

# REGULATORY STATEMENT

## “Building on our Regulatory Strengths for Sustainable Growth”

We have an obligation to ensure that our markets operate in a fair and orderly manner. To this end, we have established sound regulatory foundations for our markets, achieving favourable outcomes in key areas such as disclosure, corporate governance, and standards of business conduct. There is high level of compliance with our rules. In 2014, we focused on enhancing market quality and facilitating sustainable growth of the markets we operate.

### DEVELOPMENT OF THE RULES FRAMEWORK

Rules are essential for market regulation and development. We continuously review our rules to ensure that they are balanced, current, effective, consistent and facilitative of market development, providing a clear, comprehensive and accessible set of rules to regulate the market and its participants. In 2014, the key developments of our rules framework included:

- a. Changes to enhance the regulatory framework and market efficiency (including changes to the Rules of Bursa Malaysia Derivatives in relation to amendments to Contracts, Position Limits and Specified Exchanges and changes to the Rules of Bursa Malaysia Depository in relation to the closure of dormant accounts);
- b. Changes to facilitate the offer of new or enhanced products or services (including changes to the Rules of Bursa Malaysia Derivatives in relation to the introduction of the USD Refined, Bleached and Deodorised (RBD) Palm Olein Futures (FPOL) Contract and the changes to the contract specifications of the 5-Year Malaysian Government Securities Futures (FMG5) Contract); and
- c. Changes to achieve compliance or consistency with changes made during the year to the guidelines of the Securities Commission (including amendments to the Securities Commission’s outsourcing requirements).

In 2014, we issued four public consultation papers on the following initiatives to seek public feedback on proposed rule changes:

- a. Review of Main Market Listing Requirements e.g. related party transactions, regularisation plans for financially distressed listed issuers;
- b. Closure of dormant accounts in respect of the Rules of Bursa Malaysia Depository;
- c. Non face-to-face verification for account opening in respect of the Rules of Bursa Malaysia Depository; and
- d. Review of the ACE Market Listing Requirements to enhance the attractiveness of the ACE Market.

### EFFICIENT CAPITAL RAISING FRAMEWORK

We are focused on enhancing the effectiveness of our capital raising framework by, among others, improving the efficiency and cost-effectiveness of our processes. We continue to ensure that our time-to-market for secondary fundraising is competitive and on par with other markets in the region. Capital raising through the secondary issuance of securities remained active in 2014, with total funds raised increasing from RM14.34 billion in 2013 to RM18.38 billion in 2014.

In 2014, Bursa Malaysia embarked on a review of the ACE Market framework to enhance its competitiveness, with the objective to clarify the admission criteria and liberalise certain requirements on sponsorship and moratorium on sponsors. Following industry engagement to gather feedback, a consultation paper containing various proposals to enhance the ACE Market framework was issued on 18 November 2014 for public comment. The proposals, once approved, are expected to be issued in 2015.

### SURVEILLANCE OF THE MARKET AND OF LISTED ISSUERS

Our main focus in the area of market surveillance is to detect and deter abusive trading practices and facilitate genuine price discovery, which are key to building and maintaining market confidence. Trading in the securities and derivatives markets remained dynamic in 2014, with necessary measures taken to ensure they remained fair and orderly. We monitored vigilantly trading activities and utilised the various regulatory tools at our disposal to address trading concerns, including suspected market manipulation, and safeguard the orderliness and fairness of dealings. We also engaged market participants to address instances of trading concerns. Possible violations were referred for investigation and enforcement. We also issued unusual market activity queries to listed issuers to obtain disclosures that could explain unusual movements in price and/or volume.

Additionally, we engaged brokers to enhance their surveillance of trading activities that take place in their respective broking houses. To this end, during our inspection of brokers, we reviewed the effectiveness of front office monitoring implemented by brokers and provided recommendations to further improve the effectiveness of their monitoring capabilities, including, where possible, recommendations to invest in electronic monitoring systems. We continued to provide guidance to brokers in establishing surveillance monitoring functions by recommending key indicators and alerts that should be present in their system.

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With regards to listed issuers, our focus in the area of corporate surveillance is to ensure our listed issuers comply with the Listing Requirements (LR). To this end, we continued to improve our detection capabilities and conducted thematic studies to identify areas of concern and addressed them as necessary. In 2014, we monitored the financial condition and corporate developments of listed issuers, and concerns noted were addressed through effective regulatory actions including pre-emptive actions. All possible material breaches of LR were forwarded to the investigation department and those which involved potential breach of the law were sent to the relevant regulatory authorities.

We continued to enhance our surveillance capabilities by adopting new systems, as well as providing staff with up-skilling programmes. All these contributed to timely regulatory measures to guard against abusive practices.

### QUALITY AND TIMELY DISCLOSURES

Our focus remains on increasing the timeliness and quality of disclosures made by listed issuers. Accordingly, we continued to review our supervisory approaches as well as implemented new approaches relating to announcement and circulars. In the course of our continuous supervisory activities, we also sought to ensure that investors are provided with adequate information by reviewing corporate announcements, circulars and media articles on corporate information as well as monitoring the timeliness of financial report submissions. Moreover, to enhance the quality of disclosures in Independent Advice Letters (IAL), we issued the Best Practice Guide for IAL in July 2014. The Guide clarifies the role of an Independent Adviser and provides guidance on the standards of disclosure in IALs.

In cultivating a stronger culture of disclosure, we undertook greater engagements with listed issuers through our advocacy programmes on corporate disclosures for directors of listed issuers. In 2014, we embarked on a new initiative comprising customised advocacy sessions for listed issuers and technical advocacy programmes for company secretaries. During the year, we undertook the following programmes which were attended by 667 directors and senior management of listed issuers and 665 company secretaries:

- a. Four advocacy sessions for Directors of Public Listed Companies (PLCs)
- b. Six technical briefings for company secretaries
- c. Two customised advocacy sessions for selected listed issuers

The Listing Advisory Team, established in 2013, also facilitates understanding of the disclosure requirements and other obligations as stipulated in the Listing Requirements. In 2014, we improved its functionality by implementing an online Customer Relationship System (the Listing Advisory Portal) to receive enquiries on matters relating to Listing Requirements. The turnaround time in responding to queries remained swift, ranging from one to three days depending on the complexity of the matter.

As a result of these initiatives, 2014 saw improved standards of disclosure and a high level of adherence to the prescribed requirements. We noted a general improvement in the quality of disclosure in circulars with queries issued on announcements being lower at 0.82% of total general announcements, as compared to 1.1% in 2013. The adherence to the timeliness of submission of periodic financial information remained strong in 2014 at 99.48%, as compared to 99.52% in 2013.

### CORPORATE GOVERNANCE STANDARDS AND SUSTAINABILITY PRACTICES

Bursa Malaysia is focused on having a strong culture of corporate governance (CG). In 2014, our efforts were recognised in a survey undertaken by the Asian Corporate Governance Association in collaboration with CLSA Asia Pacific (ACGA CG Watch). The survey noted that Malaysia is the only capital market in the region that has consistently improved its CG performance, with its score for CG rules and practices improving from 52% in 2013 to 55% in 2014, and from 38% in 2013 to 43% in 2014 in the area of CG culture.

As part of this effort to improve the quality of corporate governance disclosures in annual reports, we undertook an assessment of 300 annual reports of listed issuers. We assessed the quality and level of disclosures in the Corporate Governance Statement, Audit Committee Report and Statement of Internal Control. We issued the report and engaged with the listed issuers by providing them with the results of our assessment to improve their disclosures.

As in previous years, we engaged with gatekeepers such as the Minority Shareholder Watchdog Group and the Institute of Internal Auditors, as well as international investors, to promote good CG culture.

Continuing our efforts to improve market quality through good sustainability performance and reporting, we assessed listed issuers' sustainability reports to identify areas for improvement and new opportunities, and engaged with investors and other stakeholders to formulate strategies to improve sustainability performance and reporting.

### STANDARDS OF BUSINESS CONDUCT OF BROKERS

We remain focused on ensuring sound business conduct, that brokers comply with minimum financial requirements, and that incidences which pose systemic risk to the market do not arise. Thus, in 2014 we continued our on-site audits and monitoring of brokers' financial health, client asset protection, business conduct and compliance with our rules. All brokers were found to comply with the minimum financial requirements. Additionally, there were no material findings that could cause systemic risk to the industry and no industry-wide breaches in 2014.

Furthermore, we rolled out several initiatives in 2014 to increase the ease of doing business. These initiatives included:

- a. Straight Through Processing (STP) for Registration – Application requirements of participants were simplified to enable one-time applications for participants by establishing an electronic link between Securities Commission's Electronic Licensing Application (ELA) System and Bursa Malaysia's Integrated Participants Registration Information System (IPRIS).
- b. Non Face-to-Face Approach for Flexible Account Opening for Individual Clients – A regulatory framework was introduced to allow brokers to open accounts without requiring clients to be present in person or before an acceptable witness, thus enabling the use of technology such as online mediums to expedite the opening of accounts.
- c. Flexibilities on Account Opening for Prescribed Corporate Clients – A regulatory framework was introduced to simplify the requirements of account opening documentation for prescribed corporate clients.

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We also embarked on several initiatives to enhance the management of cyber threats, namely:

- Issuing guidance notes to brokers on managing the risks of cybercrime and on enhancing the resilience of their networks
- Developing an inspection programme to assess and review brokers' measures to combat cybercrime/cyberattacks
- Conducting continuous engagements and advocacy efforts to increase awareness of these matters

### ENFORCEMENT ACTIVITIES

Enforcement of the Listing Requirements and Business Rules is necessary to secure market integrity and uphold investor protection. In initiating enforcement proceedings, due process is undertaken to give defaulting parties the opportunity to explain their actions prior to determination of breach and appropriate sanctions. Where a breach is determined, sanctions are imposed appropriate to the nature, circumstances and severity of the transgression, taking into account the character and background of the defaulting party and any mitigating or aggravating factors. Possible sanctions include public/private reprimands, fines, suspension or striking off. Our focus is always on ensuring an adequate level of investor protection and deterring violations through enforcement actions.

In 2014, a total of 78 enforcement actions (reprimand and above) were taken against 21 listed issuers and 38 directors of eight listed issuers for various breaches of the Listing Requirements. As part of enforcement, we also issued directives against the defaulting parties including, where relevant, directives for directors to undergo mandatory training as well as for errant listed issuers to conduct limited reviews on quarterly reports.

As a result of our regulatory and enforcement activities, we noted a declining trend of more than 60% in the number of delays in submission of financial statements and in the deviation of financial figures reported (i.e. profit and loss) between audited and unaudited accounts since 2008.

A total of 44 enforcement actions (reprimand and above) were taken against brokers, their key personnel and dealer representatives for various breaches of the Business Rules, which included market offences or trading related breaches (for which enforcement actions were taken against 14 Dealer's Representatives (DRs)). In an effort to improve the conduct of errant DRs, we also issued directives for mandatory training requirements when misconduct showed ignorance or lack of understanding of the rules and requirements, similar to the approach under the Listing Requirements.

### UTILISATION OF FINES AND TRANSFER FEES

In 2014, the functions of the Capital Market Education & Integrity Fund (CMEIF) Committee were subsumed under the Regulatory and Conflicts Committee (RACC). The CMEIF consists of all the fines imposed by Bursa Malaysia and its subsidiaries and transfer fees collected, and does not form part of Bursa Malaysia's revenue. The CMEIF may only be utilised for, among others, education/advocacy programmes with the aim to elevate standards of CG, disclosure and business conduct as well as matters relating to the capital markets, including investing knowledge for our market participants and investors.

In 2014, 62 advocacy programmes were conducted for Directors of listed issuers, Chief Financial Officers, Chief Risk Officers, internal auditors, company secretaries and brokers. These programmes were well-attended by 3,389 participants representing 942 PLCs and 49 brokers (equities and derivatives).

**“We see regulatory strength as a strong value proposition for our markets”**

- **99.5% timely submission of financial statements**
- **Improved scores in ASEAN CG Scorecard ratings from 62.3 in 2012 to 71.7 in 2013**
- **Analysis of Corporate Governance Disclosures in annual reports showed high level of adherence to the Listing Requirements**
- **Efficient capital raising for secondary fund raising- comparable with other markets**
- **Trading remained fair and orderly**
- **No industry-wide breaches of our business rules**
- **Our brokers' Capital Adequacy Ratios are well above the minimum requirement**