

PARTICIPATING ORGANISATIONS' CIRCULAR

Date : 17 July 2013

No. : R/R 10 of 2013

AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES BERHAD ("RULES OF BURSA SECURITIES") IN RELATION TO REGISTERED REPRESENTATIVES AND OTHER AMENDMENTS

1. INTRODUCTION

- 1.1 Reference is made to Participating Organisations' Circulars No. R/R 11 of 2012 and No. R/R 6 of 2013.
- 1.2 Amendments have been made to the Rules of Bursa Securities to:
- (a) reflect that restrictions imposed in relation to trading in securities and margin financing will only apply to an Introducing Representative if the Introducing Representative is an employee of a Participating Organisation; and
 - (b) provide greater clarity to the Rules of Bursa Securities following feedback from the industry.

2. RULE AMENDMENTS

- 2.1 The salient changes to the Rules of Bursa Securities ("**Rule Amendments**") are as follows:
- (a) Rules 7.25, 7.26 and 7.27 in relation to trading in securities will only apply to an Introducing Representative if the Introducing Representative is an employee of the Participating Organisation;
 - (b) Rule 7.30 is amended to enable Participating Organisations to extend margin financing to an Introducing Representative who is not an employee; and
 - (c) Rules 3.23(1)(d), 3.38(4) and 7.26 have been amended for greater clarity.
- 2.2 The details of the Rule Amendments are set out in **Annexure 1**.

3. AMENDMENTS TO DIRECTIVE

- 3.1 Reference is made to Directive 3.36-001 (Directives for Head of Compliance) ("**Directive**") in the Participating Organisations' Directives and Guidance issued vide Participating Organisations' Circular No. R/R 6 of 2013.
- 3.2 Changes have been made to the Directive following the Rule Amendments with regard to Introducing Representatives.

- 3.3 The amended Directive is set out in **Annexure 2**.
- 3.4 The Directive 3.36-001 issued vide Participating Organisations' Circular No. R/R 6 of 2013 is replaced by this amended Directive.

4. EFFECTIVE DATE

- 4.1 The Rule Amendments and Amended Directives are effective from 17 July 2013.

5. CONTACT 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



**RULES OF BURSA MALAYSIA SECURITIES BHD
RULE AMENDMENTS IN RELATION TO REVAMP OF RULES OF BURSA MALAYSIA SECURITIES AND REGISTERED
REPRESENTATIVES**

EXISTING PROVISIONS		AMENDED PROVISIONS
Rule 3.23(1)(d)	<p>Engagement in other business</p> <p>(1) A Chief Executive Officer must not engage in or hold any interest in any other business unless:</p> <p>(a) the directorship or appointment is non-executive in nature;</p> <p>(b) there is no conflict of interests or duty with being a Chief Executive Officer of a Participating Organisation;</p> <p>(c) the engagement or interest is not in breach of the conditions of Capital Markets Services Representative's Licence (if applicable); and</p> <p>(d) where the Chief Executive Officer is the Chief Executive Officer of an Investment Bank, the Chief Executive Officer has obtained the Investment Bank's prior approval.</p>	<p>Engagement in other business</p> <p>(1) A Chief Executive Officer must not engage in or hold any interest in any other business unless:</p> <p>(a) the directorship or appointment is non-executive in nature;</p> <p>(b) there is no conflict of interests or duty with being a Chief Executive Officer of a Participating Organisation;</p> <p>(c) the engagement or interest is not in breach of the conditions of Capital Markets Services Representative's Licence (if applicable); and</p> <p>(d) where the Chief Executive Officer is the Chief Executive Officer of an Investment Bank, the Chief Executive Officer has obtained the <u>Investment Bank's Participating Organisation's</u> prior approval.</p>
Rule 3.38(4)	Reporting of breaches or irregularities	Reporting of breaches or irregularities



EXISTING PROVISIONS		AMENDED PROVISIONS
	<p>(4) In the case of an Investment Bank, the Head of Compliance of the Investment Bank must report on matters set out in Rule 3.38(1) to the person or committee to whom the Head of Compliance is required to report under the Guidelines on Investment Banks. In this regard, references to the Board of Directors in Rules 3.38(1) and 3.38(3) are to be read to include the 'person or committee' a Head of Compliance of an Investment Bank reports to under the Guidelines on Investment Banks.</p>	<p>(4) In the case of an Investment Bank, the Head of Compliance of the Investment Bank must report on matters set out in Rule 3.38(1) to the person<u>board of directors</u> or committee to whom the Head of Compliance is required to report under the Guidelines on Investment Banks. In this regard, references to the Board of Directors in Rules 3.38(1) and 3.38(3) are to be read to include the 'person or committee'<u>'personboard of directors'</u> a Head of Compliance of an Investment Bank reports to under the Guidelines on Investment Banks.</p>
<p>Rule 7.25</p>	<p>Opening of Trading Account</p> <p>(1) A Participating Organisation must not open a trading account to trade in securities for employees, Dealer's Representatives or Registered Representatives of another Participating Organisation.</p> <p>(2) No employee, Dealer's Representative or Registered Representative may open a trading account to trade in securities other than with the Participating Organisation by whom he is employed or engaged.</p> <p>(3) A Participating Organisation must require the Participating Organisation's employees, Dealer's Representatives and Registered Representatives to trade</p>	<p>Opening of Trading Account</p> <p>(1) A Participating Organisation must not open a trading account to trade in securities for employees, Dealer's Representatives or Registered<u>RegisteredTrading</u> Representatives of another Participating Organisation.</p> <p>(2) No employee, Dealer's Representative or Registered<u>RegisteredTrading</u> Representative may open a trading account to trade in securities other than with the Participating Organisation by whom he is employed or engaged.</p> <p>(3) A Participating Organisation must require the Participating Organisation's employees, Dealer's</p>



EXISTING PROVISIONS		AMENDED PROVISIONS
	in securities through the Participating Organisation.	Representatives and RegisteredTrading Representatives to trade in securities through the Participating Organisation.
Rule 7.26(1)	<p>Approval</p> <p>(1) An employee, Dealer's Representative , Registered Representative or Director of a Participating Organisation must not undertake any trading in securities for his own account unless there is a prior approval in writing or by electronic means issued for each transaction by the Participating Organisation. For purposes of this Rule 7.26, a Director's account will include all accounts within the Director's control.</p> <p>(2) A Participating Organisation may only issue the approval under Rule 7.26(1) if the Participating Organisation is satisfied that the transaction does not conflict with the interests of the Participating Organisation's Clients.</p>	<p>Approval</p> <p>(1) An employee, Dealer's Representative—, RegisteredTrading Representative or Director of a Participating Organisation must not undertake any trading in securities for his own account unless there is a prior approval in writing or by electronic means issued for each transaction by the Participating Organisation. For purposes of this Rule 7.26, a Director's account will include all accounts within the Director's control <u>an account in which such a Director has a direct or indirect interest.</u></p> <p>(2) A Participating Organisation may only issue the approval under Rule 7.26(1) if the Participating Organisation is satisfied that the transaction does not conflict with the interests of the Participating Organisation's Clients.</p>
Rule 7.27	<p>Transactions by Employees, Dealer's Representatives, Registered Representatives and Directors</p> <p>(1) A Participating Organisation must identify and designate a Dealer's Representative who is specifically permitted to</p>	<p>Transactions by Employees, Dealer's Representatives, RegisteredTrading Representatives and Directors</p> <p>(1) A Participating Organisation must identify and designate a Dealer's Representative who is specifically permitted to</p>



EXISTING PROVISIONS		AMENDED PROVISIONS
	<p>undertake transactions in securities for all its employees, Dealer's Representatives, Registered Representatives and Directors.</p> <p>(2) A designated Dealer's Representative may only execute transactions in securities for its employees, Dealer's Representatives, Registered Representatives or Directors of a Participating Organisation if approval under Rule 7.26(1) is obtained.</p> <p>(3) When trading in securities through the Participating Organisation, an employee, Dealer's Representative, Registered Representative or Director of a Participating Organisation may only undertake the transactions through a designated Dealer's Representative appointed by the Participating Organisation under Rule 7.27(1).</p> <p>(4) A designated Dealer's Representative is prohibited from executing trades for his own account.</p>	<p>undertake transactions in securities for all its employees, Dealer's Representatives, RegisteredTrading Representatives and Directors.</p> <p>(2) A designated Dealer's Representative may only execute transactions in securities for its employees, Dealer's Representatives, RegisteredTrading Representatives or Directors of a Participating Organisation if approval under Rule 7.26(1) is obtained.</p> <p>(3) When trading in securities through the Participating Organisation, an employee, Dealer's Representative, RegisteredTrading Representative or Director of a Participating Organisation may only undertake the transactions through a designated Dealer's Representative appointed by the Participating Organisation under Rule 7.27(1).</p> <p>(4) A designated Dealer's Representative is prohibited from executing trades for his own account.</p>
Rule 7.30	<p>Margin financing</p> <p>(6) A Participating Organisation must not extend Margin Financing to:</p> <p>(a) any of its Directors, employees, Dealer's Representatives or Registered Representative;</p>	<p>Margin financing</p> <p>(6) A Participating Organisation must not extend Margin Financing to:</p> <p>(a) any of its Directors, employees, Dealer's Representatives or RegisteredTrading</p>



EXISTING PROVISIONS		AMENDED PROVISIONS
	<p>(b) any firm or corporation in which any of its Directors, employees, Dealer's Representatives or Registered Representatives is a director, partner, manager, guarantor or agent other than as a stockbroking agent;</p> <p>(c) any corporation in which any of its Directors, employees, Dealer's Representatives or Registered Representatives holds shares except:</p> <p>(i) where none of its Executive Directors, employees, Dealer's Representatives or Registered Representatives holds 5% or more of the issued share capital of that corporation;</p> <p>(ii) a corporation, whether listed or not listed on the Exchange, where no Non-Executive Directors of the Participating Organisation holds, directly or indirectly 5% or more of the issued share capital of that corporation;</p> <p>(iii) a corporation not listed on the Exchange, where no Non-Executive Directors of a Participating Organisation holds shares in his personal capacity;</p> <p>(d) any individual to whom any of its Directors, employees, Dealer's Representatives or Registered</p>	<p>Representative;</p> <p>(b) any firm or corporation in which any of its Directors, employees, Dealer's Representatives or RegisteredTrading Representatives is a director, partner, manager, guarantor or agent other than as a stockbroking agent;</p> <p>(c) any corporation in which any of its Directors, employees, Dealer's Representatives or RegisteredTrading Representatives holds shares except:</p> <p>(i) where none of its Executive Directors, employees, Dealer's Representatives or RegisteredTrading Representatives holds 5% or more of the issued share capital of that corporation;</p> <p>(ii) a corporation, whether listed or not listed on the Exchange, where no Non-Executive Directors of the Participating Organisation holds, directly or indirectly 5% or more of the issued share capital of that corporation; or</p> <p>(iii) a corporation not listed on the Exchange, where no Non-Executive Directors of a Participating Organisation holds shares in his personal capacity;</p>



EXISTING PROVISIONS		AMENDED PROVISIONS
	<p>Representatives has provided a guarantee;</p> <p>(e) any person who is prohibited under Section 94(2) of the Capital Markets and Services Act; and</p> <p>(f) any other person as may be determined by the Minister with prior written notice given to all the Participating Organisations.</p> <p>For this Rule 7.30(6), the terms “Director”, “employee” and “Dealer’s Representatives” who are Salaried Dealer’s Representatives include the spouse, parent and child of such persons.</p>	<p>(d) any individual to whom any of its Directors, employees, Dealer’s Representatives or Registered Trading Representatives has provided a guarantee;</p> <p>(e) any person who is prohibited under Section 94(2) of the Capital Markets and Services Act; and</p> <p>(f) any other person as may be determined by the Minister with prior written notice given to all the Participating Organisations.</p> <p>For this Rule 7.30(6), the terms “Director”, “employee” and “Dealer’s Representatives” who are Salaried Dealer’s Representatives include the spouse, parent and child of such persons.</p>

[End of Rule Amendments]

DIRECTIVES FOR HEAD OF COMPLIANCE	No. 3.36-001
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Relevant to : Rule 3.36
 Introduced with effect from : 2 May 2013
 Amended : N/A
 POs' Circular No(s). : R/R 4 of 2012
 Refer also to Directive No(s). : N/A

1. Rule 3.36

- (1) Rule 3.36 provides that throughout the term of the Head of Compliance's registration, the Head of Compliance must:
- (a) continuously satisfy the qualification criteria stated in Rule 3.35; and
 - (b) be responsible for the following compliance functions:
 - (i) to supervise and direct overall compliance with these Rules, the Directives and the Securities Laws by the Participating Organisation and the Participating Organisation's Registered Person, employees and agents and in this respect, to carry out proper checks and reviews to monitor and ensure overall compliance; and
 - (ii) to advise and guide the Participating Organisation and the Participating Organisation's Registered Person, employees and agents on requirements of these Rules, the Directives and the Securities Laws that the Participating Organisation and the Participating Organisation's Registered Person, employees and agents need to comply with in the conduct of the Participating Organisation's business.
- (2) In discharging the obligations under the said Rule, the Head of Compliance must, amongst other requirements, comply with the following guidelines.

1.1 GUIDELINES FOR COMPLIANCE OFFICERS

- (1) A Head of Compliance must comply with the Guidelines for Compliance Officers ("Guidelines") and must supervise and direct all compliance officers of its Participating Organisation to comply with the Guidelines.
- (2) The Guidelines are set out in **Appendix 1** of this Directive.

[End of Directive]

APPENDIX 1

**GUIDELINES
FOR
COMPLIANCE
OFFICERS**

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1. **INTRODUCTION**

In order to attract both local and foreign investors to our capital market there is a need to increase confidence by enhancing investor protection. The most effective way to do this is through exercising a high standard of compliance and the implementation of best sales practices. A high standard of compliance lends confidence and enhanced credibility to the Securities Industry whilst promoting solidity and growth.

In light of the above, it is pertinent that a Participating Organisation's business activities be governed by the following:

a) **Supervisory Programme**

Compliance and best sales practices refer to a proper supervisory programme and a competent system of internal controls within a Participating Organisation. Proper management controls and diligent management enhances the credibility and reputation of a Participating Organisation and provides the necessary investor protection. Indeed, the supervisory and control responsibilities of a Participating Organisation are crucial to the maintenance of the integrity of the market place.

Compliance has sometimes been defined as the management of regulatory risk. This would entail the adherence to the regulatory framework within which an intermediary carries on its business. In addition, it means adherence to:-

- relevant Securities Laws, rules and regulations;
- ethical standards, principles and internal policies; and
- standards of self-regulatory bodies.

The elements of a competent supervisory programme should be as follows:

Supervisory System

A Participating Organisation is required to establish, maintain and enforce an adequate supervisory and compliance system to generally, supervise the overall proper running of its business activities and particularly, to supervise the activities of each registered dealer's representative, agent and other personnel. Such a system must be reasonably designed to achieve compliance with the applicable Securities Laws, rules and regulations.

In this regard, it is recommended that an independent compliance officer be appointed within a Participating Organisation to ensure its activities are in compliance with the provisions of relevant Securities Laws, rules and regulations. However, the final responsibility for proper supervision rests with the Participating Organisation and its Board of Directors.

Written Procedures

Comprehensive documentation and written procedures on the system established pursuant to the above must be maintained and regularly updated to take into account any changes that may occur in the current regulatory framework. These procedures and any amendments thereto must be effectively disseminated and enforced throughout the Participating Organisation.

In addition, a Participating Organisation is to maintain an internal record of all persons designated as supervisory personnel and those delegated with supervisory functions, including the dates for which such designation was effective.

Internal Inspection

A Participating Organisation must ensure that, pursuant to the above, the relevant Supervisors/Heads of Department perform their supervisory responsibilities effectively. Regular and periodic reviews of its business activities and its office must be carried out to assist in detecting and preventing violations of any Securities Laws, rules and regulations. A written record of the dates of such reviews and the inspection conducted is to be maintained.

Written procedures

A Participating Organisation must establish written procedures –of all transactions and correspondence of its dealer’s representatives pertaining to the solicitation or execution of any transaction.

Qualification Investigated

A Participating Organisation must have the responsibility and duty to investigate into the good character, business repute, qualification and experience of any person prior to making a certification of such person for registration with the Exchange and its Board of Directors must be held responsible and accountable for the same.

b) Client Compliance Programme

Opening of a Client’s Account

Before commencing to trade in an account for or on behalf of a client, a Participating Organisation must ensure that such account has been approved in accordance with the provisions of the Rules and the relevant business conduct and best sales practice requirements, including the following:

- i. A Participating Organisation must exercise due diligence to obtain the essential facts about a client’s investment objectives and financial situation, which is to be reflected in the written records of the account. Such recorded information must include:

Particularly, for retail clients

- investment objectives
- employment status
- estimated annual income from all sources
- estimated net worth
- marital status and number of dependents
- age
- investment experience and knowledge

Generally, for all clients

- source of background and financial information, including the basis of any estimates made by the Participating Organisation
- the nature and types of transaction for which the account is approved
- name of approving party and date of approval date

The account opening documents must be subjected to -review by the compliance officer.

- ii. A Participating Organisation is to effect a written Client agreement that the account must be handled in accordance with the rules, and that a client, must not violate the position or exercise limits prescribed by the Participating Organisation and/or the Exchange.
- iii. A Participating Organisation is to obtain proper authorisation from a client in relation to accepting instructions from any person(s) on behalf of the client. If a client has granted discretionary trading authority to any person, a written agreement must be on file and the account records must show the name, relationship to the client and experience of the person holding the discretionary trading authority.

Suitability of Recommendations

In general, the suitability rules provide that any time a person at the Participating Organisation recommends a transaction to a client, he must have reasonable grounds for believing that the recommended transaction is not unsuitable for the client. No recommendation should be made unless the person making the recommendation has explained and discloses to the client all risks involved in transaction and that there is a reasonable basis for believing that the

client has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risk of the recommended transactions.

In this regard, a Participating Organisation must ensure that its dealer's representatives have reasonable grounds when making recommendations for the purchase or sale of stocks/products to clients, and that these recommendations have taken into account the information obtained when the client's account was opened (as mentioned above) and would be based on, among other things, the following:

- the type of client, i.e. whether retail or institutional;
- the recommendation is suitable on the basis of the client's investment objectives, financial situation and other known information;
- the client has such knowledge and experience in financial matters that he is capable of evaluating the risks of the recommended transaction; and
- the client is financially able to bear the risk of the recommended position(s) in the account/transaction.

A Participating Organisation must ensure that the information provided by a client as well as other available information is being considered by a dealer's representative when determining whether and to what extent a client should be approved for a transaction/recommendation in an account.

Record-keeping and the Supervision of Accounts

In order to conduct an effective programme of client account supervision, comprehensive records of all client accounts and transactions done must be maintained. Such records must be readily available to persons performing supervisory functions and must enable the review of, among other things, the size and frequency of purchase transactions, the amount commission generated, the P&L status, any undue concentration in any type of transaction, compliance with rules on margin (where applicable).

Consequently, a Participating Organisation is required to develop and implement written procedures for the review of client accounts. This programme should not only require that customer and proprietary accounts be reviewed by the relevant supervisor/authorised person, but must also require that selected accounts be reviewed on a regular basis at the appropriate principal supervisory office. The written procedures for this programme must specify the manner in which individual accounts are to be reviewed, the frequency of such reviews and where the responsibility for each stage in the review process lies within the Participating Organisation's structure.

Consideration should also be given to developing additional tests that will identify the need for special reviews of particular accounts. These tests may relate to unusual patterns in trading, large or frequent margin calls, or other signs of apparent increase in risk exposure of an account.

Discretionary Accounts

In order for a Participating Organisation to exercise discretionary authority in a client's account, the following must be observed:

- Before any discretionary authority can be exercised, prior written authorisation from the client and written approval from the authorised person in charge must be obtained. Comprehensive records of such approval must be maintained.
- Full and complete records of every transaction undertaken under any discretionary account must be documented and maintained.
- There must be no conflict of interests arising from such transactions.

Advertisements, Sales Literature and Other Forms of Communications to the Client/Public

All persons responsible for preparing and/or reviewing all communications (oral or written) to the client/public must be thoroughly familiar with such publications and the correspondent Securities Laws, rules and regulations.

All promotional material and other forms of communication issued by a Participating Organisation to the client/public must observe truth, avoid misrepresentation and make no promise in respect of profits and must always indicate the possibility of loss if profit is mentioned. Clients/the public must not be misled as to the contents of such information. Such information must always be balanced and accurate and must not contain any false statements or omit any material facts that may distort the understanding of the information as provided. Special care must be taken where forecasts or projections are included. Such information must be clearly identified as such and all underlying assumptions, risks and cost must be clearly stated.

Transactions by Employees, Dealer's Representatives, **RegisteredTrading** Representatives and Directors

An employee, Dealer's Representative, **RegisteredTrading** Representative and Director of the Participating Organisation is only allowed to trade if there is a prior approval in writing or by electronic means issued for each transaction by the Participating Organisation pursuant to Rule 7.26(1) of the Rules. To ensure strict adherence to the above mentioned requirements, a Participating Organisation is to maintain proper records of all employee accounts and any transactions undertaken. In addition, such accounts must be subject to active monitoring by a compliance officer.

Client Complaints

A proper register to document all client complaints must be maintained by a Participating Organisation. At best, such register must contain the following information:

- the identity of the complainant;
- the date the complaint was received;
- the dealer's representative servicing the account (where applicable);
- a general description of the complaint; and
- a record of the action taken in respect of the complaint.

The overall objective of the above mentioned programmes is to inculcate a proper compliance culture amongst members of the industry and by doing so, Participating Organisations would be able to safeguard the interest of their clients as well as the risk position of their firms.

Such a person will be the "conduit" through which a Participating Organisation achieves the above mentioned objectives, whilst providing an independent check and balance with the Participating Organisation, thereby ensuring that its trading activities are in compliance with the relevant Securities Laws, rules and regulations. A compliance officer will also act as a deterrent against any wrongdoing by market participants and provide the necessary foundation for the protection of investors' interests in the equity market.

However, it must be stressed that the ultimate responsibility for proper supervision and client compliance rests with the Participating Organisation and its Board of Directors. The compliance officer merely facilitates the attainment of these objectives and does not relieve the Participating Organisation or its Board of Directors of any of its responsibilities. The formulation and coordination of any given supervisory or compliance programme may be within the purview of a compliance officer's job function but the effective implementation and maintenance of such programmes lies with the Participating Organisation and its Board of Directors. Any failure to effectively supervise the overall business undertaking of the Participating Organisation or the activities of its employees will be deemed a failure on the part of the Participating Organisation and its Board of Directors.

The main purpose of the compliance officer's function is to achieve the following:

- 1. Maintenance of high standards of business conduct and strong internal controls within the Participating Organisation**
 - to perform overall supervision to ensure that the Participating Organisation adheres to all current laws, regulations, rules, codes, guidelines and good practice with which the Participating Organisation is required to comply with;

- to ensure that the Participating Organisation establishes, maintains, updates and enforces a proper system and corresponding written procedures to supervise the activities of each dealer's representative, agent and other personnel; and
 - to ensure there is no concentration of authority within the supervisory ambit of one person and that there is proper segregation of functions (proper corporate governance).
- 2. Promoting the Participating Organisation's compliance culture**
- by consolidating compliance manuals, seeing to its effective implementation and ensuring that compliance procedures are properly disseminated and followed by the staff.
- 3. To assist in situations of non-compliance by the Participating Organisation**
- recommending remedial action and seeing to its effective implementation.
- 4. Liaison between the Exchange/regulators and the Participating Organisation**
- the middle person between the Exchange/regulators and the Participating Organisation on all compliance matters; and
 - the focal point for all staff of the Participating Organisation in relation to the compliance matters.

This guideline is an elaboration of the duties of the compliance officer already provided by the Rules.

The purpose of this guideline is:

- a) to provide a general guide on compliance which will serve as a basis for the formulation of the compliance manual and the measurement for the performance of the compliance officer;
- b) to emphasize the role, duty and responsibility of the compliance officer to the board of Directors; and
- c) to enhance the quality and effectiveness of the functions of the compliance officer.

This set of guidelines is no way exhaustive and the Exchange may from time to time, upon consultation with the Securities Commission, amend these guidelines or prescribe further guidelines.

2. DEFINITIONS

In this guideline, unless the context otherwise requires or the contrary intention appears:

Rules means Rules of Bursa Malaysia Securities Bhd.

3. The Concept of "compliance officer"

A "middle office" function

To review the activities of both the front and back office of a Participating Organisation without any conflict of interest, the compliance officer must be independent of both back and front office. He must have no sales and/or operational function and must not be involved in trading (e.g. he must not be allowed to solicit or execute any orders on behalf of client), settlement, funding, processing or reconciliation activities of a Participating Organisation. In this respect, the compliance officer is only to engage in full time compliance work.

Overall Supervision of Participating Organisation Activities

The compliance officer undertakes an overall supervisory responsibility over the trading and operational functions of a Participating Organisation. He monitors ongoing business activities on a pro-active basis and ensures that the Participating Organisation complies with all its internal control, sales practices, all relevant Securities Laws, rules and regulations including all directives and guidelines issued by the Exchange (referred to as the “regulatory framework”).

He oversees and supplements other supervisory measures already in place within a Participating Organisation and ensures that the relevant supervisors/Heads of Department perform their supervisory responsibilities effectively.

However, the compliance officer does not relieve any supervisor/Head of Department of their responsibilities. The burden of executing designated job functions still remains with the respective supervisors/Heads of Department. The compliance officer merely oversees that such supervisors/Heads of Department carry out their duties and obligations to the Participating Organisation in compliance with the Securities Laws, rules and regulations including all directives and guidelines issued by the Exchange.

Qualifications of a compliance officer

The compliance officer must be a person qualified to perform supervisory duties. In addition to the qualifications laid down in the Rules, the compliance officer must be equipped with the authority and ability to effect decision so as to be able to carry out his responsibilities effectively. He must have unlimited access to all information and records in relation to the Participating Organisations business activities and must be authorised to question any employee regarding any conduct, business practice, ethical matter or any other issue which is relevant to the discharging of his duties.

4. THE ROLE AND POSITION OF A COMPLIANCE OFFICER

The Role of the compliance officer in relation to other departments or functions within the Participating Organisation

The compliance officer plays a supervisory role over every management level within the Participating Organisation to ensure that the Participating Organisation complies with all the relevant Securities Laws, rules and regulations. In this respect, the compliance officer keeps in constant communication and works closely with all supervisory heads within the Participating Organisation structure, with a view to supplementing existing reviews of the supervisors and ensuring that the necessary policies and procedures are in place to effect proper supervision of the respective departments.

The internal audit department and the compliance officer should strive to complement each other and work towards achieving a high standard of compliance. It is important to note that the compliance officer does not resume or take over the duties and functions of any of the other departments within the Participating Organisation.

The Role of the compliance officer in relation to the Board of Directors

He reports directly to the Board of Directors of the Participating Organisation. He has access (when necessary) to the Board of Directors to report, update, inform and make recommendations to the Board of Directors on all matters pertaining to compliance and breach thereto. Take note that the Board of Directors is ultimately responsible and accountable for non-compliance of the regulatory framework that a Participating Organisation is subjected to. Therefore when the Board of Directors fails to act upon a notification from the compliance officer, the Exchange deems it a failure to act, on the part of the Board of Directors. Hence, a copy of any reports and recommendations pertaining to compliance and any breach thereto is to be submitted by the compliance officer to the Exchange.

5. DUTIES AND FUNCTIONS OF A COMPLIANCE OFFICER

The duty of the compliance officer is to do everything within his powers to ensure that the Participating Organisation achieves compliance with the regulatory framework. A compliance officer is responsible for ensuring that there is adequate system or a set of written procedures that provides for the system of monitoring in the front and back office. Areas of compliance in the business of a Participating Organisation are generally clients, operational and financial compliance. He further supervises to ensure that this system is strictly enforced by the supervisory personnel.

These guidelines are framework within which the compliance officer must operate and conduct his duties and functions. The bigger and more varied a Participating Organisation's business, the more supervision and monitoring is expected from a compliance officer. Below are some of the general areas where strict compliance is required and the compliance officer's responsibility in relation thereto.

Where the Participating Organisation is also an Adviser or a Sponsor (only applicable in the context of ACE Market), the compliance officer is required to monitor and supervise compliance with the relevant provisions of the Listing Requirements pertaining to Advisers, and Sponsors.

It is stressed that the responsibilities of a compliance officer must always be associated with and be based on the Supervisory and Client Compliance Programmes of the Participating Organisation. In this regard, a compliance officer must always be mindful of the requirements of the supervisory and client compliance objectives of the Participating Organisation when effecting his duties.

I. General

- Intermediary between the Exchange/regulators and Participating Organisation on compliance issues.
- Responsible for creating, promoting and cultivating a compliance culture and making a high standard of compliance part of the day-to-day management of the Participating Organisation.
- Oversees that compliance is met by ensuring that all systems and procedures are in place and maintained by all supervisory personnel.
- To ensure that the regulatory framework is strictly adhered to by all employees of the Participating Organisation.
- Upon being notified of or identifying an event of non-compliance, to inform the relevant supervisor/Head of Department and to work with the appropriate person to rectify the matter in an efficient and practical manner.

- To recommend remedial action to the Participating Organisation in the event of non-compliance and to see to its successful implementation.
- To ensure that all violations are properly disciplined.
- To review course of action in the event of non-compliance, examine the extent of non-compliance and report to the Exchange with remedies.
- To advise the management and personnel of the Participating Organisation in relation to conformity to all rules and regulations.
- To ensure that all staff of the Participating Organisation are properly trained in relation to the regulatory framework and all the relevant Securities Laws, rules and regulations.
- To ensure that any regulatory changes are properly implemented within the Participating Organisation and to ensure strict adherence thereto.
- To review that appropriate structures, controls and procedures that will promote and ensure compliance within the Participating Organisation are in place.
- To ensure that the Participating Organisation has adequate systems for record-keeping to enable the effecting of a competent supervisory and client compliance programme.
- Keep himself up to date on compliance issues over the week and review other regulatory issues, including new products, new policies to be introduced by the respective departments, and generally keeping himself updated on current issues in the industry.
- To ensure that any changes in written procedures are communicated effectively throughout the Participating Organisation.
- To ensure that all notifications from the Exchange are properly disseminated within the Participating Organisation.
- To ensure that there are constant and regular meetings with the supervisory personnel and dealer's representatives pertaining to issues of compliance and enforcement with a view to identifying existing and prospective issues and problem pertaining to compliance.
- To minimise conflict of interests between the client's interests and the interests of the Participating Organisation e.g. by constructing and safeguarding proper information barriers. Where there is conflict, to ensure that client's interest is given priority.
- To establish an effective and quick mechanism of resolving problems that may arise which pertain to compliance.
- To ensure that all the necessary steps and procedures for the settlement of disputes are adhered to.

II. The compliance officer's duties in respect of the Client

This is a very important function of the compliance officer as it involves dealings between the Participating Organisation and members of the public.

a) Client Account Opening

- Review to ensure that the information quintessential to the opening of a client's account has been obtained, including the essential facts about the client's financial background, investment objectives and investment experience. Any approval for the opening of the said account will then be based on such information as obtained.

- Review to ensure that the client's written agreement and the written approval necessary for the opening of the account has been obtained.
- Review to ensure that the Participating Organisation maintains at all times proper records of its clients' accounts and to review the Participating Organisation's written procedures pertaining to the opening of client accounts.
- Review to ensure that all requirements have been met prior to the approval of new client amounts and all necessary documentation are in place, including checking that the client's background and financial information verification is carried out within the stipulated time.

b) Client orders/dealings in securities

- Review to ensure that client order procedures are complied with and reviewed regularly.
- Review to ensure the provision of sales solicitation training.
- Review to ensure that dealer's representatives do not give unpermitted incentives to clients or prospective clients.
- Review to ensure that policies pertaining to best sales practice and "Know your Customer"/"Know your Client and Product" rules are complied with. This would include ensuring that unsuitable recommendations are not made to clients and that dealer's representatives have reasonable basis for making recommendations to clients. The necessary information must have been considered when forming the basis of such recommendation. Such information would include the type of client (retail or institutional), the client's investment objectives, investment experience and his ability to evaluate the risks involved in the said recommendation.

c) Client Account Review

The review of accounts is important in ensuring that the procedures for account opening as well as the suitability rules have been strictly adhered to. In addition, such reviews will enable the detection of unusual patterns in trading or signs of apparent increase in the risk exposure in an account. With this in mind, a compliance officer should conduct/supervise account reviews based on the following:

- Ensure that client and proprietary accounts are reviewed regularly by the relevant supervisor/authorised person and to supervise such reviews.
- Maintain regular and periodic review of high exposure accounts or accounts of high-risk clients.
- Based on the review as above, to maintain regular meetings with the relevant supervisor for the purpose of identifying problematic or potentially problematic accounts and that they are monitored more closely by the supervisor.
- Ensure that any problem arising from any client's account be addressed promptly and resolved as soon as possible and where necessary, to be reported to the Exchange.

d) Client Complaints/Disputes

- Ensure that the requirement for reporting, investigating and documenting client complaints are in place and are adhered to.
- Review and follow-up on the Client's Complaints Log/Register and ensure that all complaints made are duly noted and documented by a senior staff of the Participating Organisation and addressed promptly.
- Monitoring and handling of disputes with clients- arbitration procedures and awards.

III. **Monitoring**

- Regularly review and monitor all aspects of the Participating Organisation's business so as to keep check and to be aware of any threats of non-compliance.
- Monitoring on a regular basis and following up on the findings of such monitoring.
- Monitoring must include amongst others these areas:

a) Dealer's representatives

- Ensuring dealer's representatives are properly registered with the relevant Exchange.
- Ensuring that dealer's representatives conduct trading based on the "Know Your Customer"/"Know Your Client Product" rules and do not make recommendations which are unsuitable to clients. Such recommendations must be based on the relevant information produced by or obtained on a client, including the client's investment objectives and experience and his ability to evaluate the risks involved in the said recommendation.
- Ensure that there is no conflict of interest when trading is being conducted and where such a conflict of interest does arise, to always give preference to the client's interest.
- Review to ensure that client's instructions are always adhered to.
- Review to ensure that all transactions are properly recorded and processed.

b) Proprietary accounts

- Review proprietary accounts to ensure that there is no conflict of interests with execution of client trades and that the "best execution" rule has been adhered to, i.e. that client orders/ transactions are always given priority to proprietary trades.
- Review the order flow of proprietary trading.

c) Discretionary accounts

- Review the acceptance of discretionary accounts and to ensure that prior written authorisation from the client and written approval from the authorised person in charge has been duly obtained.
- Review on a daily basis all trades done in a discretionary account.
- Review to ensure that in executing discretionary accounts, the client's interest must always be observed. In this regard, there must be a mechanism in place to prevent the churning of such accounts purely to generate commission.
- Review to ensure that all discretionary trades are executed within the proper discretionary authority granted to the Participating Organisation and that such trades are properly recorded.
- Review to ensure that the maintenance of full and complete documentation of every transaction undertaken under any discretionary account.

d) Credit Control

- Review to ensure that the credit control reports in respect of issues pertaining to compliance and enforcement.
- Review to ensure that any credit limit imposed on any given client has been duly approved by the authorised person in charge and that such limit commensurates with the relevant information produced by or obtained on such client, i.e. such limit must be

appropriate in light of factors such as income and financial status, investment experience, credit record, etc.

- Review to ensure that any increase in credit limit granted to clients has been approved by the Credit Committee or the relevant authorised personnel and that the relevant information necessary to approve such increase has been considered.
- Review to ensure that the credit control policy pertaining to debt recovery is not abused, i.e. there must be prompt recovery of outstanding amounts from clients and that no preference should be given to any client to roll over a position without undergoing the proper process and without valid reason.
- Review to ensure that the provisions pertaining to exposure to a single client and a single security is strictly adhered to, and that there is proper mechanism to monitor these matters.

e) Margin accounts

- Review to ensure that the margin policies of the Participating Organisation comply with the Exchange's rules on margin trading and to establish procedures for the purpose of ensuring that the same are complied with.
- Review to ensure that all margin trading is in accordance with the relevant Securities Laws, business rules and the margin agreement signed with the client. For example, in regards to the topping up of the margin equity ratio, the making of margin calls, the rollover of margin positions, the limits on a Participating Organisation's exposure to margin financing. No margin client should be given undue flexibility in relation to all these matters.

f) Advertisements, Sales Literature and other related communication directed to clients or public

- Review to ensure that the establishment and maintenance of adequate procedures to monitor the production and dissemination of any form of communication to the client and/or the public.
- Review advertisements, sales literature and any other type of information pertaining to recommendations/business, disseminated to the client and/or the public, in terms of accuracy and compliance with the relevant rules and regulations and Securities Laws and to ensure that there is no misrepresentation and that such information is not false or misleading.

g) Assessments

- Ensure that the monthly self-assessments (if any) are carried out in accordance with procedures as laid down in the rules of Exchange.

h) Segregation of Assets

- Review to ensure that the complete segregation of:
 - client's assets from the Participating Organisation's and dealer's representatives' assets;
 - Participating Organisation's accounts and client's accounts; and
 - Participating Organisation's fund from client's fund.
- To ensure that there are adequate policies and procedures in place to monitor the strict adherence to provisions on segregation of assets as contained in the Securities Laws, rules and regulations.

j) Proper record-keeping

- Review to ensure that all transactions and any activities as aforementioned are properly recorded and documented in order to establish an audit trail.

IV. Education and Training

A Participating Organisation must ensure that all personnel are adequately trained in terms of all the provisions of the Securities Laws, rules and regulations, as well as the relevant business conduct and best sales practice requirements. All members of staff must be equipped with the necessary capabilities to effectively carry out responsibilities assigned to them.

A compliance officer will assist a Participating Organisation in achieving the aforementioned as follows:

- To ensure employees are given comprehensive training in key areas of business. The compliance officer is encouraged to assist in the formulation of training programmes and to advise on areas where training is most required.
- To ensure adequate staff training in relation to compliance issues.
- Ensure that adequate training programmes are in place for employees directly involved in the handling of the client's accounts.
- Educate senior personnel in relation to compliance and how it may be disseminated within the Participating Organisation.

V. Segregation of Duties

A Participating Organisation must ensure that adequate internal policies/procedures on the following are formulated and enforced:

a) *Code of Conduct for Employees*

These procedures must be designed to ensure that all employees of the Participating Organisation exercise proper business conduct and do not undertake any unfair or unethical practices. These procedures must outline the necessary standards of personal and professional integrity expected for employees.

b) *Procedures to effect Proper Corporate Governance*

There must be proper and actual segregation of functions between back room and front office personnel, and there must be no concentration of authority within the supervisory ambit of one person, e.g. the Head of Operations in charge of the back office must not also be supervising the dealing/trading operations. Similarly, there must also be an effective segregation of functions between persons undertaking/in charge of client trading and those undertaking/in charge of trading on behalf of the Participating Organisation. This is to ensure that no conflict of interest arises and that clients' interest are duly maintained.

c) *Policy on "Chinese Walls"*

Where a Participating Organisation assumes more than one role in the market place, there would inevitably be potential conflicts of interests. Hence, barriers to communication must be erected between the relevant departments of a Participating Organisation to prevent the transfer and misuse of non-public information.

In this regard, adequate internal procedures pertaining to information barriers (Chinese Walls/Fire Walls) and the strict adherence to the same must be in place to avoid any possibility that the Participating Organisation's interest will be set above that of the client's. Such procedures must adequately minimise the risk of and provide ample disincentive for the abuse of confidential information, making it highly inconvenient and costly for any person to utilise such information in furtherance of his own interest.

An example of such procedure is the taping of conversations of employees of the Participating Organisation to ensure that price-sensitive or other non-public information is not relayed to unauthorised persons. In addition, the compliance officer must ensure that any information transferred between the “Chinese Walls” be passed through him, who must then, as far as possible, control the flow of such information.

These policies/procedures are to be adhered to by each member of the Participating Organisation, including its Supervisory personnel and its Board of Directors.

Such policies must be in place to facilitate the monitoring by the compliance officer, which will include the following:

- Ensure that there is a separation of duties between persons handling customer orders and company employees or principals trading for the company’s proprietary accounts or their own accounts. This is to prevent the preference of the Participating Organisation’s or its employee’s transactions at the expense of the client’s.
- To ensure the separation of functions between the back-room functions (administration and record-keeping) and the front-office trading functions and also between the front office trading function and the risk management function. There must be proper division between incompatible functions. This is to provide a necessary system of check and balances and to produce efficacy in a Participating Organisation’s system of internal controls.
- To ensure there is no concentration of authority within the supervisory ambit of one person and that there is proper segregation of functions (proper corporate governance). This would prevent the abuse of position/authority and would ensure that no one person is responsible for the supervision of a large number of department/employees without any corresponding check or control.
- Where the Participating Organisation assumes more than one role in the market place, the compliance officer must ensure that there is proper segregation of function and that there is at all times, no conflict of interest. There must be adequate internal procedures pertaining to information barriers (Chinese Walls/Fire Walls) and the strict adherence to the same, to prevent misuse of non-public information or the occurrence of other trading abuses.

VI. The Compliance Officer’s Duties in respect of the Exchange

The compliance officer must submit a compliance report to the Exchange on a monthly basis of any non-compliance and the appropriate actions or remedy taken by the Participating Organisation.

- The compliance officer must inform the Exchange immediately of any circumstances affecting the Participating Organisation’s solvency or any condition that would materially impair its ability to meet any of its obligations.
- The compliance officer must inform the Exchanges of any constitutional changes in relation to the Participating Organisation’s operation and any changes affecting the Participating Organisation’s dealer’s licence or licences issued to its dealer’s representatives.
- The compliance officer must ensure that the Exchange and the Clearing House are supplied with documents and information as and when requested. The compliance officer is answerable to any query that the Exchange or the Clearing House may have in relation to his duties and responsibilities.

6. COMPLIANCE MANUAL

- A Participating Organisation must establish and maintain a comprehensive “Compliance Manual” tailored to its respective needs. Such manual will be subject to review for adequacy

by the compliance officer, who will then ensure that the requirements in the manual are adhered to.

- The Compliance Manual must elaborate on the practical applications of a compliance officer's detailed functions. The manual must specify among others his monitoring, supervisory and review procedures in relation to all his functions.
- The manual must among others include:
 - the outline for the compliance policies, procedures and controls of the Participating Organisation, to safeguard the Participating Organisation and its customers from serious risks of loss and defalcation;
 - a Code of Conduct outlining standards of personal integrity expected from the staff;

The Participating Organisation is also required to develop a Business Conduct Manual, which among other things, would assist dealer's representatives in the compliance with the provisions of the Securities laws, rules and regulations, when undertaking their trading activities. In this regard, the compliance officer must then attend to inquiries from personnel, including the dealer's representatives, as to matters pertaining to clarification on any authoritative enactments.

- account opening requirements for new clients;
 - distinct requirements on matters such as the complete segregation of:
 - a) duties between the front and back offices and trading rooms;
 - b) clients assets from the Participating Organisation's and dealer representatives' assets; and
 - c) Participating Organisation's fund from clients fund;
 - personnel account dealing procedures;
 - transaction reporting requirements, information on the laws against insider trading, and steps to be taken to preserve the confidentiality of client information;
 - staff dealing rules and code of conduct in relation to compliance;
 - considerations on Chinese walls and/or Insider Dealing; and
 - customer complaints handling.
- The compliance officer must ensure that the procedures established in the manual are adequate. Adequate procedures are those designated to meet industry standards, regulatory requirements, and the circumstances of the Participating Organisation.
 - The compliance officer must ensure that the compliance procedures are designed to anticipate, as far as possible, the activities most likely to result in misconduct by the Participating Organisation.
 - The compliance officer must ensure that each compliance programme must be appropriate for the size and nature of the organisation.
 - Once the compliance procedures are established, the compliance officer must ensure that the compliance procedures are monitored and enforced.
 - The compliance officer must ensure that the compliance procedures established are effectively communicated within the Participating Organisation.

- The compliance officer must ensure that the manual be subjected to regular periodic review or whenever there are major changes to the relevant Securities laws, rules, and regulations.
- The Compliance Manual must be approved by the Board of Directors.

7. CONCLUSION

It is important that the employees in a Participating Organisation give full co-operation to the compliance officer. The management must create and promote a compliance culture in their respective departments or units. An ethos of professionalism and best practice that is essential for an effective compliance function can only be achieved if everyone plays his part.

It is important that the management ensures that the organisational structure, reporting lines and functional responsibilities of its employees are clearly stipulated in writing. There must be a proper segregation of tasks and delineation of responsibilities between the different departments and employees, so as to avoid an over-concentration of powers, or responsibilities on a particular person within the company. Segregation of duties is fundamental to any effective control system. It is the first line of protection against the risk of fraudulent or unauthorised activities.

It is the view of the Exchange that the role and functions of the compliance officer can be best performed and executed with the support of a Compliance Department. In this regard, the size of the Compliance Department of a given Participating Organisation would very much depend on the size and complexity of the business activities and operations of the Participating Organisation. It is therefore felt that a Participating Organisation would be in the best position to make determinations in relation to the size of its Compliance Department.

[End of Appendix]