



Navigating Capital Market Disputes

Maintaining investor confidence is crucial in the capital market ecosystem. SIDREC, the Securities Industry Dispute Resolution Centre, plays a pivotal role in upholding transparency and fairness through its impartial alternative dispute resolution services for investors and financial services providers.



In the vibrant landscape of Malaysia's capital market, investors and financial services providers (FSPs) engage in transactions with the expectation of fairness and transparency. However, occasionally disputes may arise, necessitating an impartial and effective mechanism for resolution. Enter SIDREC, the Securities Industry Dispute Resolution Centre.

SIDREC was established by the Securities Commission Malaysia (SC) within its investor protection framework to serve as a specialised alternative dispute resolution (ADR) body to the courts. Officially launched on 19 January 2011, it offers investors a dedicated avenue to address legitimate monetary claims against FSPs who are SIDREC members. Membership encompasses various entities such as stockbrokers, unit trust and private retirement scheme management companies, distributors and providers, as well as commercial and Islamic banks. SIDREC extends free dispute resolution services to investors with claims not exceeding RM250,000.

SIDREC & FINANCIAL PLANNING

Currently, disputes involving the regulated activities of dealings in securities, derivatives and private retirement

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schemes, as well as fund management, may be referred to SIDREC. Disputes related to financial planning per se cannot be referred to SIDREC under its current mandate. Nevertheless, financial planners licenced by the SC to carry out any of the regulated activities under SIDREC's mandate, such as dealing in unit trust products or private retirement schemes, are SIDREC members, and disputes in these areas may be referred to SIDREC. Additionally, in view of an



imminent development in alternative dispute resolution in the capital market, financial planning may come under SIDREC's mandate in the future.

CONTINUATION OF THE INTERNAL DISPUTE RESOLUTION OF FSPS

SIDREC manages disputes that meet specific criteria, including being lodged by an individual investor or sole proprietor relating to the four regulated activities under its mandate and involving a monetary claim against a SIDREC member.

Crucially, a dispute must first be referred to the SIDREC member for internal resolution prior to its lodgement at SIDREC. This requirement gives investors and their FSPs the opportunity to resolve the dispute internally beforehand. Whenever feasible, parties are encouraged to gain a deeper understanding of each other's perspectives, cultivate stronger relationships and improve the fluidity of future interactions between them.

SIDREC'S DISPUTE RESOLUTION PROCESS

SIDREC's dispute resolution process (DRP) consists of three stages: case management, mediation and adjudication. Case management is overseen by SIDREC's case managers, who maintain open communication with the parties involved in the dispute throughout the DRP.

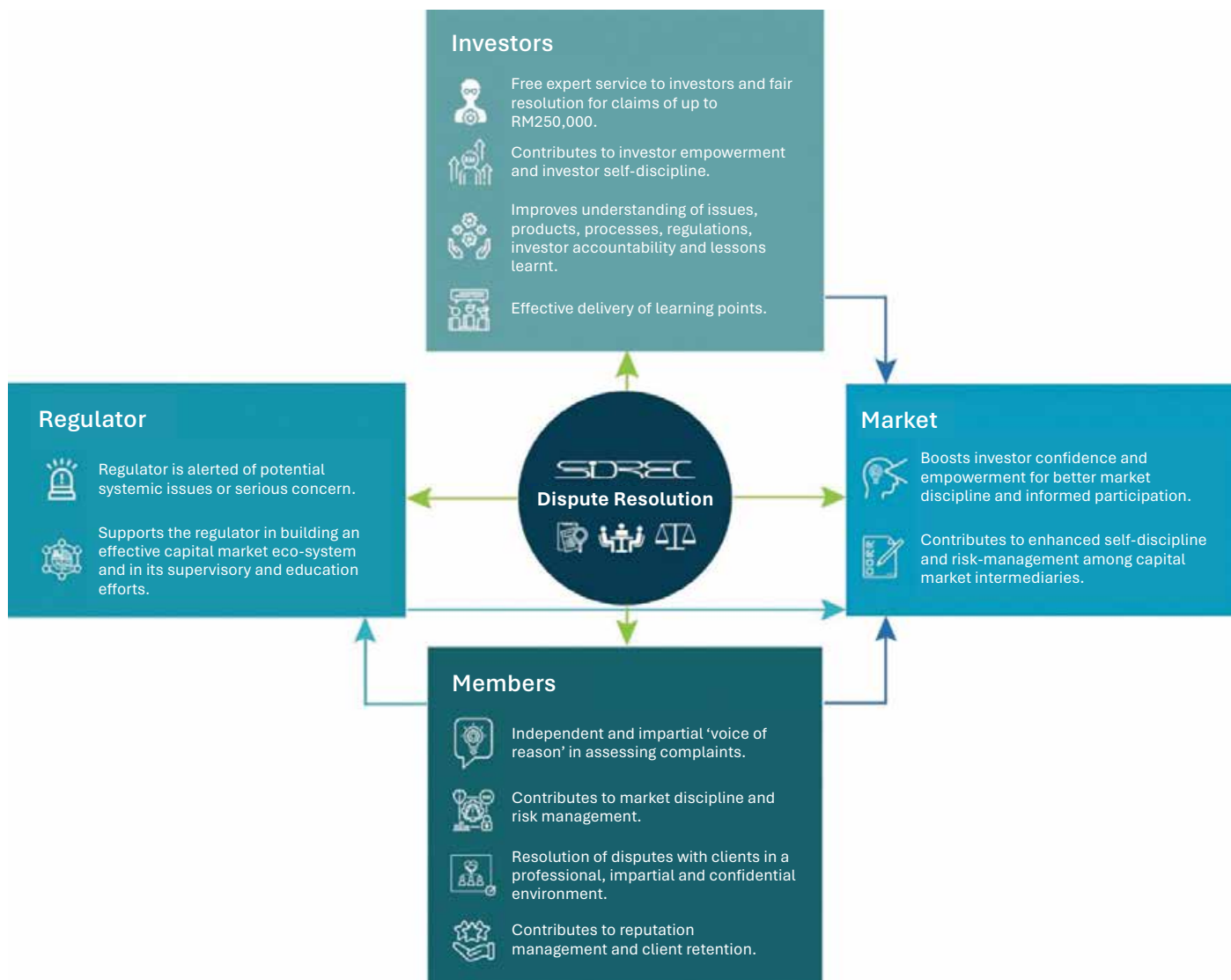
Mediation offers parties the opportunity to actively collaborate in crafting customised solutions to their dispute, facilitated by an impartial third party. If mediation is not successful, the matter proceeds to adjudication, where an adjudicator hears the case and makes a final decision. Notably, from 2011 to 2023, out of the 485 eligible disputes resolved at SIDREC, 425 (88%) were resolved before reaching the adjudication stage.

NATURE OF DISPUTES

The main types of eligible disputes handled by SIDREC pertain to shares and unit trusts, with unit trust disputes typically centring on market conduct issues such as fraud, defalcation, misrepresentation, mis-selling or unauthorised transactions. These disputes may stem from alleged pre-signing of blank forms, misappropriation of funds, misalignment of risks between investment products and investors or overzealous sales practices, including misrepresentation regarding principal protection and rates of return.

For FSPs, these disputes underscore the importance of staying updated on regulatory requirements and implementing behavioural standards for their agents and sales representatives, including providing comprehensive training to ensure that sales representatives recommend products aligned with clients' investment profiles. On the





investors' side, these disputes emphasise the necessity for enhanced investor education at the societal level and for individuals to exercise greater care and diligence when making investment decisions.

Additionally, eligible disputes handled by SIDREC pertain to service standards, often focusing on issues such as alleged data errors or technical glitches on online trading or investment platforms. These disputes underscore the importance of FSPs continually improving their processes and maintaining transparent communication with investors, particularly concerning any modifications or delays in executing investments. Furthermore, they emphasise the necessity for investors to exercise greater caution when utilising digital platforms for their investments.

OUTREACH

Apart from dispute resolution, SIDREC also engages in investor education initiatives. By promoting a deeper understanding of investment objectives and risk tolerance, SIDREC collaborates with its members and various stakeholders, including industry associations and self-regulatory organisations, to contribute to a more positive investment experience for individuals participating in the capital market. These outreach programmes also assist SIDREC and its stakeholders in staying abreast of good

practices in dispute resolution to more effectively address and mitigate disputes in the capital market.

STRENGTHENING INVESTOR PROTECTION

In conclusion, SIDREC stands as a cornerstone of Malaysia's capital market infrastructure, offering an impartial avenue for resolving disputes and upholding investor confidence. Understanding the role of SIDREC and its dispute resolution processes better equips financial planners to navigate potential disputes adeptly, safeguarding the interests of clients.

Through its Financial Sector Blueprint released on 24 January 2022, Bank Negara Malaysia (BNM) announced the consolidation of SIDREC and the Ombudsman for Financial Services (OFS) into an integrated dispute resolution scheme in response to the increasing interconnectivity of the financial market. Work on the integration by SC, BNM, SIDREC and OFS is steadily progressing. SIDREC is confident that it will continue to have a positive impact on investor protection in Malaysia during this transitional period and beyond, upon the completion of the consolidation exercise. ^{BSF}

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