



**Suruhanjaya Sekuriti**  
Securities Commission  
Malaysia

**GUIDELINES ON MARKET CONDUCT AND  
BUSINESS PRACTICES FOR STOCKBROKING  
COMPANIES AND LICENSED  
REPRESENTATIVES**

Issued: 8 April 2008

Revised: 20 November 2014

## List of Revision

<b>Revision</b>	<b>Effective Date</b>
<b>1<sup>st</sup> Revision</b>	<b>29 April 2011</b>
<b>2<sup>nd</sup> Revision</b>	<b>23 April 2014</b>
<b>3<sup>rd</sup> Revision</b>	<b>20 November 2014</b>

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# PART I

## 1.0 DEFINITIONS

AMLATFA	– refers to the Anti-Money Laundering and Anti-Terrorism Financing Act 2001.
AML / CFT	– refers to Anti-Money Laundering and Counter Financing of Terrorism.
AML / CFT Guidelines	– refers to Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries.
Bursa's Rules	– refers to the Rules of Bursa Malaysia Securities Berhad.
CMSA	– refers to the Capital Markets and Services Act 2007 which introduces a single licensing regime for capital market intermediaries. It came into force on 28 September 2007.
CMSR	– means the Capital Markets and Services Regulations 2007.
CMSL	– means the Capital Markets Services Licence referred to in the CMSA.
CMSRL	– means the Capital Markets Services Representative's Licence referred to in the CMSA. It is a licence issued to a representative of the holder of CMSL.
Employee	– refers to an employee of a stockbroking company.
Guidelines	– refers to this set of Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives.
Licensed persons	– in the context of these Guidelines, refers to a holder of CMSL or CMSRL for the regulated activity of dealing in securities.
Licensed representatives	– in the context of these Guidelines, refers to a holder of CMSRL of a stockbroking company.
SC	– refers to the Securities Commission Malaysia established under the Securities Commission Act 1993.
Stockbroking company	– means a holder of a CMSL for the regulated activity of dealing in securities.

Stockbroking  
company's  
representative

- means a holder of CMSRL for the regulated activity of dealing in securities.

## 2.0 INTRODUCTION

These Guidelines set out 11 core principles of supervision applicable to stockbroking companies and their representatives under the SC's principles-based regulation and the requirement to comply with the AML / CFT Guidelines. These Guidelines also set forth the standards expected of stockbroking companies, their representatives and where applicable, their employees, in market and business conduct. As a matter of guidance, these Guidelines provide several examples and scenarios to illustrate conducts and activities which in the SC's opinion constitute market abuses and unethical business conduct.

The SC will be guided by these Guidelines in considering whether any stockbroking companies and their representatives have taken reasonable steps to organise and manage their business affairs responsibly. The SC views any breach of the Guidelines as serious misconduct as breaches reflect adversely on the fit and properness of the licensed persons, which may result in the SC taking regulatory or other appropriate actions against them.

These Guidelines are made in addition to and not in derogation of any other guidelines issued by the SC or any requirements as provided for under the existing securities laws, rules, guidelines, or regulations applicable to stockbroking companies, their representatives and where applicable, their employees.

These Guidelines must be read with–

- (a) AML/CFT Guidelines; and
- (b) all other relevant securities laws, rules, guidelines, or regulations applicable to stockbroking companies, their representatives and where applicable, their employees.

## PART II

### 3.0 CORE PRINCIPLES OF SUPERVISION

- (a) The SC is actively promoting a culture of compliance, professionalism, ethical standards and responsible conduct among stockbroking companies and their representatives and employees. Towards this end, the SC has adopted principles-based regulation in supervision and set out below are 11 core principles which apply to stockbroking companies:

<b>Core Principles</b>	
<b>1. Integrity</b>	<b>A licensed person must conduct its business with integrity.</b>  (Example: Act in a fair and consistent manner, and treat all customers fairly, equitably and equally.)
<b>2. Skill, care and diligence</b>	<b>A licensed person must conduct its business with due skill, care, and diligence.</b>  (Example: Ensure employees are suitably qualified for the positions in which they are employed, and there are sufficient resources to manage business activities and accommodate temporary absence of key personnel.)
<b>3. Supervision and control</b>	<b>A licensed person must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management and supervisory system.</b>  (Example: Ensure key duties and functions are properly segregated. Establish a system of follow-up and review for delegated authority and responsibility. Ensure proper assessment and management of risks, and provision of timely and adequate information to senior management.)

<p><b>4. Financial requirements</b></p>	<p><b>A licensed person must maintain adequate financial requirements.</b></p> <p>(Example: Level of risk assumed by the stockbroking company must commensurate with its level of capital.)</p>
<p><b>5. Market conduct</b></p>	<p><b>A licensed person must conduct its business activities in a manner which contributes to the maintenance of a fair and orderly market.</b></p> <p>(Example: Implement policies and procedures to detect and prevent fraud, market rigging, and other improper activities.)</p>
<p><b>6. Priority to customer's interests</b></p>	<p><b>A licensed person must give priority to the customer's interest.</b></p> <p>(Example: Refrain from dealing for own account ahead of customers' orders.)</p>
<p><b>7. Communication with customers</b></p>	<p><b>A licensed person must pay due regard to the information needs of its customers, and communicate information to them in a way which is clear, fair, and not misleading.</b></p> <p>(Example: Must not deliberately mislead or attempt to mislead a customer.)</p>
<p><b>8. Conflict of interests</b></p>	<p><b>A licensed person must manage conflict of interests fairly, both between itself and its customers, and between a customer and another customer.</b></p> <p>(Example: Ensure proper Chinese Wall policies and procedures are put in place to prevent the company or its employees from taking advantage of confidential price sensitive information.)</p>

<p><b>9. Safeguarding customers' assets</b></p>	<p><b>A licensed person must arrange adequate protection for customers' assets.</b></p> <p>(Example: Ensure customers' monies and properties are credited into a trust account, and conduct reconciliation of trust account balance as per company's records with bank statements.)</p>
<p><b>10. Compliance culture</b></p>	<p><b>A licensed person must inculcate good compliance culture.</b></p> <p>(Example: Board of Directors must establish clear compliance policies and procedures that extend to all operations of the company.)</p>
<p><b>11. Dealing with regulators</b></p>	<p><b>A licensed person must deal with its regulators in an open and co-operative way.</b></p> <p>(Example: To promptly report information that is of material significance to the SC, and supply the SC with documents and information when requested and within the time limits of request.)</p>

#### **4.0 PRIMARY ACCOUNTABILITY AND RESPONSIBILITY FOR COMPLIANCE**

- (a) The 11 core principles set the level of regulatory standards in supervision that the SC seeks to achieve for licensed persons. Under principles-based approach, the SC will focus on the desired level of regulatory outcomes, instead of any specific process and procedure that a stockbroking company should undertake.
- (b) The SC will hold the Board of Directors and senior management of the stockbroking company primarily accountable and responsible in ensuring adequate policies, procedures, and resources are put in place to meet the core principles.

- (c) Being organised, ready and willing to abide by the core principles will be a critical factor in the SC's examination and assessment of the stockbroking company's level of compliance with the core principles.

## **5.0 CUSTOMER DUE DILIGENCE**

- (a) Customer Due Diligence (CDD) is a set of policies, procedures, processes, and controls to assist a stockbroking company evaluate, with reasonable certainty, the identity and risk profile of customers. CDD is crucial, as proper adherence to its processes would assist the stockbroking companies in–

- (i) detecting and reporting unusual transactions that would potentially expose the company to financial loss and reputation risk; and
- (ii) minimising unscrupulous persons from using or attempting to use the company's products and services for illicit purposes.

- (b) Key areas for compliance under CDD processes are:

- (i) Adherence to AML / CFT Guidelines on CDD

A stockbroking company is required to fully comply with the CDD procedures set out in the AML / CFT Guidelines.

- (ii) Adherence to Bursa's Rules on opening of accounts

A stockbroking company should ensure that procedures in place for opening customer accounts are in accordance with relevant Bursa's rules. A stockbroking company and its representative should not effect any transaction on behalf of a customer unless the required CDD is conducted on the customer.

- (c) Enhanced CDD

A stockbroking company and its representative must undertake enhanced CDD measures on the customer and where applicable, the beneficial owner, upon determining a customer as "high risk". Customers that may pose higher risk and the measures to conduct enhanced CDD are stated in the AML/CFT Guidelines.

- (d) A stockbroking company and its representative are required to conduct ongoing monitoring of customer's activity, either through manual procedures or computerised systems, upon the opening of customer's account.
- (e) Examples of suspicious transactions which a stockbroking company and its representative must look into are published on the SC's website. The list is non exhaustive and only provides examples of ways in which money may be laundered through the capital market.

## **6.0 INFORMATION TO CUSTOMERS**

- (a) Having regard to the information acquired about a customer through CDD process, the stockbroking company and its representative should ensure–
  - (i) that the advice, recommendation, or trading limit approval given to the customer is suitable and reasonable, in accordance with the customer's financial circumstances and risk profiles; and
  - (ii) that all necessary information is given to customers so they can understand the nature and risks of derivative products, including futures contracts and options.

## **7.0 DISCRETIONARY TRADES**

- (a) A dealer's representative of a stockbroking company may carry out discretionary trading on behalf of his customers provided that the dealer's representative –
  - (i) has obtained prior approval from senior management of the stockbroking company;
  - (ii) maintains a record of discretionary trades carried out on behalf of his customer; and
  - (iii) must report details of the discretionary transactions to their customers on a quarterly basis.
- (b) The stockbroking company must ensure that –
  - (i) records of approvals and transactions are maintained at all times by dealer's representative; and

- (ii) there are internal control procedures to ensure proper supervision of the operation of the discretionary trades.

## **8.0 UNAUTHORISED USE OF CUSTOMERS' ACCOUNTS**

- (a) Unauthorised use of customer accounts is not permitted.
- (b) To prevent unauthorised use of customer accounts, a stockbroking company must:
  - (i) Ensure there are adequate policies and procedures in place for changes to customer's data. In particular, any request for change on a customer's address and instructions on payments must be in writing, and all reasonable effort must be made (e.g. writing to both the old and new addresses to confirm the requests for changes, follow-up with the customer, etc.) to ensure that such requests for changes are genuine;
  - (ii) Ensure all sale proceeds and any amount payable are issued to seller or customer directly and not to any other person(s);
  - (iii) Monitor and aggregate, for risk profiling purposes, all the accounts where settlements for outstanding purchases are made or originate from one singular source; and
  - (iv) Constantly remind customers to make cheques in the <name of the stockbroking company> for <name of the customer>, when issuing cheques to the company.
- (c) A stockbroking company is prohibited from issuing cash cheques for payment of sale proceeds to the seller-customers.

## **9.0 HANDLING ERROR TRADES**

- (a) Error account should be used solely for the purpose of amending a bona fide trading error.
- (b) Error accounts must not be abused by stockbroking companies and their representatives to camouflage unlawful, illegitimate, or unauthorised transactions.
- (c) The stockbroking company must put in place internal procedures on handling error trades, which must include–
  - (i) justification to book trades into an error account;
  - (ii) written approval from senior executive for using an error account;
  - (iii) maintaining proper documentation on handling error trades; and
  - (iv) monitoring requirements on frequency of error trades by any customer or stockbroking company's representatives.

## **10.0 MANAGING CONFLICT OF INTEREST**

- (a) A stockbroking company and its representative must ensure that–
  - (i) they disclose all potential conflict of interests to the customers; and
  - (ii) they do not provide rumours, or information that has no reasonable basis, or speculative statements concerning any securities to the customers.
- (b) A stockbroking company must put in place supervisory and internal controls, procedures and systems to ensure that–
  - (i) analysts' research and recommendations are not compromised or subject to undue influence of issuers, institutional investors or other parties.

- (ii) non-public information are not shared with unauthorised persons who stand in a conflict position, e.g. personnel in the dealing department.

## **11.0 REPORTING BREACHES**

- (a) A stockbroking company must–
  - (i) monitor and review the company's operations to ensure compliance with securities laws, rules and regulations;
  - (ii) maintain efficient disciplinary processes, and apply them fairly and consistently, in accordance with principles of due process;
  - (iii) upon becoming aware of possible occurrences of breaches of securities laws, the Head of Compliance must immediately commence internal investigations and report the outcome of the investigations to the Board of Directors for further actions. He must notify the SC as soon as possible; and
  - (iv) extend full co-operation to regulatory authorities.

## **12.0 MARKET ABUSES AND UNETHICAL BUSINESS CONDUCT**

- (a) A stockbroking company and its representative must not carry out or facilitate any transactions that would affect the fair and orderly operation of the market.
- (b) A stockbroking company and its representative must not directly or indirectly assist or abet customers in activities which would lead to market abuse or unethical business conduct and/or breaches of securities laws or Bursa Rules. Below are examples of these activities:
  - (i) Execute orders which would potentially manipulate the price of a particular security;
  - (ii) Execute purchase orders at or near the close of market at successively higher prices;

- (iii) Execute sell orders at or near the close of market at successively lower prices;
  - (iv) Execute "Contango trades", where the transfer of trades takes place between two or more parties acting in concert;
  - (v) Key-in buy orders at prices lower than the previous offers and withdrawing the orders before they are matched;
  - (vi) Key in sell orders successively at prices higher than previous bids and withdrawing the orders before they are matched;
  - (vii) Execute an order ahead of house research reports that would influence investors' view on a security in anticipation of the issuance of the research reports; and
  - (viii) Post rumours or information recklessly about corporate activity on Internet bulletin board or chat room without a care on the truth of such information or rumours.
- (c) Please see Part III for further illustrations on activities and conduct which in the SC's opinion constitute market abuses and unethical business conduct.

## **Appendix PART III**

### **13.0 EXAMPLES OF MARKET ABUSES AND UNETHICAL BUSINESS CONDUCT**

#### **Illustration 1 – Action based manipulation**

Company A engages PLC B to undertake certain projects. Company A then short sells securities of PLC B and subsequently cancels the contract with PLC B, causing the security price to drop significantly.

#### **Illustration 2 – Trade-based manipulation**

Mr X hires Mr Y as consultant to provide public relations and assist his company in realising the value of its stocks. As compensation Mr X pays Mr Y RM50,000 cash per month and gives him a warrant to purchase 100,000 shares from the company at RM1 per share.

Mr Y along with three other accomplices, i.e. the brother-in-law, secretary, and a clerk opens 10 separate margin accounts at 10 different brokers. Accounts are opened under a variety of names including dormant companies that Mr Y controlled in order to hide Mr Y's identity.

Mr Y and his accomplices engage in an aggressive series of wash trades and match orders. Trading is done between the accomplices at successively higher price to move the market price up. Mr Y is also personally touting the securities to stockbroking companies and other investors.

The security which now carries an inflated price is utilised to secure additional margin facility. The cycle is repeated several times. At a certain stage, Mr Y dumps or sells all securities under his control, causing the price of the securities to plummet.

#### **Illustration 3 – Painting the tape**

Stockbroking Company A issues false trade reports for immediate publication to give an impression of activity or active trading in a counter to encourage investors to participate in order for Stockbroking Company A to offset an unprofitable risk position.

#### **Illustration 4 – Unethical trades**

“Arrangers or Introducing”, were verbally engaged by Stockbroking Company C (SBC C) to assist and facilitate SBC C in obtaining pre-placement bond trades, with SBC C seen ostensibly as facilitating the bond transactions between different companies or financial institutions.

Four parties were involved, namely Company A, Company B, SBC C and Company D. Company A sold bonds to Company B, who then sold them to SBC C. SBC C then sold them to Company D, who finally sold them back to Company A. The transactions were carried out at the same value date but at different price levels.

The bond transactions mentioned above would result in Company A incurring an “opportunity loss”, which accrued to the other parties involved. In other words, the other parties profited at the expense of Company A.

Profits from the bond trades would then be shared between SBC C and the “Introducers”, where the “Introducers” received significant profits from the bond trades.

In this case, SBC C is used as a conduit or “middle person” to take advantage of opaque two-way quotes in bond trades to benefit its customers by executing the deals at the expense of the initial bond buyer/seller where the latter did not get the best price.

#### **Illustration 5 – Rollover**

Stockbroking Company A executed several married deals where the purchase and sale of securities did not involve any change in the beneficial ownership. The married deals were performed to give customers a deferment on settlement time for outstanding purchases (roll-over).

The quantity and price of the securities transacted would be similar to the initial contract. However, the settlement period (due date) had been extended and additional brokerage was charged on customers for each rollover executed by the company.

Hence, the deals were transacted through the sales and purchases of securities without any change in beneficial ownership of the said securities.

### **Illustration 6 – Third party payment**

- (i) Stockbroking Company A was instructed by Customer A to purchase 10 million units of PLC P's securities on behalf of Customer B from Customer C. At settlement, Customer A instructed Stockbroking Company A to utilise Customer C's sales proceed to set-off against the purchases made by Customer B.

The sale of PLC P's securities may not have involved a change in beneficial ownership of securities, as Customer A had an interest in the securities before the purchase, and Customer A had control over or was able to exert influence on Customer B and/or Customer C over the securities.

- (ii) Stockbroking Company A received instruction for trading of 10 million units of PLC P's securities from Customer B and Customer C. At settlement, Customer C instructed Stockbroking Company A to utilise Customer C's sales proceed to set-off against the purchases made by Customer B.

The sale of PLC P's securities may not have involved a change in beneficial ownership of securities, as Customer B could have an interest in the securities before the purchase as Customer C is willing to dispose of the securities to Customer B free of payment.

### **Illustration 7 – Marking the close**

A dealer's representative of Stockbroking Company A assisted several customers by placing orders at the close of trading day, which caused the price of securities to move higher than the prior sales price. Simultaneously, orders at prices which are higher than the previous bid or lower than the previous offer were entered, and withdrawn before they could be executed, in order to give a misleading impression that there was demand for or supply of the securities at that price.

### **Illustration 8 – Front running**

Dealer's representatives handling accounts of several big institutions/retail customers executed trades for their individual customers or accounts of related persons prior to the execution of trades of the big institutions/retail customers, with the view to front run and make quick profits.

### **Illustration 9 – Conflicts**

A person with knowledge of a favourable or unfavourable research report purchases or sells securities in advance of the report being released.

### **Illustration 10 - Scalping**

The people trading is also responsible for giving buy or sell recommendations, e.g. purchases a security before recommending the security, and then sells the security at a profit upon the rise in the market price following the recommendation.

### **Illustration 11 – Spoofing**

A person submits a large but not marketable limit order that raises bid price of a security and/or greatly increases the quoted size at or around the current best bid price. The large order causes market participants to match or better the price of the order. The person then cancels the large order and enters (virtually at the same time) a sell order that matches the buy order of other investors at a higher price.

This is manipulation by “spoofing”. By temporarily manipulating the bid price upward, and causing other bids and trading interest at that level, the person receives a better price for his security than what would have been the prevailing market price and/or volume if the person’s large order had not been entered.

Spoofing is also used to manipulate the opening price of a security; e.g., via entry and immediate cancellation of lower priced sell orders with the objective of creating a more favourable buying opportunity for the manipulator.

### **Illustration 12 – Pump and dump**

A person takes a long position in a security and disseminates misleading information about the security to inflate its price then disposes it at a higher price.

### **Illustration 13 – Trash and cash**

A person takes a short position in a security and disseminates misleading negative information about the security to depress its price and to buy it at a lower price.