

CHAPTER 4 MARKET MAKERS AND DERIVATIVES SPECIALISTS

PART A REGISTRATION OF A MARKET MAKER

4.01 Qualification Criteria

- (1) An applicant who intends to apply to be a Market Maker for a Specified Security must be an entity that fulfils any one of the following requirements:
- (a) a Participating Organisation;
 - (b) a licensed bank, or licensed investment bank under the FSA, in which the licensed investment bank is not also a Participating Organisation;
 - (c) a Related Corporation of (a) or (b) above, incorporated under the Companies Act and has:
 - (i) a minimum shareholders' fund of RM2,000,000.00; and
 - (ii) at least 2 personnel with at least 5 years' experience in the following:
 - (aa) trading in securities as a Dealer's Representative or dealing in derivatives as a Registered Representative;
 - (bb) trading in treasury related instruments of a financial institution;
 - (cc) trading in securities as a dealer on a Recognised Stock Exchange; or
 - (dd) trading in derivatives as a dealer on a Specified Exchange as defined in the Derivatives Exchange Rules;
 - (d) a foreign corporation which fulfils the following:
 - (i) has a minimum paid up capital equivalent to RM2,000,000.00;
 - (ii) has the relevant market making experience in securities or derivatives markets for at least 3 years; and
 - (iii) is regulated by either of the following:
 - (aa) a securities or derivatives exchange in a jurisdiction which regulator is a signatory to the IOSCO MMOU or the BOCA Declaration respectively; or
 - (bb) a regulator who is a signatory to the IOSCO MMOU or the BOCA Declaration respectively;
 - (e) a Related Corporation of (d) above, incorporated under the Companies Act and fulfils the following:
 - (i) has a minimum paid up capital of RM2,000,000.00;
 - (ii) has at least 2 personnel with at least 3 years' experience in market making; and
 - (iii) the foreign corporation which is its Related Corporation has at least 3 years' experience in market making.

- (2) In addition to the requirements in Rule 4.01(1), an applicant to be a Market Maker must also fulfil the following requirements:
- (a) has in place facilities and personnel adequate for the expeditious and orderly carrying out of its business of Market Making; and
 - (b) has in place a supervisory programme and system of internal controls in respect of:
 - (i) the business of Market Making;
 - (ii) undertaking of risk management;
 - (iii) management of conflict of interest; and
 - (iv) compliance with these Rules.

4.02 Application Procedure

- (1) An applicant who intends to apply to be a Market Maker for a Specified Security must apply to the Exchange in accordance with the Exchange's requirements and comply with any requirements as may be imposed by the Exchange.

[Refer to Directive No. 4-001]

- (2) Notwithstanding the applicant meeting the qualification criteria set out in Part A of this Chapter 4, the Exchange may reject an application to register as a Market Maker in circumstances the Exchange deems fit.

4.03 Continuing Obligations

Throughout the term of its registration as a Market Maker, it must:

- (a) continuously comply with the qualification criteria stated under Part A of this Chapter 4;
- (b) immediately notify the Exchange of:
 - (i) any change that will disqualify it as a Market Maker based on Part A of this Chapter 4 or upon becoming aware of any of the circumstances stated in Rule 4.13(2);
 - (ii) any change in the place of business of the Market Maker; and
 - (iii) change in name of the Market Maker; and
- (c) comply with and give effect to these Rules and Directives where relevant.

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PART B OBLIGATIONS OF A MARKET MAKER

4.04 Bid and Offer Prices

- (1) A Market Maker for a Specified Security must enter bid and offer prices into the order book in the ATS for the purpose of buying and selling of the Specified Security as follows:
 - (a) with a minimum presence as stipulated by the Exchange;
 - (b) within the maximum spread allowed by the Exchange; and
 - (c) in not less than the minimum quantity allowed by the Exchange.
- (2) A Market Maker may be exempted from entering bid and offer prices as required under Rule 4.04(1) in circumstances deemed fit or allowed by the Exchange.

[Refer to Directive No. 4-001]

4.05 Designated Trading Account and Designated Securities Account

A Market Maker must undertake all Market Making activities through trading accounts and Securities Accounts designated specifically for Market Making activities based on the terms prescribed by the Exchange and the Depository respectively.

[Refer to Directive No. 4-001]

4.06 Conduct by Market Maker

- (1) A Market Maker may only carry out its Market Making activities for its proprietary position and not for Clients or its Related Corporations.
- (2) A Market Maker may carry out Permitted Short Selling as prescribed under Part E of this Chapter 4 in the course of fulfilling its obligations under Rule 4.04(1).
- (3) If a Market Maker is not a Participating Organisation, the Market Maker must enter the bid and offer prices into the order book in the ATS through a Participating Organisation.
- (4) A Market Maker must notify the Exchange immediately if it is unable to fulfil its Market Making obligations for any reason whatsoever and later when it is able to resume its Market Making obligations under Rule 4.04(1).
- (5) A Market Maker must avoid any act or practice which is likely to:
 - (a) lead to a false or misleading appearance of active trading in any securities on the stock market of the Exchange or a false or misleading appearance with respect to the market for, or the price of, any such securities; or
 - (b) directly or indirectly be tantamount to stock market manipulations,and must not participate in any operation by others which might have the same result.

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PART C DERIVATIVES SPECIALIST

4.07 General

- (1) A market maker appointed by the Derivatives Exchange in respect of Single Stock Futures Contract or Stock Option Contract may apply to the Exchange to be a Derivatives Specialist.
- (2) If the market maker in Rule 4.07(1) is a foreign corporation, it must be regulated by either of the following:
 - (a) a securities or derivatives exchange in a jurisdiction which regulator is a signatory to the IOSCO MMOU or the BOCA Declaration respectively; or
 - (b) a regulator who is a signatory to the IOSCO MMOU or the BOCA Declaration respectively.
- (3) A Derivatives Specialist may carry out Permitted Short Selling on the underlying securities of the Single Stock Futures Contract or Stock Option Contract which are Approved Securities as prescribed under Part E of this Chapter 4, as part of its market making activities.

4.08 Application Procedure

- (1) An applicant who intends to be a Derivatives Specialist must apply to the Exchange in accordance with the Exchange's requirements and comply with any requirements as may be imposed by the Exchange.

[Refer to Directive No. 4-001]

- (2) The Exchange may reject an application to register as a Derivatives Specialist in circumstances the Exchange deems fit.

4.09 Continuing Obligations

Throughout the term of its registration as a Derivatives Specialist, it must:

- (a) remain as a market maker with the Derivatives Exchange in respect of Single Stock Futures Contract or Stock Option Contract
- (b) immediately notify the Exchange of:
 - (i) upon becoming aware of any of the circumstances stated in Rule 4.13(2);
 - (ii) any change in the place of business of the Derivatives Specialist; and
 - (iii) change in name of the Derivatives Specialist; and
- (c) comply with and give effect to these Rules and Directives, where relevant.

4.10 Designated trading account and Securities Account

A Derivatives Specialist must open a designated trading account and Securities Account based on the terms prescribed by the Exchange and the Depository respectively.

[Refer to Directive No. 4-001]

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4.11 Conduct by Derivatives Specialist

- (1) If a Derivatives Specialist is not a Participating Organisation, the Derivatives Specialist must execute Permitted Short Selling through a Participating Organisation.
- (2) A Derivatives Specialist must avoid any act or practice which is likely to:
 - (a) lead to a false or misleading appearance of active trading in any securities on the stock market of the Exchange or a false or misleading appearance with respect to the market for, or the price of, any such securities; or
 - (b) directly or indirectly be tantamount to stock market manipulations,and must not participate in any operation by others which might have the same result.

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PART D RESIGNATION

4.12 Resignation

- (1) If a Market Maker or a Derivatives Specialist wishes to resign, it must give a written notice to the Exchange of its intention to resign not less than 30 days prior to the proposed date of resignation.
- (2) The Exchange may accept the Market Maker's or the Derivatives Specialist's resignation subject to any conditions.

4.13 Termination, Suspension or Restriction of the Activities of a Market Maker or a Derivatives Specialist

- (1) The Exchange may summarily suspend, terminate or restrict the activities of a Market Maker or a Derivatives Specialist if:
 - (a) the Market Maker or the Derivatives Specialist fails to fulfil any of the requirements in Part A or Part C respectively of this Chapter 4; or
 - (b) the Market Maker continuously breaches its obligations under Rule 4.04(1) for a period determined by the Exchange.
- (2) A Market Maker or a Derivatives Specialist will summarily cease to be registered under these Rules if:
 - (a) the Market Maker or the Derivatives Specialist has been wound up whether on a voluntary basis or otherwise;
 - (b) a nominee of a corporate voluntary arrangement, a judicial manager, a receiver and manager, or a liquidator (including interim liquidator) has been appointed for the Market Maker or the Derivatives Specialist;
 - (c) the Derivatives Specialist no longer fulfils the requirement in Rule 4.09(a); or
 - (d) the Market Maker or the Derivatives Specialist is convicted of any offence in or outside of Malaysia involving dishonesty or fraud or had disciplinary action taken against it for breaches involving dishonesty or fraud.

4.14 Continuing Liability

- (1) A Market Maker or a Derivatives Specialist who has resigned or whose registration is terminated by the Exchange, remains liable to disciplinary action for any breach of these Rules or Directives committed during the period while it was a Market Maker or a Derivatives Specialist.
- (2) All provisions in these Rules will continue to apply in respect of the former Market Maker or the former Derivatives Specialist to the extent required to give effect to Rule 4.14(1).

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PART E PERMITTED SHORTSELLING

4.15 General

- (1) A Market Maker or a Derivatives Specialist may carry out Permitted Short Selling on the following securities in the manner set out in Part E of this Chapter 4:
 - (a) a Market Maker for an ETF – the ETF and its Constituent Securities;
 - (b) a Market Maker for a structured warrant – the underlying securities of the structured warrant which are Approved Securities,
 - (c) a Derivatives Specialist – the underlying securities of the Single Stock Futures Contract or Stock Option Contract which are Approved Securities.
- (2) A Market Maker or Derivatives Specialist must execute a Permitted Short Selling pursuant to Rule 4.15(1) above by way of On-Market Transaction only.
- (3) Unless it is otherwise provided in Part E of this Chapter 4, all other provisions in these Rules apply to Permitted Short Selling, as if they were normal sales of securities.

4.16 Commencement of Permitted Short Selling

- (1) A Market Maker or a Derivatives Specialist may commence Permitted Short Selling only if the Market Maker or the Derivatives Specialist has:
 - (a) established Internal Guidelines for Permitted Short Selling;
 - (b) put in place systems and infrastructure that include front office and back office systems which are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of Permitted Short Selling in accordance with Part E of this Chapter 4; and
 - (c) notified the Exchange that it intends to carry out Permitted Short Selling and submitted a written declaration in the form as prescribed by the Exchange, 2 Market Days prior to the commencement of Permitted Short Selling.

[Refer to Directive No. 4-001]

- (2) In relation to an ETF Market Maker intending to short sell ETF units or Constituent Securities pursuant to Permitted Short Selling, the ETF Market Maker must have entered into an agreement to borrow the ETF units or Constituent Securities for the settlement of Permitted Short Selling.

4.17 Execution

- (1) A Market Maker or a Derivatives Specialist intending to shortsell PSS Securities pursuant to Permitted Short Selling must comply with either of the following prior to execution of the order to shortsell –
 - (a) the PSS Securities to be short sold have been borrowed through SBL or purchased through ISSBNT, as the case may be; or
 - (b) a confirmation has been obtained from an Authorised SBL Participant or Authorised ISSBNT Participant, as the case may be, that the PSS Securities to be short sold are available for the Market Maker or the Derivatives Specialist to use to settle the sale.
- (2) Rule 4.17(1) does not apply to an order to shortsell ETF units or Constituent Securities pursuant to Permitted Short Selling by an ETF Market Maker.

- (3) All Permitted Short Selling must be executed in the designated trading accounts and Securities Accounts prescribed in Rule 4.05 or Rule 4.10.

[Refer to Directive No. 4-001]

- (4) A Market Maker or a Derivatives Specialist must procure and retain proper documents for at least 7 years for the purpose of satisfying the Exchange when requested, that the Market Maker or Derivatives Specialist has complied with the requirements of Rules 4.16(2), 4.17(1) and 4.17(3).
- (5) A Market Maker or a Derivatives Specialist must not execute Permitted Short Selling when expressly directed by the Exchange, during the period where the PSS Securities has been declared, and remains, as Designated Securities under Part C of Chapter 7.
- (6) Unless otherwise specified by the Exchange, in the event the underlying securities of a structured warrant, Single Stock Futures Contract or Stock Option Contract are no longer declared as Approved Securities, a Market Maker or Derivatives Specialist may continue to conduct Permitted Short Selling on the said underlying securities until the expiry date of the structured warrant, or until the last contract month listed for the trading of the Single Stock Futures Contract or Stock Option Contract, as the case may be.

4.18 Suspension of Permitted Short Selling

Without affecting Rule 4.20, the Exchange may suspend any order entry into the order book in the ATS for any further Permitted Short Selling of PSS Securities if the quantity of the total short position of a PSS Securities triggers such thresholds as may be prescribed by the Exchange.

[Refer to Directive No. 8-002]

4.19 Delivery and Settlement

The Rules relating to delivery and settlement under Chapter 9 apply to Permitted Short Selling in the same manner as they apply to normal sales.

4.20 Action by the Exchange

- (1) The Exchange may take any of the actions enumerated under Rule 4.20(2) summarily against a Market Maker, Derivatives Specialist or a Registered Person in relation to Permitted Short Selling if:
 - (a) there is a breach or likelihood of breach of any provisions in Part E of this Chapter 4; or
 - (b) the execution of Permitted Short Selling is likely to lead to the commission of any of the offences under the Capital Markets and Services Act.
- (2) Pursuant to Rule 4.20(1) the Exchange may take any one or more of the following actions:
 - (a) direct further Permitted Short Selling by the Market Maker, Derivatives Specialist, or Registered Person to be suspended or to cease;
 - (b) impose limits on the total short positions that may be held by the Market Maker, Derivatives Specialist or Registered Person;
 - (c) impose restrictions or conditions on Permitted Short Selling carried out by the Market Maker, Derivatives Specialist, or Registered Person; or
 - (d) any other action deemed fit by the Exchange.

4.21 General

Where the Exchange issues directives to modify the application of the Rules in Chapter 4, in so doing, the Exchange may impose terms and conditions for compliance by Market Makers or Derivatives Specialists, where deemed necessary or appropriate.

[End of Chapter]