

**BURSA MALAYSIA DERIVATIVES BERHAD**

**Date: 8 September 2020**

**Trading Participant Circular: 20/2020**

**PROPOSED AMENDMENTS TO THE RULES AND DIRECTIVES OF BURSA MALAYSIA DERIVATIVES BERHAD (“BMD RULES AND DIRECTIVES”) IN RELATION TO THE REVISION OF THE 5-YEAR MALAYSIAN GOVERNMENT SECURITIES FUTURES CONTRACT (“FMG5 CONTRACT”) AND OTHER AMENDMENTS**

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**1. INTRODUCTION**

- 1.1 Bursa Malaysia Derivatives Berhad (the “**Exchange**”) has revised the settlement method for the FMG5 Contract from cash to physical delivery based on a delivery-versus-payment (“**DVP**”) model. The DVP model refers to the exchange of securities and funds between the seller and the buyer in real-time. The DVP model will be facilitated via the Real-Time Electronic Transfer of Funds and Securities System’s (“**RENTAS**”) functionality called Securities Linked Settlement (“**SLS**”) provided by Payments Network Malaysia Sdn. Bhd.
- 1.2 The new method of settlement closely mirrors the DVP transfer of Malaysian Government Securities in the over-the-counter market. The key modification is, Bursa Malaysia Derivatives Clearing Berhad (“**BMDC**”) will play the role of the central counterparty to facilitate the delivery of the Malaysian Government Securities and the payment transactions for the settlement of the FMG5 Contract by the respective Clearing Participants’ clients on RENTAS through the SLS functionality.
- 1.3 In order to facilitate the physical delivery of the FMG5 Contract, the Exchange has amended the selection criteria for the basket of eligible 5-year Malaysian Government Securities.
- 1.4 For industry players, the change in settlement method is a crucial modification to enhance the appeal of the FMG5 Contract as an efficient hedging instrument for their Malaysian Government Securities holdings.
- 1.5 The amendments to the BMD Rules and Directives have been approved by the Securities Commission Malaysia and are detailed in paragraphs 2 and 3 below.

**2. AMENDMENTS TO THE BMD RULES**

- 2.1 The salient amendments made to the BMD Rules are set out below:
  - (a) amending and clarifying existing contract specifications for the FMG5 Contract where the key changes are as follows:
    - (i) revision of the settlement method from cash to physical delivery;
    - (ii) insertion of provisions on final settlement day to clarify when delivery is made and what happens to open positions after the final trading day; and

(iii) amending the criteria for the selection of eligible bonds to facilitate the change of settlement method from cash to physical delivery; and

(b) amending existing provisions in Chapter 9 of the BMD Rules to clarify that rules applicable to physically delivered contracts will have a general application to all physically delivered contracts and are not confined to physical delivery vide a Port Tank Installation only.

2.2 The detailed amendments to the BMD Rules are set out in full in **Annexure 1**.

### 3. AMENDMENTS TO THE DIRECTIVE

3.1 Amendments have been made to Directive No. 6.44-001 on Position Limits and Exercise Limits under the BMD Rules to clarify the position limits for the FMG5 Contract in view of the change of the method of settlement from cash to physical delivery.

3.2 The detailed amendments to the above Directive are set out in full in **Annexure 2**.

### 4. EFFECTIVE DATE

4.1 The amendments to the BMD Rules and Directives take effect on **9 September 2020**.

### 5. CONTACT PERSONS

In the event of any queries in relation to the above matter, kindly contact the following persons:

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