

ANNEXURE 2: DIRECTIVE NO. 2-001
RULES OF BURSA MALAYSIA DERIVATIVES CLEARING BHD
Rule Amendments in Relation to the Decoupling of Clearing Participantship from Trading Participantship

DIRECTIVES ON CLEARING PARTICIPANTSHIP, FINANCIAL REQUIREMENTS AND REGISTERED PERSONS	No. 2-001
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Relevant to : Rules 115, 205, 237(c), 238 and 242(b)
Introduced with effect from : 23 August 2017
Amended : N/A
CP Circular No(s). : N/A
Refer also to Directive No(s). : N/A

Introduction

Chapter 2 of the Rules sets out the general requirements relating to clearing participantship, financial requirements and Registered Persons. This directive sets out the minimum obligations in relation to those general requirements.

1. Rule 205

- (1) To become a Clearing Participant, Rule 205(a)(i) requires an applicant to apply to the Clearing House in accordance with the requirements the Clearing House stipulates.
- (2) The following sets out the details of the Clearing House's requirements, amongst others, in relation to the application.

1.1 Clearing Participants

An applicant must complete and submit an application to the Clearing House in the form set out in **Appendix 1** of this Directive, accompanied by:

- (a) copies of the applicant's memorandum and articles of association or other constituent documents evidencing the applicant's:
 - (i) directors and shareholders; and
 - (ii) authorised and paid-up capital;
- (b) evidence that the applicant's application for a Capital Markets Services Licence for carrying on the business of Clearing has been approved (if applicable);
- (c) any additional document required for an application for admission to a specific category of Clearing Participantship;
- (d) payment of the non-refundable annual fee and the registration fee as set out in **Schedule 1** (if any);
- (e) an undertaking in the form set out in **Appendix 2**; and
- (f) such evidence the Clearing House regards as satisfactory to show that, at the time of the application, the applicant is able to comply with the financial requirements in the Rules.

2. Rule 237(c)

Rule 237(c) provides that a Compliance Officer of a General Clearing Participant is responsible to ensure that the supervisory responsibilities in relation to compliance of the Rules are carried out and matters pertaining to compliance are highlighted to the Board of Directors of the General Clearing Participant. In discharging the obligations under the said Rule, a Compliance Officer and the General Clearing Participant must, amongst others, comply with the requirements set out below.

2.1 Monthly compliance reports

- (1) A Compliance Officer must submit monthly written reports to the Board of Directors of the General Clearing Participant on all matters pertaining to compliance of the General Clearing Participant with the Securities Laws and the Rules.
- (2) The Board of Directors of the General Clearing Participant must deliberate matters reported to it by the Compliance Officer at its proper meeting so that appropriate action or decision can be taken. Proper records of such deliberations must be maintained by the General Clearing Participant.
- (3) The Compliance Officer must report to the Clearing House on a monthly basis, not later than the last day of the following month or such other period as may be prescribed by the Clearing House from time to time, on all matters pertaining to compliance of the General Clearing Participant.
- (4) The format for the monthly written reports to be submitted to the Board of Directors of the General Clearing Participant and the Clearing House referred to in paragraphs 2.1(1) and (3) above must be in the form as set out in **Appendix 3** of this Directive (“Compliance Report Template”).
- (5) The Compliance Report Template is not intended and must not be construed to limit the scope of reporting or the scope of duties and responsibilities of the Compliance Officer as stipulated in the Rules. The Compliance Report Template serves to streamline and standardise the form and manner in which breaches of the Securities Laws, the Rules and any other matters pertaining to compliance or otherwise are to be reported to the Clearing House or the General Clearing Participant’s Board of Directors.
- (6) All items stated in the respective sections of the Compliance Report Template must be completed in accordance with the Directives prescribed in the table below:

Section No.	Item	Directives
1.0	Summary of Non Compliance	This section provides for a brief description of the non compliances noted in the month reported and the remedial action(s) taken, if any.
2.0	Status of Non Compliances Reported Earlier	This section provides for the status of the remedial action(s) on the non compliances reported in the previous report.
3.0	Status of Compliance With The Conditions Imposed by the Clearing House and the Commission	This section provides for the status of compliance with the terms and conditions imposed by the Clearing House and/or the Commission on the General Clearing

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Section No.	Item	Directives
		Participant arising from its operations as a General Clearing Participant whether the same were imposed arising from applications made by the General Clearing Participants to the Clearing House or the Commission or otherwise and where compliance of such terms and conditions is required on a continuing basis. For example the status of compliance with the terms and conditions imposed pursuant to the readiness audit conducted and applications made under the Rules for approvals or waivers.
4.0	Matters To Be Highlighted To the Clearing House	This section is optional. The General Clearing Participant may wish to highlight to the Clearing House general matters in relation to compliance other than breaches of the Rules or otherwise with a view of improving the standard of compliance and regulations. For example areas in the Rules that lack clarity or require enhancement.
5.0	Report On General Compliance Level of General Clearing Participant	This section is for the Compliance Officer to provide his opinion or make an assessment of the general compliance level of the General Clearing Participant for the month.
6.0 to 15.0	Detailed Report	<p>This section prescribes the “mandatory areas” where the General Clearing Participant has to expressly state whether the requirements stated in the mentioned areas have been complied with or not.</p> <p>This is to ensure that the General Clearing Participant’s level of compliance with the laws and the Rules in relation to the areas set out in these sections is fully disclosed to its board of directors and to the Clearing House.</p>
16.0		<p>Reporting in relation to compliance by the General Clearing Participant with the areas in the laws and the Rules other than the areas itemised in section 6.0 to 15.0 is only required if there is a non compliance with the same.</p> <p>The General Clearing Participant must add section 16.0 to the Compliance Report Template for the purpose of reporting the above non compliances. Where the areas involved in the above reporting are varied</p>

Section No.	Item	Directives
		and many, the General Clearing Participant, may for ease of reporting, add more section numbers after section 16.0.

2.2 Report of Breach/Non-Compliance

In addition to the reporting requirements provided in paragraph 2.1 above, the Compliance Officer must immediately report to:

- (a) the Board of Directors of the General Clearing Participant in the event he becomes aware of:
 - (i) any matter which, in his opinion may:
 - (aa) constitute a breach of any provisions of the Securities Laws and the Rules; or
 - (bb) involve the potential default of the General Clearing Participant against the Clearing House or other counterparty; or
 - (ii) any irregularity which may;
 - (aa) have a material effect upon the accounts of the General Clearing Participant and/or the minimum financial requirements prescribed by the Securities Laws and the Rules; or
 - (bb) jeopardise the funds or property of the Clients held by the General Clearing Participant;
- (b) the Clearing House upon him becoming aware of any matter, which in his opinion, may:
 - (i) involve the potential default of the General Clearing Participant against the Clearing House or other counterparty; or
 - (ii) significantly affect the risk position and financial integrity of the General Clearing Participant; and
- (c) the Commission upon him becoming aware of any matter, which in his opinion, may constitute a breach of any provision of the Securities Laws.

2.3 Report of Rectification of Breach

For all other matters reported to the General Clearing Participant's Board of Directors in the manner envisaged in paragraph 2.2(a) above, a General Clearing Participant must keep the Clearing House informed of the decisions of the General Clearing Participant's Board of Directors and particulars of any corrective measures and decided course of actions taken or to be taken, as the case may be, in remedying such breach or irregularity within 30 days of his reporting the breach or irregularity to the Board of Directors.

3. Rule 238

- (1) Rule 238 sets out the registration procedures for the persons enumerated under Rule 235.
- (2) The following procedures apply in respect of applications for registration of proposed Registered Persons.

3.1 Registration Procedures for Registered Persons

- (1) The General Clearing Participant of the person who is to be registered as a Registered Person is required to make only one submission through the Commission's Electronic Licensing Application ("ELA") System for the purpose of licensing, approval or registration by the Commission and registration with the Clearing House.
- (2) For the purpose of the registration with the Clearing House, a General Clearing Participant must submit through the ELA System:
 - (a) the duly completed application in the form set out in **Appendix 4** of this Directive to the Clearing House;
 - (b) an undertaking in the form set out in **Appendix 5** of this Directive; and
 - (c) if more than 1 Registered Person is appointed by the General Clearing Participant in the areas of overall clearing business, risk management or compliance respectively, a description of the area and responsibility of each Registered Person.

(referred to collectively as "**the Clearing House's Information**")

- (3) By making the submission through the ELA, the General Clearing Participant agrees that although the submission is directed to the Commission, it forms part of the submission to the Clearing House. The General Clearing Participant agrees that the relevant information in the submission made through the ELA System (together with the Clearing House's Information) may be transmitted into the Clearing House's system for approval, upon the Commission's approval of the application.
- (4) The Clearing House will send a notification to the General Clearing Participant if the application is approved by the Clearing House.
- (5) A General Clearing Participant must retain possession of the original copies of the Clearing House's Information and must produce such original copies to the Clearing House at the Clearing House's request.

4. Rule 242(b)

- (1) Rule 242(b) requires a General Clearing Participant to register with the Clearing House a person temporarily assuming responsibility for the functions of a vacated office under Rule 242(a).
- (2) The following procedure applies in respect of an application to register a person temporarily assuming responsibility for the functions of a vacated office under Rule 242(a).

4.1 Registration pursuant to vacancy

A General Clearing Participant must complete and submit an application to the Exchange in the form set out in **Appendix 4** of this Directive, accompanied by:

- (a) any applicable fee the Clearing House stipulates; and
- (b) an undertaking in the form set out in **Appendix 5** of this Directive.

5. Rule 115

- (1) Rule 115 requires a Clearing Participant to pay an amount equal to the Goods and Services Tax on the fees, charges, costs, expenses or any amount under the Rules in the manner and within the period the Clearing House specifies unless otherwise specified by the Clearing House in accordance with the Goods and Services Tax Act 2014.
- (2) The Directive below sets out the manner in which fees and charges in this Directive are displayed and further details on the GST payable.

5.1 “Price payable is exclusive of GST”

- (1) The Clearing House has obtained an approval to display prices exclusive of the Goods and Services Tax (“**GST**”) under subsection 9(7) of the Goods and Services Tax Act 2014. Accordingly, each fee or charge set out in this Directive does not include GST i.e. **price payable is exclusive of GST**.
- (2) 6% GST is payable on all fees or charges (unless otherwise specified by the Clearing House in accordance with the Goods and Services Tax Act 2014), and will be billed in the tax invoices issued in relation to such fees or charges.

[End of Directive]

Schedule 1

Fees for Clearing Participants

	Description	Annual Fee (RM)	Registration Fee (RM)
(a)	General Clearing Participant	6,000.00	50,000
(b)	Direct Clearing Participant	-	10,000

[End of Schedule]



**APPLICATION FOR CLEARING PARTICIPANTSHIP
PURSUANT TO THE RULES OF BURSA MALAYSIA DERIVATIVES CLEARING BERHAD**

Please complete all sections of the form in full.
Please type or use black ink as the form will be photocopied.

For office use only

Exchange's reference number

1. Particulars of the applicant Corporation

Corporation's name in full

Date of incorporation

Place of incorporation

Company No.

Principal Business

Registered address for correspondence

(Please notify us of any change of address immediately)

Business address (if different)

Please notify us of any change of address immediately)

Telephone no.

Telephone no.

Facsimile no.

Facsimile no.

E-Mail Address

E-Mail Address



2. State the names of the Corporation's contact person: -

Name	Designation: Chief Executive Officer (or equivalent)
i.	
ii.	

3. Exchange Membership

Bursa Malaysia Derivatives	Yes / No
Other Exchange (Please indicate name of other exchange)	
Type of Participantship	
Other Exchange	

4. Share Capital

Total paid-up share capital	
Paid-up capital made up of	RM - Ordinary Shares
	RM - Preference Shares

5. Back Office

Name of Back-Office System Used	
Name of Accounting System Used	
Name of Principal Banker	



6. Other information

Please enclose a certified true copy of the following documents:

- (a) Certified true copies of the constitution, if any, or any other constituent documents, of the applicant company and if any, its corporate shareholders (if any); copies of the applicant's constitution, if any or other constituent documents evidencing the applicant's:
 - (i) directors and shareholders; and
 - (ii) paid-up capital;
- (b) Such documents and information as may be appropriate in respect of its financial standing such as:
 - Auditor's Certification;
 - Balance Sheet; and
- (c) Notice of registration;
- (d) Notification of change in the Register of Directors, Manager and Secretaries;
- (e) Notice of registration of the new name;
- (f) Return of allotment of shares;
- (g) Notification for change in the registered address (if relevant);
- (h) Particulars of change or alteration relating to foreign company (if relevant); or similar documents of its nature.
- (i) Board resolution authorising the company to make an application for Bursa Malaysia Derivatives Clearing Berhad's participantship;
- (j) Latest audited financial statements or, where no audited accounts have been filed, the audited balance sheet; and
- (k) Documents proving exchange participantship.

Please also enclose the following information:

1. A list of all shareholders of the company setting out their name, address, nationality, occupation, amount of shareholding in the company and directorship in any other company. Please indicate if any of the shareholders are related. A shareholder ("first shareholder") will be regarded as being related to another shareholder ("second shareholder") if:
 - (a) in the case of an individual, the first shareholder is a spouse, father, mother, son or daughter of the second shareholder;
 - (b) in the case of a corporation, the first shareholder is a holding company or subsidiary of the second shareholder or a subsidiary of the same holding company of which the second shareholder is a subsidiary

Where the number of shareholders in the applicant exceeds 20, please only provide particulars for those shareholders holding 5% or more of the issued share capital in their names.

2. If the applicant is a holding company or subsidiary of another company, a chart showing the group of companies with which the applicant is associated or related.
3. The applicant's organisation chart setting out the number of employees at the company and the names, qualification and working experience of the management staff.
4. The gross revenue of the company for the current/previous year.



DECLARATION

The applicant declares that all the information provided here, including the information contained in the enclosed documents are true and correct to the best of its knowledge and belief.

The applicant acknowledges that the Market Participants Committee has absolute discretion in admitting participants to Bursa Malaysia Derivatives Clearing Berhad and that the acceptance of this application form does not constitute admission to participantship.

Dated this day of

.....
Name:
Director

.....
Name:
Director/Company Secretary

**Directive No. 2-001: Appendix 2
Undertaking by the Clearing Participant**

[Note: This document was previously 'Schedule 3' in the Rules of BMDC. It is now 'Appendix 2' of Directive No. 2-001 and the changes made to the document are as indicated below.]

Schedule 3

UNDERTAKING – CLEARING PARTICIPANT

BY [name of applicant]

....., 20.....

To :

Bursa Malaysia Derivatives Clearing Berhad ("the Clearing House")
6th Floor Exchange Square
Bukit Kewangan
50200 Kuala Lumpur

Compliance with the Business Rules of Bursa Malaysia Derivatives Clearing Berhad ("the Clearing House")

In consideration of the Clearing House approving at our request our /having approved the application for admission of [name of applicant] (hereinafter referred to as "the Company") as a *General Clearing Participant / Direct Clearing Participant of the Clearing House in accordance with the Rules of the Clearing House ("Rules" and includes all amendments and supplements to the Rules), and for utilisation of the services and facilities made available by the Clearing House to the Company under this category of participantship ~~WE HEREBY ACKNOWLEDGE we hereby irrevocably and unconditionally undertake and agree as follows:-~~

- (1) that the Company satisfies all the conditions for admission as a *General Clearing Participant / Direct Clearing Participant set out in Chapter 2 of the Rules;
- (2) that the information and documents accompanying the application for admission as a Clearing Participant are complete and accurate;
- (3) that the Clearing House may obtain from or provide to any regulatory authority (whether in or out of Malaysia) any information directly or indirectly relating to the Company for any purpose relating to or in connection with discharging any function of the Clearing House or that regulatory authority;
- (4) to notify the Clearing House immediately in writing of any changes in the information given together with the application for admission as a Clearing Participant;
- (5) to abide by the decision of the Clearing House in relation to the application for admission as a Clearing Participant;
- (6) to be bound in all respects by and to comply with the Rules in so far as they apply directly or indirectly to a Clearing Participant;
- (7) to indemnify and keep the Clearing House fully indemnified from and against all losses, damages, costs, expenses, actions and claims or otherwise which the Clearing House may incur arising out of any act or omission on our part or failure by us to comply with any provisions in the Rules; and

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Undertaking by the Clearing Participant**

(8) notwithstanding our ceasing to be a Clearing Participant of the Clearing House for any reason whatsoever, to continue to be bound by the Rules in so far as they may relate to any act or omission that we may, in the opinion of the Clearing House, have committed or omitted to do during our tenure as a Clearing Participant of the Clearing House.

We acknowledge that:

- (a) the approval of our application for admission as a Clearing Participant; or
- (b) any indulgence or delay in making any demand or instituting any action by the Clearing House.

will not constitute or be deemed to operate as a waiver by the Clearing House of any of its rights under this undertaking or under the Rules.

We further acknowledge that the Company shall remain a Clearing Participant of the Clearing House at the discretion of the Clearing House.

~~can remain as a Clearing Participant of the Clearing House, and utilisation of any of such services and facilities by the Company can continue only during the pleasure of the Clearing House and **WE HEREBY UNDERTAKE AND AGREE** to comply with the Business Rules of the Clearing House which shall be in force from time to time, insofar as the same shall apply to the Company.~~

The above Undertaking has been signed by me/us for and on behalf of the Company as [specify designation#title] of the Company pursuant to authority granted to me by resolution of the board of directors of the Company on [specify the date when the resolution was passed]

Signed by Authorised Signatory(ies) _____)
for and on behalf of [name of applicant] _____)
in the presence of _____)

[Specify full name of authorised signatory]
[Specify NRIC No. of authorised signatory]

Date :

Signature : _____

Name :

NRIC No. :

* Delete whichever inapplicable

[End of Appendix]

ABC FUTURES CLEARING SDN BHD

**COMPLIANCE REPORT
FOR THE MONTH OF
xx 20xx**

**Directive No. 2-001: Appendix 3
Compliance Report Template**

EXECUTIVE SUMMARY

1. SUMMARY OF NON-COMPLIANCE

No	Ref	Relevant Rule / Guidelines / Acts	Description of non-compliance	Action(s) taken

2. STATUS OF NON-COMPLIANCES REPORTED EARLIER
(to the extent that the issue has not been rectified and reported)

No	Reported in Compliance Report of the month of	Description of non-compliance	Status of rectification

3. STATUS OF COMPLIANCE WITH THE CONDITIONS IMPOSED BY BURSA DERIVATIVES CLEARING AND THE SECURITIES COMMISSION

No	Readiness or applications (include the date of approval)	Condition	Status of compliance

Note: The Clearing Participant (CP) is to report all conditions that the CP has yet to comply. Those conditions that have been complied with and reported need not be included in the reports of subsequent months.

4. MATTERS TO BE HIGHLIGHTED TO BURSA CLEARING

- Comments on existing Bursa Derivatives Clearing Rules
- Regulatory burden encountered

5. REPORT ON GENERAL COMPLIANCE LEVEL OF CP

- The Compliance Officer to express opinion/ assessment on the general compliance level of the CP for the month

DETAILED REPORT

6. On Adjusted Net Capital (“ANC”) and financial requirements, the Compliance Officer shall report whether:

Note: This section is not applicable to Bank CPs or the exposures of CPs who are Participating Organisations that have been reported under the Capital Adequacy Framework

- There is any exception noted in respect of CP’s ANC and minimum financial requirements reports, paying particular attention to the accuracy and timelines of the reports and also the integrity of the data.

**Directive No. 2-001: Appendix 3
Compliance Report Template**

- There is any item/transactions not recorded/reported, including trading in overseas market and off balance sheet transactions that may affect the CP's ANC.
- For existing Subordinated Loans which have less than 2 years to expiry, highlight any intention to renew/extend the same.

7. On opening of new accounts, the Compliance Office shall report whether:

- The internal policies and procedures on "Know your client" and opening of accounts are complied with.

8. On error trades, the Compliance Officer shall report whether:-

- Errors are closed out immediately or promptly liquidated.

To summarise the total error trades occurred in the month, the reasons for error trades as well as the amount of profits/losses from error trades in the following table:-

Date	Product	Qty (Lot)	Profit/(Loss) RM	Remarks

9. On registered representatives (either salaried or commissioned), the Compliance Officer shall report:-

- Exceptions on registered representatives who are not engaged on a full time basis and/or involved in back office operations
- Exceptions on registration, renewal and cessation of registered representative's licence
- Exceptions on unlicensed trading
- Exceptions on instances of sharing of user-ids and passwords

10. On segregated account, the Compliance Office shall report whether:

- All deficiencies in the segregated account have been addressed in a timely manner
- Irregularities noted on withdrawal of monies from the client's segregated account

To state the deficiency in the segregated account in the following table:

Date	Deficiency (RM)	Action taken/Remarks

11. On complaints, the Compliance Officer shall report whether:

- All complaints received have been promptly resolved

To indicate the number and nature of complaints received and resolved in the following table:

No	Nature of Complaint	Date of Complaint	Date complaints is resolved/Action taken

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Compliance Report Template**

12. On transaction by employees and directors, the Compliance Officer shall report whether:

- The transactions carried out on account of the employees were with the prior and separate written consent of the CP.
- The transactions carried out on account of a director were with the prior and separate written consent of the CP.

Total number of employees involved	Total number of lots traded	Total notional value of transactions (RM)	Type of Contract

Total number of directors involved	Total number of lots traded	Total notional value of transactions (RM)	Type of Contract

13. On client's margin, the Compliance Officer shall report whether:

- There is any exception noted in respect of minimum initial margin obtained from client prior to trading;
- Margin calls are promptly issued to clients when required;
- Forms of margin payment are in line with the requirements of the CP's internal policies and procedures;
- Irregularities were noted on withdrawal of excess margin by clients;
- New positions were allowed for clients who have insufficient margin about T+3 days. To indicate in the following table:

No of clients	Total new position allowed (lots)	Total margin shortfall

14. On advertising, sales literature and educational materials, the Compliance Officer shall report whether:

- There is any exception noted on the compliance with the requirement on advertising, sales literature and educational materials.

15. On segregation of duties and policies and procedures, the Compliance Officer shall report:

- Irregularities noted on the segregation of duties especially between the back and front office; and
- Exceptions noted on the inadequacies of policies and procedures of the CP.

16. On non-compliances other than in the areas itemised in sections 6.0 to 15.0 above.

[End of Appendix]

**Directive No. 2-001: Appendix 4
Registration Form for Registered Person**

Registration Form for Registered Person

Name of General Clearing Participant:

Company No.:

Address:

Date:

To: **Bursa Malaysia Derivatives Clearing Berhad** (“the Clearing House”)

Dear Sirs,

Appointment and Registration of a #[Responsible Person for Overall Clearing Business / Responsible Person for Risk Management / Compliance Officer]

We, [*name of General Clearing Participant*], are desirous of appointing and registering the following person as a #[Responsible Person for Overall Clearing Business / Responsible Person for Risk Management / Compliance Officer] of [*name of General Clearing Participant*] upon the terms and subject in all respects to the Rules of the Clearing House (as defined in the Rules of the Exchange).

Name of proposed Registered Person:

NRIC:

Address:

In support of this submission, we enclose:

- *(1) the respective area and scope of responsibility of each of the #[Responsible Person for Overall Clearing Business / Responsible Person for Risk Management / Compliance Officer] of [*name of General Clearing Participant*]; and
- (2) an undertaking by the proposed Registered Person in the form the Clearing House stipulates.

Yours faithfully,

Signed by Authorised Signatory(ies))
for and on behalf of [*name of General Clearing Participant*])
in the presence of:)

Delete whichever inapplicable.

* *Delete if inapplicable*

[End of Appendix]

Directive No. 2-001: Appendix 5
Undertaking by the Registered Person

Undertaking – Registered Person (all categories)

....., 20.....

To:

Bursa Malaysia Derivatives Clearing Berhad (“the Clearing House”)

In consideration of the Clearing House approving the application for my registration with the Clearing House as a [*specify category of Registered Person*] in accordance with the Rules of Bursa Malaysia Derivatives Clearing Berhad (“Rules”), I hereby irrevocably and unconditionally undertake and agree as follows:-

- (1) that I satisfy the qualification criteria for a [*specify category of Registered Person*] set out in Chapter 2 of the Rules;
- (2) that the information and documents accompanying the application for registration as [*specify category of Registered Person*] are complete and accurate;
- (3) that the Clearing House may obtain from or provide to any regulatory authority (whether in or out of Malaysia) any information directly or indirectly relating to me for any purpose relating to or in connection with discharging any function of the Clearing House or that regulatory authority;
- (4) to notify the Clearing House immediately in writing of any change in the information given together with the application for my registration as a [*specify category of Registered Person*];
- (5) that until and unless I have been duly registered by the Clearing House as a [*specify category of Registered Person*], not to act in any manner for and on behalf of [*name of General Clearing Participant*];
- (6) to abide by the decision of the Clearing House in relation to the application for my registration as a [*specify category of Registered Person*] of [*name of General Clearing Participant*];
- (7) to be bound in all respects by and to comply with the Rules in so far as they apply directly or indirectly to a [*specify category of Registered Person*];
- (8) to indemnify and keep the Clearing House fully indemnified from and against all losses, damages, costs, expenses, actions and claims or otherwise which the Clearing House may incur arising out of any act or omission on my part or failure by me to comply with any provisions in the Rules; and
- (9) notwithstanding my ceasing to be registered as a [*specify category of Registered Person*] with the Clearing House for any reason whatsoever, to continue to be bound by the Rules in so far as they may relate to any act or omission that I may, in the opinion of the Clearing House, have committed or omitted to do during the period of my registration with the Clearing House.

I acknowledge that:

- (a) the approval of the application for my registration as a [*specify category of Registered Person*] with the Clearing House; or
- (b) any indulgence or delay in making any demand or instituting any action by the Clearing House,

will not constitute or be deemed to operate as a waiver by the Clearing House of any of its rights under this undertaking or under the Rules.

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Undertaking by the Registered Person

I further acknowledge that I will remain registered as a [*specify category of Registered Person*] with the Clearing House at the discretion of the Clearing House.

Signed by [*name of proposed Registered Person*])
in the presence of)

[End of Appendix]

ANNEXURE 2: DIRECTIVE NO. 5-001
RULES OF BURSA MALAYSIA DERIVATIVES CLEARING BHD
Rule Amendments in Relation to the Decoupling of Clearing Participantship from Trading Participantship

DIRECTIVES ON THE RESPONSIBILITIES OF CLEARING PARTICIPANTS	No. 5-001
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Relevant to	:	Rules 501, 504, 505, 508(a)(ii), 511, 512, 515(b), 520(b), 521(b), 521(c), 522(b), 523(a), 523(b), 525, 533
Introduced with effect from	:	23 August 2017
Amended	:	N/A
CP Circular No(s).	:	N/A
Refer also to Directive No(s).	:	N/A

Introduction

Chapter 5 of the Rules sets out the general requirements relating to the responsibilities of Clearing Participants. This directive sets out the minimum obligations in relation to those general requirements.

1. Rule 501

Rule 501 requires a Clearing Participant to adhere to just and equitable principles and act with due skill, care and diligence and with due regard for the integrity of the market and in a manner consistent with the promotion and protection of the goodwill and public image of the Clearing House and the Clearing Participants. In discharging the obligations under the said Rule, a Clearing Participant must, amongst others, comply with the requirements set out below.

1.1 General Conduct

- (1) A Clearing Participant must, in the conduct of the Clearing Participant's business:
- (a) observe, comply with and act consistently with decisions of the Clearing House and its committees, and to settle any disputes with its Clients or another Clearing Participant in the manner provided by the Rules;
 - (b) observe professional conduct and high standards of integrity;
 - (c) not engage in any unlawful or irregular or unhealthy practice;
 - (d) not do or cause or permit to be done any act which:
 - (i) would adversely affect the goodwill or public image of the Clearing House or its Clearing Participants;
 - (ii) would bring or is likely to bring the Clearing House or its Clearing Participants into disrepute;
 - (iii) is injurious to the character and interest or prejudicial to the objects of the Clearing House;
 - (e) not submit information to the Clearing House which the Clearing Participant knows or ought reasonably to know to be false or misleading;
 - (f) effect and maintain such form of indemnity as the Clearing House may from time to time determine to be appropriate to protect the interests of Clients; and

- (g) ensure that no person who is in possession of material non-public information obtained as a result of a position of confidence held by that person and which might reasonably be expected to affect materially the price of the Market Contracts, makes improper use of such information to gain, directly or indirectly, an advantage for himself or for any other person.
- (2) In addition to the requirements above, a Clearing Participant must exercise strict supervision over the Clearing Participant's business activities and the activities of the Clearing Participant's Registered Persons and employees to achieve compliance with these Rules and Securities Laws.

2. Rules 504 and 508(a)(ii)

- (1) Rule 504 requires a Clearing Participant to have in place an adequate risk management framework to ensure that it is able to perform adequate risk management functions at all times.
- (2) Rule 508(a)(ii) requires the Clearing Participant to have in place structures, internal controls and written policies and procedures designed to, amongst others, identify, monitor and manage risks that may arise in the conduct of the Clearing Participant's business.
- (3) In discharging the obligations under these Rules, a Clearing Participant must, amongst others, comply with the requirements set out below.

2.1 Risk Management

- (1) A Clearing Participant must, in respect of the Approved Market that it operates in or the Open Contracts that it clears and settles, have procedures in place to:
 - (a) monitor the credit risks of accepting Market Contracts, including give-up of Open Contracts, in relation to specific accounts;
 - (b) monitor the risks associated with proprietary trading;
 - (c) limit the impact of significant market movements through the use of tools such as stress testing or position limits;
 - (d) maintain the ability to monitor account activity on an intraday basis; and
 - (e) define sources of liquidity for increased settlement obligations.

3. Rule 505

Rule 505 provides that a Clearing Participant must establish and maintain a proper system to supervise the activities of the Clearing Participant's agents and personnel and that is reasonably designed to achieve compliance with the Rules and the Act. In discharging the obligations under the said Rule, a Clearing Participant must, amongst others, comply with the requirements set out below.

3.1 Compliance Guidelines for Clearing Participants ("Compliance Guidelines")

A Clearing Participant must comply with the Compliance Guidelines as set out in **Appendix 1** of this Directive.

4. Rule 511

Rule 511 requires a Clearing Participant to immediately notify the Clearing House of any event or state of affairs which has or may have a material adverse impact on its financial position or its ability to perform any of its obligations under the Rules or which may interfere with its ability to conduct its business in a normal manner. In discharging the obligations under the said Rule, a Clearing Participant must, amongst others, comply with the requirements set out below.

4.1 Specific notice required

A Clearing Participant must notify the Clearing House in writing immediately upon the occurrence of the following events:

- (a) the bankruptcy of any of the directors of the Clearing Participant;
- (b) the failure by the Clearing Participant to comply with any of the provisions in the Rules including the terms of the Open Contract relating to Delivery and the acceptance of any Delivery;
- (c) the failure by the Clearing Participant to pay when due any sum due and payable, or if the Clearing Participant is otherwise in default under the terms of any loan or other agreement relating to the Clearing Participant's indebtedness, or the Clearing Participant threatens or proposes to suspend, stop, defer or reschedule payment or to default under the terms of such loan or agreement;
- (d) the Clearing Participant is insolvent, or is unable to pay its debts as and when they fall due, or a bankruptcy or winding-up petition is presented, or a notice of a proposal for a resolution for the Clearing Participant's winding-up is given, or a voluntary arrangement is approved by the Court of Law for the benefit of its creditors, or an assignment or composition is made by the Clearing Participant for the benefit of its creditors or any of them;
- (e) a liquidator, receiver, manager, trustee, an administrative receiver or similar officer is appointed or a composition or scheme of arrangement is approved by a Court of Law against the Clearing Participant or an assignment or composition is made by the Clearing Participant for the benefit of its creditors or any of them;
- (f) a resolution to wind-up the Clearing Participant (save for the purpose of amalgamation or reconstruction) is passed or a bankruptcy or winding-up order is made;
- (g) any distress, execution or other process is levied or enforced or served upon or against any property or assets of a Clearing Participant;
- (h) whether the Clearing Participant, or any of its directors, is convicted of a seizable offence or any offence involving a finding of fraud; or
- (i) where the Clearing Participant, or any of its directors is engaged in acts or practices inconsistent with just and equitable principles of clearing and settlement.

5. Rule 512

Rule 512 empowers the Clearing House to from time to time prescribe early warning financial requirements. In discharging the obligations under the said Rule, a Clearing Participant must, amongst others, comply with the requirements set out below.

5.1 Early Warning Levels

The two levels of early warning are as follows:

- (a) First Level – when a General Clearing Participant's Adjusted Net Capital is between 131% to 150% of the minimum Adjusted Net Capital required to be maintained under Rule 215;
- (b) Second Level – when a General Clearing Participant's Adjusted Net Capital is between 100% to 130% of the minimum Adjusted Net Capital required to be maintained under Rule 215.

5.2 First Level Obligations

As soon as a General Clearing Participant's Adjusted Net Capital triggers the First Level of warning, the General Clearing Participant must:

- (a) immediately inform the Clearing House of the same;
- (b) submit a concrete action plan to strengthen its financial position;
- (c) submit, within such time and in such form and manner as determined by the Clearing House, such reports as the Clearing House requires; and
- (d) update its general accounting records promptly to enable an effective monitoring of its Adjusted Net Capital.

5.3 Second Level Obligations

As soon as a General Clearing Participant's Adjusted Net Capital triggers the Second Level of warning, the General Clearing Participant must:

- (a) immediately inform the Clearing House of the same;
- (b) compute and monitor its Adjusted Net Capital on a daily basis and submit Form B and Form C (please refer to the Financial Reporting Guide in **Appendix 4** of this Directive) on a daily basis by the end of the second Business Day; and
- (c) submit, within such time and in such form and manner as determined by the Clearing House, such other reports as the Clearing House requires.

6. Rule 515(b)

Rule 515(b) requires a Clearing Participant to have adequate security and emergency arrangements to provide continuous business operations with minimal disruptions. In discharging the obligations under the said Rule, a Clearing Participant must, amongst others, comply with the requirements set out below.

6.1 Business Continuity Requirements

A Clearing Participant must:

- (a) document its business continuity arrangements in a business continuity plan;
- (b) review and test its business continuity plan regularly; and

- (c) appoint emergency contact persons and furnish the contact information of such persons to the Clearing House. The Clearing Participant's emergency contact persons must be contactable at all times, and must immediately notify the Clearing House in the event of emergencies.

7. Rule 520(b)

Rule 520(b) requires a General Clearing Participant to account for and adequately safeguard a Client's or potential Client's assets. In discharging the obligations under the said Rule, a General Clearing Participant must, amongst others, comply with the requirements set out below.

7.1 Segregation of Client's Accounts, Money, Securities and Property

- (1) A General Clearing Participant must maintain its own accounts and its Client's accounts segregated at all times and must inform and keep the Clearing House informed of such information as would be required for the Clearing House to maintain the Segregated Account or Unsegregated Account of the General Clearing Participant referred to in Rule 604.
- (2) The Open Positions in an Unsegregated Account must not (unless permitted by the Rules) be offset against the Open Positions in any Segregated Account.
- (3) If any money or property is deposited with, or are received by, a General Clearing Participant for or on behalf of a Client in connection with:
 - (a) the clearing and settlement of Open Contracts effected or proposed to be effected, whether in Malaysia or elsewhere, by a General Clearing Participant on behalf of that Client; or
 - (b) instructions by such Client to clear and settle Open Contracts, whether in Malaysia or elsewhere,

the General Clearing Participant must:

- (i) in respect of monies, deposit the monies in an account or accounts of the General Clearing Participant designated as Clients' Segregated Account kept and maintained within Malaysia or in the place where the monies was deposited with or received by the General Clearing Participant; or
- (ii) in respect of property, deposit the property in safe custody within Malaysia or in the place where the property was deposited with or received by the General Clearing Participant, in such a manner that the property is segregated from property other than property deposited by the General Clearing Participant in safe custody under this Rule,

no later than the next bank business day or such other day that may be specified by the Commission after the monies or property is deposited with or received by the General Clearing Participant that is a day on which the amount or property can be deposited as first mentioned in paragraph 7.1(3)(b)(i) or (ii), as the case may be. For avoidance of doubt, all monies received by a General Clearing Participant under paragraph 7.1(3) are to be deposited in a Clients' Segregated Account by the next bank business day or such other day that may be specified by the Commission and all properties received by a General Clearing Participant under paragraph 7.1(3) must where applicable be deposited in safe custody of any competent authority by clearly designating and evidencing the account as "Clients' Account" by the next bank business day or such other day that may be specified by the Commission of the competent authority.

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- (4) Without prejudice to the generality of paragraph 7.1(3), if in connection with the clearing and settlement of Open Contracts effected, whether within or outside Malaysia, by a General Clearing Participant, the General Clearing Participant receives from a person an amount of monies, some or all of which is attributable to clearing and settlement of Open Contracts so effected, whether within or outside Malaysia, on behalf of the Clients of the General Clearing Participant, the General Clearing Participant must, no later than the next bank business day or such other day that may be specified by the Commission on which the amount can be so deposited, deposit the amount in a Clients' Segregated Account of the General Clearing Participant kept and maintained within Malaysia or in the place where the General Clearing Participant receives the amount.
- (5) If, under this Rule, a General Clearing Participant deposits money in respect of a Client in a Client's Segregated Account, the General Clearing Participant must not withdraw any of the money except for the purpose of:
- (a) making a payment to or in accordance with the written direction of, a person entitled to the monies;
 - (b) making a payment for or in connection with, the entering into, margining, guaranteeing, securing, transferring, adjusting or settling of Open Contracts effected by the General Clearing Participant on behalf of the Client;
 - (c) defraying clearing fees and other proper charges incurred in respect of the clearing and settlement of the Open Contracts effected by the General Clearing Participant on behalf of the Client;
 - (d) investing it:
 - (i) on deposit at interest with a licensed bank as defined in the Financial Services Act 2013;
 - (ii) on deposit with a clearing house for a derivatives exchange that has been approved under the Act; or
 - (iii) in any other prescribed manner;
 - (e) making a payment that is otherwise authorised by law or by the Rules or by the Exchange Rules;
 - (f) or as permitted by paragraph 7.1(9).
- (6) A General Clearing Participant must not deal with property deposited by the General Clearing Participant in safe custody under paragraph 7.1(3) except in accordance with the terms and conditions on which the property was deposited with or received by the General Clearing Participant.
- (7) A General Clearing Participant must not invest an amount under paragraph 7.1(5)(d) by depositing it with a person for that person to invest unless the General Clearing Participant:
- (a) has told the person that the amount has been withdrawn from a Client's Segregated Account of the General Clearing Participant and is monies to which the Clients of the General Clearing Participant are entitled; and
 - (b) has obtained from the person a written statement that is signed by the person, setting out the amount and acknowledging that the General Clearing Participant has informed the person as required under paragraph 7.1(7)(a).

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- (8) If, at any particular time, the total amount of the relevant liabilities of a Client of a General Clearing Participant exceeds the relevant credit balance of the Client, the General Clearing Participant must in respect of the Client, deposit in a Clients' Segregated Account of the General Clearing Participant an amount of money not greater than the amount of the excess, and the amount so deposited is to be taken, subject to paragraph 7.1(9), to be money to which the Client is entitled.
- (9) If –
- (a) a General Clearing Participant has, in respect of a Client, deposited an amount under paragraph 7.1(8) in a Clients' Segregated Account of the General Clearing Participant; and
 - (b) the relevant credit balance of the Client exceeds the total amount of the relevant liabilities of the Client,
- the General Clearing Participant may withdraw from the account so much of the amount referred to in paragraph 7.1(9)(a) as does not exceed the amount of the excess referred to in paragraph 7.1(9)(b).
- (10) A General Clearing Participant must keep, in relation to the Clients' Segregated Account or Clients' Segregated Accounts of the General Clearing Participant, accounting records that:
- (a) are separate from any other accounting records of the General Clearing Participant;
 - (b) record separately in respect of each Client of the General Clearing Participant particulars of the amounts deposited in and the amounts withdrawn from the account or accounts in respect of the Client; and
 - (c) record, separately from the particulars referred to in paragraph 7.1(10)(b):
 - (i) particulars (including particulars of withdrawals) of so much of the amounts deposited in accordance with paragraph 7.1(4) in the account or accounts as was not attributable to clearing and settlement of Open Contracts effected by the General Clearing Participant on behalf of Clients of the General Clearing Participant;
 - (ii) particulars of all amounts deposited in the account or accounts under paragraph 7.1(8); and
 - (iii) particulars of all amounts withdrawn from the account or accounts under paragraph 7.1(9).
- (11) A General Clearing Participant must keep records that:
- (a) relate to the deposits of property in safe custody by the General Clearing Participant under paragraph 7.1(3); and
 - (b) record separately in respect of each Client of the General Clearing Participant particulars of the property deposited in respect of the Client. For the purpose of this paragraph 7.1(11)(b), the minimum information that must be kept are:
 - (i) the date the property or document of title to the property is received;
 - (ii) the date the property or document of title to the property is deposited in safe custody;
 - (iii) the particulars of the property or document of title so deposited; and

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- (iv) the place where the property has been deposited.
- (12) A General Clearing Participant must keep accounting records and any other records that are required by paragraphs 7.1(10) and (11) to be kept by the General Clearing Participant, in accordance with the provisions of section 108 of the Act. Section 108 of the Act applies as if those accounting records and other records were accounting records required by that section to be kept by the General Clearing Participant.
- (13) A General Clearing Participant must:
- (a) provide the Clearing House with a statement of segregation of all Clients' money or property in a form as may be prescribed by the Clearing House from time to time. This statement of segregation is required to be submitted to the Clearing House on a monthly basis, i.e. no later than 15 calendar days after the end of each month, provided always that the Clearing House, at its discretion, may from time to time prescribe a different reporting interval for any particular General Clearing Participant as it deems fit and appropriate; and
- (b) immediately inform the Clearing House if there is a shortfall in the Clients' Segregated Account, and to immediately rectify such shortfall.
- (14) For the purposes of this paragraph 7.1, "property", "relevant liabilities" and "relevant credit balance" have the meanings ascribed to them in Section 117 of the Act.

8. Rule 521(b)

Rule 521(b) states that a General Clearing Participant may accept from its Clients as margin cash, letters of credit, bank guarantees, approved securities and other forms of margins in the manner and subject to conditions as the Clearing House may from time to time prescribe. In discharging the obligation under the said Rule, a General Clearing Participant must, amongst others, comply with the requirements set out below.

8.1 Clients' Margins and Margin Payment

- (1) A General Clearing Participant may accept the following collateral from its Clients for the purposes of margin payment subject to the minimum haircut for such collateral as set out below:

Collateral Type	Description	Minimum Haircut		
Cash	Cash currencies of any denomination with Investment Grade in Country Credit Rating, subject to Bank Negara exchange control	Currencies	Minimum Haircut Rate	
			RM	USD
			Performance Bond Obligation	Performance Bond Obligation
		AUD	3.00 %	3.50 %
		EUR	3.00 %	3.00 %
		GBP	2.50 %	2.50 %
		JPY	3.50 %	3.00 %
		SGD	1.50 %	1.50 %
		USD	1.50 %	0.00 %
		MYR	0.00 %	1.50 %
		CNY	2.50%	1.00%
HKD	2.50%	1.00%		
		Others – 10%		

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Collateral Type	Description	Minimum Haircut
Stocks	Securities listed on country's exchange with Investment Grade in Country Credit Rating	30%
Letters of Credit	Letters of Credit	Subject to the currency haircut
Government Securities	Malaysia Government Securities Foreign Government Securities with Investment Grade	Malaysia Government Securities = 5% Foreign Government Securities = 10%
Gold	"London Good Delivery" gold, as defined by the London Bullion Market Association	15%
Others	Bank Guarantee Bank Certificates of Deposit	Subject to the currency haircut

**Acceptance of any type of collateral is subject to haircut rate deemed appropriate by the General Clearing Participant in accordance with its risk management procedure, provided that it is nothing lower than haircut prescribed by the Clearing House.

- (2) A General Clearing Participant may request, at its absolute discretion, from its Clients, margins above the minimum required by the Clearing House.
- (3) A General Clearing Participant must ensure that each Client's Open Positions are marked to market daily and must make an additional call for margins from the Clients if necessary.
- (4) A General Clearing Participant must also comply with Margin Rates and Deposits Guidelines as set out in **Appendix 2** of this Directive.

8.2 Accepting Securities as Margin Payment

- (1) A General Clearing Participant is allowed to accept securities from Clients as margin payment subject to the following conditions:
 - (a) that the securities accepted as margin payment are securities prescribed by the Clearing House as eligible to be deposited with the Clearing House by the General Clearing Participant for the purpose of the General Clearing Participants' Margin payment to the Clearing House;
 - (b) that the securities obtained from the General Clearing Participants' Clients are for the purpose of margin payment on all or any Open Positions of the Clients in accordance with Rule 521; and
 - (c) that the General Clearing Participant and each Client must execute a memorandum of deposit the minimum contents of which are prescribed by the Clearing House in **Appendix 3** of this Directive ("Memorandum of Deposit"). The General Clearing Participant and the Client are not allowed to amend, vary, add or substitute etc. any of the terms of the Memorandum of Deposit or enter into additional agreements or any form of arrangement or understanding howsoever described which has the effect of altering, limiting or waiving the meaning, substance, application and the operation of the terms prescribed in the Memorandum of Deposit.
- (2) Where the General Clearing Participant accepts securities as margin payment from its Clients in accordance with paragraph 8.2(1) above, the General Clearing Participant may deposit the same with the Clearing House for the purpose of the General Clearing Participant's Margin payment to the Clearing House. For the avoidance of doubt, this Directive shall not be

construed so as to authorise the General Clearing Participant to deposit Clients' securities with the Clearing House for the purpose of the General Clearing Participants' Margin payment to the Clearing House where the Memorandum of Deposit has not been executed by the Clients.

9. Rule 521(c)

Rule 521(c) requires a General Clearing Participant to ensure that except for Market Contracts which reduce a Client's margin obligation, no new Market Contracts are entered into by the Client unless the minimum margin for the Market Contracts are on deposit or is forthcoming within such period as may be prescribed by the Clearing House from time to time after a call for margin has been made by the General Clearing Participant and that Client's pre-existing Open Positions comply with the margin requirements established by the General Clearing Participant. In discharging the obligation under the said Rule, a General Clearing Participant must, amongst others, comply with the requirements set out below.

9.1 Time period prescribed under Rule 521(c)

The Clearing House has specified that a reasonable time for the purposes of Rule 521(c) is 3 Business Days from the transaction date.

9.2 Notifying the Trading Participant

The General Clearing Participant must notify the relevant Trading Participant of the Client's failure to comply with the relevant margin requirements.

10. Rule 522(b)

Rule 522(b) requires a General Clearing Participant to maintain adequate records in relation to complaints received from Clients. In discharging the obligations under the said Rule, a General Clearing Participant must, amongst others, comply with the requirements set out below.

10.1 Records of client complaints

A General Clearing Participant must make and keep current a separate central log, index or other file for all complaints so that such complaints can easily be identified and retrieved. At a minimum, the log, index or file must include:

- (a) the identity of complainant;
- (b) the date complaint was received;
- (c) a general description of the matter complained of; and
- (d) a record of what action, if any, has been taken by the General Clearing Participant with respect to the complaint.

11. Rule 523(a)

Rule 523(a) requires a General Clearing Participant to confirm in writing to every Client every transaction made for the Client no later than the following Business Day. In discharging the obligations under the said Rule, a General Clearing Participant must, amongst others, comply with the requirements set out below.

11.1 Confirmations to Client

A General Clearing Participant must include the following information in the confirmation:

- (a) the name of the General Clearing Participant;
- (b) the name and address of the Client for whom or on whose behalf the General Clearing Participant effected the transactions;
- (c) the date of the transaction;
- (d) the total amount of the clearing and other fees charged;
- (e) a description of the transaction e.g. whether to buy, sell or to exercise;
- (f) in the case of an Option Open Contract, the exercise price of the Option Open Contract and the date by or on which the Buyer of the Option Open Contract, in order to exercise the Option Open Contract, must declare an intention to exercise the Option Open Contract;
- (g) in the case of a liquidating order for an Open Contract that is a Futures Contract, details of that order together with the said Open Contract and for Options, details of the liquidating Contract; and
- (h) any other information as may be prescribed by the Commission, the Act or any regulations made under the Act.

12. Rule 523(b)

Rule 523(b) requires a General Clearing Participant to provide to each Client a monthly statement. In discharging the obligations under the said Rule, a General Clearing Participant must, amongst others, comply with the requirements set out below.

12.1 Monthly statement

The General Clearing Participant must provide to each Client a monthly statement, within 7 days after the end of each calendar month showing:

- (a) the name of the General Clearing Participant and the address of the principal place of business at which the General Clearing Participant carries on its business as a General Clearing Participant;
- (b) the amount of cash and securities (indicating each separately) held for the credit of that Client;
- (c) the opening cash balance for that month in the Client's account;
- (d) all deposits, credits, withdrawals and debits affecting the Client's account during that month;
- (e) the cash balance in the Client's account at the end of that month;
- (f) particulars of each Open Contract that the General Clearing Participant, before or during that month, carries on behalf of the Client and that, as at the end of that month has not been closed out, showing in the case of each Open Contract the net unrealised profits or losses calculated on a mark-to-market basis;

- (g) details of all Open Contracts of the Client, which have been closed out in that month, and for Futures Contracts, accounting of all realised profits and losses of the Client;
- (h) details of outstanding margin calls in respect of an Open Contract that the General Clearing Participant is carrying on behalf of the Client; and
- (i) any other information as may be prescribed by the Commission, the Act or any regulations made under the Act.

13. Rule 525

Rule 525 requires a Clearing Participant to submit, within such time and in such form and manner as determined by the Clearing House, such statements, information and reports as may be requested by the Clearing House. In discharging the obligations under the said Rule, a Clearing Participant must, amongst others, comply with the requirements set out below.

13.1 Financial Reporting Guide

A Clearing Participant must comply with the Financial Reporting Guide set out in **Appendix 4** of this Directive.

13.2 Periodic Reports

- (1) A Clearing Participant must submit the periodic reports prescribed in **Appendix 5** of this Directive to the Clearing House:
 - (a) in the format prescribed in the Schedules to **Appendix 5** (“Templates”);
 - (b) via electronic transmission to the Clearing House via proprietary e-mail; and
 - (c) not later than the times and days stipulated in **Appendix 5**.
- (2) All periodic reports electronically transmitted by way of proprietary e-mail, whether by a Clearing Participant, or any of its directors, officers, employees, servants or agents, are deemed to have been reviewed by the Compliance Officer (in the case of a General Clearing Participant) and the information and records attached to such reports are deemed to be declared by the directors of the Clearing Participant to be true and accurate in all material aspects.
- (3) Clearing Participants which do not have a proprietary e-mail address are required to submit the periodic reports referred to in paragraph 13.2(1) above to the Clearing House stored in a conventional portable storage media or device¹, including but not limited to, a micro diskette or a CD-ROM. The micro diskette or CD-ROM submitted must be under cover of a letter signed by a director and, if the Clearing Participant is a General Clearing Participant, the Compliance Officer of the Clearing Participant, confirming that the information and records contained in the micro diskette or CD-ROM are true and accurate in all material aspects.
- (4) In the event any information or records provided by any Clearing Participant in connection with the aforesaid submissions are found to be false, misleading or inaccurate in any manner whatsoever, the Clearing House is entitled to take such disciplinary or other action(s) as it deems necessary or expedient.

¹ The portable storage device must be USB port compatible.

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- (5) Subject always to paragraph 13.2(7), Clearing Participants may cease their submission of the periodic reports which have been submitted via e-mail, micro diskette or CD-ROM in hard copy form to the Clearing House.
- (6) Clearing Participants need not submit documents in support of the aforesaid periodic reports to the Clearing House. However, Clearing Participants are required to maintain all the supporting documents at their premises and are required to produce it to the Clearing House as and when required by the Clearing House.
- (7) Notwithstanding paragraph 13.2(5) above:
 - (a) in the event a Clearing Participant is, for any reason whatsoever, unable to submit by e-mail, micro diskette or CD-ROM, all or any of the periodic reports by the stipulated times pursuant to paragraphs 13.2(1) and (2) above, the Clearing Participant must submit the duly completed and printed hard copy form of such periodic reports by way of facsimile, courier or by hand by the stipulated times set out in **Appendix 5** for the duration of its inability to e-mail or to submit the micro diskette or CD-ROM, as the case may be; and
 - (b) in the event a Clearing Participant rectifies, amends or re-submits all or any of the periodic reports prescribed in this Directive for any reason whatsoever, the Clearing Participant must submit the duly rectified, amended or re-submitted periodic report by way of facsimile by the stipulated times set out in **Appendix 5**, and deliver the printed hard copy by courier or by hand as soon as possible thereafter.
- (8) The periodic reports submitted by the Clearing Participants under paragraph 13.2(7) above must be duly signed by a director and, if the Clearing Participant is a General Clearing Participant, the Compliance Officer of the Clearing Participant, confirming and undertaking that the information and records contained therein are true and accurate in all material aspects.
- (9) The Clearing House may take disciplinary or other action(s) as it deems necessary or expedient in the event the periodic reports are submitted later than the stipulated times set out in **Appendix 5**.
- (10) The Clearing House may in its absolute discretion and at any time prescribe any other periodic reports to be submitted via e-mail or other conventional portable storage media or device or vary the times and manner for submissions of any periodic reports stipulated under paragraphs 13.2(1) and (2) above.

14. Rule 533

- (1) Rule 533 empowers the Clearing House to determine from time to time the limits on the Open Positions which may be held or controlled by any Client or Clearing Participant in any Derivatives (“position limits”) or number of Options that can be exercised by any Client or Clearing Participant (“exercise limits”) and grant such exemption, modification or variation in relation to the position limits or exercise limits as the Clearing House deems fit.
- (2) Pursuant to Rule 533(b), a Clearing Participant must ensure that the position limits and exercise limits applicable to any Client or Clearing Participant are adhered to at all times.
- (3) In connection with Rule 533, a Clearing Participant must, amongst others, comply with the requirements set out below.
- (4) Unless the context otherwise requires, a reference to the following terms will be construed as follows:

- (a) "Market" means the market operated by the Exchange for trading in Futures Contracts;
- (b) "Market Maker" is an individual or corporation approved by the Exchange as such;
- (c) "Omnibus Account" means an account of a Client utilised by the Client for the clearing and settlement of Open Contracts for the Underlying Clients of the Client;
- (d) "Specified Position Limits" means the position limits stated in Appendix 6 of this Directive;
- (e) "Stock Index Futures Contract" means an Adjustment Agreement where the underlying stock index is an Instrument or a basket of shares of an Underlying Market;
- (f) "Underlying Client" means the client of the Client; and
- (g) "Underlying Market" means –
 - (i) in relation to a Stock Index Futures Contract, the market from which prices and other relevant information are taken for the computation of the underlying stock index; and
 - (ii) in relation to any other Futures Contract, the market in which the underlying Instrument is traded.

14.1 Position limits for Clearing Participants

- (1) A Client or Clearing Participant acting alone or in concert with others, must not directly or indirectly hold or control Open Positions in Derivatives in excess of the Specified Position Limits.
- (2) For purposes of Options, the limits stated are in relation to Open Positions net on the same side of the Market. A long Call, a short Put and a long underlying Futures Contract are taken as being on the same side of the Market; similarly a short Call, a long Put and a short underlying Futures Contract are taken as being on the same side of the Market.
- (3) For purposes of Futures Contracts, the limits stated are in relation to Open Positions net long or net short.
- (4) If a Client or a Clearing Participant holds or controls a combination of FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures Contracts and Options on FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures, the Client or Clearing Participant must comply with the position limits stated for Options on FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures.
- (5) If a Client or a Clearing Participant holds or controls a combination of Ringgit Malaysia Denominated Crude Palm Oil Futures Contracts and Options on Ringgit Malaysia Denominated Crude Palm Oil Futures, the Client or Clearing Participant must comply with the position limits stated for Options on Ringgit Malaysia Denominated Crude Palm Oil Futures.
- (6) In ensuring that the Specified Position Limits which are applicable to a Client are adhered to at all times, the Clearing Participant must, where applicable, notify the relevant Trading Participant to limit trading of the relevant Derivatives for that Client to liquidation only.
- (7) Notwithstanding any provision contained in these Rules, a Clearing Participant who is in breach of the relevant position limits in respect of its proprietary account must take immediate

steps to close out such number of Open Positions required in order to be in compliance with the Specified Position Limits. The Clearing House may take any other action deemed appropriate in the circumstances.

14.2 Position Limits for Market Makers

- (1) A Market Maker acting alone or in concert with others, must not directly or indirectly hold or control Open Positions in a Futures Contract in excess of twice the Specified Position Limits.
- (2) A Market Maker may seek an exemption to exceed the position limits stated in paragraph 14.2(1) to assure that there is sufficient depth and liquidity in the marketplace.
- (3) In respect of paragraph 14.2(2) above, a written request by a Market Maker or through a Clearing Participant must be made to the Clearing House setting out the reasons why an exemption should be granted.

14.3 Exemption for Bona Fide Hedging Transactions

- (1) A Clearing Participant may apply to the Clearing House for approval to exceed the Specified Position Limits for bona fide hedging transactions. For the avoidance of doubt, the Clearing Participant may make such application on behalf of its Client or an Underlying Client. The Clearing House may approve such application only if the person's Open Positions and proposed Open Positions are for bona fide hedging transactions. The Clearing House's approval must be obtained before a person assumes positions which exceed the Specified Position Limits.
- (2) In considering an application received from a Clearing Participant in paragraph 14.3(1), the Clearing House may require that such Clearing Participant provides or causes to be provided to the Clearing House the details of exposure to the Underlying Market to justify the granting of the exemption for hedging purposes.
- (3) In approving an application received from a Clearing Participant under paragraph 14.3(1), the Clearing House may impose any term or condition as it deems fit.
- (4) If a Clearing Participant receives the Clearing House's approval under this paragraph 14.3, the Open Positions of the relevant person which result from bona fide hedging transactions will not be included in the computation of positions restricted by the Specified Position Limits.
- (5) In respect of hedging with FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures Contract or Option on FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures, such transactions will only qualify for an exemption if the underlying stock portfolio:
 - (a) contains at least 3 FTSE Bursa Malaysia Kuala Lumpur Composite Index (KLCI) stocks and none of these stocks account for more than 50% of the total value of the underlying stock portfolio; and
 - (b) comprises stocks in at least 3 sectors.
- (6) The Clearing House reserves the right to approve any other underlying stock portfolio that may not meet the requirements in paragraph 14.3(5) if it is of the opinion that the underlying stock portfolio does represent a bona fide hedge.
- (7) The Clearing Participant may revoke the exemption granted to a Clearing Participant under paragraph 14.3.

14.4 Exemption to exceed position limits for Omnibus Accounts

- (1) A Clearing Participant may allow a Client who maintains an Omnibus Account to hold positions that exceed the Specified Position Limits subject to the following conditions:
 - (a) the Clearing Participant is satisfied as to the financial probity of the Client;
 - (b) the Open Positions held or controlled by each of the Underlying Clients in the omnibus account must not exceed:
 - (i) the Specified Position Limits;
 - (ii) the limits as may be approved by the Clearing House pursuant to paragraph 14.3; or
 - (iii) the limits permitted under the Exchange Rules in relation to an omnibus account where the Client has notified and provided the relevant documentary evidence of the same to the Clearing Participant,whichever is the highest; and
 - (c) compliance with any other terms or conditions that the Clearing House may prescribe as it deems fit.
- (2) A Clearing Participant which allows a Client to exceed the Specified Position Limits pursuant to paragraph 14.4(1) above must, in the manner as may be specified by the Clearing House, notify the Clearing House immediately of the following:
 - (a) that the relevant conditions in paragraphs 14.4(1) have been complied with;
 - (b) the details of the Omnibus Account including the identity of the Client and the Underlying Clients; and
 - (c) any other information as may be requested by the Clearing House.
- (3) If any of the provisions in this paragraph 14.4 is not complied with, the Clearing House may direct the Clearing Participant to disallow the Client from continuing to hold positions exceed the Specified Position Limits pursuant to paragraph 14.4(1) above.
- (4) Where a Clearing Participant allows a Client to hold positions that exceed the Specified Position Limits pursuant to paragraph 14.4(1), the provisions relating to positions limits and any provision relating to a breach of such limits that is applicable to a Clearing Participant or a Client directly or indirectly (“the relevant provisions”) will also be applicable to each of the Underlying Clients. In this respect, all actions of each of the Underlying Clients will be construed to be the actions of the Clearing Participant or the Client.
- (5) The Clearing Participant must ensure that an Omnibus Account in relation to which a Client is allowed to hold positions that exceed the Specified Position Limits under paragraph 14.4(1) is identified as such in the books and records of the Clearing Participant.

[End of Directive]

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1. PREFACE

The compliance function in the derivatives industry is of critical importance in the context of the rapid change and growth taking place in the financial services sector. Increasing competition, pressure to operate profitably and to improve performance, introduction of new derivative products and rapid advancements in information processing and dissemination technology may result in risk management by clearing participants lagging behind in their emphasis on sound operational controls. The most important message that this document intends to convey is that compliance should be looked upon as an entire system of –

- a) complying with laws, rules and guidelines issued by the relevant authorities under the regulatory framework;
- b) assuring a high quality of service to clients in order to maintain long-term profitable relationships with business partners;
- c) managing risk, particularly operational risk, as part of an enterprise-wide risk management framework that is aimed at providing greater certainty for cashflow management purposes, and hence enhancing risk-adjusted returns to shareholders; and
- d) encouraging one's peers to equally adopt a high standard in order to minimise credit, systemic and reputational risk in the interest of promoting long-term development of the industry.

Hence, this document is issued to address current compliance issues and to enhance compliance through guidance that will encourage self-regulation and sound risk management of derivatives. It is our expectation that senior management and compliance officers will play a more proactive and meaningful role in evaluating the internal controls system and cultivating a compliance culture in their organisation.

The compliance guidelines contained in this document are presented with the following functional objectives in mind:

- a) to improve the quality and effectiveness of the compliance function;
- b) to promote a compliance culture within, and self-regulation by the clearing participants; and
- c) to provide a uniform practice guide on compliance which would serve as a basis for guidance and measurement of performance of the compliance function by the Compliance Officer.

Senior management and Compliance Officers may find these guidelines useful in reassessing their supervisory, monitoring and compliance procedures. This paper is organised into four major parts:

- a) Part I encompasses an overview of the compliance function;
- b) Part II covers compliance control and responsibilities. This part prescribes the requirement to establish a compliance culture within a clearing participant and outlines the roles to be played by the Board of Directors and employees;
- c) Part III describes the role, duties and responsibilities of the Compliance Officer;
- d) Part IV addresses the skills required by a Compliance Officer.

2. OVERVIEW OF THE COMPLIANCE FUNCTION

To comply means compliance with all relevant laws, policies, procedures, guidelines, directives, rules and regulations. Compliance essentially refers to proper supervision and competent system of internal controls within an organisation to maintain the integrity of its clearing and settlement practices, the safeguarding of its assets and compliance with all relevant regulatory requirements. Compliance is a component of proper business support and applies to all individual business activities and functions. Effective compliance requires the willingness of clearing participants to police their own activities, eliminate bad practices and to maintain routine contact with the regulators. The biggest pitfalls of setting up a Compliance function are:

- a) the compliance function is seen as being solely the province of the Compliance Department. No one sees a specific compliance dimension to their job nor has one been expressly communicated to them
- b) personnel in the Compliance Department are inadequately trained and under-resourced
- c) the organisational objectives or corporate mission has failed to recognise the Compliance function. The purpose of establishing a Compliance Department has not been communicated to the staff and the setting up of the Compliance Department is merely in response to the requirements of the Securities Commission and the Clearing House
- d) lack of acceptance by the Board of Directors and senior management of the role and importance of the Compliance Department/Officer
- e) the Compliance Officer is often distracted by other duties and has not been designated with the appropriate seniority for the job
- f) failure to identify and manage conflict of interests
- g) failure to maintain professional independence and
- h) weak management, supervision and control.

3. COMPLIANCE CONTROL AND RESPONSIBILITIES

Compliance is a *'state of mind'* which needs to penetrate the whole fabric of the organisation in the way it is organised, managed and controlled. Each regulated business area of a clearing participant e.g. clearing and settlement activities, customer documentation, payments and settlement activities, the handling of clients' funds, is responsible for complying with the relevant rules and laws and must maintain procedures that will ensure compliance.

Each clearing participant needs to adopt a *'compliance mission statement'* that will cultivate an environment, which encourages compliance. Problems arising from daily operations or key decisions and actions taken may impose a strategic or financial impact on the clearing participant's compliance. In these cases, the compliance mission statement serves as a reference to ensure the clearing participant remains compliant.

Roles and Responsibilities of the Board of Directors

The Board of Directors, besides approving all significant policies and procedures throughout the organisation, should also ensure that:

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- a) a sound system of internal controls is maintained to safeguard shareholders' interests company's assets and clients' interests. This covers not only financial controls but operational and compliance controls, and risk management;
- b) management effectively implements all policies and procedures set by the Board;
- c) a fully-staffed compliance department is established and delegated with the responsibility of managing the organisation's compliance with all relevant laws, rules, regulations, directives, guidelines, policies and procedures;
- d) competent compliance personnel are available to review the effectiveness of organisational controls and procedures as well as verify the reliability of information reported;
- e) proper procedures are in place to anticipate likely changes in the regulatory regime and compliance requirements that may be against the interest of the organisation;
- f) there are periodic discussions with management concerning the effectiveness of internal controls and risk management, and ensure the management has appropriately taken action on recommendations and concerns expressed by the Compliance Officer and auditors (regulatory auditors, internal and external auditors) with regards to internal control weaknesses and issues on non-compliance.

A strong and pro-active Board will foster an environment of strong internal controls and compliant procedures and practices.

Establishment of compliance culture within the organisation

To establish an effective compliance culture within the organisation, the organisation needs to:

- a) have a well-documented and up to date operations manual incorporating practices that ensure compliance. The operations manual should:
 - i. contain procedures that are practical and able to explain the rationale behind each requirement and the consequences if that requirement is not met; and
 - ii. clearly explain the individual responsibilities for each function to be performed.
- b) have a proper system for record keeping. Complete and accessible records are vital in enabling the organisation to demonstrate it has complied effectively.
- c) have effective channels of communication to ensure that all staff are fully aware of policies and procedures affecting their duties and responsibilities and any changes thereto.
- d) provide induction training to new staff. Induction training should encompass explanation of the procedures relevant to the job and the corresponding compliance responsibilities.
- e) assess staff for their competencies on a regular basis to identify training needs and promote personal development.
- f) have a competent Compliance Officer to advise regulated business areas on key matters of compliance, to monitor that the business is complying in practice and to educate everyone in the organisation on how compliance is best achieved.
- g) have a system of regular reporting. Regular reporting to Board is critical and should include both routine and exceptional matters. Compliance issues such as results of monitoring,

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changes in regulations, results of regulatory visits etc., should be compiled in a Compliance Report and be made a standing item to be discussed at Board Meetings.

h) have an effective internal control system. When establishing an internal control system, management should include the following:

i. *Organisational structure*

This sets out the hierarchical structure within and the division of functions across the organisation. Its purpose is to provide a clear and accurate picture of:

- which department is responsible for each business function.
- the levels of responsibility and reporting structure within the department.
- the levels of responsibility and reporting structure for the heads of department.
- the levels of responsibility and reporting structure for the executive director or chief executive officer.

ii. *Managerial Control*

This control includes all manner of supervisory that is exercised by senior management.

iii. *Segregation of duties*

The segregation of duties is a crucial method of management control. It involves allocating certain tasks within a business activity amongst the employees in such a manner that one employee's task acts as a check and balance over another employee's task. This ensures that the activities of an organisation are being carried out in a proper and authorised manner and helps prevent the occurrence of fraudulent activities. Within a clearing participant, the usual examples of segregation are between:

- procurement of clients and credit risk analysis
- trading activities and dealing duties (if any) and settlement transactions
- funds transfer and transaction booking
- daily maintenance of general ledger balance and validation of general ledger balance
- maintenance of record balance and physical release of collateral

The size of certain organisations may make it impracticable to separate tasks within an activity to 2 or more employees. The management will then have to rely on other methods of control such as audits and management reviews and conduct these on a frequent and in-depth basis.

iv. *Supervisory control*

Authorised and appropriate qualified personnel should independently supervise all activities

v. *Review, authorisation and approval*

All transactions should require approval by an appropriate authorised official. Approval limits should commensurate with the level of each individual's degree of authority. All transactions must be properly documented to provide for review and accountability.

- vi. *Independent review*
An independent review conducted by an identified personnel functions to ensure that a task or process is carried out properly and efficiently.

- vii. *Accounting control and arithmetical accuracy*
Accounting control is essentially a system for checking the accuracy of the information contained in the accounting records and books of the company on a daily basis. Accounting control activities encompass verifying the arithmetical methods used and their results as shown by the figures in financial statements such as account totals and trial balances, proving control account balances and performing reconciliations.

- viii. *Physical security*
This control relates to the custody and safeguarding of assets, and restriction of access to business premises, systems and departmental records.

Compliance responsibilities

Management is responsible for setting the tone of the organisation to promote a compliance culture within the entity. It is imperative that management provides support to the compliance function and actions taken by management must be indicative of this. Weaknesses in the organisations' internal controls or inefficiencies in operating procedures must be identified and rectified immediately. Non-compliance must be dealt with to ensure that the breach will not occur again.

It is the responsibility of the staff to comply with relevant industry laws, and internal control policies and procedures set up by the organisation. Both management and staff must bear in mind that compliance is everyone's responsibility. An ethos of professionalism and best practice which is essential for an effective compliance can only be achieved if everyone plays his/her part rather than relying just on the Compliance Officer or Compliance Department.

The ultimate responsibility for proper supervision and compliance rests with the organisation and its Board of Directors. The Compliance Officer facilitates the attainment of these objectives and does not relieve the organisation or its Board of Directors of any of its responsibilities. The formulation of supervisory or compliance programmes may be within the Compliance Officer's job function but the effective implementation and maintenance of such programmes lies with the organisation and its Board of Directors. Any failure to effectively supervise and ensure compliance by the organisation or its employees will be deemed a failure on the part of the organisation and its Board of Directors.

4. ROLE OF THE COMPLIANCE OFFICER

An independent function

The Compliance Officer acts as the "conduit" through which a clearing participant achieves the compliance objectives, whilst providing an independent check and balance within the clearing participant, thereby ensuring that its activities are in compliance with the relevant securities laws, rules, regulations, directives, guidelines, policies and procedures.

To carry out his duties without any conflict of interest, the Compliance Officer must be independent of the back office and other operational functions of the clearing participant. He must not have operational functions, and must not be directly involved in settlement, funding, processing or reconciliation activities of a clearing participant, and should not act in a manner which may compromise his function and position. He should only be engaged in the compliance function. He must not engage in personal dealing in derivatives.

Role of the Compliance Officer in relation to other departments or functions within the organisation

The Compliance Officer undertakes an overall supervisory responsibility over the clearing, settlement and operational activities of a clearing participant. He monitors on-going business activities on a proactive basis to ensure compliance by the clearing participant. He oversees and supplements other supervisory measures already in place within a clearing participant and ensures that the relevant supervisors/Heads of Department perform their supervisory responsibilities effectively. However, the Compliance Officer does not relieve any supervisor/Head of Department of their responsibilities. The burden of executing designated job functions still remains with the respective supervisors/Heads of Department.

In this respect, the Compliance Officer should keep in constant communication and work closely with all supervisory heads within the clearing participant's structure, with a view to supplementing existing reviews of the supervisors and ensuring that the necessary policies and procedures are in place to effect proper supervision of the respective departments.

The Compliance Officer and the Internal Audit Department, if there is one, should strive to complement each other and work towards achieving a high standard of compliance. It is the duty of the Compliance Officer to review the work undertaken by the Internal Audit Department, and where necessary, make recommendations for improvement.

Clearing participants are encouraged to establish an Audit Committee, and the Compliance Officer should be one of the members of such committee, where it is established.

In respect of the clearing participant, where an Audit Committee is established at the holding company (public listed company) of the clearing participant, adoption of the following is encouraged:

- a) the Audit Committee should appoint one of its member-directors to be responsible for tabling and presenting compliance matters in regard to the clearing participant at the Audit Committee meeting,
- b) the above-mentioned member-director of the Audit Committee should carry out the following:
 - i. bring to the attention of the Audit Committee relevant issues on behalf of the Compliance Officer of the clearing participant to be deliberated and decided upon; and
 - ii. convey any decision or instruction made by the Audit Committee for the attention of the Compliance Officer and the Board of Directors of the clearing participant,
- c) the Compliance Officer of the clearing participant shall be invited and presented at the meeting of the Audit Committee on compliance matters pertaining to the clearing participant provided that this should not discharge the duty of the appointed member-director of the Audit Committee to be responsible over compliance matters reported by the Compliance Officer of the clearing participant.

Role of the Compliance Officer in relation to the Board of Directors

The Compliance Officer shall report directly to the Board of Directors of the organisation. He should have access to the Board of Directors to report, update, inform and make recommendations on all matters pertaining to compliance, including events of non-compliance. However, in the course of his duties, the Compliance Officer may bring compliance matters to the attention of the Executive Director/Chief Executive Officer or other senior management personnel so as to enable appropriate action to be taken.

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The Compliance Officer must submit monthly written reports to the Board of Directors on all matters pertaining to compliance, including matters that had been brought to the attention of the Executive Director/Chief Executive or other senior management personnel and the actions taken. The Board of Directors must deliberate matters reported to it by the Compliance Officer at its proper meeting so that appropriate action or decision can be taken. Proper records of such deliberations must be maintained.

To maintain the independence of the Compliance Officer, his performance should preferably be appraised by the Board of Directors.

Duties and Responsibilities of the Compliance Officer (Summary)

The main duties and responsibilities of the Compliance Officer are summarised below:

- a) to advise on compliance matters

The Compliance Officer has the responsibility to ensure compliance with all relevant laws, rules, regulations, directives, guidelines, policies and procedures.

- b) to review the adequacy of internal controls and risk management system

The Compliance Officer must continually review the adequacy of the organisation's internal control system, which includes the risk management system, in light of changes in internal and external conditions.

- c) to review, monitor and supervise other supervisory measures to ensure compliance

One of the ways to ensure compliance by all levels of staff is to have effective monitoring which should cover the back office and accounting activities. It is the responsibility of the supervisors/Department Heads to ensure compliance by their staff members. In this respect, it is the duty of Compliance Officer to review the adequacy of the supervisory measures undertaken by the supervisors/Department Heads. The frequency of reviewing and monitoring should be determined by assessing the level of risk involved, and the frequency and nature of changes in the operating environment. The reviewing and monitoring should also focus on areas of risk. A checklist should be used for such purposes.

- d) to assist in training and educating staff members on compliance matters

Training is critical to the successful implementation of a compliance culture. All new recruits and existing staff members must be adequately trained and equipped with the necessary capabilities to carry out the responsibilities assigned to them. The Compliance Officer must assist in the training and educating of staff members on compliance related aspects of their jobs and should ensure that they are kept up-to-date with changes in regulatory requirements.

- e) to report to the Board of Directors

It is the duty of the Compliance Officer to inform and report to the Board on all matters pertaining to compliance at least once a month. However, he should immediately report to the Board and the relevant Clearing House(s) if a matter requires urgent attention, e.g. breaches of the laws, and matters pertaining to segregation of clients' assets and risk position of the clearing participant.

- f) to liaise with the regulatory bodies on compliance matters

Due to the independence of the Compliance Officer's functions, he is the most suitable

personnel in the organisation to play the role of liaison officer between the clearing participant and the regulators for the purpose of information sharing, clarification of rules and regulations, requests for advice, and reporting of incidence of non-compliance.

(Annex I elaborates the main duties and responsibilities of the Compliance Officer)

5. ESSENTIAL SKILLS REQUIRED OF A COMPLIANCE OFFICER

It is important that the right person is employed as a Compliance Officer. The individual must have at least a minimum level of competence in the particular activities they are required to monitor, and must also be a person of an appropriate level of seniority to act independently and to effect decisions.

A Compliance Officer needs to have proper professional qualifications and experience appropriate to the duties that he/she is expected to perform.

A Compliance Officer needs to have some **technical expertise** in the areas of business he/she is to monitor, for example, general principles relating to the use of derivatives products in hedging, market making, portfolio management, arbitrage and yield enhancement, as well as the risks involved, services offered by the organisation and market practices. He/she must be **professionally competent** in assessing industry rules that apply to the business and able to interpret them in a practical business way.

As the Compliance Officer needs to work closely with colleagues within the organisation and with the regulators, it is essential that Compliance Officer possesses **good communication and interpersonal skills**. He/she must be a good listener, open and approachable and have negotiation skills to be able to put over an argument in persuasive rather than dictatorial terms.

A Compliance Officer must be able to **apply knowledge and experience** gained to the business he/she works in and understands the critical problems and constraints faced by the business in order to gain credibility when discussing issues with management. Nevertheless, he/she must maintain an **independent frame of mind** and be able to make an independent decision whether to report or discuss with the Board and regulators on particular issues as seen appropriate.

6. CONCLUSION

Compliance will result in a lower incidence of disciplinary actions imposed on an organisation e.g. fines and suspension from clearing trades which may disrupt the business as well as damage the clearing participant's reputation. More importantly, compliance by way of establishing control principles like segregation of duties and independent review serves to protect the business assets by decreasing the occurrences of unintentional errors or outright fraud through quick detection and rectification.

The effective penetration of a proper compliance culture into all business and administrative units of an organisation will bring about lower operational risk, facilitate earlier detection of market risk or concentration risk result in a higher level of operational efficiency which in turn will translate into a reduction of operating costs and financial risk.

ANNEX I - DUTIES AND RESPONSIBILITIES OF THE COMPLIANCE OFFICER

In order to maintain high standards of business conduct, strong internal controls and ensuring compliance with laws, rules and regulations, a clearing participant is required to have a Compliance Officer to manage the compliance aspects of its derivatives clearing business. The main duties and responsibilities of the Compliance Officer are:

a) to advise on compliance matters

In carrying out the above duty, the Compliance Officer should:

- i. understand all relevant laws, rules, regulations, directives, guidelines, policies and procedures, and changes thereto, and interpreting them with regards to the size and complexity of the organisation
- ii. advise all personnel of the organisation on how these requirements can be translated into practical procedures and all matters compliance
- iii. ensure that the organisation has policies and procedures to govern all key activities

The Compliance Officer has the responsibility for ensuring that compliance is met within all business areas.

b) to review the adequacy of internal controls and risk management system

Internal control is defined as follows:

“Internal control is the process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- a) reliability of financial reporting*
- b) compliance with applicable laws and regulations and*
- c) effectiveness and efficiency of operations”*

Internal control comprises five interrelated elements:

- i. management oversight and the control culture
- ii. risk assessment
- iii. control activities
- iv. information and communication and
- v. monitoring activities

It is the responsibility of clearing participant to maintain a sound system of internal controls, which covers not only financial controls but operational and compliance controls, and risk management.

In reviewing the adequacy of the internal control system with the organisation, the Compliance Officer needs to consider the degree of existence and effectiveness of the following **control factors**:

- i. *evidence of control operation*

Once a control is introduced in the organisation, its effectiveness and reliability largely depend on the ability of the organisation to ensure and confirm that it is being operated. This confirmation should ideally take the form of documentary evidence such as a report or acknowledgement in writing from the person operating that control. The absence of such documentary evidence increases the risk that the control is not being operated and undermines the organisation’s ability to detect any breaches of the control.

ii. *preventive and detective control*

The purpose of having controls is to discourage, and “blow the whistle” on improper or unauthorised activities. These preventive and detective elements can be put in place by locating controls beginning from the point at which the risk first arises within an activity or process. This will reduce the time between the occurrence of the unauthorised activity and the whistle being blown, and prevent the situation from becoming worse and irreparable without detection. A common example of this is the exposure or position limit that is assigned by the management. Any breach in the limit is not left to be detected and reported by the backoffice staff, but also at the point of the position-keepers, limit monitors and risk management officers who would typically have controls at their end to ensure that they complete their tasks by the end of the day or before the beginning of the following trading day. This means that the breach should not continue undetected beyond a day and the situation should not have the opportunity to worsen past that day.

iii. *addressing missing controls or weak ones*

There should be procedures for improving or modifying the control system where weaknesses or gaps in the controls are discovered. The process of initiating and implementing the improvements should be prompt to reduce the organisation’s exposure to the weakness or gap. The organisation should also be able to assess and quantify the risk to which it is exposed as a result of the weakness or gap.

The derivatives industry is a dynamic, rapidly evolving industry and as such, the Compliance Officer must continually review the adequacy of the organisation’s internal control system, which includes the risk management system, in light of changes in internal and external conditions. In this respect, the Compliance Officer must review the assessment of the Internal Audit Department on the adequacy of the organisation’s internal controls.

Annex IV lists some functional control standards of key activities that will serve as a guide for reviewing the organisation’s overall internal control system.

c) *to review, monitor and supervise other supervisory measures to ensure compliance*

One of the ways to ensure compliance by all levels of staff is to have effective reviewing and monitoring. It is the responsibility of the supervisors/Department Heads to ensure compliance by their staff members. In this respect, it is the duty of the Compliance Officer to review the adequacy of the supervisory measures undertaken by the supervisors/ Department Heads. Compliance review and monitoring should cover back office and accounting activities. Reviewing, monitoring and supervision include:

- i. review of control procedures to ensure derivatives activities are conducted according to existing policies and guidelines laid down by the Board and management
- ii. review of procedures carried out in opening and approving the opening of client accounts and ensure compliance with Rules of Bursa and relevant statutory requirements
- iii. review of operations to ensure that clearing and settlement rules such as timely allocation of trades and transaction confirmations

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- iv. review of clients' deposits and withdrawals to ensure compliance with laws and business rules
- v. review of accounting entries processing and general ledger account validation
- vi. review of general ledger account opening process. A control process must exist to prevent creating dummy or suspense ledger accounts which may be used to park unauthorised or loss making trades
- vii. review of reconciliation activities of the back office
- viii. ensuring proper segregation of clients' funds
- ix. review correspondence and interactions between clearing participant's staff and clients pertaining to post trade details, margins and clearing of contracts from time to time
- x. review of Adjusted Net Capital level and any other internal or external minimum capital standard and ensure the organisation is able to meet minimum financial requirements at all times
- xi. review of allocation/trade errors
- xii. review proprietary account to ensure compliance with credit/position limits imposed and that over-limits are reported to management
- xiii. review clients' position limits to ensure compliance with Clearing House imposed position limits and reportable position limit
- xiv. review margin calls issued to clients to ensure collection of margins are within the stipulated time frame
- xv. review of employee transactions to ensure that such transactions are authorised, executed and recorded in compliance with proper procedures
- xvi. review of client's complaints, i.e. analyse trends in complaints, the general causes and the average length of time taken to respond to and resolve clients' complaints. The Compliance Officer should review the handling of complaints by a designated officer to ensure that the handling of complaints, including any subsequent investigation and action taken, are in compliance with proper procedures.
- xvii. review of all advertisements, sales literature and any other types of information pertaining to recommendations/business disseminated to the client/public to ensure accuracy and compliance with relevant laws, rules and regulations, before being published and made accessible to the public
- xviii. follow up on audit findings. The Compliance Officer should ensure that audit finds raised by internal, external and regulatory auditors are addressed and rectified promptly

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The frequency of reviewing and monitoring should be determined by assessing the level of risk involved, and the frequency and nature changes occurring in the operating environment. The reviewing and monitoring programme may be carried out daily, weekly or monthly, or as issues-based reviews of particular risk issues identified from past reviewing and monitoring or issues raised by the auditors during periodic audits. Ongoing reviewing and monitoring activities can offer the advantage of quickly detecting and correcting deficiencies in the system. Examples of such ongoing activities include the review and monitoring programme effectively, the Compliance Officer should have some measures such as a checklist to confirm that the reviewing and monitoring process have been performed and to record any deficiencies found. The checklist could also be used as a reference when having discussions with staff and management. A sample of reviewing and monitoring checklist is shown in **Annex IV**.

When performing the reviewing and monitoring process, the Compliance Officer should focus on areas of risk. The Compliance Officer should assess the risk in financial terms if activities are not controlled properly or a critical control step is missing, examples:

- i. risk of loss resulting from weaknesses in credit control and/or portfolio concentration- counterparty default on transactions in the process of being settled and where value had been delivered to the counterparty but not yet received in return
- ii. risk of loss resulting from weaknesses in control of liquidity- failure to meet its payment obligations on settlement dates or in the event of margin calls
- iii. risk of loss resulting from weaknesses in internal control- inaccurate financial information reported as a result of incorrect data used to value financial positions
- iv. risk of loss resulting from weaknesses in legal control- contracts or collateral not legally enforceable and exercisable

In this regard, the Compliance Officer should also:

- i. review the effectiveness of internal controls relevant to measuring, reporting and limiting risks
- ii. review the credit approval process to ensure that the risks of specific products are adequately captured and the credit approval procedures are followed. As a matter of general policy, business with a counterparty should not commence until a credit line has been approved
- iii. review risk exposure and concentration of risk, ensure that clearing and settlement activities are within the limits approved by the Board and adequate capital is maintained to support derivative activities
- iv. review to ensure that margin policy complies with the Clearing House's rules on margin
- v. review the legal documentation process and ensure guidelines and procedures are followed and consider the quality, marketability and enforceability of collateral pledged

The reviewing and monitoring process would only be effective if the Compliance Officer holds regular meetings with management and staff involved to review past findings. This is because regular meetings are helpful to review how procedures are working, to consider the weaknesses and any recommendations for change. This will help to establish an effective compliance culture.

Annex V describes in general some of the risks involved and risk management of exchange-traded derivatives. It serves as a reference for the Compliance Officer to enhance his/her compliance reviewing and monitoring process

d) *to assist in training and educating staff members on compliance matters*

All new recruits and existing staff members must be adequately trained and equipped with the necessary capabilities to carry out the responsibilities assigned to them. Training is critical to the successful implementation of a compliance culture. The Compliance Officer must assist in training and educating staff members on compliance related aspects of their jobs and should ensure that they are kept up-to-date with changes in regulatory requirements. Training can comprise both formal and on the job training. Some examples of on the job training that can be conducted by the Compliance Officer are:

- i. informing staff of weakness found during the compliance review and monitoring process
- ii. explaining regulatory requirements and the consequences if such requirements are not met
- iii. disseminate information that the regulators have communicated through circulars, e.g. changes in regulatory requirements or disciplinary action taken by the regulators

e) *to report to the Board of Directors*

A timely information reporting system will foster an environment of compliant practices. It is duty of the Compliance Officer to inform and report to the Board on all matters pertaining to compliance at least once a month. However, the Compliance Officer should immediately report to the Board and the relevant Clearing House(s) if a matter requires urgent attention, e.g. breaches of the laws, and matters pertaining to segregation of clients' assets and risk position of the clearing participant.

The compliance report should report at the minimum, the following issues:

- i. *credit exposure*
The Board should be informed of any breach in limits that has occurred and follow-up actions taken, any overdue payments and follow-up on non-payments
- ii. *funding*
The Board should be apprised of the level of the organisation's Adjusted Net Capital and the impact of business activities on the organisation's overall liquidity position
- iii. *collateral received*
The Board should be informed of the type and financial exposure of collateral pledged by clients and measures taken by the organisation to satisfy itself that the documentation has been appropriately reviewed
- iv. *error trades*
The Board should be informed in detail on how the error trades occurred and the amount of profit/loss absorbed by the organisation
- v. *segregation of clients' assets*
The Board should be informed of any deficiency in clients' segregated assets
- vi. *audit findings by the internal, external and regulatory audits*
The Board should be informed of the audit finds raised by the internal. External and regulatory audits and the actions taken by management to address the issues highlighted

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- vii. *other compliance issues and amendments to laws, rules and regulations*
The Compliance Officer is responsible for ensuring that new compliance issues are properly addressed and reported to the Board, and compliance risks are brought to the Board's attention. The Compliance Officer must also report to the Board of Directors matters that had been brought to the attention of the Executive Director or other senior management personnel and the actions taken.
- viii. *Other matters*
The Board should also be informed of situations of potential conflicts of interests.

f) *to liaise with the regulatory bodies on compliance matters*

Managing the organisation's relationship with the regulator is very important. The Compliance Officer is the most suitable personnel in the organisation to play the role of liaison officer between the clearing participant and the regulators due to the independence of his/her functions. Report must be cultivated to facilitate information sharing, clarification of rules and regulations and requests for advice. Consequently the Compliance Officer should:

- i. ensure monthly financial statements are submitted to the regulators within the stipulated time
- ii. inform the regulators immediately of any non-compliance and the actions or remedy to be taken by the organisation
- iii. inform the regulators of any constitutional changes in relation to the organisation's operations and any changes affecting the dealer's licence or licences issued to its dealer's representatives
- iv. inform the regulators immediately of any circumstances affecting the organisation's solvency or any condition that would materially impair its ability to meet any of its obligations
- v. be able to produce documents and information as and when requested by regulators and is answerable to any queries that the regulators may have in relation to his/her compliance duties and responsibilities

The Compliance Officer is encouraged to maintain routine contact with the regulators to discuss contentious issues and seek advice and suggestions to problems encountered. However, the regulators are not obliged to provide **solutions**, as this is the responsibility of the Clearing Participant.

Finally, the Compliance Officer should understand the reason inspection visits by regulators are conducted and be aware of the frequency of such visits. The purpose of audit inspections conducted by regulators is as follows:

That the clearing participants:

- i. comply with the relevant laws, rules, regulations, directives, guidelines, policies and procedures
- ii. maintain adequate internal controls in all areas
- iii. protect clients' assets by maintaining proper segregation

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- iv. maintain proper records that support and explain its activities, e.g. clearing, settlement records, etc.
- v. maintain a proper and up-to-date Operations Manual
- vi. have experienced management, qualified staff and an adequate back office system to carry out the business of dealing in derivatives
- vii. safeguard the Company's and its clients' assets against unauthorised use or disposal by having proper controls in place
- viii. maintain proper accounting records i.e. all transactions reported in the monthly financial reports are fairly stated, supported by relevant documents, and classified and disclosed in accordance with the Rules of Bursa Malaysia Derivatives Clearing Bhd ("Bursa Clearing (D)") and
- ix. maintain adequate capital and financial resources to support its clearing and settlement activities

Regulators assess internal controls and risk management as the focus is on detective and preventive measures. A reactive approach is not deemed appropriate in this industry due to the high risks involved due to the inherent leverage. Hence, during the inspection visit, the regulators expect, at the minimum the following, in order to conduct the audit in an efficient and effective manner:

- i. availability of back office and accounting records
- ii. all records have been maintained properly, in compliance with rules and regulations and can be substantiated
- iii. clearing and settlement activities conducted comply with the rules and regulations
- iv. accurate and full information to be given to all inquiries
- v. co-operation from all levels of staff

The Compliance Officer therefore should build positive long-term relationships with the regulators and is encouraged to exchange ideas on good compliance principles and activities to further develop a positive compliance culture across the industry.

ANNEX II – [Deleted]

ANNEX III – [Deleted]

ANNEX IV FUNCTIONAL CONTROL STANDARDS FOR DERIVATIVES CLEARING ACTIVITIES

The need for an effective system of internal control is more relevant and important to a business today. Technology and the growth of globalised institutions have not only speeded up execution and clearing processes worldwide and the transmission of information across borders, but they have arguably also introduced a new dimension of systemic risk of a magnitude that regulators, analysts and economics are still grappling to quantify. A good set of systems and internal controls may not eliminate external systemic risk but they will help a firm to detect and quantify the risk faster, giving the firm added valuable time to plan and respond to risk. Apart from systemic risk, good internal controls will help to substantially minimise a firm's operations risk.

Great attention has been placed on the need for effective control in establishing the rules and other arrangements for the operation of the derivatives market itself. This section has set down the basic functional control standards that should be established across derivatives activities:

Managerial oversight and understanding

It is the responsibility of the Board of Directors to establish policies and procedures, and maintain a sound system of internal controls, which covers not only financial controls but operational and compliance controls, and risk management. It is the responsibility of senior management to effectively implement all policies and procedures set by the Board. However, the ultimate responsibility or control effectiveness in the organisation shall rest with the board of directors. Control is exercised through the issuance of internal control policy and procedures and regular performance monitoring by senior management.

It is fundamentally important that senior management fully understand and are familiar with all types of risk involved in derivatives activities. They must be aware of and understand the nature of profitable activity and whether profit expectations are commensurate with the risk level of the activity.

Segregation of duties

There must be a high degree of segregation of duties between back office and accounting:

Back Office

The back office must have a comprehensive policy and procedures manual. The policy and procedures manual must be up to date in all respects. Back office procedures must ensure the completeness and accuracy of:

- trade transactions posted to the back office system
- funds transfer processing
- trade adjustments, reversals and corrections
- other revenue posting (such as fees)

To ensure all trade positions are identified and reconciled:

- positions reconciliation must be completed independently from the dealing room and must be completed before the start of the next trading day
- all positions must be reconciled
- all reconciling items must be investigated promptly
- unreconciling items must be brought to the attention of the chief dealer
- a copy of the position reconciliation must be retained as evidence of work done

To ensure accuracy of back office records:

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- a contract note should be sent to the customer for every trade
- a daily system audit trail must be produced which lists in detail all changes made to previously input data (regardless of the data field concerned)
- back office transactions must be completed in all respects and on a timely basis
- supervisory controls over funds transfer should be adequate to prevent unauthorized payments being made
- control procedures must be established and maintained over instructions received via phone, telex and fax.
- whenever possible, payment should be based on standing customer's instruction
- any settlement instruction not in accordance with standing customer's instruction should be authenticated and approved before payment is made, e.g. call customer for confirmation
- all phone calls to customers must be logged and where possible taped for security reasons
- procedures must establish for verification of customers' payment instructions
- customer instructions must be checked against authorized signature lists
- procedures must exist to highlight and report any instruction which require payment to a non-standard or unusual account or address. Further approval and authentication should be required before any payment is made
- there should be proper controls over segregation of duties and review and authorisation for payment. The person initiating payment instructions should not for example be able to authorise payment or in charge of accounting entry
- the withdrawal amount should be checked prior to payment
- payment instructions must be stamped "PAID" after payment is made and be filed securely to prevent resubmission for duplicate payment
- controls should establish to ensure collection of margin or follow up action have been taken in the event margin was not paid on time
- all documents should be properly filed

Any errors in processing must be investigated and corrected without delay. An audit trail of processing errors should be maintained to help trace causes, trends and to monitor level of errors. Recurring error and other deficiencies must be brought to management's attention. A corrective action plan should be formulated and implemented as soon as practicable to correct the cause of systemic processing errors.

To ensure that appropriate collateral is received, monitored, safeguarded against loss and only released under the correct authority, the following controls over the receipt, recording and maintenance of collateral should be practised:

- policy and procedures on acceptance of collateral should be established before collateral is received
- the circumstances whereby collateral can be used to satisfy an outstanding customer obligation must be clearly stated and this will include an event of default, liquidation or bankruptcy of the counterparty
- a legal opinion should be obtained which expressly comments on the adequacy of the security arrangements that are contained in the underlying documentation such that the security is well founded and that off-set can be utilised according to contractual terms
- collateral once received, should be verified and details of the collateral should be loaded on the back office system
- recording of collateral must be in accordance with the FIA and must include the following:
 - a) client name
 - b) type of collateral received
 - c) amount (in face value terms)
 - d) quantity (number of bonds or shares)

- e) date of receipt
- f) date updated to back office system
- g) place of safekeeping
- collateral physically received into safekeeping must be placed in a secure place (e.g. fire proof vault)
- person who has no authority over the recording process must make receipt into custody of a vault
- collateral must be independently reconciled to third party records if relevant
- movement in the value of the collateral should be updated on the back office system. Shortfalls should be highlighted. Procedures must be established to ensure that operations identify shortfalls and make the necessary margin calls
- collateral should only be released in accordance with contract terms and on instructions from the customer and upon verification that customer obligations have been satisfied
- all release instructions must be checked against customer authorisation lists
- a final independent review must take place before collateral are released to ensure that:
 - a) all authentication procedures have been performed
 - b) sufficient documentation evidence

Accounting

Care should be taken to ensure that an appropriate level of segregation of duties exists in respect of the accounting function and that all entries are authorised before data is input to the general ledger. Independent check is a crucial management tool in ensuring accuracy and integrity of accounting information and records.

To ensure that accounting information are complete, accurate and process on a timely basis, the following accounting controls should be practices:

Reconciliation

- any accounting related reconciliation must be performed independently, evidence in writing, verified by independent officer and filed
- all reconciling items must be followed up and resolved promptly
- unknown difference should be investigated
- any write off of a difference must be approved at the appropriate level of management
- problems items in dispute, long dated outstanding items must be highlighted to management
- a build-up of reconciling items or unusually high levels must be brought to management's attention for remedial action

Inter-company balances

- inter-company receivable and payable balances must be reconciled periodically
- balances should be confirmed between parties through the exchange of a periodic statement of the balance
- reconciliation differences must be investigated and promptly resolved
- the reconciliation process must be documented and verified by an independent officer

Documentation and recording of transactions

There should be a system of well-designed accounting forms and documents to record all activities. The accounting vouchers should capture consistently and completely all the accounting entries with their corresponding account code, nature of the entries, date of the entry, persons who prepared, checked/authorised and posted the entries into the general ledger system. In addition, any supporting documents, e.g. invoices, debit/credit notes and any schedules/computation which support the

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amount posted into the general ledger should be attached together. All accounting vouchers should be serially numbered or pre-numbered so that it can be used as a reference for the related entries in the general ledger as well as a control to ensure transactions are not omitted from the general ledger. The implementation of a proper accounting voucher system would ensure existence of an audit trail and provide accountability to the accounting data captured in the system.

Cash

- all cash which should have been received was in fact received and recorded promptly and accurately
- cash receipts are deposited on a timely basis
- cash disbursements are properly recorded
- all disbursements are made by way of issuance of cheque or telegraphic transfer
- bank reconciliation be performed by staff not responsible for issuance of cheques or custody of cash
- cash balances are maintained at adequate levels
- do not permit any one employee to handle a transaction in its entirety

Fixed assets

A proper fixed asset register should be maintained as this will assist in monitoring each of the fixed assets owned (for example fully depreciated fixed assets). Any additions or disposals of fixed assets should be updated into the fixed asset register promptly and accurately. A system of authorisation requiring senior management approval of all acquisitions and disposal of fixed assets should be established. Depreciation charge per month should be computed based on the depreciation policy adopted, charged into the Profit and Loss Account and updated into the register. A proper capitalisation policy is encouraged in order to avoid assets of insignificant amount being included as fixed assets.

Prepayments and accruals

A prepayment and accruals schedule should be maintained as this could assist in monitoring of prepayments and accruals amounts

Others

- the potential impact on profit and loss resulting from any problem item should be identified and where necessary a reserve taken for potential expected loss
- adjusting entries must be passed to clear resolved items
- the creation and use of suspense, error or sundry accounts should be avoided

Safekeeping of important documents

For security purposes, all important documents and back up diskettes should be kept in fire proof safe or at a secure location.

Internal control over electronic data processing (EDP)

In a manual accounting system, an important element of internal control consists of division of duties among several persons in such a manner that the work of one employee is to verify that of another, to avoid one person handling a transaction in its entirety. If an electronic data processing system is installed, machines may do work formerly done by several employees. Despite the integration of several functions in an EDP system, the importance of internal control is not in the least diminished.

a) Control over input

Input controls are designed to provide assurance that data received for processing represent properly authorised transactions and are accurate and complete when read in the computer. Control over input begins with proper authorisation and initiation of the transactions to be processed. When transaction data are originally recorded on 'hard copy' source documents, the appropriate person initiating the document should indicate authorisation. In online systems transaction data may be entered directly into the computer from remote terminal device located in the departments initiating the transactions. In these cases, access to the terminals must be limited to those persons authorised to initiate transactions.

If transactions documents are collected into batches for processing in sequence as on batch, input controls are necessary in batch processing to determine that no data is lost or added to the batch. The sequence of serial numbers of source documents comprising each batch should be accounted for.

b) Control over processing

Processing controls are designed to assure the reliability and accuracy of data processing. A major method of achieving control over processing is the use of program controls, which are written into the computer programs such as item count, control total, validity, self-checking number etc.

c) Control over output

Output controls are designed to assure the reliability of computer output and to determine that output is distributed only to authorised personnel. Control over output begins with independent verification and follow up on exceptions and errors reported.

ANNEX V COMPLIANCE CHECKLIST (SAMPLE)

(This checklist is intended to provide guidance and is not exhaustive).

COMPLIANCE CHECKLIST as at _____ (date)

DAILY FUNCTIONS:	PERFORMED YES/NO	REMARKS
Beginning of day:		
a) Check with Back Office Department whether any margin call from Bursa Clearing (D) and appropriate action has been taken		
b) Check back office report to ensure follow up actions have been done on clients having margin call or breach position limits and ensure no breach of Rules of Bursa Clearing (D)		
c) Check to ensure daily bank reconciliation, back office reconciliation and other reconciliations have been performed		
d) Check to ensure contract notes are printed and issued to clients as prescribed by the Rules of Bursa Clearing (D) and CMSA		
Mid of day:		
a) Check and review all transactions executed		
b) Check and review clients opening position to ensure the positions do not exceed the limit determined by the Board of Directors		
End of day:		
a) Check whether all cash transactions related to clients accounts were updated into the back office system on a timely basis and all client deposits are banked into segregated bank by T+1		
b) Check whether all transactions relating to give up trades and position transfer were updated in the back office system on a timely basis		
c) Review error reports, if any and ensure error trades are closed out immediately, review all trade amendments		
d) Review the ANC to ensure its compliance with the minimum financial requirement		

WEEKLY FUNCTIONS	PERFORMED YES/NO	REMARKS
a) Check accounting vouchers to ensure all vouchers are prepared during the week are properly prepared, checked and approved.		

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MONTHLY FUNCTIONS:		
a) Check to ensure Back Office Department print and send the monthly statements to clients and ensure compliance with the Rules of Bursa Clearing (D) and CMSA		
b) Check the monthly financial reports to ensure accuracy before submit to the relevant authorities		
c) Preparation of Compliance report		

AD HOC FUNCTIONS	PERFORMED YES/NO	REMARKS
a) Check to ensure annual subscription and clearing fund contributions are paid on time to Bursa Clearing (D)		
b) Check to ensure annual report is submitted to Bursa Clearing (D) within stipulated time		
c) Opening of new accounts: <ul style="list-style-type: none"> i. Check to ensure initial deposit received/cleared before commencement of clearing (or as company's policy) ii. Check to ensure supporting documents required are available, approved by ED iii. Check to ensure that the client's background and financial information verification is carried out 		
d) Advertisement <ul style="list-style-type: none"> i. Check to ensure that the material issued been reviewed and approved in advance (by CO) ii. Check to ensure copies of all advertisements, sales literature and educational materials, the names of person approved the materials and the source of recommendation have been retained iii. [Deleted] 		
e) Check to ensure that the Operation Manual has been updated to reflect the current procedures practised by the staff		
f) Check to ensure audit findings raised in the audit reports have been followed-up and practised		
g) Disseminate information throughout the organisation upon receipt of circulars from Bursa Clearing (D) and other regulatory bodies		
h) Review internal controls when necessary e.g. reorganisation changes in size of the operations		
i) Review closing of accounts		

ANNEX VI TYPES OF RISK AND RISK MANAGEMENT OF EXCHANGE TRADED DERIVATIVES

The basic risk associated with exchange traded derivatives transactions are credit risk, market risk, liquidity risk, operations risk and legal risk.

Credit risk

Broadly defined, credit risk is the risk that the counterparty fails to perform an obligation to the clearing participant. The clearing participant should evaluate both settlement and pre-settlement credit risk at the counterparty level across the products. On settlement day, the exposure to counterparty default may equal the full value of any cash flows or securities the clearing participant is to receive. Prior to settlement, credit risk is measured as the sum of the replacement cost of the position, plus an estimate of the clearing participant's potential future exposure from the instrument as a result of market changes.

The first line of defence that is employed in countering the threat of counterparty default is internal controls that ensure credit risk is assessed prior to entering into transactions with a given counterparty. Assessment of credit risk posed by a potential counterparty must involve taking into consideration the capital adequacy of the party, its debt/equity ratio, its assets/liabilities ratio with particular emphasis on liquidity assets, its earning ratio and the types of assets held and liabilities incurred by that party.

Certain credit circumstances structure may be used to reduce the credit exposure dealing with counterparties. Such structure may include collateral or third party guarantees. In such cases, a clearing participant's credit exposure should reflect these risk-reducing features only to the extent that the resource provisions are legally enforceable in all relevant jurisdictions. The clearing participant should be able to demonstrate that it has exercised due diligence in evaluating the enforceability of these resource provisions and provides adequate protection to the organisation.

Credit limits should be established for all counterparties with whom the clearing participant conducts business. As a matter of policy, business with counterparty should not commence until a credit line has been approved. It is important that the clearing participant set up an independent credit risk management team responsibility for:

- a) approving credit exposure measurement standards
- b) setting credit limits and monitoring their use
- c) reviewing credit and concentration of credit risk
- d) reviewing and monitoring risk reduction arrangements.

Credit exposure should be monitored continuously and compared to the approved limits. Management should be informed of any breach that has occurred. Follow-up action on unresolved excess exposures should be updated and reported to management. For settlement risk, the settlement process should be monitored daily and overdue payments be reported to management daily. Follow-up action on non payment should be updated and reported to management.

Market risk

Market risk the risk to a clearing participant's financial condition resulting from adverse movements in the level or volatility of market prices. The market risks created by futures contracts are exposure to changes in the price of the underlying cash instrument and changes in interest rates. There are three components to the management of market risk.

- a) mark-to-market valuation

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The proper market risk management derivatives begin with their valuation. Inaccurate valuation leads to incorrect income recognition and inaccurate hedging strategies. Valuation on a mark-to-market basis will reflect the current value of cash-flows and provide information about market risk and appropriate hedging actions.

b) stress simulations

Clearing participant should subject their portfolio to stress simulations. The stress simulations should take into account extreme market movements. The results of the stress tests should be evaluated and contingency plans developed accordingly.

c) risk limits

Clearing participant should apply a consistent measure of the market risk of their derivative portfolios and compare them regularly with the predetermined market risk limits

Liquidity risk

A Clearing participant faces two types of liquidity risk in its derivatives activities:

- a) Market liquidity - the risk that a clearing participant cannot easily unwind or offset a particular position at or near the previous market price because of inadequate market depth or because of disruption in the market place.
- b) Funding liquidity - the risk that the clearing participant is unable to raise funds to meet its payment obligations on settlement date or in the event of margin calls.

Because neither type of liquidity risk is necessarily unique to derivatives activities, management should evaluate these risks in the broader context of the clearing participant's overall liquidity. In controlling liquidity risk, a clearing participant should:

- a) be able to assess its liquidity demands over a particular period, and
- b) be able to assess the amount it could raise in the markets for funding and managing its exposure

Operation risk

Operation risk is the risk of loss occurring as a result of inadequate systems and control, human error, or management failure.

The board of directors and management should ensure there is proper dedication of resources (financial and personnel) to support operations systems development and maintenance. System support and operational capacity should be adequate to accommodate the types of derivatives activities in which the clearing participant engages in. This includes being able to:

- a) capture all relevant details of transactions
- b) provide for accurate and timely input
- c) identify errors
- d) efficiently process and settle all transactions accurately and in a timely manner
- e) facilitate efficient reconciliation and
- f) provide for proper risk exposure monitoring

Segregation of operational duties, exposure reporting and risk monitoring from dealing and marketing is critical to proper internal control. Proper internal control should be provided over the

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entry of transactions into the database, transaction numbering, date and time notation, confirmation and settlement process.

There should be a unit responsible for ensuring proper reconciliation of front and back office database on regular basis. This includes verification of position data, profit and loss figures and transaction by transaction detail.

Management should ensure that a mechanism exists whereby derivatives contract documentation is confirmed, maintained and safeguarded. There should be an approved policy that specifies documentation requirements and formal procedures for safeguarding of important documents that are consistent with legal requirements and internal policies.

Operations risk can be assessed through periodic reviews of procedures, documentation requirements, data processing systems and other operational practices. Such reviews may help to reduce the likelihood of errors and breakdowns in controls, improve the control of risk and the effectiveness of the limit system and prevent unsound marketing practices and the premature adoption of new products or lines of business.

Legal risk

Legal risk is the risk that contracts are not legally enforceable or documented correctly. Participants in the derivatives markets have experienced significant losses because they were unable to recover losses from a defaulting counterparty when a court held that the counterparty had acted outside its authority in entering into such transactions. Hence prior to engaging in derivatives transactions, a clearing participant should:

- a) adequately evaluate the enforceability of its agreements. If the governing law of the agreement is specified to be located in a third country, the clearing participant must ensure that judgment obtained can be enforced in the clearing participant's and counterparty's jurisdictions
- b) satisfy itself that the terms of any contract governing its derivatives activities with a counterparty are legally sound.
- c) satisfy itself that its counterparties have the necessary authority to engage in the derivatives transactions.
- d) ensure that its right with respect to any margin or collateral received from a counterparty is enforceable and exercisable.

In addition to the above, a clearing participant should have approved policies that specify documentation requirements for derivatives activities and formal procedures for saving and safeguarding important documents. The clearing participant should have knowledge of relevant tax laws and interpretations governing the use of derivatives instruments. It should also regularly review and update its legal opinion to ascertain that the legal position of its clearing business has not changed with regard to the enforceability of the derivatives contract.

[End of Appendix]

GUIDELINE 1 – MARGIN RATES AND DEPOSITS

1.1 MARGIN RATES

Clearing Participants are required to collect margins from their clients for all open positions maintained by them to ensure performance of the contracts. The minimum margins required are set by the Clearing House and regular circulars are issued by the Clearing House on changes in the margin levels.

In accordance with Rule 521(a) of the Rules of the Clearing House, the amount of margin to be collected from clients shall be at least equivalent to the amount of margins required by the Clearing House. However, Clearing Participants may, at their absolute discretion, prescribe margin rates/requirements above the Clearing House's minimum margin requirements.

1.2 FORMS OF MARGIN DEPOSITS

Rule 521(b) of the Rules of the Clearing House and Paragraph 8 of the Clearing House's Directive No. 5-001 (Directives on the Responsibilities of Clearing Participants) sets out the acceptable forms of margin deposits.

For bank guarantee, it is the responsibility of the Clearing Participants to ensure that the bank guarantee is accepted only if it is capable of being called upon immediately without any restrictions, limitations or conditions imposed by the issuing bank. The bank guarantee must contain a clause to this effect.

GUIDELINE 2 – MARGIN CALLS

2.1 ISSUANCE OF MARGIN CALLS

Margin deposit acts as good faith deposit or performance bond for futures contract and for this purpose, margin call is issued to collect the required margin from the client.

It is the responsibility of the Clearing Participants to call for margins from their clients once the clients' accounts become undermargined. An account is undermargined if the account's total net equity plus acceptable margin deposit is less than the margin requirement. The difference between the total net equity plus acceptable margin deposit and the margin requirement denotes the amount of margin the Clearing Participant must call in order to restore the account's margin deficiency status.

Margin call must be made within one business day after the occurrence of the event giving rise to the call. If the Clearing Participant is unable to contact the client personally, a written margin call notice sent to the client at the latest address provided by the client shall be deemed as sufficient.

Clearing Participants may, at their absolute discretion, call for additional margin intra-day or at any time that the Clearing Participants deem it necessary to cover any additional risks associated with the clients' positions.

2.2 COMPUTATION OF MARGIN CALLS

For the purpose of determining the amount of margin call, the account shall be reviewed as of the close of the trading day.

A required margin call is calculated as follows:

$$\text{Required Margin Call} = \text{Margin Requirement} - (\text{Net Equity} + \text{Margin Deposit} + \text{Outstanding Margin Calls})$$

where:

Margin requirement refers	Clearing Participant's margin requirement or if this is not applicable, the Clearing House margin requirement
Net equity refers	the total of an account's cash ledger balance, profit or loss on open futures contract and the net current market value of open options contract.
Margin deposit refers	acceptable forms of margin payment approved by the Clearing House (as mentioned in this Guideline 1.2)
Outstanding margin calls refers	margin calls previously issued which remain unpaid

2.3 AGING OF MARGIN CALLS AND MONITORING PROCEDURES

Margin calls issued must be aged individually and separately throughout their existence. An account's total margin call is the sum of all individually aged margin calls and the oldest outstanding margin call shall be reduced first.

In aging of margin calls and for monitoring of margin payments, the following definitions shall apply:

T	=	the transaction date when position is established/account becomes undermargined
T+1	=	first business day after transaction date/day margin call is issued
T+2	=	second business day after transaction date
T+3	=	third business day after transaction date

Clearing Participants must ensure that they have adequate procedures in place to ensure that appropriate margin calls are made promptly and are properly monitored and followed up. To achieve this, Clearing Participants are required to establish procedures to include maintenance of written records indicating for each client:

- amount of margin call made
- date that the client is contacted and whether contacted by telephone or in writing
- age of the margin call
- status of the margin call i.e. is the margin call met by funds received, liquidation of position, etc and the date this event occurred.

2.4 TIMING OF MARGIN PAYMENT

In accordance with Rule 521 of the Rules of the Clearing House, Clearing Participants are required to collect margin from their clients for all open positions held. Margin is required to be collected either on an upfront basis or within a reasonable time frame as prescribed by the Clearing House.

For this purpose, the Clearing House has defined the reasonable time frame to be 3 business days from transaction date. However, Clearing Participants, may at their absolute discretion, shorten the time frame of the margin to be collected from their clients to less than 3 business days.

The reasonable time frame is considered met when the cash funds have been remitted and banked-into the client's Segregated Account. Clearing Participants should not treat the cash funds as received although the client's remittance shows the funds are forthcoming on a future value date.

For example, if the Clearing Participant received a confirmation from the client's banker advising that on T+1, the client has remitted RM1 million for value date T+3, then the funds can only be included in the client's net ledger balance at the close of trading on T+3. In this situation, the margin is considered as forthcoming within the reasonable time frame i.e. the margin call is met within the prescribed time frame.

However, in the case where the Clearing Participant received a confirmation from the client's banker advising that on T+1, the client has remitted RM1 million for value date T+5, then the funds can only be included in the client's net ledger balance at the close of trading on T+5. In this situation, the margin is not considered as forthcoming within the reasonable time frame and thus, the margin call is not met within the prescribed time frame.

For margin payment using cheques, the call is considered met upon banking-in of cheques.

2.5 REDUCTION AND NEGATION OF MARGIN CALLS

Reduction of margin call means the total outstanding amount of margin call in an account is partially reduced or decreased but, the remaining amount of margin call must still be met by the client. A margin call may only be reduced through the receipt of cash and/or other acceptable margin deposits, which are less than the amount of margin call.

In contrast, negation of margin call means cancellation or elimination of an account's margin call in its entirety. A margin call may be negated through:

- receipt of cash and/or acceptable margin deposits, which are equal or greater than the amount of the margin call; or
- inter-day favorable market movement and/or liquidation of position only if the account's total net equity is equal or greater than the margin requirement as of the close of the trading day. In such a case, the account is no longer in a margin deficiency status and hence, justify the reason for a negation of margin call; or
- a combination of the two factors above which results in the account's total net equity being equal or greater than the margin requirement as of the close of the trading day.

(NB: An account's total net equity means net equity plus acceptable margin deposit.)

The margin requirement here is defined as the Clearing Participants' margin requirements. This would mean, if the Clearing Participants prescribe a margin requirement higher than the minimum margin requirement of the Clearing House, then the higher margin requirements shall apply.

In addition, it is important to note that the practice of liquidation and re-establishment of position to circumvent the margin rules is disallowed.

2.6 ILLUSTRATIONS OF MARGIN CALL REDUCTION AND NEGATION

Tabled below are the various illustrations on how margin calls can be reduced or negated based on the concepts laid down in Guideline 2.5 above.

Please note the following assumptions used in all the illustrations:

1. Account balances and margin requirements are as of the close of trading day.
2. The account was properly margined on the previous trading day (Friday).
3. Margin call issued is equal to:

$$\text{Margin Requirement less (Net Equity + Margin Deposit + Outstanding Margin Calls)}$$

Illustration One

Impact On Margin Calls Due To Receipt Of Margin Deposits

	Mon	Tue	Wed	Thurs
Cash ledger balance	60,000	60,000	60,000	60,000
Cash received	0	0	8,000	0
Open position profit/(loss)	(5,000)	(15,000)	(15,000)	(15,000)
Net equity	55,000	45,000	53,000	53,000
Margin requirement	63,000	63,000	63,000	63,000
Margin excess/(deficiency)	(8,000)	(18,000)	(10,000)	(10,000)
Margin call amount/(age of margin call)	8,000 (T)	8,000 (T+1)	-	-
		10,000 (T)	10,000 (T+1)	10,000 (T+2)

Note A

Note A: Margin call of RM8,000 was negated through receipt of cash on Wednesday. However, margin call of RM10,000 remained outstanding.

Illustration Two

Impact On Margin Calls Due To Receipt Of Margin Deposits In Excess Of Total Margin Calls

	Mon	Tue	Wed	Thurs
Cash ledger balance	50,000	50,000	50,000	50,000
Cash received	0	0	0	40,000
Open position profit/(loss)	5,000	(8,000)	(10,000)	(10,000)
Net equity	55,000	42,000	40,000	80,000
Margin requirement	75,000	75,000	75,000	75,000
Margin excess/(deficiency)	(20,000)	(33,000)	(35,000)	5,000
Margin call amount/(age of margin call)	20,000 (T)	20,000 (T+1) 13,000 (T)	20,000 (T+2) 13,000 (T+1) 2,000 (T)	-

Note A

Note B

Note C

Note A: An additional margin call of RM13,000 was issued due to unfavorable market movement on Tuesday on top of the RM20,000 margin call.

Note B: On Wednesday, further unfavorable market movement created another additional margin call RM2,000. Both the margin calls of RM20,000 and RM13,000 were still outstanding.

Note C: Margin deposit of RM40,000 was received on Thursday. This deposit was sufficient to negate all the outstanding margin calls amounting to RM35,000. Account's net equity was higher than the margin requirement hence, no longer in margin deficiency status on Thursday.

Illustration Three

Impact On Margin Calls Due To Receipt Of Insufficient Margin Deposits

	Mon	Tue	Wed	Thurs
Cash ledger balance	50,000	50,000	50,000	50,000
Cash received	0	0	0	15,000
Open position profit/(loss)	(5,000)	(8,000)	(10,000)	(10,000)
Net equity	55,000	42,000	40,000	55,000
Margin requirement	75,000	75,000	75,000	75,000
Margin excess/(deficiency)	(20,000)	(33,000)	(35,000)	(20,000)
Margin call amount/(age of margin call)	20,000 (T)	20,000 (T+1) 13,000 (T)	20,000 (T+2) 13,000 (T+1) 2,000(T)	5,000 (T+3) 13,000 (T+2) 2,000 (T+1)

Note A

Note B

Note C

Note A: An additional margin call of RM13,000 was issued due to unfavorable market movement on Tuesday on top of the RM20,000 margin call.

Note B: On Wednesday, further unfavorable market movement created another additional margin call RM2,000. Both the margin calls of RM20,000 and RM13,000 were still outstanding.

Note C: Margin deposits of RM15,000 was received on Thursday. This deposit was only sufficient to reduce the oldest aged outstanding margin call of RM20,000 to RM5,000 but not enough to negate the call. Apart from the RM5,000 balance, margin calls of RM13,000 and RM2,000 were still outstanding. Account was still in margin deficiency status as its net equity is lower than the margin requirement.

Illustration Four

Impact On Margin Calls Due To Liquidation Of Position(s)

	Mon	Tue	Wed	Thurs
Cash ledger balance	50,000	50,000	50,000	50,000
Cash received	0	0	0	0
Open position profit/(loss)	9,000	10,000	6,000	6,000
Net equity	59,000	60,000	56,000	54,000
Margin requirement	63,000	63,000	63,000	40,000
Margin excess/(deficiency)	(4,000)	(3,000)	(7,000)	14,000
Margin call amount/(age of margin call)	4,000 (T)	4,000 (T+1)	4,000 (T+2) 3,000 (T)	- -

Note A

Note B

Note C

Note A: Despite a small favorable market movement on Tuesday, account's net equity was still below margin requirement. Margin call of RM4,000 was outstanding since this favorable market movement was not enough to negate the margin call and no margin deposit was received.

Note B: Unfavorable market movement resulted in another fresh margin call amounting to RM3,000. Margin call of RM4,000 was still outstanding.

Note C: Positions partially liquidated on Thursday thus, reduction in margin requirement to RM40,000. Both margin calls were negated as net equity was above margin requirement. Account was no longer in margin deficiency status.

Illustration Five

Impact On Margin Calls Due To Liquidation Of Position(s) & Unfavorable Inter-Day Market Movement

	Mon	Tue	Wed	Thurs
Cash ledger balance	50,000	50,000	48,000	44,000
Cash received	0	0	0	0
Open position profit/(loss)	9,000	10,000	3,000	(5,000)
Net equity	59,000	60,000	51,000	39,000
Margin requirement	63,000	63,000	55,000	40,000
Margin excess/(deficiency)	(4,000)	(3,000)	(4,000)	(1,000)
Margin call amount/(age of margin call)	4,000 (T)	4,000 (T+1)	4,000 (T+2)	4,000 (T+3)

Note A

Note B

Note C

Note A: Despite a small favorable market movement on Tuesday, account's net equity was still below margin requirement. Margin call of RM4,000 was outstanding as this favorable market movement was not enough to negate the margin call and no margin deposit was received.

Note B: Position partially liquidated thus, reduction in margin requirement to RM55,000 on Wednesday. However, market moved unfavorable to a deficit of RM7,000 on this day. Therefore, despite partial liquidation, the unfavorable market movement resulted in net equity lower than margin requirement. Account in margin deficiency status and margin call of RM4,000 was still outstanding.

Note C: Further liquidation of positions on Thursday thus, reduction in margin requirement to RM40,000. However, market moved unfavorable to a deficit of RM8,000 on this day. Therefore, despite partial liquidation, the unfavorable market movement resulted in net equity lower than margin requirement. Despite account in a lower margin deficiency level, margin call of RM4,000 was still outstanding.

Illustration Six

Impact On Margin Calls Due To Liquidation Of Position(s) & Favorable Inter-Day Market Movement

	Mon	Tue	Wed	Thurs
Cash ledger balance	50,000	40,000	46,000	44,000
Cash received	0	0	0	0
Open position profit/(loss)	(15,000)	(2,000)	1,000	1,500
Net equity	35,000	38,000	47,000	45,500
Margin requirement	63,000	49,000	35,000	35,000
Margin excess/(deficiency)	(28,000)	(11,000)	12,000	10,500
Margin call amount/(age of margin call)	28,000 (T)	28,000 (T+1)	-	-

Note A

Note B

Note A: On Tuesday, occurrence of favorable market movement of RM13,000 and position was partially liquidated thus, reduction in margin requirement to RM49,000. However, margin call of RM28,000 was not negated as both of these conditions were insufficient to improve net equity above the margin requirement. Account remained in margin deficiency status.

Note B: Favorable market movement occurred on Wednesday. Position was further liquidated thus, reduction in margin requirement to RM35,000. Margin call of RM28,000 was properly negated as net equity was greater than margin requirement as a result of further favorable market movement and liquidation of position.

Illustration Seven

Impact On Margin Calls Due To Favorable Inter-Day Market Movement

	Mon	Tue	Wed	Thurs
Cash ledger balance	45,000	45,000	45,000	45,000
Cash received	0	0	0	0
Open position profit/(loss)	(4,000)	(1,500)	3,200	5,300
Net equity	41,000	43,500	48,200	50,300
Margin requirement	50,000	50,000	50,000	50,000
Margin excess/(deficiency)	(9,000)	(6,500)	(1,800)	300
Margin call amount/(age of margin call)	9,000 (T)	9,000 (T+1)	9,000 (T+2)	-

Note A

Note B

Note C

Note A: Favorable market movement occurred on Tuesday of RM2,500. However, net equity was still lower than margin requirement hence, the margin call of RM9,000 was still outstanding as no margin deposit was received.

Note B: Favorable market movement occurred on Wednesday of RM4,700. However, net equity was still lower than margin requirement hence, the margin call of RM9,000 was still outstanding as no margin deposit was received.

Note C: Further favorable market movement of RM2,100 was noted on Thursday. This resulted in net equity greater than margin requirement. Account no longer under margin deficiency status and margin call was negated.

Illustration Eight

Impact On Margin Calls Due To Receipt Of Margin Deposits, Partial Liquidation Of Positions & Favorable Inter-Day Market Movement

	Mon	Tue	Wed	Thurs
Cash ledger balance	45,000	40,000	55,000	60,000
Cash received	0	15,000	0	0
Open position profit/(loss)	(15,000)	(5,000)	(2,000)	(1,500)
Net equity	30,000	50,000	53,000	58,500
Margin requirement	63,000	56,000	45,000	45,000
Margin excess/(deficiency)	(33,000)	(6,000)	8,000	13,500
Margin call amount/(age of margin call)	33,000 (T)	18,000 (T+1)	-	-

Note A

Note B

Note A: Favorable market movement occurred on Tuesday of RM10,000 and position partially liquidated thus, reduction in margin requirement to RM56,000. Also, cash deposit of RM15,000 was received on the same day. These conditions would reduced margin call to RM18,000 due to receipt of cash but not negated as net equity was less than margin requirement despite favorable market movement on the day and partial liquidation of position. Account was still under margin call.

Note B: Favorable market movement occurred on Wednesday. Margin call was negated as net equity was more than margin requirement as a result of further favorable market movement of RM3,000 and partial liquidation of position.

GUIDELINE 3 – UNDERMARGINED AND DEBIT ACCOUNTS TRADING

3.1 UNDERMARGINED AND DEBIT ACCOUNTS

An account is considered as undermargined when it is in a margin deficiency status i.e.: the account's total net equity plus acceptable margin deposits is less than the margin requirement. In such a case, margin call will be issued on the account for the deficit amount. If an account has an outstanding margin call in excess of the allowable time frame for margin payment, then the account is considered to be undermargined for an unreasonable time.

On the other hand, a debit account refers to:

- unsecured debit account
an account who has a negative net equity balance that is not secured by acceptable margin deposit. It may also arise in a situation where an account has liquidated all its positions resulting in a debit balance.

- secured debit account
an account with debit balance (i.e. a negative net equity balance) but is secured by acceptable margin deposit. In such a case the account may trade and hold positions provided the debit balance plus the value of acceptable margin deposit does not result in a negative balance.

3.2 PERMISSIBLE TRADING ACTIVITIES

In accordance with Rule 521(c) of the Rules of the Clearing House, a Clearing Participant must ensure that except for trades which reduce a client's margin requirements, no new Market Contracts are entered into by the client unless the minimum margin for the Market Contracts are on deposit or is forthcoming within such period as may be prescribed by the Clearing House from time to time after a call for margin has been made by the Clearing Participant and that client's pre-existing Open Positions comply with the margin requirements established by the Clearing Participant. This period is prescribed to be 3 business days from the transaction day.

Further Rule 521(e) of the Rules of the Clearing House provides that *"a Clearing Participant may close out all or any Open Positions of Client where the Client fails to comply with the demand for margin within a reasonable time after a margin call has been made by the Clearing House, provided that in no case shall such time be less than 1 hour from the time of demand"*.

Essentially, Clearing Participants are required to ensure that margins are collected either upfront or within 3 business days from transaction day failing which, the Clearing Participants must ensure that no new Market Contracts are entered into by the client which will further increase the margin exposure of the client. However, orders for risk reducing trades which would reduce the margin requirements of the client may be allowed.

Directive No. 5-001: Appendix 2
Client Margin Guidelines

Guideline 3 – Undermargined and Debit Accounts Trading

For Clearing Participants who exercise a more stringent time frame for collection of margin from their clients (i.e. of less than 3 business days), they may, at their absolute discretion, ensure that no new Market Contracts are entered into by the clients which will further increase the margin exposure of the clients if the clients fails to meet with the demand of their margin calls. In this situation, the Clearing Participants may also reserve the right to close out all or any of the open positions of their clients who fail to meet with the demand of their margin calls.

Therefore, the types of trading activity a client is permitted to conduct is very much dependent on the margin call status of the Client.

The Clearing Participant must notify the relevant Trading Participant of the client's failure to comply with the relevant margin requirements and require the Trading Participant to only allow the following types of trading activities:

1. for account which is properly margined or in the case of undermargined account with margin being forthcoming within a reasonable time
 - trading activities such as day trade, addition trade and/or liquidating trade are permissible.

(Please refer to Illustration 1 in the following Guideline 3.3)

2. for undermargined account with margin not forthcoming within a reasonable time
 - may conduct liquidating trade only. Addition trade and/or day trade activities are disallowed.

(Please refer to Illustration 2 in the following Guideline 3.3)

3. for debit account which is not secured with acceptable margin deposit
 - liquidating trading and/or no trading is allowed for the account until sufficient cash or acceptable margin deposit equal or greater than the debit amount are deposited.

(Please refer to Illustration 3 and 4 in the following Guideline 3.3)

4. for debit account which is secured by acceptable margin deposit
 - if the debit amount plus value of the acceptable margin deposit is equal or greater than zero, then trading activities such as day trade, addition trade and/or liquidating trade are permissible.

(Please refer to Illustration 5 in the following Guideline 3.3)

- if the debit amount plus value of the acceptable margin deposit is less than zero, only liquidating trade may be permitted. Addition trade and/or day trade activities are disallowed.

(Please refer to Illustration 6 in the following Guideline 3.3)

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Guideline 3 – Undermargined and Debit Accounts Trading

The types of permissible trading activity as referred to above are defined as follows:

- day trade – establishment and closure of trades on the same trading day
- liquidating trade – closure of an established position for purposes of reducing an account’s margin requirement. Addition of positions like “spreads” or “lock-ups” which will result in a reduction in margin requirement will be allowed as this is line with risk reducing strategies.
- addition trade – establishment of trade which will increase an account’s position and margin requirement

3.3 ILLUSTRATIONS OF PERMISSIBLE TRADING ACTIVITIES.

Please note the following assumptions used in all the illustrations:

1. Account balances and margin requirements are as of the close of trading day.
2. The account was properly margined on the previous trading day (Friday)
3. All margin calls are promptly issued and aged.

Legends used to denote trading activity

- All** - refers to day trade, liquidating trade and/or addition trade
- LT** - refers to liquidating trade
- NT** - refers to no trading allowed

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Client Margin Guidelines
Guideline 3 – Undermargined and Debit Accounts Trading

Illustration 1

Undermargined Account With Margin Forthcoming Within Reasonable Time

	Mon	Tue	Wed	Thurs
Net equity	10,000	14,000	15,500	12,500
Margin requirement	15,000	22,500	22,500	0
Margin excess/ (deficiency)	(5,000)	(8,500)	(7,000)	12,500
Margin call amount/ (Age of margin call)	5,000 (T)	5,000 (T+1) 3,500 (T)	5,000 (T+2) 3,500 (T+1)	- -
Permissible trading activity	All	All	All	All

Remarks

Margin call was properly negated by full liquidation of positions on Thursday. Thus, the account was permitted to conduct all trading activities since there was no margin call outstanding beyond T+3 period.

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Client Margin Guidelines
Guideline 3 – Undermargined and Debit Accounts Trading

Illustration 2

Undermargined Account With Margin Not Forthcoming Within Reasonable Time

	Mon	Tue	Wed	Thurs	Fri	Mon
Net equity	10,000	14,000	15,500	16,000	15,000	23,500
Margin requirement	15,000	22,500	22,500	22,500	22,500	22,500
Margin excess/ (deficiency)	(5,000)	(8,500)	(7,000)	(6,500)	(7,500)	1,000
Margin call amount/ (Age of margin call)	5,000(T)	5,000 (T+1)	5,000 (T+2)	5,000 (T+3)	5,000 (T+4)	-
		3,500 (T)	3,500 (T+1)	3,500 (T+2)	3,500 (T+3)	-
Permissible trading activity	All	All	All	All	LT	All

Note 1

Note 2

Remarks

Note 1 On Friday, the account was allowed to conduct liquidating trade only as the margin call of RM5,000 was now outstanding beyond the reasonable time frame of T+3. No margin deposit was received to date.

Note 2 On the following Monday, a cash deposit of RM8,500 was received to negate the margin calls. Once the account was properly margined, all trading activities would be allowed.

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Client Margin Guidelines
Guideline 3 – Undermargined and Debit Accounts Trading

Illustration 3

Unsecured Debit Account

	Mon	Tue	Wed	Thurs	Fri
Net equity	10,000	12,500	(2,500)	(2,500)	12,500
Margin requirement	15,000	22,500	0	0	7,500
Margin excess/ (deficiency)	(5,000)	(10,000)	(2,500)	(2,500)	5,000
Margin call amount/ (Age of margin call)	5,000 (T)	5,000 (T+1) 5,000 (T)	-	-	-
Permissible trading activity	All	All	All	NT	All

Note 1

Note 2

Remarks

Note 1 No trading activity was allowed as account was in debit balance as a result of full liquidation of position on Wednesday.

Note 2 RM15,000 was received on Friday to settle the debit balance of RM2,500. Hence, the account was allowed to resume trading.

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Client Margin Guidelines
Guideline 3 – Undermargined and Debit Accounts Trading

Illustration 4

Unsecured Debit Account

	Mon	Tue	Wed	Thurs	Fri
Net equity	6,500	(5,000)	(2,500)	(5,000)	(4,500)
Margin requirement	15,000	22,500	22,500	22,500	22,500
Margin excess/ (deficiency)	(8,500)	(27,500)	(25,000)	(27,500)	(27,000)
Margin call amount/ (Age of margin call)	8,500 (T)	8,500 (T+1) 19,000 (T)	8,500 (T+2) 19,000 (T+1)	8,500 (T+3) 19,000 (T+2)	8,500 (T+4) 19,000 (T+3)
Permissible trading activity	All	All	All	All	LT

Note 1

Remarks

Note 1 Liquidating trading activity was allowed as margin call of RM8,500 was outstanding beyond the permissible payment time frame of T+3.

Directive No. 5-001: Appendix 2
Client Margin Guidelines
Guideline 3 – Undermargined and Debit Accounts Trading

Illustration 5

Debit Account Secured by Adequate Margin Deposit

	Mon	Tue	Wed	Thurs
Net equity	10,000	12,500	(2,500)	(2,500)
Margin requirement	15,000	22,500	0	7,500
Margin excess/ (deficiency)	(5,000)	(10,000)	(2,500)	(10,000)
Margin call amount/ (Age of margin call)	-	-	-	-
Margin deposit (e.g. letter of credit)	20,000	20,000	20,000	20,000
Permissible trading activity	All	All	All	All

Remarks

The account was permitted to conduct all types of trading activity since it was properly margined by adequate margin deposit.

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Client Margin Guidelines
Guideline 3 – Undermargined and Debit Accounts Trading

Illustration 6

Debit Account Secured by Inadequate Margin Deposit

	Mon	Tue	Wed	Thurs	Fri	Mon
Net equity	(5,000)	(3,000)	(5,000)	(15,000)	(15,000)	10,000
Margin requirement	22,500	22,500	30,000	30,000	30,000	7,500
Margin excess/ (deficiency)	(27,500)	(25,500)	(35,000)	(45,000)	(45,000)	2,500
Margin call amount/ (Age of margin call)	17,500 (T)	17,500 (T+1)	17,500 (T+2)	17,500 (T+3)	17,500 (T+4)	-
			7,500 (T)	7,500 (T+1)	7,500 (T+2)	-
				10,000 (T)	10,000 (T+1)	-
Margin deposit (e.g. letter of credit)	10,000	10,000	10,000	10,000	10,000	10,000
Permissible trading activity	All	All	All	All	LT	LT

Note 1 Note 2

Remarks

Note 1 On Friday, margin call of RM17,500 made on Tuesday was outstanding beyond the reasonable time of payment. Thus, the account could trade for liquidation only to reduce its margin exposure on Friday.

Note 2 Similarly on Monday, the account could only conduct liquidating trade until the margin calls issued had been properly negated and account was no longer in a margin deficiency status. Subsequently, the account could resume normal trading on Tuesday.

[End of Appendix]

[Name and registered address of Clearing Participant]

Dear Sirs,

MEMORANDUM OF DEPOSIT

In consideration of you providing me services relating to the clearing of futures or options contracts executed on my behalf from time to time, I, [Fill in name of client] of [Fill in the address of the client], have deposited or will deposit with you from time to time as may be required by you, the securities enumerated in Schedule 1 and such other securities that may be accepted by you (hereinafter referred to as "the Securities") on the following terms and conditions:

1. I confirm that I am entitled to pledge the Securities to you and where necessary, have obtained the relevant authorisation to do so in accordance with the requirements of the law, and that the Securities are free from liens, encumbrances or any prior pledge(s). In furtherance thereof I hereby pledge the Securities as part of or the total margin required by you in accordance with Rule 521 of the business rules of Bursa Malaysia Derivatives Clearing Berhad ("Bursa Clearing (D)"), arising from the Open Positions in respect of futures or options contracts traded on my behalf on the exchange i.e. Bursa Derivatives Berhad, which contracts are to be cleared by you. Open Positions means the position of a party under a futures or options contract whose rights or obligations have not expired or been discharged or where the rights/and or obligation under the futures or options contract are yet to be fulfilled.
2. I represent and confirm that the Securities are held in a central depository system maintained by Bursa Malaysia Depository Sdn Bhd ("Bursa Depository") and in this respect I shall transfer and/or cause to be transferred the Securities which are pledged to you under Clause 1 to a securities account held in your name or the name of your nominee with Bursa Depository, the particulars of which shall be furnished by you.
3. Upon transfer of the Securities in accordance with Clause 2, the Securities pledged under Clause 1 shall include all stocks, shares and other securities, rights or other property paid, distributed, accruing or offered at any time (by way of dividends, bonus, redemption rights, preference, option, warrant or otherwise) on, to or in respect of or in substitution of any of the Securities ("the Additional Securities") and all dividends paid or payable on the Securities and the Additional Securities ("the Dividends"). Reference to the word Securities wherever appearing in this Memorandum of Deposit hereinafter, shall include Additional Securities unless the context otherwise requires, or unless expressly excluded.
4. Notwithstanding that the Securities are transferred to you in accordance with Clause 2 and pledged to you in accordance with the terms of this Memorandum of Deposit, you shall have no duty or responsibility and shall be under no obligation to exercise any rights incident to the Securities including the exercise of power to purchase shares or stocks under any warrant or option or to take up any rights issue or voting rights. In the event that I intend to exercise any rights incident to the Securities including the exercise of power to purchase shares or stocks under any warrant or option or to take up any rights issue or voting rights, I acknowledge that I shall have to withdraw the Securities and that the withdrawal shall only be allowed by you in circumstances stipulated under Clause 8 unless determined otherwise by you and when withdrawn I shall be entitled to exercise the same in the manner that I deem fit without any further reference to you. In relation to Dividends, the same shall forthwith be released to me upon clearance of the Dividend cheque(s) or if the Dividends are credited directly into your bank account, receipt by you of the Dividends, notwithstanding that the securities have been pledged to Bursa Clearing (D) pursuant to Clause 5 herein.
5. I hereby consent and authorise that any or all of the Securities deposited and pledged with you in accordance with the terms of this Memorandum of Deposit may be pledged at any time and

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Memorandum of Deposit**

from time to time to Bursa Clearing (D) who is the clearing house for the futures and option contracts traded on Bursa Derivatives as part of or the total margin required by Bursa Clearing (D) as security against the non-performance of your obligations to Bursa Clearing (D) in respect of clearing of futures or options contracts traded on Bursa Derivatives and that Bursa Clearing (D) shall at any time have full rights to sell, exchange, convert into money or otherwise dispose of or realise or concur in selling, exchanging, converting into money or otherwise dispose of or realise the Securities that have been pledged to and accepted by Bursa Clearing (D) ("Approved Securities"), or any part thereof as Bursa Clearing (D) may in its absolute discretion select and for such consideration and on such terms as Bursa Clearing (D) may think fit and to do all such acts and things as Bursa Clearing (D) may consider necessary or desirable for the realising of the Approved Securities or any part thereof if you default on your obligations to Bursa Clearing (D). The aforementioned is subject to the following conditions:

- i. That the utilisation of the Securities shall be strictly limited to the purpose/s above;
 - ii. That the Securities shall be made available to me for withdrawal in circumstances permitted in this Memorandum of Deposit and in the event that the Securities are not returned to me pursuant to the above, my recourse shall be against you as stipulated in Clause 10 and not against Bursa Clearing (D) ; and
 - iii. That the Securities shall be taken into account in computing the margin that has been deposited by me with you under Clause 1; and
 - iv. That the value of the Securities shall be set off as against the sum owed to you arising from a default under Clause 11.
6. I further hereby agree to execute all relevant documents as may be required by you at any time and from time to time for the purpose of facilitating and giving effect to Clause 5.
7. I agree and consent that my rights to the exercise of and/or all or any dealings with respect to and in relation to the rights, benefits, powers and privileges in respect of or arising from the Securities and/or as conferred under the relevant laws and/or the Memorandum and Articles of Association of the issuer of the Securities shall be subject to the terms of this Memorandum of Deposit. I further agree that I shall not enter into any dealings and/or any arrangement howsoever called with respect to the Securities except where permitted in this Memorandum of Deposit and/or by you.
8. I shall be entitled to withdraw any or all of the Securities deposited and pledged herein, by providing you with written notice thereof, in any of the following circumstances:
- (i) where the Securities are in surplus of the amount of margin required by you for the purposes stipulated in Clause 1 herein, to the extent of the surplus amount; or
 - (ii) where the value of the Securities to be withdrawn is replaced/exchanged with any other securities or form/s of collateral acceptable by you or cash of equal value; or
 - (iii) where I no longer have any Open Positions in respect of futures or options contracts cleared on my behalf by you and have no sums outstanding owed to you with regards to my obligations stipulated in Clause 1 herein.
9. Subject to Clause 11, where the withdrawal of the Securities is permitted under Clause 8, the Securities shall be transferred to a securities account(s) designated by me subject to the rules and procedures of Bursa Depository and the said transfer shall not be effected later than two (2) clear market days from the date of receipt by you of the notice stipulated in Clause 8.
10. In the event that you are not able to return the Securities and/or the Additional Securities to me within the timeframe stipulated in Clause 9 ("Initial Period") for any reason(s) whatsoever, you shall within five (5) clear market days from the expiry of the Initial Period take measures to procure and return to me those Securities in specie and in the event that you are unable to procure such securities due to circumstances beyond your control, you shall provide me with the market value of those Securities in monetary form. Market value of the Securities shall be computed based on the weighted average price of the Securities plus one percentum (1%) (of the weighted average price of the Securities) on the trading day or the last trading day, as the

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Memorandum of Deposit

case may be, preceding the date that delivery of Securities in specie should have been made under this clause. I agree that once the aforementioned Securities in specie is returned or monetary compensation is paid to me pursuant to this clause, the same shall serve as full and final settlement of your obligation under Clause 8, Clause 9 and this clause and I shall have no further claim against you in relation thereto.

11. Where I default in the performance of any of my obligations arising from the Open Positions in respect of futures or options contracts cleared on my behalf by you, I acknowledge that you shall have full rights to sell, exchange, convert into money or otherwise dispose of or realise or concur in selling, exchanging, converting into money or otherwise disposing of or realising the Securities or any part thereof as you may in your absolute discretion select and for such consideration and on such terms as you may think fit to do all such acts and things as you may consider necessary or desirable for the realising of the Securities or any part thereof. The consideration received from the above, shall be utilised towards the discharge of the monies owing by me to you pursuant to the above default and the residue thereof (if any) shall be paid to me.
12. I hereby consent and agree to the transfer of the legal ownership of the Securities to any party arising from the exercise of your powers under Clause 11 and in connection thereto I authorise you to execute all relevant documents at any time and from time to time and accord to you all rights and powers to take the necessary steps to execute and give effect to the above said transfer. Notwithstanding the above, where required by you, I shall also execute all relevant documents for the purpose of executing and giving effect to the above said transfer.
13. I acknowledge and agree that the terms stipulated in this Memorandum of Deposit shall be subject to the business rules of Bursa Clearing (D), and all procedures, guidelines etc issued by Bursa Clearing (D) from time to time in connection with the depositing of securities for the purpose stipulated under Clause 1 (“the Provisions”) and I shall comply with the Provisions as if the same is stipulated herein. In the event of any inconsistency between the terms stipulated in this Memorandum of Deposit and the Provisions, the Provisions shall prevail.
14. Where additional securities are deposited with you to satisfy the margin required by you for the purpose stipulated in Clause 1, the provisions of this Memorandum of Deposit shall equally apply to those additional securities deposited. In this respect, Schedule 1 of this Memorandum of Deposit shall be read to include the above additional securities as if enumerated therein and the word Securities wherever appearing in this Memorandum of Deposit shall also include the above additional securities.
15. Pursuant to Clause 14, where additional securities are deposited with you as margin, you shall provide me with written confirmation of such a deposit of securities.
16. Any demand, request or notice made under this Memorandum of Deposit by me or you shall be in writing and addressed to the address specified herein or such address as notified in writing from time to time.
17. I agree that you may deduct, from monies held by you, all fees, cost incurred, stamp duty and other charges relating to or in connection with the execution of this Memorandum of Deposit.
18. This Memorandum of Deposit shall be binding and enure to my and your benefit and our successors, legal representatives and permitted assigns.
19. I hereby indemnify you and hold you indemnified for any loss, legal costs (including third party costs), damage or liability suffered or incurred by you, whether directly or otherwise, arising as a result of your reliance on the representations made in Clause 1 in accepting the securities pledged under this Memorandum of Deposit.
20. I agree that this Memorandum of Deposit shall be governed by and construed in all respects in accordance with the laws of Malaysia and I shall submit to the jurisdiction of the courts of Malaysia in all matters set out in this Memorandum of Deposit.

Dated this [] day of [] Year []

.....
Common Seal or Signature

Name:

Designation of Authorised Signatory/ies(where it is a corporation):

In the presence of,

.....
Signature

Name:

NRIC No:

**Schedule 1
List of Securities**

[End of Appendix]

FINANCIAL REPORTING GUIDE

Preface

Bursa Malaysia Derivatives Clearing Berhad (“BMDC”) is a company that has been approved by the Minister of Finance under the Capital Markets and Services Act 2007 to act as a clearing house for derivatives market in Malaysia. In seeking and obtaining that approval, BMDC undertook the responsibility to gain the confidence of investors in the financial integrity of the Malaysian derivatives market, ensure that clearing participant do not become a source of systemic risk or pose a threat to the settlement system, and to act in the public interest generally.

The imposition of a minimum capital standard on clearing members is a key element of BMDC’s overall risk management system, designed to assist BMDC in the discharge of its statutory responsibility. In addition to setting a capital standard, emphasis is also given through our financial audit programme on board and senior management oversight, internal controls as well as the benefit of having in place a system for the proper identification and management of risk. This is because not only do inadequate controls and supervision expose a clearing member to significant risk, they can also adversely affect the integrity of financial statements the purported objective of which is to serve as evidence of compliance with minimum capital requirements.

We believe that the financial statements of the clearing participant should reflect in a meaningful way underlying trends in the financial performance and condition of the firm, the proper values of its assets and liabilities as well as the susceptibility or sensitivity to changes in value. Recognizing that adopting broadbased accounting and disclosure standards does not adequately explain the economic substance of the activities of a clearing member, schedule 2 to the Rules of BMDC therefore provides for the computation, in a particular way, of the minimum assets which a member must hold.

BMDC has prepared the accompanying reporting guide which prescribes the financial reports and information that clearing members are required to submit to BMDC on a monthly basis as well as the forms in which those reports and information are to be presented. As a further guide to the preparation of these financial reports, some terms used in schedule 2 and the reporting guide have been defined for the benefit of clearing participant and detailed instructions have been provided with respect to the completion of the forms.

Bursa Malaysia Derivatives Clearing Berhad

FINANCIAL REPORTING GUIDE

INTRODUCTION

All Clearing Participants must submit to BMDC within 15 calendar days after the end of each month the following statements completed in accordance with the instructions contained in this document:

1. **FORM A** - Statement of Segregation Requirements and Funds in Segregation for Clients Trading on Malaysian and Foreign Exchanges
2. **FORM B** - Statement of Adjusted Net Capital
3. **FORM C** - Statement of Financial Condition
4. **FORM D** - Statement of Income/(Loss)
5. **Trial Balance**

Clearing Participants are reminded that in addition to the above, they must submit any supporting information or document, their audited financial statements and such other statements or information as may be requested by BMDC from time to time. Failure to do so may result in fines being imposed and/or other forms of disciplinary action being taken by BMDC.

DEFINITIONS

For the purpose of this guide, the term:

- 1) “Clearing Participant” has the same meaning as that provided in the Rules of BMDC;
- 2) “Client” has the same meaning as that provided in the Rules of BMDC;
- 3) “Clients’ segregated accounts” has the same meaning as that provided by the Capital Markets and Services Act 2007;
- 4) “Computation date” means any day on which the Adjusted Net Capital of a Clearing Participant is computed;
- 5) “Financial institution” here refers to institutions governed by the Financial Services Act 2013;
- 6) “Proprietary Account” has the same meaning as that provided by the Rules of Bursa Malaysia Derivatives Berhad;
- 7) “Related corporation” has the same meaning as that provided by the Capital Markets and Services Act 2007.
- 8) “Secured” means
 - a) collateral of the type, approved by BMDC, given to the Clearing Participants as security for that loan or receivable and is at least of such value approved by BMDC; or
 - b) the collateral is in the possession or control of the Clearing Participant; and
 - c) the Clearing Participant has a legally enforceable written security agreement executed by the debtor in its favour under which the member has the power to readily sell or otherwise convert the collateral into cash in the event of the receivable being placed in jeopardy;
- 9) “Securities” means debentures, stocks and shares in a public company or corporation, or bonds of any government or of any body, corporate or unincorporated, and includes any option in respect thereof and any interest in unit trust schemes;

- 10) “Unit trust scheme” means any arrangement made for the purpose, or having the effect, of providing facilities for the participation by persons as beneficiaries under a trust in profits or income arising from the acquisition, holding, management or disposal of securities or any other property.

FORM A

**STATEMENT OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION FOR CLIENTS TRADING
ON MALAYSIAN AND FOREIGN EXCHANGES AT**

		Malaysia Exchange	Foreign Exchanges	Total
Segregation requirements				
1.	Net ledger balance			
a.	<i>Cash</i>			
b.	<i>Securities</i>			
c.	<i>Foreign currencies</i>			
2.	Net profit/(loss) in open futures contracts			
3.	Exchange traded options			
a.	<i>Current market value of open long option contracts</i>			
b.	<i>Current market value of open short option contracts</i>			
4.	Net equity/(deficit) (add Items 1, 2 and 3)			
5.	Net debit balance			
6.	Amount required to be segregated (add Items 4 and 5)			
Funds in segregated accounts				
7.	Cash deposited in segregated bank account			
a.	<i>Ringgit Malaysia</i>			
b.	<i>Foreign Currencies</i>			
8.	Segregated securities			
9.	Margin deposit with clearing house			
a.	<i>Cash and net settlement</i>			
b.	<i>Securities held as margin</i>			
c.	<i>Foreign currencies held as collateral</i>			
10.	Exchange traded options			
a.	<i>Current market value of open long option contracts</i>			
b.	<i>Current market value of open short option contracts</i>			
11.	Net equity with other licensed futures brokers			
a.	Net equity			
b.	Securities held as margin			
c.	Foreign currencies held as collateral			
12.	Segregated funds on hand (please specify)			
13.	Others (please specify)			
14.	Total amount segregated (Add Items 7 to 13)			
15.	Excess/(deficiency) funds in segregation (Item 14 minus Item 6) (Appendix 1)			

FORM A – STATEMENT OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION FOR CLIENTS TRADING ON MALAYSIAN AND FOREIGN EXCHANGES

The Clearing Participant should clearly differentiate the clearing of trades done on BMDC and foreign clearing houses in the respective columns.

I. SEGREGATION REQUIREMENTS (Line 1 to Line 6)

LINE 1 – *Net ledger balance*

LINE 1.a – *Net ledger balance – Cash*

This amount should show the net debit or credit balance of all Clearing Participant's clients' accounts. Interest earned on clients' funds which are payable to the clients and all monies received from the Locals are also included in this line. This amount should exclude all foreign currency collateral received from clients which need to be disclosed separately under line 1.c. The Clearing Participant's error account and proprietary balances should not be included in this balance.

LINE 1.b – *Net Ledger balance – Securities*

The Clearing Participant should report all the securities deposited by its clients to margin, guarantee and secure trading on the exchanges. Securities should be reported at the current market value. Letters of credit and guarantees received from clients to margin their accounts should not be included but should be disclosed as notes to the accounts.

LINE 1.c – *Net ledger balance – Foreign currencies*

The Clearing Participant should report all the foreign currencies deposited by its clients to margin, guarantee and secure trading on the exchange. This amount should show the Ringgit Malaysia equivalent of total foreign currencies lodged by the Clearing Participant's clients. The foreign currencies must be converted to Ringgit Malaysia based on BMDC's pre haircut rates. This amount must not be used to net off individual client's debit balances.

LINE 2 - *Net profit/(loss) in open futures contracts*

This amount should include the net profit/(loss) in open futures contracts of clients trading on the exchanges. Trades which have not been cleared (outtrades) as of the reporting date should be market to market and included in this amount.

LINE 3 – *Exchange traded options*

LINE 3.a – *Current market value of open long option contracts*

This amount should show the current market value of open long option contracts carried in the clients' accounts.

LINE 3.b – *Current market value of open short option contracts*

This amount should show as a deduction, the current market value of open short option contracts carried in the clients' accounts.

These amounts should not be netted against each other.

LINE 4 – Net equity/(deficit)

This amount should show the total of **LINE 1 to LINE 3**.

LINE 5 – Net debit balance

An account has a debit balance when the combination of an account's cash ledger balance (debit or credit), profit or loss on open futures contracts, and the current market value of open option contracts liquidated to an amount less than zero. This amount should agree with **LINE 7.a or LINE 8.a of FORM C**. Securities used to margin the account are not to be used to reduce the debit balance to be reported in Form A even though such securities are permitted as margin deposits.

Example 1

	Computation Date
Cash ledger balance	(1,762)
Cash received	-
Net current market value of open Options contract	-
Open position profit/(loss)	-
Net equity	(1,762)
Margin requirement	-
Net current market value of open Options contract	-
Excess/(Shortage)	(1,762)

In this example, the Net Debit Balance on the Computation Date is RM1,762.

Example 2

	Computation Date
Cash ledger balance	17,440
Cash received	-
Net current market value of open Options contract	-
Open position profit/(loss)	(40,580)
Net equity	(23,140)
Margin requirement	(180,000)
Net current market value of open Options contract	-
Excess/(Shortage)	(203,140)

In this example, the Net Debit Balance on the Computation Date is RM23,140.

Example 3

	Computation Date
Cash ledger balance	7,440
Cash received	-
Net current market value of open Options contract	-
Open position profit/(loss)	(40,580)
Net equity	(33,140)
Margin requirement	(180,000)
Net current market value of open Options contract	-
Securities/collateral	200,000
Excess/(Shortage)	(203,140)

In this example, the Net Debit Balance on the Computation Date is RM33,140.

LINE 6 – Amount required to be segregated

This amount should be the total of **LINE 4** and **LINE 5** and should agree with **LINE 23** and **LINE 24** of **FORM C**.

II. FUNDS IN SEGREGATED ACCOUNTS (Line 7 to Line 14)

LINE 7 – Cash deposited in segregated bank accounts

LINE 7.a – Ringgit Malaysia

This amount should show the total cash in Ringgit Malaysia segregated bank accounts.

LINE 7.b – Foreign Currencies

This amount should show the Ringgit Malaysia equivalent of foreign currencies in the Clearing Participant's segregated bank accounts. The foreign currencies must be converted to Ringgit Malaysia based on BMDC's pre haircut rates.

LINE 8 – Segregated securities

This amount should show the securities owned by clients which is deposited with and retained by the Clearing Participant, at current market value.

LINE 9 – Margin deposit with clearing house

LINE 9.a – Cash and net settlement

To report cash and all amounts due from and/or due to BMDC to the Clearing Participant. This amount should agree with BMDC's statement.

LINE 9.b – Securities held as margin

This amount should show the securities held as margins and deposited with the clearing house, at current market value.

LINE 9.c – Foreign currencies held as collateral

This amount should show the Ringgit Malaysia equivalent of foreign currencies lodged with BMDC. The foreign currencies must be converted to Ringgit Malaysia based on MDCH's pre haircut rates.

LINE 10 – Exchange traded options

LINE 10.a – Current market value of open long option contracts

This amount should show the current market value of open long option contracts cleared directly by the Member with the clearing house.

LINE 10.b – Current market value of open short option contracts

This amount should show the current market value of open short option contracts cleared directly by the Clearing Participant with BMDC.

These amounts should not be netted against each other.

Options transactions cleared through other licensed futures brokers should be reported on **LINE 11**.

LINE 11 – Net equity with other licensed futures brokers

LINE 11.a – Net equity

This amount should show the net equity of the Clearing Participant's clients' trades which were cleared through other licensed futures brokers. Net equity includes the cash ledger balance, profit or loss on open futures contracts and the net current market value of open option contracts.

LINE 11.b – Securities held as margin

This amount should show the securities held as margin and deposited with other licensed futures brokers, at current market value.

LINE 11.c – Foreign currencies held as collateral

This amount should show the Ringgit Malaysia equivalent of foreign currencies lodged with another broker. The foreign currencies must be converted to Ringgit Malaysia based on BMDC's pre haircut rates.

LINE 12 – Segregated funds on hand

This amount should show the total amount of funds received from clients which have not been deposited to the segregated bank account.

LINE 13 – Others

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This amount includes the marked-to-market value of clients' trades not yet cleared (outtrades) as at the computation date and other segregated funds which are not readily classifiable into other categories.

LINE 14 – Total amount segregated

This amount should be the total of **LINE 7** to **LINE 13** and should agree with **LINE 1** of **FORM C**.

LINE 15 – Excess/(deficit) funds in segregation

This amount should show the difference between **LINE 6** and **LINE 14**. The Clearing Participant is required to take immediate corrective action and must immediately inform BMDC and Commission if there is a deficiency in the segregated funds.

The Clearing Participant is also required to prepare a reconciliation showing the detailed movements of the excess funds. The reconciliation for the excess funds should be disclosed as **Appendix 1** using the format below;

APPENDIX 1:

Excess Funds b/f	XX	-	this item should agree with the previous month's excess funds reconciliation carried forward balance
Add:			
Addition to the excess funds during the month	XX	-	disclose full details
Less:			
Deduction to the excess funds during the month	<u>(XX)</u>	-	disclose full details
Excess funds c/f	<u>XX</u>	-	this item should agree with LINE 15 of FORM A .

FORM B

STATEMENT OF ADJUSTED NET CAPITAL AS AT

		Total
	Net Capital	
1.	Permitted assets	
2.	Total liabilities	
3.	Deduction from total liabilities	
a.	Liabilities subject to satisfactory subordinated loan agreements	
b.	Allowable long-term liabilities	
	Total allowable liabilities	()
4.	Adjusted liabilities	
5.	Net Capital (Item 1 minus Item 4)	
6.	Additional deductions	
a.	Malaysian government securities - Up to one year of maturity period - More than one year of maturity period	
b.	Readily marketable Malaysian securities listed on the main board of Bursa Malaysia Securities Berhad - Shares listed on Bursa Malaysia Securities Berhad up to a total value of 5% of initial margin or RM250,000, whichever is greater - The balance of the aggregated value of shares listed on Bursa Malaysia Securities Berhad main board	
c.	All other securities listed on Bursa Malaysia Securities Berhad	
d.	Amounts dues from clients in respect of margin where such amount are outstanding not less than three business days as at the computation date	
e.	The net debit balance arising from the marking-to-market or interim settlement of outstanding futures and/or option contracts held by clients as at the close of business on the computation date	
f.	The margin requirement on open contracts in the proprietary account of a Clearing Participant which are not bona fide hedged contracts	
g.	Inventories which are not hedged in any market or association	
h.	Inventories which are not hedged by any hedging position in any market or association	
7.	Total deductions (Add Items 6(a) to 6(h))	
8.	Adjusted net capital (Item 5 minus Item 7)	
9.	Amount of margin required	
10.	10% of the amount of margin required	
11.	Adjusted Net Capital required (Enter the greater of Line 10 or RM500,000)	
12.	Excess Adjusted Net Capital (Item 8 minus Item 11)	

FORM B – STATEMENT OF ADJUSTED NET CAPITAL

For the purposes of calculating Adjusted Net Capital:

- (a) all futures and option contracts must be marked to their current market value.
- (b) all unrealized profits and losses on all futures, options, forward and fixed price commitment contracts must be treated as realized profits and losses; and
- (c) unless otherwise specifically stated, the value ascribed to all other assets and liabilities must be at their current market value.

I. NET CAPITAL (Line 1 to Line 5)

LINE 1 – Permitted assets

This amount should agree with the “Permitted assets” column on LINE 16 of FORM C. Refer to schedule 2 to the Rules of BMDC for the definition of “Permitted Assets”. Note that securities listed on Bursa Malaysia Securities Berhad may be included as “Permitted Assets” under sub-paragraph (i)(iv) of the definition.

LINE 2 – Total Liabilities

This amount should agree with the amount on LINE 27 of FORM C.

LINE 3 – Deduction from total liabilities.

LINE 3.a – Liabilities subject to satisfactory subordinated loan agreements

This amount should show the liabilities under a subordinated loan agreement:

- i. which has a remaining term to maturity of not less than one year; and
- ii. to which Bursa Malaysia Derivatives Berhad is a party,

up to a maximum amount of four times the shareholders; funds of the Clearing Participant.

LINE 3.b - Allowable long term liabilities

This amount should show long term liabilities owed to a financial institution under a commercial loan secured by a fixed charge over **real property** or **motor vehicles** owned by the Clearing Participant and applied for use in the normal course of the business of the Clearing Participant, up to an amount equal to the lower of net book value of 80% of the market value of the real property or motor vehicles. The market value of the assets should be valued by an appointed valuer and based on an ‘as is’ basis and should be revalued annually.

Example:

A Clearing Participant obtains a long term loan of RM4.0 million from a financial institution. The loan is secured by a fixed charge over real property owned by the Clearing Participant. The amount payable within the next 12 months is RM0.5 million and RM 2.5 million is the long term liability. The net book value of the real property is RM3.0 million. The allowable long term liability should be the lower of:

- (i) long term liabilities,
 - (ii) 80% of the real property's market value; or
 - (iii) net book value of the real property.
- (1) If the current market value of the real property is RM5.0 million, 80% of the market value will be RM4.0 million. Therefore, the allowable long term liability will be RM2.5 million.
- (2) If the current market value of the real property is RM3.0 million, 80% of the market value will be RM2.4 million. Therefore, the allowable long term liability will be RM2.4 million.

LINE 4 – Adjusted liabilities

This amount should show the difference between **LINE 3** and **LINE 2**.

LINE 5 – Net Capital

This amount should show the difference between **LINE 4** and **LINE 1**.

LINE 6 – Additional deductions

The Clearing Participant must provide the following charges to its Net Capital to compute its Adjusted Net Capital.

LINE 6 a – *Malaysian government securities*

LINE 6.b – *Readily marketable Malaysian securities listed on Bursa Malaysia Securities Berhad*

LINE 6.c – *Other securities*

the percentage of charges are as follows:

	% of market value to be deducted
<ul style="list-style-type: none"> • Malaysian government securities <ul style="list-style-type: none"> - Up to one year of maturity period -More than one year of maturity period 	2.5%
<ul style="list-style-type: none"> • Shares listed on Bursa Malaysia Securities Berhad main board up to a total value of 5% of initial margin or RM250,000, whichever is greater 	5%
<ul style="list-style-type: none"> • The balance of the aggregate value of shares listed on Bursa Malaysia Securities Berhad main board 	40%
<ul style="list-style-type: none"> • All other securities listed on Bursa Malaysia Securities Berhad 	100%
<ul style="list-style-type: none"> • All other securities listed on Bursa Malaysia Securities Berhad 	100%

For the purposes of **LINES 6.d** and **6.e** of this statement:

Net equity refers to the combination of an account's cash ledger balance (debit or credit), profit or loss on open futures contracts and the net current market value of open options contract.

Securities or collateral used to margin the account are to be used to reduce the Net Debit balance in the account before such securities are used to reduce the initial margin.

Net current market value of open option contracts refers to current market value of open long option contracts less the current market value of open short option contracts.

LINE 6.d – *Amounts due from clients in respect of margin where such amounts are outstanding not less than three business days as at the computation date.*

An under margined situation arises if the net equity and secured collateral are not sufficient to cover the margin requirement for that particular client account. The margin requirement should refer to the BMDC's margin requirement. The foreign brokers' margin requirements to the Clearing Participant would be applicable to clients trading in foreign exchanges.

The under margin amount will be determined as follows:

(a) If the net equity is in a net credit position, then the under margin amount will be:

The margin requirement less net equity less secured collateral add/less net current market value of open options contract.

(b) If the net equity is in a net debit position, then the under margin amount will be:

The margin requirement less balance of secured collateral (secured collateral less amount used to secured net debit balance) add/less net current market value of open options contract.

An under margin charge will be imposed if the Clearing Participant has an under margin amount outstanding for more than 3 business days as at the computation date.

The charge will be imposed on the amount under margined on T day itself unless the under margin amount is fully eliminated. T day is the day when the futures and options contracts are executed by the Clearing Participant.

The under margin amount will only be fully eliminated if;

- (a) The total of net equity and any secured collateral become greater than the margin requirement either on T+1 or T+2 or T+3; or
- (b) There is no longer any margin requirement for the account either on T+1 or T+2 or T+3; or
- (c) Total cash received either on T+1 and/or T+2 and/or T+3 is greater than the under margin amount on T day.

However, if the account is also in a Net Debit Balance position on T day, any cash received will first be used to set off against the Net Debit Balance amount. The balance of the cash received can then be used to either fully or partially set off against the under margin amount on T day.

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- (i) If the balance of the cash received (i.e. total cash received less Net Debit Balance amount on T day) can fully eliminate the under margin amount on T day, then an under margin charge shall not be imposed:
- (ii) If the balance of the cash received (i.e. total cash received less net Debit Balance amount on T day) can only partially eliminate the under margin amount on T day, then an under margin charge shall be imposed on the difference in the balance of the cash received and the under margin amount.

Example 1

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	21,397	21,397	21,277	21,277
Cash received	-	-	-	-
Net current market value of open Options contract	10,000	9,900	9,800	9,700
Open position profit/(loss)	720	9,320	10,330	10,000
Net equity	32,117	40,617	41,407	40,977
Margin requirement	(26,000)	(26,000)	(39,000)	(39,000)
Net current market value of open Options contract	(10,000)	(9,900)	(9,800)	(9,700)
Excess/(Shortage)	(3,883)	4,717	(7,393)	(7,723)

In this example, the under margin amount on T day is RM3,883. However, an under margin charge will not be imposed when computing the ANC as the under margin amount on T day has been completely eliminated on T+1 since the net equity is greater than the margin requirement. The under margin amount of RM7,393 on T+2 is not subjected to a charge as it is outstanding for less than 3 business days as at the computation date.

The same principle will apply if the net equity becomes greater than the margin requirement on either T+2 or T+3.

Example 2

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	36,494	(16,947)	(15,606)	(25,505)
Cash received	-	-	-	-
Net current market value of open Options contract	(5,000)	-	(4,000)	(4,500)
Open position profit/(loss)	(30,010)	-	(9,960)	(700)
Net equity	1,484	(16,947)	(29,566)	(30,705)
Margin requirement	(175,500)	-	(26,000)	(6,500)
Net current market value of open Options contract	5,000	-	4,000	4,500
Excess/(Shortage)	(169,016)	(16,947)	(51,566)	(32,705)

In this example, the under margin amount on T day is RM169,016. However, an under margin charge will not be imposed when computing the ANC as the under margin amount on T day has been completely eliminated since there is no longer a margin requirement on T+1.

No charge will be imposed for the under margin amount of RM26,000 on T+2 because this under margin amount has not been outstanding for more than 3 business days.

The same principle will apply if there is no longer any margin requirement on either T+2 or T+3.

Example 3

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	620,375	728,725	728,735	780,565
Cash received	-	-	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(208,650)	(374,380)	(239,910)	(365,576)
Net equity	422,725	353,945	488,415	423,989
Margin requirement	(824,500)	(659,500)	(659,500)	(457,500)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(412,775)	(305,555)	(171,085)	(33,511)

In this example, the under margin amount on T day is RM412,775. A charge of RM412,775 shall be imposed as a deduction against Net Capital when computing the ANC because the under margin amount on T day has not been completely eliminated as at the computation date.

Example 4

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	1,725,942	1,724,742	1,723,742	1,721,342
Cash received	-	-	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(451,680)	(398,740)	(86,640)	(16,390)
Net equity	1,274,262	1,326,002	1,637,102	1,704,952
Margin requirement	(1,482,000)	(1,612,000)	(2,593,500)	(3,163,500)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(207,738)	(285,998)	(956,398)	(1,458,548)

In this example, the under margin amount on T day is RM207,738. A charge of RM207,738 shall be imposed as a deduction against Net Capital when computing the ANC because the under margin amount on T day has not been completely eliminated as at the computation date.

Example 5

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	(300)	(280)	(280)	(280)
Cash received	-	-	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(750)	4,700	6,500	8,300
Net equity	(1,050)	4,420	6,220	8,020
Margin requirement	(32,500)	(13,000)	(13,000)	(13,000)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(15,652)	(8,850)	(6,780)	(4,980)

In this example the under margin amount on T day is RM32,500 (i.e. the margin requirement on T day). The under margin amount is **not** RM33,550 because this amount is inclusive of the Net Debit Balance of RM1,050 on T day.

A charge of RM 32,500 shall be imposed as a deduction against Net Capital when computing the ANC because the under margin amount on T day has not been completely eliminated by the Computation Date.

Example 6

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	3,588	2,768	2,768	2,768
Cash received	-	-	-	10,000
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	260	700	8,340)	(7,540)
Net equity	3,848	3,468	(5,572)	5,228
Margin requirement	(19,500)	(26,000)	(26,000)	(26,000)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(15,652)	(22,532)	(31,572)	(20,772)

In this example, the under margin amount on T day is RM15,652. The under margin amount of RM15,652 has been partially eliminated by cash receipt of RM10,000 on T+3. The remaining balance of the under margin amount RM5,652 (i.e. RM15,652 – RM10,000) has not yet been eliminated and this balance has been outstanding for more than 3 business days as at the Computation date.

A charge of RM5,652 shall be imposed as a deduction against Net Capital when computing the ANC because the under margin amount on T day has not been completely eliminated by the Computation Date.

Example 7

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	4,327	4,327	11,327	11,327
Cash received	-	7,000	-	10,000
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	2,600	8,400	1,600	1,600
Net equity	6,927	19,727	12,927	22,927
Margin requirement	(24,000)	(24,000)	(24,000)	(24,000)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(17,073)	(4,273)	(11,073)	(1,073)

In this example, the under margin amount on T day is RM17,073. The under margin amount of RM17,073 has been partially eliminated by the total cash receipt of RM17,000 on T+1 and T+3. The remaining balance of the under margin amount RM73 (i.e. RM17,073 – RM17,000) has not yet

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been eliminated and this balance has been outstanding for more than 3 business days as at the Computation Date.

A charge of RM73 shall be imposed as a deduction against Net Capital when computing the ANC because the under margin amount on T day has not been completely eliminated by the Computation Date.

Example 8

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	2,768	2,768	2,398	2,398
Cash received	-	10,000	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(8,340)	(7,540)	(4,100)	(4,000)
Net equity	(5,572)	5,228	(1,702)	(1,602)
Margin requirement	(26,000)	(26,000)	(6,500)	(6,500)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(31,572)	(20,772)	(8,202)	(8,102)

In this example, the under margin amount on T day is RM26,000 and the Net Debit Balance is RM5,572.

The RM10,000 total cash received on T+1 is required to set off the Net Debit Balance on T day. The balance of cash received after setting off the Net Debit Balance is RM4,428 (i.e. RM10,000 – RM5,572)

The under margin amount of RM26,000 shall be partially eliminated by the remaining cash balance of RM4,428. The balance of the under margin amount of RM21,572 (i.e. RM26,000 – RM4,428) has not yet been eliminated and has been outstanding for more than 3 business days as at the computation date.

A charge of RM21,572 shall be imposed as a deduction against Net Capital when computing the ANC because the under margin amount on T day has not been completely eliminated by the computation date.

Example 9

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	2,768	2,768	2,398	2,398
Cash received	-	3,000	-	-

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Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(8,340)	(7,540)	(4,100)	(4,000)
Net equity	(5,572)	(1,7720	(1,702)	(1,602)
Margin requirement	(26,000)	(26,000)	(6,500)	(6,500)
Net current market value of open Options contract	-	-	-	-
Excess/(Shortage)	(31,572)	(27,772)	(8,202)	(8,102)

In this example, the under margin amount on T day is RM26,000 AND THE Net Debit balance is RM5,572.

The RM3,000 total cash received on T+1 is required to set off the Net Debit Balance on t day. However, the cash received is insufficient to fully eliminate the Net Debit Balance.

Therefore the under margin amount of RM26,000 has not been eliminated and this balance has been outstanding for more than 3 business days as at the computation date. An under margin charge of RM26,000 shall be imposed as a deduction against Net Capital when computing the ANC at the computation date.

Example 10

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	7,440	7,440	7,440	7,440
Cash received	-	-	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(58,580)	(81,080)	(51,380)	(40,580)
Net equity	(51,140)	(73,640)	(43,940)	(33,140)
Margin requirement	(180,000)	(180,000)	(180,000)	(180,000)
Net current market value of open Options contract	-	-	-	-
Secured Collateral	200,000	200,000	200,000	200,000
Excess/(Shortage)	(31,140)	(53,640)	(23,9400	(13,140)

In this example, the under margin on T day is RM31,140. Amount of collateral available to offset margin requirement is RM148,860 (RM200,000 less Net Debit Balance of RM51,140).

Example 11

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	7,440	7,440	7,440	7,440

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Cash received	-	-	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(58,580)	(81,080)	(51,380)	(40,580)
Net equity	(51,140)	(73,640)	(43,940)	(33,140)
Margin requirement	(180,000)	(180,000)	(180,000)	(180,000)
Net current market value of open Options contract	-	-	-	-
Secured Collateral	100,000	100,000	100,000	100,000
Excess/(Shortage)	(131,140)	(153,640)	(123,940)	(113,140)

In this example, the under margin amount on T day is RM131,140 (i.e. RM100,000 – (RM51,140 + RM180,000)). A charge of RM131,140 shall be imposed as a deduction against Net Capital when computing the ANC because the under margin amount on T day has not been completely eliminated by the computation date.

Example 12

	T	T+1	T+2	T+3 Computation Date
Cash ledger balance	67,440	67,440	67,440	67,440
Cash received	-	-	-	-
Net current market value of open Options contract	-	-	-	-
Open position profit/(loss)	(58,580)	(81,080)	(51,380)	(40,580)
Net equity	8,860	(13,640)	16,060	26,860
Margin requirement	(180,000)	(180,000)	(180,000)	(180,000)
Net current market value of open Options contract	-	-	-	-
Secured Collateral	100,000	100,000	100,000	100,000
Excess/(Shortage)	(71,140)	(93,640)	(63,940)	(53,140)

In this example, the under margin amount on T day is RM71,140 (i.e. RM180,000 – RM8,860 – RM100,000). A charge of RM71,140 shall be imposed as a deduction against Net Capital when computing the ANC because the under margin amount on T day has not been completely eliminated by the computation date.

LINE 6.e – *The net debit balance arising from marking-to-market or interim settlement of outstanding futures and/or option contracts held by clients as at the close of business on the computation date.*

A charge on the client’s account with a Net Debit balance refers to a charge that **may be imposed** if the net equity has a debit balance on the computation date and, **if imposed**, this charge must be deducted from the Member’s Net Capital in order to arrive at the Adjusted Net Capital (ANC).

This charge is computed as a percentage of the client's account with a Net Debit Balance if the client's account has a Net Debit Balance at the net equity level on computation date.

LINE 6.f – *Charges against open position in proprietary account.*

The reporting Trading Member must take a charge on the margin requirement for all uncovered futures or option granted (sold) positions in its proprietary account.

LINES 6.g and **6.h** will be defined as and when the haircuts are imposed by BMDC

LINE 7 – *Total deductions*

This amount should show the total of **LINES 6.a** to **6.h**

LINE 8 – *Adjusted net capital*

This amount should show the difference between **LINE 7** and **LINE 5**.

LINE 9 – *Amount of margin required*

This amount should show the margin required to be paid to BMDC or to any party or clearing house organisation, for client and proprietary accounts. This amount should agree with the total margin for both the segregated and unsegregated accounts in the clearing house's statement or Clearing Participant's statement (in the case of non-clearing participants).

LINE 10 – *10% of the amount of margin required*

This amount should be 10% of **LINE 9**.

LINE 11 – *Adjusted Net Capital required*

This amount should be the greater of **LINE 10** or RM500,000. This is the minimum adjusted net capital requirement required by BMDC

LINE 12 – *Excess Adjusted Net Capital*

This amount should be the difference between **LINE 8** and **LINE 11**. If a deficit is recorded, the Clearing Participant must take immediate corrective action and file the appropriate notices to BMDC.

FORM C

STATEMENT OF FINANCIAL CONDITION AS AT

	Assets	Permitted Assets	Non-Permitted Assets	Total
1.	Funds segregated for clients			
2.	Cash with financial institutions and on hand			
3.	Receivables from and margin deposit with the Clearing House			
a.	<i>Cash and settlement receivables</i>			
b.	<i>Marketable securities</i>			
c.	<i>Net long option value</i>			
d.	<i>Security deposit and clearing funds</i>			
e.	<i>Interest receivable</i>			
4.	Receivables from and margin deposit with foreign clearing houses			
a.	<i>Cash and settlement receivables</i>			
b.	<i>Marketable securities</i>			
c.	<i>Net long option value</i>			
d.	<i>Security deposit and clearing funds</i>			
e.	<i>Interest receivable</i>			
5.	Receivable from other licensed futures brokers			
a.	<i>Cash and settlement receivables</i>			
b.	<i>Marketable securities</i>			
c.	<i>Net long option value</i>			
d.	<i>Security deposit</i>			
e.	<i>Others</i>			
f.	<i>Allowances for doubtful accounts</i>			
6.	Receivables from foreign futures brokers			
a.	<i>Cash and settlement receivables</i>			
b.	<i>Marketable securities</i>			
c.	<i>Net long option value</i>			
d.	<i>Security deposit</i>			
e.	<i>Others</i>			
f.	<i>Allowances for doubtful accounts</i>			
7.	Receivables from clients clearing on BMDC			
a.	<i>Clients debit balances</i>			
b.	<i>Others (please itemise)</i>			
c.	<i>Allowance for doubtful accounts</i>			
8.	Receivable from clients trading on foreign exchanges			
a.	<i>Clients debit balances</i>			
b.	<i>Others (please itemise)</i>			
c.	<i>Allowance for doubtful accounts</i>			

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9.	Other receivables, advances and loans			
a.	<i>Merchandise accounts receivable</i>			
b.	<i>Interest</i>			
c.	<i>Dividends</i>			
d.	<i>Advances and loans to directors, employees of the BMDC or any third party</i>			
e.	<i>Receivables from related corporations</i>			
f.	<i>Others (please itemise)</i>			
g.	<i>Allowance for doubtful accounts</i>			
10.	Securities			
a.	Owned by Clearing Participant			
b.	Securities in exchanges and clearing houses			
11.	Inventories of physical commodities			
12.	Exchange/clearing house membership, at cost			
13.	Investment in related corporation			
14.	Fixed asset (plant, property, etc.) at net book value			
15.	Other assets (please itemise)			
16.	Total assets			
	Liabilities			Total
17.a	Bank overdrafts			
i.	Secured			
ii.	Unsecured			
17.b	Loans			
i.	Due for payment within 12 months			
ii.	Due for payment after 12 months			
18.	Payables to related corporations			
19.	Payables to BMDC			
20.	Payables to foreign clearing houses			
21.	Payables to other licensed brokers			
22.	Payable to foreign futures brokers			
23.	Payables to clients clearing on BMDC			
24.	Payables to clients trading on foreign exchanges			
25.	Liabilities subordinated to claims of general creditors			
a.	<i>Subject to satisfactory subordinated loan agreement</i>			
b.	<i>Not subject to satisfactory subordinated loan agreement</i>			
26.	Other payables and accrued liabilities (please itemise)			
27.	Total liabilities			
	Shareholders Funds			

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28.	Shareholders' Funds			
a.	<i>Paid-up capital</i>			
b.	<i>Share premium</i>			
c.	<i>Capital reserves</i>			
d.	<i>Unappropriated profits/(accumulated losses)</i>			
29.	Total shareholders' funds			
30.	Total liabilities and shareholders' funds			

FORM C – STATEMENT OF FINANCIAL CONDITION

I. ASSETS (Line 1 to Line 16)

LINE 1 – Funds segregated for clients

This amount should agree with the total amount on **LINE 14** of **FORM A**.

LINE 2 – Cash with financial institutions and on hand

This amount should show the total petty cash, marked-to-market money market instruments (e.g. Repo, Bankers Acceptance, Negotiable Certificates of Deposits) and deposits belonging to the Clearing Participant placed with financial institutions. Fixed deposits can be considered as permitted assets if the member can withdraw the deposits at any time before the maturity date.

Assets, of which possession or control over their disposal, have been given to a financial institution as security for any credit facility provided by the financial institution to the Clearing Participant or as security for an irrevocable letter of credit, bank guarantee or surety or any other line of credit provided by that financial institution to BMDC, an exchange, another clearing house or to any other person shall be considered as non-permitted assets and details are to be disclosed as notes to the accounts.

Accrued interest receivable should be reported on **LINE 9.b** of this statement. Bank overdrafts are not to be netted against balances in these accounts. Such overdrafts should be reported on **LINE 17.a** of this statement.

LINE 3 – Receivables from and margin deposits with the Clearing House.

To report all items on this line as permitted assets except for the Security Deposit and Clearing Fund paid to BMDC.

LINE 3.a – Cash and settlement receivables

This amount should agree with the unsegregated balance in the clearing House's statement. Settlement amount payable to BMDC should be included as a liability on Line 19 of this statement.

LINE 3.b – Marketable securities

This amount should show the marketable securities deposited with BMDC for margining proprietary accounts, valued at the current market prices without haircuts.

LINE 3.c – Net Long Option value

This amount should show the current market value of the net long option contracts of proprietary accounts. The current market value of the net short option contracts should be included as a liability on Line 19 of this statement.

LINE 3.d – Security deposit and clearing funds

This amount should be shown as a non-permitted asset. Accrued interest receivable from the placement of this security deposit and clearing fund should be reported on Line 3.e of this statement. Letters of credit deposited with BMDC should not be included here but must be disclosed as notes to the accounts.

LINE 4 – Receivables from and margin deposit with foreign clearing houses

The same treatment as on **LINE 3** above should be accorded for the amount deposited with and due from foreign clearing houses, with payables to foreign clearing houses to be reflected on LINE 20 of this statement. Settlement amount due from one foreign clearing house should not be netted against payables to another foreign clearing house.

LINE 5 – Receivables from other licensed futures brokers

LINE 5.a – Cash and settlement receivables

This amount should show the unsegregated cash and net settlement amount due from other licensed futures brokers. Settlement amount due from one licensed futures broker should not be netted against payables to another licensed futures broker. Settlement payable to a licensed futures broker should be included as a liability on **Line 21** of this statement.

LINE 5.b - Marketable securities

This amount should show the marketable securities due from another licensed futures brokers, at the current market value without haircuts.

LINE 5.c – Net long option value

This amount should show the current market value of the net long option contracts with other licensed futures brokers. The current market value of the net short option contracts should be included as a liability on LINE 21 of this statement.

LINE 5.d – Security deposit

This is the amount of security deposits placed by the member with other licensed futures brokers. This amount should be shown as non-permitted assets.

Collateral (such as letters of credit, bank guarantee etc.) deposited with other licensed futures brokers should not be included here but must be disclosed as notes to the accounts.

LINE 5.e – Others

This amount should include other receivables such as interest receivable and commission receivable from other licensed futures brokers. All give-up trade commission and brokerage receivable from other licensed futures brokers should be itemized in **Appendix 2**. The commission and brokerage receivable which has not been outstanding for longer than 10 business days from Computation Date should be classified as a permitted asset. This amount should not be netted against the take-up trade commission and brokerage payable reported under **LINE 21** of this statement.

APPENDIX 2

Execution date	Brokers				Total
	Broker X		Broker Y		
	Lots traded	RM	Lots traded	RM	
Total					

LINE 5.f – Allowances for doubtful accounts

This amount should show the appropriate allowances for doubtful accounts.

LINE 6 – Receivables from foreign futures brokers

The same treatment applied to LINE 5 should be accorded for the amount due from foreign futures brokers, with a payables to other foreign futures brokers to be reflected in LINE 22 of this statement.

LINE 7 – Receivables from clients clearing on BMDC

LINE 7.a – Client debit balances

This is the amount of debit balances in the client’s accounts. This amount should be shown as permitted assets if they are secured. The amount to be included as permitted assets should be limited to the extent of the market value of the collateral minus the haircut. The Clearing Participant should not net this receivable against the payables arising from the clearing of other clients’ accounts. The payables should be reported in LINE 23 of this statement. This amount must agree with the amount in **LINE 5 of FORM A**.

LINE 7.b – Others

The Clearing Participant should show as non-permitted assets any other receivables due from clients unless secured.

LINE 7.c – Allowances for doubtful accounts

This amount should show the appropriate allowance for doubtful accounts.

LINE 8 – Receivables from clients trading on foreign exchanges

The same treatment as on LINE 7 should be accorded for the amount due from clients clearing on foreign clearing houses , with payables to clients clearing on foreign clearing houses to be reflected in LINE 24 of this statement.

LINE 9 – Other receivables, advances and loans

LINE 9.a – Merchandise accounts receivable

This amount should be the receivable resulting from the Clearing Participant’s sales of inventory commonly associated with the business activities of the Clearing Participant, which in the opinion of the Clearing Participant’s auditors, are good for collection.

LINE 9.b – Interest

If the interest due is to be paid on the next business day from the computation date, it would be reported as a permitted asset. Otherwise, it should be reported as a non-permitted asset.

LINE 9.c – Dividends

This amount should be shown as a permitted asset if the dividends have not been outstanding for longer than 10 business days from the payable date. Dividends payables should not be netted off against this amount.

LINE 9.d – Advances and loans to directors, employees of the Clearing Participant or any third party

This amount should be shown as a non-permitted asset.

LINE 9.e – Receivables from related corporations

This amount should be shown as a non-permitted asset unless the related corporation is a financial institution licensed or otherwise approved by Bank Negara Malaysia. Receivables from related corporations which the member considers as their clients in relation to trading in futures contracts should be disclosed in **LINE 7.a** or **8.a** of this statement. These receivables from one related corporation should not be netted against payables to another related corporation.

LINE 9.f – Others

This amount should include other receivables such as sundry deposits and transferable club memberships which are not specified above with details itemized showing the amount and description of the receivable. This amount should be shown as a non-permitted asset.

LINE 9.g – Allowance for doubtful accounts

This amount should show the appropriate allowance for doubtful accounts.

LINE 10 – Securities

LINE 10.a – Owned by Clearing Participant

This is the amount of securities held by the Clearing Participant at current market value and should be reported as **Appendix 3**.

APPENDIX 3

Investment Ledger

		BUY			SELL			B/F		C/F		Unrealised Gain/(Loss)
Date	Counter	Price	Qty	RM	Price	Qty	RM	Price	RM	Price	RM	Current month
	Total											

LINE 10.b – Securities in clearing houses

This amount should be shown as a non-permitted asset.

LINE 11 – Inventory of physical commodities

This amount should be shown as a non-permitted asset. The inventory should be valued at the lower of cost or net realizable value, for the Clearing Participant who is also in the business of merchandising goods. Obsolete inventory should be written off.

LINE 12 – Clearing House membership

This amount should be shown as a non-permitted asset.

LINE 13 – Investment in related corporations

This amount should be shown as non-permitted asset.

LINE 14 – Fixed asset (plant, property, etc.) at net book value

This amount should be shown as a non-permitted asset. For reporting purposes, depreciation should be charged on a monthly basis.

LINE 15 – Other assets

This amount should include:

- (i) trades that have not been cleared (outtrades) which have been marked-to-market
- (ii) Prepayments
- (iii) intangible assets and
- (iv) any other assets which are not readily classifiable into other categories.

The above should be itemized and shown as non-permitted assets.

II. LIABILITIES (Line 17 to Line 27)

LINE 17

LINE 17.a – Bank overdrafts & LINE 17.b – Loans

These amounts should show bank loans payable, including overdrafts. The Clearing Participant should disclose in detail any loan or overdraft which is secured by the Clearing Participant's assets as notes to the accounts. Accrued interest and loans payables other than to banks are to be reported on **LINE 26** of this statement. Payables to related corporations are to be reported on **LINE 18** of this statement.

LINE 18 – Payables to related corporations

This amount should show the Clearing Participant's liability to its related corporations but excluding any subordinated loan. Payables to related corporations which the member considers as their clients in relation to clearing in futures contracts should be disclosed in **LINE 23** or **LINE 24** of this statement.

LINE 19 – Payables to BMDC

This amount should agree with the unsegregated debit balance of BMDC’s statement.

LINE 20 – Payables to foreign clearing houses

The same treatment as on **LINE 19** should be accorded for payables to foreign clearing houses for settlement. The net amount payable and receivable from each of the foreign clearing house should not be netted off.

LINE 21 – Payables to other licensed future brokers

This amount should include the unsegregated cash and net settlement payable, take-up trade commission and brokerage payable to other licensed futures brokers. All take-up trade commission and brokerage payable to other licensed futures brokers should be itemized in **Appendix 4**. The amount payable to other licensed futures brokers should not be netted against the amount due from another licensed futures broker. Commission and brokerage due from a licensed futures broker should be reported on **LINE 5.e** of this statement.

APPENDIX 4

Execution date	Brokers				Total
	Broker X		Broker Y		
	Lots traded	RM	Lots traded	RM	
Total					

LINE 22 – Payables to foreign futures brokers

The same treatment as on **LINE 21** should be accorded for payables to foreign futures brokers.

LINE 23 – Payables to client trading on MDEX

This amount should agree with the total amount on **LINE 6** of FORM A.

LINE 24 – Payables to clients trading on foreign exchanges

the same treatment as on **LINE 23** should be accorded for clients’ trades done on foreign exchanges.

LINE 25 – Liabilities subordinated to claims of general creditors

LINE 25.A – Subject to satisfactory subordinated loan agreements

This amount should show the liabilities which are subordinated to the claims from general creditors and subject to a satisfactory subordinated loan agreement. The minimum requirements which must be met for a satisfactory subordinated loan agreement is provided in the Rules of Bursa Malaysia Derivatives Berhad.

LINE 25.b – *Not subject to satisfactory subordinated loan agreements*

This amount should show the liabilities which are subordinated to the claims from general creditors and are not subject to a satisfactory subordinated loan agreement.

LINE 26 – *Other payables and accrued liabilities*

This amount should include:

- (i) trades that have not been cleared (outtrades) which have been marked-to-market
- (ii) security deposit from the futures broker representatives
- (iii) provision for taxation
- (iv) accruals and
- (v) any other payables which are not readily classifiable into other categories.

The above should be itemized.

LINE 28 – *Shareholders' fund*

The amount on LINE 28.d of this statement should agree with LINE 21 of FORM D.

FORM D
STATEMENT OF INCOME/(LOSS) FOR THE MONTH OF

	REVENUE	Total
1.	Commission and brokerage	
a.	On Malaysian Derivatives Exchange	
	i. Single licence	
	(a) Normal trade commission	
	(b) Give-up commission	
	ii. Dual licence	
	(a) Normal trade commission	
	(b) Give-up commission	
b.	On foreign exchanges	
c.	Other brokerage activities (please itemise)	
2.	Proprietary trading activities	
a.	Options and futures transactions (please itemise)	
b.	Securities transactions	
c.	Other trading activities (please itemise)	
3.	Income from advisory services	
4.	Interest and dividends	
a.	Interest earned on investment of clients' funds (please itemise)	
b.	Interest earned on investment of other clients' funds	
c.	Dividends	
5.	Other income (please itemise)	
6.	Total revenue	
	EXPENSES	
7.	Director's emoluments	
a.	Fees	
b.	Others	
8.	Salaries and allowances	
9.	Interest	
a.	Clients	
b.	Financial institutions	
c.	Others	
10.	Commissions	
11.	Occupancy and equipment cost	
12.	Bad and doubtful debts	
13.	Depreciation and amortisation (please itemise)	
14.	Other expenses (please itemise)	
15.	Total expenses	
16.	Net profit/(loss) before taxation (Item 6 minus Item 15)	
17.	Taxation	
18.	Others (please itemise)	
19.	Net profit/(loss) after taxation	
20.	Balance brought forward	
21.	Unappropriated profits/(accumulated losses)	

FORM D – STATEMENT OF INCOME/(LOSS)

I. REVENUE (Line 1 to Line 6)

LINE 1 – *Commission and fees*

LINE 1.a – *On Bursa Malaysia Derivatives Berhad*

This amount should show the total commission and fees earned from clearing futures and options contracts for the month on BMDC. Commission derived by dual license holder i.e. a person who holds a futures broker license and equity broker license should be disclosed here.

LINE 1.b – *On foreign exchanges*

This amount should show the total commission and brokerage earned for the month on foreign exchanges

LINE 1.c – *Other brokerage activities*

This amount should show the total commission and brokerage earned for the month from other brokerage activities.

LINE 2 – *Proprietary account*

LINE 2.a – *Options and futures transactions*

This amount should show the total profit or loss for the month from undertaking proprietary trading in the options and futures market. This should also include the current market value of the net long or net short option contracts of the proprietary account.

LINE 2.b – *Securities transactions*

This amount should show the total profit or loss for the month from the company's investment activities in the securities market.

LINE 2.c – *Other trading activities*

This amount should include profit or loss from the Clearing Participant's error account for the month. This should also include the current market value of the net long or net short option contracts of the error account.

LINE 3 – *Income from advisory services*

This amount should show the income earned for the month from advisory services performed.

LINE 4 – *Interest and dividends*

LINE 4.a – *Interest earned on investment of clients' funds*

This amount should show the total gross interest earned for the month from the investment of clients' segregated account funds.

LINE 4.b – *Interest earned on investment of other than clients' funds*

This amount should show the total interest earned for the month from the investment of company's fund.

LINE 4.c – Dividends

This amount should show the total dividends earned for the month from the company's investments.

LINE 5 – Other income

This amount should show the total income earned for the month by the Clearing Participant not disclosed anywhere else in this statement.

II. EXPENSES (Line 7 to Line 15)

LINE 7 – Directors' emoluments

LINE 7.a – Fees

This amount should show the total directors' fees incurred for the month

LINE 7.b – Others

This amount should show all other emoluments incurred for the month.

LINE 8 – Salaries and allowances

This amount should show the total staff salaries and allowances incurred for the month.

LINE 9 – Interest

LINE 9.a – Clients

This amount should show the total interest expense to the clients and incurred for the month

LINE 9.b – Financial Institutions

This amount should show the total interest expense incurred for the month.

LINE 9.c – Others

This line should show the total interest expense incurred for the month which is not otherwise disclosed under LINE 9.a and 9.b.

LINE 10 – Commission

This amount should show all commissions incurred for the month.

LINE 11 – Occupancy and equipment cost

This amount should show the occupancy and equipment cost incurred for the month. Included in this amount are office and booth rental, Insoft charges as well as charges on price reporting system.

LINE 12 – Bad and doubtful debts.

This amount should show the amount of provision made on the account which are doubtful of collection or amount which have been written off during the month.

LINE 13 – *Depreciation and amortization*

This amount should show the depreciation and amortization charge for the month.

LINE 14 – *Other expenses*

This amount should show the total or other expenses incurred for the month which is not otherwise disclose in this statement with details itemized on a separate page showing the amount and description of the expenses.

LINE 17 – *Taxation*

This item should show the provision for taxation for the month.

LINE 18 – *Others*

This amount should include items not otherwise dealt with in this statement which may include prior-year adjustments, extraordinary profit and loss etc.

LINE 20 – *Balance brought forward*

This amount should agree with LINE 21 of FORM D in the previous month.

LINE 21 – *Unappropriated profits/(accumulated losses)*

This amount should show the total of LINE 19 and LINE 20 and should be carried to LINE 28.d of FORM C.

[End of Appendix]

PERIODIC REPORTS

**Directive No. 5-001: Appendix 5
Periodic Reports**

No.	Name of Report	Schedule	Frequency	Timing of submission of report via Facsimile	
1.	Statement of segregation requirements and funds in segregation (Form A)	Schedule 1(a)	As and when there is a deficiency of funds in segregation	<u>Ad-hoc</u> By 2.30 p.m. of the market day following date of report	
No.	Name of Report	Schedule	Frequency	Timing of submission to Bursa Derivatives via e-mail address tradingparticipant@bursamalaysia.com	Timing of submission of reports via facsimile pursuant to paragraph 13.2 (g)(ii)
2.	Statement of segregation requirements and funds in segregation (Form A) and the following supporting documents:- i. Form EWL1 – Statement of Undermargined Clients' Position; and ii. Form EWL2 – List of Overloss Account.	Schedule 1(b)	Weekly	<u>Weekly report</u> By 2.30 p.m. of the market day following the date of the report.	<u>Weekly report</u> By 5.30 p.m. of the market day following the date of the report.
3.	Cash & Bank Balances and Banking Facilities Position	Schedule 1(c)	Weekly	<u>Weekly report</u> By 2.30 p.m. of the market day following the date of the report.	<u>Weekly report</u> By 5.30 p.m. of the market day following the date of the report.
4.	Statement of segregation requirements and funds in segregation (Form A)	Schedule 1(d)	Monthly	<u>Monthly report</u> By 5.30 p.m. of the fifteen (15 th) calendar days after the end of each month.	<u>Monthly report</u> By 8.30 p.m. of the fifteen (15 th) calendar days after the end of each month.

**Directive No. 5-001: Appendix 5
Periodic Reports**

5.	Statement of Adjusted Net Capital (Form B)	Schedule 2	Monthly	<u>Monthly report</u> By 5.30 p.m. of the fifteen (15 th) calendar days after the end of each month.	<u>Monthly report</u> By 8.30 p.m. of the fifteen (15 th) calendar days after the end of each month.
6.	Statement of Financial Condition (Form C)	Schedule 3	Monthly	<u>Monthly report</u> By 5.30 p.m. of the fifteen (15 th) calendar days after the end of each month.	<u>Monthly report</u> By 8.30 p.m. of the fifteen (15 th) calendar days after the end of each month.
7.	Statement of Income/(Loss) (Form D)	Schedule 4	Monthly	<u>Monthly report</u> By 5.30 p.m. of the fifteen (15 th) calendar days after the end of each month.	<u>Monthly report</u> By 8.30 p.m. of the fifteen (15 th) calendar days after the end of each month.

**FORM A
STATEMENT OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION FOR
CLIENTS TRADING ON MALAYSIAN AND FOREIGN EXCHANGES
(AD-HOC)**

**Clearing Participant:
Position As At:**

<<insert name of CP>>
<<dd/mth/yr>>

		Malaysia Exchange	Foreign Exchanges	Total
Segregation requirements				
1.	Net ledger balance			
a.	<i>Cash</i>			
b.	<i>Securities</i>			
c.	<i>Foreign currencies</i>			
2.	Net profit/(loss) in open futures contracts			
3.	Exchange traded options			
a.	<i>Current market value of open long option contracts</i>			
b.	<i>Current market value of open short option contracts</i>			
4.	Net equity/(deficit) (add Items 1, 2 and 3)			
5.	Net debit balance			
6.	Amount required to be segregated (add Items 4 and 5)			
Funds in segregated accounts				
7.	Cash deposited in segregated bank account			
a.	<i>Ringgit Malaysia</i>			
b.	<i>Foreign Currencies</i>			
8.	Segregated securities			
9.	Margin deposit with clearing house			
a.	<i>Cash and net settlement</i>			
b.	<i>Securities held as margin</i>			
c.	<i>Foreign currencies held as collateral</i>			
10.	Exchange traded options			
a.	<i>Current market value of open long option contracts</i>			
b.	<i>Current market value of open short option contracts</i>			
11.	Net equity with other licensed futures brokers			
a.	Net equity			
b.	Securities held as margin			
c.	Foreign currencies held as collateral			
12.	Segregated funds on hand (please specify)			
13.	Others (please specify)			
14.	Total amount segregated (Add Items 7 to 13)			
15.	Excess/(deficiency) funds in segregation (Item 14 minus Item 6) (Appendix 1 of the Financial Reporting Guide)			

**FORM A
STATEMENT OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION FOR
CLIENTS TRADING ON MALAYSIAN AND FOREIGN EXCHANGES
(WEEKLY SUBMISSION)**

**Clearing Participant:
Position As At:**

<<insert name of CP>>
<<dd/mth/yr>>

		Malaysia Exchange	Foreign Exchanges	Total
Segregation requirements				
1.	Net ledger balance			
a.	<i>Cash</i>			
b.	<i>Securities</i>			
c.	<i>Foreign currencies</i>			
2.	Net profit/(loss) in open futures contracts			
3.	Exchange traded options			
a.	<i>Current market value of open long option contracts</i>			
b.	<i>Current market value of open short option contracts</i>			
4.	Net equity/(deficit) (add Items 1, 2 and 3)			
5.	Net debit balance			
6.	Amount required to be segregated (add Items 4 and 5)			
Funds in segregated accounts				
7.	Cash deposited in segregated bank account			
a.	<i>Ringgit Malaysia</i>			
b.	<i>Foreign Currencies</i>			
8.	Segregated securities			
9.	Margin deposit with clearing house			
a.	<i>Cash and net settlement</i>			
b.	<i>Securities held as margin</i>			
c.	<i>Foreign currencies held as collateral</i>			
10.	Exchange traded options			
a.	<i>Current market value of open long option contracts</i>			
b.	<i>Current market value of open short option contracts</i>			
11.	Net equity with other licensed futures brokers			
a.	Net equity			
b.	Securities held as margin			
c.	Foreign currencies held as collateral			
12.	Segregated funds on hand (please specify)			
13.	Others (please specify)			
14.	Total amount segregated (Add Items 7 to 13)			
15.	Excess/(deficiency) funds in segregation (Item 14 minus Item 6) (Appendix 1 of the Financial Reporting Guide)			

Directive No. 5-001: Appendix 5
Periodic Reports

Schedule 1(c)

**SUBMISSION TO BURSA MALAYSIA DERIVATIVES CLEARING BERHAD ON CASH &
BANK BALANCES AND BANKING FACILITIES POSITION
(WEEKLY SUBMISSION)**

Clearing Participant: <<insert name of Trading Participant>>

Position As At: month/date/year

(last market day of the week)

Banking Facilities	Approved Facility Limit	Amount Available for Utilisation	Amount Utilised	Amount Unutilised
	RM	RM	RM	RM
Total Amount	0.00	0.00	0.00	0.00

Items	Unsegregated Funds RM	Segregated Funds RM	Total RM
Cash & Bank Balances	0.00	0.00	0.00
Deposits – Banks and financial institutions	0.00	0.00	0.00
Deposits – Others	0.00	0.00	0.00
Total	0.00	0.00	0.00

(Note: Information relating to the above is to be submitted weekly for the position as at the last market day of the corresponding week)

FORM A

**STATEMENT OF SEGREGATION REQUIREMENTS AND FUNDS IN SEGREGATION FOR
CLIENTS TRADING ON MALAYSIAN AND FOREIGN EXCHANGES
(MONTHLY SUBMISSION)**

**Clearing Participant:
Position As At:**

<<insert name of CP>>
<<dd/mth/yr>>

		Malaysia Exchange	Foreign Exchanges	Total
Segregation requirements				
1.	Net ledger balance			
a.	<i>Cash</i>			
b.	<i>Securities</i>			
c.	<i>Foreign currencies</i>			
2.	Net profit/(loss) in open futures contracts			
3.	Exchange traded options			
a.	<i>Current market value of open long option contracts</i>			
b.	<i>Current market value of open short option contracts</i>			
4.	Net equity/(deficit) (add Items 1, 2 and 3)			
5.	Net debit balance			
6.	Amount required to be segregated (add Items 4 and 5)			
Funds in segregated accounts				
7.	Cash deposited in segregated bank account			
a.	<i>Ringgit Malaysia</i>			
b.	<i>Foreign Currencies</i>			
8.	Segregated securities			
9.	Margin deposit with clearing house			
a.	<i>Cash and net settlement</i>			
b.	<i>Securities held as margin</i>			
c.	<i>Foreign currencies held as collateral</i>			
10.	Exchange traded options			
a.	<i>Current market value of open long option contracts</i>			
b.	<i>Current market value of open short option contracts</i>			
11.	Net equity with other licensed futures brokers			
a.	Net equity			
b.	Securities held as margin			
c.	Foreign currencies held as collateral			
12.	Segregated funds on hand (please specify)			
13.	Others (please specify)			
14.	Total amount segregated (Add Items 7 to 13)			
15.	Excess/(deficiency) funds in segregation (Item 14 minus Item 6) (Appendix 1 of the Financial Reporting Guide)			

**FORM B
STATEMENT OF ADJUSTED NET CAPITAL
(MONTHLY SUBMISSION)**

Clearing Participant:
Position As At:

<<insert name of CP>>
<<dd/mth/yr>>

STATEMENT OF ADJUSTED NET CAPITAL AS AT

		Total
	Net Capital	
1.	Permitted assests	
2.	Total liabilities	
3.	Deduction from total liabilities	
a.	Liabilities subject to satisfactory subordinated loan agreements	
b.	Allowable long-term liabilities	
	Total allowable liabilities	()
4.	Adjusted liabilities	
5.	Net Capital (Item 1 minus Item 4)	
6.	Additional deductions	
a.	Malaysian government securities - Up to one year of maturity period - More than one year of maturity period	
b.	Readily marketable Malaysian securities listed on the main board of Bursa Malaysia Securities Berhad - Shares listed on Bursa Malaysia Securities Berhad up to a total value of 5% of initial margin or RM250,000, whichever is greater - The balance of the aggregated value of shares listed on Bursa Malaysia Securities Berhad main board	
c.	All other securities listed on Bursa Malaysia Securities Berhad	
d.	Amounts dues from clients in respect of margin where such amount are outstanding not less than three business days as at the computation date	
e.	The net debit balance arising from the marking-to-market or interim settlement of outstanding futures and/or option contracts held by clients as at the close of business on the computation date	
f.	The margin requirement on open contracts in the proprietary account of a Clearing Participant which are not bona fide hedged contracts	
g.	Inventories which are not hedged in any market or association	
h.	Inventories which are not hedged by any hedging position in any market or association	
7.	Total deductions (Add Items 6(a) to 6(h))	
8.	Adjusted net capital (Item 5 minus Item 7)	
9.	Amount of margin required	
10.	10% of the amount of margin required	
11.	Adjusted Net Capital required (Enter the greater of Line 10 or RM500,000)	
12.	Excess Adjusted Net Capital (Item 8 minus Item 11)	

**FORM C
STATEMENT OF FINANCIAL CONDITION
(MONTHLY SUBMISSION)**

**Clearing Participant:
Position As At:**

<<insert name of CP>>
<<dd/mth/yr>>

	Assets	Permitted Assets	Non-Permitted Assets	Total
1.	Funds segregated for clients			
2.	Cash with financial institutions and on hand			
3.	Receivables from and margin deposit with the Clearing House			
a.	<i>Cash and settlement receivables</i>			
b.	<i>Marketable securities</i>			
c.	<i>Net long option value</i>			
d.	<i>Security deposit and clearing funds</i>			
e.	<i>Interest receivable</i>			
4.	Receivables from and margin deposit with foreign clearing houses			
a.	<i>Cash and settlement receivables</i>			
b.	<i>Marketable securities</i>			
c.	<i>Net long option value</i>			
d.	<i>Security deposit and clearing funds</i>			
e.	<i>Interest receivable</i>			
5.	Receivable from other licensed futures brokers			
a.	<i>Cash and settlement receivables</i>			
b.	<i>Marketable securities</i>			
c.	<i>Net long option value</i>			
d.	<i>Security deposit</i>			
e.	<i>Others</i>			
f.	<i>Allowances for doubtful accounts</i>			
6.	Receivables from foreign futures brokers			
a.	<i>Cash and settlement receivables</i>			
b.	<i>Marketable securities</i>			
c.	<i>Net long option value</i>			
d.	<i>Security deposit</i>			
e.	<i>Others</i>			
f.	<i>Allowances for doubtful accounts</i>			
7.	Receivables from clients clearing on BMDC			
a.	<i>Clients debit balances</i>			
b.	<i>Others (please itemise)</i>			
c.	<i>Allowance for doubtful accounts</i>			
8.	Receivable from clients trading on foreign exchanges			
a.	<i>Clients debit balances</i>			
b.	<i>Others (please itemise)</i>			
c.	<i>Allowance for doubtful accounts</i>			
9.	Other receivables, advances and loans			
a.	<i>Merchandise accounts receivable</i>			
b.	<i>Interest</i>			
c.	<i>Dividends</i>			
d.	<i>Advances and loans to directors,</i>			

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	<i>employees of the BMDC or any third party</i>			
e.	<i>Receivables from related corporations</i>			
f.	<i>Others (please itemise)</i>			
g.	<i>Allowance for doubtful accounts</i>			
10.	Securities			
a.	Owned by Clearing Participant			
b.	Securities in exchanges and clearing houses			
11.	Inventories of physical commodities			
12.	Exchange/clearing house membership, at cost			
13.	Investment in related corporation			
14.	Fixed asset (plant, property, etc.) at net book value			
15.	Other assets (please itemise)			
16.	Total assets			
	Liabilities			Total
17.a	Bank overdrafts			
i.	Secured			
ii.	Unsecured			
17.b	Loans			
i.	Due for payment within 12 months			
ii.	Due for payment after 12 months			
18.	Payables to related corporations			
19.	Payables to the Clearing House			
20.	Payables to foreign clearing houses			
21.	Payables to other licensed brokers			
22.	Payable to foreign futures brokers			
23.	Payables to clients clearing on BMDC			
24.	Payables to clients trading on foreign exchanges			
25.	Liabilities subordinated to claims of general creditors			
a.	<i>Subject to satisfactory subordinated loan agreement</i>			
b.	<i>Not subject to satisfactory subordinated loan agreement</i>			
26.	Other payables and accrued liabilities (please itemise)			
27.	Total liabilities			
	Shareholders Funds			
28.	Shareholders' Funds			
a.	<i>Paid-up capital</i>			
b.	<i>Share premium</i>			
c.	<i>Capital reserves</i>			
d.	<i>Unappropriated profits/(accumulated losses)</i>			
29.	Total shareholders' funds			
30.	Total liabilities and shareholders' funds			

FORM D
STATEMENT OF INCOME/LOSS
(MONTHLY SUBMISSION)

Clearing Participant:
Position As At:

<<insert name of CP>>
<<dd/mth/yr>>

Schedule 4 **FORM D**
STATEMENT OF INCOME/(LOSS) FOR THE MONTH OF

	REVENUE	Total
1.	Commission and brokerage	
a.	On Malaysian Derivatives Exchange	
i.	Single licence	
	(a) <i>Normal trade commission</i>	
	(b) <i>Give-up commission</i>	
ii.	Dual licence	
	(a) <i>Normal trade commission</i>	
	(b) <i>Give-up commission</i>	
b.	On foreign exchanges	
c.	Other brokerage activities (please itemise)	
2.	Proprietary trading activities	
a.	<i>Options and futures transactions</i> (please itemise)	
b.	<i>Securities transactions</i>	
c.	<i>Other trading activities</i> (please itemise)	
3.	Income from advisory services	
4.	Interest and dividends	
a.	<i>Interest earned on investment of clients' funds</i> (please itemise)	
b.	<i>Interest earned on investment of other clients' funds</i>	
c.	<i>Dividends</i>	
5.	Other income (please itemise)	
6.	Total revenue	
	EXPENSES	
7.	Director's emoluments	
a.	<i>Fees</i>	
b.	<i>Others</i>	
8.	Salaries and allowances	
9.	Interest	
a.	<i>Clients</i>	
b.	<i>Financial institutions</i>	
c.	<i>Others</i>	
10.	Commissions	
11.	Occupancy and equipment cost	
12.	Bad and doubtful debts	
13.	Depreciation and amortisation (please itemise)	
14.	Other expenses (please itemise)	
15.	Total expenses	
16.	Net profit/(loss) before taxation (Item 6 minus Item 15)	
17.	Taxation	
18.	Others (please itemise)	
19.	Net profit/(loss) after taxation	
20.	Balance brought forward	
21.	Unappropriated profits/(accumulated losses)	

[End of Appendix]

**Directive No. 5-001: Appendix 6
Specified Position Limits**

Derivatives traded on the Exchange

Item No.	Derivatives Contract	Position Limits	
		All contract months combined	Others
1.	FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures Contract	10,000 Open Contracts	n/a
2.	Options on FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures	an equivalent of 10,000 FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures Open Contracts (Options on FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures and FTSE Bursa Malaysia Kuala Lumpur Composite Index Futures Contract combined)	n/a
3.	3-month KLIBOR Futures Contract	5,000 Open Contracts	n/a
4.	Ringgit Malaysia Denominated Crude Palm Oil Futures Contract	15,000 Open Contracts	(a) 800 Open Contracts for spot month (b) 10,000 Open Contracts for any one contract month (except for spot month)
5.	United States Dollar Denominated Crude Palm Oil Futures Contract	8,000 Open Contracts	(a) 500 Open Contracts for spot month (b) 5,000 Open Contracts for any one contract month (except for spot month)
6.	Options on Ringgit Malaysia Denominated Crude Palm Oil Futures	an equivalent of 15,000 Ringgit Malaysia Denominated Crude Palm Oil Futures Open Contracts (Options on Ringgit Malaysia Denominated Crude Palm Oil Futures and Ringgit Malaysia Denominated Crude Palm Oil Futures Contracts combined)	an equivalent of 10,000 Ringgit Malaysia Denominated Crude Palm Oil Futures Open Contracts for any one contract month (Option on Ringgit Malaysia Denominated Crude Palm Oil Futures and Ringgit Malaysia Denominated Crude Palm Oil Futures Contracts combined)
7.	5-year MGS Futures Contract	10,000 Open Contracts	10,000 Open Contracts in any one quarterly month
8.	3-year MGS Futures Contract	10,000 Open Contracts	10,000 Open Contracts in any one quarterly month

**Directive No. 5-001: Appendix 6
Specified Position Limits**

Item No.	Derivatives Contract	Position Limits	
		All contract months combined	Others
9.	10-year MGS Futures Contract	10,000 Open Contracts	10,000 Open Contracts in any one quarterly month
10.	Crude Palm Kernel Oil Futures Contract	1,500 Open Contracts	(a) 250 Open Contracts for spot month (b) 1,000 Open Contracts for any one contract month (except for spot month)
11.	Single Stock Futures Contract (for each individual Single Stock Futures Contract)	(a) 1,350 Open Contracts; or (b) 2,300 Open Contracts (if Average Daily Trading Volume of the underlying stocks is more than 20 million units of stocks for the most recent 6-month period)	(a) 1,350 Open Contracts for any month; or (b) 2,300 Open Contracts for any month (if Average Daily Trading Volume of the underlying stocks is more than 20 million units of stocks for the most recent 6-month period)
12.	Gold Futures Contract	25,000 Open Contracts	n/a

[End of Appendix]

ANNEXURE 2: DIRECTIVE NO. 9A-001
RULES OF BURSA MALAYSIA DERIVATIVES CLEARING BHD
Rule Amendments in Relation to the Decoupling of Clearing Participantship from Trading Participantship

DIRECTIVES ON ARBITRATION	No. 9A-001
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Relevant to : Rule 900A(c)
Introduced with effect from : 23 August 2017
Amended : N/A
CPs' Circular No(s). : N/A
Refer also to Directive No(s). : N/A

1. Rule 900A(c)

- (1) Rule 900A(c) provides that if parties are unable to agree on an arbitral forum for the settlement of disputes under Rules 900A(a) or (b), then such parties must settle the dispute by arbitration before an arbitral forum prescribed by the Clearing House.
- (2) In discharging the obligation under Rule 900A(c), a Clearing Participant must, amongst others, comply with the requirement set out below.

1.1 Arbitral Forum

If parties are unable to agree on an arbitral forum for the settlement of disputes under Rules 900A(a) or (b), then such parties must settle the dispute by arbitration administered by the Kuala Lumpur Regional Centre for Arbitration ("**KLRCA**") in accordance with the KLRCA Fast Track Arbitration Rules.

Further information on the KLRCA is available at: www.klrca.org

[End of Directive]