

RULES OF BURSA MALAYSIA SECURITIES BHD
AMENDMENTS TO THE PARTICIPATING ORGANISATIONS' DIRECTIVES IN RELATION TO EXCHANGE TRADED FUNDS ("ETFs")
(a) DIRECTIVES IN RELATION TO MARKET MAKING AND SPECIFIED SECURITIES – NO. 4-001

PARAGRAPH	CURRENT PROVISION	PARAGRAPH	AMENDED PROVISION
	New paragraph	10	Rule 4.15 <u>(1) Rule 4.15 provides that Rules 4.13(5) and 4.14 do not apply to such types of ETFs as may be prescribed by the Exchange.</u>
	New paragraph	10	<u>(2) Pursuant to the above Rule, the Exchange prescribes that Rules 4.13(5) and 4.14 do not apply to the following ETFs:</u> <u>(a) futures-based ETFs;</u> <u>(b) synthetic ETFs;</u> <u>(c) commodity ETFs; and</u> <u>(d) feeder ETFs.</u>

(b) NEW DIRECTIVES ON TRADING IN LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS – NO. 7.40-001

PARAGRAPH	CURRENT PROVISION	PARAGRAPH	AMENDED PROVISION
	New Directive		Please refer to the attached New Directive No. 7.40-001 below.

[End of Amendments to the Directives]

**DIRECTIVES ON TRADING IN LEVERAGED AND INVERSE
EXCHANGE TRADED FUNDS****No. 7.40-001**

<u>Relevant to</u>	:	<u>Rules 7.40(1) and 7.40(2)</u>
<u>Introduced with effect from</u>	:	<u>2 January 2019</u>
<u>Amended</u>	:	<u>N/A</u>
<u>POs' Circular No(s).</u>	:	<u></u>
<u>Refer also to Directive No(s).</u>	:	<u>N/A</u>

1. Rule 7.40(1)

- (1) Rule 7.40(1) provides that Leveraged ETFs or Inverse ETFs (referred to collectively in this Directive as “L&I ETFs”) are only intended for trading by investors who satisfy such qualifying criteria as may be prescribed by the Exchange.
- (2) This directive sets out the Exchange’s criteria which a Client must meet for trading in L&I ETFs units as follows:
- (a) the Client is a Sophisticated Investor;
 - (b) the Client has a Margin Account;
 - (c) the Client has executed at least 5 transactions in exchange traded derivatives, or structured warrants within the preceding 12 months; or
 - (d) the Client has utilized a performance simulator which simulates trading in L&I ETFs units and undergone an e-learning tutorial developed by the Exchange for trading in L&I ETFs units;
- (collectively referred to in this Directive as the “Qualified Client”).

2. Rule 7.40(2)

- (1) Rule 7.40(2) provides that a Participating Organisation must not allow a Client to undertake trading in L&I ETFs units unless it is satisfied that the Client fulfils all such conditions as prescribed by the Exchange for trading in L&I ETFs units.
- (2) Pursuant to the above Rule, before allowing a Qualified Client to trade in L&I ETF units, a Participating Organisation must ensure that the Qualified Client has:
- (a) submitted a written declaration confirming the fulfilment of one or more of the qualifying criteria in paragraph 1(2) above; and
 - (b) executed a risk disclosure statement in the form prescribed in **Appendix 1** of this Directive.
- (3) The conditions as stated in paragraph 2(2) do not apply to a Qualified Client who falls within the list in **Appendix 2** of this Directive.

[End of Directives]

**DIRECTIVES ON TRADING IN LEVERAGED AND INVERSE
EXCHANGE TRADED FUNDS****No. 7.40-001****APPENDIX 1****LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS RISK DISCLOSURE STATEMENT**

- (1) This statement is provided to you in accordance with the directives of the Rules of Bursa Malaysia Securities Berhad.
- (2) The purpose of this statement is to inform you that the risk of loss in purchasing leveraged and inverse Exchange Traded Funds (“L&I ETFs”) units can be substantial. You should assess if the purchase of L&I ETFs units is suitable for you in light of your financial position, risk tolerance and investment experience while taking into account the following risks before deciding whether to invest in L&I ETFs:
- (i) An investor of L&I ETFs is subject to the risk of losing the full purchase price of the L&I ETFs units;
 - (ii) The investor should keep in mind that L&I ETFs are intended to track and replicate up to a multiple of performance of an index or a multiple of the inverse performance of an index on a daily basis;
 - (iii) As such, L&I ETFs are more suitable for short term trading/ positioning. Holding L&I ETFs units for more than a day could result in investment returns that deviate greatly from the multiple of performance of an index or a multiple of the inverse performance of an index that the L&I ETFs are supposed to track;
 - (iv) Placing of contingent orders, such as “stop-loss” or “stop-limit” orders, will not necessarily limit your losses to the intended amount. Market conditions may not make it possible to execute such orders;
 - (v) The leverage obtained from a leveraged ETF can work against you as well as for you. It could lead to large losses as well as gains;
 - (vi) It is in the investor’s best interests to take effort to study all risks as contained in the prospectus of the L&I ETFs, including but not limited to interest rate risks, country risks, credit risks, foreign exchange risks, futures rollover risks, counterparty risks and liquidity risks; and
 - (vii) If an investor engages in purchase of L&I ETF units using margin financing or short sale of L&I ETF units, he or she may gain higher profits when the price movement conforms to expectations, or may otherwise suffer bigger losses. An investor may also face a margin call by the lender if the collateral maintenance ratio drops.
- (3) This brief statement cannot disclose all the risks and other aspects of purchasing L&I ETF units. You should carefully study the requirements pertaining to L&I ETFs and the content of the prospectus of L&I ETFs before you decide to purchase. If you are in doubt in relation to any aspect of this statement or the terms of L&I ETFs, you should consult your Participating Organisation, i.e. broker.

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**ACKNOWLEDGEMENT OF RECEIPT OF THIS
RISK DISCLOSURE STATEMENT**

I acknowledge that I have received a copy of the LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS RISK DISCLOSURE STATEMENT and understand its contents which have been explained to me.

Signature:

Full Name:

Date:

**DIRECTIVES ON TRADING IN LEVERAGED AND INVERSE
EXCHANGE TRADED FUNDS****No. 7.40-001****APPENDIX 2****LIST OF CLIENTS WHO ARE EXEMPTED FROM THE CONDITIONS AS STATED IN PARAGRAPH 2(2)**

1. A licensed bank, licensed investment bank or approved money-broker institution as defined under the Financial Services Act 2013 and its wholly-owned subsidiary that is a nominee company.
2. A financial institution established under any Act of Parliament and its wholly-owned subsidiary that is a nominee company.
3. A licensed Islamic Bank as defined in the Islamic Financial and Services Act 2013 and its wholly-owned subsidiary that is a nominee company.
4. A prescribed institution as defined in the Development Financial Institutions Act 2002 and its wholly-owned subsidiary that is a nominee company.
5. A bank licensee as defined under the Labuan Financial Services and Securities Act 2010 and its wholly-owned subsidiary that is a nominee company.
6. A holder of a Capital Markets Services Licence for the purpose of carrying on the business of fund management, its wholly-owned subsidiary that is a nominee company and its custodian appointed pursuant to section 121 of the Capital Markets and Services Act 2007.
7. A closed-end fund that is approved by the Commission under section 212 of the Capital Markets and Services Act 2007 and its custodian in relation to closed-end fund's investments.
8. A foreign fund manager.
9. A stockbroking company who is a member of other recognised stock exchanges defined in the Rules of the Stock Exchange.
10. A securities dealer who is not a member of other recognised stock exchanges but is authorised to carry out the business of dealing in securities by the relevant authorities in jurisdictions of the recognised stock exchanges defined in the Rules of the Stock Exchange.
11. A foreign financial institution.
12. A person appointed by the Depository to be an authorised depository agent and its wholly-owned subsidiary that is a nominee company.
13. A person appointed by the Depository to be an authorised direct member and its wholly-owned subsidiary that is a nominee company.
14. A clearing house approved under section 38 of the Capital Markets and Services Act 2007.
15. A holder of a Capital Markets Services Licence for the purpose of carrying on the business of dealing in securities and its wholly-owned subsidiary that is a nominee company.