

Date: 12 Oct 2016

Putting a stop to front-running.

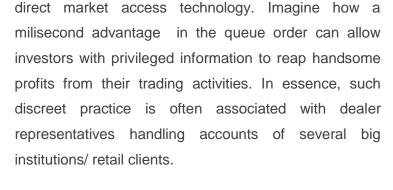
Focus Malaysia (1 October – 7 October, 2016)

By: Cheah Chor Sooi

FRONT—running – the practice of buying or selling a security using advance knowledge of pending orders to wrongfully benefit from the trade – has become difficult to trace these days. This is especially so with stock exchanges all over the world seeing high frequency trades and



We are fully guided by our investment policy, processes and risk management, says De Alwis





Swift action by enforcement agencies would promote and instil investors' confidence in the capital market, says Bushon

Front-running made headlines recently when it was rumoured that the drastic slide in four iliquid stocks – United U-Li Corp Bhd, SAM Engineering & Equipment (M) Bhd, SLP Resources Bhd and SCGM Bhd – in mid-August could be linked to the change of personnel at RHB Asset Management Sdn Bhd.



The regulatory authorities have already been put in place some well-established rules and regulations, specifically to deal with market misconduct, says Ho

However, the speculation was put to rest by Datuk Khairussaleh Ramli, the group managing director of RHB Banking Group, who denied that the group's asset arm was involved in any selldown of those counters.

Coincidentally, Singapore's financial regulator charged three bankers on Aug 26 with front-running stocks in trading incidents dating back to before the financial



crisis of 2008 – 2009. This marks the first criminally-pursued case of its sort in the city-state.

Leong Chee Wai and Toh Chew Leong – both dealers with First State Investments Singapore – and Simon E Seck Peng, a dealer's representative at UOB Kay Hian, were charged with front-running or trading on information not yet available to the bank's clients.

The Monetary Authority of Singapore has accused the trio of having traded based on information they were privy to 49 Singapore-listed securities, including Allgreen Properties, CapitaLand, City Developments, DBS Group and Keppel Corp, as well as 51 listed in Australia, Taiwan, Malaysia and Hong Kong.

Stringent guidelines

A check with Kenanga Investors Bhd (KIB) reveals that investment decisions made by the company's investment team are guided by stringent guidelines comprising both regulatory and internal policies.

"Besides fulfilling the limits and restrictions under the guidelines which apply only on a per fund basis, we also have additional prudential internal limits and restrictions on a group-of-funds basis or firm-wide basis," KIB's CEO/executive director Ismitz Matthew De Alwis tells *FocusM*. We are fully guided by our investment policy, processes and risk management."

On the fund level, De Alwis says information could be obtained through the respective prospectuses which generally prescribe the percentage of maximum holding versus the net asset value of the fund. Moreover, there are also internal benchmarks imposed on a firm-wide level.

"To provide an insight into all stocks purchased by the fund managers must be within our investment universe and are segregated into Core One, Two and Three," he rationalises. "The maximum holding for each stock allowed for each portfolio is 5%, 3% and 2% respectively of the company's total share base." Additionally, the stocks must be supported with research reports, indepth analysis and with strong fundamentals.

For an employee's personal trading account, De Alwis says KIB adheres to strict monitoring oversight. The company's compliance unit conducts a yearly review on each staff and fund





manager's trading activities directly with Bursa Malaysia against their declaration and their nominees' holdings.

"This is to ensure that not only our investment team's activities are monitored but also that of all the firm's employees," justifies De Alwis. "Furthermore, this is to ensure there is no conflict with our clients' best interests."

The next – and final – "line of defence" is the company's investment risk analytics units. This independent unit (residing out of the investment division) also monitors investments made by its fund managers per portfolio to assess the risks taken by those fund managers.

Punitive action

Given that it is diffuclt to nail unscrupulous fund managers who are involved in front-running, enforcement agencies should endeavour to prosecute cases as soon as there is sufficient evidence to act on them, according to the Minority Shareholder Watchdog Group CEO Rita Benoy Bushon.

"Swift action by the enforcement agencies would promote and instill investors' confidence in the capital market while sending a clear message that nobody can escape the long arm of the law if they have comitted offences," she tells *FocusM*. "This would thus act as a deterrent to both insiders and other market players."

If gone unchecked, Bushon expresses concern that front-running would undermine both investors' confidence and efforts to maintain fair play and orderly market. "It would affect, not only the interest of the minority/retail investors, but all stakeholders in the capital market as well," she asserts.

Insider trading is an offence under Section 188(2) of the Capital Markets and Services Act 2007, punishable under Section 188(4) with imprisonment term not exceeding 10 years and a fine of not less than RM1 mil.

Onus on market regulators

Under the Singapore Securities and Futures Act, insider trading carries a fine not exceeding S\$250,000 (RM757, 899) or imprisonment for a term not exceeding seven years or both. "In our





opinion, the punishment accorded under the Malaysian law for offenders is considered punitive," asserts Bushon. "However, the process of the law to ensure the culprits are taken to task is long.. The longer the regulators take to prosecute these offenders would indirectly impact on the success rate which is dependent on the availability of evidence and witnesses who are willing to testify in such cases."

Malaysian Investors' Association president Datin Ho Choy Meng reckons that it does not entail a delicate task to detect front-running. At the simplest level, Bursa Malaysia should be able to detect such nefarious activities manifested through the numerous instances of unusual market activity query issuance, according to her.

"For front-running, the offenders make use of their knowledge of client orders and intersperse them with their own trade to profit," Ho tells *FocusM*. "There will be a trail of sequences of trades linking the two or more related trade accounts."

For preventive measures, Bursa Malaysia should put in place supervisory rules whereby trading participants are required to maintain a proper system to supervise the activities of each registered representative, agents and other personnel. This is reasonably designed to achieve compliance with the Rule of the Capital Markets & Services Act.

"Indeed, the regulatory authorities have already put in place some – though not an exhaustive list – of well-established rules and regulations, specifically to deal with market misconduct," Ho points out. "But the enforcers must be vigilant at all times, ready to haul the suspects up and prosecute them based on the evidence gathered without fear or favour."

On this note, Ho suggests:

- Emulate measures by the US Securities Exchange Commission and Department of
 Justice whereby brokerage firms and investment advisers are required under Section
 15(f) of the Exchange Act and Section 204A of the Investment Advisers Act to establish,
 maintain and enforce written policies to prevent the misuse of material non-public
 information by the firms or their associated persons;
- Education and training to better understand the responsibilities and obligations in order to avoid violating securities laws;





- Keep sensitive information on a need-to-know basis in order to minimise the risk of information abuse and limiting possible suspects;
- Secure sensitive information;
- Establish and maintain "quiet periods" and pre-clearance process; and
- Monitor company share re-purchase programmes to secure compliance.

Bursa shows it means business

IF Aug 26 marks the maiden legal pursuit of front-running case by the Monetary Authority of Singapore, such unethical business conduct has been detected much earlier in Malaysia.

On June 5, 2014, Bursa Malaysia Securities Bhd publicly reprimanded, fined and ordered to strike off two former dealer's representatives (DRs) for conduct that involved front-running activities, pre-arranged/coordinated trades, abuses of clients' trade information and the undertaking of unauthorized trades in a client's account.

Sazail Shaharudin, a salaried DR of AmInvestment Bank Bhd was publicly reprimanded, fined RM50,000 and ordered to be struck off the register of Bursa Malaysia Securities.

Wong Lup Mun @ Wong Cheng Hoh, a commissioned DR of Kenanga Investment Bank Bhd, was fined RM55,000 aside from being publicly reprimanded and ordered to be struck off the register of Bursa Malaysia Securities.

The Securities Commission (SC) in its Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives (revised on Nov 20, 2014) has listed front-running as one of the 13 examples of market abuses and unethical business conduct.

The regulator describes front-running as follows: "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."

Other forms of market abuses and unethical business conduct identified by the SC are (i) action-based manipulation; (ii) trade-based manipulation; (iii) "painting the tape"; (iv) unethical trades; (v) "roll-over"; (vi) third party payment; (vii) "marking the close"; (viii) conflicts (a person with knowledge of a favourable or unfavourable research report purchases or sells securities in advance of the report being released); (ix) "scalping"; (x) "spoofing"; (xi) "pump and dump", and (xii) "trash and cash".

Kenanga

Kenanga Investors

Article Source: Focus Malaysia (October 1 to October 7, 2016)



NoveMildelf-1308



FRONT-running

- the practice of
buying or selling
a security using
advance knowledge of pending orders to wrongfully benefit from the trade - has become difficult to

more these day.

This he especially so with stock exchanges all over the world seeing high frequency trades and direct market across technology.

Irragine hower millisecond advantage in the queue order can allow investors with privileged information to reap hand-some profits from their renting activities. In assence, such discreet practice in other musculated with dealer representatives handling accounts of serveral big institutions retail clears.

Front running made headlines secretly when it was runnared that the drastic alide in four fillipaid stocks.

the drastic slide in four illiquid stocks

the drastic side in four Hispaid stocks -United H-LICOUP Bed, SAM Impineering & Equipment (M) Bed. SLP Resources. Bed. and SCOM Bed. in mid-hopout could be linked to the change of person-nel at SHB Asses. Management Sdr Bed. However, the specialistic was put to me by Daruk Khairmanaleh Barrali, the group managing director of Brill Banding. Group, who decided that the group's asset arm was issuelved in any self-down of floore counters.

Balse counters.
Coincidentally, Singapore's financial against charged three bankers on Aug 25 with front-numing stocks in trading incidents fairing back to before the financial crisis of 2006-2009. This marks the financial crisis of 2006-2009. the first criminally-pursued case of its

sertinithe city-state.

Lieng Chee Wal and Toh Chee
Leong - both dealers with First State
Investments Singapore - and Sincor
E Sock Feng, Petealer's representative
or UOS Koy Han, were changed with
frost-turning or tradingors information
not yet available to the bank's chems.

The Monetary Aufhority of Singapore
has accused the trio of having moded
based on information they were privy to
99 Singapores losted securities. Indiating
Aligners Properties. Capitalland, City
Developments, USS Group and Keppel
Cop, as well as History down for Australia. Corp. as well as 51 listed once in Ameralla. Tahwan, Malaysia and Hong Kong.

Stringent guidelines

Stringent guidelines.

Acheck with Kennaga Irvestors Bid (KB)
reveals that investment decisions made
by the company's investment team are
guided by stringent guidelines comprising
both cogulatory and internal policies.

"Besides fulfilling the traits and
restrictions under the guidelines which
apply only on a per lund besis, we also
have additional prudential internal limits
and restrictions on a group-of-lands
built or firm-side basis," RIFe EDD'
concarbe dissorted lander Marthew De
Alvis tells Fessall. "We are fully guided
by our investment policy, processes and
tals management. the management

On the fund level, De Abeis says information could be obtained through information could be obtained through the respective prospectures which generally prescribe the percentage of motivates holding versus the not osset value of the fund. Moreover, there are also internal benchmarks imposed on a firm-odds level.

To provide an insight into all exocks prochased by the fund manager, must

purchased by the fund managers must be within our investment universe and are segregated into Core One. Two and Three," he rationalises. The maximum holding for each stock allowed for each portfolio is 2%, 3% and 2% respectively

Putting a stop to front-running

With high frequency trades and direct market access; it's difficult for regulators to trace if an offence was committed

of the company's tend shart time." Additionally, the stocks must be supported with research reports, in-depth enalysis end with storing handarrenals.

For an employee's personal trading acrosses, De Juvis says EIB adheres to staic monitoring oversight. The company's compliance unit conducts a yearly review or each staff and four immages's moding activities directly with Burse Malessia control which effects from and Molaysia against their declaration and their normineon' holdings.

"This is to ensure that not only our investment team's activities are our amenment seams activates are monitored but also that of all the family employees, Justifies De Alvin. Further-mon, this is to ensure there is no conflict with our clients' best transcens." The next-and final—"line of delenge" is the company's investment risk analys-

ics unit. This independent unit tresiding out of the investment division; also monitors investments made by its fund managers per portfolio to assess the risks taken by those hard managers.

that it is difficult to nail unsero pulous fund managers who are involved in front-naming, enforcement agencies should endeavour to prosecute cases as soon as there is sufficient evidence to act on them, according to the Minority Shareholder Watchdog Group CEO Rita Benny Bushun.

Swift action by the enforcement agenche would promote and trust investant; confidence in the capital market while smaling a clear message that nobody can escape the long arm of the low if they have committed offerees; "she talls FacasM." "This would thus act as a descrimint to both

Figore unchecked, Bushon expresses centern that from running would under mine both investors' confidence and mine both investors' confidence and efforts to maintain fair play and orderly marken. "It would affect, not only the instead of the minosity trend investors, but all stabloiders in the capital market as well," she asserts. hinder trading is an offence under Section 1982;1 of the Capital Markets and Services Art 2007, pendshable under Capital Linds.

Section 188(4) with imprisonment term not exceeding 10 years and a fine of not less than RML mil.

Onus on market regulators

Under the Singapore Securities and Fuzzon Act, Inside: mading carries a floo not esceeding \$5250,000 (RM757,890) or imprisonment for a term not esceeding

imprisonment for a term not escreeding seven years or both.

"In our optision, the punishment accorded under the Mulicystan law for offenders is considered punishmy," sevens Bushon, "However, the process of the law to escape the rule;" are taken to task is fong. The longer the regulators take to prosecute these aftenders would indiedy terpaction the success rate which is dependent on the availability of evidence and relations who are willing to testify

Malaysian Investors' Association resident Datin Ho They Meng reckors that it does not entail a delicate task to detect front-number. At the simplest level, Bursa Malaysta should be able to detect such nefericus activities mani-fested though the numerous instances of fested through the numerous instances of unusual market activity query issuance, according to be:







"For host-natring, the offenders make use of their knowledge of client orders and intemperse them with their own trade to profit." He tells FocusM. There will be a trail of woueness of trades linking the two or more related trade accounts?

For preventive measures, Burso Misloyate should put in place supervisory rules whereby trading participants are nequired to maintain a proper system to supervise the activities of each regiment supervise the accritise of each regiment representatives, agence, and other per-sennel. This is reasonably designed to achieve compliance with the finite of the Capital Markots & Services Act.

"Indeed, the regulatory authorities

have already partin place some - though not an exhaustive list - of well-established

- nor an exhaustive hir ef veil-established make and regulations, specifically to deal with mader insteambart, "the points out." But the extensions must be vigilant at all innes, ready to hand the suspects up and prosecute them based on the evidence parkness without few or favour." On this note, Ho suggeste:

 Emalitic procesures by the US Securities Enchange Commission and Department of Instite whereby brokerage firms and investment advisors are negatived under Section 15(4) of the Euchange Act and Section 204A of the Investment Advisors Act to establish, maintain and enforce written policies to prevent the enhance written policies to prevent the exisuse of material non-public information by the firms or their associated persons
- Education and training to better understand responsibilities and
- understand responsibilities and obligations in order to avoid violating securities laws;
 Exp sensitive information can resolution have been been in code to minimize the risk of information abuse and limiting possible suspects;
 Secure sensible information;
 Monitor company share re-purchase programmes to secure compliance.

Bursa shows it means business

6F Aug 25 marks the marker legal pursuit of front-irunning case by the Monetary Authority of Singapore, such unefficial business conduct has been detected.

much serier in leasyles.
On sure 5, 2014, Bursa Welleysia:
Securities Bhd publicly represented,
Fried and ordered to attitude of such
tomain dealer's representatives
(IAS) for conduct shot-livelyed
front-suming activities, pre-avoraged
opedinated tables, obuses of circles'
residuated tables, obuses of circles' trade information and the undersking of unsultorised trades in a client's

scount.
Sapali Shehan,din, a salaried DR of
Amministrative Bank sho, was publicly
reprinenced, Shed MMS0,000 and
ordered to be cruck off the register of
Burse Malayda Socurties.
Wong Lup Mur & Stong Chang Hoh,

a commissioned DR of Renorge Invest-ment Bank Bind, was fined IRMS5,000 aside from being publicly represented and arrange to be struck off the register of Busia Milligole Securities.

The securities commission (s.C.) in to Subdelines on Maximir Conduct and business Practices for Stockhooking Congodies and Licensed Representa-tives invested on Nov 20, 2014 has listed hard-running as one of 13 equipples of market abbuses and unethical business.

regulator describes The regulator describes from humaning as follows: "Dealer's representatives handing accounts of several big mish stinument customers seed and trained for their mind, trail cus-tomers or accounts of related persons play to the execution of trailers of the big instructions retail outstomers with the view to from run and make quick resolver."

Other forms of market abuses and Literance business conduct destrict by the SC are 3) action-based manipulation, so "before of trade-based manipulation, so "before the tape" on undersourcedes, N° 101-bove", NI SIND party payment, NI "marking the clear", NI conflicts a person with knowledge of a business or untariographic research report purchases or sells securities in advance of the report being referends (a) "scoping", (a) "spooling", (a) "burn; and dump", and (x) "high and pain".

