

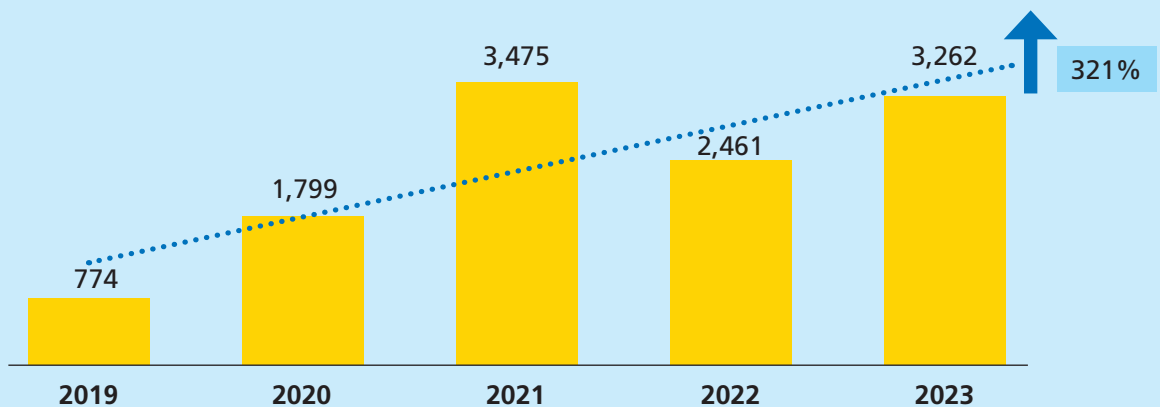
SPECIAL FEATURE 1

TOWARDS GREATER PROTECTION OF INVESTORS

Overview

Over the years, we have seen many occasions where individuals or entities were duped, misled, tricked, enticed and even pressured to part away with their monies and retirement savings by dishonest and fraudulent activities that promise unreal returns and benefits, that are too good to resist. Such activities are also reflected in the increasing number of complaints and enquiries received by the SC, namely on scams and unlicensed activities. In 2023, the SC received 3,262 complaints and enquiries on scams and unlicensed activities. This represents a significant increase of 321% for the past five years from 2019 to 2023.

Complaints and Enquiries on Unlicensed Activities and Scams



In addition to the various types of scams, including investment scams, and unlicensed activities, there were also increasing concerns observed involving the conduct of unlisted public companies (UPCs) and entities offering Cash Trust products.

Investment Scams

Investment scams involve the promotion of non-existent investment products. This occurs where scammers make false claims that the investment will be made into capital market products such as shares or cryptocurrencies, when in fact such investment opportunities or products does not exist.

The fraudulent investment would in most cases offer unusually high returns. In this regard, it is not uncommon, for example, for such schemes to promise 1,000% returns within 24 hours or even within a few hours. Such schemes also offer investment packages which can start from as low as RM300 to about RM1,000 only. In addition to this being seemingly legitimate, it would also enable the scammers to have a wider pool of potential victims, including those under the low-income bracket as such small sums would be more readily available. Further, given that the investment would generally be seen to be less risky with their relatively small investment amount, the target victims may unfortunately also tend to be less risk averse.

In most of these scams the perpetrators used fake websites, social media pages and mule bank accounts to promote and carry out their illegal activities. In many of these cases too, scammers falsely lend credence and legitimacy to their illegal activity by misusing the name of agencies such as the SC, BNM, the Companies Commission of Malaysia (SSM), licensed intermediaries and images of local celebrities and religious leaders. Many of these schemes also falsely claimed to be Shariah compliant to appeal to the sentiment of the Muslim investors.

A common trait noted was the prevalent use of mule bank accounts by scammers. A potential victim will be required to bank in monies into such a mule bank account, and immediately after a deposit is made, the victim will be notified that their investment has made a 'profit'. However, should one decide to withdraw the 'profits', the victims will be asked to make further payments disguised as BNM charges, income tax charges, administrative fees, upfront deposits, etc. These payments will typically be asked to be made into a different mule bank account.

In 2023, the use of social media platforms, particularly Facebook and Telegram, continued to be the primary mode for perpetrators to carry out their illegal activities. New modus observed in 2023, is the use of e-wallet and cryptocurrency as the mode of payment involving investment scams, as compared to mule bank accounts which were used previously. This may be designed to avoid easy detection and prompt interventions by the enforcement agencies.

In cognisance of the perpetrators evolving tactics, the SC continues to undertake ongoing monitoring and supervision to mitigate the risk of its regulated entities being potentially used as conduits for illicit activities.

The SC also observed the evolution of the common job and love scams which now have elements of investment scams as well.

Emerging Scam Trends

The SC continuously monitors and is cognisant of new emerging trends and MO on scams to ensure that appropriate and timely intervention is taken on investment scams. In this regard the following new trends were observed.

Example of Investment Scams Involving Cryptocurrency

The scam is generally offered through social media platforms (mainly Facebook) with an investment opportunity in cryptocurrency promising high returns over a short span of time. Interested clients are directed to open an account with the SC's registered DAX operator and purchase cryptocurrency. Subsequently the cryptocurrency is transferred to a wallet address controlled by the perpetrator. The victim never receives the promised returns and will be asked to make further payments in the form of cryptocurrency, to withdraw the initial investment.

By requesting the victims to transact through the SC's registered DAX operator, the perpetrators have falsely given the victim an impression of legitimacy of the scheme.

Example of Investment Scam Disguised as Job Opportunities

The perpetrator will generally scout for victims through social messaging platforms namely WhatsApp and Telegram. The victim will be paid a token to perform simple tasks such as writing reviews and 'liking' social media pages. Having garnered the victim's trust, the perpetrator will convince the victim to invest in a non-existent cryptocurrency or share scheme that promises high returns. Monies will be requested to be transferred into a mule bank account, which eventually will be dissipated.

Example of Investment Scam through Dating Apps

The perpetrator will normally befriend the victim through social media or dating sites. After luring the victim into a romantic relationship, the perpetrator will convince the victim to invest in a non-existent cryptocurrency or share scheme with guaranteed high returns. The victim will be asked to deposit the monies into a mule bank account. Eventually, the victim will realise that the relationship is a scam and monies investment have been misappropriated.

Unlicensed Activities

Unlicensed activities are regulated activities carried out by persons in Malaysia without the requisite licence or registration. Section 58(1) of the CMSA requires a person to hold a CMSL or be a registered person to carry on a business in any regulated activity or hold himself out as carrying on such business.

There are eight types of regulated activities, and they are contained in Schedule 2 of the CMSA which includes dealing in securities, dealing in derivatives, fund management, investment advice, etc.

Section 58(4) CMSA further provides that any person who carries on the business of regulated activity without a license or registration commits an offense and be liable to a fine not exceeding 10 million ringgit or to imprisonment for a term not exceeding 10 years or to both.

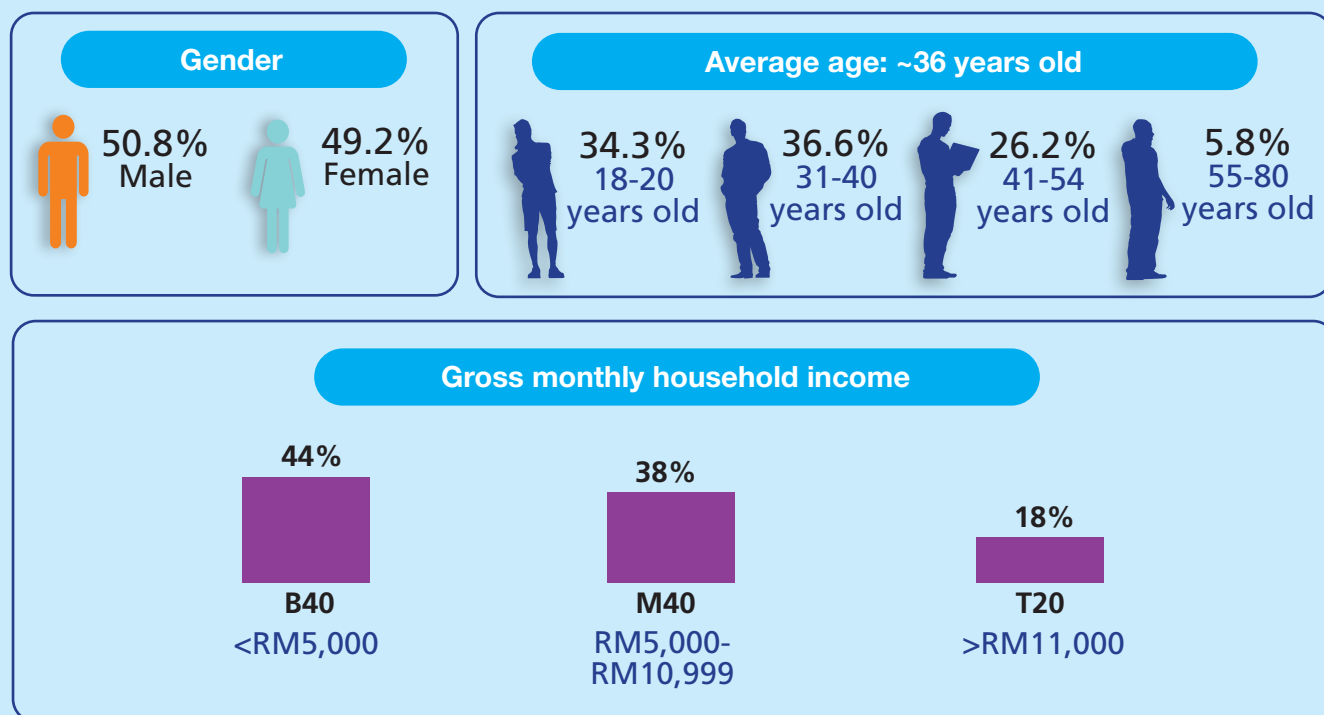
Separately, those who engage in operating a P2P financing platform, ECF, DAX or Initial Exchange Offering (IEO), must be registered as a recognised market operator with the SC under section 34 of the CMSA.

The SC regularly receives complaints and enquiries on operators of such unlicensed activities who may not necessarily be carrying out a scam. While some of the unlicensed activities are carried out locally by Malaysians with local presence, there are also foreign entities carrying on unlicensed activities in Malaysia. These foreign entities may be properly licensed or regulated by foreign regulators. However, they would still be breaching Malaysian laws if they carry out their activities in Malaysia, solicit Malaysian clients or have a local presence in Malaysia without the requisite license or registration from the SC.

Behavioural Analysis on Investor Vulnerability to Scams

With many investors now being at a greater risk of becoming victims of financial frauds and financial exploitation, the SC had in 2023 carried out a behavioural analytics study to assess investors' behaviour and attitude towards investment, challenges and capabilities in their investment journey and their vulnerability towards scams.

The study was done through a survey of 1,302 respondents comprising the following demographics:



Based on the sampling, the results showed that 384 out of 1,302 or 30% of the respondents were more susceptible to scams. From this susceptible group, the following observations were made:

- 59% were male;
- 34% were young adults aged 31 – 40 years;
- 44% belong to the B40 households; and
- 70% held at least a diploma qualification.

The study also showed that the vulnerable group relied on family and friends to make investment decisions rather than relying on their own judgment, experience, and knowledge. They were also more persuaded to invest in a scheme following the influence of unlicensed and unqualified individuals. These findings imply an increased willingness by this group to be exposed to investment opportunities that includes scams.

The findings from the study have assisted the SC to better understand the profile of the vulnerable investor group and served as an important input when formulating the necessary interventions through targeted outreach programmes.

Efforts Taken to Curb Scams and Unlicensed Activities

The SC adopts a multi-prong approach to curbing scams and unlicensed activities ranging from enforcement actions to investor education and awareness programmes.

Enforcement Actions

In 2023, the SC took enforcement action against several entities for carrying on unlicensed activities such as unlicensed Investment Advice, Fund Management and operating a recognised market without authorisation. Some of the notable actions taken were against Huobi Global Ltd for operating a DAX in Malaysia without registration. This is in furtherance to similar actions taken by the SC against unregistered DAX such as the enforcement actions taken against Binance and Remitano in 2021. Additionally, criminal charges were also preferred by the SC against Muhamad Fadzli Jamaludin for carrying on an unlicensed activity in fund management.

- Read more on media release 'SC Charges Former Company Director for Unlicensed Capital Market Activities'
<https://www.sc.com.my/resources/media/media-release/sc-charges-former-company-director-for-unlicensed-capital-market-activities>
- Refer also to the box article, *Multi-Pronged Approach Adopted by the SC to Address the Regulatory Concern Arising from Proliferation of Unlicensed Investment Advice* on actions taken to address concern on unlicensed investment advice.

TABLE 1
Intervention efforts on scams and unlicensed activities

Intervention efforts	2023	2022
Commencement of enforcement action	4	7
Issuance of Notices of Cease and Desist*	5	6
Social media interventions	420	142
Inclusion in the SC's Investor Alert List	315	304
Blocking of websites with assistance from Malaysian Communication and Multimedia Commission (MCMC)	146	185
Request to block Telegram accounts	153	114
Referrals to other agencies/foreign regulators	128	181
Lodgement of police reports	97	88
Geo-blocking of Facebook accounts	83	38
Blocking of Instagram accounts	12	9

Note:

* Statistics also reflected under the SC's Infringement Notices.

Investor Alert List and Cyberspace related Interventions

The SC has and will continue to proactively disrupt the activities of the scammers and operators of unlicensed activity. In this regard, the SC included the names of entities and individuals found to be carrying on scams or unlicensed activities on the SC's Investor Alert List as soon as possible where in most cases this is done within 48 hours of receipt of complaints.

In addition, the SC also with the assistance from the Malaysian Communications and Multimedia Commission (MCMC) blocked websites that were found to be carrying out scams and unlicensed activities. Furtherance to this, the SC also collaborated with social media providers such as Meta Platforms Inc (Facebook), Google LLC etc. to geo-block offending social media pages.

Proactive Surveillance of Unlicensed Activities

In addition to taking actions based on complaints and enquiries received, the SC has a dedicated unit to proactively monitor and detect online unlicensed activities and scams offered to Malaysians.

As of 31 December 2023, a total of 569 URLs (2022: 382 URLs) have been detected involving various websites and social media platforms for potential breaches on offering unlicensed activities to Malaysians. Of these, 51% are from Telegram, 27% are from Facebook, 9% from Instagram and 13% from other sources such as websites, YouTube, TikTok, etc.

Investor Empowerment

The SC's investor empowerment initiative, InvestSmart[®], carried out various activities to promote investment literacy and awareness on unlicensed activities and scams to members of the public. InvestSmart[®] continues to utilise various digital and online tools including social media channels like Facebook, Instagram, Twitter, TikTok and YouTube to reach out to the Malaysian public with timely alerts, reminders, and guidance to avoid unlicensed activities and scams. In designing the messaging and content, the InvestSmart[®] was guided by the insights and information gleaned from complaints and enquiries received as well as findings from the survey studies conducted.

In line with this, the InvestSmart[®] continued to carry out various anti-scam awareness initiatives in 2023 which includes the following:

- Regular postings (posters and videos) on social media platforms e.g. Facebook, Instagram, Twitter, TikTok and YouTube;
- Organise InvestSmart[®] webinars;
- Media releases;
- Speaking engagements;
- TV and radio interviews; and
- Public service announcements (PSA) in collaboration with the Malaysian Ministry of Communication.

Details of the SC's investor education initiatives are in Part 4.

Task Force on Scams and Unlicensed Activities

In early 2023, an internal Task Force on Unlicensed Activities/Scams was set up to provide greater focus on identified areas to suppress the proliferation of unlicensed activities/scams. Some of the notable outcomes of the Task Force were as follows:

- Enhancement to the SC's Investor Alert List page to make it more robust, dynamic and mobile friendly.
- Development of a tool within SC's website called the 'Investment Checker' which serves as a one-stop-center for the public to check and verify on the legitimacies of entities and individuals.
- Engagement with Jabatan Kemajuan Islam Malaysia (JAKIM) to include anti-scam themed Friday sermon '*Jerat Serupa Jerami*' for mosques in the Federal Territory which was live telecasted on Radio Televisyen Malaysia (RTM).
- Development of 'Scam Meter' page within the SC's website to help identify and increase awareness of common scam indicators in investment opportunities.
- Four radio and two TV interviews were done to spread awareness on scams and unlicensed activities.

Heightened Concerns on Activities by Unlisted Public Companies and Entities Offering Cash Trust Products

In addition to scams and unlicensed activities, the SC also observed certain possible adverse conduct by UPCs that typically offers preference shares and entities offering Cash Trust products. The SC's review suggests that there are concerns on possible breaches of the securities laws including offering of shares by UPCs to retail investors without registering a prospectus with the SC.

In this regard, several investigations have been initiated by the SC involving UPCs and entities offering Cash Trust products. These include possible breaches of section 58 (requirement for capital market services license), section 232 (requirement to register the prospectus in relation to securities) and section 179 (use of manipulative and deceptive devices) of the CMSA.

Specifically on UPCs, the SC is also concurrently reviewing its current regulatory framework to consider introducing the requirement for assessment and due diligence to address any gaps that is detrimental and harmful to the investors.