

Summary of matters discussed at the Bursa Market Surveillance's Engagement Session with the POs on 17th October 2018

No	Areas	Comments & Suggestions	Response from Bursa
1.	Area of Monitoring by PO	<p>The criteria for area of monitoring to all Trade Surveillance activities are solely based on Participating Organization (PO) own decision with guidance and recommendation from vendor.</p> <p>PO is not sure the criteria for area of monitoring to all Trade Surveillance activities are sufficient to cover all possible misconduct of trading activities in the market. Perhaps Bursa can share the minimum criteria of monitoring and standard industry practice.</p>	<p>To date Bursa has issued ICON-ST (2017) and ICON-ET (2018) to provide recommendation of best practices and guidance for POs in assessing manipulative trading activities and adopting the appropriate monitoring activities.</p> <p>Between the ICON-ST and ICON-ET, Bursa has embarked on a Train-The-Trainer Workshop to equip brokers/first liners specifically on criteria to monitor orders and trades, which includes calibration of alerts for brokers who has automated surveillance system and brokers who do not.</p> <p>A brief recap, manipulative activities can essentially be grouped into 3 categories i.e. price manipulation, volume manipulation and order book manipulation. In ascertaining trading manipulation, we will perform examination based on patterns of irregular trading observed.</p>
2.	Trading Behaviors to be Monitored	<p>Insider Dealing and front running are among the trading behaviors that Bursa expects POs to include in their daily front office monitoring.</p> <p>It's challenging for POs to monitor insider dealing and front running. We are doing it on the best effort basis i.e.by monitoring the trading pattern of the related account(s) of Dealers and staff trading account opened within the same PO.</p>	Bursa agreed with the best effort basis.

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3.	Bidding price/ marking the close/ influencing TOP/TCP	PO requested for Bursa to share the cases noted by Bursa and in which category of stocks that mostly seen or found to be price leading. For e.g. any bidding up case noted in structured warrant stocks.	With regard to price manipulation, no specific category of stocks is prone to be targeted. However, in general it would involve illiquid, tightly held stocks or those in which the major shareholders are actively trading using pledged accounts. So far, we have not observed any bidding-up case solely involving structured warrants.
4.	Algorithmic Surveillance	<p>Bursa Surveillance's requirements on POs are very onerous. For e.g. requesting POs to obtain certifications from their clients on their algo platform. Clients like Morgan Stanley or Merrill Lynch for example will not want to provide their brokers with a certificate of their system readiness.</p> <p>Also, POs are supposed to monitor the DMA trades of their clients to ensure that they are not employing illegal strategies. POs do not have any system available to do this and with trades coming in from all directions from different end clients, how are POs supposed to figure out the strategies and trades etc? HFT trades are now in nano or giga seconds. POs do not have surveillance system which will be able to monitor and keep up with these trades.</p>	<p>Page 9 of 19 of the ICON-ET states additional recommended steps by POs in respect of algo client onboarding. Documentary evidence can include certification or any other confirmation to verify the reliability of the system to be on boarded by the PO's client. As stated in ICON-ET, the above is only a recommendation/best practice for POs to adopt to obtain comfort on the reliability of the client's automated trading system.</p> <p>In conducting trade monitoring, POs are expected to detect and act upon irregular trading activities by their clients irrespective of origin of orders/trades (algo or non-algo). The ICON-ET, complementing the ICON-ST is issued to guide POs in identifying irregular trading behaviors and red flags associated with electronic trading.</p> <p>Trade monitoring and surveillance can be done without a surveillance system which operates on nano/giga seconds. For example, detection of ping and quote stuffing can be done by observation of red flags like high OTR, frequent cancellation and entering of orders. Detection of NCBO can be done by observation of</p>

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			transactions which have the same end-BO.
5.	Algorithmic trading client onboarding	PO emphasized on the importance of algorithmic trading client onboarding and how the whole market is exposed to systemic risk.	In the ICON-ET issued in Aug 2018, Bursa has included recommendation of best practices and guidance on algo client onboarding and dealing with relevant risk.
6.	Possible insider dealing	PO commented on possible insider dealing by brokers who issue research reports.	Bursa's assessment into insider trading activities would include examination on trades by research houses and relevant staff.
7.	Market manipulation activities through social media	PO shared that possible market manipulation activities through social media are difficult to manage. Although certain enforcement actions may have been taken by SC or Bursa, details of these actions were not made public. Hence the perpetrators can start again in the future.	Bursa is vigilant in monitoring market manipulation activities through the social media and will continue to share observations with brokers upon detection.
8.	PLCs' presentation materials should be available online	<p>PO highlighted that they had received comments from foreign fund managers that PLCs should share their presentation materials with investors by making them available online. As PLCs often meet investors and share information at conferences and small group meetings he believed that this information should be shared with wider audience and potential investors especially for small cap companies.</p> <p>Timely sharing of information (which has been presented to selected group of investors) is crucial as this will ensure good governance practices and compliance with disclosure requirements.</p>	<p>Bursa had issued Corporate Disclosure Guide (CD Guide) in 2010 to address selective disclosure by PLC.</p> <p>Bursa's Listing Division has been highlighting the matter at Director's Advocacy sessions since 2011 and will explore other means to emphasize it.</p>

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9.	Case of faulty algorithmic trading	PO touched on the case of faulty algorithmic trading involving a foreign broking house and inquired if Bursa is favoring algorithmic trading clients by not taking more serious action against them.	Bursa explained that surveillance actions are taken based on strong pattern/evidence of market abuse regardless of the mode of orders is entered.