PART 2
SHAPING MARKET CONDUCT

INTRODUCTION

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

INCULCATING GOOD GOVERNANCE CULTURE

Promoting the internalisation of corporate governance

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

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

Diagram 1

Adoption of the MCCG (as at 31 December 2018)

153
PLCs adopted the 2-tier voting approach to decide on the reappointment of independent directors who have served >12 years

227
PLCs adopted tenure limit of 9 years for independent directors with annual shareholders' approval for extension

25
PLCs adopted tenure limit of 9 years for independent directors without further extension

24%
of board positions are held by women (Top 100 PLCs)

131
PLCs disclosed senior management remuneration in bands of RM50,000

25
PLCs disclosed detailed remuneration of senior management on a named basis

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

Using data analytics to gain deeper insight on corporate governance

In line with the CG Priorities, the SC began leveraging data analytics to monitor the corporate governance practices and disclosures of listed companies. The system allows the SC to have up-to-date information on corporate governance, obtain deeper insight on trends and enhance information sharing with stakeholders. Observations gathered from the system were shared with various stakeholders including at the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA) Annual Conference 2018 attended by nearly 500 MAICSA members, the OECD Asian Roundtable on Corporate Governance 2018 and at a session with members of the Institutional Investors Council of Malaysia.

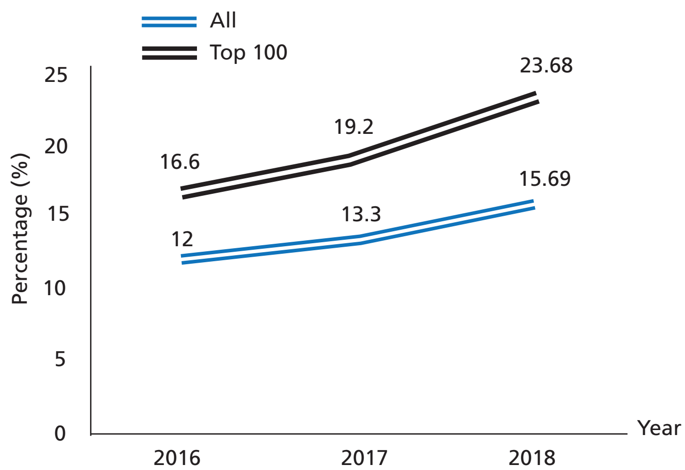
The SC will be releasing its first thematic report based on data gathered through the system in the first quarter of 2019. The report will include a focus on shareholder activism and voting patterns observed in the reappointment of long-serving independent directors.

Strengthening the effectiveness of directors and supporting board leadership

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

Diagram 2

Gender diversity on boards of listed companies



Source: SC

Companies with >30% women directors

Overall: 116 PLCs (14%)
- Large* PLCs: 28
- Non–large PLCs: 88

Companies with at least one woman director

Overall: 571 PLCs (70%)
- Large* PLCs: 105
- Non–large PLCs: 466

Note:
* Large companies as defined in the MCCG

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

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

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

Greater involvement in international efforts on corporate governance

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

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

On 7 and 8 November 2018, the SC hosted the OECD Asian Roundtable on Corporate Governance (Roundtable) meeting in Kuala Lumpur, which was attended by over 100 regulators, investors, listed companies and corporate governance advocates from across Asia to discuss the latest corporate governance developments. Among the issues discussed were the impact of technology and innovation on corporate governance, board practices in relation to climate-related risks and disclosures as well as the use of flexibility and proportionality in corporate governance frameworks. The Roundtable also saw the launch of the second edition of the *OECD Asian Equity Market Review 2018* and the *OECD Report on Flexibility and Proportionality in Corporate Governance*.

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

CULTIVATING GOOD CONDUCT THROUGH SURVEILLANCE AND SUPERVISION

Promoting fair and orderly market through surveillance

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

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

Detecting and deterring transgressions

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

Maintaining quality of financial reporting

High quality, reliable and accurate financial reporting facilitates informed investment decisions. Hence, the SC continues to review financial statements of listed companies to ensure compliance with approved accounting standards. In 2018, several areas of non-compliance with approved accounting standards were identified with subsequent regulatory actions taken (Diagram 4).

Creating awareness on new accounting standards

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

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

Diagram 3

Common areas of corporate transgression and regulatory actions taken in 2018

Common areas of corporate transgression		Outcomes
Disposal of assets at below market price	Using internal funds to finance purchase of companies' own shares	Pre-empted **1** questionable transaction worth **RM7.4 million**
Sale of assets to questionable customers at a price below market value	Payment made to suppliers without receiving the goods	**5** issues involving transactions worth **RM30.8 million** under investigation

Diagram 4

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

Common areas of non-compliance

Impairment assessment
- Unreasonable and unsupported assumptions used
- Incorrect preparation of cash flow projections

Revenue recognition
- Point of revenue recognition was wrongly determined

Share-based payment
- Inappropriate valuation of schemes related to share-based payment

Joint arrangement
- Wrong classification of investments in a joint arrangement

Actions taken

Administrative actions on **3** PLCs and **12** directors

Supervisory Letters to **3** PLCs and its board of directors and **11** former directors

Ensuring orderly trading conduct through proactive surveillance

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

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

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

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

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

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

Strengthening cross-border surveillance collaboration

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

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

Reinforcing good conduct among intermediaries

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

Diagram 5

Supervisory tools and objectives

Supervisory Tools

For-cause assessments
- Cases that arise from supervisory concerns or complaints
- Engage the intermediaries to further investigate the issues

Structured assessments
- Regular periodic review
- Assess specific areas
- Verification of systems, processes or controls

Continuous off-site monitoring
- Systematic analysis of info / data to identify emerging risks
- Desktop review of policies & procedures

Objectives

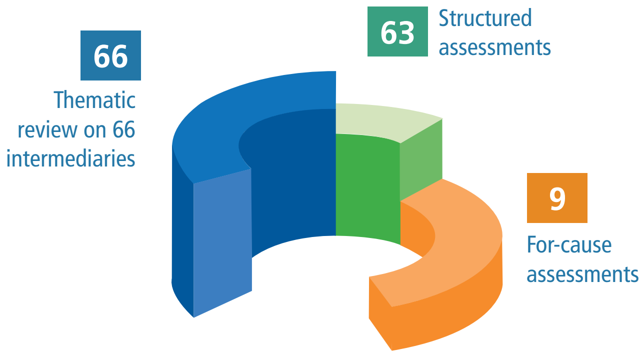
Prevention
Effective oversight for preventive action

Detection
Identification of non-sustainable trends and potential vulnerabilities

Intervention
Timely intervention to prevent the escalation of breaches and manage risk

Diagram 6

Supervisory assessments in 2018



Source: SC

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

Supervisory thematic reviews

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

Diagram 7

Supervisory outcomes

Communication

Continuous engagement at various levels within the intermediary (board, senior management, control functions) to proactively remedy identified risks

Enhancement

Incorporate lessons learnt from supervisory activities into rules, guidelines and supervisory approach

Guidance

Disseminate supervisory views including concerns and best practices through industry circulars, dialogues and workshops to align intermediary conduct with regulatory expectations

Enforcement

Enforcement action will be taken where breach has been ascertained, in particular where such sanction could serve as an effective deterrent

THEMATIC REVIEW ON LIQUIDITY RISK MANAGEMENT

BACKGROUND

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

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

SUPERVISORY OUTCOME

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

OBSERVATIONS

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

THEMATIC REVIEW ON STRUCTURED WARRANTS

BACKGROUND

Malaysia's structured warrants market has grown over the years on the back of greater retail interest.
Between 2014 and 2017, annual turnover of structured warrants increased by 177% from RM2.35 billion to RM6.51 billion with annual structured warrants issued increasing by 69.4% from 546 to 925 issues.

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

SUPERVISORY OUTCOME

Issue industry circulars on best practices for:

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

OBSERVATIONS

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

THEMATIC REVIEW ON SUSPICIOUS TRANSACTIONS REPORTS

BACKGROUND

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

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

SUPERVISORY OUTCOME

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

OBSERVATIONS

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

THEMATIC REVIEW ON SUPERVISION AND MANAGEMENT OF REMISIERS

BACKGROUND

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

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

SUPERVISORY OUTCOME

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

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

OBSERVATIONS

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

Enhancing regulatory framework for capital market services providers

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

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

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

PURSUING CREDIBLE DETERRENCE THROUGH ENFORCEMENT

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

Pre-emptive measures through cease and desist directives

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

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

January

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

April & May

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

July

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

September

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

ENFORCEMENT HIGHLIGHTS 2018

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

ADMINISTRATIVE ACTION

Holding professionals and directors accountable for their misconduct:

80 administrative sanctions were imposed:

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

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

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

CIVIL ENFORCEMENT

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

Disgorgement of illegal proceeds from market abuse:

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

CRIMINAL PROSECUTION

14 criminal charges were preferred against 8 individuals in 2018

Judicial recognition on the gravity of securities offences:

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

ENSURING RESILIENCE OF THE CAPITAL MARKET

Systemic risk surveillance in the capital market

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

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

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

Assessing vulnerabilities and risks to systemic stability

The SC continued to exercise its market risk oversight function through the Systemic Risk Oversight Committee (SROC), which is the overarching committee for the deliberation of risks and corresponding safeguards. Continuing from its work in 2017, the focus in 2018 centred on geopolitical issues and normalisation of monetary policies. The SC monitored among others, developments in the Korean Peninsula, the US mid-term election, Turkish currency crisis as well as US-China trade tensions. Impact assessments were undertaken to ascertain potential spill-over effects to the global and emerging markets as well as the domestic financial markets. Risk assessments were also carried out on fund flows following further tightening of financial conditions in light of progressive interest rate hikes by the US Federal Reserve.

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

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

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

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

Diagram 8

Risk assessment of various components in the Malaysian capital market

Equity Market and Infrastructure	• Sufficient domestic liquidity to facilitate efficient investment activities • Market-wide circuit breaker and price limit on equity are part of the risk management mechanism to address excessive market volatility. In 2018, no circuit breaker was triggered • Safety nets i.e. Securities and Derivatives Clearing Guarantee Funds are in place to manage sudden surge of stress
Bond Market	• Marginal yield movements relative to other regional markets, supported by ample domestic liquidity • Internal bond-at-risk model indicated the stress level within the corporate bond market was minimal
Listed Companies	• Corporate earnings in 2018 declined due to general economic conditions and increase in impairments by PLCs • Overall, corporate leverage remained healthy with stable trend of gearing ratios
Investment Flow	• Net outflows in the equity market is among the lowest in the region Foreign investors as a percentage of shareholdings saw minimal fluctuations and remained above the 3-year average • For bond market, foreign holdings reduction was attributed to issuances that have matured. Currently, more than 55% of foreign investors are long-term in nature i.e. central banks, sovereign wealth funds, pension funds and insurance
Investment Management	• Fund managers have measures in place to manage liquidity risk i.e. liquidity management framework to safeguard against any adverse market conditions • Cash and liquid assets held are sufficient to meet investors' redemption
Stockbroking Intermediaries	• Stockbrokers are well-capitalised, supported by sufficient liquidity buffers to address any realised or potential losses that may arise during times of stress • Current risk-based capital position remained above the prescribed minimum financial requirement

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

Enhancing approach in surveillance of systemic risks

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

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

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

Augmenting business continuity capabilities

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

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

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

Strengthening cyber risk management

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

Diagram 9

Principles embedded in the Business Continuity Framework

Business Continuity Framework					
PRINCIPLE 1	PRINCIPLE 2	PRINCIPLE 3	PRINCIPLE 4	PRINCIPLE 5	PRINCIPLE 6
Board and senior management responsibility	**Major operational disruptions**	**Recovery objectives and strategies**	**Communication**	**Testing and training**	**Maintenance and review**
Endorsement and approval of an effective framework that is proportionate to the nature, scale and complexity of business operations.	Risks of major operational disruptions, including interdependency and concentration risks are identified by the entities.	Recovery objectives and strategies are developed according to risk-based principles.	Comprehensive escalation procedures and communication plans are established and embedded in the business continuity framework to address any reputational risk from major operational disruptions.	Conducted annually to ensure effectiveness and relevance by incorporating evolving market practices, changes in key personnel and any regulatory updates.	Business continuity arrangements are maintained and regularly reviewed. Updates or changes are acknowledged, approved and endorsed by board members and senior management.

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

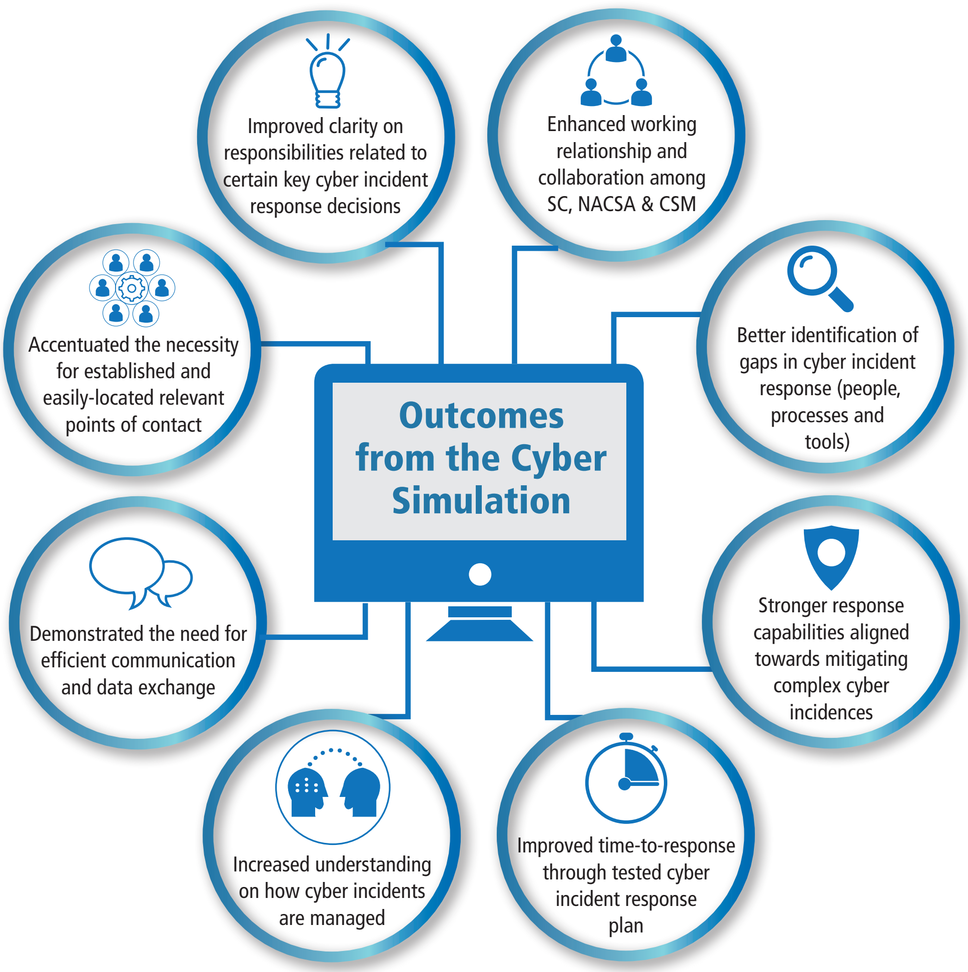
In December 2017, self-assessment questionnaires were issued to the industry to gauge controls on data management. Following the assessment, an industry circular was issued detailing several areas of improvement.

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

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

Diagram 10

Capital market cyber simulation to strengthen cyber resilience



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

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

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

Establishing a centralised cyber security platform for the industry

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

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

Through this portal, capital market entities will be able to leverage information to enhance situational awareness and detection capabilities as well as more effectively respond to and recover from incidents based on the broadcasted threat information.
The SC's engagement with stakeholders continued in 2018 with quarterly engagement sessions with representatives from industry associations to discuss cyber related issues via the Cyber Risk Working Group (CRWG). The CRWG was established to facilitate collaboration and information sharing between members to enable the industry to collectively benefit from their respective experiences and raise the level of cyber security within the capital market.

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

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

Oversight of Federation of Investment Managers Malaysia

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

The case referral framework was further enhanced in 2018 with the establishment of a Referral Working Group within the SC as a central point for referrals of serious misconduct cases. The Referral Working Group also covered cases which are not within the enforcement jurisdiction of FIMM such as breaches of securities laws and fraud. Enhanced referral processes and procedures were also put in place to ensure more timely and efficient case management as well as effectiveness of enforcement actions.

Oversight of Private Pension Administrator

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

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

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

As equity crowdfunding (ECF) and peer-to-peer (P2P) financing are relatively new segments in the capital market, the SC's priority for supervisory oversight on ECF and P2P operators is to ensure compliance with the *Guidelines on Recognized Markets*. The SC leverages its periodic engagements with operators to exchange views on trends and developments in the industry, clarify regulatory issues and communicate supervisory expectations related to products offered, fundraising campaigns and disclosure practices.

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

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

EMPOWERING INVESTORS

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

Widening the investor redress framework

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

Following the expansion of SIDREC's purview in 2017 to include a structured voluntary scheme component, SIDREC began receiving claims under this scheme in 2018. As the scheme involves claims that either have entered the court process or exceed RM250,000, it is subject to a reasonable fee and requires the agreement of both parties to use SIDREC's dispute resolution service. The scheme also permits legal counsels of both parties to participate in the process.

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

Investor Empowerment Initiatives

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

InvestSmart® Fest 2018

Over 14,000 visitors
45 exhibitors

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

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

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

#FinPlan4U Service Desk

397 individuals

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

Talks and Forums

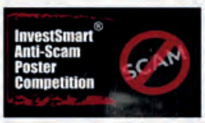
Experts and professionals lent their support in educating investors. Two well-known personalities, Jeffrey Ong, former Malaysian Olympic swimmer and Datuk Mohammad Nor Mohammed Khalid (Datuk Lat) also shared their experiences in investing, and emphasised the need to remain vigilant at all times to avoid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

Datuk Lat

Jeffrey Ong

Anti-Scam Initiatives

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



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

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

InvestSmart® Outreach

SC-in-the-Community

Over 300,000 participants across 7 cities and towns

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

InvestSmart® Targeted Programmes

1,708 participants

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

InvestSmart®@SC

407 participants

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

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

InvestSmart® Day

12 seminars

1,225 participants

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

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

Jump2Invest

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

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

Public Service Announcements

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

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

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

IOSCO WIW 2018

IOSCO World Investor Week 2018

WORLD INVESTOR WEEK 2018

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

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

InvestSmart® Tools

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

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

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