaw Lake Tee¹²
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.	<ul style="list-style-type: none"> Datuk Syed Zaid Albar¹ (Chairman) Tan Sri Dato' Seri Ranjit Ajit Singh² Datuk Zainal Izlan Zainal Abidin¹⁰ Dato' Ahmad Fairuz Zainol Abidin³ Datuk Francis Tan Leh Kiah⁴ Datuk Fazlur Rahman Ebrahim⁵ Tan Sri Mohamed Jawahar⁶ Prof Dato' Dr Hassan Said⁹
3. Take-overs and Mergers Committee	Review take-over and merger related applications of a novel and/ or complex nature and matters relating to national policy.	<ul style="list-style-type: none"> Datuk Syed Zaid Albar¹ (Chairman) Tan Sri Dato' Seri Ranjit Ajit Singh² Datuk Zainal Izlan Zainal Abidin¹⁰ Dato' Ahmad Fairuz Zainol Abidin³ Datuk Francis Tan Leh Kiah⁴ Tan Sri Hasmah Abdullah⁷ Dato' Dr Mohd Isa Hussain⁸ Johan Mahmood Merican¹³
4. Managed Investment Schemes Committee	Approve the establishment of listed schemes.	<ul style="list-style-type: none"> Datuk Syed Zaid Albar¹ (Chairman) Tan Sri Dato' Seri Ranjit Ajit Singh² Datuk Zainal Izlan Zainal Abidin¹⁰ Dato' Ahmad Fairuz Zainol Abidin³ Datuk Fazlur Rahman Ebrahim⁵ Tan Sri Mohamed Jawahar Hassan⁶ Tan Sri Hasmah Abdullah⁷
5. Licensing Committee	Evaluate and approve (or reject) application for the grant of a new Capital Markets Services Licence (CMSL), applications for new licensed representatives, directors, key management or compliance officers that are submitted together with the new CMSL applications, and applications relating to private retirement scheme providers and consider any policy recommendations relating to licensing issues.	<ul style="list-style-type: none"> Datuk Syed Zaid Albar¹ (Chairman) Tan Sri Dato' Seri Ranjit Ajit Singh² Datuk Zainal Izlan Zainal Abidin¹⁰ Dato' Ahmad Fairuz Zainol Abidin³ Tan Sri Mohamed Jawahar Hassan⁶ Tan Sri Hasmah Abdullah⁷ Tan Sri Noorul Ainur Mohd Nur¹¹
6. Nomination and Remuneration Committee	Assess and formulate the remuneration of the Chairman and Deputy Chief Executive (DCE) and make appropriate recommendations to the Minister of Finance.	<ul style="list-style-type: none"> Datuk Fazlur Rahman Ebrahim⁵ (Chairman) Datuk Francis Tan Leh Kiah⁴ Tan Sri Mohamed Jawahar Hassan⁶ Prof Dato' Dr Hassan Said⁹

Table 3

Shariah Advisory Council members

No.	SAC Members
1.	Datuk Dr Mohd Daud Bakar – Chairman
2.	Associate Professor Dr Aznan Hasan – Deputy Chairman
3.	Dato' Ahmad Tajudin Haji Abdul Rahman
4.	Professor Dr Ashraf Md Hashim
5.	Professor Dr Engku Rabiah Adawiah Engku Ali
6.	Professor Dr Asmadi Mohamed Naim
7.	Associate Professor Dr Syed Musa Syed Jaafar Alhabshi
8.	Associate Professor Dr Mohamed Fairouz Abdul Khir
9.	Dr Shamsiah Mohamad

Table 4

Audit Oversight Board members

No.	AOB Members
1.	Dato' Gumuri Hussain (Non-Executive Chairman)
2.	Alex Ooi Thiam Poh (Executive Officer)
3.	Eugene Wong Weng Soon
4.	Dato' Zahrah Abd Wahab Fenner
5.	Marzunisham Omar ¹
6.	Wong Chong Wah
7.	Dato' Darawati Hussain
8.	Hew Ee-Lu ²

¹ Retired on 25 September 2018

² Appointed on 5 October 2018

Audit Oversight Board

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

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

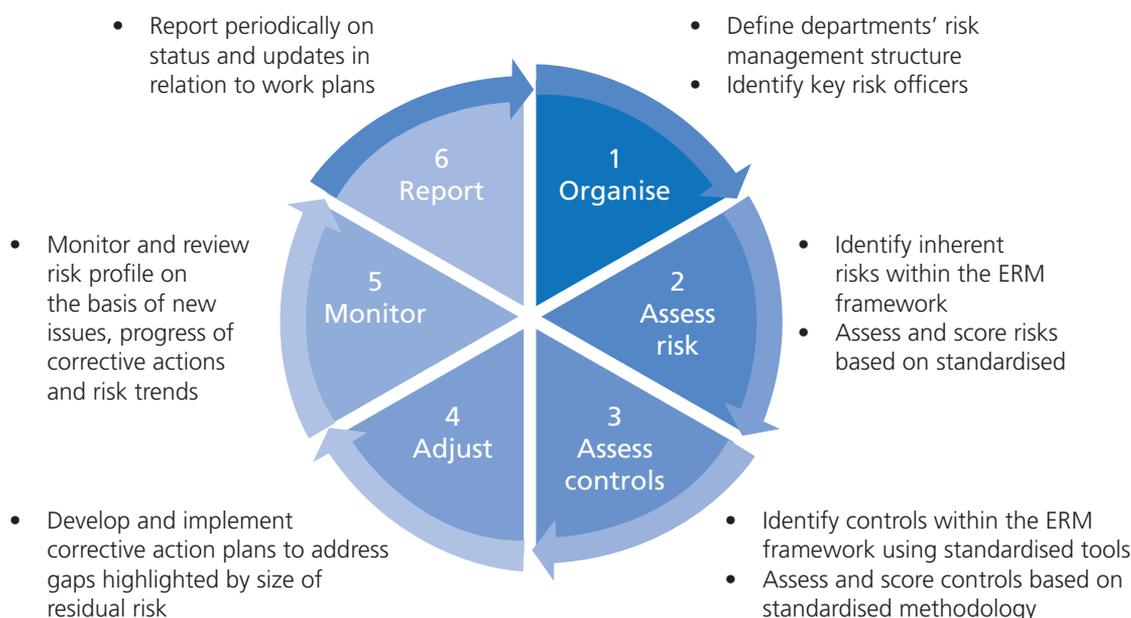
RISK MANAGEMENT AND INTERNAL CONTROLS

The Chairman with the assistance of the Executive Team is responsible for the effectiveness of risk management and internal controls in the SC. The risk management and internal control approach of the SC is organised through a robust governance arrangement, incorporating the Board, Board Committees, management committees, internal governance processes and the line departments.

There is a clear organisational structure with well defined lines of responsibility, effective framework and processes to identify, monitor, mitigate and manage risks which the SC might be exposed to and the appropriate internal control mechanism. These set of policies and standards are reviewed periodically to ensure risks and internal controls are managed responsibly with integrity, fairness, transparency and accountability.

The risk governance structure is supported by the three key components of internal governance, namely risk management, internal compliance and internal audit. This facilitates the effective

The SC's 6 steps Enterprise Risk Management Methodology



governance, risk management and compliance practices through implementation of various guidelines and standards.

The Systemic Risk Oversight Committee, with members comprising all Executive Team members, is responsible for providing the necessary challenge, deliberation and strategic direction on risk management issues of the SC. The Audit Committee, on behalf of the Board, reviews the adequacy and effectiveness of the SC's risk management and internal control systems.

The SC faces various operational risks, which may impact its financial position or result in operational disruption. In this regard, a well established system of risk oversight, risk management and internal control is put in place through the Enterprise Risk Management Framework. The SC is continuously enhancing its approach to risk management to promote strong risk culture among employees including the management and escalation of risks.

The SC has also put in place sound internal control to manage risks in its day-to-day operations.

1. **People Risk** including risks from integrity and ethical conduct of staff member and stakeholders. Management of such risks are guided through:

- A revised Code of Conduct, which came into effect on 1 July 2018, sets out the expectations required of staff on ethical conduct and standards of behaviour;
- Statement of the SC's Principles and Standards facilitates efficient and ethical engagement between the SC and its external stakeholders, which include suppliers, contractors, vendors and consultants. The SC also expects its business stakeholders and all market participants engaging with the SC to emulate similar ethical principles;

- Feedback channels for stakeholders to raise concerns on employee conduct. This includes 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;
 - Framework for Handling External Complaints Against The SC Employees which sets out the process for handling complaints made by external parties against any employee of the SC in relation to the discharge of his functions;
 - There are also Conflict of Interest Declaration processes in which Board members and employees must comply with when faced with a conflict situation; and
 - The *Compliance Management Guidelines* provides a structured approach in ensuring compliance with laws, regulations and internal governance standards which impact the day-to-day operations of the SC.
2. **Data Risk** including managing confidentiality, integrity and availability of data, both internally and externally. Management of such risks are guided through:
- The *Data Loss Mitigation Guidelines* act as a guide and reference point for employees in handling both physical and electronic records containing sensitive information. These Guidelines ensure sensitive information is appropriately secured from unauthorised disclosure and protected from alteration, corruption, loss or misuse; preventing reputational damage and adversely impacting our stakeholders; and
- The *Records Management Policy* is established to give clear guidance of the standards and procedures that need to be put in place to ensure that records are fit to be used as evidence and/or information by the SC, in carrying out business operations or legal obligations.
3. **Process Risk** including risks from inefficient, inadequate or failed internal processes that may have negative impact on the SC. Management of such risks are guided through:
- 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; and
 - The *Policy and Guidelines on Procurement* (PGP) is currently under review and is targeted to be effective April 2019. The holistic review of the PGP would identify the areas for improvement which include reviewing the end-to-end procurement process as well as enhancing its governance and controls.
4. **Infrastructure Risk** including adequacy and effectiveness of IT, physical assets and operating premises. Management of such risks are guided through:
- The *Asset Management Policy and Guidelines* set out the conduct for the treatment of assets in the SC to ensure that the SC's fixed assets are safeguarded and properly recognised, properly maintained and are in good working condition;
 - The *IT User Policy* and *IT Policy* are established to ensure the effective protection and proper usage of the SC's computer systems; and

- Business Continuity Management (BCM) is a fundamental tool to protect the SC from any operational disruption. The ability to rapidly recover critical operations through a structural approach is always on the forefront of the SC's BCM Framework. The BCM Framework is an organisation-wide approach designed to ensure that identified critical business processes can continue to operate in the event of a major internal or external incident. Annual BCM practices (business impact analysis review, desktop and full simulation) are conducted to ensure the SC remains resilient and persevere to operate in the event of a disruption.

EXTERNAL STAKEHOLDER AND PUBLIC COMMUNICATION

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

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

digital and social media on the fundamentals of making sound investment decisions.

The Securities Industry Dispute Resolution Center (SIDREC) is a body approved by the SC to handle capital market-related disputes involving monetary claims by investors against its members. SIDREC's members comprise banks, stockbrokers, future brokers, fund managers, unit trust management companies, PRS providers and distributors, among others, who are licensed under the CMSA to conduct regulated activities in Malaysia. SIDREC's scope has been significantly enlarged by the increase of its maximum claim limit from RM100,000 to RM250,000. It is also now able to accept claims exceeding RM250,000 for mediation where both parties agree to use SIDREC's services. Additionally, following the amendment of the SIDREC's *Capital Markets and Services (Dispute Resolution) Regulations 2010* in September 2010, 43 commercial and Islamic banks and 2 Developmental Finance Institutions (DFI) are now deemed to be members of SIDREC.

This is a significant increase in SIDREC's scope and gives it purview over disputes involving capital market services and products between DFI, commercial and Islamic banks as well as their investor clients. Apart from engagement during the dispute resolution process with both SIDREC's members and the investor claimants, it engages the investing public through its awareness initiatives. SIDREC also concurrently engages its members, the Commission and other stakeholders such as industry associations and self-regulatory organisations to share and provide insights on positive observations as well as concerns that come through from its dispute resolution process. This provides valuable feed to the market, investors and regulator. SIDREC also has an obligation to report to the Commission on issues of systemic concerns that may arise from disputes received.

AUDIT COMMITTEE REPORT

The SC is pleased to present the Audit Committee Report for the financial year ended 31 December 2018.

MEMBERS AND MEETINGS

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

- Tan Sri Dato' Hasmah Abdullah (Chairman);
- Datuk Francis Tan Leh Kiah (*retired with effect from 17 May 2018*);
- Datuk Fazlur Rahman Ebrahim;
- Emeritus Professor Dato' Dr Hassan Said (*resigned with effect from 26 June 2018*);
- Tan Sri Dr Noorul Ainur Mohd Nur (*appointed with effect from 26 July 2018*); and
- Datuk Dr Khaw Lake Tee (*appointed with effect from 17 August 2018*).

The Committee convened 7 meetings 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 Board committee. The Board members determine the membership and appoint the Audit Committee members and the Chairman of the Committee.

The Committee meets at least 4 times a year or as frequently as required with a minimum quorum of 2.

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 Board 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 to—

- assist the Board in its review of the adequacy and effectiveness of the SC's risk management and internal control systems;
- appoint or terminate the appointment of external auditor, its remuneration and any issues regarding its performance;
- review the external auditor's audit scope and plans of audit, including co-ordination of audit efforts with internal audit;
- review the accounting policies and practices adopted by the SC in the preparation of its financial statements and the integrity of the financial reporting processes;
- review the annual financial statements and make appropriate recommendation(s) to the Board 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. approve the Internal Audit Charter and support as well as provide direction to the Internal Audit Department (IAD) to ensure its effectiveness;
- vii. 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. review the implementation of action plans to address key audit observations raised by IAD; and
- ix. review the effectiveness of processes and procedures to ensure compliance with laws, regulations and contracts.
- Reviewed and approved the reappointment of the existing external auditors for the financial year ending 31 December 2018.

Internal audit

- Reviewed the internal audit reports and management's action plans to address the audit issues. The Audit Committee also monitored the implementation of agreed actions and suggestions for improvements arising from the audits performed.
- Reviewed the achievement of the 2018 internal audit plan, which provided an overall indication of the performance of the internal audit function for the year.
- Considered 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 2019.
- Reviewed the representation made on risk management and internal controls in the Statement on Governance for the SC's *Annual Report 2018*.

ACTIVITIES OF THE COMMITTEE

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

Financial reporting

- Reviewed the financial statements for the financial year ended 31 December 2017 prior to presentation to the Board.

External audit

- Reviewed the audit findings and auditor's report arising from the statutory audit for the financial year ended 31 December 2017.
- Reviewed and approved the external audit plan for the financial year ending 31 December 2018. Various audit and accounting issues were discussed at the Audit Committee meetings.

INTERNAL AUDIT

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

IAD carries out its responsibilities by conducting reviews based on the approved internal audit plan, which is developed using a risk-based methodology.

The main activities of IAD for 2018 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 was presented to the Audit Committee for its review. Where applicable, the internal audit conducted follow-up audits to ensure that Management's corrective actions were implemented appropriately and provided updates

on the status of the key actions to the Audit Committee. In addition, IAD played an advisory role in the course of performing its audit activities.

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

FINANCIAL STATEMENTS

Financial statements for the
year ended 31 December 2018

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Non-current assets			
Property, plant and equipment	3	163,377	167,414
Other receivables	4	6,324	8,234
Other investments	5	475,052	511,570
		<u>644,753</u>	<u>687,218</u>
Current assets			
Other investments	5	262,459	213,741
Trade and other receivables	6	23,722	32,098
Cash and cash equivalents	7	64,024	62,101
		<u>350,205</u>	<u>307,940</u>
Total assets		<u>994,958</u>	<u>995,158</u>
Reserves			
Accumulated surplus		757,165	759,209
Compensation fund reserve	8	100,000	100,000
Total reserves		<u>857,165</u>	<u>859,209</u>
Non-current liabilities			
Post-employment benefits	9	75,690	70,758
Deferred income	10	3,331	5,609
		<u>79,021</u>	<u>76,367</u>
Current liabilities			
Deferred income	10	1,244	210
Other payables and accruals	11	57,528	59,372
		<u>58,772</u>	<u>59,582</u>
Total liabilities		<u>137,793</u>	<u>135,949</u>
Total reserves and liabilities		<u>994,958</u>	<u>995,158</u>

The notes on pages 120 to 146 are an integral part of these financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Revenue			
Levies		150,354	147,691
Fees and charges		15,392	16,144
Finance income		31,976	30,102
License fees		3,236	3,187
Registration fees		3,130	1,875
Other income		5,452	5,315
	12	209,540	204,314
Less: Expenditure			
Staff costs	13	157,575	145,580
Administrative expenses		32,122	34,904
Depreciation of property, plant and equipment	3	10,962	11,176
Rental expenses		1,775	2,542
		202,434	194,202
Net operating surplus			
Less: Grants	14	7,106	10,112
		(9,150)	(8,000)
(Deficit)/Surplus before tax			
Tax expense	15 16	(2,044)	2,112
		-	-
(Deficit)/Surplus after tax			
		(2,044)	2,112
Other comprehensive expense, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit liability	9	-	(16,729)
Deficit and total comprehensive expense for the year			
		(2,044)	(14,617)

The notes on pages 120 to 146 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Compensation fund reserve RM'000	Accumulated surplus RM'000	Total RM'000
At 1 January 2017	100,000	773,826	873,826
Remeasurement of defined benefit liability	-	(16,729)	(16,729)
Total comprehensive expense for the year	-	(16,729)	(16,729)
Surplus for the year	-	2,112	2,112
At 31 December 2017/1 January 2018	100,000	759,209	859,209
Deficit for the year	-	(2,044)	(2,044)
At 31 December 2018	100,000	757,165	857,165

Note 8

The notes on pages 120 to 146 are an integral part of these financial statements.

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Cash flows from operating activities			
(Deficit)/Surplus before tax		(2,044)	2,112
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	3	10,962	11,176
Finance income		(31,976)	(30,102)
Gain on disposal of plant and equipment		(120)	(10)
Operating deficit before working capital changes		(23,178)	(16,824)
Changes in working capital:			
Deferred income		(1,244)	5,819
Post-employment benefits		4,932	(684)
Trade and other receivables		9,432	(2,530)
Other payables and accruals		(1,844)	13,492
Net cash used in operating activities		(11,902)	(727)
Cash flows from investing activities			
Maturity of investments in Malaysian Government Securities and Government Guaranteed Bonds		31,464	1,402
Increase in restricted deposits		(6,479)	(9,587)
(Increase)/decrease in investments in deposits placed with licensed banks		(43,664)	3,080
Finance income received		32,830	33,449
Proceeds from disposal of plant and equipment		332	156
Acquisition of plant and equipment		(7,137)	(5,692)
Net cash from investing activities		7,346	22,808
Net (decrease)/increase in cash and cash equivalents		(4,556)	22,081
Cash and cash equivalents at 1 January		30,633	8,552
Cash and cash equivalents at 31 December		26,077	30,633
Cash and cash equivalents comprise:			
Cash and bank balances	7	16,242	20,128
Deposits placed with licensed banks	7	47,782	41,973
		64,024	62,101
Less: Restricted deposits		(37,947)	(31,468)
		26,077	30,633

The notes on pages 120 to 146 are an integral part of these financial statements.

The Securities Commission Malaysia (SC) is a statutory body established under the *Securities Commission Malaysia Act 1993* for the regulation and development of capital markets. The SC has direct responsibility for supervising and monitoring the activities of market institutions including the exchanges and clearing houses and regulating all persons licensed under the *Capital Markets and Services Act 2007*. The address of the SC is at:

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

These financial statements were authorised for issue by the Board Members on 30 January 2019.

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.

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

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The SC plans to apply the abovementioned accounting standards, amendments and interpretations that are applicable and effective from its annual period beginning on or after 1 January 2019 and 1 January 2020, respectively.

The SC does not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on or after 1 January 2021 as it is not applicable to the SC.

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with 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 other than the following:

(i) Post-employment benefits

The provision is determined using actuarial valuation prepared by an independent actuary. The actuarial valuation involved making assumptions about discount rate, medical inflation rate, retirement age and life expectancy. As such, this estimated provision amount is subject to significant uncertainty. The assumptions used to estimate the provision are as disclosed in Note 9.

(ii) Measurement of expected credit loss (ECL) and fair value of financial instrument

The measurement of ECL and fair value of financial instrument involved making assumptions about probability of default and loss given default. As such, this estimated amount is subject to significant uncertainty. The assumptions used to estimate the amount are as disclosed in Note 19.

2. Significant accounting policies

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

Arising from the adoption of MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments*, there are changes to the accounting policies of:

- (i) financial instruments;
- (ii) revenue recognition; and
- (iii) impairment losses of financial instruments

as compared to those adopted in previous financial statements. There are no significant impact from adoption of MFRS 15. The impact arising from adoption of MFRS 9 is disclosed in Note 21.

(a) Financial instruments

Unless specifically disclosed below, the SC generally applied the following accounting policies retrospectively. Nevertheless, as permitted in MFRS 9, *Financial Instruments*, the SC has elected not to restate the comparatives.

(i) Recognition and initial measurement

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

Current financial year

A financial asset or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

An embedded derivatives is recognised separately from the host contract where the host contract is not a financial asset, and accounted for separately if, and only if, the derivatives is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured at fair value through profit or loss. The host contract, in the event an embedded derivatives is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

Previous financial year

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

An embedded derivative was recognised separately from the host contract and accounted for as a derivative if, and only if, it was not closely related to the economic characteristics and risks of the host contract and the host contract was not recognised as fair value through profit or loss. The host contract, in the event an embedded derivative was recognised separately, was accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

Financial assets

Current financial year

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the SC changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

(a) *Amortised cost*

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely for payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets (see Note 2(d)(i)) where the effective interest rate is applied to the amortised cost.

Previous financial year

In the previous financial year, the financial assets of the SC were classified under MFRS 139, *Financial Instruments: Recognition and Measurement* as follows:

(a) *Held-to-maturity*

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

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

(b) Loans and receivables

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

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

Financial liabilities

Current financial year

The categories of financial liabilities at initial recognition are as follows:

Amortised cost

Financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

Previous financial year

In the previous financial year, financial liabilities of the SC were 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 transferred, or control of the asset is not retained or substantially all of the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognised in the profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. A financial liability is also derecognised when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability based on modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the SC currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

(b) Property, plant and equipment

(i) Recognition and measurement

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

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

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

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

(ii) Subsequent costs

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

(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. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

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

Leasehold land	Over the lease 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, and are used by the SC in the management of their short term commitments. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of restricted deposits.

(d) Impairment

(i) Financial assets

Unless specifically disclosed below, the SC generally applied the following accounting policies retrospectively. Nevertheless, as permitted by MFRS 9, *Financial Instruments*, the SC elected not to restate the comparatives.

Current financial year

The SC recognises loss allowances for expected credit losses on financial assets measured at amortised cost. Expected credit losses are a probability-weighted estimate of credit losses.

The SC measures loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and cash equivalents for which credit risk has not increased significantly since initial recognition, which are measured at 12-month expected credit loss. Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the SC considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the SC's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the SC is exposed to credit risk.

The SC estimated the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

At each reporting date, the SC assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the SC determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the SC's procedures for recovery of amounts due.

Previous financial year

All financial assets were assessed at each reporting date whether there was 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, were not recognised.

An impairment loss in respect of loans and receivables and held-to-maturity investments was recognised in profit or loss and was 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 was reduced through the use of an allowance account.

If, in a subsequent period, the fair value of the financial asset increased and the increase could 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 did not exceed what the carrying amount would have been had the impairment not been recognised at the date the impairment was reversed. The amount of the reversal was 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 and other income

(i) Revenue

Revenue is measured based on the consideration specified in a contract with a customer in exchange for transferring services to a customer, excluding amounts collected on behalf of third party. The SC recognises revenue when (or as) it transfers control over a service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

The SC transfers control of a good or service at a point in time unless one of the following overtime criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided as the SC performs;
- (b) the SC's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (c) the SC's performance does not create an asset with an alternative use and the SC has an enforceable right to payment for performance completed to date.

(ii) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and that the SC will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the SC for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same period in which the expenses are recognised.

(iii) Registration fees and license fees

Registration fees and license fees are recognised as it accrues in profit or loss.

(iv) Interest income

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

(iii) Defined benefit plans

Post-employment benefits

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

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

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

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

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

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

(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 2017	9,154	232,162	109,381	71,156	2,928	606	425,387
Additions	-	-	482	1,790	339	3,081	5,692
Disposals	-	-	(516)	(702)	(632)	(129)	(1,979)
Transfer from/(to)	-	-	-	233	-	(233)	-
At 31 December 2017/ 1 January 2018	9,154	232,162	109,347	72,477	2,635	3,325	429,100
Additions	-	-	902	945	-	5,290	7,137
Disposals	-	-	(98)	(53)	(933)	-	(1,084)
Transfer from/(to)	-	-	3,199	3,196	-	(6,395)	-
At 31 December 2018	9,154	232,162	113,350	76,565	1,702	2,220	435,153

3. Property, plant and equipment *(Continued)*

	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
Depreciation and impairment loss							
At 1 January 2017							
Accumulated depreciation	2,035	81,354	103,127	63,773	1,945	-	252,234
Accumulated impairment loss	-	109	-	-	-	-	109
	2,035	81,463	103,127	63,773	1,945	-	252,343
Depreciation for the year	92	4,643	2,062	3,935	444	-	11,176
Disposals	-	-	(506)	(695)	(632)	-	(1,833)
At 31 December 2017/ 1 January 2018							
Accumulated depreciation	2,127	85,997	104,683	67,013	1,757	-	261,577
Accumulated impairment loss	-	109	-	-	-	-	109
	2,127	86,106	104,683	67,013	1,757	-	261,686
Depreciation for the year	92	4,643	1,841	4,008	378	-	10,962
Disposals	-	-	(96)	(45)	(731)	-	(872)
At 31 December 2018							
Accumulated depreciation	2,219	90,640	106,428	70,976	1,404	-	271,667
Accumulated impairment loss	-	109	-	-	-	-	109
	2,219	90,479	106,428	70,976	1,404	-	271,776
Carrying amounts							
At 1 January 2017	7,119	150,699	6,254	7,383	983	606	173,044
At 31 December 2017/ 1 January 2018	7,027	146,056	4,664	5,464	878	3,325	167,414
At 31 December 2018	6,935	141,413	6,922	5,589	298	2,220	163,377

4. Other receivables

	2018 RM'000	2017 RM'000
Staff financing	8,043	10,108
Less: Unearned profit - Islamic financing on housing and motor vehicles	(388)	(538)
	<u>7,655</u>	<u>9,570</u>
Less: Amount due within 12 months (Note 6)	(1,331)	(1,336)
	<u>6,324</u>	<u>8,234</u>

Staff financing relates to Islamic financing and conventional housing loans, Islamic financing and conventional motor vehicle loans, computer loans and study loans. The financing for housing and motor vehicles are secured over the properties and motor vehicle of the borrowers, respectively. The staff financing are repayable over a maximum period of 25 years, 7 years, 5 years and 4 years. The rate charged on these staff financing ranges from 2.0% to 4.0% per annum (2017: 2.0% to 4.0% per annum).

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

	2018 RM'000	2017 RM'000
Within 1 year	1,331	1,336
More than 1 year and up to 5 years	3,762	4,345
More than 5 years	2,562	3,889
	<u>7,655</u>	<u>9,570</u>

5. Other investments

	Non-current		Current		Total	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Amortised costs:						
– Malaysian Government Securities and Government Guaranteed Bonds	151,972	-	90,569	-	242,541	-
– Deposits placed with licensed banks	323,080	-	171,890	-	494,970	-
	475,052	-	262,459	-	737,511	-

	Non-current		Current		Total	
	2018	2017	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Held-to-maturity:						
– Malaysian Government Securities and Government Guaranteed Bonds	-	244,017	-	29,988	-	274,005
Loans and receivables:						
– Deposits placed with licensed banks	-	267,553	-	183,753	-	451,306
	-	511,570	-	213,741	-	725,311

Included in deposits placed with licensed banks are amounts restricted for stockbroking industry development of RM13.2 million (2017: RM12.6 million) and amount restricted for planning and implementing capacity building programmes in relation to the accounting and auditing profession of approximately RM0.7 million (2017: RM0.2 million).

6. Trade and other receivables

	2018 RM'000	2017 RM'000
Levies	9,670	14,608
Interest receivable	7,348	8,202
Other receivables	2,115	2,787
Deposit	718	905
Prepayments	2,540	4,260
Short term staff financing (Note 4)	1,331	1,336
	23,722	32,098
	23,722	32,098

7. Cash and cash equivalents

	2018 RM'000	2017 RM'000
Cash and bank balances	16,242	20,128
Deposits placed with licensed banks	47,782	41,973
	64,024	62,101
	64,024	62,101

The deposits placed with licensed banks earned income at rates ranging from 3.15% to 3.75% per annum (2017: 2.45% to 4.20% per annum).

Included in deposits placed with licensed banks are amounts restricted for brokers' security deposits of approximately RM1.2 million (2017: RM1.2 million), stockbroking industry development of approximately RM3.2 million (2017: RM3.1 million) and other miscellaneous deposits of approximately RM33.5 million (2017: RM27.2 million).

The bank balances are placed with licensed banks.

8. Compensation fund reserve

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

9. Post-employment benefits

	2018 RM'000	2017 RM'000
Net defined benefit liability	70,758	54,713
Expense recognised in profit or loss	6,419	657
Remeasurement of defined benefit liability recognised in other comprehensive income	-	16,729
Benefits paid	(1,487)	(1,341)
Total employee benefit liabilities	<u>75,690</u>	<u>70,758</u>

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 RM1.1 million in contributions to its defined benefit plans in 2019.

Movement in net defined benefit liability

	2018 RM'000	2017 RM'000
Net defined benefit liability at 1 January	70,758	54,713
Included in profit or loss		
Current service cost	2,307	2,295
Past service cost	-	(5,444)
Interest cost	4,112	3,806
	<u>6,419</u>	<u>657</u>
Included in other comprehensive income		
Actuarial (gain)/loss arising from:		
– Financial assumptions	-	13,390
– Experience adjustments	-	3,339
	<u>-</u>	<u>16,729</u>
Other		
Benefits paid	(1,487)	(1,341)
Net defined benefit liability at 31 December	<u>75,690</u>	<u>70,758</u>

Defined benefit obligation Actuarial assumptions

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

	2018	2017
Discount rate	5.8%	5.8%
Medical cost inflation	10%, reducing to 5% in 4 years	10%, reducing to 5% in 5 years
Normal retirement age	60 years	60 years

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 60 is 25 (2017: 60 is 25) for males and females at the end of the reporting date.

At 31 December 2018, the weighted-average duration of the defined benefit obligation was 20.6 years (2017: 20.6 years).

Change in estimate in prior year

In 2017, the SC has appointed Willis Tower Watson (TW) to perform actuarial valuation. There were changes in the assumption used in the valuation and as a result, there is a decrease in service cost recognised in profit or loss in 2017 by RM5.4 million.

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
2018		
Discount rate (1% movement)	(12,782)	16,425
Medical cost inflation rate (1% movement)	15,819	(12,565)
2017		
Discount rate (1% movement)	(12,052)	15,473
Medical cost inflation rate (1% movement)	14,937	(11,888)

10. Deferred income

	Note	2018 RM'000	2017 RM'000
At 1 January 2018/2017		5,819	-
Proceeds during the year	10.1	-	8,449
Less: recognised in profit or loss during the year		(1,244)	(2,630)
Deferred income		4,575	5,819
Current liabilities		1,244	210
Non-current liabilities		3,331	5,609
		4,575	5,819

10.1 In 2017, the SC has received approval from Ministry of Finance to utilise the residual sum disgorged from individuals for breaches of insider trading and market manipulation provisions under the securities laws, amounted to RM8.4 million. This sum is to defray the cost of regulating the market in Malaysia.

11. Other payables and accruals

	2018 RM'000	2017 RM'000
Other payables	52,331	52,731
Accruals	3,972	5,454
Brokers' security deposits	1,225	1,187
	57,528	59,372

12. Revenue

	2018 RM'000	2017 RM'000
Revenue	165,746	163,835
Other income		
– finance	31,976	30,102
– others	11,818	10,377
	43,794	40,479
Total revenue	209,540	204,314

12.1 Nature of goods and services

The following information reflects the typical transactions of the SC:

Nature of services	Significant Payment Term	Timing of recognition or method used to recognise revenue
Levies	30 days	Revenue is derived from Malaysia and are recognised at a point in time.
Fees and charges	Not applicable	Revenue is derived from Malaysia and are recognised at a point in time.

13. Staff costs

	2018 RM'000	2017 RM'000
Remuneration, bonus, staff medical, staff training and overtime	131,719	125,232
Employees Provident Fund and SOCSO contribution	17,840	18,420
Private Retirement Scheme	1,597	1,271
Post-employment benefits	6,419	657
	<u>157,575</u>	<u>145,580</u>

14. Grants

The SC provides grants to various entities involved in projects and programmes that develop, promote and enhance the well-being of the Malaysian capital market.

15. (Deficit)/Surplus before tax

	Note	2018 RM'000	2017 RM'000
(Deficit)/Surplus before tax is arrived at after charging:			
Auditors' remuneration		100	100
Executive members' emoluments*		4,410	4,901
Executive member's gratuity		1,925	-
Non-executive members' allowance		1,177	1,135
Rental expense:			
Property		1,573	2,260
Plant and equipment		201	282
Depreciation of property, plant and equipment	3	10,962	11,176
and after crediting:			
Gain on disposal of plant and equipment		120	10

* Included in executive members' emoluments are leave encashment amounted to RM194,000 (2017: Nil).

16. Tax expense

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

17. Related parties

For the purpose of these financial statements, parties are considered to be related to the SC if the SC has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the SC and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the SC either directly or indirectly.

The SC has related party relationship with Securities Industry Development Corporation (SIDC), as the Chairman of the SC is also the Chairman of SIDC.

Significant related party transaction

The significant related party transactions of the SC are shown below. The balances related to the below transactions are shown in Note 6 and Note 11.

	2018 RM'000	2017 RM'000
Related party		
Management fee	502	502
Provision of grant	(2,500)	(2,500)
	<hr/>	<hr/>
Key management personnel		
Proceeds from disposal of motor vehicles	242	-
	<hr/>	<hr/>

18. Capital commitments

	2018 RM'000	2017 RM'000
Capital expenditure commitments		
Plant and equipment		
<i>Approved but not contracted for:</i>		
Within one year	18,616	13,110
	<hr/>	<hr/>

19. Financial instruments

19.1 Categories of financial instruments

The table below provides an analysis of financial instruments as at 31 December 2018 categorised as amortised costs (AC).

	Carrying amount RM'000	AC RM'000
2018		
Financial assets		
Other receivables	6,324	6,324
Other investments	737,511	737,511
Trade and other receivables*	21,181	21,181
Cash and cash equivalents	64,024	64,024
	<u>829,040</u>	<u>829,040</u>
Financial liabilities		
Other payables and accruals	(57,528)	(57,528)

The table below provides an analysis of financial instruments as at 31 December 2017 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
2017			
Financial assets			
Other receivables	8,234	8,234	-
Other investments	725,311	451,306	274,005
Trade and other receivables*	27,838	27,838	-
Cash and cash equivalents	62,101	62,101	-
	<u>823,484</u>	<u>549,479</u>	<u>274,005</u>
Financial liabilities			
Other payables and accruals	(59,372)	(59,372)	-

* Exclude non-financial assets

19.2 Gains arising from financial instruments

	2018 RM'000	2017 RM'000
Gains on:		
Financial assets at amortised cost	31,976	-
Held-to-maturity investments	-	10,964
Loans and receivables	-	19,138
	<u>31,976</u>	<u>30,102</u>

19.3 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

19.4 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's exposure to credit risk arises principally from the individual characteristics of each customer. There are no significant changes as compared to prior periods.

Receivables

Risk management objectives, policies and processes for managing the risk

The SC has a formal credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Recognition and measurement of impairment loss

In managing credit risk to of receivables, the SC manages its debtors and take appropriate actions (including but not limited to legal actions) to recover long overdue balances. Generally, receivables will pay within 30 days.

The SC uses an allowance matrix to measure ECLs of trade receivables for all segments. Consistent with the debt recovery process, invoices which are past due 90 days will be considered as credit impaired.

The following table provides information about the exposure to credit risk and ECLs for receivables as at 31 December 2018 which are grouped together as they are expected to have similar risk nature.

	Gross- carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
2018			
Not past due	29,525	-	29,525
Past due 1 - 30 days	-	-	-
Past due 31 - 90 days	-	-	-
Past due 91 - 180 days	-	-	-
Past due more than 180 days	521	-	521
	30,046	-	30,046

The receivables that are past due has not recognised any loss allowance as the receivables are supported by collateral in the form of residential properties with respective fair value exceeding its outstanding debts.

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

No impairment was performed on the receivables.

Comparative information under MFRS 139, Financial Instruments : Recognition and Measurement

The aging of trade receivables as at 31 December 2017 was as follow:

	Gross- carrying amount RM'000	Loss allowance RM'000	Net balance RM'000
2017			
Not past due	34,760	-	34,760
Past due 1 - 30 days	-	-	-
Past due 31 - 90 days	-	-	-
Past due 91 - 180 days	67	-	67
Past due more than 180 days	340	-	340
	<u>35,167</u>	<u>-</u>	<u>35,167</u>

Cash and cash equivalents

The cash and cash equivalents are held with banks and financial institutions. As at the end of the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the statement of financial position.

These banks and financial institutions have low credit risk. In addition, some of the bank balances are insured by government agencies. Consequently, the SC are of the view that the loss allowance is not material and hence, it is not provided for.

Investments and other financial assets

Risk management objectives, policies and processes for managing the risk

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

Exposure to credit risk, credit quality and collateral

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

19.5 Liquidity risk

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

Maturity analysis

The table below summarises the maturity profile of the SC's financial liabilities as at the end of the reporting period. There is no contractual interest rate for other payables and accruals.

	Carrying amount RM'000	Contractual cash flow RM'000	Under 1 year RM'000
2018			
Financial liabilities			
Other payables and accruals	57,528	57,528	57,528
2017			
Financial liabilities			
Other payables and accruals	59,372	59,372	59,372

19.6 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.

19.6.1 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:

	2018 RM'000	2017 RM'000
Fixed rate instruments		
Financial assets	785,293	767,284

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.

19.7 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

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

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

	Fair value of financial instruments not carried at fair value			Total fair value RM'000	Carrying amount RM'000
	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000		
2018					
Non-current					
Financial assets					
Long-term receivables	-	-	6,324	6,324	6,324
Malaysian Government Securities and Government Guaranteed Bonds	-	152,533	-	152,533	151,972
	-	152,533	6,324	158,857	158,296
2017					
Non-current					
Financial assets					
Long-term receivables	-	-	8,234	8,234	8,234
Malaysian Government Securities and Government Guaranteed Bonds	-	245,831	-	245,831	244,017
	-	245,831	8,234	254,065	252,251

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. (2017: no transfer in either directions)

Level 3 fair value

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

Financial instruments not carried at fair value

Type	Description of valuation technique and input used
Long-term receivables	Discounted cash flows using a rate based on the current market rate of borrowing.

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. 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. Significant changes in accounting policies

During the year, the SC adopted MFRS 15, *Revenue from Contracts with Customers* and MFRS 9, *Financial Instruments* on their financial statements. The SC generally applied the requirement of this accounting standard retrospectively with practical expedients and transitional exemptions as allowed by the standards. Nevertheless, as permitted by MFRS 9, the SC have elected not to restate the comparatives. There are no significant impact from the adoption of MFRS 15.

21.1 Accounting for financial instruments

a. Transition

In the adoption of MFRS 9, the following transitional exemptions as permitted by the standard have been adopted:

- (i) The SC have not restated comparative information for prior periods with respect to classification and measurement requirements. Accordingly, the information presented for 2017 does not generally reflect the requirements of MFRS 9, but rather those of MFRS 139, *Financial Instruments: Recognition and Measurement*.
- (ii) The following assessments have been made based on the facts and circumstances that existed at the date of initial application:
 - the determination of the business model within which a financial asset is held.
- (iii) Loss allowance for receivables (other than trade receivables) is recognised at an amount equal to lifetime expected credit losses until the receivable is derecognised.

b. Classification of financial assets and financial liabilities on the date of initial application of MFRS 9

The following table shows the measurement categories under MFRS 139 and the new measurement categories under MFRS 9 for each class of the SC's financial assets and financial liabilities as at 1 January 2018:

Category under MFRS 139	31 December 2017	1 January 2018
Financial asset	RM	Reclassification to new MFRS 9 category AC RM
Loan and receivables		
Other receivables	8,234	8,234
Other investments	451,306	451,306
Trade and other receivables	27,838	27,838
Cash and cash equivalents	62,101	62,101
	549,479	549,479
Held-to-maturity		
Other investments	274,005	274,005
Financial liability		
Other financial liabilities measured at amortised cost		
Other payables and accruals	(59,372)	(59,372)

(i) Reclassification from loans and receivables to amortised cost

Trade and other receivables and cash and cash equivalents that were classified as loans and receivables under MFRS 139 are now reclassified at amortised cost.

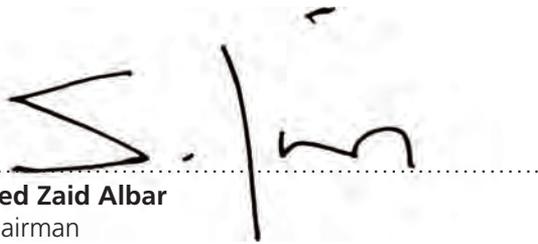
(ii) Reclassification from HTM to amortised cost

Quoted bond that were previously classified as HTM were now classified at amortised cost because the SC intends to hold the assets to maturity to collect contractual cash flows.

STATEMENT BY BOARD MEMBERS

In the opinion of the Board Members, the financial statements set out on pages 115 to 146 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Securities Commission Malaysia as of 31 December 2018 and of its financial performance and cash flows for the financial year then ended.

On behalf of the Board Members:



.....
Syed Zaid Albar
Chairman



.....
Wee Hoe Soon @ Gooi Hoe Soon
Member

Kuala Lumpur

Date: 30 January 2019

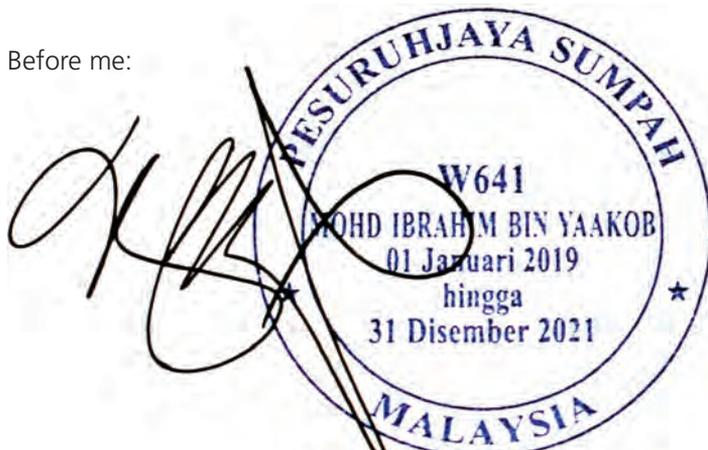
I, **Vignaswaran A/L Kandiah**, the officer primarily responsible for the financial management of the Securities Commission Malaysia, do solemnly and sincerely declare that the financial statements set out on pages 115 to 146 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the declaration to be true, and by virtue of the *Statutory Declarations Act, 1960*.

Subscribed and solemnly declared by the abovenamed **Vignaswaran A/L Kandiah**, NRIC No. 561128-10-6171, at Kuala Lumpur in the Federal Territory on 30 January 2019.



.....
Vignaswaran A/L Kandiah
Officer

Before me:



Unit 50-10-1, Tingkat 10
Wisma UOA Damansara
No. 50, Jalan Dungun
Bukit Damansara
50490 Kuala Lumpur.
Tel: +603-2081 3770

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Securities Commission Malaysia (SC), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 115 to 146.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the SC as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our auditors' report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

We are independent of the SC in accordance with the By-Laws (On Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (By-Laws), and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Responsibilities of Board Members of the SC for the Financial Statements

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

In preparing the financial statements of the SC, the Board Members are responsible for assessing the SC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board Members either intend to liquidate the SC or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the SC as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the SC, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the SC.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members.
- Conclude on the appropriateness of the Board Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the SC to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of the SC or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the SC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the SC, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

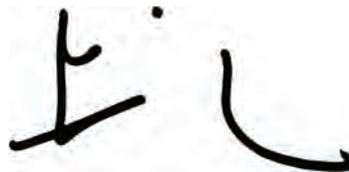
We communicate with the Board Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

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



KPMG PLT
(LLP0010081-LCA & AF 0758)
Chartered Accountants



Loh Kam Hian
Approval Number: 02941/09/2020 J
Chartered Accountant

Petaling Jaya, Malaysia
Date: 30 January 2019

CORPORATE PROPOSALS

EQUITY

The SC received 11 equity applications in 2018 of which 8 applications were for initial public offerings (IPOs) and 3 were for transfer of listings. A total of 9 equity applications were considered in 2018 (Table 1).

In 2018, the SC approved 5 IPOs for the Main Market with total funds approved to be raised from these IPOs estimated at RM4.87 billion (Table 2) with aggregate market capitalisation of RM14.19 billion.

There were 11 new listings for 2018. Of these 11 listings, 2 were on the Main Market and the remaining 9 were on the ACE Market. The total amount of funds raised from these new listings in 2018 was approximately RM0.61 billion.

The SC registered 42 equity prospectuses in 2018, comprising 14 prospectuses for IPO, 1 prospectus for restricted offer for sale of ordinary shares and 27 abridged prospectuses (Table 3).

Table 1

Status of equity applications

Applications	2018	2017
Brought forward from the previous year	3	3
Received during the year	11	8
Total for consideration	14	11
Approved during the year	(9)	(6)
Not approved during the year	(-)	(-)
Returned during the year	(-)	(-)
Total considered during the year	(9)	(6)
Withdrawn during the year	(1)	(2)
Carried forward to the next year	4	3

Table 2

Equity applications approved by type of proposals

Type of proposals	2018		2017	
	No. of proposals approved	Amount raised (RM million)	No. of proposals approved	Amount raised (RM million)
IPO on Main Market: – Domestic companies	5	4,867.79	3	3,770.00
Subtotal	5	4,867.79	3	3,770.00
Restructuring/mergers and acquisitions	–	–	1	–
Transfer from ACE Market to Main Market	4	–	2	–
TOTAL	9	4,867.79	6	3,770.00

Table 3

Registration of equity prospectuses

Applications	2018	2017
Prospectus	15	11
Abridged prospectus	27	31
TOTAL	42	42

CORPORATE BONDS AND SUKUK

The Malaysian corporate bonds and sukuk market reported total issuance of RM105.45 billion in 2018, a 15.56% decrease from RM124.88 billion issued in 2017.

In 2018, the SC received 57 lodgements under the Lodge and Launch (LOLA) Framework and 2 applications for issuances of corporate bonds and sukuk, as compared to 79 lodgements and 3 applications received in the previous year (Table 4). Ringgit-denominated corporate bonds and sukuk continued to form the majority of the proposals

approved by/lodged with the SC with a total nominal value of RM89.87 billion, of which 56.72% or RM50.97 billion, were sukuk (Table 5).

There has been an overall decline in the maturity profile of ringgit-denominated corporate bonds and sukuk approved by/lodged with the SC in 2018. The maturity profile of ringgit-denominated corporate bonds and sukuk with tenures of 1 to 7 years exhibited a 14.29% decrease while total number of ringgit-denominated corporate bonds and sukuk with the tenures of 8 to 15 years saw a 37.50% decrease. There was also a 25.71% decrease in the total number of ringgit-denominated corporate

Table 4

Number of corporate bonds and sukuk lodgements and applications

(i) Lodgements ¹	2018	2017
Received during the year	57	79
(ii) Applications	2018	2017
Brought forward from the previous year	1	1
Received during the year	2	3
Total for consideration	3	4
Approved during the year	(3)	(3)
Not approved during the year	-	-
Returned during the year	-	-
Total considered during the year	(3)	(3)
Withdrawn during the year	-	-
Carried forward to the next year	-	1

Note:

¹ Pursuant to the Lodge and Launch Framework.

Table 5

Lodged/approved ringgit-denominated corporate bonds and sukuk issues

Type of issues	2018		2017	
	No. of issues	Nominal amount (RM million)	No. of issues	Nominal amount (RM million)
Corporate bonds				
– Commercial papers/Medium-term notes	19	26,224.00	27	91,004.00
– Bonds	2	10,080.00	3	2,080.00
– Loan stocks	3	802.88	3	674.92
Subtotal	24	37,106.88	33	93,758.92
Sukuk				
– Islamic commercial papers/ Islamic medium-term notes	32	50,965.00	45	93,004.00
– Islamic bonds	-	-	2	1,150.00
– Islamic loan stocks	-	-	-	-
Subtotal	32	50,965.00	47	94,154.00
Combination of corporate bonds and sukuk				
– Commercial papers/Medium-term notes	2	1,800.00	-	-
Subtotal	2	1,800.00	-	-
TOTAL	58	89,871.88	80	187,912.92

bonds and sukuk with tenures of more than 15 years which included 9 issuances with perpetual maturities (Chart 1).

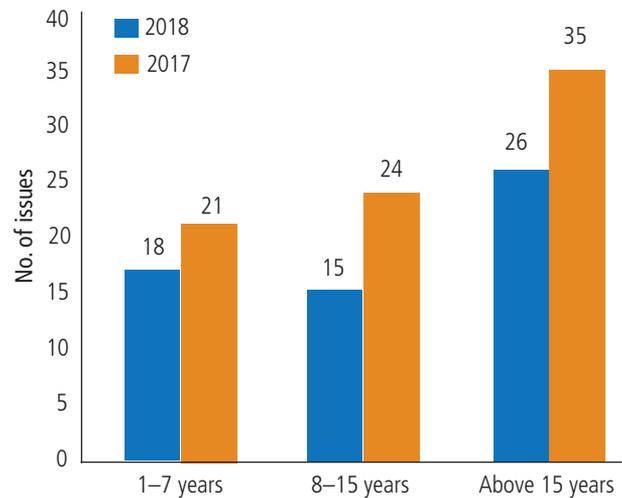
In 2018, a total of 26 ratings (based on initial rating) were assigned by credit rating agencies to ringgit denominated corporate bonds and sukuk issues approved by/loved with the SC. The number of unrated issues declined by 20% (Chart 2).

The mandatory rating requirement for corporate bonds and sukuk has been removed effective January 2017.

There were 2 foreign currency-denominated sukuk lodged with the SC in 2018 by foreign issuers.

Chart 1

Tenure of lodged/approved ringgit-denominated corporate bonds and sukuk issues

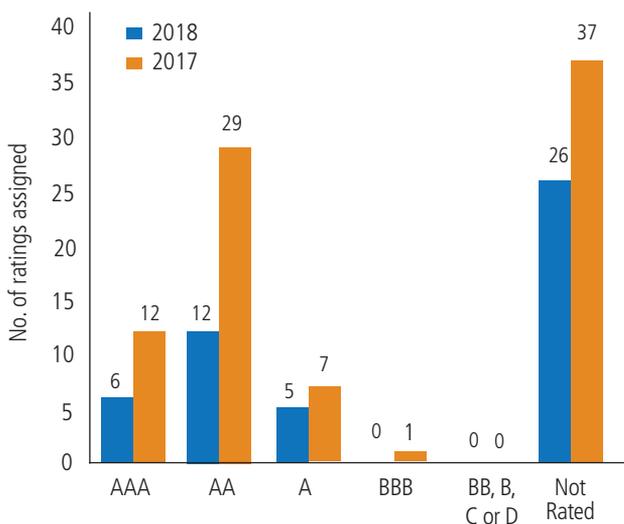


Note: Tenure of facility, and not the respective notes or papers under the facility.

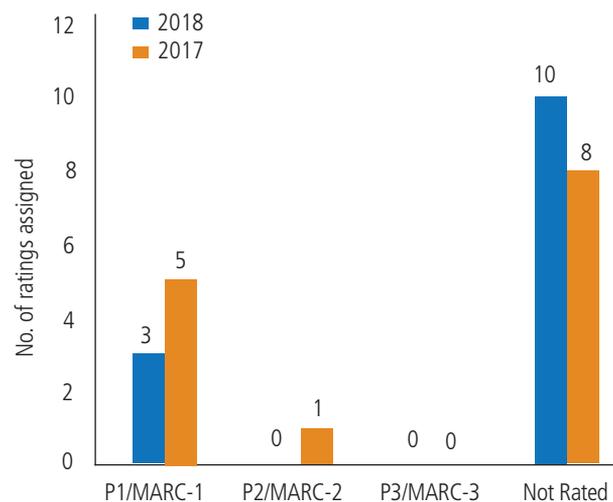
Chart 2

Rating summary of lodged/approved ringgit-denominated corporate bonds and sukuk issues

Long-term rating



Short-term rating



Note: A corporate bond or sukuk issue may be assigned more than 1 credit rating (e.g. for commercial papers/medium-term notes programmes, both short-term rating accorded for commercial papers and long-term rating for medium-term notes are taken into account).

TAKE-OVERS AND MERGERS

In Malaysia, take-overs and mergers are regulated by the SC under the *Capital Markets and Services Act 2007 (CMSA)*, the *Malaysian Code on Take-overs and Mergers 2016 (Code)* and the *Rules on Take-overs, Mergers and Compulsory Acquisitions (Rules)*. The main purpose of take-over regulation is to provide an orderly framework for acquisitions or consolidation of control to take place. It aims to preserve the integrity of the capital market by ensuring fair and equal treatment of shareholders and by affording shareholders the opportunity to assess the merits of a take-over through full and timely disclosure of relevant information.

In 2018, the SC considered 72 applications under the Rules, compared to 94 applications in 2017. A total of 18 offer documents were cleared by the SC in 2018 involving a total offer value of RM7.32 billion or an average of RM406.57 million per offer. The SC also cleared a cash compensation scheme to shareholders which was implemented concurrently with an ongoing take-over scheme to address an earlier trigger of the mandatory offer obligation in respect of the same offeree company. The total offer value for 2018 represented an increase of RM3.84 billion against the previous year, and is recorded as the highest total offer value for take-overs under the Code in the past 5 years (2017: 24 offers with total offer value of RM3.48 billion). 4 take-over offers were undertaken by way of schemes in 2018, representing 22% of the total number of offers (2017: 7 schemes or 29%).

The largest offer for the year was in relation to Unisem (M) Bhd, which involved RM1,816.86 million in offer value and constituted 25% of the total offer value for 2018. Other notable offers in terms of value were the offers for OldTown Bhd and Iskandar Waterfront City Bhd with offer values of RM1,473.10 million and RM1,420.87 million respectively. The offer for Iskandar Waterfront City Bhd however, eventually lapsed when Ekovest

Bhd failed to obtain the requisite approval from its shareholders. In aggregate, these 3 offers represented 64% of the total offer value in 2018.

The property sector garnered the most interest with 7 target companies with total offer value of RM2,508.71 million, representing 39% of total number of offers and 34% of total offer value in 2018. A total of 4 offers involved foreign parties as offerors, i.e. from Netherlands (for OldTown Bhd), Singapore (for LCTH Corporation Bhd), Philippines (for MCT Bhd) and China (for Unisem (M) Bhd). Meanwhile, the number of proposed privatisations of listed companies effected via take-over offers remained the same, with 7 offers representing 39% of the total number of offers in 2018 (2017: 7 or 29%).

Additionally, the SC cleared 25 independent advice circulars comprising 18 circulars in relation to take-over offers/schemes and 7 circulars in relation to exemptions from the mandatory offer obligation arising mainly from rights issue exercises, pursuant to the whitewash procedures. The SC also approved 15 applications for exemptions from having to undertake a mandatory take-over offer and 13 applications for various matters including other waivers or rulings (Table 6).

Table 6

Applications considered in relation to take-overs, mergers and compulsory acquisitions

Type of applications/ documents cleared	2018	2017
Clearance of offer/ scheme documents	19	25
Clearance of independent advice circulars	25	33
Applications for exemption from mandatory offer obligation	15	18
Other applications	13	18
TOTAL	72	94

In addition to regulating firm offers and considering formal applications, a significant amount of resources was allocated to consultations sought on possible offers, exemptions, concert party matters, potential favourable deals and general enquiries pertaining to the interpretation and application of the Code and the Rules.

During the year, the SC organised dialogue sessions with various stakeholders as part of its post-implementation review of the Rules issued in 2016, and issued letters to practitioners to provide clarity in relation to opinions by independent advisers for offers that are 'not fair but reasonable'.

The SC also undertakes surveillance and enquiries on potential take-over related breaches and non-compliances. This has resulted in a number of actions taken in 2018 including issuances of reprimands and impositions of fines for failure to undertake a mandatory offer. Actions taken also include issuances of infringement notices for various non-compliances such as delay in serving the notice of take-over offer as well as delay in providing dealing disclosures during an offer period, and dealings in shares during a restricted period.

INVESTMENT MANAGEMENT

FUND MANAGEMENT

Total assets under management (AUM) of licensed fund management companies (FMCs) in Malaysia fell by 4.21% to RM743.58 billion as compared to RM776.23 billion in 2017. In 2018, top 5 FMCs contributed to 57.42% of total AUM as compared to 57.27% in 2017 (Chart 1).

Source of funds under management were largely from unit trust funds, Employees Provident Fund, corporate bodies, and wholesale funds (Table 1). The funds were allocated in various asset classes and locations, of which, investment inside Malaysia by FMCs amounted to RM590.03 billion, representing 79.35% of the total AUM as at end 2018 (Chart 2). The bulk of investment was allocated in equities with 47.24% at end 2018, as compared to 51.03% in 2017 (Chart 3). Similar trend was observed on assets allocation inside and outside Malaysia (Chart 4).

Table 1

Source of clients' funds under management

Source of funds	2018 (RM billion)	2017 (RM billion)
Unit trust funds	426.18	426.98
Employees Provident Fund	112.13	118.50
Wholesale funds	64.95	84.68
Corporate bodies	73.11	84.30
Statutory bodies and government agencies	32.81	26.79
Others	19.58	19.93
Individuals	10.06	9.66
Private pension funds	4.76	5.39
TOTAL	743.58	776.23

Chart 1

Assets managed by FMCs

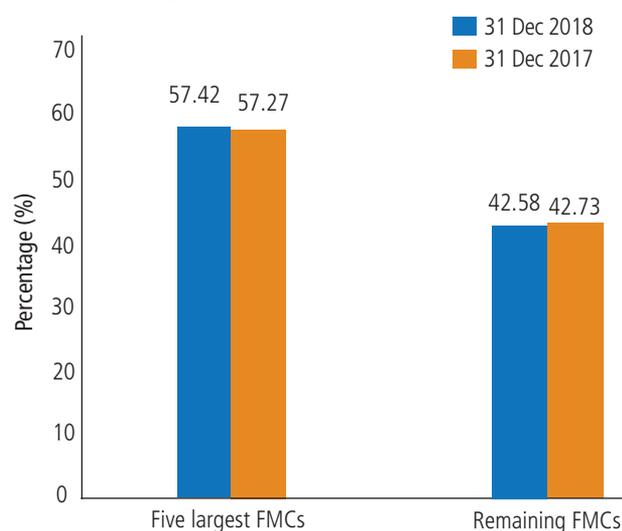


Chart 2

Assets invested inside and outside of Malaysia

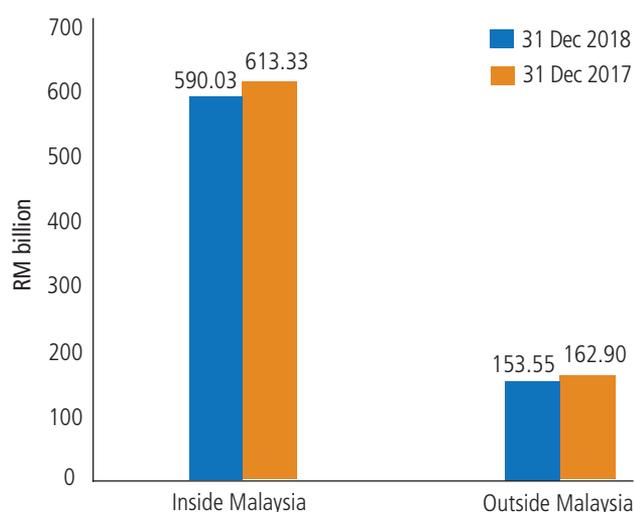


Chart 3

Assets Allocation

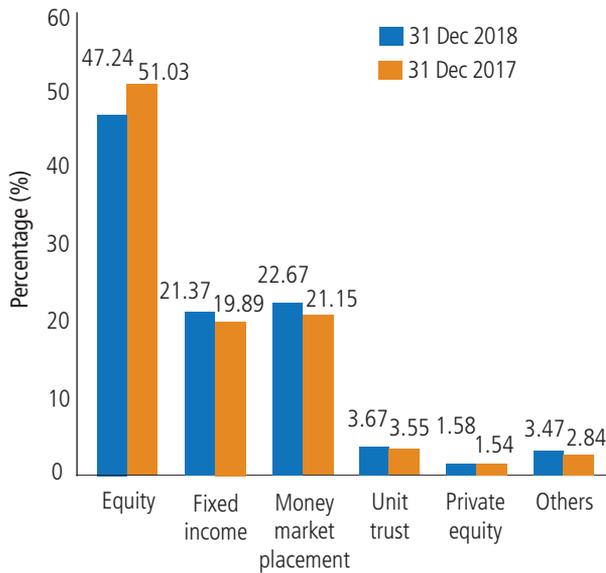
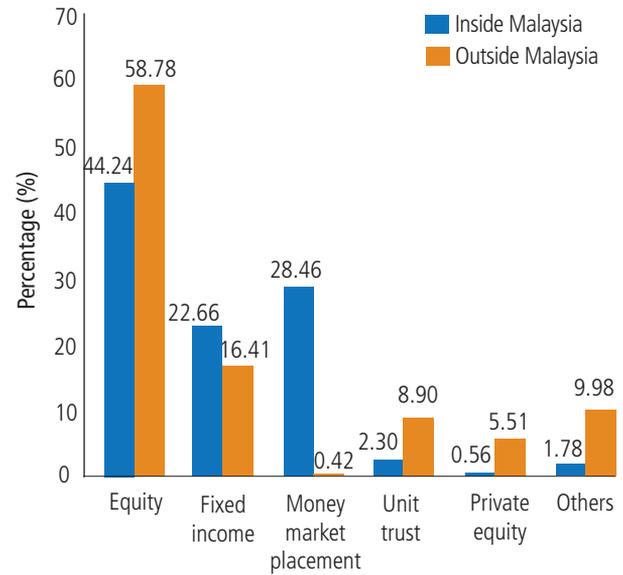


Chart 4

Assets allocation inside and outside of Malaysia as at 31 December 2018



COLLECTIVE INVESTMENT SCHEMES AND PRIVATE RETIREMENT SCHEMES

In 2018, unit trust funds continued to be the largest component of the Malaysian collective investment schemes (CIS) industry with a total net asset value (NAV) of RM426.18 billion recorded as at 31 December 2018 (2017: RM426.98 billion). Total NAV of unit trust funds as a percentage of Bursa Malaysia’s market capitalisation is 25.06% as at 31 December 2018 (2017: 22.39%) (Table 2). As at 31 December 2018, there are 37 locally-incorporated management companies approved to offer unit trust funds.

In the year under review, 37 new unit trust funds were launched while 22 funds were terminated and 9 funds matured, bringing the total number of unit trust funds available to investors to 650 as at 31 December 2018. Of these, 426 funds were conventional unit trust funds while the remaining 224 were Shariah-compliant unit trust funds.

The unit trust funds industry recorded a total gross sales value of RM204.97 billion with unit trust management companies being the major distributors with sales amounting to RM87.57 billion (Table 3).

In the wholesale funds segment, 43 new funds were launched under the LOLA Framework (Table 4) to sophisticated investors while 25 funds were terminated and 6 funds matured in 2018, which brought the total number of wholesale funds in operation to 307 as at 31 December 2018. Of these, 231 funds were conventional wholesale funds while 76 were Shariah-compliant wholesale funds. The total NAV of wholesale funds as at 31 December 2018 was RM64.95 billion (2017: RM84.68 billion).

A total of 4 funds were qualified as SRI fund in 2018 pursuant to the introduction of the *Guidelines on Sustainable and Responsible Investment Funds* in December 2017. Of these, 2 were unit trust funds and 2 were wholesale funds.

As at 31 December 2018, 18 real estate investment trusts (REITs) were listed on the Main Market of Bursa Malaysia with a total market capitalisation (including a stapled group) of RM41.43 billion (2017: RM46.48 billion). The total asset size grew marginally from RM51.21 billion to RM52.77 billion for the same period. As at 31 December 2018, there continues to be only 1 unlisted REIT offered to sophisticated investors.

With the listing of MyETF Dow Jones U.S. Titans 50 on 28 February 2018, the total exchange-traded fund (ETFs) listed on the Main Market of Bursa Malaysia as at 31 December 2018 was 10 with a total market capitalisation of RM1.98 billion, an increase of 2.06% from a total market capitalisation of RM1.94 billion as at 31 December 2017.

Table 2

Overall status of unit trust fund industry

	31 December 2018	31 December 2017
No. of funds launched	650	644
– Conventional	426	431
– Shariah-compliant	224	213
Units in circulation (billion units)	629.24	562.39
No. of accounts (million)*	21.06	20.08
Total NAV (RM billion)	426.18	426.98
– Conventional (RM billion)	342.72	349.20
– Shariah-compliant (RM billion)	83.46	77.78
% of NAV to Bursa Malaysia market capitalisation [^]	25.06	22.39

Note:

* Including unitholders accounts with institutional unit trust advisers (IUTA) that operate nominee account system.

[^] The comparison made between the total NAV of the unit trust funds industry and Bursa Malaysia's market capitalisation is not an indication of the actual amount invested in Bursa Malaysia by the unit trust funds.

Table 3

Distribution channels

	31 December 2018 RM billion	31 December 2017 RM billion
Unit trust management company	87.57	81.95
Institutional unit trust adviser	66.53	64.96
Unit trust consultant	47.75	50.45
Corporate unit trust adviser	0.83	0.36
Others	2.29	2.51
TOTAL	204.97	200.23

As at 31 December 2018, there continued to be only 1 closed-end fund (CEF) listed on the Main Market of Bursa Malaysia with a market capitalisation of RM345.80 million (2017: RM397.60 million).

The number of PRS funds remained unchanged with 12 schemes comprising 56 funds as at 31 December 2018. Of these, 31 were conventional funds while 25 were shariah-compliant funds. The total industry

NAV of RM2.68 billion as at 31 December 2018 represented an increase of 20.18% compared to a total NAV of RM2.23 billion as at 31 December 2017.

For the year under review, the SC has considered 350 applications relating to CIS and PRS, comprising applications to establish new funds, register prospectuses, register deeds and other ancillary matters (Table 4).

Table 4

Number of applications and lodgements relating to collective investment schemes and private retirement schemes

(i) Lodgement	Lodged		Launched			
	2018	2017	2018	2017		
Wholesale funds	45 ¹	48	43	49		
(ii) Application	Considered		Approved		Pending consideration	
	2018	2017	2018	2017	As at 31 December 2018	As at 31 December 2017
Establishment of collective investment schemes	43	51	43	51	5	5
– Unit trust funds	42	47	42 ²	47	5	5
– Real estate investment trusts	-	2	-	2	-	-
– Exchange-traded funds	1	2	1	2	-	-
Increase in fund size limit	2	6	2	6	-	-
– Unit trust funds	1	4	1	4	-	-
– Real estate investment trusts	1	2	1	2	-	-
Exemption / Variation from guidelines	9	14*	8	13*	3	1
Registration of prospectuses / disclosure documents	124	207	124	207	8	9
Registration of deeds	120	110	120	110	7	9
Other applications	52	57	51	57	3	3
TOTAL	350	445	348	444	26	27

Note:

1 Includes 2 funds which were qualified as SRI fund.

2 Includes 2 funds which were qualified as SRI fund.

* Tax certification applications are now reclassified as 'other applications'.

INVESTMENT PRODUCTS

Structured warrants

There were 6 eligible issuers of structured warrants in 2018. The SC received and registered 6 base prospectuses and 9 supplementary prospectuses from these issuers in 2018 (Table 5).

Table 5

Structured warrants considered

	2018	2017
No. of eligible issuers	6	7
Base prospectuses registered	6	5*
Supplementary prospectuses registered	9	12
Term sheets registered	1,037	925
Issue size (billion warrants)	53.19	48.25

Note:

* 2 issuers did not renew their base prospectuses which had expired in 2017.

Table 6

Structured product programmes considered

	2018		2017	
No. of issuers lodged new programmes	16		9	
New programmes lodged	No. of programmes	Size (RM billion)	No. of programmes	Size (RM billion)
Principle				
– Conventional	17	85.00	20	100.00
– Islamic	4	15.05	-	-
TOTAL	21	100.05	20	100.00

A total of 1,037 term sheets for the offering of structured warrants were registered in 2018, representing an increase of 12.11% compared to the 925 term sheets registered in 2017. The increase was attributable to the active issuance by issuers in meeting investor interest during the year.

In 2018, there was an increase in issuances of structured warrants based on shares from 788 in 2017 to 879. In addition, issuances of structured warrants based on indices increased to 140 in 2018 compared to 120 in the previous year.

The term sheets registered in 2018 enabled the structured warrants issuers to offer up to a total of 53.19 billion structured warrants.

Structured products

In 2018, 16 issuers lodged 21 new structured product programmes with the SC under the LOLA Framework for unlisted capital market products. These programmes comprised a variety of underlying references and had an aggregate size of RM100.05 billion with each programme having a size limit of up to RM5.0 billion (Table 6).

ISLAMIC CAPITAL MARKET

The Islamic capital market (ICM) represented 60.55% Malaysia's capital market. Its market size recorded RM1,880.73 billion as at end 2018 in comparison with RM1,893.47 billion as at end 2017. This comprises total market capitalisation of Shariah-compliant equities of RM1,036.52 billion and total sukuk outstanding amounted to RM844.21 billion (Chart 1 and Table 1).

Shariah-compliant securities

The SC released the updated list of Shariah-compliant securities approved by its Shariah

Advisory Council (SAC) in May and November 2018 respectively. The updated list, which took effect on 30 November 2018, featured a total of 689 Shariah-compliant securities. The list included 33 newly-classified Shariah-compliant securities and excluded 34 from the previous list issued in May 2018.

As at end December 2018, these securities remained at 689 Shariah-compliant securities, which constituted 75.30% of the 915 listed securities on Bursa Malaysia. The market capitalisation of Shariah-compliant securities stood at RM1,036.52 billion or 60.96% of the total market capitalisation, a decrease of 8.58% as compared to end 2017 (Chart 2 and Table 2).

Chart 1

Size of Islamic capital market

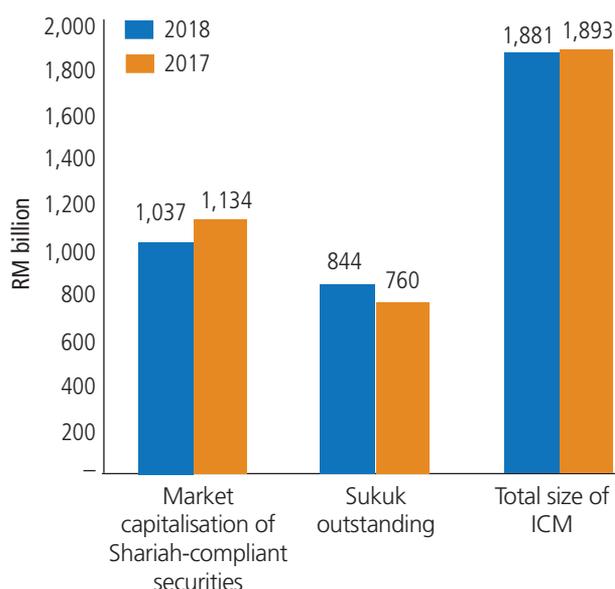
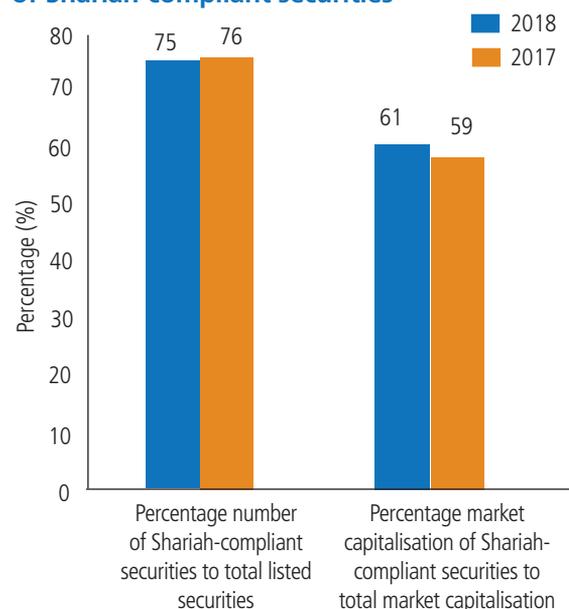


Chart 2

Percentage of number and market capitalisation of Shariah-compliant securities



Sukuk

In 2018, a total of 58 ringgit-denominated corporate bonds and sukuk have been approved and lodged with the SC amounting to RM89.87 billion of which 32 were sukuk valued at RM50.97 billion (Chart 3). The sukuk value represented 56.72% of the total new ringgit-denominated corporate bonds and sukuk approved and lodged.

In terms of issuances, corporate sukuk represented 68.92% (2017: 70.19%) of total corporate bonds and sukuk issuances while sukuk outstanding accounted for 76.01% (2017: 75.14%) of total corporate bonds and sukuk outstanding (Table 3).

Overall, sukuk issuances by Government and corporates in 2018 represented 51.80% (2017:

53.05%) of total bonds and sukuk issuances whereas total sukuk outstanding represented 60.05% (2017: 58.80%) of total bonds and sukuk outstanding (Table 4).

Islamic fund management

The Islamic AUM stood at RM158.83 billion registering 7.74% decrease from RM172.16 billion as at end 2017 (Chart 4). The number of Islamic CIS saw an increase from 324 in 2017 to 335 as at end 2018. During the year, two Islamic SRI funds were launched for unit trust and wholesale fund respectively. As at end 2018, there were 53 fund management companies managing Islamic funds, with 22 full-fledged Islamic fund management companies and 31 fund management companies offering Islamic windows.

Chart 3

Corporate sukuk approved/lodged with the SC

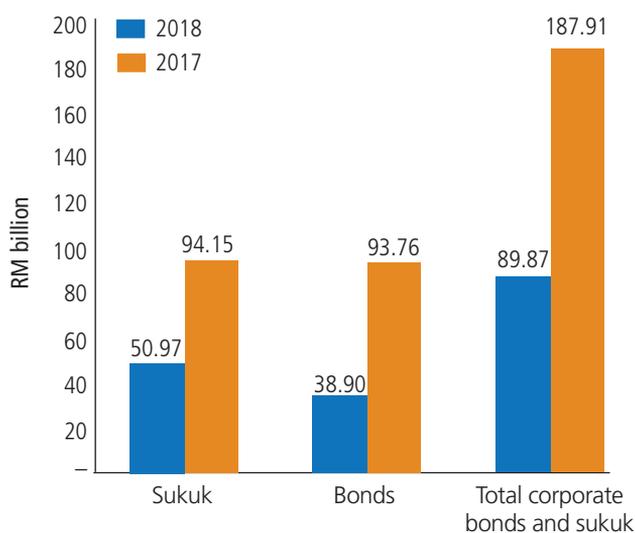
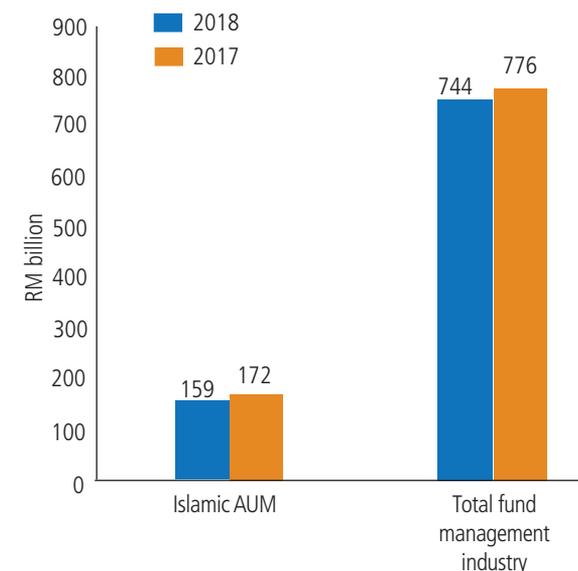


Chart 4

AUM of Islamic fund management



KEY STATISTICS

Table 1

Size of ICM

Islamic capital market	2018 RM billion	2017 RM billion
Market capitalisation of Shariah-compliant securities	1,036.52	1,133.83
Size of sukuk outstanding	844.21	759.64
Total size of ICM	1,880.73	1,893.47
% of ICM to total capital market	60.55%	59.19%

Table 2

Shariah-compliant securities

	2018	2017
Number of securities:		
Shariah-compliant securities	689	688
Total listed securities	915	905
% of Shariah-compliant to total listed securities	75.30%	76.02%

Market capitalisation (RM billion):	2018	2017
Shariah-compliant securities	1,036.52	1,133.83
Total market capitalisation	1,700.37	1,906.84
% of Shariah-compliant securities to total market capitalisation	60.96%	59.46%

Table 3

Corporate sukuk

Sukuk approved/loved	2018	2017
Number of sukuk	32	47
Size of sukuk (RM billion)	50.97	94.15
Size of total corporate bonds and sukuk (RM billion)	89.87	187.91
% of sukuk to total corporate bonds and sukuk approved/loved	56.72%	50.11%
Total issuance (RM billion) (long term)	2018	2017
Sukuk issuance	72.68	87.65
Total corporate bonds and sukuk issuances	105.45	124.88
% of sukuk to total corporate bonds and sukuk issuances	68.92%	70.19%
Total sukuk outstanding (RM billion) (long term)	2018	2017
Sukuk outstanding*	497.21	454.49
Total corporate bonds and sukuk outstanding	654.11	604.88
% of sukuk to total corporate bonds and sukuk outstanding	76.01%	75.14%

* including 5 green sukuk

Table 4

Government and corporate sukuk

Total issuance (RM billion)	2018	2017
Sukuk issuance	199.90	168.68
Total bonds and sukuk issuances	385.93	317.94
% of sukuk to total bonds and sukuk issuances	51.80%	53.05%
Total sukuk outstanding (RM billion)	2018	2017
Sukuk outstanding	844.21	759.64
Total bonds and sukuk outstanding	1,405.78	1,291.91
% of sukuk to total bonds and sukuk outstanding	60.05%	58.80%

Table 5

Islamic assets under management (AUM)

	2018	2017
Islamic AUM (RM billion)	158.83	172.16
Total fund management industry (RM billion)	743.58	776.23
% of Islamic AUM to total fund management industry	21.36%	22.18%

Table 6

Islamic unit trust funds (UTF)

	2018	2017
Islamic UTF*	224	213
Total industry	650	644
NAV of Islamic UTF (RM billion)	83.45	77.78
NAV of total industry (RM billion)	426.18	426.98
% NAV of Islamic UTF to total industry	19.58%	18.22%

* including 1 SRI fund

Table 7

Islamic wholesale funds (WF)

	2018	2017
Islamic WF*	76	77
Total industry	307	295
NAV of Islamic WF (RM billion)	23.58	37.72
NAV of total industry (RM billion)	64.95	84.68
% NAV of Islamic WF to total industry	36.30%	44.54%

* including 1 SRI fund

Table 8

Islamic private retirement scheme (PRS) funds

	2018	2017
Islamic PRS	25	25
Total industry	56	56
NAV of Islamic PRS (RM billion)	0.82	0.72
NAV of total industry (RM billion)	2.68	2.23
% NAV of Islamic PRS to total industry	30.60%	32.29%

Table 9

Islamic exchange-traded funds (ETF)

	2018	2017
Islamic ETF	6	5
Total industry	10	9
Market capitalisation of Islamic ETF (RM billion)	0.55	0.47
Market capitalisation of total industry (RM billion)	1.98	1.94
% market capitalisation of Islamic ETF to total industry	27.78%	24.20%

Table 10

Islamic real estate investment trusts (REIT)

	2018	2017
Islamic REIT	4	4
Total industry	18	18
Market capitalisation of Islamic REIT (RM billion)	17.19	19.07
Market capitalisation of total industry (RM billion)	41.43	46.48
% market capitalisation of Islamic REIT to total industry	41.49%	41.02%

VENTURE CAPITAL AND PRIVATE EQUITY

The total number of registered corporations stood at 117 as at 31 December 2018 (Table 1). The venture capital segment accounted for 105 registered corporations (VCMC and VCC) while the private equity segment consisted of 12 registered corporations (private equity management corporation (PEMC) and private equity corporation (PEC)). The year saw a number of new registrants of homegrown as well as local offices of regional firms such as RHL Ventures Sdn Bhd, Sun SEA Capital Sdn Bhd and V V P Advisors (Malaysia) Sdn Bhd.

The number of investee companies increased from 381 in 2017 to 387 in 2018. As of end 2018, the number of professionals employed by the industry with at least four years' experience stood at 235.

Total committed funds in the industry as at end of 2018 stood at RM6.1 billion (Table 2). This decrease is largely due to a deregistration of a major VC. Despite this, 2018 saw a 46.8% increase in investment activity amounting to RM613.3 million invested during the year from RM417.8 million in 2017. At the end of the year under review, the total

cumulative investments stood at RM3.1 billion. As for divestments, there was a decrease from RM375.2 million in 2017 to RM161 million in 2018. In this regard, the divestments, either partial or full, involved 75 investee companies which were divested in 2018 compared to 59 companies in 2017. Divestments recorded during the year were mainly through IPOs and sale or distribution to investors.

Public funds remain the largest source of capital for the industry with government agencies and investment companies making up 40.2% while sovereign wealth funds contributed 30.2%. Private sector contribution to the industry were led by asset managers (9.7%) followed by corporate investors (10.8%) and individual investors and family offices (5.1%).

The top 3 registered corporations by amount of investor commitments as at end 2018 were Xeraya Capital, Malaysia Venture Capital Management Bhd (MAVCAP) and COPE Private Equity Sdn Bhd.

Table 1

Statistics of industry participants

	31 December 2018	31 December 2017
Number of registered corporations	117	110
Number of registered VCMCs and VCCs	105	101
Number of registered PEMCs and PECs	12	9
Number of investee companies	387	381
Number of VC & PE professionals ¹	235	182

¹ Professionals with more than 4 years of experience.

Table 2

Industry key statistics (Figures in RM million)

	31 December 2018	31 December 2017
Total committed funds under management [1]	6,084.19	7,003.02
Total drawn capital [2]	4,102.12	3,651.62
Estimated capital available for investment [3]=[1]-[2]	1,982.06	3,351.40
Total investment as at end of the period	3,116.33	2,454.37
	During 2018	During 2017
Investments in investee companies	613.28	417.83
Divestments	160.96	375.20

Chart 1

Sources of funds (2018: RM6.08 billion)

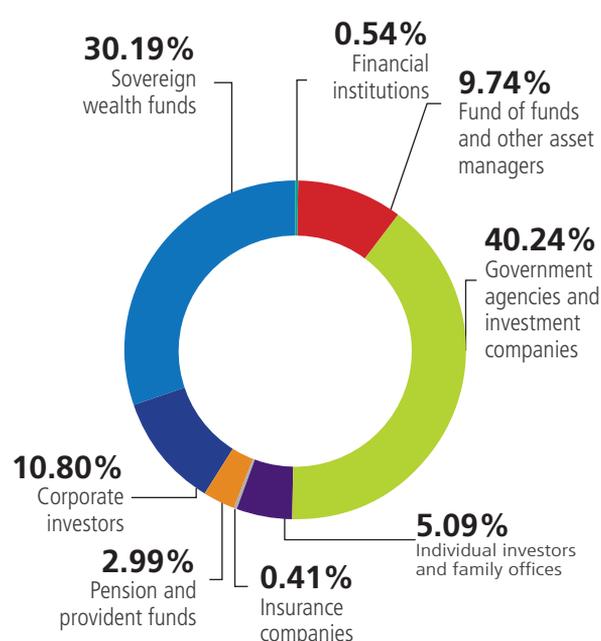
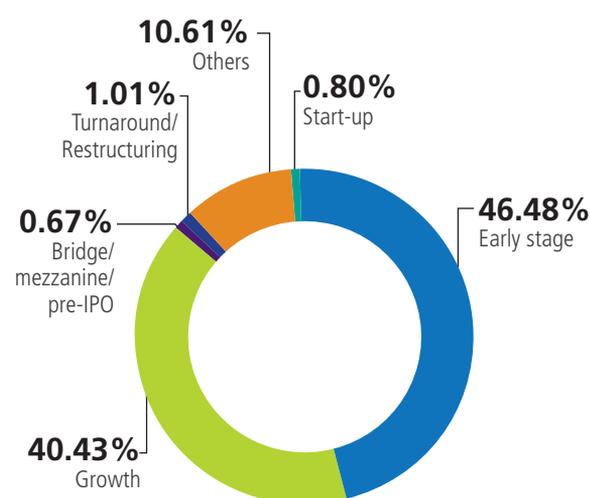


Chart 2

Investments by financing stage (2018: RM613.28 million)



Notes:

Government agencies and investment companies: Includes ministerial investment companies (e.g. Minister of Finance (Incorporated)), government agencies, statutory bodies and government-linked investment companies established for the purpose of managing investments of public funds (e.g. PNB, Ekuinas).

Table 3

Investments during 2018

Business stage	New investments (RM'000)	Percentage of all investment	No. of companies
Seed	-	-	-
Start-up	4,920.77	0.80%	5
Early stage	285,030.30	46.48%	35
Growth	247,963.88	40.43%	61
Bridge/mezzanine/pre-IPO	4,135.99	0.67%	3
Turnaround/Restructuring	6,182.11	1.01%	6
Others	65,044.29	10.61%	7
All investments	613,277.34	100.00%	117

Investee companies at the early and growth stages received the bulk of the funding in 2018 where 96 investee companies received funding amounting to RM533 million, representing 86.9% of total investments made during the year (Table 3).

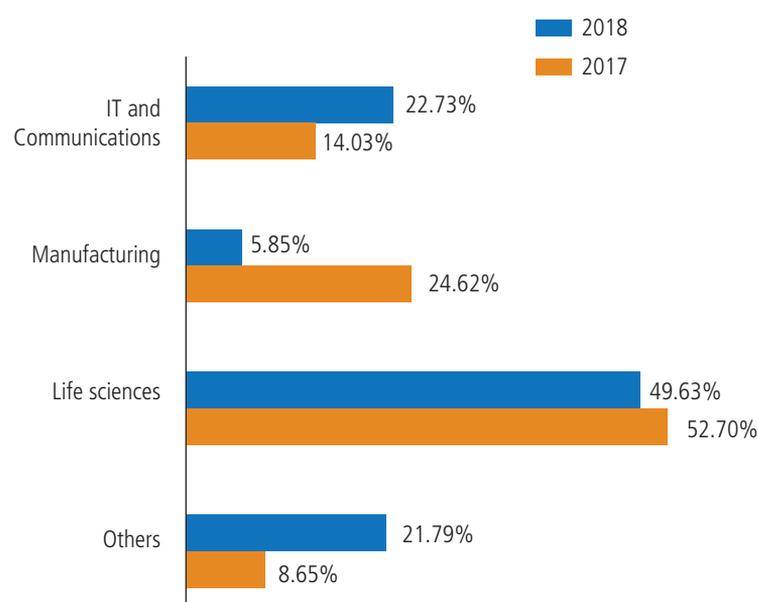
Investments into start-up stage stood at 0.8% of total investments made during the year, where the investments were channeled into 5 investee companies.

Investments towards the life sciences sector accounted for 49.6% of investments during the year. These investments were primarily channeled towards medical devices, pharmaceutical and environmental biotechnology. IT and communications saw an increase in share of investments to 22.7% while manufacturing share decreased to 5.9% (Chart 3).

Other sectors recorded a share of 21.8%. These sectors included investments in wholesale and retail trading, creative media, logistics, education and financial services.

Chart 3

Investments during year, percentage by sectors



Divestments in 2018 were mainly in investee companies in the growth stage amounting to approximately RM95 million, representing 59% of total divestments during the year. (Table 4)

Table 4

Divestments during 2018

Business stage	Divestments (RM '000)	% of All Divestments	No. of companies
Seed	618.00	0.38%	2
Start-up	1,458.76	0.91%	5
Early stage	9,175.58	5.70%	12
Growth	94,916.08	58.97%	39
Bridge/ Mezzanine/ Pre-IPO	841.77	0.53%	4
Turnaround/Restructuring	9,744.92	6.05%	6
Others	44,208.17	27.46%	7
All divestments	160,963.28	100.00%	75

EQUITY CROWDFUNDING AND PEER-TO-PEER FINANCING

EQUITY CROWDFUNDING

Since its inception, equity crowdfunding (ECF) has raised RM48.87 million capital (Chart 1) through 51 successful campaigns by 50 issuers, with 93% campaign success rate. In 2018, RM15.06 million was raised by 14 issuers (Chart 2).

Among the successful fundraising campaigns to date, 47% raised RM500,000 and below (Chart 3).

Chart 1

Capital raised

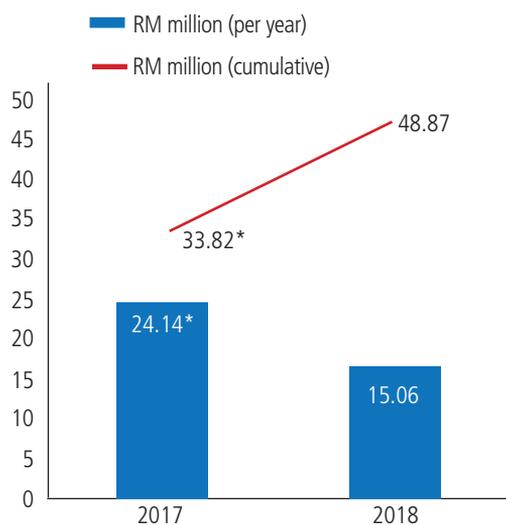


Chart 2

Number of successful campaigns and issuers by year

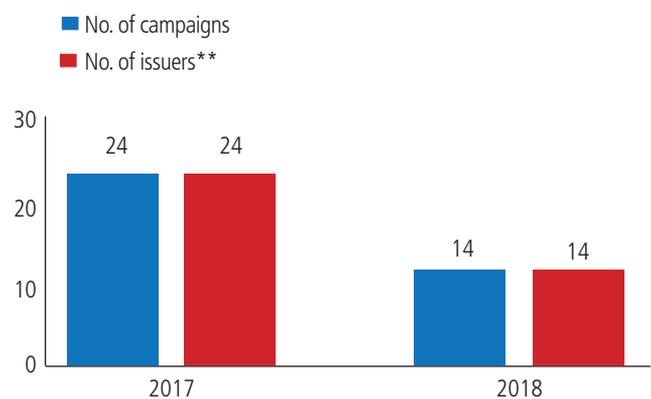
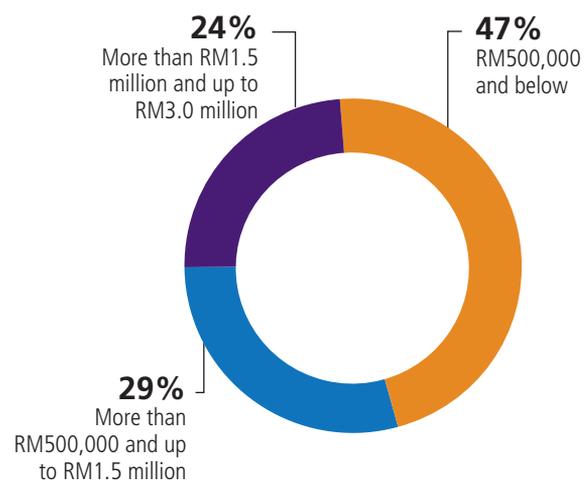


Chart 3

Distribution by fundraising quantity



* 2017 numbers have been adjusted according to the Recognized Market Operators' (RMOs) latest reported numbers.

** No. denotes issuers for the year and includes issuers that raised multiple campaigns across multiple years.

Chart 4

Individual investor age demographics

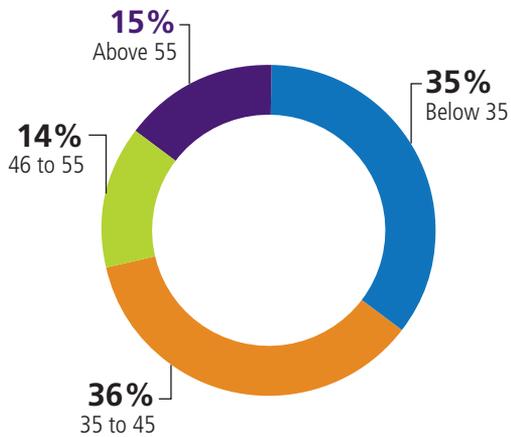
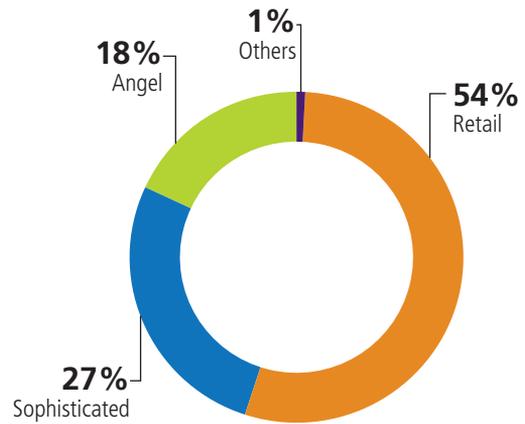


Chart 5

Investor type

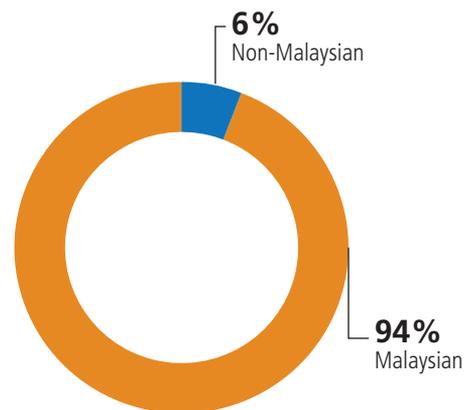


In relation to demographics based on individual investors, 35% investors are below 35 years old (Chart 4). As for investor type, retail investors make up 54% of the investor base (Chart 5).

Local investors accounted for 94% of total investors, with foreign investors comprising the remaining 6% (Chart 6).

Chart 6

Individual investor distribution by nationality



PEER-TO-PEER FINANCING

Since 2017, there have been 2,505 successful peer-to-peer (P2P) financing campaigns across 643 issuers, with a total of RM212.65 million raised. Issuers raising funds on P2P financing platforms have maintained a campaign success rate of 99%. In 2018, a total of RM180.05 million was raised reflecting 452% growth from 2017.

Among the successful fundraising campaigns, 91% raised RM200,000 and below (Chart 9). 22% of the successful issuers raised more than once (Chart 10).

Chart 8

Number of successful campaigns and issuers by year

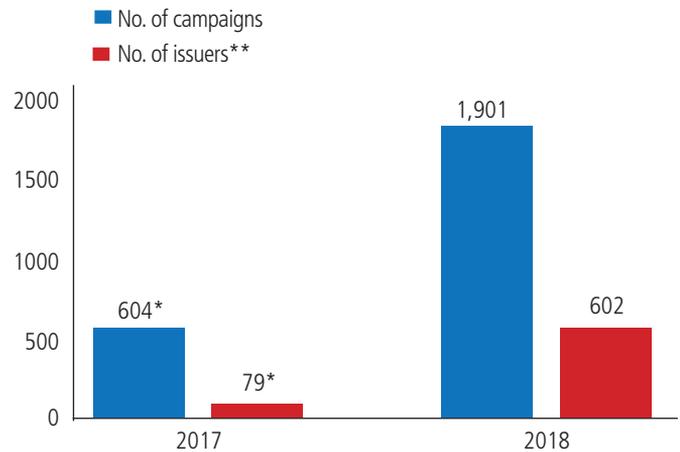


Chart 7

Capital raised

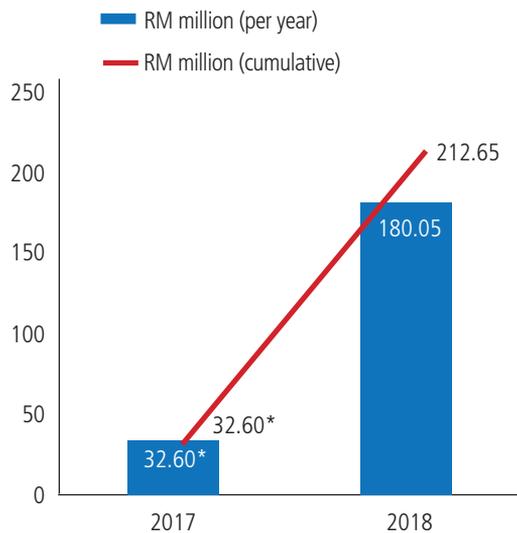
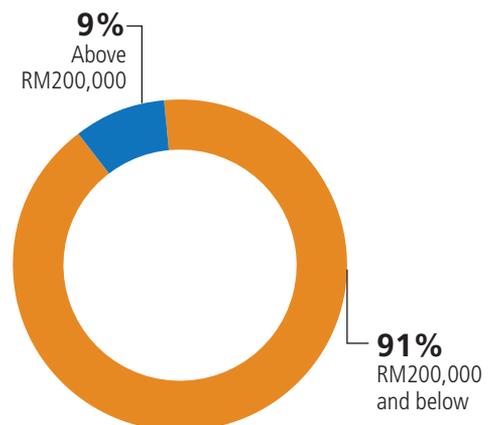


Chart 9

Distribution by fundraising quantity



* 2017 numbers have been adjusted to the RMOs latest reported numbers.

** No. denotes issuers for the year and includes issuers that raised multiple campaigns across multiple years.

Chart 10

Issuers and number of successful campaigns

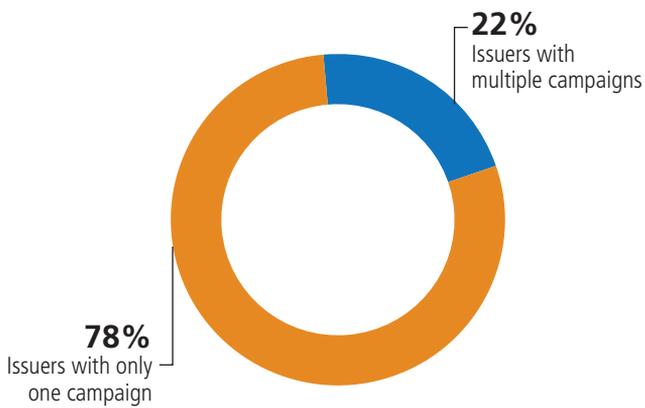
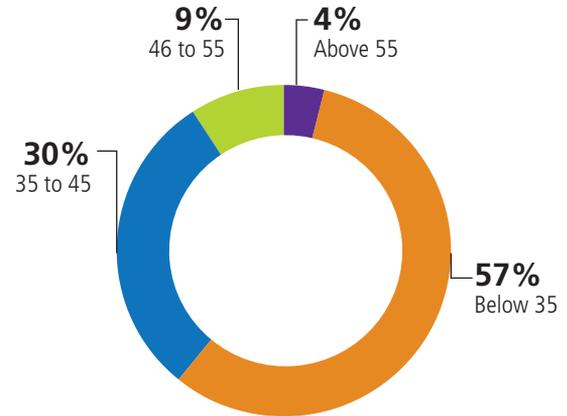


Chart 11

Individual investor age demographics

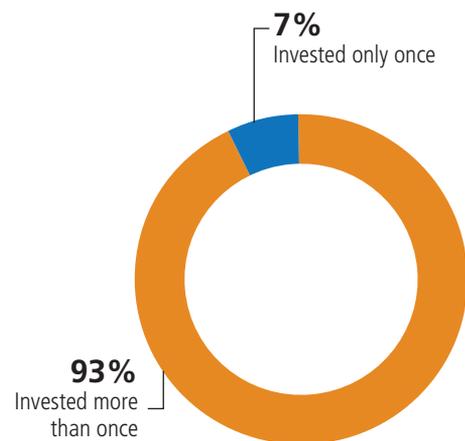


In terms of demographics based on individual investors, the majority of investors are below 35 years old, accounting for 57% of total individual investors (Chart 11). 93% of investors have invested in multiple campaigns (Chart 12).

A majority of investors came from the retail segment at 87% supported by an even stronger participation by local investors comprising 99% of the total investor base.

Chart 12

Repeat investors across multiple campaigns



AUTHORISATION AND LICENSING

The number of licensed intermediaries including individual licensees stood at 242 compared with 236 in previous year. The number of licensed representatives increased marginally to 9,587 compared with 9,545 in previous year. During the year, 805 new licensees were issued Capital Markets Services Representative's Licence (CMSRLs) to undertake various regulated activities. Advisory segment continues to attract new entrants, particularly financial planning.

During the year, the SC liberalised the Continuous Professional Education Framework (CPE Framework) to allow greater flexibility and greater avenue to collect CPE points. The enhanced CPE framework incorporates key changes such as wider selection of learning mode, flexible CPE points award system that recognises educational contributions by experienced personnel. The new *Guidelines on Compliance with the Continuing Professional Education (CPE) Requirement* took effect on 1 August 2018.

There was a significant increase in the number of Marketing Representatives that were registered, increasing from 320 to 541 as at December 2018. The number of registered Trading Representatives declined slightly to 126 compared to 139 in the previous year.

In 2018, a total of 7 new licences were issued of which 5 were issued to companies for fund management and 2 to companies for financial planning activities. The SC continues to see interest in the fund management and financial planning segments. There was interest for digitisation in the fund management segment. In respect of cessation of activities, 1 Capital Markets Services Licence (CMSL) had ceased due to business realignment and inability to sustain its business.

As at 31 December 2018, there were 242 CMSL holders carrying out various regulated activities as defined under Schedule 2 of the CMSA. (Table 1)

Table 1

Capital Markets Services Licence holders

By core activity	2018	2017
Dealing in securities ¹	39	39
Dealing in derivatives	8	8
Fund management	98	93
Advising on corporate finance	42	43
Investment advice	16	16
Investment advice (individual)	1	1
Financial planning	35	33
Financial planning (individual)	3	3
TOTAL	242	236

Note:

¹ Includes 6 CMSLs for dealing in securities restricted to unit trust and 1 CMSL for dealing in securities restricted to listed securities.

By regulated activity	2018	2017
Dealing in securities		
Investment banks	10	10
Universal brokers	1	1
1+1 stockbroking companies	12	12
Special scheme foreign stockbroking companies	7	7
Issuing houses	2	2
	32	32
Dealing in derivatives		
Investment banks	5	5
1+1 stockbroking companies	3	3
Special scheme foreign stockbroking companies	2	2
Others	8	8
	18	18
Clearing		
Investment banks	5	5
1+1 stockbroking companies	3	3
Special scheme foreign stockbroking companies	2	2
Others	7	7
	17	17

Table 1

Capital Markets Services Licence holders (Continued)

By regulated activity	2018	2017
Fund management		
Portfolio management		
Investment banks	1	1
Unit trust management companies	25	24
Special scheme foreign fund managers	5	5
Islamic fund managers	21	20
Boutique fund managers	3	2
Digital investment manager	1	-
Others	24	24
Asset management		
Real estate investment trusts	19	18
	99	94
Advising on corporate finance		
Investment banks	10	10
1+1 stockbroking companies	6	6
Special scheme foreign stockbroking companies	6	6
Others/standalone/boutique corporate finance companies	43	44
	65	66
Investment advice		
Investment banks	8	8
1+1 stockbroking companies	8	8
Special scheme foreign stockbroking companies	7	7
Unit trust management companies	2	2
Others/standalone/boutique investment advice companies	23	22
	48	47
Financial planning		
Unit trust management companies	5	4
Corporate unit trust advisers	17	15
Others/standalone/boutique financial planning companies	21	21
	43	40
Dealing in securities restricted to unit trusts		
Unit trust management companies	30	30
Islamic fund managers	8	7
Corporate unit trust advisers	17	15
Others	1	1
	56	53

By regulated activity	2018	2017
Dealing in securities restricted to listed securities		
Others	1	1
	1	1
Dealing in securities restricted to OTC bond		
Others	1	1
	1	1
Dealing in private retirement schemes		
Investment banks	1	1
Unit trust management companies	9	9
Corporate private retirement scheme advisers	17	12
Others	2	2
	29	24
GRAND TOTAL	409	393

Table 2

Capital Markets Services Representative's Licence holders

By core activity	2018	2017
Dealing in securities	6,373	6,431
Dealing in derivatives	495	521
Fund management	818	817
Advising on corporate finance	761	772
Investment advice	307	293
Financial planning	833	711
GRAND TOTAL	9,587	9,545

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	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Issued	-	1*	-	-	5	3	-	4	-	-	2	4

Note:

* Dealing in securities restricted to listed to securities.

Table 4

Application for new representatives' licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Issued	317	261	40	68	100	107	128	150	52	68	168	138
Withdrawn*	43	40	9	14	83	53	23	43	7	13	77	114
Returned*	145	138	20	44	84	92	54	64	24	33	128	94

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)	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Ceased	-	-	-	-	-	1	1	1	-	-	-	-	-	1
Revoked	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Suspended	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 6

Cessation of representatives' licences

Regulated activities	Dealing in securities		Dealing in derivatives		Fund management		Advising on corporate finance		Investment advice		Financial planning	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Ceased*	453	529	88	131	97	105	135	144	39	46	47	50
Revoked	2	8	-	-	-	-	1	-	-	1	-	-
Suspended	-	-	-	-	-	-	-	-	-	-	-	-

Note:

* By regulated activities

ENFORCEMENT

In 2018, the SC received 17 referrals of possible violations of securities offences arising mostly from active surveillance of market and corporate activities as well as referrals from local authorities. More than half of these referrals related to securities fraud and market manipulation offences, which is a departure from the trend of previous years where the majority of referrals were in relation to insider trading offences (Chart 1).

As at 31 December 2018, there were 43 active investigations. A significant portion of investigative resources was deployed to work on cases relating to market misconduct involving insider trading and market manipulation. Additionally, one third of active investigations in 2018 involved corporate governance transgressions relating to the

misconduct of PLC directors and officers causing wrongful loss to the PLC as well as securities fraud cases (Chart 2).

Chart 2

Active investigation by nature of offences

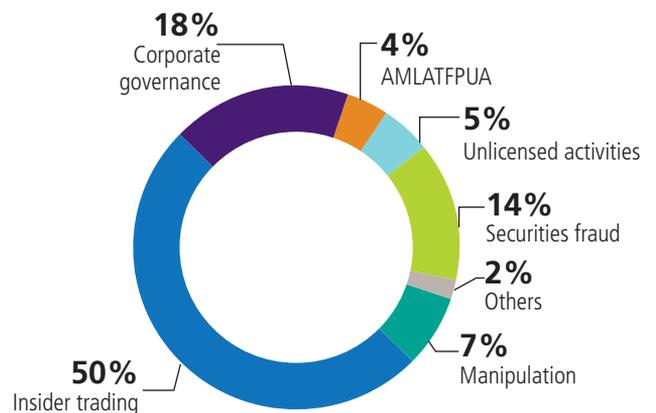
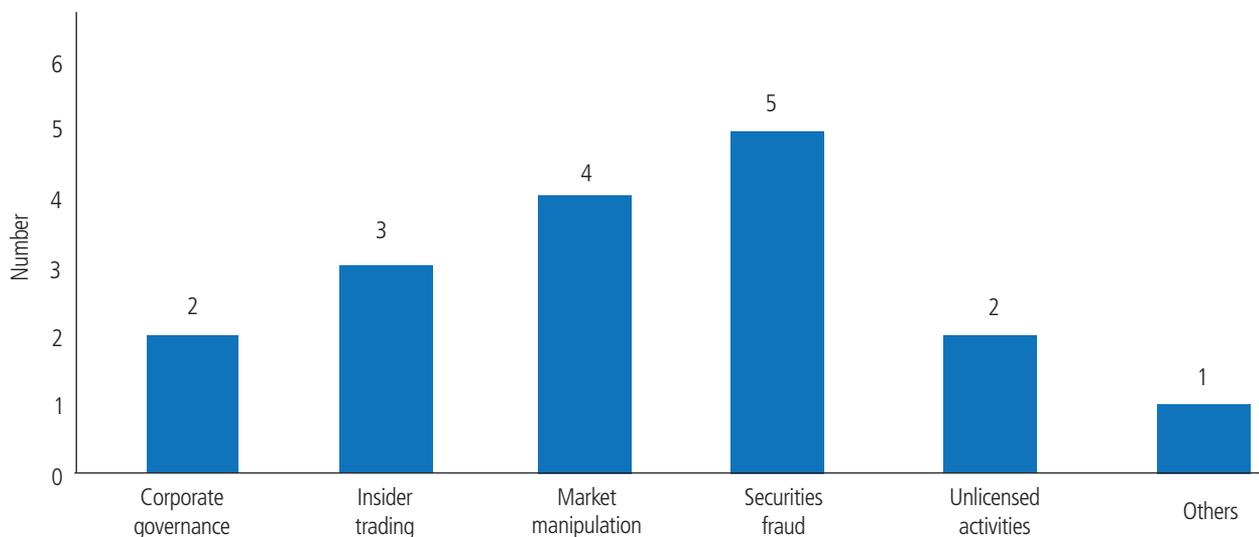


Chart 1

Total referrals by nature of offence



An integral part of the investigation process is the gathering of documentary and oral evidence. The SC's Investigating Officers are given investigation powers under the *Securities Commission Malaysia Act 1993 (SCA)* to facilitate the gathering of such evidence.

In 2018, witness statements from a total of 381 individuals were recorded by the SC's Investigating Officers (Chart 3). Nearly half of these statements were recorded from professionals (which included auditors, bankers, lawyers and company secretaries), directors and senior management of PLCs as well as securities accountholders.

In addition to gathering documentary and oral evidence locally, the SC sought assistance from foreign supervisory authorities under the IOSCO Multilateral Memorandum of Understanding on Consultation and Co-operation and Exchange of Information to gather foreign evidence. The SC made 26 requests to 8 foreign supervisory authorities (see Table 1), mostly to seek assistance

to record statements from witnesses located overseas and to obtain documents, such as banking and securities transactions documents from foreign

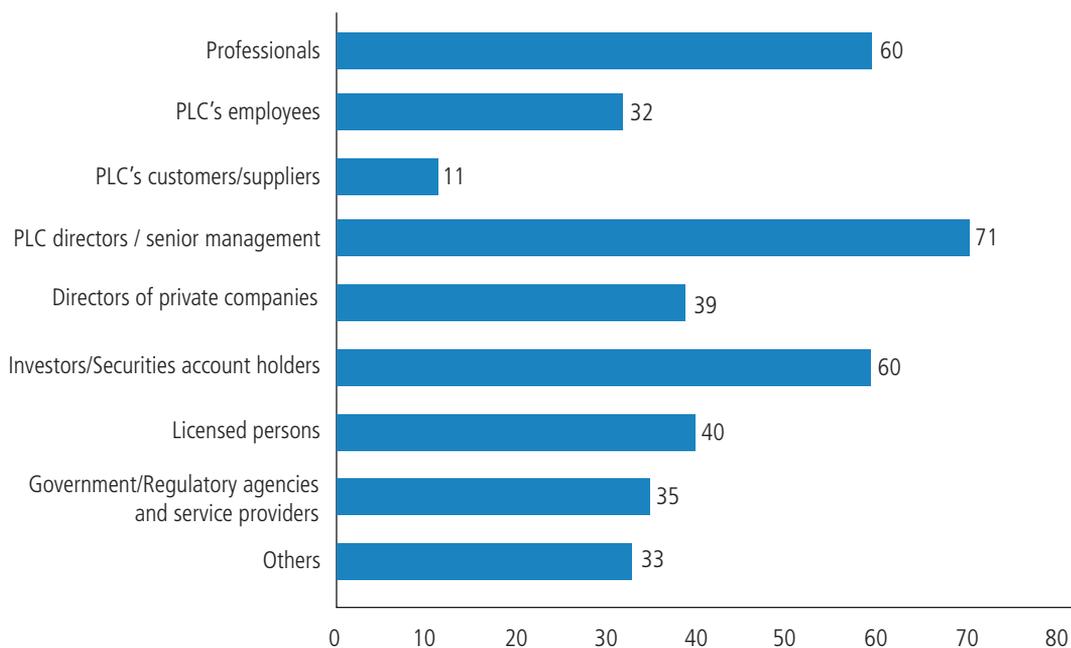
Table 1

Foreign assistance sought by the SC in 2018 by jurisdiction

Jurisdictions	No. of requests
BVI	2
China	3
Hong Kong	6
India	1
Korea	1
Singapore	11
Switzerland	1
United States	1
TOTAL	26

Chart 3

Witness statements recorded in 2018 by type of witness



entities. Conversely, during the year, the SC also rendered assistance to 6 foreign supervisory authorities in relation to 10 requests for investigative assistance.

Administrative actions

In 2018, 80 administrative sanctions were imposed by the SC for various misconducts and breaches of securities laws including making false or misleading statements to the SC, breaches of licensing conditions, failure to comply with approved accounting standards in the preparation of audited financial statements and for late submission of documents under the *Lodge and Launch (LOLA) Framework*.

Sanctions imposed on the parties in breach comprised reprimands, revocation and suspension of licences, imposition of penalties and directives and issuance of public statements (Table 2).

In 2018, a total of RM6.39 million in penalties were imposed against the following parties:

- A company applying for listing and certain of its directors for failure to inform the SC and a principal adviser of material developments prior to its listing;
- A reporting accountant and a principal adviser for failure to inform the SC of material developments to a company applying for listing prior to its listing;

Table 2

Administrative actions taken in 2018 by types of sanction and parties in breach

Parties in breach	Types of sanction				
	Reprimand	Revocation/ Suspension of Licence	Penalty	Directive	Issuance of Public Statement
Persons acting in concert	2	-	2	1	-
Licensed persons	3	4	12	-	-
Registered persons	-	-	2	-	-
PLCs or company applying for listing	5	-	2	3	-
Directors of PLC or company applying for listing	17	-	9	-	2
Unlisted public company	1	-	-	4	-
Reporting accountant	1	-	1	1	-
Principal adviser	2	-	1	1	-
Other individuals ¹	1	-	3	-	-
TOTAL	32	4	32	10	2

Note:

¹ An individual carrying out a regulated activity without holding a licence, a person who had knowingly provided false information to an investigating officer of the SC and a person who at the material time was the managing director and CEO of an investment bank

- A licensed intermediary for breaching provisions in the *Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries* and the *Licensing Handbook*;
- An individual who at the material time was the managing director and CEO of an investment bank for breaching a provision in the *Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives*;
- 10 licensed intermediaries for delay in submitting the monthly statistical returns for wholesale funds and a post-issuance notice under the LOLA framework;
- 2 registered persons for delay in submitting monthly post-issuance reports for structured products under the LOLA Framework;
- A licensed individual for failure to comply with the condition of the licence which requires a person to remain fit and proper at all times and for breaching a provision in the *Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives*;
- 5 individual directors of a PLC for their respective failure to comply with approved accounting standards in preparing the PLC's audited financial statements;
- Persons acting in concert for breaches of take-overs and mergers provision;
- An individual who had provided false information to an investigating officer of the SC; and
- An individual for carrying out a regulated activity without a licence.

Infringement notices

Apart from the administrative actions under its statutory powers, the SC also utilises other forms of non-statutory enforcement tools in the exercise of its monitoring, gate-keeping and supervisory functions.

Infringement notices are issued where breaches of securities laws or guidelines detected do not warrant the initiation of a formal enforcement action or the imposition of an administrative action.

Infringement notices issued by the SC include the following:

- **Supervisory letters involving Infringement** – issued pursuant to the exercise of a supervisory function or the conduct of an examination under section 126 of the *Securities Commission Malaysia Act 1993* (SCMA);
- **Warning letters** – issued pursuant to the discharge of the SC's gate-keeping function such as the issuance of licences, approval of corporate proposals and review of prospectuses. Warning letters may be issued to licensed, registered persons or other professionals or experts;
- **Non-compliance letters** – issued pursuant to the discharge of the SC's gate-keeping function for minor breaches; and
- **Cease and desist letters** – issued to stop or prevent violation of securities laws. Cease and desist letters may be issued to a person who is committing or about to commit an infringing act. Failure to comply with the cease and desist order may attract formal enforcement action by the SC.

In 2018, 66 infringement notices were issued by the SC as detailed in Table 3.

Table 3

Type of Infringement Notices

Type of Infringement Notices	Total
Supervisory letters involving Infringement	27
Warning letters	18
Non-compliance letters	15
Cease and desist letters	6
TOTAL	66

Ongoing court cases for 2018

In 2018, the SC had 51 ongoing cases in the Sessions Court, High Court and Court of Appeal (Table 4). Of these cases, 49% related to insider trading while 23% related to corporate governance breaches such as financial misstatements and disclosure offences. Out of this number of ongoing cases, 6% involved questions of law and interlocutory applications in superior courts. Cases relating to unlicensed activities, market manipulation and securities fraud made up the remaining 22% of the total number of cases (Chart 4).

Details of criminal prosecution in 2018

In 2018, the SC charged 8 individuals in the Sessions Court. Of this number, 5 individuals were charged for insider trading, 2 individuals were charged for allowing non-authorized individuals to effect dealings in their accounts and 1 individual for securities fraud. (Table 6)

Table 4

Cases currently pending in courts

Courts	No. of cases
Sessions Court	29
High Court (Criminal)	13
High Court (Civil)	6
Court of Appeal (Criminal)	2
Court of Appeal (Civil)	1
TOTAL	51

Table 5

Type of offences

Offences	No. of cases
Corporate governance	12
Insider trading	25
Securities fraud	4
Market manipulation	2
Unlicensed activities	2
Others	3
Questions of law	3
TOTAL	51

Chart 4

Ongoing court cases for 2018 by nature of cases

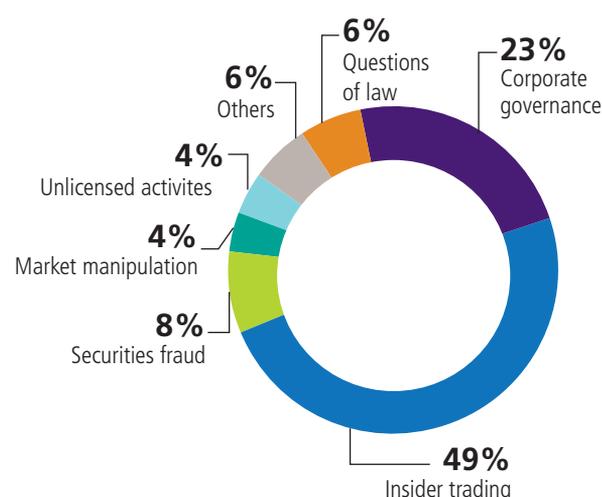


Table 6

Details of criminal prosecution in 2018

No.	Nature of offence	Offender(s)	Facts of charge(s)	Date charged
1.	Engaged in an act which operated as a fraud in connection with the purchase of securities	Ismail Basir (Ismail)	Ismail was charged with 2 counts of engaging in an act which operated as a fraud in connection with the purchase of securities under section 87A(b) of the <i>Securities Industry Act 1983</i> (SIA) and section 179(b) of the <i>Capital Markets and Services Act 2007</i> (CMSA). Between August 2007 and November 2008, Ismail was alleged to have defrauded a sum of RM350,000 from Koperasi Pelaburan Pekerja-Pekerja Proton Bhd (KOPRO) in connection with the purchase of Proton Holdings Bhd shares. Ismail was also alleged to have represented to KOPRO that he was a remisier, when in fact he was never licensed by the SC.	16 January 2018
2.	Insider trading	Mohd Nor Abdul Wahid (Nor)	Nor was charged with 1 count of insider trading under section 188(2)(a) of the CMSA. He is alleged to have acquired 500,000 units of Three-A Resources Bhd (Three-A) shares on 5 October 2009 while in possession of inside information in relation to the proposed collective venture between the businesses of Three-A and Wilmar International Limited.	13 February 2018
3.	Allowing a person who is not an authorised nominee of a deposited security to effect dealings in respect of the deposited security	Azuzay Zamani (Azuzay)	Azuzay was charged with 1 count under section 29A of the <i>Securities Industry (Central Depositories) Act 1991</i> (SICDA). Azuzay, who held an OSK Investment Bank Bhd account, is alleged to have allowed Mohd Nor Abdul Wahid to effect the acquisition of 500,000 units of Three-A Resources Bhd shares on 5 October 2009.	13 February 2018
4.	Insider trading	A.F.M Shafiqul Hafiz (Shafiqul)	Shafiqul was charged with 1 count of insider trading under section 188(3)(a) of the CMSA for having communicated to one Harjit Singh Gurdev Singh between 22 March 2009 and 6 April 2009 on material non-public information in relation to the proposed privatisation of Johor Land Bhd via a Voluntary General Offer at a price of RM1.55 per share.	22 February 2018
5.	Insider trading	Harjit Singh Gurdev Singh (Harjit)	Harjit was charged with 3 counts of insider trading under section 188(2)(a) of the CMSA. He is alleged to have acquired 346,500 units of Johor Land Bhd (JLand) shares between 23 March 2009 and 6 April 2009 while in possession of material non-public information in relation to the proposed privatisation of JLand via a Voluntary General Offer at a price of RM1.55 per share.	22 February 2018

Table 6

Details of criminal prosecution in 2018 *(Continued)*

No.	Nature of offence	Offender(s)	Facts of charge(s)	Date charged
6.	Insider trading	Tan Giap How (Tan GH)	Tan GH was charged with 1 count of insider trading under section 188(3)(a) of the CMSA for allegedly having communicated material non-public information to Ng Ee Fang between 25 September 2011 and 20 October 2011. The material non-public information was in relation to the proposed take-over offer by MBM Resources Bhd to acquire all voting shares and outstanding warrants in Hirotako Holdings Bhd.	13 March 2018
7.	Insider trading	Ng Ee Fang (Ng EF)	Ng EF was charged with 4 counts of insider trading under section 188(2)(a) of the CMSA. She is alleged to have acquired 1,000,000 units of Hirotako Holdings Bhd (Hirotako) shares between 14 October 2011 and 20 October 2011 while in possession of material non-public information in relation to the proposed take-over offer by MBM Resources Bhd to acquire all voting shares and outstanding warrants in Hirotako.	13 March 2018
8.	Allowing a person who is not an authorised nominee of a deposited security to effect dealings in respect of the deposited security	Daniel Yong Chen-I (Daniel)	Daniel was charged with 1 count under section 29A of the SICDA. Daniel, who holds an account at CIMB Investment Bank Bhd, is alleged to have allowed Ng Ee Fang to effect the acquisition of 1,000,000 units of Hirotako Holdings Bhd shares between 14 October 2011 and 20 October 2011.	13 March 2018

Table 7

Outcome of criminal trials and appeals in 2018

No.	Nature of offence	Offender(s)	Description
1.	<ul style="list-style-type: none"> Holding out as a representative in respect of a regulated activity without licence Carrying on a business in a regulated activity without licence 	Zamani Hamdan (Zamani)	<p>On 28 October 2011, Zamani, a director of Rantau Simfoni Sdn Bhd (Rantau Simfoni), was charged under section 59(1) of the CMSA for holding himself out as a representative of a CMSL holder to trade in futures contracts without a CMSRL.</p> <p>Zamani was also charged in the alternative for carrying on the business of trading in futures contracts without holding a CMSL, through Rantau Simfoni, an offence under section 58(1) read together with section 367(1) of the CMSA.</p> <p>On 30 April 2013, the Sessions Court convicted Zamani on the alternative charge and sentenced him to a fine of RM1 million (in default, 1 year jail).</p> <p>Zamani had filed an appeal to the High Court against the conviction and sentence while the Prosecution filed an appeal against the sentence.</p> <p>The High Court, on 19 January 2017, dismissed Zamani's appeal against his conviction.</p> <p>The High Court further enhanced the sentence by adding an imprisonment sentence of 2 months while reducing the fine to RM215,000 (in default, 4 months jail).</p> <p>The SC has filed an appeal to the Court of Appeal against the sentence imposed by the High Court.</p> <p>The Court of Appeal, on 30 January 2018, struck out the appeal against the sentence as the notice of hearing was not able to be served on Zamani despite numerous efforts by the SC to locate him.</p>
2.	Engaged in an act which operated as a fraud in connection with the purchase of securities	Ismail Basir (Ismail)	<p>On 16 January 2018, Ismail was charged under section 87A(b) of the SIA and section 179(b) of the CMSA. Between August 2007 and November 2008, Ismail was alleged to have defrauded a sum of RM350,000 from Koperasi Pelaburan Pekerja-Pekerja Proton Bhd (KOPRO) in connection with the purchase of Proton Holdings Bhd shares. Ismail was also alleged to have represented to KOPRO that he was a remisier, when in fact he was never licensed by the SC.</p> <p>On 28 February 2018, Ismail pleaded guilty to both charges and was sentenced to 1 year imprisonment and RM1 million (in default 6 months imprisonment) for each charge. The jail terms are to run concurrently.</p>

Table 7

Outcome of criminal trials and appeals in 2018 (Continued)

No.	Nature of offence	Offender(s)	Description
3.	Furnishing false statements to Bursa Malaysia Securities Bhd	Alan Rajendram Jeya Rajendram (Alan Rajendram)	<p>On 24 June 2010, Alan Rajendram, a former executive director of LFE Corporation Bhd (LFE), was charged under section 122B(b) (bb) of the SIA and section 369(b)(B) of the CMSA for knowingly permitting the furnishing of false statements by LFE to Bursa Malaysia Securities Bhd in relation to LFE's unaudited financial results for all 4 quarters for its financial year ended 31 December 2007. The false statements were in relation to fictitious purchases of approximately RM119 million made by LFE International Ltd, a subsidiary of LFE.</p> <p>On 10 October 2012, the Sessions Court convicted Alan Rajendram of all 4 charges and sentenced him to 1 year imprisonment and a fine of RM300,000 for each charge. The jail term is to run concurrently.</p> <p>On 28 November 2016, the High Court dismissed Alan Rajendram's appeal against his conviction and sentence.</p> <p>On 23 March 2018, the Court of Appeal dismissed his appeal and Alan Rajendram was ordered to serve his sentence with immediate effect.</p>
4.	Submission of misleading information to the SC in connection with a proposal	Dato' Lim Kim Ming (Dato' Lim KM)	<p>Dato' Lim KM was charged with having committed an offence under section 32B(1)(a)(aa) read together with section 138(2) of the SCA when GP Ocean Food Bhd (GP Ocean) submitted through Alliance Merchant Bank Bhd, misleading information to the SC contained in:</p> <ul style="list-style-type: none"> • <i>Gropoint Fisheries Sdn Bhd's Directors' Report and Audited Financial Statements</i> 31 January 2006; and • <i>Gropoint Seafood Industries Sdn Bhd's 'Directors' Report and Audited Financial Statements</i> 31 January 2006. <p>Gropoint Fisheries Sdn Bhd and Gropoint Seafood Industries Sdn Bhd were at the material time subsidiaries of GP Ocean. The information was required to be submitted to the SC in connection with GP Ocean's proposal for listing on the Main Board of Bursa Malaysia Securities Bhd.</p> <p>Dato' Lim KM was charged in the Sessions Court on 22 May 2007. On 6 January 2011, the Sessions Court acquitted and discharged him. The Prosecution then appealed to the High Court, which on 14 February 2017, overturned the acquittal and ordered Dato' Lim KM to enter his defence on the charge against him.</p> <p>On 28 March 2018, the Sessions Court acquitted Dato' Lim KM at the end of the Defence's case.</p> <p>On 9 April 2018, the Prosecution filed an appeal to the High Court against the acquittal.</p>

Table 7

Outcome of criminal trials and appeals in 2018 (Continued)

No.	Nature of offence	Offender(s)	Description
5.	Submission of misleading information to the SC in connection with a proposal	Lim Kim Hai (Lim KH)	<p>Lim KH was charged with having committed an offence under section 32B(1)(a)(aa) read together with section 138(2) of the SCA when GP Ocean Food Bhd (GP Ocean) submitted through Alliance Merchant Bank Bhd, misleading information to the SC contained in <i>GP Ocean's Directors' Report and Audited Financial Statements</i> 31 January 2006. This information was required to be submitted to the SC in connection with GP Ocean's proposal for listing on the Main Board of Bursa Malaysia Securities Bhd.</p> <p>Lim KH was charged in the Sessions Court on 22 May 2007. On 6 January 2011, the Sessions Court acquitted and discharged him. The Prosecution then appealed to the High Court, which on 14 February 2017, overturned the acquittal and ordered Lim KH to enter his defence on the charge against him.</p> <p>On 28 March 2018, the Sessions Court acquitted Lim KH at the end of the Defence's case.</p> <p>On 9 April 2018, the Prosecution filed an appeal to the High Court against the acquittal.</p>
6.	Submission of misleading information to the SC in connection with a proposal	Lee Sin Teck (Lee ST)	<p>Lee ST was charged with having committed an offence under section 32B(1)(a)(aa) read together with section 138(2) of the SCA when GP Ocean Food Bhd (GP Ocean) submitted through the Alliance Merchant Bank Bhd, misleading information to the SC contained in the <i>GP Ocean's Directors' Report and Audited Financial Statements</i> 31 January 2006. This information was required to be submitted to the SC in connection with the GP Ocean's proposal for listing on the Main Board of Bursa Malaysia Securities Bhd.</p> <p>Lee ST was charged in the Sessions Court on 18 April 2007. On 6 January 2011, the Sessions Court acquitted and discharged him. The Prosecution then appealed to the High Court, which on 14 February 2017, overturned the acquittal and ordered Lee ST to enter his defence on the charge against him.</p> <p>On 28 March 2018, the Sessions Court acquitted Lee ST at the end of the Defence's case.</p> <p>On 9 April 2018, the Prosecution filed an appeal to the High Court against the acquittal.</p>

Table 7

Outcome of criminal trials and appeals in 2018 (Continued)

No.	Nature of offence	Offender(s)	Description
7.	Submission of misleading information to the SC in connection with a proposal	Tan Siok Wan (Tan SW)	<p>Tan SW was charged with having committed an offence under section 32B(1)(a)(aa) read together with section 138(2) of the SCA when GP Ocean Food Bhd (GP Ocean) submitted through Alliance Merchant Bank Bhd, misleading information to the SC contained in a list titled 'GP Ocean Food Bhd Group Top Ten Customer'. This information was required to be submitted to the SC in connection with GP Ocean's proposal for listing on the Main Board of Bursa Malaysia Securities Bhd.</p> <p>Tan SW was charged in the Sessions Court on 18 April 2007. On 6 January 2011, the Sessions Court acquitted and discharged her. The Prosecution had then appealed to the High Court, which on 14 February 2017, overturned the acquittal and ordered Tan SW to enter her defence on the charge against her.</p> <p>On 28 March 2018, the Sessions Court acquitted Tan SW at the end of the Defence's case.</p> <p>On 9 April 2018, the Prosecution filed an appeal to the High Court against the acquittal.</p>
8.	Insider trading	Goh Keng Huat (Goh KH)	<p>Goh KH was charged with 10 counts of insider trading under section 89E(2)(a) of the SIA. He was alleged to have acquired 851,600 units of Road Builder Holdings (M) Bhd (RBH) shares through the accounts of Wee Siew Ling between 4 September 2006 and 16 October 2006 while in possession of inside information.</p> <p>The SC alleged that the inside information referred to in the charges related to the proposed acquisition of all assets and liabilities of RBH by IJM Corporation Bhd at a total indicative purchase consideration of approximately RM1.56 billion.</p> <p>On 10 April 2018, Goh pleaded guilty to 1 charge pursuant to an application for plea bargaining under section 172C of the CPC. A total of 9 of the remaining charges were taken into consideration by the Court.</p> <p>Goh KH was sentenced to 6 months imprisonment and a fine of RM1 million, in default 6 months imprisonment.</p>

Table 7

Outcome of criminal trials and appeals in 2018 *(Continued)*

No.	Nature of offence	Offender(s)	Description
9.	Insider trading	Wee Siew Ling (Wee SL)	<p>Wee SL was charged with 10 counts under section 122C(c) read together with section 89E(2)(a) of the SIA for abetting Goh Keng Huat (Goh KH) in acquiring 851,600 units of Road Builder Holdings (M) Bhd (RBH) shares through Wee SL's accounts between 4 September 2006 and 16 October 2006 while Goh KH was in possession of inside information.</p> <p>The SC alleged that the inside information referred to in the charges related to the proposed acquisition of all assets and liabilities of RBH by IJM Corporation Bhd at a total indicative purchase consideration of approximately RM1.56 billion.</p> <p>On 10 April 2018, all charges against Wee SL were withdrawn following the guilty plea by Goh KH.</p>
10.	Criminal breach of trust (CBT)	Alan Rajendram Jeya Rajendram (Alan Rajendram)	<p>Alan Rajendram, a former director of LFE Corporation Bhd (LFE), was charged on 24 June 2010 with 2 charges for CBT amounting to RM18.99 million. The charges for CBT were earlier tried together with 4 other charges under securities laws for furnishing false information to the stock exchange pertaining to LFE's operating expenses under section 122B(b)(bb) of the SIA and section 369(b)(B) of the CMSA.</p> <p>For the CBT charges, Alan Rajendram was alleged to have utilised RM18.99 million of funds belonging to LFE which was meant to be used for the working capital of LFE's wholly owned subsidiary, LFE International Ltd. Instead, Alan Rajendram used those funds to finance his personal subscription of shares in LFE and to repay his corporate debts.</p> <p>On 10 May 2012, the Sessions Court acquitted Alan Rajendram of the 2 CBT charges at the end of the Prosecution's case. The Prosecution appealed to the High Court. On 21 January 2016, the High Court affirmed the acquittal and the Prosecution appealed to the Court of Appeal.</p> <p>On 3 November 2016, the Court of Appeal reversed the acquittal and ordered for Alan Rajendram to enter his defence.</p> <p>On 10 April 2018, Alan Rajendram pleaded guilty to the CBT charges at the Sessions Court and was sentenced to 3 years imprisonment.</p>

Table 7

Outcome of criminal trials and appeals in 2018 (Continued)

No.	Nature of offence	Offender(s)	Description
11.	Misleading statements in connection with the purchase of securities [s.87A (c) of the SIA 1983]	Wahid Ali Kassim Ali (Wahid Ali)	<p>Wahid Ali, a former director of Aiwanna Manage Assets Sdn Bhd (Aiwanna) was charged on 10 October 2005 with 3 counts of omitting to state a material fact pertaining to the investment of Aiwanna's client, Eastern Pacific Industrial Corporation Bhd (EPIC) whereby the material fact was necessary to make the statement of accounts issued to EPIC not misleading.</p> <p>The High Court on 14 January 2013 dismissed Wahid Ali's appeal against his conviction and the sentence imposed by the Sessions Court on 30 June 2009. Wahid Ali then filed an appeal to the Court of Appeal. On 14 May 2015, the Court of Appeal remitted the case to the High Court for a re-hearing of the appeal.</p> <p>On 27 May 2016, at the re-hearing of the appeal, the High Court confirmed the conviction for all 3 charges. For each charge, he was sentenced to 1 year imprisonment term and a fine of RM1 million (in default of the total RM3 million fine, 1 year jail). The imprisonment terms were to be served concurrently. The High Court allowed for Wahid Ali's application to stay the execution of the sentences pending appeal to the Court of Appeal.</p> <p>On 13 April 2018, the Court of Appeal allowed Wahid Ali's appeal and set aside the conviction by the Sessions Court and the High Court.</p>
12.	Prohibited conduct of person in possession of inside information	<p>Dato' Lim Kim Chuan (Dato' Lim KC)</p> <p>Tay Hup Choon (Tay HC)</p> <p>Theng Boon Cheng (Theng BC)</p>	<p>Dato' Lim KC was charged with 11 charges under section 188(2) (a) of the CMSA for acquiring 398,000 units of M3nergy Bhd (M3nergy) shares between 6 August 2008 to 11 September 2008 while in possession of inside information. Dato' Lim KC was the CEO and Director of Melewar Industry Group Bhd and was also Director of M3nergy at the material time.</p> <p>The inside information was in relation to the proposed take-over offer by Melewar (BVI) Ltd (Melewar) to acquire M3nergy which was announced to Bursa Malaysia on 12 September 2008. The shares were acquired by Dato' Lim KC through trading accounts belonging to 2 other individuals.</p> <p>Tay HC was charged with 9 charges of abetting Dato' Lim KC in the commission of the offences under section 370(c) read together with section 188(2)(a) of the CMSA. Tay HC was one of the account holders of the trading account used by Dato' Lim KC to acquire the M3nergy shares. Tay is Dato' Lim KC's brother-in-law.</p> <p>Theng BC was charged with 11 charges of abetting Dato' Lim KC in the commission of the offences under section 370(c) read together with section 188(2)(a) of the CMSA. Theng BC was the remisier who executed the trades of the M3nergy shares for Dato' Lim KC.</p>

Table 7

Outcome of criminal trials and appeals in 2018 (Continued)

No.	Nature of offence	Offender(s)	Description
			<p>Dato' Lim KC, Tay HC and Theng BC were charged in the Sessions Court on 24 November 2015. On 30 April 2018, the Sessions Court acquitted and discharged Dato' Lim KC, Tay HC and Theng BC without calling for their defence to be entered on the charges against them.</p> <p>On 3 May 2018, the Prosecution filed an appeal to the High Court against the acquittal.</p>
13.	Failing to appear before an SC Investigating Officer in connection with an investigation	Chok Chew Lan (Chok CL)	<p>Chok CL was charged with 2 counts of failing to appear before an SC Investigating Officer to be examined orally on 5 September 2017 and 19 September 2017 under section 134(5) of the SCMA.</p> <p>Chok CL was charged at the Kuala Lumpur Sessions Court on 24 October 2017.</p> <p>On 30 July 2018, Chok CL pleaded guilty to all charges and was sentenced to a fine of RM35,000 (in default, 3 months imprisonment) for each charge.</p>
14.	Insider trading	Tan Bee Hong (Tan BH)	<p>Tan BH was charged with insider trading under s188(2)(a) CMSA as she was alleged to have disposed of 350,000 units of APL Industries Bhd (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 4th quarter results for the same financial year and that APLI would be classified as an affected issuer pursuant to the <i>Listing Requirements of Bursa Malaysia Securities Bhd and Practice Note 17/2005</i>.</p> <p>Tan BH was charged at the Kuala Lumpur Sessions Court on 15 December 2014.</p> <p>On 9 August 2018, Tan BH was convicted by the Sessions Court and was sentenced to 5 years imprisonment and a fine of RM7 million.</p>

Table 7

Outcome of criminal trials and appeals in 2018 (Continued)

No.	Nature of offence	Offender(s)	Description
15.	Insider trading	Tan Bee Geok (Tan BG)	<p>Tan BG 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 APL Industries Bhd (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 4th quarter results for the same financial year and that APLI would be classified as an affected issuer pursuant to the <i>Listing Requirements of Bursa Malaysia Securities Bhd and Practice Note 17/2005</i>.</p> <p>Tan BG was charged at the Kuala Lumpur Sessions Court on 15 December 2014.</p> <p>On 9 August 2018, Tan BG was convicted by the Sessions Court and was sentenced to 5 years imprisonment and a fine of RM7 million.</p>
16.	<ul style="list-style-type: none"> • Fraud on a PLC • CBT 	<p>Ngu Tieng Ung (Ngu TU)</p> <p>Wong Jit Kiang (Wong JK)</p>	<p>On 5 May 2005, Ngu TU, the former Managing Director of Pancaran Ikrab Bhd (PIB), was charged with 2 counts under section 87A(b) of the SIA for engaging in the act that operated as a fraud on PIB by utilising RM15.5 million of PIB's funds to purchase PIB shares.</p> <p>Ngu TU was also charged with 1 count of committing CBT under section 409 of the Penal Code in respect of RM21.5 million of PIB's funds.</p> <p>Further, an alternative charge of committing CBT under section 409 of the Penal Code involving RM37 million of PIB's funds was also preferred against Ngu TU.</p> <p>Wong JK was charged for abetting Ngu TU in the commission of the said offences.</p> <p>Wong JK failed to attend court since 23 March 2009 and on 24 March 2010, the Sessions Court granted a discharge not amounting to an acquittal against him. A warrant of arrest is still pending against him.</p> <p>In October 2010, Ngu TU pleaded guilty to the 2 principal charges under the SIA and was sentenced to 1-day imprisonment and a RM1 million fine for each charge.</p> <p>In August 2011 upon the Prosecution's appeal against the sentence, the High Court set aside the conviction and sentence, on the ground that the plea was qualified and remitted the matter for a retrial to the Sessions Court.</p> <p>The retrial against Ngu TU commenced in January 2012.</p>

Table 7

Outcome of criminal trials and appeals in 2018 (Continued)

No.	Nature of offence	Offender(s)	Description
			<p>In August 2013, the Sessions Court ordered Ngu TU to enter his defence on the alternative charge of committing CBT of RM37 million of PIB's funds.</p> <p>On 11 September 2015, the Sessions Court convicted Ngu TU of CBT under section 409 <i>Penal Code</i>. Ngu TU was sentenced to 6 years imprisonment and RM1 million fine, whereby in default of payment, 2 years imprisonment.</p> <p>On 5 May 2017, the High Court allowed Ngu TU's appeal and set aside the conviction and sentence of the Sessions Court. The Prosecution's cross appeal on sentence was also dismissed.</p> <p>On 6 September 2018, the Court of Appeal dismissed the Prosecution's appeal and affirmed Ngu TU's acquittal.</p>
17.	Insider trading	Lim Bun Hwa (Lim BH)	<p>Lim BH was charged under section 370(c) of the CMSA read together with section 188(2)(a) of the CMSA, for abetting Lim Boon Cheng in acquiring PacificMas Bhd (PacMas) shares between 18 December 2007 and 31 December 2007 while Lim Boon Cheng was in possession of inside information in relation to the proposed conditional take-over offer by OSPL Holdings Sdn Bhd (OHSB) to acquire all the voting shares in PacMas not already owned by OHSB.</p> <p>On 3 October 2018, Lim BH pleaded guilty to 5 charges of insider trading under section 188(2)(a) of the CMSA following a plea bargaining application under section 172C of the <i>Criminal Procedure Code</i>. Pursuant to the application, the abetment charge against Lim BH was substituted with 5 charges of insider trading. Lim BH was sentenced to 6 months imprisonment and a fine of RM1 million.</p>
18.	Insider trading	Lim Boon Cheng (Lim BC)	<p>Lim BC was charged with 5 counts of insider trading under section 188(2)(a) of the CMSA. He was alleged to have acquired 145,000 units of PacificMas Bhd (PacMas) shares between 18 December 2007 and 31 December 2007 while in possession of inside information in relation to the proposed conditional take-over offer by OSPL Holdings Sdn Bhd (OHSB) to acquire all the voting shares in PacMas not already owned by OHSB.</p> <p>On 3 October 2018, all charges against Lim BC were withdrawn following the guilty plea by Lim Bun Hwa. The SC took administrative action against Lim BC for breaching section 134(5) (c) of the SCMA. A penalty of RM100,000 was imposed against Lim BC by the SC in accordance with section 354(3) of the CMSA.</p>

Table 7

Outcome of criminal trials and appeals in 2018 (Continued)

No.	Nature of offence	Offender(s)	Description
19.	Insider trading	Dato' Vincent Leong Jee Wai (Dato' Vincent LJW)	<p>Dato' Vincent LJW was charged with 2 counts under section 188(3)(a) of the CMSA for having communicated to Datuk Leong Wye Keong between 26 November 2010 and 18 January 2011 inside information in relation to the decrease in Maxbiz Corporation Bhd (Maxbiz)'s shareholders' equity which was close to Maxbiz being classified as financially distressed and the classification of Maxbiz as an affected listed issuer under <i>Practice Note 17 (PN17)</i> criteria 2.1(a).</p> <p>Dato' Vincent LJW was charged on 22 May 2017. Both charges were withdrawn on 17 October 2018 on the instructions of the Attorney General.</p>
20.	Insider trading	Datuk Leong Wye Keong (Datuk Leong WK)	<p>Datuk Leong WK was charged with 4 counts of insider trading under section 188(2)(a) of the CMSA for disposing 2,131,400 units of Maxbiz Corporation Bhd (Maxbiz) shares in the account of Leong Khai Shaun on 30 December 2010 and another 8,100,000 units of Maxbiz shares in his own account between 30 December 2010 and 18 January 2011 while in possession of inside information. The alleged inside information related to the decrease in Maxbiz's shareholders' equity which was close to Maxbiz being classified as financially distressed and the classification of Maxbiz as an affected listed issuer under <i>Practice Note 17 (PN17)</i> criteria 2.1(a).</p> <p>Datuk Leong WK was charged on 29 May 2017. All charges against Datuk Leong WK were withdrawn on 17 October 2018 on the instructions of the Attorney General.</p>

Civil enforcement actions and regulatory settlements in 2018

In 2018, the SC obtained judgment at the High Court against 1 individual for insider trading which resulted in a disgorgement of RM3,238,760.55. A total of RM5,227,904.05 was disgorged from 14 individuals by way of settlements following the

filing of civil suits, while RM792,944 was disgorged from 3 individuals by way of regulatory settlements. The total civil penalty paid in 2018 was RM1.45 million by 15 individuals. Out of this sum, RM950,000 was paid for market manipulation while the remaining RM500,000 was paid for insider trading.

Further details are set out in Tables 8 and 9.

Table 8

Outcome of civil action taken

No.	Nature of breach	Defendants	Description	Outcome
1.	Insider trading	Chan Soon Huat (Chan SH)	<p>On 27 May 2015, the SC filed a civil suit against Chan SH, former founder of WCT Bhd for insider trading.</p> <p>The SC sought, among others:</p> <ul style="list-style-type: none"> • A declaration that Chan SH had engaged in insider trading in respect of WCT Bhd securities between 30 December 2008 and 5 January 2009; • A payment of the sum of RM3,238,760.55 which is equivalent to 3 times the amount of RM1,079,586.85 being the difference between the price at which the securities had been disposed of by Chan SH and the price at which the securities would have been likely to have been disposed of at the time of the disposal, if the material non-public information had been generally available; • Civil penalty of RM1 million; • An order that Chan SH be barred from being a director of any PLC for a period of 5 years; • Interest; and • Costs. 	<p>On 24 January 2018, after a full trial, the High Court declared that the SC had successfully proven its claim against Chan SH. The High Court ordered Chan SH to pay the claimed sum of RM3,238,760.55, a civil penalty of RM500,000 and costs of RM50,000 to the SC.</p>

Table 8

Outcome of civil action taken (Continued)

No.	Nature of breach	Defendants	Description	Outcome
2.	<ul style="list-style-type: none"> False trading and market rigging transaction Stock market manipulation 	<ul style="list-style-type: none"> Kenneth Vun @ Vun Yun Liun Teng Choo Teik Simon Ling Siang Hock Lye Pei Ling Chuah Hock Soon Choong Lay Ti Gui Boon Huat 	<p>On 22 July 2014, the SC filed a civil suit against the 7 Defendants. The SC sought, among others:</p> <ul style="list-style-type: none"> A declaration that the defendants had 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 had 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 the defendants are held on constructive trust for the benefit of affected investors; Order that all assets and properties of each defendant be traced and followed and then paid to the SC for the purpose of compensating affected investors; An order that each defendant be barred from being a director of any PLC for a period of 5 years; An order to restrain each defendant/their agents/servants or otherwise howsoever from trading in any counter on Bursa Malaysia for a period of 5 years; Special damages of RM3,073,231.92; Civil penalty of RM1 million against each of the defendants; General and/or aggravated and/or exemplary damages; Interest; and Costs. 	<p>On 1 March 2018, the High Court recorded a Consent Judgment between the SC and all the Defendants granting the following orders:</p> <ul style="list-style-type: none"> The Defendants shall jointly and severally pay the sum of RM3,823,231.92 which consist of: Special damages of RM3,073,231.92; and A civil penalty of RM750,000. The Defendants shall not hold office as directors in any PLC for a period of 5 years; The Defendants shall not, whether by themselves, their agents, servants or otherwise howsoever, trade in any securities on Bursa Malaysia for a period of 5 years; In the event of default in any of the terms of the Consent Judgment, the Defendant(s) in default shall be liable to pay a civil penalty of RM1 million to the SC, and the SC will be at liberty to take the necessary actions to execute or enforce the Consent Judgment against the Defendant(s) in default; The SC is at liberty to publish the terms of the Consent Judgment on the SC website and/or in the SC Annual Report and/or in any other publication the SC deems fit; and The Consent Judgment shall constitute full and final settlement of the SC's claim against the Defendants.

Table 8

Outcome of civil action taken *(Continued)*

No.	Nature of breach	Defendants	Description	Outcome
3.	<ul style="list-style-type: none"> False trading and market rigging transaction Stock market manipulation 	<ul style="list-style-type: none"> Ng Wai Hong Lo Ga Lung Toh Pik Chai Ling Pik Ngieh Ng Soo Tian Chan Kok Chai Shou Wei 	<p>On 21 September 2017, the SC filed a civil suit against the 7 defendants. The SC sought, among others:</p> <ul style="list-style-type: none"> A declaration that the defendants had engaged in false trading and market rigging transactions in respect of APLI shares from 7 November 2006 to 9 November 2006; A declaration that the defendants had engaged in stock market manipulation in respect of APLI shares from 7 November 2006 to 9 November 2006; An order that all the assets and properties of each of the defendants be traced and/or followed, and thereafter paid over to the SC; 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 APLI shares are held in constructive trust for the benefit of the affected investors; General and/or aggravated and/or exemplary damages against all the defendants; Special damages; Civil penalty of RM1 million against each of the defendants for the breach of section 84 and 85 of the SIA; Interest; An injunction to restrain each defendant, whether by themselves, their agents, servants or otherwise howsoever, from trading in any counter on Bursa Malaysia for a period of 5 years; An order that each defendant be barred from being a director of any PLC for a period of 5 years; and Costs. 	<p>On 16 March 2018, all 7 defendants entered into a settlement with the SC when they agreed without admission or denial of liability to settle the claim that the SC had initiated against them:</p> <ul style="list-style-type: none"> The defendants agreed to pay a settlement sum of RM2,154,672.13 being the unlawful gains from the false trading, market rigging and market manipulation. A civil penalty of RM200,000.

Table 9

Regulatory settlements in 2018

No.	Insider trading	Offender(s)	Description
1.	Insider trading	Tan Eng Kean (Tan EK)	<p>On 6 April 2018, Tan EK entered into a settlement with the SC in the sum of RM56,900.00 when he agreed without admission or denial of liability to settle a claim that the SC was proposing to institute against him for acquiring 5,000 units of PacificMas Bhd (PacMas) shares in his account while in possession of inside information contrary to section 188(2) of the CMSA.</p> <p>The inside information was in relation to a proposed conditional take-over offer by OSPL Holdings Sdn Bhd (OSPL) to acquire all the voting shares in PacMas not already owned by OSPL which was announced on 4 January 2008. Additionally, a civil penalty of RM50,000 was imposed by the SC.</p> <p>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 that Tan EK was required to disgorge was equivalent to 3 times the difference between the price at which the shares were acquired and the price at which the shares 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) of the CMSA.</p>
2.	Insider trading	Tan Sri Abdul Rahman Omar (Tan Sri Abdul Rahman)	<p>On 20 July 2018, Tan Sri Abdul Rahman entered into a settlement with the SC in the sum of RM69,144.00 when he agreed without admission or denial of liability to settle a claim that the SC was proposing to institute against him for acquiring Edaran Otomobil Nasional Bhd (EON) shares while in possession of inside information, contrary to section 89E(2) of SIA.</p> <p>The inside information was in relation to EON's announcement to Bursa Malaysia Bhd of a proposed special gross dividend of 137 cent per share less 27% tax in respect of the financial year ended 31 December 2006. Tan Sri Abdul Rahman had acquired 100,000 units of EON shares on 23 February 2007, prior to the announcement.</p> <p>The settlement was reached following a letter of demand sent by the SC pursuant to its civil enforcement powers under the securities law, where the sum that Tan Sri Abdul Rahman was required to disgorge was equivalent to 3 times the difference between the price at which the shares were acquired and the price at which the shares would have been likely to have been acquired at the time of the acquisition, if the information had been generally available. The monies recovered have been applied in accordance with section 90A(7) of the SIA.</p>

Table 9

Regulatory settlements in 2018 *(Continued)*

No.	Insider trading	Offender(s)	Description
3.	Insider trading	Dato' Lim Lean Heng (Dato' Lim LH)	<p>On 18 October 2018, Dato' Lim LH entered into a settlement with the SC in the sum of RM666,900.00 when he agreed without admission or denial of liability to settle a claim that the SC was proposing to institute against him for acquiring 727,000 units of Hirotako Holdings Bhd (Hirotako) shares in the account of Bright Memory Sdn Bhd while in possession of inside information contrary to section 188(2)(a) of the CMSA.</p> <p>The inside information was in relation to a proposed take-over offer by MBM Resources Bhd to acquire all voting shares and outstanding warrants in Hirotako.</p> <p>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 that Dato' Lim LH was required to disgorge was equivalent to 2.5 times the difference between the price at which the shares were acquired and the price at which the shares 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) of the CMSA.</p>

INVESTOR EMPOWERMENT INITIATIVES



12 – 14 October 2018
Kuala Lumpur
Convention Centre,
Kuala Lumpur

14,389
Visitors

45
Exhibitors

397
Participants for
#FinPlan4U Service Desk

Description

The fifth instalment of the SC's annual flagship investor education event held jointly with capital market intermediaries and other regulatory agencies to promote awareness and enhance knowledge of the Malaysian capital markets. Themed 'Investing for a Sustainable Future', the event was officiated by Syed Saddiq Syed Abdul Rahman, Minister of Youth and Sports. The event also featured Jeffrey Ong, former Malaysian Olympic swimmer and Datuk Mohammad Nor Mohammad Khalid (Datuk Lat). The 'FinPlan4U' complimentary service desk allowed the public to engage licensed financial planners on the benefits of financial planning.



ScamBuster Run 2018

14 October 2018
Kuala Lumpur City Centre

2,558
Runners

Description

For the second consecutive year, the SC organised a charity fun run in conjunction with the InvestSmart® Fest 2018 with the hashtag #RunFromScams. Proceeds of RM104,240 were channelled to Persatuan Kebajikan Suara Kanak-kanak Malaysia (SUKA Society).



Anti-Scam Poster Competition

1– 30 August 2018

66

Entries

Description

As part of raising awareness on scam prevention, the competition was launched pre InvestSmart® Fest 2018. The winning posters are currently featured on the InvestSmart® website.



InvestSmart® Jingle 'Silap Labur Duit Lebur'

Description

To reinforce the SC's anti-scam messaging, the InvestSmart® team in partnership with Money Money Home, a financial literacy programme on Astro AEC, produced a jingle titled 'Silap Labur Duit Lebur'. This fun and catchy promo seeks to warn investors to be more vigilant when investing and avoid illegal investment schemes.



Description

Face-to-face community engagement initiative where the SC provides information on smart investing and promotes the Malaysian capital market among retail investors.

InvestSmart® @ Karnival Kewangan Kedah by Bank Negara Malaysia

19 – 21 January 2018
Alor Setar, Kedah

25,000

Participants

Description

At BNM's 3-day event, the InvestSmart® team distributed collaterals and educational leaflets on the capital markets and engaged with the public on investment opportunities. The SC's representatives also participated in a forum discussion on financial crime along with the Royal Malaysian Police, BNM and the Ministry of Domestic Trade, Co-operatives and Consumerism.



InvestSmart® @ TN50/PRS Youth Event – Building Savings for the Future

26 January 2018
Securities Commission Malaysia

600

Participants

Description

The 'TN50 PRS Youth Incentive' was launched to encourage Malaysian youth to save and invest for the future. The InvestSmart® team engaged youth on the importance of early retirement planning as well as the SC's role and its InvestSmart® brand.

InvestSmart® @ Scientific Convention and Trade Exhibition 2018

27 January 2018
Putra World Trade Centre, Kuala Lumpur

150

Participants

Description

The Malaysian Dental Association organised their annual Scientific Convention and Trade Exhibition 2018, in which the InvestSmart® team participated to engage with this professional demographic to highlight the SC's role as a capital market regulator and its investor education initiatives.



InvestSmart® @ Ministry of International Trade and Industry Open Day (MITI) Day 2018

26 February 2018
MITI Tower, Kuala Lumpur

8,000

Participants

Description

In addition to engaging the visitors, a short pocket talk under the segment 'Kapsul Usahawan dan Saham' was presented at the MITI's annual event.

InvestSmart® @ Seminar Pelaburan Saham Terengganu by MITI

19 March 2018
Permai Hotel, Kuala Terengganu

1,000

Participants

Description

A Shariah stock investment seminar jointly organised by MITI and Yayasan Islam Terengganu. The InvestSmart® team spoke on the Islamic capital market and the SC's investor education programme.



InvestSmart® @ Ministry of Finance Open Day 2018

22 March 2018
Kompleks Kementerian Kewangan, Putrajaya

1,009
Participants

Description

Together with various agencies under the Ministry, the InvestSmart® team participated in the Ministry of Finance (MOF) Open Day 2018 to create awareness on the Malaysian capital markets to the public.

InvestSmart® @ EXPO PEMUDA 2018

14 – 15 April 2018
Putra World Trade Centre, Kuala Lumpur

50,000
Participants

Description

This 2-day job fair offered opportunities to the youth to kick-start their career. The InvestSmart® team took the opportunity to engage the youth to raise awareness on the capital market and smart investing, and promote the SC's role.



InvestSmart® @ Minggu Saham Amanah Malaysia 2018 by Permodalan Nasional Bhd

19 – 25 April 2018
Batu Pahat, Johor

200,168
Participants

Description

Permodalan Nasional Bhd's premier annual event provided the SC a platform to share information on the Malaysian capital markets with the community in Johor during the week-long event. The InvestSmart® pocket talk sessions and investment games were a big hit among the visitors.

InvestSmart® @ Bursa Shariah Investing Fair

21 – 22 July 2018
Kuala Lumpur Convention Centre,
Kuala Lumpur

11,000
Participants

Description

Bursa Malaysia's Shariah Investing Fair 2018 themed 'Jom Labur BM-i' gathered industry partners such as the Islamic Participating Organisations, Islamic Fund Management Companies, Islamic Financial Institutions, Takaful Operators and Shariah PLCs. The InvestSmart® team together with the SC's staff from the ICM department distributed collaterals and brochures to create awareness on the capital market. Dipstick surveys and engagements with the public were also carried out to seek feedback on their investment experiences.

InvestSmart® @ KL Car Free Morning

16 September 2018
Dataran Dewan Bandaraya Kuala Lumpur

350
Participants

Description

The InvestSmart® team set up booth at the Dataran Dewan Bandaraya Kuala Lumpur (DBKL) in conjunction with the Kuala Lumpur Car Free Morning. Held every first and third Sunday of the month, this event attracts thousands of Malaysian to jog, walk and cycle on major streets of Kuala Lumpur. During this event, the team promoted the InvestSmart® Fest 2018 and ScamBuster Run 2018. Collaterals were distributed and anti-scam awareness was reinforced through the screening of T.I.P.U video.



InvestSmart® @ Financial Literacy of Youth: Malaysia Fintech Conference

22 September 2018
HELP University Damansara Campus

250
Participants

Description

As part of the SC's promotional campaign for InvestSmart® Fest 2018 and ScamBuster Run 2018, the team set up booth at the Financial Literacy of Youth:Malaysia (FLY:Malaysia) Fintech Conference to engage university students.

InvestSmart® @ My Money & Me by Malaysian Financial Planning Council (MFPC)

27 October 2018
Dataran Dewan Bandaraya Kuala Lumpur

400
Participants

Description

My Money & Me is a financial literacy programme by MFPC for undergraduates on the importance of financial planning. The InvestSmart® team engaged the participants at the event by promoting the Malaysian capital market.

InvestSmart® @ 4th Financial Planning Tournament by MFPC

2 – 4 November 2018
EPF Learning Centre, Kajang

2,000
Participants

Description

During the MFPC's fourth Financial Planning Tournament, the InvestSmart® team reached out to undergraduates from 24 universities throughout Malaysia to raise awareness on the role of the SC and the Malaysian capital market. In conjunction with the event, MFPC also organised its inaugural Financial Freedom Run on 4 November 2018 at the Universiti Kebangsaan Malaysia where the SC staff also participated in the run.



InvestSmart® @ Forum Pasca Bajet Negara 2018 by INTAN Bukit Kiara

8 November 2018
National Institute of Public Administration (INTAN)
Kuala Lumpur

800
Participants

Description

The InvestSmart® booth was set up to engage and distribute collaterals and pamphlets to civil servants who attended the talk on Malaysia's 2019 Budget conducted by INTAN

InvestSmart® @ Karnival Rasa Sayang by Retirement Fund (Incorporated) (KWAP)

24 November 2018
Bulatan Sultan Azlan Shah, Ipoh

1,446
Participants

Description

The InvestSmart® team was invited to give a talk on retirement planning at KWAP's inaugural 'Karnival Rasa Sayang' held in Ipoh.



Description

In 2018, the SC launched the InvestSmart® @ SC programme. The half-day event focuses on specific capital market topics related to specific investor demography.

Protecting Your Investment

10 March 2018
Pre-retirees and retirees

149
Participants

Never too Young to Invest

12 May 2018
Youth

81
Participants

An Informed Investor is a Protected Investor

15 December 2015
General public

177
Participants



Description

In collaboration with Securities Industry Development Corporation (SIDC), 1-day seminars were conducted nationwide, focusing on topics relating to stock trading, unit trusts, private retirement scheme (PRS), equity crowdfunding (ECF) and peer-to-peer (P2P) financing by industry experts. Mini exhibitions by investment banks, stockbroking and unit trust companies as well as PRS providers were also featured at the following locations.

21 April 2018
Ayer Keroh, Melaka | **54**
Participants

12 May 2018
Petaling Jaya, Selangor | **190**
Participants

7 July 2018
Bukit Tinggi, Klang | **106**
Participants

21 July 2018
Alor Setar, Kedah | **68**
Participants

4 August 2018
Kota Bahru, Kelantan | **88**
Participants

18 August 2018
Kuantan, Pahang | **73**
Participants

8 September 2018
Miri, Sarawak | **72**
Participants

22 September 2018
Sibu, Sarawak | **89**
Participants

20 October 2018
Kota Kinabalu, Sabah | **122**
Participants

27 October 2018
Taiping, Perak | **50**
Participants

3 November 2018
Seberang Jaya, Penang | **208**
Participants

10 November 2018
Johor Bahru, Johor | **105**
Participants





Description

The following InvestSmart® programmes were designed, in collaboration with SIDC, for specific groups including school children, university students and communities.

Kids & Cash

A half-day programme whereby knowledge on basic money management skills is shared with primary school children.

6 July 2018
Sekolah Kebangsaan
Klang | **100**
Participants

17 August 2018
Sekolah Kebangsaan
Sungai Talam, Kuantan | **100**
Participants

26 October 2018
Sekolah Kebangsaan
Taman Panglima, Taiping | **100**
Participants

Teens & Cash

Secondary school students gained tips on money management and the importance of investing.

17 August 2018
Sekolah Menengah
Kebangsaan Pandan,
Kuantan | **100**
Participants

7 September 2018
Sekolah Menengah
Kebangsaan Dato
Permaisuri, Miri | **105**
Participants

21 November 2018
Sekolah Menengah
Kebangsaan Pasir Gudang
Tiga, Johor Bahru | **100**
Participants

Cash@Campus

Equipping university students with better financial planning and investment skills in preparation for their working life.

24 September 2018
Multimedia University
Melaka | **142**
Participants

4 October 2018
Universiti Teknologi
MARA Kelantan | **103**
Participants

13 October 2018
Universiti Sains Islam
Malaysia | **103**
Participants

19 October 2018
Tunku Abdul Rahman
University College Sabah | **115**
Participants

14 November 2018
HELP University Subang | **42**
Participants



Money@Work

This is a half-day programme tailored particularly for employees of government agencies and private corporations on smart investing.

26 July 2018 Collaboration with Amanah Ikhtiar Malaysia	137 Participants
2 November 2018 Collaboration with Institut Integriti Pulau Pinang	118 Participants
12 November 2018 Collaboration with Pejabat Residen Sib	59 Participants

Be Money Wise (B.M.W)

Targeted segments for women, blue-collar workers and rural communities were organised on financial management.

20 April 2018 Ayer Keroh, Melaka	104 Participants
22 July 2018 Alor Setar, Kedah	133 Participants
7 September 2018 Miri, Sarawak	47 Participants



- The revamped InvestSmart® website was launched in September 2018 and has attracted 27,718 users to-date;
- InvestSmart® Mobile Application has 2,771 registered users

- InvestSmart® Facebook Page garnered 62,919 followers;
- InvestSmart® Instagram gained 950 followers;
- InvestSmart® Twitter garnered 71 followers;
- Launched in October 2018, 'Jump2 Invest' game has over 250 downloads



- The SC, through the Ministry of Communications and Multimedia, has released 2 public service announcements in 2018:
 - 30-second 'T.I.P.U Video' highlights the modus operandi of scammers. Televised in all local TV stations and public transportations operated by Prasarana Malaysia from 31 May to 31 December 2018.
 - Crawler message to remind the public on dealing only with licensed persons when investing in capital market product. The crawler message is broadcasted during the news in the local television stations from 15 August to 31 December 2018.
- In conjunction with the IOSCO World Investor Week 2018 (WIW2018) from 1 to 7 October 2018, the SC:
 - Produced an InvestSmart® Series on BFM 89.9 to educate listeners on the risks of investing in ICOs; and
 - Published a series of infographics in *The Star*, *Sin Chew Jit Poh* and *Harian Metro* newspapers to highlight to the public the risks of investing in ICOs.

COMPLAINTS AND ENQUIRIES

For the period ending 31 December 2018, the SC received a total of:

- a. 558 Complaints; and
- b. 1,104 Enquiries.

Table 1

	2018	2017	2016
Complaints	558	444	433
Enquiries	1,104	626	609
TOTAL	1,662	1,070	1,042

Chart 1

Classification of complaints

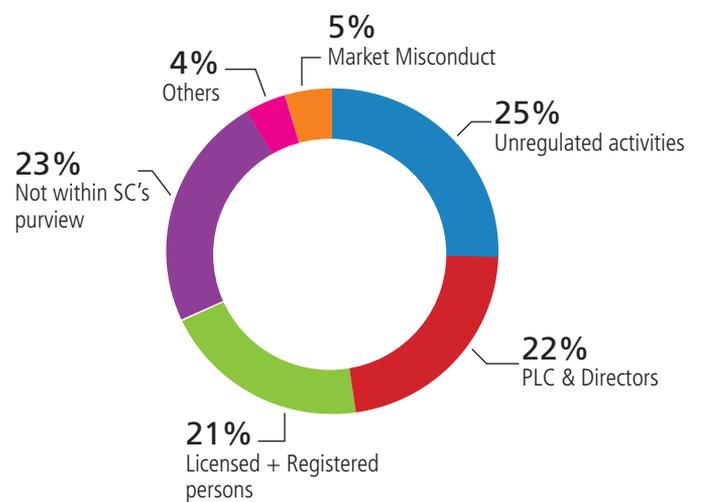
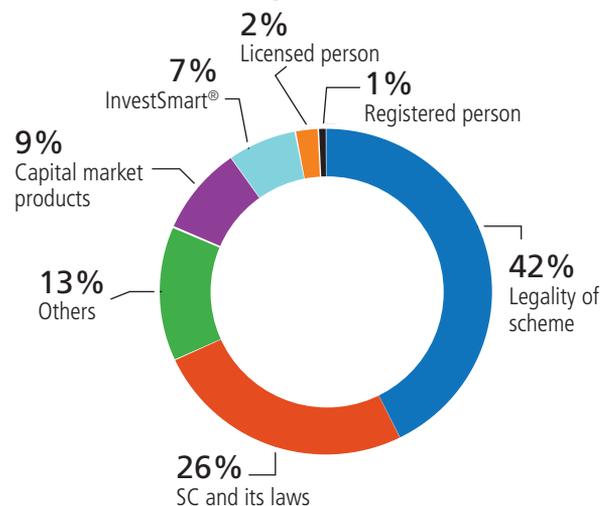


Chart 2

Classification of enquiries



PUBLICATIONS

ACTS, GUIDELINES AND CODES

Guidelines on Listed Real Estate Investment Trusts
Issued | 15 March 2018

Guidelines on Real Estate Investment Trusts
Issued | 15 March 2018

Guidelines on Implementation of Targeted Financial Sanctions Relating to Proliferation Financing For Capital Market Intermediaries
Issued | 6 April 2018

Guidelines on Contracts for Difference
Issued | 6 April 2018

Licensing Handbook
Revised | 1 August 2018

Guidelines on Compliance with the Continuing Professional Education Requirement
Issued | 1 August 2018

Guidelines on Seasoned Corporate Bonds and Sukuk
Issued | 19 September 2018

Guidelines on Sales Practices of Unlisted Capital Market Products
Revised | 19 September 2018

Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors
Revised | 11 October 2018

Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework
Revised | 11 October 2018

Guidelines on the Registration and Conduct of Capital Market Services Providers
Issued | 19 October 2018

Guidelines on Exchange-traded Funds
Revised | 26 November 2018

Prospectus Guidelines
Revised | 14 December 2018

Guidelines on Compliance Function for Fund Management Companies
Revised | 17 December 2018

BOOKS, REPORTS AND CONSULTATION PAPERS

Developing the Corporate Bond and Sukuk Market in Malaysia: Broadening the Credit Profile - SC-OCIS Scholar-in-Residence Academic Year 2015/2016
Issued | 28 February 2018

SC-World Bank on Islamic Finance and Public Private Partnership for Infrastructure Development 2017 Conference Report
Issued | 9 March 2018

Public Response Paper – Proposed Amendments to Guidelines on Real Estate Investment Trusts and Streamlining of Post-Listing Requirements for Listed Real Estate Investment Trusts with Listed Corporations
Issued | 15 March 2018

Securities Commission Malaysia Annual Report 2017/ Laporan Tahunan 2017 Suruhanjaya Sekuriti Malaysia
Issued | 15 March 2018

Audit Oversight Board Annual Report 2017
Laporan Tahunan 2017 Lembaga Pemantauan Audit
Issued | 15 March 2018

*Audit Oversight Board Annual Inspection Report –
Findings and Insights 2017*
Issued | May 2018

Proceedings of the SC-OCIS Roundtable 2017
Issued | 19 March 2018

*Corporate Governance Strategic Priorities 2017-
2020*
Issued | September 2018

ASEAN Green Bond Standards
Revised | October 2018

ASEAN Social Bond Standards
Issued | October 2018

ASEAN Sustainability Bond Standards
Issued | October 2018

BOOKLETS, BULLETINS AND PAMPHLETS

Malaysian ICM
Issued | April and September 2018

*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 | 25 May and 30 November 2018

The Reporter
Issued | November 2018

*Keputusan Majlis Penasihat Shariah Suruhanjaya
Sekuriti Malaysia 2018*
Issued | 18 December 2018

WEBSITES

www.sc.com.my

www.investsmart.my

www.worldcapitalmarketsymposium.org

www.theroyalaward.com

2018 AT A GLANCE

7 Jan

SC issues media statement to caution investors on initial coin offerings

9 Jan

SC directs CopyCash Foundation to immediately cease and desist all its proposed activities related to its initial coin offering



January

23 Jan

Release of Enhanced Auditor's Report

24 Jan

SC wins insider trading case against former founder of WCT Bhd



February

6-7 Feb

World Capital Markets Symposium 2018 and Launch of the Institute of Capital Market Research Malaysia



13 Feb

SC charges chairman of Three-A Resources Bhd for insider trading

26 Feb

SC, the Monetary Authority of Singapore and the Securities and Exchange Commission of Thailand sign MoU to enhance the ASEAN Collective Investment Schemes Framework

28 Feb

Bogus remisier jailed one year and fined RM2 million for securities fraud

March



1 Mar

SC Turns 25
Rebranding of CSR Initiative – SC Heart

5 Mar

AOB reprimands two auditors for breaching auditing standards

15 Mar

SC Annual Report 2017 released

15 Mar

SC and BNM establish joint working group to accelerate digitisation of stockbroking industry

21 Mar

SC warns investors over 'pump-and-dump' schemes via internet and social media

24-25 Mar

Proceedings of the 9th SC-OCIS Roundtable 2018

26 Mar

Court of Appeal jails ex-director for furnishing false statements to stock exchange

April

5 Apr
SC appoints new Deputy Chief Executive, Datuk Zainal Izlan Zainal Abidin following the appointment of Dato' Ahmad Fairuz Zainol Abidin as Judicial Commissioner

10 Apr
Former investment bank head of equity sentenced to 6 months jail and fined RM1 million for insider trading



11 April
SC initiated a restitution process for victims of an illegal futures trading scheme

25 April
AOB reprimands and fines an auditor for failure to comply with the International Standards on Audit

May

3 May
SC calls for applications for RM1 billion venture capital fund committed by major institutional investors



14-15 May
SC, World Bank Group and the IOSCO Asia Pacific Hub held a joint conference themed 'Harnessing Islamic Finance for a Green Future'



17 May
Courtesy visit by Italian Ambassador to Malaysia, Cristiano Maggipinto

July

5 July
SC invites applications for registration as equity crowdfunding and peer-to-peer financing operators



5 July
SC Staff Hari Raya Open House



9 Aug

Former executive director of APL Industry Bhd and sister jailed 5 years and fined RM7 million each

13–17 Aug

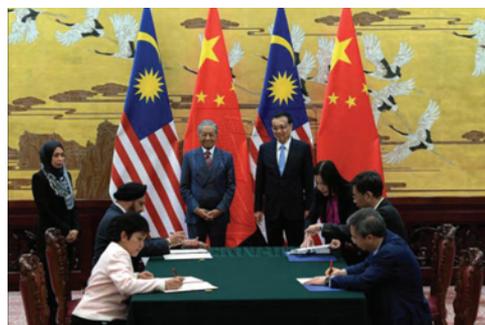
SC Industry Dialogue 2018



August

20 Aug

China's Ministry of Finance and SC sign MoU on regulatory co-operation



September

5 Sep

SC issues notice to cease all activities promoting Lavidacoin

18 Sep

Public statement on Multi Sports' retention of Lin Huozhi and Lin Liying as Executive Directors prejudicial to public interest

19 Sep

SC announces the liberalisation of its regulatory framework for retail investment in Malaysia's corporate bond and sukuk market

24 Sep

Visit by a delegation from the US Embassy and the US Treasury

27 Sep

SC together with United Nations Development Programme and the Islamic Development Bank hosted a forum titled 'Achieving the SDGs: Unleashing the Potential of Islamic Finance' in New York, US

October



1 Oct

Launch of the Institute of Corporate Directors Malaysia (ICDM) to enhance Board effectiveness

3 Oct

Tan Sri Dr Zeti Akhtar Aziz receives The Royal Award for Islamic Finance 2018

12–14 Oct

InvestSmart® Fest 2018 kicks off; 2nd year of charity run, Scambuster Run

19 Oct

SC introduces a registration framework for trustees and issuing houses under new guidelines to enhance investor protection

26 Oct

SC initiated a restitution process for victims of an illegal futures and equity trading scheme

30 Oct

Tan Sri Ranjit Ajit Singh retires as Chairman of the SC

31 Oct

European Union and Asia-Pacific regulators meet at the EU-Asia Pacific Forum on Financial Regulation in Kuala Lumpur

1 Nov

SC welcomes new Chairman, Datuk Syed Zaid Albar



7 Nov

SC and OECD jointly organised the annual Asian Roundtable on Corporate Governance



November

26 Nov

SC revises *Guidelines on Exchange-traded Funds* to boost retail participation

28-29 Nov

SCxSC Digital Finance Conference 2018 themed 'Embracing Technology'

29 Nov

AOB withdraws recognition of Singapore-based audit firm RT LLP and Su Chun Keat for failure to comply with a Notice issued by the SC



December

4 Dec

Dialogue between Corporate Sustainability Managers and Minister of MESTECC, Yeo Bee Yin.

6 Dec

SC and BNM issued a joint statement on the regulation of digital assets in Malaysia

12 Dec

SC revokes the CMSRL of Shaiful Nazren Kassim for improper business practices



13 Dec

Malaysia ranks 4th in 2018 from 6th place in 2016 in the Corporate Governance Watch 2018 report



ACRONYMS AND ABBREVIATIONS

ACGA	Asian Corporate Governance Association
ACMF	ASEAN Capital Markets Forum
ADV	Average daily value
AE	Advanced economy
AEC	ASEAN Economic Community
AML/CFT/PF	Anti-money laundering, countering financing of terrorism and proliferation financing
AOB	Audit Oversight Board
ASEAN	Association of South-East Asian Nations
ASEAN GBS	<i>ASEAN Green Bond Standards</i>
ASEAN SBS	<i>ASEAN Social Bond Standards</i>
ASEAN SUS	<i>ASEAN Sustainability Bond Standards</i>
AUM	Assets under management
BCM	Business continuity framework
BNM	Bank Negara Malaysia
BRIDGe	Brokerage Industry Digitisation Group
bps	Basis points
BrICC	Brokerage Industry Consultative Committee
Bursa Malaysia	Bursa Malaysia Securities Bhd
CAGR	Compound annual growth rate
CBI	Climate Bonds Initiative
CDS	Central Depository System
CFD	Contract for Difference
CG	Corporate governance
CIS	Collective Investment Schemes
CMCF	Capital Market Compensation Fund
CMDF	Capital Market Development Fund
CMM	Capital Markets Malaysia
CMSA	<i>Capital Markets and Services Act 2007</i>
CMSL	Capital Market Services Licence
CMSRL	Capital Markets Services Representative's Licence
COMCEC	Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation
CPA	Certified public accountant
CPE	Continuing Professional Education
CPRA	Corporate private retirement scheme adviser
CRWG	Cyber Risk Working Group

CSM	Cyber Security Malaysia
CUTA	Corporate Unit Trust Scheme Adviser
DIM	Digital investment management
DLT	Distributed ledger technology
DOSM	Department of Statistics Malaysia
ECB	European Central Bank
ECF	Equity crowdfunding
EME	Emerging market economy
EPF	Employees Provident Fund
ESG	Environment, social and governance
ETF	Exchange-traded fund
EU	European Union
FBMKLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FIMM	Federation of Investment Managers Malaysia
FINs	Financial Intelligence Systems
Fintech	Financial technology
FKLI	Bursa Malaysia Kuala Lumpur Composite Index Futures
FPAM	Financial Planning Association of Malaysia
FSB	Financial Stability Board
FSI	Financial services institution
G20	Group of 20
GBP	<i>Green Bond Principles</i>
GDP	Gross domestic product
GEM	Growth and emerging markets
GFC	Global financial crisis
GFCF	Gross fixed capital function
GLIC	Government-linked investment company
ICDM	Institute of Corporate Directors Malaysia
ICM	Islamic capital market
ICMA	International Capital Market Association
ICMR	Institute for Capital Market Research
ICO	Initial coin offering
IDSS	Intraday short selling
IFC	International Finance Corporation
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
ICO	Initial coin offering
IPO	Initial public offering
KYC	Know-Your-Customer
KWAP	Retirement Fund (Incorporated)
LEAP	Leading Entrepreneur Accelerator Platform
LOLA Framework	Lodge and Launch Framework
MAICSA	Malaysian Institute of Chartered Secretaries and Administrators
MASB	Malaysian Accounting Standards Board
MCCG	<i>Malaysian Code on Corporate Governance</i>
MFRS	Malaysian Financial Reporting Standard

MFPC	Malaysian Financial Planning Council
MGS	Malaysian Government Securities
MICPA	Malaysian Institute of Certified Public Accountants
MITI	Ministry of International Trade and Industry
MoF	Ministry of Finance
MoU	Memorandum of understanding
MSCI	Morgan Stanley Capital International
MSME	Micro, small and medium enterprise
NACSA	National Cyber Security Agency
NAV	Net asset value
OCIS	Oxford Centre for Islamic Studies
OECD	Organisation for Economic Co-operation and Development
OTC	Over-the-counter
OPR	Overnight policy rate
P2P	Peer-to-peer
PE	Private equity
PID	Public-interest director
PIE	Public interest entities
PLC	Public-listed company
PPA	Private Pension Administrator Malaysia
PRS	Private retirement scheme
REIT	Real estate investment trust
SC	Securities Commission Malaysia
SCA	<i>Securities Commission Act 1993</i>
SCMA	<i>Securities Commission Malaysia Act 1993</i>
SCxSC	Synergistic Collaborations by SC
SDG	Sustainable Development Goal
SIA	<i>Securities Industry Act 1983</i>
SICDA	<i>Securities Industry Central Depositories Act 1991</i>
SIDC	Securities Industry Development Corporation
SIDREC	Securities Industry Dispute Resolution Center
SIFI	Systemically important financial institution
SIR	Scholar-in-Residence
SMEs	Small and medium-sized enterprise
SRI	Sustainable and responsible investment
SRO	Self-regulatory organisation
SROC	Systemic Risk Oversight Committee
TCFD	Task Force on Climate-Related Financial Disclosure
UCITS	Undertaking for the Collective Investment in Transferable Securities
UK	United Kingdom
UN	United Nations
US	United States
US Fed	US Federal Reserve
UST	US Treasury
VC	Venture capital
VCC/CMC	Venture capital corporation/venture capital management corporation
WCMS	World Capital Markets Symposium

Securities Commission Malaysia

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