

PARTICIPATING ORGANISATIONS' CIRCULAR

Date : 5 April 2013

No : R/R 5 of 2013

DIRECTIVES ON READINESS AUDIT - SELF ASSESSMENT APPROACH, DECLARATORY APPROACH AND GREEN LANE

1. DIRECTIVES

- 1.1 Reference is made to Directive 2.01(2)-006 (Directives on Readiness Audit) in the Participating Organisations' Directives and Guidance issued vide Participating Organisations' Circular No. R/R 4 of 2013 ("Directive").
- 1.2 Changes have been made to the Directive as follows:
- (a) the introduction of a "Green Lane Policy" on readiness audits where Participating Organisations which meet the criteria and take the necessary steps as specified in the Directive are deemed to have obtained the necessary approval to carry out the new activities; and
 - (b) consequential amendments to the existing provisions in respect of the Self Assessment Approach and the Declaratory Approach for clarity and consistency with the "Green Lane Policy".
- 1.3 The amended Directive is set out in **Annexure 1**.
- 1.4 The Directive 2.01(2)-006 issued vide Participating Organisations' Circular No. R/R 4 of 2013 is replaced by this amended Directive.

2. EFFECTIVE DATE

- 2.1 The amended Directive is effective from **2 May 2013**.

3. CONTACT PERSONS

Name	Contact Details
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This Circular is available at

<http://www.bursamalaysia.com/market/regulation/rules/bursa-malaysia-rules/securities/rules-of-bursa-malaysia-securities>

Regulation

DIRECTIVES ON READINESS AUDIT - SELF ASSESSMENT APPROACH, DECLARATORY APPROACH AND GREEN LANE	No. 2.01(2)-006
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Relevant to : Rule 2.01(2)(o)
 Introduced with effect from : 2 May 2013
 Amended : N/A
 POs' Circular No(s). : R/R 4 of 2013, R/R 2 of 2009
 Refer also to Directive No(s). : N/A

1. Rule 2.01(2)(o)

- (1) Rule 2.01(2)(o) provides that in exercising its powers the Exchange may undertake a readiness audit on a Participating Organisation or require a Participating Organisation to carry out its own readiness audit, with the scope, criteria and manner to be determined by the Exchange.
- (2) Pursuant to the above Rule, a Participating Organisation must undertake a readiness audit in the circumstances prescribed below and in the manner set out below.

2. Circumstances in which a readiness audit is required to be undertaken by a Participating Organisation

- (1) An applicant wishing to commence new activities requiring the approval of the Securities Commission ("Commission") and the Exchange must first undertake a readiness audit in accordance with these Directives. These activities are:
 - (a) the commencement of operations as a new Participating Organisation (Principal Office); and
 - (b) the commencement of operations as a Universal Broker.
- (2) An applicant wishing to commence new activities requiring the Exchange's approval only must also first undertake a readiness audit in accordance with these Directives. These activities are:
 - (a) the establishment of new/additional trading floor;
 - (b) the relocation of business premises or change of business address (applicable to Principal Office and Branch Office)¹;
 - (c) the opening of a new Branch Office of a Participating Organisation;
 - (d) the opening of a new Electronic Access Facility;
 - (e) the conversion of an Electronic Access Facility to a Branch Office or vice versa;
 - (f) the offering of Margin Financing facilities; and
 - (g) the commencement of proprietary trading.

¹ For the avoidance of doubt, the relocation of business premises includes a redesignation between a Principal Office and a Branch Office i.e. where the Principal Office is redesignated as a Branch Office or the Branch Office is redesignated as the Principal Office.

- (3) Except where paragraph 4 applies, the Exchange will, upon receiving an application for approval from a Participating Organisation to commence a new activity and upon due consideration, give an approval-in-principle setting out the relevant conditions that need to be complied with by the Participating Organisation prior to commencement of the activity. The Exchange will indicate whether the Participating Organisation is required, in relation to the readiness audit, to follow the self assessment approach (“SAA”) or the declaratory approach (“DA”).
- (4) The requirement to follow either the SAA or DA is assessed based on the following principles:
- (a) Operating as a new Participating Organisation or Universal Broker
- The SAA will apply to readiness audits required for approval to commence operations as a new Participating Organisation or a Universal Broker.
- (b) Opening of a New Branch Office By a Participating Organisation
- (i) The SAA will apply to readiness audits required for approval to open the first 3 Branch Offices.
- (ii) The DA will apply to readiness audits required for approval to open subsequent Branch Offices.
- (c) All other activities of Participating Organisation
- (i) The SAA will apply to readiness audits required for approval to commence an activity for the first time.
- (ii) The DA will apply to readiness audits required for approval of subsequent applications of the same nature.
- (5) Notwithstanding items (a), (b) and (c) in paragraph 2(4) above, the Exchange may at any time or under any circumstance it deems fit, require the Participating Organisation to adhere to the SAA in place of the DA.

3. Requirements for SAA or DA

In following the SAA or DA in respect of its readiness audit, a Participating Organisation must comply with the requirements set out below.

3.1 Self Assessment Approach (SAA)

- (1) A Participating Organisation must comply with the requirements set out in the following appendices to this Directive, in relation to the SAA:

No.	Type Of Document	Appendix
1.	Procedures for submission and approval in respect of SAA	1
2.	Declaration of readiness for SAA	2

3.2 Declaratory Approach (DA)

- (1) A Participating Organisation must comply with the requirements set out in the following appendices to this Directive, in relation to the DA:

No.	Type Of Document	Appendix
1.	Procedures for submission and approval in respect of DA	3
2.	Declaration of readiness for DA	4

3.3 Non-application of directives

This directive is not applicable to readiness audits or inspection by the Exchange in respect of Securities Borrowing & Lending and Regulated Short Selling activities, for which the relevant provisions of the Rules continue to apply.

4. Green Lane Policy

- (1) The Exchange will allow a Participating Organisation to commence certain activities without waiting for the Exchange to issue its approval-in-principle under paragraph 2(3) above ("Green Lane Policy") if:
- (a) the Participating Organisation is assessed as being eligible under paragraph 4.1 below ("Eligible Participating Organisation");
 - (b) the activity falls within the types of activities prescribed under paragraph 4.2 below and meets the criteria prescribed under paragraph 4.3 below; and
 - (c) the Eligible Participating Organisation completes the readiness audit in accordance with the requirements stipulated in paragraph 1(4) of Appendix 1 and paragraph 4 of Appendix 2, and notifies the Exchange in the form attached as Appendix 5 before the commencement of the relevant activity.
- (2) The Eligible Participating Organisation that complies with the requirements of subparagraph 4(1)(c) above is deemed to have been given the Exchange's approval to carry out the said activity pursuant to these Rules.
- (3) Notwithstanding paragraph 4(1) above, the Exchange may, at any time or under any circumstance it deems fit, in respect of a Participating Organisation proceeding under paragraph 4(1) above, require the Participating Organisation to adhere to the SAA or DA, instead of providing the notification to the Exchange that is referred to under paragraph 4(1)(c).

4.1 Eligibility of a Participating Organisation

- (1) The Exchange will assess a Participating Organisation to determine whether it may be considered as an Eligible Participating Organisation for a particular activity. In making this assessment, the Exchange may take into consideration, among others, whether:
- (a) the Participating Organisation is familiar with the requirements applicable to the proposed activity, having undertaken the said activity previously;

- (b) the Exchange has noted any unsatisfactory supervisory controls or governance or compliance culture issues in the Participating Organisation's front, middle or back office activities whether as part of its off-site or on-site supervision activities or otherwise;
 - (c) the Exchange or the Commission has any serious regulatory concern about the Participating Organisation; and
 - (d) where the Participating Organisation is also a participant of another subsidiary of Bursa Malaysia Berhad ("other participantship"), the Exchange has noted any unsatisfactory supervisory controls or governance or compliance culture issues in the Participating Organisation's activities vis-à-vis such other participantship(s).
- (2) The Exchange will notify a Participating Organisation upon determination that it is an Eligible Participating Organisation for a particular activity and where there is any subsequent change to its status. The Exchange's assessment is final and binding on the Participating Organisation concerned.
- (3) A Participating Organisation that has not fulfilled the criterion under paragraph 4.1(1)(b) or (c) may still be considered as an Eligible Participating Organisation if it addresses the weaknesses and breaches or serious regulatory concerns, to the satisfaction of the Exchange.

4.2 Activities

Subject to paragraph 4.3, the Exchange may apply the Green Lane Policy to the following types of activities:

- (a) the establishment of new/additional trading floor;
- (b) the relocation of business premises or change of business address (applicable to Principal Office and Branch Office)²;
- (c) the opening of a new Branch Office of a Participating Organisation;
- (d) the opening of a new Electronic Access Facility;
- (e) the conversion of an Electronic Access Facility to a Branch Office or vice versa;
- (f) the offering of Margin Financing facilities; and
- (g) the commencement of proprietary trading.

4.3 Criteria for activities falling within Green Lane Policy

The Exchange may apply the Green Lane Policy to the activities in paragraph 4.2 in the following manner:

- (a) in relation to the opening of a new Branch Office of a Participating Organisation, the Green Lane Policy will apply to readiness audits required for approval to open the Participating Organisation's 5th Branch Office onwards; and

² For avoidance of doubt, the relocation of business premises includes a redesignation between a Principal Office and a Branch Office i.e. the Principal Office is redesignated as a Branch Office and the Branch Office is redesignated as the Principal Office.

- (b) in relation to the other activities, the Green Lane Policy will apply to readiness audits required for approval to commence an activity of the same nature for which approval had previously been granted by the Exchange.

[End of Directive]

Appendix 1

SAA PROCEDURES ON SUBMISSION AND REVIEW OF APPLICATIONS FROM PARTICIPATING ORGANISATIONS ON NEW ACTIVITIES

1. Procedures For Submission and Approval in respect of SAA

- (1) The Participating Organisation intending to commence an activity is required to formally inform the Exchange in writing setting out the type of activity for which the approval is required.
- (2) The Exchange will upon due consideration give its Approval-In-Principle ("AIP") to the Participating Organisation.
- (3) Upon receipt of the AIP from the Exchange, the Participating Organisation shall commence to demonstrate its readiness to the Exchange. This will include making the necessary arrangements and commissioning of the relevant infrastructure that are needed to commence the proposed activity.
- (4) The Participating Organisation would then be required to carry out an independent readiness audit and complete the relevant checklists as prescribed by the Exchange or the Commission. The review shall be carried out by a party that is independent of trading and operations of the Participating Organisation, for example, internal audit or external audit.
- (5) A formal application will then be made by the Participating Organisation to the Exchange setting out the level of readiness, the intended commencement date together with all relevant supporting documents and the report produced from the independent readiness audit. The Exchange may seek additional clarification or documents where necessary to ensure the completeness of the readiness audit process.
- (6) If the proposed activity only requires the approval of the Exchange, it will then review the application made together with the supporting documents and communicate the outcome of the review and issue its approval directly to the Participating Organisation.
- (7) Where the proposed activity also requires the approval of the Commission, the Exchange will review the submission made by the Participating Organisation and forward the same together with the Exchange's recommendation to the Commission for its further consideration and approval.

2. Documentation Requirements for New Activities

The following documents are required:

- Relevant checklist in the prescribed form for each type of new activity.
- Final report of the independent readiness audit carried out by the Participating Organisation.

- Extract of board resolutions / minutes of meeting where applicable.
- Extract of relevant sections of operations manual.
- Copies of relevant agreements entered into by Participating Organisation in connection with the proposed activity.
- Diagrams of new office layout where applicable.
- Results of infrastructure testing where required by the Exchange.
- Any other documents in support of the application or expressly required to be submitted by the Exchange.

Note:-

The Participating Organisation is required to submit complete documentation and checklist together with the required declaration to the Exchange at least 4 weeks prior to the intended commencement date of the proposed activity. The Participating Organisation should also ensure that all the relevant requirements of the checklist(s) wherein applicable has been complied with prior to the submission to the Exchange.

[End of Appendix 1]

Appendix 2

DECLARATION OF READINESS FOR THE SELF ASSESSMENT APPROACH

To: Head
Participants Supervision Division
Regulation
BURSA MALAYSIA BERHAD
12th Floor, Exchange Square
Bukit Kewangan
50200 Kuala Lumpur

[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]

**DECLARATION ON COMPLIANCE FOR PURPOSES OF READINESS TO COMMENCE
OPERATIONS**

We refer to our application to commence the operation of our *[insert the particulars of the activity concerned]* referenced *[insert reference]* dated *[insert date]*, full details of which are contained in the proposal accompanying our said application.

We, *[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]*, hereby declare and confirm as follows:

1. we shall comply at all times with the relevant rules, directives, circulars and guidelines issued from time to time by Bursa Malaysia Berhad and/or other subsidiaries of Bursa Malaysia Berhad (collectively referred to hereinafter as the Bursa Group) in relation to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* by the Participating Organisation/Authorised Depository Agent/Trading Clearing Participant;
2. that to the best of our knowledge, the *[insert the particulars of the activity concerned]* to be established, maintained or operated by us complies fully with all requirements prescribed by the Bursa Group in relation to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* by the Participating Organisation/Authorised Depository Agent/Trading Clearing Participant;
3. that the *[insert the particulars of the activity concerned]* that is established, maintained or operated, or as the case may be, intended to be established, maintained or operated, outside our Principal Office, Branch Office(s) and/or any of electronic access facility(s) contains adequate and effective specifications and capabilities to ensure that the security of transactions and confidentiality of clients are at all times reasonably and adequately preserved;
4. that the *[insert the particulars of the activity concerned]* is, in terms of the applications or software, the physical site location and the hardware, reasonably secured from unauthorised tampering and intrusion and in this respect we have at the minimum strictly complied with all relevant directives, guidelines, circulars and codes relating to security issue by the Bursa Group for the time being in force, including but not limited to the Participating Organisations' IT Security Code or the use of information technology (as may be amended from time to time);

5. the *[insert the particulars of the activity concerned]* conforms in all material respects with all relevant rules, directives, circulars and guidelines issued by the Bursa Group with respect to trading of securities on the Exchange by Participating Organisations generally;
6. we are satisfied that the relevant controls and monitoring policies and procedures pertaining to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* is/are adequate and effective; and
7. we shall indemnify the Bursa Group and not hold the Bursa Group liable to any claims made by any party as a result of the establishment, maintenance or operations of the *[insert the particulars of the activity concerned]* and its activities.

Signed _____
Authorised signatory

Date _____

[End of Appendix 2]

Appendix 3

DA PROCEDURES ON SUBMISSION AND REVIEW OF APPLICATIONS FROM PARTICIPATING ORGANISATIONS ON NEW ACTIVITIES

1. The Participating Organisation intending to commence an activity is required to formally inform the Exchange in writing setting out the type of activity for which the approval is required.
2. The Exchange will upon due consideration give its Approval-In-Principle ("AIP") to the Participating Organisation.
3. Upon receipt of the AIP from the Exchange, the Participating Organisation shall commence to demonstrate its readiness to the Exchange. This will include making the necessary arrangements and commissioning of the relevant infrastructure that are needed to commence the proposed activity.
4. The Participating Organisation would then be required to carry out an independent readiness audit and complete the relevant checklists as prescribed by the Exchange. The review shall be carried out by a party that is independent of trading and operations of the Participating Organisation, for example, internal audit or external audit.
5. The Participating Organisation must then submit the DA Declaration Form in the format prescribed in Appendix 4 to this Directive at least 2 clear weeks before the above intended commencement date.
6. The Exchange will process the application based on the declaration provided by the Participating Organisation and issue its approval directly to the Participating Organisation.

[End of Appendix 3]

Appendix 4

DECLARATION OF READINESS FOR THE DECLARATORY APPROACH

To: Head
Participants Supervision
Regulation
BURSA MALAYSIA BERHAD
12th Floor, Exchange Square
Bukit Kewangan
50200 Kuala Lumpur

[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]

**DECLARATION ON COMPLIANCE FOR PURPOSES OF READINESS TO COMMENCE
OPERATIONS**

PART I

We refer to our application to commence the operation of our *[insert particulars of the activity concerned]* referenced *[insert reference]* date *[insert date]*.

We, *[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]*, hereby declare and confirm as follows:

1. that *[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]* has carried out an independent readiness audit in regard of *[insert the particulars of the activity concerned]*, and we have reasonable assurance that all the relevant systems, policies and procedures and relevant front office and back office systems IT systems that are required for the effective establishment, maintenance or operation of *[insert the particulars of the activity concerned]* are readily available, operative and functional and are adequate and effective in achieving the intended purpose;
 2. we are satisfied that the relevant controls and monitoring policies and procedures pertaining to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* is/are adequate and effective;
 3. we shall comply at all times with the relevant rules, directives, circulars and guidelines issued from time to time by Bursa Malaysia Berhad and/or other subsidiaries of Bursa Malaysia Berhad (collectively referred to as the Bursa Group) in relation to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* by the Participating Organisation/Authorised Depository Agent/Trading Clearing Participant;
 4. that to the best of our knowledge, the *[insert the particulars of the activity concerned]* to be established, maintained or operated by us complies fully with all requirements prescribed by the Bursa Group in relation to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* by *[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]*;
 5. that the *[insert the particulars of the activity concerned]* that is established, maintained or operated, or as the case may be, intended to be established, maintained or operated, outside our Principal Office, Branch Office(s) and/or any of electronic access facility(s) contains adequate and effective specifications and capabilities to ensure that the security of
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transactions and confidentiality of clients are at all times reasonable and adequately preserved.

6. that the [*insert the particulars of the activity concerned*] is, in terms of the applications or software, the physical site location and the hardware, reasonably secured from unauthorized tampering and intrusion and in this respect we have at the minimum strictly complied with all relevant directives, guidelines, circulars and codes relating to security issued by the Bursa Group for the time being in force, including but not limited to the Participating Organisations' IT Security Code or the use of information technology (as may be amended from time to time);
7. the [*insert the particulars of the activity concerned*] conforms in all material respects with all relevant rules, directives, circulars and guidelines issued by the Bursa Group with respect to trading of securities on the Exchange by the Participating Organisations generally; and
8. we shall indemnify the Bursa Group and not hold the Bursa Group liable to any claims made by any party as a result of the establishment, maintenance or operations of the [*insert the particulars of the activity concerned*] and its activities.

PART II: NOTIFICATION

The following are the details of the activities that will be undertaken:*

Authorised signatory

Date

* To provide the details of the activities, including the systems employed and key personnel involved. For Branch Office, to indicate the systems employed and whether the back office and operations are centralized at the Principal Office/other Branch Office or whether there are remote terminals for processing of transactions.

Appendix 5

NOTIFICATION OF COMMENCEMENT OF OPERATIONS UNDER THE GREEN LANE POLICY

To: Head
Participants Supervision
Regulation
BURSA MALAYSIA BERHAD
12th Floor, Exchange Square
Bukit Kewangan
50200 Kuala Lumpur

[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]

NOTIFICATION OF COMMENCEMENT OF OPERATIONS UNDER THE GREEN LANE POLICY

The following are the details of the activities that will be undertaken:*

Authorised signatory

Date

* To provide the details of the activities, including the systems employed and key personnel involved. For Branch Office, to indicate the systems employed and whether the back office and operations are centralized at the Principal Office/other Branch Office or whether there are remote terminals for processing of transactions.

[End of Appendix 5]
