

**PARTICIPATING ORGANISATIONS' CIRCULAR**

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**AMENDMENTS TO THE RULES AND DIRECTIVES OF BURSA MALAYSIA  
SECURITIES BERHAD (“BMS RULES AND DIRECTIVES”) IN RELATION TO  
MIGRATION TO A T+2 SETTLEMENT CYCLE**

**1. INTRODUCTION**

- 1.1 Bursa Malaysia Securities Berhad (“**the Exchange**”) is migrating from a T+3 settlement cycle to a T+2 settlement cycle.
- 1.2 The move to a shorter settlement cycle from 3 days to 2 days, among others, seek to achieve the following:
- (a) mitigate settlement risks market-wide and lower the systemic risks for the market;
  - (b) increase the efficiency of the operational processes and make the securities and funds available earlier for investors; and
  - (c) be on par with most of the global markets’ settlement cycle, by complying with the international standards such as the recommendations under the Principles for Financial Market Infrastructures.
- 1.3 The migration to a T+2 settlement cycle involves the following key changes:
- (a) 2 settlement runs on T+2 to facilitate the implementation of a shorter settlement cycle; by allowing market participants and investors an option to deliver the securities in the afternoon if they did not do so on the morning of T+2. However, payment between a Participating Organisation (“**PO**”) and its client would continue to be subject to a single cut-off time in the afternoon; and
  - (b) shortening the timing for buying-in without notice, from between T+3 to T+8, to T+2 from 2.00 p.m. to 5.00 p.m. with cash settlement to take place on T+3 to expedite the resolution of outstanding failed contracts.
- 1.4 The migration to T+2 settlement cycle was made after extensive review and discussion including with the industry whereby on 3 December 2018, the Exchange had published a consultation paper to the public seeking feedback on the migration to a T+2 settlement cycle and proposed amendments to the Rules of the Exchange and the Rules of Bursa Malaysia Securities Clearing Sdn Bhd (“**the Clearing House**”).

- 1.5 Following from the feedback received, the Exchange has amended the BMS Rules and Directives, the key amendments of which are detailed in paragraph 2 below as well as issued a conclusion paper setting out a summary of the respondents' key feedback and the Exchange's responses and conclusions on the same, which is available on Bursa Malaysia's website at:  
<http://www.bursamalaysia.com/market/regulation/rules/public-consultation/>.
- 1.6 The amendments to the BMS Rules and Directives have been approved by the Securities Commission Malaysia.
- 1.7 The amendments to the BMS Rules and Directives and to the Trading Manual will take effect on 29 April 2019.

## **2. AMENDMENTS TO THE BMS RULES AND DIRECTIVES**

- 2.1 The key amendments to the BMS Rules and Directives are as follows:

### **CHANGE IN CUT-OFF TIMES**

#### **Tradeable Balance and Delivery of Securities**

- (a) Under the T+3 settlement cycle:
- (i) for on-market transactions, a selling PO must have the tradeable balance in the securities account by 4.00 p.m. on T+2. Delivery of securities to a buyer will be made on T+3, not later than 10.00 a.m.; and
  - (ii) for direct business transactions, a selling PO must have the tradeable balance in the securities account by 4.00 p.m. on T+2. Delivery of securities to a buyer will be made on T+3, not later than 12.00 p.m.
- (b) Following the implementation of 2 settlement-runs on T+2:
- (i) for on-market transactions, delivery to a buyer will be made on T+2, not later than 10.00 a.m. and 2.00 p.m. for the first and second batch settlement-runs respectively. Hence, the cut-off time for the selling PO to have the tradeable balance in the securities account is T+1 by 4.30 p.m. and T+2 by 11.30 a.m. for the first and second batch settlement-runs respectively; and
  - (ii) for direct business transactions, delivery to a buyer will be made on T+2, not later than 11.00 a.m. and 3.00 p.m. for the first and second batch settlement-runs respectively. The cut-off time for the selling PO to have the tradeable balance in the securities account is T+1 by 4.30 p.m. and T+2 by 11.30 a.m. for the first and second batch settlement-runs respectively.

#### **Settlement of Payments between a PO and its Clients**

- (c) Under the T+3 settlement cycle, for both on-market transactions and direct business transactions, a buying client must pay the buying PO by T+3 not

later than 12.30 p.m. The same timing applies to a payment by a selling PO to a selling Client.

- (d) Following the migration to a T+2 settlement cycle:
- (i) in relation to on-market transactions, the cut-off time for payment by a buying client is by T+2, not later than 2.00 p.m. In respect of payment to a selling client, such payment must be made on T+2 not later than 2.00 p.m.; and
  - (ii) in relation to direct business transactions, the cut-off time for payment by a buying client is by T+2, not later than 2.00 p.m. In respect of payment to a selling client, such payment must be made on T+2 not later than 2.30 p.m.
- (e) The changes in the cut-off times are illustrated in the tables below for ease of reference:
- (i) On-market transactions

Tradeable balance in seller's account (Rule 9.03(1))	Payment to selling client (Rule 9.09(1))	Delivery to buyer (Rule 9.03(2))	Payment by buying client (Rule 9.09(2))	Selling-out (Rule 9.12(1))
<p><b><u>For first batch settlement-run:</u></b>  <b><u>T+2T+1</u></b> by <b><u>4.004.30</u></b> p.m.</p> <p><b><u>For second batch settlement-run:</u></b>  <b><u>T+2</u></b> by <b><u>11.30 a.m.*</u></b></p>	<p><b><u>T+3T+2</u></b>, not later than <b><u>12.302.00</u></b> p.m.</p>	<p><b><u>For first batch settlement-run:</u></b>  <b><u>T+3T+2</u></b>, not later than 10.00 a.m.</p> <p><b><u>For second batch settlement-run:</u></b>  <b><u>T+2, not later than 2.00 p.m.</u></b></p>	<p><b><u>T+3T+2</u></b>, not later than <b><u>12.302.00</u></b> p.m.</p>	<p><b><u>T+3T+2</u></b> from <b><u>12.302.00</u></b> p.m. until <b><u>T+4T+3</u></b></p>

- \* The Exchange will only commence buying-in without notice under Rule 9.05(1) if the PO fails to have the quantity of securities sold in the contract as the tradeable balance in the securities account used for the sale by the time stipulated for second batch settlement-run.

(ii) Direct business transactions

Tradeable balance in seller's account	Payment to selling client	Delivery to buyer	Payment by buying client	Selling Out
<p><b><u>For first batch settlement-run:</u></b>  <b><u>T+2T+1</u></b> by <b><u>4.004.30</u></b> p.m.</p> <p><b><u>For second batch settlement-run:</u></b>  <b><u>T+2</u></b> by <b><u>11.30</u></b> a.m.</p>	<p><b><u>T+3T+2</u></b>, not later than <b><u>12.302.30</u></b> p.m.</p>	<p><b><u>For first batch settlement-run:</u></b>  <b><u>T+3T+2</u></b>, not later than <b><u>12.00</u></b> p.m.  <b><u>11.00</u></b> a.m.</p> <p><b><u>For second batch settlement-run:</u></b>  <b><u>T+2</u></b>, not later than <b><u>3.00</u></b> p.m.</p>	<p><b><u>T+3T+2</u></b>, not later than <b><u>12.302.00</u></b> p.m.</p>	<p><b><u>T+3T+2</u></b>, from <b><u>12.302.00</u></b> p.m. until <b><u>T+4T+3</u></b></p>

**CHANGE OF APPLICABLE TIMING**

**Buying-in and cash settlement**

- (f) Under the T+3 settlement cycle, the period for buying-in without notice begins from T+3 and takes place up to T+8. If buying-in is unsuccessful, cash settlement will take place after T+8.
- (g) Under the T+2 settlement cycle, buying-in without notice would only take place on settlement day, on T+2 from 2.00 p.m. to 5.00 p.m., in the event a selling PO does not have the quantity of securities sold as tradeable balance in the securities account used for the sale by 11.30 a.m. on T+2. Cash settlement will take place on T+3 if the buying-in is unsuccessful.

**Selling-out**

- (h) Under the T+3 settlement cycle, for both on-market transactions and direct business transactions, a PO must institute a selling-out within the period from T+3 on 12.30 p.m. until T+4.
- (i) Under the T+2 settlement cycle, selling-out must be instituted within the period from 2.00 p.m. on T+2 until T+3.

### **Discretionary Financing**

- (j) Under the T+3 settlement cycle, a PO may allow a buying client to effect payment of its outstanding purchase position in an on-market transaction, between T+4 and T+7. This was provided that the client had notified the PO not later than T+3 that discretionary financing was required, and the PO accepted the utilisation of the discretionary financing for that transaction.
- (k) Under the T+2 settlement cycle, discretionary financing would be allowed between T+3 and T+7, and the notification by the client must be made not later than T+2.

### **REMOVAL OF 'IMMEDIATE BASIS CONTRACT'**

- (l) Under the T+3 settlement cycle, the settlement period for an immediate basis contract is one day earlier than the settlement for a ready basis contract, i.e. on T+2 instead of T+3, in respect of which a selling PO must have the quantity of securities sold as tradeable balance in the securities account used for the sale not later than 4.00 p.m. on T+1.
- (m) With the introduction of the T+2 settlement cycle, the cut-off time for a selling PO to have the tradeable balance in the securities account for an immediate basis contract cannot be shortened by 1 day i.e. on T day itself. Setting the cut-off time at 4.30 p.m. on T day would not be feasible as trading is allowed up to 5.00 p.m.
- (n) In view of the above, the immediate basis contract is no longer feasible under the T+2 settlement cycle. As such, all provisions and references relating to 'Immediate Basis Contracts' are removed.

### **CHANGES TO THE DELIVERY AND SETTLEMENT TIME FOR RECALLED SECURITIES**

- (o) Pursuant to the Capital Markets and Services (Securities Borrowing and Lending) Regulations 2012, a lender may sell loaned securities under the securities borrowing and lending transaction provided that the sale of the loaned securities is settled on the settlement date as prescribed by the Exchange or the Clearing House. Under the T+3 settlement cycle, the seller must have the quantity of securities as tradeable balance in the securities account by 4.00 p.m. on T+3 and the delivery of the recalled securities will take place by T+3. In relation to settlement of payments, a buying client must pay the buying PO by T+3 not later than 12.30 p.m. and a selling PO must pay a selling client by T+4 not later than 12.30 p.m.
- (p) Under the T+2 settlement framework, the seller must have the quantity of securities as tradeable balance in the securities account by 4.30 p.m. on T+2 and the delivery of the recalled securities will take place by T+2. In relation to settlement of payments, a buying client must pay the buying PO by T+2 not later than 2.00 p.m. and a selling PO must pay a selling client on T+3 not later than 2.00 p.m.
- (q) The changes to the delivery and settlement time for recalled securities are illustrated in the table below for ease of reference:

Tradeable balance in seller's account	Payment to selling client	Delivery to buyer	Payment by buying client	Selling-out
<b>T+3T+2</b> by <b>4.004.30</b> p.m.	<b>T+4T+3</b> , not later than <b>12.302.00</b> p.m.	By <b>T+3T+2*</b>	<b>T+3T+2</b> , not later than <b>12.302.00</b> p.m.	<b>T+3T+2</b> from <b>12.302.00</b> p.m. until <b>T+4T+3</b>

\* If the tradeable balance in the seller's account is unavailable on T+2 by 4.30 p.m., the Exchange will commence buying-in against the seller without giving any notice and the delivery of the recalled securities will take place by T +3 instead.

2.2 The detailed amendments to the BMS Rules and Directives are set out in **Annexure 1 (rules)** and **Annexure 2 (directives)**.

### 3. PARTICIPATING ORGANISATIONS' TRADING MANUAL ("TRADING MANUAL")

3.1 Amendments have been made to the Trading Manual to reflect the migration to a T+2 settlement cycle, including amendments to the provisions on bidding price for buying-in under Chapter 6.

3.2 The amended Trading Manual is attached as **Annexure 3**.

### 4. DIRECTIVES ON FAILED TRADES DURING THE TRANSITIONAL PERIOD

4.1 During the transitional period, the last trading day of T+3 and the first trading day of T+2 will settle on the same settlement day. Any trades contracted before 29 April 2019 will still be on a T+3 settlement cycle. Trades executed on 26 April 2019 (T+3 settlement cycle) and 29 April 2019 (T+2 settlement cycle) will settle on the same date (2 May 2019) due to the shortening of the settlement cycle.

(a) Failed trades

#### T+3 Contract

All unsettled failed on-market transactions for contract dated 26 April 2019 and / or before (T+3 contracts) will not be subjected to buying-in in the morning session of 2 May 2019. It will be subjected to the buying-in in the afternoon session on 2 May 2019 from 2.00 p.m.

#### T+2 Contract

All unsettled failed on-market transactions for contract dated 29 April 2019 (T+2 contracts) will be subjected to the buying-in in the afternoon session on 2 May 2019 from 2.00 p.m.

(b) Cash settlement of failed trades

All outstanding failed contracts that cannot be bought in by 5.00 p.m. on 2 May 2019 will be withdrawn if instructed by the Clearing House and shall be cash settled in the manner as prescribed by the Clearing House.

**5. FREQUENTLY-ASKED QUESTIONS (“FAQs”)**

- 5.1 A set of FAQs in relation to the migration to a T+2 settlement cycle has been issued and is available on Bursa Malaysia’s website at: <http://www.bursamalaysia.com/market/securities/education/faqs-on-t-2-settlement-cycle/>.

**6. CONTACT PERSON**

In the event of any queries in relation to this circular, please contact the following persons:

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**This Circular is available at**

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