



40TH ANNUAL GENERAL MEETING OF BURSA MALAYSIA BERHAD

BURSA'S RESPONSE TO ISSUES RAISED BY MSWG IN ITS LETTER DATED 24 MARCH 2017

NO.	QUESTIONS	RESPONSES
1.	<p>As a front line market regulator, the role of Bursa Malaysia is to ensure that listed entities and intermediaries meet their regulatory obligations to uphold investor protection, market integrity and stability.</p> <p>In line with this role, kindly explain or share on the following concerns:-</p>	
1(a)	<p>Monitoring process and significant actions taken against listed entities, in particular China-based companies.</p>	<p>As part of Bursa's monitoring and surveillance activities, developments and trends affecting our listed companies (locally and foreign incorporated) are closely monitored. As and when certain trends/issues/irregularities are detected giving rise to concerns of undermining investor protection and/or integrity of our capital market, the Exchange will initiate the necessary actions including engagement with the affected listed companies, their board of directors as well as external auditors towards resolution of such concerns. Where there is a breach of the Listing Requirements (LR), action will be taken against the PLC and its culpable directors.</p> <p>In respect of listed foreign companies, the LR framework has been further strengthened towards enhancing investor protection in 2015. Some of the amendments/enhancements include:-</p> <ol style="list-style-type: none"> 1. Foreign corporations must appoint at least 2 independent directors whose principal or only place of residence is within Malaysia. 2. Auditors of foreign corporations listed on the Exchange must be from an international accounting firm or an accounting firm with international affiliation. 3. Foreign corporations must obtain prior shareholder approval in general meeting to appoint or remove its external auditor. 4. Foreign corporations must announce any change of law in the country of incorporation or the laws in the country of incorporation or the laws in the country of incorporation of its foreign principal subsidiaries, which may affects the right of its shareholders. 5. Foreign corporations must ensure that they have in place a system of internal control that will provide reasonable assurance that - <ol style="list-style-type: none"> (a) the assets of the foreign corporation and its subsidiaries are safeguarded against loss from unauthorized use or disposition; and



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		<p>(b) all transactions are properly authorized and that they are recorded as necessary to enable the preparation of a true and fair view of the financial statements, and to give a proper account of the assets.</p>
1(b)	<p>Non-compliance with the recommendations of the Malaysian Code on Corporate Governance 2012 by listed entities.</p>	<p>Unless mandated under the LR (e.g. requirements on audit committee, internal audit function), PLCs are required to disclose their corporate governance practices with reference to the MCGG 2012, stating as to how they applied the Principles and Recommendations in the Code and where the Recommendations are not followed, to disclose the reasons for not following and alternatives adopted, if any ("Comply or Explain") pursuant to paragraph 15.25 of the LR.</p> <p>The approach of "Comply or Explain" is similar to benchmarked jurisdictions such as Hong Kong, Singapore, United Kingdom and Australia.</p> <p>Towards ensuring compliance, Bursa review and assess the CG disclosure by our PLCs. Bursa had undertaken a review of corporate governance disclosures in 280 listed issuers' annual reports in 2014 and provided them with their scores. The review in 2016 marked the second time that these listed issuers' corporate governance disclosures were reviewed. The review was undertaken to assess whether these PLCs have improved their disclosures, further to our advocacy programmes and engagement activities carried out in 2015 and 2016 subsequent to the issuance of the first Report in 2014.</p> <p>In this respect, our assessment shows that there is a high level of compliance with the LR and high adherence to the MCGG 2012. Our average scores based on a sample of PLCs (n=280) which were reviewed in 2014 and again in 2016, showed that their disclosures have improved from 60.9% in 2014 to 68.7% in 2016.</p> <p>With regards to non-adoption with recommendations of the MCGG2012, we noted that many PLCs have highlighted the non-adherence/non-adoption and provided justifications for the non-adoption in accordance with paragraph 15.25(b) of the LR. For PLCs that have failed to do so, we have engaged</p>

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		with these companies and monitored their disclosures vis a vis compliance of the LR. Where there is a contravention, action will be taken against these PLCs.
1(c)	Non-compliance with regulatory requirements in respect of audited financial statements, regularisation plan, public shareholding spread, etc.	<ul style="list-style-type: none"> • We closely monitor compliance of the LR including the areas of financial reporting, regularization plan as well as public shareholding spread. • Generally, we find that there is high level of compliance with these requirements, such as:- <ul style="list-style-type: none"> ➢ timely submission of financial statements where the adherence for 2015 and 2016 are approximately 99.5%.; and ➢ to date, only 8 PLCs do not meet the public shareholding spread and for which, extension of time have been given to enable them to rectify the shortfall. • In monitoring, we undertake continuous engagements with the PLCs to ensure compliance or rectification of the non-compliance as soon as possible. In this regard, PLCs can apply for extension of time to comply with the LR and in considering these applications, Bursa will consider all facts and circumstances of the matter including the reasons for non-compliances (e.g. within the reasonable control of the company) as well as the efforts made by the companies towards compliance. • In circumstances where the PLC fails to comply and no extension of time is granted, appropriate action will be taken against the PLC as well as its culpable directors. (e.g. breach of financial reporting obligations – cases of Transmile, Golden Plus Berhad).
1(d)	New provision under Section 230(1) on tabling of “any benefits payable” to directors of a listed company and its subsidiaries for approval at a general meeting.	<ul style="list-style-type: none"> • Bursa Malaysia is generally supportive of any measures that empower shareholders and hold directors to greater accountability as these strengthens corporate governance. • However, as a matter of policy, we do not comment on specific provisions of laws or regulations that are administered by other regulatory authorities. We believe that the relevant authorities are in the best position to interpret the requirements prescribed.



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1(e)	Bursa's "surveillance system" to detect unusual market activity and the effectiveness in addressing insider trading issues.	
	(i) What is the key role of Bursa in this vis-a-vis Securities Commission?	<p>Bursa Malaysia as a frontline regulator of the Malaysian capital market has the duty to maintain a fair and orderly trading in the securities and derivative markets. Bursa undertakes real-time surveillance and post-trade monitoring over the trading activities in the marketplaces. The monitoring of market orderliness broadly entails the monitoring of trading activities as well as disclosures by PLCs, news, rumours and all kind of market intelligence from various sources. Where in the course of our surveillance and monitoring activities, violations of the law such as market manipulation, insider dealing and short selling, case referrals will be made to the Securities Commission (for possible offences under the Capital Market & Services Act).</p> <p>In respect of insider trading, generally, Bursa Market Surveillance undertakes assessment on possible insider trading when there is a sudden price or volume movement on a particular counter/stocks prior to the material announcement (price sensitive information) by the PLC. The announcement is considered material, if it has material effect on the price or value or market activity and affect the decision of the investors. Types of announcement which are considered as material, amongst others include the following:-</p> <ul style="list-style-type: none"> • Take-over offer / Merger & acquisition • Privatisation • Significant change in the business direction or policy • PN17 / GN3 • Major acquisition/ disposal of assets • Financial results <p>UMA is a disclosure tool to prompt and remind PLCs to disclose unpublished material information (including pending corporate proposals which were withheld in accordance with the LR) to the market in circumstances where there is a sign of possible information leakage as evidenced by unexplainable significant fluctuations in the share price and/or volume traded of the said counter/PLC. In determining</p>



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		<p>whether there is UMA and for UMA query to be issued, Bursa Market Surveillance is guided by parameters which will be assessed with other qualitative factors which are internationally benchmarked. In this respect, there is no direct correlation between UMA and insider trading as there are many instances where possible insider trading is established involving counters with no UMA and vice versa.</p>
(ii)	<p>Kindly elaborate and explain the measures, sanctions and penalties taken against the PLCs for the last three (3) years and the results</p>	<p>As Bursa does not enforce insider trading offences as insider trading laws come under the purview of the Securities Commission, information on insider trading cases can be accessed from the Securities Commission's website where generally the sanctions ranges from fines to custodial sentencing.</p>
(iii)	<p>Is there a mechanism in place to bar directors primarily responsible for ensuring governance and minority interest from continuing serving as directors in PLCs?</p>	<p>Whilst Bursa can take enforcement actions against culpable directors for breaches of the LR, Bursa's enforcement powers/actions do not extend to barring a culpable director from serving as a director in a PLC under the LR. However, in instances where enforcement actions are taken for serious breaches and Bursa will generally highlight to and request the board of the PLC to assess under paragraph 2.20A of the LR as to whether the said individual is a "fit and proper" director of the PLC.</p>
1(f)	<p>Elaborate on its recent communication letter on manipulation activities via "pump and dump"</p>	<p>As a regulator, it is Bursa's role to constantly engage our brokers of possible trends and activities in the market place. Towards this end, an industry communication letter was issued to the brokers on 21 March 2017 to alert market participants pertaining to our observation of "pump and dump" scheme carried out in certain stocks through the social media. The intent of the letter was to serve as a precautionary action to alert the market participants not to be manipulated/enticed/ misled into buying stocks which were touted as "hot" stocks through the social media without undertaking further verification.</p> <p>Bursa has always taken proactive steps in market management and we will continue to monitor the trading activities and take necessary actions (e.g. unusual market activity query, market alerts etc). Where a breach of our rule is detected and established, imposition of enforcement actions on the errant brokers, dealer representatives and/or such other parties registered by Bursa Malaysia will be taken, whereas for violations of the law, case referrals will be made to the Securities Commission (for possible</p>

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		<p>offences under the Capital Market & Services Act). To date, market integrity remains intact with trading activities happening in a fair and orderly manner, supported by adequate safeguards.</p>
1(g)	Monitoring or unfair dissemination of non-public material information	<p>We take cognizance that selective disclosure/dissemination of non-public material information to certain individual/group first before making full disclosure of the information to the public, may affect investor confidence in the integrity of the capital market including question as to whether there is level playing field with market insiders and hence, fairness of the market.</p> <p>As such, the LR prohibits such selective disclosure and in ensuring compliance, Bursa undertakes monitoring which include reviewing news articles and other sources of news on daily basis to ensure that there is no disclosure of unpublished material information without the same being made to Bursa first or simultaneously to Bursa and other communication. Where selective disclosure is detected and established, enforcement actions will be taken against the PLCs and its culpable directors and recent cases taken for such contravention were 2 cases in 2016 (MYEG and SKP) where sanctions imposed include public reprimand and fine of RM50,000 each on the culpable directors.</p>
2.	Bursa Malaysia was ranked 4 th among 138 economies for Strength of Investor Protection and 30 th Best Regulated Securities Market as reported in the World Economic Forum – Global Competitiveness Report 2016-2017. It was also ranked 3 rd among 190 economies for Protecting Minority Investors based the World Bank-Doing Business 2017 Report	
2(a)	Could the Board brief on the key criteria or scorings that has enabled Bursa Malaysia to be ranked well, particularly in the areas of investor protection.	<p><u>Key Criteria/Scoring on Protecting Minority Investors based on the World Bank-Doing Business 2017 Report (“Doing Business Report 2017”) where Bursa Malaysia did well</u></p> <p>Doing Business Report 2017 measures the protection of minority investors from conflicts of interest through one set of indicators and shareholders’ rights in corporate governance through another. The scoring is obtained by way of simple average of the extent of conflict of interest regulation and extent of shareholder governance indices. Our score for Minority Investor Protection Index is 8.0/10.</p>

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		<p>The 3 areas covered under the extent of conflict of interest regulation index:</p> <ol style="list-style-type: none"> 1. Extent of disclosure index (Our score: 10/10) <ul style="list-style-type: none"> ▪ Review and approval requirements for related-party transactions ▪ Disclosure requirements for related-party transactions 2. Extent of director liability index (Our score: 9/10) <ul style="list-style-type: none"> ▪ Ability of minority shareholders to sue and hold interested directors liable for prejudicial related-party transaction ▪ Available legal remedies (damages, disgorgement of profits, fines, imprisonment, rescission of the transaction) 3. Ease of shareholder suits index (Our score: 7/10) <ul style="list-style-type: none"> ▪ Access to internal corporate documents; Evidence obtainable during trial and allocation of legal expenses <p>Bursa's average score for extent of conflict of interest regulation index: 8.7/10</p> <p>The 3 areas covered under the extent of shareholder governance index:</p> <ol style="list-style-type: none"> 1. Extent of shareholder rights index (Our score: 8/10) <ul style="list-style-type: none"> ▪ Shareholders' rights and role in major corporate decisions 2. Extent of ownership and control index (7-10) <ul style="list-style-type: none"> ▪ Governance safeguards protecting shareholders from undue board control and entrenchment 3. Extent of corporate transparency index (7-10)

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		<ul style="list-style-type: none"> ▪ Corporate transparency on ownership stakes, compensation, audits and financial prospects <p>Bursa's average score for extent of shareholder governance index: 7.3/10 <u>World Economic Forum – Global Competitiveness Report 2016 -2017</u> Strength of Investor Protection (Our score: 7.8/10, ranking: 4/138) This indicator is a combination of the Extent of disclosure index (transparency of transactions), the Extent of director liability index (liability for self-dealing), and the Ease of shareholder suit index (shareholders' ability to sue officers and directors for misconduct). The indices are based on the World Bank/International Finance Corporation, Doing Business 2016: Measuring Regulatory Quality and Efficiency.</p> <p>Regulation of Securities Exchanges (Our score: 5.3/7, raking: 30/138) The findings and the ranking is based the question as to the extent regulators ensure stability of the financial market where perception survey was conducted through he Executive Opinion Survey 2016 ("EOS 2016") in respect of the World Economic Forum – Global Competitiveness Report 2016-2017</p> <p>Based on perception and opinion surveys amongst the SMEs and large companies of various sectors of activity, among the ASEAN countries, Malaysia ranked no 2 with a total score of 5.3/7 after Singapore (6.3/7) ahead of Philippine, Thailand and Indonesia.</p> <p>Note : Philippine ranked 40/138 (score : 5.0/7); whilst Thailand is ranked 45/138 (score : 4.8/7) and Indonesia ranked 60/138 (score 4.5/7)</p>
2 (b)	Are these rankings in sync or in line with the perception of local investors, particularly minority Investors?	Our market does have various check points to protect our investors, both at Bursa Malaysia and Securities Commission levels for both retail and institutional investors. The recognition from the international bodies like the World Economic Forum confirms the robustness of our framework in this area as these good rankings will not be earned if they don't reflect the actual situation on the ground.



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2 (c)	Have all these good rankings translated into greater interest shown by foreign investors and increased participation in our Exchange?	In this respect, whilst we believe these good rankings should translate into greater investors' interest in our market, we also take cognizance that the participation of investors could also be based on various other factors such as valuation, the breadth and depth of the market, country outlook, country weight in major indices and products listed etc.
3.	As at December 2016, the FTSE4Good Bursa Malaysia (F4GBM) Index constituents stood at 42, an increase of 17 from its launch in 2014.	
3 (a)	Could the board enlighten the shareholders whether the criteria to be a constituent of the Index also include any threshold/minimum performance indicators? If so, what are the indicators, threshold and weightage?	<p>To be included in the FTSE4Good Bursa Malaysia index, companies will need to meet a variety of environment, social and governance (ESG) inclusion criteria. These are consistent with global ESG standards such as the Global Reporting Initiative (GRI) and Carbon Disclosure Project (CDP).</p> <p>The FTSE ESG Ratings provide investors with flexible and granular data to enable greater understanding of companies' ESG practices in multiple dimensions. The Ratings model is divided into E, S and G pillars, subdivided into 14 themes covering a range of sustainability issues of increasing interest to investors. The criteria are based on publicly available data sources and companies are encouraged to ensure that high quality data and information is provided publicly on their ESG practices and performance. The company's exposure will be calculated on what is relevant to the businesses they are in. For example in the case of Bursa, while all the themes will be assessed upon, the exposure to Governance will be higher compared to Environment and Social. A rating/score will be arrived at and companies will require a minimum rating of 2.2 before being admitted as a constituent of the index. In 2014, the minimum rating required was 2. In addition to the ratings, companies will also be monitored on controversies. Companies with controversies will not be admitted to the index irrespective of the rating/score achieved while tobacco and weapons companies are excluded (negative screening).</p> <p>Bursa had in December 2014 initiated the launch of an ESG Index with an assessment of the top 200 companies, by market capitalisation, in the FTSE Bursa Malaysia EMAS index. While Bursa started with 24 constituents in the index, as at the last assessment in December 2016, 42 constituents made up the index, an increase of 18.</p>

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3 (b)	<p>Has there been an apparent increase in trading of shares of the constituents due to their admission into the Index? Was there any study undertaken on the correlation between these constituents with good sustainability practice and the creation of shareholder value?</p>	<p>From the chart below, the FTSE4Good Bursa Malaysia index has outperformed the FTSE Bursa Malaysia KLCI by 1.59% since inception.</p> <div data-bbox="987 518 1944 1173" data-label="Figure"> <p>F4GBM vs FBM KLCI for the period of 31 Dec 2013 till 31 Dec 2016</p> <p>Rebased 1000 as at 31 Dec 2013</p> <p>Legend: — F4GBM — FBM KLCI</p> </div> <p>Cases have also shown positive relationship between ESG factors and portfolio performance and based on a Accenture Strategy CEO Study 2016 on Sustainability in collaboration with the Principles for Responsible Investment:-</p> <ul style="list-style-type: none"> ▪ 88% of the investors surveyed do see sustainability as an opportunity for competitive advantage; ▪ 91% of investors responded that they believe that sustainability should be better embedded into discussion between companies and investors; and

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		<ul style="list-style-type: none"> ▪ 88% believe that they should pay greater attention to sustainability in company valuations
4.	<p>In was stated in page 13 of the Annual Report that Bursa is also exploring potential collaboration with Fintech companies in the areas of innovation and expansion of capabilities. Could the Board share the latest developments on this and what are the specific areas of focus?</p>	<p>Technology has always been an equalizer, and Fintech is no different. Fintech will change the way capital market operates in that it changes the way capital is accessed and consumed. Bursa Malaysia recognizes the potential for Fintech to democratise the access to capital. It will contribute to a more leveled playing field for both capital market players as well as investors, in particular the retail investor segment.</p> <p>We would look into some of the following areas to explore Fintech opportunities:</p> <ul style="list-style-type: none"> - For Institutional investors, it could provide a new channel to access capital and connect with new and existing investors. - Capital market providers could harness and analyse information in new and more cost effective ways e.g. delivering a personalized investment or trading plan, or a more customized education programme for investors on their trip-to-trade. - For retail investors, it provides a more cost efficient channel to access investment and trading products as well as a channel for education on investment and financial literacy. Fintech would also greatly benefit millennials as they operate and conduct their lives in a world of mobile devices and apps, which would make investment and trading tools more easily available and understood. <p>For Bursa Malaysia, we are currently studying the potential areas for collaboration with capital market participants. And as with any new areas of growth, we will also look into any risks as investor protection is one of the Exchange's core role in ensuring a fair and orderly capital market.</p>
5.	<p>The segmental revenues for the securities on page 35 of the Annual Report showed that the trading revenue declined by 8.7%. The trading by retails investors under the "Market Demography by Trading Value" was the lowest among the three categories of traders.</p>	
5 (a)	<p>What measures have been taken to address the drop in securities trading revenue and what is the outlook for 2017?</p>	<p>We continuously seek to ensure that we provide a conducive and secure trading platform with a variety of products for investors. While 2016 has been a challenging year, Bursa Malaysia continued its efforts in the area of marketing & promotion, investor education as well market development to grow the securities trading. In 2016, we undertook 197 investor related initiatives that reached out to 24,512</p>

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		<p>investors. This include both domestic and international roadshows and marketing events to attract investments into the market. Bursa will continue to invest in the area of enhancing investors' financial literacy and market improvements through various developmental initiatives.</p> <p>In 2016, among others the following development initiatives were undertaken:-</p> <ul style="list-style-type: none"> a. Enhanced RSS and SBL framework (Launch of new at-tick rule in Feb 2017) b. New market for SMEs (To be launched in 2017) c. Amendment to ETF guidelines (WIP) d. Bursa Malaysia-i e. Enhancement of our retail portal, BursaMKTPLC <p>Our market performance year-to-date (as at 24th March 2017) has been encouraging:</p> <ul style="list-style-type: none"> a) FBMKLCI – 1,745.75 (2017) vs 1,641.73 (2016) b) Market capitalisation – RM 1,800 bil (2017) vs RM 1,667 bil (2016) c) ADV (OMT) - RM 2,362 mil (2017) vs RM 1,812 (2016)
5 (b)	What were the main reasons for the declining trend in the trading by retails investors?	<p>Bursa has been effective as a capital raising platform for the last four years providing the impetus in attracting retail investors. However in 2016, the bearish market conditions contributed to the low retail participation in 2016. With improved market condition in 2017, and Bursa having laid the foundation with investor education, the level of retail participation has increased. As at 24th March 2017;</p> <ul style="list-style-type: none"> a) Retail ADV – RM 534.5 mil (2017) vs RM 371.8 (2016) b) Retail Participation – 23.0% (2017) vs 20.5% (2016)



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5 (c)	Apart from investor education, what other measures were taken to increase retails participation?	<p>Aside to the numerous investor education initiatives, Bursa Malaysia has embarked on the following initiatives to increase awareness and participation from retail investors;</p> <ul style="list-style-type: none"> a) Various marketing and promotion events hosted by Bursa Malaysia or in collaboration with the POs b) Development and promotion of retail-centric products i.e. ETFs and SWs c) Upcoming mid and small cap research scheme to promote small and medium sized companies to retail investors d) Further improvements of our BursaMKTPLC portal e) Enhancement of services and connectivity capitalising on technology i.e. e-services. <p>Bursa will continuously seek to provide ways to improve the financial education and literacy standards.</p>
6.	In Note 5 on page 157 of the Annual Report, there is an impairment of RM22 million under the investment in subsidiaries. What was the reason for the impairment and which are the affected subsidiaries?	<p>The impairment of RM22 million is in relation to wholly owned subsidiaries, which has been recognised in prior years on the basis that their carrying amount was in excess of their recoverable amount, whereby both companies had accumulated losses which exceeded their cost of investment.</p> <p>The affected subsidiaries are Labuan International Financial Exchange Inc. and Bursa Malaysia Bonds Sdn Bhd.</p> <p>Labuan International Financial Exchange Inc. provides, operates and maintains an offshore financial exchange, while Bursa Malaysia Bonds Sdn Bhd was set up to provide, operate and maintain an electronic trading platform for the bond market.</p>