

CHAPTER 13 CAPITAL REQUIREMENTS

PART A GENERAL

13.01 Investment Banks

An Investment Bank must comply with the capital adequacy requirements the Central Bank stipulates. In relation to the capital requirements stipulated in Chapter 13, only Rules 13.03 and 13.05 are applicable to an Investment Bank.

13.02 Definitions

The following terms have the following meanings in this Chapter unless the context requires otherwise.

<b>Term</b>	<b>Meaning</b>
Capital Adequacy Ratio	<p>The ratio linking the Participating Organisation’s Liquid Capital to total risks faced, calculated as follows:</p> $\frac{\text{Liquid Capital}}{\text{Total Risk Requirement}}$
Core Capital	The level of financial resources or capital maintained in a readily realisable form to meet the Participating Organisation’s Operational Risk Requirement, calculated in the manner the Exchange determines.
Counterparty Risk	The risk of a Counterparty defaulting on the Counterparty’s financial obligation to a Participating Organisation.
Counterparty Risk Requirement or CRR	The amount necessary to accommodate a given level of the Participating Organisation’s Counterparty Risk, calculated in the manner the Exchange determines.
Debt Securities	Debentures, loan stocks or other similar instruments representing or evidencing indebtedness, whether secured or unsecured, whether convertible or not, and includes FI Securities.
Exchange Traded Derivative	An instrument evidencing rights, futures or Options, Debt Securities or securities which are Exchange Traded where the value of the instrument is dependent on the sum of its underlying investment.
Equity Securities	Securities other than Debt Securities.
Exchange Traded	Traded or listed on a Recognised Stock Exchange.
FI Securities	Fixed income securities including Malaysian Government Securities, Malaysian Treasury Bills, Government Investment Issues, Cagamas instruments, commercial papers, medium term notes and private debt securities but excludes Debt Securities that are listed on the Exchange.
Hybrid Securities	A combination of conventional securities and embedded derivatives that may consist of virtually any combination of 2 or

more financial instruments building blocks. For example, bond or note, swap, forward or future, or Option.

<p>ISSBNT Purchased or Securities Sold</p>	<p>Securities ISSBNT</p>	<p>Any securities purchased or securities sold under ISSBNT. If the securities purchased or securities sold consist of securities that have been subdivided or consolidated or made the subject of a bonus issue or an event similar to any of the events mentioned, the expression ISSBNT Securities Purchased or ISSBNT Securities Sold means:</p> <ul style="list-style-type: none"> <li>(a) in the case of a subdivision or consolidation, the securities into which the securities purchased or securities sold have been subdivided or consolidated;</li> <li>(b) in the case of a bonus issue, the securities purchased or securities sold (as applicable) together with the securities allotted by way of the bonus issue; and</li> <li>(c) in the case of any event similar to any of the events mentioned, the securities purchased or securities sold, together with or replaced by a sum of money or securities (or both) equivalent to the value or amount arising or due in relation to the securities purchased or securities sold resulting from such event.</li> </ul>
<p>Large Exposure Risk</p>		<p>The risks a Participating Organisation is exposed to from a proportionally large exposure to:</p> <ul style="list-style-type: none"> <li>(a) a particular Client or Counterparty;</li> <li>(b) a single Issuer of Debt Securities;</li> <li>(c) a single equity.</li> </ul>
<p>Large Exposure Risk Requirement</p>		<p>The amount necessary to accommodate a given level of the Participating Organisation’s Large Exposure Risk, calculated in the manner the Exchange determines.</p>
<p>Liquid Capital</p>		<p>The Participating Organisation’s financial resources or liquid capital maintained in a readily realisable form to meet the Participating Organisation’s Total Risk Requirement, calculated in the manner the Exchange determines.</p>
<p>Liquid Margin</p>		<p>The amount in excess of a Participating Organisation’s Liquid Capital after deducting the Total Risk Requirement.</p>
<p>Margin Financing Facility or MFF</p>		<p>A facility that a Participating Organisation provides to a Client under Rule 7.30.</p>
<p>Margin Financing On-Pledged Risk</p>		<p>The risks a Participating Organisation is exposed to from Onward Pledged MFF Collateral.</p>
<p>Mark to Market</p>		<p>In relation to securities, to value the securities based on the closing price of the securities on a Market Day.</p>
<p>Minimum Operational Risk Requirement</p>		<p>The absolute minimum amount necessary to accommodate the Operational Risk of a Participating Organisation set out in Rule 13.10.</p>
<p>Onward Lent Margin Securities</p>		<p>Margin Securities that a Participating Organisation onward lends to a third party under Securities Borrowing and Lending.</p>

Onward Pledged MFF Collateral	Securities the Participating Organisation holds as collateral under a Margin Financing Facility that the Participating Organisation onward pledges to a third party as security for a debt the Participating Organisation owes to the third party.
Operational Risk	The risks a Participating Organisation is exposed to from inadequate management of operational risk and includes risk of fraud, operational or settlement failure and shortage of liquid resources.
Operational Risk Requirement	The amount necessary to accommodate a given level of the Participating Organisation's Operational Risk set out in Rule 13.09(1).
Position Risk	The risks a Participating Organisation is exposed to from securities held by the Participating Organisation as principal and includes Margin Financing On-Pledged Risk.
Position Risk Requirement or PRR	The amount necessary to accommodate a given level of the Participating Organisation's Position Risk, calculated in the manner the Exchange determines.
Related or Associated Person	<ul style="list-style-type: none"> <li>(a) A Participating Organisation's Related Corporations;</li> <li>(b) the Participating Organisation's Associated Corporations; and</li> <li>(c) a director of the Participating Organisation or person considered connected with the director under Section 197 of the Companies Act.</li> </ul>
Risk Weighted Capital Ratio	Same meaning as in the guidelines on Investment Banks issued by the Central Bank and Commission.
Securities Borrowed or Securities Lent	<p>Any securities borrowed or securities lent under Securities Borrowing and Lending. If the securities borrowed or securities lent consist of securities that have been subdivided or consolidated or made the subject of a bonus issue or an event similar to any of the events mentioned, the expression Securities Borrowed or Securities Lent means:</p> <ul style="list-style-type: none"> <li>(a) in the case of a subdivision or consolidation, the securities into which the securities borrowed or securities lent have been subdivided or consolidated;</li> <li>(b) in the case of a bonus issue, the securities borrowed or securities lent (as applicable) together with the securities allotted by way of the bonus issue; and</li> <li>(c) in the case of any event similar to any of the events mentioned, the securities borrowed or securities lent, together with or replaced by a sum of money or securities (or both) equivalent to the value or amount arising or due in relation to the securities borrowed or securities lent resulting from such event.</li> </ul>
Total Risk Requirement	<p>The sum of the Participating Organisation's:</p> <ul style="list-style-type: none"> <li>(a) Operational Risk Requirement;</li> <li>(b) Position Risk Requirement</li> </ul>

- (c) Counterparty Risk Requirement;
- (d) Large Exposure Risk Requirement; and
- (e) Underwriting Risk Requirement.

Underwriting Risk                      The risks a Participating Organisation is exposed to from the Participating Organisation’s contingent binding commitment to acquire securities at a certain price and time.

Underwriting Risk Requirement or URR                      The amount necessary to accommodate a given level of the Participating Organisation’s Underwriting Risk, calculated in the manner the Exchange determines.

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**PART B CAPITAL REQUIREMENTS**

**13.03 Minimum paid-up capital and minimum shareholders' funds unimpaired by losses**

A Participating Organisation must maintain its paid-up capital and shareholders' funds unimpaired by losses, at a level not less than the minimum set out below:

- (a) for an Investment Bank, as the Central Bank and the Commission may stipulate;
- (b) for a Universal Broker, RM100,000,000; and
- (c) for any other Participating Organisation, RM20,000,000.

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**PART C CAPITAL ADEQUACY REQUIREMENTS**

**13.04 Obligations of a Participating Organisation**

- (1) A Participating Organisation must ensure that its Capital Adequacy Ratio is at all times more than 1.2.
- (2) A Participating Organisation must ensure that its Core Capital is at all times more than its Operational Risk Requirement.
- (3) If a Participating Organisation does not comply with Rule 13.04(1) or (2), the Participating Organisation must:
  - (a) immediately inform the Exchange;
  - (b) immediately devise and take corrective measures to increase the Participating Organisation's Capital Adequacy Ratio to more than 1.2;
  - (c) as soon as reasonably practicable or immediately upon the Exchange's request, inform the Exchange of the corrective measures intended to be taken or that have been taken; and
  - (d) inform the Exchange immediately after all corrective measures have been taken.
- (4) A Participating Organisation must:
  - (a) calculate and monitor the Participating Organisation's Capital Adequacy Ratio on a daily basis; and
  - (b) submit to the Exchange the relevant information and records relating to the Participating Organisation's Capital Adequacy Ratio in accordance with the requirements of the Exchange.

*[Refer to Directives No. 13-001 and 13.04(4)-001]*

- (5) 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.

*[Refer to Directive No. 13-001]*

**13.05 Obligations of an Investment Bank**

- (1) An Investment Bank must ensure that its Risk Weighted Capital Ratio is at all times more than the minimum level as the Central Bank may stipulate.
- (2) An Investment Bank must calculate and monitor its Risk Weighted Capital Ratio in accordance with the stipulation by the Central Bank.
- (3) If an Investment Bank does not comply with Rule 13.05(1) it must:
  - (a) immediately inform the Exchange;
  - (b) immediately devise and take corrective measures to increase the Investment Bank's Risk Weighted Capital Ratio to above the minimum level;
  - (c) as soon as reasonably practicable or immediately upon the Exchange's request inform the Exchange of the corrective measures intended to be taken or that have been taken; and

- (d) inform the Exchange immediately after all corrective measures have been taken.

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**PART D      LIQUID CAPITAL**

**13.06    General principle**

A Participating Organisation must, in calculating the Participating Organisation's Liquid Capital, deduct all fixed or non-liquid assets. In this Rule:

- (a) "liquid assets" means securities or other current assets that have a ready market, or that are capable of realisation within 30 days;
- (b) in relation to an asset, "ready market" means a market where the asset can be realised without materially and adversely affecting that asset's value.

**13.07    Computation of Liquid Capital**

A Participating Organisation must calculate the Participating Organisation's Liquid Capital in the manner the Exchange determines.

*[Refer to Directive No. 13-001]*

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## PART E OPERATIONAL RISK

### 13.08 General principle

A Participating Organisation must ensure that its Operational Risk Requirement is less than the Participating Organisation's Core Capital.

### 13.09 Computation of Operational Risk Requirement

- (1) A Participating Organisation's Operational Risk Requirement must be the greater of:
  - (a) the applicable Minimum Operational Risk Requirement; or
  - (b) 25% of the Participating Organisation's annual expenditure requirement based on the last auditor's report lodged with the Exchange for the preceding 12 months.

*[Refer to Directive No. 13-001]*

- (2) The Exchange may require a Participating Organisation to increase its Operational Risk Requirement if the Exchange is not satisfied that the internal controls of the Participating Organisation are adequate.

### 13.10 Minimum Operational Risk Requirement

- (1) A Universal Broker must maintain a Minimum Operational Risk Requirement of RM10,000,000.00.
- (2) A Non-Universal Broker must maintain a Minimum Operational Risk Requirement of RM5,000,000.00.

### 13.11 Annual Expenditure Requirement

A Participating Organisation must calculate the Participating Organisation's annual expenditure requirement in the manner the Exchange determines.

*[Refer to Directive No. 13-001]*

### 13.12 Adjustment

The Exchange may require a Participating Organisation to adjust its annual expenditure requirement if:

- (a) there has been a significant change in the circumstances or activities of the Participating Organisation; or
- (b) a material proportion of an expenditure was incurred or accrued by third parties where such expenditure is known by the Participating Organisation but was not fully charged to the Participating Organisation.

*[Refer to Directive No. 13-001]*

**PART F            POSITION RISK**

**13.13    General Principle**

A Participating Organisation must calculate its Position Risk Requirement for the securities listed below:

- (a) securities held by the Participating Organisation as principal, including those held pursuant to its intra-day activities;
- (b) Securities Borrowed or Securities Lent and ISSBNT Securities Purchased or ISSBNT Securities Sold for the Participating Organisation as principal;
- (c) securities other than Margin Securities held by the Participating Organisation that have been onward lent by it as principal for the purpose of Securities Borrowing and Lending or onward sold by it as principal for the purpose of ISSBNT;
- (d) Onward Pledged MFF Collateral; and
- (e) Onward Lent Margin Securities.

*[Refer to Directive No. 13-001]*

**13.14    Position Risk Requirement for equity and Exchange Traded Derivatives instruments**

A Participating Organisation must calculate the Position Risk Requirement for its equity and Exchange Traded Derivative positions in the manner the Exchange determines.

*[Refer to Directive No. 13-001]*

**13.15    Position Risk Requirement for Debt Securities**

A Participating Organisation must calculate the Position Risk Requirement for Debt Securities in the manner the Exchange determines.

*[Refer to Directive No. 13-001]*

**13.16    Position Risk Requirement for other instruments**

- (1) A Participating Organisation intending to take a position in an instrument for which no treatment is specified under this Chapter must, seek the Exchange’s direction on the calculation applicable to the instrument at least 15 Market Days before the implementation or effective date of the instrument.
- (2) A Participating Organisation must, for that instrument, apply a Position Risk Requirement of 100% of the Mark to Market value of the instrument until the Exchange determines the appropriate calculation.

*[Refer to Directive No. 13-001]*

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## PART G COUNTERPARTY RISK

### 13.17 General Principle

A Participating Organisation must calculate its Counterparty Risk Requirement for all Counterparty exposures arising from:

- (a) unsettled agency (including those under DF Accounts);
- (b) debt, contra losses and other amounts due;
- (c) free deliveries;
- (d) Securities Borrowing and Lending or ISSBNT transactions;
- (e) derivatives transactions;
- (f) sub-underwriting arrangements;
- (g) Margin Financing Facilities; and
- (h) other exposures the Exchange determines.

*[Refer to Directive No. 13-001]*

### 13.18 Computation of Counterparty Risk Requirement

A Participating Organisation must calculate its Counterparty Risk Requirement in the manner the Exchange determines.

*[Refer to Directive No. 13-001]*

### 13.19 Exceptional instruments

- (1) A Participating Organisation must seek the Exchange's direction on the calculation applicable to an item or product, at least 15 Market Days before the effective date of the item or product if the Participating Organisation:
  - (a) cannot classify or is in doubt as to the classification of an item or product under any of the items in Rule 13.17; or
  - (b) is of the opinion that the item or product is not of a standard form.
- (2) Subject to the Exchange's direction, a Participating Organisation must, for that item or product, apply a Counterparty Risk Requirement of 100% of the Mark to Market value of the item or product net of any collateral held.
- (3) The Participating Organisation must ensure that the collateral the Participating Organisation holds satisfies the conditions the Exchange specifies and deduct the applicable discounts.

### 13.20 Collateral

- (1) A Participating Organisation may use collateral or security including collateral placed by the Participating Organisation's Commissioned Dealer's Representative to reduce the Participating Organisation's Counterparty exposure in the manner the Exchange determines.

- (2) A Participating Organisation must discount the value of collateral held in the following forms in the manner the Exchange determines:
  - (a) a form other than a RM cash deposit; and
  - (b) the form of Debt Securities.
- (3) A Participating Organisation must reconcile all collateral held by the Participating Organisation at least once a month.

*[Refer to Directive No. 13-001]*

### **13.21 Hedging**

- (1) A Participating Organisation may hedge the Counter Party Risk Requirement of an equity position against a derivative position as determined by the Exchange.
- (2) The hedging may only be used to the extent that the value of the equity underlying the derivative position matches the value of the equity position.
- (3) The Counterparty Risk Requirement for hedging positions shall, where applicable, be determined in the manner the Exchange stipulates.

### **13.22 Additional Counterparty Risk Requirement**

- (1) The Exchange may require a Participating Organisation to provide acceptable evidence of its Client's commitment to meet the Client's obligations on the due date of that commitment if the Exchange is of the view that the Participating Organisation may be exposed to a potential material loss in relation to an unsettled transaction.
- (2) Acceptable evidence of a Client's commitment to meet the Client's obligations on the due date may take the form of a documentary confirmation of the transactions concerned supported by:
  - (a) acceptable evidence of financial standing;
  - (b) the provision of adequate security; or
  - (c) the provision of acceptable guarantees.
- (3) In the absence of acceptable evidence, the Exchange may amongst other things, require a Participating Organisation to increase the Participating Organisation's Counterparty Risk Requirement by an amount not exceeding its exposure to loss. The Participating Organisation's exposure to loss is the difference between the amount of the Client's obligations and the amount of any assets available to meet the obligations.

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## PART H LARGE EXPOSURE RISK

### 13.23 General principles

- (1) A Participating Organisation must calculate its Large Exposure Risk Requirement for the Participating Organisation's:
  - (a) exposure to a single Client or Counterparty;
  - (b) direct exposure to Debt Securities; and
  - (c) direct exposure to a single equity,for all amounts arising in the normal course of trading in Equity Securities, Debt Securities or Exchange Traded Derivatives in accordance with the provisions set out under this Rule 13.23.
- (2) A Participating Organisation must calculate its Large Exposure Risk to a Hybrid Security or such other instrument for which no treatment is specified under this Rule 13.23 in the manner the Exchange determines.

*[Refer to Directive No. 13-001]*

### 13.24 Exposure to a single Client or Counterparty

- (1) A Participating Organisation has a Large Exposure Risk in relation to a single Client or Counterparty if the sum of the Participating Organisation's Counterparty exposure to the Client or Counterparty calculated in the manner the Exchange determines exceeds 10% of the Participating Organisation's Effective Shareholders' Funds.
- (2) A Participating Organisation's Large Exposure Risk Requirement to a single Client or Counterparty is equal to the amount calculated to be the Counterparty Risk Requirement for the Client or Counterparty.
- (3) A Participating Organisation's Large Exposure Risk Requirement to a single Client as to the Participating Organisation's activities in Debt Securities must be calculated in the manner the Exchange determines.
- (4) A Participating Organisation must not bear a Large Exposure Risk to any one particular Client or Counterparty of more than 30% of the Participating Organisation's Effective Shareholders' Funds.
- (5) A Participating Organisation must report to the Exchange immediately all the Participating Organisation's Large Exposure Risk relating to a Client or Counterparty.
- (6) In this Rule 13.24:
  - (a) "single Client or Counterparty" includes:
    - (i) if the single Client or Counterparty is an individual, the individual, the spouse of the individual, the partnership of which the individual is a partner, any partner of the individual, the spouse of the partner and all the companies or corporations over which the individual exercises control; and
    - (ii) if the single Client or Counterparty is a corporation, the corporation and the corporation's Related Corporations and Associated Corporations.
  - (b) an individual exercises "control" over a company or corporation if the individual or the individual's spouse, severally or jointly:

- (i) holds, directly or indirectly, more than 50% of the issued share capital of the corporation,
- (ii) has the power to appoint, or cause to be appointed, a majority of the directors of the company or corporation; or
- (iii) has the power to make, cause to be made, decisions in respect of the business or administration of the company or corporation, and to give effect to such decisions, or cause them to be given effect to.

### **13.25 Direct exposure to Debt Securities**

- (1) A Participating Organisation has a Large Exposure Risk as to an Issuer of Debt Securities if the total amount of Debt Securities held against the Issuer exceeds 15% of the Participating Organisation's Effective Shareholders' Funds.
- (2) A Participating Organisation's Large Exposure Risk Requirement for the exposure to Debt Securities is equal to the Position Risk Requirement for Debt Securities calculated in the manner the Exchange determines.
- (3) A Participating Organisation must not bear a Large Exposure Risk to a Debt Securities of more than 30% of the Participating Organisation's Effective Shareholders' Funds.

*[Refer to Directive No. 13-001]*

- (4) A Participating Organisation must report to the Exchange immediately all the Participating Organisation's Large Exposure Risk relating to Debt Securities.

### **13.26 Exposure to a single equity**

- (1) A Participating Organisation has a Large Exposure Risk to a single equity if the Participating Organisation has:
  - (a) a net position or exposure (either long or short) that exceeds 10% of the total issue of the equity; or
  - (b) a net position or exposure that exceeds 15% of the Participating Organisation's Effective Shareholders' Funds.
- (2) A Participating Organisation must calculate the Participating Organisation's net position or exposure to a single equity in the manner the Exchange determines.
- (3) A Participating Organisation must aggregate the Participating Organisation's exposures to a single equity referred to in Rule 13.26(5). A Participating Organisation's aggregated Large Exposure Risk to a single equity must not exceed 250% of the Participating Organisation's Effective Shareholders' Funds.
- (4) A Participating Organisation must report to the Exchange immediately all the Participating Organisation's Large Exposure Risk relating to a single equity.
- (5) In this Rule 13.26, "single equity" includes:
  - (a) 30% of the value of the collateral pledged by debtors or Margin Accounts (including interest) if the collateral is used to secure the exposure;
  - (b) 30% of the value of the collateral underlying loans and advances if the collateral is used to secure the exposure;
  - (c) investment in the stock accounts or proprietary positions;

- (d) the net purchase contract value of single equity aggregated from Clients' accounts arising from transactions under a Ready or Immediate Basis Contract, if the transaction has not been paid for; and
- (e) the net purchase contract value of single equity underlying Clients' accounts arising from transactions under a DF Account if the transaction has not been paid for.

*[Refer to Directive No. 13-001]*

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## PART I UNDERWRITING RISK

### 13.27 General principle

A Participating Organisation has an Underwriting Risk if the Participating Organisation enters into a binding commitment to take up securities at a predetermined price and time.

*[Refer to Directive No. 13-001]*

### 13.28 Computation

A Participating Organisation must calculate its Underwriting Risk Requirement in the manner the Exchange determines.

*[Refer to Directive No. 13-001]*

### 13.29 Register of underwriting commitments

A Participating Organisation must maintain a register of all the Participating Organisation's underwriting commitments. The register must contain the following information:

- (a) the description of the securities;
- (b) the quantity and price of the Participating Organisation's underwriting commitment;
- (c) the quantity and price of the Participating Organisation's underwriting commitment that has been sub-underwritten; and
- (d) the date the underwritten commitment is discharged.

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**PART J            GEARING RATIO**

**13.30 Definition**

The following terms have the following meanings in this Part J unless the context requires otherwise.

<b>Term</b>	<b>Meaning</b>
Gearing Ratio	<p>The ratio linking a Participating Organisation’s Utilised Level and the Participating Organisation’s Effective Shareholders’ Funds, calculated as follows:</p> $\frac{\text{Utilised Level}}{\text{Effective Shareholders' Funds}}$
Subordinated Debt	The approved subordinated debt that fulfils the requirements the Exchange determines.
Utilised Level	The aggregate amount of borrowings a Participating Organisation has already utilised.

**13.31 Gearing Ratio**

- (1) A Participating Organisation must ensure that its Gearing Ratio does not exceed 2.5 times.
- (2) A Participating Organisation’s Subordinated Debt is excluded from the Gearing Ratio if the Subordinated Debt does not exceed 50% of the Participating Organisation’s paid up capital unimpaired by losses.
- (3) The Gearing Ratio stipulated above does not apply to:
  - (a) a Universal Broker if the Universal Broker maintains at all times a Core Capital of not less than RM500,000,000.00; and
  - (b) an Investment Bank if the Investment Bank maintains at all times the Investment Bank’s minimum capital funds unimpaired by losses of not less than RM2,000,000,000.00 on a banking group basis or, for an Investment Bank which does not form part of a banking group, minimum capital funds of RM500,000,000.00, as referred to in the Guidelines on Investment Banks.

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**PART K      LIQUIDITY RISK**

**13.32 Compliance**

- (1) A Participating Organisation must at all times maintain a cumulative net liquid asset surplus at least at the minimum level(s) as prescribed by the Exchange (“Net Surplus Requirements”).
- (2) In this Rule 13.32, “liquid assets” has the same meaning assigned to that expression in Rule 13.06(a).

*[Refer to Directive No. 13.32-001 and Best Practice No. 13.32-001]*

**13.33 Investment Banks**

The liquidity risk requirements in Rule 13.32 are not be applicable to an Investment Bank.

[End of Chapter]