

## Monitoring Technology and Cyber Trends

Under the GTRM, CMEs are required to report technology and cyber incidents via the Vault system, a case management system platform designed for CME to report technology and cyber incidents. The Vault system also facilitates effective analysis of trends and root causes, thereby strengthening the SC's oversight capabilities.

Since the introduction of GTRM, there has been a notable increase in reported incidents, which has enhanced the SC's visibility into the industry's risk posture and reinforced efforts to ensure technology and cyber resilience within the capital market. The SC's analysis of incidents reported via the Vault from Q1 to Q4 2024 indicates that 77% were classified as technology incidents, primarily involving hardware or software failures. The remaining 23% were categorised as cyber security incidents, with data breaches being the most prevalent. These findings highlight the critical importance of robust management of software and hardware components, particularly in addressing supply chain risks. The SC strongly advised organisations to remain vigilant given their potential repercussions.

Despite a decrease in overall cyber security incidents compared to 2023, each new incident presents the risk of greater organisational impact. Notably in 2024, the increased frequency of ransomware and malware cases have brought data confidentiality risks towards affected organisations.

## Empowering Senior Leaders in Technology and Cyber Risk Management

On 10 May 2024, the SC held its inaugural 'C-Suite Forum on Managing Technology and Cyber Risk' as part of the SCxSC initiative. Approximately 180 senior executives from the capital market industry attended, underscoring the sector's commitment to addressing evolving technology and cyber risk challenges. The SC highlighted the critical role of C-Suite leadership in navigating the increasingly complex landscape of technology and cyber risk stressing that strategic guidance from senior management is essential for effective risk mitigation and resilience.

The forum provided an opportunity to discuss key findings from technology audits, capital market incident trends, and gain insights into the GTRM. Among the key takeaways shared with senior executives were the five most common findings from supervisory technology audits, as summarised in the Table 15.

**TABLE 15**

Five common supervisory technology audit findings

<b>Security Assessment</b>	<ul style="list-style-type: none"> <li>Absence of regular assessments such as penetration testing and vulnerability assessment.</li> <li>Failure to remediate findings within the approved and documented timeline.</li> </ul>
<b>Third-Party Service Provider</b>	<ul style="list-style-type: none"> <li>Absence of third-party service provider framework, policy and procedures.</li> <li>Absence of periodic assessment on the capabilities of provider during contract period.</li> </ul>
<b>Technology Audit</b>	<ul style="list-style-type: none"> <li>Frequency and scopes of technology audit are not commensurate with the business model, risk appetite and level of technology dependency of the capital market entity.</li> </ul>
<b>Technology Risk Management</b>	<ul style="list-style-type: none"> <li>Absence of technology risk management framework.</li> <li>Incomprehensive policy and procedures to support the framework.</li> </ul>
<b>Cyber Hygiene</b>	<ul style="list-style-type: none"> <li>Poor cyber hygiene practices, such as (among others):               <ul style="list-style-type: none"> <li>Weak cyber security awareness to identify threats such as phishing e-mails, compromised e-mail, malware, etc., and lack of training / latest updates on technology developments for board members and senior management to discharge oversight role.</li> <li>Irregular security patches that resulted in software not running on latest versions and mitigations controls not in place.</li> </ul> </li> </ul>

In Table 15 are the five common supervisory technology audit findings that were shared to senior executives during the forum.

The SC's analysis revealed a significant increase in reported incidents of ransomware, unauthorised access, and Distributed Denial of Service (DDoS) attacks within the industry. The SC's observations indicate that organisations are not consistently adhering to appropriate cyber hygiene practices. Many of the reported ransomware incidents are linked to Ransomware-as-a-Service (RaaS) platforms. Furthermore, there are notable gaps in detection and response capabilities, as well as insufficient preparation for handling cyber-related incidents and co-ordinating management responses. Most importantly, fostering awareness of cyber security is vital to mitigating these risks.

The forum also provided the opportunity for the SC to engage and apprise the C-Suite executives as to the SC's expectations in their management of technology and cyber risks, particularly in light of the rapid evolution of technological advancements. It highlighted the necessity for C-Suite leaders to be aware of and comprehend their crucial roles in overseeing the management of these risks.

## Technology Supervision

The SC has conducted a series of supervisory assessments focusing on new licensees and selected capital market entities. By closely monitoring and evaluating the technological capabilities and cyber security measures of these market participants, the SC aims to strengthen the resilience of the capital market, enabling it to effectively address emerging threats and seize opportunities for growth and innovation.

These assessments play a critical role in ensuring adherence to the SC standards on technology and cyber security implementation, as well as compliance to the technology risk management, as outlined in the GTRM. Through these efforts, the SC seeks to enhance the security posture of the capital market entities, fostering a well-prepared and adaptive capital market ecosystem.

## Supervision of Capital Market Intermediaries

In 2024, building on the foundations established in prior years, the SC continued to strengthen its supervision of capital market intermediaries through its risk-focused supervisory approach. This approach emphasises the importance of sound governance conduct, financial integrity and ethical practices. To ensure compliance with regulatory requirements, the SC employs a comprehensive array of tools and methodologies, which include—

- **ongoing monitoring:** The SC employs continuous monitoring by its supervisors, leveraging data analytics derived from regulatory submissions and insights gained through continuous monitoring. This proactive approach enables the SC to identify potential risks early and engage with intermediaries proactively and in a timely manner.
- **structured supervisory assessments:** The SC conducts structured supervisory assessments, which encompass both targeted and in-depth assessments on intermediaries based on identified risk factors.

- **thematic reviews:** The SC undertakes thematic reviews to address emerging risks that could impact the integrity of the capital market, ensuring that intermediaries remain resilient in the face of evolving market conditions.
- **for-cause assessments:** The SC performs investigative assessments in response to complaints, referrals, and supervisory concerns related to misconduct.

**TABLE 16**  
Supervisory assessments on intermediaries

Assessment type	Number of completed assessments	
	2024	2023
Structured supervisory assessments*	41	28
For-cause assessments	169	113
Thematic industry reviews	2**	2

Note:

\* The number of intermediaries identified for these assessments are determined through the evaluation of predefined risk factors.

\*\* The two reviews involved assessments on the adoption of the *Guidance Note on Managing Environmental, Social and Governance Risks by Fund Management Companies* and the state of preparedness of capital market intermediaries in complying with the *Guidelines on Market Conduct and Business Practices for Investment Analysts*.

Pursuant to these supervisory assessments, some notable lapses observed included the inadequate exercise of care, skill and diligence by some intermediaries, mis-selling of funds, poor documentation/record maintenance, and insufficient protection of clients' data. Accordingly, the SC issued a total of 39 communications to affected intermediaries on its regulatory concerns and expectations. The types of communications included issuance of supervisory letters, infringement notices, guidance notes, show cause letters, sanction letters etc. (Table 17).

**TABLE 17**  
Supervisory outcomes

Supervisory outcomes	2024	2023
Referral for administrative enforcement action	5	4
Industry communication/engagement	9	8
Issuance of Infringement Notices	28	37
Issuance of supervisory letters	6	4
Issuance of show cause letter	4	0
Issuance of sanction letter	1	0

The SC continues to enhance its supervisory framework and approaches particularly in priority areas such as towards curbing / addressing money laundering, financing of terrorism and proliferation towards ensuring market integrity. Further, the SC has undertaken a holistic review of the adequacy of the assessment, understanding and mitigation of risks of capital market intermediaries.

## Enhancing the Standards of Conduct of Capital Market Intermediaries

The revision to the *Guidelines on Conduct for Capital Market Intermediaries* (Conduct Guidelines) was made with the view of elevating standards of professionalism and integrity of capital market intermediaries (CMIIs).

A key focus of the Conduct Guidelines is to require CMIIs to discharge their duties professionally with care, skill, and diligence in dealing with their clients. Recognising that the 'tone at the top' is important, regulatory expectations have been clearly set out for the board and senior management. Extensive consultations with various segments of the industry were held to ensure the effective implementation of the Conduct Guidelines. In line with the objective of getting CMIIs to prioritise honest and fair treatment of their clients, the Conduct Guidelines stipulate requirements for CMIIs who provide tailored-made advice to their clients on how they must have a reasonable basis for providing such advice for the benefit of the client. The suitability assessment requirements, previously found in the *Guidelines on Sales Practices of Unlisted Capital Market Products*, have been revised and is now found in the chapter on personal advice in the Conduct Guidelines.

The Conduct Guidelines also provide for the evolving digital landscape by covering the provision of products and services on online platforms, including specific guidance for those providing digital advice services.

Safeguarding vulnerable clients is another priority, with the Conduct Guidelines offering specific provisions to ensure that intermediaries treat these clients fairly and responsibly. This measure supports capital market intermediaries in appropriately addressing the unique needs of clients who may require additional care and consideration.

The industry was given six months to familiarise themselves with the Conduct Guidelines before it into effect on 1 October 2024. This initiative underscores the

regulator's commitment to fostering an ethical, client-focused capital market environment.

### 1. **Thematic review on the role of Principal Advisers**

The disclosure-based regulatory framework for fundraising activities has heightened the reliance on and significance of Principal Advisers (PAs) in delivering credible information regarding corporate proposals. The role of the PAs includes ensuring that proposals submitted by them are accurate with no material omission as well as do not contain false or misleading statements. Consequently, PAs are required to conduct thorough due diligence to substantiate, to the best of their ability, the accuracy of the information presented in the corporate proposals. Recognising the vital role of PAs, the SC conducted a series of assessments on selected recognised PAs mainly to assess their compliance with the SC's *Guidelines on Submission of Corporate and Capital Market Product Proposals*.

### Observation

Generally, the SC observed that the PAs met the expected standards in the preparation and submission of corporate proposals to the regulators, with room for improvement in maintaining comprehensive documentation as evidence to the activities carried out. Among others, the SC observed:

 <p>Policies and procedures governing the role of PAs are in place</p>	 <p>Activities of PAs are adequately supervised with clear line of responsibility and authority</p>	 <p>Conflict of interest checks and risk assessments are carried out when accepting mandates</p>
 <p>Reasonable due diligence were conducted to substantiate information on the corporate proposals</p>	 <p>Quality reviews are conducted prior to submission of corporate proposals to the regulators</p>	 <p>Second and third line of defense reviewed the adequacy and effectiveness of corporate finance activities</p>

Outcome

While maintaining comprehensive documentation can be time-consuming, the extensiveness of the documentation maintained by the PA demonstrates that reasonable enquiries had been made by the PAs and will serve as due diligence defence. This is an essential aspect of the role of PA as it safeguards not only the PA's professional reputation but also ensures the applicants receive the highest level of service from the PA and investors' interests are protected.

2. Thematic review on referral and marketing arrangements

The SC is cognisant of the evolving need for businesses to adopt innovative ways to promote and market capital market products/services including leveraging the use of technology and social media. Consequently, in January 2024, the SC conducted a thematic review on selected capital market participants. The initiative was to assess the governance and oversight of their current marketing practices, the conduct of marketing representatives<sup>5</sup> (MR) and any other persons conducting marketing and referral activities which have evolved in response to technological innovations.

Participants were assessed on various perspectives i.e. compliance with *Guidelines on Marketing Representatives* (MR Guidelines), governance structure and processes, recruitment and onboarding, usage of online/social media platforms, ongoing monitoring, training and remuneration.

Observation

Selected intermediaries were assessed on various perspectives i.e. compliance with *Guidelines on Marketing Representatives* (MR Guidelines), governance structure and processes, recruitment and onboarding, usage of online/social media platforms, ongoing monitoring, training and remuneration. Broadly, it was observed that these intermediaries have processes in place to recruit, onboard and remunerate their MRs. Concurrently, basic policies and procedures were also established to govern their marketing and referral activities, such as:

- ensuring that marketing and promotional activities carried out on social media platforms for its products and/or services are not misleading and only directed to the targeted audience.

- putting in place consequence management frameworks to govern misconduct and/or breaches of regulatory requirements or internal policies and procedures by its MR.



Outcome

Although the selected intermediaries, in general, have proper processes in place, the SC will continue to engage these intermediaries as there is room for further improvements in ensuring the proper conduct of MRs. Among others, to have a consistent oversight framework on MR and enhance monitoring on the use of social media in view of the evolution of marketing via these platforms. The findings of these on-going engagements may result in enhancements to the current guidelines.

Supervision of Exchanges and Financial Market Infrastructures

Supervision of Bursa Malaysia Bhd

The regulatory framework for Bursa Malaysia Bhd (Bursa Malaysia) was designed to ensure the securities and derivatives exchanges, clearing houses and central depositories (approved institutions) continue discharging their mandates and functions effectively in adherence with the statutory requirements for a fair and orderly market to safeguard public interest and investor protection.

The SC's supervisory approach had been operationalised to facilitate effective supervision of the approved institutions through reporting obligations, engagements,

<sup>5</sup> Marketing Representative (MR) as defined in MR Guidelines means a person who acts as an introducer for a principal, undertakes marketing of the services, provides client support services and is registered with the principal.

ongoing reviews of regulatory submissions and regulatory assessment (RA).

In 2024, the SC conducted a series of supervisory engagements with Bursa Malaysia aimed at enhancing collaboration pertaining to listing and enforcement matters for regulatory effectiveness, as follows:

- In May 2024, a high-level dialogue with Bursa Malaysia was conducted following an RA on its listing function, which focused primarily on the ACE Market One-Stop Centre, administration of secondary fundraising and relief applications. Recommendations were made on certain areas to ensure procedural clarity, operational resilience and effective decision-making; and
- In July 2024, a regulatory off-site engagement with Bursa Malaysia was held to discuss its Regulatory Plan 2024-2026 and address key regulatory issues. Among the key regulatory areas covered with agreed actions include the administration of Bursa Malaysia's enforcement framework and enhancement of supervisory co-ordination with the SC to safeguard the investing public and maintain market confidence.

### **Supervision of Recognized Market Operators**

The SC's regulatory framework on RMOs comprising equity crowdfunding (ECF), P2P financing, DAX, e-services platform and initial exchange offering platform operators, aims to facilitate the growth of responsible financial innovation commensurate with a balanced supervisory approach to ensure proper conduct of operators for investor protection and market integrity.

Accordingly, the SC adopts a risk-based approach to its supervision of RMOs, premised on relevant data points including specific risks posed by types of operators and its activities, and complaints trends. Considerations were also made to the outcome of a sectoral risk assessment report completed in 2024 in relation to virtual assets<sup>6</sup>.

The adopted supervisory approach encompasses a range of activities including regular interactions with operators, ongoing reviews of regulatory submissions, thematic reviews, RAs, and complaints handlings relating to among others, governance, operations, cyber security, and system integrity.

In 2024, the SC enhanced its oversight on the RMOs given the increasing participation of issuers and investors, substantial growth of fundraising activities and the number of trading platforms. The supervisory efforts carried out include—

- five RAs which focused on compliance with anti-money laundering requirements as well as the adequacy and effectiveness of ongoing due diligence frameworks in accordance with the relevant guidelines;
- three thematic assessments in relation to compliance with key provisions of the *Guidelines on Recognized Markets*, compliance with the *Guidelines on Prevention of Money Laundering, Countering Financing of Terrorism, Counter Proliferation Financing and Targeted Financial Sanctions for Reporting Institutions in the Capital Market* (AML Guidelines) as well as on RMOs' understanding of proliferation financing obligations conducted pursuant to amendments to the AML Guidelines; and
- 41 *ad-hoc* assessments following the SC's ongoing monitoring exercises as well as complaints and referrals received from the public and other regulatory agencies.

Following these assessments and reviews, the SC observed several critical areas requiring improvement by the relevant RMOs in ensuring a robust compliance culture and operational efficiency, among others, consistency in the implementation of policies and procedures, enhancement on record-keeping, and strengthening governance and oversight of the board of directors.

Notably, following an RA exercise completed in 2024, an administrative action was initiated against Tokenize Technology (M) Sdn Bhd, an RMO-DAX, for failure to adequately carry out, among others, control measures pertaining to anti-money laundering.

### **Supervision of Self-Regulatory Organization**

The SC's oversight on the Federation of Investment Managers Malaysia (FIMM) aims to ensure that it continues to discharge its mandates effectively as a self-regulatory organization for public interest with particular regard for the protection of investors.

<sup>6</sup> Virtual Risk Assessment 2024 which can be accessed at <https://www.sc.com.my/aml/publications>.



In 2024, the SC carried out supervisory engagements with FIMM pertaining to its governance, operations, regulatory efforts, and industry development initiatives. These engagements were complemented by ongoing reviews of regulatory submissions in ensuring FIMM maintains adherence with the statutory requirements and regulatory expectations. The SC also conducted a series of engagements with FIMM to exchange insights on strategic issues and key regulatory concerns.

The SC had participated in FIMM’s annual convention to observe issues and trends surrounding the fund management industry, particularly on marketing, distribution and sales practices involving unit trust and private retirement schemes.

Aside from FIMM’s continued regulatory and industry development efforts, the SC observed that FIMM had introduced various initiatives for capacity building, to enhance compliance culture and market’s financial literacy towards greater operational effectiveness.

Supervision of Private Pension Administrator

The SC supervises the Private Pension Administrator (PPA) in ensuring proper discharge of its functions as a central administrator for Private Retirement Schemes (PRS), including providing education on investment and retirement saving through PRS.

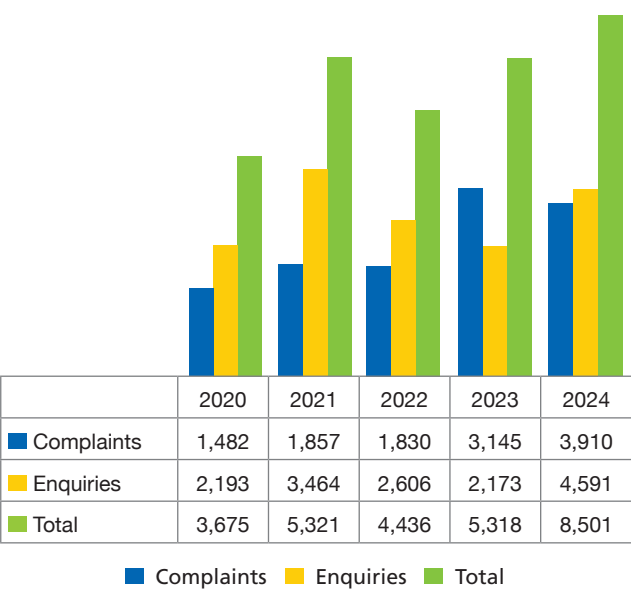
In 2024, PPA continued to provide enrolment and top-up service via the PRS Online platform for its members and the public. Various efforts for investor education, including marketing initiatives and promotional campaigns were also introduced to elevate public awareness and literacy on PRS, which is pivotal to facilitate greater growth of the PRS industry.

COMPLAINTS AND ENQUIRIES

The SC reported a significant rise in the overall number of complaints and inquiries received in 2024 compared to previous years, indicating a consistent upward trend over the years.

In 2024, the SC received a total of 8,501 cases, consisting of 3,910 complaints and 4,591 enquiries. This represents a 60% increase from 2023 (Chart 1).

CHART 1  
Complaints and Enquiries (2020 – 2024)



The increase was mainly contributed by unlicensed activities and scams that formed 51.3% and 62.2% respectively of the total complaints and enquiries received (Chart 2 and Chart 3).

CHART 2  
Classification of complaints

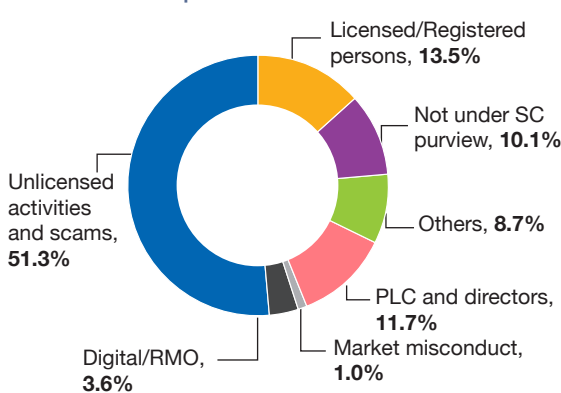


CHART 3  
Classification of enquiries

