

PARTICIPATING ORGANISATIONS' CIRCULAR

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AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES BERHAD (“RULES OF BURSA SECURITIES”) IN RELATION TO THE INTRODUCTION OF THE ISLAMIC SECURITIES SELLING AND BUYING - NEGOTIATED TRANSACTION (“ISSBNT”)

1.0 INTRODUCTION

1.1 Bursa Malaysia Berhad (“**Bursa**”) is introducing the ISSBNT framework for parties to undertake a transaction that delivers the equivalent outcome of a conventional securities borrowing and lending transaction but is structured based on Shariah principles. The ISSBNT framework is based on the Securities Borrowing and Lending – Negotiated Transaction (“**SBLNT**”) model which has been in existence since 2007.

1.2 In conjunction with this, the Bursa Malaysia Securities Berhad (“**the Exchange**”) has amended the Rules of Bursa Securities and the following Participating Organisations’ Directives:

- (a) Directive No. 2.01(2)-004 (Directives on Submission of Periodic Reports);
- (b) Directive No. 2.01(2)-006 (Directives on Readiness Audit - Self Assessment Approach, Declaratory Approach And Green Lane);
- (c) Directive No. 5-001 (Directives on Conduct Of Business);
- (d) Directive No. 7.18-001 (Directives on Securities Borrowing And Lending) (to be renumbered and renamed as “Directive No. 7-001 (Directives on Securities Borrowing and Lending and ISSBNT”);
- (e) Directive No. 8-002 (Directives on Regulated Short Selling);
- (f) Directive No. 9-001 (Directives to Prescribe the Scheduled Delivery Time And Scheduled Settlement Time For Recalled Securities); and
- (g) Directive No. 13-001 (Directives on Capital Adequacy Requirements) (collectively referred to as “**the Directives**”).

1.3 The amendments to the Rules of Bursa Securities and the Directives have been approved by the Securities Commission Malaysia (“**SC**”).

1.4 The amendments are detailed in paragraphs 2 and 3 below.

2.0 AMENDMENTS TO THE RULES OF BURSA SECURITIES

2.1 The key amendments to the Rules of Bursa Securities are as follows:

- (a) updating the definitions in the Rules of Bursa Securities and other relevant provisions pursuant to the introduction of the ISSBNT model, including inserting new definitions for “Authorized ISSBNT Participant”, “Islamic Securities Selling and Buying - Negotiated Transaction or ISSBNT”, “ISSBNT Agreement” and “ISSBNT Eligible Securities”;
- (b) introducing a new Part I of Chapter 7 which sets out the requirements applicable to a Participating Organisation in relation to the carrying out of ISSBNT activities. In this regard, a Participating Organisation participating in ISSBNT activities must:
 - (i) where the ISSBNT involves a Client, ensure a copy of a risk disclosure statement as prescribed by the Exchange is given to and acknowledged by its Client prior to the execution of the ISSBNT agreement;
 - (ii) formulate a set of internal guidelines for ISSBNT as required by the Exchange;
 - (iii) establish, implement and maintain systems and infrastructures which are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of ISSBNT;
 - (iv) have the minimum Effective Shareholders’ Funds of RM50million for the carrying out of ISSBNT;
 - (v) establish, implement and maintain all the policies, procedures, controls and other requirements set out in the internal guidelines for the ISSBNT;
 - (vi) must have submitted a written declaration in the form prescribed by the Exchange at least 2 Market Days before commencing its ISSBNT activities; and
 - (vii) must hold all ISSBNT Eligible Securities sold or purchased pursuant to ISSBNT in the Securities Account(s) prescribed in the Clearing House Requirements;
- (c) amending the provisions on Permitted Short Selling and Regulated Short Selling to allow for the utilisation of ISSBNT in addition to Securities Borrowing and Lending (“SBL”) for the purposes of carrying out Permitted Short Selling or Regulated Short Selling;
- (d) amending the definition of “Direct Business Transaction” to clarify that the requirements in relation to Direct Business Transaction do not apply to an ISSBNT transaction;
- (e) amending Rule 11.04 in respect of the SC levy and Schedule 6 in respect of commission rates to clarify that the requirements for an SC levy and prescribed commission rates do not apply to an ISSBNT transaction and that commission rates are fully negotiable;

- (f) amending Chapter 13 (Capital Requirements) to include ISSBNT for the calculation of a Participating Organisation's Position Risk Requirement and Counterparty Risk Requirement to determine whether a Participating Organisation meets the Capital Adequacy Requirements;
- (g) deleting the specific rules on inspection or audit by the Exchange on the Participating Organisation in relation to SBL and Regulated Short Selling respectively in Rules 7.21 and 8.24 as Part B of Chapter 14 (Inspection and Investigation) already provides for general powers for the Exchange to conduct inspections and audits.

2.2 The detailed amendments to the Rules of Bursa Malaysia Securities are as set out in **Annexure 1**.

3.0 AMENDMENTS TO THE DIRECTIVES

3.1 Consequential to the proposed rule amendments above, the Directives will also be amended to facilitate the introduction of the ISSBNT model. The key amendments to the Directives are as follows:

(a) **Directive No. 2.01(2)-004 (Directives on Submission of Periodic Reports)**

Amending the directive to clarify that the reporting templates which apply to SBL to also apply to ISSBNT.

(b) **Directive No. 2.01(2)-006 (Directives on Readiness Audit - Self Assessment Approach, Declaratory Approach And Green Lane)**

Amending the directive to clarify that this directive does not apply to ISSBNT.

(c) **Directive No. 5-001 (Directives on Conduct Of Business)**

Amending the directive to clarify the minimum requirements for written policies and procedures and internal controls applicable to a Participating Organisation carrying out ISSBNT (similar to the requirements applicable for SBL activities).

(d) **Directive No. 7.18-001 (Directives on Securities Borrowing And Lending) (to be renumbered and renamed as "Directive No. 7-001 (Directives on Securities Borrowing and Lending and ISSBNT")**

Amending the directive amongst others, to set out provisions in relation to ISSBNT including the template of risk disclosure statement and written declaration for ISSBNT (similar to the templates for SBL). This directive will be renumbered and renamed as Directive No. 7-001 (Directives on Securities Borrowing and Lending and ISSBNT).

(e) **Directive No. 8-002 (Directives on Regulated Short Selling)**

Amending the directive to reflect the changes consequential to the insertion of ISSBNT into the Regulated Short Selling framework, including moving the declaration on compliance from Appendix 4 of the Rules of Bursa Securities into this directive.

(f) **Directive No. 9-001 (Directives to Prescribe the Scheduled Delivery Time And Scheduled Settlement Time For Recalled Securities)**

Amending the directive to clarify that the timing for delivery and settlement in Appendix 2 of this directive is applicable to ISSBNT subject to the conditions prescribed for ISSBNT, including the condition that the supplier must have recalled the securities sold pursuant to ISSBNT before going on to sell the securities.

(g) **Directive No. 13-001 (Directives on Capital Adequacy Requirements)**

Amending the directive to include ISSBNT in the calculation of Position Risk Requirement and Counterparty Risk Requirement.

3.2 The amendments to the Directives are as set out in **Annexure 2**.

4.0 PARTICIPATING ORGANISATION'S TRADING MANUAL

4.1 The provisions on Regulated Short Selling under Chapter 7 of the Trading Manual have been amended pursuant to the introduction of the ISSBNT framework.

4.2 The updated version of MKT/STO/PO/016 of the Trading Manual is attached as **Annexure 3**.

5.0 EFFECTIVE DATE

5.1 The amendments to the Rules of Bursa Malaysia Securities, the Directives and the Trading Manual as set out in paragraphs 2, 3 and 4 will take effect on **12 December 2017**.

6.0 FREQUENTLY-ASKED QUESTIONS ("FAQs")

6.1 A set of FAQs in relation to the ISSBNT framework may be accessed at the following links:

<http://www.bursamalaysia.com/market/products-services/islamic-securities-selling-buying-negotiated-transaction-issbnt/>

<http://www.bursamalaysia.com/market/islamic-markets/products/islamic-capital-market/islamic-securities-selling-buying-negotiated-transaction-issbnt/>

7.0 CONTACT PERSON

7.1 In the event of any queries in relation to the above matter, kindly contact the following persons:

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This Circular is available at:

<http://www.bursamalaysia.com/market/regulation/rules/bursa-malaysia-rules/securities/rules-of-bursa-malaysia-securities>

Regulation