

Trading surveillance system weeds out malpractices on Bursa

High-tech system capable of identifying trading behaviour patterns rapidly in both the equity and derivatives markets



by Cheah Chor Soi

IN its quest to uphold investor protection, Bursa Malaysia, through its Market Surveillance division, has been conducting realtime trading surveillance across the market to detect and deter abusive trading practices.

This will also facilitate genuine price discovery (real buyer and seller situation) which are key to building and maintaining market confidence.

Its surveillance team comprises 23 staff with past experience from both the securities industry and regulatory environment, notably in the areas of trading (past dealers), analysis, research, fund management, business development, compliance, supervision, audit and/or investigation.

"In carrying out effective surveillance functions, the team is also supported by the realtime market surveillance system (MSS), analytic tools and a comprehensive surveillance framework," Bursa Malaysia Bhd tells *FocusM*.

Implemented since end-December 2012, the MSS is a multi-market advanced surveillance system with configurable alerts capable of identifying trading behaviour patterns rapidly in both the equity and derivatives markets.

Developed by an electronic trading

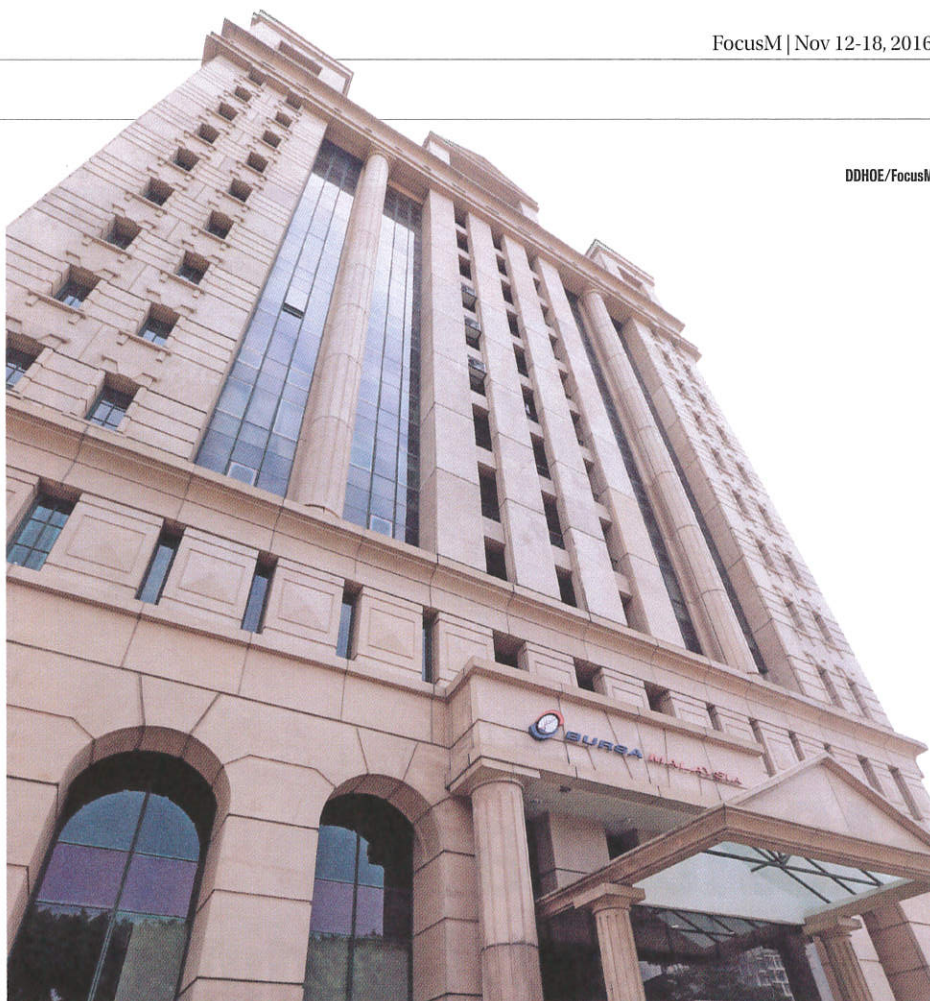
system specialist, the MSS allows surveillance to cover both the brokers' and investors' levels. It also boasts a comprehensive market replay capability whereby it can promptly reconstruct trading activities of the market as it occurs, allowing transactions and effects on the market to be closely reviewed, where required.

Moreover, the MSS is also flexible, adaptable and scalable towards any changes to the trading and regulatory landscapes as well as technological advancement with huge capacity to store, retrieve and play back historical data for several years online and longer period off-line.

"In addition to generation of alerts, the MSS also provides surveillance reports which facilitate more expeditious and efficient surveillance analysis and review towards determination of regulatory actions," Bursa Malaysia points out.

Zooming into the *modus operandi* of the surveillance system, it is learnt that the trading activities of the securities and derivatives markets are monitored on a realtime basis with the assistance of, among others, alerts of unusual price and/or volume movements which are based on internationally benchmarked parameters and techniques.

Any alert triggered will be assessed by Bursa Malaysia's market surveillance unit by analysing and identifying the trading behaviour patterns rapidly at both broker and investor levels as well



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as determination of the appropriate regulatory actions such as issuance of unusual market activity query as well as pre-emptive actions.

Whenever trading irregularities/manipulation is determined, Bursa Malaysia's market surveillance unit will initiate engagements with the affected brokers/market participants. This is to highlight and communicate to the affected brokers so that they can undertake the necessary review of identified possible trading irregularities/manipulation, thus putting a stop to any trading determined to be manipulative/potentially manipulative.

Further pre-emptive measures such as issuance of "market alerts" may be made by Bursa Malaysia to alert the investing public about the excessive nature of trading (although

not necessarily involving manipulation) in a counter (be in the price or volume traded) and to advise them to exercise caution and to make informed decisions in the trading of the securities.

Year-to-date, the front line regulator has issued four "market alerts" in relation to the securities of Lay Hong Group Bhd, Aturmaju Resources Bhd, Versatile Creative Bhd and Yen Global Berhad (2015: Wintoni Group Bhd and XOX Bhd).

"However, this type of market-wide alerts are not frequent and the number is low, a reflection of orderly market," asserts Bursa Malaysia.

Designated counters

Another preemptive action/measure is through the imposition of "designated counters" on the affected securities. This means investors are still allowed to trade in the counter/securities but will be required to make payment upfront before buying, and a free balance of securities before selling.

"Bursa may impose such a measure if excessive speculation and/or suspected manipulation continues after all other preemptive measures taken and the specified criteria for issuance of designated counter is fulfilled," suggests the stock market regulator. The last designated counter was Harvest Court Industries Bhd in 2011 and prior to that, Iris Corp Bhd in 2006.

In the event where a breach of rules or law is detected, case referral will be made by the market surveillance unit for further investigation and enforcement proceeding to Bursa's Investigation and Enforcement divisions (breach of Bursa's rules by brokers, dealer representatives and such other parties registered by Bursa Malaysia) or to the Securities Commission (for possible offences under the Capital Market & Services Act, including insider trading provisions).

"Where an offence is established, enforcement proceedings will be initiated against the relevant parties," stresses Bursa Malaysia. "While we believe we are vigilant and effective in monitoring trading activities to ensure the trading undertaken is fair and orderly through the various regulatory actions, there is a need to continuously innovate and adopt given the dynamic trading landscape."

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Bursa Malaysia's regulatory approach

AS a frontline regulator, Bursa Malaysia is committed towards ensuring market integrity and quality through, among others, the provision of timely and comprehensive material information to facilitate informed investment/trading decision as well as trading is done in a fair and orderly manner.

Towards ensuring an orderly, fair and transparent market place, the stock market regulator undertakes the following five-pronged regulatory approach which focuses on adequacy of regulatory framework and rules, supervision and monitoring, engagements, enforcement and advocacy/education:

- ▶ **Comprehensive and adequate framework and rules:** In ensuring an adequate regulatory framework, Bursa undertakes regular review of its framework and rules. The rules are benchmarked and comparable with developed markets and clear to the market participants so as to facilitate compliance.
- ▶ **Monitoring and surveillance:** Bursa undertakes supervision, surveillance

and monitoring of, among others, corporate activities and disclosures and trading activities with emphasis on detection and preemptive actions.

- ▶ **Engagement:** To instill good self and market discipline as well as a form of education, Bursa engages with relevant parties such as listed companies and their directors, brokers, compliance officers in various forums whereby it shares and discusses with market participants its focus areas, best practices, key trends observed and at the same time procure feedback with a view to improving its regulatory oversight.
- ▶ **Enforcement:** Enforcement has been one of the key areas of focus in order to deter future breaches and bring about a better compliance culture. On the enforcement front, Bursa continues to place greater focus in the areas of disclosures and fair and orderly trading. In doing so, particularly vis-a-vis trading, there is now greater emphasis placed on brokers to ensure adequate and effective front office

monitoring and supervisions.

Additionally, Bursa has enhanced transparency of its enforcement decisions through its dedicated regulatory section in its website and specifically its enforcement news. Its enhanced web section and enhanced disclosures of the various enforcement actions taken against listed companies, directors, brokers and dealer representatives is meant to bring greater clarity on the role of the regulator and the application of the rules. In essence, the web section outlines Bursa's approach, philosophy and principles in governing the market.

- ▶ **Advocacy programmes:** Bursa educates listed companies, directors, brokers and other registered persons regularly on the requirements of its rules with a view to enhance their understanding of the application of such rules and requirements. For example, in the space of listed companies, it continues with its various industry education programmes such as in the areas of corporate governance, sustainability and disclosures. In this respect, Bursa has year-to-date funded 64 programmes for listed companies, directors, brokers and other registered persons which were attended by about 5,000 participants.