

RULES OF BURSA MALAYSIA SECURITIES BHD

PROPOSED AMENDMENTS TO THE RULES AND DIRECTIVES IN RELATION TO TRADING OF LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS (“ETFs”) AND ENHANCED PERMITTED SHORT SELLING FRAMEWORK FOR ETFs

| Amendments to the Rules | | | | | |
|-------------------------|--|---|------|--|---|
| RULE | CURRENT PROVISION | | RULE | AMENDED PROVISION | RATIONALE |
| 1.01 | Definition Equity-based Exchange Traded Fund | The Exchange Traded Fund that: (a) tracks the performance of a market index where constituent securities of that market index are wholly shares (“the constituent shares”); and (b) invests in the constituent shares of that market index. | 1.01 | Definition Equity-based Exchange Traded Fund The Exchange Traded Fund that: (a) tracks the performance of a market index where constituent securities of that market index are wholly shares (“the constituent shares”); and (b) invests in the constituent shares of that market index. [Deleted] | In view of the expansion of new types of ETFs recommended by a task force on ETFs chaired by the Securities Commission, comprising the Exchange, fund managers, market makers and institutional investors (“ ETF Taskforce ”), the Permitted Short Selling framework is proposed to no longer be limited to Equity-based Exchange Traded Funds. Hence, this definition is proposed to be deleted as it has become redundant. |
| 1.01 | New definition | | 1.01 | <u>Inverse ETF</u> <u>Same meaning as in the Guidelines on Exchange Traded Funds.</u> | In view of the expansion of new types of ETFs recommended by the ETF Taskforce, we propose to insert the definition of “Inverse ETF” for purposes of defining the term “L&I ETFs” under the new Part J of Chapter 7 below. |

in relation to trading of Leveraged and Inverse ETFs and enhanced Permitted Short Selling framework for ETFs

| RULE | CURRENT PROVISION | RULE | AMENDED PROVISION | RATIONALE |
|-------------|--|--------------------|---|---|
| 1.01 | New definition | 1.01 | <u>Leveraged ETF</u> <u>Same meaning as in the Guidelines on Exchange Traded Funds.</u> | In view of the expansion of new types of ETFs recommended by the ETF Taskforce, we propose to insert the definition of “Leveraged ETF” for purposes of defining the term “L&I ETFs” under the new Part J of Chapter 7 below. |
| 1.01 | New definition | 1.01 | <u>Sophisticated Investor</u> <u>A person who falls within any one of the categories of investors set out in Part 1, Schedules 6 and 7 of the Capital Markets and Services Act.</u> | We propose to insert the definition of “Sophisticated Investors” in this Rule 1.01 as the term is referred to in Chapter 16 and the new Directives to be issued for leveraged and inverse ETFs in relation to Part J of Chapter 7 below. |
| 4.11(3) | General (3) In Part D of this Chapter 4, ETFs refer to Equity-based Exchange Traded Funds which are Specified Securities only. | 4.11(3) | General (3) In Part D of this Chapter 4, ETFs refer to Equity-based Exchange Traded Funds which are Specified Securities only. | In view of the expansion of new types of ETFs recommended by the ETF Taskforce, the Permitted Short Selling framework is no longer confined to Equity-based Exchange Traded Funds. Hence, we propose to delete this Rule 4.11(3) so that the Permitted Short Selling framework will be more facilitative for the Market Makers to undertake the market making activities for all ETFs which are Specified Securities. |

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| RULE | CURRENT PROVISION | RULE | AMENDED PROVISION | RATIONALE |
|-------------|--|--|--|---|
| | New provision | <u>4.15</u> | <p><u>Disapplication of requirements on hedging and limits relating to Permitted Short Selling</u></p> <p><u>Rules 4.13(5) and 4.14 do not apply to such types of ETFs as may be prescribed by the Exchange.</u></p> <p><u>[Refer to Directive No. 4-001]</u></p> | <p>In line with the introduction of new ETFs and review of the Permitted Short Selling framework, we propose to disapply the requirements on hedging and limits relating to Permitted Short Selling as stipulated under Rules 4.13(5) and 4.14 respectively to the following types of ETFs:</p> <ul style="list-style-type: none"> a. Futures-based ETFs b. Synthetic ETFs c. Commodity ETFs; and d. Feeder ETFs. <p>We propose for the above list to be stipulated in a directive.</p> <p>This is in view of the fact that the creation and redemption of the above ETFs are normally cash based and hence, the provisions relating to hedging and limits of Permitted Short Selling should not apply.</p> |
| 4.15 | 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. | <u>4.15</u> <u>4.16</u> | 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. | This provision has been renumbered in line with the insertion of the new Rule 4.15. |

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| RULE | CURRENT PROVISION | RULE | AMENDED PROVISION | RATIONALE |
|-------------|---|--|---|--|
| 4.16 | <p>Action by the Exchange</p> <p>(1) The Exchange may take any of the actions enumerated under Rule 4.16(2) summarily against a Market Maker or its Registered Person in relation to Permitted Short Selling if:</p> <p>(a) there is a breach or likelihood of breach of any provisions in Part D of this Chapter 4; or</p> <p>(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.</p> <p>(2) Pursuant to Rule 4.16(1) the Exchange may take any one or more of the following actions:</p> <p>(a) suspend or direct the Market Maker or its Registered Person to cease further Permitted Short Selling whether in relation to all, some or a particular ETF or Constituent Securities for which the Market Maker is authorised to carry out Market Making activities;</p> <p>(b) impose restrictions or conditions on Permitted Short Selling carried out by the Market Maker or its Registered Person; or</p> | <p>4.16 <u>4.17</u></p> | <p>Action by the Exchange</p> <p>(1) The Exchange may take any of the actions enumerated under Rule 4.16(2) summarily against a Market Maker or its Registered Person in relation to Permitted Short Selling if:</p> <p>(a) there is a breach or likelihood of breach of any provisions in Part D of this Chapter 4; or</p> <p>(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.</p> <p>(2) Pursuant to Rule 4.16(1) the Exchange may take any one or more of the following actions:</p> <p>(a) suspend or direct the Market Maker or its Registered Person to cease further Permitted Short Selling whether in relation to all, some or a particular ETF or Constituent Securities for which the Market Maker is authorised to carry out Market Making activities;</p> <p>(b) impose restrictions or conditions on Permitted Short Selling carried out by the Market Maker or its Registered Person; or</p> | <p>This provision has been renumbered in line with the insertion of the new Rule 4.15.</p> |

in relation to trading of Leveraged and Inverse ETFs and enhanced Permitted Short Selling framework for ETFs

| RULE | CURRENT PROVISION | RULE | AMENDED PROVISION | RATIONALE |
|------------------|--|------------------|--|---|
| | (c) any other action deemed fit by the Exchange. | | (c) any other action deemed fit by the Exchange. | |
| | New provision | 7.40 | <p><u>PART J LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS</u></p> <p><u>Trading in leveraged and inverse Exchange Traded Funds</u></p> <p><u>(1) Leveraged ETFs or Inverse ETFs (referred to collectively in this Rule as “L&I ETFs”) are only intended for trading by investors who satisfy such qualifying criteria as may be prescribed by the Exchange.</u></p> | In view of the expansion of new types of ETFs recommended by the ETF Taskforce, we propose to insert this new Part J to stipulate the conditions that a Client must fulfil if the Client intends to trade in L&I ETFs. |
| | New provision | 7.40 | <p><u>(2) A Participating Organisation must not allow a Client to undertake trading in L&I ETFs units unless it is satisfied that the Client fulfils all such conditions as prescribed by the Exchange for trading in L&I ETFs units.</u></p> <p><u>[Refer to Directive No. 7.40-001]</u></p> | |
| 16.01 (1) | <p>Introduction</p> <p>(1) In this Chapter, “Sophisticated Investor” means a person who falls within any one of the categories of investors set out in Part 1, Schedules 6 and 7 of the CMSA.</p> | 16.01 (1) | <p>Introduction</p> <p>(1) In this Chapter, “Sophisticated Investor” means a person who falls within any one of the categories of investors set out in Part 1, Schedules 6 and 7 of the CMSA.</p> | This definition is moved to the general definition under Rule 1.01 in view that reference is made to it in respect of qualifying criteria for investors in L&I ETFs under Part J of Chapter 7 and in respect of investors for the LEAP Market under Chapter 16. |

in relation to trading of Leveraged and Inverse ETFs and enhanced Permitted Short Selling framework for ETFs

| RULE | CURRENT PROVISION | RULE | AMENDED PROVISION | RATIONALE |
|--|---|-------------------------|--|---|
| 16.01 (2) | (2) A Participating Organisation and its Registered Persons must comply with this Chapter in addition to other provisions of these Rules in relation to trading on the LEAP Market. | 16.01 (2) | (2) A Participating Organisation and its Registered Persons must comply with this Chapter in addition to other provisions of these Rules in relation to trading on the LEAP Market. | The numbering of this provision has been deleted in line with the removal of Rule 16.01(1). |
| Amendments to the Directives | | | | |
| (a) <u>Directives in Relation to Market Making and Specified Securities – No. 4-001</u> | | | | |
| | New paragraph | <u>Para 10</u> | <u>Rule 4.15</u> (1) <u>Rule 4.15 provides that Rules 4.13(5) and 4.14 do not apply to such types of ETFs as may be prescribed by the Exchange.</u> | In line with the introduction of new ETFs and review of the Permitted Short Selling framework, we also propose to disapply the requirements on hedging and limits relating to Permitted Short Selling as stipulated under Rules 4.13(5) and 4.14 respectively to the following types of ETFs: 1. Futures-based ETFs 2. Synthetic ETFs 3. Commodity ETFs; and 4. Feeder ETFs. The above list is stipulated under Paragraph 10(2). This is in view of the fact that the creation and redemption of the above ETFs are normally cash based and hence, the provisions relating to hedging and limits of Permitted Short Selling should not apply. |

in relation to trading of Leveraged and Inverse ETFs and enhanced Permitted Short Selling framework for ETFs

| RULE | CURRENT PROVISION | RULE | AMENDED PROVISION | RATIONALE |
|---|----------------------|-----------------------|---|--|
| | New paragraph | <u>Para 10</u> | <u>(2) Pursuant to the above Rule, the Exchange prescribes that Rules 4.13(5) and 4.14 do not apply to the following ETFs:</u> <u>(a) futures-based ETFs;</u> <u>(b) synthetic ETFs;</u> <u>(c) commodity ETFs; and</u> <u>(d) feeder ETFs.</u> | The rationale is as per the above. |
| (b) <u>New Directives on Trading in Leveraged and Inverse Exchange Traded Funds – No. 7.40-001</u> | | | | |
| | New Directive | | Please refer to Annexure 1 below. | Rationale is stipulated in Annexure A. |

[End of Proposed Amendments to the Rules and Directives]

DIRECTIVES ON TRADING IN LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS

No. 7.40-001

ANNEXURE A

NEW DIRECTIVES ON TRADING IN LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS – No. 7.40-001

Relevant to : Rules 7.40(1) and 7.40(2)
Introduced with effect from : [***] 2018
Amended : N/A
POs' Circular No(s). : [***]
Refer also to Directive No(s). : N/A

1. Rule 7.40(1)

- (1) Rule 7.40(1) provides that Leveraged ETFs or Inverse ETFs (referred to collectively in this Directive as "**L&I ETFs**") are only intended for trading by investors who satisfy such qualifying criteria as may be prescribed by the Exchange.
- (2) This directive sets out the Exchange's criteria which a Client must meet for trading in L&I ETFs units as follows:
- (a) the Client is a Sophisticated Investor;
 - (b) the Client has a Margin Account;
 - (c) the Client has executed at least 5 transactions in exchange traded derivatives, or call or put warrants within the preceding 12 months; or
 - (d) the Client has utilized a performance simulator which simulates trading in L&I ETFs units and undergone an e-learning tutorial developed by the Exchange for trading in L&I ETFs units.

2. Rule 7.40(2)

- (1) Rule 7.40(2) provides that a Participating Organisation must not allow a Client to undertake trading in L&I ETFs units unless it is satisfied that the Client fulfils all such conditions as prescribed by the Exchange for trading in L&I ETFs units.
- (2) Pursuant to the above Rule, a Participating Organisation must not allow a Client to undertake trading in L&I ETFs units unless it is satisfied that the Client has complied with the following conditions:
- (a) the Client has submitted a written declaration that the Client fulfils one or more of the qualifying criteria in paragraph 1(2) above; and
 - (b) the Client has executed a risk disclosure statement in the form prescribed in **Appendix 1** of this Directive.

[End of Directives]

Commented [BM1]: We propose to have the investor comply with any one of these criteria as L&I ETFs carry risks that other conventional, equity-based ETFs, do not. It is important to make sure that investors either get acquainted with the risks, or be sophisticated investors, or investors who have the relevant trading exposure or trading experience in products with a similar risk profile and understand the risks involved, before being allowed to proceed with trading in L&I ETFs. In relation to the criteria in paragraph 1(2)(c), the transactions in exchange traded derivatives, or call or put warrants may either be executed in or outside of Malaysia.

Commented [BM2]: To ensure compliance of the requirement that the Client fulfils any one of the qualifying criteria for trading in L&I ETFs, we propose that the Client submits a declaration on the same.

Commented [BM3]: We propose that the Client executes a risk disclosure statement to ensure that the Client is aware and understands the risks involved in trading in L&I ETFs.

**DIRECTIVES ON TRADING IN LEVERAGED AND INVERSE
EXCHANGE TRADED FUNDS****No. 7.40-001****APPENDIX 1****LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS RISK DISCLOSURE STATEMENT**

- (1) This statement is provided to you in accordance with the directives of the Rules of Bursa Malaysia Securities Berhad.
- (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) Under certain conditions, it may become difficult to sell the L&I ETFs units;
 - (iii) The investor should keep in mind that L&I ETFs are intended to track or replicate a multiple of performance of an index or a multiple of the inverse performance of an index on a daily basis;
 - (iv) 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 a multiple of the inverse performance of an index that the L&I ETFs are supposed to track;
 - (v) 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;
 - (vi) 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;
 - (vii) It is in the investor’s best interests to take effort to study all the risks that are potentially involved in L&I ETFs, including but not limited to interest rate risks, country risks, credit risks, foreign exchange risks and liquidity risks; and
 - (viii) 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 expectations, or may otherwise 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 terms and conditions 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.



**ANNEXURE B
PROPOSED AMENDMENTS**
in relation to trading of Leveraged and Inverse ETFs
and enhanced Permitted Short Selling framework for ETFs

DIRECTIVES ON TRADING IN LEVERAGED AND INVERSE
EXCHANGE TRADED FUNDS

No. 7.40-001

**ACKNOWLEDGEMENT OF RECEIPT OF THIS
RISK DISCLOSURE STATEMENT**

I acknowledge that I have received a copy of the LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS RISK DISCLOSURE STATEMENT and understand its contents which have been explained to me.

Signature:

Full Name:

Date: