

GUIDANCE NOTE ON OVERSIGHT OF LICENSED REPRESENTATIVES BY STOCKBROKING COMPANIES

SC-GN/4-2021

1st Issued: 30 September 2021



**GUIDANCE NOTE ON OVERSIGHT OF LICENSED
REPRESENTATIVES BY STOCKBROKING COMPANIES**

Effective Date upon 1 st Issuance:	30 September 2021
---	-------------------

CONTENTS

Page

INTRODUCTION 1

BEST PRACTICES 2

1. INTRODUCTION

- 1.1 The purpose of this *Guidance Note on Oversight of Licensed Representatives by Stockbroking Companies* is to assist stockbroking companies (SBCs) in supervising and monitoring the conduct of their licensed representatives¹.
- 1.2 SBCs are expected to ensure that there are adequate practices and controls are put in place in line with the *Guidelines on Market Conduct and Business Practices For Stockbroking Companies and Licensed Representatives* (Guidelines). Non-compliance with the Guidelines would be regarded as serious and may result in the Securities Commission Malaysia (SC) taking regulatory or other appropriate actions against the SBCs.
- 1.3 In this respect, the SC has conducted a thematic review to assess the practices and controls implemented by SBCs including effectiveness of their respective supervision and monitoring of the conduct of licensed representatives in particular those dealing with retail customers. Arising from this review, this Guidance Note sets out best practices recommended for the industry to strengthen the oversight over their licensed representatives.
- 1.4 These best practices are not meant to be prescriptive and each SBC is expected to exercise its judgement in considering and adopting the best practices, taking into consideration the circumstances of the SBC including its size, scale and complexity of its organization towards the proper discharge of its obligations in the areas of market conduct and business practices.
- 1.5 This Guidance Note should be read together with the relevant laws and regulations, and guidelines issued by the SC.

¹ Licensed representative refers to a holder of Capital Markets Services Representative's Licence of a stockbroking company.

2. BEST PRACTICES

Oversight of Customer's Accounts and Dealing Activities

- 2.1 SBCs should ensure that their customer files contain updated and adequate information on each customer including profile of the customer such as financial background/situation, investment objectives and investing experience, risk profile of the customer and, in the case of a corporate customer, the ultimate beneficial owner(s). SBCs should also proactively follow up on any outstanding information on each customer and conduct periodic due diligence on the customer's background throughout the course of the business relationship to ensure that the information maintained on the customer is updated and relevant.
- 2.2 SBCs should ensure that adequate due diligence as stipulated in paragraph 5.0 of the Guidelines are carried out on all customers, with greater scrutiny, amongst others, whose applications -
- (a) have certain similarities/commonalities such as customers authorising a common third party to operate their trading accounts or accounts opened on or about the same period and customers sharing the same locality/address; and
 - (b) signed off by the same licensed representative.
- 2.3 SBCs should establish proactive measures to detect, review and verify unusual or suspicious transactions in order to deter unauthorised cash movements and trading as well as manipulative trading activities. Some unusual or suspicious activities may include, but not limited to, the following:
- (a) Unusual trading patterns such as a sudden increase in the trading activities of, payments and/or withdrawals of monies by a particular customer;
 - (b) Changes in patterns and/or activities in a customer's account including the quantum of deposits as well as trades undertaken inconsistent with the customer's financial background;

- (c) Multiple cash deposits by licensed representatives for the purpose of increasing their trading limits; and
- (d) Third party authorisation in respect of the trading accounts involving non-active customers.

It is imperative that the above measures are undertaken to ensure that the customers' transactions are consistent with the SBCs knowledge of the customers, their financial background, businesses and risk profiles.

2.4 In respect of assessment and resolution of alerts of suspicious or unusual transactions, SBCs should establish adequate checks and controls to ensure the assessment and resolution of such alerts are properly documented and to involve senior management/representative especially on higher risk accounts or transactions.

2.5 In managing trading accounts with third-party authorisation², SBCs should:

- (a) establish and maintain clear policies and procedures including obtaining written authorisation from their customers, perform internal screening on the authorised third party, and maintain records and data of the third party in the back office system;
- (b) conduct independent review on accounts with third-party authorisation to ensure:
 - (i) the proper maintenance of all relevant data;
 - (ii) the veracity of the information provided in the written authorisation from the customers; and
 - (iii) the accounts are reviewed to ascertain, amongst others, existence of a common individual/group of individuals being authorised by multiple customers to conduct trades for their accounts.

² A customer's trading account with written authorisation from the customer empowering a third party to trade in the customer's account.

Other Governance Checks and Controls

- 2.6 SBCs should establish robust consequence management framework to ensure any disciplinary action taken in respect of contravention of the controls, processes and procedures by a licensed representative is sufficient deterrent as well as proportionate to the nature and severity of the misconduct. The framework should include but not limited to:
- (a) having misconduct trigger categories and their level of severity;
 - (b) an assessment of the financial and non- financial impact of the misconduct;
 - (c) having levels of disciplinary action based on severity of the misconduct; and
 - (d) establishing an approving authority responsible for the imposition of disciplinary actions for misconduct by licensed representative.
- 2.7 SBCs should also ensure that reward and incentive structures for their licensed representatives take into account good compliance practices and not merely based on the amount of profit generated.
- 2.8 Towards facilitating efficient and effective supervision and monitoring, SBCs are encouraged to adopt digital solutions to automate the monitoring and review of critical activities, such as alerts or indicators to facilitate early detection of anomalies and potential misconduct, seamless tracking of cases and good audit trails for effective oversight.
- 2.9 SBCs should also continuously educate their employees as well as licensed representatives so that they are kept abreast of the regulatory developments and expectations, as well as emerging market trends by, amongst others, providing continuous training and information which are up-to-date and comprehensive.
- 2.10 Overall, the internal controls and mechanisms for the supervising and monitoring the conduct of licensed representatives should be periodically reviewed by the compliance and risk management functions as well as Internal Audit function respectively to ensure effective oversight on the licensed representatives. The Board of Directors and the senior management should be updated on the outcome of the reviews to maintain effective oversight on the business activities of the SBCs.