

## PARTICIPATING ORGANISATIONS' CIRCULAR

Date : 30 April 2013

No. : R/R 6 of 2013

### REVAMP OF THE RULES OF BURSA MALAYSIA SECURITIES BHD (“REVAMPED RULES”):

1. Further changes to the Revamped Rules and Participating Organisations’ Directives and Guidance (“POs’ Directives and Guidance”);
2. Updated and new Frequently Asked Questions (“FAQs”); and
3. Clarification on daily reporting of Capital Adequacy Ratio (“CAR”)

#### 1. INTRODUCTION

- 1.1 Reference is made to the Participating Organisations’ Circular No. R/R 4 of 2013.
- 1.2 Updates have been made to the Revamped Rules, POs’ Directives and Guidance, and FAQ as set out in paragraphs 2, 3 and 4 below.

#### 2. RULE AMENDMENTS

- 2.1 Further amendments were made to the Revamped Rules for consistency and greater clarity.
- 2.2 These amendments are set out in **Annexure 1** and replace the relevant Rules issued vide Participating Organisations’ Circular No. R/R 4 of 2013.

#### 3. AMENDMENTS TO THE POs’ DIRECTIVES AND GUIDANCE

- 3.1 Further amendments have also been made to the POs’ Directives and Guidance for greater clarity and to remove redundant provisions.
- 3.2 These amendments to the POs Directives and Guidance are set out in **Annexure 2** and replace the relevant Directives issued vide Participating Organisations’ Circular No. R/R 4 of 2013.

#### 4. AMENDMENTS TO THE FAQs

- 4.1 The FAQs on the Liberalisation of Securities Accounts and on Multi-Currency Securities have been further updated.

- 4.2 A new set of FAQs on the Revamped Rules have been issued to provide more guidance for compliance with the Revamped Rules.
- 4.3 The FAQs referred to in paragraphs 4.1 and 4.2 are set out in **Annexure 3**.

## **5. CLARIFICATION**

- 5.1 The requirement for daily reporting of Capital Adequacy Ratio (“CAR”) by all POs (and not just those with CAR of less than 2.0) is still applicable in accordance with the Exchange's letter to the POs dated 5 March 2008. This requirement supersedes paragraphs 1.1(1) & (2) of Directive 13-001 on Capital Adequacy Ratio (“CAR”), until further notice.

## **6. EFFECTIVE DATE**

- 6.1 The amendments to the Revamped Rules and POs' Directives and Guidance as referred to in the above paragraphs are effective from **2 May 2013**.

**This Circular is available at**

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

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**Regulation**

**AMENDMENTS TO THE REVAMPED RULES OF BURSA MALAYSIA SECURITIES BHD**

EXISTING PROVISIONS		AMENDED PROVISIONS
<b>Rule 2.01(2)(f)</b>	<p>(2) Subject to the provisions of the Securities Laws, the Exchange may exercise its powers in such manner and on such terms as it considers necessary or expedient which includes–</p> <p>(f) releasing any information including any confidential information in relation to a Participating Organisation, the Participating Organisation's Registered Person or Clients to the Commission, Depository, Clearing House or any other relevant body or authority (in Malaysia or outside of Malaysia) as the Exchange considers fit;</p>	<p>(2) Subject to the provisions of the Securities Laws, the Exchange may exercise its powers in such manner and on such terms as it considers necessary or expedient which includes–:</p> <p>(f) releasing any information including any confidential information in relation to a Participating Organisation, the Participating Organisation's Registered Person or Clients:</p> <p>(i) to the Commission, Depository, Clearing House or any other relevant body or authority (in Malaysia or outside of Malaysia) as the Exchange considers fit; <u>or</u></p> <p><u>(ii) to such parties as the Exchange considers fit for the purposes of the Exchange's investigation, enforcement or both;</u></p>
<b>Rule 3.09(2)</b>	<p>(2) A former Participating Organisation must retain all its records for at least 6 years from the date of cessation and produce such records in a legible form to the Exchange upon demand.</p>	<p>(2) A former Participating Organisation must retain all its records for at least <b>67</b> years from the date of cessation and produce such records in a legible form to the Exchange upon demand.</p>
<b>Rule 6.03(2)</b>	<p>(2) A Participating Organisation must in relation to every Branch Office appoint 1 responsible person who is engaged on a full time basis with the Participating</p>	<p>(2) A Participating Organisation must in relation to every Branch Office appoint <b>4</b> <del>responsible-a</del> person who is engaged on a full time basis with the Participating</p>

# ANNEXURE 1

## AMENDMENTS TO THE REVAMPED RULES AND POS' DIRECTIVES & GUIDANCE



EXISTING PROVISIONS		AMENDED PROVISIONS
	<p>Organisation to:</p> <ul style="list-style-type: none"> <li>(a) ensure the proper segregation of duties at the Branch Office; and</li> <li>(b) oversee the administrative activities at the Branch Office.</li> </ul>	<p>Organisation <u>and responsible</u> to:</p> <ul style="list-style-type: none"> <li>(a) ensure the proper segregation of duties at the Branch Office; and</li> <li>(b) oversee the administrative activities at the Branch Office.</li> </ul>
<b>Rule 10.09(2)(c)</b>	<p>If the price of a Direct Business Transaction reported to the Exchange falls within the prices stipulated in Schedule 4, a Participating Organisation must comply with the following:</p> <ul style="list-style-type: none"> <li>(c) maintain the following documents for at least 5 years: <ul style="list-style-type: none"> <li>(i) the declaration executed by the Client in the format provided in Appendix 6;</li> <li>(ii) the written agreement evidencing the Direct Business Transaction; and</li> <li>(iii) any other relevant documents in relation to the information referred to in Rule 10.09(2)(a).</li> </ul> </li> </ul>	<p>If the price of a Direct Business Transaction reported to the Exchange falls within the prices stipulated in Schedule 4, a Participating Organisation must comply with the following:</p> <ul style="list-style-type: none"> <li>(c) maintain the following documents for at least <u>57</u> years: <ul style="list-style-type: none"> <li>(i) the declaration executed by the Client in the format provided in Appendix 6;</li> <li>(ii) the written agreement evidencing the Direct Business Transaction; and</li> <li>(iii) any other relevant documents in relation to the information referred to in Rule 10.09(2)(a).</li> </ul> </li> </ul>
<b>Rule 15.13</b>	<p>(1) The Exchange may initiate expedited proceedings under this Rule 15.13 against a Defaulting Participant against whom disciplinary action is proposed to be taken instead of the proceedings under Part C of this Chapter 15 in circumstances the Exchange deems fit.</p>	<p>(1) The Exchange may initiate expedited proceedings under this Rule 15.13 against a Defaulting Participant against whom disciplinary action is proposed to be taken instead of the proceedings under Part C of this Chapter 15 in circumstances the Exchange deems fit, <u>such as in respect of a breach of the Rules which</u></p>

EXISTING PROVISIONS		AMENDED PROVISIONS	
	<p>(2) The Exchange may, where it deems fit, proceed with expedited proceedings in respect of a breach of these Rules which is not a serious breach.</p> <p>(3) For purposes of Rule 15.13(2) above, a breach of these Rules is considered as "not a serious breach" if it does not typically attract a penalty beyond:</p> <p style="padding-left: 40px;">(a) a reprimand; or</p> <p style="padding-left: 40px;">(b) a fine of more than RM10,000.00.</p>	<p><del>(2) The Exchange may, where it deems fit, proceed with expedited proceedings in respect of a breach of these Rules which is not a serious breach.</del></p> <p><del>(3) For purposes of Rule 15.13(2) above, a breach of these Rules is considered as "not a serious breach" if it does not typically attract a penalty beyond:</del></p> <p style="padding-left: 40px;">(a) a reprimand; or</p> <p style="padding-left: 40px;">(b) a fine of more than RM10,000.00.</p>	
<b>Rule 15.14</b>	<p>(4) If the Defaulting Participant agrees or is deemed to have agreed with the Determination, any fine imposed as a penalty for the breach must be paid:</p> <p style="padding-left: 40px;">(a) upon the Defaulting Participant informing the Exchange in writing of his agreement with the Determination; or</p> <p style="padding-left: 40px;">(b) within 14 days from the date the Defaulting Participant is deemed to have agreed with the Determination;</p> <p style="padding-left: 40px;">as the case may be.</p> <p>(5) If the Defaulting Participant does not agree with the Determination, the matter will proceed under Part C of this</p>	<p>(4) If the Defaulting Participant agrees or is deemed to have agreed with the Determination, any fine imposed as a penalty for the breach must be paid:</p> <p style="padding-left: 40px;">(a) upon the Defaulting Participant informing the Exchange in writing of his agreement with the Determination; or</p> <p style="padding-left: 40px;">(b) within <del>14 days from the date the Defaulting Participant is deemed to have agreed with the</del> <u>time specified in</u> the Determination;</p> <p style="padding-left: 40px;">as the case may be.</p> <p>(5) If the Defaulting Participant does not agree with the Determination, the matter will proceed under Part C of</p>	

# ANNEXURE 1

## AMENDMENTS TO THE REVAMPED RULES AND POS' DIRECTIVES & GUIDANCE



EXISTING PROVISIONS		AMENDED PROVISIONS
	<p>Chapter 15. The Defaulting Participant may, within the time specified in the Determination, submit a written response to the Determination as if the Determination is a Requisite Notice under Rule 15.10. In deliberating the matter under Part C of this Chapter 15, the Exchange is not bound by the Determination.</p>	<p>this Chapter 15. The Defaulting Participant may, within the time specified in the Determination, submit a written response to the Determination as if the Determination is a Requisite Notice under Rule 15.10. In deliberating the matter under Part C of this Chapter 15, the Exchange is not bound by the Determination- <u>and may impose a higher penalty based on the facts or evidence presented during the proceedings under Part C of this Chapter 15.</u></p>

[End of Amendments]

**SCHEDULE 6**  
[Rule 11.02 & 11.03]

**COMMISSION RATES\***

	Type of Trade	Basis for determining commission	Minimum commission	Maximum commission
(a)	<b>Online Routed Trades</b>	Fully negotiable	Not applicable	Not applicable
(b)	<b>Trades paid for by Cash Upfront</b>	Fully negotiable	Not applicable	Not applicable
(c)	<b>Direct Business Transactions except for Direct Business Transactions provided at items (a), (b) and (c)(i) and (c)(ii) below</b>	Negotiable subject to the minimum commission	Minimum Fixed Commission	Not applicable
	(i) Direct Business Transactions of ABFMY1 trades	Negotiable subject to the minimum commission	RM12.00	Not applicable
	(ii) Direct Business Transactions of ETB trades	Fully negotiable	Not applicable	Not applicable
(d)	<b>All trades in securities executed in Board Lots except for trades specifically mentioned in the other items this table and trades in securities provided at items (d)(i) and (d)(ii) below</b>	Negotiable subject to the minimum and maximum commission, whichever is higher	Minimum Fixed Commission	0.7% of the Contract Value
	(i) ABFMY1 trades (including ABFMY1 Intraday Trades)	Negotiable subject to the minimum and maximum commission, whichever is higher	RM12.00	0.3% of the Contract Value
	(ii) ETB trades (including ETB Intraday Trades)	Negotiable subject to the maximum commission	Not applicable	0.3% of the Contract Value
(e)	<b>All trades in securities executed in less than a Board Lot except for trades specifically mentioned in the other items in this table</b>	Fully negotiable	Not applicable	Not applicable

\* Notes:

- (1) For transactions in securities denominated in foreign currency, the commission rate will be stipulated by the Exchange in the Directives.

## AMENDMENTS TO THE REVAMPED RULES AND POS' DIRECTIVES &amp; GUIDANCE

- (2) Cash Upfront refers to full payment by the buying Client to the buying Client's Participating Organisation for the purchase of securities prior to the entry of the order to purchase into the ATS. For the purposes of this Schedule, the "full payment" in the definition of Cash Upfront must be in the form of cash or any other mode of payment where clearance of or good value is given to the mode of payment prior to the entry of the order.
- (3) Online Routed Trade refers to trade arising from an order routed by a Client to the Participating Organisation through an electronic order routing system for submission into ATS and includes an order routed through Direct Market Access.
- (4) Minimum Fixed Commission means:
- (a) for trade other than Retail Trade
    - (i) on transactions in loan instruments RM2.00; ~~and~~
    - (ii) on any other transaction RM40.00.
  - (b) for Retail Trade
    - (i) where the Contract Value is RM100,000 or below, the minimum commission payable shall be calculated at 0.6% of the Contract Value or the amount prescribed under paragraph 4(a) above, whichever is higher;
    - (ii) where the Contract Value exceeds RM100,000, the minimum commission payable shall be calculated at 0.3% of the Contract Value or the amount prescribed under paragraph 4(a) above, whichever is higher; ~~and~~
    - (iii) where the trade is an Intraday Trade, the minimum commission payable shall be calculated at 0.15% of the Contract Value or the amount prescribed under paragraph 4(a) above, whichever is higher.
  - (c) Notwithstanding paragraph 4(b) above:-
    - (i) for Direct Business Transactions in respect of Retail Trade, the minimum commission payable shall be the amount prescribed under paragraph 4(a) above or half of the amount prescribed in paragraph 4(b) above, whichever is higher; ~~and~~
    - (ii) for transactions by employees, the minimum commission payable shall be the amount prescribed under paragraph 4(a) above.

[End of Schedule]





**REVAMPED RULES OF BURSA MALAYSIA SECURITIES BHD  
AMENDMENTS TO THE PARTICIPATING ORGANISATIONS' DIRECTIVES & GUIDANCE**

EXISTING PROVISIONS		AMENDED PROVISIONS
<b>Para 3.5(1)(a) of Directive 3-001</b>	<p>(1) A Participating Organisation must complete and submit to the Exchange the form set out in <b>Appendix 1B</b> of this Directive, accompanied by:</p> <p>(a) a copy of the Commission's approval of the Director's appointment as a Director of a Participating Organisation;</p> <p>(2) The application to register the Director must be made on the same day the approval referred to in Paragraph 3.5(1)(a) is given by the Commission.</p>	<p>(1) A Participating Organisation must complete and submit to the Exchange the form set out in <b>Appendix 1B</b> of this Directive, accompanied by:</p> <p>(a) a copy of the <u>Commission Participating Organisation's approval notification to the Commission</u> of the Director's appointment as a Director of a Participating Organisation;</p> <p><del>(2) The application to register the Director must be made on the same day the approval referred to in Paragraph 3.5(1)(a) is given by the Commission.</del></p>
<b>Paragraph 2 of Directive 13-001</b>	<p>(1) Rule 13.04(5) provides that a Participating Organisation must submit to the Exchange a return on the Participating Organisation's Liquid Capital, Total Risk Requirement, Liquid Margin and Capital Adequacy Ratio in the form the Exchange requires.</p> <p>(2) Pursuant to the above Rule, the Participating Organisation must submit the return in the form stipulated in <b>Schedule 1</b> of this Directive and in the manner and at the times set out in paragraph 1.1(1).</p>	<p>(1) Rule 13.04(5) provides that a Participating Organisation must submit to the Exchange a return on the Participating Organisation's Liquid Capital, Total Risk Requirement, Liquid Margin and Capital Adequacy Ratio in the form the Exchange requires.</p> <p>(2) Pursuant to the above Rule, the Participating Organisation must submit the return in the form stipulated in <b>Schedule 1</b> of this Directive and in the manner and at the times set out in paragraph 1.1(1).</p> <p><u>(3) If there are any subsequent changes to the month end reporting made under paragraph 2(2), the Participating Organisation must submit the amended return, not later than 4 p.m. on the 10<sup>th</sup> calendar day of the following month.</u></p>

**ANNEXURE 2**

**AMENDMENTS TO THE REVAMPED RULES AND POS' DIRECTIVES & GUIDANCE**

<b>DIRECTIVES FOR HEAD OF COMPLIANCE</b>	<b>No. 3.36-001</b>
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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 ~~trading~~ 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. ~~To effect individual as well as collective responsibility and accountability for its activities, a Participating Organisation must ensure that all the relevant Supervisors/Heads of Department are registered with the relevant Exchange.~~

### 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 Approval/Written procedures

A Participating Organisation ~~shall~~must establish written procedures ~~for the review and written endorsement by a compliance officer~~, of all transactions and correspondence of its dealer's representatives pertaining to the solicitation or execution of any transaction.

### Qualification Investigated

A Participating Organisation ~~shall~~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 ~~of Bursa Securities~~ 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 ~~of verification by the compliance officer~~

~~A compliance officer of other authorised person(s) shall then base the approval of the client's account for trading on such information. Subsequently, the background and financial information obtained shall be sent to the client for verification within 15 calendar days after such approval. Where the person approving the account is not the compliance officer, such approval~~ The account opening documents shall~~must~~ be subjected to ~~regular~~ review by the compliance officer.

- ii. A Participating Organisation is to effect a written Client agreement that the account ~~shall~~must be handled in accordance with the rules, and that a client, ~~acting alone or in concert with others, shall~~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 financial able to bear the risk of the recommended position(s) in the account/transaction.

~~It is the responsibility of the compliance officer to~~ 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 ~~thereunder~~ 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 account 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, ~~under the overall direction and supervision of a compliance officer~~. 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. ~~The written approval of the person in charge must then be reviewed and confirmed in writing by a compliance officer, who must be satisfied as to the reasonableness of such approval.~~ 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.

~~All such communication must be reviewed and approved by a compliance officer prior to dissemination and where relevant, must be submitted to the Exchange for approval.~~

### Employee—Transactions by Employees, Dealer's Representatives, Registered Representatives and Directors

An employee, Dealer's Representative, Registered Representative and Director of the Participating Organisation ~~shall~~ only be allowed to trade if there is a prior approval in writing or by electronic means issued for each transaction by the Participating Organisation ~~written approval from a Director of the Participating Organisation or the board of directors may authorise the Head of Branch Office or any other employee(s) to grant such consent~~ pursuant to Rule 7.26(1) of the Rules of Bursa Securities. ~~Where a Director intends to undertake trading, written approval from the Board of Directors must be obtained, such approval being appropriately minuted in the Minutes of Meetings.~~ To ensure strict adherence to the aforeabove mentioned requirements, a Participating Organisation is to maintain proper records of all employee accounts and any transactions undertaken ~~thereunder~~. In addition, such accounts ~~shall~~ 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.



~~In this respect, it has been recommended that a “middle office” concept be introduced to achieve the objectives as set out above.~~

~~Bursa Malaysia Securities Berhad, with the guidance of the Securities Commission, have established in their Rules of Bursa Securities the mandatory requirement of a “Head of Compliance” within a Participating Organisation. 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.

~~As the compliance officer is relatively new concept in the equities market, there must be proper implementation of the said function. Further, in ensuring that a compliance officer is effective in performing his function, the Participating Organisation needs to be educated on the compliance officer’s role and the objectives he sets out to achieve.~~

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 of Bursa Securities.

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 of Bursa Securities 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 directly involved in trading (e.g. he shall 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. a competent and effective manner.~~

#### Qualifications of a compliance officer

The compliance officer ~~shall~~**must** be a person qualified to perform supervisory duties. ~~He must have passed an examination approved by and be registered with the relevant Exchange.~~ In addition to the qualifications laid down in the Rules ~~of Bursa Securities~~, 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 recommended that the compliance officer review the work undertaken by the internal audit department and that he sits on the Audit Committee in respect of issues pertaining to compliance matters. If the Participating Organisation has a Risk Management Committee, the compliance officer should also sit on the committee.~~ 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 ~~shall~~ 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 ~~ensure~~ 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 ~~as aforementioned~~. 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 ~~design and develop~~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~~ 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 ~~Member Company~~ 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 ~~shall~~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.
- ~~E~~Review to ensure that client's instructions are always adhered to.
- ~~E~~Review to ensure that all transactions are properly recorded and processed.

#### b) Proprietary accounts

- ~~Spot~~~~r~~Review of 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.
- ~~Ensuring spot~~~~r~~Review of the order flow of proprietary trading.

#### c) Discretionary accounts

- ~~To~~~~r~~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.
- ~~To~~~~r~~Review on a daily basis all trades done in a discretionary account.
- ~~To~~~~r~~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.
- ~~To ensure~~~~r~~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.
- ~~To ensure~~~~r~~Review to ensure that the maintenance of full and complete documentation of every transaction undertaken under any discretionary account.

#### d) Credit Control

- ~~To~~~~r~~Review to ensure that the credit control reports in respect of issues pertaining to compliance and enforcement.
- ~~To ensure~~~~r~~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.

- ~~To ensure~~ 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.
- ~~To ensure~~ 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.
- ~~Ensure~~ 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

- ~~To ensure~~ 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.
- ~~To ensure~~ 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

- ~~To ensure~~ 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.
- ~~Reviewing and approving all~~ 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

- ~~To review the work done by the Internal Audit department~~
- ~~To e~~nsure 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

- ~~To ensure~~ 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

- ~~To ensure~~ 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 ~~the co-ordination of training~~ 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 ~~Executive Director~~ 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 compliance Officer 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 must be submitted to the Exchange for approval and must be strictly enforced thereafter.~~ 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 ~~ef~~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 ~~shall~~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 shall 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, ~~after which the compliance manual must be submitted to the Exchange for approval.~~

## **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]

<b>FREQUENTLY ASKED QUESTIONS ON THE LIBERALISATION OF SECURITIES ACCOUNTS</b>	
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**Frequently Asked Questions on the Liberalisation of Securities Accounts**

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**I. DEPOSITORY SERVICES**

**1. What is the objective of liberalising the Securities account structure?**

Through the Securities account structure liberalisation, it is envisaged that Securities account holders especially institutional investors will have greater flexibility in managing their accounts. Existing Exempt Authorised Nominees (Exempt ANs) will be able to operate omnibus accounts with greater flexibility and a wider range of persons will be given the privilege of maintaining omnibus accounts. Similarly the list of Authorised Nominees (ANs) that can hold deposited securities on behalf of one beneficial owner in each account, will be expanded. It is expected that this will promote greater efficiency in managing clients' portfolio by institutional investors when trading in securities listed on Bursa Malaysia Securities Berhad ("Bursa Securities").

**2. What is an omnibus Securities account?**

An omnibus account is an account in which securities are held for two or more beneficial owners. The names of the beneficial owners are not required to be provided when opening this account. However, the particulars of beneficial owners' should be made readily available as and when required by the regulators.

**3. Who can operate an omnibus Securities account?**

Only Exempt ANs as stipulated in the Schedule of the Securities Industry (Central Depositories) (Exemption) Order 2005 ("the Exemption Order 2005") can operate an omnibus Securities account. A list of parties that are categorised as Exempt ANs can be obtained from Bursa Malaysia's website, [www.bursamalaysia.com](http://www.bursamalaysia.com).

**4. What is the impact of this liberalisation exercise on existing Securities accounts held directly in the name of the beneficial owner?**

There is no impact on such existing Securities accounts which are opened directly under the name of the Securities account holder i.e. as an individual or a corporate depositor. The Securities account holder shall continue to operate the account as the beneficial owner.

**5. Can an Exempt AN have more than one omnibus Securities account?**

There is no restriction on the number of omnibus Securities accounts which can be operated by an Exempt AN.

<b>FREQUENTLY ASKED QUESTIONS ON THE LIBERALISATION OF SECURITIES ACCOUNTS</b>	
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**6. Who is an Instructing Client?**

An instructing client is a direct client (who is a body corporate) of a nominee company as referred to in Items 1 to 7 of the Schedule of the Exemption Order 2005 and gives instructions to the nominee company to hold securities on its behalf or on behalf of its clients.

**7. Can an Exempt AN choose to continue operating under the “one account one beneficial owner” account structure? Must an Exempt AN operate only omnibus accounts?**

It is up to the Exempt AN to choose whether to maintain accounts under the “one account one beneficial owner” structure or omnibus accounts or both.

**8. Is there a need for existing Exempt AN to update the Account Qualifier field in its current omnibus Securities accounts that have been opened via the previous exemption orders?**

Existing Exempt ANs may continue to maintain the Account Qualifier for their existing omnibus account as per the previous guidelines, in which case the usage of the account must be consistent with the Account Qualifier. However new omnibus accounts to be opened shall comply with the latest naming convention issued by Bursa Malaysia Depository Sdn Bhd (“Bursa Depository”).

**9. Is there a deadline for an Exempt AN to open an omnibus account or update the account qualifier for an existing omnibus account?**

No, there is no deadline for an Exempt AN to open an omnibus account or update the account qualifier for an existing omnibus account pursuant to this liberalisation. If an Exempt AN wants to transfer securities from an existing “one account one beneficial owner” account into an omnibus account, it can do so at any time.

**II. APPROVED REASONS FOR TRANSFER OF SECURITIES**

**10. Will the Approved Reasons for Transfer (ART) continue to be applicable for transfer of securities?**

Although there has been a relaxation on supporting documents for transfer of securities request, the ART, together with the relevant changes, will continue to be applicable. The ART should be adhered to strictly when performing any request for transfer of securities in Securities. Kindly refer to the amended version of the ART issued by Bursa Depository for more information.

<b>FREQUENTLY ASKED QUESTIONS ON THE LIBERALISATION OF SECURITIES ACCOUNTS</b>	
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**III. TRADING ACCOUNTS**

**11. Who can be given a Clearing Account?**

A Clearing Account can be given to any clients of the PO provided that each Clearing Account is maintained for one client only.

**12. Can a client have more than one Clearing Account?**

Yes, a client may have more than one Clearing Account. The PO must maintain adequate records in respect of each of the Clearing Accounts a particular client is given.

**13. What naming convention that is applicable to the account qualifier of the clearing account?**

The account qualifier for the clearing account should now be in the client's name.

**14. Are the declarations by Holder/Exempt Fund Manager, Foreign Intermediaries and Participating Organisations under Schedule A of Participating Organisations' Circular R/R 13 of 2003 and C-1 and C-2 of Participating Organisations' Circular R/R 8 of 2001 still required?**

No, they are no longer required.

**15. Are trades allowed to be carried forward in the clearing account?**

Yes, if a client's order is not fulfilled by the end of T day, the order may be carried forward up to a maximum of T+2 day.

**16. If a client's order is not fulfilled by T day and is carried forward to T+1 or T+2, is the PO required to book out the partially-fulfilled order and issue a contract note to the client at the end of T day?**

No, the booking out and issuance of contract notes may be done after the entire order is fulfilled, with a maximum allowable carrying forward period of up to T+2 day.

**17. If a client's order is fulfilled on T or T+1 day, is the PO allowed to delay the booking out and issuance of contract note to T+2 day?**

No, the booking out and issuance of contract note shall be done at the end of the day in which the order is fulfilled.

<b>FREQUENTLY ASKED QUESTIONS ON THE LIBERALISATION OF SECURITIES ACCOUNTS</b>	
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- 18. Can a PO allow the crediting of the securities purchased under a Clearing Account directly into a beneficial owner's Securities account or a Securities account in the name of an AN or Exempt AN?**

Yes, provided that the Securities account is maintained with the PO.

- 19. Is a PO still required to mirror the trading account structure with the Securities account structure?**

No, this requirement has been removed. The trading account of a client may be tagged to a Securities account in the name of the AN or Exempt AN of the client or the beneficial owner of the securities for whom the client is dealing for. Further a written consent and authorisation for the use of the Securities account must be procured from the Securities accountholder and the client of the PO is required to provide a confirmation and undertaking that the beneficial owner of both the trading and Securities account is the same.

- 20. Is a PO allowed to leave securities purchased under the Clearing Account in the Clearing Securities Account?**

No, securities must be transferred by the end of the settlement date to the beneficial owner, AN or Exempt AN account as instructed by the client, except in cases of non-payment or absence of transfer instructions by the client.

- 21. Is the client of a PO still required to disclose whether any dealings in securities in respect of the trading account is carried out on another person's behalf?**

Yes, the disclosure is still required. However, PO need not obtain the information on the beneficial owner unless required by Bursa Securities or the Securities Commission. POs must also ensure that the terms and conditions of the client agreement incorporates the obligation on the part of the client to provide information in relation to parties for whom the clients of POs are acting for, including information on the beneficial owners of the securities as and when required by both Bursa Securities and the Securities Commission.

- 22. Are the clients bound to comply with the Rules of Bursa Securities?**

Yes. There is a requirement in the rules that require the PO to impose an obligation on the part of the clients, to comply with the rules in the client agreement.

- 23. Is Bursa Securities empowered to take action against the client in the event of a breach of the rules committed by the clients?**

Yes. The rules empower Bursa Securities to direct any of the PO to refrain from dealing with a client where the act or omission by the client in relation to or arising from any transactions or dealings in securities reflected in the trading account(s) of the client and/or held in the Securities account(s) has directly or indirectly caused, aided or facilitated a breach of the rules.



<b>FREQUENTLY ASKED QUESTIONS ON THE LIBERALISATION OF SECURITIES ACCOUNTS</b>	
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- 24. Which trading account should the Participating Organisation (PO) use if it wants to carry out intra-day activities?**

The Intra-Day Activities Account has been consolidated under the Investment Account, thus PO should use the Investment Account for all proprietary positions, irrespective of whether the positions are for intra-day, short term or long term investment activities.

- 25. Are the directors and dealer's representatives allowed to share an Investment Account?**

Yes, provided proper records are maintained by the PO as to the persons executing the trades.

[End of FAQs]

## ANNEXURE 3

### AMENDMENTS TO THE REVAMPED RULES AND POS' DIRECTIVES & GUIDANCE

<b>FAQS ON MULTI-CURRENCY SECURITIES</b>	
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#### Frequently Asked Questions on Multi-Currency Securities

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#### Trading

**1. What are Multi-Currency Securities?**

Multi-Currency Securities are securities which are listed and quoted on Bursa Malaysia in currencies other than Ringgit Malaysia ("RM"). These securities could be new listings or securities arising from cross-listings of securities previously listed on another stock exchange.

**2. Who can trade in Multi-Currency Securities?**

Trading in Multi-Currency Securities is open to all investors. Investing in Multi-Currency Securities is considered as an investment in foreign currency assets within the context of Bank Negara Malaysia's ("BNM's") Foreign Exchange Administration ("FEA") policy. Hence, before a client commences trading in Multi-Currency Securities, Participating Organisations ("POs") are required to obtain disclosure from their clients on certain information in accordance with the BNM's FEA policy. This includes the clients disclosing if they are a Resident or Non-Resident and if they are Residents, whether they have domestic ringgit borrowings. This is to allow POs to determine if the conversion limit as prescribed in BNM's FEA policy applies to the clients and to facilitate POs to track clients' purchases accordingly.

**3. Do investors need to open new trading account to trade in non-RM securities?**

Bursa does not make any recommendation in relation to this. It depends on the approach adopted by POs in tracking investors' purchases in accordance with BNM's FEA policy. POs have the option to either allow their investors to either use their existing trading account or open a new trading account to trade Multi-Currency Securities.

**4. How do POs ensure that only investors who have submitted the relevant disclosures be allowed to commence trading in Multi-Currency Securities?**

Brokers' order management systems allow POs to flag trading accounts of investors who have submitted the relevant disclosure documents in accordance with BNM's FEA policy. POs are permitted to enter trade orders in Multi-Currency Securities for the trading accounts that have been flagged only.

**5. What is the process involved in flagging investors trading account for trading in Multi-Currency Securities?**

POs are required to communicate to the clients that Multi-Currency Securities that are listed on Bursa are foreign currency assets, thus these securities fall within the purview of BNM's FEA policy and all rules pertaining to investment in foreign currency assets are applicable. Upon ascertaining the Resident/Non-Resident status of clients, POs are required to activate the multi-

**ANNEXURE 3**

**AMENDMENTS TO THE REVAMPED RULES AND POS' DIRECTIVES & GUIDANCE**

<b>FAQS ON MULTI-CURRENCY SECURITIES</b>	
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currency tag on the investors trading account in the brokers' order management systems to allow order entry to be carried out on the trading account.

**6. How is the credit limit for clients dealing in Multi-Currency Securities being computed on Order Management System ("OMS")?**

The credit limit for clients dealing in Multi-Currency Securities will be first converted into RM and consolidated with other RM trades to get the total credit limit for display on the OMS.

**7. What is the exchange rate to be used on the contract notes for non-RM transactions?**

The exchange rate to be used on the contract notes for Multi-Currency Securities is that which is quoted to the POs daily by licensed onshore banks.

**8. How should POs issue contract notes for transactions in Multi-Currency Securities?**

Paragraph 12.2 of Direct 5-001 provides that contract notes issued by POs to the clients to reflect the currency values in which the securities are traded in. If POs intend to offer settlement of transactions of non-RM securities in only non-RM currency, then the contract notes need only indicate the details in non-RM values and the exchange rate value used in computing the stamp duty.

However, if POs intend to offer their clients settlement in either non-RM or RM for transactions in non-RM securities, the contract notes should indicate values payable/receivable in both non-RM currency and the converted equivalent in RM.

**9. How does Bursa determine the Minimum Fixed Commission for Multi-Currency Securities?**

The Minimum Fixed Commission for Multi-Currency Securities as defined in the Rules of Bursa Securities will be fixed by Bursa Securities in the currency in which the product is listed. These brokerage rates will be communicated to the POs prior to issuance and quotation of Multi-Currency Securities and POs will be updated on any changes on this minimum brokerage for the respective currencies via Circular from time to time.

**10. What are the risks involved for POs and investors who are dealing in Multi-Currency Securities?**

There are two risks that POs or investors may face when dealing in Multi-Currency Securities:

- (i) Capital loss/gain risk (Capital risk) – risk associated with movements in securities prices
- (ii) Foreign exchange risk (Forex risk) – risk associated with movements in exchange rate

The example below (non-exhaustive) shows two extreme cases of significant price change and exchange rate movement where investors may gain or lose when dealing in non-RM securities.

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**AMENDMENTS TO THE REVAMPED RULES AND POS' DIRECTIVES & GUIDANCE**

<b>FAQS ON MULTI-CURRENCY SECURITIES</b>	
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Risks Associated with Dealing in Non-RM Securities			
Capital & Forex Losses		Capital & Forex Gains	
<u>2/2/09</u> (1USD=RM3.50) Buy Price (Stock A): USD1 Quantity: 1,000 shares Buy Amount : USD1,000 ( ≈ RM3,500)		<u>2/2/09</u> (1USD=RM3.50) Buy Price (Stock A): USD1 Quantity: 1,000 shares Buy Amount: USD1,000 ( ≈ RM3,500)	
<u>9/2/09</u> (1USD=RM3.40) Sell Price (Stock A): USD0.90 Quantity: 1,000 shares Sell Amount: USD900 ( ≈ RM3,060)		<u>13/2/09</u> (1USD=RM3.60) Sell Price (Stock A): USD1.10 Quantity: 1,000 shares Sell Amount: USD1,100 ( ≈ RM3,960)	
Settlement in USD	Settlement in RM	Settlement in USD	Settlement in RM
Capital Loss: USD100	≈ RM340	Capital Gain: USD100	≈ RM360
Forex Loss : -	<u>RM100</u>	Forex Gain : -	<u>RM100</u>
Total Loss : <u>USD100</u>	<u>RM440</u>	Total Gain : <u>USD100</u>	<u>RM460</u>
(1USD = RM3.40)		(1USD = RM3.60)	

**Note:** The above scenarios are extreme cases where POs and investors do not have risk management measure against:

- a) Foreign exchange risk; and
- b) Capital loss/gain risk

**11. Will lower and upper price limits apply to Multi-Currency Securities?**

Yes, the lower and the upper price limits also apply to Multi-Currency Securities and these limits have been prescribed by the Exchange via directives.

**12. What are the minimum bids for Multi-Currency Securities?**

The minimum bids structure for Multi-Currency Securities has been prescribed by the Exchange via directives.

**13. What is the ISIN Codes for Multi-Currency Securities?**

There is no change to the ISIN code structure. The naming convention remains the same in that the initial 3 digits will reflect the country of incorporation. Any foreign listings with primary listings in a foreign stock exchange will carry the ISIN code designated by the foreign country even though listed on Bursa.

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**AMENDMENTS TO THE REVAMPED RULES AND POS' DIRECTIVES & GUIDANCE**

<b>FAQS ON MULTI-CURRENCY SECURITIES</b>	
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**Clearing & Settlement**

- 14. What is the exchange rate to be used by POs to compute the clearing fees payable to Bursa Malaysia Securities Clearing ["Bursa Clearing (S)"] for Multi-Currency Securities?**

The exchange rate used will be the prescribed rate on the contract note that is quoted to the POs daily by licensed commercial banks.

- 15. Are investors who trade in Multi-Currency Securities subject to minimum or maximum clearing fee?**

Yes, investors who trade in Multi-Currency Securities are subject to a minimum clearing fee set at the lowest denomination in foreign currency eg. USD 1 cent or SGD 1 cent, while the clearing fee cap is the converted equivalent of RM1,000 to be prescribed by Bursa Clearing (S) via Clearing Participant's circular from time to time.

- 16. What is the settlement currency between Clearing Participants and Bursa Clearing (S) for Multi-Currency Securities?**

Financial settlement between Clearing Participants and Bursa Clearing (S) shall be effected in the same currency in which the securities are traded. Cross netting of financial settlement between different currencies is not allowed.

- 17. What is the settlement cycle for Multi-Currency Securities?**

The settlement cycle for Multi-Currency Securities is T + 3.

- 18. Who will be the Clearing Bank for Multi-Currency Securities? Is it the same Clearing Banks that are used for settlement of RM securities?**

One common clearing bank will be appointed to handle financial settlement of Multi-Currency Securities. Clearing Participants will be informed on the appointment via a Clearing Participants' Circular.

- 19. What is the applicable currency for buying-in levy on Multi-Currency Securities that is payable to Bursa Malaysia Securities?**

Buying-in levy for Multi-Currency Securities is payable to Bursa Malaysia Securities in the same currency in which the securities are traded.

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**AMENDMENTS TO THE REVAMPED RULES AND POS' DIRECTIVES & GUIDANCE**

<b>FAQS ON MULTI-CURRENCY SECURITIES</b>	
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**Invoicing of trading fees and SC Levy**

**20. What are the procedures for payment of trading fees on Multi-Currency Securities?**

Trading fees for Multi-Currency Securities are payable to Bursa on a monthly basis in RM. The invoices will show the trading fees in RM only. The trading fees, both in RM and Non-RM, will be shown in a report which is attached to the invoice. The exchange rate for computation of non-RM trades is to be based on daily exchange rate, BNM, T - 1, 9 a.m.

**21. What are the procedures for computation of SC Levy on Multi-Currency Securities?**

Similar to trading fees, SC Levy for Multi-Currency Securities are payable to Bursa on a monthly basis in RM. The invoices will show SC Levy in RM only. The SC Levy, both in RM and Non-RM, will be shown in a report which is attached to the invoice. The exchange rate for computation of SC Levy on non-RM trades is to be based on daily exchange rate, BNM, T - 1, 9 a.m.

**22. Will Bursa limit listing of Multi-Currency Securities to certain type of securities only?**

Any issuance of non-RM securities requires the approval of Bank Negara Malaysia and Securities Commission. Bursa will facilitate the listing and quotation of all types of securities that have been approved by Securities Commission and Bank Negara Malaysia.

**23. Are dividends for Multi-Currency Securities payable in RM or non-RM?**

It is up to the Issuers to decide on payment currency for any dividend payment announced by the Issuers.

**Regulation**

**24. What is the currency used in ARMADA reporting?**

ARMADA reporting mechanism has been designed to accept both RM and non-RM.

**25. What is the reporting currency for daily, weekly and monthly regulatory reporting to Participants Supervision?**

All regulatory reporting shall be in RM. POs need to seek approval from the Exchange's Participant Supervision Department if they wish to report in other currencies.

**Operationalisation of BNM's Foreign Exchange Administration (FEA) Policy**

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<b>FAQS ON MULTI-CURRENCY SECURITIES</b>	
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**Important Note: FAQs on the operationalisation of BNM's FEA Policy should not be taken as a legal advice from Bursa and that the onus is on the POs and the clients to know and keep themselves updated on the requirements for compliance with FEA Policy from BNM.**

**26. How would BNM's FEA policy requirement apply in the context of Multi-Currency Securities?**

To facilitate the application of BNM's FEA policy, POs need to ascertain the Residents/Non-Residents status of investors and if Residents, their domestic ringgit borrowings status. These involve:-

- i) Declaration by investors on their Residents or Non-Residents status as defined by BNM; and
- ii) Declaration by Resident investors on their domestic ringgit borrowings status.

For Non-Residents, there is no conversion limit of RM into foreign currency for purchases of non-RM securities. The conversion limit is applicable to Residents with domestic Ringgit borrowing who choose to settle payment for investment in non-RM securities in RM.

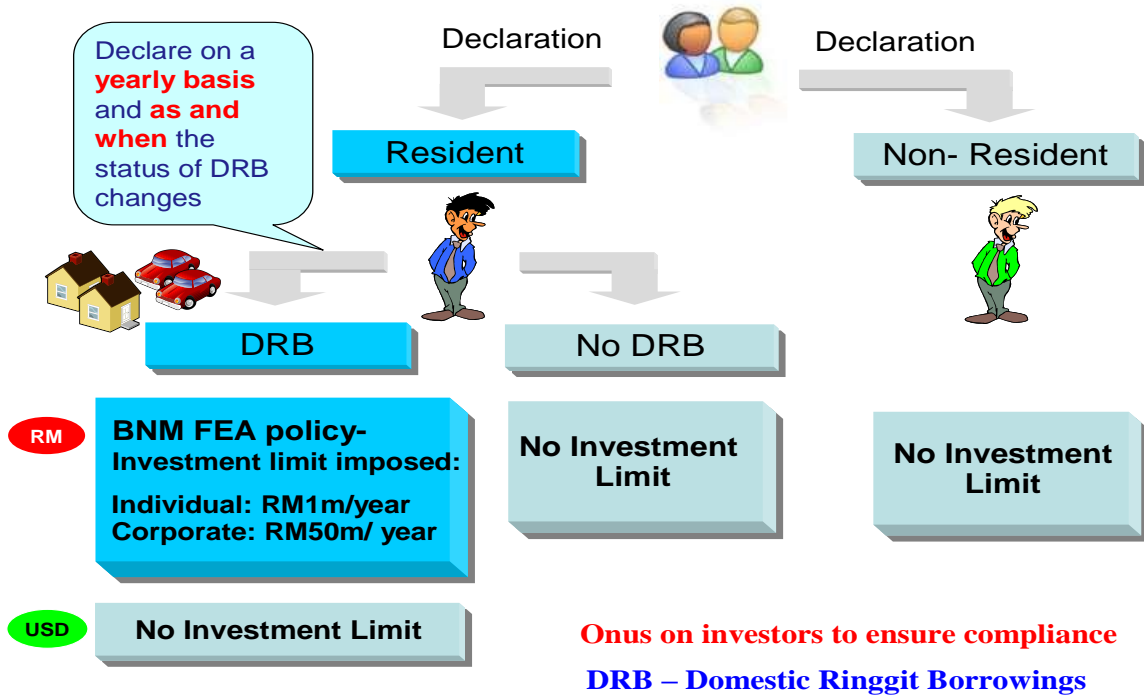
**Note: Refer Appendix 1 below for the schematic on declaration by Residents/Non-Residents, declaration by Residents on domestic ringgit borrowings and the applicable limit on the amount of RM that can be converted into foreign currency for investment in non-RM securities as per BNM guidelines.**

**Appendix 1**

**Flowchart on Declaration of Resident/Non-Resident & DRB Status**

<b>FAQS ON MULTI-CURRENCY SECURITIES</b>	
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**Declaration on Resident/Non-Resident and DRB Status**



**27. What are the definitions of Residents and Non-Residents?**

Under BNM’s FEA policy, Resident is defined as:

- A citizen of Malaysia (excluding citizens who has obtained permanent resident status of a territory outside Malaysia and is residing outside Malaysia);
- A non-citizen who has obtained permanent resident status in Malaysia and is ordinarily residing in Malaysia;
- A body corporate incorporated or established, or registered with or approved by any authority, in Malaysia;
- An unincorporated body registered with or approved by any authority in Malaysia;
- The Government or any State Government; or
- Any other person as may be specified by the Controller of Foreign Exchange to be a resident.

Under BNM’s FEA policy, Non-Resident is defined as:

- An overseas branch, subsidiary, regional office, sales office and representative office of a resident company;
- Embassies, Consulates, High Commissions, supranational or international organisations;
- A Malaysian citizen who has obtained permanent status of a country or territory outside Malaysia and is residing outside Malaysia; and
- Any other person as may be specified by the Controller of Foreign Exchange to be a non-resident



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*(Note: For further information or the latest update on the above, please refer to BNM's website at [www.bnm.gov.my](http://www.bnm.gov.my))*

**28. What are the limits on the amount of RM that can be converted to foreign currency to purchase Multi-Currency Securities?**

For Non-Residents, there are no such limits on the amount of RM conversion to purchase Multi-Currency Securities. Neither are there limits for Residents without domestic ringgit borrowings.

However, for Residents that have domestic ringgit borrowings and are converting ringgit into foreign currency to invest in Multi-Currency Securities, there are conversion limits of up to RM1 million in aggregate per calendar year for individuals and up to RM50 million equivalents in aggregate and on corporate group basis per calendar year for companies.

Domestic ringgit borrowings refer to any ringgit advances, loans, trade financing facilities, hire purchase, factoring facilities with recourse, financial leasing facilities, guarantee for payment of goods, redeemable preference shares or similar facilities in whatever name or form, except:

- Trade credit terms extended by suppliers for all types of goods and services;
- Forward foreign exchange contracts entered into with licensed onshore banks;
- Performance guarantees and financial guarantees;
- One personal housing loan and one vehicle loan obtained from Residents;
- Credit card and charge card facilities;
- Operational leasing facilities;
- Factoring facilities without recourse; and
- Inter-company borrowings within a corporate group in Malaysia.

*(Note: For further information or the latest update, please refer to BNM's website at [www.bnm.gov.my](http://www.bnm.gov.my))*

**29. Who are responsible to ensure compliance to BNM's FEA policy as regards to Multi-Currency Securities?**

The onus is on Resident investors with domestic ringgit borrowings to ensure compliance to the conversion limit of RM into foreign currency stipulated in the BNM's FEA policy.

**30. What are POs' roles in tracking the conversion limit from RM into foreign currency for investing in Multi-Currency Securities to facilitate compliance with the BNM's FEA policy?**

POs need to put in place processes to track clients' conversion limits stipulated by BNM's FEA policy if POs intend to offer settlement by client in RM for trading in Multi-Currency Securities. It is not applicable if POs only intend to offer settlement in non-RM on Multi-Currency Securities traded by clients.

As indicated by BNM, POs have the prerogative to apply the necessary means to monitor compliance to the conversion limits set out in BNM's FEA policy. The following are merely

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suggestions on methods in which a PO may choose to track conversion limits of clients investing in non-RM securities listed on Bursa Malaysia within context of BNM's FEA policy. (**Appendix 2**)

Due to the changes required in processes and systems, POs are allowed to offer/accept currency of settlement between POs and clients in either:

Option 1:

- a) Non-RM only - if POs are not able to monitor investors' investment limit to comply with BNM's FEA requirement that Resident investors with domestic ringgit borrowings do not convert in a calendar year more than RM1m if they are individuals or RM50m per Group corporate basis.
- b) Non-RM or RM if POs are able to monitor investors' investment limit to comply with BNM's FEA requirement that Resident investors with domestic ringgit borrowings do not convert in a calendar year more than RM1m if they are individuals or RM50m per Group corporate basis.

For option (b) involving settlement in RM, POs have the prerogative to implement any means to ensure clients do not exceed the conversion limits stipulated in the BNM's FEA policy on the purchases of non-RM securities. The suggested options are:

Option 2:

Tracking of conversion limit intra-day by Resident clients via system trading limit

- Initial declaration before client commences trading. Investment limit will be set according to declaration, as part of the trading limit which covers cumulative purchases by Resident investors in RM.
- Nevertheless, for each subsequent trading year, a new limit of RM1million (individual) or RM50 million (corporate) will be imposed on all Resident clients. Once the limit is reached, the system will block that account from further trading in non-RM securities. Upon receipt of subsequent declaration from Resident clients to indicate that they have no domestic ringgit borrowings, only then will the limit be lifted and the Resident investor allowed to invest freely. If there is no subsequent declaration to indicate no domestic ringgit borrowings, then the trading block will remain till the next calendar year.

Option 3:

Tracking of conversion limit by Resident clients via end-of-day (EOD) report

- Upon the initial declaration by Resident clients, POs to monitor the cumulative purchases in RM by Residents clients with domestic ringgit borrowings via EOD reports. POs to generate EOD reports for Resident clients with domestic ringgit borrowings to facilitate POs in monitoring of the BNM's investment limit.
- POs to block the clients with domestic ringgit borrowings who exceeded the limit from trading until the following calendar year where a fresh limit is given to the client. The amount in excess of the RM1m or RM50m is required to be settled in non-RM between PO and client. Clients with domestic ringgit borrowings who exceeded the RM conversion limit may continue to trade only using non-RM as settlement.
- In subsequent calendar year, a standard limit as per BNM's conversion limit will be set for all Resident clients, with or without domestic ringgit borrowings. The report will be

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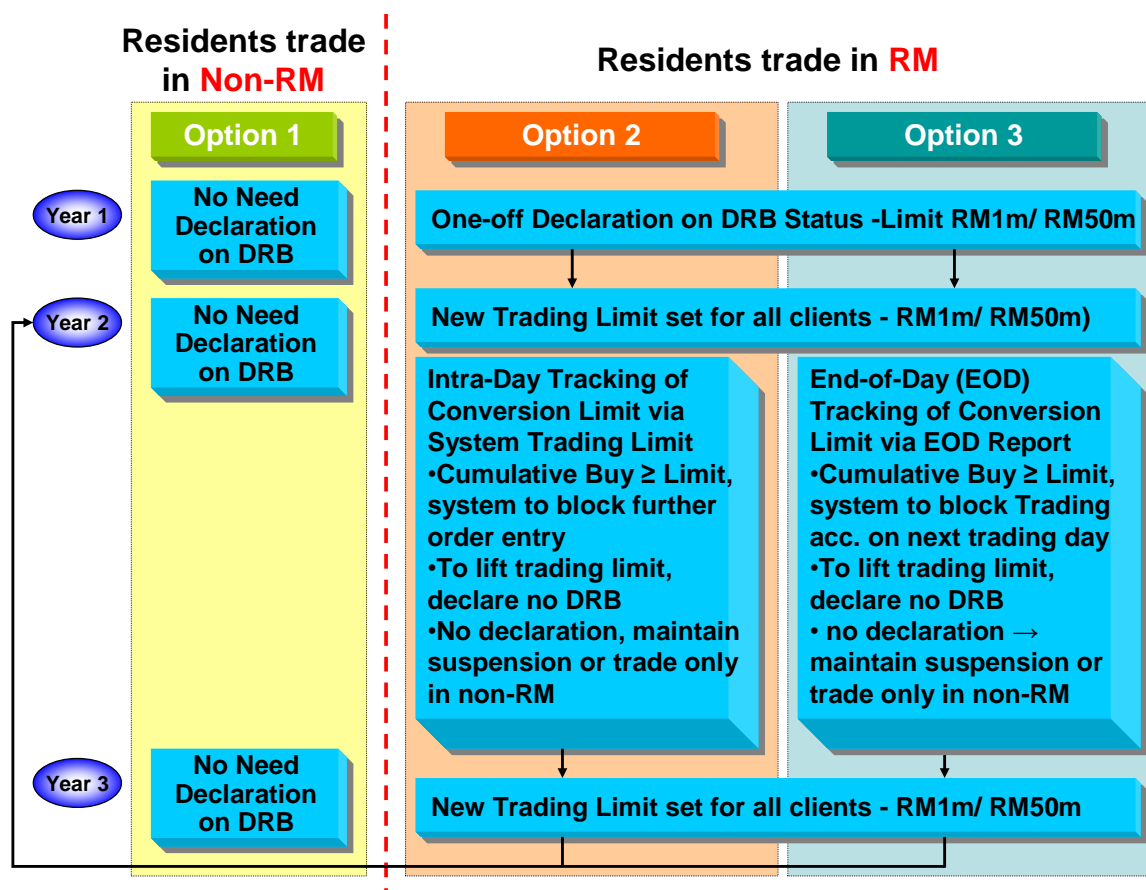
generated at EOD for all clients, whether with domestic ringgit borrowings or without domestic ringgit borrowings. If clients exceeded the BNM's investment limit, POs to block the clients from trading until a fresh declaration is received indicating no domestic ringgit borrowings or until the following calendar year where a fresh limit is given to the client. The BNM's investment limit will be removed upon submission of a declaration indicating no domestic ringgit borrowings and POs to allow trading to continue and settlement be made in RM. The amount in excess of the RM1m or RM50m is required to be settled in non-RM between PO and client. Clients with domestic ringgit borrowings who exceeded the RM conversion limit may continue to trade only using non-RM as settlement. POs are required to keep record of exception reports.

- As option 3 gives the flexibility for POs to monitor the limit at EOD instead of intraday monitoring, POs need to incorporate the following in their business processes to facilitate monitoring exercise:
  - i) Procedures to notify clients on the settlement to be made in non-RM if in excess of RM1m or RM50m. Failure of settlement in non-RM may result in involuntary sale of such securities by the POs.
  - ii) Procedures on informing POs' clients on the remaining balance of the investment limit. The remaining balance can be included in the report to the remisiers/dealers or appear in the statement to clients.

FAQS ON MULTI-CURRENCY SECURITIES	
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Appendix 2

Flowchart on Options for Currency of Settlement by Client



31. How to compute conversion limit of RM into foreign currency? How will this limit be impacted by sales transactions or contra arrangements?

The conversion limit of RM into foreign currency is computed based on cumulative value of purchases in Multi-Currency Securities settled in RM in a calendar year. The amount is not to be netted or reduced in the event of sales or contra transactions throughout the calendar year. Purchases of Multi-Currency Securities using non-RM should not be taken into account when computing this investment limit.

**Stamp Duty**

32. How do POs compute the amount of stamp duty payable to Stamp Duty Office for purchase and sale of Multi-Currency Securities?

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- The stamp duty is to be calculated based on a double conversion method and it ranges from a minimum of RM1 to a maximum of RM200 depending on the value of securities traded in RM.
- The RM value of the transaction for purposes of computing stamp duty payable will be the converted equivalent of non-RM trade value using the exchange rate quoted by on-shore licensed banks.
- Once the stamp duty amount payable in RM is determined, it will be converted to non-RM and charged to investors in the contract note.
- POs accumulate daily stamp duty and pay to Stamp Duty Office in RM on monthly basis. Conversion rate will be based on exchange rate quoted by POs' on transaction date (T date).
- Refer to **Appendix 3** for computation of stamp duty.

## ANNEXURE 3 AMENDMENTS TO THE REVAMPED RULES AND POS' DIRECTIVES & GUIDANCE

<b>FAQS ON MULTI-CURRENCY SECURITIES</b>	
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### Appendix 3

#### Flowchart on Computation of Stamp Duty

**STAMP DUTY < RM200, TRADE VALUE < RM200,000**

USD	SECURITIES	PRICE	QUANTITY	PROCEEDS	BROKERAGE	STAMP DUTY	CLEARING FEE	TOTAL AMOUNT
	FA40ETF	0.10	100.00	10.00	0.07	0.30	0.01	10.38
				X 3.35				
				33.50		1		

RM	SECURITIES	PRICE	QUANTITY	PROCEEDS	BROKERAGE	STAMP DUTY	CLEARING FEE	TOTAL AMOUNT
	FA40ETF	0.34	100.00	33.50	0.23	1.00	0.01	34.75

EXCH RATE	3.35
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**Stamp Duty Payable** RM1 whether investor pays in RM or USD

**STAMP DUTY = RM 200, TRADE VALUE > RM200,000**

USD	SECURITIES	PRICE	QUANTITY	PROCEEDS	BROKERAGE	STAMP DUTY	CLEARING FEE	TOTAL AMOUNT
	FA40ETF	10.20	10,000.00	102,000.00	714.00	59.70	40.80	102,814.50
				X 3.35				
				341,700.00		200		

RM	SECURITIES	PRICE	QUANTITY	PROCEEDS	BROKERAGE	STAMP DUTY	CLEARING FEE	TOTAL AMOUNT
	FA40ETF	34.17	10,000.00	341,700.00	2,391.90	200.00	136.68	344,428.58

EXCH RATE	3.35
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**Stamp Duty Payable** RM200 whether investor pays in RM or USD

**Note :** The prescribed purpose of **Appendix 3** is for illustrating the computation of stamp duty for Multi-Currency Securities and is not meant to be used as the prescribed format for issuance of contract notes on Multi-Currency Securities.

[End of FAQs]

### AMENDMENTS TO THE REVAMPED RULES AND POS' DIRECTIVES & GUIDANCE

#### Frequently Asked Questions ("FAQs")

##### Chapter 2

- 1) Where are the requirements in the previous Rule 607 (on Conditions on Trading imposed on Affected Listed Securities) covered under the revamped Rules of Bursa Securities ("**Revamped Rules**")?

The whole of Rule 607 has been deleted as there is already a provision under Chapter 2 of the Revamped Rules which empowers the Exchange to take any further actions pursuant to a decision or action taken by the Exchange, SC, Clearing House or Depository in relation to a Participating Organisation ("**PO**"), Registered Person or issuer (see Rule 2.01(2)(p)).

##### Chapter 3

- 2) A compliance officer is no longer required to be registered with the Exchange under the revamped Rules of Bursa Securities. However, must a compliance officer still be approved by the Securities Commission?

Yes, a compliance officer must still be approved by the Securities Commission following the requirements in paragraph 4.06 of the Securities Commission's Licensing Handbook.

##### Chapter 5

- 3) Where is the previous Rule 401.1 on Prohibited Conduct incorporated in the Revamped Rules?

Under the Revamped Rules, the general principle is stated in Rule 5.01 and the details in Directive 5-001 on Conduct of Business.

- 4) What are the requirements on advertising under the Revamped Rules?

The only requirements on advertising are as stipulated in Rule 5.06 of the Revamped Rules. This Rule states that a PO's advertising or publicity in relation to its business must comply with certain requirements, including, among others, ensuring that the advertising is accurate, not misleading or ambiguous. In line with our principles-based approach, POs will no longer be required to deliver the advertisement related documents to the Exchange for post-vetting.

- 5) Why has the Exchange removed the service of maintaining the defaulter's list?

This is a service originally rendered by the Exchange to facilitate the credit risk management of the POs. The removal of the defaulters' list is in line with our principle to only regulate where necessary. Maintenance of a defaulter's list is not part of an Exchange's functions.

- 6) Is submission of the monthly declaration in the previous Appendix 4 under Rule 404.7 (2) still required under the Revamped Rules?

It is no longer a requirement under the Revamped Rules.

## **ANNEXURE 3**

### **AMENDMENTS TO THE REVAMPED RULES AND POS' DIRECTIVES & GUIDANCE**

#### **Chapter 6**

- 7) Pursuant to Rule 6.03(2) of the Revamped Rules, a PO must appoint 1 person at every branch to discharge the responsibilities prescribed under that Rule. Can the person be someone who does dealings, operations or compliance?

The person can be a person who does either dealings, operations or compliance and POs can maintain the current structure and line of reporting i.e. the head of branch can be the person who is responsible in discharging the duties prescribed under Rule 6.03(2).

- 8) In what way can the person who is responsible for a Branch Office "ensure segregation of duties"?

It can be done by ensuring clear reporting lines and proper policies and procedures are put in place to address any conflict of interest. Policies must be implemented efficiently.

- 9) Can a person be responsible for more than 1 branch?

No, under the Revamped Rules a person can only be responsible for 1 branch and such a person must be located at the branch.

#### **Chapter 7**

- 10) Revamped Rule 7.02(4), a PO may only sell securities in Odd Lots if the securities are designated as "free securities" in the seller's Securities Account maintained with the PO prior to the entry of the order into the ATS. Does the PO have a discretion to check whether the securities are designated as "free securities" before selling such securities in Odd Lots?

No, a PO must check that the securities are designated as "free securities" before selling such securities in Odd Lots.

- 11) Is the obligation to report under Rule 7.06 only applicable to a breakdown, malfunction or error which involves Exchange's systems only or does it apply also to a breakdown, malfunction or error arising from the PO's own Order Management System ("OMS")?

Rule 7.06 covers the ATS or any other system, service or facility of the Exchange. However POs are encouraged to notify the Exchange of any malfunction or breakdown of their OMS which may affect their clients.

- 12) Can an employee of a PO open a Margin Account with another PO?

Rule 7.25 of the Revamped Rules prohibit an employee of a PO from opening a trading account to trade in securities with another PO. As a Margin Account is in effect a trading account with financing provided by the PO, the opening of a Margin Account by a PO's employee with another PO is prohibited under Rule 7.25.

- 13) When must a PO liquidate the Client's Margin Account so that the PO does not breach Rule 7.30(12) of the Revamped Rules?



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It must be done immediately after the equity in a Client's Margin Account falls below 130% of the Outstanding Balance, i.e. by the end of the day the Margin Account must be above 130%. Therefore a PO must take into account the liquidity and volatility of the stock when extending Margin Financing to its Clients.

- 14) How much additional Margin must a PO request and what is the percentage of Haircut a PO must impose under Rule 7.30(19)(a) of the Revamped Rules?

Subject to Rule 7.30(19)(b), a PO has the discretion to determine the additional Margin required and Haircut to be imposed in the circumstances set out under Rule 7.30(19)(a). A PO must set out in its internal policies the details of the circumstances and how much Margin to request and the Haircut to be imposed in such circumstances.

- 15) In relation to Rule 7.30(7), where is the explanation of the manner in which the PO must value the Client's collateral?

It is found in Directive 7.30-001.

#### Chapter 8

- 16) Under the previous Rule 706 on the Stock Market Trading Suspension, the circuit breaker was mentioned and details of the percentage drops in the index were given in circulars. But under the Revamped Rules, there is no mention of the circuit breaker percentage (under Rule 8.33). What are the percentages applicable now for the circuit breaker to be triggered and where are they prescribed?

The circuit breaker percentage is prescribed in the POs' Trading Manual at item 8.

#### Chapter 12

- 17) Paragraph 1.1(2) of Directive 12-002 only mentions that bank reconciliation must be prepared not later than the 10<sup>th</sup> day of the following month. Are POs still required to submit the previous Appendix 4 bank reconciliation and outstanding contracts to the Exchange by the 15<sup>th</sup> calendar day of every month?

Appendix 4 of the previous Rules has been deleted under the Revamped Rules and is no longer required to be submitted.

- 18) Directive 12.03(2)-001 and Chapter 12 of the Revamped Rules are silent on the submission of the previous Appendix 9 within 1 month of the financial year end. Are we still required to submit?

Appendix 9 of the previous Rules has been deleted under the Revamped Rules and is no longer required to be submitted.

#### Chapter 13

- 19) The deadline for submission of the hard copy of monthly reports is not stated in Directive 13-001. Is it still unchanged i.e. to be submitted to the Exchange by the 10<sup>th</sup> calendar day of every month?

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Submission of a hard copy of the monthly reports is no longer required. A PO is just required to submit the reports via the ARMADA system as required previously.

#### **Others**

- 20) Will the Exchange still issue identification tags for Heads of Dealing and Dealer's Representatives (DRs)?

Bursa will no longer issue identification tags to the Heads of Dealing and Dealer's Representatives (DRs).