

Regulatory Statement

Bursa Malaysia has an obligation to ensure our markets operate in a fair, orderly and transparent manner. Being the frontline regulator of the Malaysian capital market, we are committed to discharging our regulatory role in a manner that is effective, balanced and independent. In 2013, we continued to undertake and discharge our regulatory role to ensure, so far as reasonably practicable, an orderly and fair market underpinned by adequate levels of investor protection. We continued to adopt a five-pronged approach in regulating the market namely through regulatory development, supervision, engagement, enforcement and stakeholder education. Our regulatory policy and supervisory approaches are regularly assessed to ensure effectiveness and efficiency.

DEVELOPMENT OF THE REGULATORY FRAMEWORK

Bursa Malaysia has in place a comprehensive and effective regulatory and supervisory framework to regulate the market and its participants. We continuously develop and fine-tune our rules to ensure that they are effective and promote efficiency and growth in the market. The year saw us refining the rules primarily to enhance the regulatory framework and cater to existing product and service enhancements as well as new products and services. Some of the key changes made were a revamp of business rules, changes to the listing requirements in relation to business trusts, stapled securities and shortening of the timeframe for issuance of annual reports. We also made changes to the derivatives exchange rules to facilitate the launch of Gold Futures Contracts as well as implemented changes to the depository rules for sending of eStatements, among other communications, to depositors.

SURVEILLANCE OF THE MARKET AND LISTED ISSUERS

The trading landscape has evolved significantly over the years for both the equities and derivatives markets, and these markets on the whole have been operating in a fair and orderly manner. We take various regulatory actions when trading concerns are detected, depending on their severity and scale. Where there are breaches of our rules or securities laws, regulatory actions can range from engagement with the brokers, issuance of unusual market activities (UMA) queries, market alerts, and designation or referral to the relevant parties, including the Securities Commission. We take a proactive stance in engaging with brokers individually to highlight unacceptable trading practices and good trading practices.

We undertake real-time surveillance of trading and our surveillance capability has been enhanced by the deployment of our new Market Surveillance System (MSS) which is enabling us to improve our surveillance detection, analysis and reporting of trading concerns. The system provides a robust monitoring mechanism coupled with a high degree of automation and capacity to handle large amounts of data. The MSS enables us to enhance our analysis of trading irregularities which in turn helps to improve the timeliness of the actions taken to ensure that such irregularities do not jeopardise the integrity of our capital market.

Similarly, we also undertake surveillance of our Listed Issuers to ensure compliance with the Listing Requirements as well as to detect, and if possible, pre-empt corporate irregularities that could undermine confidence in our capital market. Our corporate surveillance actions also aim to guide, assist and facilitate Listed Issuers to comply with the Listing Requirements and observe good practices of corporate governance.

Our corporate surveillance and governance activities include the following:

- a. Detection of possible irregularities or corporate misconduct, possible abusive/dubious transactions and breaches of our rules through regular monitoring and analysis of developments and red flags;
- b. Engagement with the directors or auditors of the Listed Issuers and other intermediaries to address concerns not only relating to a breach of the Listing Requirements but also poor corporate governance practices or other undesirable practices to share our expectations so as to bring about higher corporate governance standards; and
- c. Undertaking thematic studies to detect emerging trends and issues, and consider appropriate actions to address or mitigate these issues or trends, including issuance of directives or proposing changes to the regulatory framework.

QUALITY AND TIMELY DISCLOSURES

Timeliness and quality of disclosures remain a key area of focus for us. Generally, there has been significant improvement in the standard of disclosures in our market. The adherence by Listed Issuers to providing financial information on a timely basis too remains strong with 99.5% of our Listed Issuers having issued their financial statements within the timeframe required under the rules. Whilst there has been vast improvement in the quality of disclosures, we remain committed to undertaking efforts to enhance the disclosure culture.

Our efforts to improve corporate disclosure involve a wide spectrum of initiatives and activities. In addition to the monitoring of compliance with disclosure obligations through our review of announcements made and circulars issued by Listed Issuers, our other initiatives include organising a series of education programmes for directors of Listed Issuers. These programmes aim to encourage Listed Issuers to have proactive disclosure culture while instilling in them the mindset of providing investors with comprehensive and quality information on a timely basis (and not merely to meet the minimum regulatory requirements). Furthermore, to aid better understanding of the Listing Requirements, we have established the Listing Advisory Unit in order to

make available a dedicated team to handle enquiries in relation to the Listing Requirements. In this respect, all enquiries regarding Listing Requirements are centralised at the Listing Advisory Unit to ensure that all enquiries are attended to and resolved in a timely manner.

CORPORATE GOVERNANCE STANDARDS AND SUSTAINABILITY PRACTICES

We continue to prioritise the enhancement of corporate governance by boards of Listed Issuers in Malaysia. We issued the second edition of the Corporate Governance Guide - Towards Boardroom Excellence to assist directors to further enhance the Corporate Governance culture in their respective companies. The Guide was issued after extensive consultation with the industry.

We continue to engage with listed companies and directors on enhancement of corporate governance and sustainability practices. In this respect, we undertook assessments, conducted advocacy programmes for directors as well as training in specific areas such as corporate governance and sustainability.

We conducted advocacy programmes on the quality of the board, risk management and internal controls as well as corporate sustainability awareness and reporting programmes. The risk management and internal controls advocacy sessions were conducted to enhance the knowledge of risk officers, internal auditors and chief financial officers about the revised requirements of the Statement on Risk Management and Internal Control. We conducted a survey to further understand the effectiveness of the finance function amongst Listed Issuers and discussed some of the challenges faced by Listed Issuers in the risk management and internal control sessions. These advocacy sessions also gave us the opportunity to emphasise the importance of the role of board committees and senior management in upholding good governance and sustainability practices. For example, we conducted several sessions for chairmen as part of our Board Chairmen series to highlight the leadership role of board chairmen in determining board culture.

We worked closely with 'gatekeepers' who are instrumental in influencing and improving the culture of governance among Listed Issuers. We held discussions with auditors and company secretaries to address challenges and methods of improving governance practices. In addition, we undertook initiatives to enhance board diversity including greater participation of women on boards. We further engaged with several organisations to assist in improving the number of women on boards in line with government initiatives. We held dialogues with Listed Issuers on their corporate governance statements in annual reports and provided them with feedback to improve disclosure even further.

STANDARDS OF BUSINESS CONDUCT OF BROKERS

In 2013, we continued with robust supervision of brokers through both on-site and off-site monitoring activities with respect to the financial health of brokers and their compliance with the business rules to maintain their financial strength. All Participating Organisations (POs) and Trading Participants were in compliance with the minimum financial requirements. There were also no material findings affecting the overall systemic risk of the industry and no industry-wide breaches in 2013.

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In addition, we also rolled out several initiatives in 2013 to strengthen brokers' governance and conduct as stated below.

- a. The Self Examination Approach (SEA) - to promote the practice of self-reporting among brokers. The SEA aims to help participants to identify and monitor high risk areas to contain the risk of major breaches. It enables weaknesses and risks to be addressed and corrected at early stages and advocates a high standard of business conduct.
- b. The Green Lane Policy (GLP) - to enhance business efficiency for equity brokers as well as encourage greater self-regulation. Only POs that have met the criteria of familiarity and supervisory controls as well as displayed high standards of business conduct are eligible to adopt the GLP and avail themselves of the incentives under it. As of 31 December 2013, some 68% of brokers had qualified for the GLP.

We continued to carry out educational programmes for the brokers and their registered persons in 2013. The programmes are aimed at supplementing and enhancing participants' knowledge and understanding of our regulatory requirements. These programmes include collaboration with industry associations and professional bodies.

ENFORCEMENT ACTIVITIES

As part of our measures to secure compliance by our regulated persons of our rules, we take appropriate actions for non-compliance including enforcement/disciplinary action for serious non-compliances or breaches.

In 2013, we took 81 enforcement actions against listed companies, directors and advisers for various breaches of the Listing Requirements, whereas in respect of brokers and other registered persons, a total of 89 actions were imposed for various breaches of the Business Rules.

We note that there has been a significant decline of more than 50% in breaches relating to financial reporting obligations (in terms of timeliness and accuracy) from 2008 until now. We believe this lower number of breaches and increased level of compliance could be due to the strict enforcement by Bursa Securities in respect of these financial reporting breaches from 2008 onwards. The greater emphasis on director enforcement for such breaches coupled with communication and education by Bursa Securities, too have been instrumental.

In 2013, amendments were also made to the Listing Requirements and the Business (Securities) Rules. Under these amendments, a person who has committed certain specified breaches would be given the option by Bursa to resolve the breach by way of an expedited enforcement proceeding instead of a full enforcement proceeding. Furthermore, in a full enforcement proceeding, a person who has breached the rules may also propose to settle/resolve the matter by agreeing with Bursa Malaysia on certain facts, liability or penalty in relation to the breach. These enhancements enable enforcement actions to be resolved and completed expeditiously.