

## Bursa Malaysia Rules – Key Enforcement Cases in 2015

### A. Market Abuses and Market Misconduct Cases where Enforcement Actions were taken against the POs and Principal Officers

#### **Expectation on POs and Principal Officers:**

**POs and Principal Officers i.e. Heads of Dealing, Heads of Compliance and Compliance Officers must reasonably ensure that appropriate supervision and monitoring of trading activities are carried out to detect and/or curb manipulative trading activities by its RPs including detection of red flags signaling irregular/manipulative trading activities.**

**In the event a PO is alerted or queried by Bursa Malaysia Securities of irregular trading activities by its RPs, the PO and Principal Officers ought to undertake heightened supervision/closer monitoring/review of such trading activities of the RP(s) in question.**

#### **Case A1: Manipulative trading activities - (churning, rollover and/or cross trades)**

- (1) Arising from enforcement actions taken against a CDR for his manipulative trading activities in the securities of 6 counters over a period of time in several clients' accounts (Manipulative Trading Activities) which involved:-
  - (a) the rollover of his clients' on-market purchases in the shares of 2 counters on/before the due date for settlement (Settlement Date) by passing on these on-market trades to other clients via numerous married DBTs, which were executed at prices higher than the prevailing market price. These numerous instances of married DBTs were preceded/followed by on-market trades which included cross/co-ordinated trading between the CDR's group of clients with the on-market cross trades being in the reversals of orders of the married DBTs executed for the clients; and

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#### Glossary:

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Bursa Malaysia Derivatives: Bursa Malaysia Derivatives Berhad  
CDR: Commissioned Dealer's Representative  
CMSA: Capital Markets & Services Act 2007  
CMSR: Capital Market Services Representative  
DR: Dealer's Representatives  
FBR: Futures Broker's Representative

Mandatory Training: Requirement to undergo training on conduct or professionalism of DRs/Registered Persons/Head of Dealing/Compliance Officer/market offences  
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- (b) on-market trading activities undertaken by the CDR over a period of several months in several counters which showed patterns or characteristics of co-ordinated trades (i.e., the proximity in the timing of the orders/opposing orders as well as the significant number/incidences of these trades matching between the clients) (Cross Trading activities),

the PO, its Compliance Officer (CO) and Head of Dealing (HOD) were imposed the following sanctions:-

- (i) the PO - a private reprimand and a fine of RM100,000;
- (ii) the CO - a private reprimand, fine of RM20,000 and Mandatory Training;
- (iii) the HOD - a private reprimand, fine of RM20,000 and Mandatory Training,

as it was found that there were supervisory lapses in the supervision by the PO to amongst others, establish an adequate system (i.e. procedures and processes) to detect/identify irregular/manipulative trading activities and to take appropriate measures to prevent the irregular trading activities from being undertaken/continued in its CDR's clients' accounts including to undertake independent assessment of the CDR's clients' trading activities upon being notified of Bursa Malaysia Securities' trading concerns (Bursa's Trading Concerns).

- (2) In addition, the CO and the HOD had failed to:-
- (a) conduct proper review on the account opening forms and/or the married Direct Business Transactions (DBTs) forms submitted by the CDR as well as adequately supervise/monitor the trading activities by the CDR/the CDR's clients;
  - (b) undertake an independent/thorough assessment/review of the CDR's clients' trading activities upon being notified of Bursa's Trading Concerns; and
  - (c) ensure that the PO established an adequate system (i.e. procedures and processes) to detect/identify irregular/manipulative trading activities and take appropriate measures/steps to prevent/curb the irregular activities from being undertaken/continued in the CDR's clients' accounts.
- (3) The PO, CO and HOD had failed to properly and effectively supervise and monitor the CDR's and his clients' trading activities as they had, amongst others, failed to detect the persistent undertaking of irregular/unhealthy activities in the CDR's clients' accounts despite:-

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- (a) the length of time that the CDR/the CDR's clients engaged in the Manipulative Trading Activities;
- (b) the appearance of numerous red flags (the Red Flags) which included:-
  - (i) commonality of the CDR's clients e.g. shared address(es) and some clients were related to each other (e.g. the CDR's family members);
  - (ii) clients' accounts which were opened on the same day and were actively trading in 2 counters upon being opened;
  - (iii) married DBTs which lacked the attributes of genuine market forces of demand and supply or without economic sense i.e.:-
    - (aa) majority of the DBTs were transacted at prices higher than the market price during the period when the prices of the shares were down trending and the clients in the married DBTs had purchased these shares at higher prices when they could have bought/had the opportunity to buy at lower price from the market; and
    - (bb) these married DBTs were undertaken on/before the Settlement Date,and all these characteristics indicated that it could be a scheme to avoid/manage losses in the accounts of some of the clients who would have incurred losses had their sale trades/disposal of shares been done on-market;
  - (iv) the high number of repeated married DBTs among a group of clients including the CDR's family members; and
  - (v) frequency of the same clients of the CDR (including the CDR's brother) who appeared repeatedly as buyers in the married DBTs;
- (c) being alerted by Bursa's Trading Concerns raised in its communication to the PO in relation to the CDR's trading activities.

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- (4) In imposing the sanctions on the PO, CO and the HOD, various factors were taken into account including:-
- (a) The inaction/lack of due diligence despite Bursa's Trading Concerns and Bursa Malaysia Securities highlighting its expectation for the PO/its compliance to perform sufficient due diligence/analysis of the CDR's trade patterns.
  - (b) Their mere reliance on the CDR's explanation of the trading activities without further assessment/verification.
  - (c) The rectification actions taken to enhance supervision and monitoring to curb/detect irregular trading activities.

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