

PARTICIPATING ORGANISATIONS' CIRCULAR

Date: 4 October 2022

No.: G 26 of 2022

Enforcement Action Pursuant to the Rules of Bursa Malaysia Securities Berhad

4 October 2022

BURSA MALAYSIA SECURITIES PUBLICLY REPRIMANDS, FINES AND ORDERS TO STRIKE OFF TWO DEALER'S REPRESENTATIVES FOR MISCONDUCTS AND VIOLATIONS OF RULES

Bursa Malaysia Securities Berhad [Registration No.: 200301033577 (635998-W)] (**Bursa Malaysia Securities**) has publicly reprimanded, fined and ordered to strike off two (2) Dealer's Representatives (**DRs**) for breaches of the Rules of Bursa Malaysia Securities and directives in relation to, amongst others, abuse/improper use of clients' trade information to carry out front-running activities and unlawful trading in a client's account (**Client A**) as follows:

No.	DR	Rules & Directives Breached/Triggered	Sanctions imposed
1.	Abdul Karim bin Yasin (KARIM)	<ul style="list-style-type: none"> • Rules 3.14(d), (f) & (g), 3.16, 5.01(a) & (b), 5.16(1)(a), (b) & (c) and 15.09(a), (g) & (i)(iii) of the Rules of Bursa Malaysia Securities • Paragraphs 1.1(1)(c), (e) & (h) and 11.3(1)(d) of Directives No. 5-001 of the Participating Organisations' (PO) Directives and Guidance (Directives No. 5-001) 	<ul style="list-style-type: none"> (a) Public reprimand; (b) Fine of RM230,200; and (c) Order to strike off KARIM as a Registered Person of Bursa Malaysia Securities, if he was still a Registered Person.
2.	Sobri bin Ahmad (SOBRI)	<ul style="list-style-type: none"> • Rules 3.14(d), (f) & (g), 3.16, 5.01(a) & (b), 5.16(1)(a), (b) & (c) and 15.09(a), (g) & (i)(iii) of the Rules of Bursa Malaysia Securities • Paragraphs 1.1(1)(c), (e) & (h) and 11.2(a) & (b) of Directives No. 5-001 	<ul style="list-style-type: none"> (a) Public reprimand; (b) Fine of RM72,800; and (c) Order to strike off SOBRI as a Registered Person of Bursa Malaysia Securities.

At the material time of the breaches:

- (a) KARIM was a Salaried DR of CIMB Investment Bank Berhad (**CIMB-IB**) at its Principal Office and thereafter CGS-CIMB Securities Sdn Bhd (**CGS-CIMB**) at its Principal Office and he handled the dealing activities for the institutional clients of CIMB-IB/CGS-CIMB; and
- (b) SOBRI was a Commissioned DR of Hong Leong Investment Bank Berhad (**HLIBB**) at its Bukit Damansara Branch Office and had acted based on the instructions of KARIM.

Bursa Malaysia Securities views seriously all breaches/misconducts that impinge on the integrity and professional conduct/etiquette of DRs and Registered Persons and which compromise client's protection as such misconducts may adversely affect and damage market integrity and market confidence. Bursa Malaysia Securities will not hesitate to take appropriate actions against anyone who engages in such misconducts or fails to carry out their duties honestly, with utmost integrity and act in the best interest of the client and compromises the confidentiality of clients' information, including striking off a Registered Person from the Register and imposing a fine commensurate with the severity of the breach.

BACKGROUND

The finding of the breaches and imposition of the sanctions on KARIM and SOBRI were made pursuant to Rule 15.02 of the Rules of Bursa Malaysia Securities after according due process to KARIM and SOBRI, taking into consideration all facts and circumstances including the following:

Breaches by KARIM:

- (1) During the relevant period of about 21 months (**Relevant Period**):-
 - (a) Whilst KARIM was undertaking dealing activities for some of the institutional clients, KARIM had abused or improperly used the trade information (i.e. buy and/or sell instructions including timing) of some institutional clients of CIMB-IB/CGS-CIMB (**Trade Information**) and gave instructions to SOBRI to buy/sell in the same counters traded by KARIM for the institutional clients (**Relevant Common Counters**) using a third party's (i.e. Client A) account at HLIBB. This had enabled KARIM to carry out front-running activities (**Front-running activities**) resulting in profitable intraday trades for KARIM's benefit (**Abuse of Clients' Trade Information**). Karim was privy to the Trade Information as he handled the dealing activities of these institutional clients whereas Client A is SOBRI's client and brother.
 - (b) Whilst undertaking Front-running activities in the Relevant Common Counters, KARIM had traded in such a manner that some of KARIM's buy/sell for the institutional clients were matched to the opposing sell/buy undertaken in Client A's account giving rise to high incidences of pre-arranged/cross trades between the institutional clients and Client A (**Pre-arranged/Cross Trades**).

- (c) Karim had moved/driven up the share price of the Relevant Common Counters with a series of increasing bids (**IB**) buy orders that took the sellers on board in the market for several bids whilst he was accumulating/buying shares of the Relevant Common Counters for the institutional clients. This led to the matching of his buy for the institutional clients against SOBRI's sell in Client A's account resulting in Pre-arranged/Cross Trades. These Pre-arranged/Cross Trades, IB trades, Front-running activities and Abuse/Improper Use of Clients' Trade Information (collectively referred to as **Trading Misconducts**) by KARIM had enabled the earlier purchases in Client A's account at lower price by SOBRI to be sold off at higher price for profits.
- (2) SOBRI had transferred the profits made in Client A's account to KARIM.
- (3) KARIM had concealed his unlawful/irregular/unhealthy activities by having his profitable intraday trades executed through Client A's account maintained in another PO. His misconducts showed that he had acted knowingly/intentionally/dishonestly for his own interest/benefit and his ill-intention to advance his own financial gain. Hence, KARIM had put himself in a situation of conflict of interest for he had not acted in the best interest of the institutional clients.
- (4) KARIM had also, through SOBRI, used Client A's account to carry out a significant number of other personal trades that spanned over 21 months and hence unlawfully transacted in Client A's account.

Breaches by SOBRI:

- (5) In relation to KARIM's Trading Misconducts above, during the Relevant Period:-
- (a) SOBRI had facilitated KARIM's Front-running and Cross Trading activities by allowing KARIM to use Client A's account and executed profitable intraday trades in Client A's account based on instructions to trade from KARIM.
- (b) SOBRI had also unlawfully traded in Client A's account by using Client A's account to carry out his personal trades and trades of a third party, namely KARIM based on instructions from KARIM.
- (c) SOBRI had used Client A's User ID, password and trading pin to access Client A's online trading account and executed a significant number of online trades in Client A's account over an extended period of time.
- (6) Despite knowing that KARIM was a SDR at another PO, SOBRI was lackadaisical/had turned a blind eye to the possible Trading Misconducts by KARIM and had:-
- (a) allowed himself to act as a conduit/facilitated KARIM's Trading Misconducts; and
- (b) failed to refrain himself from using his client's account for a third party/himself.

Hence, SOBRI had placed himself in a position of conflict of interest and compromised his client's interest and his duty as a Registered Person to ensure protection of his client's interest.

- (7) The discretion purportedly given by Client A to SOBRI to use Client A's account did not absolve SOBRI from liability/culpability for the breaches for he had unlawfully traded in Client A's account which was strictly prohibited by the Rules which were put in place for the protection of clients' interests and to prevent abuses of clients' accounts.
- (8) In imposing the sanctions on KARIM and SOBRI, various factors were taken into account including:
- (a) The severity/materiality/extent/impact of the breaches which involved multiple misconducts and extensive trades carried out in Client A's account as well as the significant ill-gotten gains made by KARIM and commission earned by SOBRI for the trades carried out in Client A's account.
 - (b) The differing roles played by KARIM and SOBRI as follows:
 - (i) KARIM had played a primary role in using Client A's account to carry out his personal trades and facilitate his Trading Misconducts motivated by the prospect of illicit financial gain for his personal benefit.
 - (ii) SOBRI had played a secondary role by facilitating KARIM's breaches and acting as a mere order taker.
 - (c) KARIM's blatant disregard of the Rules and misconducts exhibited elements of dishonesty, concealment and fraudulent intent/conduct on his part.
 - (d) SOBRI's conduct where he had acted as a mere order taker/turned a blind eye instead of being alerted of the irregularity of the trading activities in Client A's account which was not acceptable in the discharge of his duties as a DR and his asserted mitigating factors including his financial hardship/condition.
 - (e) The severe sanctions were imposed to reflect the severity of the breaches and to underline the importance of investor protection (in particular protection of clients' accounts/interest and trade information) as one of the fundamental obligations/ duties of a DR and cornerstone of market integrity which must be upheld at all times and must not be compromised. In this regard, a client's trade information must be treated with utmost confidentiality to curb misuse of such information.
- (9) The public reprimand was imposed on KARIM and SOBRI as a deterrent consideration to create market awareness and reinforce the serious view taken by Bursa Malaysia Securities on market offences (including front-running/pre-arranged/cross trades) and breach of trust placed by clients on Registered Persons who abused clients' information/accounts or allowed clients' accounts to be used/abused by third party for improper purposes/self-interest.
- (10) As Registered Persons acting in the capacity of a DR, KARIM and SOBRI must, at all times:
- (a) uphold investor protection in particular, protection of client's accounts/interest/ trade information and treat a client's trade information with utmost confidentiality;

- (b) not knowingly enter into transactions in which they had an interest which conflicted with the interest of the clients and duty to these clients;
- (c) not allow the client's account to be used for personal/third party trading;
- (d) avoid or refrain from engaging in acts or practices which might lead to a false/misleading appearance of active trading in, the market for or price of the securities;
- (e) not engage in/refrain from engaging in unlawful, irregular or unhealthy practice; and
- (f) perform their duties efficiently and fairly, exercise proper skill, care and diligence and act honestly and in the best interest of the clients.

-End-

Head, Enforcement

ADDENDUM

Rules 3.14(d), (f) & (g), 3.16, 5.01(a) & (b), 5.16(1)(a), (b) & (c) and 15.09(a), (g) & (i)(iii)* of the Rules of Bursa Malaysia Securities and Paragraphs 1.1(1)(c), (e) & (h), 11.2(a) & (b) and 11.3(1)(d) of Directives No. 5-001 provide, amongst others, that:

- Throughout the term of a Registered Person (**RP**)'s registration, a RP must:
 - observe professional conduct, standards of integrity and fair dealing;
 - act honestly and in the best interest of the Client and the PO; and
 - carry out the RP's duties in a manner that contributes to the maintenance of an orderly and fair stock market.
- A RP must identify and manage any potential or actual conflict of interests in relation to the discharge of obligations and functions under the Securities Laws, the Rules and the Directives.
- A PO and RP must, in the conduct of the PO's business:
 - adhere to just and equitable principles and act with due skill, care and diligence and with due regard for the integrity of the market; and
 - not through any act or omission, do anything which may result in or has the effect of the market not being orderly and fair.
- A PO and RP must act with due skill, care and diligence, honestly and fairly and in the best interests of the PO's clients.
- Any Defaulting Participant who, in any circumstances, directly or indirectly:
 - commits a breach of or violates any of the Rules;
 - fails to perform his duties efficiently, honestly or fairly; and
 - being a DR unlawfully transacts on another person's account,will be liable and be dealt with in accordance with the provisions of the Rules relating to the same.
- A PO and RP must:
 - prevent insider trading, misuse of confidential information and the commission of other offences relating to the abuse of confidential information. In doing so, a PO and RP must strictly maintain the confidentiality of all relevant information, including information that on becoming generally available would or would tend to have a material effect on the price or value of securities;
 - not engage in any unlawful or irregular or unhealthy practice; and
 - not engage in any act or practice that might lead to a false or misleading appearance of active trading in any securities on the stock market of the Exchange or a false or misleading appearance with respect to the market for, or the price of, any such securities, or directly or indirectly be tantamount to stock

market manipulations and must not participate in any operation by others which might have the same result.

- A PO, Head of Dealing (**HOD**) and DR must not execute the personal trades of the PO's HOD or DR (as applicable) in the client's account or use a client's account to trade for a third party.
- A PO, HOD and DR must not front-run a client.

**Note: Rule 15.09(i)(iii) of the Rules of Bursa Malaysia Securities cited above was the provision applicable during the Relevant Period. Rule 15.09(i)(iii) has been re-numbered to Rule 15.09(i)(iv) with effect from 21 August 2020 via POs' Circular No. R/R 11 of 2020.*