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Aurexia Institute

REGULATORY WATCH

NEWSLETTER

Asia Pacific

MARKET ABUSE AMONG THE MAS'S ENFORCEMENT PRIORITIES

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Market abuse among the MAS's enforcement priorities

What is the MAS Enforcement Report and how does it concern you?

Monetary Authority of Singapore (MAS) recently published an Enforcement Report, providing updates on enforcement actions and key outcomes over the past 18 months. This report is a bench indicator of where MAS identify the largest area of risks and where banks should place emphasis on to strengthen controls.

What are the key areas of focus for 2019?

Money laundering, market abuse, and financial services misconduct are the three key aspects of target by the MAS as revealed in its latest enforcement report. Expanding on the three areas, MAS indicated that the focus of upcoming regulatory inspections is certain to include 5 enforcement priorities namely: Corporate Disclosure, Business Conduct, AML/CFT Compliance, Brokerage Houses Internal Control and Insider trading.

Figure 1: MAS enforcement priorities for 2019/2010 (Source: MAS)

These enforcement priorities impacts Financial Institutions (FIs) as they are fundamentally responsible for supervising the conduct of their staffs and have a duty to ensure that their representatives conduct themselves in accordance with all applicable regulatory requirements. Nonetheless, MAS is expected to continue its monitoring on Financial Institutions with vigor and to place a heavier focus on accountability and transparency.

A glimpse into the enforcement environment in Hong Kong

Over the past few years, Hong Kong's regulators have also intensified their focus on enforcement priorities due to the increase cases in financial misconducts. This comes as an effort to obtain greater visibility on Financial Institutions as Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) continues to maintain a high level of supervision through its own dedicated enforcement division. HKMA and SFC also published a few key areas of focus of their enforcement priorities below:

AML/CFT (HKMA & SFC) | **Corporate Fraud (SFC)** | **Corporate Misfeasance (Misconduct) (SFC)** | **Insider Dealing & Market Manipulation (SFC)** | **Intermediary Misconduct (SFC)**

Within the key areas of enforcement priorities, Anti-money laundering and counter financing of terrorism (AML/CFT) tops the list with the most occurrences of fines and regulatory warning. The synergies of HKMA and SFC with the priorities of MAS are evident, with a strong focus along the themes of anti-money laundering, conduct and market abuse.

A FOCUS ON MARKET ABUSE

The three most common types of cases of market abuse highlighted in the Enforcement Report were Insider Trading, False Trading and Corporate Disclosure.

Insider Trading

01

There were 14 cases of insider trading detected by MAS in 2017-2018. Although the majority of penalties are against individuals, MAS expects financial institutions to implement surveillance controls and promptly report suspicious transactions.

False Trading

02

There were 13 cases of false trading with a variety of different schemes. 2 highlighted cases were spoofing to artificially inflate the price of Contract for Difference, and another case where the trader artificially raised the closing price of securities by making trades near the end of trading hours.

Corporate Disclosure

03

With more than 400 public queries being issued by SGX to listed firms regarding fiscal year 2018, as well as a revamped format for submission of statistics and returns for banks (MAS 610), it is clear that corporate disclosure is a key regulatory focus, to ensure investors get accurate and timely information.

In addition, MAS has revealed it intends to engage brokers to assist in disrupting potential market misconduct, by shaping their conduct and culture with a focus on disrupting suspicious trading activities and curbing undesirable trading behaviour.

WHAT ARE THE NEXT STEPS TO PREPARE AS A FINANCIAL INSTITUTION?

It is important to perform a comprehensive risk assessment of your exposure to each of the risks highlighted above, taking into consideration new and updated regulatory notices and guidelines. Financial Institutions should develop a robust monitoring and control framework that demonstrates resilience, vigilance, is responsive and constantly review its effectiveness.

Figure 2: Aurexia's 3 step approach to a Compliant Target Operating Model

With $16.8 million in financial penalties issued in the past 18 months, it is important to continuously assess where you stand while comparing to the industry standard and expectations. Aurexia can assist you with improving overall governance, framework, systems, processes and controls in the areas prioritized by the MAS.

Have a good read!

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