

ANNEXURE 1

RULES OF BURSA MALAYSIA SECURITIES CLEARING SDN BHD

**RULE AMENDMENTS ARISING FROM THE SECURITIES COMMISSION'S
GUIDELINES ON OUTSOURCING FOR CAPITAL MARKET INTERMEDIARIES**

EXISTING PROVISIONS		AMENDED PROVISIONS
Rule A2.3	Rule A2.3 OUTSOURCING OF BACK OFFICE FUNCTIONS	Rule A2.3 OUTSOURCING OF BACK OFFICE FUNCTIONS <u>BY TRADING CLEARING PARTICIPANTS</u>
Rule A2.3	New provision	<u>(a) A Trading Clearing Participant is not permitted to outsource any of its functions as a Trading Clearing Participant except in accordance with these Rules.</u>
Rule A2.3	(a) A Trading Clearing Participant may be permitted to outsource its Back Office Functions subject to the prior approval of the Clearing House and compliance with the Guiding Principles as though the Trading Clearing Participant is the Market Intermediary mentioned therein.	(a) A Trading Clearing Participant may be permitted to outsource its Back Office Functions <u>if it:</u> <u>(i) subject to the prior approval of the Clearing House and compliance complies with the requirements that must be met prior to the outsourcing as set out under the Guiding Principles Guidelines on Outsourcing</u> as though the Trading Clearing Participant is the M market i ntermediary mentioned therein <u>in the Guidelines on Outsourcing; and</u> <u>(ii) has obtained the prior written approval of the Clearing House for any material outsourcing arrangement as required under the Guidelines on Outsourcing.</u>
Rule A2.3	(b) The Guiding Principles shall be regarded as part of these Rules and consequently any breach by a Trading Clearing Participant of the Guiding Principles shall be deemed to be a breach of these Rules.	(b) [Deleted]The Guiding Principles shall be regarded as part of these Rules and consequently any breach by a Trading Clearing Participant of the Guiding Principles shall be deemed to be a breach of these Rules.
Rule A2.3	New provision	<u>(c) In relation to paragraph 3.02 of the Guidelines on Outsourcing, a Trading Clearing Participant may outsource a Back Office</u>

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		<u>Function that involves decision making or interaction with clients where the function relates to post trade, financing or custody services.</u>
Rule A2.3	(c) The Clearing House may, in consultation with the Commission, issue any directives, instructions or guidelines in relation to the outsourcing of the Back Office Functions of a Trading Clearing Participant, as it deems fit, from time to time.	(ed) The Clearing House may, in consultation with the Commission, issue any directives, instructions or guidelines in relation to the outsourcing of the Back Office Functions of a Trading Clearing Participant, as it deems fit, from time to time. <u>A Trading Clearing Participant which has outsourced its Back Office Functions under this Rule A2.3 must, in relation to such functions:</u> <u>(i) comply with these Rules, the Guidelines on Outsourcing (as though the Trading Clearing Participant is the market intermediary mentioned in the Guidelines on Outsourcing) and any directives that may be issued by the Clearing House on this matter; and</u> <u>(ii) ensure that its service provider or sub-contractor complies with the Rules that are applicable to the outsourced functions in the same manner as the Trading Clearing Participant is required to.</u>
Rule A2.3	New provision	(e) The Clearing House may, at any time, revoke any approval given to the Trading Clearing Participant for its material outsourcing or direct the Trading Clearing Participant to discontinue the outsourcing of the Back Office Functions, partly or wholly, for any reason whatsoever.
Rule A2.3	(d) For the purpose of this Rule, unless the context otherwise requires – “Back Office Functions” means the back office functions as envisaged under clause 4 of the Guiding Principles. “Guiding Principles” means the “Guiding Principles	(ef) For the purpose of this Rule, unless the context otherwise requires:– <u>(i) “Back Office Functions” means the back office functions as defined under the Guidelines on Outsourcing envisaged under clause 4 of the Guiding Principles.</u> <u>(ii) “Guiding Principles Guidelines on Outsourcing” means the</u>

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	<p>For Outsourcing Of Back Office Functions For Capital Market Intermediaries” issued by the Commission on 29 June 2005 including subsequent amendments, modifications, variations, supplements or substitutes thereto and any directives or guidelines as may be issued thereunder.</p> <p>“Market Intermediary” shall have the same meaning as is assigned to it in the Guiding Principles.</p>	<p>“Guiding Principles For Guidelines on Outsourcing Of Back Office Functions For Capital Market Intermediaries” issued by the Commission on 29 June 2005 including subsequent amendments, modifications, variations, supplements or substitutes thereto and any directives or guidelines as may be issued pursuant to the Guidelines on Outsourcing thereunder.</p> <p>“Market Intermediary” shall have the same meaning as is assigned to it in the Guiding Principles.</p> <p><u>(iii) “service provider” has the same meaning as is assigned to it in the Guidelines on Outsourcing.</u></p> <p><u>(iv) “sub-contractor” means the service provider to whom the initial service provider has further contracted the Back Office Functions.</u></p>
Rule A2.3	<p>(e) This Rule shall not apply to a Trading Clearing Participant which is an Investment Bank. A Trading Clearing Participant which is an Investment Bank shall comply with the Guidelines on Investment Banks and such other requirements of the Central Bank relating to the outsourcing of back-office functions, if any, insofar as the same are applicable to an Investment Bank (“the Relevant Guidelines and Requirements”). The Relevant Guidelines and Requirements shall be regarded as part of these Rules and consequently any breach by a Trading Clearing Participant which is an Investment Bank of the Relevant Guidelines and Requirements shall be deemed to be a breach of these Rules.</p>	<p>(eg) (i) This Rule shall is not apply applicable to a Trading Clearing Participant which is an Investment Bank.</p> <p><u>(ii) A Trading Clearing Participant which is an Investment Bank shall must instead comply with the Guidelines on Investment Banks and such other requirements of the Central Bank relating to the matter. outsourcing of back-office functions, if any, insofar as the same are applicable to an Investment Bank (“the Relevant Guidelines and Requirements”). The Relevant Guidelines and Requirements shall be regarded as part of these Rules and consequently any breach by a Trading Clearing Participant which is an Investment Bank of the Relevant Guidelines and Requirements shall be deemed to be a breach of these Rules.</u></p>
Rule B2.4	Rule B2.4 OUTSOURCING OF BACK OFFICE FUNCTIONS	Rule B2.4 OUTSOURCING OF BACK OFFICE FUNCTIONS BY NON TRADING CLEARING PARTICIPANTS

EXISTING PROVISIONS		AMENDED PROVISIONS
Rule B2.4	New provision	<p><u>(a) For the purposes of this Rule, unless the context otherwise requires:</u></p> <p><u>(i) “Back Office Functions” in this rule encompasses only the operational or administrative aspects of the entity’s functions as a Non Trading Clearing Participant, including clearing and settlement of transactions in securities involving the Non Trading Clearing Participant’s principal accounts and transactions in securities involving the Non Trading Clearing Participant’s nominee accounts held for locally incorporated companies which are wholly owned by the Non Trading Clearing Participant;</u></p> <p><u>(ii) “service provider” means any entity which carries out the outsourced Back Office Functions; and</u></p> <p><u>(iii) “sub-contractor” means the service provider to whom the initial service provider has further contracted the Back Office Functions.</u></p>
Rule B2.4	New provision	<u>(b) A Non Trading Clearing Participant is not permitted to outsource any of its functions as a Non Trading Clearing Participant except in accordance with this Rule.</u>
Rule B2.4	(a) A Non Trading Clearing Participant may outsource its back office functions to a service provider provided that the Non Trading Clearing Participant complies with the following conditions :-	<u>(ac) A Non Trading Clearing Participant may outsource its bBack eOffice fFunctions relating to its function as a Non Trading Clearing Participant to a service provider or a sub-contractor provided that the Non Trading Clearing Participant complies with the following conditions <u>set out in this Rule B2.4.</u></u>
Rule B2.4	(i) The back office functions that are outsourced shall encompass only the operational or administrative aspects of the entity’s functions as a Non Trading Clearing Participant, including clearing and settlement of transactions in securities involving the Non Trading Clearing Participant’s principal	<u>(i) [Deleted]The back office functions that are outsourced shall encompass only the operational or administrative aspects of the entity’s functions as a Non Trading Clearing Participant, including clearing and settlement of transactions in securities involving the Non Trading Clearing Participant’s principal accounts and transactions in securities involving the Non Trading Clearing Participant’s nominee accounts held for locally</u>

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	accounts and transactions in securities involving the Non Trading Clearing Participant's nominee accounts held for locally incorporated companies which are wholly owned by the Non Trading Clearing Participant, and shall exclude the Non Trading Clearing Participant's decision making and management function and its role of liaising with regulatory authorities and fulfilling regulatory requirements;	incorporated companies which are wholly owned by the Non Trading Clearing Participant, and shall exclude the Non Trading Clearing Participant's decision making and management function and its role of liaising with regulatory authorities and fulfilling regulatory requirements;
Rule B2.4	<p>(ii) The service provider must be either one of the following :-</p> <p>(a) A company within the group of companies to which the Non Trading Clearing Participant belongs; or</p> <p>(b) An independent company which is located in Malaysia and has its operations conducted in Malaysia.</p>	<p>(ii) [Deleted]The service provider must be either one of the following :-</p> <p>(a) A company within the group of companies to which the Non Trading Clearing Participant belongs; or</p> <p>(b) An independent company which is located in Malaysia and has its operations conducted in Malaysia.</p>
Rule B2.4	(iii) The service provider shall not further assign or sub-contract the back office functions to another party;	<p>(d)iii) The Non Trading Clearing Participant must ensure that:</p> <p>(i) the service provider does not further assign the Back Office Functions to a sub-contractor unless the prior approval of the Non Trading Clearing Participant is first obtained; and</p> <p>(ii) the sub-contractor does not further assign the Back Office Functions to any party. The service provider shall not further assign or sub-contract the back office functions to another party;</p>
Rule B2.4	(iv) The legal relationship between the Non Trading Clearing Participant and the service provider shall be a principal-agent	(iv) [Deleted]The legal relationship between the Non Trading Clearing Participant and the service provider shall be a principal-agent relationship;

EXISTING PROVISIONS		AMENDED PROVISIONS
	relationship;	
Rule B2.4	(v) The Non Trading Clearing Participant must ensure compliance by the service provider with all relevant requirements stipulated in any provision in these Rules, agreement between the Non Trading Clearing Participant and the Clearing House and direction issued by the Clearing House;	(ev) The Non Trading Clearing Participant must ensure compliance by the service provider <u>and if applicable, the sub-contractor of</u> with all relevant requirements stipulated in any provision in these Rules, agreement between the Non Trading Clearing Participant and the Clearing House and direction issued by the Clearing House.;
Rule B2.4	(vi) The Non Trading Clearing Participant shall be deemed liable as a principal in relation to any breach by the service provider of any provision in these Rules, agreement between the Non Trading Clearing Participant and the Clearing House and direction issued by the Clearing House;	(fv) The Non Trading Clearing Participant shall <u>will</u> be deemed liable as a principal in relation to any breach by the service provider <u>or the sub-contractor</u> of any provision in these Rules, agreement between the Non Trading Clearing Participant and the Clearing House and direction issued by the Clearing House.;
Rule B2.4	(vii) Any direction issued by the Clearing House and directed to the Non Trading Clearing Participant is deemed to have also been issued and directed to the service provider and shall be regarded to be within the knowledge of the service provider;	(gv) Any direction issued by the Clearing House and directed to the Non Trading Clearing Participant, <u>where applicable</u> , is deemed to have also been issued and directed to the service provider <u>and the sub-contractor</u> and shall be regarded to be within the knowledge of the service provider <u>and the sub-contractor</u> .;
Rule B2.4	(viii) The Non Trading Clearing Participant shall procure from the service provider a written undertaking that the service provider shall maintain the secrecy and confidentiality of the documents and information of clients that the service provider shall have access to, from any intentional or inadvertent disclosure to unauthorised person(s), and that the service provider's security policies, procedures and controls enable the protection of such confidentiality and security of client information;	(hv) The Non Trading Clearing Participant shall <u>must ensure that:</u> (i) procure from the service provider <u>and if applicable, the sub-contractor protects the a written undertaking that the service provider shall maintain the secrecy and confidentiality and security</u> of the documents and information of clients <u>and that the Non Trading Clearing Participant is immediately notified of any breach of this requirement by the service provider or the sub-contractor; and that the service provider shall have access to, from any intentional or inadvertent disclosure to unauthorised person(s), and that the service provider's</u>

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		(ii) the service provider and if applicable, the sub-contractor has policies and procedures in place to maintain the confidentiality of clients' information and where there is a need to do so pursuant to any written law or contractual obligation, seek approval for or notify clients that their information may be disclosed to a service provider or a sub-contractor, as the case may be security policies, procedures and controls enable the protection of such confidentiality and security of client information.;
Rule B2.4	(ix) The Non Trading Clearing Participant must have in place an insurance policy to protect it against any liability, loss or damage arising from any action or omission of the service provider in performing the said back office functions;	(ix) The Non Trading Clearing Participant must have in place an insurance policy to protect it against any liability, loss or damage arising from any action or omission of the service provider <u>and if applicable, the sub-contractor</u> in performing the said b Back e Office f unctions.;
Rule B2.4	(x) The Non Trading Clearing Participant must ensure that the Clearing House or its agent shall at all times :- (a) have access to and be allowed to make copies of the books (as defined in the Act) of the Non Trading Clearing Participant or the service provider and further to obtain promptly any other information concerning activities that are relevant for the performance of its regulatory duties; and (b) have access to the premises of the Non Trading Clearing Participant or the service provider for the purposes of conducting any audit, inspection or investigation.	(x) The Non Trading Clearing Participant must ensure that the Clearing House or its agent shall at all times: (a) have access to and be allowed to make copies of the books (as defined in the Act) of the Non Trading Clearing Participant, or the service provider <u>or the sub-contractor</u> and further to obtain promptly any other information concerning activities that are relevant for the performance of its regulatory duties.; and (b) have access to the premises of the Non Trading Clearing Participant or the service provider for the purposes of conducting any audit, inspection or investigation.

EXISTING PROVISIONS		AMENDED PROVISIONS
	The Non Trading Clearing Participant shall procure a written consent from the service provider to allow the Clearing House to exercise its powers as stated above; and	The Non Trading Clearing Participant shall procure a written consent <u>through a letter of undertaking</u> from the service provider <u>or the sub-contractor</u> to allow the Clearing House <u>or its agent</u> to exercise its powers as stated above; and
Rule B2.4	(xi) The Non Trading Clearing Participant shall provide a letter of undertaking to the Clearing House on an annual basis, that the service provider has complied with all relevant requirements imposed on the Non Trading Clearing Participant under any provision in these Rules, agreement between the Non Trading Clearing Participant and the Clearing House and direction issued by the Clearing House.	(xi) [Deleted] The Non Trading Clearing Participant shall provide a letter of undertaking to the Clearing House on an annual basis, that the service provider has complied with all relevant requirements imposed on the Non Trading Clearing Participant under any provision in these Rules, agreement between the Non Trading Clearing Participant and the Clearing House and direction issued by the Clearing House.
Rule B2.4	(b) The Clearing House reserves the right to add, delete or amend any of the conditions set out in Rule B2.4(a).	(b) [Deleted] The Clearing House reserves the right to add, delete or amend any of the conditions set out in Rule B2.4(a).
Rule B2.4	(c) Save as otherwise approved by the Clearing House, no Non Trading Clearing Participant shall commence outsourcing its back office functions as permitted under Rule B2.4(a) unless it has given prior notification to the Clearing House of its intention to outsource and provided a letter of undertaking that it has complied with the conditions set out in Rule B2.4(a).	(ek) Save as otherwise approved by the Clearing House, <u>no a</u> Non Trading Clearing Participant <u>must not shall</u> commence outsourcing <u>of its bBack eOffice fFunctions</u> as permitted under Rule B2.4(<u>ca</u>) unless it has given prior notification to the Clearing House of its intention to outsource, and provided a letter of undertaking that it has complied with the conditions set out in Rule B2.4(a).
Rule B2.4	(d) If the Non Trading Clearing Participant terminates the services of its service provider, it shall notify the Clearing House within 14 days from the date of the termination notice.	(el) <u>The if the</u> Non Trading Clearing Participant <u>must notify the Clearing House of the termination or any variation of the terminates the services of its the Non Trading Clearing Participant's</u> service provider <u>or any sub-contractor not later than 10 Market Days from the date of the termination or variation notice or the effective date of termination or variation, whichever the earlier,</u> it shall notify the Clearing House within

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		14 days from the date of the termination notice.
Rule B2.4	(e) Notwithstanding any provision herein to the contrary, the Clearing House may, where it deems fit, revoke the right of the Non Trading Clearing Participant to outsource its back office functions pursuant to this Rule, without assigning any reason for such revocation.	(em) Notwithstanding any provision in these Rules herein to the contrary, the Clearing House may, where it deems fit, revoke the right of the Non Trading Clearing Participant to outsource its b Back e Office f Functions pursuant to this Rule, without assigning any reason for such revocation.
Rule 3.6	Rule 3.6 CLEARING PARTICIPANT OR SBL PARTICIPANT/AGENT TO INCLUDE OTHER PERSONS A Clearing Participant or a SBL Participant/Agent shall be responsible to the Clearing House for the conduct of its owners, principals, directors, officers, employees, trainees and agents. Such conduct shall be treated for the purpose of these Rules as the conduct of the Clearing Participant or the SBL Participant/Agent. For the purpose of these Rules, conduct shall include misconduct, omission, default or neglect.	Rule 3.6 CLEARING PARTICIPANT OR SBL PARTICIPANT/AGENT TO INCLUDE OTHER PERSONS A Clearing Participant or a SBL Participant/Agent shall be <u>is</u> responsible to the Clearing House for <u>all acts or omissions the</u> conduct of its owners, principals, directors, officers, employees, trainees, and agents, <u>service providers and sub-contractors.</u> Such conduct shall be treated for the purpose of these Rules as the conduct of the Clearing Participant or the SBL Participant/Agent. For the purpose of these Rules, conduct shall include misconduct, omission, default or neglect.

[End of Rule Amendments]