**Insider Trading – What Directors of Public Listed Companies Need to Know (Part 2)**

Insider trading has received increased regulatory scrutiny in the Malaysian market over the past decade, posing several important questions for those who are privy to confidential information.

In the last article, we looked at what exactly is insider trading, determining materiality in the context of insider trading as well the interface between the CMSA and Bursa Malaysia's Main Market Listing Requirements. In this article, we will delve into considerations that directors need to take into account in the event they do not trade but procure another person, whether directly or indirectly, to buy or sell securities when the director is in possession of inside information, closed periods as defined by Bursa Malaysia, and actions that can be taken by Malaysian regulatory authorities in the event of a breach of insider trading prohibitions.

**A Director Who Doesn't Trade**

What if the director does not trade but procures another person, whether directly or indirectly, to buy or sell securities when the director is in possession of inside information? This is also a breach of the law under section 188(2) of the Capital Markets and Services Act 2007 ("**CMSA**"). Therefore, an insider who induces or encourages another person to buy or sell securities would be equally caught by the law (section 187 of the CMSA defines the term 'procure' as *"inciting, inducing, encouraging, or directing another person to carry out an act or omission"*).

Similarly, a director who communicates inside information to another person who then goes on to trade in the securities, also commits a breach of the law. Section 188(3) spells this out in clear terms. A famous case involving the tipping of inside information by a corporate insider is that of Rajat Gupta (*Gupta v. United States 747 F.3d.19*) who was convicted of engaging in and conspiring to engage in an insider trading scheme while serving on boards of directors of various companies. The charges involved Gupta having tipped Raj Rajaratnam, a fund manager of the Galleon Group who himself was convicted of insider trading.

**Closed Periods**

But surely, I can trade if it isn't a closed period, as defined in the Bursa rules? The answer to this is clear. While the Listing Requirements of Bursa Malaysia place certain restrictions on trades during closed periods[1] this does not preclude the application of insider trading prohibitions which are set out in the law, namely the CMSA. This means that directors, while complying with the closed period trading rules set out in the stock exchange rules, would also have to apply their minds to their potential trades to determine if they are in possession of non-public material information. If they are in possession of such inside information, then regardless of whether they are outside of a closed period, the director should not trade. This is clear from the Listing Requirements themselves which state that *"an affected person must not deal in the listed securities of his own listed issuer or of other listed issuers as long as he is in possession of price-sensitive information relating to such listed securities"*. (Rule 14.04 MMLR)

Directors and principal officers of a listed issuer or its major subsidiary are considered to be 'affected persons' under Bursa's Listing Requirements (Rule 14.03(1) MMLR). As far as listed issuers are concerned, 'principal officers' are defined as *"the chief executive who is not a director, the chief*

[1] *A closed period as defined in Chapter 14 of Bursa Malaysia's Main Market Listing Requirements refers to a period commencing 30 calendar days before the targeted date of announcement up to the date of the announcement of the following to the Exchange – (i) in relation to a listed issuer, its quarterly reports; or (ii) in relation to a listed collective investment scheme or listed business trust, the quarterly reports or annual reports of the listed collective investment scheme or listed business trust.*

*financial officer or any other employee of the listed issuer or its major subsidiary respectively who has access or is privy to price-sensitive information in relation to the listed issuer"* (Rule 14.02(i) MMLR).

**What Actions Can Be Taken for Insider Trading**

Under the CMSA, a breach of the insider trading prohibitions can be visited with either criminal or civil actions. Criminal actions for breaches of the law, including the CMSA, as provided under Article 145(3) of the Federal Constitution, can only be instituted with the consent of the Public Prosecutor (section 375 of the CMSA). Such charges are laid before the Sessions Court and can proceed up to the Court of Appeal.

Another route which may be taken for insider trading breaches is by way of a civil action which is filed in the High Court. In such an instance, the Securities Commission Malaysia ("**SC**") may be able to claim up to three times the difference between the purchase or sale price and the likely price had the information been generally available. (see subsections 201(5) and (201(6) of the CMSA). This is typically regarded as the profit made or the loss avoided by the insider. In addition, a civil penalty can also be claimed from the offender, up to a sum of RM1 million. In the *Chan Soon Huat case [2018] 9 MLJ 782*, the court ordered the defendant, to pay a sum of RM 3,238,761 which constituted three times the value of the loss avoided by the defendant due to his insider trades. In addition, he was ordered to pay a sum of RM500,000 as a civil penalty under section 201(6) of the CMSA.

The SC's Reporter, which provides regulatory and enforcement updates by the capital market regulator, reports in its Issue 1 of 2021 (covering its updates for the period between July 2020 – June 2021) insider trading actions taken and outcomes involving more than 12 individuals in trades involving eight PLCs over a period of time – The specific actions taken by the SC involve criminal charges, civil actions, both in cases of consent judgments being recorded and one case involving a full trial, and in several instances, regulatory settlements being entered into with the SC.

Breaches can also mean that directors and chief executives can lose their board positions as ordered by the court when a civil action is instituted by the regulator (see section 360(1)(L) of the CMSA). Section 318 of the CMSA also provides that the SC has the ability to apply to court to disqualify a director or chief executive who has breached specific provisions in the CMSA, including the prohibition on insider trading.

In a recent case as disclosed in SC's Reporter (Issue no.1 of 2021), the individuals concerned entered into consent judgments with the regulator where the terms of the judgment involved barring them from becoming a chief executive officer or director in any PLC or subsidiary of any PLC for a period of eight years; being involved in the management of any PLC and/or subsidiary of any PLC for a period of eight years; and being restrained from trading in any counter on Bursa Malaysia for a period of eight years. In another case, the consent judgment involved a barring of five years from being a director and trading on the stock exchange. In the *Sreesanthan* case, the High Court ordered that the defendant be barred from being a director of any PLC for a period of 10 years.

An extended limitation period of 12 years from the date of the breach or the date on which the SC discovered the breach, allows the regulator a longer period than normal to be able to institute the action.

**Conclusion**

Insider trading laws are designed to ensure that markets operate fairly and that those who have inside information do not abuse the informational advantage that they have by trading while in possession of such information or communicating such information to others. It is useful therefore for insiders to know the limits prescribed by the CMSA to ensure that they do not run afoul of the law, and are better positioned to discharge their obligations, given the far reaching consequences that such breaches can bring about.