MAINTAINING MARKET INTEGRITY AND PROTECTING INVESTORS

INTRODUCTION

Market integrity is pivotal in reinforcing proper standards of market conduct and driving market stability. In 2021, the SC continued to focus its regulatory efforts in ensuring that the market remained agile, resilient and responsive on the back of the COVID-19 pandemic. The SC continued to closely monitor emerging systemic risks and implemented various regulatory initiatives that aimed at protecting investors' and stakeholders' interests.

In order to uphold high standards of governance among market participants and ensure orderly functioning of the capital market, the SC's supervisory approach and focus over intermediaries, institutions and markets were also strengthened, supported by enforcement actions for serious breach of securities laws.

MONITORING AND MANAGEMENT OF RISKS

Despite improvement in the global financial market conditions following good inoculation rates against COVID-19 and resumption of economic activities, threats such as the emergence of new COVID-19 variants continued to bring uncertainties to the global and domestic capital market. As such, early detection of emerging risks and vulnerabilities is crucial to maintain systemic stability in the capital market. Against this backdrop, the SC continued to remain vigilant of the potential downside risks and appropriate measures were put in place to ensure a fair and orderly operation of the capital market at all times.

Mitigating Systemic Risks and Promoting Financial Stability

Enhanced Risk Governance Framework

In 2021, the SC-wide risk governance framework was enhanced as part of an overall initiative to enable a more integrated and predictive risk surveillance approach. The risk governance framework integrated the wider spectrum of risks such as technology, cyber and conduct risk at the SC's Systemic Risk Oversight Committee (SROC) and Accounting, Market and Corporate Surveillance Committee (AMCS).

Intensified surveillance

Regular SROC engagements were held to deliberate concerns emanating from various segments of the capital market. Domestic equity and bond market, foreign fund flows and trade participation continued to be monitored closely for potential stress points. In addition, financial position of listed companies and economic stimulus packages introduced by the government to weather the impact of COVID-19 were among the focus areas for discussion.

Thematic assessments

The SC also conducted thematic assessments covering investors' fund flows, position of firms vulnerable to credit and market risks, and government policy decisions such as budget announcements to ascertain the possible impact on the capital market. In 2021, the SC reviewed and enhanced its crisis indicators on potential emerging risks in the capital market. The enhanced crisis indicators provided a reference point for escalation to SROC when the identified indicators and triggers materialised and ensured prompt response to manage and prevent any issues of concern that might lead to a systemic crisis.

Joint regulatory discussions

In 2021, the SC conducted frequent regulatory discussions and information sharing sessions with other regulators such as BNM and Labuan Financial Services Authority (Labuan FSA) to identify systemic risk concerns within the financial and capital markets in Malaysia.

Monitoring of various components of the capital market

The SC continued its efforts to undertake an integrated approach to monitor, mitigate or manage potential systemic risk. Figure 1 highlights the findings from the following risk assessments on the various components of the capital market.

FIGURE 1

RISK ASSESSMENTS ON VARIOUS COMPONENTS OF THE CAPITAL MARKET

Equity Market and Infrastructure

- Sufficient domestic liquidity to facilitate efficient investment activities.
- Market-wide circuit breaker and dynamic and static price limits for equities were in place as part of the risk management mechanism to address excessive market volatility. In 2021, no circuit breaker was triggered.
- Securities and Derivatives Clearing Guarantee Funds have been in place to manage settlement of trades when there was payment or delivery default.

Bond Market

- Yield movements were in line with regional peers amid accommodative monetary policy.
- Corporate bond default rate remained low.

Listed Companies

- Corporate earnings for 2021 improved compared to 2020, mainly attributed to continued demand for medical gloves and higher prices of crude palm oil, crude oil and palm kernel. However, based on quarter-on-quarter (q-o-q) performance, corporate earnings deteriorated in Q3 2021 due to business disruptions impacted by the movement control order (MCO).
- Affected public-listed companies (PLCs) with unsatisfactory financial condition were granted temporary relief from being classified as a *Practice Note 17* (PN17)/ *Guidance Note 3* (GN3) company. As at 31 December 2021, a total of 21 PLCs that have triggered the PN17/GN3 Suspended Criteria between 17 April 2020 and 31 December 2021 benefitted from the 18-month relief period.
- As PLCs adjust to the new normal, corporate earnings momentum is expected to pick up as the country paves its way to economic recovery.

Investment Flows

- Domestic liquidity continued to be supported by local institutions and retail investors.
- Share of foreign holding in the bond market was slightly above the 5-year average mainly due to relatively high yield differentials against many developed market bonds, making it attractive to the investors, aside from strong domestic recovery outlook.
- Foreign equity holding fluctuated below its 5-year average amid net outflows from the equity market.

Investment Management

- Fund managers had in place adequate liquidity risk management processes to manage redemptions in an orderly manner.

Stockbroking Intermediaries

- Stockbrokers' risk management controls were sufficiently robust to manage exposures during periods of high volatility including credit risks arising from margin financing.
- The current risk-based capital adequacy position remained above the prescribed minimum financial requirement.

ARTICLE 1

COVID-19 RELIEF

In 2021, various measures and targeted flexibilities were continued and introduced by the SC to enable market participants to weather the impact of COVID-19. The SC continued to monitor developments affecting the capital market and evaluate the adequacy of existing measures to support an orderly market and mitigate potential risks.

(a) Read more on COVID-19 related announcements

(b) Read more on media release 'MKN SOP for capital market and the SC's guidance on virtual meetings for listed issuers

(c) Read more on media release 'Investors reminded to exercise caution when participating in social media chatrooms promoting specific stock trading'

(d) Read more on media release 'SC and Bursa Malaysia announce additional temporary relief measures for listed issuers'

(e) Read more on 'Malaysian capital market demonstrated resilience in year of Covid-19'

(f) Read more on media release 'SC and Bursa Malaysia grant waiver for companies seeking to list'

(g) Read more on flexibilities to capital markets services licence holders and registered persons

EMBEDDING SHARED ACCOUNTABILITY IN THE CAPITAL MARKET

The SC continued to apply various interventions to inculcate good corporate governance culture and practices across the market ecosystem, including directors, shareholders and gatekeepers. Measures were also undertaken to inculcate early understanding of governance among youth.

Promoting Good Corporate Governance

Monitoring adoption of corporate governance

On 24 November 2021, the SC released the *Corporate Governance Monitor 2021* (CG Monitor 2021), which presented the progress on the adoption of the 2017 edition of the *Malaysian Code on Corporate Governance* (MCCG) and the quality of corporate governance (CG) disclosures. Adoption levels across majority of the practices remained positive, with 24 out of the 36 best practices recording adoption levels of at least 90%. However, the adoption of the Step Up practices remained among the lowest compared to other practices in the MCCG.

Promoting ESG Fitness and Leadership of Boards through the SC`s Corporate Governance Strategic Priorities

The *Corporate Governance Strategic Priorities 2021-2023* (CG Strategic Priorities), launched in November 2021, outlined 11 targeted initiatives such as the introduction of an onboarding programme on sustainability for directors, enhancing availability of corporate governance data though the use of digital tools and deepening the conversation with youth on corporate governance and sustainability through collaboration with universities. The CG Strategic Priorities is also a critical component of the CMP3 launched in September 2021 to chart the path ahead for the Malaysian capital market over the next five years (Figure 2).

MCCG ADOPTION

24
(2020: 23)
MCCG best practices have an adoption level of above 90%

79%
(2020: 78%)
Listed companies adopted at least one Step Up practice

Call to Action
Practices which require immediate action by boards

- **Disclosure of senior management remuneration**
- **Adoption of gender diversity policy and targets**
- **Disclosure of reliable and decision-useful sustainability information**

FIGURE 2

KEY THRUSTS AND INITIATIVES

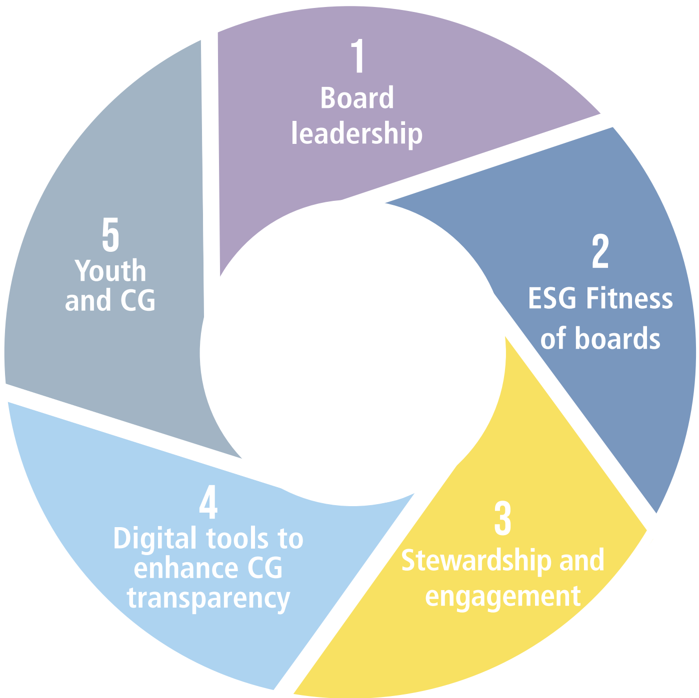
CORPORATE GOVERNANCE STRATEGIC PRIORITIES 2021–2023

STRENGTHEN BOARD LEADERSHIP FOR AGILE AND RESPONSIBLE BUSINESS

Emphasise on board refreshment, accelerate the participation of women on boards, and enhance the professional development framework for boards.

DEEPEN ENGAGEMENT WITH YOUTH ON CG

Develop further collaboration with universities, including joint research and enrich academic studies as well as youth exposure to current corporate governance issues.



STRENGTHEN ENVIRONMENTAL, SOCIAL AND GOVERNANCE FITNESS OF BOARDS

Provide capacity-building support for boards on sustainability. Widen the availability of sustainability information through an enhanced reporting framework and annual progress report in the SC's CG Monitor report.

LEVERAGE DIGITAL TOOLS TO ENHANCE CG TRANSPARENCY

Widen public access to corporate governance data.

SUPPORT INVESTOR STEWARDSHIP AND ENGAGEMENT

Enhance retail shareholder-board engagement on corporate governance and sustainability through investor education, and support institutional investor stewardship and engagement.

Source: Corporate Governance Priorities, SC, 2021.

Promoting board leadership and oversight of sustainability via updated MCCG

On 28 April 2021, the SC issued the revised MCCG, which introduced new best practices and provided further guidance to strengthen the corporate governance culture of listed companies. Among others, the revised MCCG emphasised the need for effective oversight and action by boards and senior management to address sustainability risks and opportunities.

Inculcating early understanding of CG principles and issues among youth through universities

On 30 April 2021, the SC and Monash University Malaysia formalised a collaborative agreement to promote early understanding of corporate governance principles and practices among Monash University students, through guest lectures and joint research efforts.

The collaboration brings to fruition the SC's effort to drive good corporate governance by investing in the youth and supporting them in reaching their full potential as future leaders and agents of positive change.

Guidance Note and FAQs on the Conduct of General Meetings for Listed Issuers

The *Guidance Note on the Conduct of General Meetings for Listed Issuers*[1] (Guidance Note) was revised in 2021, to facilitate the conduct of fully virtual general meetings[2], and to emphasise the need for boards to address all questions posed by shareholders in a general meeting, irrespective of the mode the meeting was conducted; whether fully virtual, hybrid, or physical.

Strengthening Governance of GLICs via PERKUKUH

On 12 August 2021, the Government launched the PERKUKUH programme, comprising 20 key initiatives aimed at strengthening the overall structure and governance of GLICs in Malaysia.

Led by the Ministry of Finance Malaysia (MOF), the SC is supporting the development of baseline governance requirements and best practices that GLICs are expected to adopt. The SC is also working closely with the Institutional Investor Council (IIC) to update and enhance the *Malaysian Code for Institutional Investors* (MCII) in order to achieve outcome-oriented stewardship. In this regard, Capital Markets Malaysia (CMM) will be working closely with the MOF and the SC to enhance capacity-building needs of GLICs to build strong ESG-ready boards.

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1 This Guidance Note is issued to guide all issuers listed on Bursa Malaysia Securities Bhd and management companies of unit trust funds on the conduct of general meetings, including Annual General Meeting, Extraordinary General Meeting, and Meeting of Unitholders during the COVID-19 pandemic where physical distancing and other safety and precautionary measures must be exercised. This includes the conduct of fully virtual, virtual, hybrid and physical general meetings.

2 Under the Guidance Note, a fully virtual meeting refers to a general meeting where all participants including the Chairperson, board members, senior management and shareholders participate online. A virtual meeting refers to a general meeting conducted from a broadcast venue, where only essential individuals are physically present to conduct the meeting while all shareholders participate online.

The Chairman Survey 2021

In August 2021, the SC collaborated with the Institute of Corporate Directors Malaysia (ICDM) to conduct the inaugural 'Chairman Survey' to obtain insights from Chairmen of listed companies on board priorities in 2022 and the state of board dynamics.

THEMATIC REVIEW – HIGHLIGHTS

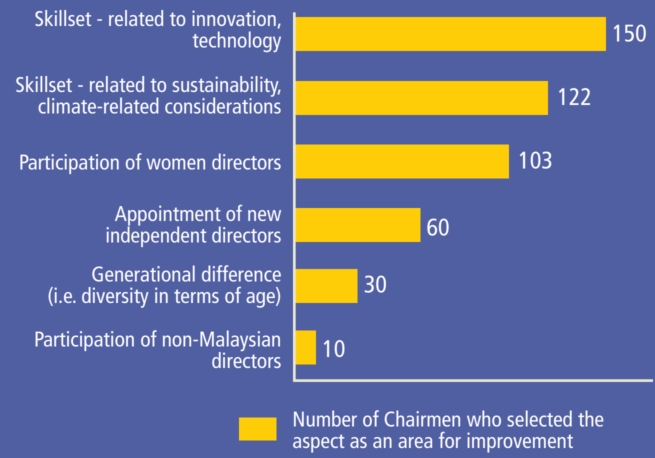
Chairman survey 2021

Total respondents – 325 Chairmen of listed companies

The Chairman Survey 2021 was conducted by the SC in collaboration with the ICDM.

91% Chairmen were of the view that current board composition was optimal.

Which aspects of the current board composition can be improved?



ARTICLE 2

REGULATORY EVALUATION OF RELATED-PARTY TRANSACTIONS

The SC conducted a thematic assessment to holistically examine the regulatory regime and practices of related-party transactions (RPTs) by PLCs. Findings from the assessment and insights on the practices, market impact, and governance arrangements of RPTs may guide the SC's future regulatory policies on RPTs. Some aspects of this evaluation were performed in collaboration with academicians from Monash University Malaysia School of Business[3].

Generally, an RPT refers to a transaction entered into by a PLC which involves the interest of a director, major shareholder, or person connected with such director or major shareholder[4]. Previous reports by the Organisation for Economic Co-operation and Development (OECD) and CFA Institute highlighted that RPTs were not uncommon in the Asia region, and while not all RPTs were abusive, occurrences of detrimental RPTs did pose harm to investors[5].

Regulatory Evaluation Findings

Based on the analysis of 5,500 transaction announcements between 2016 and 2020, the SC's findings were:

494 PLCs (around 50% of PLCs) made at least one RPT announcement during that period. This indicates that RPTs are considerably prevalent among Malaysian PLCs

206 PLCs made only RPT announcements

148 PLCs made both RPT announcements and recurrent RPT announcements

140 PLCs made only recurrent RPT announcements

Note: The size of RPTs also varied significantly, ranging from tens of millions of Ringgit Malaysia (RM) to several billions.

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3 The SC would like to express its deepest gratitude to Professor Keshab Shrestha from Monash University Malaysia for his contributions to this study.

4 While there are several definitions of RPTs, this article refers to the definition in Bursa Malaysia Listing Requirement.

5 Refer to *Guide on Fighting Abusive Related Party Transactions in Asia* (2009) by Organisation for Economic Co-operation and Development (OECD) and *Related-Party Transactions: Cautionary Tales for Investors in Asia* (2009) by CFA Institute.

One of the desired outcomes of this assessment is to measure the price impact of RPT announcements. The analysis revealed there was a significant effect on share price movement on the day after RPT announcements were made. The SC also observed above-average price movements on the day leading up to the RPT announcements indicating that there could be some leakages of price-sensitive information.

The SC's assessment on several large RPTs (ranging from RM250 million to more than RM3 billion) suggested that RPTs involving PLCs within family groups and those with long-serving independent directors[6] may require closer monitoring to ensure that the transactions are not detrimental to minority shareholders. There were also instances where RPT issues and concerns were uncovered by auditors of financially distressed PLCs.

Investors should also pay particular attention to general announcement in relation to transaction between related parties who are only connected by common directorships, and memorandum of understanding or heads of agreement between related parties. This is because such transaction or dealing may still carry the risk of erosion of minority shareholders protection.

Given the prevalence of RPTs among Malaysian PLCs, boards of PLCs, particularly the Independent Directors and Audit Committee, must establish effective processes and controls to prevent detrimental RPTs, and ensure that decisions made on RPTs are in the best interest of the PLCs and its shareholders. Furthermore, PLCs should ensure that RPT disclosures and disclosures of other dealings between related parties are timely, complete, and accurate. Given the potential price impact of RPT announcements, PLCs' internal policies on the handling and safeguarding of material non-public information should cover RPTs that are likely to have a material price impact. As part of the SC's ongoing regulatory work, it vigilantly monitors emerging and potential harms to investors, and shall take the necessary steps to protect investors.

[6] Long-serving independent directors refer to Independent Directors who have served more than nine years.

Promoting Self-Regulation

In line with the SC's CMP3 key strategies, the SC issued a *Guidance Note on Co-operation and Self-Reporting* on 23 June 2021 to encourage early resolution of enforcement action.

As incentives to recognise their efforts in coming forward and co-operating with the SC, entities and individuals may be offered 'credits' in the form of reduced fines and penalties.

The key areas covered in the Guidance Note are:

(a) Different examples of co-operation which include self-reporting;

(b) Features of self-reporting; and

(c) Expectations when self-reporting a breach to the SC. These include the following:

   i. Reporting must occur reasonably promptly upon the person being aware of the breach and before the SC by itself becomes aware of the breach; and

   ii. Reporting must be as accurate and complete as reasonably possible.

ENHANCING SURVEILLANCE AND SUPERVISION OF CAPITAL MARKET

Proactive and robust surveillance and supervisory function and capabilities are important to ensure proper conduct and practices by market participants while maintaining trust in the capital market. Following the identified emerging risks and concerns in 2021, the SC carried out regulatory activities and initiatives aimed towards strengthening and broadening its supervisory and surveillance capabilities.

Fostering Resilience of Markets, Infrastructures and Institutions through Ongoing Monitoring and Supervision

Supervision and surveillance of institutions and markets

Oversight on Bursa Malaysia

Technology is central to efforts in promoting a fair, orderly, and transparent operation of market infrastructure. As IT infrastructure and systems become increasingly automated, interconnected and complex over time, the robustness and resilience of market technology, associated systems and processes are critical. As the only authorised integrated exchange in Malaysia, Bursa Malaysia is expected to offer the public a trading platform that is reliable, efficient, and transparent.

For information on the Regulatory Assessment on Bursa Malaysia, please refer to Figure 3.

Bursa Malaysia as a one-stop centre for the ACE Market

Following the announcement in 2020 on the migration of the entire ACE market framework, including registration of prospectuses to Bursa Malaysia, the relevant rules and operational framework were put in place.

Bursa Malaysia will assume the role as a one-stop centre for the ACE market, effective 1 January 2022.

FIGURE 3

REGULATORY ASSESSMENT ON BURSA MALAYSIA

BACKGROUND

In September 2021, the SC completed its regulatory assessment on Bursa Malaysia, focusing on its technology infrastructure, critical application systems and competencies. It examined how the operations are supported from both the technical and strategic perspectives, as well as ascertain the integrity and reliability of the brokers' front-end system.

In carrying out the review, the SC emphasised for Bursa Malaysia to have the following:

- Comprehensive technology blueprint and roadmap that align with its long-term business objectives; and
- Robust technology risk management framework to ensure a high level of system availability, reliability, scalability, and recoverability.

OBSERVATIONS

There were no immediate concerns regarding Bursa Malaysia's IT infrastructure and systems ability to meet its current needs.

Nevertheless, the following remediation plans were recommended for Bursa Malaysia to undertake within the next one to two years:

- Move towards a proactive approach in monitoring potential issues, compared to the current reactive approach, which may delay the response time and increase the potential system downtime risk;
- Implement a more rigorous testing framework to support the introduction of new systems to meet future needs;
- Strengthen operational discipline to minimise the impact of system performance and mitigate risks of not providing continuous efficient service; and
- Upskill and reskill staff to augment technological change.

OUTCOME

Generally, Bursa Malaysia had taken steps to implement the recommendations outlined under the regulatory assessment. Bursa Malaysia will take lead in future-proofing its trading landscape to align with future business needs:

- Remediate and change to address current gaps and immediate concerns:
  - Implement all remediation activities set forth in the regulatory assessment;
  - Embark on a journey to upskill existing talents and hire the right resources for its needs; and
  - Initiate a shift in mindset from reactive to proactive monitoring of IT systems and applications.
- Innovate and transform to prepare Bursa Malaysia for the future:
  - Adopt proactive monitoring to enhance ability to discover emerging issues in a timely manner;
  - Develop and plan future technology infrastructure to cater to new business needs and evolving market; and
  - Commit the necessary financial resources to enable transformation.

Oversight on recognised market operators

Given that recognised markets are non-intermediated markets that onboard investor-clients directly, the SC's role is to supervise the recognised market operator's (RMO) compliance with among others, the *Guidelines on Recognized Markets* (RMO Guidelines), *Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries* and *Guidelines on Implementation of Targeted Financial Sanctions Relating to Proliferation Financing for Capital Market Intermediaries* (TFS-PS Guidelines). In addition, RMOs are also expected to monitor and mitigate cyber security and IT infrastructure risks in compliance with the *Guidelines on Management of Cyber Risks* (Cyber Risk Guidelines).

For information on the Thematic Regulatory Assessment on Digital Asset Exchanges, please refer to Figure 4.

FIGURE 4

THEMATIC REGULATORY ASSESSMENT ON DIGITAL ASSET EXCHANGES

BACKGROUND

The SC adopts a risk-based approach to the oversight of RMOs. Given the risks associated with digital asset, money laundering, terrorism and proliferation financing as well as risks of cyber security threats and systems disruptions, the SC completed the thematic regulatory assessment on three digital asset exchanges (DAX) in August 2021. It is imperative for DAXs to ensure that relevant processes, procedures, practices, and systems are in place to drive a well-functioning market infrastructure for the integrity and reputation of the Malaysian capital market.

OBSERVATIONS

Generally, RMOs have an adequate understanding of their Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) risk and technology and cyber risk obligations prescribed under the various SC Guidelines and are broadly compliant with the obligations stipulated in the Guidelines.

AREAS OF IMPROVEMENT

The following key areas have been identified, among others, for further enhancements:

- Board and senior management are required to assume greater accountability on anti-money laundering (AML) policies and procedures, technology systems management as well as to ensure consistency of practice with the policies and procedures that are in place
- Strengthen documentation and record-keeping to improve the effectiveness of compliance functions
- Ensure adequate access controls in the database and digital asset wallets

Ensuring fair and orderly trading through proactive surveillance

The SC continued to undertake proactive surveillance to ensure fair and orderly trading in the capital market. Amid market volatility and active retail participation, the SC heightened its monitoring of market activities to ensure timely detection and escalation of trading misconduct as well as identification of trends and emerging risks. To this end, various thematic assessments were carried out to facilitate the SC's overall market risk management function.

As part of the SC's oversight over Bursa Malaysia as the frontline regulator, engagements were conducted with the stock exchange to ensure that swift pre-emptive measures were undertaken to curb trading irregularities at an early stage. Such pre-emptive measures included engagement sessions by Bursa Malaysia with capital market intermediaries to share concerns and discuss potential interventions.

Monitoring of Regulated Short Selling activities

On 4 January 2021, regulated short selling (RSS) activities resumed after being temporarily suspended for nine months since March 2020. Upon resumption of trading, renewed risk management activities resulted in fairly active RSS trades before moderating to an average of about 1% of the total market value traded throughout 2021. In addition, developments surrounding the GameStop short squeeze incident by retailers in the US gave rise to concerns over similar risks associated with domestic short-selling activities. However, such risks did not materialise in the domestic market given its different environment and regulatory framework including prescribed limits on short selling positions, among others.

Notwithstanding, the SC closely monitored RSS activities to ensure that transactions were carried out in a fair and orderly manner, and that emerging risks were effectively managed. Overall, RSS activities were well governed with enhanced and existing control measures in place to ensure market stability and mitigate against risks of excessive net-short positions. Such controls include tighter aggregate net-short position limits, trading tick rules, and daily short selling volume limits.

Surveillance of corporate activities

Proactive surveillance on disclosures and corporate activities of listed companies was carried out to detect potential breaches of securities laws or non-compliances with approved accounting standards by leveraging surveillance tools and technology, and conducting thematic reviews to identify risk areas.

Based on the risk areas identified in 2021, surveillance activities and reviews were carried out on the corporate practices of listed companies. In addition, engagements were undertaken with directors, statutory auditors, and other stakeholders involved in 25 listed companies.

When the review and assessment of corporate practices of listed companies revealed potential breaches of the securities laws, such matters would be referred for further investigation and/or enforcement action. In instances where potential irregularities noted were beyond the remit of the SC, referrals would be made to other authorities for their necessary action.

■ Misleading disclosures

In 2021, potential wrongdoing detected by the SC included possible misleading disclosures made by listed companies, which may have induced trading activities or influenced the market price of securities. Given the increase in the number of announcements into COVID-19 or healthcare-related ventures, the SC monitored and assessed such disclosures to ensure they do not take advantage of the current pandemic by making any false or misleading statements that may influence investors' investment decisions.

Non-compliance with Financial Reporting Standards

Among the breaches noted in 2021 was the non-compliance with the approved accounting standards in relation to the accounting treatment of investments in wholesale funds.

The SC observed that certain listed companies managed their cash surplus by investing in wholesale funds and there were instances where the wholesale funds appeared to cater primarily to the listed company's specific cash management requirements. Some of these wholesale funds held investment portfolios that consist mainly or wholly of the financial instruments of the listed company and its related companies. This may result in the listed company having effective control over the wholesale funds. If such control exists, the accounting treatment for the listed company's investments in the wholesale funds should be assessed and reflected accordingly.

In addition, the SC also noted an instance of non-compliance with approved accounting standards in relation to the failure to reclassify certain perpetual sukuk from equity instruments to financial liability when the listed company no longer has an unconditional right to avoid the redemption of the perpetual sukuk.

Other areas of corporate transgressions

Other areas of corporate transgressions pursued in 2021 include:

- Fraud in connection with acquisitions entered into at inflated prices;
- Fraud in connection with the issuance of securities pursuant to an employee share option scheme;
- Wrongful loss via misappropriation of loans drawndown from credit facilities;
- Wrongful loss via misappropriation of proceeds from fundraising exercises;
- Accounting fraud involving fictitious transactions booked in the financial statements to inflate revenues and profits; and
- Non-compliance with approved accounting standards in relation to disclosure of significant related-party transactions.

Surveillance on corporate bond and sukuk markets

As part of the SC's continuous supervisory activities on the corporate bond and sukuk market, corporate bond issuers from identified business sectors that were impacted due to the COVID-19 pandemic were closely monitored. These sectors included, among others, property, infrastructure, and utilities as well as oil and gas. Several corporate bond issuers had requested investors' indulgence for exemptions in either payment of coupon, profit or principal, or extension of time to meet agreed-upon financial ratios as well as other forms of refinancing. These corporate bond issuers, however, make up a very small portion of the corporate bond and sukuk market.

The corporate bond and sukuk market had one issuer default (in February 2021) amounting to RM70 million or 0.0009% of total outstanding corporate bonds and sukuk. Ten rating downgrades were also observed in 2021, compared to six in 2020. The ten rating downgrades were from the infrastructure and utilities sector (3), property sector (2), financial sector (2) and consumer receivables as well as trading and services sector (3). As for the rating outlook, there were 10 downward revisions in the corporate bond outlook in 2021 compared to 16 in 2020. Of the 10 revisions, one issuer was revised from positive to a stable outlook, and nine issuers were revised from stable to negative outlook.

Supervision of capital market intermediaries

Enhancing off-site monitoring of market intermediaries

To complement its desktop online assessments, frequent engagements on intermediaries' risk profiles were held with the senior management of the intermediaries.

The SC also intensified data collection from intermediaries to proactively monitor and assess the risks stemming from the pandemic. Additional data and information were assessed at shorter intervals with more granularity to enable the SC to develop key supervisory indicators to facilitate the analysis and monitoring of emerging risks. In addition, stress tests were conducted more frequently to assess the financial resilience of intermediaries as well as tracking funds' liquidity and redemptions.

In addition, the SC enhanced its data collection platform and developed new analysis tools. These improved efficiency in the collection, extraction and exploration of supervisory data.

A number of thematic reviews were conducted as part of the supervisory activities.

Thematic review on bond trustees

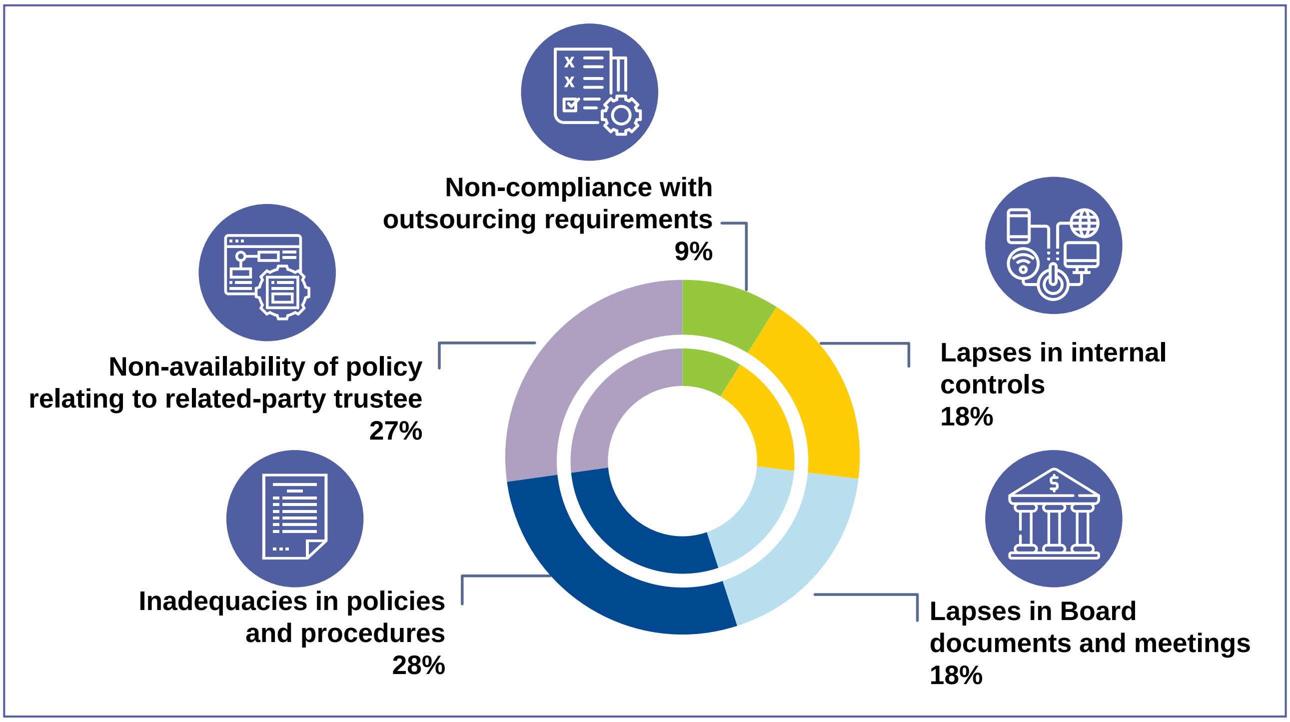
An offsite thematic review was conducted on identified registered bond trustees to assess key areas of the bond trustees' operations, pandemic response plan as well as the duties and responsibilities of bond trustees *vis-à-vis* its operational department and compliance with the *Guidelines on the Registration and Conduct of Capital Market Services Providers* (CMSP Guidelines).

Based on the thematic exercise undertaken, supervisory letters were issued to the relevant bond trustees on the SC's observations and findings, including lapses noted and expected remedial actions to be undertaken.

A summary of the observations is detailed in Figure 5.

FIGURE 5

THEMATIC REVIEW ON BOND TRUSTEES: AREAS OF FINDINGS AND OBSERVATIONS



THEMATIC REVIEW ON SRI PRACTICES

BACKGROUND

ESG risks are increasingly recognised as sources of financial risk. The SC undertook a thematic review to assess the current policies and practices adopted by fund management companies (FMCs) in managing ESG risks. The thematic review was conducted via the issuance of a survey and engagements with selected FMCs.

KEY OBSERVATIONS

- FMCs have started to develop **SRI intermediation capabilities** albeit at different levels of development between foreign and local FMCs.

- **Foreign FMCs:**

  - Generally demonstrated higher level of awareness and maturity by leveraging global expertise and practices, with some having in-house proprietary tools to assess and incorporate ESG factors into their investment process and decision-making.
  - These include integration of qualitative and quantitative methods from various sources by in-house ESG experts, third-party data, and utilising proprietary ESG model.

- **Local FMCs:**

  - Generally, at the early stages of development, some have progressed well by having commitments made at board level to put in place a responsible investment framework including formulation of SRI strategies, allocation of budget and establishment of a dedicated SRI working group/committee.
  - Most have adopted third-party screening methods and ratings.
  - Some have entered into arrangements with external SRI experts and managers. These have expedited the introduction of SRI funds into the market while enabling knowledge transfer and internal capabilities to be built over time.

- The observations and findings from this thematic review are relevant towards, among others, planning the SC's future engagements and communications with FMCs, including the proposed issuance of guidance to assist FMCs in managing their ESG risks.

- **Challenges:**

  - Lack of data and disclosures from issuers for FMCs to adequately assess and manage the potential effects of ESG risks.
  - Limited investment universe.
  - However, the SC views that FMCs play a critical role in changing the landscape by influencing the issuers to transition and adopt sustainable business practices, and enhance the quality of ESG reporting through active ownership.

OUTCOME

In line with the SC's *Sustainable and Responsible Investment Roadmap for the Malaysian Capital Market* (SRI Roadmap), CMP3 and global regulatory developments, the SC is targeting to issue a Guidance Note on Managing ESG Risks to assist and guide FMCs in establishing and further developing their responsible investment framework, focusing on ESG investment and risk policies, and procedures towards effective analysis and management of material ESG risks as well as facilitating meaningful disclosures to investors. The proposed Guidance Note is targeted for issuance in the 1st half of 2022.

Outreach Programme on Anti-Money Laundering/Counter Financing of Terrorism

The SC held a one-day seminar to share with the industry the outcomes and recommendations of the National Risk Assessment on Money Laundering and Terrorism Financing (ML/TF) Risk, prepared by the National Coordination Committee to the Counter Money Laundering Working Group. At the seminar, the sectoral risk assessment rating methodology was also discussed to support the industry in designing effective measures to manage their ML/TF risks, as well as the corresponding mitigating AML/CFT controls. The seminar would further enhance the industry's understanding of the risk-based approach for AML/CFT following a compliance workshop on AML/CFT in 2020.

Guidance to market intermediaries

The SC continued to maintain close communication with market intermediaries and provided guidance through the issuance of Guidance Notes, circulars and communications to the industry. Among them were:

i. *Guidance Note on Controls by Fund Management Companies in Managing Material Non-Public Information.*

| Read more

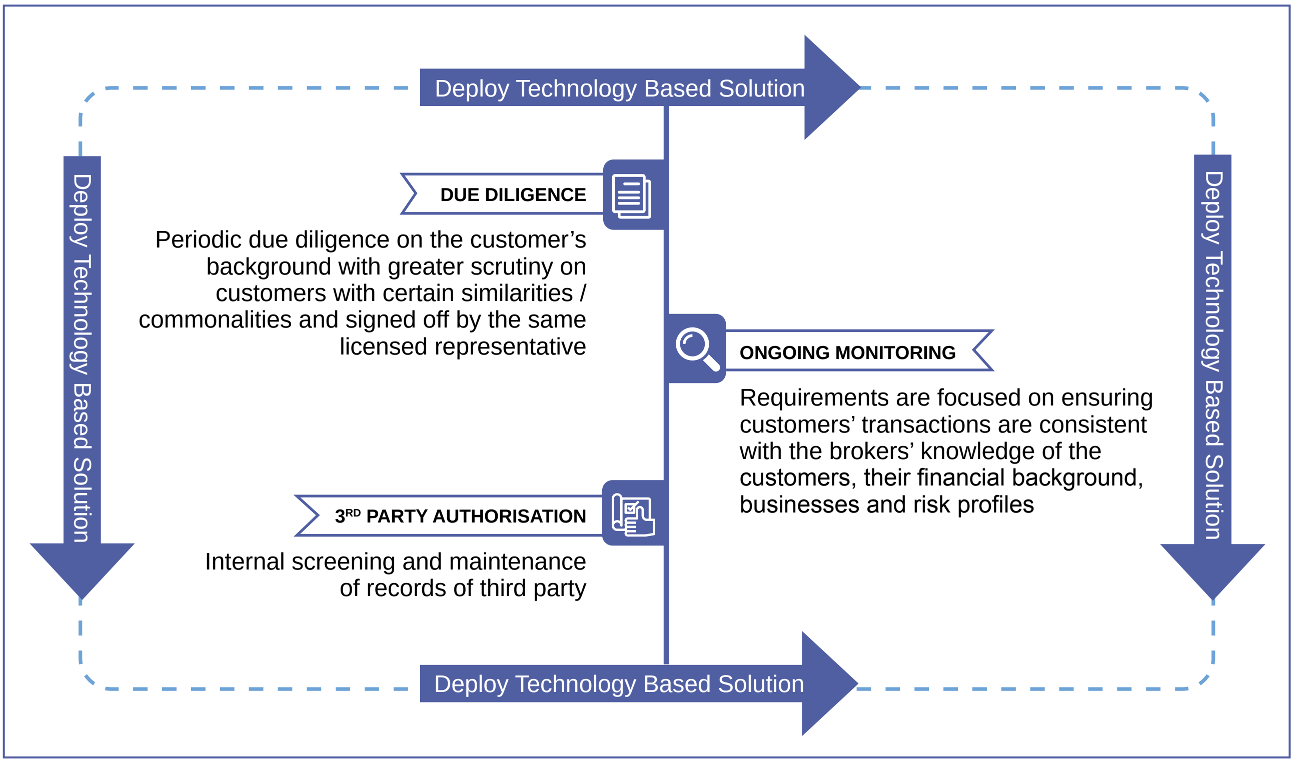
ii. *Guidance Note on Practices by Fund Management Companies in respect of Wholesale Funds.*

| Read more

iii. *Guidance Note on Oversight of Licensed Representatives by Stockbroking Companies.*

| Read more

GUIDANCE NOTE ON OVERSIGHT OF LICENSED REPRESENTATIVES BY STOCKBROKING COMPANIES



iv. *Practice Note on Controls for Higher Daily Online Settlement.*

| Read more

v. Article on *Upholding Corporate Anti-Bribery and Corruption Measures in the Capital Market* issued in the SC publication, *The Reporter.*

| Read more

vi. Sharing of observations and good practices by capital market intermediaries with the corporate liability provision.

vii. Communication to intermediaries on the need in ensuring customers information is kept updated.

viii. Circular to holders of capital markets service licence carrying on the business of dealing in securities on the treatment of clients' monies.

These Guidance Notes and communications outline best practices, clarifications, and areas where intermediaries should pay special attention or heighten their monitoring.

New and Revised Guidelines

To ensure that the SC's regulatory framework remain relevant, clear and updated, new guidelines were issued and revisions were made to relevant guidelines to include additional provisions to address various emerging concerns.

Guidelines	Details of revision
Guidelines on Prevention of Money Laundering and Terrorism Financing for Reporting Institutions in the Capital Market (Revised: 26 April 2021)	|
Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives (Revised: 20 May 2021)	|
Guidelines on Compliance Function for Fund Management Companies (Revised: 5 July 2021 and 21 December 2021)	|
Guidelines on Corporate Governance for Capital Market Intermediaries (Issued: 31 December 2021)	|
Guidelines on Conduct for Capital Market Intermediaries (Issued: 31 December 2021)	|

EMBRACING THE DIGITAL AGE

While the SC welcomes digital innovations which are beneficial to the capital market, it is also cognisant of the potential risks associated with the digital space. In particular, increased adoption of digitisation in capital market activities, operations of market intermediaries, market infrastructure, and market-based financing platforms call for vigilant management of cyber security risk to minimise disruption to the capital market, protect investors' confidential data, and preserve market confidence.

Greater use of data and technology will enable the SC to improve its oversight, surveillance, and analytical capabilities as well as support forward-looking supervision and policymaking. This will also complement the adoption of RegTech within the industry, improving compliance outcomes, strengthening reporting, and better managing key risks for greater overall efficiency.

Enhancing Cyber Resilience

Rapidly evolving cyber security threats present a growing challenge for organisations globally. As part of efforts to promote a strong cyber security culture within capital market entities, the SC had undertaken various programmes to improve cyber hygiene and increase awareness of cyber risks.

Capital Market Cyber Simulation 2021

The SC collaborated with the National Cyber Security Agency and Cyber Security Malaysia to co-ordinate the fourth annual cyber simulation for capital market entities. A total of 101 companies participated in the simulation (an increase of nine from 2020), including those that are technology-dependent and have a high financial impact on the capital market. The primary objective of this exercise was to evaluate the efficiency and weaknesses of the existing cyber security incident response procedures, and the results obtained were subsequently used to evaluate the cyber security resilience of the capital market entities.

In 2021, tougher scenarios were simulated with a theme of 'Double Extortion Impacting Capital Market'. This is in line with the SC's observations on the global threat landscape, where instead of just encrypting files, cyber-criminals employ double extortion ransomware that exfiltrates the data first. For example, where organisations refuse to pay the demanded ransom, their information may be leaked online or sold on the dark web.

Based on the simulation exercise, the SC's overall observation was that participants gained more experience and skills in cyber security and incident handling when given tougher scenarios year after year. The simulation met the objective of improving awareness and prompt response to cyber-attacks that broadly threaten the capital market.

Threat intelligence

To inculcate more robust cyber security advisory and communication to the capital market, the SC explored the cyber security pool expertise to obtain globally sourced, enriched, and actionable industry-specific cyber intelligence. The cyber security intelligence experts, being an international trusted hub for cyber intelligence sharing, support the SC in maintaining a robust and dynamic cyber security framework for the Malaysian capital market. In 2021, the SC released a number of advisories to capital market entities via its cyber security portal, the SC Vault[7] to ensure that they were informed on effective mitigation and are taking proactive actions against cyber threats.

Compliance to Guidelines on Management of Cyber Risk and Cyber Defence Survey

As part of efforts to strengthen the market's cyber security resilience, the SC undertook a self-declaration exercise on the compliance status of capital market entities with the SC's *Guidelines on Management of Cyber Risk*. Following the self-declaration exercise, the SC conducted a survey on cyber defence assessment which focused on areas of prevention, detection, and timely responses to attacks or threats. From the survey, the SC identified which cyber security efforts required further enhancements in order to effectively mount an agile cyber defence.

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[7] The SC Vault is a cyber-security portal that the SC uses to engage with all capital market entities since it went live in 2018. Apart from advisories, the SC Vault portal is also used by capital market entities to report any cyber-related incidents to the SC.

Monitoring of Market Cyber Incidents

In 2021, the world witnessed a large scale of security vulnerabilities and cyber-attacks, impacting organisations of all sizes, especially those with limited awareness and capability to defend themselves. Locally, the SC observed higher occurrences of ransomware, data breaches, and phishing compared to 2020. This demonstrated the growing challenges relating to cyber security and privacy protection, which further amplified the necessity for the SC to continuously engage the industry and augment the industry's response and recovery capabilities.

Embracing Supervisory Technology

In line with the SC's SupTech efforts, data analytic tools were developed to complement its core market surveillance system in the course of analysing trading activities. The data analytics tools are based on a quantitative model to support deep analyses of large and complex trading data and the identification of patterns such as potential trading clusters among market participants. This enabled the SC to achieve greater efficiency in analysing possible market misconducts.

For example, in order to facilitate more efficient oversight and monitoring of increasingly active trading activities in digital assets, the SC deployed in-house data analytics expertise to develop and enhance monitoring dashboards that are fit-for-purpose in providing relevant insights and analyses of voluminous DAX trading data. Additionally, the SC also conducted engagements with the registered DAXs to address any trading concerns and to continue facilitating the development of market participants within the regulated digital assets framework.

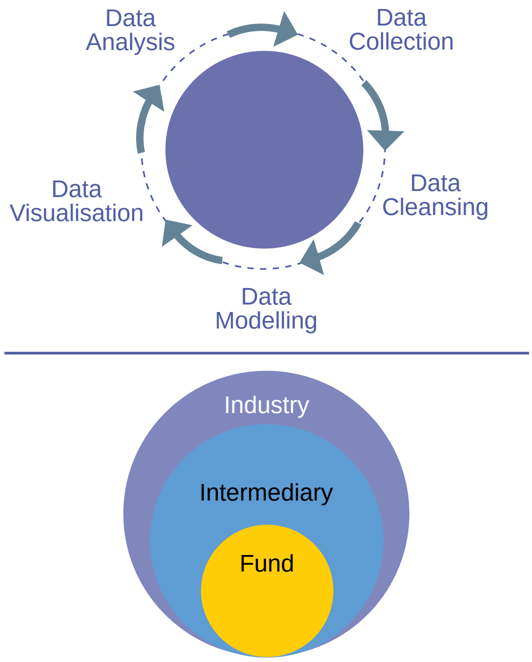
The first phase of the SupTech project involved a pilot exercise covering fund investments. Further information on this pilot project is provided in Figure 6.

FIGURE 6

EMBRACING SUPTECH

The first phase of the SupTech project involved collection of data on investments by unit trust funds from selected intermediaries, followed by a data cleansing process, which entails active engagement with the intermediaries to ensure cleaned and usable data for subsequent data modelling, visualisation, and analysis. The intended outcome of this exercise is to facilitate and enable the supervisors to have a holistic view of investments by unit trust funds, as well as identify potential risk based on identified criteria at the fund, intermediary or industry level.

The SC envisages that this project will be expanded to various other areas to gradually enhance the current supervisory method of data sampling and assessment of processes to a population-based and full-picture view of intermediaries' behaviour and practices, allowing for timely intervention on emerging risks.



FOCUSING ON SWIFT, EFFECTIVE AND TARGETED ENFORCEMENT

To balance market integrity with proportionality as well as to ensure effective and credible deterrence, the enforcement strategy pursued in 2021 was focused on achieving swift, effective and targeted outcomes.

ENFORCEMENT ACTIONS 2021

CRIMINAL ACTION

Ten criminal charges were filed against six individuals and one PLC for unlicensed activities and furnishing false information in financial reporting. Additionally, one criminal forfeiture application was filed against an individual and a private limited company in connection to money laundering offences. Three convictions were secured against three individuals for cases involving insider trading, furnishing misleading information in financial reporting, and failure to appear before an Investigating Officer of the SC in connection with an investigation under the *Anti-Money Laundering, Anti-Terrorism and Proceeds of Unlawful Activities Act 2021* (AMLATFPUAA).

6 individuals and 1 entity charged

10 criminal charges filed

1 individual and 1 entity involved in criminal forfeiture applications

1 criminal forfeiture application

3 convictions obtained

3 custodial sentences

RM7,575,000 total fine imposed

Furnishing false information to Bursa Malaysia

On 30 September 2021, Ong Kar Kian (Ong), the former Group Accountant of listed entity Asia Media Group Bhd (Asia Media) faced criminal charges in relation to falsified revenue in Asia Media's quarterly results for the 4th quarter of 2015.

| Read more on updates on criminal prosecution in 2021

| Read more on media release 'SC charges former group accountant of Asia Media Group Bhd'

Furnishing false information to Bursa Malaysia

On 28 and 29 December 2021, the SC charged Serba Dinamik Holdings Bhd (Serba Dinamik), its Chief Executive Officer/Group Managing Director – Dato' Dr Ir. Ts. Mohd Abdul Karim Abdullah and its officers – Datuk Syed Nazim Syed Faisal, Azhan Azmi and Muhammad Hafiz Othman with furnishing false statement in relation to the revenue figure of RM6.014 billion contained in Serba Dinamik's *Quarterly Report on Consolidated Results for the Quarter and Year ended 31 December 2020.*

| Read more on media release 'SC charges Serba Dinamik, its director and officers for false information in its financial statement'

Furnishing misleading information to Bursa Malaysia

On 18 October 2021, the High Court dismissed Gan Boon Aun's (Gan) appeal against his conviction for an offence of knowingly furnishing misleading information to Bursa Malaysia. The misleading information was in relation to Transmile Group Bhd's (Transmile) revenue in the company's *Quarterly Report on Unaudited Consolidated Results for the Financial Year ended 31 December 2006.*

| Read more on updates on criminal prosecution in 2021

| Read more on media release 'Warrant of arrest issued against ex-CEO of Transmile'

Criminal asset forfeiture on money laundering offence

On 3 May 2021, following the investigation conducted by the SC, the Public Prosecutor (PP) filed a Notice of Motion for asset forfeiture under section 56 of the AMLATFPUAA against Havana Bayview Sdn Bhd (Havana Bayview) and Wong Shee Kai (Ricky Wong). The application was filed to forfeit seized property, namely a multi-million ringgit luxury apartment in Kuala Lumpur belonging to Havana Bayview and a sum of RM445,039.28 in Ricky Wong's personal bank account. This marks the second asset forfeiture application in connection with securities fraud offences.

| Read more on filing of forfeiture application (Wong Shee Kai)

| Read more on media release 'SC seeks assistance to locate Ricky Wong Shee Kai'

Holding out as a fund manager without the SC's licence

On 24 March 2021, Uzir Abdul Samad (Uzir), a former director of UAS Management Bistari Sdn Bhd faced three charges in the Johor Bahru Sessions Court for carrying out regulated activities of fund management without a licence and defrauding investors. One of the charges was under section 58(1) of the *Capital Markets and Services Act 2007* (CMSA) for holding himself out as a fund manager without the requisite Capital Markets Services Licence (CMSL) issued by the SC at the material time.

| Read more on criminal prosecution initiated (Uzir Abdul Samad)

| Read more on media release 'SC seeks public help to locate Uzir Abdul Samad'

| Read more on media release 'SC charges unlicensed fund manager'

Insider trading by a corporate insider

Fang Siew Yee (Fang), a former Executive Director of Three-A Resources Bhd (3A), pleaded guilty to nine charges relating to insider trading on 24 March 2021. Fang was initially charged in 2016 with one charge of communicating material non-public information to her uncle, Fong Chiew Hean under section 188(3) of the CMSA. The information was in relation to the proposed collective venture between the businesses of 3A and Wilmar International Ltd (Wilmar) involving a 20% private placement of the issued and paid-up share capital of 3A to Wilmar.

| Read more on outcome of criminal trials and appeals (Fang Siew Yee)

| Read more on media release 'Former executive director of Three-A Resources Bhd pleads guilty to insider trading offences'

Insider trading by a corporate insider

On 13 October 2021, the SC entered into a regulatory settlement with lawyer Dato' Sreesanthan Eliathamby (Sreesanthan) for insider trading breaches under section 89E(2)(a) of the SIA and 188(2)(a) of the CMSA. Sreesanthan paid a sum of RM900,000 as settlement for acquiring shares of Maxis Communications Bhd (Maxis), UEM World Bhd (UEM), and VADS Bhd (VADS) while in possession of material non-public information.

| Read more on outcome of criminal trials and appeals (Dato' Sreesanthan A/L Eliathamby)

| Read more on media release 'Lawyer Dato' Sreesanthan settles SC charges for insider trading'

CIVIL ACTION

The SC filed six civil actions in 2021, against 10 individuals. Four consent judgments were also recorded between the SC and eight individuals.

6 civil actions filed

10 individuals

No. of judgments obtained after full trial: 1 case involving 6 individuals

No. of consent judgments recorded: 4 cases involving 8 individuals

Amount disgorged/ restitution order by court: RM16,042,991.41

Amount of civil penalties imposed: RM2.5 million

The SC exercised civil powers to recover investors' losses for fraud

On 30 March 2021, the Kuala Lumpur High Court ordered RBTR Asset Management Bhd (RBTR) and five other defendants namely Locke Guarantee Trust Ltd (LGT) New Zealand, Locke Capital Investments Ltd (LCI) British Virgin Island, Isaac Paul Ratnam, Joseph Lee Chee Hock, and Nicholas Chan Weng Sung (the Defendants) to pay RM13.352 million in restitution for their role in the Euro Deposit Investment (EDI) scheme.

| Read more for details of civil action (RBTR Asset Management Bhd, Locke Capital Investments LTD (LCI) British Virgin Island, Isaac Paul Ratnam, Jospeh Lee Chee Hock, and Nicholas Chan Weng Sung)

REGULATORY SETTLEMENT

9 cases of regulatory settlements entered

10 individuals involved

RM4,962,565.81 amount disgorged

RESTITUTION

RM2,741,864.85 amount restituted

721 investors restituted

RM1,601,388.79 amount earmarked for further restitution

501 investors earmarked for further restitution

RESTRAINING AND BARRING ORDER

No. of individuals restrained from trading on Bursa Malaysia

3 directors of PLCs

1 licensed person

1 private individual

No. of individuals barred as Director

5 directors of PLCs

1 licensed person

1 private individual

ADMINISTRATIVE ACTION

A total of 136 administrative sanctions were imposed for various breaches of securities laws and the SC's Guidelines.

136
Administrative sanctions imposed

1
Restitution amounting to RM3,000

100
Reprimands

11
Directives issued

21
Penalties imposed amounting to RM2,865,500

1
Refusal to accept/ consider submissions to the SC

2
Public statements issued

Operating as RMO without authorisation from the SC

On 26 July 2021, the SC reprimanded and issued a directive against Binance Holdings Ltd, Binance Digital Ltd, Binance UAB, Binance Asia Services Pte Ltd, and Zhao Changpeng (Zhao), Chief Executive Officer and Director of Binance Holdings Ltd for operating a DAX without registering as RMO with the SC.

| Read more for details of administrative action (Binance Holdings Ltd)

| Read more on media release 'SC takes enforcement actions on Binance for illegally operating in Malaysia'

INFRINGEMENT NOTICES

Apart from the formal enforcement tools, the SC also relies on its non-statutory enforcement tools when conducting monitoring, gatekeeping, and supervisory functions. To this end, Infringement Notices are issued for breaches of securities laws or the SC's Guidelines that do not warrant a criminal, civil, or administrative action. A total of 133 Infringement Notices were issued in 2021, as detailed below:

41 supervisory letters involving infringement issued

22 warning letters issued

42 non-compliance letters issued

28 cease and desist letters issued

Order to cease and desist from operating a decentralized exchange

Following information received from the public, the SC issued a cease and desist order to RimauSwap (https://rimauswap.finance/) for operating a decentralized exchange (DEX) without authorisation. RimauSwap was also placed on the SC's *Investor Alert List*. The SC has not authorised any DEX operators in Malaysia. Investors were warned that those who trade with unlicensed or unregistered entities or individuals are not protected under the Malaysian securities laws, and are exposed to risks, such as fraud and money laundering.

| Read more on media release 'SC cautions against unauthorised decentralized exchanges (DEX), issues cease and desist order to Rimau Swap'

HIGHLIGHT CASE: REGULATORY SETTLEMENT WITH AMMB HOLDINGS BHD

The SC's investigation on AmBank Group's involvement in 1MDB related matters

The SC had completed its investigation on AMMB Holdings Bhd (AmBank Group) for engaging in acts to defraud the Government of Malaysia (GOM) and 1MDB as well as non-compliance with the SC's relevant laws and guidelines. The breaches relate to:

- RM5.0 billion, Government Guaranteed Islamic Medium Term Notes (IMTN) Programme, due in 2039, issued by the Terengganu Investment Authority (now known as 1MDB) in May 2009; and
- RM2.4 billion Sukuk Murabahah Programme, due between 2021 and 2024, issued by Bandar Malaysia Sdn Bhd in February 2014 and December 2014.

On 26 February 2021, AmBank Group agreed to pay RM2.83 billion to GOM for a global settlement on all outstanding claims and actions in relation to AmBank Group's involvement in 1MDB related matters.

Read more for regulatory settlement with AMMB Holdings Bhd

Continuous initiatives to enhance enforcement efforts

Collaboration with other law enforcement agencies and cross-border investigations

Recognising that securities offences have no borders and may involve multiple jurisdictions, the SC's enforcement efforts were further enhanced via successful collaboration with other law enforcement agencies and/or regulators within and outside Malaysia.

The SC was involved in joint operations co-ordinated by the National Anti-Financial Crime Centre along with BNM, Royal Malaysia Police (PDRM), Malaysian Anti-Corruption Commission (MACC), Companies Commission of Malaysia (CCM) and Cyber Security Malaysia.

For international co-operation, the IOSCO's Multilateral Memorandum of Understanding (IOSCO MMoU) is the main mechanism used for information sharing and evidence gathering on cross-border misconduct. In 2021, the SC liaised with 15 foreign supervisory authorities pursuant to the IOSCO MMoU, to seek assistance from its counterpart.

Fast Track Enforcement

To expedite the outcome of some of the SC's enforcement actions, dedicated internal Task Forces were formed. In 2021, four separate dedicated Task Forces were set up to deliver swifter enforcement outcomes.

The SC also enhanced its internal processes by implementing a Fast Track Enforcement Process that facilitates an expeditious review and investigation on identified cases.

Enhanced capabilities through greater digitisation of investigation and enforcement process

The SC established its in-house Digital Forensics (DF) team in September 2020 as part of its initiative to increase efficiency. In 2021, there was a substantial increase of more than 500% for DF related assessment (as shown in the table below), with a marked improvement of turnaround time from the previous three to six months to an average of three to six weeks in responding to the requests made.

<table>
<tr><th>Year</th><th colspan="2">Total number of requests</th></tr>
<tr><td>2020</td><td>8*</td><td rowspan="2">} >500% increase</td></tr>
<tr><td>2021</td><td>51</td></tr>
</table>

**all DF requests prior to September 2020 were handled by an external party.*

The DF team continued to improve its scope and capabilities, keeping abreast with developments in the digital forensics space through established collaborations with the local and international digital forensics community.

Leveraging technology during pandemic times

The SC formulated an efficient, safe, and secure infrastructure to ensure its investigation officers (IOs) are able to continue discharging their responsibilities in a conducive manner while adhering to the health and safety SOPs, which include protocols for virtual statement recording from witnesses.

Collaborations for capacity building in the digital asset space

Collaboration and exchange of knowledge, skills, and expertise among law enforcement authorities both inside and outside Malaysia are critical in driving the success of the SC's investigations. In this respect, the SC had the opportunity to obtain valuable insights from experts from the US on digital asset investigation through its collaboration with the US Embassy in Kuala Lumpur. Similar efforts would continue with other international counterparts on a regular basis to discuss enforcement and supervisory issues, as well as enhancing information sharing protocols.

EMPOWERING INVESTORS

In ensuring that investors are able to make informed financial and investment decisions, the SC continued to prioritise investor empowerment initiatives through investor education programmes. This included adopting greater use of social media platforms to alert vulnerable investors of possible scams or unlicensed activities and widening investor outreach programmes to be more targeted towards senior and rural investors.

Investor Alert List

In 2021, the SC made 275 new entries in the SC's *Investor Alert List*, compared to 134 entries in 2020, warning the public against dealing or investing in unlicensed activities and scams. These were followed by media announcements and postings on the SC's InvestSmart® social media channels to ensure a wider reach to the public.

Blocking of websites and social media pages

The SC, with the assistance from the Malaysian Communications and Multimedia Commission (MCMC) blocked 143 websites found to be carrying out unlicensed activities, scams, and misusing the SC's name and logo. Further, the SC also received assistance from Facebook Malaysia to geo-block 35 Facebook accounts.

Targeted actions on unlicensed investment advice

In 2021, the SC placed 40 operators comprising entities and related individuals on the SC's *Investor Alert List* for carrying out the business of investment advice without a licence. The SC also concurrently directed 23 such operators to cease and desist from undertaking all activities in relation to unlicensed investment advice.

Refer to the SC's Investor Alert List

Investors' behaviour and motivation

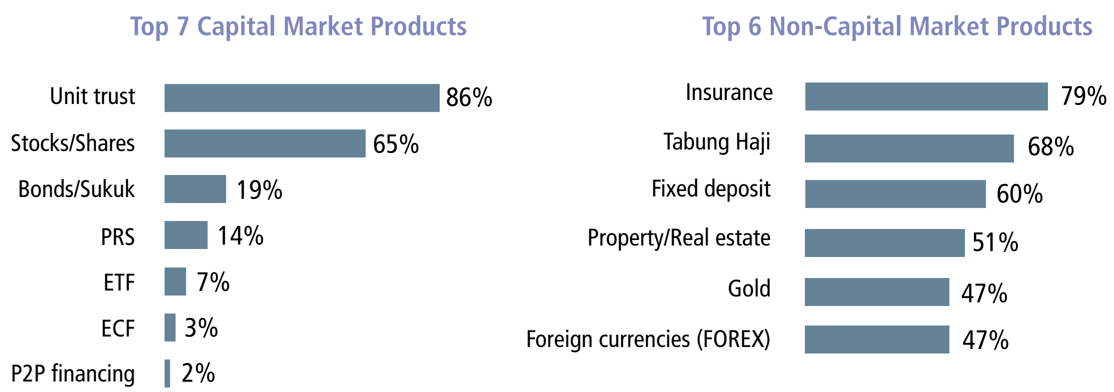
In 2021, the SC concluded an investor survey focused on the youth to assess the level of knowledge, behaviours, and motivation to participate in the capital market. The Nielsen Company (M) Sdn Bhd was commissioned by the SC to conduct the survey on its behalf.

Youth awareness of capital market products

Findings indicated that overall, the respondents were more aware of non-capital market products such as insurance, Tabung Haji, and fixed deposits, compared to capital market products. On respondents' awareness of capital market products, unit trusts and stocks/shares were the highest recorded, comprising 86% and 65%, respectively (Chart 1).

Findings also revealed that the investment decisions of respondents were not solely based on fundamentals. Instead, they were also driven by other influences such as socioeconomic status, family, friends, influencers and their perceptions of the products and brands. There was also familiarity bias among the respondents, preferring to invest in products that they were already familiar with.

Chart 1 Youth awareness of capital market products



Youth's perception towards risk

When respondents were asked on the level of risk that they were willing to take for their ideal investment, only 3% considered themselves to have a high-risk appetite. This may suggest that risk aversion has set in due to the pandemic.

3% Have a **High** risk appetite

97% Have a **Medium to Low** risk appetite

On capital market products and their associated risks, respondents viewed investments in Amanah Saham Bumiputera (ASB) as low-risk. In comparison, 70% of the respondents perceived stocks/shares to be high-risk (Chart 2). Overall observations suggested that respondents perceived the capital market products as high-risk and this perception was consistent across the demographic profiles.

Youth's priorities

Building wealth and investment was only a priority for roughly one-third of the sampled population. The others viewed having emergency funds, savings to support family, and paying off debts as their priorities (Table 1). This shows that respondents would use their income towards emergency funds and savings earlier in life and would only focus on retirement at a later stage.

Chart 2 **Youth's perception towards risk**

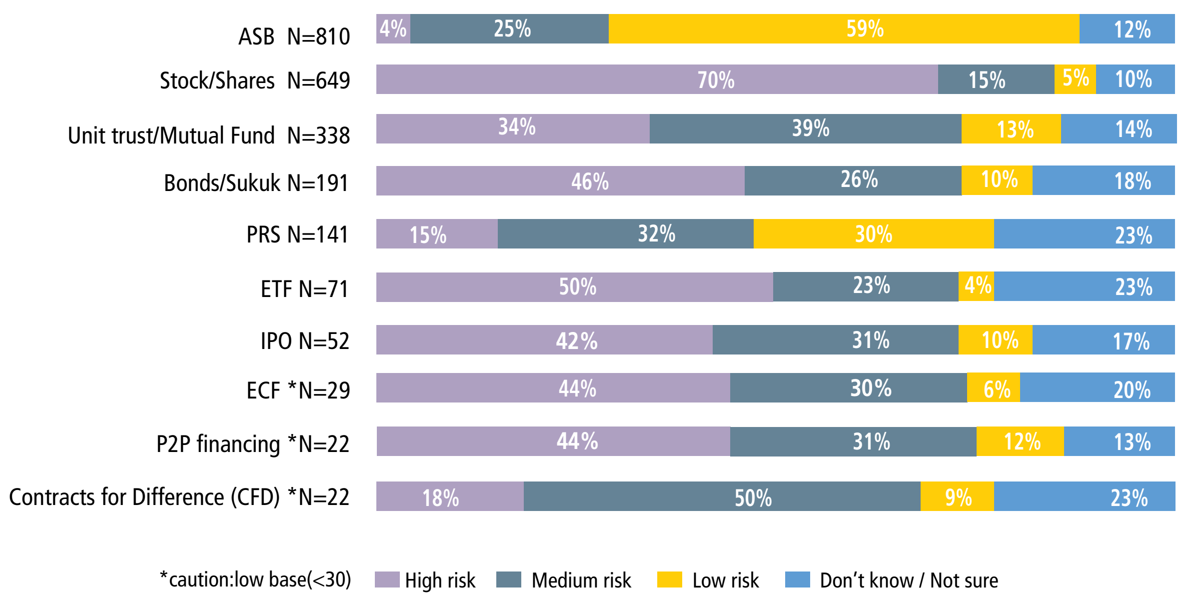


Table 1 **Youth priorities**

Top priorities	%
Have enough monies set aside for emergency purpose	69
Have enough savings to support children/ family	68
Pay off existing debts/loans	55
Starting my own business	37
Building wealth/investment	35
Buying assets (eg. properties for own stay/ investment)	34
Saving for my own education	32
Building up retirement fund	27
Have enough monies for leisure (eg. vacation, buying desired items)	24
Early retirement	21

The findings suggested that respondents considered several factors prior to investing, such as being aware of how much money was available for them to invest, advice as well as recommendations from friends and family, including the potential returns of the investment. This shows that those with low disposable income would find it more difficult to set aside money for investment, especially when paired with risk concerns.

Factors considered before investing

47% How much money I have available to invest

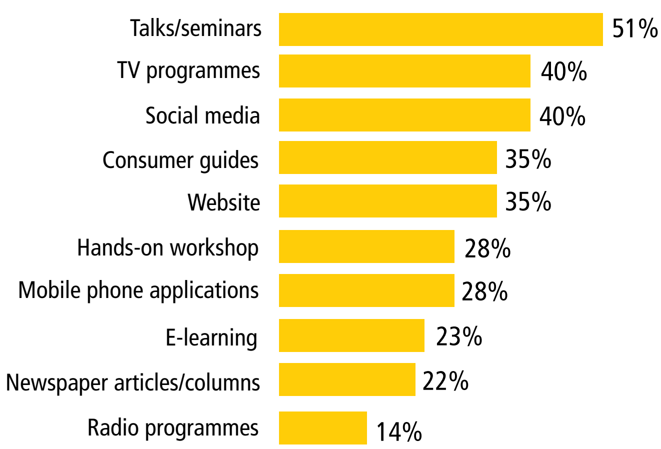
45% Advice/recommendations from friends and family/colleagues

44% Potential returns I will get from the investment

In terms of the preferred learning method on the capital market, 51% preferred financial investment talks. Additionally, the findings also showed that respondents preferred online media such as social media and websites, compared to traditional media such as newspapers and magazines (Chart 3).

The findings suggested that the SC's investor education events were essential and would continue to be a valuable platform for investors to gain knowledge. Responses gathered served as references for the SC to formulate necessary interventions through targeted outreach programmes, where possible, to advance investor protection efforts.

Chart 3 **Preferred learning method**



InvestSmart® awareness initiatives on unlicensed activities and scams

The SC's investor empowerment initiative, InvestSmart® carried out various activities to promote investment literacy and awareness on unlicensed activities and scams to the public. Amid the COVID-19 pandemic in 2021, InvestSmart® continued to utilise various digital and online tools including social media channels like Facebook, Instagram, Twitter and YouTube to reach out to the Malaysian public with timely alerts, reminders and guidance to avoid unlicensed activities and scams.

In 2021, the SC participated in Facebook Malaysia's *#TakNakScam* campaign held from July 2021 to October 2021 with nine other institutions, including PDRM and Bursa Malaysia. Promoting awareness on unlicensed activities and scams remained a central focus during the Virtual InvestSmart® Fest 2021 held in October 2021, with the theme, *"#JagaDiri #JagaPelaburan"*.

In conjunction with the Virtual InvestSmart® Fest 2021, the Virtual ScamBuster Treasure Hunt 2021 was organised with the hashtag #SayNoToScams to further raise awareness on scams and unlicensed activities. Monthly InvestSmart® Online Series webinars and Digital Literacy for Seniors webinars were organised for the public to gain knowledge on legitimate products and services offered by the capital market. These webinars, which were recorded and subsequently uploaded on InvestSmart® social media platforms to reach out to a wider audience, also promoted anti-scam awareness messages.

InvestSmart® frequently sends out reminders that investors who trade with unlicensed or unregistered entities or individuals are not protected under the Malaysian securities laws, and are exposed to risks, such as fraud and money laundering.

Further details on the SC's investor empowerment initiatives through InvestSmart® are highlighted in Part 4 (Statistics, Statements and Activities).

Public Service Announcements

The SC continued its collaboration with the Ministry of Multimedia and Communication Malaysia to promote anti-scam awareness messaging nationwide through public service announcements in the form of a video. The three-part anti-scam awareness video titled, *Silap Labur Duit Lebur* was shown nationwide on television for three months.

Facilitating resolution

The Securities Industry Dispute Resolution Center (SIDREC) is an independent and impartial dispute resolution body for the capital market.

In 2021, SIDREC received 275 claims and enquiries (2020: 259), out of which 47 were eligible disputes. Continuing past trends, 88% of the eligible disputes in 2021 were resolved through case management and mediation without having to proceed to adjudication.

For the year 2021, SIDREC continued to conduct its mediation sessions and adjudication hearings either fully virtual or on a hybrid basis in view of the pandemic.

Strengthening Consumer Credit Protection

The Ministry of Finance, BNM, and the SC achieved a new milestone in July 2021 with the formation of a Consumer Credit Oversight Board (CCOB) Task Force. The Task Force is responsible for driving inter-Ministry efforts to enact the *Consumer Credit Act* (CCA) and putting in place the building blocks for the operationalisation of the CCOB.

The CCOB, as a new independent conduct authority under the Ministry of Finance, will have oversight of all consumer credit activities, starting with providers who are currently unregulated. Concurrently, BNM and the SC are also conducting a feasibility study on the potential consolidation of conduct supervision for all intermediaries in the financial industry under a new integrated conduct authority.