<u>Frequently Asked Questions (FAQs) in relation to the Introduction of Remote Trading Participant (“RTP”)</u>

<u>BMD Rules</u>

1. **Pursuant to Rule 3.11(2) of the Rules of Bursa Malaysia Derivatives Berhad (“BMD” or “Exchange”), a RTP may only exercise the right to trade for clients outside Malaysia.**

   Q: In the event that a RTP has an existing client in Malaysia prior to its admission as an RTP on BMD, is the RTP required to close the account with the said client?

   A: Yes, a prospective RTP would need to close any onshore client’s account before it can be admitted as a RTP in BMD.

2. **Pursuant to paragraph 7.1 of the Trading Participants’ (“TP”) Directive 4-001 on Conduct of Business, the TP must give to the prospective Client, amongst others, a document which contains, at the minimum, a risk disclosure statement disclosing to the Client the potential risk involved in entering into a Contract to enable the Client to evaluate such risks.**

   Q: Is there a prescribed risk disclosure statement provided by the BMD that TPs are required to give to the clients?

   A: The Exchange does not require TPs to use any prescribed template. TPs are free to provide their clients with a risk disclosure statement that suits their needs. However, for reference purposes, TPs may refer to the sample risk disclosure statement provided in **Appendix I** of these FAQs.

3. **Pursuant to paragraphs 9.1(1)(a) and (c) of the TP Directive 4-001 on Conduct of Business, a TP including a RTP, must issue contract notes to the TP’s Clients and the currency values reflected in the contract note must be the currency in which the Contracts are traded.**

   Q: Given that a RTP would be trading the Contract in a location outside Malaysia, what currency value should be reflected in the contract note in order for the RTP to comply with the requirement above?

   A: The currency in which a Contract is traded refers to the currency in which the Contract is denominated. It does not refer to the prevailing currency at the location in which a RTP is trading the Contract. Hence if a Contract is denominated in MYR, a RTP must reflect the MYR values in the contract note.

BMDC Rules

4. **A RTP is a TP of the Exchange and is required to comply with the Rules of BMD (Rule 3.06(3) BMD Rules). In addition, Rule 3.10(2)(d) of the BMD Rules requires the RTP to have an arrangement with a Clearing Participant ("CP") to clear its trades on the Exchange. The CP must comply with the BMDC Rules and Directives, including Rule 6.22 of when entering into a clearing arrangement with an RTP.**

Q: Are there any additional obligations imposed on a CP which provides clearing services for a RTP? For instance, are there additional obligations in relation to record keeping requirements or ensuring compliance by the RTP with the BMD Rules?

A: The relationship between the CP and the RTP is the same as a CP with an onshore TP. There are no additional new requirements in the BMDC Rules, imposed on the CP which provides clearing services for a RTP, that differs from the CP that has a clearing arrangement with an onshore TP.

5. **Change in Client Status**

Q: If a licensed futures broker outside of Malaysia has an existing account with a CP and thereafter is admitted as a RTP in BMD, would the said broker be able to continue its trading activities in the same trading account? Would the CP be required to take any action in relation to its client's change of status to a RTP?

A: Where the CP's client has registered with BMD as a RTP and accordingly have a change in the client status, there must be a change to the agreement between the TP/CP and its client as the relationship has evolved to the third party clearer model where the client no longer trades through the TP/CP. The RTP is a TP in its own right but clears through the CP.

6. **Margin, Adjusted Net Capital and Position Exposure for CPs that provide clearing services for a RTP.**

Q: Will the requirements for, or calculation of Adjusted Net Capital ('ANC") for a CP that provides clearing services for a RTP differ?

A: A CP clearing for another TP, be it an onshore TP or a RTP, will need to act accordingly to maintain its ANC ratio or other capital adequacy requirements that the CP is subjected to, as it is taking on additional risk arising from the exposure of the onshore TP or the RTP. The additional risk will also be reflected in the margin calculations of the CP.

Q: Would clearing for a RTP affect the CP's margin call with Bursa?

A: The obligations of a CP in procuring margin remain the same as with their obligations clearing for an onshore TP client. A CP is required to procure margin from client of the level at least equivalent to the amount required by the Clearing House (see Rule 4.16 of the BMDC Rules). Additional margin or up-front collateral is decided by the CP at its discretion based on assessment on the client/RTP's financial standing, commercial arrangement as well as risk appetite. The CP remains as the principal and will be responsible for any margin call with Bursa.

Q: Will the calculation of position exposure limits be affected or differ where a CP clears for a RTP?

A: The local CP may determine its exposure limits accordingly based on its risk management practices. The additional exposure arising from clearing for a RTP will also be addressed under the ANC (or other capital adequacy requirements that the CP is subjected to) and under the margin calculations framework that are applied to the CP. In line with the above, the CP is expected to have the capability and capacity to manage exposure arising from clearing for all parties including the RTP. This is pursuant to paragraph 2.1, Directive No. 5-001, Directive on Organisation and Structure of Clearing Participants.

7. Offsetting House Trades and Calculating Position Limits of RTP Clients by a CP

Q: Can a RTP's trade be offset against the house trade of a CP (in its capacity as a TP), when the CP provides clearing services to a RTP? For example, if an RTP client has +1 FCPO, and the CP has -1 FCPO, can these trades be offset so it becomes zero position?

A: Netting of trades is not allowed in such circumstance, as the trades have been conducted by two separate TPs (i.e. the RTP and CP). In addition, margin for such trades will be calculated separately.

Q: Will netting of calculation of position limits be permitted?

A: For the purposes of calculating position limits, netting the calculation of position will be allowed only if the end clients for those trades are the same beneficiaries.

APPENDIX I

RISK ASSOCIATED WITH CONTRACTS

In disclosing the potential risk involved in entering into a Contract, Trading Participants may use the following Risk Disclosure Statement template.

This brief statement does not disclose all of the risks and other significant aspects of trading in Contracts. In light of the risks, you should undertake such transactions only if you understand the nature of the Contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. Trading in Contracts is not suitable for many members of the public. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

RISKS ASSOCIATED WITH CONTRACTS

1. Effect of "Leverage" or "Gearing"

Transactions in Contracts carry a high degree of risk. The amount of initial margin is small relative to the value of a Contract so that transactions are "leveraged" or "geared". A relatively small market movement will have proportionately larger impact on the funds you have deposited or will have to deposit - this may work against you as well as for you. You may sustain a total loss of initial margin funds and any additional funds deposited with the Trading Participant to maintain your position. If the market moves against your position or margin levels are increased you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated at a loss as you will be liable for any resulting deficit.

2. Risk-reducing Orders or Strategies

The placing of certain orders (e.g. "stop-loss" orders, where permitted under the Rules of Bursa Malaysia Derivatives Berhad) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Strategies using combinations of positions, such as "spread" and "straddle" positions may be as risky as taking simple "long" or "short" positions.

3. Terms and Conditions of Contracts

You should ask the Trading Participant with which you deal about the terms and conditions of the specific Contracts which you are trading and associated obligations (e.g. the circumstances under which you may become obligated to make or take delivery of the underlying instrument of a futures contract and, in respect of options, expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the Exchange or clearing house to reflect changes in the underlying instrument or state of affairs that is the subject of the futures contract.

4. Suspension or Restriction of Trading and Pricing Relationship

Market conditions (e.g. illiquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any contract or contract month because of price limits or "circuit breakers") may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If you have sold options, this may increase the risk of loss.

Further, normal pricing relationships between the underlying that is the subject of a futures contract and the futures contract, may not exist. This can occur when, for example, the absence of an underlying reference price may make it difficult to judge "fair" value.

5. Deposited Cash and Securities

You should familiarise yourself with the protections accorded to money or other securities you deposit, particularly in the event of a Trading Participant's insolvency or bankruptcy. The extent to which you may recover your money or securities may be governed by specific legislation.

6. Commission and Other Charges

Before you begin to trade, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increases your loss.

7. Currency Risks

The profit or loss in transactions in foreign currency-denominated contracts will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.

8. Trading Facilities

Most open-outcry and electronic trading facilities are supported by computer-based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or Trading Participants. Such limits may vary - you should ask the Trading Participant with which you deal for details in this respect.

9. Electronic Trading

Trading on an electronic trading system may differ not only from trading in an open-outcry market but also from trading on other electronic trading systems. If you undertake transactions on an electronic trading system, you will be exposed to risks associated with the system including the failure of hardware and software. The result of any system failure may be that your order is either not executed according to your instructions or is not executed at all.

ADDITIONAL RISKS ASSOCIATED WITH OPTIONS

10. Variable Degree of Risk

Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarise themselves with the type of option (i.e. put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options must increase for your position to become profitable, taking into account the premium and all transaction costs.

The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying instrument. If the option is on a futures contract, the purchaser will acquire a long position or short position (as the case may be) in relation to the futures contract, with associated liabilities for margin. If the purchased options expire worthless, you will suffer a total loss of your investment (which is the option premium) in addition to incurring transaction

costs. If you are contemplating purchasing deep-out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote.

Selling ("writing" or "granting") an option generally entails considerably greater risk than purchasing options. Although the premium received by a seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavourably. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying instrument. If the option is on a futures contract, the seller will acquire a position in the futures contract with associated liabilities for margin. If the option is "covered", for example by the seller assuming a corresponding long position in the underlying that is the subject of the option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited.

I hereby acknowledge that I have read and understood this risk disclosure statement.

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Date Signature of Client

End of Document

(End of Appendix I)