Frequently Asked Questions on the Rules of Bursa Securities

(1)	**Issue**	**:**	**Knowledge about Client**
	Relevant Rule	:	Rule 5.15(1)(a) and Paragraph 8 of Directive 5-001
	Question	:	Any guideline(s) or benchmarks(s) from the Exchange on how this Rule be implemented?
	Answer	:	Participating Organisations (**"POs"**) should start with the account opening forms where adequate questionnaires be provided for new clients to fill up. For existing clients, the same questionnaires should be filled up by clients as to the requirements of the said Rule. Thereon Dealer's Representatives should categorize their clients as to their creditworthiness, background, investment objectives and knowledge in investment management. This will assist the Dealer's Representative to know which Clients need detailed guidance and which clients can be left to their own complete judgment. POs may also obtain essential information about a Client through the usage of reliable electronic Know--Your-Client database services.
(2)	**Issue**	**:**	**Account opening through electronic means**
	Relevant Rule	:	Rule 5.15(1)
	Question	:	Can a PO allow a Client to submit an application form to open a trading account through electronic means?
	Answer	:	A PO may allow the submission of an account opening application through an online or paperless account opening submission, which may include the use of digital signature or electronic signature complying with the relevant laws such as Digital Signature Act 1997 and Electronic Commerce Act 2006.
(3)	**Issue**	**:**	**New Technology to on-board a client**
	Relevant Rule	:	Paragraph 9.1(4)(f) of Directive on Conduct of Business (No. 5-001)
	Question	:	What are the standards that POs need to adhere to in using new technology, such as biometric technology, to on-board a Client?
	Answer	:	POs that rely on new technology solutions to perform a non face-to-face verification method should ensure that these solutions must be able to effectively identify and verify the identity of the Client. For example, the solution should be able to, amongst others: a) perform facial recognition and match against the photo on the Client's identification document; b) detect any manipulation or alteration made to a video or photo, if any; or c) verify the biometric or information of the Client against a government database.

(4)	**Issue**	**:**	**Client's financial position**
	Relevant Rule	:	Rule 5.15(1)(a) and Paragraph 8 of Directive 5-001
	Question	:	What are the relevant information on Client's financial position required to be maintained by aPO?
	Answer	:	A PO should have in place sufficient credit policies for the continued assessment of all their Clients. The type or nature of information required to be kept as records are dictated by thePO's internal policies.
(5)	**Issue**	**:**	**Scope of Internal Audit**
	Relevant Rule	:	Rule 6.14(1)(a)
	Question	:	Under the said Rule, by what specific criteria should "the performance of management of the PO" be required?
	Answer	:	The scope of the internal audit envisaged under this Rule should, in the minimum, ensure compliance with internal policies and procedures, rules, laws and best business practices.
(6)	**Issue**	**:**	**Internal audit responsibility and scope**
	Relevant Rule	:	Rule 6.14(1)(f) and (j)
	Question	:	What internal audit responsibility and scope are envisaged here? Does it entail performing a financial audit which may duplicate what the statutory auditor does?
	Answer	:	Yes.
	Question	:	Does it involve a limited review of periodical financial records and statements?
	Answer	:	Yes.
(7)	**Issue**	**:**	**Internal audit - reporting**
	Relevant Rule	:	Rule 6.15(1)
	Question	:	Does this apply even to those highlighted issues, which were subsequently rectified by the time the audit was completed?
	Answer	:	Yes.
(8)	**Issue**	**:**	**Internal audit - reporting**
	Relevant Rule	:	Rule 6.15(2)

	Question	:	Are the audit reports by Internal Audit Department (**"IAD"**) and the report submitted by Audit Committee to the Board of Directors (**"BOD"**) /the Exchange the same?
	Answer	:	Yes but the report submitted by Audit Committee to BOD/the Exchange should contain the deliberations and decisions/recommendations of the Audit Committee on the audit report submitted by IAD to the Audit Committee.
(9)	**Issue**	**:**	**Margin facilities – purpose and period**
	Relevant Rule	:	Rule 7.30
	Question	:	A PO may extend facilities to its Clients for a period of 3 months only, with rollover, if necessary. When does the effective date commence for the 3 months period – from the date of contract or date amount is drawn down? What are the maximum and minimum rollover fees?
	Answer	:	The commencement date for the period of three (3) months, with rollover (if necessary) permitted under this Rule for any extension of credit facilities by the PO is to be determined in accordance with the terms of the margin agreement made between the PO and its Clients.
(10)	**Issue**	**:**	**Types and method of valuation of collateral that a Client may deposit into margin account**
	Relevant Rule	:	Rule 7.30(7)
	Question	:	Can a PO include securities to be issued and credited into a Client's account under a corporate action in the computation of collateral in that Client's margin account?
	Answer	:	Yes.
	Question	:	What price is the valuation of securities in a margin account based on?
	Answer	:	The Last Done Price. In the absence of the Last Done Price, the Reference Price.
(11)	**Issue**	**:**	**Clearing fee**
	Relevant Rule	:	Rule 11.05
	Question	:	Can a broking house waive clearing fee for certain in-house approved Client?
	Answer	:	A broking house (PO) cannot waive Clearing Fees which are charged by the Clearing House and must change the same to its Clients accordingly.
(12)	**Issue**	**:**	**Guidelines on the suspension of interest and provision for bad and doubtful debts**
	Relevant Rule	:	Rule 12.04 and Best Practice 12.04-001

Question	:	Paragraph 4 of Best Practice 12.04-001 – Treatment of interest on impaired accounts, refers. To confirm the following: Suspension of interest is to be reflected by a PO in its books based on the types of accounts maintained by the PO, i.e. whether under contra losses, overdue purchase contracts or margin accounts?
Answer	:	Yes.

(13) **Issue** : **Qualifying criteria for trading in leveraged and inverse Exchange Traded Funds ("L&I ETFs")**

Relevant Rule	:	Rule 7.40 and Directive No. 7.40-001
Question	:	Would a Client's written declaration pursuant to paragraph 1(3)(a) of Directive 7.40-001 ("Directive"), confirming the Client's fulfilment of one or more of the qualifying criteria for trading in L&I ETFs, be sufficient for a PO to comply with the requirement that a Client is a qualified client under Rule 7.40 and paragraph 1(2) of the Directive?
Answer	:	Yes, the Client's written declaration is sufficient. Nevertheless, the PO should advise the Client to carefully read and understand the Risk Disclosure Statement, including visiting the website link on L&I ETFs provided in the Risk Disclosure Statement.
Question	:	Is there a prescribed written declaration provided by the Exchange that POs are required to give to the Client?
Answer	:	The Exchange does not require POs to use a prescribed template. POs are free to provide the Client with a declaration form that suits their needs. POs may also opt to combine the written declaration with the risk disclosure statement for convenience. For reference purposes, a sample written declaration combined with the risk disclosure statement prescribed in paragraph 1(3)(b) of the Directive, is provided in Appendix A of these FAQs.
Question	:	Notwithstanding paragraph 1(3) of the Directive, what is a PO required to do if it subsequently receives information that its Client no longer fulfills any one of the qualifying criteria? For example, the Client who was a Sophisticated Investor has become an undischarged bankrupt and does not fulfill any other eligibility criteria to trade in L&I ETF units.
Answer	:	The PO must not allow such Client to further trade in L&I ETFs units except to liquidate the Client's current positions.

[End of FAQs]

SAMPLE **APPENDIX A**

<u>PART A</u>

<u>DECLARATION</u>

I declare that I (please tick where applicable):

☐	am a Sophisticated Investor
☐	have a Margin Account
☐	have executed at least 5 transactions in exchange traded derivatives, or structured warrants within the preceding 12 months
☐	have utilized a performance simulator which simulates trading in L&I ETF units and undergone an e-learning tutorial developed by the Exchange for trading in L&I ETF units

Signature: ……………………………

Full Name: …………………………..

Date: …………………………………

<u>PART B</u>

<u>LEVERAGED AND INVERSE ETF RISK DISCLOSURE STATEMENT</u>

(1) This statement is provided to you in accordance with the directives of the Rules of Bursa Malaysia Securities Berhad ("Rules of Bursa Securities").

(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 <u>*on a daily basis*</u>;

For example, an Index 2x Leveraged ETF is intended to track the 2 times of daily return of the Index (usually called Underlying Index). If Underlying Index returns 1% in a given day, the Index 2x Leveraged ETF is expected to return around 2% on the same day.

An Index (-1x) Inverse ETF is intended to track the opposite of daily return of the Underlying Index. If Underlying Index returns -1% in a given day, the Index (-1x) Inverse ETF is expected to return around 1% on the same day.

(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 the multiple of the inverse performance of an index that the L&I ETFs are supposed to track;

For example, an Index 2x Leveraged ETF does not necessarily give the investor twice the return of the Underlying index, to illustrate this, consider the following 3 scenarios:

Scenario 1:

5 days cumulative return comparison, index increases by 10% daily.

		Investment Amount (RM)		
End of Day	Daily Index Movement	Underlying Index	2X Underlying Index	Index 2x Leveraged ETF
0	NA	100.00	100.00	100.00
1	10%	110.00	120.00	120.00
2	10%	121.00	142.00	144.00
3	10%	133.10	166.20	172.80
4	10%	146.41	192.82	207.36
5	10%	161.05	222.10	248.83
Cumulative Return		61%	122%	149%

<u>2X Underlying Index cumulative return is 122% while Index 2x Leveraged ETF cumulative return over the same period is 149%.</u>

Scenario 2:

5 days cumulative return comparison, index decreases by 10% daily.

		Investment Amount (RM)		
End of Day	Daily Index Movement	Underlying Index	2X Underlying Index	Index 2x Leveraged ETF
0	NA	100.00	100.00	100.00
1	-10%	90.00	80.00	80.00
2	-10%	81.00	62.00	64.00
3	-10%	72.90	45.80	51.20
4	-10%	65.61	31.22	40.96
5	-10%	59.05	18.10	32.77
Cumulative Return		-41%	-82%	-67%

<u>2X Underlying Index cumulative return is -82% while Index 2x Leveraged ETF cumulative return over the same period is -67%.</u>

Scenario 3:

5 days cumulative return comparison, index increases and decreases by 10% alternatingly.

		Investment Amount		
End of Day	Daily Index Movement	Underlying Index	2X Underlying Index	Index 2x Leveraged ETF
0	NA	100.00	100.00	100.00
1	10%	110.00	120.00	120.00
2	-10%	99.00	98.00	96.00
3	10%	108.90	117.80	115.20
4	-10%	98.01	96.02	92.16
5	10%	107.81	115.62	110.59
Cumulative Return		8%	16%	11%

2X Underlying Index cumulative return is 16% while Index 2x Leveraged ETF cumulative return over the same period is 11%.

Similarly, an Index (-1x) Inverse ETF will not give the investor the opposite of the cumulative return of the Underlying Index over a longer period:

Scenario 1:

5 days cumulative return comparison, index increases by 10% daily.

		Investment Amount (RM)		
End of Day	Daily Index Movement	Underlying Index	(-1)X Underlying Index	Index (-1x) Inverse ETF
0	NA	100.00	100.00	100.00
1	10%	110.00	90.00	90.00
2	10%	121.00	79.00	81.00
3	10%	133.10	66.90	72.90
4	10%	146.41	53.59	65.61
5	10%	161.05	38.95	59.05
Cumulative Return		61%	-61%	-41%

(-1)X Underlying Index cumulative return is -61% while Index (-1x) Inverse ETF cumulative return over the same period is -41%.

Scenario 2:

5 days cumulative return comparison, index decreases by 10% daily.

		Investment Amount (RM)		
End of Day	Daily Index Movement	Underlying Index	(-1)X Underlying Index	Index (-1x) Inverse ETF
0	NA	100.00	100.00	100.00
1	-10%	90.00	110.00	110.00
2	-10%	81.00	119.00	121.00
3	-10%	72.90	127.10	133.10
4	-10%	65.61	134.39	146.41
5	-10%	59.05	140.95	161.05
Cumulative Return		-41%	41%	61%

(-1)X Underlying Index cumulative return is 41% while Index (-1x) Inverse ETF cumulative return over same period is 61%.

Scenario 3:
5 days cumulative return comparison, index increases and decreases by 10% alternatingly.

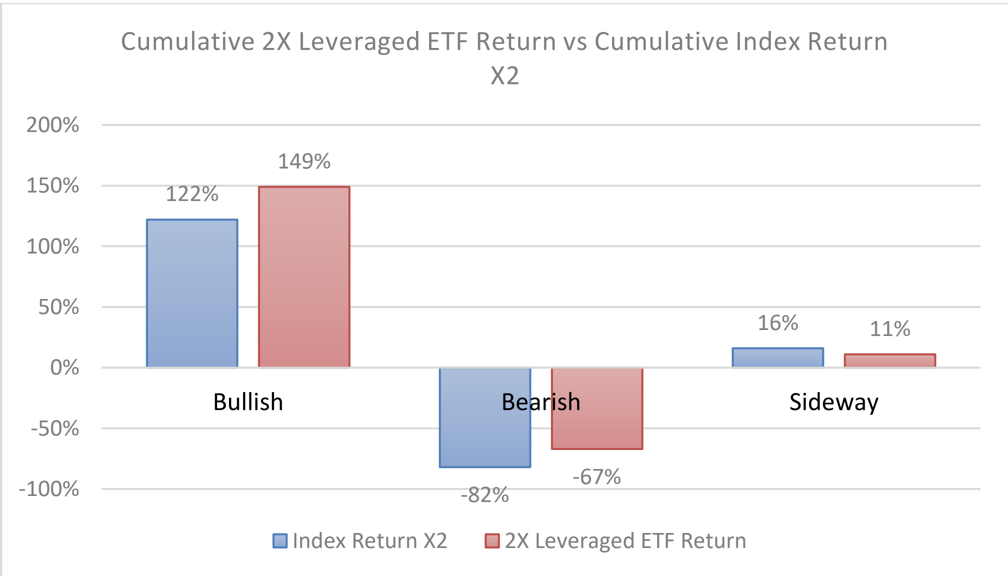
		Investment Amount (RM)		
End of Day	Daily Index Movement	Underlying Index	(-1)X Underlying Index	Index (-1x) Inverse ETF
0	NA	100.00	100.00	100.00
1	10%	110.00	90.00	90.00

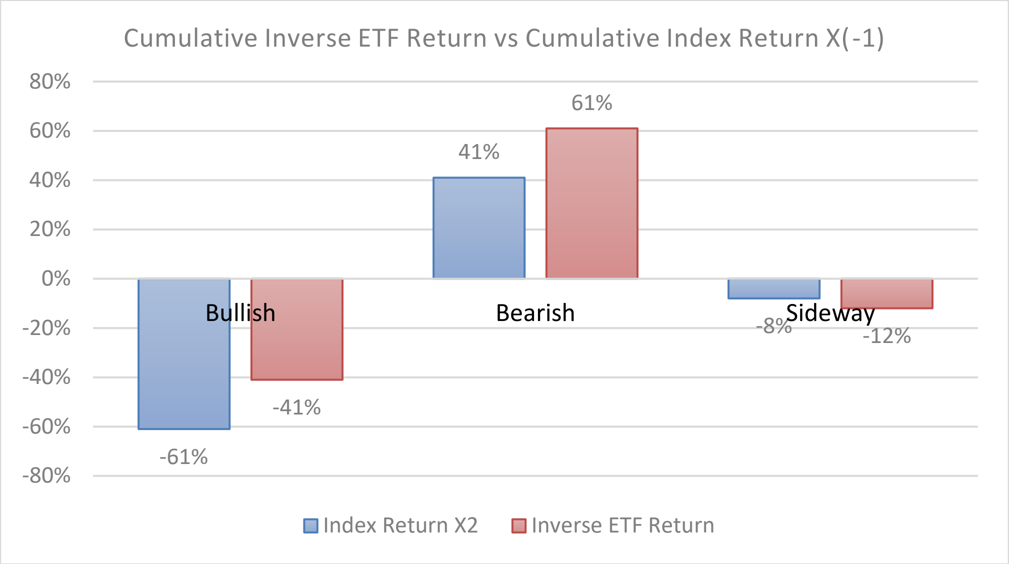
2	-10%	99.00	101.00	99.00
3	10%	108.90	91.10	89.10
4	-10%	98.01	101.99	98.01
5	10%	107.81	92.19	88.21
Cumulative Return		8%	-8%	-12%

(-1)X Underlying Index cumulative return is -8% while Index (-1x) Inverse ETF cumulative return over the same period is -12%.

In summary, the compounding effect could potentially lead to deviations in cumulative returns between a leveraged ETF or inverse ETF with the corresponding multiples (2X for 2X leveraged ETF and -1X for Inverse ETF) of the underlying index's cumulative return.

Nonetheless, as the charts below indicate, such deviation could, at times benefit the investor. For example, in a trending market where market valuation is trending upwards or downwards, an investor tends to benefit from compounding effect either by gaining higher returns or suffering less losses. However, in a volatile sideway market, the compounding effect is likely to put the investor at a disadvantage, either causing the investor to earn less returns or inflicting greater losses as compared to a multiple of the underlying index's cumulative return.





Disclaimer: the scenarios presented above are solely for illustration purposes only and does not take into account the impact of other factors (such as but not limited to management fees) on a fund's performances. Actual performances of L&I ETFs with respect to their Underlying Indices might differ under similar scenarios.

(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 expectation. If the price movement does not conform to expectation, he or she may 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.

(4) To learn more about L&I ETFs, investors can visit the following website on Bursa Academy:

https://bursaacademy.bursamarketplace.com/en/article/equities/empower-your-etf-investment-journey

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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 ETF RISK DISCLOSURE STATEMENT and understand its contents which have been explained to me.

Signature: ……………………………

Full Name: …………………………..

Date: …………………………………

[End of Appendix A]