

## Capacity Building in Upholding Audit Quality

Given the importance of continuous professional education to build capacity and uphold audit quality, the SC introduced a one-off training subsidy for Small and Medium Practices (namely existing registered audit firms of the AOB with less than 10 audit partners), of up to RM30,000 per firm for Approved Training Programmes conducted by the Malaysian Institute of Certified Public Accountants (MICPA).

## Clarifying Regulatory Parameters on Investment Advice Activities

The MCO period saw an increase in trading activity by retail investors. The situation also gave rise to dissemination of investment advice by members of the public on various social media platforms. As the provision of investment advice is a regulated activity under the CMSA, the SC issued the *Guidance Note on Provision of Investment Advice* on 30 December 2020, to clarify the types of activities that may amount to investment advice, and thus require a licence from the SC.

## ENSURING MARKET INTEGRITY AND TRANSPARENCY

### Reinforcing Bursa Malaysia's Regulatory Independence, Governance and Operational Resiliency

In 2020, the SC continued its efforts to facilitate the establishment of an independent wholly-owned Bursa Regulatory Subsidiary (Bursa RegSub) to assume the regulatory functions currently undertaken by Bursa Malaysia. The establishment of the Bursa RegSub was announced in February 2020. Efforts were made to put in place the necessary governance structure and regulations, and facilitate amendments to Bursa Malaysia's rules to support the function at the Bursa RegSub.

The clear segregation of the regulatory function from the commercial or business objectives of Bursa Malaysia will address the perception of potential conflicts of interest between these two competing objectives. A board of directors, a majority of whom will be independent of Bursa Malaysia, will govern the Bursa RegSub and the Chairman of Bursa RegSub will be appointed from among the independent board members. In this regard, Bursa Malaysia remains accountable to the SC to ensure that Bursa RegSub is sufficiently funded and resourced, to enable its regulatory functions to be discharged effectively. The SC will continue to regulate Bursa Malaysia directly as a PLC as well as a market operator and a central counterparty while maintaining oversight of the regulatory functions performed by Bursa RegSub. The target schedule for Bursa RegSub to be operational is in 2021.

Additionally, the SC's oversight and supervision of Bursa Malaysia, as an integrated exchange operator, is aimed at ensuring continued functioning of the equity and derivatives markets to support the real economy. These markets provide access to funding and the ability to hedge risks.

To meet these objectives, the SC's supervision on Bursa Malaysia is focused on:



Strengthening the management of perceived conflicts of interest in the discharge of its regulatory obligations;



Operational and financial resilience of its market infrastructures, namely Bursa Clearing Houses; and



Operations of its markets with continued flow of information to these markets.

Given the significant dependence of Bursa Malaysia's operations on IT systems, network, infrastructure and connectivity as well as third-party service providers, the Exchange is exposed to the risks of application systems integrity, cyber security threats, data loss, compromised data integrity, technology obsolescence and business disruptions. The SC takes the occurrences of technical glitches of market operations at Bursa Malaysia seriously in view of the critical role it plays in the market. To ensure systems integrity and reliability, the SC has initiated a review of Bursa Malaysia's IT systems and infrastructure.

### Assessment of Bursa Malaysia's ACE Market Functions

In July 2020, the SC announced that under the enhanced IPO framework, Bursa Malaysia is responsible for the registration of prospectuses of ACE market IPO, in addition to the existing ACE market IPO approval. The migration of the entire ACE market framework including registration of prospectuses to Bursa Malaysia will streamline and provide greater efficiency in the ACE market listings.

Consequently, the SC carried out an annual regulatory assessment on Bursa Malaysia that focused on assessing the adequacy of its systems, processes, controls and resources to assume the role of the frontline regulator for ACE market listings, including its supervision of sponsors. The assessments included the effectiveness and consistency of Bursa Malaysia's assessment of listed companies' applications for relief from compliance with Listing Requirements on the extension of time, modification, waiver and exemption, shareholding spread requirements and effectiveness of the unusual market activity (UMA) query framework.

### Heightened Monitoring of Trading Activities

To ensure that the capital market operates in a fair and orderly manner, the SC remains vigilant in addressing trading irregularities that pose potential risks to market integrity. The SC continues to work closely with Bursa Malaysia to monitor, detect and respond to suspected market abuses relating to prevailing areas of concern.

In 2020, the SC observed a growing trend of listed companies announcing possible ventures into health-related businesses such as gloves, facemasks and COVID-19 vaccines. Such developments tend to garner exceptionally high trading interest in the shares of those companies. As a result, there were increased risks of market abuse such as insider trading and price manipulation surrounding these announcements and related news flows.

Trading irregularities were promptly detected and prioritised for further analysis. Where elements of possible market abuse are established, such cases were identified for further investigation to be conducted. Surveillance observations in relation to trading activities by capital market intermediaries also facilitated the SC's supervision over the intermediaries' controls and governance standards.

### Surveillance of Corporate Activities

An important aspect of the SC's surveillance and supervisory function involves the monitoring of announcements and disclosures by listed companies, and financial reporting developments affecting the capital market.

Proactive and strategic surveillance activities were carried out to detect corporate transgressions and instances of non-compliance with accounting standards. Thematic reviews were also conducted to assess risks in specific sectors and where necessary, engagements with corporate directors were held.

Based on the identified risks and focus for 2020, the SC conducted surveillance reviews into the activities of 229 listed companies. In the course of these reviews, 174 engagements, including physical and virtual meetings, were undertaken with directors, statutory auditors and other parties related to the affairs of the listed companies such as advisers, company secretaries and forensic investigators.

Corporate transgressions detected in 2020 included:

- Using fictitious documents to drawdown on banking facilities;
- Channeling of company's asset to another party;
- Issuing misleading announcement to induce share trading;
- Issuing shares to related parties at a price, which was unfavourable to the listed company;
- Entering into asset acquisition agreements at inflated prices;
- Recording fictitious revenue; and
- Failure to disclose material litigation.

### Strengthening Supervisory Oversight on New Market Structures

Under the SC's approach in regulating the markets, the level of supervision imposed on a type of market will correspond with its characteristics, including the size and structure, nature of services, products hosted or traded, sophistication of the users and rights of access and risks posed by such market. In this regard, the SC took the approach of a 'right touch' level of supervision on recognised market operators (RMOs) such as the equity crowdfunding (ECF), peer-to-peer financing (P2P financing), DAX and electronic service providers (eSP). It focused on monitoring areas of governance, risk management, client/issuer onboarding and due diligence, client asset protection,

cyber security and systems integrity through reporting requirements, periodic review and assessment, and continued frequent engagements with these operators.

During the first quarter of 2020, the SC conducted one-on-one assessment engagement sessions with eight ECF operators and seven P2P financing operators. The engagements focused on the RMOs' annual compliance reporting, business plan for 2020 and discussed issues relating to their respective markets. These sessions also allowed the SC to raise supervisory concerns relating to weaknesses and gaps in practices for further process to be strengthened by the RMOs.

The SC had facilitated Go-Live of three new ECF operators and five P2P financing platform operators following the registration approval given in 2019. The concurrence to operationalise Go-Live was granted after the review and assessment of the *Rulebook*, and documented process and procedures for governance, risk management, user onboarding, client asset protection arrangement, and cyber security and systems integrity. By end of 2020, all 10 ECF and 11 P2P financing operators are fully operational.

Following the introduction of the regulatory framework governing DAXs and subsequent registration of three DAXs in 2019, the SC continued to facilitate the operationalisation of these DAXs by reviewing their *Rulebook*, policies and procedures before they were allowed to operationalise their platforms. In this process, particular attention was given by the the SC in the areas of governance, risk management, client onboarding, cyber security, system integrity and asset protection arrangement. All three DAXs operationalised their respective platforms within the first half of 2020.

One of the main concerns associated with digital assets is the risk of these assets being a conduit for money laundering, terrorism and proliferation financing. In this regard, the SC initiated its first regulatory assessment on DAXs in the fourth quarter of 2020, with completion targeted in the first quarter of 2021. Under the assessment, the SC scrutinises the

DAXs’ Know Your Client (KYC) onboarding processes, ongoing Anti-Money Laundering (AML) due diligence and transaction monitoring policies to ensure consistency and alignment with the SC’s *Guidelines on Prevention of Money Laundering and Terrorism Financing* and *Guidelines on Implementation of Targeted Financial Sanctions Relating to Proliferation Financing* as well as updated recommendations issued by FATF. The SC will continue its broad push towards digitisation by supporting and propagating the use of technology enhancements by DAX to support its Anti Money Laundering and Counter Financing of Terrorism (AMLCFT) compliance objectives.

The scope of the regulatory assessment on DAXs was also expanded to include a review of the DAXs’ IT governance framework and cyber security risk management and controls given the high dependence on technology and IT infrastructures to operate the markets.

### Promoting Responsible Advertising Using Digital Channels

On 4 May 2020, the SC issued the *Guidelines on Advertising for Capital Market Products and Related Services* to promote responsible advertising using

digital channels. The guidelines allow intermediaries greater flexibility in leveraging advertising platforms, including social media, messaging applications and video streaming to promote their products and services.

## GREATER INVESTOR EMPOWERMENT

### Understanding Investors’ Behaviour and Motivation

During 2019 and 2020, the SC conducted several investors’ surveys across different segments of society to gain better insight on, among others, investors’ level of awareness on the different capital market products, their behaviours and motivations. The surveys also covered factors that may have influenced investors from participating in the capital market. General observations from the surveys are as follows:

#### Low level of investor awareness of capital market product types

Of the respondents, only 13% (2019) and 8% (2020) were able to accurately identify capital market products. The study shows a greater level of awareness of unit trust, listed shares and PRS (Chart 2).

CHART 2

Greater level of awareness of unit trust, listed shares and PRS

