



**Bursa Malaysia Securities Berhad**

**PARTICIPATING ORGANISATIONS'  
DIRECTIVES AND GUIDANCE**

## **INTRODUCTION**

- (1) This Participating Organisations' ("POs") Directives and Guidance consolidates all the Directives and Best Practices issued by the Exchange to Participating Organisations in connection with or pursuant to the Rules of Bursa Malaysia Securities Berhad ("Bursa Securities" or "the Exchange") and that are in force as at **2 May 2013**.
- (2) All Directives not reproduced in this POs' Directives and Guidance are superseded and no longer effective from 2 May 2013. This, however, does not apply to the POs' Trading Manual or any other operational documents issued by the Exchange, which are still in force.
- (3) Any new Directive issued by the Exchange after 2 May 2013 that is of general application will be incorporated into this POs' Directives and Guidance.
- (4) For the avoidance of doubt, the Exchange can take action against a Participating Organisation or a Registered Person for any antecedent breaches of any Directive that is no longer effective.

### **Effect of POs' Directives and Guidance**

- (5) The Directives in this POs' Directives and Guidance that impose an obligation on a Participating Organisation or Registered Person are binding on the Participating Organisation or Registered Person.
- (6) Best Practices act as guidance to the Participating Organisation or Registered Person and are not binding.

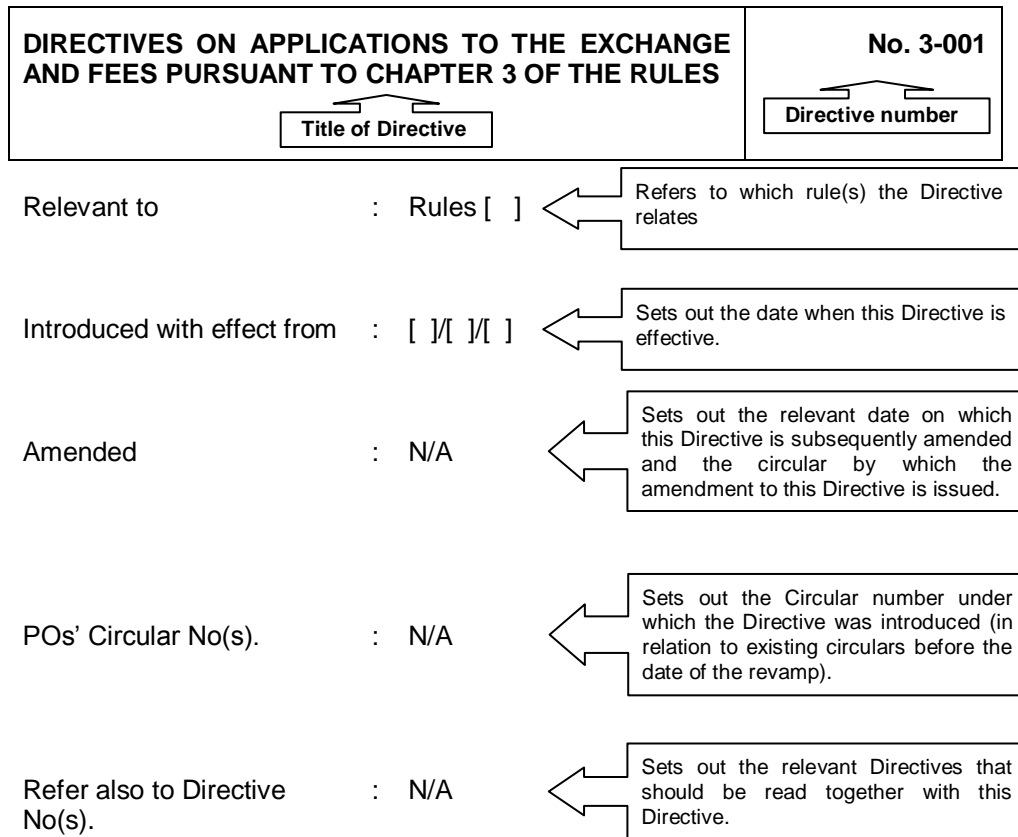
### **Interpretation**

- (7) To the extent of any inconsistency between the Rules and the Directives and Best Practices, the Rules will prevail.
- (8) The requirements in any of these Directives and Best Practices do not affect the generality of any of the principles or requirements in the Rules.
- (9) A reference to a rule, chapter, schedule or appendix is to the relevant rule, chapter, schedule and appendix to the Rules unless the context requires otherwise.
- (10) Words and expressions used in the Directives and Best Practices shall, unless otherwise defined in the Directives or unless the context otherwise requires, bear the same meaning as defined in the Rules.

### **Guide for users**

- (11) To assist users of this POs' Directives and Guidance to identify the relevant Rule applicable to the Directive and Best Practice, the relevant Rule(s) is set out at the beginning of each Directive or Best Practice.
- (12) The numbering of the Directives and Best Practices in this POs' Directives and Guidance follows the corresponding Rules to which the Directive or Best Practice relates. For example, Rule 3.39(5) requires a Head of Compliance to submit written reports to the Exchange on a monthly basis. The Directive that sets out this requirement on reporting is numbered as Directive No. 3.39(5)-001. In the event that there is another directive on the same subject matter, that directive will be numbered 3.39(5)-002.
- (13) There are also Directives in this POs' Directives and Guidance that consolidate various requirements of the various rules in a particular Chapter of the Rules into one directive. For example, Directive No. 3-001 contains the application procedures and fees relevant to applications made under the relevant rules in Chapter 3 of the Rules.

- (14) We have also set out the source of these Directives e.g. R/R 4 of 2006 for easy reference.
- (15) The heading of each Directive contains the following information:



- (16) The list of Directives is on page 3 to page 5.

[End of Introduction]

## LIST OF DIRECTIVES

Directive No.	Source	Title of Directive
2.01(2)-001	R/R 4 of 2006	Directives on Disclosure of Information on Volume and Value of Securities Traded (including Direct Business Transactions) by Participating Organisations or Market Makers
2.01(2)-002	New	Exercise of Powers to Require Reports, Information, Documents, Books and Records to the Exchange
2.01(2)-003	G 1021 of 2004	Directives on Statistical Reports of Investor Trading on Bursa Malaysia Securities Berhad
2.01(2)-004	R/R 10 of 2011	Directives on Submission by Participating Organisations of Periodic Reports by Electronic Submission to the Exchange
2.01(2)-005	Exchange's Letter dated 3 October 1997 (Ref: KLSE/MSD/MC/GEN.51)	Directives on Reporting Frequency and Submission Deadline of the Reports on the Central Permanent File
2.01(2)-006	R/R 2 of 2009	Directives on Readiness Audit
3-001	R/R 12 of 2012 and partially new	Directives on Applications to the Exchange and Fees Pursuant to Chapter 3 of the Rules
3.36-001	R/R 4 of 2012	Directives for Head of Compliance
3.39(5)-001	R/R 5 of 2009	Directives on Compliance Report
3.47(1)-001	Exchange's Letter dated 16 July 2007 (Ref: IS/CD/PO/GEN/04/07)	Directives on Measures Needed to Curb Clients Making Payments Directly to Dealer's Representatives to Settle Amounts Owing to Participating Organisations
3.47(1)-002	R/R 3 of 2007	Directives on the Mobility of Dealer's Representatives
3.54-001	New	Directives on the Powers of the Exchange and the Circumstances when the Exchange may Take Action under Rule 3.54
4-001	R/R 3 of 2009 and R/R 10 of 2012	Directives on Market Making and Specified Securities
5-001	New	Directives on conduct of business
5-002	R/R 11 of 1995	Directives on Minimum Standards and Conduct of Participating Organisations for Trading in Structured Warrants
5.03-001	R/R 10 of 2003	Directives on Procedures for Disclosing Non-compliance to the Exchange
5.05-001	R/R 9 of 1997	Directives on the Participating Organisations' Disaster Recovery Code and the IT Security Code
5.13(1)-001	R/R 5 of 2012	Directives on Referral Agents
5.15-001	G 1001 of 1990 and G 552 of 1991	Directives on Opening Client Account
5.17-001	R/R 7 of 2011	Directives on Material Outsourcing Arrangements by Market Intermediaries
6-001	New	Directives on the Establishment of Branch Office and Electronic Access Facilities

<b>Directive No.</b>	<b>Source</b>	<b>Title of Directive</b>
6.07(1)-001	New	Directives on Compliance Function of Participating Organisation
6.08-001	R/R 18 of 1999	Directives on the responsibility of the Participating Organisation and Board of Directors for Compliance Function
6.10(2)-001	New	Directives on Risk Management of Participating Organisation
6.12(2)-001	New	Directives on Functions of Audit Committee
7.05(1)-001	R/R 17 of 2006	Directives on the Use of Day Trading Activities Account
7.05(1)-002	R/R 18 of 2005, R/R 16 of 2006, R/R 7 of 2007 and R/R 8 of 2008	Directives on the Use of Clearing Account, Error or Mistake Account and Investment Account
7.05(2)-001	R/R 5 of 2001	Directive on Maintenance of Multiple Trading Accounts by One Client at a Participating Organisation and Tagging of Multiple Trading Accounts to a Securities Account
7.05(2)-002	R/R 4 of 2009	Directives on Trading Accounts for the Trading of Securities Denominated in Foreign Currency
7.06-001	R/R 15 of 2003	Directives on Notification of Systems Malfunction or Error
7.09-001	R/R 15 of 2005, R/R 16 of 2005 and R/R 6 of 2012	Directive on Recognised Stock Exchanges
7.12-001	New	Directive on Records of Off-Balance Sheet Transactions
7.18-001	New	Directives on Securities Borrowing or Lending
7.30-001	New	Directives on Valuation of Collateral and Equity Margin
7.31-001	R/R 22 of 2005	Directives on the Provision of Discretionary Financing
8-001	R/R 8 of 2011 and R/R 9 of 2012	Directives on Direct Market Access ("DMA")
8-002	R/R 16 of 2006	Directives on Regulated Short Selling
8.14-001	R/R 15 of 2009	Directive in relation to On-Market Married Transaction
8.22(5)-001	New	Directives on Regulated Short Selling – Approved Securities
8.22(5)-002	R/R 1 of 2013	Directives on List of Approved Securities
9-001	R/R 2 of 2012	Directives to Prescribe the Scheduled Delivery Time and Scheduled Settlement Time for Recalled Securities
9.09(1)-001	R/R 4 of 2010	Directives on Scheduled Settlement Time of Securities in relation to the Electronic Share Payment ("e-share payment")
10.01-001	R/R 10 of 2008	Directives on Direct Business Transactions
12-001	New	Directives on Suspension of Interest and Provisions for Bad and Doubtful Debts
12-002	New	Directives on Accounting and Financial Reporting Requirements

<b>Directive No.</b>	<b>Source</b>	<b>Title of Directive</b>
12.03(2)-001	New	Directives on Annual Statutory Audit Report
13-001	New	Directives on Capital Adequacy Requirements
13.04(4)-001	R/R 14 of 2006	Directives on Manual Workaround Computation for Capital Adequacy Requirements
13.32-001	R/R 3 of 2011	Directives on the Liquidity Risk Management Framework ("LRM Framework")

Note:

Directives marked "New" are new directives issued under the revamp.

[End of List of Directives]

#### **LIST OF BEST PRACTICES**

<b>Best Practice No.</b>	<b>Source</b>	<b>Title of Best Practice</b>
3.39(2)-001	New	Recommendations on Compliance Reporting
7.16-001	R/R 16 of 2007	Best Practices in the Islamic Stockbroking Services Undertaken by Participating Organisations
8.16-001	R/R 9 of 2012	Direct Market Access Handbook
12.04-001	R/R 11 of 1999	Best Practices on Suspension of Interest and Provision for Bad and Doubtful Debts, and Collateral Value
12.04-002	R/R 8 of 2010	Guidance in relation to the Financial Reporting Requirements
13.32-001	R/R 3 of 2011	Best Practice Guidelines For POs and LRM Self Assessment Questionnaire ("SAQ")

[End of List of Best Practices]

**DIRECTIVES ON DISCLOSURE OF INFORMATION ON VOLUME AND VALUE OF SECURITIES TRADED (INCLUDING DIRECT BUSINESS TRANSACTIONS) BY PARTICIPATING ORGANISATIONS OR MARKET MAKERS**

**No. 2.01(2)-001**

Relevant to : Rule 2.01(2)(g)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 4 of 2006  
Refer also to Directive No(s). : N/A

**1. Rule 2.01(2)(g)**

- (1) Rule 2.01(2)(g) empowers the Exchange to disclose the following information to the Participating Organisations or any other persons as the Exchange considers fit:
- (i) without identifying the Client of the Participating Organisation to whom the information relates, the volume or value of On-Market Transactions and Direct Business Transactions transacted by all or any or each of the Participating Organisations or Market Maker(s); and
  - (ii) any action taken against a Participating Organisation or Registered Person by the Exchange under these Rules.
- (2) The directives below set out the manner in which the Exchange may disclose the information on the volume or value of securities traded (including Direct Business Transactions) by the Participating Organisations or Market Makers.

**1.1 Disclosure of Information Pertaining to Volume and Value of Securities Traded (including Direct Business Transactions) by Participating Organisations or Market Makers**

The Exchange will disclose information on volume and value of securities traded (including Direct Business Transactions) by Participating Organisations or Market Makers in the manner detailed below:-

- (a) Disclosure of the names of the 15 Participating Organisations having the highest value of securities traded (including Direct Business Transactions) for each month ("the Month Reported") with the attendant volume and value of securities traded by each of the 15 Participating Organisations, disclosed. The monthly volume and value of securities traded by the remaining Participating Organisations will be aggregated and disclosed as a consolidated figure without a breakdown as to the volume and value of securities traded by each of the remaining Participating Organisations.
- (b) Disclosure of the names of the 15 Participating Organisations having the highest value of securities traded (including Direct Business Transactions), cumulatively from January 2006 until the Month Reported ("year-to-date"), with the attendant volume and value of securities traded by each of the 15 Participating Organisations, disclosed. The year-to-date volume and value of securities traded by the remaining Participating Organisations will be aggregated and disclosed as a consolidated figure without a breakdown as to the volume and value of securities traded by each of the remaining Participating Organisations.
- (c) The disclosure in (i) and (ii) above will be made via Bursa Malaysia's website on a monthly basis not later than the 5th Market Day after each preceding month.

The frequency, mode and format of disclosure as well as the extent of disclosure in terms of the names of Participating Organisations with the attendant volume and value of securities traded by each Participating Organisation, may be varied at any time.

[End of Directive]

Relevant to : Rule 2.01(2)(k)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

## **1. Rule 2.01(2)(k)**

Rule 2.01(2)(k) empowers the Exchange to require the Participating Organisations or Registered Persons to provide reports, information, Documents, Books and Records to the Exchange in relation to any matter under these Rules or Directives. The Directives set out below, amongst others, detail the manner in which the Exchange may exercise these powers.

### **1.1 Reports, Information, Documents, Books and Records**

(1) The Exchange may:

- (a) require a Participating Organisation or any Registered Person to provide the Exchange with accurate information about its business and transactions in such format or mode whether electronic or otherwise, specified by the Exchange;
- (b) require a Participating Organisation or any Registered Person to provide the Exchange with the reports, information, Documents, Books and Records in his possession, custody, power or control;
- (c) if any report, information, Document, Book or Record requested by the Exchange cannot be produced, require the Participating Organisation or Registered Person to:
  - (i) inform the Exchange of the details of the location of the report, information, Document, Book or Record and person having possession of such report, information, Document, Book or Record; and
  - (ii) use best effort to secure the report, information, Documents, Book or Record;
- (d) interview the Participating Organisation or Registered Person and require the Registered Person or the Participating Organisation to answer questions or provide explanations and record such answers and explanations electronically or otherwise;
- (e) require the attendance, upon reasonable notice, of any Registered Person or employee or agent (or any employee of such Registered Person or agent) of a Participating Organisation at a specified date, time and place, to answer questions, provide explanations or give evidence and require the Registered Person or the Participating Organisation to procure such attendance;
- (f) require the provision of information on any person who is to be, is or has been a Registered Person or employee or agent of the Participating Organisation or engaged in its business or any person who is to be, is or has been an employee or agent of a Registered Person or engaged in its business;
- (g) send any officer of the Exchange or Exchange Holding Company to a Participating Organisation's or Registered Person's premises at any time for the purpose of investigations and to ensure compliance with these Rules; and
- (h) obtain copies of or extracts from the reports, information, Documents, Books or Records and require any person who has knowledge about such Documents or



<b>DIRECTIVES ON EXERCISE OF POWERS OF THE EXCHANGE TO REQUIRE SUPPLY OF REPORTS, INFORMATION, DOCUMENTS, BOOKS AND RECORDS</b>	<b>No. 2.01(2)-002</b>
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information to provide an explanation for any of such reports, information, Documents, Books or Records.

- (2) Any statement, report, information, Document, Book or Record submitted by the Participating Organisation or the Registered Person to the Exchange pursuant to Rule 2.01(2)(k) is deemed to be authorised by the Participating Organisation and the Exchange may rely on such statement, report, information, Document, Book or Record.
- (3) Any statement, report, information, Document, Book or Record submitted by the Participating Organisation or Registered Person to the Exchange must not be false or misleading.

[End of Directive]

Relevant to : Rule 2.01(2)(k)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : G 1021 of 2004  
Refer also to Directive No(s). : N/A

## **1. Rule 2.01(2)(k)**

- (1) Rule 2.01(2)(k) empowers the Exchange to require the Participating Organisations or Registered Persons to provide reports, information, Documents, Books and Records to the Exchange in relation to any matter under these Rules or Directives.
- (2) Pursuant to the above Rule, the Exchange requires the Participating Organisations to submit to the Exchange statistics of investors trading on the Exchange ("Statistical Reports"), the details of which are set out below.

### **1.1 Reporting Requirements**

- (1) The Participating Organisation must submit to the Exchange the statistical reports in the report format prescribed in **Appendices 1(a), 1(b) and 1(c)** of this Directive ("Statistical Reports").
- (2) The Statistical Reports must be submitted on a monthly basis to the Exchange no later than 5.00 p.m. on or before the 2<sup>nd</sup> Market Day of the month.
- (3) The Participating Organisation must ensure that the information contained in the Statistical Reports is true and accurate and that the Exchange is entitled to rely on the same for any purpose.
- (4) If any information in the Statistical Reports is inaccurate, the Participating Organisation must make a resubmission within 1 Market Day from the date the inaccuracy is discovered.

### **1.2 Mode of Submission**

- (1) The Participating Organisation must submit the Statistical Reports by way of electronic transmission to the Exchange via the Exchange's File Information System ("FIX System") in accordance with the time prescribed in paragraph 1.1(2) above.
- (2) In the event a Participating Organisation is unable to transmit the Statistical Reports via the FIX System due to system malfunction or any other reasons which to the satisfaction of the Exchange would render the submission of the Statistical Reports via the FIX System not reasonably possible, the Participating Organisation must instead submit the duly completed Statistical Reports via email, facsimile or courier or by hand in accordance with the time prescribed in paragraph 1.1(2) above.
- (3) The Statistical Reports submitted by the Participating Organisation pursuant to paragraph 1.2(2) above must be executed by a person(s) duly authorised by the Participating Organisation to execute the same. In this respect, the Participating Organisation must ensure that the name and the designation of the authorised signatory are stipulated and the company's rubber stamp is duly affixed on the printed hardcopies.
- (4) For the purpose of submitting the Statistical Reports via facsimile pursuant to paragraph 1.2(2) above, Participating Organisations must fax the Statistical Reports to the Market Surveillance Division of the Exchange.

**1.3 Guidelines on Investor Categories and List of Country Codes**

- (1) For the purpose of completing the Statistical Reports, the Participating Organisation must comply with the guidelines set out in **Schedule 1** of this Directive ("the Guidelines"). The Guidelines define the various categories of investors referred to in the Statistical Reports.
- (2) In completing the report on the total volume and value of foreign transactions by country of origin as prescribed in **Appendix 1(c)**, the Participating Organisation must apply the relevant country codes set out in **Schedule 2** of this Directive.

[End of Directive]

**Appendix 1a**

**SECURITIES TURNOVER BY INVESTOR CATEGORY FOR THE MONTH OF:** \_\_\_\_\_

**NAME OF PARTICIPATING ORGANISATION (PO):** \_\_\_\_\_

**PO CODE:** \_\_\_\_\_

**ON - MARKET TRANSACTIONS**

**TRADING VOLUME**

	Individual <sup>1</sup> (shares)				Interbroker (shares)		Institution (shares)		Participating Org (shares)		Others (shares)		Grand Total (shares)	
	Bumi	Non-Bumi	Total <sup>2</sup>	YTD <sup>3</sup>	Total	YTD	Total	YTD	Total	YTD	Total	YTD	Total	YTD
Local Purchase														
Local Sale														
Foreign Purchase														
Foreign Sale														
Total														

**TRADING VALUE**

	Individual <sup>1</sup> (RM)				Interbroker (RM)		Institution (RM)		Participating Org (RM)		Others (RM)		Grand Total (RM)	
	Bumi	Non-Bumi	Total <sup>2</sup>	YTD <sup>3</sup>	Total	YTD	Total	YTD	Total	YTD	Total	YTD	Total	YTD
Local Purchase														
Local Sale														
Foreign Purchase														
Foreign Sale														
Total														

 **Not applicable**

<sup>1</sup> Refer to Schedule 1 for Classification of Investors

<sup>2</sup> Total: Board Lot + Odd Lot (DBT only)

<sup>3</sup> YTD: Cumulative total from January to current month of the year

**Appendix 1b**

**SECURITIES TURNOVER BY INVESTOR CATEGORY FOR THE MONTH OF:** \_\_\_\_\_

**NAME OF PARTICIPATING ORGANISATION (PO):** \_\_\_\_\_

**PO CODE:** \_\_\_\_\_

**DIRECT BUSINESS TRANSACTIONS**

**TRADING VOLUME**

	Individual <sup>1</sup> (shares)				Inter-broker (shares)		Institution (shares)		Participating Org (shares)		Others (shares)		Grand Total (shares)	
	Bumi	Non-Bumi	Total <sup>2</sup>	YTD <sup>3</sup>	Total	YTD	Total	YTD	Total	YTD	Total	YTD	Total	YTD
Local Purchase														
Local Sale														
Foreign Purchase														
Foreign Sale														
Total														

**TRADING VALUE**

	Individual <sup>1</sup> (RM)				Inter-broker (RM)		Institution (RM)		Participating Org (RM)		Others (RM)		Grand Total (RM)	
	Bumi	Non-Bumi	Total <sup>2</sup>	YTD <sup>3</sup>	Total	YTD	Total	YTD	Total	YTD	Total	YTD	Total	YTD
Local Purchase														
Local Sale														
Foreign Purchase														
Foreign Sale														
Total														

 **Not applicable**

<sup>1</sup> Refer to Schedule 1 for Classification of Investors

<sup>2</sup> Total: Board Lot + Odd Lot (DBT only)

<sup>3</sup> YTD: Cumulative total from January to current month of the year

**Appendix 1c**

**SECURITIES TURNOVER BY INVESTOR CATEGORY FOR THE MONTH OF:** \_\_\_\_\_

**NAME OF PARTICIPATING ORGANISATION (PO):** \_\_\_\_\_

**PO CODE:** \_\_\_\_\_

**TOTAL VOLUME AND VALUE OF FOREIGN TRANSACTIONS BY COUNTRY OF ORIGIN**

Country of Origin <sup>1</sup>		Individual <sup>2</sup>		Inter-broker		Institution		Participating Org		Others		Total	
Code	Country	Volume <sup>3</sup> (shares)	Value (RM)	Volume (shares)	Value (RM)	Volume (shares)	Value (RM)	Volume (shares)	Value (RM)	Volume (shares)	Value (RM)	Volume (shares)	Value (RM)
<b>Total</b>													

<sup>1</sup> Refer to Schedule 2 for CODE of country

<sup>2</sup> Refer to Schedule 1 for Classification of Investors

<sup>3</sup> Board Lot + Odd Lot (On-Market + DBT)

## Schedule 1

### Guidelines on Categories of Investors Trading on Bursa Malaysia Securities Berhad

No.	Investor Categories	Description
1	Individual	refers to trades conducted for an account belonging to a person who is acting as the principal who is also the beneficiary.
2	Inter-broker	refers to trades conducted for an account belonging to a foreign broker acting as an intermediary, where the beneficiary is not known.
3	Institution	<p>refers to trades conducted for an account belonging to a legal entity as listed below:</p> <ol style="list-style-type: none"> <li>1. Bank/Finance Company</li> <li>2. Investment Trust/Foundation</li> <li>3. Investment Banks</li> <li>4. Insurance Companies</li> <li>5. Venture Capital Companies</li> <li>6. Corporate Advisory/Investment Advisory</li> <li>7. Clubs/Associations/Societies</li> <li>8. Cooperatives</li> <li>9. Private Limited Company (Sdn. Bhd./Pte. Ltd.)</li> <li>10. Limited Company (Bhd./Ltd.)               <ol style="list-style-type: none"> <li>a) Trading</li> <li>b) Share Buy Back</li> </ol> </li> <li>11. Asset/Fund Management Companies</li> <li>12. Discount Houses               <ol style="list-style-type: none"> <li>a) Sdn. Bhd. or Pte. Ltd.</li> <li>b) Bhd. or Ltd.</li> </ol> </li> <li>13. Clearing Houses               <ol style="list-style-type: none"> <li>a) Sdn. Bhd. or Pte. Ltd.</li> <li>b) Bhd. or Ltd.</li> </ol> </li> <li>14. Foreign Broking house as the principal account owner with a Local Broking House</li> <li>15. Government Agencies</li> </ol>
4	Participating Organisation	<p>refers to trades conducted for an account belonging to the Participating Organisation acting as principal, which includes the following:</p> <ol style="list-style-type: none"> <li>1. Principal Account</li> <li>2. Proprietary Day Trading Account</li> <li>3. Intraday Activities Account</li> <li>4. Investment Account</li> <li>5. Error Account</li> </ol>
5	Others	refers to trades conducted for accounts not belonging to any of the above investor categories

## Schedule 2

### List of Country Codes

AFG	Afghanistan
ALB	Albania
DZA	Algeria
ASM	American Samoa
AND	Andorra
AGO	Angola
AIA	Anguilla
ATA	Antartica
ATG	Antigua & Barbuda
ARG	Argentina
ARM	Armenia
ABW	Aruba
AUS	Australia
AUT	Austria
AZE	Azerbaijan
BHS	Bahamas
BHR	Bahrain
BGD	Bangladesh
BRB	Barbados
BLR	Belarus
BEL	Belgium
BLZ	Belize
BEN	Benin
BER	Bermuda Island
BTB	Bhutan
BOL	Bolivia
BOS	Bosnia-Herzegovina
BWA	Botswana
BVT	Bouvet Island
BRA	Brazil
IOT	British Indian Ocean Territory
VGB	British Virgin Island
BRN	Brunei Darussalam
BGR	Bulgaria
BFA	Burkina Faso
BDI	Burundi
BYS	Byelorussian SSR
KHM	Cambodia
CMR	Cameroon
CAN	Canada
CPV	Cape Verde
CYM	Cayman Island
CAF	Central African Republic
TCD	Chad
CHL	Chile
CHN	China
CXR	Christmas Island
CCK	Cocos (Keeling) Island
COL	Colombia
COM	Comoros
COG	Congo
COK	Cook Island
CRI	Costa Rica
CIV	Cote D'Ivoire
CRO	Croatia
CUB	Cuba
CYP	Cyprus
CZH	Czech Republic
CSK	Czechoslovakia
DNK	Denmark
DJI	Djibouti
DMA	Dominica



DOM	Dominica Republic
TMP	East Timor
ECU	Equador
ECY	Egypt
SLV	El Salvador
GNQ	Equatorial Guinea
ERI	Eritrea
EST	Estonia
ETH	Ethopia
FLK	Falkland Islands
FRO	Faroe Island
FSM	Fed. States of Micronesia
FIJ	Fiji
FIN	Findland
FRA	France
FXX	France, Metropolitan
GUF	French Guiana
PYF	French Polynesia
ATF	French Southern Territories
GAB	Gabon
GMB	Gambia
GEO	Georgia
DUE	Germany
GHA	Ghana
GIB	Gibraltar
GRC	Greece
GRL	Greenland
GRD	Grenada
GLP	Guadeloupe
GUM	Guam
GTM	Guatemala
GRN	Guernsey
GIN	Guinea
GNB	Guinea Bissau
GUY	Guyana
HTI	Haiti
HMD	Heard & Mc Donald Islands
HND	Honduras
HKG	Hong Kong
HUN	Hungary
ISL	Iceland
IND	India
IDN	Indonesia
IRN	Iran
IRQ	Iraq
IRL	Ireland
IOG	Island Of Guernsey
ISR	Israel
ITA	Italy
JAM	Jamaica
JPN	Japan
JOR	Jordan
KAZ	Kazakhstan
KEN	Kenya
KIR	Kiribati
KOR	Korea
KWT	Kuwait
KGZ	Kyrgyzstan
LAO	Lao People's Democratic Republic
LVA	Latvia
LBN	Lebanon
LSO	Lesotho
LBR	Liberia
LBY	Libya
LIE	Liechtenstein
LTU	Lithuania
LUX	Luxembourg

MAC	Macau
MDG	Madagascar
MWI	Malawi
MYS	Malaysia
MDV	Maldives
MLI	Mali
MLT	Malta
MHL	Marshall Islands
MTQ	Martinique
MRT	Mauritania
MUS	Mauritius
MYT	Mayotte
MEX	Mexico
MCO	Monaco
MNG	Mongolia
MSR	Montserrat
MAR	Morocco
MOZ	Mozambique
BUR	Myanmar
NAM	Namibia
NRU	Nauru
NPL	Nepal
ANT	Netherlands Antilles
NLD	Netherlands
NTZ	Neutral Zone
NCL	New Caledonia
NZL	New Zealand
NIC	Nicaragua
NER	Niger
NGA	Nigeria
NIU	Niue
NFK	Norfolk Islands
NRL	Northern Ireland
MNP	Northern Mariana Islands
NOR	Norway
OMN	Oman
PR	P.R. of Malaysia
PAK	Pakistan
PLW	Palau
PLS	Palestine
PAN	Panama
PNG	Papua New Guinea
PRY	Paraguay
PER	Peru
PHL	Philippines
PCN	Pitcairn Islands
POL	Poland
PRT	Portugal
PRI	Puerto Rico
QAT	Qatar
MDA	Republic Of Moldova
MKD	Republica Makedonija
SLD	Republika Slovenija
REU	Reunion
ROM	Romania
SUN	Russia
RWA	Rwanda
SGS	S. Georgia And S. Sandwich Islands
KNA	Saint Kitts And Nevis
WSM	Samoa
SMR	San Marino
STP	Sao Tome And Principe
SAU	Saudi Arabia
SCT	Scotland
SEN	Senegal
YUG	Serbia
SYC	Seychelles

SLE	Sierra Leone
SGP	Singapore
SVK	Slovakia (Slovak Republic)
SVN	Slovenia
SLB	Solomon Islands
SOM	Somalia
ZAF	South Africa
ESP	Spain
LKA	Sri Lanka
SHN	St Helena
LCA	St Lucia
SPM	St Pierre & Miquelon
VCT	St Vincent
STL	Stateless
SDN	Sudan
SUR	Surinam
SJM	Svalbard & Jan Mayen Islands
SWZ	Swaziland
SWE	Sweden
CHE	Switzerland
SYR	Syria
TWN	Taiwan
TJK	Tajikistan
TZA	Tanzania
THA	Thailand
COD	The Dem. Rep. Of Congo
TGO	Togo
TKL	Tokelau
TDN	Tonga
TTO	Trinidad And Tobago
TUN	Tunisia
TUR	Turkey
TKM	Turkmenistan
TCA	Turk & Caicos Islands
TUV	Tuvalu
VIR	U.S. Virgin Islands
UGA	Uganda
UKR	Ukraine
ARE	United Arab Emirates
GBR	United Kingdom
UMI	United States Minor Outlying Islands
USA	United States of America
URY	Uruguay
UZB	Uzbekistan
VUT	Vanuatu
VAT	Vatican City
VEN	Venezuela
VNM	Vietnam
WLF	Wallis & Futuna Islands
ESH	Western Sahara
YEM	Yemen
YMD	Yemen, Democratic
ZAR	Zaire
ZMB	Zambia
ZWE	Zimbabwe

**DIRECTIVES ON SUBMISSION OF PERIODIC REPORTS****No. 2.01(2)-004**

Relevant to : Rule 2.01(2)(k)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 10 of 2011  
Refer also to Directive No(s). : N/A

**1. Rule 2.01(2)(k)**

- (1) Rule 2.01(2)(k) empowers the Exchange to require the Participating Organisations or Registered Persons to provide reports, information, Documents, Books and Records to the Exchange in relation to any matter under these Rules or Directives.
- (2) Pursuant to the above Rule, the Exchange requires the Participating Organisations to submit periodic reports to the Exchange, the details of which are set out below.

**1.1 Reporting Requirements**

- (1) The Participating Organisation must submit the periodic reports prescribed in the Schedule of this Directive ("Schedule") to the Exchange:
  - (a) in the format prescribed in the appendices to the Schedule ("Templates");
  - (b) via the Exchange's File Information Exchange System ("FIX System"); and
  - (c) not later than the times and days stipulated in the Schedule.
- (2) A Participating Organisation and the relevant Heads must ensure that all periodic reports transmitted via the FIX System ("Periodic Reports"), are reviewed by the relevant authorised officer and the reports are factual, accurate, comprehensive and not misleading. In this respect, the respective Heads will be held accountable for the Periodic Reports submitted notwithstanding that the Reports may be submitted by a person other than the Heads.
- (3) If a Participating Organisation is, for any reason whatsoever, unable to transmit by the stipulated times all or any of the Periodic Reports via the FIX System, the Participating Organisation must submit the duly completed and printed hard copy of such Periodic Report by way of facsimile, courier or by hand no later than the times and days set out in the Schedule for the duration of its inability to transmit electronically via the FIX System.
- (4) If having submitted the Periodic Reports via the FIX System a Participating Organisation amends any of the Periodic Reports for any reason whatsoever, the Participating Organisation must re-submit the duly amended Periodic Report by way of facsimile not later than the times and days set out in the Schedule, and deliver the hard copy of the amended Periodic Report by courier or by hand as soon as possible.
- (5) The Exchange may at any time prescribe any other periodic reports to be submitted via the FIX System or vary the times, frequency and manner for submission of any Periodic Report prescribed in the Schedule.

<b>DIRECTIVES ON SUBMISSION OF PERIODIC REPORTS</b>	<b>No. 2.01(2)-004</b>
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- (6) The Participating Organisation must comply with the operational procedures and guidelines on the use of the FIX System as may be prescribed from time to time.

[End of Directive]

**DIRECTIVES ON SUBMISSION OF PERIODIC REPORTS**
**No. 2.01(2)-004**
**Schedule**

No.	Name of Report	Appendix	Frequency	Timing of submission via FIX transmission	Timing of submission of reports pursuant to paragraphs 1.1(3) and 1.1(4) of the Directive
1.	Market Positions of Participating Organisations	Appendix 1a	Weekly (WK.xls)	Weekly report By 5.30 p.m., of the first Market Day of the week following the date of the report	Weekly report By 8.30 p.m., of the first Market Day of the week following the date of the report
2.	Margin Account Positions of Participating Organisations	Appendix 1b			
3.	Clients' Trust Monies, Commissioned Dealer's Representatives' / Salaried Dealer's Representatives' Deposits and Overpledging of Shares	Appendix 1c			
4.	Investment, Proprietary Day Trader (PDT) & Error or Mistake Accounts of Participating Organisations	Appendix 1d			
5.	Securities Borrowing & Lending – List of Clients with collateral below 102%	Appendix 1e			
6.	Securities Borrowing & Lending for potential failed trades	Appendix 1f			
7.	Additional Explanatory Notes ( <i>for report item no. 1 to 6</i> )	Appendix 1g			
8.	Gearing Ratio, Margin Financing and Shareholders' Funds	Appendix 2a	Monthly (MTH.xls)	By 5.30 p.m., not later than 10 Market Days from the last day of the reporting month	By 8.30 p.m., not later than 10 Market Days from the last day of the reporting month
9.	Maintenance of Margin Accounts – Equity Value <130% of the Outstanding Balance	Appendix 2b			

**DIRECTIVES ON SUBMISSION OF PERIODIC REPORTS**

**No. 2.01(2)-004**

No.	Name of Report	Appendix	Frequency	Timing of submission via FIX transmission	Timing of submission of reports pursuant to paragraphs 1.1(3) and 1.1(4) of the Directive
10.	Interest In Suspense and Provision for Bad & Doubtful Debts	Appendix 2c			
11.	Additional Explanatory Notes ( <i>for report item no. 8 to 10</i> )	Appendix 2d			
12.	Profit & Loss Statement Of Participating Organisations	Appendix 3a	Quarterly (QTR.xls)	<u>Quarterly report</u> By 5.30 p.m., before the end of the second month following the reporting quarter	<u>Quarterly report</u> By 8.30 p.m., before the end of the second month following the reporting quarter
13.	Additional Explanatory Notes ( <i>for report item no. 12</i> )	Appendix 3b			
14.	Failure to Deliver (Buying-in without notice)	Appendix 4	As and when there is a buying-in without notice  (Bia.xls)	By 12.30 p.m. on the buying-in day (T+3)	By 3.30 p.m. on the buying-in day (T+3)
15.	Failure to Deliver (Manual Buying-in)	Appendix 5	As and when there is a manual buying-in  (Bim.xls)	By 5.30 p.m. on the buying-in day	By 8.30 p.m. on the buying-in day

[End of Schedule]

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
MARKET POSITIONS OF PARTICIPATING ORGANISATIONS  
(Weekly Submission)**

Participating Organisation : &lt;&lt;insert name of Participating Organisation&gt;&gt;

Position As At : month/date/year  
(last market day of the week)i) **Clients' accounts (excluding Discretionary Financing & Margin Accounts)**

Transaction	Days Outstanding			Total at cost RM	Total at marked to market value RM
	T to T+3 RM	T+4 to T+8 RM	T+9 and beyond RM		
Outstanding Purchases	0.00	0.00	0.00	0.00	0.00
Contra Losses	0.00	0.00	0.00	0.00	Not applicable
Outstanding Sales	0.00	0.00	0.00	0.00	Not applicable
Contra Gains	0.00	0.00	0.00	0.00	Not applicable
<b>Net Balance</b>	0.00	0.00	0.00	0.00	Not applicable

For the purpose of reporting, the above should include "Clearing Accounts" and "Short-Selling Position" for clients.

ii) **Clients' accounts classified under Discretionary Financing (excluding Margin Accounts)**

Transaction	Days Outstanding				Total at cost RM	Total at marked to market value RM
	T to T+3 RM	T+4 to T+7 RM	T+8 to T+12 RM	T+13 and beyond RM		
Outstanding Purchases	0.00	0.00	0.00	0.00	0.00	0.00
Contra Losses	0.00	0.00	0.00	0.00	0.00	Not applicable
Outstanding Sales	0.00	0.00	0.00	0.00	0.00	Not applicable
Contra Gains	0.00	0.00	0.00	0.00	0.00	Not applicable
<b>Net Balance</b>	0.00	0.00	0.00	0.00	0.00	Not applicable

iii) **Margin Accounts, Clearing Accounts And Short-Selling Positions**

Transaction	Days Outstanding				Total at cost RM
	T RM	T+1 RM	T+2 RM	T+3 and beyond RM	
Outstanding Purchases In Clearing Accounts	0.00	0.00	0.00	0.00	0.00
Outstanding Sales In Clearing Accounts	0.00	0.00	0.00	0.00	0.00
Outstanding Net Short-Selling Position	0.00	0.00	0.00	0.00	0.00
Outstanding Purchases In Margin Accounts	0.00	Not applicable	Not applicable	Not applicable	Not applicable
Outstanding Sales In Margin Accounts	0.00	Not applicable	Not applicable	Not applicable	Not applicable

[End of Appendix 1a]



## Appendix 1b

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
MARGIN ACCOUNT POSITIONS OF PARTICIPATING ORGANISATIONS  
(Weekly Submission)**

Participating Organisation : &lt;&lt;insert name of Participating Organisation&gt;&gt;

Position As At : month/date/year  
(last market day of the week)

Percentage of Equity Value Over Outstanding Balance	No. of Accounts	Approved Limit RM	Outstanding Balance RM	Value of Equity RM
<130%	0	0.00	0.00	0.00
130%-150%	0	0.00	0.00	0.00
>150%	0	0.00	0.00	0.00
<b>TOTAL</b>	0	0.00	0.00	0.00

[End of Appendix 1b]

## Appendix 1c

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
CLIENTS' TRUST MONIES, COMMISSIONED DEALER'S REPRESENTATIVES'/SALARIED DEALER'S REPRESENTATIVES'  
DEPOSITS AND OVERPLEDGING OF SHARES  
(Weekly Submission)**

Participating Organisation : &lt;&lt;insert name of Participating Organisation&gt;&gt;

Position As At : month/date/year

(last market day of the week)

1. CLIENTS' TRUST ACCOUNT	No. of Clients	Total amount	Remarks
		RM	
Clients' monies not banked into trust account		0	
2. COMMISSIONED DEALER'S REPRESENTATIVES' / SALARIED DEALER'S REPRESENTATIVES' NET DEPOSITS	No. of Commissioned dealer's representatives / Salaried dealer's representatives	Total amount	Remarks
Amount or commissioned dealer's representatives / salaried dealer's representatives' net deposits (note 1) not deposited into trust account (to compute on the basis of each commissioned dealer's representatives /dealer's representative)		RM	
<i>(note 1 :- cash deposits less contra losses and other relevant charges)</i>		0	
3. OVERPLEDGING OF SHARES	No. of Clients	Total amount	Remarks
Amount of margin clients' securities <i>(at market value)</i> mortgaged, pledged or hypothecated by Participating Organisation to Participating Organisation's financiers in excess of the corresponding client's outstanding balance in the client's margin account (to compute on the basis of client by client)		RM	
		0	

[End of Appendix 1c]

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
INVESTMENT, PDT AND ERROR OR MISTAKE ACCOUNTS OF PARTICIPATING ORGANISATIONS  
(Weekly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Position As At :** month/date/year  
*(last market day of the week)*

**Company's Investment In Quoted Shares (Shares Listed on Bursa Malaysia and Recognised Stock Exchanges)**

COST				Marked To Market Value As At End Of The Week RM
Position As At Beginning Of The Week RM	Acquisition During The Week RM	Disposal During The Week RM	Position As At End Of The Week RM	
0.00	0.00	0.00	0.00	0.00

**Trades of PDTs**

COST				Marked To Market Value As At End Of The Week RM
Position As At Beginning Of The Week RM	Acquisition During The Week RM	Disposal During The Week RM	Position As At End Of The Week RM	
0.00	0.00	0.00	0.00	0.00

**Company's Other Investments (eg. Money market instruments, Unit Trust & Private Debt Securities)**

COST				Marked To Market Value As At End Of The Week RM
Position As At Beginning Of The Week RM	Acquisition During The Week RM	Disposal During The Week RM	Position As At End Of The Week RM	
0.00	0.00	0.00	0.00	0.00

**Company's Error or Mistake Account**

COST				Marked To Market Value As At End Of The Week RM
Position As At Beginning Of The Week RM	Addition During The Week RM	Disposal During The Week RM	Position As At End Of The Week RM	
0.00	0.00	0.00	0.00	0.00

**Appendix 1e**

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
SECURITIES BORROWING & LENDING - (CLA and SBLNT where the PO is the Approved Borrower)  
(LIST OF CLIENTS WITH COLLATERAL BELOW 102%)  
(Weekly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Position as at :** month/date/year  
*(last market day of the week)*

No	Name of Client	Value of borrowing	Value of collateral (after haircut)	Ratio	Actions Taken
1				#DIV/0!	
2				#DIV/0!	
3				#DIV/0!	
4				#DIV/0!	
5				#DIV/0!	
6				#DIV/0!	
7				#DIV/0!	
8				#DIV/0!	
9				#DIV/0!	
10				#DIV/0!	

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
SECURITIES BORROWING & LENDING FOR POTENTIAL FAILED TRADES  
(Weekly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**For the reporting week ending on :** month/date/year

Date of Borrowing	Contract Date	Counter / (Stock Code)	Quantity	Contract Price	Name of Client / (CDS A/C No)	Dealer's Representative's Name	Remarks

## Appendix 1g

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD  
(Weekly Submission)**

Participating Organisation : <<insert name of Participating Organisation>>  
 For the reporting week ending : month/date/year

Additional Explanatory Notes (if any)

	ISSUES	ADDITIONAL EXPLANATORY NOTES
1	Clients' accounts (excluding discretionary financing & margin accounts)	
2	Clients' accounts classified under discretionary financing	
3	Margin Accounts, Clearing Accounts And Short-Selling Positions	
4	Margin Account Positions	
5	Clients' Trust Monies	
6	Commissioned Dealer's Representatives'/ Salaried Dealer's Representatives' Net Deposits	
7	Overpledging Of Shares	
8	Company's Investment, PDT and Error Or Mistake Accounts	
9	Securities Borrowing & Lending - List of clients with collateral below 102%	
10	Securities Borrowing & Lending for potential failed trades	
11	Others	

[End of Appendix 1g]

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
GEARING RATIO, MARGIN FINANCING  
AND SHAREHOLDERS' FUNDS  
(Monthly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Position as at :** month/date/year  
*(as at last reporting date of the month)*

**1. GEARING RATIO**

Utilised Level	Effective Shareholders' Funds	Gearing Ratio
(a) RM	(b) RM	(c=a/b) times
0.00	0.00	#DIV/0!

**2. MARGIN FINANCING - Limit Of Outstanding Balance**

Total Outstanding Balance	Effective Shareholders' Funds	Total Outstanding Balance / Effective Shareholders' Funds
(a) RM	(b) RM	c=(a/b)x100% %
0.00	0.00	#DIV/0!

**3 SHAREHOLDERS' FUNDS - Investment Banks Only**

Shareholders' Funds (note 1)
RM
0.00 (note 2)

**Note 1 - Reference extracted from Investment Bank Guidelines**

5.0 Minimum capital requirement as stipulated in the IB Guidelines

5.1 Pursuant to Section 14 of BAFIA, investment banks that are part of banking groups will be required to comply with the minimum capital funds unimpaired by losses requirement of RM2 billion on a banking group basis, while investment banks that are not part of banking groups will be required to comply with a minimum capital funds requirement of RM500 million.

**Note 2 - The requirement is to report the shareholders' funds for the previous month. For example for monthly submission for the month of November 2011, the information of the shareholders' funds should be as at 31 October 2011.**

**Appendix 2b**

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
MAINTENANCE OF MARGIN ACCOUNTS OF PARTICIPATING ORGANISATIONS  
(Monthly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Position As At :** month/date/year  
*(last market day of the month)*

**List of Margin Accounts with Equity Value < 130% of Outstanding Balance**

<b>No</b>	<b>Name of Clients</b>	<b>Approved Limit RM</b>	<b>Outstanding Balance RM</b>	<b>Value of Equity RM</b>	<b>Percentage (%) of Equity Value over Outstanding Balance</b>
1		0.00	0.00	0.00	#DIV/0!
2		0.00	0.00	0.00	#DIV/0!
3		0.00	0.00	0.00	#DIV/0!
4		0.00	0.00	0.00	#DIV/0!
5		0.00	0.00	0.00	#DIV/0!
6		0.00	0.00	0.00	#DIV/0!
7		0.00	0.00	0.00	#DIV/0!
8		0.00	0.00	0.00	#DIV/0!
9		0.00	0.00	0.00	#DIV/0!
10		0.00	0.00	0.00	#DIV/0!
11		0.00	0.00	0.00	#DIV/0!
12		0.00	0.00	0.00	#DIV/0!
13		0.00	0.00	0.00	#DIV/0!
14		0.00	0.00	0.00	#DIV/0!
15		0.00	0.00	0.00	#DIV/0!
16		0.00	0.00	0.00	#DIV/0!
17		0.00	0.00	0.00	#DIV/0!
18		0.00	0.00	0.00	#DIV/0!
19		0.00	0.00	0.00	#DIV/0!
20		0.00	0.00	0.00	#DIV/0!
21		0.00	0.00	0.00	#DIV/0!
22		0.00	0.00	0.00	#DIV/0!
	<b>Total</b>	0.00	0.00	0.00	#DIV/0!



<b>DIRECTIVES ON SUBMISSION OF PERIODIC REPORTS</b>	<b>No. 2.01(2)-004</b>
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**Appendix 2c**

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
INTEREST-IN-SUSPENSE AND PROVISION FOR BAD & DOUBTFUL DEBTS  
(Monthly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Position as at :** month/date/year  
*(As at last reporting date of the month)*

INTEREST-IN-SUSPENSE	Opening balance	Addition	Reversal	Written-off	Closing balance
ITEM	(RM)	(RM)	(RM)	(RM)	(RM)
Contra Losses	0.00	0.00	0.00	0.00	0.00
Overdue Purchase Contracts	0.00	0.00	0.00	0.00	0.00
Margin Accounts	0.00	0.00	0.00	0.00	0.00
Others <i>(if any)</i>	0.00	0.00	0.00	0.00	0.00
<b>TOTAL</b>	0.00	0.00	0.00	0.00	0.00

IMPAIRMENT PROVISION	Opening balance	Addition	Reversal	Written-off	Closing balance
ITEM	(RM)	(RM)	(RM)	(RM)	(RM)
Contra Losses	0.00	0.00	0.00	0.00	0.00
Overdue Purchase Contracts	0.00	0.00	0.00	0.00	0.00
Margin Accounts	0.00	0.00	0.00	0.00	0.00
Others <i>(if any for e.g. collective impairment etc)</i>	0.00	0.00	0.00	0.00	0.00
<b>TOTAL</b>	0.00	0.00	0.00	0.00	0.00

[End of Appendix 2c]

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD**  
*(Monthly Submission)***Participating Organisation :** <<insert name of Participating Organisation>>**Position As At :** month/date/year*(As at last reporting date of the month)***Additional Explanatory Notes (if any)**

	ISSUES	ADDITIONAL EXPLANATORY NOTES
1	Gearing Ratio	
2	Margin Financing - Limit of Outstanding Balance	
3	Shareholders' Funds - Investment Banks Only	
4	Margin Accounts with Equity Value <130% of Outstanding Balance	
5	Interest in Suspense / Provision	
6	Others	

[End of Appendix 2d]

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
PROFIT & LOSS STATEMENT OF PARTICIPATING ORGANISATIONS  
(Quarterly Submission)**

**Participating Organisation:** <<insert name of Participating Organisation>>  
**For the quarter ending on:** month/date/year

Item	Retail A RM	Institutional B RM	Inter-broker C RM	Others D RM	Total E = A + B + C + D RM
<b>VALUE OF TRADES DONE</b>					
<b>1. Online routed trades</b>	0.00	0.00	0.00	0.00	0.00
<b>2. Other trades</b>	0.00	0.00	0.00	0.00	0.00
<b>3. Trades in Recognised Stock Exchanges</b>	0.00	0.00	0.00	0.00	0.00
<b>TOTAL VALUE OF SECURITIES TRADES DONE (1+2+3)</b>	0.00	0.00	0.00	0.00	0.00
<b>NUMBER OF DERIVATIVES CONTRACTS</b>					
<b>4. Online routed trades</b>	0.00	0.00	0.00	0.00	0.00
<b>5. Other trades</b>	0.00	0.00	0.00	0.00	0.00
<b>6. Trades in Specified Exchanges</b>	0.00	0.00	0.00	0.00	0.00
<b>TOTAL NO. OF DERIVATIVES CONTRACTS DONE (4+5+6)</b>	0.00	0.00	0.00	0.00	0.00
<b>REVENUE</b>					
Gross brokerage for equities	0.00	0.00	0.00	0.00	0.00
Less : Commission/incentives/salary/bonus to dealer's representatives	0.00	0.00	0.00	0.00	0.00
Net brokerage for equities	0.00	0.00	0.00	0.00	0.00
Gross brokerage for derivatives	0.00	0.00	0.00	0.00	0.00
Less : Commission/incentives/salary/bonus to futures broker's representatives	0.00	0.00	0.00	0.00	0.00
Net brokerage for derivatives	0.00	0.00	0.00	0.00	0.00

**DIRECTIVES ON SUBMISSION OF PERIODIC REPORTS**

**No. 2.01(2)-004**

Total Net Brokerage	
Bank interest	0.00
Margin interest and rollover fees	0.00
Advisory fees	0.00
Management fees income	0.00
Underwriting fees	0.00
Interest on amount due from holding / related company	0.00
Proprietary gain and write back provision of diminution in value of investment	0.00
Gains from Proprietary Day Traders	0.00
Bad debts recovered	0.00
Provision for bad & doubtful debts written back	0.00
Others (to specify if more than 5% of total revenue) - please provide in the attached worksheet in Page 2	0.00
<b>TOTAL REVENUE</b>	<b>0.00</b>
<b>EXPENSES</b>	
Staff cost	0.00
Financing cost	0.00
Management fees expenses	0.00
Professional / legal fees	0.00
Rental paid	0.00
Computer and office maintenance	0.00
Bad debts written off	0.00
Impairment for bad & doubtful debts	0.00
Loss from Proprietary Day Traders	0.00
Proprietary loss and provision for diminution in value of investment	0.00
Depreciation and amortisation of goodwill	0.00
Others (to specify if more than 5% of total expenses) - please provide in the attached worksheet in Page 2	0.00
<b>TOTAL EXPENSES</b>	<b>0.00</b>
<b>PROFIT / (LOSS) BEFORE TAX</b>	<b>0.00</b>

[End of Appendix 3a]

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
PROFIT & LOSS STATEMENT OF PARTICIPATING ORGANISATIONS  
(Quarterly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**For the quarter ending on :** month/date/year

**Additional Explanatory Notes - Other Revenue & Expenses**

	<b>Name of Other Revenue</b> (if more than 5% of total revenue)	RM
1		0.00
2		0.00
3		0.00
4		0.00
5		0.00
6		0.00
7		0.00
8		0.00
9		0.00
10		0.00
11		0.00
12		0.00
	<b>Total</b>	<b>0.00</b>

	<b>Name of Other Expenses</b> (if more than 5% of total expenses)	RM
1		0.00
2		0.00
3		0.00
4		0.00
5		0.00
6		0.00
7		0.00
8		0.00
9		0.00
10		0.00
11		0.00
12		0.00
	<b>Total</b>	<b>0.00</b>

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
FAILURE TO DELIVER (BUYING-IN WITHOUT NOTICE)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Reporting date :** month/date/year

CONTRACT DATE	BUYING-IN DATE	COUNTER	NAME OF DEFAULTING CLIENT	CDS A/C NO.	DEALER'S REPRESENTATIVE'S NAME	TOTAL NO. THAT FAILED TO DELIVER	CONTRACT PRICE	REASONS FOR FAILING TO DELIVER

[End of Appendix 4]

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
FAILURE TO DELIVER (MANUAL BUYING-IN)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Reporting date :** month/date/year

CONTRACT DATE	BUYING-IN DATE	COUNTER	NAME OF DEFAULTING CLIENT	CDS A/C NO.	DEALER'S REPRESENTATIVE'S NAME	TOTAL NO. THAT FAILED TO DELIVER	CONTRACT PRICE	REASONS FOR FAILING TO DELIVER

[End of Appendix 5]

Relevant to : Rule 2.01(2)(k)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 2.01(2)(k)**

- (1) Rule 2.01(2)(k) empowers the Exchange to require the Participating Organisations or Registered Persons to provide reports, information, Documents, Books and Records to the Exchange in relation to any matter under these Rules or Directives.
- (2) Pursuant to the above Rule, the Exchange requires the Participating Organisation to undertake the actions set out below.

**1.1 CPF reporting requirement**

- (1) A Participating Organisation must submit the report on Central Permanent File ("CPF") on a yearly basis. The position as at 31 December must be submitted by 31 January of the following year.
- (2) The report mentioned in paragraph (1) above must be prepared in the formats prescribed by the Exchange.

**1.2 Shareholding reporting requirement**

A Participating Organisation must inform the Exchange as and when there is a change in its major shareholders.

[End of Directive]



Relevant to : Rule 2.01(2)(o)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 2 of 2009  
Refer also to Directive No(s). : N/A

**1. Rule 2.01(2)(o)**

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

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

- (1) The initial commencement of new trading activities requiring approval of the Commission and the Exchange are:
  - (a) Commencement of operations as a new Participating Organisation (Principal Office);
  - (b) Commencement of operations as a Universal Broker;
  - (c) Commencement of operations as a new Islamic Stock Broker;
  - (d) Offering of Margin Financing facilities; and
  - (e) Commencement of Proprietary Trading.
- (2) Activities by an existing Participating Organisation involving new premises and activities that require the Exchange's approval only are:
  - (a) Setting up of disaster recovery sites ("DRS");
  - (b) Establishment of new/additional trading floor;
  - (c) Relocation of business premises or change of business address (applicable to Principal Office and Branch Office);
  - (d) Opening of new Branch Offices of Participating Organisation;
  - (e) Opening of new Electronic Access Facilities; and
  - (f) Activities under items (d) and (e) in this paragraph 2(2) which recur after initial approval from the Commission is obtained under paragraph 2(1)(a).
- (3) The Exchange will, upon receiving an application for approval from a Participating Organisation to commence a new activity specified in paragraphs 2(1) or 2(2) above, upon due consideration, give an approval in principle setting out the relevant conditions that need to be complied with by the Participating Organisation prior to commencement of the activity. As part of the approval-in-principle, the Exchange will state that the Participating Organisation must undertake a readiness audit and indicate whether the Participating Organisation is

required to follow the self assessment approach (“SAA”) or the declaratory approach (“DA”) in relation to the readiness audit.

(4) The requirement to follow either the SAA or DA is assessed based on the following principles:

(a) New Participating Organisation

The DA will only be applicable to an existing Participating Organisation. Those falling under the category of a new Participating Organisation will continue to be subjected to SAA readiness audits as this would be the first instance it is being assessed before commencing its operations.

(b) Opening of a New Branch Office by Participating Organisation

Where a Participating Organisation has cumulatively established 3 Branch Offices, it will be required to follow the DA method for readiness audit in respect of the opening of the 4<sup>th</sup> Branch Office onwards.

Where a Participating Organisation has not established at least 3 Branch Offices, it will be required to follow the SAA method for readiness audits, until such time when the said Participating Organisation has cumulatively established 3 Branch Offices.

(c) All other activities of Participating Organisation

Where the application is received in respect of a new trading activity that is being proposed for the first time by a Participating Organisation and where such activities requires the approvals of both the Exchange and the Commission as detailed in paragraph 2 above, the said Participating Organisation will only be required to follow the SAA method for the completion of a readiness audit.

For subsequent applications of the same nature, the Participating Organisation must follow the DA method for readiness audit.

(5) Notwithstanding the provisions of items (a), (b) and (c) in paragraph (4), the Exchange reserves the right to require the Participating Organisation to adhere to the SAA method in place of DA under any circumstances, at its absolute discretion.

### 3. Requirements for SAA or DA

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

#### 3.1 Self Assessment Approach (SAA)

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

No.	Type Of Document	Appendix
1.	Procedures in respect of the SAA Readiness Audits and Submission.	1
2.	Relevant Types of Checklists to be Used for SAA Readiness Audits.	2
3.	Prescribed Form of Readiness Declaration that should	3

<b>No.</b>	<b>Type Of Document</b>	<b>Appendix</b>
	Accompany Each SAA Readiness Submission to the Exchange.	

- (2) The Participating Organisation must prepare and submit the SAA readiness audit report in the manner prescribed by the Exchange.

### **3.2 Declaratory Approach (DA)**

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

<b>No.</b>	<b>Type Of Document</b>	<b>Appendix</b>
1.	Procedures in respect of DA Readiness Audits and Submission.	4
2.	Prescribed Form of Readiness Declaration that should Accompany Each DA Readiness Submission to the Exchange.	5

### **3.3 Non-application of directives**

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

[End of Directive]

**Appendix 1****SAA PROCEDURES ON SUBMISSION AND REVIEW OF APPLICATIONS FROM PARTICIPATING ORGANISATIONS ON NEW ACTIVITIES****1. Procedures for Submission and Approval**

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

**2. Documentation Requirements for New Activities**

The following documents are required:

- Relevant checklist in the prescribed form for each type of new activity.
- Final report of independent review carried out by Participating Organisation.
- Extract of board resolutions / minutes of meeting where applicable.
- Extract of relevant sections of operations manual.

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

Note:-

*For all types of readiness audits, the Participation Organisation is required to submit complete documentation and checklist together with the declaration in the format prescribed in Appendix 3 to the Exchange at least 4 weeks prior to the intended commencement date of the proposed activity. The Participating Organisation should also ensure that all the relevant requirements of the checklist(s) where applicable have been complied with prior to the submission to the Exchange.*

[End of Appendix 1]

Appendix 2

		CHECKLIST REQUIRED			CHECKLIST REQUIRED
		General Compliance	Clearing & Settlement	Depository	IT
<b>Participating Organisation</b>	<i>Principal Office Site</i>	√	√	√	√
	<i>UB status</i>	√			√
	<i>DRS</i>				√
	<i>Trading Floor</i>				√
	<i>Margin Financing facilities</i>	√			
	<i>Proprietary Trading</i>	√			
<b>Branch Office</b>	<i>Branch Office Site</i>	√	√	√	√
<b>EAF</b>	<i>EAF Site</i>				√

[End of Appendix 2]

## Appendix 3

## READINESS DECLARATION FOR SELF ASSESSMENT APPROACH

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

*[insert name of Participating Organisation]*

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

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

We, *[insert name of Participating Organisation]*, hereby declare and confirm as follows:-

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

<b>DIRECTIVES ON READINESS AUDIT</b>	<b>No. 2.01(2)-006</b>
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6. we are satisfied that the relevant controls and monitoring policies and procedures pertaining to the establishment, maintenance or operation of the [*insert the particulars of the Readiness concerned*] is/are adequate and effective; and
7. we shall indemnify the Exchange and not hold the Exchange liable to any claims made by any party as a result of the establishment, maintenance or operations of the [*insert the particulars of the Readiness concerned*] and its activities.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_

Signed \_\_\_\_\_  
Executive Director Operations / Head of Operations

Date \_\_\_\_\_

Signed \_\_\_\_\_  
Executive Director Compliance / Head of Compliance / Compliance Officer\*

Date \_\_\_\_\_

[End of Appendix 3]

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\* delete accordingly



**Appendix 4****DA PROCEDURES ON SUBMISSION AND REVIEW OF APPLICATIONS FROM PARTICIPATING ORGANISATIONS ON NEW ACTIVITIES**

- (1) Where the Participating Organisation is required to adopt DA for readiness review in respect of the new activity, the Participating Organisation must commence to evaluate its readiness prior to commencement of the proposed new activity. To this end, the Participating Organisation will be required to carry out an independent readiness review and complete and prepare the relevant documentation as prescribed by the Exchange in paragraph 4 below. The readiness audit must be carried out by a party that is independent of trading and operations of the Participating Organisation i.e Internal Audit and/or External Auditors.
- (2) The Participating Organisation must submit all the relevant documents as prescribed under paragraph 4 below at least 2 clear weeks before the intended commencement date.
- (3) The Exchange will process the application based on the Declaration provided by the Participating Organisation.
- (4) The following documents are required:
  - (a) Formal Application Letter of proposed activity; and
  - (b) DA Declaration Form in the format prescribed in Appendix 5.

[End of Appendix 4]

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## Appendix 5

## READINESS DECLARATION FOR DECLARATORY APPROACH

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

*[insert name of Participating Organisation]*

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

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**PART I**

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

We, *[insert name of Participating Organisation]*, hereby declare and confirm as follows:

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

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

**PART II: NOTIFICATION [This notification is only relevant to the Participating Organisation proposing to establish a new Branch Office.]**

9. The following key appointments have been made and/or arrangements to the effect the same are in place:-

Key Appointments At Branch Office	Tick (✓) If applicable
Responsible person referred to in Rule 6.03(2)	
Head of Dealing	
Head of Operations	

10. The following are the activities that will be undertaken at the proposed Branch Office:-

Front Office Trading Systems	Tick (✓) If applicable
BFE Server connected to Exchange	
Remote terminals connected to server at another designated Branch Office (to name the Branch Office)	
DMA only	
Others – To elaborate	

11. The following applies in relation to back office systems and operations to be undertaken at the proposed Branch Office:-

Back Office Systems and Operations	Tick (✓) If applicable
Centralised at the Principal Office; no back office system at Branch Office	
Centralised at the Principal Office; with remote back office terminals at Branch Office	
Localised at the Branch Office with links established with the Principal Office to enable transmission of data to principal offices	
Others - to elaborate	

**DIRECTIVES ON READINESS AUDIT**

**No. 2.01(2)-006**

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_

Signed \_\_\_\_\_  
Executive Director/ Head of Operations\*

Date \_\_\_\_\_

Signed \_\_\_\_\_  
Executive Director Compliance/Head of Compliance/Compliance Officer\*

Date \_\_\_\_\_

[End of Appendix 5]

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Relevant to	: Rules 3.02(1)(a), 3.04, 3.10, 3.20 and 3.08, 3.18(3), Rule 3.51, 3.52 and 3.53
Introduced with effect from	: 2 May 2013
Amended	: N/A
POs' Circular No(s).	: R/R 12 of 2012
Refer also to Directive No(s).	: N/A

## **Introduction**

This Directive set out the application procedures for applications to the Exchange under Chapter 3 of the Rules.

### **1. Rule 3.02(1)(a)**

- (1) To become a Participating Organisation, this Rule requires an applicant to apply to the Exchange in accordance with the requirements the Exchange stipulates.
- (2) The following sets out the requirements, amongst others, a Participating Organisation must comply with under this Rule.

#### **1.1 Participating Organisation**

An applicant must complete and submit an application to the Exchange in the form set out in **Appendix 1A** 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 dealing in securities has been approved;
- (c) any additional document required for an application for admission to a specific category of Participating Organisation;
- (d) payment of the non-refundable application fee set out in Schedule 1 (if any);
- (e) an undertaking in the form set out in **Appendix 2A**; and
- (f) such evidence the Exchange regards as satisfactory to show that, at the time of the application, the Participating Organisation is able to comply with the financial requirements in Chapter 13 of the Rules.

### **2. Rule 3.04**

This Rule requires a Participating Organisation to notify the Exchange if the Participating Organisation changes status from one category to another based on the categorisation stipulated under Rule 3.02(5).

The following procedures apply in respect of the relevant notification required under this Rule.

**2.1 Change of status to Investment Bank**

- (1) If a Participating Organisation obtains approval to operate as an Investment Bank, the Participating Organisation must notify the Exchange in writing.
- (2) The notification must be given prior to the Participating Organisation commencing business as an Investment Bank.
- (3) A Participating Organisation must submit to the Exchange, the following documents together with the above notice:
  - (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) a copy of the Participating Organisation's Capital Markets Services Licence for dealing in securities;
  - (c) a copy of the merchant banking licence issued by the Central Bank pursuant to Section 5 of BAFIA; and
  - (d) the relevant documents required under the Companies Act to evidence the change of name of the Participating Organisation (if any).

**3. Rule 3.10**

- (1) Rule 3.10 imposes an obligation on a Participating Organisation to register with the Exchange persons enumerated under Rule 3.10.
- (2) The following procedures apply in respect of an application for registration of the following Registered Person.

**3.1 Chief Executive Officer**

- (1) A Participating Organisation must complete and submit to the Exchange the form set out in **Appendix 1B** of this Directive, accompanied by:
  - (a) a copy of the Capital Markets Services Representative's Licence for dealing in securities or evidence that the application for a Capital Markets Services Representative's Licence for dealing in securities has been approved, in the event the Chief Executive Officer is a Capital Markets Services Representative's Licence holder or intends to hold one;
  - (b) a copy of the Commission's approval of the Chief Executive Officer's appointment as a Chief Executive Officer of the Participating Organisation;
  - (c) a copy of the Central Bank's approval of the Chief Executive Officer's appointment as a Chief Executive Officer of the Investment Bank, in the event the Participating Organisation is an Investment Bank;

- (d) a copy of the Chief Executive Officer's identification card (for Malaysian) or passport (for non-Malaysian);
  - (e) 2 identity card sized photographs of the Chief Executive Officer;
  - (f) payment of the non-refundable fee set out in **Schedule 1** of this Directive (if any); and
  - (g) an undertaking in the form set out in **Appendix 2B** of this Directive.
- (2) The application to register the Chief Executive Officer must be made on the same day the approval referred to in Paragraph 3.1(1)(b) is given by the Commission.
- (3) The effective date of registration of a Chief Executive Officer will be the date the Chief Executive Officer was appointed by the Participating Organisation.

### **3.2 Head of Dealing**

- (1) A Participating Organisation must complete and submit to the Exchange the form set out in **Appendix 1B** of this Directive, accompanied by:
- (a) a copy of the proposed Head of Dealing's Capital Markets Services Representative's Licence for dealing in securities or evidence that the proposed Head of Dealing's application for a Capital Markets Services Representative's Licence for dealing in securities has been approved;
  - (b) evidence of the Commission's approval of the proposed Head of Dealing's appointment as a Head of Dealing of the Participating Organisation;
  - (c) a copy of the proposed Head of Dealing's identification card (if Malaysian) or passport (if not Malaysian);
  - (d) 2 identity card sized photographs of the proposed Head of Dealing;
  - (e) payment of the non-refundable fee set out in **Schedule 1** of this Directive (if any);
  - (f) an undertaking in the form set out in **Appendix 2B** of this Directive; and
  - (g) if more than 1 Head of Dealing is appointed by the Participating Organisation, the respective area and scope of responsibility of each Head of Dealing.
- (2) The effective date of registration of a Head of Dealing will be the date that is entered into the Exchange's register.

### **3.3 Head of Operations**

- (1) A Participating Organisation must complete and submit to the Exchange the form set out in **Appendix 1B** of this Directive, accompanied by:
- (a) evidence of the Commission's approval of the proposed Head of Operations' appointment as a Head of Operations of the Participating Organisation;
  - (b) a copy of the proposed Head of Operation's identification card (if Malaysian) or passport (if not Malaysian);
  - (c) 2 identity card sized photographs of the proposed Head of Operations;

- (d) payment of the non-refundable fee set out in **Schedule 1** of this Directive (if any);
  - (e) an undertaking in the form set out in **Appendix 2B** of this Directive; and
  - (f) if more than one Head of Operations is appointed by the Participating Organisation, the respective area and scope of responsibility of each Head of Operations.
- (2) The effective date of registration of a Head of Operations will be the date that is entered into the Exchange's register.

### **3.4 Head of Compliance**

- (1) A Participating Organisation must complete and submit to the Exchange the form set out in **Appendix 1B** of this Directive, accompanied by:
- (a) evidence of the Commission's approval of the proposed Head of Compliance's appointment as a head of compliance of the Participating Organisation;
  - (b) a copy of the proposed Head of Compliance's identification card (if Malaysian) or passport (if not Malaysian);
  - (c) 2 identity card sized photographs of the proposed Head of Compliance;
  - (d) payment of the non-refundable fee set out in **Schedule 1** of this Directive (if any);
  - (e) an undertaking in the form set out in **Appendix 2B** of this Directive; and
  - (f) if more than 1 Head of Compliance is appointed by the Participating Organisation, the respective area and scope of responsibility of each Head of Compliance.
- (2) The effective date of registration of a Head of Compliance will be the date that is entered into the Exchange's register.

### **3.5 Director**

- (1) A Participating Organisation must complete and submit to the Exchange the form set out in **Appendix 1B** of this Directive, accompanied by:
- (a) a copy of the Commission's approval of the Director's appointment as a Director of a Participating Organisation;
  - (b) a copy of the Director's identification card (if Malaysian) or passport (if not Malaysian);
  - (c) 2 identity card sized photographs of the proposed Director;
  - (d) payment of the non-refundable fee set out in **Schedule 1** of this Directive (if any); and
  - (e) an undertaking in the form set out in **Appendix 2B** of this Directive.
- (2) The application to register the Director must be made on the same day the approval referred to in Paragraph 3.5(1)(a) is given by the Commission.
- (3) The effective date of registration of a Director will be the date the Director was appointed by the Participating Organisation.



**3.6 Dealer's Representative**

- (1) A Participating Organisation must complete and submit to the Exchange the form set out in **Appendix 1B** of this Directive, accompanied by:
- (a) a copy of the Dealer's Representative's Capital Markets Services Representative's Licence for dealing in securities or evidence that the proposed Dealer's Representative's application for a Capital Markets Services Representative's Licence for dealing in securities has been approved;
  - (b) a copy of the Dealer's Representative's identification card (if Malaysian) or passport (if not Malaysian);
  - (c) 2 identity card sized photographs of the Dealer's Representative;
  - (d) payment of the non-refundable fee set out in **Schedule 1** of this Directive (if any); and
  - (e) an undertaking in the form set out in **Appendix 2B** of this Directive.
- (2) The effective date of registration of a Dealer's Representative will be the date that is entered into the Exchange's register.

**3.7 Registration of a person falling within 2 or more categories of Registered Person**

- (1) A Participating Organisation must register the Participating Organisation's proposed Registered Person under all categories applicable to that proposed Registered Person.
- (2) A Participating Organisation registering a person under two or more categories of Registered Person need not pay the fees the Exchange stipulates (if any) for each category. The Participating Organisation must pay the fees the Exchange stipulates (if any) for the category with the highest total fees charged.

For example:

A Head of Dealing must be registered as both a Head of Dealing and a Dealer's Representative.

The total admission, application and monthly subscription fees (for the first month) for the registration of a Head of Dealing and Dealer's Representative is set out below.

	Total fees payable for the first month of registration	Head of Dealing (RM)	Dealer's Representative (RM)
(a)	Application fee	1,000.00	-
(b)	Registration fee	2,500.00	500.00
(c)	Monthly subscription fee	300.00	-
	<b>Aggregate fees payable</b>	<b>3,800.00</b>	<b>500.00</b>

As the amount payable for the registration of a Head of Dealing (which is RM3800) is higher than a Dealer's Representative (which is RM500), that person must pay the fees for the registration of a Head of Dealing (which is RM3800). That person need not pay any fees for registering as a Dealer's Representative.

**4. Rules 3.08 and 3.20**

- (1) Rule 3.08 requires a Participating Organisation to pay the Exchange all fees and charges the Exchange stipulates in the manner and within the period the Exchange specifies.
- (2) Rule 3.20 requires a Participating Organisation to pay the Exchange all fees and charges the Exchange stipulates for the registration of a Registered Person in the manner and within the period the Exchange specifies.
- (3) In connection with the above Rules, a Participating Organisation must, amongst others, comply with the requirements set out below.

**4.1 Admission or registration fees**

- (1) The fees payable to the Exchange in connection with any application for admission or registration under Chapter 3 are set out in Schedule 1 of this Directive.
- (2) Unless the Exchange decides otherwise, subscription fees will be charged on a monthly basis.

**4.2 System maintenance fee**

A Participating Organisation must pay to the Exchange a fee at the rate of 0.0025% of the Contract Value (as defined in Rule 11.01) for maintaining and managing the ATS.

**4.3 Bursa Access Fees**

A Participating Organisation must pay to the Exchange the fees applicable in relation to access to the ATS ("Bursa Access Fees") as set out in **Schedule 3** of this Directive.

**4.4 Other fees or charges**

The Exchange may require a Participating Organisation to pay such monthly or other fees or charges the Exchange stipulates for the trading on the Exchange and the use of the Exchange's trading facilities.

**5. Rule 3.18(3)**

- (1) This Rule requires a Participating Organisation to register with the Exchange a person temporarily assuming responsibility for the functions of a vacated office under Rule 3.18(2).
- (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 3.18(2).

**5.1 Registration pursuant to vacancy**

A Participating Organisation must complete and submit an application to the Exchange in the form set out in Appendix 1B, accompanied by:

- (a) any applicable fee the Exchange stipulates; and
- (b) an undertaking in the form set out in **Appendix 2B** of this Directive.

**6. Rule 3.52**

This Rule requires a Participating Organisation to notify the Exchange of any re-designation of any of the Participating Organisation's Dealer's Representatives between the different categories of Dealer's Representatives.

The following procedures apply in respect of a notification to the Exchange of any re-designation of any of the Participating Organisation's Dealer's Representatives.

**6.1 Re-designation**

A Participating Organisation may re-designate a Proprietary Day Trader to a Commissioned Dealer's Representative or a Salaried Dealer's Representative but must notify the Exchange 3 days prior to the effective date of the re-designation and make payment of the non-refundable fee as set out in **Schedule 1** of this Directive.

**7. Rule 3.53**

This Rule requires a Participating Organisation to apply to the Exchange for approval to transfer the registration of a Dealer's Representative:

- (a) who is employed or engaged by another Participating Organisation; or
- (b) who, not more than 6 months prior to the intended date of employment or engagement with the Participating Organisation, was employed or engaged by another Participating Organisation.

The following procedure applies in respect of an application for approval to transfer the registration of a Dealer's Representative under this Rule.

**7.1 Transfer of Dealer's Representative**

- (1) A Participating Organisation must submit to the Exchange a written application in the form the Exchange stipulates accompanied by:
  - (a) The forms set out in **Appendix 3A** and **3B** of this Directive;
  - (b) a letter of release from the Participating Organisation with whom the transferring Dealer's Representative is presently employed or engaged;
  - (c) a copy of the transferring Dealer's Representative's Capital Markets Services Representative's Licence for dealing in securities; and
  - (d) payment of the transfer fee in the amount set out in **Schedule 2** of this Directive or such other amount the Exchange determines.
- (2) After the third transfer, the Exchange may:
  - (i) refuse any further application for transfer in respect of the Dealer's Representative; or
  - (ii) approve the same subject to payment of a fee at twice the rate applicable on the third transfer.
- (3) A Commissioned Dealer's Representative intending to transfer to another Participating Organisation within 6 months of the re-designation of that Commissioned Dealer's

Representative's status from a Salaried Dealer's Representative to a Commissioned Dealer's Representative is subject to the transfer fee of a Salaried Dealer's Representative.

- (4) If at any time during the period of 6 months prior to the application for transfer, the Proprietary Day Trader was a Commissioned Dealer's Representative or a Salaried Dealer's Representative, the transfer fee for that Proprietary Day Trader will be:
- (i) if the Proprietary Day Trader was a Commissioned Dealer's Representative, as that specified in paragraph (a) in **Schedule 2** of this Directive; or
  - (ii) if the Proprietary Day Trader was a Salaried Dealer's Representative, as that specified in paragraph (b) in **Schedule 2** of this Directive.

**8. Rule 3.51**

- (1) A Participating Organisation must notify the Exchange in writing of any transfer of a Dealer's Representative within the different offices of the Participating Organisation.
- (2) Pursuant to the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**8.1 Requirements**

- (1) A Participating Organisation must notify the Exchange within 14 days from the effective date of the transfer of a Dealer's Representative from one location to another location within the Participating Organisation by submitting the following details:
  - (a) Name of Dealer's Representative
  - (b) Location whereby he/she is moving from,
  - (c) Location whereby he/she is moving to, and
  - (d) Effective date of such movement.
- (2) A Participating Organisation is not required to get prior approval-in-principle from the Exchange for the transfer.

[End of Directive]

**Schedule 1**

**Fees for Participating Organisations and Registered Person**

	<b>Description</b>	<b>Application Fee (RM)</b>	<b>Registration Fee (RM)</b>	<b>Subscription Fee (RM) (per month)</b>	<b>Re- designation Fee (RM)</b>
(a)	Participating Organisation	2,500.00	10,000.00	1,000.00	Nil
(b)	Chief Executive	Nil	Nil	Nil	Nil
(c)	Head of Dealing	1,000.00	2,500.00	300.00	Nil
(d)	Head of Operations	Nil	Nil	Nil	Nil
(e)	Head of Compliance	Nil	Nil	Nil	Nil
(f)	Director	500.00	2,500.00	100.00	Nil
(g)	Dealer's Representative: Commissioned Dealer's Representative and Salaried Dealer's Representative	Nil	500.00	Nil	Nil
(h)	Dealer's Representative: Proprietary Day Trader	Nil	500.00	Nil	500.00*
(i)	Registration of a person temporarily assuming responsibility for the functions of a vacated office under Rule 3.18(3)	<b>[Nil ]</b>	<b>[Nil ]</b>	<b>[Nil ]</b>	Nil

\* Does not apply the first time either a Commissioned Dealer's Representative or a Salaried Dealer's Representative is re-designated as a Proprietary Day Trader. In such case, no re-designation fee will be imposed.

[End of Schedule 1]

**Schedule 2**

**Fee for the transfer of Dealer's Representative**

The fee payable to the Exchange for the transfer of a Dealer's Representative is as follows:

(a) Commissioned Dealer's Representative:

	<u>RM</u>
First transfer	2,000.00
Second transfer	4,000.00
Third transfer	8,000.00

(b) Salaried Dealer's Representative:

	<u>RM</u>
First transfer	20,000.00
Second transfer	24,000.00
Third transfer	32,000.00

(c) Proprietary Day Trader:

	<u>RM</u>
First transfer	2,000.00
Second transfer	4,000.00
Third transfer	8,000.00

[End of Schedule 2]

**Schedule 3**

**Bursa Access Fees**

**1. Fees**

1.1 The Bursa Access Fees are:

ITEM	FEES	ONE-OFF FEE	MONTHLY FEE	FEE FOR EXCESS ORDERS **
<b>A.</b>	<b>Capacity block *</b>	<b>per capacity block</b>	<b>per capacity block</b>	
(i)	1 <sup>st</sup> capacity block	Nil	RM6,000.00	Excess orders at the rate of RM45.00 per order on daily basis or total daily excess orders accumulated till month-end and charged to the nearest block (each block will be charged at RM6,000.00 + set-up fees of RM4,000.00), whichever is lower.
(ii)	2 <sup>nd</sup> to 5 <sup>th</sup> capacity blocks	RM4,000.00		
(iii)	6 <sup>th</sup> to 10 <sup>th</sup> capacity blocks	RM4,000.00	RM5,000.00	
(iv)	Subsequent capacity blocks	RM4,000.00	RM4,000.00	
<b>B.</b>	<b>Administration of Subscriber IDs</b>	<b>N/A</b>	<b>per Subscriber ID</b>	<b>N/A</b>
(i)	1 <sup>st</sup> Subscriber ID	N/A	Nil	N/A
(ii)	Subsequent Subscriber IDs	N/A	RM500.00	N/A

\* Each capacity block is 15 orders per second for orders submitted throughout the trading day.

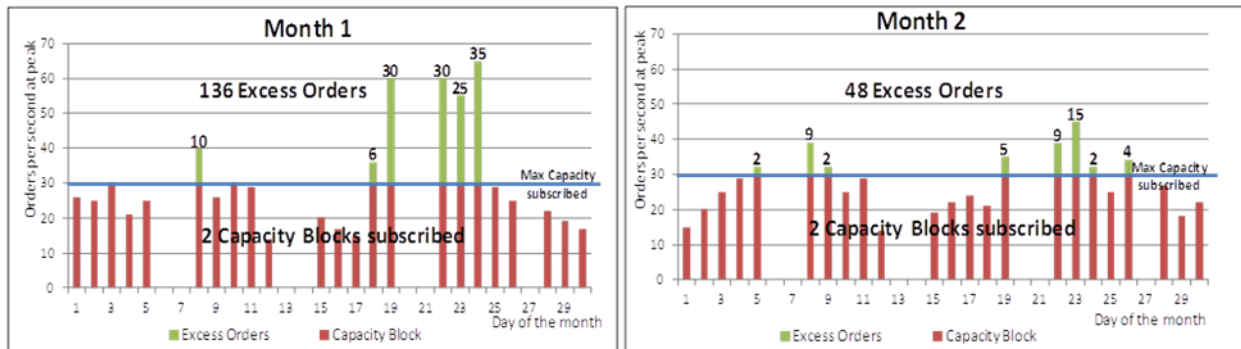
\*\* Excess orders refer to orders that exceed the pre-subscribed capacity blocks.

1.2 A Participating Organisation must pay the Bursa Access Fees as mentioned in paragraph 1.1 within 7 calendar days from the date of the monthly invoice.

1.3 A Participating Organisation must pay any other fees, levies or other charges imposed by the Exchange from time to time.

1.4 Illustration

**Illustration: Broker B subscribes for 2 capacity blocks and 5 subscriber IDs**



Frequency	Type of Fee	Rate	RM	1 <sup>st</sup> Month Fee	2 <sup>nd</sup> Month Fee
One-off fee	Set-up 2 <sup>nd</sup> capacity	@RM4,000 per capacity	4,000.00	4,000.00	0.00
Monthly Fixed fee	2 Capacity blocks	@RM6,000 per blocks	12,000.00	12,000.00	12,000.00
	4 Subscriber IDs	@RM500 per ID	2,000.00	2,000.00	2,000.00
Daily Variable fee	Excess orders	@RM45 per order OR next block		6,120.00	2,160.00
<b>TOTAL FEE PAYABLE</b>				<b>24,120.00</b>	<b>16,160.00</b>

i. 136 orders \* RM45/order = RM6,120 OR  
ii. 136 orders < 300 orders(next block) = RM10,000 whichever lower

1.5 In the event a Participating Organisation elects to have a hard limit imposed on its order capacity, the order capacity will be restricted to strictly 15 orders per second per capacity block. No fee for excess orders will be charged to the Participating Organisation in this instance.

1.6 Minimum Capacity and Capacity Planning

The minimum capacity block to be subscribed is 1 capacity block per Participating Organisation. A Participating Organisation is responsible for its own capacity planning and must assess its requirements in determining the number of capacity blocks to subscribe.

**2. FORMS**

2.1 For the avoidance of doubt, the Bursa Access Fees set out above in paragraph 1 will apply in respect of all forms of access to the ATS including ASEAN Link and other forms of DMA.

2.2 To indicate the subscription (including changes to the subscription), the Participating Organisations must submit the Bursa Access Subscription/Change Request Form ("Form") to the Exchange. The Form is available at <http://www.bursamalaysia.com/market/securities/equities/brokers/admission-guidelines/>.



**Appendix 1A**

**Form of application – Participating Organisation**

Category : Investment Bank  Universal Broker  Non-Universal Broker : 1+1 Broker   
Special Scheme Broker   
Standalone

Name of Applicant:

Company No.:

Address:

Date:

To: Bursa Malaysia Securities Berhad (“the Exchange”)

Dear Sirs,

**Application for Admission as Participating Organisation of Bursa Malaysia Securities Berhad**

We, [*name of Applicant*], are desirous of being admitted as a Participating Organisation of the Exchange upon the terms of and subject in all respects to the Rules of the Exchange which are now or hereafter may be in force, as may be amended from time to time, and all directives rulings and guidelines issued by the Exchange. In support of our application, we enclose herewith:

- (1) a duly completed application form together with the required supporting documents;
- (2) the non-refundable application fee of RM[*specify amount*];
- (3) the memorandum and articles of association of [*name of Applicant*];
- (4) evidence that the applicant’s application for a Capital Markets and Services Licence for dealing in securities has been approved; and
- (5) an undertaking in the form the Exchange stipulates.

Yours faithfully,

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

[End of Appendix 1A]

**Appendix 1B**

**Registration Form for Registered Person**

Name of Participating Organisation:

Company No.:

Address:

Date:

To: Bursa Malaysia Securities Berhad ("the Exchange")

Dear Sirs,

**Appointment and Registration of a <sup>#</sup>[Chief Executive Officer / Head of Dealing / Head of Operations / Head of Compliance / Director / Dealer's Representative]**

We, [*name of Participating Organisation*], are desirous of appointing and registering the following person as a <sup>#</sup>[Chief Executive Officer / Head of Dealing / Head of Operations / Head of Compliance / Director / Dealer's Representative (<sup>#</sup>Commissioned Dealer's Representative/Salaried Dealer's Representative/Proprietary Day Trader)] of [*name of Participating Organisation*] upon the terms and subject in all respects to the Rules of the Exchange and the Directives (as defined in the Rules of the Exchange)

Name of proposed Registered Person:

NRIC:

Address:

In support of this submission, we enclose herewith:

- (1) a duly completed registration form together with the required supporting documents;
- \* (2) the non-refundable fee of RM[*specify amount*];
- \* (3) a copy of the proposed Registered Person's Capital Markets Services Representative's Licence for dealing in securities or evidence that the proposed Registered Person's application for a Capital Markets Services Representative's Licence for dealing in securities has been approved;
- \* (4) evidence of the Securities Commission's ("SC") approval of the proposed Registered Person's appointment as a <sup>#</sup>[Chief Executive Officer / Head of Dealing / Head of Operations / Head of Compliance];
- \* (5) a copy of the notification given by [*name of Participating Organisation*] to the SC of the proposed Registered Person's appointment as a <sup>#</sup>[ Director ] ;
- \* (6) a copy of the Central Bank of Malaysia's approval to the proposed Registered Person's appointment as a Chief Executive Officer (if applicable);
- \* (7) the respective area and scope of responsibility of each of the <sup>#</sup>[Chief Executive Officers / Heads of Dealing / Heads of Operations / Heads of Compliance] of [*name of Participating Organisation*];

(8) an undertaking by the proposed Registered Person in the form the Exchange stipulates.

Yours faithfully,

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

# *Delete whichever inapplicable.*

\* *Delete if inapplicable*

[End of Appendix 1B]

**Appendix 2A**

**Undertaking – Participating Organisation**

To ....., 20.....

**Bursa Malaysia Securities Berhad** (“the Exchange”)

In consideration of the Exchange approving at our request our application for admission as a Participating Organisation of the Exchange in accordance with the Rules of Bursa Malaysia Securities Berhad (“Rules”) and the Directives (as defined in the Rules) (collectively, “Exchange’s Requirements” and includes all amendments and supplements to the Rules and Directives), we hereby irrevocably and unconditionally undertake and agree as follows:-

- (1) that [*name of Applicant*] satisfies all the conditions for admission as a Participating Organisation set out in Chapter 3 of the Rules;
- (2) that the information and documents accompanying the application for admission as a Participating Organisation are complete and accurate;
- (3) that the Exchange may obtain from or provide to any regulatory authority (whether in or out of Malaysia) any information directly or indirectly relating to [*name of Applicant*] for any purpose relating to or in connection with discharging any function of the Exchange or that regulatory authority;
- (4) to notify the Exchange immediately in writing of any changes in the information given together with the application for admission as a Participating Organisation;
- (5) to abide by the decision of the Exchange in relation to the application for admission as a Participating Organisation;
- (6) to be bound in all respects by and to comply with the Exchange’s Requirements in so far as they apply directly or indirectly to a Participating Organisation;
- (7) to indemnify and keep the Exchange fully indemnified from and against all losses, damages, costs, expenses, actions and claims or otherwise which the Exchange may incur arising out of any act or omission on our part or failure by us to comply with any provisions in the Exchange’s Requirements; and
- (8) notwithstanding our ceasing to be a Participating Organisation of the Exchange for any reason whatsoever, to continue to be bound by the Exchange’s Requirements in so far as they may relate to any act or omission that we may, in the opinion of the Exchange have committed or omitted to do during our tenure as a Participating Organisation of the Exchange.

We acknowledge that:

- (a) the approval of our application for admission as a Participating Organisation; or
- (b) any indulgence or delay in making any demand or instituting any action by the Exchange,

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

**DIRECTIVES ON APPLICATIONS TO THE EXCHANGE AND FEES  
PURSUANT TO CHAPTER 3 OF THE RULES**

**No. 3-001**

We further acknowledge that [*name of Applicant*] shall remain a Participating Organisation of the Exchange at the discretion of the Exchange.

The above undertaking has been signed by me/us as [*specify designation*] of [*name of Applicant*] pursuant to authority granted to me by resolution of the board of directors of [*name of Applicant*] 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 )

[End of Appendix 2A]

**Appendix 2B**

**Undertaking – Registered Person (all categories)**

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

To:

**Bursa Malaysia Securities Berhad** (“the Exchange”)

In consideration of the Exchange approving the application for my registration with the Exchange as a [*specify category of Registered Person*] in accordance with the Rules of Bursa Malaysia Securities Berhad (“Rules”) and the Directives (as defined in the Rules) (collectively, “Exchange’s Requirements” and includes all amendments and supplements to the Rules and Directives), 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 3 of the Rules;
- (2) that I \*[am/am not] a holder of the relevant Capital Markets Services Representative’s Licence;
- (3) that the information and documents accompanying the application for registration as [*specify category of Registered Person*] are complete and accurate;
- (4) that the Exchange 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 Exchange or that regulatory authority;
- (5) to notify the Exchange immediately in writing of any changes in the information given together with the application for my registration as a [*specify category of Registered Person*];
- (6) that until and unless I have been duly registered by the Exchange as a [*specify category of Registered Person*], not to act in any manner for and on behalf of [*name of Participating Organisation*];
- (7) to abide by the decision of the Exchange in relation to the application for my registration as a [*specify category of Registered Person*] of [*name of Participating Organisation*];
- (8) to be bound in all respects by and to comply with the Exchange’s Requirements in so far as they apply directly or indirectly to a [*specify category of Registered Person*];
- (9) to indemnify and keep the Exchange fully indemnified from and against all losses, damages, costs, expenses, actions and claims or otherwise which the Exchange may incur arising out of any act or omission on my part or failure by me to comply with any provisions in the Exchange’s Requirements; and
- (10) notwithstanding my ceasing to be registered as a [*specify category of Registered Person*] with the Exchange for any reason whatsoever, to continue to be bound by the Exchange’s Requirements in so far as they may relate to any act or omission that I may, in the opinion of the Exchange, have committed or omitted to do during the period of my registration with the Exchange.

I acknowledge that:



**Appendix 3A**

**DEALER'S REPRESENTATIVE/PROPRIETARY INTRA-DAY TRADER  
TRANSFER EXIT FORM**

(To be filled by Dealer's Representative/Proprietary Intra-Day Trader)

1	Name of Licence Holder						
2	Licence Number						
3	I.C. Number	Old		New			
4	Current status of Licence Holder	Commissioned Dealer's Representative					(Please Tick)
		Salaried Dealer's Representative					
		Proprietary Intra-Day Trader					
5	Status of Licence Holder upon transfer to new Participating Organisation (subject to approval from Securities Commission)	Commissioned Dealer's Representative					
		Salaried Dealer's Representative					
		Proprietary Intra-Day Trader					
6	Name of present Participating Organisation						
7	Name of Participating Organisation which the applicant proposes to represent						
8	Date licence was granted by the Securities Commission						
9	Information on previous transfer	No	Name of Participating Organisation			Year	
			From	To			
		i)					
		ii)					
		iii)					
		iv)					
v)							
10	Please state the applicable Transfer Fee for this transfer	RM					
11	The Transfer Fee will be borne by?	Participating Organisation					(Please Tick)
		Self					
12	Reasons for leaving present Participating Organisation						



**DIRECTIVES ON APPLICATIONS TO THE EXCHANGE AND FEES  
PURSUANT TO CHAPTER 3 OF THE RULES**

**No. 3-001**

13	Reasons for joining new Participating Organisation			
14	How did you learn about the vacancy in the new Participating Organisation?	Mass Media		(Please Tick)
		Direct Recruitment by the new Participating Organisation		
		Introduction by friends/existing employee/Dealer's Representative/Proprietary Intra-Day Trader in the new Participating Organisation		
		Others (please explain):		
15	Have you procured a release letter from your present Participating Organisation?	YES		(Please Tick)
		NO		
16	Do you have any outstanding position in your present Participating Organisation?	YES (please state amount) RM _____		(Please Tick)
		NO		
17	Any other comments that may be useful for Bursa Securities to assess the transfer application			

Signature

Date

[End of Appendix 3A]



**DIRECTIVES ON APPLICATIONS TO THE EXCHANGE AND FEES  
PURSUANT TO CHAPTER 3 OF THE RULES**

**No. 3-001**

9	Does the applicant Licence Holder has any outstanding position or encumbrances with your Participating Organisation?	YES <i>(please state amount) RM _____</i>		(Please Tick)
		NO		
10	Any other comments that may be useful for Bursa Securities to assess the transfer application <i>(you may use separate sheet, if necessary)</i>			

Signature of  
Authorised Signatory

Date

Name of Authorised Signatory

Name of Participating Organisation

[End of Appendix 3B]

Relevant to : Rule 3.36  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 4 of 2012  
Refer also to Directive No(s). : N/A

**1. Rule 3.36**

- (1) Rule 3.36 provides that throughout the term of the Head of Compliance's registration, the Head of Compliance must:
- (a) continuously satisfy the qualification criteria stated in Rule 3.35; and
  - (b) be responsible for the following compliance functions:
    - (i) to supervise and direct overall compliance with these Rules, the Directives and the Securities Laws by the Participating Organisation and the Participating Organisation's Registered Person, employees and agents and in this respect, to carry out proper checks and reviews to monitor and ensure overall compliance; and
    - (ii) to advise and guide the Participating Organisation and the Participating Organisation's Registered Person, employees and agents on requirements of these Rules, the Directives and the Securities Laws that the Participating Organisation and the Participating Organisation's Registered Person, employees and agents need to comply with in the conduct of the Participating Organisation's business.
- (2) In discharging the obligations under the said Rule, the Head of Compliance must, amongst other requirements, comply with the following guidelines.

**1.1 GUIDELINES FOR COMPLIANCE OFFICERS**

- (1) A Head of Compliance must comply with the Guidelines for Compliance Officers ("Guidelines") and must supervise and direct all compliance officers of its Participating Organisation to comply with the Guidelines.
- (2) The Guidelines are set out in **Appendix 1** of this Directive.

[End of Directive]

**APPENDIX 1**

**GUIDELINES  
FOR  
COMPLIANCE  
OFFICERS**

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## 1. **INTRODUCTION**

In order to attract both local and foreign investors to our capital market there is a need to increase confidence by enhancing investor protection. The most effective way to do this is through exercising a high standard of compliance and the implementation of best sales practices. A high standard of compliance lends confidence and enhanced credibility to the Securities Industry whilst promoting solidity and growth.

In light of the above, it is pertinent that a Participating Organisation's business activities be governed by the following:

### a) **Supervisory Programme**

Compliance and best sales practices refer to a proper supervisory programme and a competent system of internal controls within a Participating Organisation. Proper management controls and diligent management enhances the credibility and reputation of a Participating Organisation and provides the necessary investor protection. Indeed, the supervisory and control responsibilities of a Participating Organisation are crucial to the maintenance of the integrity of the market place.

Compliance has sometimes been defined as the management of regulatory risk. This would entail the adherence to the regulatory framework within which an intermediary carries on its business. In addition, it means adherence to:-

- relevant Securities Laws, rules and regulations;
- ethical standards, principles and internal policies; and
- standards of self-regulatory bodies.

The elements of a competent supervisory programme should be as follows:

#### Supervisory System

A Participating Organisation is required to establish, maintain and enforce an adequate supervisory and compliance system to generally, supervise the overall proper running of its business activities and particularly, to supervise the activities of each registered dealer's representative, agent and other personnel. Such a system must be reasonably designed to achieve compliance with the applicable Securities Laws, rules and regulations.

In this regard, it is recommended that an independent compliance officer be appointed within a Participating Organisation to ensure its trading activities are in compliance with the provisions of relevant Securities Laws, rules and regulations. However, the final responsibility for proper supervision rests with the Participating Organisation and its Board of Directors.

#### Written Procedures

Comprehensive documentation and written procedures on the system established pursuant to the above must be maintained and regularly updated to take into account any changes that may occur in the current regulatory framework. These procedures and any amendments thereto must be effectively disseminated and enforced throughout the Participating Organisation.

In addition, a Participating Organisation is to maintain an internal record of all persons designated as supervisory personnel and those delegated with supervisory functions, including the dates for which such designation was effective. To effect individual as well as collective responsibility and accountability for its activities, a Participating Organisation must ensure that all the relevant Supervisors/Heads of Department are registered with the relevant Exchange.

#### Internal Inspection

A Participating Organisation must ensure that, pursuant to the above, the relevant Supervisors/Heads of Department perform their supervisory responsibilities effectively. Regular and periodic reviews of its business activities and its office must be carried out to assist in detecting and preventing violations of any Securities Laws, rules and regulations. A written record of the dates of such reviews and the inspection conducted is to be maintained.

#### Written Approval

A Participating Organisation shall establish procedures for the review and written endorsement by a compliance officer, of all transactions and correspondence of its dealer's representatives pertaining to the solicitation or execution of any transaction.

#### Qualification Investigated

A Participating Organisation shall have the responsibility and duty to investigate into the good character, business repute, qualification and experience of any person prior to making a certification of such person for registration with the Exchange and its Board of Directors must be held responsible and accountable for the same.

### **b) Client Compliance Programme**

#### Opening of a Client's Account

Before commencing to trade in an account for or on behalf of a client, a Participating Organisation must ensure that such account has been approved in accordance with the provisions of the Rules of Bursa Securities and the relevant business conduct and best sales practice requirements, including the following:

- i. A Participating Organisation must exercise due diligence to obtain the essential facts about a client's investment objectives and financial situation, which is to be reflected in the written records of the account. Such recorded information must include:

#### Particularly, for retail clients

- investment objectives
- employment status
- estimated annual income from all sources
- estimated net worth
- marital status and number of dependents
- age
- investment experience and knowledge

#### Generally, for all clients

- source of background and financial information, including the basis of any estimates made by the Participating Organisation
- the nature and types of transaction for which the account is approved
- name of approving party and date of approval date of verification by the compliance officer

A compliance officer or other authorised person(s) shall then base the approval of the client's account for trading on such information. Subsequently, the background and financial information obtained shall be sent to the client for verification within 15 calendar days after such approval. Where the person approving the account is not the compliance officer, such approval shall be subject to regular review by the compliance officer.

- ii. A Participating Organisation is to effect a written Client agreement that the account shall be handled in accordance with the rules, and that a client, acting alone or in concert with others, shall not violate the position or exercise limits prescribed by the Participating Organisation and/or the Exchange.



- iii. A Participating Organisation is to obtain proper authorisation from a client in relation to accepting instructions from any person(s) on behalf of the client. If a client has granted discretionary trading authority to any person, a written agreement must be on file and the account records must show the name, relationship to the client and experience of the person holding the discretionary trading authority.

#### Suitability of Recommendations

In general, the suitability rules provide that any time a person at the Participating Organisation recommends a transaction to a client, he must have reasonable grounds for believing that the recommended transaction is not unsuitable for the client. No recommendation should be made unless the person making the recommendation has explained and discloses to the client all risks involved in transaction and that there is a reasonable basis for believing that the client has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risk of the recommended transactions.

In this regard, a Participating Organisation must ensure that its dealer's representatives have reasonable grounds when making recommendations for the purchase or sale of stocks/products to clients, and that these recommendations have taken into account the information obtained when the client's account was opened (as mentioned above) and would be based on, among other things, the following:

- the type of client, i.e. whether retail or institutional;
- the recommendation is suitable on the basis of the client's investment objectives, financial situation and other known information;
- the client has such knowledge and experience in financial matters that he is capable of evaluating the risks of the recommended transaction; and
- the client is financial able to bear the risk of the recommended position(s) in the account/transaction.

It is the responsibility of the compliance officer to ensure that the information provided by a client as well as other available information is being considered by a dealer's representative when determining whether and to what extent a client should be approved for a transaction/recommendation in an account.

#### Record-keeping and the Supervision of Accounts

In order to conduct an effective programme of client account supervision, comprehensive records of all client accounts and transactions done thereunder must be maintained. Such records must be readily available to persons performing supervisory functions and must enable the review of, among other things, the size and frequency of purchase transactions, the amount commission generated, the P&L status, any undue concentration in any type of transaction, compliance with rules on margin (where applicable).

Consequently, a Participating Organisation is required to develop and implement written procedures for the review of client accounts. This programme should not only require that customer and proprietary account be reviewed by the relevant supervisor/authorised person, but must also require that selected accounts be reviewed on a regular basis at the appropriate principal supervisory office, under the overall direction and supervision of a compliance officer. The written procedures for this programme must specify the manner in which individual accounts are to be reviewed, the frequency of such reviews and where the responsibility for each stage in the review process lies within the Participating Organisation's structure.

Consideration should also be given to developing additional tests that will identify the need for special reviews of particular accounts. These tests may relate to unusual patterns in trading, large or frequent margin calls, or other signs of apparent increase in risk exposure of an account.

### Discretionary Accounts

In order for a Participating Organisation to exercise discretionary authority in a client's account, the following must be observed:

- Before any discretionary authority can be exercised, prior written authorisation from the client and written approval from the authorised person in charge must be obtained. The written approval of the person in charge must then be reviewed and confirmed in writing by a compliance officer, who must be satisfied as to the reasonableness of such approval. Comprehensive records of such approval must be maintained.
- Full and complete records of every transaction undertaken under any discretionary account must be documented and maintained.
- There must be no conflict of interests arising from such transactions.

### Advertisements, Sales Literature and Other Forms of Communications to the Client/Public

All persons responsible for preparing and/or reviewing all communications (oral or written) to the client/public must be thoroughly familiar with such publications and the correspondent Securities Laws, rules and regulations.

All promotional material and other forms of communication issued by a Participating Organisation to the client/public must observe truth, avoid misrepresentation and make no promise in respect of profits and must always indicate the possibility of loss if profit is mentioned. Clients/the public must not be misled as to the contents of such information. Such information must always be balanced and accurate and must not contain any false statements or omit any material facts that may distort the understanding of the information as provided. Special care must be taken where forecasts or projections are included. Such information must be clearly identified as such and all underlying assumptions, risks and cost must be clearly stated.

All such communication must be reviewed and approved by a compliance officer prior to dissemination and where relevant, must be submitted to the Exchange for approval.

### Employee Transactions

An employee of the Participating Organisation shall only be allowed to trade if there is written approval from a Director of the Participating Organisation or the board of directors may authorise the Head of Branch Office or any other employee(s) to grant such consent pursuant to Rule 7.26(1) of the Rules of Bursa Securities. Where a Director intends to undertake trading, written approval from the Board of Directors must be obtained, such approval being appropriately minuted in the Minutes of Meetings. To ensure strict adherence to the aforementioned, a Participating Organisation is to maintain proper records of all employee accounts and any transactions undertaken thereunder. In addition, such accounts shall be subject to active monitoring by a compliance officer.

### Client Complaints

A proper register to document all client complaints must be maintained by a Participating Organisation. At best, such register must contain the following information:

- the identity of the complainant;
- the date the complaint was received;
- the dealer's representative servicing the account (where applicable);
- a general description of the complaint; and
- a record of the action taken in respect of the complaint.

The overall objective of the above mentioned programmes is to inculcate a proper compliance culture amongst members of the industry and by doing so, Participating Organisations would be able to safeguard the interest of their clients as well as the risk position of their firms.

In this respect, it has been recommended that a "middle office" concept be introduced to achieve the objectives as set out above.

Bursa Malaysia Securities Berhad, with the guidance of the Securities Commission, have established in their Rules of Bursa Securities the mandatory requirement of a “Head of Compliance” within a Participating Organisation. Such a person will be the “conduit” through which a Participating Organisation achieves the above mentioned objectives, whilst providing an independent check and balance with the Participating Organisation, thereby ensuring that its trading activities are in compliance with the relevant Securities Laws, rules and regulations. A compliance officer will also act as a deterrent against any wrongdoing by market participants and provide the necessary foundation for the protection of investors’ interests in the equity market.

However, it must be stressed that the ultimate responsibility for proper supervision and client compliance rests with the Participating Organisation and its Board of Directors. The compliance officer merely facilitates the attainment of these objectives and does not relieve the Participating Organisation or its Board of Directors of any of its responsibilities. The formulation and coordination of any given supervisory or compliance programme may be within the purview of a compliance officer’s job function but the effective implementation and maintenance of such programmes lies with the Participating Organisation and its Board of Directors. Any failure to effectively supervise the overall business undertaking of the Participating Organisation or the activities of its employees will be deemed a failure on the part of the Participating Organisation and its Board of Directors.

As the compliance officer is relatively new concept in the equities market, there must be proper implementation of the said function. Further, in ensuring that a compliance officer is effective in performing his function, the Participating Organisation needs to be educated on the compliance officer’s role and the objectives he sets out to achieve.

The main purpose of the compliance officer’s function is to achieve the following:

- 1. Maintenance of high standards of business conduct and strong internal controls within the Participating Organisation**
  - to perform overall supervision to ensure that the Participating Organisation adheres to all current laws, regulations, rules, codes, guidelines and good practice with which the Participating Organisation is required to comply with;
  - to ensure that the Participating Organisation establishes, maintains, updates and enforces a proper system and corresponding written procedures to supervise the activities of each dealer’s representative, agent and other personnel; and
  - to ensure there is no concentration of authority within the supervisory ambit of one person and that there is proper segregation of functions (proper corporate governance).
- 2. Promoting the Participating Organisation’s compliance culture**
  - by consolidating compliance manuals, seeing to its effective implementation and ensuring that compliance procedures are properly disseminated and followed by the staff;
- 3. To assist in situations of non-compliance by the Participating Organisation**
  - recommending remedial action and seeing to its effective implementation.
- 4. Liaison between the Exchange/regulators and the Participating Organisation**
  - the middle person between the Exchange/regulators and the Participating Organisation on all compliance matters; and
  - the focal point for all staff of the Participating Organisation in relation to the compliance matters.

This guideline is an elaboration of the duties of the compliance officer already provided by the Rules of Bursa Securities.

The purpose of this guideline is:

- a) to provide a general guide on compliance which will serve as a basis for the formulation of the compliance manual and the measurement for the performance of the compliance officer;
- b) to emphasize the role, duty and responsibility of the compliance officer to the board of Directors; and
- c) to enhance the quality and effectiveness of the functions of the compliance officer.

*This set of guidelines is no way exhaustive and the Exchange may from time to time, upon consultation with the Securities Commission, amend these guidelines or prescribe further guidelines.*

## **2. DEFINITIONS**

In this guideline, unless the context otherwise requires or the contrary intention appears---

Rules of Bursa Securities means Rules of Bursa Malaysia Securities Bhd.

## **3. The Concept of “compliance officer”**

### A “middle office” function

To review the activities of both the front band back office of a Participating Organisation without any conflict of interest, the compliance officer must be independent of both back and front office. He must have no sales and/or operational function and must not be directly involved in trading (e.g. he shall not be allowed to solicit or execute any orders on behalf of client), settlement, funding, processing or reconciliation activities of a Participating Organisation. In this respect, the compliance officer is only to engage in full time compliance work.

### Overall Supervision of Participating Organisation Activities

The compliance officer undertakes an overall supervisory responsibility over the trading an operational functions of a Participating Organisation. He monitors ongoing business activities on a pro-active basis and ensures that the Participating Organisation complies with all its internal control, sales practices, all relevant Securities Laws, rules and regulations including all directives and guidelines issued by the Exchange (referred to as the “regulatory framework”).

He oversees and supplements other supervisory measures already in place within a Participating Organisation 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. The compliance officer merely oversees that such supervisors/Heads of Department carry out their duties and obligations to the Participating Organisation in a competent and effective manner.

#### Qualifications of a compliance officer

The compliance officer shall be a person qualified to perform supervisory duties. He must have passed an examination approved by and be registered with the relevant Exchange. In addition to the qualifications laid down in the Rules of Bursa Securities, the compliance officer must be equipped with the authority and ability to effect decision so as to be able to carry out his responsibilities effectively. He must have unlimited access to all information and records in relation to the Participating Organisations business activities and must be authorised to question any employee regarding any conduct, business practice, ethical matter or any other issue which is relevant to the discharging of his duties.

#### **4. THE ROLE AND POSITION OF A COMPLIANCE OFFICER**

##### The Role of the compliance officer in relation to other departments or functions within the Participating Organisation

The compliance officer plays a supervisory role over every management level within the Participating Organisation to ensure that the Participating Organisation complies with all the relevant Securities Laws, rules and regulations. In this respect, the compliance officer keeps in constant communication and works closely with all supervisory heads within the Participating Organisation 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 internal audit department and the compliance officer should strive to complement each other and work towards achieving a high standard of compliance. It is recommended that the compliance officer review the work undertaken by the internal audit department and that he sits on the Audit Committee in respect of issues pertaining to compliance matters. If the Participating Organisation has a Risk Management Committee, the compliance officer should also sit on the committee. It is important to note that the compliance officer does not resume or take over the duties and functions of any of the other departments within the Participating Organisation.

##### The Role of the compliance officer in relation to the Board of Directors

He reports directly to the Board of Directors of the Participating Organisation. He has access (when necessary) to the Board of Directors to report, update, inform and make recommendations to the Board of Directors on all matters pertaining to compliance and breach thereto. Take note that the Board of Directors is ultimately responsible and accountable for non-compliance of the regulatory framework that a Participating Organisation is subjected to. Therefore when the Board of Directors fails to act upon a notification from the compliance officer, the Exchange shall deem it a failure to act, on the part of the Board of Directors. Hence, a copy of any reports and recommendations pertaining to compliance and any breach thereto is to be submitted by the compliance officer to the Exchange.

#### **5. DUTIES AND FUNCTIONS OF A COMPLIANCE OFFICER**

The duty of the compliance officer is to do everything within his powers to ensure that the Participating Organisation achieves compliance with the regulatory framework. A compliance officer is responsible for ensuring that there is adequate system or a set of written procedures that provides for the system of monitoring in the front and back office. Areas of compliance in the business of a Participating Organisation are generally clients, operational and financial compliance. He further supervises to ensure that this system is strictly enforced by the supervisory personnel.

These guidelines are framework within which the compliance officer must operate and conduct his duties and functions. The bigger and more varied a Participating Organisation's business, the more supervision and monitoring is expected from a compliance officer. Below are some of the general areas where strict compliance is required and the compliance officer's responsibility in relation thereto.

Where the Participating Organisation is also an Adviser or a Sponsor (only applicable in the context of ACE Market), the compliance officer is required to ensure compliance with the relevant provisions of the Listing Requirements pertaining to Advisers, and Sponsors.

It is stressed that the responsibilities of a compliance officer must always be associated with and be based on the Supervisory and Client Compliance Programmes of the Participating Organisation as aforementioned. In this regard, a compliance officer must always be mindful of the requirements of the supervisory and client compliance objectives of the Participating Organisation when effecting his duties.

## **I. General**

- Intermediary between the Exchange/regulators and Participating Organisation on compliance issues.
- Responsible for creating, promoting and cultivating a compliance culture and making a high standard of compliance part of the day-to-day management of the Participating Organisation.
- Oversees that compliance is met by ensuring that all systems and procedures are in place and maintained by all supervisory personnel.
- To ensure that the regulatory framework is strictly adhered to by all employees of the Participating Organisation.
- Upon being notified of or identifying an event of non-compliance, to inform the relevant supervisor/Head of Department and to work with the appropriate person to rectify the matter in an efficient and practical manner.
- To recommend remedial action to the Participating Organisation in the event of non-compliance and to see to its successful implementation.
- To ensure that all violations are properly disciplined.
- To review course of action in the event of non-compliance, examine the extent of non-compliance and report to the Exchange with remedies.
- To advise the management and personnel of the Participating Organisation in relation to conformity to all rules and regulations.
- To ensure that all staff of the Participating Organisation are properly trained in relation to the regulatory framework and all the relevant Securities Laws, rules and regulations.
- To ensure that any regulatory changes are properly implemented within the Participating Organisation and to ensure strict adherence thereto.
- To design and develop appropriate structures, controls and procedures that will promote and ensure compliance within the Participating Organisation.
- To ensure that the Participating Organisation has adequate systems for record-keeping to enable the effecting of a competent supervisory and client compliance programme.
- Keep himself up to date on compliance issues over the week and review other regulatory issues, including new products, new policies to be introduced by the respective departments, and generally keeping himself updated on current issues in the industry.

- To ensure that any changes in written procedures are communicated effectively throughout the Participating Organisation.
- To ensure that all notifications from the Exchange are properly disseminated within the Participating Organisation.
- To ensure that there are constant and regular meetings with the supervisory personnel and dealer's representatives pertaining to issues of compliance and enforcement with a view to identifying existing and prospective issues and problem pertaining to compliance.
- To minimise conflict of interests between the client's interests and the interests of the Participating Organisation e.g. by constructing and safeguarding proper information barriers. Where there is conflict, to ensure that client's interest is given priority.
- To establish an effective and quick mechanism of resolving problems that may arise which pertain to compliance.
- To ensure that all the necessary steps and procedures for the settlement of disputes are adhered to.

## II. **The compliance officer's duties in respect of the Client**

This is a very important function of the compliance officer as it involves dealings between the Participating Organisation and members of the public.

### a) Client Account Opening

- Ensure that the information quintessential to the opening of a client's account has been obtained, including the essential facts about the client's financial background, investment objectives and investment experience. Any approval for the opening of the said account will then be based on such information as obtained.
- Ensure that the client's written agreement and the written approval necessary for the opening of the account has been obtained.
- Ensure that the Participating Organisation maintains at all times proper records of its clients' accounts and to review the Participating Organisation's written procedures pertaining to the opening of client accounts.
- Ensure that all requirements have been met prior to the approval of new client amounts and all necessary documentation are in place, including checking that the client's background and financial information verification is carried out within the stipulated time.

### b) Client orders/dealings in securities

- Ensure that client order procedures are complied with and reviewed regularly.
- Ensure the provision of sales solicitation training.
- Ensure that dealer's representatives do not give unpermitted incentives to clients or prospective clients.
- Ensure that policies pertaining to best sales practice and "Know your Customer"/"Know your Client and Product" rules are complied with. This would include ensuring that unsuitable recommendations are not made to clients and that dealer's representatives have reasonable basis for making recommendations to clients. The necessary information must have been considered when forming the basis of such recommendation. Such information would include the type of client (retail or institutional), the client's investment objectives, investment experience and his ability to evaluate the risks involved in the said recommendation.

c) Client Account Review

The review of accounts is important in ensuring that the procedures for account opening as well as the suitability rules have been strictly adhered to. In addition, such reviews will enable the detection of unusual patterns in trading or signs of apparent increase in the risk exposure in an account. With this in mind, a compliance officer should conduct/supervise account reviews based on the following:

- Ensure that client and proprietary accounts are reviewed regularly by the relevant supervisor/authorised person and to supervise such reviews.
- Maintain regular and periodic review of high exposure accounts or accounts of high-risk clients.
- Based on the review as above, to maintain regular meetings with the relevant supervisor for the purpose of identifying problematic or potentially problematic accounts and that they are monitored more closely by the supervisor.
- Ensure that any problem arising from any client's account be addressed promptly and resolved as soon as possible and where necessary, to be reported to the Exchange.

d) Client Complaints/Disputes

- Ensure that the requirement for reporting, investigating and documenting client complaints are in place and are adhered to.
- Review and follow-up on the Client's Complaints Log/Register and ensure that all complaints made are duly noted and documented by a senior staff of the Member Company and addressed promptly.
- Monitoring and handling of disputes with clients- arbitration procedures and awards.

**III. Monitoring**

- Regularly review and monitor all aspects of the Participating Organisation's business so as to keep check and to be aware of any threats of non-compliance.
- Monitoring on a regular basis and following up on the findings of such monitoring.
- Monitoring shall include amongst others these areas:

a) Dealer's representatives

- Ensuring dealer's representatives are properly registered with the relevant Exchange.
- Ensuring that dealer's representatives conduct trading based on the "Know Your Customer"/"Know Your Client Product" rules and do not make recommendations which are unsuitable to clients. Such recommendations must be based on the relevant information produced by or obtained on a client, including the client's investment objectives and experience and his ability to evaluate the risks involved in the said recommendation.
- Ensure that there is no conflict of interest when trading is being conducted and where such a conflict of interest does arise, to always give preference to the client's interest.
- Ensure that client's instructions are always adhered to.
- Ensure that all transactions are properly recorded and processed.



b) Proprietary accounts

- Spot review of proprietary accounts to ensure that there is no conflict of interests with execution of client trades and that the “best execution” rule has been adhered to, i.e. that client orders/ transactions are always given priority to proprietary trades.
- Ensuring spot review of order flow of proprietary trading.

c) Discretionary accounts

- To review the acceptance of discretionary accounts and to ensure that prior written authorisation from the client and written approval from the authorised person in charge has been duly obtained.
- To review on a daily basis all trades done in a discretionary account.
- To ensure that in executing discretionary accounts, the client's interest must always be observed. In this regard, there must be a mechanism in place to prevent the churning of such accounts purely to generate commission.
- To ensure that all discretionary trades are executed within the proper discretionary authority granted to the Participating Organisation and that such trades are properly recorded.
- To ensure the maintenance of full and complete documentation of every transaction undertaken under any discretionary account.

d) Credit Control

- To review the credit control reports in respect of issues pertaining to compliance and enforcement.
- To ensure that any credit limit imposed on any given client has been duly approved by the authorised person in charge and that such limit commensurates with the relevant information produced by or obtained on such client, i.e. such limit must be appropriate in light of factors such as income and financial status, investment experience, credit record, etc.
- To ensure that any increase in credit limit granted to clients has been approved by the Credit Committee or the relevant authorised personnel and that the relevant information necessary to approve such increase has been considered.
- To ensure that the credit control policy pertaining to debt recovery is not abused, i.e. there must be prompt recovery of outstanding amounts from clients and that no preference should be given to any client to roll over a position without undergoing the proper process and without valid reason.
- Ensure that the provisions pertaining to exposure to a single client and a single security is strictly adhered to, and that there is proper mechanism to monitor these matters.

e) Margin accounts

- To ensure that the margin policies of the Participating Organisation comply with the Exchange's rules on margin trading and to establish procedures for the purpose of ensuring that the same are complied with.
- To ensure that all margin trading is in accordance with the relevant Securities Laws, business rules and the margin agreement signed with the client. For example, in regards to the topping up of the margin equity ratio, the making of margin calls, the rollover of

margin positions, the limits on a Participating Organisation's exposure to margin financing. No margin client should be given undue flexibility in relation to all these matters.

f) Advertisements, Sales Literature and other related communication directed to clients or public

- To ensure the establishment and maintenance of adequate procedures to monitor the production and dissemination of any form of communication to the client and/or the public.
- Reviewing and approving all advertisements, sales literature and any other type of information pertaining to recommendations/business, disseminated to the client and/or the public, in terms of accuracy and compliance with the relevant rules and regulations and Securities Laws and to ensure that there is no misrepresentation and that such information is not false or misleading.

g) Assessments

- To review the work done by the Internal Audit department
- To ensure that the monthly self-assessments are carried out in accordance with procedures as laid down in the rules of Exchange.

h) Segregation of Assets

- To ensure the complete segregation of:
  - client's assets from the Participating Organisation's and dealer's representatives' assets;
  - Participating Organisation's accounts and client's accounts; and
  - Participating Organisation's fund from client's fund.
- To ensure that there are adequate policies and procedures in place to monitor the strict adherence to provisions on segregation of assets as contained in the Securities Laws, rules and regulations.

j) Proper record-keeping

- To ensure that all transactions and any activities as aforementioned are properly recorded and documented in order to establish an audit trail.

#### **IV. Education and Training**

A Participating Organisation must ensure that all personnel are adequately trained in terms of all the provisions of the Securities Laws, rules and regulations, as well as the relevant business conduct and best sales practice requirements. All members of staff must be equipped with the necessary capabilities to effectively carry out responsibilities assigned to them.

A compliance officer will assist a Participating Organisation in achieving the aforementioned as follows:

- To ensure employees are given comprehensive training in key areas of business. The Compliance Officer is encouraged to assist in the formulation of training programmes and the co-ordination of training to advise on areas where training is most required.
- To ensure adequate staff training in relation to compliance issues.
- Ensure that adequate training programmes are in place for employees directly involved in the handling of the client's accounts.
- Educate senior personnel in relation to compliance and how it may be disseminated within the Participating Organisation.

## V. Segregation of Duties

A Participating Organisation must ensure that adequate internal policies/procedures on the following are formulated and enforced:

### a) Code of Conduct for Employees

These procedures must be designed to ensure that all employees of the Participating Organisation exercise proper business conduct and do not undertake any unfair or unethical practices. These procedures must outline the necessary standards of personal and professional integrity expected for employees.

### b) Procedures to effect Proper Corporate Governance

There must be proper and actual segregation of functions between back room and front office personnel, and there must be no concentration of authority within the supervisory ambit of one person, e.g. the Executive Director in charge of the back office must not also be supervising the dealing/trading operations. Similarly, there must also be an effective segregation of functions between persons undertaking/in charge of client trading and those undertaking/in charge of trading on behalf of the Participating Organisation. This is to ensure that no conflict of interest arises and that clients' interest are duly maintained.

### c) Policy on "Chinese Walls"

Where a Participating Organisation assumes more than one role in the market place, there would inevitably be potential conflicts of interests. Hence, barriers to communication must be erected between the relevant departments of a Participating Organisation to prevent the transfer and misuse of non-public information.

In this regard, adequate internal procedures pertaining to information barriers (Chinese Walls/Fire Walls) and the strict adherence to the same must be in place to avoid any possibility that the Participating Organisation's interest will be set above that of the client's. Such procedures must adequately minimise the risk of and provide ample disincentive for the abuse of confidential information, making it highly inconvenient and costly for any person to utilise such information in furtherance of his own interest.

An example of such procedure is the taping of conversations of employees of the Participating Organisation to ensure that price-sensitive or other non-public information is not relayed to unauthorised persons. In addition, the Compliance Officer must ensure that any information transferred between the "Chinese Walls" be passed through him, who must then, as far as possible, control the flow of such information.

These policies/procedures must be submitted to the Exchange for approval and must be strictly enforced thereafter. These policies/procedures are to be adhered to by each member of the Participating Organisation, including its Supervisory personnel and its Board of Directors.

Such policies must be in place to facilitate the monitoring of the compliance officer, which will include the following:

- Ensure that there is a separation of duties between persons handling customer orders and company employees or principals trading for the company's proprietary accounts or their own accounts. This is to prevent the preference of the Participating Organisation's or its employee's transactions at the expense of the client's.
- To ensure the separation of functions between the back-room functions (administration and record-keeping) and the front-office trading functions and also between the front office trading function and the risk management function. There must be proper division between

incompatible functions. This is to provide a necessary system of check and balances and to produce efficacy in a Participating Organisation's system of internal controls.

- To ensure there is no concentration of authority within the supervisory ambit of one person and that there is proper segregation of functions (proper corporate governance). This would prevent the abuse of position/authority and would ensure that no one person is responsible for the supervision of a large number of department/employees without any corresponding check or control.
- Where the Participating Organisation assumes more than one role in the market place, the compliance officer must ensure that there is proper segregation of function and that there is at all times, no conflict of interest. There must be adequate internal procedures pertaining to information barriers (Chinese Walls/Fire Walls) and the strict adherence to the same, to prevent misuse of non-public information or the occurrence of other trading abuses.

#### **VI. The Compliance Officer's Duties in respect of the Exchange**

The compliance officer shall submit a compliance report to the Exchange on a monthly basis of any non-compliance and the appropriate actions or remedy taken by the Participating Organisation.

- The compliance officer must inform the Exchange immediately of any circumstances affecting the Participating Organisation's solvency or any condition that would materially impair its ability to meet any of its obligations.
- The compliance officer must inform the Exchanges of any constitutional changes in relation to the Participating Organisation's operation and any changes affecting the Participating Organisation's dealer's licence or licences issued to its dealer's representatives.
- The compliance officer must ensure that the Exchange and the Clearing House are supplied with documents and information as and when requested. The compliance officer is answerable to any query that the Exchange or the Clearing House may have in relation to his duties and responsibilities.

#### **6. COMPLIANCE MANUAL**

- A Participating Organisation must establish and maintain a comprehensive "Compliance Manual" tailored to its respective needs. Such manual will be subject to review for adequacy by the compliance officer, who will then ensure that the requirements in the manual are adhered to.
- The Compliance Manual must elaborate on the practical applications of a compliance officer's detailed functions. The manual must specify among others his monitoring, supervisory and review procedures in relation to all his functions.
- The manual must among others include:
  - the outline for the compliance policies, procedures and controls of the Participating Organisation, to safeguard the Participating Organisation and its customers from serious risks of loss and defalcation;
  - a Code of Conduct outlining standards of personal integrity expected from the staff;

The Participating Organisation is also required to develop a Business Conduct Manual, which among other things, would assist dealer's representatives in the compliance with the provisions of the Securities laws, rules and regulations, when undertaking their trading activities. In this regard, the Compliance Officer shall then attend to inquiries from personnel,

including the dealer's representatives, as to matters pertaining to clarification on any authoritative enactments.

- account opening requirements for new clients;
- distinct requirements on matters such as the complete segregation of:
  - a) duties between the front and back offices and trading rooms;
  - b) clients assets from the Participating Organisation's and dealer representatives' assets;  
and
  - c) Participating Organisation's fund from clients fund;
- personnel account dealing procedures;
- transaction reporting requirements, information on the laws against insider trading, and steps to be taken to preserve the confidentiality of client information;
- staff dealing rules and code of conduct in relation to compliance;
- considerations on Chinese walls and/or Insider Dealing; and
- customer complaints handling.
- The compliance officer must ensure that the procedures established in the manual are adequate. Adequate procedures are those designated to meet industry standards, regulatory requirements, and the circumstances of the Participating Organisation.
- The compliance officer must ensure that the compliance procedures are designed to anticipate, as far as possible, the activities most likely to result in misconduct by the Participating Organisation.
- The compliance officer must ensure that each compliance programme must be appropriate for the size and nature of the organisation.
- Once the compliance procedures are established, the compliance officer must ensure that the compliance procedures are monitored and enforced.
- The compliance officer must ensure that the compliance procedures established are effectively communicated within the Participating Organisation.
- The compliance officer must ensure that the manual be subjected to regular periodic review or whenever there are major changes to the relevant Securities laws, rules, and regulations.
- The Compliance Manual must be approved by the Board of Directors after which the compliance manual must be submitted to the Exchange for approval.

## **7. CONCLUSION**

It is important that the employees in a Participating Organisation give full co-operation to the compliance officer. The management must create and promote a compliance culture in their respective departments or units. An ethos of professionalism and best practice that is essential for an effective compliance function can only be achieved if everyone plays his part.

It is important that the management ensures that the organisational structure, reporting lines and functional responsibilities of its employees are clearly stipulated in writing. There must be a proper segregation of tasks and delineation of responsibilities between the different departments and employees, so as to avoid an over-concentration of powers, or

responsibilities on a particular person within the company. Segregation of duties is fundamental to any effective control system. It is the first line of protection against the risk of fraudulent or unauthorised activities.

It is the view of the Exchange that the role and functions of the compliance officer can be best performed and executed with the support of a Compliance Department. In this regard, the size of the Compliance Department of a given Participating Organisation would very much depend on the size and complexity of the business activities and operations of the Participating Organisation. It is therefore felt that a Participating Organisation would be in the best position to make determinations in relation to the size of its Compliance Department.

[End of Appendix]

Relevant to : Rule 3.39(5)  
 Introduced with effect from : 2 May 2013  
 Amended : N/A  
 POs' Circular No(s). : R/R 5 of 2009  
 Refer also to Directive : N/A  
 No(s).

**1. Rule 3.39(5)**

- (1) Rule 3.39(5) provides that a Head of Compliance must submit the written reports on all matters pertaining to compliance with the Securities Laws, these Rules and the Directives referred to in Rule 3.39(2)(b) to the Exchange on a monthly basis ("Monthly Compliance Reports").
- (2) In discharging the obligations under the said Rule, a Head of Compliance must, amongst others, comply with the requirements set out below.

**1.1 Reporting Requirements**

- (1) All Heads of Compliance of Participating Organisations must use the format appended to this Directive as **Appendix 1** (the Standard Compliance Report) when submitting the Monthly Compliance Reports.
- (2) The Standard Compliance Report is not intended and must not be construed to limit the scope of reporting or the scope of duties and responsibilities of a Head of Compliance as stipulated in the Rules of Bursa Securities. The Standard Compliance Report serves to streamline and standardise the form and manner in which breaches of the Securities Laws, these Rules and Directives issued by the Exchange from time to time and any other matters pertaining to compliance or otherwise are to be reported to the Exchange.
- (3) All items stated in the respective sections of the Standard Compliance Report must be completed in accordance with the Directives prescribed in the table below:

<b>Section No.</b>	<b>Item</b>	<b>Directives</b>
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 Standard Compliance Report.
3.0	Status of Compliance with the conditions imposed by Bursa Securities and Securities Commission	This section provides for the status of compliance with the terms and conditions imposed by Bursa Securities and/or the Securities Commission on the Participating Organisations arising from its operations as a Participating Organisation whether the same were imposed arising from applications made by the Participating Organisations to Bursa Securities and/or

**DIRECTIVES ON MONTHLY COMPLIANCE REPORT****No. 3.39(5)-001**

		Securities Commission or otherwise and where the compliance is required on a continuing basis. For example the status of compliance with the terms and conditions imposed pursuant to the readiness audit conducted for establishment of its office(s) and applications made under the Rules of Bursa Securities for approvals or waivers.
4.0	Matters to be highlighted to Bursa Securities	This section is optional. Participating Organisation may wish to highlight to Bursa Securities 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 of Bursa Securities that lack clarity or require enhancements.
5.0	Report on general compliance level of PO	This section is for the Head of Compliance to provide his opinion or make an assessment of the general compliance level of the Participating Organisation for the month.
6.0 to 15.0	Detailed Report	<p>This section prescribes the 'mandatory areas' where Participating Organisation 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 Participating Organisation's level of compliance with the Securities Laws, these Rules and Directives issued by the Exchange from time to time in relation to the areas set out in these sections are fully disclosed to its Board of Directors and Bursa Securities.</p>
16.0		<p>Reporting in relation to compliance by the Participating Organisation with the areas in the Securities Laws, these Rules and Directives issued by the Exchange from time to time other than the areas itemised in sections 5.0 to 15.0 is only required if there is a non compliance with the same.</p> <p>Participating Organisation must add section 16.0 to the Standard Compliance Report for the purpose of reporting the above non compliances. Where the areas involved in the above reporting are varied and many, Participating Organisation may add more section numbers after section 16.0 for ease of reporting.</p>

[End of Directive]



**Appendix 1**

**(NAME OF PARTICIPATING ORGANISATION)**

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

**DATE:**

**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 AND THE SECURITIES COMMISSION**

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

*Note: The PO is to report all conditions that the PO 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**

- (a) Comments on existing Bursa Malaysia Rules
- (b) Regulatory burden encountered

**5. REPORT ON GENERAL COMPLIANCE LEVEL OF PO**

- (a) The Head of Compliance to express opinion/ assessment on the general compliance level of the PO for the month

**DETAILED REPORT**

**6. On trading accounts and trust accounts, the HOC must report whether:**

- (a) The internal policies and procedures on “Know Your Client” and opening of accounts have been complied with; and
- (b) The Rules and Regulations on clients’ trust account have been complied with.

**7. On complaints, the HOC must report whether:**

- (a) All complaints received have been resolved. To indicate the number and nature of complaints received and resolved in the following table:

No	Nature of complaint	Date of complaint	Date complaint is resolved / Action taken

**8. On transaction by employees and directors, the HOC must report whether:**

- (a) The transactions carried out on account of the employees were with the prior and separate written consent of a director or any other employee(s) so authorised by the Board of Directors to grant consent for and behalf of the designated director; and
- (b) The transactions carried out on account of a director were with the prior and separate written consent of the Board of Directors, or any other director(s) or employee(s) so authorised by the Board of Directors to grant consent for and on its behalf.

Total number of employees involved	Total number of shares	Total value of shares	Total number of securities involved

Total number of directors involved	Total number of shares	Total value of shares	Total number of securities involved

**9. On Capital Adequacy Requirement, the HOC must report whether:**

*[This Section 9 not applicable to Investment Banks]*

- (a) There is any exception noted in respect of PO’s Capital Adequacy reports and daily reports generated and kept for record purposes, paying particular attention to the accuracy and timeliness of the reports and also the integrity of the data; and
- (b) There is any item/transaction not recorded/reported that may affect PO’s liquid capital and total risk requirement.

**10. On Dealer's Representatives (covers Salaried and Commissioned Dealer's Representatives), the HOC must report:**

- (a) Exceptions on dealer's representatives who are involved in back office operations;
- (b) Exceptions on registration, renewal and cessation of dealer's representatives' licences;
- (c) Exceptions on unlicensed trading; and
- (d) Exceptions on instances of sharing of user-ids and passwords and leaving broker front end terminals unattended without temporarily logging off.

**11. On segregation of duties and policies and procedures, the HOC must report:**

- (a) Irregularities noted on the segregation of duties especially between the back and front office; and
- (b) Exceptions noted on the inadequacies of policies and procedures of the PO (e.g. margin, Discretionary Financing Account, PDT, etc).

**12. On defaulters, the HOC must report:**

- (a) Exceptions in respect of business transacted for clients who have been notified as a defaulter.

**13. On brokerage, the HOC must report:**

- (a) The exceptions noted on the brokerage charged and reflected in the contract notes.

**14. On advertising, the HOC must report:**

- (a) Exceptions noted on the compliance with the requirements on advertising.

**15. On training, the HOC must report:**

- (a) Exceptions noted on the sufficiency and comprehensiveness of the training system and program; and
- (b) Exceptions noted on the maintenance of training records.

**16. On non-compliances other than in the areas itemised in sections 6 to 15 above.**

<b>DIRECTIVES ON MEASURES TO CURB CLIENTS MAKING PAYMENTS DIRECTLY TO DEALER'S REPRESENTATIVES TO SETTLE AMOUNTS OWING TO PARTICIPATING ORGANISATIONS</b>	<b>No. 3.47(1)-001</b>
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Relevant to : Rule 3.47(1)(f)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 3.47(1)(f)**

- (1) Rule 3.47(1)(f) provides that throughout the term of a Dealer's Representative's registration with the Exchange, the Dealer's Representative must not accept payment from Clients or hold any Client's assets in the Dealer's Representative's name and must ensure that Clients make payments and lodgement of assets directly to the Participating Organisation.
- (2) Rule 5.03(1)(a) further states that a Participating Organisation must have in place structures, internal controls and written policies and procedures designed to facilitate the supervision of the Participating Organisation's business activities and the conduct of the Participating Organisation's Registered Persons, employees and agents.
- (3) In discharging the obligations under Rule 3.47(1)(f), a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Measures to be taken**

A Participating Organisation must:

- (a) place proper notices to clients in the public gallery prohibiting the practice of making payments directly to Dealer's Representatives;
- (b) remind clients (for example through monthly statements, letters) not to make payments directly to Dealer's Representatives;
- (c) issue internal circulars to all Dealer's Representatives highlighting the requirements contained in Rule 3.47(1)(f); and
- (d) sanction Dealer's Representatives who are known to accept such payments from clients.

[End of Directive]

Relevant to : Rule 3.47(1)(h)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 3 of 2007  
Refer also to Directive No(s). : N/A

1. Rule 3.47(1)(h)

- (1) Rule 3.47(1)(h) provides that throughout the term of a Dealer's Representative's registration with the Exchange, the Dealer's Representative must not operate as a Dealer's Representative from a particular location on a continuous basis so as to be construed as carrying on a business of dealing in securities at that location unless that location is approved by the Exchange or the Commission as a place from where the Dealer's Representative's Participating Organisation may carry on the Participating Organisation's business.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Requirements**

- (1) A Participating Organisation must ensure that the following are satisfied in allowing a Dealer's Representative to be mobile:
- (a) A Participating Organisation must develop appropriate written internal policies, procedures and controls for a Dealer's Representative who is mobile to ensure that the Dealer's Representative does not abuse his mobility privileges. A Participating Organisation must ensure that the Dealer's Representative complies with, amongst others, the Securities Laws and other applicable laws, these Rules and all Directives issued by the Exchange from time to time, in relation to the following areas:
- (i) account opening;
  - (ii) receipt of payments and collection of funds from clients with a view to ensuring that clients' assets are safeguarded;
  - (iii) upholding the high standards of conduct of Dealer's Representatives when dealing with clients as set out in the Rules of Bursa Securities, in particular, the requirement of carrying out client's instructions in a timely manner;
  - (iv) the prohibition on conduct of business activities in a particular premises or at a particular location on a continuous basis so as to comply with Rule 3.47(1)(h); and
  - (v) such other areas as Participating Organisations deem necessary in upholding the principles of sound investor protection.
- (b) The internal policies, procedures and controls referred to in paragraph 1.1(1)(a) above must incorporate and clearly set out, amongst others, the criteria which a Dealer's Representative has to fulfill before being allowed to be mobile.
- (c) A Participating Organisation must develop appropriate supervisory and compliance programme to ensure compliance with these internal policies, procedures and controls referred to in paragraphs 1.1(1)(a) and 1.1(1)(b).

- (d) The discretion whether or not to allow a Dealer's Representative to be mobile lies with the Participating Organisation. The discretion must be exercised based on the criteria set out in the internal policies, procedures and controls referred to in paragraph 1.1(1)(b) above. In this respect, a Participating Organisation must assess the suitability of each Dealer's Representative based on the above criteria set before allowing their Dealer's Representatives to be mobile. The assessment must be done on continuous basis.
- (e) A Participating Organisation has the right to revoke at any time the mobility granted to any Dealer's Representative in the following circumstances:
- (i) the Dealer's Representative no longer satisfies or is no longer capable of satisfying the criteria referred to paragraph 1.1(1)(b) above; or
  - (ii) the Dealer's Representative has committed breach(es) of any of the Participating Organisation's internal policies, procedures and controls referred to in paragraphs 1.1(1)(a) and 1.1(1)(b) imposed on the Dealer's Representative.
- (f) A Participating Organisation must assess its internal policies, procedures and controls on a continuous basis to ensure the adequacy and relevance to meet the purpose for which they are developed.
- (2) The Exchange may at any time and from time to time to inspect/audit on the carrying out of the supervision and compliance programme by a Participating Organisation as referred to in paragraph 1.1(1)(c). If the Exchange is not satisfied with the same, the Exchange may direct the Participating Organisations to revoke the mobility granted to the Dealer's Representatives or take any other actions it deems fit.

[End of Directive]

Relevant to : Rule 3.54  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Definition**

The term "Participant" means a Participating Organisation or Registered Person or both, unless the context requires otherwise.

**2. Rule 3.54**

This Rule empowers the Exchange to take such action summarily as the Exchange thinks fit against a Participating Organisation or Registered Person to protect the interests of Clients, the public or the Exchange if the Exchange is of the opinion that:

- (a) the manner in which the Participating Organisation or Registered Person conducts the Participating Organisation's business is or is likely to be detrimental to Clients, the public or the Exchange;
- (b) the Participating Organisation or Registered Person has committed an act or omission that is or is likely to be detrimental to Clients, the public or the Exchange;
- (c) the financial position or reputation of the Participating Organisation or Registered Person(s) has a detrimental effect or is likely to be detrimental to Clients, the public or the Exchange.

The circumstances when the Exchange may take action against a Participant under Rule 3.54 include what have been set out below.

**2.1 Circumstances and actions**

- (1) If any of the following circumstances arise in relation to a Participant, the Exchange may take any one or more of the actions referred to in Paragraph 2.1(2) against that Participant:
  - (a) a resolution is passed by the shareholders of a Participating Organisation or a court order is made for the winding-up of a Participating Organisation;
  - (b) an arrangement or composition is made with the creditors of the Participating Organisation pursuant to any law;
  - (c) the Participating Organisation is unable or fails to maintain the Capital Adequacy Requirements;
  - (d) the Participating Organisation is likely to become unable to meet all or any of its financial obligations; or
  - (e) the Participating Organisation is about to suspend making payments of the whole or any part of its debts.
- (2) The actions referred to in Paragraph 2.1(1) are:
  - (a) directing the Participating Organisation or the Participating Organisation's Directors, and Registered Person to take any step relating to the Participating Organisation's business;



- (b) prohibiting or restricting the Participating Organisation from trading in securities on the Exchange's stock market or from doing any other act or thing relating to the Participating Organisation's business;
- (c) appointing one or more persons to:
  - (i) perform any function with respect to the management or operation of the Participating Organisation's business; or
  - (ii) advise the Participating Organisation on any matter relating to the business operation or management of the Participating Organisation,

and requiring such persons to submit reports to the Exchange. The Exchange may remove such persons and appoint others in such persons' place and may fix remuneration of any such persons. The Participating Organisation must pay the remuneration of such persons;

- (d) in the case of a Participating Organisation that is also a clearing participant of a Clearing House and an authorised depository agent of a Central Depository, directing the Participating Organisation, for the purpose of protecting and preserving the Clearing House's lien in respect of such securities in priority over the rights of the Participating Organisation, to procure suspension of securities of the Participating Organisation's Clients who have not made good their transactions;
  - (e) directing the Participating Organisation to increase its paid-up capital or shareholders' funds or to implement a scheme for injection of new assets into the Participating Organisation;
  - (f) suspending the Participant up to 4 weeks; or
  - (g) taking any other action to increase or regularise the Participating Organisation's Capital Adequacy Ratio.
- (3) A Participant against whom proceedings are instituted in any Court alleging the commission of any offence arising out of the conduct of business of dealing in securities may be suspended summarily by the Exchange.
- (4) The suspension under Paragraph 2.1(3) will cease upon:
- (a) the acquittal of the Participant (provided that no appeal is lodged against such acquittal); or
  - (b) withdrawal of the prosecution against the Participant;
- and upon notice in writing by the Exchange to the Participant.
- (5) In an action taken by the Exchange against a Participant under this Paragraph 2.1, the Exchange will serve the Participant a written notice setting out:
- (a) the event which forms the basis of the action;
  - (b) the powers that the Exchange will be exercising or have exercised in relation to such action; and
  - (c) where deemed applicable by the Exchange, the date by which the Participant must make representations to the Exchange to discontinue the action taken should the Participant wish to make such representations.

## **2.2 Further action against a Participating Organisation**

- (1) If at any time after reviewing the actions taken by the Exchange under Paragraph 2.1 the Exchange is of the view that further action is required to adequately protect the interest of the

Participating Organisation's Clients, the public or the Exchange, or to ensure an orderly and fair stock market, the Exchange may, upon written notice to the Participating Organisation, take any one or more of the following actions:

- (a) upon notifying the Commission:
  - (i) assume control of the whole or part of the Participating Organisation's property, business and affairs and carry on the whole or part of the Participating Organisation's business and affairs; or
  - (ii) appoint any person to do so on behalf of the Exchange; and
  - (iii) order that the Exchange's costs and expenses or the remuneration of the person appointed be payable out of the Participating Organisation's funds and properties;
- (b) upon consulting the Commission, appoint one or more receivers or receivers and managers to:
  - (i) manage the whole or part of the Participating Organisation's business affairs and property; or
  - (ii) close down the operations of the whole or part of the Participating Organisation's business affairs and property.

The Exchange may grant the receiver or receiver and manager such powers the Exchange specifies. The powers includes the power to assume all powers and duties of the Participating Organisation's Directors and other officers and to do such lawful acts and things as may be necessary for or incidental to the carrying out of the receiver's or receiver and manager's functions. The receiver or receiver and manager is deemed to be an agent of the Participating Organisation. The Participating Organisation is solely responsible for the receiver's or receiver and manager's acts or defaults and for the payment of the receiver's or receiver and manager's remuneration. The Exchange may remove any receiver or receiver and manager and appoint another in the receiver's or receiver and manager's place;

- (c) upon notifying the Commission, present a petition to the High Court for the winding-up of the Participating Organisation;
  - (d) upon notifying the Commission, require the Participating Organisation to effect a transfer of the Participating Organisation's Client's monies or securities to a new account with another Participating Organisation. The Client concerned and the other Participating Organisation must first consent to the transfer;
  - (e) upon consulting the Commission, require the Participating Organisation to effect a corporate restructuring exercise to regularise the Participating Organisation's financial position to an amount the Exchange determines. The corporate restructuring exercise may include a merger with or an acquisition of other Participating Organisation or other entities.
- (2) The Exchange may also take any of the actions specified in paragraph 2.2(1) if it is satisfied that the actions in Paragraph 2.1(2), if taken by the Exchange, would not be sufficient or adequate to protect the interest of the Participating Organisation's Clients, the public or the Exchange or to ensure the existence of an orderly and fair stock market.

[End of Directive]

Relevant to : Rules 1.01, 4.05, 4.06, 4.07(4), 4.11, 4.13(5)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 3 of 2009 and R/R 10 of 2012  
Refer also to Directive No(s). : CDS Circular ADA/DOD/033/2012, CDS Circular  
ADM/DOD/032/2012 and Bursa Malaysia Clearing Circular  
G1/2013

## **1. Introduction**

Chapter 4 of the Rules sets out the provisions relating to a Market Maker. This Directive sets out the minimum requirements in relation to those requirements.

## **2. Rule 1.01**

- (1) Rule 1.01 sets out the definition of Specified Securities as securities specified by the Exchange as available for Market Making.
- (2) Pursuant to the above Rule, the Exchange prescribes the list of Specified Securities as set out in **Appendix 1** of this Directive.

## **3. Rule 4.02(2)**

- (1) Rule 4.02(2) requires a party applying to be a Market Maker for a Specified Security to comply with any application procedure and submit the relevant information and documents as determined by the Exchange.
- (2) Pursuant to the above Rule, an applicant must comply with the following requirements.

### **3.1 Application Form and Undertaking**

An applicant for Market Maker must submit the application form together with the undertaking to comply with these Rules and Directives, as contained in **Appendix 2** of this Directive.

## **4. Rule 4.05**

- (1) Rule 4.05(1) requires a Market Maker for a Specified Security to enter bid and offer prices into the order book in the ATS for the purpose of buying and selling of the Specified Security as follows:
  - (a) with a minimum presence as stipulated by the Exchange;
  - (b) within the maximum spread allowed by the Exchange; and
  - (c) not be less than the minimum quantity allowed by the Exchange.
- (2) Rule 4.05(2) goes on to state that a Market Maker is exempted from entering bid and offer prices as required under Rule 4.05(1) in circumstances deemed fit or allowed by the Exchange.
- (3) Pursuant to these Rules, the Market Maker must, amongst others, comply with the requirements set out below.

**4.1 Market Making Obligations**

The Market Making obligations imposed on Market Makers pursuant to Rule 4.05(1) and the circumstances in which a Market Maker is exempted from fulfilling the same pursuant to Rule 4.05(2) are as detailed in **Appendix 3** to this Directive.

**5. Rule 4.06**

- (1) Rule 4.06 requires a Market Maker to undertake all Market Making activities through trading accounts and Securities Accounts designated specifically for Market Making activities based on the terms stipulated by the Exchange.
- (2) Pursuant to the above Rule, a Market Maker must, amongst others, comply with the requirements set out below.

**5.1 Designated Accounts for Market Making**

Designated accounts for Market Making must be maintained and operated as follows:

- (a) In relation to Market Making for each ETF:
  - (i) Only one Securities Account can be opened for each ETF that the Market Maker is Market Making for.
  - (ii) A Market Maker can maintain one or more trading accounts for the purposes of Market Making for a particular ETF, all of which must be tagged to the Securities Account for each ETF. A Market Maker cannot co-mingle more than one ETF in a particular trading account.
  - (iii) The Securities Account referred to above must be designated in the manner prescribed by the Depository.
- (b) In relation to Market Making for each structured warrant:
  - (i) A Market Maker can maintain one or more trading accounts for the purposes of market making for a structured warrant.
  - (ii) A Market Maker can maintain more than one Securities Account for the Market Making of a structured warrant. A Market Maker may also carry out Market Making for more than one structured warrant in a particular Securities Account or a trading account.
  - (iii) All Securities Accounts opened for the Market Making of a structured warrant must be designated in the manner prescribed by the Depository.
- (c) In relation to Market Making for each ETB:
  - (i) A Market Maker can maintain one or more trading accounts for the purposes of market making for ETB.
  - (ii) A Market Maker can maintain more than one Securities Account for the Market Making of ETB. A Market Maker may also carry out Market Making for more than one ETB in a particular Securities Account or a trading account.

- (iii) All Securities Accounts opened for the Market Making of ETB must be designated in the manner prescribed by the Depository.

## **5.2 Notification for Market Making**

Market Makers for ETFs, structured warrants and ETB must submit to the Exchange information as required under Part A of Appendix 5 of these Rules, setting out the particulars of the trading and Securities Accounts opened for the purposes of Market Making for a particular ETF, structured warrant or ETB, 2 days before the commencement of Market Making.

## **6. Rule 4.12(c)**

- (1) Rule 4.12(c) stipulates that a Market Maker may commence Permitted Short Selling only if the Market Maker has notified the Exchange that it intends to carry out Permitted Short Selling and has provided to the Exchange the form stipulated in Appendix 5 of these Rules, 2 Market Days prior to the commencement of Permitted Short Selling.
- (2) Pursuant to the above Rule, a Market Maker must comply with, amongst others, the requirements set out below.

### **6.1 Notification for Permitted Short Selling**

- (1) Market Makers of ETFs which intend to commence Permitted Short Selling must also submit to the Exchange a declaration of compliance with the requirements in the format as set out in Part B of Appendix 5.
- (2) This declaration must be submitted to the Exchange 2 days before commencement of Permitted Short Selling.

## **7. Rule 4.13(5)**

- (1) Rule 4.13(5) requires the Market Maker to execute the following purchases through the designated trading accounts and Securities Accounts as stipulated by the Exchange after a shortsale for ETF units or Constituent Securities is executed:
  - (a) a purchase of any of the Constituent Securities or derivatives for the purposes of hedging of the short sale of ETF units within the same Market Day, if the short sale is in relation to ETF units; or
  - (b) a purchase of ETF units or derivatives for the purposes of hedging of the short sale of the Constituent Securities within the same Market Day, if the short sale is in relation to Constituent Securities.
- (2) Pursuant to the above Rule, a Market Maker must, amongst others, comply with the requirements set out below.

### **7.1 Designated Accounts for Permitted Short Selling**

Purchases of the ETF units, Constituent Securities and derivatives must be executed in the following accounts:

- (a) In relation to purchases of ETF units and Constituent Securities, in the Securities Account and trading account as stipulated under paragraph 5.1(a) above for Market Making of ETFs.
- (b) In relation to purchases of derivatives, in a designated trading account opened specifically for purposes stipulated under Rule 4.13(5).

**7.2 Notification of derivatives account**

Market Makers of ETFs must provide the particulars of the derivatives account used in carrying out transactions related to a Permitted Short Selling, if any, in the format prescribed in Part B of Appendix 5 of these Rules, to be submitted to the Exchange 2 days before commencement of Permitted Short Selling.

**8. Rule 5.16(1)**

- (1) Rule 5.16(1) requires the Participating Organisation and Registered Person to act with due skill, care and diligence, honestly and fairly, and in the best interests of the Participating Organisation's Clients.
- (2) Pursuant to the above Rule, a Market Maker must comply with, amongst others, the requirements set out below.

**8.1 POs to Pass Incentives on to Market Maker Clients**

Where incentives are attributable to a Market Maker which is not a Participating Organisation, the Participating Organisation must pass those incentives on to their clients who are Market Makers.

**9. Submission of Appendix 5**

- (1) In relation to paragraphs 5.2, 6.1 and 7.2 above, any updates or changes to the particulars provided in the format prescribed under Appendix 5 of these Rules must be communicated to the Exchange by using the format in Appendix 5.
- (2) The submission of the information prescribed under Appendix 5 is by way of email to the following address:  
[MSD\\_reporting@bursamalaysia.com](mailto:MSD_reporting@bursamalaysia.com)
- (3) The Market Maker must specify the subject matter of the email as "Notification of Market Making".

[End of Directive]

**Appendix 1**

**LIST OF SPECIFIED SECURITIES**

- 1. All Structured Warrants**
- 2. All Exchange Traded Funds**
- 3. All Exchange Traded Bonds**

**Appendix 2**

**APPLICATION FOR REGISTRATION AS MARKET MAKERS  
PURSUANT TO RULE 4.02 OF THE RULES OF BURSA MALAYSIA SECURITIES BERHAD**

Please complete all sections of the form in full.  
Please type or use black ink as the form will be photocopied.  
Read the *Guidance Notes* carefully before completing the form.

**1. Applicants' Category** (Please tick relevant category) (see note 2 for Qualification Criteria)

1.	Participating Organisation (" <b>PO</b> ") of Bursa Malaysia Securities Berhad	
2.	A licensed bank or licensed merchant bank as defined in the Banking and Financial Institutions Act 1989	
3.	Related Company of the PO, licensed bank or merchant bank, incorporated under Companies Act 1965	
4.	Foreign Securities Broker (" <b>FSB</b> ") / Foreign Derivatives Broker (" <b>FDB</b> ")	
5.	Related Company of FSB / FDB, incorporated under the Companies Act 1965	
6.	Others (please specify)	

**2. Specified Security:**

**3. Particulars of the Applicant**

Corporation's name in full

Date of incorporation

Place of incorporation

Company No.

Principal Business

**4. Address and contact details**

**Registered address** (Please notify of any change of address immediately)

**Business address** (Please notify of any change of address immediately)





**DIRECTIVES IN RELATION TO MARKET MAKING AND SPECIFIED SECURITIES****No.4-001**

Telephone no.

Telephone no.

Facsimile no.

Facsimile no.

Website /  
E-Mail AddressWebsite /  
E-Mail Address**5. State the names of shareholders of the Applicant and their respective shareholdings: -**

Name	No. of Shares	% of shareholding

**6. Authorised Capital****7. Paid-Up Capital****8. Name and Identity Card No. (IC No.) / Passport No. (for non-Malaysian citizen only) of Directors:**

Director's Name	I.C. No. / Passport No.	Status (Executive Director / Non-Executive Director) or Designation

**9. Contact Person(s)**

Name	Designation	Tel. No.	E-mail address

**10. Declaration**

(Answer "Yes" or "No". If "Yes", please give details.)

Has the applicant been: -

- (a) a member or partner in a member firm or director of a member company or participant of any stock exchange or futures exchange?  Yes  No
- (b) refused membership of or the right to participate in or admission to any stock exchange or futures exchange?  Yes  No
- (c) expelled from or suspended from trading on any stock exchange or futures exchange?  Yes  No
- (d) subjected to any form of disciplinary action by any stock exchange or futures exchange?  Yes  No
- (e) convicted of any offence in or outside Malaysia or had disciplinary actions taken for breaches involving dishonesty or fraud?  Yes  No

**11. Undertaking from Director and Company Secretary of the Applicant**

We:-

- (a) acknowledge that we the applicant declare that all information given herein and the attached document(s) (if any) are true and correct.
- (b) agree and undertake to at all times abide by the Rules of Bursa Malaysia Securities Berhad and all directives issued by the Exchange upon being duly registered as a Market Maker by the Exchange.

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Director of applicant authorised to sign on its behalf

Company Secretary

Dated

**Guidance Note**

**Please read before completing application forms**

These guidance notes are to be used as a generic guide to the registration of the applicant as Market Makers of Bursa Malaysia Securities Berhad ("Bursa Securities").

**Filling in the application form**

You should ensure that you complete all required information on the application form in full.

If the space provided is insufficient, applicant may attach a separate sheet for the required information provided each piece of paper attached is initialed by the applicant.

**Note 1: Definition**

In this document: -

"applicant" means a corporation applying for registration as Market Maker of Bursa Securities;

"Bursa Securities" or "Exchange" means Bursa Malaysia Securities Berhad, a company established under the Companies Act 1965 which operates ETP;

"CMSA" means Capital Market & Services Act 2007.

"corporation" has the same meaning as is assigned to that expression in the Companies Act, 1965;

"Market Maker" means a person who performs market making;

"Market Making" means unless the context otherwise requires, refers to the act of entering bid and offer prices in the ATS for a Specified Security based on the requirements stipulated by the Exchange in Rule 4.05.

"Specified Security" means the security specified by the Exchange as available for market making.

**Note 2: Qualification Criteria**

- (1) An applicant who intends to apply to be a Market Maker for a Specified Security must fulfill any one of the following requirements:
- (a) a Participating Organisation;
  - (b) a licensed bank or licensed merchant bank as defined in the BAFIA;
  - (c) a Related Corporation of (a) or (b) above, incorporated under the Companies Act 1965 and has:
    - (i) a minimum paid up capital of RM 2 million; and
    - (ii) at least 2 personnel with at least 5 years experience in the following:
      - (aa) trading in securities as a Dealer's Representative or trading in derivatives as a Futures Broker's Representative;
      - (bb) trading in treasury related instruments of a financial institution;
      - (cc) trading in securities as a dealer on a recognised stock exchange; or
      - (dd) trading in derivatives as a dealer on a Specified Exchange as defined in the Derivatives Exchange Rules;
  - (d) a foreign securities broker or foreign derivatives broker in a jurisdiction where the broker is regulated by a regulator who is a signatory to the International Organisation of Securities Commissions Multilateral Memorandum of Understanding ("IOSCO MMOU") or the Declaration on Cooperation and Supervision of International Futures Markets and Clearing Organisations ("BOCA Declaration") respectively ("Foreign Broker") and it fulfills the following:
    - (i) has a minimum paid up capital of equivalent RM 2,000,000.00; and

- (ii) has the following experience:
  - (aa) at least 3 years market making experience; or
  - (bb) i at least 2 personnel with at least 3 years experience in Market Making experience and is related to a company who is also a Foreign Broker which has at least 3 years Market Making experience; or
- (e) a Related Corporation of (d) above, incorporated under the Companies Act 1965 and it fulfills the following:
  - (i) has a minimum paid up capital of RM 2,000,000.00;
  - (ii) has at least 2 personnel with at least 3 years' experience in Market Making; and
  - (iii) the Foreign Broker which is its Related Corporation has at least 3 years experience in Market Making.

**Note 3: Other Requirements**

An applicant as a Market Maker must also fulfill the following requirements:

- (a) has in place facilities and personnel adequate for the expeditious and orderly carrying out of its business of Market Making; and
- (b) has in place a supervisory programme and a system of internal controls in respect of:
  - (i) the business of Market Making;
  - (ii) undertaking of risk management;
  - (iii) management of conflict of interest; and
  - (iv) compliance with these Rules.

**Note 4: Application to the Exchange**

For an applicant applying for the first time, the applicant must submit to Bursa Securities the following:

- i) Cover letter detailing the approval sought addressed to Bursa Securities. The applicant shall specify each Specified Security that the applicant intends to do market making for.
- ii) Duly completed Form of Application (Form of Application for registration as Market Maker).
- iii) For applicant which is **not** a Participating Organisation or a financial institution licensed under BAFIA, the application shall be accompanied with:
  - a) certified true copies of the memorandum and articles of association or any other constituent documents, of the applicant company and if any, its corporate shareholders;
  - b) such documents and information as may be appropriate in respect of its financial standing such as:
    - Auditor's Certification;
    - Balance Sheet; and
  - c) Form 9, 49, 13, 24 and 44 or similar documents of its nature.
- iv) Documentary evidence on the status of the applicant as a foreign securities broker or foreign derivatives broker or its related company as the case may be.
- v) Documentary evidence on the requisite experience of the personnel of the applicant as required under the Rule.
- vi) Any other documents that may be required or relevant to the application.
- vii) For an existing Market Maker applying to be a Market Maker for a subsequent Specified Security, it is required to only submit a cover letter detailing the approval sought addressed to Bursa Securities and specifying each Specified Security that the applicant intends to market make.

[End of Appendix 2]

**Appendix 3**

**1. MARKET MAKING OBLIGATIONS IN RELATION TO STRUCTURED WARRANTS (SW), EXCHANGE TRADED FUNDS (ETF) AND EXCHANGE TRADED BONDS (ETB) PURSUANT TO RULE 4.05(1)**

No.	Market Making Obligations	Market Maker for SW	Market Maker for ETF	Market Maker for ETB								
1.	The minimum presence of a Market Maker in providing 2-way quotes during the 'main trading phase' as referred to in the Trading Manual on each day that Bursa Securities is open for trading in a SW/ETF/ETB issue	70%	70%*	70%*								
2.	The maximum spread of two-sided market making quotes entered by a Market Maker into the ATS.	25 bids	25 bids	<table border="1"> <thead> <tr> <th>Tenure of ETB</th> <th>Maximum Spread*</th> </tr> </thead> <tbody> <tr> <td>5 years and below</td> <td>up to RM0.50</td> </tr> <tr> <td>5 years and up to 10 years</td> <td>up to RM1.00</td> </tr> <tr> <td>More than 10 years</td> <td>up to RM2.00</td> </tr> </tbody> </table>	Tenure of ETB	Maximum Spread*	5 years and below	up to RM0.50	5 years and up to 10 years	up to RM1.00	More than 10 years	up to RM2.00
Tenure of ETB	Maximum Spread*											
5 years and below	up to RM0.50											
5 years and up to 10 years	up to RM1.00											
More than 10 years	up to RM2.00											
3.	The minimum quantity on each of the two-sided market making quotes that a Market Maker enters into the ATS	10 board lots (1,000 units of SW)	10 board lots (1,000 units of ETF)*	10 board lots (100 units of ETB)*								

\* Notes:

- (1) The market making obligations which are to be fulfilled by a Market Maker for ETF and ETB may vary from one Market Maker to another as allowed by Bursa Securities.
- (2) The Exchange may vary the market making obligations in relation to ETB under market conditions as determined by the Exchange. This could include providing the Market Maker with the discretion to widen the maximum spread under distressed market conditions (eg. if the Issuer is put under negative outlook and rating watch (ie. for possible downgrade by credit rating agency).

**2. CIRCUMSTANCES IN WHICH MARKET MAKERS ARE EXEMPTED FROM PERFORMING THEIR OBLIGATIONS IN RELATION TO STRUCTURED WARRANTS (SW), EXCHANGE TRADED FUNDS (ETF) AND EXCHANGE TRADED BONDS (ETB) PURSUANT TO RULE 4.05(2)**

<b>Market Makers for SW, ETF and ETB</b>	<ul style="list-style-type: none"> <li>(i) if trading in the Specified Security is suspended;</li> <li>(ii) if the market is suspended or closed;</li> <li>(iii) if there is a malfunction of the system of the Participating Organisation through which the Market Maker undertakes its market making; or</li> </ul>
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<b>DIRECTIVES IN RELATION TO MARKET MAKING AND SPECIFIED SECURITIES</b>	<b>No.4-001</b>
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	(iv) if market is not feasible based on the market condition as determined by the Exchange.
<b>Market Makers for SW (in addition to the above circumstances)</b>	Circumstances stated in the prospectus of the issuer for whom the Market Maker provides liquidity for the issuance of SWs, as being circumstances in which the Market Maker is exempted from performing its market making obligations under the Rules of Bursa Securities unless decided otherwise by the Exchange.

[End of Appendix 3]

Relevant to	:	Rules 5.01(1), 5.02(a), 5.02(b), 5.03(1), 5.04(1), 5.13, 5.14(2)(a), 5.15(1)(a), 5.15(1)(b), 5.15(4), 5.16(1), 5.16(2), 5.16(4), 5.16(5), 5.19(1), 5.19(2) and 5.19(3)
Introduced with effect from	:	2 May 2013
Amended	:	N/A
POs' 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 a Participating Organisation's conduct of business. This directive sets out the minimum obligations in relation to those general requirements.

### **1. Rule 5.01(1)**

- (1) Rule 5.01(1) requires a Participating Organisation and Registered Person in the conduct of the Participating Organisation's business, 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 must not through any act or omission, do anything which may result in or has the effect of the market not being orderly and fair.
- (2) In discharging the obligations under the said Rule, a Participating Organisation and Registered Person must, amongst others, comply with the requirements set out below.

#### **1.1 Standard of Conduct**

- (1) A Participating Organisation and Registered Person must:
  - (a) observe professional conduct and high standards of integrity and fair dealing;
  - (b) conduct their business in a manner that contributes to the maintenance of an orderly and fair market;
  - (c) prevent insider trading, misuse of confidential information and the commission of other offences relating to the abuse of confidential information. In doing so, a Participating Organisation and Registered Person must strictly maintain the confidentiality of all relevant information, including information that on becoming generally available would or would tend to have a material effect on the price or value of securities;
  - (d) not engage in any act that amounts to advertising securities for sale or purchase or share hawking;
  - (e) not engage in any unlawful or irregular or unhealthy practice;
  - (f) not engage in any act that may damage the confidence of investors or hamper the sound development of the stock market of the Exchange;
  - (g) not do or cause or permit to be done any act which:
    - (i) would adversely affect the goodwill or public image of the Exchange;
    - (ii) would bring or is likely to bring the Exchange into disrepute;

- (iii) is injurious to the character and interest or prejudicial to the objects of the Exchange.
- (h) not engage in any act or practice:
  - (i) that might lead to a false or misleading appearance of active trading in any securities on the stock market of the Exchange or a false or misleading appearance with respect to the market for, or the price of, any such securities; or
  - (ii) directly or indirectly be tantamount to stock market manipulations,and must not participate in any operation by others that might have the same result.
- (2) In addition to the requirements above, a Participating Organisation must:
  - (a) exercise strict supervision over the Participating Organisation's business activities and the activities of the Participating Organisation's Registered Persons and employees to achieve compliance with these Rules, the Directives and Securities Laws; and
  - (b) must not unlawfully delegate powers or assign duties properly vested in the Registered Person to unauthorised person or persons.

## **2. Rule 5.02(a)**

Rule 5.02(a) requires a Participating Organisation to have in place adequate arrangements to manage all conflicts of interest that may arise in the conduct of the Participating Organisation's business. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **2.1 Segregation of functions**

- (1) A Participating Organisation must segregate the Participating Organisation's front office, middle office and back office operations to prevent any conflict of interest, potential or actual.
- (2) A Participating Organisation must establish and maintain separate reporting structures that ensure the segregation of the Participating Organisation's front office, middle office and back office operations.
- (3) A Participating Organisation assuming more than one function, permitted under the Participating Organisation's Capital Markets and Services Licence or otherwise, must maintain proper segregation of those functions within its organisation to prevent:
  - (a) the flow of "information" between different parts of its organisation that performs each function; and
  - (b) any conflict of interest that may arise as a result.
- (4) In paragraph 4(3)(a), "information" means information as defined in Section 183 of the Capital Markets and Services Act, relating to:
  - (a) any corporation admitted to the Official List; or
  - (b) any securities listed and quoted on the Exchange; and



such "information" if it were communicated would amount to an offence under Section 188(3) of the Capital Markets and Services Act.

## **2.2 Transactions by Participating Organisations, its Registered Persons or employees**

- (1) A Participating Organisation must not knowingly enter into any transaction in which it has any interest which conflicts or may conflict with the interest of any Client. A Participating Organisation must also ensure that its Registered Persons and employees comply with the above requirements in relation to Registered Persons and employees' own transactions.
- (2) In cases where conflict of interest cannot be avoided, the Participating Organisation or the Dealer's Representative must fully disclose such conflict to the Participating Organisation and the Client prior to the execution of the transaction.

## **3. Rule 5.02(b)**

Rule 5.02(b) requires a Participating Organisation to have in place adequate arrangements to manage all risks that may arise in the conduct of the Participating Organisation's business. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **3.1 Risk management**

- (1) A Participating Organisation must have its own system of monitoring risk on a daily basis.
- (2) A Participating Organisation must determine and record in its financial records appropriate credit limits for all counterparties to which the Participating Organisation has a credit exposure. The credit limits established must be appropriate to the type, nature and volume of business undertaken and the financial status of the counterparty and must be reviewed on a regular basis.
- (3) A Participating Organisation's financial records must be capable of being summarised in such a way as to permit actual exposures to be measured regularly against the established credit limits.
- (4) A Participating Organisation must maintain records in a manner such that the records disclose, or are capable of disclosing, in a prompt and appropriate manner, the financial and business information that enables the Participating Organisation's management to:
  - (a) identify, quantify, control and manage the Participating Organisation's risk exposures;
  - (b) make timely and informed decisions;
  - (c) monitor the performance of all aspects of the Participating Organisation's business on an up-to-date basis;
  - (d) monitor the quality of the Participating Organisation's assets; and
  - (e) safeguard the assets of the Participating Organisation and assets belonging to other persons for which the Participating Organisation is responsible.

**4. Rule 5.03(1)**

- (1) Rule 5.03(1) requires a Participating Organisation to have in place structures, policies, procedures and internal controls designed to:
- (a) facilitate the supervision of the Participating Organisation's business activities and the conduct of the Participating Organisation's Registered Persons, employees and agents;
  - (b) identify, monitor and manage conflicts of interests and risk that may arise in the conduct of the Participating Organisation's business;
  - (c) achieve compliance with these Rules, the Directives, Securities Laws; and
  - (d) provide for investor protection.
- (2) In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**4.1 Written policies and procedures and internal controls**

A Participating Organisation must have adequate and effective written policies and procedures in relation to:

**Supervision of business activities**

- (1) Clients:
- (a) on opening accounts for Clients including:
    - (i) steps to verify the identity of an applicant and the information in the applicant's account opening application form;
    - (ii) evaluating and assessing applicants; and
    - (iii) assisting the Participating Organisation's Dealer's Representatives in learning essential information about the applicant as required under Rule 5.15(1)(a);
  - (b) on handling complaints received by the Participating Organisation, including reviewing complaint files to ensure that all complaints are duly investigated and dealt with within the time stipulated under such procedures;
  - (c) on the treatment of Client's assets;
- (2) Trading, transactions and business:
- (a) on reviewing unusual patterns of large trading to detect a breach of these Rules and the Securities Laws in relation to market misconduct;
  - (b) on granting credit facilities in relation to any margin account and reviewing frequent margin calls or other signs of apparent increase of risk exposure pertaining to margin facilities;
  - (c) on supervising, monitoring and approving requests for and amendments to contracts;

- (d) on supervising and monitoring Off-Balance Sheet Transactions that must include the items listed in **Appendix 1** of this Directive;
  - (e) on the operation and monitoring of the Participating Organisation's accounts and Client accounts including maintaining adequate records on Dealer's Representatives conducting trading;
  - (f) to ensure all transactions and commitments entered into are recorded and are within the scope of authority of the Participating Organisation or the individual acting on behalf of the Participating Organisation;
  - (g) on credit policies, capital allocations, trading limits, and designated approving authorities;
  - (h) to control liabilities and safeguard assets including assets belonging to other persons for which the Participating Organisation is accountable;
  - (i) to monitor the activities of the Participating Organisation's Dealer's Representatives including transactions carried out and correspondences undertaken or received by the Participating Organisation's Dealer's Representatives on the solicitation or execution of transactions;
  - (j) on Securities Borrowing and Lending, if the Participating Organisation is desirous of engaging in Securities Borrowing and Lending under these Rules, that must include the items listed in **Appendix 2** of this Directive;
  - (k) on Regulated Short Selling, if the Participating Organisation is desirous of executing Regulated Short Selling under these Rules, that must include the items listed in **Appendix 3** of this Directive;
- (3) Advertising:
- On reviewing the Participating Organisation's advertising and publicity materials;
- (4) Employees:
- (a) on prompt dissemination of these Rules, the Directives and requirements the Exchange and the Commission issues, to the Participating Organisation's Registered Person and relevant employees;
  - (b) on the ethical standards and conduct at work required of the Participating Organisation's Registered Person and employees and the Participating Organisation's internal disciplinary procedures;
  - (c) to monitor the business transacted for the Participating Organisation's employees, Dealer's Representatives and Directors;

**Governance**

- (5) Governance:
- (a) on reporting requirements by the Branch Office to the Principal Office to ensure sufficient supervision and control of the Branch Office;
  - (b) on supervising and monitoring the Participating Organisation's back office system and operations that include:

- (i) timely reporting and transmission of data from a Participating Organisation's Branch Office to the Principal Office;
- (ii) daily reconciliation of all records of the Participating Organisation's Principal Office and the Branch Office(s); and
- (iii) reconciling and duly accounting for all trading and transactions undertaken by the Participating Organisation's Branch Office(s).

- (6) Frequency of board of directors' meetings:

To ensure that at least 1 board of directors meeting is held every 2 months.

### **Risk management**

- (7) Generally, and in particular to minimise the risk of losses to the Participating Organisation from irregularities, fraud or error and to identify such matters should they occur so that prompt remedial action may be taken by the management;

### **Compliance**

- (8) Compliance, to prevent any contravention by the Participating Organisation or any of its Registered Person, employees and agents of:
- (a) these Rules and the Directives;
  - (b) the Securities Laws and other applicable laws and regulations; and
  - (c) the Participating Organisation's own internal policies and procedures;

### **Conflicts of Interests**

- (9) Conflicts of interests:
- (a) to minimise conflicts of interests, whether actual, potential or perceived between the Participating Organisation or Dealer's Representative and the Client and in particular in the area of insider dealing and front running; and
  - (b) to ensure a clear delineation of responsibilities and proper segregation of tasks among the departments and the personnel of the Participating Organisation.

## **5. Rule 5.04(1)**

Rule 5.04(1) requires a Participating Organisation to keep proper records to evidence compliance with the requirements in these Rules. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **5.1. Record keeping**

- (1) A Participating Organisation must:

- (a) not make, or cause to be made, a false or misleading entry in any books, records, slips, documents, statements relating to the business, affairs, transactions, conditions, assets or accounts (“the Documents”) of a Participating Organisation;
  - (b) make all material entries in any of the Documents;
  - (c) not alter or destroy any of the Documents without a valid reason; and
  - (d) ensure the integrity and security in the transmission and storage of the Documents.
- (2) A Participating Organisation may keep records in either hard copy form or electronic form. If a Participating Organisation keeps records in electronic form, the Participating Organisation must be able to reproduce such records in a hard copy form.

## 6. Rule 5.13

Rule 5.13 requires a Participating Organisation to employ or engage Registered Persons, employees and agents who are fit and proper with suitable skill and experience with regard to the position and responsibility they hold. In discharging the obligations under the said Rule, a Participating Organisation must comply with the requirements set out below:

### 6.1. Training

- (1) A Participating Organisation must establish and maintain an adequate system of training for the Participating Organisation’s Registered Person, employees and agents.
- (2) The training for the Participating Organisation’s Registered Person, employees and agents must include awareness of:
  - (a) all applicable legal and regulatory requirements;
  - (b) the Exchange’s trading system; and
  - (c) internal controls, policies and procedures and operational aspects of the Participating Organisation’s business.

## 7. Rule 5.14(2)(a)

Rule 5.14(2)(a) requires a Participating Organisation or a Dealer’s Representative to ensure, among others, that a Trading Clerk does not carry out the functions of a Dealer’s Representative.

### 7.1 Functions of a Dealer’s Representative

A Trading Clerk will be considered to have carried out the functions of a Dealer’s Representative if:

- (a) the Trading Clerk inputs orders through ATS without any prior instructions from a Dealer’s Representative; or
- (b) the Trading Clerk takes instructions or solicits orders directly from a Dealer’s Representative’s Client or any other person for the purpose of trading in securities.

## 8. Rule 5.15(1)(a)

Rule 5.15(1)(a) requires a Participating Organisation to obtain all essential information about the Client relevant to the services to be provided before a Participating Organisation opens a

trading account for the Client. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **8.1. Essential information**

The essential information referred to in Rule 5.15(1)(a) includes essential facts about the Client's background including:

- (a) the Client's investment objectives,
- (b) the Client's knowledge and experience in dealing in securities;
- (c) the Client's financial position;
- (d) whether the Client is associated, within the meaning in section 3 of the Capital Markets and Services Act, to an employee, a director or a Dealer's Representative of the Participating Organisation; and
- (e) whether the Client is trading for himself as a Beneficial Owner or as an Authorised Nominee.

### **9. Rule 5.15(1)(b)**

Rule 5.15(1)(b) requires a Participating Organisation to verify the genuineness and authenticity of the Client and the application to open a trading account with the Participating Organisation. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

#### **9.1 Authentication of account opening application form**

- (1) Participating Organisation must take all reasonable steps to verify, by reliable means, the Client's identity and the information in the Client's account opening application form before a Participating Organisation opens a trading account for the Client.
- (2) The steps a Participating Organisation must take to verify the identity of the Client and the information in the Client's account opening application form referred to in paragraph 9.1 include:
  - (a) requiring the Client to appear in person before the persons referred to in paragraph 9.1(3) of this Directive to sign the account opening application form; and
  - (b) having the persons referred to in paragraph 9.1(3) of this Directive verify the identity of the Client and the information in the Client's account opening application form.
- (3) The identity of the Client and the information in the Client's account opening form must be verified by any of the following persons:
  - (a) an officer authorised by the Participating Organisation;
  - (b) an authorised officer of a Malaysian Embassy or High Commission Consulate;
  - (c) a lawyer in any jurisdiction who has a valid license to practice law in that jurisdiction;
  - (d) a commissioner for oaths in any jurisdiction;

- (e) a Justice of the Peace in any jurisdiction;
  - (f) a notary public in any jurisdiction;
  - (g) an officer of a registered person referred to under the third column of Item 1(b) of Part 1 of Schedule 4 to the Capital Markets and Services Act, who is authorised by such registered person to perform the activities referred to under the second column of the said Item 1(b);
  - (h) an authorised officer of:
    - (i) a licensed bank as defined under BAFIA; or
    - (ii) an Islamic bank as licensed under the Islamic Banking Act 1983, and with which the Client holds an account;
  - (i) in relation to a stockbroking company licensed or approved to trade on a recognised stock exchange, the following persons:
    - (i) any person who holds a license equivalent to a license held by a Dealer's Representative; or
    - (ii) any other person authorised by such licensed stockbroking company, or
  - (k) such other person as may be approved by the Exchange from time to time provided that notification of such approval is forwarded to the Commission within 3 Market Days from the date of such approval.
- (4) The Participating Organisation must in all the above cases take all such steps as are necessary to ensure the genuineness or authenticity of the application.
- (5) Paragraphs 9.1(2) and 9.1(3) of this Directive do not apply to a Client that is not an individual.

#### **10. Rule 5.15(4)**

Rule 5.15(4) requires a Participating Organisation to record and maintain up-to-date relevant information on the Participating Organisation's Clients, their trading accounts and trades executed in the Client's trading account. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

##### **10.1 Information required to be maintained**

In relation to Rule 5.15(4), a Participating Organisation must, in respect of each Client's account maintain records that include:

- (a) the date of opening of the account;
- (b) the name of the officer who approved the opening of the account and the date of approval;
- (c) the types of transactions, products and investments for which the account is approved;
- (d) in respect of the transactions effected under the account, the following information:

- (i) particulars of all transactions including amount of commissions charged in respect of each transaction and type of transaction;
- (ii) current position of the account including compliance with any margin set by the Participating Organisation; and
- (e) the Dealer's Representative handling the account.

**11. Rule 5.16(1)**

- (1) Rule 5.16(1) requires a Participating Organisation and Registered Person to act:
  - (a) with due skill, care and diligence;
  - (b) honestly and fairly; and
  - (c) in the best interests of the Participating Organisation's Clients.
- (2) In discharging the obligations under the said Rule, a Participating Organisation and Registered Person must, amongst others, comply with the requirements set out below.

**11.1 Arrangement with Clients**

A Participating Organisation, Head of Dealing and Dealer's Representative must not:

- (a) accept a share in the profits of a Client's accounts or have any arrangement with a Client to share in the profits of the Client's account;
- (b) have any arrangement with a third party to allocate profits or losses in a Client's account; or
- (c) lead a Client to believe that the Client will not suffer loss as a result of opening an account or dealing in securities.

**11.2 Unauthorised trading through Client's account**

A Participating Organisation, Head of Dealing and Dealer's Representative must not:

- (a) execute the personal trades of the Participating Organisation's Head of Dealing or Dealer's Representative (as applicable) in the Client's account; or
- (b) use a Client's account to trade for a third party.

**11.3 Client's order**

- (1) A Participating Organisation, Head of Dealing and Dealer's Representative must:
  - (a) carry out Client's instructions in a timely manner;
  - (b) give priority to execution of orders given by the Clients over execution of their own orders or orders of persons associated with or connected to them in relation to the securities of the same class;



- (c) execute Client's orders in the sequence in which the orders are received from each Client;
  - (d) not front-run a Client; and
  - (e) not transfer or re-allocate a trade that has been executed on behalf of one Client to another Client except in accordance with Rule 8.09.
- (2) A Participating Organisation, Head of Dealing or Dealer's Representative may only accept or act on an instruction from a third party in relation to trading in a Client's trading account upon receipt of a written authorisation from the Client empowering the third party to trade for the Client's account.

#### **11.4 Recommendations to Clients**

A Participating Organisation or a Dealer's Representative that recommends any transaction for the buying or selling of securities to a Client must:

- (a) take into account and ensure the suitability for the Client of such recommended transaction based on the Client's:
  - (i) investment objectives;
  - (ii) knowledge and experience in trading in securities;
  - (iii) knowledge and experience in financial matters;
  - (iv) financial background; and
  - (v) other relevant information;
- (b) disclose to the Client the potential risk involved in such recommended transactions so as to enable the Client to evaluate such risks; and
- (c) satisfy itself that the Client has the financial capability to bear any risk attached to such recommended transactions.

#### **11.5 Notice of changes**

- (1) A Participating Organisation must give sufficient notice to the Participating Organisation's Clients before imposing new business policies or practices.
- (2) What constitutes "sufficient notice" depends on the circumstances surrounding the imposition of the new business policies or practices.

#### **12. Rule 5.16(2)**

Rule 5.16(2) requires a Participating Organisation and a Registered Person to make adequate and accurate disclosure of the risks, benefits and conflicts of interests to the Clients in the Participating Organisation's and Registered Person's dealings with the Clients. In discharging the obligations under the said Rule, a Participating Organisation and Registered Person must, amongst others, comply with the requirements set out below.

**12.1 Monthly statements**

- (1) A Participating Organisation must send each Client a statement of account on a monthly basis on all transactions in the Client's account, unless there is no change from the last statement.
- (2) The statement of account must contain relevant details of the Client's transactions including all charges imposed, payments made and assets the Participating Organisation holds for the Client.
- (3) A Participating Organisation may determine the mode and manner the statement of account is to be sent to the Client.
- (4) The Participating Organisation must comply with any requirement the Exchange or the Commission imposes in relation to the requirement for consent to issue and deliver electronic contract notes in relation to the consent required under this Directive.

**12.2 Contract Note**

- (1) Issuance of Contract Notes
  - (a) A Participating Organisation must issue Contract Notes to the Participating Organisation's Clients and the Contract Notes must comply with the regulations issued under the Capital Markets and Services Act on Contract Notes. The currency values reflected in the Contract Note must be the currency in which the securities are traded.
  - (b) The names of the buyer and seller in the Contract Notes issued in respect of trades done on the Exchange must be the name of the Client.
- (2) Exchange rate for conversion from foreign currency
  - (a) A Participating Organisations must indicate the exchange rate used for conversion from foreign currency to RM on each contract note for transactions involving securities denominated in foreign currency irrespective of whether the settlement between the Client and the Participating Organisation is in foreign currency or otherwise.
  - (b) The exchange rate in paragraph (a) above must be an exchange rate which is quoted by a licensed on-shore bank to the Participating Organisation.
- (3) Computer generated contract note
  - (a) Participating Organisations are advised that no signature is required on the Participating Organisation's computer generated contract notes if the contract notes carry the following statement:

**“THIS IS A COMPUTER GENERATED CONTRACT NOTE AND IS DEEMED TO HAVE BEEN SIGNED”**
  - (b) A copy of the relevant letter dated 1 April 1993 from the Department of Inland Revenue to the Exchange is attached to this Directive as **Appendix 4** of this Directive.

**13. Rule 5.16(4)**

Rule 5.16(4) requires a Participating Organisation to promptly and properly account for and adequately safeguard Client's assets. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**13.1 Client's assets**

- (1) A Participating Organisation must open or maintain at least 1 trust account with a licensed institution as defined in the BAFIA.
- (2) A Participating Organisation must pay into the trust account:
  - (a) all amounts, less any brokerage and other proper charges, received from or on account of a Client for the purchase of securities and that are not attributable to securities delivered to a Participating Organisation not later than the next bank business day or such other day as may be specified by the Commission on which the amounts were received by the Participating Organisation;
  - (b) all amounts, less any brokerage and other proper charges, received for or on account of a Client from the sale of securities and that are not paid to that Client or as that Client directs not later than the next bank business day or such other day as may be specified by the Commission on which the amounts were received by the Participating Organisation.
- (3) Subject to paragraph 13.1(2)(b), any payments issued by a Participating Organisation to a Client in respect of sale of securities by the Client must be issued by the Participating Organisation out of the trust account.
- (4) A Participating Organisation must:
  - (a) not co-mingle the monies in the trust account with monies for other purposes;
  - (b) not allow the trust account to at any time be in deficit and if the trust account is in deficit, the Participating Organisation must take immediate and urgent steps to deposit monies in the trust account to ensure that the monies in the trust account commensurate with amounts due to Clients; and
  - (c) at all times have funds available in the trust account to make the relevant payments out of the trust account.
- (5) The withdrawal of monies out of the trust account must fall within the circumstances permitted under the Capital Markets and Services Act.
- (6) A Participating Organisation must ensure that Client's assets in the form of securities that the Participating Organisation holds in safe custody under custodial services rendered are held by the Participating Organisation's nominee company. The Participating Organisation's nominee company must be a wholly-owned subsidiary of the Participating Organisation and an Authorised Nominee.
- (7) The trust account maintained with licensed institutions must be formally designated as "Clients' Trust Account" and duly approved by way of a Board of Director's resolution.
- (8) A Participating Organisation may place Client's monies in fixed deposits or other interest bearing accounts provided that:

- (a) such placement is made in the name of the Clients' trust account;
- (b) withdrawal of such placement, including interest, is directly credited back into the Clients' trust account; and
- (c) such placement will not affect the obligation to duly pay the Clients.

**14. Rule 5.16(5)**

Rule 5.16(5) requires a Participating Organisation to, in relation to a complaint from a Client (whether written or otherwise) relating to the Participating Organisation's business:

- (a) handle the complaint in a timely and appropriate manner; and
- (b) take steps to investigate and respond promptly to the complaint.

In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**14.1 Handling complaints**

A Participating Organisation must designate an appropriate officer to handle all complaints lodged with the Participating Organisation. The name of such officer must be displayed at a prominent place in the premises of the Participating Organisation.

**15. Rules 5.19(1) and 5.19(2)**

- (1) Rule 5.19(1) requires a Participating Organisation to take up and maintain at all times an insurance policy that is adequate having regard to:
  - (a) the nature and extent of the Participating Organisation's business as permitted under the Capital Markets Services Licence and the Commission's policy on permitted activities for stockbroking companies contained in the Commission's Licensing Handbook; and
  - (b) the responsibilities and risks assumed or which may be assumed by the Participating Organisation in connection with those activities.
- (2) Rule 5.19(2) further provides that a Participating Organisation may maintain the above insurance policy at Group level.
- (3) In discharging the obligations under the above Rules, a Participating Organisation must, amongst others, comply with the requirements set out below.

**15.1 Scope of insurance policy**

The insurance policy referred to in Rule 5.19(1) must:

- (a) have a minimum limit of indemnity of RM5 million; and
- (b) include the areas of coverage set out in **Appendix 5** of this Directive.

**16. Rule 5.19(3)**

Rule 5.19(3) requires a Participating Organisation to notify the Exchange that the insurance policy is in place. In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**16.1 Notification of insurance policy**

The Participating Organisation must notify the Exchange in writing of the following, within 2 weeks following the issuance of a new insurance policy or the renewal of an existing insurance policy:

- (a) the name of the insurer;
- (b) the amount and nature of cover;
- (c) the date on which the cover becomes effective; and
- (d) the date on which the cover will expire.

[End of Directive]

**APPENDIX 1**  
**[Paragraph 4.1(2)(d)]**

**Off-Balance Sheet Transactions:**  
**Minimum requirements for written policies and procedures and internal controls**

- (1) Policy statement(s) on circumstances under which the Participating Organisation is permitted to enter into Off-Balance Sheet Transactions;
- (2) Adequate risk assessment, monitoring and management policies and procedures with the objective of ensuring that the risks assumed by the Participating Organisation in respect of Off-Balance Sheet Transaction(s) entered into by the Participating Organisation will be managed and monitored accordingly and any requisite steps and action in mitigating such risks are effective;
- (3) Establishment of procedures and requirements for adequate reporting of information to be made to the Participating Organisation's Board of Directors to enable the Board of Directors to make informed decisions in a timely manner;
- (4) Establishment and maintenance of organisational and reporting structures in relation to the Participating Organisation's activities in the entry into Off-Balance Sheet Transactions that ensure regular reporting to the Participating Organisation's Board of Directors;
- (5) Maintenance of a proforma computation of the Capital Adequacy Ratio, in the form of Appendix 1 to the Directives on Capital Adequacy Requirements, incorporating the contingent liabilities arising from the Off-Balance Sheet Transaction(s) on the basis of Worst Case scenario (as defined in Rule 1.01(1)), accompanied by a detailed comparison with the Participating Organisation's actual Capital Adequacy Ratio as at the date immediately preceding the date of entry into the Off-Balance Sheet Transaction(s);and
- (6) A detailed action plan describing the Participating Organisation's decided course of action or measures taken or to be taken to fully perform and discharge the Participating Organisation's obligations under Off-Balance Sheet Transaction(s).

[End of Appendix 1]

**APPENDIX 2**  
**[Paragraph 4.1(2)(j)]**

**Securities Borrowing and Lending:**  
**Minimum requirements for written policies and procedures and internal controls**

- (1) Criteria to assess the suitability of Clients in borrowing or lending of Eligible Securities prior to the borrowing or lending and on an ongoing basis;
- (2) Risk management policies and procedures including limits in terms of volume and value of borrowing and lending permitted for each Client and the Participating Organisation itself;
- (3) The authority matrix in relation to the approval process within the Participating Organisation for the borrowing and lending of Eligible Securities whether by the Participating Organisation's Clients or the Participating Organisation;
- (4) The list of Eligible Securities where the Participating Organisation will not be borrowing and lending (if any);
- (5) Relevant documentation in relation to the borrowing or lending of Eligible Securities which includes the written agreement in Rule 7.18(4)(a) and the risk disclosure statement;
- (6) The handling and distribution of fees and income in relation to Eligible Securities lent and the collateral deposited;
- (7) The handling of corporate actions in respect of Eligible Securities lent and the collateral deposited; and
- (8) The carrying out of review in relation to the requirements and controls set out in the guidelines for Securities Borrowing and Lending and compliance with these Rules and the Clearing House Requirements pertaining to Securities Borrowing and Lending activities.

[End of Appendix 2]

**APPENDIX 3**  
**[Paragraph 4.1(2)(k)]**

**Regulated Short Selling:**  
**Minimum requirements for written policies and procedures and internal controls**

- (1) Criteria to assess the suitability of Client in carrying out Regulated Short Selling prior to the opening of RSS Account (as defined in Rule 8.25(1)) and on an ongoing basis;
- (2) The authority matrix in relation to the approval process within the Participating Organisation for the carrying out of Regulated Short Selling by the Clients and the Participating Organisation;
- (3) The list of Approved Securities for which the Participating Organisation will not allow for Regulated Short Selling (if any);
- (4) Procedures on amendments of orders and amendments of Contracts for Regulated Short Selling, including the supervision, monitoring and approval request for the amendments;
- (5) Relevant documentation in relation to the carrying out of Regulated Short Selling which includes the account opening form and documentation required pursuant to Rule 8.25;
- (6) Risk management policies and procedures which address the market risk, operational risk, credit risk and regulatory risk in relation to the conduct of Regulated Short Selling including limits in terms of volume and value prescribed for the carrying out of Regulated Short selling by each Client and the Participating Organisation; and
- (7) The carrying out of review in relation to the requirements and controls set out in the internal guidelines for Regulated Short Selling and compliance with the laws and rules relating to Regulated Short Selling.

[End of Appendix 3]



## APPENDIX 4 (Paragraph 12.2(3)(b))




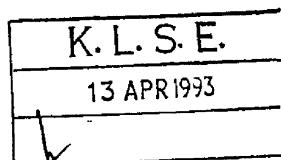
KETUA PENGARAH HASIL DALAM NEGERI,  
(DIRECTOR-GENERAL OF INLAND REVENUE)  
JABATAN HASIL DALAM NEGERI,  
(DEPARTMENT OF INLAND REVENUE)  
UNIT 34, BAHAGIAN DUTI SETEM,  
TINGKAT 20/21, WISMA KWSG,  
JALAN KAMPUNG ATTAP, 50460 KUALA LUMPUR,  
MALAYSIA

Telefon: 2740066  
2749440  
2749448  
Fax: 2743556

Ruj. Tuan: KLSE/INST/13. (286)  
Ruj. Kami: JHDN.01/34/42/68-031(G)

Tarikh: 1 April 1993  
2 Syawal 1413

 Penolong Pengurus Besar Kanan,  
Hal-Ehwal Korporat dan Undang-Undang,  
Bursa Saham Kuala Lumpur,  
Tingkat 3, 4 dan 5, Exchange Square,  
Off Jalan Semantan,  
Damansara Heights,  
50490 KUALA LUMPUR.



Tuan,

Nota kontrak yang dikeluarkan oleh komputer

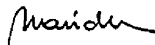
Saya merujuk kepada surat tuan bertarikh 11 Mac 1993 mengenai perkara di atas dan ingin memaklumkan bahawa cadangan tuan adalah dipersetujui.

Sekian, terima kasih.

▪ BERKHIDMAT UNTUK NEGARA ▪

▪ CINTAILAH BAHASA KITA ▪

Saya yang menurut perintah,



( PUAN MARIDAH BT LUDIN )  
Unit 34,  
Bahagian Duti Setem,  
b.p. Ketua Pengarah Hasil Dalam Negeri,  
Malaysia.

(Sila rujuk fail kami apabila meninjau)

[End of Appendix 4]

**APPENDIX 5**  
**[Paragraph 15.1(b)]**

**Minimum Coverage of Insurance Policy**

- (1) Incomplete transactions.
- (2) Loss of securities/cash.
- (3) Forged, altered, stolen or counterfeit securities.
- (4) Infidelity of employees and Dealer's Representatives.
- (5) Official investigation costs.
- (6) Computer crimes:
  - a. computer systems – fraudulent input, modification or destruction of electronic data;
  - b. electronic computer instructions – fraudulent preparation or modification;
  - c. electronic data and media;
  - d. electronic communications;
  - e. assured service bureau operations;
  - f. electronic transmission and electronic securities;
  - g. forged telefacsimile;
  - h. computer virus;
  - i. errors and omissions.
- (7) Negligence.
- (8) Libel, slander and injurious falsehood.
- (9) Breach of copyright.
- (10) Civil liability.
- (11) Inadvertent breach of trust and inadvertent breach of fiduciary duty.
- (12) Dishonesty of employees and Dealer's Representatives.

[End of Appendix 5]

Relevant to : Rules 5.03 and 5.16(2)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 11 of 1995, R/R 14 of 2009 and R/R 20 of 2007  
Refer also to Directive No(s). : N/A

## **1. Introduction**

- (1) This Directive sets out the minimum standards and conduct of Participating Organisations for trading in structured warrants.
- (2) "Structured Warrant" means individually or collectively as the context may require, call warrants, put warrants, basket warrants, bull equity-linked structures or such other structures that may be specified by the Exchange from time to time.

## **2. Rule 5.03**

- (1) Rule 5.03 requires a Participating Organisation to have in place structures, internal controls and written policies and procedures designed to:
  - (a) facilitate the supervision of the Participating Organisation's business activities and the conduct of the Participating Organisation's Registered Persons, employees and agents;
  - (b) identify, monitor and manage conflicts of interests and risks that may arise in the conduct of the Participating Organisation's business;
  - (c) achieve compliance with these Rules, the Directives, Securities Laws; and
  - (d) provide for investor protection,
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **2.1 Procedures for ensuring compliance**

A Participating Organisation must organise and manage its affairs in a responsible manner and have in place procedures and controls that will facilitate compliance with policies and guidelines relating to the conduct of Dealer's Representatives. There should also be a system of monitoring the activities of Dealer's Representatives to ensure compliance with these policies and guidelines and procedures to deal with breaches.

### **2.2 Continuing assessment of clients**

A Participating Organisation must have in place procedures to assess and monitor the financial capacity of clients to meet their obligations to the Participating Organisation with respect to trading in Structured Warrants. In making such an assessment, a Participating Organisation must take into account the financial circumstances of the client and the Participating Organisation's total financial exposure to the client. A Participating Organisation must have in place the procedures for all trades by clients in Structured Warrants.

### **2.3 Policies on Structured Warrants**

A Participating Organisation must have clear policies concerning its own dealings in Structured Warrants. These policies should deal with matters including investment objectives, as well as the identification, measurement and management of risks such as credit risks, legal risks, market risks and liquidity risks.

### **3. Rule 5.16(2)**

- (1) Rule 5.16(2) requires a Participating Organisation and Registered Person to make adequate and accurate disclosure of the risks, benefits and conflicts of interests to the Clients in the Participating Organisation's and Registered Person's dealings with the Clients.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **3.1 Documents and Information**

A Participating Organisation must provide a risk disclosure statement (in the prescribed form, as attached in **Appendix 1** of this Directive) to each Client prior to executing the Client's first instruction to trade in Structured Warrants, which must be signed by the Client. A Participating Organisation must not under any circumstances whatsoever permit any Client who fails to execute the risk disclosure statement to trade in the instrument.

### **3.2 Training and Education**

A Participating Organisation must have adequate arrangements to ensure that all staff employed by and persons acting by arrangement with, the firm who deal in Structured Warrants are suitable, adequately trained and properly supervised. The training should cover areas including an explanation of the product, the risks of trading Structured Warrants, guidelines issued by Commission and the Exchange on Structured Warrants, as well as terms relating to adjustments, exercise and settlement of Structured Warrants.

### **3.3 Sales Practices**

A Participating Organisation must ensure that any marketing or advertising with respect to Structured Warrants, conveyed through materials or by conduct of its employees or agents is not biased or misleading. A balanced view of the benefits and risks involved in the trading of Structured Warrants must be presented by the Participating Organisation and its employees or agents.

### **3.4 Other documents and information**

A Participating Organisation must also provide to its Clients who trade in Structured Warrants such other materials or documents relating to Structured Warrants directed by the Commission or the Exchange to be given to those Clients. A Participating Organisation must take reasonable steps to give a Client, in a clear and timely manner, any information needed to enable such Clients to make a balanced and informed decision.

**Appendix 1**

**STRUCTURED WARRANTS RISK DISCLOSURE STATEMENT**

- (1) This statement is provided to you in accordance with the directives of the Rules of Bursa Malaysia Securities Berhad (“Rules of Bursa Securities”).
- (2) The purpose of this statement is to inform you that the risk of loss in purchasing structured warrants can be substantial. You should therefore assess if the purchase of structured warrants is suitable for you in light of your financial circumstances. In deciding whether to purchase structured warrants you should be aware of the following:
- (i) The purchaser of a structured warrant is subject to the risk of losing the full purchase price of the structured warrant and all transaction costs;
  - (ii) In order to realise any value from a structured warrant, it is necessary to sell the structured warrants or exercise the structured warrants on or before their expiry date;
  - (iii) Under certain conditions, it may become difficult to sell the structured warrants;
  - (iv) Upon exercise of the structured warrants, the issuer may settle its obligations via actual delivery of the underlying assets, in cash or a combination of both depending on the terms of the issue of the structured warrants;
  - (v) Placing of contingent orders, such as “stop-loss” or “stop-limit” orders, will not necessarily limit your losses to the intended amount. Market conditions may not make it possible to execute such orders; and
  - (vi) The high degree of leverage that is obtainable from structured warrants because of the small initial outlay can work against you as well as for you. The use of leverage can lead to large losses as well as gain.
- (3) This brief statement cannot disclose all the risks and other aspects of purchasing structured warrants. You should therefore carefully study the terms and conditions of any structured warrant before you decide to purchase. If you are in doubt in relation to any aspect of this statement or the terms of a structured warrant, you should consult your broker.

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

I acknowledge that I have received a copy of the STRUCTURED WARRANTS RISK DISCLOSURE STATEMENT and understand its contents which have been explained to me.

Signature: .....

Full Name: .....

Date: .....

[End of Appendix]

Relevant to : Rule 5.03  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 10 of 2003  
Refer also to Directive No(s). : N/A

**1. Rule 5.03**

- (1) Rule 5.03 provides that a Participating Organisation must have in place, internal controls and written policies and procedures designed to:
- (a) facilitate the supervision of the Participating Organisation's business activities and the conduct of the Participating Organisation's Registered Persons, employees and agents;
  - (b) identify, monitor and manage conflicts of interests and risks that may arise in the conduct of the Participating Organisation's business;
  - (c) achieve compliance with these Rules, the Directives, Securities Laws; and
  - (d) provide for investor protection.
- (2) In discharging the obligations in the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 REPORTING DISCLOSURES OF NON-COMPLIANCE**

- (1) This Directive establishes a procedure for reporting disclosures to the Exchange of any breaches, non-compliance or violations by a Participating Organisation of Rule 11.02 of the Rules of Bursa Securities on requirements relating to commission.
- (2) A Participating Organisation must ensure that the procedures outlined below are disseminated, or made known, to their Clients and are positioned at their Principal Office, Branch Office(s) and Electronic Access Facilities so as to be clearly visible to all Clients or visitors.
- (3) Disclosures to the Exchange may be made by employees of the Participating Organisation or by members of the public ("whistleblower") in good faith, of information which, in the reasonable belief of the whistleblower, tends to show any or all of the following:
- (a) breach of any of the provisions of Rule 11.02 of the Rules of Bursa Securities committed by a Participating Organisation; and
  - (b) failure by a Participating Organisation to comply with any of the provisions of Rule 11.02 of the Rules of Bursa Securities.
- (4) A disclosure to the Exchange may be made orally or in writing and as far as possible, supported by all such documentary evidence as may be relevant or necessary to support the disclosure or as may be deemed expedient by the Exchange from time to time. The Exchange may require a whistleblower to provide such additional information and documents as it may determine. A disclosure must be made or addressed to:

Head, Participant Supervision Division  
Regulation  
12<sup>th</sup> Floor, Exchange Square

Bukit Kewangan  
50200 Kuala Lumpur  
Tel : (03) 2034 7141

- (5) The Exchange will endeavour to protect the identity of the whistleblower, unless the whistleblower has agreed in writing to waive confidentiality.
- (6) The Exchange will assess each disclosure received to determine whether further action is necessary, including taking disciplinary action in accordance with the Rules of Bursa Securities against the Participating Organisation or its Registered Person against whom the disclosure is made.
- (7) Where a disclosure by a whistleblower results in the imposition of a fine against the errant party and upon the fine being duly paid, the Exchange may at its absolute discretion reward the whistleblower with an amount not exceeding 50% of the fine paid. Where the whistleblower is implicated in connection with the disclosure made by him pursuant to these directives, the reward (if any) will be forfeited. A decision by the Exchange will be final and no appeals or reviews will be entertained in any circumstances.
- (8) The management and employees of the Exchange and other relevant regulatory authorities and members of their respective family will not be entitled to the reward in paragraph 1.1(7) above. "A member of the family" for the purposes of these directives, includes the person's spouse, parent, child (including adopted child and step-child), brother, sister and spouse of his child, brother or sister.

[End of Directive]

**DIRECTIVES ON THE PARTICIPATING ORGANISATIONS'  
DISASTER RECOVERY CODE AND THE IT SECURITY CODE**

**No. 5.05-001**

Relevant to : Rule 5.05  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 9 of 1997 and G 240 of 1999  
Refer also to Directive No(s). : N/A

**1. Rule 5.05**

- (1) Rule 5.05 requires a Participating Organisation to have:
- (a) business premises that are adequately and properly equipped for the conduct of the Participating Organisation's business; and
  - (b) adequate security and emergency arrangements to provide continuous business operations with minimal disruptions.
- (2) In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Disaster Recovery Site Code and IT Security Code – Baseline Procedures**

A Participating Organisation must comply with the requirements set out in:

- (a) the Participating Organisations' Disaster Recovery Site Code ("PODRS Code") in **Appendix 1** of this Directive; and
- (b) the Participating Organisations IT Security Code - Baseline Procedures in **Appendix 2** of this Directive.

[End of Directive]



**APPENDIX 1**

**PARTICIPATING ORGANISATIONS DISASTER RECOVERY SITE CODE (PODRS CODE)**

The objective of the establishment of Disaster Recovery Site (DRS) is to facilitate the resumption of critical business operations within an acceptable timeframe in the event a disaster disables the computer and office facilities at the main business premise.

The following sections address the specific guidelines for the establishment of the Disaster Recovery Site by Participating Organisations to ensure that it meets the above objective. However, Participating Organisations are required to comply with the PO IT Security Code for their full implementation, i.e. this PODRS Code must be complied with in conjunction with the PO IT Security Code.

The sections are divided into:

1. Location of Disaster Recovery Site
2. Backup of Computer Operations
3. Disaster Recovery Plan

Participating Organisations are required to abide by these guidelines to achieve a minimum standard for the establishment of disaster recovery site. However, Participating Organisations may introduce more stringent and sophisticated measures to provide for higher levels of disaster recovery capability within their own organization.

Please take note of the following terminologies used in the standards or requirements:

<b>MUST</b>	The standards or requirements that include the word "MUST" are to be treated as imperative statements, i.e. the requirements for such standards are mandatory for implementation.
<b>SHOULD</b>	The standards or requirements that include the word "SHOULD" are to be treated as statements of best practice, i.e. the implementation of these standards is highly recommended.
<b>OPTIONAL</b>	The standards or requirements that include the word "OPTIONAL" are to be treated as statements of best advice, i.e. the implementation of these standards is preferable under normal circumstances but Participating Organisations can decide what is the best for their implementation.
<b>NO</b>	The standards or requirements that include the word "NO" are to be treated as statements of forbiddance, i.e. the requirements for such standard are not allowed for implementation.
<b>NOT APPLICABLE (N/A)</b>	The standards or requirements that include the word "NOT APPLICABLE" are standards that are not applicable or not required.

**1. LOCATION OF DISASTER RECOVERY SITE**

The selection of disaster recovery site must fulfil the following minimum criteria:

No	Description	Standard
1	The disaster recovery site is located at least 10km from the main business premise to that when the main business premise cannot be accessible for any reason, the disaster site is still accessible.	SHOULD
2	The main business premise and the disaster recovery site do NOT share the same TNB power sub-station.	MUST
3	The main business premise and the disaster recovery site do NOT share the same telecommunication exchange.	MUST
4	The disaster recovery site is secured and accessible 24 hours if the need arise.	MUST

**2. BACKUP OF COMPUTER OPERATIONS**

No	Description	Standard
1	<p><b>CLEARING AND SETTLEMENT FACILITIES</b></p> <p>Participating Organisations have to put in place a backup system to cater for clearing and settlement operations by their Back Office System for clearing and settlement of client transactions and accounts, and any other processing to and from Bursa Malaysia Securities Clearing Sdn Bhd ("Bursa Clearing (S)") during a disaster.</p>	MUST
2	<p><b>FILE TRANSFER FACILITY</b></p> <p>A minimum of 1 file transfer facility (FIX) terminal is installed to ensure that the facility to transfer relevant date from Back Office system to Bursa Clearing (S) Host system and from Bursa Clearing (S)'s Host system to Back Office System will not be disrupted. This terminal must have a hard disk and relevant FIX software installed on the hard disk.</p>	MUST
3	<p><b>DATA BACKUP</b></p> <ul style="list-style-type: none"> <li>• Latest copy of system and application programs are secured at DRS. Whenever there are changes or enhancement to the system or application programs, a backup copy is kept or the necessary update to</li> </ul>	MUST

**DIRECTIVES ON THE PARTICIPATING ORGANISATIONS' DISASTER RECOVERY CODE AND THE IT SECURITY CODE**

**No. 5.05-001**

<b>No</b>	<b>Description</b>	<b>Standard</b>
	the DRS is done accordingly. <ul style="list-style-type: none"><li>• Inventory records of all backup data, application programs, vital business records, backup media (magnetic tapes, cartridges and diskettes), manuals and documentation are maintained at the DRS.</li></ul>	
4	<b>CDS TERMINAL</b> Minimum of 2 CDS terminals setup so that the CDS function can be carried out during the disaster.	<b>MUST</b>
5	<b>TRADING FACILITIES</b> <ul style="list-style-type: none"><li>• Participating Organisations have to maintain sufficient trading terminals and configuration to cater for trading during the disaster.</li><li>• All the trading facilities must be maintained offline at all times other than during the disaster period.</li></ul>	<b>MUST</b>
6	<b>NETWORK CONFIGURATION</b> The network configuration setup to provide the Participating Organisations with fault-tolerant network with redundancy. This setup must be able to provide continuous connection availability from the Exchange to the Participating Organisations.	<b>SHOULD</b>

**3. DISASTER RECOVERY PLAN**

To be effective, the disaster recovery plan must consist of business impact assessment, roles and responsibilities, framework for decision making, detailed recovery procedures and regular maintenance, testing and training.

The minimum level of standards includes:

<b>No</b>	<b>Description</b>	<b>Standard</b>
1	Computing resources and office facilities needed to support critical business functions must be clearly identified and documented.	MUST
2	Specific staff must be assigned disaster recovery roles and responsibilities	MUST
3	A disaster recovery manual and documentation must consist of the following information: <ul style="list-style-type: none"><li>• decision making for declaration of disaster</li><li>• contact list of key recovery personnel (during and after office hours)</li><li>• information on permanent personnel working at the disaster recovery site</li><li>• procedures for declaring disaster</li><li>• procedures for activating disaster recovery site</li><li>• procedures for resumption of computing facilities at the disaster recovery site</li><li>• procedures for retrieval of vital records (data, programs, documentation)</li><li>• procedures for resumption of normal computing facilities and business operation at main site</li><li>• procedures on plan maintenance, testing and training</li></ul>	MUST
4	Training and testing to familiarize recovery teams with the recovery plan must be conducted at least once a year	MUST
5	The recovery plan must be kept up-to-date and reviewed at least once a year	MUST

[End of Appendix 1]

**APPENDIX 2**



**BURSA MALAYSIA SECURITIES BERHAD**

**PARTICIPATING ORGANISATIONS  
INFORMATION TECHNOLOGY  
SECURITY CODE - BASELINE PROCEDURES**



**BURSA MALAYSIA SECURITIES  
BERHAD  
PARTICIPATING ORGANISATIONS IT SECURITY  
CODE  
- BASELINE PROCEDURES**

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<sup>1</sup> No Baseline Procedure has been developed for this Standard. It has been included here for completeness.



**BURSA MALAYSIA SECURITIES  
BERHAD  
PARTICIPATING ORGANISATIONS IT SECURITY  
CODE  
- BASELINE PROCEDURES**

**IT SECURITY BASELINE PROCEDURES**

## **INTRODUCTION**

**Compliance to the IT Security Standards is compulsory to the extent that the computer equipment and Information Technology facilities are within the control of the Participating Organisation.**

Detailed IT Security Procedures must be implemented to achieve these Standards. It is the responsibility of each Participating Organisation management to develop and document procedures in line with their operations.

## **APPLICATION OF BASELINE PROCEDURES**

Baseline Procedures have been developed to assist in the development and identification of appropriate controls and procedures to meet the IT Security Standards in the Information Technology Security Code. These Baseline Procedures must be tailored to reflect the operational processes within each Participating Organisation.

Participating Organisations with existing documented procedures are not necessarily required to re-write a new set of procedures. Where there are gaps in their existing documented procedures, these Baseline Procedures can be used to assist in enhancing their procedures.

Baseline Procedures have been developed for the following Standards:

- ITSS 2 : Personnel
- ITSS 3 : Logical Access Controls
- ITSS 4 : Physical Security and Environmental Controls
- ITSS 5 : Installation Management
- ITSS 6 : Computer Operations
- ITSS 7 : Computer Disaster Recovery Planning (CDRP)
- ITSS 8 : Change and Configuration Management
- ITSS 9 : Problem Management
- ITSS 10 : Application Development Standards
- ITSS 11 : Telecommunications
- ITSS 12 : Local Area Network (LAN) and Microcomputers



**BURSA MALAYSIA SECURITIES  
BERHAD  
PARTICIPATING ORGANISATIONS IT SECURITY  
CODE  
- BASELINE PROCEDURES**

**IT SECURITY BASELINE PROCEDURES**

Baseline Procedures are defined as follows:

- Baseline Procedures that include the word "must" are minimum controls that need to be established to satisfy the IT Security Standards. However, alternative procedures may be used to achieve the objectives of the mandatory Baseline Procedures.
- Baseline Procedures that include the word "should" are to be treated as statements of best practice. The implementation of these Baseline Procedures is highly recommended.





## **SECURITY MANAGEMENT**

### **OBJECTIVE**

*The objective of these Security Management Standards is to establish an Information Security management structure which is appropriately defined, with agreed responsibilities, authorities and inter-relationships. A clear framework of authorities and responsibilities is necessary to ensure the successful implementation of the security objectives of the Participating Organisation.*

### **SCOPE**

*The Security Management Standards will apply to information systems and information technology facilities to the extent that it is within the control of the Participating Organisations.*

### **REFERENCES**

*ITSS 3: Logical Access Controls Standards*

	<b>BURSA MALAYSIA SECURITIES BERHAD PARTICIPATING ORGANISATIONSIT SECURITY CODE - BASELINE PROCEDURES</b>	<b>ITSS 1</b>
<b>SECURITY MANAGEMENT</b>		

## 1.1 *Framework of Responsibilities*

Responsibilities for the management and administration of information technology security must be defined and agreed. The following information technology security functions must be identified:

### Security Management

Overall responsibility for ensuring that the information technology security requirements are implemented in the Participating Organisation.

### Security Administration

Responsible for the administration of logical and physical access controls for computerised information systems and monitoring access violation attempt reports.

### Internal Audit

Responsible for reviewing the adequacy of IT security and controls and monitoring compliance with the Information Technology Security Policy, Information Technology Security Standards and Procedures.

For each application system, the following should be identified:

### Data Owners

Management responsible for business data captured, stored and processed by information systems.

#### *Explanatory Notes*

*Data should also include those produced by peripherals of information systems. Storage of such data would be based on relevancy defined under this policy.*

### System Owners

Management responsible for business systems, whether or not those systems use information processing facilities. A business system must have only one owner who is responsible for approving changes to the applications. Owners of the system software must be similarly responsible for approving change in their area.

#### *Explanatory Notes*

*In most cases, the Head of Department is responsible for the department's system. However, where a system spans several departments (i.e. Human Resource, Finance and Accounting), there then exist more than one owner. The owner may*



## **SECURITY MANAGEMENT**

*wish to discuss with affected parties the impact of any proposed changes to the system and user requirements. However for reasons of accountability, there should only be one ultimate owner appointed. Information systems would include those used by external parties (e.g. clients) and outsourced to external parties.*

### **System Users**

**Any persons or functions using the information processing facilities in the course of their normal duties.**

### **System Providers**

**Functional groups providing information systems to System Owners and Users.**

### **Procedure Owners**

**Managers who are responsible for ensuring that the procedures supporting the business process are up-to-date.**

**All staff must comply with the Information Technology Security Policy and Information Technology Security Standards.**

## **1.2 Security Management Responsibilities**


**Security Management must be appointed with responsibility for:**

- i. addressing and assigning responsibility for high level issues that affect security,**
- ii. enhancing the Information Technology Security Policy and Standards when necessary,**
- iii. approving formal application for waivers of non-compliance with these Standards on advice of Security Administration.**

**Security Management must be an identified individual from the ranks of the Senior Management.**

The following procedures must be established in relation to material events that had or potentially will have a security impact:

- i. a reporting procedures including:
  - a. System and application failures;**
  - b. Malicious code discovery;**
  - c. Denial of service;****

	<b>BURSA MALAYSIA SECURITIES BERHAD PARTICIPATING ORGANISATIONSIT SECURITY CODE - BASELINE PROCEDURES</b>	<b>ITSS 1</b>
<b>SECURITY MANAGEMENT</b>		

- d. Errors resulting from incomplete or inaccurate business data or systems;
- e. Breaches of confidentiality and integrity;
- f. Misuse or abuse of facilities; and
- g. Any significant security related incidents,
- ii. a response and escalation procedures;
- iii. the point of contact for reporting the material event; and
- iv. a formal method of recording, diagnosing and resolving event noted.

### ***1.3 Security Administration Responsibilities***

**Security Administration must be appointed with responsibility for:**

- i. promoting security awareness and education,
- ii. administration of access controls software,
- iii. providing advice and guidance on the development, maintenance and implementation of these Information Technology Security Standards and Procedures,
- iv. reviewing access rights on a regular basis to ensure compliance with these Standards,
- v. monitoring and investigating security violation attempts.

**Security Administration should not be assigned responsibilities which would conflict with their normal duties.**

### ***1.4 Internal Audit Responsibilities***

**Responsibilities for the role of Internal Audit in the management and implementation of information technology security must be agreed and defined, and must include:**

- i. monitoring compliance with the Information Technology Security Policy, Information Technology Security Standards and Procedures, and evaluating internal controls within the information systems,
- ii. providing advice and guidance on the development, maintenance and implementation of these Standards and procedures,



## **SECURITY MANAGEMENT**

- iii. review adequacy of the Business Continuity Plan (BCP) and Computer Disaster Recovery Plan (CDRP) in place to allow recovery from a system failure and in the event of a disaster, resulting in a loss of the information technology services,
- iv. reviewing activities of Security Administration and advising on other security related issues.

### *Explanatory Notes*

*A document defining the responsibilities of Internal Audit should be established. In smaller companies, a full-time Internal Audit department may not necessarily undertake this function.*

*Where there is no full time Internal Audit department, this function should be undertaken by a person independent from day to day operations, for example the Compliance Officer.*

**Internal Audit must always be a separate function from Security Management and Security Administration.**

**Internal Audit must report directly to the Audit Committee. In the absence of an Audit Committee, the reports must be tabled to the Board of Directors meeting.**


### **1.5 Segregation of Duties**

**The minimum level of segregation of duties will depend on the size of the system under consideration. Where applicable, the following duties should be segregated:**

- application development
- technical support
- computer operations
- quality assurance
- internal audit
- security administration
- user departments.

### **1.6 Classification of Information**

**Information and related systems should be classified in accordance with an Information Asset Classification Policy.**

	<b>BURSA MALAYSIA SECURITIES BERHAD PARTICIPATING ORGANISATIONSIT SECURITY CODE - BASELINE PROCEDURES</b>	<b>ITSS 1</b>
<b>SECURITY MANAGEMENT</b>		

## **1.7 Data Owners**

Data Owners must:

- i. in conjunction with Security Administration, ensure that the controls over user access have been defined and documented,
- ii. authorise users' access and their required access rights to the data,
- iii. authorise amendments made to sensitive standing data,
- iv. ensure that risk assessment for the data they are responsible for has been performed and the data assigned a security classification,
- v. review access profiles at a minimum, once a year.

## **1.8 System Owner Responsibilities**

System Owners must:

- i. specify the processes for each business function. Where a process uses information processing facilities, the functional requirements of an application and the manual procedures should be defined and agreed,
- ii. verify that the systems meet with users' requirements,
- iii. ensure that system users are provided with training,
- iv. in conjunction with Security Administration and Internal Audit, ensure that the controls required within the process are defined and agreed,
- v. authorise users to use system functions. When authorising access, the System Owner must consider the following to ensure the allocation of appropriate access rights:
  - compatibility with other responsibilities and existing access rights of the user
  - the classification of the information
  - whether the requested level of access is required in order to allow the user to carry out



## **SECURITY MANAGEMENT**

- vi. his / her normal duties,
- vii. review access profiles at a minimum, once a year.

In the majority of cases, the System and Data Owner will be the same. There may be instances where the System Owner is separately defined from Data Owner. In these instances, the Data Owner must authorise users to use system functions specifically to create, update, delete and read the data.

Systems and Data Owner must ensure that regular check for compliance with security requirements for all information processing facilities that include penetration tests is carried out.

### **1.9 System User Responsibilities**

System users must:

- i. ensure the confidentiality of their user IDs and passwords,
- ii. ensure that the information processing facilities are used only for authorised purposes to protect the information processing equipment placed in their care.

### **1.10 System Provider Responsibilities**

System providers must:

- i. provide defined and agreed levels of security for computing facilities,
- ii. ensure that application systems are free from interference by other systems,
- iii. administer any specified controls that have been defined and agreed,
- iv. ensure that, in case of failure, all systems are provided with defined and agreed recovery procedures,
- v. provide information systems services that are required by the System Owners and System Users.


 <b>BURSA MALAYSIA SECURITIES BERHAD PARTICIPATING ORGANISATIONSIT SECURITY CODE - BASELINE PROCEDURES</b>	<b>ITSS 1</b>
<b>SECURITY MANAGEMENT</b>	

### ***1.11 Procedure Owner Responsibilities***

**Procedure Owners must:**

- i. provide documented procedures to the users of the system,**
- ii. ensure that the procedures for all the systems are up-to-date,**
- iii. control the distribution of the procedures and ensure that users have an up-to-date copy of the procedures,**
- iv. ensure that the procedures conform to the Information Technology Security Policy and Standards.**



 <b>BURSA MALAYSIA SECURITIES BERHAD</b> PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES	<b>ITSS 2</b>
<b>PERSONNEL</b>	

## **OBJECTIVE**

*Information technology security measures rely on the honesty and capability of individuals. As a result, the Management should involve consideration of a number of Personnel issues.*


## **SCOPE**

*The Personnel Standards apply to all employees of the Participating Organisations.*

*These Standards should be applied in conjunction with existing in-house personnel/human resource standards.*

## **REFERENCES**

*ITSS 1: Security Management Standards*

 <p><b>BURSA MALAYSIA SECURITIES BERHAD</b> PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES</p>	<p><b>ITSS 2</b></p>
<p><b>PERSONNEL</b></p>	

## **2.1 Security Training**

Information security education must be provided to all new staff and reinforced on an on-going basis to create and maintain security awareness among the staff.

### **Baseline Procedures**


- 1) All new staff must be given security awareness training upon joining.
- 2) Reinforcement security awareness education should be given to all staff at least once a year.

## **2.2 Employment of Staff**

All applicants for sensitive positions must be subject to adequate investigation and review before being employed.

### **Baseline Procedures**

- 1) Sensitive departments, sections and positions within the organisation must be identified.
- 2) Investigation of career history and appropriate qualifications for positions must be conducted.
- 3) Provision of at least one reference which must be followed up.
- 4) New employees must be placed on probationary status and their progress reviewed to ensure that they are performing their duties adequately.
- 5) Access rights for newly appointed staff should be restricted during their probationary period.
- 6) Contract staff should not be employed in areas that are highly confidential or that would increase the risk of a security exposure to an unacceptable level.

 <p><b>BURSA MALAYSIA SECURITIES BERHAD</b> PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES</p>	<p><b>ITSS 2</b></p>
<p><b>PERSONNEL</b></p>	

## **2.3 Intellectual Property Rights**

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The terms of employment must establish the intellectual property rights over any designs, procedures or inventions which the staff develops during the course of employment.

### **Baseline Procedures**

- 1) The terms of employment must establish the rights over intellectual property which the staff develops during the course of employment, which must be acknowledged by the staff.

## **2.4 Termination of Employment / Transfers**


There must be prompt notification of all staff movements by relevant departments to Security Administration and prompt action taken to revoke or amend access rights.

### **Baseline Procedures**

- 1) Personnel must inform Security Administration and other relevant departments of all staff resignations, terminations and transfers.
- 2) Where the employment of a staff is terminated, all access rights must be revoked immediately and, where appropriate, the staff escorted from the premises.
- 3) Employees in sensitive positions who resign should be assigned to alternate duties or offered early separation. Access rights must be revoked on the date of the staff's departure.
- 4) Any common passwords/codes known by the staff, must be changed on the date of the staff's departure.
- 5) Human Resource department must ensure all keys, identification and access cards held by leavers are returned.

### *Explanatory Notes*

*Human Resource may delegate this function to the respective Head of Department but ultimately it is Human Resource that is responsible.*

 <p><b>BURSA MALAYSIA SECURITIES BERHAD</b> PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES</p>	<p><b>ITSS 2</b></p>
<p><b>PERSONNEL</b></p>	

- 6) Leavers should be allowed to take only personal items from the premises.
- 7) Transfer of job responsibilities must be reviewed by the Security Administration and Data Owner.

*Explanatory Notes*

*A user access matrix should be developed by the Data Owner listing all pre-agreed access profiles for designated job functions. The Security Administrator is responsible for the day to day administration of these profiles.*

## **2.5 Roles and Responsibilities**

**Detailed staff roles and responsibilities (including IT security responsibilities) must be documented and communicated to the individual staff.**

**Baseline Procedures**


- 1) Job descriptions must include compliance with IT Security Policy and Standards.
- 2) Roles and responsibilities must be acknowledged by the staff.

## **2.6 Disciplinary Procedures**

**All employees must be informed of the disciplinary action(s) that may be taken in the event of being found to have committed a security breach.**

**Baseline Procedures**

- 1) All employees must sign a contract of employment that establishes their duties with respect to both physical and information technology security and which states that security breaches will result in disciplinary action or dismissal.
- 2) The employment contract must include the following arrangements for all employees :
  - a confidentiality undertaking relating to disclosure of information,
  - the requirement to note and report any observed or suspected security weaknesses,

 <p><b>BURSA MALAYSIA SECURITIES BERHAD</b> PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES</p>	<p><b>ITSS 2</b></p>
<p><b>PERSONNEL</b></p>	

- the disciplinary procedures that will be followed for employees found to have violated the Information Technology Security Policy, Information Technology Security Standards and procedures.

*Explanatory Notes*

*A separate document, for example in the form of a Security Handbook, can be made available to employees. Employees are required to read this document and to sign a “read and understood” agreement.*

## **2.7 Penalties for Non-Compliance**

After due enquiry, non-compliance or violation of the Information Technology Security Policy and Information Technology Security Standards must result in action that may include but not be limited to:


- civil and/or criminal prosecution,
- termination of employment without notice,
- downgrading,
- suspension from work without pay for a period of not exceeding one (1) week,
- any other lesser punishment.

## **2.8 Appraisal**

All staff must be appraised regularly including an assessment of compliance to the Information Technology Security Policy, Information Technology Security Standards and Procedures.

**Baseline Procedures**

- 1) The staff appraisal process must include an annual assessment of compliance with the Information Technology Security Policy, Information Technology Security Standards and Procedures.


 <b>BURSA MALAYSIA SECURITIES BERHAD PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES</b>	<b>ITSS 2</b>
<b>PERSONNEL</b>	

## **2.9 Use of Contractors**

**Work undertaken by contractors/third party service providers must be subject to compliance to the IT Security Policy and Standards.**

### **Baseline Procedures**

- 1) Contractors must sign a standard contract which includes a requirement that any work undertaken on behalf of the Participating Organisation must comply with the Information Technology Security Policy, Information Technology Security Standards.
- 2) Contractors must sign a statement of confidentiality.
- 3) Contractors must inform the Participating Organisation of all other concurrent or known pending engagements that might present an actual or apparent conflict of interest.
- 4) Contractors' work must be monitored by an authorised staff.
- 5) Contractors must be monitored by an authorised staff when in the premises.
- 6) Contractors should not be given sole responsibility for a project team management.
- 7) No project should become dependent upon the continued involvement of a specific contractor.

 <b>BURSA MALAYSIA SECURITIES BERHAD</b> PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES	<b>ITSS 3</b>
<b>LOGICAL ACCESS CONTROLS</b>	

## **OBJECTIVE**

*The objective of Logical Access Controls Standards is to enforce the segregation of duties by ensuring that individuals can only access data and perform processing functions to which they have been authorised.*

## **SCOPE**


*The Logical Access Controls Standards apply the information systems and information technology facilities to the extent that it is within the control of the Participating Organisations.*

## **REFERENCES**

*ITSS 1: Security Management Standards*

*ITSS 2: Personnel Standards*

*ITSS 8: Change and Configuration Management Standards*

	<b>BURSA MALAYSIA SECURITIES BERHAD</b> <b>PARTICIPATING ORGANISATIONS IT SECURITY CODE</b> <b>- BASELINE PROCEDURES</b>	<b>ITSS 3</b>
<b>LOGICAL ACCESS CONTROLS</b>		


### **3.1 User Access Administration**

**Access to all information systems must be restricted to authorised persons. The responsibilities for the administration of logical access controls must be defined, agreed and documented.**

#### **Baseline Procedures**

- 1) Access to all computer information systems must be restricted only to authorised persons, enforced by system logical access controls.
- 2) A logical access control policy must be formulated by System and Data Owners, and where possible, administered by an independent Security Administration function. Based on the principle of least rights, the logical access control policy must define the access rights appropriate for each user group. This must be documented, e.g. in the form of an access control matrix. The access control policy should be based on the requirements of the business, taking into account:
  - the security requirements of the business application concerned,
  - the corporate and departmental policies for information dissemination and entitlement,
  - contractual or legal requirements to protect access to data or services.
- 3) Logical access controls must be used to enforce segregation of duties between incompatible functions. The following principles must be observed :
  - IT staff must not have access to end-user functions.
  - System and application programmers must not have routine access to production data, production systems or production application software.
- 4) Logical access procedures for the creation, amendment and maintenance of user and resource profiles must be defined, agreed and documented. Relevant audit trails for each of these activities must be maintained.
- 5) System enforced logical access paths should be implemented, such as the use of restricted menus and sub-menu options available depending on the individual user access profiles defined.
- 6) User access granted to system resources and application functions must only be granted on the basis of written requests authorised by System or Data Owners, which must be retained as an audit trail.



	<b>BURSA MALAYSIA SECURITIES BERHAD</b> <b>PARTICIPATING ORGANISATIONS IT SECURITY CODE</b> <b>- BASELINE PROCEDURES</b>	<b>ITSS 3</b>
<b>LOGICAL ACCESS CONTROLS</b>		


- 7) The System and Data Owners must ensure access rights are appropriately allocated. When authorising access, they must consider:
  - compatibility with other responsibilities and existing access rights of the user,
  - the classification of the information to be accessed,
  - whether the requested level of access is required in order to allow the user to carry out his/her normal duties,
  - duration of access required if granted on a temporary basis.
- 8) Security Administration must review all access requests. If Security Administration considers an access request as inappropriate, the matter must be raised with the System or Data Owner, who must provide additional written justification for the access request before its implementation by Security Administration.
- 9) Remote access to third party service providers/vendors may only be granted upon approval by IT management. All remote access must be under the control of Security Administration. Remote users' activities must be logged and monitored. Reason for access, duration and appropriate authorisation must be recorded in the log.
- 10) Naming standards for disk storage, directory structures, file names, and user IDs should be defined to aid the implementation of security.

### **3.2 Access Control Software**

**Access control software should be implemented to enforce resource security and segregation of duties.**

#### **Baseline Procedures**

- 1) Logical access to system resources should be controlled by Access control software.
- 2) All user exits in system and access control software must be adequately documented, authorised and independently reviewed.
- 3) Access to access control software administration facilities must be limited to Security Administration.

 <p><b>BURSA MALAYSAI SECURITIES BERHAD</b> PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES</p>	<p><b>ITSS 3</b></p>
<p><b>LOGICAL ACCESS CONTROLS</b></p>	

### **3.3 User Identification**

**Computer information systems must require each user to identify him/herself to the system with a recognised approved user ID.**

#### **Baseline Procedures**

- 1) Each authorised user of information systems must be designated a user ID to initiate terminal sessions.
- 2) A common user ID naming convention should be adopted across all computer platforms to facilitate the identification of individual users.
- 3) Users must not allow other persons to use their user IDs to gain access to computer resources.
- 4) User IDs should not be shared.
- 5) Default user IDs provided with the system software must either be disabled or have their passwords changed.


### **3.4 User Authentication and Password Protection**

**Computer information systems must require users to authenticate their identity by requiring a password to be used in conjunction with their user ID.**

**User passwords must be subject to strict controls to ensure confidentiality.**

#### **Baseline Procedures**


- 1) Each user ID must require a password to authenticate the user's identity to the computer system in order to gain access to computer resources.
- 2) All new users must be educated on the protection of passwords.
- 3) Users must report unauthorised access attempts and unauthorised violation attempts to their respective Head of Department and Security Administrator.
- 4) Users must keep their passwords secret at all times. Users must be instructed not to divulge, print or write down passwords.
- 5) Access control systems should ensure that a minimum length for passwords, at least 8 characters in length.
- 6) Passwords must not be displayed on-screen during input.

	<b>BURSA MALAYSIA SECURITIES BERHAD</b> <b>PARTICIPATING ORGANISATIONS IT SECURITY CODE</b> <b>- BASELINE PROCEDURES</b>	<b>ITSS 3</b>
<b>LOGICAL ACCESS CONTROLS</b>		

- 7) Passwords must be kept encrypted within the system.
- 8) Users must be instructed to define passwords that are not easy to guess, i.e.:
  - passwords must not be the same as the user ID,
  - passwords must not be composed of repeating characters,
  - passwords should not be the staff's, family or pet names or car registration numbers etc.,
  - passwords should not be re-used,
  - passwords should be composed of both alphabetical and numeric character combinations.
- 9) Passwords must be changed regularly for all systems and under the following conditions :
  - at least every ninety (90) days for mission critical systems,
  - upon first logon or when a new or amended password is issued by Security Administration. Where possible, systems should enforce password change upon first logon for new users,
  - when a default password is provided with the system,
  - where users suspects that their password is known to others,
  - when there is staff termination or resignation,
  - when user access rights change due to change in user responsibilities.
- 10) Logical access controls systems should enforce password changes by automatic expiry. Where this is not technically possible, passwords must be changed manually. In such situations, new passwords must be conveyed directly to users in a secure manner and users must acknowledge receipt of passwords.
- 11) Where possible, systems should prevent re-use of recent or similar passwords.
- 12) Users must be instructed that different passwords must be used where more than one layer of security exists.
- 13) The system log-on sequence should display the date and time of the user's last access to the system, and the number of failed access attempts since the last successful log-on.

### **3.5 Revocation of Access Rights**

**Access rights no longer required for an individual's normal duties must be revoked immediately.**

 <p><b>BURSA MALAYSIA SECURITIES BERHAD</b> PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES</p>	<p><b>ITSS 3</b></p>
<p><b>LOGICAL ACCESS CONTROLS</b></p>	

#### **Baseline Procedures**

- 1) In the event of termination of employment, logical access rights assigned to the individual must be removed immediately.
- 2) In the event of resignation, logical access rights assigned to the individual must be reviewed , and where appropriate reduced or removed.
- 3) In the event of a change in user responsibilities, access rights must be reviewed and revised where appropriate.
- 4) User IDs must be deactivated/disabled if they are inactive for a period in excess of ninety (90) days.

#### *Explanatory Notes*

Where systems permit, deactivation of inactive user IDs (non-usage for more than 90 days) must be automated.

*Otherwise, there must be appropriate manual procedures to remove inactive user IDs.*


- 5) User IDs for staff who are absent for an extended period of time, e.g. on maternity, sick or long term leave, should be deactivated.
- 6) User IDs should be automatically disabled after three (3) consecutive unsuccessful log-on attempts.
- 7) User IDs that have been automatically disabled must only be reactivated by Security Administration after an investigation has been conducted. The findings from the investigation must be documented.

### **3.6 Terminal Session Control**

**Logical access controls should be enforced to ensure that active terminal sessions are restricted to usage by authorised users.**

#### **Baseline Procedures**

- 1) All users must be educated to log-off when leaving their terminals unattended for any period of time.
- 2) Unattended terminals should be automatically logged off or the screen "blanked out" by a screen lock facility after a period of ten minutes inactivity. A password must be required before the terminal session can be reactivated.
- 3) Individuals must be required to re-enter their password after an active session has been deactivated as a result of a system failure, session time-out or other similar event.

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<b>LOGICAL ACCESS CONTROLS</b>		


- 4) The simultaneous log-on of two or more terminals using the same user ID should be prohibited. Where possible, the system should enforce this. During log-on, the system should inform the user if the user ID is already in use.

### **3.7 Monitoring of Access**

**Access to sensitive data, powerful utility programs and access violation attempts must be monitored, logged and investigated.**

#### **Baseline Procedures**

- 1) Update access to files required on an emergency basis must be logged and the logs subject to retrospective review by Security Administration. Configuration Management should ensure that emergency changes conform to the Configuration Management Standards and Application Development Standards.
- 2) Access to sensitive data must be restricted. All access must be logged and subject to review by Security Administration.
- 3) Powerful utility programs capable of bypassing logical access controls must be:
  - stored in secure libraries,
  - restricted to a minimum number of authorised users,
  - protected from being copied or renamed.
- 4) Access to powerful utilities must be authorised. The use of powerful utilities must be monitored and logged by Security Administration.
- 5) All unauthorised access attempts and other security related events must be logged and should be subjected to review by Security Administration. Logging, reporting and surveillance facilities must be used to monitor security and should include:
  - logging of unauthorised access attempts,
  - logging of maintenance to security profiles or security tables,
  - logging of the use of sensitive commands,
  - logging of privileged user activity,
  - logging of access by third party vendors / engineers,
  - logging of access to system log file.
- 6) Users must not be able to modify audit logs.
- 7) Where systems permit, the violation report must be produced for review by Security Administration on a daily basis.
- 8) All unauthorised access attempts and other security violations reported must be investigated by Security Administration.

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### **3.8 *Review of Access Profiles***

**Logical access profiles must be reviewed on a regular basis, at least once a year, to ensure that access rights remain appropriate.**

#### **Baseline Procedures**

- 1) Logical access controls must be reviewed on a regular basis by Security Administration. As a minimum, the review must be undertaken at least once a year.
- 2) Business users' access profiles must be reviewed as a minimum once a year by the System or Data Owner.
- 3) A copy of the list of access profiles must be signed by the System or Data Owner and sent to Security Administration for filing.

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<b>PHYSICAL SECURITY/ENVIRONMENTAL CONTROL</b>	

## **OBJECTIVE**

*The objective of Physical Security/Environmental Controls Standards is to prevent unauthorised access to computer related equipment and to ensure that the computer related equipment is adequately protected against natural hazards and malicious damage.*

## **SCOPE**

*The Physical Security/Environmental Controls Standards apply to the information systems and information technology facilities to the extent that it is within the control of the Participating Organisations.*

## **REFERENCES**

*ITSS 1: Security Management Standards*

*ITSS 3: Logical Access Controls Standards*

*ITSS 6: Computer Operations Standards*

 <p><b>BURSA MALAYSIA SECURITIES BERHAD</b> PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES</p>	<p><b>ITSS 4</b></p>
<p><b>PHYSICAL SECURITY/ENVIRONMENTAL CONTROL</b></p>	

## **4.1 Physical Access to Data Centre**

**Physical access to computer and related equipment must be adequately controlled and restricted to authorised staff only.**

### **Baseline Procedures**

- 1) Secure locations of sensitive areas must be identified and documented as part of the physical access control procedures.
- 2) All critical computer related equipment must be placed in secure locations (Data Centre) to ensure that physical access is controlled.
- 3) These locations must not be publicly identifiable or visible from the outside and inside of the building.
- 4) Entrances to secure locations and sensitive areas must be fitted with locking devices, which should be able to identify staff and date and time of entry/exit.
- 5) Access to secure locations and sensitive areas must be restricted only to authorised staff.
- 6) Access to secure locations and sensitive areas by others (for example, third party contract staff, cleaning staff and maintenance engineers) must be controlled to ensure that :
  - they are bona fide,
  - they have been authorised by the contractor,
  - they have been approved by the relevant head(s) of department,
  - they are monitored by a member of staff.
- 7) Access by visitors and non-authorised staff to secure locations or sensitive areas must be authorised and logged. Such access must be supervised by an authorised staff.
- 8) The date and duration of visits must be recorded in a visitor's log which should be reviewed regularly. Security Administration is responsible for monitoring and administrating physical access into the Data Centre.
- 9) All emergency exits from the Data Centre must be equipped with alarms. Access to computer facilities in the Data Centre through these exits from the outside must be prevented.
- 10) Access to air conditioning units, power and telecommunication lines, and back-up power units must be secured.
- 11) Perimeter walls surrounding the Data Centre should be constructed from true floor to true floor.



 <p><b>BURSA MALAYSIA SECURITIES BERHAD</b> PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES</p>	<p><b>ITSS 4</b></p>
<p><b>PHYSICAL SECURITY/ENVIRONMENTAL CONTROL</b></p>	

## **4.2 Fire Safety and Water Supplies**

**Computer and related equipment must be adequately protected from fire and water damage.**

### **Baseline Procedures**

- 1) The Data Centre and areas containing critical computer related equipment and information systems staff must be protected by an automatic fire detection and alarm system.
- 2) Installation of fire suppression systems must comply with local regulations.
- 3) Fire detection and suppression systems must be inspected to ensure that they have been properly installed. The systems must also be inspected and serviced regularly, at least once a year.
- 4) Appropriate portable fire extinguishers must be placed in strategic locations. There must be no obstruction to these locations and the instructions for operating the fire extinguishers must be clearly displayed.
- 5) Smoking, eating and drinking must be prohibited in the Data Centre.
- 6) Electrical peripherals, for example distribution box and wiring, must be maintained by qualified electricians on an annual basis.
- 7) Main shut off valves for water sprinkler systems should be easily accessible.
- 8) All items and flammable materials not essential to Data Centre operations should be kept outside the Data Centre.

## **4.3 Power Supplies**

**Power supplies to critical systems must be protected and backup sources provided to ensure continuity of processing.**

**The Data Centre power supply must be backed-up as follows:**

- |                                    |   |  |
|------------------------------------|---|--|
| <b>Generator required</b>          | - | <b>Data Centre air conditioning and lighting.</b>          |
| <b>UPS/Battery Backup required</b> | - | <b>all computers, security and fire detection systems.</b> |

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<p><b>PHYSICAL SECURITY/ENVIRONMENTAL CONTROL</b></p>	

**Baseline Procedures**

- 1) A generator must be installed as a back up power supply for the Data Centre.
- 2) Critical systems must be supported by an uninterruptible power supply (UPS) or have battery back up. Back up power supply must be able to support critical system load for at least a minimum period of ten minutes.
- 3) The generator and UPS must be securely located. Where possible, it should be located in a separate locked room and the key kept under secure conditions, accessible only to authorised personnel.
- 4) The location of the generator and UPS must be well ventilated and be equipped with fire detection and prevention systems.
- 5) Generator and UPS installations must be subject to regular inspection, maintenance and testing.
- 6) All electric cables must be laid and maintained in accordance with Jabatan Bekalan Elektrik (JBE) regulations.

**4.4 Environmental Controls**

**The environment of the Data Centre must be properly controlled and monitored to ensure the efficient performance of computer and related equipment to reduce the risk of system failure.**

**Baseline Procedures**

- 1) Room temperature in the Data Centre must be controlled within a specified range as recommended by the manufacturers of the computer equipment and peripherals.

Humidity of the air in the Data Centre should also be maintained within a specified range as recommended by the manufacturers.

- 2) Adequate ventilation must be provided for all work areas. Air cooling units must be subjected to regular inspection and cleaning.

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<b>PHYSICAL SECURITY/ENVIRONMENTAL CONTROL</b>	

#### **4.5 Control of Storage Media**

**Access to computerised storage media must be restricted only to authorised staff and must be adequately protected from physical and environmental damage.**

##### **Baseline Procedures**

- 1) Access to computerised storage media, both on-site and off-site must be controlled and only granted to authorised personnel.
- 2) All movements of computerised storage media from storage must be logged. Proper authorisation(s) must be in place for movements to off-site locations.
- 3) Computerised storage media must be physically secured and protected from physical and environmental damage (e.g. fire, heat and water damage).
- 4) Computerised storage media must be rendered unreadable before disposal.
- 5) Storage media containing original installation software must be securely kept.

#### **4.6 Printed Output**

**Access to confidential printed output and printers generating confidential information must be restricted only to authorised staff.**

##### **Baseline Procedures**

- 1) Confidential information must be identified and documented.
- 2) Confidential information must be printed on secure printers (i.e. housed in secure locations).
- 3) Access to secure printers must be restricted and confidential printed output only released to authorised persons.
- 4) Documents containing confidential information must be rendered unreadable prior to disposal (e.g. cross-shredding).


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<b>PHYSICAL SECURITY/ENVIRONMENTAL CONTROL</b>	

#### **4.7 Emergency Procedures**

**Emergency and evacuation procedures must be documented. Staff must be adequately trained to handle emergencies.**

##### **Baseline Procedures**

- 1) Emergency and evacuation procedures must be documented and made available to all staff.
- 2) All staff must be informed of the emergency procedures. The emergency procedures must be tested at least once a year. Fire drill training must be given to designated individuals who will function as fire marshals in the event of an emergency.
- 3) Staff must be trained in the use of fire extinguishers.
- 4) First-aid supplies and emergency hand-held lights must be available and easily located.
- 5) Fire exits, evacuation rules, emergency power-off points, and location of fire extinguishers must be kept free from obstruction.
- 6) Procedures for safe evacuation in an emergency must be visibly posted at key locations.

 <b>BURSA MALAYSIA SECURITIES BERHAD</b> PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES	<b>ITSS 5</b>
<b>INSTALLATION MANAGEMENT</b>	

## **OBJECTIVE**

*The objective of the Installation Management Standards is to ensure that system software and hardware are managed in a consistent and controlled manner in order that application systems are operated in a controlled manner.*

## **SCOPE**

*The Installation Management Standards apply to all information systems and information technology facilities to the extent that it is within the control of the Participating Organisations.*


## **REFERENCES**

*ITSS 1: Security Management Standards*

*ITSS 4: Physical Security / Environmental Controls Standards*

*ITSS 6: Computer Operations Standards*

*ITSS 8: Change and Configuration Management Standards*

	<b>BURSA MALAYSIA SECURITIES BERHAD</b> <b>PARTICIPATING ORGANISATIONS IT SECURITY CODE</b> <b>- BASELINE PROCEDURES</b>	<b>ITSS 5</b>
<b>INSTALLATION MANAGEMENT</b>		


## ***5.1 System Software and Technical Support***

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**Systems software must be installed and maintained for optimum performance according to vendors' recommendations, and must be adequately protected from unauthorised access.**

### **Baseline Procedures**

- 1) System software must be adequately protected by access control mechanisms.
- 2) All systems software must be fully supported by the vendor or an agent of the vendor. For example, operating system in use must be supported by the vendor.
- 3) All changes to system software must be authorised and processed in accordance to the Change and Configuration Management standards.
- 4) The vendor's proprietary update control software should be used to apply system software changes in accordance with the Change and Configuration Management Standards.
- 5) Any facility developed to automate system software maintenance must be fully documented and supported.
- 6) Any system failures and dumps must be logged, investigated and reported to IT management, in accordance with Problem Management Standards.
- 7) Details of instructions given by software support personnel to operations personnel must be documented in a log.
- 8) Requests for software support must be logged, detailing reasons for the request and personnel involved. When technical support personnel require temporary access to live data or software libraries for diagnostic purposes, the access request must be subject to authorisation and logged.
- 9) An inventory listing uniquely identifying all system software must be maintained and verified on a regular basis.

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<p><b>INSTALLATION MANAGEMENT</b></p>	

## **5.2 Hardware Management**

**Physical computer and related equipment must be properly controlled and maintained to ensure efficient performance and to prevent loss or damage.**

### **Baseline Procedures**


- 1) All computer and related hardware must be maintained in accordance with the Physical Security / Environmental Controls Standards.
- 2) An inventory list uniquely identifying all computer and related equipment must be maintained and verified on a regular basis.
- 3) The removal, movement or disposal of computer equipment must be authorised and logged, in accordance with Change and Configuration Management Standards.
- 4) Hardware maintenance agreements must be established for computer equipment. All such agreements must include preventive maintenance.
- 5) All computer equipment must be operated and maintained in accordance to the manufacturer's specifications.
- 6) A log of hardware problems and actions taken to resolve the problems must be maintained, logged and reviewed, subject to Problem Management Standards
- 7) Hardware capacity planning must be performed and reviewed on a regular basis, at least once a year.

## **5.3 Service Level Agreements with Third Party Service Providers**

**Service Level Agreements (SLAs) must be established between Participating Organisations and third party computer service providers to formally define the agreed service performance standards and course of action in the event of service support failure.**

### **Baseline Procedures**

- 1) For all outsourced services, formal Service Level Agreements (SLAs) must be established and agreed between third party computer vendors and Participating Organisations.
- 2) SLAs must document, where applicable, the following:


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<b>INSTALLATION MANAGEMENT</b>		

- Start and end dates for the SLA
  - Responsibilities of the parties, including accountability for assets managed by service provider
  - Confidentiality undertaking
  - Days and hours of service availability
  - Means of contacting key personnel
  - Maximum response times
  - Activity monitoring, information to be reported and method of reporting by vendor
  - Mechanisms to ensure compliance, including penalties for non-performance and termination procedures
  - Definition of terms
  - Billing arrangements
  - Equipment required
  - Operations and user contact personnel
  - Relevant standards
  - Compliance with IT security requirements
  - Escrow agreement, where necessary
  - Ownership of all resources, where necessary
  - System availability (within and outside of normal business hours), where applicable
  - System performance (including on-line response times, on-line and off-line printing and batch completion times), where applicable
  - Capacity requirements, where applicable
  - Recovery times, where applicable
  - Contingency arrangements (availability and performance), where applicable.
- 3) All IT staff and affected parties must be made aware of the relevant SLAs and the commitments contained within.
  - 4) The response time for vendor support must be defined and agreed upon, and must correspond to the required levels of availability of systems as defined in the SLAs.
  - 5) System performance must be regularly monitored against levels defined in the SLAs.
  - 6) SLAs must be reviewed on a regular basis, at least once a year.
  - 7) SLAs must be subject to Change and Configuration Management Standards. SLAs must be amended to reflect system and installation changes or business needs.

## **5.4 Procurement of Hardware and Software**


**Hardware and Software procurement procedures must be developed to ensure that the best equipment and software available to meet business requirements is used. All IT hardware and software must be compatible.**



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<p><b>INSTALLATION MANAGEMENT</b></p>	

**Baseline Procedures**

- 1) A list of approved equipment and vendors should be maintained.
- 2) Hardware and software procurement procedures must be developed to control all procurement of IT hardware and software (including PC products).
- 3) The selection of computer equipment must be authorised by IT management.
- 4) All procurement of hardware and software including “free of charge” supplies must be performed in consultation with the IT department.

 <b>BURSA MALAYSIA SECURITIES BERHAD</b> PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES	<b>ITSS 6</b>
<b>COMPUTER OPERATIONS</b>	

## **OBJECTIVE**

*The objective of Computer Operations Standards is to ensure that operational procedures are documented and adhered to. These operational procedures are to ensure the continuity of processing, minimising the risk of disruption to computer services and to ensure that jobs are processed in an authorised manner.*

## **SCOPE**

*The Computer Operations Standards apply to all information systems and information technology facilities to the extent that it is within the control of the Participating Organisations.*

## **REFERENCES**


*ITSS 1: Security Management Standards*

*ITSS 4: Physical Security / Environmental Controls Standards*

*ITSS 7: Computer Disaster Recovery Planning Standards*

*ITSS 8: Change and Configuration Standards*

*ITSS 9: Problem Management Standards*

	<b>BURSA MALAYSIA SECURITIES BERHAD</b> <b>PARTICIPATING ORGANISATIONS IT SECURITY CODE</b> <b>- BASELINE PROCEDURES</b>	<b>ITSS 6</b>
<b>COMPUTER OPERATIONS</b>		

## 6.1 *Operating Instructions*

Operating instructions must be properly documented and available to operations staff to ensure the smooth operation of computer equipment and to ensure that processing is performed as authorised.

### Baseline Procedures


- 1) All Computer Operations instructions must be approved and documented. These should include :
  - staff responsibilities
  - maintenance and upkeep of environmental, computer and related equipment
  - responses to program and system messages
  - authorised job control schedules
  - job run procedures
  - backup procedures and media management
  - recovery and restart procedures
  - emergency procedures.
- 2) All documentation in Computer Operations must be maintained and regularly updated by Computer Operations staff to ensure information is up-to-date, complete and accurate. This should be subject to review by management.

## 6.2 *System Logs*

System activities must be logged and monitored for irregularities.

### Baseline Procedures

- 1) A log of system activities, including the operator console activity, where applicable, must be maintained as an audit trail and reviewed.
- 2) System exceptions must be identified, highlighted and monitored by Computer Operations staff, or other staff designated to respond to such exception conditions.
- 3) The system log:
  - must be archived until all outstanding problems which require reference to it have been resolved, afterwhich it may be purged;
  - should be archived for a minimum period of at least one year; and
  - should be audited.

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<b>COMPUTER OPERATIONS</b>		

- 4) Computer operations staff must not be able to bypass the logging process and update or delete entries from the system log.

### **6.3 Data Centre Environment**

**A safe and secure Data Centre environment must be maintained to ensure the physical security of data and computer equipment.**

#### **Baseline Procedures**


- 1) The Data Centre environment must be maintained in compliance with the Physical Security / Environmental Controls Standard.
- 2) All Computer Operations staff must be trained to deal with emergencies (such as fire or bomb threats) and in the discharge of manual and automatic fire extinguishing systems.
- 3) Smoking, eating and drinking must be prohibited in the Data Centre.

### **6.4 Backup Storage Media Protection**

**All backup media must be recorded, uniquely identified, stored securely and subject to secure disposal procedures.**

#### **Baseline Procedures**

- 1) Copies of back-up files and documentation must be kept in a secure off-site location at all times. Backup copies must be transferred to the off-site location regularly, preferably daily.
- 2) Security of backup storage media must be maintained in compliance with the Physical Security / Environmental Controls Standards.
- 3) Off-site locations must be subject to the defined Physical Security / Environmental Controls Standards
- 4) Off-site locations must be situated at a reasonable distance from the primary computer site.
- 5) All storage media must be uniquely labelled to identify the contents.
- 6) Centralised inventory listings of all storage media must be maintained for both on-site and off-site locations. Details recorded must include:
  - unique label name of the media item and contents;

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<p><b>COMPUTER OPERATIONS</b></p>	


- the location; and
  - the data retention period of the storage media.
- 7) Inventory checks must be carried out, at least once a year to ensure that all storage media are accounted for. There should be periodic testing of backup media at both on-site and off-site locations to ensure that back-ups are in useable condition for recovery and that their contents are as documented. Back-up media found to be unreadable must be reported to the Head of Computer Operations.
  - 8) All movements of back-up media must be monitored and logged. The deposit and withdrawal of back-up media from storage locations must be restricted to only authorised staff.
  - 9) Copies of back-up files moved to or from off-site storage locations must be provided with defined and agreed levels of security during transportation.
  - 10) The retention period of back-ups must be defined and agreed by Computer Operations, Systems and Data Owners in accordance with relevant regulatory requirements. These must be documented in operations procedures.
  - 11) All media containing confidential data must be rendered unreadable prior to removal or disposal.
  - 12) The removal or disposal of all storage media must be authorised and logged.
  - 13) When computer equipment is changed, consideration should be given to the back-up media and data formats to ensure that they can still be restored.
  - 14) Back-up media must be capable of being retrieved within a specified timescale as documented in the Computer Disaster Recovery Plan.
  - 15) Where a third party has been authorised to store back-up media, a service level agreement (SLA) should be defined and documented, and in compliance with the IT Security Standards.

## **6.5 Frequency and Retention of Backups**

**Backups should be made on a regular basis that will ensure the continuity of processing in the event of a processing interruption.**

### **Baseline Procedures**

- 1) The frequency of data back-ups and their retention period must be defined and agreed by Computer Operations, System Owners, Data Owners and Application Development. These must be documented in the operations procedures.

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<b>COMPUTER OPERATIONS</b>		

- 2) Back-ups must be made prior to and after any major changes to the system or application software.

## **6.6 Job Scheduling and Reporting**

**Job runs must be monitored against approved job schedules, and all problems and exceptions must be reported and reviewed.**

### **Baseline Procedures**


- 1) Production jobs must be run in accordance with an authorised job schedule. Job schedules must be completed, independently reviewed and retained as an audit trail. The console log must be independently reconciled to the authorised job schedule on a regular basis.
- 2) All ad-hoc jobs must be authorised by business and IT management.
- 3) Shift reports must be kept to ensure a smooth hand-over from one shift to another. Any emergency jobs or reruns must be logged, and the reasons for any changes to the authorised schedule recorded in the shift report.
- 4) The shift reports must be reviewed by the Head of Computer Operations or a nominated staff.
- 5) All problems must be logged with the details of actions taken, in accordance with Problem Management Standards.

## **6.7 Segregation of Duties**

**Computer Operations function must be segregated from the development function.**

### **Baseline Procedures**

- 1) Computer operations must not have access to utilities, development tools and source programs that would permit them to by-pass logical access controls, or to alter production data or programs in an unauthorised manner.

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<b>COMPUTER OPERATIONS</b>		

## **6.8 Security over Computer Reports**

**Access to computer reports generated, or in the print queue, must be restricted to authorised staff to ensure the confidentiality and integrity of data.**

### **Baseline Procedures**


- 1) Security over computer reports must be maintained in compliance with the Physical Security / Environmental Controls Standards and Logical Access Control Standards.
- 2) Access to spooled files must be controlled to prevent alteration or disclosure of confidential information.

## **6.9 Recovery and Restart**

**Procedures must be defined and documented to ensure the recovery of data and systems within the shortest acceptable time, following a system or transaction failure. Staff must be trained in these procedures.**

### **Baseline Procedures**

- 1) Management must define the minimum recovery time for each critical business application.
- 2) The Computer Operations manual must define recovery and restart procedures. Operations staff must be trained in these procedures
- 3) Recovery and restart procedures must be tested prior to implementation in production systems. These must be tested at least once every six months.
- 4) On-line transaction systems that update data in the primary computers should permit recovery up to the last successful transaction in the event of a system or transaction failure.
- 5) The integrity of data must be verified after recovery procedures have been completed before restarting system services.
- 6) Authorisation to restore data from back-up media that would overwrite existing production data must be obtained from the Data Owner(s).

 <b>BURSA MALAYSIA SECURITIES BERHAD</b> PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES	<b>ITSS 7</b>
<b>COMPUTER DISASTER RECOVERY PLANNING</b>	

## **OBJECTIVE**

*The objective of the Computer Disaster Recovery Planning Standards is to ensure the resumption of business support systems within an acceptable time frame in the event of a disaster.*

## **SCOPE**

*The Computer Disaster Recovery Planning Standards apply to all information systems and information technology facilities to the extent that it is within the control of the Participating Organisations.*

## **REFERENCES**


*ITSS 1: Security Management Standards*

*ITSS 4: Physical Security / Environmental Controls Standards*

*ITSS 6: Computer Operations Standards*


*ITSS 8: Change and Configuration Management Standards*



 <b>BURSA MALAYSIA SECURITIES BERHAD PARTICIPATING ORGANISATIONS IT SECURITY CODE - BASELINE PROCEDURES</b>	<b>ITSS 7</b>
<b>COMPUTER DISASTER RECOVERY PLANNING</b>	

*Explanatory Notes*

- *Business Continuity Planning consists of 2 aspects: computer related disasters and the impact on business operations. As such, contingency plans must include a Business Contingency Plan (BCP) and Computer Disaster Recovery Plan(s).*
- *Computer Disaster Recovery Planning must be undertaken to ensure the prompt recovery of business support systems in the event of a computer related disaster.*
- *Business Continuity Planning must be undertaken to ensure the continuity of business operations in the event of a disaster.*
- *For the purposes of the Information Technology Security Standards, the focus is on Computer Disaster Recovery Planning although elements of the standards can also be suitable for BCP.*

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<b>COMPUTER DISASTER RECOVERY PLANNING</b>		

## **7.1 *Responsibilities for Computer Disaster Recovery Planning (CDRP)***


**Senior management must ensure that Computer Disaster Recovery Planning is undertaken for the continuity of business.**

### **Baseline Procedures**

- 1) A Computer Disaster Recovery Plan (CDRP) must be developed and maintained for critical computer facilities.
- 2) Responsibility for the development, documentation and implementation of the CDRP must be defined, agreed and documented. The CDRP must at least include the role and responsibilities of the Plan Co-ordinator(s) and the respective team members.
- 3) Any services provided by third parties and their responsibilities must be formally defined and documented in a Service Level Agreement (SLA). Please refer to Change and Configuration Management Standards - Service Level Agreements.
- 4) Staff must be properly trained in the implementation of CDRP procedures. Backup staff must also be identified and trained.
- 5) The CDRP must be kept classified as confidential organisational data.
- 6) The CDRP must be comprehensively tested to ensure that they are workable. Test plans must be developed and must at least include test objectives, scope, sequence of activities and timing/schedule. Problems arising during the testing and the actions taken to resolve these problems must be documented and reviewed by the Recovery Co-ordinator.
- 7) Back-up copies of the CDRP(s) must be held securely off-site, and there must be access procedures in place.

## **7.2 *Scope and Contents***

**The scope and contents of the CDRP must be adequate to ensure the continuity of key business activities.**

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#### **Baseline Procedures**


- 1) Computer Disaster Recovery Planning should be undertaken with business impact analysis to ensure that all key business activities, business support systems and operational functions are identified.
  
- 2) The CDRP must be documented. It should at least include the following:
  - notification and invocation procedures,
  - directory of CDRP team members, civil authorities, relevant third parties and service level agreements and the emergency contact numbers for all parties,
  - index classification of the range of disaster events,
  - inventory listings and configuration documentation,
  - inventory of backup media and access procedures,
  - provision for back-up facility which is secure and accessible 24 hours,
  - detailed procedures for resumption of operations at the back-up facility,
  - detailed procedures for resumption of operations at the primary site from the back-up facility,
  - priorities for tasks and restoration of processing,
  - interim/ emergency manual operating procedures for business operations.

### **7.3 Maintenance**

**All CDRP must be kept up to date and reviewed and tested at least once a year.**

#### **Baseline Procedures**

- 1) All CDRP must be kept up-to-date and reviewed at least on an annual basis. The review process must be documented and signed-off by management.
  
- 2) A list of the mission critical configurations must be maintained on an ongoing basis in support of the Business Continuity Plan. This must be in accordance to Change and Configuration Management Standards.
  
- 3) CDRP must be regularly tested. Testing should be performed on a partial basis, but all components of the plan must be tested at least once every two years. Test plans must be developed and documented. Test results must be documented and reviewed.
  
- 4) Staff training should also be provided to new staff for any updates to the CDRP, and as refresher courses.
  
- 5) Any amendments to the CDRP must be issued to all plan holders.


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## **7.4 Insurance**

**Insurance cover should be obtained to protect against losses arising as a consequence of failure of the computer systems and the business in the event of a disaster.**

### **Baseline Procedures**

- 1) Adequate insurance cover must be obtained to cover all valuable assets, these must include all assets required to support business operations.
- 2) The insurance policy should cover all equipment at all locations including telecommunications equipment and personal computers.
- 3) The insurance policy should consider the additional cost of the use of back-up equipment such as cost of accommodation, additional travel expenses, overtime, etc. all of which are likely to be incurred should a disaster occur.
- 4) The insurance policy should cover consequential loss in the event of a disaster.
- 5) There must be procedures to ensure that the insurance policy is kept up-to-date with the latest acquisitions, and reviewed at least once a year.
- 6) The insurance policy must be for replacement value of assets and not for historical or second-value.

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<p><b>CHANGE AND CONFIGURATION MANAGEMENT</b></p>	

## OBJECTIVE

*The objective of the Change and Configuration Management Standards is:*

*to establish a framework to maintain a continuous record of the status of hardware and software items. This is to ensure that changes to Participating Organisations' systems are implemented in a controlled environment and in a consistent manner; and*

*to ensure a means of identifying and controlling the individual components/configuration items that together constitute the Participating Organisations' systems (i.e. to know what components comprise any given system, whether those components are undergoing changes and where those components are at any given point in time).*

### Definition of Configuration Item:

*Configuration item refers to any individual hardware or software item that comprises the Participating Organisations' information systems and support infrastructure.*

### Definition of Change:

- a new configuration item acquired, or
- a movement of an existing configuration item, or
- removal of a configuration item,

*whether between physical and/or logical environments.*

## SCOPE

*The Change and Configuration Management Standards apply to all information systems and information technology facilities to the extent that is within the control of the Participating Organisations.*

## REFERENCES


*ITSS 1: Security Management Standards*

*ITSS 5: Installation Management Standards*

*ITSS 6: Computer Operations Standards*

*ITSS 7: Computer Disaster Recovery Planning Standards*

*ITSS 10: Application Development Standards*

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## **8.1 Configuration Item Identification**

All configuration items must be tracked and properly controlled in their respective lifecycles.

### **Baseline Procedures**

- 1) Approved inventory listings uniquely identifying all configuration items must be maintained. Inventory listings must include details of item name, identification code, short description, ownership (e.g. department), location of the item, and relationship to other configuration items where applicable.
- 2) Configuration documentation must provide the following information:
  - System/project to which the item relates and the location.
  - Creation date, current version and the versions of components of the item and status.
  - Description and status of changes made to the configuration item.
  - Name of the item, identification code and the nature of the function or service that the item provides, where appropriate.
  - Tools and environment used to create the configuration item. This will ensure that compatibility is increased and regression errors are avoided.
- 3) Configuration diagrams and documentation on configuration items and the relationship between dependent configuration items must be maintained and updated on a regular basis.
- 4) All procurement of configuration items (including PC products) must be made in accordance to the hardware and software procurement procedures.

## **8.2 Configuration Lifecycles and Logical System Environments**

Lifecycles for hardware and software configuration items must be established to enable their status to be tracked at any point in time.

Logical system environments must be defined to support each of the main lifecycle stages of all software configuration items.




## **CHANGE AND CONFIGURATION MANAGEMENT**

### **Baseline Procedures**

- 1) All configuration items must be recorded to facilitate the identification of its location and status at any point in time.
- 2) Lifecycles for hardware configuration items must be established, to at least include:
  - acquisition,
  - commissioning,
  - production (deployment).
- 3) Lifecycles for software configuration items must be established to at least include:
  - Development
  - Test
  - Production
- 4) Logical system environments must support each of the main lifecycle stages of all configuration items. Separate environments should be established for, at least, the following:
  - Development
  - Test
  - Production
- 5) Each hardware platform must have their logical system environments documented by Configuration Management.
- 6) The logical system environments must be periodically checked as part of quality assurance.
- 7) The logical system environments must support the segregation of incompatible duties between IT functions and end-user functions.

Where applicable, the following duties within the IT activities must be segregated:

  - Computer Operation;
  - Technical Support;
  - Application Development.
- 8) End users must be restricted to business application functions and must not have access to systems software and utilities.
- 9) For externally developed software, an additional receiving environment must be established. This will enable quality control to be carried out prior to its movement to either the acceptance or production environments.
- 10) The Systems Test and Acceptance Test environments should be consistent with the Production environment, to ensure adequate levels of confidence in the testing.
- 11) Production program source codes should be kept in a secure library with restricted access. Programmers must not have write access to production source.

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- 12) The transfer of modified software configuration items to the production environment must be carried out by a function independent of the development function.
- 13) Access to each environment must be restricted to authorised persons only. The access granted must be the minimum access that is necessary for that person to carry out their authorised activities.

### **8.3 Change Management**


**All changes to the systems must be properly assessed, authorised, tested and implemented. The change lifecycle must be properly documented to provide an audit trail.**

#### **Baseline Procedures**

##### *Change Initiation and Authorisation*

- 1) All changes must be in compliance with the Installation Management Standards.
- 2) All proposed changes to configuration items must be formally authorised by the owner of the item, IT management, and the relevant System and Data Owners.
- 3) Prior to authorising any significant proposed changes, management must assess the impact of a proposed change, including the impact on system stability or security. All areas potentially affected must be identified, including all activities, users, systems, standards, contingency plans and insurance policies, and all affected parties must be consulted prior to implementation of the change.
- 4) Changes should be classified and documented as (1) application system changes, or (2) technical changes - hardware or software. Emergency changes for these categories should be documented as such.
- 5) All changes must be performed on the basis of formal written instructions. The written instructions must set out:
  - The confirmation to be changed (item identification code, version, author)
  - description of the change
  - name of requestor and date of request
  - who has authorised the change
  - reason for the change, reference to other relevant documentation where appropriate
  - assessment of impact and when the change is required to be completed by



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- how the change is to be carried out (e.g. appropriate build and compilation requirements)
- authorisations
- name of assignee handling the change request
- the criteria that must be applied to determine whether the change has been completely and accurately made
- date of implementation.

#### *Change Implementation*

- 6) All changes must be subjected to adequate formal testing and acceptance. All changes must be supported by the appropriate sign-off to confirm that the relevant quality control criteria have been met prior to implementation.
- 7) All changes of configuration items must be documented and an audit trail must be created. The audit trail must record the history and current status of a change item and must be established to link the change history for the item to the relevant change/movement request instructions.
- 8) Advance notice must be given to those affected by the change to enable them to take appropriate action in response to a change. If insufficient time is provided, then the reason must be formally documented.
- 9) All affected hardware and software configuration documentation, manuals, contingency plans and insurance policies must be updated.
- 10) The transfer of modified configuration items to the production environment must be carried out by a function independent of the development function and only on receipt of written authorisation.
- 11) Written instructions, including fallback procedures must be provided for each transfer into production.
- 12) Backup and version controls must be in place.

#### *Software change management*

- 13) Controls must be in place to ensure that the compilation and build process are valid and authorised when system programs or applications are moved into the production environment.
- 14) For application software items, object codes should not be transferred between logical system environments.

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15) Where software is implemented at remote locations then:


- the location of all versions must be formally documented
- the configurations on which they have been installed must be formally documented
- for software that communicates directly with the Participating Organisation's system, its integrity must be confirmed at each host authorisation and authentication session.
- the integrity of each update of the software must be confirmed at the time of update and controls established to confirm the integrity and completeness of the update.

## **8.4 Change Management for Third Parties**

**Changes implemented or received from third parties must be subject to the Change and Configuration Management Standards.**

### **Baseline Procedures**

- 1) Third party must formally schedule and communicate all deliveries of configuration items.
- 2) Sufficient notice must be given to enable appropriate levels of impact analysis and quality control to be conducted, and to communicate the impending receipt of the configuration items to all affected parties.
- 3) Prior to accepting of the change, a reconciliation must be performed of the delivered items to the vendor's statement and authorised requirements to confirm the completeness and accuracy of what has been delivered.
- 4) Adequate documentation to must be provided to install, operate and maintain the configuration item without needless recourse to the vendor. In the event that the software has been customised, documentation must be appropriately amended.
- 5) Proper instructions must be available to back out the installation of the configuration items in the event of a failure.
- 6) Delivered configuration items should be accompanied by statements from the vendor that the quality of the items have been confirmed by a Quality Assurance function.
- 7) Sign-offs must be obtained at each of the relevant stages of the item's change management lifecycle. Relevance should depend on the nature of the configuration item (e.g. packaged software, turnkey, in-house developed software or some combination of the three). For turnkey systems, the sign-offs should comply with the Application Development Standards. For packaged software, the Application Development Standards should be used to evaluate the vendor's application system and should be the minimum basis by which the implementation and maintenance is carried out.

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- 8) Acceptance of the configuration items from third parties must be formally signed-off by the item owner, System and Data Owner after all the Configuration Management quality controls have been satisfied.

## **8.5 Emergency Change Control**

**Emergency changes implemented must be subject to retrospective authorisation and review to ensure that such fixes do not compromise the security and integrity of the Participating Organisations' systems.**

### **Baseline Procedures**

- 1) Change and Configuration Management Standards must be retrospectively applied to all emergency changes.
- 2) Emergency changes must be carried out in the presence and under the review of a person independent of the one making the change.
- 3) An emergency change report must be prepared by the person making the change and verified by the independent reviewer, at the time of the emergency change.
- 4) Emergency access must be obtained using dedicated emergency user profiles.
- 5) Access to dedicated emergency profiles must be available at all times and should be under dual control.
- 6) Emergency maintenance to production software must be carried out in accordance with Application Development Standards with the exception that these Standards may be applied retrospectively.
- 7) The emergency change report, where applicable, must detail:
  - the reason for the change
  - what was changed and when it was changed
  - why the change was classified as an emergency change
  - the testing, verification or quality controls that were applied prior to the change
  - method of implementation, including back-out procedures and locations
  - who was informed of the change and the name of the independent reviewer
  - how access to the system was obtained, indicating the profiles, system authorities and utilities used
  - whether the change was successful or not.
- 8) Emergency change reports, where applicable, must be accompanied by the following documentation:

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- the operations incident log
  - an audit log of the commands issued and activities carried out by the person making the emergency change, where possible
  - any test results or other system generated information to confirm the integrity of what was done
  - a statement from the independent reviewer to confirm that:
    - the information provided in the report is complete
    - the person making the change did not change the information in the report
    - the report is consistent with their understanding of the incident
    - they were present for the full duration of the emergency access
    - the profiles used to make the change were disabled immediately after completion of the change.
- 9) All emergency changes must be monitored by Security Administration and subjected to retrospective review and approval.
- 10) All emergency changes must be communicated to all parties that are affected by the change.

## **8.6 Back-up and Business Continuity Planning**

**Configuration management process must be established to facilitate effective recovery of the systems in the event of a disaster.**

### **Baseline Procedures**

- 1) A backup of all configuration items:
  - must be taken on a periodic basis, sufficient to enable:
    - the restoration of a previous configuration to any point in time within either statutory requirements or company requirements whichever is the greater
    - restoration of the current configuration within agreed recovery timescales.
  - should be taken on a periodic basis, sufficient to enable the restoration of a previous version of a configuration item to any point in time within three versions
- 2) The frequency with which back-ups are taken and the back-up strategy employed, must be determined in conjunction with Computer Operations, Application Development and System and Data Owners.
- 3) Back-ups must be made prior to and after any changes to the production environment.

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- 4) Back-ups must be capable of enabling the change to be reversed within agreed timescales to maintain the required level of operational service and recovery times.
- 5) Back-ups should be expiry date protected.
- 6) A list of the mission critical configurations must be maintained on an ongoing basis in support of the Business Continuity Plan.
- 7) The back-up strategy for each system must be formally documented and approved by the System and Data Owners.
- 8) All back-ups must be stored in a secure location that is documented and consistent with the Computer Disaster Recovery / Business Continuity Plan's requirements.
- 9) Back-up media must be periodically tested and replaced at appropriate intervals. The back-up intervals must be determined in conjunction with manufacturer's guidelines, having due regard to the nature of the information stored.

## **8.7 Reporting and Quality Management**

**Participating Organisation systems must be baselined at defined events and regular intervals to ensure the ongoing effectiveness of Configuration Management.**

### **Baseline Procedures**

- 1) A configuration baseline audit should be periodically performed to ensure that Change and Configuration Management Standards and Procedures are followed, and to ensure the integrity of configuration management documentation.
- 2) Each baseline should be backed-up and stored according to the Computer Disaster Recovery / Business Continuity Plan.
- 3) The configuration baseline must be reconciled to the actual configuration and the Computer Disaster Recovery / Business Continuity Plan copy.
- 4) Configuration baselines must be updated for any changes i.e. :
  - when there are new software releases,
  - immediately following scheduled Computer Disaster Recovery / Business Continuity Plan tests,
  - when there are operating system upgrades,
  - at each quarter-end.
- 5) The Configuration Management reports must detail:




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- number of changes performed,
- number of successful and unsuccessful changes,
- status of all incomplete changes,
- number of emergency changes,
- number of on - time and late deliveries from external vendors,
- time lost due to normal changes,
- time lost due to emergency changes,
- rejected changes,
- configuration item changes that did not conform to the Standards,
- an aged summary of all outstanding deliveries, summarising why the delivery is late and the action taken to resolve the issues.

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<p><b>PROBLEM MANAGEMENT</b></p>	

## OBJECTIVE

*The objectives of Problem Management Standards is to establish a system for recording, diagnosing and resolving all problems identified during production in a consistent, controlled and timely manner.*

## SCOPE

*The Problem Management Standards will apply to information systems and information technology facilities to the extent that is within the control of the Participating Organisations.*


*These do not address the systems or procedures for recording and controlling problems in the application development lifecycle.*

## REFERENCES

*ITSS 1: Security Management Standards*

*ITSS 8: Change and Configuration Management Standards*

*ITSS 10: Application Development Standards*

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<p><b>PROBLEM MANAGEMENT</b></p>	

## **9.1 Problem Recording and Prioritisation**

**All production problems must be formally recorded in a consistent format in a central location.**

### **Baseline Procedures**

- 1) Each recorded problem must be uniquely identified and centrally recorded in a Problem Log to be monitored by the Problem Management function.
- 2) Each record must contain only one problem to enable each individual problem to be tracked.
- 3) Access to the Problem Log must be restricted to authorised staff.
- 4) For each recorded problem, the following information must be detailed including:
  - a summary description of the nature of the problem,
  - the date and time the problem was identified,
  - the extent of the problem and its implications on other components of the system,
  - how it was identified / who reported (name/dept),
  - the configuration item names affected by the problem (e.g. program identifiers, report identifiers, terminal identifiers, etc...),
  - the priority of the problem.
- 5) The priority of the problem must be determined with consideration given to the nature of the problem, its impact on data confidentiality, integrity and availability, and the business functions to which the problem relates.


## **9.2 Problem Assignment and Diagnosis**

**All recorded problems must be promptly assigned to the appropriate staff for diagnosis and correction.**

### **Baseline Procedures**

- 1) All Problem Management staff must review the Problem Log at the start of each working day and ensure that all problems assigned/escalated are attended to.
- 2) Each recorded problem must be assigned to an individual support staff, i.e. the "problem assignee". The name of the problem assignee must be documented in the Problem Log.



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- 3) The problem assignee should conduct an impact analysis and diagnosis of the potential cause of the problem before taking action to resolve the problem. A summary of the analysis, diagnosis, and proposed action to be taken to resolve the problem should be documented.
- 4) The problem assignee must ensure that each recorded problem has been correctly classified in respect of priority.
- 5) The problem assignee must notify the Problem Management function of the expected date of problem resolution. The date of resolution must be agreed with the relevant System/Data Owners concerned.
- 6) Action to resolve a problem will depend on the priority (high, medium or low) and must be initiated within defined time limits.
- 7) If the problem assignee cannot diagnose the cause or find a suitable solution, the problem must be escalated to the Problem Management function. Unresolved problems must be escalated by the Problem Management function within the defined time limits.

### **9.3 Problem Resolution**

**All problems must be resolved on a timely basis according to their priority and agreed dates of resolution.**


#### **Baseline Procedures**

- 1) All problems must be resolved according to their priority and agreed dates of resolution.
- 2) The problem assignee must promptly inform the Problem Management function of any delay to the agreed resolution dates and provide revised estimates.
- 3) The action taken to resolve the problem must be documented in sufficient detail to enable an independent person to analyse the actions taken without recourse to the problem assignee.


### **9.4 Problem Reporting and Review**

**All reported problems must be subject to periodic management review to ensure that problems are resolved in a timely manner and the correct solutions applied.**

#### **Baseline Procedures**

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- 1) All problems reported and their status must be reviewed by IT management on a regular basis.
- 2) All problems must be recorded in a form that is in sufficient detail to enable their status to be ascertained at any point in time.
- 3) Senior Management should be provided with the following information on a periodic basis at least once a month:
  - a summary analysis of all problems recorded and causes distinguishing all problems by priority
  - a summary report of the times taken to respond to the problem
  - an aged analysis of all outstanding problems by priority
  - a detailed analysis of all problems exceeding their agreed resolution dates
  - a detailed report of all problems where the agreed resolution may affect service levels
  - any unresolved problems.

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<p><b>APPLICATION DEVELOPMENT</b></p>	

## OBJECTIVE

*The objective of Application Development Standards is to establish a framework for ensuring that application software is developed, implemented and maintained in a structured and consistent manner.*

## SCOPE

*The Application Development Standards will apply to all software that is created, implemented or maintained by the Participating Organisations.*

*Where software is developed by third parties then these Standards should be the minimum criteria by which development, implementation and maintenance is carried out.*


*If the software is acquired by the Participating Organisations, these Standards should be used for evaluating the vendor's application system and should be the minimum criteria by which the implementation and maintenance of the acquired software is carried out.*

*The Application Development Standards are the baseline by which the Systems Development Lifecycle is applied. The methods, tools or techniques by which this lifecycle is carried out are not addressed in this document.*

## REFERENCES

*ITSS 1: Security Management Standards*


*ITSS 8: Change and Configuration Management Standards*

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<p><b>APPLICATION DEVELOPMENT</b></p>	

## OVERVIEW

Achievement of these Standards ensures that:

- an appropriate management and quality control structure is applied to all software development, implementation or maintenance activities,
- end-user requirements are documented and understood,
- requirements analysis is carried out,
- design is carried out according to defined requirements,
- code, data and systems are constructed in a structured and maintainable format,
- adequate levels of testing are carried out to confirm that the user requirements have been met and that no regression errors have been introduced,
- all of the implementation aspects set out below have been addressed:
  - scheduling instructions
  - user training
  - data conversion
  - performance and capacity verification,
- quality assurance activities are carried out.

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## ***10.1 Project Management***

For all projects, the Project Manager, System Owner and Data Owner(s) must be identified and the project must be led by adequate management involvement. The Project Manager should be identified from the management team.

A Systems Development Lifecycle Methodology must be adopted. The Methodology must extend from the selection/feasibility stage to the implementation stage. All projects must be conducted based on the Methodology and all projects must be managed and operated based on this Methodology.


A Project Plan must be developed for all projects to ensure that they are properly planned with proper assignment of responsibilities (including quality control) and resources, project timetables which are revised periodically, identification of project milestones, in compliance to the defined methodology.

## ***10.2 Systems Development LifeCycle and Project Planning Methodology***

The Systems Development Lifecycle Methodology must specify as a minimum, the definition of the lifecycle stages, the sign-off checkpoints during the lifecycle, documentation standards, security requirements, testing levels, conversion and implementation controls.

### **Baseline Procedures**

- 1) The Systems Development Lifecycle methodology must define as a minimum:
  - the stages within the lifecycle by which progress can be monitored.
  - the documentation and deliverables to be produced at each stage. This should include:
    - feasibility study/analysis to address project scope, business justifications, key business and technical requirements and documenting an analysis of various solutions and a cost-effective solution recommended;

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- testing documentation to ensure conduct comprehensive testing and ease of maintenance;
  - conversion and implementation documentation.
- 2) Formal sign-off must occur at the end of the key stages defined in the system lifecycle process.
  - 3) This sign-off must identify, where applicable, the:
    - System/Data Owner,
    - System Provider (IT Management),
    - Security Administration,
    - Internal Audit,
    - Quality Assurance.

### **10.3 Project Planning**

**A project plan must be prepared for all major projects (to consider cost, time, third party involvement and criticality of systems when determining “major”).**


#### **Baseline Procedures**

The project plan must identify:

- the key stages and tasks within the lifecycle of the software development,
- the people assigned to the project, their roles and responsibilities,
- the dates on which each project activity will commence and complete,
- the tangible deliverables and documentation to be produced,
- the extent of quality control,
- training for users and other staff,
- post-implementation review requirements.

### **10.4 Feasibility Study**

**An approved feasibility study, signed off by System Owner and IT management must be performed for major projects (to consider cost, time, third party involvement and criticality of systems when determining “major”).**

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#### Baseline Procedures


- 1) The feasibility study should include a description of:
  - scope/boundaries,
  - business justification,
  - business problems/issues,
  - current processing procedures,
  - estimation of operating cost and weaknesses,
  - options available to address the problems/issues (this may include a technical description, advantages and disadvantages, cost/benefit analysis and an assessment of how the proposed option will address known weaknesses),
  - resource requirements (adequacy of maintenance and support),
  - recommended solution.

## ***10.5 Requirements Analysis and Design***

**Requirements analysis must be performed to ensure that user functional and technical requirements are defined and documented in sufficient detail for application development.**

#### Baseline Procedures

- 1) User requirements must be specified, documented and signed-off by the System Owner. This should include a description of :
  - the business processes and details of processing functions,
  - the computerised controls which should be implemented in the new system.
- 2) Technical systems requirements must be specified, documented and signed-off by IT management. The technical specifications must describe in detail how the system will be built, how it will operate, the organisation of data, access method and system processing.
- 3) Requirements analysis must include how existing business processes and systems will be affected by the new application.
- 4) Requirements analysis must address the following quality characteristics:
  - functionality (business, user, regulatory, interface, security requirements),
  - usability (human interface requirements),
  - reliability (operational reliability and recovery requirements),
  - maintainability (documentation for maintenance requirements),
  - portability (conformance with operating systems, network and hardware requirements),

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- efficiency (resource and performance requirements).
- 5) All requirements must be specified in sufficient detail to enable functional and technical aspects to be addressed in application development.
  - 6) Logical, physical and data design specifications to implement the approved user and technical requirements must be developed, documented and approved.

## **10.6 Construction**

**Adequate controls must be in place to ensure that software is properly constructed and documented.**


### **Baseline Procedures**

- 1) Development of programs must be performed on the basis of formally agreed specifications and programming standards.
- 2) Source codes must be documented to enable its purpose, processing and change history to be ascertained without reference to additional documentation. Source code must also be referenced to the program specifications documentation.
- 3) Program coding specifications, where applicable, must be maintained for each program constructed or updated. These must include:
  - program number, version control number and version date,
  - version of the application development language,
  - general description,
  - author's name,
  - files used by the program,
  - program dataflow identifying inputs, processes and outputs,
  - any special compilation requirements and program dependencies.
- 4) There should be independent review of program code.

## **10.7 Testing**


**Adequate testing must be completed to ensure that user requirements have been correctly and completely implemented into the new/amended application system.**



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### Baseline Procedures

- 1) All new or amended application software must be subjected to formal testing. This must consist of :
  - unit testing  
(to confirm the functional correctness of the developed software)
  - systems testing  
(to confirm the software works as specified when integrated with other programs and systems that it interfaces with, and to confirm that developed software has not introduced errors to programs/systems that were previously reliable)
  - acceptance testing  
(to confirm that the defined requirements have been met)
  - operational testing  
(to confirm that the application can be operated to agreed service levels and with adequate level of security)
- 2) Testing strategies must be based on defined specifications and business and system requirements established and documented in a test plan.
- 3) Responsibilities for test activities must be specified in the test plan.
- 4) The testing environment must be subject to Change and Configuration Management standards.
- 5) Test scripts, test data, expected and actual test results must be fully documented.
- 6) All problems/issues identified must be recorded into the problem log during the user acceptance test phase and integration test phase.
- 7) The testing process should include an acceptance test of the entire system which must include computerised functions, security and control features, and must also confirm the accuracy of associated user and operational procedures and documentation.
- 8) Final test results should be independently reviewed at a management level.
- 9) Acceptance criteria must be defined, documented and formally approved by System Owner and IT management. Acceptance criteria must be precisely stated, objective and measurable and must include the following:
  - testing and test documentation,
  - system performance/capacity,
  - operational scheduling and job control,
  - training and documentation,
  - user acceptance,
  - data conversion,
  - software migration.

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## **10.8 Conversion Procedures**

**Controls over data conversion must be in place to ensure the accuracy and completeness of the data in the new system.**

### **Baseline Procedures**


- 1) An approved data conversion plan must be defined, documented and signed off by the System/Data Owner for movement of data into a new/amended system.
- 2) User controls must be in place to check the accuracy and completeness of the data in the new/amended system. The System/Data Owner must sign-off the results of the conversion process.

## **10.9 Implementation**

**Adequate controls must be in place to ensure that all activities necessary to complete the application development lifecycle have been carried out.**

### **Baseline Procedures**

- 1) There must be formal System Owner and IT management authorisation to ensure that all testing and documentation is completed, reviewed and problems rectified satisfactorily.
- 2) Prior to implementation, formal sign-off must be obtained by the Security Administrator and Project Manager.
- 3) Internal Audit should ensure:
  - that the System Development Life Cycle process have been satisfactorily carried out;
  - signed-off by the various responsible parties; and
  - the relevant IT Security Standards have been complied with for major projects.
- 4) All user and operations training must be fully conducted prior to implementation.
- 5) Implementation of new/amended applications into the production environment must be subject to Change and Configuration Management Standards.

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### ***10.10 Documentation***

Adequate documentation must be maintained for the entire systems lifecycle.

#### **Baseline Procedures**

- 1) Documentation must cover the entire systems lifecycle, including the security measures implemented.
- 2) Adequate documentation must be produced and retained to enable an independent audit of the system lifecycle process.

### ***10.11 Backup, Version Controls and Security of Logical System Environments***


Proper backup and version controls must be in place for all program code, documentation, data structures and test data in all stages of the lifecycle. As a minimum requirement, version numbers should be given to indicate the status.

Change and Configuration Management Controls Standards must be complied with to control the movement of software between test and production environments.

The security of logical system environments must be enforced and maintained throughout the system lifecycle, from program construction, testing and implementation.

### ***10.12 Quality Assurance***

Quality assurance must be undertaken to ensure that the Application Development Standards have been complied with and in an effective manner.

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**Baseline Procedures**

- 1) There must be quality assurance in all stages of the systems lifecycle. This should be a function independent of application development, where possible.
- 2) All projects should be subject to a post-implementation review.

### ***10.13 Application Controls***

**Requirements analysis must include an analysis of security requirements within the application system. These should focus on the automated controls to be incorporated within the system and the supporting manual controls.**

**Baseline Procedures**

- 1) Security requirements for application systems must be defined, documented and approved by System/Data Owners, Internal Audit and Security Administration.
- 2) Security requirements should reflect the business value of the information assets involved and the potential business damage which might result from a failure/absence of controls.
- 3) Security requirements for application systems must consider the need for the following controls:
  - access controls to protect confidentiality, integrity and availability of data, and to enforce the segregation of duties,
  - input data edit/validation controls. The following should be considered:
    - validation of input data against masterfiles
    - invalid/missing/incomplete data or characters
    - field combination checks
    - out-of-range characters or volume limits
    - check digits
    - controls totals for batch input,
  - audit trails of transactions and key events,
  - integrity controls during processing. The following should be considered:
    - session/batch controls to reconcile data file balances after updates
    - balancing controls to check opening balances against previous closing balances, e.g. run-to-run controls, file update controls, program-to-program controls
    - validation of system generated data




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- integrity checks on data transfers between computers,
- backup and recovery capabilities, including fallback processing arrangements,
- data encryption for highly sensitive data,
- compliance to legislation and other regulatory requirements.

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<b>TELECOMMUNICATIONS</b>	

## **OBJECTIVE**

*The objective of Telecommunications Standards is to ensure that transmitted data is protected against loss, corruption or repetition and unauthorised disclosure and modification; and unauthorised access to the Participating Organisations' systems is not gained via the telecommunications network.*

## **SCOPE**

*The Telecommunications Standards will apply to the telecommunications system to the extent that is within the control of the Participating Organisations.*

## **REFERENCES**

*ITSS 1: Security Management Standards*


*ITSS 3: Logical Access Controls Standards*

*ITSS 4: Physical Security / Environmental Controls Standards*

*ITSS 5: Installation Management Standards*

*ITSS 6: Computer Operations Standards*

*ITSS 8: Change and Configuration Management Standards*

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<p><b>TELECOMMUNICATIONS</b></p>	

## **11.1 General Standards**

Telecommunications network systems must be subject to Installation Management Standards.

Telecommunications network equipment must be located in secure locations in compliance with the Physical Security/Environmental Controls Standards.

Telecommunications network systems must be secured with logical access controls implemented in compliance with the Logical Access Controls Standards.

Telecommunications systems must be secured to ensure defined and agreed levels of data integrity, confidentiality and availability. Measures must be in place to ensure:

- i. The integrity of messages for example, inclusion of automatic error checking and/or correction (parity checking, checksum, cyclical redundancy check) and retransmission functions in the network protocol.
- ii. The confidentiality and authenticity of messages containing sensitive data during transmission, (for example by implementing data encryption and digital signatures). In order to determine the appropriate level of security, management must conduct a risk assessment of the data transmitted each time the nature of data changes significantly, such as when a new system is implemented. Information classified as confidential or restricted should be encrypted whilst transmission through the network.
- iii. The integrity and confidentiality of configuration data, including keys for encryption, routing tables, terminal identifiers etc.
- iv. The integrity and confidentiality of network data relating to users, for example, user ids and profiles, user locations, remote access etc.
- v. The availability of the network to the service level required by the users.
- vi. The integrity of network management software and user profiles. For example, logical access controls to ensure access is restricted only to authorised network management personnel, proper installation and set-up.



## **TELECOMMUNICATIONS**

- vii. **Network services and facilities are not used by unauthorised users (for example, by restricting access using user IDs and passwords, by using smartcards, call-back devices, firewalls etc.)**
- viii. **Physical security over network equipment and lines (including wireless), and selective use of secure transmission media.**
- ix. **The auditability of the network via the provision of adequate audit trails, (for example notification to sender and to system audit trail of non-delivery in the event of failure, message logging etc.)**
- x. **Security controls must be consistent across networks.**

### **11.2 Network Management**

**Management of Telecommunications network systems must be conducted in a controlled and consistent manner in accordance with Change and Configuration Management Standards and Problem Management Standards.**

#### **Baseline Procedures**

- 1) Responsibility for network management and security administration must be defined and documented.
- 2) Encryption should be considered to ensure the confidentiality and authentication of messages containing sensitive data during transmission. Where encryption is used, all data encryption keys should be assigned owners and subject to adequate protection. Encryption keys must not be written down or printed.
- 3) Network diagrams must be maintained, and should include details of circuits used and circuit reference numbers. All network components must be uniquely identifiable and restricted to their intended business functions.
- 4) A list of all network users and systems communicating via the network, must be maintained.
- 5) Where feasible, locations that require more than five external connections must use centralised concentrators or multiplexing equipment attached to a dedicated communications server for more effective network security administration.
- 6) The Participating Organisation's internet connections should only be used for authorised business purposes.





## **TELECOMMUNICATIONS**


- 7) Host processors running applications or containing non-public data must be protected from public external networks using firewalling techniques.
- 8) Network management documentation must be made available to operators, kept up to date and restricted to authorised network management and operations staff.
- 9) All failures of network equipment must be reported to the Problem Management function.
- 10) All changes to the network configuration must be authorised and subject to Change and Configuration Management Standards.
- 11) Network capacity planning and performance analysis must be conducted at least once every six months.

### **11.3 Network Resilience**

**Contingency plans must be established for all critical telecommunications network systems to ensure the stability of the network and to ensure a fast and efficient recovery in the event of a system failure.**

#### **Baseline Procedures**

- 1) Methods of recovery from a network failure must be defined and documented in the Computer Disaster Recovery Plan and designed as part of the overall Business Continuity Plan and should include:
  - Availability of spare telecommunications equipment on demand
  - Procedures for activating back-up equipment units
  - Availability of alternative communication lines and wireless devices to provide dynamic re-routing of messages
  - Availability of uninterruptible power supplies or alternate power sources
  - Use of multiple communication carriers
  - Formal agreement on contingency service levels with telecommunications hardware and software vendors
  - Documentation of recovery procedures

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<p><b>TELECOMMUNICATIONS</b></p>	

## ***11.4 Network Physical Security***

**Physical security over telecommunications components must be in compliance with Physical Security / Environmental Controls Standards and Change and Configuration Management Standards.**

### **Baseline Procedures**

- 1) Physical Security/Environmental Control Standards must be applied to all components of the network.
- 2) The routes followed by cables from the point of entry to the premises of the Participating Organisations should be secured.
- 3) Telecommunications equipment should be housed in a room separate from the other computer equipment and access to these rooms must be restricted to authorised persons.
- 4) Activities of external parties involved in installing, repairing, or servicing telecommunications equipment must be monitored by authorised staff.
- 5) A register of the telecommunications equipment and software must be kept and periodic reconciliations made to reconcile the reported assets with their physical availability and location.

## ***11.5 Network Logical Access Controls and Monitoring***

**Access to all telecommunication network systems must be restricted to authorised persons, in compliance to the Logical Access Controls Standards.**

### **Baseline Procedures**

- 1) The Logical Access Controls Standards must be applied to telecommunication networks. Users should be given access to specific network resources based on functional requirements and the need for segregation of duties.
- 2) All default passwords for network equipment and software must be changed upon installation.
- 3) Positive authentication of remote users must be established before a remote connection is allowed, i.e. the user must be positively identified through a login sequence requiring a user ID and password prior to allowing access.
- 4) Welcome messages for external network connections must not be displayed until the user is positively authenticated.



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- 5) Dial-in facilities should be disallowed; dial-out facilities should be used instead. Where dial-in facilities are necessary, adequate controls must be implemented, such as use of call back verification.
- 6) Software that perform unattended file transfers to or from other systems must authenticate the origin and destination file names as well as any user submitting the request.
- 7) Routers must regulate traffic flow according to access control lists defined by the network security administrator, where possible.
- 8) Modifications to the network management software should be subject to Change and Configuration Management Standards.
- 9) Network management software should include the following features:
  - security management with access protection (user authentication, resource security, firewall enabling) and monitoring of user activity and security violations
  - monitoring capabilities to track and report network status, errors and statistics at the port and device level
  - performance management features
  - accounting for resource usage.
- 10) Diagnostic tools and other system software utilities must be restricted to authorised persons. For example, access to the network screen capture facility must be restricted to authorised staff who perform problem diagnosis and resolution.
- 11) Security reports should be produced and reviewed on a regular basis. It should include details of:
  - Network user and resource profiles
  - Network security violation attempts
  - Audit trails
  - Use of dial-up line, wireless devices, etc.

## **OBJECTIVE**

*The objective of Local Area Networks (LAN) and Microcomputers Standards is to ensure that LAN and the use of Microcomputers are adequately managed, controlled and monitored.*

## **SCOPE**

*The Local Area Network & Microcomputers Standards will apply to the Local Area Network & Microcomputer Systems to the extent that is within the control of the Participating Organisations.*

## **REFERENCES**

*ITSS 1: Security Management Standards*

*ITSS 3: Logical Access Controls Standards*

*ITSS 4: Physical Security / Environmental Controls Standards*

*ITSS 5: Installation Management Standards*

*ITSS 6: Computer Operations Standards*

*ITSS 7: Computer Disaster Recovery Planning Standards*

*ITSS 11: Telecommunications Standards*

## **12.1 Logical Access Controls**

**Access to all Local Area Network systems must be restricted to authorised persons and be established in compliance with Logical Access Controls Standards.**

### **Baseline Procedures**

- 1) All LAN access and security of system resources must be established in compliance with Logical Access Controls Standards.
- 2) Access to Supervisor/System Management functions and the assignment of security equivalences must be limited to network personnel and LAN System Administrators.
- 3) Access to LAN management software and sensitive network files must be restricted to the LAN System Administrator.
- 4) The access rights over network files must be reviewed at regular intervals to ensure they remain appropriate.
- 5) Gateway resources must be protected from unauthorised access and modification.
- 6) Positive identification of remote users must be established before a connection is allowed. Remote access to the LAN must be controlled in accordance with Logical Access Controls :
  - Dial- in access should not be allowed
  - Access controls must restrict the functions available
  - Where appropriate, dial back modems should be used.
- 7) Audit trails must be reviewed and appropriate follow-up actions taken. These must be documented.
- 8) The availability of functions which can be used to override system logging parameters must be restricted.
- 9) Workstations used to store sensitive information should be secured. Access control facilities provided with the application software packages must be used. Diskless workstations should be used where network data is considered sensitive to prevent copying and unloading.
- 10) Screen savers with passwords should be used to prevent unauthorised access to an unattended microcomputer.
- 11) Power up passwords should be enabled where available.
- 12) Data downloaded from host computers for use on microcomputers must have the similar level of protection as the original data.
- 13) An audit trail logging activities of workstations used for processing critical information should be maintained including details of programs executed. The audit trail should be reviewed regularly.
- 14) The installation default passwords for privileged and other standard system accounts must be changed. Guest, field service or temporary IDs to the LAN must be disabled or deleted when not in use.
- 15) Encryption must be used to protect LAN access passwords and sensitive files on the server.
- 16) Naming standards for disk storage, directory structures, file names and user IDs should be defined to aid the implementation of security.

17) Logging, reporting and surveillance facilities must be used to monitor security and should include:

- logging of unauthorised access attempts,
- logging of maintenance to security profiles or security tables,
- logging of the use of sensitive commands,
- logging of privileged user activity,
- logging of access by third party vendors / engineers,
- logging of access to system log file.

## **12.2 Physical Access Controls**

**Physical security over LAN and microcomputer systems components must be in accordance with Physical Security/Environmental Controls Standards and Change and Configuration Management Standards.**

### **Baseline Procedures**

- 1) The designated owner of the LAN and microcomputer hardware and software must be identified and be responsible for the security of the equipment and software. Relocation of the equipment from its original position must be based on written authorisation from the owner.
- 2) An inventory of all LAN and microcomputer systems components must be maintained in compliance with Change and Configuration Management Standards and should include details of ownership (e.g. department), software used and location of the components.
- 3) Controls over physical access to critical LAN components must be in compliance with Physical Security/Environmental Controls Standards and must include :
  - locating the servers in secure rooms/cabinets with adequate environmental controls. These rooms must be restricted to authorised persons.
  - allowing only authorised persons to operate the equipment.
  - storing secondary media (for example diskettes and cartridges) securely.
- 4) Where possible, all unused ports must be disabled to prevent illegal access to the LAN.
- 5) External parties installing, repairing or servicing LAN and microcomputer systems equipment must be monitored by authorised IT staff.

## **12.3 LAN Management**

**Management of Local Area Network systems must be conducted in a controlled and consistent manner in accordance with the Installation Management Standards, Computer Operations Standards, Problem Management Standards and Change and Configuration Management Standards.**

### **Baseline Procedures**

- 1) LAN & Microcomputer Systems management documentation should be made available to staff responsible for the daily operation of the LAN.

- 2) The design, installation and maintenance of the LAN should include :
  - compliance with recognised LAN protocols and standards,
  - inclusion of automatic error checking functions in the network protocol,
  - security issues of LAN interconnectivity (internal and external),
  - appropriate use of specialised network components, such as bridges, routers and gateways,
  - installation and testing of LAN hardware components,
  - installation and testing of LAN software components,
  - virus checking of all software loaded into the LAN,
  - the provision of adequate maintenance arrangements.
- 3) Day-to-day operation of the LAN must be in accordance with Computer Operations Standards and should be defined to include :
  - maintenance and administration of LAN security,
  - control and monitoring of LAN hardware including unique physical identification of LAN components and maintenance of inventory registers,
  - monitoring and reporting of LAN utilisation, performance and capacity planning,
  - LAN problem reporting and resolution,
  - back-up and recovery procedures,
  - off-site data storage procedures.
- 4) A list of systems communicating via the LAN must be maintained.
- 5) All problems on the LAN & Microcomputer Systems must be reported to the Problem Management function and must be subject to Problem Management Standards .
- 6) Changes to the LAN & Microcomputer Systems must be authorised and subjected to Installation Management and Change and Configuration Management Standards.
- 7) The critical applications developed for LAN & Microcomputer Systems must be subjected to Application Development and Change and Configuration Management Standards.
- 8) All software installed on the LAN & Microcomputer Systems must be authorised and licensed.
- 9) Third party software must be installed according to vendor's instructions.
- 10) Unauthorised copying of LAN and microcomputer proprietary software must be prohibited.
- 11) Unauthorised changes to the LAN and Microcomputer Systems software must be prohibited.

## **12.4 LAN Resilience**

**Contingency plans must be established for all critical LAN systems, to ensure the stability of the LAN and to ensure a fast and efficient recovery in the event of a system failure.**

### **Baseline Procedures**

- 1) Computer disaster recovery plans must be established for all critical LAN systems, in accordance with Business Contingency Planning Standards.
- 2) Methods of recovery from a LAN failure should be formalised and should include :

- availability of spares devices with sufficient capacity and speed for back-up purposes; for example :
    - maintaining spare equipment on-site for critical LAN components e.g. LAN interface cards, cabling, connectors, terminators and bridge devices
    - adequate provision for the re-routing network messages in the event of a component failure,
  - unique physical identification of LAN components to facilitate problem diagnosis,
  - frequency and retention of backups of the servers and workstations,
  - documentation and testing of back-up and recovery procedures,
  - uninterruptible power supplies systems to protect critical network servers and LAN components,
  - availability and use of back-up and recovery software.
- 3) Disk mirroring and duplexing should be used for servers processing critical business applications.
- 4) LAN backup media must be secured in accordance with Computer Operations Standards.

## **12.5 Control of Computer Viruses**

**Critical servers and workstations must be installed with antivirus software. Antivirus procedures must be developed to minimise the risk of computer viruses infecting and causing damage to data and programs.**

### **Baseline Procedures**

- 1) Antivirus software must be installed on all LAN servers and workstations/microcomputers to ensure that all directories and files are scanned regularly.
- 2) Antivirus software must be auto-executed upon login to the LAN and upon PC bootup.
- 3) All antivirus software must have the following features:
  - virus detection and removal capabilities,
  - licensing agreement which provides regular updates for new viruses at least every 6 months,
  - reputable track record, in terms of reliability and the number and nature of viruses it can detect and remove,
  - memory resident protection.
- 4) Antivirus procedures i.e. actions to taken in the event of virus infection must be defined, documented and all users informed of the procedures. The procedures should include the following:
  - The suspect/virus infected diskettes must be isolated
  - Suspect/Infected microcomputers must not be used until they have been cleaned
  - The relevant IT support department must be informed
  - All virus occurrences must be logged and treated as security incidents.
- 5) Virus checks must be made on all new and external diskettes.
- 6) Back-up copies of all software and data must be maintained to reload an infected system.
- 7) Software/data should not be passed to third parties without having checked that they are virus-free.



## **12.6 Microcomputers**

**Adequate controls must be placed over microcomputers used for processing sensitive data to ensure the confidentiality, integrity and availability of these systems. The controls should be in compliance with the Logical Access Controls Standards, Installation Management Standards, Physical Security / Environmental Controls Standards, Computer Operations Standards and Change and Configuration Management Standards, where applicable.**

### **Baseline Procedures**

- 1) Microcomputer systems must be subject to the Installation Management Standards, where applicable.
- 2) Microcomputers used for processing sensitive data must be secured or located in a secure location in compliance with the Physical Security / Environmental Controls Standards, where applicable. For example, hardware locks should be used to restrict access where necessary.
- 3) Microcomputers used for processing and storing sensitive data must be secured. Where applicable, it must be in compliance with the Physical Security/Environment Control and Logical Access Controls Standards.
- 4) Data downloaded for use on microcomputers must be provided with similar level protection as that provided for the original source data.
- 5) Master copies of software must be used for installation of the software. The master disks must be installed according to the vendor's instructions and stored securely in a separate location.
- 6) Data and program files must be regularly backed-up and backup media kept in compliance with Physical Security/Environmental Controls Standards and Computer Operations Standards where applicable.
- 7) Automated back-up functions within software packages should be used where available.
- 8) Movement of microcomputers must be subject to proper authorisation in accordance with Change and Configuration Management Standards.
- 9) Users must switch off their computer equipment before leaving the office premises.

### *Explanatory Notes*

*A consistent level of security for data must be maintained at all times.*

#### *For example:*

- *If data cannot be changed in the original system and can be downloaded, then the downloaded data must be protected from changes.*
- *If confidential data is downloaded to a microcomputer, then access to the machine must be secured. The machine must also not have 'print' or 'copy to removable media' capabilities (i.e. diskless workstations).*

[End of Appendix 2]

Relevant to : Rule 5.13(1)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 5 of 2012  
Refer also to Directive No(s). : N/A

**1. Rule 5.13(1)**

- (1) Rule 5.13(1) provides that a Participating Organisation must only employ or engage Registered Persons, employees and agents who are fit and proper with suitable skill and experience with regard to the position and responsibility they hold.
- (2) In discharging the obligations under the above Rule in respect of referral agents, a Participating Organisation must among others, comply with the requirements set out below.

**1.1 Eligibility Criteria**

- (1) A referral agent must only be a holder of Capital Markets Services Licence ("CMSL") and Capital Markets Services Representative's Licence ("CMSRL") for dealing in securities.
- (2) A person can only act as a referral agent through his or her Participating Organisation.
- (3) A Participating Organisation, in undertaking a referral arrangement with a Trading Participant, must set out the terms of the referral arrangements formally, including the details of the referral fee, commission or any other remuneration to be earned by the Participating Organisation.

**1.2 Obligations Of A Referral Agent**

- (1) A referral agent must act with honesty and integrity at all times.
- (2) A referral agent must only undertake the regulated activity he or she is licensed for, and not any other regulated activities. The referral agent must not carry out referral agent activities as his or her sole business. The referral agent activities may only be incidental to the referral agent's licensed activity.
- (3) A referral agent must make the appropriate disclosures to its Client, which includes the following:
  - (i) the referral agent is carrying out referral agent activities on behalf of the Participating Organisation;
  - (ii) the referral agent is not allowed to give advice or provide recommendations in relation to dealing in derivatives; and
  - (iii) whether the referral agent will be remunerated for the referral agent activities and if so, the amount or rate of remuneration.
- (4) A referral agent must not:
  - (a) accept orders for dealing in derivatives from Clients while carrying out the referral agent activities; or
  - (b) receive or deal with Client's money or property in relation to the referral agent activities.

**1.3 General obligations of the Participating Organisation**

- (1) A Participating Organisation's CMSRL holder who wishes to act as a referral agent must be specifically approved by the Participating Organisation for that purpose.
- (2) A Participating Organisation must maintain a register of CMSRL holders who are approved to carry out referral agent activities. The register should include the name and contact details of the CMSRL holder, date of appointment as a referral agent, clients introduced, terms of the referral arrangement and any other relevant information that a Participating Organisation would require in monitoring the activities of such CMSRL holder.
- (3) A Participating Organisation must undertake adequate supervision and monitoring of the referral agents by establishing proper policies and controls on the referral agent activities carried out or received.
- (4) A Participating Organisation of a CMSRL holder is responsible and accountable for the conduct of its CMSRL holder who is carrying out referral agent activities.
- (5) A Participating Organisation and its CMSRL holder who carries out referral agent activities must not disclose any information of their clients to any person without authorization from the clients.

**1.4 Notification obligation of the Participating Organisation**

A Participating Organisation must notify the Exchange upon:

- (a) the commencement of referral agent activities. A Participating Organisation must give details of the Trading Participant with whom the referral arrangement is made and the CMSRL holders who are approved to act as referral agents. The following details of the CMSRL holders must be given:
  - (i) name;
  - (ii) identity card number;
  - (iii) CMSRL number;
  - (iv) the Trading Participant to whom a CMSRL holder is acting as referral agent; and
  - (v) effective date of commencement of referral agent activities;
- (b) termination of referral arrangements;
- (c) appointment of a new CMSRL holder to act as referral agent for a particular Trading Participant; and
- (d) cessation of a CMSRL holder acting as a referral agent.

[End of Directive]

Relevant to : Rule 5.15(1), 5.15(2)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : G 1001 of 1990 and G552 of 1991  
Refer also to Directive No(s). : 5-001

## **1. Rule 5.15(1)**

Rule 5.15(1) requires a Participating Organisation and Registered Person to obtain all essential information about the Client relevant to the services to be provided before a Participating Organisation opens a trading account for the Client. In discharging the obligations under the above Rule, a Participating Organisation and Registered Person must comply, amongst others, with the requirements set out below.

### **1.1 Requirements in opening a Client account**

#### **(1) Opening And Registration of an Individual Client Account**

In relation to the opening of an individual client account, a Participating Organisation must:

- (a) use due diligence to learn the essential facts relative to every Client, every order, every cash or Margin Account accepted or carried by the Participating Organisation and every person holding power of attorney over any account accepted or carried by the Participating Organisation;
- (b) diligently supervise all accounts handled by its Dealer's Representatives;
- (c) in respect of the application for opening of account:
  - (i) specifically approve the opening of an account prior to or promptly after the completion of any transaction for the account of or with a Client. The designated Director or officer approving the opening of the account must, prior to giving his approval, be personally informed as to the essential facts relative to the Client and to the nature of the proposed account;
  - (ii) indicate his approval in writing on the application form which must become part of the permanent records of the Participating Organisation;
  - (iii) photocopy a set of Client's identity card to be attached together with the application form;
  - (iv) ensure that the application form contains at least the following particulars:
    - full name of Client
    - full residence and correspondence address
    - contact details
    - spouse name (where applicable)
    - employment details for the applicant and spouse (where applicable)
    - income and its source
    - approved credit limit

**(2) Opening and Registration of a Joint Holders Client Account**

In relation to the opening of a joint holders Client account, a Participating Organisation must, through a designated Director or officer reporting to the Director:

- (a) use due diligence to learn the essential facts relative to the joint holder Clients, every order, every cash or Margin Account accepted or carried by the Participating Organisation and every person holding power of attorney over any account accepted or carried by the Participating Organisation;
- (b) diligently supervise all accounts handled by its Dealer's Representative;
- (c) in respect of the application for opening of account
  - (i) specifically approve the opening of the joint holders account prior to or promptly after the completion of any transaction for the joint holders account of or with the joint holders account. The designated Director or officer approving the opening of the joint holders client account must, prior to giving his approval, be personally informed as to the essential facts relative to the joint holder clients and to the nature of the proposed joint holders account;
  - (ii) indicate his approval in writing on an appropriate form which must form part of the permanent records of the Participating Organisation;
  - (iii) photocopy a set of the joint holder Clients' identity cards to be attached together with the application form;
  - (iv) ensure that the application form contain at least the following particulars:
    - full name of joint holder Clients;
    - full residence and correspondence address
    - contact details
    - spouse name (where applicable)
    - employment details for the applicant and spouse (where applicable)
    - income and its source
    - approved credit limit

**(3) Opening And Registration of a Corporate Client Account**

In relation to the opening of a corporate Client account, a Participating Organisation must:

- (a) require from the corporation and maintain as part of its permanent record, an application form for opening account with Participating Organisation and such form shall contain at least the following information:
  - Name of corporation and all its directors;
  - Full registered and correspondence address of the corporation
  - Names of authorised signatories to the cheques issued by the corporation
  - Name of authorised person for trading
  - Contact details
  - Approved credit limit
- (b) prior to entering into transactions for a corporate Client account, have on file a resolution of the directors of the corporation authorising the said corporation to open an account with the Participating Organisation.

**1.2 Other general matters pertaining to the opening of a Client account**

- (1) All Client accounts must be identified and designated by the full name of the Client and no Participating Organisation shall carry a Client account designated only by a number or symbol.
- (2) Paragraph 1.1(1) also applies to trading accounts of Dealer's Representatives.
- (3) A Participating Organisation must inform the Exchange of particulars of delinquent account.
- (4) A Participating Organisation must record and maintain up-to-date at its office, all essential particulars relative to every Client.

**2. Rule 5.15(2)**

Rule 5.15(2) provides that if the Client represents that the Client is trading on behalf of another person, the Participating Organisation may open a trading account for the Client only if the Client is an Authorised Nominee or Exempt Authorised Nominee and that the Participating Organisation brings to the notice of the Client, the Client's obligation under Rule 5.15(8). In discharging the obligations under the said Rule, a Participating Organisation must comply with the requirements set out below.

**2.1 Opening of nominee accounts**

- (1) Where an agency account is carried by a Participating Organisation its files must contain the name of the principal for whom the agent is acting and written evidence of the agent's authority to trade.
- (2) Where estate and trustee accounts are involved or where a husband is acting as agent for his wife, or a wife is acting for her husband, a Participating Organisation should obtain advice from legal counsel as to the documents that should be obtained before opening the account.

[End of Directive]

Relevant to : Rules 5.17(2) and 5.17(3)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 7 of 2011  
Refer also to Directive No(s). : N/A

**1. Rules 5.17(2) and 5.17(3)**

- (1) Rule 5.17(2) provides amongst others that a Participating Organisation may outsource its functions if it complies with the Guidelines on Outsourcing and any directives that may be issued by the Exchange on this matter and has obtained the prior written approval of the Exchange for any material outsourcing arrangement as required under the Guidelines on Outsourcing.
- (2) Further, Rule 5.17(3) provides amongst others that a Participating Organisation which has outsourced its functions in accordance with Rule 5.17 must, in relation to such functions, comply with the Guidelines on Outsourcing and any directives that may be issued by the Exchange on this matter.
- (3) Pursuant to the above Rules, a Participating Organisation who intends to or has outsourced its functions must comply with the requirements set out below.
- (4) The Guidelines on Outsourcing and Frequently Asked Questions are available at the Securities Commission's website at:

<http://www.sc.com.my/main.asp?pageid=293&menuid=213&newsid=&linkid=&type>

**1.1 Directives on Material Outsourcing by Market Intermediaries**

The Directives on Material Outsourcing Arrangements by Market Intermediaries are set out in **Appendix 1** of this Directive.

[End of Directive]

**APPENDIX 1**

**DIRECTIVES ON MATERIAL OUTSOURCING ARRANGEMENTS BY MARKET INTERMEDIARIES**

**1. APPLICATION AND DEFINITIONS**

**1.1 Application**

These directives apply to material outsourcing arrangements. A material outsourcing arrangement is as described in chapter 4 of the Guidelines on Outsourcing.

**1.2 Definitions**

In these directives, unless the context otherwise requires:

Back Office functions	means back office functions as defined under the Guidelines on Outsourcing.
Bursa	means the following entities either collectively or individually as the context shall require. <ul style="list-style-type: none"> <li>• Bursa Malaysia Securities Berhad;</li> <li>• Bursa Malaysia Derivatives Berhad;</li> <li>• Bursa Malaysia Depository Sdn Bhd;</li> <li>• Bursa Malaysia Securities Clearing Sdn Bhd;</li> <li>and</li> <li>• Bursa Malaysia Derivatives Clearing Berhad.</li> </ul>
BSZ	means Bursa Secured Zone, which is the domain designated by Bursa, in accordance with such requirements as may be determined by Bursa from time to time, to be the domain where, without limitations, Bursa's Information Technology Infrastructure shall reside.
Client(s)	means an entity, whether an individual or a body corporate, for whom relevant trading and/or securities account(s), have been opened in accordance with the requirements of the Rules.
Guidelines on Outsourcing	means the "Guidelines on Outsourcing for Capital Market Intermediaries" issued by the Securities Commission including subsequent amendments, modifications, variations, supplements or substitutes and any directives or guidelines as may be issued under the Guidelines on Outsourcing.
Market Intermediary	means the following: <ul style="list-style-type: none"> <li>• Participating Organisation;</li> <li>• Trading Clearing Participant;</li> <li>• Authorised Depository Agent;</li> <li>• Trading Participant;</li> <li>• General Clearing Participant; or</li> <li>• Authorised Direct Member who is also a Market Intermediary as defined in the Guidelines on Outsourcing.</li> </ul>



as defined in the Rules, whether collectively or individually, as the context requires, which wishes or has been approved to outsource its Back Office functions in its respective capacities.

ISZ	means Intermediary Secured Zone. The ISZ shall be the designated domain which falls within the purview of the Market Intermediary and where the Market Intermediary shall be responsible for the operations.
outsourced functions	means “outsourced functions” as defined in the Guidelines on Outsourcing.
Rules	means “rules” as defined in the Guidelines on Outsourcing.
Service Level Agreement	means “service level agreement” as defined in the Guidelines on Outsourcing.
Securities laws	means “securities laws” as defined in the Guidelines on Outsourcing.
Service Provider	means “service provider” as defined in the Guidelines on Outsourcing.

## **2. OBLIGATIONS OF THE MARKET INTERMEDIARY**

### **2.1 Responsibility of the Market Intermediary**

- 2.1.1 Without derogation to all other responsibilities stipulated in the Rules and the Guidelines on Outsourcing, the Market Intermediary shall continue to retain responsibilities in the following areas:
- a) the compliance and monitoring of the policies pertaining to information technology security;
  - b) With respect to disaster recovery, all operational aspects and the facilities, the Market Intermediary shall continue to retain ownership of the business continuity and contingency plans and make explicit arrangements for orderly transition upon expiration or early termination of the outsourcing arrangement with the Service Provider; and
  - c) the compliance with the Rules and all other relevant securities laws, regulations and guidelines.

### **2.2 Exemption**

- 2.2.1 In relation to paragraph 3.02 of the Guidelines on Outsourcing, a Market Intermediary may outsource a Back Office function that involves decision making or interaction with Clients where the function relates to post trade, financing or custody services.

### **2.3 Service Level Agreement**

2.3.1 Where there is more than one Service Provider for the outsourced functions, the Market Intermediary shall enter into separate Service Level Agreements with each of the Service Providers.

2.3.2 The Market Intermediary shall ensure that the salient contractual obligations and terms of the SLA in relation to the secrecy and confidentiality of the documents and information of clients imposed on the Service Provider in the course of carrying out the outsourced functions shall be applicable not only for the duration of the SLA but also survives the termination of the SLA.

## **2.4 Confidentiality of Clients' Information**

2.4.1 The Market Intermediary shall comply with Sections 43 and 45 of the Securities Industry (Central Depositories) Act 1991.

## **2.5 Interruption and Termination**

2.5.1 The Market Intermediary shall define the nature, sensitivity and materiality of any interruption in carrying out of the Back Office functions or termination thereof by the Service Provider including the impact thereof on the Market Intermediary.

2.5.2 The Market Intermediary shall formulate and test an effective contingency plan annually in preparation of any possible interruption in the carrying out of the Back Office functions and/or termination thereof by the Service Provider.

2.5.3 The Market Intermediary shall be liable for any non performance of the outsourced functions arising from any interruption in the carrying out of the outsourced functions and/or termination thereof by the Service Provider and in this respect the Market Intermediary shall not be exonerated from its responsibilities and obligations under the Rules or Directives.

## **2.6 Notification of Termination**

2.6.1 The Market Intermediary shall notify Bursa not later than 10 market days from the date of the termination or the effective date of termination, whichever is earlier, in the event the Service Provider is terminated from providing the outsourced functions.

## **2.7 Review By Internal Audit**

2.7.1 The Market Intermediary and its internal audit department or an external auditor shall undertake regular review of the functions performed by the Service Provider and prepare the necessary report on a periodic basis. The Market Intermediary shall ensure the report contains, inter alia, the following:

2.7.1.1 quality of the performance of the outsourced function by the Service Provider;

2.7.1.2 adherence of the Service Provider to the quality standards agreed between the Market Intermediary and the Service Provider;

2.7.1.3 adherence of the Service Provider with the obligations stipulated under the Service Level Agreement;

2.7.1.4 potential conflict of interest especially where the Service Provider operates within the same industry;

2.7.1.5 adequacy of resources and ability of the Service Provider to efficiently undertake the functions especially where the Service Provider performs outsourcing services for multiple entities; and

2.7.1.6 identification of risks and strategies for managing such risks.

### **3. COMPLIANCE AND ENFORCEMENT**

3.1 The Market Intermediary shall ensure that the Service Provider complies with the Rules and Directives issued, or as may be issued, from time to time, by Bursa.

3.2 In the event there is any breach or non compliance by the Service Provider in relation to the Rules and Directives issued, or as may be issued, from time to time, by Bursa, whether the breach is discovered during the tenure of the Service Level Agreement or otherwise, Bursa shall deem such breach to be a breach committed by the Market Intermediary and all provisions in the Rules in relation thereof shall apply.

### **4 COMMUNICATIONS**

4.1 All Rules, Directives, and all other types of communications, whether written or otherwise, in relation to the outsourced functions shall be issued to the Market Intermediary.

4.2 The Market Intermediary shall be responsible to ensure that the Service Provider is informed of all Rules, Directives and all other types of communications, whether written or otherwise, directed to the Market Intermediary in relation to the outsourced functions and Bursa shall deem that the same is communicated and within the knowledge of the Service Provider.

### **5. CONNECTIVITY**

5.1 Where Back Office functions are concerned, all physical and logical connections with the BSZ shall be solely performed by Bursa or its appointed agents/vendors/representatives in accordance with the Rules and Directives enforced at the time or issued, from time to time.

5.2 The Market Intermediary shall clearly define and document the operation of the ISZ in accordance with the, Rules and Directives.

5.3 The Market Intermediary shall clearly define and document all physical and logical connections between the ISZ and the BSZ in respect of all the requirements stated in the Guidelines on Outsourcing.

**6. APPLICATION TO BURSA**

6.1 The Market Intermediary shall submit an application in writing to Bursa at least 30 market days prior to the intended commencement of the carrying out of the outsourced functions by the Service Provider. Such applications shall be addressed to:-

Participants Supervision Division  
Bursa Malaysia Berhad  
12 Floor, Exchange Square  
Bukit Kewangan  
50200 Kuala Lumpur.

6.2 The Market Intermediary shall ensure each application is accompanied by the following (where applicable):-

- i) the objectives of the Market Intermediary for outsourcing the functions;
- ii) details on selection criteria of the Service Provider and the manner in which the Market Intermediary shall monitor the performance of the functions by the Service Provider;
- iii) details on the evaluation of risks;
- iv) a copy of the Service Level Agreement;
- v) letters of Undertaking and Confirmation as follows :
  - a) in respect of the existing clients of the Market Intermediary as at the date of this application, a confirmation that the Market Intermediary has complied with the requirements stipulated under item no. 2.4; and/or
  - b) in respect of future clients of the Market Intermediary, an undertaking that the Market Intermediary shall comply with the requirements stipulated under item no.2.4;
- vi) a full set of the specifications of the functions that is/are outsourced. For subsequent changes, a list of changes, indexed against the previous list should be submitted;
- vii) the location and specifications in respect of connectivity to the BSZ in respect of the Back Office functions;
- viii) user acceptance certification on the function(s) that is/are outsourced in respect of the Back Office functions;
- ix) a copy of the readiness report prepared in respect of the outsourcing of Back Office functions to ascertain the readiness of the Service Provider to assume such Back Office functions under the Service Level Agreement in terms of infrastructure and sufficiency of resources. Such readiness audits shall be carried out by independent bodies such as the internal audit department in order to preserve integrity and independence of such exercises. In the absence of Internal Audit function, the Market Intermediary may appoint an

external auditor to carry out the independent review and report the same to the Bursa.

- 6.3 Bursa may, upon approval given to the Market Intermediary to outsource the functions, impose, add or vary any terms or conditions, as it deems fit in relation to the approval given.

**7. REVOCATION OF APPROVAL AND INDEMNITY**

- 7.1 Bursa and the Securities Commission shall have the right to revoke any approval given to an Market Intermediary to outsource its functions and/or to direct the Market Intermediary to discontinue the outsourcing of the functions to the Service Provider immediately, partly or wholly, for any reason whatsoever, including but not limited to, where there is a breach by the Market Intermediary of the requirements of the Rules or these Directives.
- 7.2 The Market Intermediary shall also keep Bursa indemnified and shall not hold Bursa liable to any claims made by any party howsoever arising from or in connection with the approval granted by Bursa to the Market Intermediary for the outsourcing of the functions to the Service Provider.
- 7.3 Bursa shall not be held liable either by the Market Intermediary and/or the Service Provider for any claims arising from revocation of approvals granted in respect of the outsourcing of the functions. Consequent to the revocation, the Market Intermediary shall carry out the relevant functions by itself, until and unless a new Service Provider has been appointed and approved by Bursa in accordance with the Rules or these Directives.

[End of Appendix]

Relevant to : Part B of Chapter 6  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 6.03(1)**

- (1) Rule 6.03(1) provides that a Participating Organisation may establish, maintain and operate Branch Offices and Electronic Access Facilities with the Exchange's approval subject to the Commission's requirements on Branch Offices and Electronic Access Facilities.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Written application**

- (1) A Participating Organisation who intends to establish a Branch Office or an Electronic Access Facility pursuant to Rule 6.03(1) must submit a written application to the Exchange in accordance with this Directive.
- (2) The written application must be submitted together with a written notification of the location and intended commencement date of the operations of the Branch Office or Electronic Access Facility not later than 30 Market Days prior to the intended commencement date of the operations of the Branch Office or Electronic Access Facility.

**1.2 Approval-in-principle for establishment of Branch Office and Electronic Access Facility**

- (1) Upon receipt of the application to establish a Branch Office or an Electronic Access Facility, the Exchange will evaluate the application and consider amongst others the following:
  - (a) the area which the Participating Organisation is applying to establish a Branch Office or an Electronic Access Facility;
  - (b) the Participating Organisation's business integrity;
  - (c) its financial standing; and
  - (d) its experience of dealing in securities.
- (2) The requirements stipulated in 1.1(1) and (2) in relation to Branch Office of this Directive are not applicable to an Investment Bank.

**1.3 Name of Branch Office and Electronic Access Facility**

The Branch Office and Electronic Access Facility must carry the name of the Participating Organisation and not any other name.

**1.4 Material changes to the Branch Office or Electronic Access Facility**

A Participating Organisation must obtain the prior approval of the Exchange in respect of any material change to the Branch Office or Electronic Access Facility established, maintained or operated pursuant to this Directive.

**2. Rule 6.03(2)**

- 2.1 Rule 6.03(2) provides that a Participating Organisation must, in relation to every Branch Office, appoint 1 responsible person who is engaged on a full time basis with the Participating Organisation to ensure the proper segregation of duties at the Branch Office and to oversee the administrative activities at the Branch Office.
- 2.2 In this respect, a person who, prior to the Effective Date, is heading and supervising the Branch Office of a Participating Organisation (“Head of Branch Office”) will be deemed from the Effective Date as the responsible person specified in Rule 6.03(2), unless otherwise notified to the Exchange by the Participating Organisation.

**3. Rule 6.04(2)**

- (1) This Rule provides that a Participating Organisation may only carry out activities as the Exchange may permit at the Electronic Access Facility.
- (2) The directives below specify the activities that may or may not be carried out at a Participating Organisation’s Electronic Access Facility.

**3.1 Permitted activities at the Electronic Access Facility**

A Participating Organisation may carry out the following activities at an Electronic Access Facility:

- (a) collection of relevant forms duly executed by the Clients;
- (b) the publication or dissemination of written analysis or reports or any similar communications by the Participating Organisation in the course of carrying on the regulated activity of investment advice;
- (c) the stationing of the Participating Organisation’s employee(s) or third party(ies) but not its Dealer’s Representative(s) at the Electronic Access Facility for the following purposes only:
  - (i) to provide assistance to Clients utilising the Electronic Access Facility;
  - (ii) to provide maintenance services to the Electronic Access Facility;
  - (iii) to provide security to the Electronic Access Facility and its site(s); and
  - (iv) such other activities as may be approved by the Commission and/or Exchange from time to time.

**3.2 Prohibited activities at the Electronic Access Facility**

A Participating Organisation must not carry out at the Electronic Access Facility any type of front office or back office operations and activities including the following:

- (a) the opening and closing of trading accounts or Securities Accounts;
- (b) trading in securities, but excluding such orders entered into the Electronic Access Facility by the Clients themselves;
- (c) the processing, production of printing of Contract Notes;

- (d) any other business permitted by the Commission or Central Bank that are not specified in paragraph 3.1; and
- (e) the stationing of Dealer's Representatives at the Electronic Access Facility.

**4. Rule 6.05**

- (1) Rule 6.05 provides that a Participating Organisation may convert its Electronic Access Facility to a Branch Office or vice versa upon approval of the Exchange.
- (2) Pursuant to the above Rule, a Participating Organisation must, amongst others comply with the requirements set out below.

**4.1 Conversion of Electronic Access Facility to Branch Office or Branch Office to Electronic Access Facility**

A Participating Organisation who intends to convert an Electronic Access Facility to a Branch Office, or a Branch Office to an Electronic Access Facility must undertake the following:

- (a) submit a written application to the Exchange, at least 3 months prior to the date of the proposed conversion; and
- (b) give prior written notification of not less than two 2 months before the proposed date of conversion to its Clients who may be affected by the proposed conversion.

[End of Directive]



<b>DIRECTIVES ON COMPLIANCE FUNCTIONS OF PARTICIPATING ORGANISATION</b>	<b>No. 6.07(1)-001</b>
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Relevant to : Rule 6.07(1)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 6.07(1)**

- (1) Rule 6.07(1) requires a Participating Organisation to carry out the compliance function to monitor compliance with these Rules, Directives and the Securities Laws and to provide advice on all the relevant requirements that a Participating Organisation must comply with, in carrying out the Participating Organisation's business.
- (2) In discharging the obligations in the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Compliance Functions for Dealing in Derivatives**

- (1) If a Participating Organisation wants to undertake compliance functions for dealing in derivatives conducted at the Participating Organisation's Principal Office or Branch Office by its Related Corporation, the Participating Organisation must ensure that:
  - (a) the carrying out of the compliance functions for the Participating Organisation's business in dealing in securities is not compromised or affected; and
  - (b) all compliance reports pertaining to dealing in derivatives is submitted to the Head of Compliance of the Futures Broker.
- (2) The Head of Compliance of the Futures Broker and the Futures Broker are ultimately responsible for the compliance functions in relation to dealing in derivatives.

[End of Directive]

**DIRECTIVES ON THE RESPONSIBILITY OF THE PARTICIPATING ORGANISATION AND BOARD OF DIRECTORS FOR COMPLIANCE FUNCTION**

**No. 6.08-001**

Relevant to : Rules 6.08, 3.37(1)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 18 of 1999  
Refer also to Directive No(s). : N/A

**1. Rules 6.08 and 3.37(1)**

- (1) Rule 6.08 provides amongst others that a Participating Organisation and the Participating Organisation's Board of Directors are responsible and accountable for compliance with the Rules, the Directives and Securities Laws by the Participating Organisation, the Participating Organisation's Registered Persons, employees and agents, and that if there is a breach, the Participating Organisation and the Participating Organisation's Board of Directors are liable for such breach.
- (2) Rule 3.37(1) provides that the Head of Compliance must report directly to the Board of Directors of the Participating Organisation.
- (3) Pursuant to the above rules, in discharging these obligations, a Participating Organisation and its Board of Directors must, amongst others, comply with the requirements set out in the Directives on the Responsibility of the Participating Organisation and Board of Directors for Compliance Function contained in **Appendix 1** of this Directive.

[End of Directive]

**APPENDIX 1**

**DIRECTIVES ON RESPONSIBILITY OF THE PARTICIPATING ORGANISATION AND BOARD OF DIRECTORS FOR COMPLIANCE FUNCTION**

The directives below are issued as part of the Exchange's on-going efforts to address compliance issues and to enhance compliance through guidance that will encourage self-regulation and sound risk management of the securities industry.

1. A Participating Organisation, as a whole, must be committed to the creation and maintenance of a compliance culture within its organisation. Key decisions and actions taken in regard to daily operations must be based on such a commitment, ensuring compliance with the relevant laws, rules and regulations at all times.
2. The compliance function of a Participating Organisation is ultimately the responsibility of the Participating Organisation and its Board of Directors. Besides approving all significant policies and procedures throughout the organisation, the Board of Directors must also ensure that a sound system of internal controls is maintained to safeguard shareholders' interest, company's assets and clients' interest. This covers not only financial control but also operational and compliance controls, as well as risk management. A strong and pro-active Board of Directors will foster an environment of strong internal controls and compliant procedures and practices. It will also help to inculcate compliance culture within the Participating Organisation.
3. The management is responsible for setting the tone of the organisation to promote a compliance culture within the entity. It is imperative that the management provides support to the compliance function and actions taken by the management must be indicative of this.
4. Nevertheless, it is the responsibility of the staff of the Participating Organisation to comply with all relevant securities laws, rules and regulations, as well as all internal control policies and procedures set up by the organisation. Both the management and staff must bear in mind that compliance is everyone's responsibility.
5. The ultimate responsibility for proper supervision and compliance rests with the Participating Organisation and its Board of Directors. The Head of Compliance facilitates the attainment of these objectives and does not relieve the Participating Organisation or its Board of Directors of any of its responsibilities. The formulation of supervisory or compliance programmes may be within the Head of Compliance's job function but the effective implementation and maintenance of such programmes lies with the Participating Organisation and its Board of Directors. Any failure to effectively supervise and ensure compliance by the Participating Organisation or its employees will be deemed a failure on the part of the Participating Organisation and its Board of Directors.
6. Based on the above, it is important that the right person is employed as the Head of Compliance. In addition to having the proper professional/academic qualifications and experience appropriate to duties that he is expected to perform, the Head of Compliance must be equipped with the authority and ability to affect decision so as to be able to carry out his responsibilities effectively. Therefore, the Head of Compliance must be a person holding a **senior position** in the organisation of the Participating Organisation, who can act independently and is able to fully affect decisions. The Head of Compliance must report directly to the Board of Directors of the Participating Organisation. In the course of his duties, the Head of Compliance may bring to the attention of the Executive Director-Operations or other senior management of the Participating Organisation matters pertaining to compliance of the Participating Organisation so as to enable appropriate action to be taken. In performing

<b>DIRECTIVES ON THE RESPONSIBILITY OF THE PARTICIPATING ORGANISATION AND BOARD OF DIRECTORS FOR COMPLIANCE FUNCTION</b>
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<b>No. 6.08-001</b>
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his duties, the Head of Compliance oversees the other supervisory measures within the Participating Organisation and needs to work closely with staff within the organisation, providing advice on compliance matters.

[End of Appendix]

Relevant to : Rule 6.10(2)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 6.10(2)**

- (1) Rule 6.10(2) requires a Participating Organisation to establish a risk management committee whose function is to manage and monitor the discharge of the risk management functions of the Participating Organisation ("Risk Management Committee").
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1. Risk Management Functions of the Risk Management Committee**

The functions of the Risk Management Committee must include the following:

- (a) to develop and implement adequate risk assessment that commensurates with the scope, size and complexity of the Participating Organisation's activities and the level of risks that the Participating Organisation is prepared to assume;
- (b) to manage and monitor the risks identified under 1.1(1) (a) above; and
- (c) to manage and review the policies and procedures in relation to risk management.

[End of Directive]

**DIRECTIVES ON FUNCTIONS OF AUDIT COMMITTEE****No. 6.12(2)-001**

Relevant to : Rule 6.12(2)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 6.12(2)**

- (1) This rule provides that a Participating Organisation ("PO") must establish and maintain an audit committee, whether on its own, or at the Group Level, in accordance with Part G of Chapter 6 ("Audit Committee"), and whose functions must include such functions as may be specified by the Exchange. The Audit Committee is responsible for monitoring and overseeing all matters relating to the discharge of the internal audit functions of the Participating Organisation.
- (2) Pursuant to the above Rule, in establishing an Audit Committee, a Participating Organisation must comply, amongst others, with the requirements set out below.

**1.1 Functions of Audit Committee**

- (1) The functions of an Audit Committee must include the following:
- (a) ensure that the financial and accounting system of the Participating Organisation represents a true and fair view of its current financial position;
  - (b) oversee the Participating Organisation's internal control structure and its financial reporting process;
  - (c) review the findings of the internal and annual statutory audit and recommend as well as implement appropriate remedial and corrective measures relating to the same;
  - (d) discuss any matters arising from the previous year's audit, review the scope of the current year's audit, the plans for carrying out the audit, the extent of reliance on the work of the statutory auditor and the Participating Organisation's internal auditors;
  - (e) ensure proper implementation and recommend appropriate remedial and corrective measures in respect of such findings arising from inspections conducted by the Exchange;
  - (f) review the changes in statutory requirements and any rules issued, and any significant audit problems that can be foreseen either as a result of the previous year's experience or because of new developments;
  - (g) ensure the independence and objectivity of the internal and the external auditor and that the audits are conducted in a thorough and effective manner; and
  - (h) monitor the Participating Organisation's compliance with applicable laws and regulations.

[End of Directive]

Relevant to : Rule 7.05(1)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 17 of 2006  
Refer also to Directive No(s). : 3-001, 7.05(1)-002

## **1. Introduction**

- (1) Section 98(4)(c) of the Capital Markets and Services Act states that section 98(1) is not applicable for a sale of securities where:
- (a) the securities are included in a class of securities in relation to which there is a provision in the rules of the stock exchange to the effect that the class of securities to which this paragraph applies;
  - (b) the sale is made as may be provided by the rules of the stock exchange; and
  - (c) at the time of the sale, neither the person who sold the securities, nor any person on behalf of whom the first-mentioned person sold the securities, was an associate, in relation to the sale, of the body corporate that issued or made available the securities.
- (2) Pursuant to the above section, a Participating Organisation is allowed to carry out Day Trading subject to compliance with the following directives.
- (3) For the purposes of these Directives only:
- “associated” has the same meaning as associated person in section 3 of the Capital Markets and Services Act;
- “Eligible Securities” means the securities prescribed by the Exchange under paragraph 2(1) including any changes that may be made by the Exchange under paragraph 2(2);
- “Investment Account” means a trading account opened in the name of a Participating Organisation and used by the Participating Organisation for taking positions in securities with respect to its own investment for a period determined by the Participating Organisation.
- (4) Nothing in these Directives is construed as prohibiting a Participating Organisation from using its Investment Account in taking proprietary positions on an intra day buy and sell, in which case the provisions in these Rules in relation to Investment Account must apply to those positions.

## **2. Eligible Securities**

- (1) The Exchange prescribes all securities admitted to the Official List, excluding securities listed on the ACE Market as securities that fall within the class of securities to which section 98(4)(c) of the Capital Markets and Services Act applies and to which a short sale may be executed subject to the terms of these Directives.
- (2) The Exchange may amend the list of Eligible Securities from time to time.

## **3. Rule 7.05(1)**

- (1) Rule 7.05(1) provides that a Participating Organisation may only open and operate the following types of trading accounts:
- (a) Proprietary Account in the name of the Participating Organisation;

- (b) Client's account in the name of the respective Client; and
  - (c) Authorised Nominees account in the name of the Participating Organisation or its wholly owned nominee company.
- (2) In undertaking Day Trading, including executing a short sale in Eligible Securities and in discharging the obligations under Rule 7.05(1), a Participating Organisation must comply with the following Directives.

### 3.1 Opening of Day Trading Activities Account

- (1) A Participating Organisation may carry out Day Trading subject to the following conditions:
- (a) the Participating Organisation must close off any sell positions with buy positions on T day itself;
  - (b) the Participating Organisation must close off any buy positions with sell positions not later than T+2;
  - (c) only a Proprietary Day Trader may carry out any Day Trading on behalf of the Participating Organisation;
  - (d) the Participating Organisation must comply with these Rules and these directives and any other directives issued from time to time by the Exchange in relation to Day Trading;
  - (e) the Participating Organisation must ensure compliance with these Rules and these directives by its Proprietary Day Traders and must remain liable for all actions of its Proprietary Day Traders; and
  - (f) no Day Trading is allowed for ACE Market Securities.
- (2) A Participating Organisation must carry out all Day Trading in Day Trading Activities Accounts and in no other accounts.
- (3) A Participating Organisation may open and maintain a Day Trading Activities Account for the purposes stipulated under paragraph 3.1(1) subject to the following conditions:
- (a) the Day Trading Activities Account must be a proprietary account of the Participating Organisation;
  - (b) the Day Trading Activities Account must be opened in the name of the Participating Organisation;
  - (c) only a Proprietary Day Trader is authorised to operate a Day Trading Activities Account on behalf of the Participating Organisation;
  - (d) where more than one Day Trading Activities Account is opened, each account opened must be assigned to one Proprietary Day Trader only and no sharing of the account is allowed among the Proprietary Day Traders of the Participating Organisation;
  - (e) the "account qualifier" of each Day Trading Activities Account must contain the word "PDT" followed by the code of the Participating Organisation, the code of the Proprietary Day Trader in brackets and the full name of the Proprietary Day Trader as set out below;

Illustration:



ABC Securities Sdn Bhd  
A/C Qualifier: PDT (123-456) Tan Ah Kow

- (f) proper records must be maintained in respect of each Day Trading Activities Account opened by the Participating Organisation; and
  - (g) Contract amendment as provided in Rule 8.09 is prohibited in relation to Day Trading Activities Accounts and/or the Securities Account stipulated in paragraph 3.1(4).
- (4) A Participating Organisation must open a separate Securities Account in the name of the Participating Organisation for each Day Trading Activities Account opened by the Participating Organisation and subject to the requirements in the Depository Rules, designate that Securities Account in accordance with the requirements stipulated in paragraph 3.1(3)(e).
- (5) A Participating Organisation must submit in such format prescribed by the Exchange the particulars of the Day Trading Activities Account and Securities Account operated by each Proprietary Day Trader.
- (6) The particulars of the Day Trading Activities Account and Securities Account operated by each Proprietary Day Trader must be submitted in writing to the Exchange, addressed to 'Head Market Surveillance Division'. The information must include the following:
- (a) Trading Account and Securities Account numbers;
  - (b) Date the above accounts were opened;
  - (c) Name & Code of the Participating Organisation;
  - (d) Principal/Branch Office Code;
  - (e) Name of the Proprietary Day Trader;
  - (f) Date of Submission;
  - (g) Dealer Code; and
  - (h) Broker front end User ID.

### 3.2 Limit on Day Trading

- (1) Without prejudice to any other powers that may be conferred on the Exchange in these Rules and these directives, where a suspension is imposed against the carrying out of Regulated Short Selling on an Approved Securities in accordance with Part C of Chapter 8 of these Rules, the Participating Organisation and its Proprietary Day Traders are prohibited from making any order entry into the ATS for the purpose of execution of any short sale of the Eligible Securities of an Issuer, where the Eligible Securities is also an Approved Securities.
- (2) Where the Eligible Securities in paragraph 3.2(1) are shares of an Issuer, the prohibition in paragraph 3.2(1) is also applicable to the following:
- (a) all classes of securities other than the shares issued by the Issuer; and
  - (b) all securities issued by any Issuer where the underlying instrument of the securities issued comprise solely the shares of an Issuer in relation to which the prohibition pursuant to paragraph 3.2(1) has been imposed.
- (3) Unless directed otherwise by the Exchange, the prohibition imposed on the Eligible Securities pursuant to paragraph 3.2(1) must only be removed when the suspension imposed against the carrying out of Regulated Short Selling as stipulated in paragraph 3.2(1) is uplifted.
- (4) The Head of Compliance of a Participating Organisation must report any breach of paragraph 3.2 in its monthly compliance report pursuant to Rule 3.39(5) of these Rules.

### 3.3 Delivery and Settlement

For the avoidance of doubt, these Rules in particular Chapter 9 in relation to delivery and settlement of securities traded on the Exchange is applicable to both sell and buy trades respectively.

### 3.4 Procedures and Controls

- (1) A Participating Organisation must establish and maintain adequate internal controls, systems and procedures to supervise and monitor its Day Trading in order to ensure compliance with these directives and any other directives that may be issued by the Exchange from time to time in relation to Day Trading. The internal controls, systems and procedures established by a Participating Organisation must include the following:
  - (a) The criteria for the appointment of a Proprietary Day Trader;
  - (b) The value of trading limit set for each Proprietary Day Trader; and
  - (c) Monitoring mechanism in respect of the activities of its Proprietary Day Traders.
- (2) Where during the course of investigation and/or inspection on a Participating Organisation, the Exchange finds that the internal controls, systems and procedures established by a Participating Organisation are not adequate, the Exchange may direct the Participating Organisation to put in place the relevant internal controls, systems and procedures.
- (3) A Participating Organisation must report to the Exchange the following:
  - (a) the net sell positions which have not been closed off in accordance with the requirements of paragraph 3.1(1)(a) and the reasons by 9.00 am on T+1;
  - (b) the net buy positions which have not been closed off in accordance with the requirements of paragraph 3.1(1)(b) and the reasons by 9.00 am on T+3; and
  - (c) the positions which are carried out for ACE Market securities in breach of paragraph 3.1(1)(f) and the reasons by 9.00 am on T+1.
- (4) Pursuant to paragraph 3.1(5), a Participating Organisation must submit the report in the format attached to this Directive as **Appendix 1(a), 1(b) and 1(c)** ("Exceptional Reporting") and in the following manner:
  - (a) all reporting on the net sell positions which have not been closed off in accordance with the requirements of paragraph 3.1(1)(a) of these Directives must be in **Appendix 1(a)**;
  - (b) all reporting on the net buy positions which have not been closed off in accordance with the requirements of paragraph 3.1(1)(b) of these Directives must be in **Appendix 1(b)**;
  - (c) all reporting on the Day Trading carried out for ACE Market securities in breach of paragraph 3.1(1)(f) of these Directives must be in **Appendix 1(c)**;
  - (d) a Participating Organisation must submit the Exceptional Reporting to the Exchange vide email address of ***msdreporting@bursamalaysia.com*** within the time prescribed under paragraph 3.4(3). The contents of the Exceptional Reporting must be verified by both the Head of Operations and the Head of Compliance and the submission is taken as a declaration by the above persons that the contents are true and accurate;

- (e) if a Participating Organisation is unable to transmit the Exceptional Reporting by way of email due to system malfunction, the Participating Organisation must instead submit the duly completed and printed hardcopies of the Exceptional Reporting by way of facsimile, courier or by hand within the time prescribed in paragraph 3.4(3) of these Directives and ensure that once the malfunction has been rectified, to transmit the Exceptional Reporting in the mode prescribed in paragraph 3.4(4)(d);
- (f) the Exceptional Reporting submitted by the Participating Organisation pursuant to paragraph 3.4(4)(e), must be executed by the Head of Operations and the Head of Compliance. In this respect, the Participating Organisations must ensure that the name and the designation of the authorised signatories are stipulated and the company's rubber stamp duly affixed on the printed hardcopies; and
- (g) for the purpose of submitting the Exceptional Reporting by way of facsimile pursuant to paragraph 3.4(4)(e), a Participating Organisation must fax the Exceptional Reporting addressed to 'Head Market Surveillance Division' to the facsimile number 03-2732 0764.

### **3.5 Participating Organisation's association with Issuer**

Without prejudice to any other provisions in these Rules, no Participating Organisation is permitted to execute any short sale of Eligible Securities in relation to its Day Trading where the Participating Organisation is associated with the body corporate that issued or made available the Eligible Securities.

### **3.6 Actions by the Exchange**

- (1) Without prejudice to any other powers of the Exchange contained in Part A of Chapter 15 of these Rules, the Exchange may summarily prohibit a Participating Organisation or a Proprietary Day Trader from carrying out Day Trading or any short sale of Eligible Securities, or remove any other privileges accorded to the Participating Organisation or Proprietary Day Trader, or all of the above, in any manner or subject to any condition it deems fit, if the Exchange has reason to believe that the Participating Organisation or the Proprietary Day Trader:
  - (a) has breached or is likely to breach any provision of these Rules, these Directives or any of the Exchange's other directives, guidelines or rulings issued from time to time; or
  - (b) has committed or is likely to commit an offence under the Capital Markets and Services Act.
- (2) In taking any of the actions stipulated under paragraph 3.6(1), the provisions of Rule 2.02 will apply.

[End of Directive]

**Appendix 1(a)**

Form MSD/PDT  
 Report Name PDT position reporting

**Part A Exceptional reporting – Short sale carried forward (>T)**

Submission by (PDT dealer) \_\_\_\_\_ (e.g Dealer ID – XYZ) \_\_\_\_\_ (e.g. Dealer Name – Tan Ah Kow)

PDT Account \_\_\_\_-\_\_\_\_-\_\_\_\_ (e.g 012-001-123456789)

#	Stock Code	Stock Name	Date (dd/mm/yy)	Quantity (in shares)			Reasons for not closing off positions	Mitigation/Action Plan
				Shorted	Bought Back	Carry Forward		
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								

*(Kindly insert new rows if the above is insufficient)*

We hereby acknowledge that the above has been verified and accurately reported as stipulated in accordance with **paragraph 3.4(4)(a)**

Reported by  
**Signature** \_\_\_\_\_  
**Name** \_\_\_\_\_  
**Position** Authorised person  
**Dated** \_\_\_\_\_  
**Contact Number** \_\_\_\_\_  
**Email Address** \_\_\_\_\_

Verified and reviewed by  
**Signature** \_\_\_\_\_  
**Name** \_\_\_\_\_  
**Position** Authorised Person  
**Dated** \_\_\_\_\_  
**Contact Number** \_\_\_\_\_  
**Email Address** \_\_\_\_\_

[End of Directive 1(a)]

Form MSD/PDT  
 Report Name PDT position reporting

**Part B Exceptional reporting – Long position carried forward (>T+2)**

Submission by (PDT dealer) \_\_\_\_\_ (e.g Dealer ID - XYZ) \_\_\_\_\_ (e.g. Dealer Name - Tan Ah Kow)

PDT Account - - - (e.g 012-001-123456789)

#	Stock Code	Stock Name	Date (dd/mm/yy)	Quantity (in shares)			Reasons for not closing off positions	Mitigation/Action Plan
				Shorted	Bought Back	Long Positions		
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								

*(Kindly insert new rows if the above is insufficient)*

We hereby acknowledge that the above has been verified and accurately reported as stipulated in accordance with **paragraph 3.4(4)(b)**

Reported by  
**Signature** \_\_\_\_\_  
**Name** \_\_\_\_\_  
**Position** Authorised person  
**Dated** \_\_\_\_\_  
**Contact Number** \_\_\_\_\_  
**Email Address** \_\_\_\_\_

Verified and reviewed by  
**Signature** \_\_\_\_\_  
**Name** \_\_\_\_\_  
**Position** Authorised person  
**Dated** \_\_\_\_\_  
**Contact Number** \_\_\_\_\_  
**Email Address** \_\_\_\_\_

Form MSD/PDT  
 Report Name PDT position reporting

**Part C Exceptional reporting – ACE Market securities**

Submission by (PDT dealer) \_\_\_\_\_ (e.g Dealer ID - XYZ) \_\_\_\_\_ (e.g. Dealer Name - Tan Ah Kow)

PDT Account - - - (e.g 012-001-123456789)

#	Stock Code	Stock Name	Date (dd/mm/yy)	Quantity (in shares)			Reasons for not closing off positions	Mitigation/Action Plan
				Shorted	Bought Back	Long Positions		
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								

*(Kindly insert new rows if the above is insufficient)*

We hereby acknowledge that the above has been verified and accurately reported as stipulated in accordance with **paragraph 3.4(4)(c)**

Reported by  
**Signature** \_\_\_\_\_  
**Name** \_\_\_\_\_  
**Position** Authorised person  
**Dated** \_\_\_\_\_  
**Contact Number** \_\_\_\_\_  
**Email Address** \_\_\_\_\_

Verified and reviewed by  
**Signature** \_\_\_\_\_  
**Name** \_\_\_\_\_  
**Position** Authorised person  
**Dated** \_\_\_\_\_  
**Contact Number** \_\_\_\_\_  
**Email Address** \_\_\_\_\_

[End of Directive 1(c)]

Relevant to : Rule 7.05(1)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 18 of 2005, R/R 16 of 2006, R/R 7 of 2007 and R/R 8 of 2008  
Refer also to Directive No(s). : N/A

**1. Rule 7.05**

(1) Rule 7.05(1) states that a Participating Organisation may only open and operate the following types of trading accounts:

- (a) Proprietary Account in the name of the Participating Organisation;
- (b) Client's account in the name of the respective Client; and
- (c) Authorised Nominees account in the name of the Participating Organisation or its wholly owned nominee company.

(2) In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

(3) For the purposes of this directive, the following applies:

"Average price of the securities transacted" is the price computed based on 'the volume weighted average price' ("VWAP") of the securities transacted for a client as set out below:

***the total value of securities transacted for a client  
over the accumulation period ("the period")***

***the total quantity of securities transacted during the period***

"Error or Mistake Account" means a trading account opened in the name of a Participating Organisation and used by the Participating Organisation for recording errors or mistakes committed by the dealer's representatives or as the case may be, central buyers or such other authorised persons when executing orders in the event such errors or mistakes are not rectified in the manner envisaged by the Rules of Bursa Securities, the directives, rulings and/or guidelines issued pursuant to it.

"Investment Account" means a trading account opened in the name of a Participating Organisation and used by the Participating Organisation for taking positions in securities with respect to its own investment for a period determined by the Participating Organisation.

**1.1 Clearing Account**

(1) A Participating Organisation may provide such Client as it deems fit with a Clearing Account.

(2) A Participating Organisation must ensure that:

- (a) there is no sharing of Clearing Accounts among the Clients and no co-mingling of Clients' accounts;

- (b) the "account qualifier" of a Clearing Account provided must contain the word "CLR"; and
- (c) the Clearing Account must bear full particulars of the name of the Client.

Illustration:

ABC Securities Sdn Bhd  
A/C Qualifier: CLR for AA Bank Berhad

- (3) A Participating Organisation may allow for more than one Clearing Account to be maintained for the same Client subject to:
  - (a) the Rules of Bursa Securities and these directives being observed at all material times; and
  - (b) adequate records being maintained in respect of each of the Clearing Accounts.
- (4) Where the Participating Organisation is not able to fulfil the order given by a Client on T day itself, the order may be carried forward to not more than T+2. Such carrying forward must be properly reflected in the Clearing Account.
- (5) A Participating Organisation must book out an order that has been fulfilled by the Participating Organisation, at the end of T day itself or in relation to an order that has been carried forward, at the end of the day on which the order was carried forward. Subject to paragraph 1.1(6), such order must be booked out based on the average price of the securities transacted. The contract note(s) arising from the booking out process must be issued in the name of the Client in accordance with Directive 5-001.
- (6) The order referred to in paragraph 1.1(5) may be booked out at a price other than the average price of the securities transacted provided that:
  - (a) the nature of the instruction or order given by the Client is such that it allows for or necessitates that the order be booked out at a price other than the average price of the securities transacted;
  - (b) the above instruction or order is evidenced through proper records and documents; and
  - (c) any difference between the booking out price mentioned in this Directive and the average price of the securities transacted is dealt with in accordance with the policies and procedures approved by the board of Directors of the Participating Organisation.
- (7) A Participating Organisation must maintain proper records in respect of Clients to whom contracts are booked out in accordance with paragraph 1.1(5).
- (8) A Participating Organisation may open a Securities Account for its Clearing Account following paragraph 1.1(1). Where the Participating Organisation decides to open a Securities Account, the Participating Organisation must ensure a separate Securities Account is opened for each Clearing Account.
- (9) Where a Participating Organisation opens the above Securities Account, the Securities Account must contain the particulars as specified in paragraph 1.1(2), the Depository Rules and any directives issued by the Depository.
- (10) A Participating Organisation must not permit the above Securities Account to be shared among its Clients and no co-mingling of Securities Accounts is allowed.



- (11) In relation to an order to buy, a Participating Organisation may for the purpose of settlement, allow a Client, to credit the securities into any one of the following Securities Accounts:
- (a) A Securities Account maintained in the name of the Participating Organisation as provided in paragraph 1.1(8); or
  - (b) A Securities Account maintained with the Participating Organisation in the name of a Beneficial Owner, an Authorised Nominee or exempt Authorised Nominee.
- (12) Where pursuant to the requirement of paragraph 1.1(11)(a), the securities are credited into a Securities Account in the name of the Participating Organisation, all such securities must by the end of the settlement date be transferred into a Securities Account of a Beneficial Owner, an Authorised Nominee or exempt Authorised Nominee as instructed by the Client except where the Client has defaulted in its payment obligations as provided in the Rules of Bursa Securities to the Participating Organisation or where the Client has not given the Participating Organisation the particulars of the Securities Account into which the transfer envisaged is to be effected. In the case where an order has been carried forward in accordance with paragraph 1.1(4), the settlement date mentioned in this Directive must be the settlement date of the last trade executed in relation to the order placed by the Client.
- (13) Where pursuant to paragraph 1.1(11)(b), the securities are credited into a Securities Account in the name of a Beneficial Owner, an Authorised Nominee or exempt Authorised Nominee, the Participating Organisation must ensure that the provisions in Rules 5.15(5), (6) and (7) are complied with.
- (14) Paragraphs 1.1(11), 1.1(12) and 1.1(13) apply in respect of an order to sell with the necessary modifications made and in particular to the following words used:
- (a) the words 'credited into' or 'credited' must be read as 'debited from' or 'debited' respectively.
  - (b) the words 'by the end of the settlement date' must be read as 'prior to the settlement date'.
  - (c) the words 'settlement date of the last trade' must be read as 'settlement date of the first trade executed'.
  - (d) the words 'transferred into' must be read as 'transferred from'.
- (15) Where a Participating Organisation intends to execute Regulated Short Selling in a Clearing Account, the Participating Organisation must be subjected to the provisions in Rule 8.25 of the Rules of Bursa Securities.

## **1.2 Error or Mistake Account**

- (1) A Participating Organisation must maintain only one Error or Mistake Account at the principal office and at each branch office of the Participating Organisation respectively and each account must carry the word "ERROR" in its account qualifier.
- (2) A Participating Organisation must use all reasonable endeavours to have the error or mistake rectified as soon as possible.
- (3) A Participating Organisation must open a separate Securities Account for each Error or Mistake Account and designate that account as "Error".

**1.3 Investment Account**

- (1) A Participating Organisation may provide to each of its Directors, paid Dealer's Representatives or teams of paid Dealer's Representatives, as the case may be, an Investment Account. A Participating Organisation must ensure that the Directors carefully monitor the Investment Account(s) of paid Dealer's Representatives and teams of paid Dealer's Representatives.
- (2) An Investment Account must carry the word "IVT" in its account qualifier.
- (3) A Participating Organisation must ensure that the names of the Directors, paid Dealer's Representatives or teams of paid Dealer's Representatives assigned with the Investment Account(s) and all transactions executed by the above persons in relation to the Investment Account(s) are properly recorded.
- (4) Investment Accounts must not be used for and on behalf of Clients of a Participating Organisation.
- (5) A Participating Organisation must open a separate Securities Account for each Investment Account and designate that account as "IVT".

**1.4 Opening and maintenance of accounts**

All trading accounts referred to in this Directive must be opened and maintained by a Participating Organisation in the name of the Participating Organisation itself.

**1.5 Regular review of compliance of Directives**

Without derogation to Rule 3.39, the Head of Compliance must report any non compliance with these Directives in relation to the Investment Account(s) provided to the Directors pursuant to paragraph 1.3(1), to the Audit Committee of the Participating Organisation.

[End of Directive]

**DIRECTIVES ON MAINTENANCE OF MULTIPLE TRADING ACCOUNTS BY ONE CLIENT AT A PARTICIPATING ORGANISATION AND TAGGING OF MULTIPLE TRADING ACCOUNTS TO A SECURITIES ACCOUNT**

**No. 7.05(2)-001**

Relevant to : Rule 7.05(2)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 5 of 2001  
Refer also to Directive No(s). : N/A

**1. Rule 7.05(2)**

- (1) Rule 7.05(2) requires a Participating Organisation to comply with such requirements as the Exchange may stipulate with regard to trading accounts it operates.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.
- (3) For the purposes of these Directives, unless the context otherwise requires:

corporate/institutional clients means the persons referred to in Rule 25.02(1)(b), (c), (d), (e), (f) and (g) of the Rules of Bursa Malaysia Depository Sdn Bhd ("Rules of Bursa Depository") who have opened and are maintaining one or more Securities Accounts with a Participating Organisation as an authorised depository agent, and where the context so permits, the expression "corporate/institutional client" means any of them.

individual clients means the persons referred to in Rule 25.02(1)(a) of the Rules of Bursa Depository who have opened and are maintaining one or more Securities Accounts with a Participating Organisation as an authorised depository agent, and where the context so permits, the expression "individual client" means any of them.

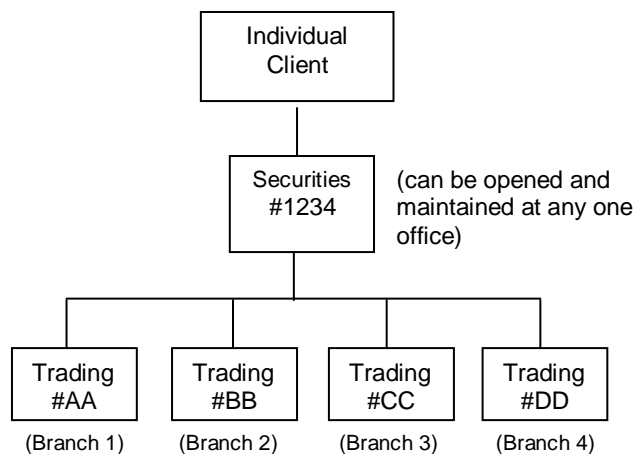
**1.1 Maintenance Of Multiple Trading Accounts**

- (1) A Participating Organisation may allow its Clients to open and maintain more than 1 trading account at the principal office or any of the branch office(s) (where applicable) of the Participating Organisation subject to the following conditions:
  - (a) an individual client must maintain only 1 Securities Account with the Participating Organisation in compliance with Rule 26.02 of the Rules of Bursa Depository and the trading account(s) maintained by the individual client at the principal office or branch office (where applicable) of the Participating Organisation must be tagged to the Securities Account in the manner set out in paragraph 1.2 below;
  - (b) a corporate/institutional client may have the option of tagging any trading account(s) at the principal office or branch office(s) (where applicable) of the Participating Organisation to any Securities Account(s) of its choice opened and maintained at either the principal office or branch office(s) (where applicable) of the Participating Organisation in the manner set out in paragraph 1.2 below;

- (c) the back-office system of the Participating Organisation must be able to effectively monitor, track and sort the various transactions related to its Clients according to each trading account and the corresponding Securities Account; and
- (d) the Participating Organisation must have the necessary resources in place to effectively monitor all such trading accounts and Securities Accounts which are maintained in the manner envisaged in these Directives.

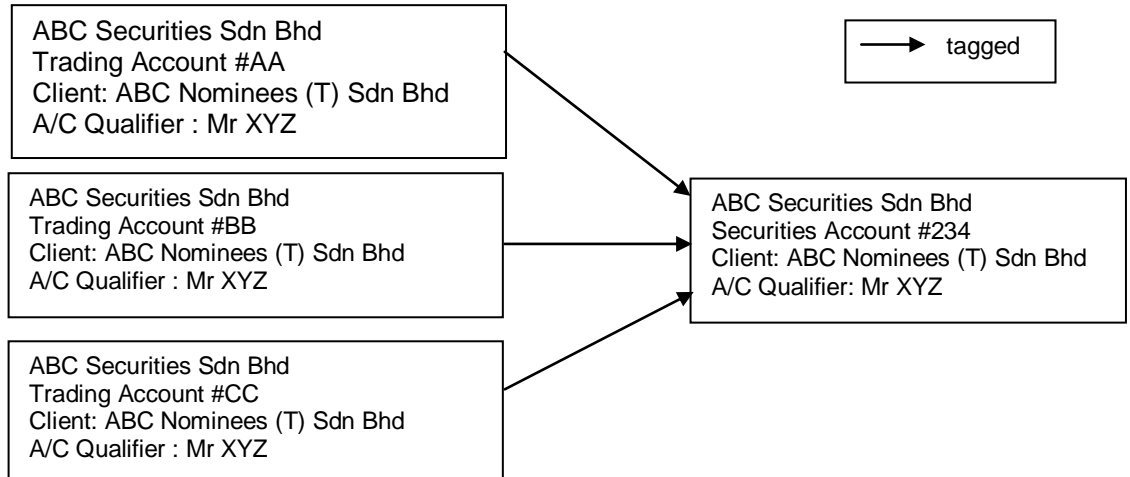
**1.2 Tagging Of Multiple Trading Accounts to a Securities Account**

- (1) The trading accounts of a Client who maintains more than 1 trading account with a Participating Organisation at its principal office or branch office (where applicable) must be tagged to his Securities Account, wherever maintained at the principal office or branch office of the Participating Organisation.
- (2) The diagram below illustrates the position of an individual client with multiple trading accounts and the mandatory single Securities Account with a Participating Organisation:

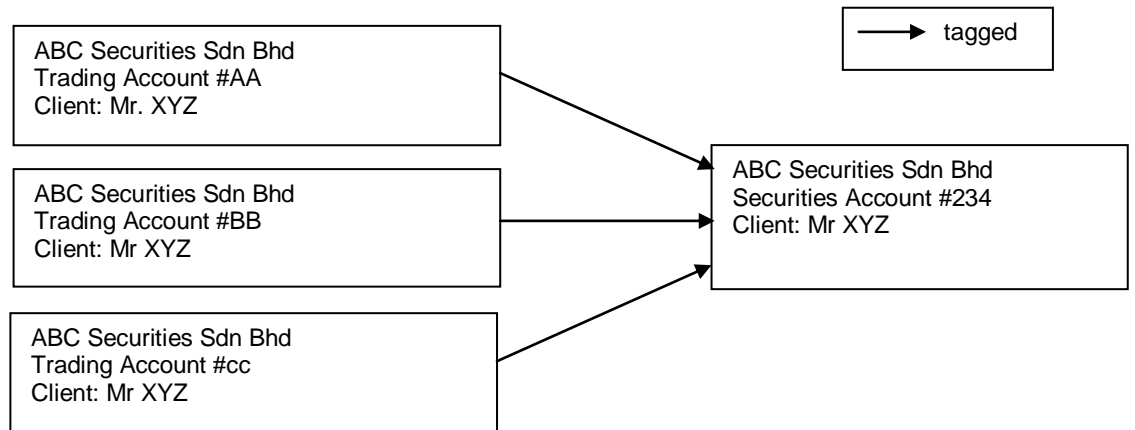


- (3) The account structure of the trading accounts must correspond to the account structure of the Securities Account to which the trading accounts are to be tagged in the manner set out below:
  - (a) trading accounts held by an Authorised Nominee for and on behalf of a Client as Beneficial Owner must be tagged to the Securities Account held by that Authorised Nominee for the same Client; and
  - (b) trading accounts held by a Client as Beneficial Owner must be tagged to the Securities Account held by that Client as Beneficial Owner.

**Illustration 1**



**Illustration 2**



[End of Directive]

<b>DIRECTIVES ON TRADING ACCOUNTS FOR THE TRADING OF SECURITIES DENOMINATED IN FOREIGN CURRENCY</b>	<b>No. 7.05(2)-002</b>
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Relevant to : Rule 7.05(2)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 4 of 2009  
Refer also to Directive No(s). : N/A

**1. Rule 7.05(2)**

- (1) Rule 7.05(2) requires a Participating Organisation to comply with such requirements as the Exchange may stipulate with regard to trading accounts it operates.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Trading Accounts for trades in securities denominated in foreign currency**

- (1) Before a trading account (whether an existing or a new account) is utilised for trading in securities denominated in foreign currency, a Participating Organisation must indicate in the Participating Organisation's order management system, that the trading account is to be used for the trading of securities denominated in foreign currency.
- (2) If the above indication is not made, the Participating Organisation must not execute any trade in securities denominated in foreign currency through the trading account.
- (3) The Participating Organisation is required to refer to the Frequently Asked Questions ("FAQs") in relation to trading in securities denominated in foreign currency on Bursa Malaysia Securities Bhd and the clearing and settlement of such trades on Bursa Malaysia Securities Clearing Sdn Bhd. The FAQs are available on Bursa Malaysia's website.

[End of Directive]

Relevant to : Rule 7.06  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 15 of 2003  
Refer also to Directive No(s). : N/A

## **1. Rule 7.06**

(1) Rule 7.06 requires that:

- (a) a Participating Organisation and its Dealer's Representatives must not take advantage of a situation which arises as a result of a breakdown, malfunction or error in the ATS (committed by the Exchange or by other Participating Organisations) or in any other system, service or facility of the Exchange ("Systems Malfunction or Error");
- (b) a Participating Organisation who encounters a Systems Malfunction or Error must immediately notify the Exchange; and
- (c) a Participating Organisation must take all necessary and appropriate actions to mitigate any potential losses arising from the Systems Malfunction or Error immediately after the Participating Organisation becomes aware or should have known that there is a Systems Malfunction or Error.

(2) In discharging the obligation under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **1.1 Notification of Systems Malfunction or Error**

(1) Where a Participating Organisation becomes aware of any Systems Malfunction or Error, the following procedures must apply:

- (a) The Participating Organisation must make a report to the Exchange immediately upon becoming aware of the Systems Malfunction or Error or in any event not later than the end of the Market Day in which the Participating Organisation becomes aware. Such report may be made orally, through electronic mail or facsimile transmission and must include the following information:
  - (i) details of the Systems Malfunction or Error;
  - (ii) circumstances in which the Systems Malfunction or Error was discovered by the Participating Organisation;
  - (iii) effect of the Systems Malfunction or Error on any transaction carried out by the Participating Organisation; and
  - (iv) steps taken or to be taken by the Participating Organisation to mitigate any adverse effect of the Systems Malfunction or Error on the Participating Organisation.
- (b) The report in the preceding paragraph must be followed by a written report made by the Head of Operations of the Participating Organisation (or such alternate as he may appoint) on the Systems Malfunction or Error containing the information required under paragraph (a) above to the officer(s) of the Exchange in charge of trading or such other person(s) as may be notified by the Exchange from time to time ("relevant officer(s)"), which must be submitted before the commencement of the morning

trading session of the Market Day immediately following the Market Day in which the report envisaged in paragraph (a) above was submitted.

- (c) A Participating Organisation making the report will be liable to the Exchange for all costs and expenses incurred by the Exchange in relation to the report if in the opinion of the Exchange the purported Systems Malfunction or Error reported by the Participating Organisation was caused directly or indirectly by the Participating Organisation.

## **1.2 Mitigation by Participating Organisations**

- (1) A Participating Organisation is required to take all reasonable and necessary steps to alleviate any adverse effect of the Systems Malfunction or Error on the Participating Organisation and/or contracts effected by or through the Participating Organisation. Such steps must be taken by the Participating Organisation immediately upon the discovery of the Systems Malfunction or Error and/or the consequences of it and in any event not later than the end of the Market Day in which the Systems Malfunction or Error was discovered.
- (2) If for any reason beyond its reasonable control the Participating Organisation is unable to take the steps described in paragraph 1.2(1) above, the Participating Organisation concerned is to immediately report its inability to the relevant officer(s). The report must be made in the same manner as prescribed in paragraphs 1.1(1)(a) and 1.1(1)(b) above.
- (3) A Participating Organisation must ensure that each of its Dealer's Representatives:
- (a) complies with the guidelines, instructions and directions issued by the Exchange pertaining to the systems; and
  - (b) does not intentionally take advantage of a situation arising as a result of any Systems Malfunction or Error.

[End of Directive]



Relevant to : Rule 7.09  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 6 of 2012, R/R 16 of 2005, R/R 15 of 2005  
Refer also to Directive No(s). : N/A

**1. Rule 7.09**

Rule 7.09 provides that a Participating Organisation may trade on a Recognised Stock Exchange whether for the Participating Organisation's proprietary position or the Clients' accounts. The Recognised Stock Exchanges as mentioned in the said Rule are set out in the Directive below.

**1.1 List of Recognised Stock Exchanges**

Unless otherwise declared by the Exchange, Recognised Stock Exchanges include all member exchanges of the World Federation of Exchanges (WFE). The list of WFE member exchanges is available on WFE's website at:  
<http://www.world-exchanges.org/member-exchanges/key-information>

[End of Directive]

Relevant to : Rule 7.12  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 7.12**

- (1) Rule 7.12 requires a Participating Organisation to maintain a Record that sufficiently explains Off-Balance Sheet Transactions entered by it.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Records on Off-Balance Sheet Transactions**

A Participating Organisation must keep the following Records on Off-Balance Sheet Transactions:

- (a) the duly executed agreements relating to the Participating Organisation's entry into Off-Balance Sheet Transactions;
- (b) specific reasons for entering into the Off-Balance Sheet Transactions;
- (c) description of the counterparties to the Off-Balance Sheet Transactions, their identities, corporate profiles and background, in sufficient detail to apprise of the Participating Organisation's potential risks related or incidental to the Off-Balance Sheet Transactions;
- (d) description of the collateral intended to be provided in relation to the Off-Balance Sheet Transactions, if applicable;
- (e) the resolution of the Participating Organisation's board of directors at a meeting approving the entry into the Off-Balance Sheet Transactions by the Participating Organisation; and
- (f) such other documents and information as may be required by the Exchange.

[End of Directive]

Relevant to : Rules 7.18(4)(a), 7.18(4)(b) and 7.18(4)(c)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : 7.30-001, 13.04-001

## **1. Rules 7.18(4)(a), 7.18(4)(b) and 7.18(4)(c)**

- (1) These rules require a Participating Organisation to ensure that where the Securities Borrowing and Lending involves a Client, the following are complied with:
- (a) that the Participating Organisation executes a written agreement with its Client in respect of the Securities Borrowing and Lending and the terms of the written agreement comply with the requirements as stipulated by the Exchange. This provision is not applicable where the Securities Borrowing and Lending is a SBL Negotiated Transaction;
  - (b) that collateral is lodged in accordance with the requirements as stipulated by the Exchange. This provision is not applicable where the Securities Borrowing and Lending is a SBL Negotiated Transaction;
  - (c) that the lending of Margin Securities of a Margin Account Client complies with the requirements as stipulated by the Exchange; and
  - (d) that the lending of Eligible Securities held in its custody for its Client complies with the requirements as stipulated by the Exchange.

These Directives set out the Exchange's requirements in relation to the written agreement, the collateral, the lending of Margin Securities of a Margin Account Client and the lending of Eligible Securities held in a Participating Organisation's custody for its Client.

- (2) In discharging the obligations under the said Rules, a Participating Organisation must, amongst others, comply with the following Directives.

### **1.1 Written Agreement**

- (1) A Participating Organisation must execute a written agreement referred to in Rule 7.18(4)(a)(i) for the Securities Borrowing and Lending of Eligible Securities with its Client prior to the borrowing or lending of the Eligible Securities.
- (2) The Participating Organisation must ensure that the terms and conditions stipulated in the written agreement between the Participating Organisation and its Client, with the exception of the fees chargeable or payable in relation to the Securities Borrowing and Lending are at least on equal terms and conditions as the written agreement executed between the Participating Organisation and the Clearing House in relation to the Securities Borrowing and Lending and include matters specified below:
- (a) the party that lends is absolutely entitled to pass full legal and beneficial ownership of the securities lent free from all liens, charges and encumbrances;
  - (b) subject to paragraph 1.2, the requirement for deposit of collateral, if any including the management and utilisation of the collateral deposited by the Client;
  - (c) treatment of corporate actions and income in relation to any of the Eligible Securities borrowed or lent and the securities held as collateral;

- (d) rights and obligations of the Participating Organisation and its Client in relation to the Eligible Securities borrowed or lent;
  - (e) the fees, to be paid for the borrowing or lending or both of the Eligible Securities;
  - (f) the circumstances where the Participating Organisation or its Client are entitled to terminate the agreement entered into for the borrowing or lending of the Eligible Securities; and
  - (g) the rights and remedies of the parties to the agreement in the event of a default by the other party of its obligations under the agreement.
- (3) This paragraph 1.1 is not applicable where the Securities Borrowing and Lending is a SBL Negotiated Transaction.

## 1.2 Collateral

- (1) A Participating Organisation must, in relation to any borrowing of Eligible Securities by a Client ("the Borrowed Securities"), obtain collateral from the Client.
- (2) The Participating Organisation must comply with the following requirements in relation to the collateral required to be deposited by a Client pursuant to paragraph 1.2(1):
- (a) the collateral must only be the types of collateral provided in Directive 13.04-001 issued by the Exchange and is subject to a Haircut. The rate of the Haircut for a particular type of collateral must at least be the same as the rate prescribed by the Clearing House for that collateral in relation to its Securities Borrowing and Lending activities. In the absence of any Haircut prescribed by the Clearing House, the Haircut for that collateral must at least be the same as the 'discounting' rate provided in Directive 13.04-001 issued by the Exchange for discounting on collateral pursuant to Capital Adequacy Requirements. For the purposes of this paragraph 1.2, any reference made to the value of collateral is taken to mean the value of the collateral based on the valuation prescribed in paragraph 1.2(2)(d) after applying the prescribed Haircut under this rule;
  - (b) the Client must deposit the collateral prior to the borrowing envisaged in paragraph 1.2(1);
  - (c) the value of collateral obtained from the Client, must be at least 105% or such other percentum as may be determined by the Exchange, of the market value of the Borrowed Securities throughout the period the Borrowed Securities are borrowed by the Client; and
  - (d) the value of the Borrowed Securities and the collateral deposited by the Client for the Borrowed Securities must be marked to market on a daily basis based on the manner of valuation stipulated in Rule 7.30(7). However the above valuation may be made on an intra day basis in the following circumstances:
    - (i) unusually rapid or volatile changes in the value of the securities;
    - (ii) non-existence of an active market for the securities; or
    - (iii) no possibility of immediate liquidation for the securities.

- (3) If the value of the collateral falls below 105% of the market value of the Borrowed Securities, a Participating Organisation must comply with the following:
- (a) if the collateral falls below 105%, the Participating Organisation must issue a notice to the Client to lodge additional collateral in order to top up the short fall. Pending such topping up, the Client must not be permitted to borrow any additional securities; and
  - (b) if the value of the collateral falls below 102%, the Participating Organisation must issue a notice to the Client for the return of the Borrowed Securities within 3 Market Days from the date of the notice. If the Client fails to return the Borrowed Securities, the Participating Organisation must liquidate the collateral. The proceeds from the liquidation must be utilised to purchase the relevant securities for the purpose of returning the Borrowed Securities to the Clearing House.
- (4) A Participating Organisation may allow a Client to withdraw any collateral deposited in relation to the Borrowed Securities provided that the value of any collateral remaining after the withdrawal is at least 105% of the market value of the Borrowed Securities on the withdrawal date.
- (5) Subject to paragraph 1.2(6), a Participating Organisation must keep all collateral deposited by a Client with it in the following manner:
- (a) for collateral other than cash, the collateral is segregated, not co-mingled with the assets of the Participating Organisation and other collateral deposited by other Clients and can be clearly identified as that of the Client;
  - (b) in respect of cash collateral, the cash deposited can be clearly identified from its records as that of the Client; and
  - (c) if the collateral is in respect of securities deposited with the Depository, the collateral is held in a separate Securities Account specifically for the Client.
- (6) A Participating Organisation may only utilise the collateral deposited by its Client for the purpose of providing the collateral required by the Clearing House for the borrowing made or to be made for the Client.
- (7) A Participating Organisation must incorporate the provisions of paragraph 1.2 except for paragraph 1.2(8) into the written agreement referred to in paragraph 1.1.
- (8) A Participating Organisation must submit a report to the Exchange on a weekly basis, in respect of all of its Clients whose collateral has fallen below 102% of the market value of the Borrowed Securities for the week, in the format as may be prescribed by the Exchange, on the 1<sup>st</sup> Market Day of the following week.
- (9) A Participating Organisation must not onward pledge to any party or utilise any of the collateral lodged by its Clients pursuant to this paragraph 1.2 for any reason except as permitted in paragraph 1.2(6).
- (10) This paragraph 1.2 is not applicable where the Securities Borrowing and Lending is a SBL Negotiated Transaction.

**1.3 Securities in Margin Account**

- (1) A Participating Organisation may borrow any Eligible Securities in the Margin Account of a Client, for the purpose of carrying out lending activities permitted under the Clearing House Requirements if it complies with the following requirements:
- (a) A written agreement referred to in paragraph 1.1 is executed between the Participating Organisation and the Client ("Margin Account Client") to borrow the Margin Securities from the Margin Account Client.
  - (b) A Margin Account Client must at all times be entitled to deal with his Margin Account in the ordinary manner as provided for under the terms of the margin agreement entered into between the Client and the Participating Organisation even though:
    - (i) the Margin Securities in the Margin Account are used for purposes of Securities Borrowing and Lending; and
    - (ii) there is a shortfall or gain arising from a Securities Borrowing and Lending transaction involving the Margin Securities of the Margin Account Client.
  - (c) A Margin Account Client must be entitled to a portion of the fees earned by the Participating Organisation on that Client's Margin Securities from the above Securities Borrowing and Lending on such terms as may be mutually agreed between the Participating Organisation and that Client even though the Securities Borrowing and Lending for which the Client's Margin Securities have been utilised has resulted in any shortfall or gain.
  - (d) A Participating Organisation must allow a Margin Account Client to withdraw or sell the Margin Securities borrowed if reasonable notice is given to the Participating Organisation for such withdrawal or sale and such notice to be given within a specified time as mutually agreed between the Participating Organisation and the Margin Account Client.
  - (e) Notwithstanding that the Margin Securities are borrowed by the Participating Organisation, the Participating Organisation must comply with all the requirements of Part H of Chapter 7.
  - (f) The Participating Organisation must not utilise more than 50% of the value, at the time of lending, of the Margin Securities in any Client's Margin Account.
  - (g) The Participating Organisation must issue a monthly statement to the Margin Account Client containing all necessary details in relation to the borrowing including the quantity of Margin Securities utilised and the fees earned.
- (2) A Participating Organisation must incorporate the requirements stipulated in paragraph 1.3(1)(b) into the written agreement referred to in paragraph 1.1.

**1.4 Securities In Custody**

- (1) A Participating Organisation may borrow Eligible Securities which are held in its custody ("Custodial Securities") for its Clients ("Custodial Clients" and singly, "Custodial Client") for the purposes of carrying out lending activities as permitted under the Clearing House Requirements provided that the Participating Organisation executes a written agreement as referred to in Rule 7.18(4)(a)(i) between the Participating Organisation and the Custodial Client to borrow the Custodial Securities from the Custodial Client.

- (2) A Participating Organisation must be, at all times, fair, equitable and transparent in the process of selecting the custodial accounts to be utilised for the purposes of Securities Borrowing and Lending.

[End of Directives]

Relevant to : Rule 7.30(7) and 7.30(11)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 7.30(7)**

- (1) Rule 7.30(7) requires a Participating Organisation to value any collateral that a Client deposits into the Client's Margin Account and any Securities purchased and carried in the Margin Account in the manner determined by the Exchange.
- (2) The valuation of collateral as determined by the Exchange is as set out below.

**1.1 Collateral**

- (1) For securities quoted on the Exchange and Recognised Stock Exchanges, the value must be based on the last traded price of the securities on the preceding market day.
- (2) For cash or fixed deposit certificates, the value must be:
  - (a) in the case of cash or fixed deposit certificates denominated in Ringgit Malaysia, their face value; or
  - (b) in the case of cash or fixed deposit certificates denominated in currencies other than in Ringgit Malaysia, the prevailing market exchange rate.
- (3) For Malaysian government securities, cagamas bonds, government investment issues and Malaysian treasury bills, the value must be calculated at the last traded price as reported to the Central Bank.
- (4) For negotiable certificates of deposit and bankers' acceptances issued in Malaysia, the value must be at the price determined by the issuing banks.
- (5) For guarantees issued by banks, merchant banks or finance companies or standby letters of credit issued by commercial banks or merchant banks, the value must be their face value.
- (6) For securities arising from corporate actions but pending to be credited into a Client's Securities Account, the value must be the Last Done Price of the securities on the preceding Market Day; and
- (7) For all other types of collateral, the value is zero.

**1.2 Valuation of securities purchased**

- (1) In respect of securities purchased and carried in the Margin Account, the method of valuation of such securities is as follows:
  - (a) For securities subscribed through an initial public offering, the value is the issue price and for securities purchased through a rights issue, the value is the subscription price of the securities.
  - (b) For the types of securities stipulated under paragraph 1.1, the value is as stipulated in paragraph 1.1.
  - (c) For all other types of securities other than that stipulated in 1.1, the value is zero.



**2. Rule 7.30(11)**

This Rule requires that a Participating Organisation must not allow the Equity in any Client's Margin Account to fall below 130% of the Outstanding Balance.

In computing the Equity in any Client's Margin Account for the purpose of Rule 7.30(11), the Participating Organisation must comply with the following.

**2.1 Equity Margin**

When a Participating Organisation receives cash collateral as part of the Equity in any Client's Margin account, the Participating Organisation must not deduct the cash collateral from the Outstanding Balance.

[End of Directive]

Relevant to : Rule 7.31  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 22 of 2005  
Refer also to Directive No(s). : N/A

## 1. Rule 7.31

- (1) Rule 7.31 sets out the provisions on discretionary financing which state that despite Part E of Chapter 9, a Participating Organisation may allow a buying Client to effect payment of its outstanding purchase position for an On-Market Transaction between T+4 and T+7 ("Discretionary Financing") if:
  - (a) a Participating Organisation has allowed the Client to open and operate a DF Account after evaluating the suitability of the Client to be provided the Discretionary Financing facility;
  - (b) the Client is a Retail Client (with or without a Margin Account) and excludes a person stipulated under Rule 7.30(6);
  - (c) the terms and conditions for the opening and operation of a DF Account are in writing and consented to by the Client; and
  - (d) the Client has notified the Participating Organisation not later than T+3 that Discretionary Financing is required in relation to the particular On-Market Transaction and the Participating Organisation accepts the utilisation of the Discretionary Financing for that transaction.
- (2) If a Participating Organisation does not receive any notification in accordance with Rule 7.31(1)(d) the Participating Organisation can deem that the timing for payment of the outstanding purchase position in relation to an On-Market Transaction done on a Contract Date by a DF Account Holder is in accordance with Part E of Chapter 9.
- (3) A DF Account Holder who utilises the Discretionary Financing must effect settlement of the outstanding purchase position of an On-Market Transaction not later than 12.30 p.m. on T+7.
- (4) If a DF Account Holder fails to effect settlement as required under Rule 7.31(3), the Participating Organisation must institute a selling-out at any time after 12.30 p.m. on T+7 but not later than T+8 without giving notice to the Client. However a Participating Organisation may still accept payment from the Client at any time prior to a selling-out being carried out.
- (5) A Participating Organisation may permit a DF Account Holder to sell any securities bought on T, at any time after the time of purchase but prior to 12.30 p.m. on T+7. Such sale is deemed to be a sale to close-off the purchase position and such close-off is referred to as "contra". Accordingly all provisions in Rule 9.10 on contra (except provisions relating to the timing for contra) are applicable to the Participating Organisation.
- (6) A Participating Organisation may charge a DF Account Holder a fee for providing Discretionary Financing ("DF Fees"). The rate of DF Fees is on a fully negotiable basis between the Participating Organisation and the DF Account Holder. The Participating Organisation can share DF Fees with the Dealer's Representative.
- (7) A Participating Organisation must ensure that the back office system of the Participating Organisation is capable of identifying all DF Accounts opened and all Discretionary Financing granted to Clients.

- (8) The Exchange may prescribe such other conditions for Discretionary Financing as the Exchange sees fit.

In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### 1.1 Conditions

- (1) The contract must be transacted as a Ready Basis Contract.
- (2) In opening a DF Account for a Client, the Participating Organisation must comply with the following:
- (a) in evaluating the suitability of a Client to open a DF Account, a Participating Organisation must have in place clear criteria to assess the suitability of a Client to open a DF Account; and
  - (b) a Participating Organisation may allow for the opening of a DF Account even though the Client of the Participating Organisation has applied for the opening of a Margin Account or has opened a Margin Account under Part H of Chapter 7 of the Rules.
- (3) The Participating Organisation may upon notice received pursuant to Rule 7.31(1)(d), either reject or approve the utilisation of Discretionary Financing in accordance with the internal guidelines and procedures of the Participating Organisation stipulated under paragraph 1.4.

### 1.2 Settlement

- (1) Where a Participating Organisation permits settlement by way of “contra” pursuant to Rule 7.31(5), the Participating Organisation must comply with the requirements set out below:
- (a) Settlement between Participating Organisations and their Clients for outstanding purchase positions against outstanding sale positions of the same securities on a “contra” basis is at the discretion of the Participating Organisations concerned, subject however to the terms and conditions set out below:
    - (i) **Charges:** Participating Organisations may impose charges on the Client only in respect of the “contra” of purchase against subsequent sales made after the date of contract or against subsequent sales to close-off the purchase position; and
    - (ii) **Payments:** Any difference resulting from a “contra” between an outstanding purchase position and outstanding sale position must be settled between the Participating Organisation and their Clients not later than the 5<sup>th</sup> Market Day following the date of such “contra”.
  - (b) Participating Organisations must have in place internal guidelines to ensure that a Client permitted to engage in contra transactions does not incur outstanding losses deemed not within the financial ability of the Client;
  - (c) No Participating Organisation may allow or permit any of its Clients to effect settlement by way of “contra” unless it has issued “contra” guidelines to its Clients in relation to Rule 7.31(5); and

- (d) Settlement by way of “contra” in respect of any purchase contract may only be effected not later than 12.30 p.m. on T+7. This paragraph does not apply to subsequent sales of securities made in pursuance of a selling-out under Rule 7.31(4).
- (2) Where a Participating Organisation institutes selling-out pursuant to Rule 7.31(4), the Participating Organisation must comply with the requirements set out below:
- (a) In the event of the death of a purchaser of securities between the time of his placing the order to buy but before he has paid for such securities, the Participating Organisation’s right to institute selling-out proceedings against the purchaser must not be impaired and the executors or administrators, as the case may be, of the deceased purchaser is liable to pay for all losses and expenses incurred by the Participating Organisation as a result of the selling-out; and
- (b) Participating Organisations may, at any time after the institution of a selling-out, sue their Clients who fail to pay for their purchases by 12.30 p.m. on the 7<sup>th</sup> Market Day following the Contract Date for the difference between the contract price and the market price together with all consequential losses and expenses, and all damages which the Participating Organisation may sustain must be recoverable from the Defaulting Client as liquidated damages.

### 1.3 Fees

A Participating Organisation may share Discretionary Financing fees with its Commissioned Dealer’s Representative at a mutually agreed rate.

### 1.4 Control by Participating Organisation

- (1) A Participating Organisation must establish and implement guidelines and procedures for the opening of a DF Account and granting of Discretionary Financing. Such guidelines and procedures must include:
- (a) detailed procedures to process applications for the opening of DF Accounts;
- (b) the criteria for approving a request for Discretionary Financing;
- (c) the documentation in respect of opening of DF Accounts;
- (d) the documentation in respect of the approval to provide the Discretionary Financing;
- (e) the procedures for monitoring and management of DF Account and risks associated with granting of Discretionary Financing, including its impact on the Participating Organisation’s ability to comply with the capital adequacy requirements in Chapter 13; and
- (f) an effective monitoring system to ensure that the above internal guidelines and procedures are complied with.
- (2) A Participating Organisation must ensure that the back office system of the Participating Organisation is capable of identifying all DF Accounts opened and all Discretionary Financing granted to Clients.
- (3) The Head of Compliance and the internal audit department of a Participating Organisation must be responsible in reviewing the requirements stipulated in these Directives and the internal policies and procedures of the Participating Organisation in relation to the opening of

DF Accounts and the provision of the Discretionary Financing, for the purpose of monitoring compliance with the same.

**1.5 Reporting**

- (1) A Participating Organisation's Head of Compliance must ensure that monthly reports submitted to the Exchange pursuant to Rule 3.39(5) of the Rules include reports on the Participating Organisation's compliance with the requirements stipulated in these Directives and the internal policies and procedures of the Participating Organisation in relation to the opening of DF Accounts and provision of Discretionary Financing.

[End of Directives]

Relevant to : Rules 8.16(1)(a), 8.17 and 8.19(2)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs’ Circular No(s). : R/R 8 of 2011 and R/R 9 of 2012  
Refer also to Directive No(s). : N/A

## **Introduction**

Part B of Chapter 8 sets out the general requirements relating to Direct Market Access. This Directive sets out the minimum requirements in relation to those principles.

### **1. Rule 8.16(1)(a)**

Rule 8.16(1)(a) provides that a Participating Organisation may provide Direct Market Access (“DMA”) if the DMA complies with the requirements stipulated by the Exchange. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

#### **1.1 Internal Policies and Procedures**

- (1) A Participating Organisation must establish internal policies and procedures in relation to the setting of appropriate values for the risk filters.
- (2) A Participating Organisation must take into consideration the risk profile and conduct of each Client in accordance with its Know-Your-Client (“KYC”) obligations under Rule 5.15 of the Rules of Bursa Securities.

#### **1.2 Error and/or exception handling**

- (1) A Participating Organisation must clearly establish a set of procedures on handling all errors and exceptions. In handling the same, the procedures must include, at least, the following:
  - (a) A list of errors and exceptions that have been identified with recommended solutions (if any) including of records of past actions taken;
  - (b) The risks associated with and the handling priority for each of the identified errors or exceptions; and
  - (c) The escalation procedures for each error or exception.
- (2) In addition, a Participating Organisation must establish sufficient procedures to monitor and review (including the frequency) all activities in relation to DMA errors or exceptions.

#### **1.3 Logging of DMA activities**

- (1) A Participating Organisation must ensure that the following details in relation to a DMA Order are logged immediately:
  - (a) References to the DMA client/Dealer’s Representative responsible for the DMA Order;
  - (b) Date and time-stamp;
  - (c) DMA client sign-on;

- (d) DMA client sign-off and the manner in which the sign-off was carried out i.e. manual or automated;
  - (e) Order identification/sequence number;
  - (f) The outcome/status of the risk filter screening inclusive of events subsequent to DMA Order disqualification;
  - (g) The outcome/status of the DMA Order entering the Exchange order book;
  - (h) Modifications made by DMA client to DMA Order; and
  - (i) Order match confirmation received from the ATS and the notification of the same when it was made to the DMA client.
- (2) The retention of the logging details must form part of the Participating Organisation’s record keeping requirements.
- (3) A Participating Organisation must ensure that regular reviews of each DMA client’s trading activities are carried out in order for the Participating Organisation to review the assignment and setting of risk filters for the DMA client, where necessary.

#### **1.4 Notification**

The Participating Organisation must notify the Exchange’s Participants Supervision Division of the commencement of DMA service to clients no less than 2 days prior to the commencement.

## **2. Rule 8.17**

- (1) Rule 8.17 requires the Participating Organisation to have appropriate automated risk filters to check or screen a DMA Order before the DMA Order is executed in the ATS, for the purpose of ensuring that the DMA Order does not affect the orderliness and fair functioning of the stock market of the Exchange.
- (2) In discharging the above obligations, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **2.1 Pre-trade risk filters**

- (1) A Participating Organisation must ensure that DMA Orders are entered into the Exchange’s order book with due skill, care and diligence and with due regard for the integrity of the market.
- (2) A Participating Organisation must install risk filters that will enable the screening of DMA Orders before they are entered into the Exchange’s order book. The risk filters must verify all DMA Orders and check for trade exceptions that may affect the orderliness of the market in the event that these DMA Orders are matched.
- (3) A Participating Organisation may determine the type of risks filters according to the risks that are being managed, subject to the minimum requirements in paragraph 2.1(4) below.
- (4) A Participating Organisation must, at the minimum, establish the following types of risk filters to screen every DMA Order before the entry of such DMA Order into the Exchange’s order book:

- (a) Trade exposure filter – to manage the maximum exposure in which a DMA client may trade. The filter must be set on the basis of:
  - (i) gross purchase position; or
  - (ii) net purchase position.
- (b) Order size filter – to manage the maximum DMA Order size which a DMA client may enter into the Exchange’s order book. The filter must be set on the basis of:
  - (i) value in RM;
  - (ii) quantity (units);or
  - (iii) a combination of (i) and (ii) above.
- (c) Price limit risk filter – to manage the maximum price of DMA Order which a DMA client may enter into the Exchange’s order book. The filter must be set on the basis of:
  - (i) percentage (%) away from the last traded price;
  - (ii) ticks (bid/offer) away from the last traded price;
  - (iii) percentage (%) away from reference price;
  - (iv) ticks (bid/offer) away from reference price; or
  - (v) a combination of any of the above.
- (5) A Participating Organisation must also ensure that all changes to the values as set out in paragraph 2.1(4) above are immediately logged.

### **3. Rule 8.19(2)**

Rule 8.19(2) provides that all DMA Orders are deemed as orders submitted for execution in the ATS by a Dealer’s Representative on behalf of a Client. In discharging the obligations under the said rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

#### **3.1 Assignment of DMA client to a Dealer’s Representative**

Each DMA client must be permanently assigned to at least one Dealer’s Representative. Where a DMA client is not assigned to a Dealer’s Representative, the Head of Dealing must be responsible for the DMA Order(s).

[End of Directive]



Relevant to : Rules 8.25(5) and 8.30  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 16 of 2006  
Refer also to Directive No(s). : N/A

## **1. Introduction**

Part C of Chapter 8 requires a Participating Organisation to comply with the requirements in relation to Regulated Short Selling. This Directive clarifies the obligations to be complied with in relation to those requirements.

## **2. Rule 8.25(5)**

- (1) Rule 8.25(5) provides that a Participating Organisation may execute a purchase of securities in the RSS Account but only for the following purposes:
- (a) to contra in full or in part any Regulated Short Sale of an Approved Securities executed in the RSS Account;
  - (b) for redelivery of securities arising from any borrowing of Approved Securities under a SBL Agreement; and
  - (c) after a Regulated Short Sale of an Approved Securities, to:
    - (i) execute another Regulated Short Sale of that Approved Securities; or
    - (ii) lend the Approved Securities under a SBL Agreement.
- (2) The application of Rule 8.25(5) in relation to the purchase of securities permitted to be executed in the RSS Account is illustrated in Examples 1 and 2 in Appendix 1.

## **3. Rule 8.30**

- (1) Rule 8.30 requires a Participating Organisation to report to the Exchange daily or in such other frequency as may be determined by the Exchange, in the format prescribed by the Exchange, the Net Short Position and any other information in relation to the Net Short Position as may be required by the Exchange from time to time.
- (2) The application of Rule 8.30 in relation to the reporting requirement on the Net Short Position is illustrated in Example 3 in Appendix 1.

[End of Directive]

**APPENDIX 1**

**Example 1**

**Clarification in relation to application and operation of condition set out in Rule 8.25(5)**

						Remarks
		SBL	100			
Transaction Date	Transaction Sequence	Type of Trade (1)	Quantity (unit) (2)	Transaction Positions		
				Net Short (units) (S-B) (3)	Long (units) (4)	
T	1	S	100	100	0	
	2	B	100	0	0	PO is permitted to execute a purchase of securities in the RSS account at any time after the execution of any RSS of an approved securities on the same market day
	3	S	100	100	0	Subsequent RSS of 100 is permitted because the net short position prior to the RSS transaction is 0 and there is a borrowing of 100.
	4	B	80	20	0	This purchase is permitted because it is within the net short position of 100.
	5	S	80	100	0	PO must ensure that the total RSS executed at any one time shall not exceed the amount of borrows, i.e. PO cannot do an RSS of 100 notwithstanding a borrowing of 100 at this point because the net short position plus the subsequent RSS cannot be greater than the borrowing of 100.
	6	B	140	0	40	The purchase of 40 is an over-purchase. PO must limit purchases to not more than the total quantity of net short position.
T+1	7	S	100	100	40	<ol style="list-style-type: none"> <li>1. T+1 short is permitted provided the SBL of 100 on T is still valid</li> <li>2. The RSS of 100 must be reported as a net short of 100 and not a net short of 60 because the 40 is an over-purchase which should be reported under the long position.</li> </ol>

**S = Sell B = Buy**

**Example 2**

**Options for Squaring-Off Over-Purchase Positions**

						Remarks
			SBL	100		
Transaction Date	Transaction Sequence	Type of Trade (1)	Quantity (unit) (2)	Transaction Positions		
				Net Short (units) (S-B) (3)	Long (units) (4)	
T	1	S	100	100	0	
	2	B	100	0	0	
	3	S	100	100	0	
	4	B	80	20	0	
	5	S	80	100	0	
	6	B	140	0	40	
	7	S	60	60	40	The purchase of 40 is an over-purchase and PO must limit purchases to not more than the total quantity of net short position. <b>Option 1</b> Amend to normal a/c; or if PO forgot to amend, go to Option 2;
T+3	7(a)	S Or	40	40	40	<b>Option 2</b> The total securities balance on T+3 will be 80 (i.e. 40 long + balance of 40 from borrowing) Client can do an RSS trade for 40, leaving a long position of 40 for partial return of the borrowing (i.e. 80-40); or
	7(b)	S	40	40	40	<b>Option 3</b> Sell the over-purchase of 40 which is reportable by the PO as part of the sell is to square-off the over-purchase of 40.

**S = Sell B = Buy**

**Example 3**

**Computation of Net Short (by Broker) of stock 1818 for reporting purposes**

**Trades:**

<b>Record No.</b>	<b>Stock No.</b>	<b>Matched Qty</b>	<b>Trx_type</b>	<b>Buyer CDS</b>	<b>Seller CDS</b>
1	<b>1818</b>	1000	06	<b>1111</b>	<b>2222</b>
2	2323	2000	06	3333	4444
3	<b>1818</b>	3000	06	5555	<b>6666</b>
4	<b>1818</b>	4000	00	<b>2222</b>	7777
5	<b>1818</b>	5000	06	<b>6666</b>	<b>9999</b>
6	<b>1818</b>	6000	06	8888	<b>0000</b>

**Net Short for RSS stock 1818:**

<b>Seller CDS</b>	<b>Short Sell</b>	<b>Buy Back</b>	<b>Net Short</b>	<b>Value</b>
2222	1000	4000	0	xxx
6666	3000	5000	0	xxx
9999	5000	0	5000	xxx
0000	6000	0	6000	xxx
		<b>Total</b>	<b>11,000</b>	xxx

[End of Appendix]

Relevant to : Rule 8.14  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 15 of 2009  
Refer also to Directive No(s). : N/A

**1. Rule 8.14**

- (1) Rule 8.14 provides that a Participating Organisation wishing to execute an On-Market Married Transaction must comply with the requirements stipulated in the Rule.
- (2) In addition, when executing an On-Market Married Transaction, a Participating Organisation must take particular care that it is not a transaction that does not involve any change in the beneficial ownership of the securities or a trade between Associated Persons, both of which breach section 175(3)(b) and (c) of the Capital Markets and Services Act.

[End of Directive]

Relevant to : Rule 8.22(5)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

## **1. Rule 8.22(5)**

Rule 8.22(5) states that the Exchange may declare any securities that meet with such criteria as prescribed by the Exchange as Approved Securities. This directive sets out the Exchange's criteria in relation to Approved Securities.

### **1.1 Criteria for Approved Securities**

(1) The criteria for Approved Securities is as follows:

- (a) the securities are for the time being admitted to the Official List;
- (b) the securities have a daily market capitalisation of RM500,000,000.00 for at least 3 months prior to the declaration date;
- (c) the securities have at least 50,000,000 in public float prior to the declaration date; and
- (d) the volume of trading for the securities on a monthly basis on average is at least 1,000,000 units for 12 months prior to the declaration date.

(2) For the purpose of this Directive:

- (a) "market capitalisation" means the market value of the securities;
- (b) "public" has the same meaning assigned to that expression in the Listing Requirements; and
- (c) "public float" means securities held in the hands of the public shareholders.

[End of Directive]

**DIRECTIVE ON THE LIST OF APPROVED SECURITIES****No. 8.22(5)-002**

Relevant to : Rule 8.22(5)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 1 of 2013  
Refer also to Directive No(s). : N/A

**1. Rule 8.22(5)**

Rule 8.22(5) provides that the Exchange may declare any securities that meets with such criteria as prescribed by the Exchange as Approved Securities.

**1.1 List of Approved Securities**

The list of Approved Securities as of 4 February 2013 is attached to this Directive as **Appendix 1**.

[End of Directive]

<b>RSS APPROVED SECURITIES</b>		
<b>No</b>	<b>STOCK CODE</b>	<b>STOCK LONG NAME</b>
1	5185	AFFIN HOLDINGS BERHAD
2	5099	AIRASIA BERHAD
3	2488	ALLIANCE FINANCIAL GROUP BERHAD
4	1015	AMMB HOLDINGS BERHAD
5	6888	AXIATA GROUP BERHAD
6	5190	BENALEC HOLDINGS BERHAD
7	3395	BERJAYA CORPORATION BERHAD
8	1562	BERJAYA SPORTS TOTO BERHAD
9	5258	BIMB HOLDINGS BERHAD
10	2771	BOUSTEAD HOLDINGS BERHAD
11	5210	BUMI ARMADA BERHAD
12	1818	BURSA MALAYSIA BERHAD
13	7076	CB INDUSTRIAL PRODUCT HOLDING
14	1023	CIMB GROUP HOLDINGS BERHAD
15	5071	COASTAL CONTRACTS BERHAD
16	5141	DAYANG ENTERPRISE HOLDINGS BERHAD
17	7277	DIALOG GROUP BERHAD
18	6947	DIGI.COM BERHAD
19	3417	EASTERN & ORIENTAL BERHAD
20	1368	FABER GROUP BERHAD
21	5398	GAMUDA BERHAD
22	3182	GENTING BERHAD
23	4715	GENTING MALAYSIA BERHAD
24	2291	GENTING PLANTATIONS BERHAD
25	5020	GLOMAC BERHAD
26	3034	HAP SENG CONSOLIDATED BERHAD
27	5138	HAP SENG PLANTATIONS HOLDINGS
28	5819	HONG LEONG BANK BERHAD
29	1597	IGB CORPORATION BERHAD
30	3336	IJM CORPORATION BERHAD
31	5215	IJM LAND BERHAD
32	2216	IJM PLANTATIONS BERHAD
33	1961	IOI CORPORATION BERHAD
34	5161	JCY INTERNATIONAL BERHAD
35	3522	KIAN JOO CAN FACTORY BERHAD
36	5089	KLCC PROPERTY HOLDINGS BERHAD
37	7164	KNM GROUP BERHAD
38	5878	KPJ HEALTHCARE BERHAD
39	5097	KSK GROUP BERHAD
40	2445	KUALA LUMPUR KEPONG BERHAD
41	2003	KULIM (M) BERHAD
42	3794	LAFARGE MALAYAN CEMENT BERHAD
43	4235	LION INDUSTRIES CORPORATION
44	8583	MAH SING GROUP BERHAD
45	1155	MALAYAN BANKING BERHAD
46	3662	MALAYAN FLOUR MILLS BERHAD
47	5014	MALAYSIA AIRPORTS HOLDINGS BERHAD



<b>RSS APPROVED SECURITIES</b>		
<b>No</b>	<b>STOCK CODE</b>	<b>STOCK LONG NAME</b>
48	1171	MALAYSIA BUILDING SOCIETY BERHAD
49	5186	MALAYSIA MARINE AND HEAVY ENGINEERING HOLDINGS BERHAD
50	3786	MALAYSIAN AIRLINE SYSTEM BERHAD
51	5077	MALAYSIAN BULK CARRIERS BERHAD
52	1651	MALAYSIAN RESOURCES CORPORATION BERHAD
53	6012	MAXIS BERHAD
54	5983	MBM RESOURCES BERHAD
55	5090	MEDIA CHINESE INTERNATIONAL LIMITED
56	4502	MEDIA PRIMA BERHAD
57	3816	MISC BERHAD
58	2194	MMC CORPORATION BERHAD
59	5085	MUDAJAYA GROUP BERHAD
60	3905	MULPHA INTERNATIONAL BERHAD
61	3859	MULTI-PURPOSE HOLDINGS BERHAD
62	5201	OLDTOWN BERHAD
63	5053	OSK HOLDINGS BERHAD
64	7052	PADINI HOLDINGS BERHAD
65	5657	PARKSON HOLDINGS BERHAD
66	0047	PERISAI PETROLEUM TEKNOLOGI
67	5183	PETRONAS CHEMICALS GROUP BERHAD
68	5681	PETRONAS DAGANGAN BERHAD
69	6033	PETRONAS GAS BERHAD
70	4634	POS MALAYSIA BERHAD
71	4065	PPB GROUP BERHAD
72	1295	PUBLIC BANK BERHAD (inc. Public Bank - F)
73	6807	PUNCAK NIAGA HOLDINGS BERHAD
74	1066	RHB CAPITAL BERHAD
75	5113	RIMBUNAN SAWIT BERHAD
76	7158	SCOMI GROUP BERHAD
77	9792	SEG INTERNATIONAL BERHAD
78	5173	SHIN YANG SHIPPING CORP BERHAD
79	4197	SIME DARBY BERHAD
80	8664	SP SETIA BERHAD
81	5211	SUNWAY BERHAD
82	7106	SUPERMAX CORPORATION BERHAD
83	4898	TA ENTERPRISE BERHAD
84	5158	TA GLOBAL BERHAD
85	4863	TELEKOM MALAYSIA BERHAD
86	5347	TENAGA NASIONAL BERHAD
87	5112	TH PLANTATIONS BERHAD
88	5031	TIME DOTCOM BERHAD
89	7113	TOP GLOVE CORPORATION BERHAD
90	4804	TRADEWINDS CORPORATION BERHAD
91	9059	TSH RESOURCES BERHAD
92	5148	UEM LAND HOLDINGS BERHAD
93	4588	UMW HOLDINGS BERHAD

<b>RSS APPROVED SECURITIES</b>		
<b>No</b>	<b>STOCK CODE</b>	<b>STOCK LONG NAME</b>
94	5005	UNISEM (M) BERHAD
95	5200	UOA DEVELOPMENT BERHAD
96	5142	WAH SEONG CORPORATION BERHAD
97	9679	WCT BERHAD
98	4677	YTL CORPORATION BERHAD
99	2577	YTL LAND & DEVELOPMENT BERHAD
100	6742	YTL POWER INTERNATIONAL BERHAD

[End of Appendix]

Relevant to : Rule 8.22(5)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

## **1. Rule 8.22(5)**

Rule 8.22(5) states that the Exchange may declare any securities that meet with such criteria as prescribed by the Exchange as Approved Securities. This directive sets out the Exchange's criteria in relation to Approved Securities.

### **1.1 Criteria for Approved Securities**

(1) The criteria for Approved Securities is as follows:

- (a) the securities are for the time being admitted to the Official List;
- (b) the securities have a daily market capitalisation of RM500,000,000.00 for at least 3 months prior to the declaration date;
- (c) the securities have at least 50,000,000 in public float prior to the declaration date; and
- (d) the volume of trading for the securities on a monthly basis on average is at least 1,000,000 units for 12 months prior to the declaration date.

(2) For the purpose of this Directive:

- (a) "market capitalisation" means the market value of the securities;
- (b) "public" has the same meaning assigned to that expression in the Listing Requirements; and
- (c) "public float" means securities held in the hands of the public shareholders.

[End of Directive]

**DIRECTIVE ON THE LIST OF APPROVED SECURITIES****No. 8.22(5)-002**

Relevant to : Rule 8.22(5)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 1 of 2013  
Refer also to Directive No(s). : N/A

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**1.1 List of Approved Securities**

The list of Approved Securities as of 4 February 2013 is attached to this Directive as **Appendix 1**.

[End of Directive]

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58	2194	MMC CORPORATION BERHAD
59	5085	MUDAJAYA GROUP BERHAD
60	3905	MULPHA INTERNATIONAL BERHAD
61	3859	MULTI-PURPOSE HOLDINGS BERHAD
62	5201	OLDTOWN BERHAD
63	5053	OSK HOLDINGS BERHAD
64	7052	PADINI HOLDINGS BERHAD
65	5657	PARKSON HOLDINGS BERHAD
66	0047	PERISAI PETROLEUM TEKNOLOGI
67	5183	PETRONAS CHEMICALS GROUP BERHAD
68	5681	PETRONAS DAGANGAN BERHAD
69	6033	PETRONAS GAS BERHAD
70	4634	POS MALAYSIA BERHAD
71	4065	PPB GROUP BERHAD
72	1295	PUBLIC BANK BERHAD (inc. Public Bank - F)
73	6807	PUNCAK NIAGA HOLDINGS BERHAD
74	1066	RHB CAPITAL BERHAD
75	5113	RIMBUNAN SAWIT BERHAD
76	7158	SCOMI GROUP BERHAD
77	9792	SEG INTERNATIONAL BERHAD
78	5173	SHIN YANG SHIPPING CORP BERHAD
79	4197	SIME DARBY BERHAD
80	8664	SP SETIA BERHAD
81	5211	SUNWAY BERHAD
82	7106	SUPERMAX CORPORATION BERHAD
83	4898	TA ENTERPRISE BERHAD
84	5158	TA GLOBAL BERHAD
85	4863	TELEKOM MALAYSIA BERHAD
86	5347	TENAGA NASIONAL BERHAD
87	5112	TH PLANTATIONS BERHAD
88	5031	TIME DOTCOM BERHAD
89	7113	TOP GLOVE CORPORATION BERHAD
90	4804	TRADEWINDS CORPORATION BERHAD
91	9059	TSH RESOURCES BERHAD
92	5148	UEM LAND HOLDINGS BERHAD
93	4588	UMW HOLDINGS BERHAD

<b>RSS APPROVED SECURITIES</b>		
<b>No</b>	<b>STOCK CODE</b>	<b>STOCK LONG NAME</b>
94	5005	UNISEM (M) BERHAD
95	5200	UOA DEVELOPMENT BERHAD
96	5142	WAH SEONG CORPORATION BERHAD
97	9679	WCT BERHAD
98	4677	YTL CORPORATION BERHAD
99	2577	YTL LAND & DEVELOPMENT BERHAD
100	6742	YTL POWER INTERNATIONAL BERHAD

[End of Appendix]

Relevant to : Rules 9.03 and 9.09(1)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 2 of 2012  
Refer also to Directive No(s). : N/A

## **1. Introduction**

- (1) Chapter 9 of the Rules sets out the general requirements relating to a Participating Organisation's settlement and delivery obligations. This Directive sets out the minimum requirements in relation to those principles.
- (2) In general, a person must not sell securities unless he has reasonable grounds to believe he has a right to vest the securities in a purchaser. An exception was made under the Capital Markets and Services (Securities Borrowing and Lending) Regulations 2012, which came into effect on 9 January 2012 ("Regulations").
- (3) The Regulations provide that for the purposes of subsection 98(1) of the Capital Markets and Services Act 2007, a lender who sells loaned securities under a Securities Borrowing and Lending transaction before recalling the loaned securities shall be deemed as having a right to vest the securities in a purchaser of the securities if certain conditions are met.
- (4) One of the conditions is that the sale of the loaned securities is settled on the settlement date as may be prescribed by the stock exchange or the clearing house. A copy of the Regulations is enclosed as **Appendix 1**.

### **1.1 Conditions**

- (1) For the purposes of this Directive, "Recalled Securities" means such portion of the Ready Basis Contract arising from a sale that satisfies the following conditions:
  - (a) the seller intends to use securities returned from a Securities Borrowing and Lending transaction to settle, in part or in full, the sale;
  - (b) the seller has made the recall on the same market day as the day the sale was entered into;
  - (c) the seller has notified the Clearing House of the relevant details in connection with the sale and the recalled securities in the manner and within the time prescribed by the Clearing House;
  - (d) the delivery of the portion of the sale that fulfills the conditions in items (a) to (c) is still outstanding after the Scheduled Delivery Time; and
  - (e) the seller fulfills such other conditions as may be prescribed by the Clearing House.
- (2) The term "seller" means the selling Participating Organisation or selling client or both, whichever is applicable.
- (3) For the avoidance of doubt, the Scheduled Delivery Time and Scheduled Settlement Time for Recalled Securities also apply if a lender sells the securities after recalling the same from the borrower.

## **2. Rule 9.03**

- (1) Rule 9.03 provides that:



- (a) if a Participating Organisation is a seller in a Contract, the Participating Organisation must have the quantity of securities sold in the Contract as Tradeable Balance in the Securities Account used for the sale not later than the day and time stipulated in Schedule 2 of the Rules of Bursa Securities.
  - (b) if a Participating Organisation is a buyer in a Contract, the securities in the Contract will be delivered by the Clearing House on the day and at time stipulated in Schedule 2 of the Rules of Bursa Securities but only if the Participating Organisation who is the seller in the Contract complies with the requirements of the Clearing House Rules in relation to delivery and settlement of the Contract.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below:

**2.2 Scheduled Delivery Time**

A Participating Organisation must comply with the Scheduled Delivery Time for Recalled Securities set out in **Appendix 2**.

**3. Rule 9.09(1)**

- (1) Rule 9.09(1) provides that if a Participating Organisation is a seller in a Contract, the Participating Organisation must pay the selling Client for the securities sold by the day and time stipulated in Schedule 2 of the Rules of Bursa Securities.
- (2) In discharging the obligations in the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below:

**3.1 Scheduled Settlement Time**

A Participating Organisation must comply with the Scheduled Settlement Time for Recalled Securities set out in **Appendix 2** to this Directive.

[End of Directives]

**APPENDIX 1**

**CAPITAL MARKETS AND SERVICES ACT 2007**

**CAPITAL MARKETS AND SERVICES (SECURITIES BORROWING AND LENDING) REGULATIONS 2012**

IN exercise of the powers conferred by subsection 378(1) and paragraph 98(4)(e) of the Capital Markets and Services Act 2007 [Act 671], the Commission, with the approval of the Minister, makes the following regulations:

**Citation and commencement**

1. (1) These regulations may be cited as the **Capital Markets and Services (Securities Borrowing and Lending) Regulations 2012**.
- (2) These Regulations come into operation on 9 January 2012.

**Interpretation**

2. In these Regulations, unless the context otherwise requires—
  - “Act” means the Capital Markets and Services Act 2007;
  - “borrower” means a person who borrows securities from a lender under a securities borrowing and lending transaction;
  - “lender” means a person who lends securities to a borrower under a securities borrowing and lending transaction;
  - “loaned securities” means any eligible securities which has been delivered by a lender to a borrower under a securities borrowing and lending transaction;
  - “eligible securities” has the same meaning assigned to it in the rules of the clearing house;
  - “securities borrowing and lending transaction” means any securities borrowing and lending transaction entered into under the rules of the stock exchange and the clearing house.

**Sale before recall of loaned securities**

3. (1) For the purposes of subsection 98(1) of the Act, a lender who sells loaned securities under a securities borrowing and lending transaction before recalling the loaned securities shall be deemed to have a presently exercisable and unconditional right to vest the securities in a purchaser of the securities, subject to the following conditions:
  - (a) the sale is a bona fide sale transaction;

- (b) at the time of sale, the lender is entitled to recall from the borrower, at least the number of loaned securities which are the subject of the sale;
  - (c) the lender recalls the loaned securities as soon as practicable within the same market day the loaned securities were sold; and
  - (d) the sale of the loaned securities is settled on the settlement date as may be prescribed by the stock exchange or the clearing house.
- (2) Notwithstanding anything contained in this regulation, paragraph 3(1)(d) shall not apply to a lender if the borrower fails to deliver the loaned securities to the lender in circumstances where:
- (a) the securities has been suspended;
  - (b) the borrower is only able to make partial delivery of the recalled loaned securities;  
or
  - (c) the borrower is unable to make delivery of the recalled loaned securities.

Made 21 December 2011  
[RS(A&R)/SBL-Crpdn.13/11(060)-1D; PN(PU2)662/VI]

TAN SRI ZARINAH ANWAR  
*Chairman Securities Commission*

Approved 4 January 2012  
[KK/BPKA/K1/(S)/483/128/1/1 Jld.4; PN(PU2) 662/V]

DATO' SERI AHMAD HUSNI MOHAMAD HANADZLAH  
*Second Minister of Finance*

[End of Appendix 1]

**APPENDIX 2**

**DELIVERY AND SETTLEMENT TIME FOR RECALLED SECURITIES**

Type of Contract	Tradeable Balance in seller's account	Payment to selling Client	Delivery to buyer	Payment by buying Client	Selling-out
Ready Basis	T+3 by 4.00 p.m	T+4, not later than 12.30 p.m	By T+3	T+3, not later than 12.30 p.m	T+3 from 12.30 p.m until T+4

[End of Appendix 2]

**DIRECTIVE ON SCHEDULED SETTLEMENT TIME OF SECURITIES IN RELATION TO THE ELECTRONIC SHARE PAYMENT (“e-SHARE PAYMENT”)**

**No. 9.09(1)-001**

Relevant to : Rule 9.09(1)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 4 of 2010  
Refer also to Directive No(s). : N/A

**1. Rule 9.09(1)**

- (1) Rule 9.09(1) provides that if a Participating Organisation is a seller in a Contract, the Participating Organisation must pay the selling Client for the securities sold by the day and time stipulated in Schedule 2 of the Rules of Bursa Securities.
- (2) In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Payment Made via e-Share Payment Facility**

For the purposes of payment made via e-Share Payment facility, a Participating Organisation and its client must make arrangements with the relevant licensed institution (as defined under BAFIA) who offers e-Share Payment facility to ensure that the payment is credited into the bank account of the client (where payment is made by the Participating Organisation to the client) or the bank account of the Participating Organisation (where payment is made by the client) as follows:

- (a) For a Ready Basis Contract not later than the end of T+3;
- (b) For an Immediate Basis Contract not later than the end of T+2; and
- (c) For a buying-in contract not later than the end of the next market day following the date of the buying-in contract.

[End of Directive]

<b>DIRECTIVES ON DIRECT BUSINESS TRANSACTIONS</b>	<b>No. 10.01(1)-001</b>
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Relevant to : Rule 10.01(1)(d)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 10 of 2008  
Refer also to Directive No(s). : N/A

**1. Rule 10.01(1)(d)**

- (1) Rule 10.01(1)(d) requires a Participating Organisation to obtain the prior approval of the Exchange for a Direct Business Transaction that falls within the circumstances stated in the Rule.
- (2) Pursuant to the above Rule, a Participating Organisation must complete and submit an application to the Exchange in the format set out in **Appendix 1** of this Directive.

[End of Directive]

**Appendix 1****FORM OF APPLICATION FOR APPROVAL FOR DIRECT BUSINESS TRANSACTIONS UNDER  
RULE 10.01(1)(d)*****[TO BE ADOPTED ON THE PARTICIPATING ORGANISATION'S LETTERHEAD]***

[Please insert date]

Private and Confidential

To:

Head, Participants Supervision  
**BURSA MALAYSIA SECURITIES BERHAD**  
12th Floor, Exchange Square  
Bukit Kewangan  
50200 Kuala Lumpur

Dear Sir / Madam

**PROPOSED DIRECT BUSINESS TRANSACTION ("DBT")**

Stock Name:

Stock Code:

Proposed DBT Price Per Unit:

Quantity:

Volume-Weighted Average Price (VWAP):

Variance From VWAP:

Proposed DBT Date:

Married / Crossing:

Buying Participating Organisation:

- *[ Contact Person ]:*
- *[ Designation ]:*
- *[ Contact Number ]:*

Buying Client:

Selling Participating Organisation:

- *[ Contact Person ]:*
- *[ Designation ]:*
- *[ Contact Number ]:*

Selling Client:

Reason for the Transaction:  
(*other than "Willing Buyer, Willing Seller"*)

Basis on which DBT price was agreed upon:

**Declaration for the proposed DBT is enclosed herewith.**

**Confirmation by the Participating Organisation Making The Submission**

We confirm that:

1. the information stated herein together with the supporting document and information given to Bursa Malaysia Securities Berhad in relation to the proposed DBT(s) herein duly complies with the requirements of the Rules of Bursa Malaysia Securities Berhad; and
2. the delivery and settlement of the proposed DBT(s), is to be made *\*in accordance / \*not in accordance* with the Fixed Delivery & Settlement System ("FDSS") established by Bursa Malaysia Securities Berhad through Bursa Malaysia Securities Clearing Sdn Bhd.

Dated this day of 20\_\_

.....  
(Name of signatory)  
Head of Dealing  
Authorised Signatory<sup>1</sup> (*Please specify designation*)

Date :

.....  
(Name of signatory)  
\* Head of Operations/Head of Compliance

Date :

\* *please delete where not applicable*

<sup>1</sup> *signatory has been duly authorised by the Board of Directors of the Participating Organisation concerned*



Relevant to : Rule 12.04 and Rule 12.05  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

## **1. Introduction**

Part C of Chapter 12 requires a Participating Organisation to comply with the requirements in relation to suspension of interest and provisions for bad and doubtful debts. This Directive clarifies the obligations to be complied with in relation to those requirements.

## **2. Rule 12.04**

- (1) Rule 12.04 requires a Participating Organisation to comply with the Exchange's Directives which set out the minimum requirements on the treatment of interest charged by the Participating Organisation to a Client and the impairment provisions for bad and doubtful debts irrespective of whether such debts have been assigned.
- (2) Pursuant to Rule 12.04, with a Participating Organisation must, amongst others, comply with the requirements set out below.

### **2.1 Treatment of interest on impaired accounts**

- (1) A Participating Organisation must have in place and comply with the Participating Organisation's internal policies and procedures on the following:
  - (a) the classification of an impaired account and interest-in-suspense; and
  - (b) the circumstances for the reversal of the interest-in-suspense.

### **2.2 Impairment provision for bad and doubtful debts**

- (1) A Participating Organisation must have in place and comply with the Participating Organisation's internal policies and procedures on the following:
  - (a) the classification of debts as 'doubtful' or 'bad' for impaired accounts;
  - (b) the making of individual impairment provisions for debts classified as 'doubtful' and 'bad';
  - (c) the circumstances for the reclassification of debts or from an impaired account to a non-impaired account; and
  - (d) the circumstances for the reversal of the individual impairment provision.
- (2) The Participating Organisation must ensure that the internal policies and procedures in relation to the matters set out above are appropriate and adequate having regard to the approved accounting standards and practices.

### **2.3 Write-Off of Bad Debts**

- (1) A Participating Organisation must establish written policies for the writing-off of bad debts.

**3. Rule 12.05**

- (1) Rule 12.05 requires a Participating Organisation to ensure that the relevant information on suspension of interest and impairment provision for bad and doubtful debts are disclosed in the Participating Organisation's audited financial statements.
- (2) In discharging the obligations in the said Rule, a Participating Organisation must ensure that the following items are included in the audited financial statements:
  - (a) confirmation of the Participating Organisation's compliance with this Directive;
  - (b) total outstanding amount of impaired accounts;
  - (c) total outstanding amount of impaired accounts classified as doubtful, if any;
  - (d) total amount of impaired accounts classified as bad, if any;
  - (e) movements of interest-in-suspense and impairment provision for bad and doubtful debts; and
  - (f) information about the Participating Organisation's accounting policies and methods adopted in accounting for impaired accounts.

[End of Directive]

Relevant to : Rule 12.01(1) and Rule 12.02  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : 12.03(2)-001

## **1. Rule 12.01(1)**

- (1) Rule 12.01(1) requires a Participating Organisation to keep up-to-date accounting and other books and records. The accounting and other books and records must:
- (a) comply with the Exchange's requirements; and
  - (b) be kept for a period of not less than 7 years from the date the records are first prepared.
- (2) In discharging the obligations in the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **1.1 Accounting and other books and records**

- (1) A Participating Organisation must prepare the Participating Organisation's accounting and other books and records to:
- (a) enable the Participating Organisation's Statutory Auditor to decide on the matters stipulated in Rule 12.03(3);
  - (b) sufficiently show and explain the transactions and financial position of its business such that they are able to disclose with substantial accuracy the financial position of the Participating Organisation at the close of business on any day;
  - (c) comply with the requirements set out in **Appendix 1** of this Directive;
  - (d) enable outstanding Contracts to be readily identified with date sequence within counter;
  - (e) enable outstanding Client and debtor balances to be readily identified with specific transactions and with the dates on which these transactions occur;
  - (f) ensure that the information in the general ledger trial balances can and is, extracted and squared at least once a month by not later than the 10th day of the following month; and
  - (g) ensure that if Client balances are represented by control accounts in the general ledger, the individual Client balance can and is extracted and reconciled with the control account at least once a month by not later than 10th day of the following month.
- (2) A Participating Organisation must ensure that bank reconciliations are prepared at least once a month by not later than the 10th day of the following month.
- (3) A Participating Organisation with branch office(s) must prepare the Participating Organisation's financial statements and accounts in the following manner:
- (a) on a consolidated basis reflecting detailed breakdowns for the Principal Office and the Branch Office(s); and

- (b) computations of all matters prescribed in these Rules or directed by the Exchange for the Participating Organisation's Principal Office and Branch Offices must be on an aggregated basis as matters relating to a single entity.

**2. Rule 12.02**

- (1) Rule 12.02 requires the Participating Organisation to submit to the Exchange all financial statements the Exchange specifies within the period stipulated. The financial statements must comply with the Exchange's requirements.
- (2) Pursuant to Rule 12.02, a Participating Organisation must comply with the accounting and financial reporting requirements in **Appendix 1** of this Directive in preparing its financial statements.

[End of Directive]

**APPENDIX 1****ACCOUNTING AND FINANCIAL REPORTING REQUIREMENTS****(1) Definitions**

In this Appendix, unless the context requires otherwise:

"Repurchase and Sale and Buy Back Agreement" means an agreement for the sale of securities that is subject to a commitment to repurchase from the same person the same or similar securities at pre-determined conditions.

"Forward Rate Agreement" means an agreement under which 2 parties agree on payment of an amount of interest calculated at an agreed rate for a specified period from a specified settlement date applied to an agreed principal amount.

"Option" means an instrument that allows the instrument holder the right, though not the obligation, to either buy or sell the instrument's underlying investment at an agreed price within a stipulated period.

"Swap Contract" means a transaction in which 2 counterparties agree to exchange streams of payments over time according to a pre-determined basis.

**(2) Requirements not applicable to Investment Banks**

The requirements in paragraphs (8) and (10) to (22) below are not applicable to a Participating Organisation which is an Investment Bank.

**(3) Date of record**

All financial transactions must be recorded at the date on which the Participating Organisation enters into an irrevocable commitment to carry out the transaction.

**(4) Reconciliation of balances**

A Participating Organisation must reconcile all balances as frequently as is appropriate for the volume of transactions on the accounts. Any differences, other than differences in timing, must be immediately corrected.

**(5) Trade date accounting**

A Participating Organisation must use trade date accounting.

**(6) Securities lending**

A Participating Organisation that is a lender of securities must record and value the securities lent as part of the Participating Organisation's own positions.

**(7) Repurchase and reverse repurchase agreements, securities borrowing and lending and sale and buy back agreements**

A Participating Organisation must:

- (a) record Repurchase Agreement and Sale and Buy Back Agreement as secured borrowing and Reverse Repurchase Agreement and Sale and Buy Back Agreement as secured lending; and

- (b) if the Participating Organisation is the repurchaser or seller of the securities in a sale and buy back agreement, record and value the securities sold as part of the Participating Organisation's own positions and provide for accrued interest on the borrowing.

**(8) Valuation of positions**

A Participating Organisation must value all positions whether held for trading or investment on a prudent and consistent basis, as well as having regard to the liquidity of the instrument concerned and any special factors that may adversely affect the closure of the position, and must adopt the following general policies:

- (a) a position must be valued at the position's close out price (close out price means that a long position is valued at current bid price and short position at current offer price); and
- (b) where prices are not published for the Participating Organisation's Options positions, a Participating Organisation must determine the mark to market value of standard Options as follows -
  - (i) for purchased Options, the mark to market value must be the intrinsic value of the Option (i.e. ignoring time value);
  - (ii) for written Options, the mark to market value must be the sum of:
    - (aa) the intrinsic value of the Option (i.e. ignoring time value); and
    - (bb) the initial premium received for the Option.
- (c) a Participating Organisation must calculate the value of a Swap Contract or a Forward Rate Agreement having regard to the net present value of the future cash flows of the contract, using current interest rates relevant to the periods in which the cash flows will arise.

**(9) Instruments of non-standard form**

If a Participating Organisation holds a position in an instrument that is not of a standard form, the Participating Organisation must, in writing, seek immediate guidance from the Exchange on the valuation treatment to apply.

**(10) Agreement with records**

A Participating Organisation must prepare the financial reporting statements from its books and records, and ensure that the financial reporting statements are in agreement with these books and records.

**(11) True and fair**

A Participating Organisation must prepare the financial reporting statements so as to give a true and fair view of the result for the period, the financial position and state of affairs of the Participating Organisation.

**(12) Offsetting or netting**

A Participating Organisation may not offset amounts on the balance sheet and profit and loss account in the Participating Organisation's financial reporting statements for items

representing assets or income against amounts for items representing liabilities or expenditure except in the case of balances with counterparties where the parties to the transaction have expressly agreed that they shall be settled on a net basis for the same value date.

**(13) Consolidation**

A Participating Organisation must not consolidate the accounts of a separately incorporated body within the group into the figures of that Participating Organisation, but the Participating Organisation must include the assets, liabilities, income and expenditure of all branches of the Participating Organisation.

**(14) Greater detail**

A Participating Organisation may show any item required to be shown in any of the Participating Organisation's financial reporting statements in greater detail than required by the appropriate format.

**(15) Items not otherwise covered**

A Participating Organisation must show as a separately identified item appended to a financial reporting statement any item representing or covering the amount of any asset or liability, income or expenditure not otherwise covered by any of the items on the required format of the statement.

**(16) Reporting currency**

A Participating Organisation must use the Malaysian Ringgit as the Participating Organisation's reporting currency in the Participating Organisation's financial reporting statements.

**(17) General rule**

A Participating Organisation must prepare the Participating Organisation's financial reporting statements in a form that is appropriate for the Participating Organisation's business and in a manner that complies with the Companies Act and generally accepted accounting principles.

**(18) Substance over legal form**

A Participating Organisation must include each item in the Participating Organisation's financial reporting statements in such a way as to reflect the substance and not merely the legal form of the underlying transactions and balances.

**(19) Debts and liabilities**

A Participating Organisation must promptly make adequate impairment provisions or adjustments for changes in order to reflect the fair value of its debts and liabilities based on established internal policies, criteria and procedures. If the Exchange is of the opinion that such impairment provision or adjustment is inadequate, the Exchange may require a Participating Organisation to vary or adjust the Participating Organisation's impairment provisions in such manner the Exchange stipulates.

**(20) Provision for taxation**

A Participating Organisation must make adequate provision for both current and deferred taxation.

(21) **Foreign currency**

A Participating Organisation must translate assets and liabilities denominated in currencies other than the reporting currency into the reporting currency using the closing mid market rate of exchange, or, where appropriate, the rates of exchange fixed under the terms of related or matching forward contracts.

(22) **Guidance**

The methodologies that have been developed assume instruments with standard characteristics. There are many examples, however, of instruments that, although based on a standard contract, contain structural features that make the rules, as stated, inappropriate. If a Participating Organisation is in any doubt as to the treatment to apply to any instrument, the Participating Organisation must seek guidance from the Exchange in writing on the treatment to apply to such instruments.

[End of Appendix]



Relevant to : Rule 12.03(2)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 12.03(2)**

- (1) Rule 12.03(2) requires a Participating Organisation to submit to the Exchange the accounts audited by the Statutory Auditor as stipulated in Rule 12.03(1) ("Annual Statutory Audit Report") and an Annual Report within 3 months after the close of the financial year. The Annual Statutory Audit Report and Annual Report must comply with the Exchange's requirements.
- (2) In discharging the obligations in the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Annual Statutory Audit Report**

The Annual Statutory Audit Report must state whether:

- (a) the Minimum Paid-Up Capital, minimum shareholders' funds unimpaired by losses specified in Rule 13.03 and the Capital Adequacy Requirements have been maintained;
- (b) in the opinion of the Statutory Auditor, the financial position of the Participating Organisation is such as to enable the Participating Organisation to conduct its business on sound lines. In considering this, the Statutory Auditor must have regard to the nature and volume of the business transacted during the Participating Organisation's past financial year as shown in its books of accounts and records;
- (c) in the opinion of the Statutory Auditor, the provisions of these Rules and Sections 111 to 114 of the Capital Markets and Services Act have been complied with;
- (d) in the opinion of the Statutory Auditor, the provisions on the treatment of Clients' assets under these Rules have been complied with;
- (e) in the opinion of the Statutory Auditor, the Participating Organisation's books of accounts and records are those usual in a business of that nature and appear to have been kept in a proper manner and in accordance with the relevant laws; and
- (f) the Statutory Auditor has obtained all the necessary information and explanations for the proper conduct of the audit and to enable the Statutory Auditor to furnish the Annual Statutory Audit Report.

[End of Directive]

Relevant to : Rules 13.04 to 13.28  
 Introduced with effect from : 2 May 2013  
 Amended : N/A  
 POs' Circular No(s). : N/A  
 Refer also to Directive No(s). : N/A  
 Refer also to Best Practice No : 12.04-001

**Introduction**

- (1) These Directives set out the requirements on the calculation of the various components making up the Capital Adequacy Ratio.
- (2) The following terms have the following meanings in these Directives unless the context requires otherwise.

<b>Term</b>	<b>Meaning</b>
Basic Method	The method for calculating Position Risk Requirement as set out in paragraph 5.10(2).
Building Block Approach	The approach for calculating Position Risk Requirement set out in paragraph 5.7(1) and 5.7(2).
Call Option(s)	A financial instrument giving the instrument holder the right, but not the obligation, to buy a specified quantity of the underlying securities at a specified Exercise Price within a set period.
Call Warrant	A warrant giving the warrant holder the right, but not the obligation to buy a specified quantity of the underlying securities at a specified Exercise Price within a set period.
Exercise Price	The price at which the holder of an Option(s) or Warrant can buy or as the case may be, sell the underlying securities of the Option or Warrant.
Hedging Method	The method for calculating the Position Risk Requirement set out in paragraph 5.9(3).
In the Money	<ul style="list-style-type: none"> <li>(a) In relation to a Call Option or a Call Warrant:                             <ul style="list-style-type: none"> <li>(i) where the Exercise Price is less than the current market price of the underlying instrument if the Participating Organisation is the Option or Warrant holder;</li> <li>(ii) where the Exercise Price is greater than the current market price of the underlying instrument if the Participating Organisation is the Option or Warrant grantor;</li> </ul> </li> <li>(b) In relation to a Put Option or a Put Warrant:                             <ul style="list-style-type: none"> <li>(i) where the Exercise Price is greater than the current market price of the underlying instrument if the Participating Organisation is the Option or Warrant holder;</li> <li>(ii) where the Exercise Price is less than the</li> </ul> </li> </ul>

current market price of the underlying instrument if the Participating Organisation is the Option or Warrant grantor.

Margin Financing Onward Lent Risk	The risks a Participating Organisation is exposed to from Onward Lent Margin Securities.
Margin Method	The method for calculating Position Risk Requirement set out in paragraph 5.8.
Mark to Market Difference	In relation to securities, the Contract value of the securities on the Contract Date less the Mark to Market value of the securities.
Marketable Securities	All securities a Participating Organisation holds as principal.
Option(s)	the Put Option(s) and the Call Option(s), and where the context permits, any of them.
Out of the Money	Those Options and Warrants that are not In the Money.
Position Risk	The risks that a Participating Organisation is exposed to from securities held by the Participating Organisation as principal and includes Margin Financing On-Pledged Risk.
Position Risk Requirement or PRR	The amount necessary to accommodate a given level of the Participating Organisation's Position Risk, calculated in the manner the Exchange determines.
Put Option	An instrument (s) which give(s) its holder the right, but not the obligation, to sell a specified quantity of the underlying securities to the writer of the option at a specified Exercise Price within a set period.
Put Warrant	A warrant that gives the holder the right, but not the obligation to sell the underlying securities at a specified Exercise Price within a set period.
Recall	means redelivery of Securities Borrowed to the lender and/or redelivery of the SBL Collateral to the borrower, whether partial or in full pursuant to the terms of the SBL Agreement defined in Rule 7.17.
Recognised Market Indices	means the market indices of the Recognised Stock Exchanges that are acceptable to the Exchange, as set out in <b>Schedule 4</b> of this Directive.
SBL Collateral	In relation to Securities Borrowing and Lending referred to in paragraph 6.3(d), the 'collateral' in Rule 7.18(4). If the collateral consists of securities, to the extent those securities have been subdivided or consolidated, made the subject of a bonus issue or event similar to any of the foregoing, SBL Collateral means: <ul style="list-style-type: none"> <li>(a) in the case of subdivision or consolidation, the securities into which the SBL Collateral have been subdivided or consolidated;</li> </ul>

- (b) in the case of a bonus issue, the SBL Collateral together with the securities allotted by way of the bonus issue; and
- (c) in the case of any event similar to any of the above events, the SBL Collateral, together with or replaced by a sum of money or securities or both equivalent to that received for the SBL Collateral resulting from that event.

Standard Approach                      The approach for calculating Position Risk Requirement set out in paragraph 5.6.

Warrant                                      The Put Warrant(s) and the Call Warrant(s), and where the context permits, any of them.

**1. Rule 13.04(4)**

- (1) Rule 13.04(4) provides that the Participating Organisation must:
- (a) calculate and monitor the Participating Organisation’s Capital Adequacy Ratio on a daily basis; and
  - (b) submit to the Exchange the relevant information and records relating to the Participating Organisation’s Capital Adequacy Ratio in accordance with the requirements of the Exchange.
- (2) In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Information to be submitted and manner of submission**

- (1) A Participating Organisation must submit the relevant information and records through electronic transmission in the manner and at the times set out below:

	<b>Capital Adequacy Ratio</b>	<b>Frequency</b>	<b>Positions as at:</b>	<b>Time for reporting being not later than:</b>
(i)	4.0 or more	Monthly	Last Market Day of the month	4:00 p.m. on following Market Day
(ii)	2.0 or more but less than 4.0	Fortnightly	(a) 15 <sup>th</sup> calendar day of the month if that day is a Market Day. If not, the Market Day immediately before the 15 <sup>th</sup> calendar day; and	4:00 p.m. on following Market Day
			(b) last Market Day of the month	
(iii)	Less than 2.0	Daily	Each Market Day	4:00 p.m. on following Market Day

- (2) If a Participating Organisation's Capital Adequacy Ratio changes and this results in a change in the reporting frequency as set out in paragraph 1.1(1), the Participating Organisation must report to the Exchange not later than 4:00pm or the next Market Day following the Market Day on which the change occurred.
- (3) All such submissions by electronic transmission are deemed to be a declaration by the Head of Operations and Head of Compliance of the Participating Organisation that the information and records contained in the submissions are true and accurate in all material aspects.

## 2. Rule 13.04(5)

- (1) Rule 13.04(5) provides that a Participating Organisation must submit to the Exchange a return on the Participating Organisation's Liquid Capital, Total Risk Requirement, Liquid Margin and Capital Adequacy Ratio in the form the Exchange requires.
- (2) Pursuant to the above Rule, the Participating Organisation must submit the return in the form stipulated in **Schedule 1** of this Directive and in the manner and at the times set out in paragraph 1.1(1).

## 3. Part D of Chapter 13

- (1) Part D of Chapter 13 provides the requirements on Liquid Capital.
- (2) Rule 13.07 states that a Participating Organisation must calculate the Participating Organisation's Liquid Capital in the manner the Exchange determines.
- (3) In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### 3.1 Computation of Liquid Capital

- (1) A Participating Organisation must calculate the Participating Organisation's Liquid Capital in accordance with the computation in **Schedule 1** of this Directive.
- (2) For the avoidance of doubt:
  - (a) unaudited profits must be included in the computation of Liquid Capital;
  - (b) unaudited losses (including all unrealised losses except unrealised losses from principal positions that are mentioned in paragraph 3.1(2)(d)) must be deducted from Liquid Capital;
  - (c) unrealised gains from principal positions must be included in the computation of Liquid Capital; and
  - (d) unrealised losses from principal positions must be deducted from Liquid Capital.
- (3) A Participating Organisation must Mark to Market all the Participating Organisation's Marketable Securities reported in **Schedule 1** of this Directive on a daily basis.

### 3.2 Sources of capital

**Preference shares**

- (1) In the computation of the Participating Organisation's Core Capital, a Participating Organisation:
- (a) must include non-cumulative and non-redeemable preference share capital; and
  - (b) may include preference shares other than non-cumulative and non-redeemable preference shares if the Participating Organisation satisfies the requirements in the Exchange's Directives on when such preference shares may be included.

**Approved subordinate debts**

- (2) An approved subordinated debt is a debt that is:
- (a) legally subordinated for an initial term of at least 2 years and at least 1 year remaining period in the manner the Exchange approves or determines; and
  - (b) only repayable with the Exchange's prior written approval.
- (3) A Participating Organisation may include an approved subordinated debt in the computation of the Participating Organisation's Liquid Capital if:
- (a) the aggregate amount of the debt is less than 100% of the Participating Organisation's Effective Shareholders' Funds. The Exchange will not recognise any subordinated debts if the Participating Organisation's Effective Shareholders' Funds is in the negative;
  - (b) the creditor of the subordinated debt has irrevocably agreed that:
    - (i) the creditor's right to receive principal and interest for the debts is subordinated to all other creditors of the Participating Organisation; and
    - (ii) the creditor is not entitled to claim or receive payment from the Participating Organisation, by way of set-off or in any other manner, of the subordinated debts until all other debts of the Participating Organisation not being the debts subordinated has been paid or where the Exchange has given the Exchange's written approval under paragraph 3.2(3)(e) below.
  - (c) the debts are not subject to any cross default and negative pledge;
  - (d) the Exchange in its discretion, requires the Participating Organisation's debts to be converted into equity pursuant to the Participating Organisation's failure to:
    - (i) comply with the Capital Adequacy Requirements; and
    - (ii) effect an appropriate capital reconstruction of the Participating Organisation approved by the Exchange.
  - (e) the repayment of the whole or part of the debts has been made with the Exchange's prior written approval;
  - (f) in the event of a dissolution, winding-up, liquidation or reorganisation of the Participating Organisation, the creditors of the Participating Organisation other than the creditor of the subordinated debt has the prior right to receive payment in full of

the other creditors' debts before the creditor of the subordinated debt receives any payment in respect of the subordinated debts; and

- (g) despite this paragraph 3.2(2) and (3), the creditor of the subordinated debt receives any distribution in respect of the subordinated debts, the creditor will pay over such distribution to the other creditors of the Participating Organisation. This payment will be made rateably against the other creditors' debts until the other creditors' debts are paid in full.

### Revaluation reserve

- (4) A Participating Organisation may include a revaluation reserve of a fixed asset on an "as is" basis in the computation of the Participating Organisation's Liquid Capital if the Participating Organisation:
- (a) includes the lower of the following figure of:
    - (i) the excess between the force sale value and the net book value of the fixed asset; or
    - (ii) 50% of the excess between the fair market value and the net book value of the fixed asset; and
  - (b) conducts the revaluation exercise from which the revaluation reserve is calculated:
    - (i) after the expiry of 10 years from the date the fixed asset was purchased or the date of the last revaluation on the fixed asset; and
    - (ii) through a professional valuer acceptable to the Exchange and licensed under the Valuers, Appraisers and Estate Agents Act 1981.

### 3.3 Specific excluded assets and excluded asset types

- (1) A Participating Organisation must exclude fully the following assets from the computation of Liquid Capital:
- (a) **Fixed assets and intangible assets**

The total net book value of fixed assets and intangible assets reported in the balance sheet including goodwill, capitalised development costs, licences, trademarks and similar rights.
  - (b) **Tax assets**

The full amount of tax assets or advance tax payments, unless the Participating Organisation has a written statement from the relevant tax authority indicating that payment will be made within 3 months from the date of the written statement.
  - (c) **Other non-current assets**

All other non-current assets including investments in the form of equity holding of 20% or more in a corporation. Investment in excess of 20% in a company is regarded as an investment in an associated company.
  - (d) **Charged asset**

Liquid assets charged to third parties unless:

- (i) the asset is charged for the sole purpose of raising funds from a third party on an arm's length basis for use exclusively in the Participating Organisation's business; and
- (ii) the Participating Organisation has duly notified the Exchange of the details of the charged assets.

(e) **Deposits with non-approved institutions**

Deposits other than deposits deposited at approved financial institutions. In this paragraph, "approved financial institution" means a banking and financial institution licensed under Malaysian laws and any other financial institution the Exchange specifies.

(f) **Related or Associated Person balances**

Balances with a Related or Associated Person regardless whether these balances are secured.

(g) **Other debtors**

Balances with other debtors that are outstanding for more than 30 days. These balances exclude balances with Related or Associated Persons.

(h) **Prepayments**

Prepayments incapable of being cancelled and realised into cash within 30 days.

(i) **Other assets**

Assets not realisable within 30 days except to the extent the assets are secured by securities or some other form of collateral the Exchange may accept. Assets secured by securities or some other form of collateral acceptable to the Exchange may include a loan to an affiliated corporation regulated under any law or regulation that treats such loan as part of the regulatory or statutory capital of the affiliate.

- (2) A Participating Organisation may use collateral or security to reduce the exclusion of the assets set out in paragraphs 3.3(1)(c) to (i) if the collateral satisfies the principles in paragraph 6.4(1). A Participating Organisation must take into account the applicable discounts in **Schedule 18** of this Directive when determining the value of the collateral.

### 3.4 **Contingent liabilities**

#### **General**

- (1) A Participating Organisation entering into a position as to an instrument, financial or otherwise that gives rise to a contingent liability must throughout the period of maintaining the position, maintain:
- (a) a Liquid Margin that is adequate to enable the Participating Organisation to fully perform the Participating Organisation's obligations under the contingent liability; and
  - (b) a Capital Adequacy Ratio of more than 1.2.



**Guarantees**

- (2) A Participating Organisation must exclude guarantees issued by the Participating Organisation from the computation of Liquid Capital.
- (3) The Exchange may, on the written application of a Participating Organisation, allow a guarantee the Participating Organisation issues to be partially or fully included into the Participating Organisation's computation of Liquid Capital.
- (4) If a guarantee is given by a Participating Organisation to a company within the Participating Organisation's group of companies, the receiving company's liabilities (to the extent that they are covered by the guarantee) must be taken into account as being part of the Participating Organisation's assets and liabilities for the computation, and in such case, the guarantee must not be deducted from the capital computations.
- (5) A Participating Organisation must immediately inform the Exchange in writing of any intra-group and related party guarantees.

**Option(s)**

- (6) A Participating Organisation's liability arising from a Put Option written by it must be:
  - (a) treated as the Participating Organisation's contingent liability from the date of the Participating Organisation's unequivocal acceptance of the commitment of the Put Option or the date the agreement for the Put Option is signed, whichever occurs earlier; and
  - (b) deducted or excluded from the computation of Liquid Capital.
- (7) A Participating Organisation must calculate all contingent liabilities arising from Put Option(s) written by the Participating Organisation in the manner stipulated in **Schedule 2** of this Directive.
- (8) A Participating Organisation may reduce the Participating Organisation's contingent liabilities arising from Put Option(s) to the extent the Participating Organisation holds collateral under the conditions set out in paragraph 6.4(1).
- (9) A Participating Organisation must take into account the applicable discounts stipulated in **Schedule 18** of this Directive when determining the value of the collateral.

**4. Part E of Chapter 13**

- (1) Part E of Chapter 13 provides the requirements on Operational Risk.
- (2) Rule 13.09(1) states that a Participating Organisation's Operational Risk Requirement must be the greater of:
  - (a) the applicable Minimum Operational Risk Requirement; or
  - (b) 25% of the Participating Organisation's annual expenditure requirement based on the last auditor's report lodged with the Exchange for the preceding 12 months.
- (3) Rule 13.11 states that a Participating Organisation must calculate the Participating Organisation's annual expenditure requirement in the manner the Exchange determines. Rule 13.12 further states that the Exchange may require a Participating Organisation to adjust its annual expenditure requirement if:

- (a) there has been a significant change in the circumstances or activities of the Participating Organisation; or
  - (b) a material proportion of an expenditure was incurred or accrued by third parties where such expenditure is known by the Participating Organisation but was not fully charged to the Participating Organisation.
- (4) In discharging the obligations under the above Rules, a Participating Organisation must comply with the requirements set out below.

#### 4.1 Calculation of Annual Expenditure Requirement

- (1) A Participating Organisation must calculate the Participating Organisation's annual expenditure requirement with reference to the Participating Organisation's most recent auditor's report lodged with the Exchange in the following manner:
- (a) the Participating Organisation's total revenue less profit before taxation; or
  - (b) the aggregate of the Participating Organisation's total revenue and any loss before taxation;

less the aggregate of the following items:

- (i) non-contractual bonuses paid out of the relevant year's profits to directors and employees;
- (ii) payments and other appropriations of profit in whatever form, except for fixed or guaranteed remunerations payable even if the company makes a loss for that year;
- (iii) paid commissions shared with persons other than employees or directors;
- (iv) fees, levy and other charges paid to the Clearing House, the Commission and Depository;
- (v) interest payable to counterparties;
- (vi) interest payable on borrowings to finance the Participating Organisation's investment business and associated business carried on in connection with the investment business;
- (vii) exceptional items (including those items that arise from events or transactions within the ordinary activities of the business of a Participating Organisation and that are both material and not expected to recur frequently or regularly), with the Exchange's prior written approval;
- (viii) losses arising on the translation of foreign currency balances; and
- (ix) any other cost and expense the Exchange stipulates.

#### 4.2 Exemption

- (1) A Participating Organisation must base the Participating Organisation's annual expenditure requirement on budgeted or other accounts that the Participating Organisation submitted to

the Exchange as part of the Participating Organisation's application to become a Participating Organisation if the Participating Organisation does not have an auditor's report due to:

- (a) the Participating Organisation having just commenced business; or
  - (b) the Participating Organisation having not carried on business long enough to have submitted the Participating Organisation's auditor's report to the Exchange.
- (2) A Participating Organisation must calculate the Participating Organisation's annual expenditure requirement on a proportionate basis that is approved by the Exchange if the Participating Organisation does not have an auditor's report because the Participating Organisation's accounts represent a period in excess of 12 months.

## 5. Part F of Chapter 13

- (1) Part F of Chapter 13 provides the requirements on Position Risk.
- (2) Rule 13.13 states that a Participating Organisation must calculate its Position Risk Requirement for the securities listed below:
- (a) securities held by the Participating Organisation as principal, including those held pursuant to its intra-day activities;
  - (b) Securities Borrowed or Securities Lent for the Participating Organisation as principal;
  - (c) securities other than Margin Securities held by the Participating Organisation that have been onward lent by it as principal for the purpose of Securities Borrowing or Lending;
  - (d) Onward Pledged MFF Collateral; and
  - (e) Onward Lent Margin Securities.
- (3) Rule 13.14 states that a Participating Organisation must calculate the Position Risk Requirement for its equity and Exchange Traded Derivative positions in the manner the Exchange determines.
- (4) Rule 13.15 provides that a Participating Organisation must calculate the Position Risk Requirement for Debt Securities for Debt Securities in the manner the Exchange determines.
- (5) Rule 13.16 states that a Participating Organisation intending to take a position in an instrument for which no treatment is specified under this Chapter must, seek the Exchange's direction on the calculation applicable to the instrument at least 15 Market Days before the implementation or effective date of the instrument. A Participating Organisation must, for that instrument, apply a Position Risk Requirement of 100% of the Mark to Market value of the instrument until the Exchange determines the appropriate calculation.
- (6) In discharging the obligations under the above Rules, a Participating Organisation must, amongst others, comply with the requirements set out below.

### 5.1 Principles applicable to equity Position Risk Requirement:

- (1) A Participating Organisation, in calculating the Position Risk Requirement for the Participating Organisation's equity and equity equivalent positions must:
- (a) Mark to Market all the Participating Organisation's principal positions on a daily basis;

- (b) calculate the Participating Organisation's Position Risk Requirement on a country by country basis (if applicable);
  - (d) in the case of depository receipts, allocate a share represented by that depository receipt to the same country as the underlying share; and
  - (e) add any Income accrued on any Securities Borrowed, Securities Lent or SBL Collateral and deduct any fees and charges imposed on the borrowing, lending or the SBL Collateral.
- (2) A Participating Organisation may, in the case of securities the Participating Organisation holds following intra-day activities, reduce the Participating Organisation's risk exposure to the extent of the Mark to Market value of any collateral held after deducting the applicable discounts stipulated in **Schedule 18** of this Directive.

## 5.2 Methods of computation of Position Risk Requirement for equity and equity equivalent positions

- (1) A Participating Organisation must apply either the Standard Approach or the Building Block Approach in calculating the equity Position Risk Requirement for equity shares.
- (2) A Participating Organisation may, in the calculation of the Participating Organisation's equity Position Risk Requirement, include positions listed below as equity equivalent positions by applying the Standard Approach or the Building Block Approach. In doing so, the Participating Organisation must comply with the requirements in paragraph 5.3(2).
- (a) Equity swaps;
  - (b) Exchange Traded Options and stock Options;
  - (c) Individual share futures;
  - (d) Over-the-counter share Options;
  - (e) Warrants over single share;
  - (f) Index and basket Exchange Traded Derivatives;
  - (g) Depository receipts; and
  - (h) Convertible notes.

If a Participating Organisation is unable to comply with the rules in paragraph 5.3(2), the Participating Organisation must calculate the Position Risk Requirement by applying either the Margin Method, the Hedging Method or the Basic Method, as appropriate.

- (3) If the conversion of a convertible note or any Exchange Traded Derivative into an equity equivalent position gives rise to a notional loss, the Participating Organisation must treat this loss as an additional capital charge. A Participating Organisation must derive the equity equivalent position of a convertible note prior to applying the Standard Approach or Building Block Approach in calculating the equity Position Risk Requirement.

## 5.3 Qualifying criteria for application of the Standard Approach or Building Block Approach to Exchange Traded Derivatives:

- (1) A Participating Organisation must treat convertible notes as equity instruments if:
- (a) less than 1 year remains to the conversion date of the convertible note; and
  - (b) the convertible notes are traded at a "premium" of less than 10%.

If the above criteria is not met, the Participating Organisation may treat the convertible notes as either an equity instrument (as described above) or Debt Securities under paragraph 5.12. In this paragraph, "premium" means the current Mark to Market value of the convertible note less the current Mark to Market value of the underlying security, expressed as a percentage of the current Mark to Market value of the underlying security.

- (2) A Participating Organisation intending to convert the equity instruments referred to in paragraph 5.2(2) into equity equivalent positions must comply with the rules set out below.
- (a) Equity swaps must be treated as 2 notional positions.
  - (b) The Standard Approach or Building Block Approach may be applied in calculating the Position Risk Requirement for an Option position or a Warrant position. However, the Option position or Warrant position (as applicable) must be In the Money by at least the Position Risk Factor used in the Standard Approach stipulated in **Schedule 3** in this Directive. If the Option position or Warrant position does not satisfy this requirement, a Participating Organisation must:
    - (i) calculate the Position Risk Requirement of that Option position or Warrant position by applying either the Basic, Hedging or Margin Methods, as appropriate; and
    - (ii) not treat the Option position or Warrant position as an equity equivalent position.
  - (c) Purchased Call Options and written Put Options must be treated as long positions.
  - (d) Purchased Put Options and written Call Options must be treated as short positions.
  - (e) Individual share futures may be included as single equity equivalent positions at the individual share futures' current Mark to Market value.
  - (f) Equity Options and futures contracts over indices or baskets of shares may be treated as either a single equity equivalent position or as a notional position in the constituent equities.
  - (g) The Exchange will decide on the requirements for the conversion of any other instrument on a case by case basis.

#### **5.4 Calculation of equity equivalent positions of instruments for which no treatment is specified**

A Participating Organisation must calculate the equity equivalent position of Exchange Traded Derivatives or such other instrument for which no treatment is specified under this paragraph 5.1, 5.2 and 5.3 based on requirements the Exchange specifies.

#### **5.5 Position netting**

- (1) A Participating Organisation may net a long position against a short position if:

- (a) in respect of an equity, the positions are in the same type of equity; or
- (b) in respect of an equity equivalent position identified in paragraph 5.2(2), the positions are in the same type of instrument.

However, in the case of paragraph 5.5(1)(b), the instrument must have been converted into an equity equivalent position in accordance with paragraph 5.3(2).

- (2) A Participating Organisation may, in respect of Securities Borrowing and Lending, net a position of Securities Lent against Securities Borrowed if the positions are of the same type.

**5.6 Standard Approach**

**Net position**

- (1) A Participating Organisation must convert a position that applies the Standard Approach into a net position.

**Methodology**

- (2) A Participating Organisation must calculate the total Position Risk Requirement based on the Standard Approach on a country by country basis in the following manner:

Step 1

Calculate the Position Risk Requirement for each net equity position using the formula below. Net long and net short positions must both generate positive Position Risk Requirements.

$$PRR_{\text{equity position}} = \frac{\text{Mark To Market value of net position}}{\text{Mark To Market value of net position}} \times PRF$$

Where,

PRF = Applicable Position Risk factor, as stipulated in **Schedule 3** of this Directive

Step 2

Calculate the Position Risk Requirement based on the Standard Approach for each country portfolio as follows:

$$PRR_{\text{country portfolio}} = \text{Aggregate of PRR applicable to the net long and net short position within the country portfolio}$$

Step 3

Calculate the total Position Risk Requirement based on the Standard Approach as follows:

$$\text{Total PRR}_{\text{Standard Approach}} = \text{Aggregate of the PRRs of all country portfolios}$$

**5.7 Building Block Approach**

**Additional qualifying criteria**

- (1) A Participating Organisation may use the Building Block Approach on equity and equity equivalent positions if:
- (a) within a country's portfolio, there are at least 5 net long or 5 net short positions held in listed and quoted securities that form part of the component stock of any market index maintained or acceptable to the Exchange. **Schedule 4** of this Directive sets out the Recognised Market Indices; and
  - (b) a particular net long or short position exceeds 20% of the gross value of the country's portfolio. Here, only the amount up to 20% may be treated under the Building Block Approach. The excess amount must be treated under the Standard Approach.

**Methodology**

- (2) A Participating Organisation must calculate the total Position Risk Requirement based on the Building Block Approach on a country by country basis as the sum of the specific risk and general market risk. This is illustrated below.

$$PRR_{\text{country portfolio}} = \text{General Market Risk} + \text{Specific Market Risk}$$

The specific risk and general market risk must be calculated as follows:

**Specific Risk**

The specific risk must be calculated on a country by country basis.

Step 1

Calculate the specific risk for an individual equity position using the formula below. Net long and net short positions must both generate positive Position Risk Requirement.

$$SR_{\text{each equity position}} = \frac{\text{Mark to market value of the individual net position}}{\text{Mark to market value of the individual net position}} \times PRF$$

Where,

SR = Specific risk

PRF = Applicable Position Risk factor, as stipulated in **Schedule 5** of this Directive

Step 2

Calculate the specific risk for each country portfolio as specified below. Netting of long and short specific risk is prohibited.

$$SR_{\text{each country portfolio}} = \text{Aggregate of the Position Risk Requirements applicable to the net long and net short positions within the country portfolio}$$

**General market risk**

The general market risk must be calculated on a country by country basis.

Step 1

Calculate the general market risk for an individual equity position using the formula below:

$$GMR_{\text{individual equity position}} = \frac{\text{Mark to market value of the individual net position}}{\text{Mark to market value of the individual net position}} \times PRF$$

Where,

GMR = General market risk

PRF = Position Risk factor, as stipulated in **Schedule 5** of this Directive

Step 2

Calculate the general market risk for a country portfolio using the formula below. Netting of long and short general market risk is allowed.

$$GMR_{\text{specific country portfolio}} = \frac{\text{Net value of PRRs applicable to the net long and short positions within the country portfolio}}{\text{Net value of PRRs applicable to the net long and short positions within the country portfolio}}$$

If the net amount is in the negative, the sign must be reversed to a positive value.

Where,

GMR = General market risk

**Total PRR**

The total Position Risk Requirement based on the Building Block Approach is the sum of the Position Risk Requirements of all country portfolios.

$$\text{Total PRR}_{\text{Building Block Approach}} = \text{Aggregate of the PRRs of all country portfolios}$$

**5.8 Margin Method**

**Criteria**

- (1) A Participating Organisation may apply the Margin Method for calculating the Position Risk Requirement for all Exchange Traded Derivative positions that have a positive initial margin requirement.
- (2) A Participating Organisation may use the Margin Method if the Participating Organisation chooses not to utilise any of the other available methods. However, a Participating Organisation must use the Margin Method if it does not satisfy the criteria for those other methods.

**Methodology**

- (3) A Participating Organisation must determine the Position Risk Requirement using the Margin Method by multiplying 100% of the initial margin requirement of the relevant exchange by 4.



- (4) If the relevant exchange calculates the margin requirement on an overall basis, or offsets futures and Options in the margin calculation, the Position Risk Requirement may be based on the overall margin.

### 5.9 Hedging Method

- (1) A Participating Organisation may apply the Hedging Method for calculating the Position Risk Requirement for an equity position hedged by an Option or a Warrant.
- (2) The Hedging Method may only be used to the extent that the nominal amount of the equity underlying the Option matches the nominal amount of the equity.
- (3) A Participating Organisation must determine the Position Risk Requirement for positions using the Hedging Method in accordance with **Schedule 6** of this Directive.

### 5.10 Basic Method

- (1) A Participating Organisation may apply the Basic Method for calculating the Position Risk Requirement for Exchange Traded Derivatives.
- (2) A Participating Organisation must determine the Position Risk Requirement positions using the Basic Method in accordance with **Schedule 6** of this Directive.

### 5.11 Foreign exchange

A Participating Organisation must calculate the Position Risk Requirement for foreign exchange exposure by applying the applicable discount stipulated in **Schedule 18** of this Directive to the sum of the net long positions in foreign currencies.

### 5.12 Debt Securities

- (1) The Position Risk Requirement for convertible notes other than Debt Securities must be calculated as follows:

$$\text{PRR} = \text{Market Value} \textit{ multiply by } 8\%$$

- (2) If for any reason, a Participating Organisation is unable to calculate the Position Risk Requirement for FI Securities through electronic system, the Participating Organisation must manually calculate the Position Risk Requirement for FI Securities in accordance with the formula set out below.

$$\text{FI PRR} = \text{Market value of positions in FI Securities} \times \text{PRFs}$$

Where,  
 FI PRR = Position Risk Requirement for FI Securities  
 Market value of positions = The netted value of long and short positions in the FI Security of the same type, tenure and rating; and  
 PRFs = The applicable specific risk Position Risk factor + the applicable general market risk Position Risk factor. The Position Risk factors for FI Securities are set out in **Schedule 7** of this Directive

- (3) A Participating Organisation must calculate the Position Risk Requirement for FI Securities on a weekly basis in the manner stipulated in **Schedule 8** of this Directive.

**5.13 Suspended securities**

A Participating Organisation must calculate the Position Risk Requirement for suspended securities by applying the applicable Position Risk factor stipulated in **Schedule 3** of this Directive to the Last Done Price. If the security has been suspended for a continuous period of more than 3 Market Days, the applicable Position Risk factor is 100%.

**5.14 Exchange Traded Funds**

- (1) A Participating Organisation must reduce the Participating Organisation's exposure to proprietary positions in equities and Debt Securities held solely for the purpose of creation of an Exchange Traded Fund in proportion to the amount of Exchange Traded Funds actually sold.
- (2) A Participating Organisation must ensure that proprietary positions in equities and Debt Securities arising from reverse repo transactions has a position exposure based on the positive difference of the Mark to Market value of the underlying instrument and the pre-determined re-sale value of the underlying instrument, as agreed between the Participating Organisation and the repo seller.

**5.15 Unit trusts**

If for any reason, a Participating Organisation is unable to calculate the Position Risk Requirement for the Participating Organisation's investments in unit trusts through electronic system, the Participating Organisation must manually calculate it by applying the applicable Position Risk factor stipulated in **Schedule 9** of this Directive to the market value of the unit trust.

**5.16 Margin Financing On-Pledged Risk**

- (1) A Participating Organisation must observe the principles below in calculating the Position Risk Requirement for Margin Financing On-Pledged Risk as to Onward Pledged MFF Collateral.
  - (a) The Participating Organisation must calculate the Position Risk Requirement for all the Participating Organisation's Onward Pledged MFF Collateral positions;
  - (b) The sum of the Position Risk Requirement for all the Participating Organisation's Onward Pledged MFF Collateral positions represents the total Position Risk Requirement for the Participating Organisation's Margin Financing On-Pledged Risk as to Onward Pledged MFF Collateral;
  - (c) the Participating Organisation must, on a daily basis, Mark to Market all the Participating Organisation's collateral, and if required, the value of the collateral must be discounted in the manner stipulated in paragraph 6.4(2) and **Schedule 18** of this Directive.
- (2) A Participating Organisation must calculate the Participating Organisation's Position Risk Requirement as to Onward Pledged MFF Collateral in the manner stipulated in **Schedule 10** of this Directive.

**5.17 Position Risk Requirement for Margin Financing Onward Lent Risk:**

A Participating Organisation must observe the principles stipulated in Part F of Chapter 13 and paragraph 5 in calculating the Position Risk Requirement for Margin Financing Onward Lent Risk as to Onward Lent Margin Securities.

## 6. Part G of Chapter 13

- (1) Part G of Chapter 13 provides the requirements on Counterparty Risk.
- (2) Rule 13.17 states that a Participating Organisation must calculate its Counterparty Risk Requirement for all Counterparty exposures arising from:
  - (a) unsettled agency (including those under DF Accounts);
  - (b) debt, contra losses and other amounts due;
  - (c) free deliveries;
  - (d) Securities Borrowing and Lending transactions;
  - (e) derivatives transactions;
  - (f) sub-underwriting arrangements;
  - (g) Margin Financing Facilities; and
  - (h) other exposures the Exchange determines.
- (3) Rule 13.18 states that a Participating Organisation must calculate its Counterparty Risk Requirement in the manner the Exchange determines.
- (4) Rule 13.20 states that a Participating Organisation may use collateral or security including collateral placed by the Participating Organisation's Commissioned Dealer's Representative to reduce the Participating Organisation's Counterparty exposure in the manner the Exchange determines.
- (5) In discharging the obligations under the above Rules, a Participating Organisation must comply with the requirements set out below.

### 6.1 General Requirements on Counter Party Risk

- (1) A Participating Organisation, in calculating the Participating Organisation's Counterparty Risk Requirement must:
  - (a) calculate a Counterparty Risk Requirement only if the Participating Organisation has a positive exposure to a Counterparty;
  - (b) on a daily basis, Mark to Market all Counterparty exposures; and
  - (c) calculate a Counterparty Risk Requirement for all Counterparty exposures irrespective of any connection with the Counterparty.
- (2) A Participating Organisation, in calculating the Participating Organisation's Counterparty Risk Requirement may:

- (a) reduce the Participating Organisation's Counterparty exposures to the extent the Participating Organisation holds collateral in accordance with the conditions set out in paragraph 6.4(1);
  - (b) net positive and negative Counterparty exposures prior to the calculation of Counterparty Risk Requirement if the exposures are with the same counterparty and they are similar in nature in that they fall within the same class or type as set out in Rule 13.17; and
  - (c) reduce the Counterparty exposure on which the Participating Organisation's Counterparty Risk Requirement is calculated to the extent of any provisions made.
- (3) A Participating Organisation, in calculating the Participating Organisation's Counterparty Risk Requirement must not include any Counterparty Risk Requirement if there is no Counterparty exposure. It is also not required to calculate a Counterparty Risk Requirement for an Option over shares of a company if the Participating Organisation is the writer of the Option.

## 6.2 Computation

A Participating Organisation must, unless these Rules specify otherwise, calculate the Participating Organisation's Counterparty Risk Requirement using formula below.

$$\text{CRR} = \text{CE} \times \text{CW} \times 8\%$$

Where,

CE = Counterparty exposure, as determined under this paragraph 6.3.

CW = Counterparty weighting, as specified in **Schedule 11** of this Directive.

## 6.3 General rules in calculating Counterparty exposure and CRR

A Participating Organisation must calculate the Participating Organisation's Counterparty exposures and Counterparty Risk Requirement as follows:

- (a) **Unsettled agency (including those under DF Accounts)**
  - (i) **Counterparty exposures**

Subject to paragraph 6.3(a)(iii), a Participating Organisation's Counterparty exposures on:

    - (aa) an agency purchase is equal to the Mark to Market Difference; and
    - (bb) an agency sale is equal to the Mark to Market Difference.
  - (ii) **CRR for unsettled agency trades**

A Participating Organisation must calculate the Participating Organisation's Counterparty Risk Requirement on the Participating Organisation's unsettled agency trades in accordance with **Schedule 12** of this Directive.
  - (iii) If the Mark to Market value is not available for whatsoever reason for the purpose of computing the Mark to Market Difference as stipulated under

paragraph 6.3(a)(i)(aa) and paragraph 6.3(a)(i)(bb), the Counterparty exposures shall be equal to the purchase contract value or sale value respectively.

(b) **Debt, contra losses and other amounts due**

(i) **Counterparty exposure**

A Participating Organisation has a Counterparty exposure if a debt, contra loss or other amount due is not paid on the agreed due date. In the case of a contra loss, the due date is the date of contra.

(ii) **Calculation of CRR:**

A Participating Organisation must calculate the Participating Organisation's Counterparty Risk Requirement in respect of the above exposure in the manner stipulated in **Schedule 13** of this Directive.

(c) **Free deliveries**

(i) If a Participating Organisation delivers securities without receiving payment, or pays for securities without receiving the securities, the Participating Organisation's Counterparty exposure is the full contract value of the transaction.

(ii) Despite the above paragraph 6.3(c)(i), if delivery or settlement remains outstanding for more than 2 Market Days after the due date, the Participating Organisation's Counterparty Risk Requirement must be the full contract value of the transaction.

(iii) In this paragraph, the due date is:

(aa) where the Participating Organisation delivers securities without receiving payment, the date of such delivery;

(bb) where the Participating Organisation pays for securities without receiving the securities, the date of such payment.

(d) **Securities Borrowing and Lending**

(i) **Counterparty exposures**

A Participating Organisation must calculate the Participating Organisation's Counterparty exposures for Securities Borrowing and Lending in the following manner:

(aa) for borrowing transactions entered into on behalf of the Participating Organisation's Client:

(A) the Participating Organisation's Counterparty exposures must be computed based on the difference between the Mark to Market value of the Securities Borrowed and the Mark to Market value of the SBL Collateral deposited; and

(B) in computing the Mark to Market value of the Securities Borrowed or the SBL Collateral, the Participating

Organisation must add any Income accrued on the Securities Borrowed or the SBL Collateral and deduct any fees and charges imposed on the borrowing or the SBL Collateral; and

(bb) for lending transactions entered into on behalf of the Participating Organisation's Client:

(A) the Participating Organisation's Counterparty exposures must be computed based on the difference between the Mark to Market value of the Securities Lent and the Mark to Market value of the SBL Collateral deposited; and

(B) in computing the Mark to Market value of the Securities Lent or the SBL Collateral, the Participating Organisation must add any Income accrued on the Securities Lent or the SBL Collateral and deduct any fees and charges imposed on the lending or the SBL Collateral.

(ii) **Calculation of CRR**

A Participating Organisation must calculate the Participating Organisation's Counterparty Risk Requirement for Securities Borrowing and Lending in accordance with **Schedule 14** of this Directive.

(e) **Derivatives Transactions:**

(i) **Exchange Traded Derivatives**

(aa) **Counterparty exposure**

(A) A Participating Organisation's Counterparty exposure on an Exchange Traded Derivative Contract is the uncovered margin or the margin call due for the Contract and/or any additional margin requirements, whichever is higher, as the Participating Organisation or Clearing House may require.

(B) Options (bought)

A Participating Organisation has a Counterparty exposure on the uncovered premium for options bought (in the case of the buyer of an Option) if the transaction is unsettled. The uncovered premium is the unpaid premium due from the buyer of the options.

(C) Options (sold)

A Participating Organisation has a Counterparty exposure on the uncovered margin in respect of the Options sold (in the case of the seller of an Option) if the transaction is unsettled. The uncovered margin is the margin due less any premium received.

(bb) **Calculation of CRR**

A Participating Organisation must calculate the Participating Organisation's Counterparty Risk Requirement on Exchange Traded Derivatives as follows:

$$\text{CRR} = \text{CE} \times \text{CW} \times \text{CRR charge (\%)}$$

Where,

CE = Counterparty exposure, as determined in accordance with paragraph 6.3(e)

CW = Counterparty weighting, as stipulated in **Schedule 11** of this Directive

CRR charge = CRR charge as stipulated in **Schedule 12** of this Directive

(ii) **Over-the-Counter derivative Contracts**

(aa) **Counterparty exposure**

A Participating Organisation's Counterparty exposure on an over-the-counter derivative contract is the credit equivalent amount as specified in **Schedule 15** of this Directive.

(f) **Sub-underwriting:**

(i) **Counterparty exposure:**

If a Participating Organisation, acting as lead underwriter, enters into a sub-underwriting agreement with a Counterparty, the Participating Organisation's Counterparty exposure is equal to 30% of the sub-underwritten amount.

(g) **Reverse repo transactions**

If a Participating Organisation purchases instruments through a reverse repo transaction, the Participating Organisation's Counterparty exposure is the full pre-determined re-sale value of the instruments as agreed between the Participating Organisation and the repo seller.

(h) **Margin Financing Facilities:**

(i) **Counterparty exposure**

A Participating Organisation's Counterparty exposure to a Margin Financing Facility is the Outstanding Balance.

(ii) **Principles applicable to Margin Financing Counterparty Risk Requirement:**

A Participating Organisation, in calculating the Participating Organisation's Counterparty Risk Requirement as to Margin Financing Facilities, must observe the requirements below in addition to the principles applicable in calculating Counterparty Risk Requirement in paragraph 6.1(1), (2) and (3).

- (aa) A Participating Organisation is not required to calculate a Counterparty Risk Requirement for a Margin Account if specific provisions equivalent to 100% of the amount outstanding have been made in accordance with the provisions of Part C of Chapter 12;
- (bb) A Participating Organisation must calculate a Counterparty Risk Requirement for a Margin Account if the Equity, after applying the applicable discounts stipulated in paragraph 6.4(2) and **Schedule 18** of this Directive, is below 150% of the Outstanding Balance.

(iii) **Calculation of CRR**

- (aa) A Participating Organisation must calculate a Participating Organisation's Counterparty Risk Requirement for Margin Financing Facilities in the manner stipulated in **Schedule 16** of this Directive.
- (bb) A Participating Organisation's total Counterparty Risk Requirement for Margin Financing Facilities is the sum of the Counterparty Risk Requirements calculated in accordance with this paragraph 6.3(h)(iii).

(i) **Debt Securities**

A Participating Organisation must calculate the Participating Organisation's Counterparty Risk Requirement for Counterparty exposures arising from Debt Securities in accordance with the formula set out below if the Client or Counterparty does not pay the Participating Organisation on the Settlement Date.

(i) Settlement Date to 15 Market Days:

$$\text{CRR} = \text{CE} \times \text{CW} \times 8\%$$

Where,

- CE = (i) Positive Mark to Market Difference of the Debt Securities; or  
(ii) Any losses incurred from closing-out the position; or  
(iii) The penalty including other amounts due incurred from the cancellation of the contract (as applicable)
- CW = Counterparty weighing, as stipulated in **Schedule 11** of this Directive

(ii) 16 Market Days to 30 Market Days from the Settlement Date:

$$\text{CRR} = 50\% \text{ of CE}$$

(iii) More than 30 Market Days from the Settlement Date:

$$\text{CRR} = 100\% \text{ of CE}$$

Where for both Paragraphs (i) and (ii) above,

- CE = (i) The full contract value if the PO has not closed-out the position; or  
(ii) Any losses incurred from closing-out the position; or  
(iii) The penalty including other amounts due incurred from the cancellation of the contract (as applicable)



- (iv) The applicable aging for the calculation of the Counterparty Risk Requirement for Counterparty exposures arising from Debt Securities is determined by comparing the current market date against the Settlement Date irrespective of the nature of the Counterparty exposure.<sup>1</sup> For example, if a Participating Organisation closes off a position that is 14 Market Days old resulting in a loss, the Counterparty Risk Requirement for the loss amount due from the Client must be computed from the 14<sup>th</sup> Market Day onwards (i.e. CE x CW x 8% for the 14<sup>th</sup> and 15<sup>th</sup> Market Day, 50% of the Counterparty exposure for the 16<sup>th</sup> to 30<sup>th</sup> Market Day and thereafter, 100%).
- (v) If for any reason, a Participating Organisation is unable to calculate the Counterparty Risk Requirement for Counterparty exposures arising from FI Securities through electronic system, the Participating Organisation must manually calculate it in the manner stipulated in **Schedule 17** of this Directive.
- (vi) In this Rule, "Settlement Date" means:
  - (aa) in the case of a Universal Broker trading as a RENTAS member, one Market Day after the settlement date stipulated by the relevant requirements of the Commission, the Central Bank or any other relevant body on the RENTAS system;
  - (bb) in the case of a Participating Organisation trading via a RENTAS member, one Market Day after the settlement date as mutually agreed between the Participating Organisation and the RENTAS member.

#### 6.4 Collateral

##### Conditions

- (1) A Participating Organisation may use collateral or security including collateral placed by the Participating Organisation's Dealer's Representative appointed on a commission basis to reduce the Participating Organisation's Counterparty exposure if:
  - (a) the Participating Organisation has an unconditional right to realise the collateral or security in the event of default by the Counterparty;
  - (b) the collateral or security is liquid in nature and this includes:
    - (i) cash deposit in RM;
    - (ii) cash deposit in foreign currency acceptable to the Exchange, as stipulated in **Schedule 18** of this Directive;
    - (iii) securities listed on the Exchange or other Recognised Stock Exchanges; and
    - (iv) government bonds or other Debt Securities that have a ready market.

##### Discounting

- (2) A Participating Organisation must discount the value of collateral held:
  - (a) in a form other than a RM cash deposit by applying the applicable discounts stipulated in **Schedule 18** of this Directive; and
  - (b) in a form of FI Securities by the amount equivalent to the sum of the applicable specific risk Position Risk factor and the applicable general market risk Position Risk factor stipulated in **Schedule 7** of this Directive.

**Deposits and commission**

- (3) A Participating Organisation may apply the DR Security Deposit and commission the Participating Organisation holds for a Dealer's Representative against that Dealer's Representative's Client if the Client owes the Participating Organisation any money. A Participating Organisation must not use the DR Security Deposit of one Dealer's Representative as collateral for another Dealer's Representative who has insufficient funds.

**Hedging**

- (4) A Participating Organisation must calculate the Counterparty Risk Requirement for hedging positions in the manner stipulated in **Schedule 6** of this Directive.

**7. Part H of Chapter 13**

- (1) Part H of Chapter 13 provides the requirements on Large Exposure Risk.
- (2) Rule 13.23 provides that a Participating Organisation must calculate its Large Exposure Risk Requirement for the Participating Organisation's:
- (a) exposure to a single Client or Counterparty;
  - (b) direct exposure to Debt Securities; and
  - (c) direct exposure to a single equity,

for all amounts arising in the normal course of trading in Equity Securities, Debt Securities or Exchange Traded Derivatives in accordance with the provisions set out under this Rule 13.23.

- (3) In discharging the obligations under the above Rule, a Participating Organisation must comply with the requirements set out below.

**7.1 Exposure to single client or counterparty – Debt Securities**

If for any reason, a Participating Organisation is unable to calculate the Participating Organisation's Large Exposure Risk Requirement to a single Client in relation to the Participating Organisation's activities in Debt Securities through electronic system, the Participating Organisation must manually calculate it in the manner stipulated in **Schedule 19** of this Directive. This requirement does not apply if the Counterparty exposure has already incurred 100% charge under the Counterparty Risk Requirement.

**7.2 Direct exposure to debt – FI Securities**

If for any reason, a Participating Organisation is unable to calculate the Participating Organisation's Large Exposure Risk Requirement for its exposure position to debt for FI Securities through electronic system, the Participating Organisation must manually calculate it in the manner stipulated in **Schedule 20** of this Directive.

**7.3 Maximum Large Exposure Risk to FI Security issued by the central government or government related agencies that are fully guaranteed by the central government**

- (1) A Participating Organisation is not subject to Rule 13.25(3) if the Debt Securities is an FI Security issued by the central government or government related agencies that are fully guaranteed by the central government.
- (2) A Participating Organisation may bear a Large Exposure Risk to FI Securities issued by the central government or government related agencies that are fully guaranteed by the central government, of up to 500% of the Participating Organisation's Effective Shareholders' Funds.
- (3) In this paragraph, the central government and government related agencies may include (not exhaustive):
  - (a) the Government of Malaysia;
  - (b) Khazanah Nasional Berhad;
  - (c) the Central Bank;
  - (d) Pengurusan Danaharta Nasional Berhad, such as Danaharta Bonds;
  - (e) Danamodal Nasional Berhad, such as Danamodal Bonds;
  - (f) Cagamas Berhad;
  - (g) Syarikat Prasarana Negara Berhad; and
  - (h) KL International Airport Berhad,where the issuance of the FI Securities are fully guaranteed by the central government.
- (4) A Participating Organisation may bear a Large Exposure Risk to FI Securities that are rated AA or AAA by a credit rating agency recognised by the Commission, of up to 250% of the Participating Organisation's funds.

#### **7.4 Exposure to a single equity – net position or exposure**

- (1) A Participating Organisation, in calculating the Participating Organisation's net position or exposure to a single equity must include an equity over-the-counter Options or an equity Warrant that is In the Money at its full underlying value.
- (2) A Participating Organisation, in calculating the Participating Organisation's net position or exposure to a single equity need not include the Participating Organisation's underwriting or sub-underwriting commitment, unless that commitment has become a principal position.
- (3) A Participating Organisation, in calculating the Participating Organisation's net position or exposure to a single equity must not:
  - (a) treat an Out of the Money equity over-the-counter Options or an equity Warrant as an exposure; and
  - (b) treat an Exchange Traded Fund, where the underlying instruments are government or government-related agency bonds, as an exposure.

#### **7.5 Exposure in relation to a net purchase contract value of single equity underlying clients' accounts:**

- (1) A Participating Organisation must calculate the Participating Organisation's Large Exposure Risk Requirement in relation to the net purchase contract value of single equity underlying clients' accounts arising from transactions either under a Ready Basis Contract starting from the date that it has not been paid for on and subsequent to the FDSS due settlement date; and
- (2) A Participating Organisation must calculate the Participating Organisation's Large Exposure Risk Requirement in relation to the net purchase contract value of single equity underlying clients' accounts arising from transactions under a DF Account starting from the date that it has not been paid for on and subsequent to the FDSS due settlement date.

#### **7.6 Exposure to a single equity relative to instrument on issue**

- (1) If a Participating Organisation has a Large Exposure to a single equity relative to the Participating Organisation's total issue as specified in Rule 13.26(1)(a), the Participating Organisation must calculate the Participating Organisation's Large Exposure Risk Requirement by multiplying the value of the exposure that is in excess of 10% of the total issue by the Position Risk Factor used in the Standard Approach in the manner stipulated in **Schedule 21** of this Directive.
- (2) If a Participating Organisation has an exposure in excess of 20% of the issuer's capital arising from the Participating Organisation's investment in the stock accounts as stipulated in Rule 13.26(5)(c), the Participating Organisation is considered an associate of the issuer.

#### **7.7 Exposure to a single equity relative to Effective Shareholders' Funds**

If a Participating Organisation has a Large Exposure to a single equity relative to the Participating Organisation's Effective Shareholders' Funds as specified in Rule 13.26(1)(b), the Participating Organisation must calculate the Participating Organisation's Large Exposure Risk Requirement by multiplying the value of the exposure that is in excess of 10% of the Participating Organisation's Effective Shareholders' Funds by the Position Risk Factor used in the Standard Approach, in the manner stipulated in **Schedule 21** of this Directive.

#### **7.8 Exposure to a single equity relative to both an instrument on issue and Effective Shareholders' Funds**

If a Participating Organisation has both a large exposure to a single equity relative to an instrument on issue and a large exposure to the same equity relative to the Participating Organisation's Effective Shareholders' Funds, the Participating Organisation's Large Exposure Risk Requirement is the higher of the 2 requirements.

### **8. Part I of Chapter 13**

- (1) Part I of Chapter 13 provides the requirements on Underwriting Risk.
- (2) Rule 13.27 states that a Participating Organisation has an Underwriting Risk if the Participating Organisation enters into a binding commitment to take up securities at a predetermined price and time.
- (3) Rule 13.28 states that a Participating Organisation must calculate its Underwriting Risk Requirement in the manner the Exchange determines.

- (4) In discharging the obligations under the above Rules, a Participating Organisation must comply with the requirements set out below.

### 8.1 Computation

A Participating Organisation's Underwriting Risk Requirement is 30% of the underwritten commitment multiplied by the Standard Approach Position Risk factor, depending on the type of securities underwritten, as set out in **Schedule 3** of this Directive.

$$\text{URR} = \text{UE} \times \text{PRF} \times 30\%$$

Where,

UE = Underwriting exposure as defined in paragraph 8.2(a)

PRF = Applicable Position Risk factor, as stipulated in **Schedule 3** of this Directive

### 8.2 Methodology

A Participating Organisation in assessing the Participating Organisation's underwriting and sub-underwriting commitment must comply with the principles set out below.

- (a) An Underwriting exposure is an underwriting commitment that is computed based on the quantity and price in the underwriting agreement or document as amended or supplemented.
- (b) An Underwriting Risk exists from:
- (i) the date of the Participating Organisation's unequivocal acceptance of the underwriting commitment; or
  - (ii) the date on which the underwriting agreement or document is signed,
- whichever occurs earlier.
- (c) If a third party sub-underwrites part of a Participating Organisation's underwriting commitment, the Participating Organisation's underwriting commitment may be reduced by such sub-underwritten amount if proper documentation or an agreement for the sub-underwriting is executed.
- (d) A Participating Organisation must treat the third party's sub-underwriting amount as a Counterparty Risk.
- (e) If a Participating Organisation undertakes a sub-underwriting commitment, the Participating Organisation must treat the sub-underwriting commitment as an underwriting commitment from the later of the following events:
- (i) the date of the Participating Organisation's unequivocal acceptance of the sub-underwriting commitment or the date on which the sub-underwriting agreement or document is signed, whichever occurs earlier; or
  - (ii) the date of the lead underwriter's unequivocal acceptance of the underwriting commitment or the date on which the underwriting agreement or document is signed, whichever occurs earlier.
- (f) A Participating Organisation's underwriting commitment continues as an Underwriting Risk until the date the application closes. After that, the Underwriting Risk either:

- (i) ceases; or
- (ii) becomes a Position Risk.

### 8.3 Underwriting Risk for Debt Securities

A Participating Organisation must calculate the Participating Organisation's Underwriting Risk Requirement for FI Securities in accordance with the formula set out below.

$$\text{FI URR} = \text{UE} \times \text{PRFs} \times 30\%$$

Where,

FI URR = Underwriting Risk Requirement for FI Securities

UE = Underwriting exposure calculated in the manner stipulated in paragraph 8.2(a).

PRFs = The applicable specific risk Position Risk factor + the applicable general market risk Position Risk factor. The Position Risk factors for FI Securities are set out in **Schedule 7** of this Directive

[End of Directive]

**Schedule 1**  
**[Paragraphs 2(2), 3.1(1) and 3.1(3)]**

	<i>RM</i>	<i>RM</i>	<i>RM</i>
	Total	Ranking For Liquid Capita	Not Ranking For Liquid Capita
<b>RETURN PRESCRIBED IN PARAGRAPH 2.1(1) OF THE EXCHANGE'S DIRECTIVES ON CAPITAL ADEQUACY REQUIREMENTS</b>			
Participating Organisation			
Balance Sheet as at			
	_____	_____	
Capital Employed	—	—	
Ordinary Share Capital	_____	_____	
Preference Share Capital - Non- Cumulative/Non-Redeemable	_____	_____	
Reserve Fund - Non distributable	_____	_____	
Share Premium Account	_____	_____	
Capital Reserves	_____	_____	
Audited Retained Earnings	_____	_____	
	—	—	
<b>CORE CAPITAL</b>			
Share Premium Account - Others	_____	_____	
Preference Share Capital – Others	—	—	
Approved Subordinated Loan	_____	_____	(_____)
Revaluation Reserves	_____	_____	—)
Unaudited Profits/Unaudited Losses	_____	_____	
	—/(—	—/(—	
<b>Unrealised Gains/Unrealised Losses</b>	—)	—)	_____
from principal positions	—/(—	—/(—	_____
Loans secured against Fixed Assets	—)	—)	_____
Term Loan	_____		_____
Unsecured Loans	_____		_____
	Total	Not Ranking For Liquid Capita	Ranking For Liquid Capita
<b>Employment of Capital</b>			
Intangible Assets	_____		
Fixed Assets	_____		
Long Term Investments	_____		
- Listed Investments	_____		

**DIRECTIVES ON CAPITAL ADEQUACY REQUIREMENTS**

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- Unlisted Investments	_____	_____
- Subsidiary/Related Companies	_____	_____
Long-Term Receivables	_____	_____
Other Non-current Assets/ Tax Assets	_____	_____
<b>Total Fixed Assets</b>	<b>_____</b>	<b>_____</b>



	RM Total	RM Not Ranki ng For Liquid Capita	RM Ranki ng For Liquid Capita
<b>Current Assets</b>			
Cash and Bank Balances	_____		_____
- Trust	_____		-
- Non-Trust	_____		_____
Deposits – approved banks & financial institutions			
- Trust	_____		_____
- Non-Trust	_____	_____	-
Deposits – others	_____		_____
- Trust	_____	_____	-
- Non-Trust	_____	-	
<b>Marketable Securities -Listed Equities</b>	_____		_____
<b>Marketable Securities – FI Securities (corporate)</b>	_____		-
<b>Marketable Securities – FI Securities (government)</b>	_____		-
<b>Marketable Securities – Unit Trusts</b>	_____		_____
<b>Marketable Securities – Others</b>	_____		-
Trade Debtors - Dealers (gross)	_____		_____
Less: Specific Provision for Bad and Doubtful Debts	_____		-
Less: Provision for Interest in Suspense	_____		_____
Trade Debtors – Clients (gross)	_____		(_____)
Less: Specific Provision for Bad & Doubtful Debts	(_____)		(_____)
Less: Provision for Interest In Suspense	(_____)		(_____)
Clients Margin Accounts	_____		_____
Less: Specific Provision for Bad & Doubtful Debts	_____	(_____)	-
Less: Provision for Interest In Suspense	(_____)		(_____)
Less: General Provision	(_____)		(_____)
Outstanding contracts <input type="checkbox"/> T+4	(_____)	_____	_____
Directors Account	_____	_____	-
Loans & Advances	-	_____	(_____)





**RETURN PRESCRIBED IN PARAGRAPH 2(2) OF THE EXCHANGE'S DIRECTIVES ON CAPITAL ADEQUACY RATIO**

**Risk Components that form the Total Risk Requirement:**

<b>Ref</b>	<b>Position Risk Requirement (PRR)</b>	
	<i>Total PRR – Standard Approach</i>	
	<i>Total PRR – Foreign Exchange Method</i>	
	<i>Total PRR – MFOPRR</i>	
	<i>Total PRR – Building Block Approach</i>	
	<i>Total PRR – Equity Index Arbitrage Difference</i>	
	<i>Total PRR – Debt Instrument quoted on the KLSE</i>	
	<i>Total PRR – FI Securities-not quoted on the KLSE</i>	
	<i>Total PRR – Loss on conversion</i>	
	<i>Total PRR – Basic Method</i>	
	<i>Total PRR – Margin Method</i>	
	<i>Total PRR – Hedging Method</i>	
	<i>Total PRR – Equity Index Arbitrage</i>	
	<b>Position Risk Requirement</b>	
	<b>Counterparty Risk Requirement (CRR)</b>	
	<i>Total CRR – Debt, Contra Losses and Other Amounts Due</i>	
	<i>Total CRR – Unsettled Agency and Principal Trades</i>	
	<i>Total CRR – Free Deliveries</i>	
	<i>Total CRR – Securities Borrowing and Lending</i>	
	<i>Total CRR – Exchange Traded Derivatives</i>	
	<i>Total CRR – OTC Derivative Contracts</i>	
	<i>Total CRR – Sub-Underwriting</i>	
	<i>Total CRR – Margin Financing</i>	
	<i>Total CRR – Fixed Income Securities</i>	
	<i>Total CRR – Potential Material Loss</i>	
	<i>Total CRR – Exceptional Instruments</i>	
	<i>Total CRR – Manual SBL</i>	
	<i>Total CRR – Manual Derivatives</i>	
	<b>Counterparty Risk Requirement</b>	
	<b>Large Exposure Risk Requirement (LERR)</b>	
	<i>Total LERR to Single Client</i>	
	<i>Total LERR to Issuer of Debt</i>	
	<i>Total LERR to Single Equity</i>	
	<b>Large Exposure Risk Requirement</b>	
	<b>Underwriting Risk Requirement (URR)</b>	
	<i>Total Underwriting Risk Requirement</i>	
	<b>Underwriting Risk Requirement</b>	

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	<b>Operational Risk Requirement</b>	
	Operational Risk Requirement	
	<b><i>Operational Risk Requirement</i></b>	
	<b>Total Risk Requirement</b>	
	<b>Effective Shareholders' Funds</b>	

[End of Schedule 1]

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**Schedule 2**  
**[Paragraph 3.4(7)]**

**METHODS OF COMPUTATION OF CONTINGENT LIABILITIES ARISING FROM PUT OPTION(S)**

Purpose of Put Option(s)	Calculation of Amount of Contingent Liabilities for Put Option(s)	
	If EP is more than Price <sub>MTM</sub>	If EP is equal to or less than Price <sub>MTM</sub>
To guarantee performance as placement agent	<p><b><u>European Option(s):</u></b> [Q x (EP – Price<sub>MTM</sub>) x ISDM Fraction] –Collateral</p>	Nil
To support security arrangements for credit facilities	<p><b><u>European Option(s):</u></b> [Q x (EP – Price<sub>MTM</sub>) x ISDM Fraction] –Collateral</p> <p><b><u>American Option(s):</u></b> [Q x (EP – Price<sub>MTM</sub>)] – Collateral</p>	Nil
<i>Notes:</i>		
American Option(s)	An Option that may be exercised any time between the Option’s initiation and expiration dates, inclusive	
ISDM Fraction	A fraction based on Inverse-Sum-of-Digit Method, figured on yearly basis if Option(s) period exceeds 1 year	
European Option(s)	An Option that is only exercisable on the expiration date of the Option	
EP	Exercise Price of the Option(s)	
Price <sub>MTM</sub>	The Mark to Market price of the underlying securities forming the subject matter of the Option(s)	
Q	Number of underlying securities over which the Option(s) is granted	

[End of Schedule 2]

**Schedule 3**  
**[Paragraph 5.3(2), 5.6(2), 5.13 and 8.1]**

**POSITION RISK FACTOR FOR STANDARD APPROACH**

INSTRUMENT	POSITION RISK FACTOR
<b><i>Bursa Malaysia Equities</i></b>	
<ul style="list-style-type: none"> <li>▪ FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX stocks</li> </ul>	15%
<ul style="list-style-type: none"> <li>▪ Other stocks, including ACE Market</li> </ul>	21%
<ul style="list-style-type: none"> <li>▪ FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX futures</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ Suspended securities (more than 3 Market Days)</li> </ul>	100%
<b><i>Bursa Malaysia Derivatives</i></b>	
<ul style="list-style-type: none"> <li>▪ FKL1 Options</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ KLIBOR futures</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ Crude Palm Oil futures</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ Kernel Palm Oil futures</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ Any other futures contract</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ Any other option contract</li> </ul>	5%
<b>Unit trust or Exchange Traded Fund</b>	
<ul style="list-style-type: none"> <li>▪ Equity fund</li> </ul>	15%
<ul style="list-style-type: none"> <li>▪ Debt securities fund</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ Commodities/Metals</li> </ul>	20%
<ul style="list-style-type: none"> <li>▪ Any other underlying fund</li> </ul>	25%

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<b><i>International Equities</i></b> <ul style="list-style-type: none"><li>▪ Single stocks in Recognised Market Indices</li><li>▪ Other single international stocks of Recognised Stock Exchanges</li></ul>	12% 16%
<b><i>Other Securities/Instruments</i></b> Not being those categorised above	100%

[End of Schedule 3]



**Schedule 4**  
**[Paragraph 5.7(1) and Schedules 3, 5 and 21]**

**RECOGNISED MARKET INDICES**

<i>Country</i>	<i>Index</i>	<i>Country</i>	<i>Index</i>
Australia	All Ordinaries	Netherlands	EOE 25
Austria	ATX	Spain	IBEX 35
Belgium	BEL 20	Sweden	OMX
Canada	TSE 35	Switzerland	SMI
France	CAC40	UK	FTSE 100
Germany	DAX	UK	FTSE mid-250
Japan	Nikkei 225	USA	S&P 500

[End of Schedule 4]



<ul style="list-style-type: none"> <li>▪ Any other underlying fund</li> </ul>	2%
<p><b>General Risk</b></p> <ul style="list-style-type: none"> <li>▪ Equity fund</li> <li>▪ Debt securities fund</li> <li>▪ Commodities/Metals</li> <li>▪ Any other underlying fund</li> </ul>	15% 5% 20% 25%
<p><b><i>International Equities</i></b></p> <p><b><i>Specific Risk</i></b></p> <ul style="list-style-type: none"> <li>▪ Single stocks in Recognised Market Indices</li> <li>▪ Other single international stocks of Recognised Stock Exchanges</li> </ul> <p><b><i>General Risk</i></b></p> <ul style="list-style-type: none"> <li>▪ All single stocks and market indices</li> </ul>	4% 8% 8%
<p><b><i>Other Securities/Instruments</i></b></p> <ul style="list-style-type: none"> <li>▪ Not being those categorised above</li> </ul>	100%

[End of Schedule 5]

**Schedule 6**  
**[Paragraphs 5.9(3) and 5.10(2)]**

**POSITION RISK REQUIREMENT USING HEDGING  
METHOD OR BASIC METHOD**

	<b>Equity Position</b>	<b>Option Position</b>	<b>In the Money <math>\geq</math> PRF %</b>	<b>In the Money <math>&lt;</math> PRF %</b>	<b>Out of the Money</b>
<b>Basic Method</b>	Naked	Long call	NL	NL	NL
		Long put	NL	NL	NL
		Short call	NSO	NSO	NSI
		Short put	NSO	NSO	NSI
<b>Hedging Method</b>	Long in security	Long put Short call	0% SHI	LPI SHI	HO HO
	Short in security	Long call Short put	0% SHI	LCI SHI	HO HO
<b>Key</b>					
PRF	Position Risk Factor				
PRF %	The Standard Approach PRF%				
NL	The lesser of the underlying instrument multiplied by PRF% and the current value of the Option on the Participating Organisation's books				
NSI	The market value of the underlying instrument multiplied by PRF%				
NSO	The market value of the underlying position multiplied by PRF% minus 0.5 times the amount by which the Option is In the Money, subject to a maximum reduction to zero				
LPI	The market value of the underlying position minus (1-PRF%) times the underlying position at the Exercise Price				
HO	The market value of the underlying position times PRF%				
SHI	The market value of the underlying position times PRF% minus Mark to Market value of Option, subject to a maximum reduction to zero				
LCI	(1+PRF%) times the underlying position at the Exercise Price minus the market value of the underlying position, subject to a maximum reduction to zero				

[End of Schedule 6]

**Schedule 7**  
**[Paragraphs 5.12(2), 6.4(2)(b) and 8.3]**

**POSITION RISK FACTOR FOR FIXED INCOME SECURITIES**

**Fixed Income Securities**

**Specific Risk**

<ul style="list-style-type: none"> <li>▪ Government – bonds issued and guaranteed by the Malaysian Government, Bank Negara Malaysia, Danaharta, Danamodal and OECD central government and central banks</li> </ul>	0%				
<ul style="list-style-type: none"> <li>▪ State Government / Financial institutions - including bonds issued and guarantees by local/state government, statutory authorities, licensed banking institutions, licensed development financial institutions, discount houses and Cagamas</li> </ul>	<p style="text-align: center;"><u>Remaining Maturities</u></p> <p style="text-align: center;">&lt;= 1 year    &gt; 1-5 years    &gt; 5 years</p>	1.0%	1.6%	1.6%	
<ul style="list-style-type: none"> <li>▪ Corporate</li> </ul>	<p style="text-align: center;"><u>Remaining Maturities</u></p> <p style="text-align: center;">Ratings years PI P2 P3 AAA AA A BBB Unrated Instruments/ Below investment grade</p>	<p style="text-align: center;"><u>Remaining Maturities</u></p> <p style="text-align: center;">&lt;= 1 years &gt;1-5 years &gt;5</p>	<p style="text-align: center;">1.0%</p> <p style="text-align: center;">1.0%</p> <p style="text-align: center;">2.0%</p> <p style="text-align: center;">1.0%</p> <p style="text-align: center;">1.0%</p> <p style="text-align: center;">1.0%</p> <p style="text-align: center;">2.0%</p> <p style="text-align: center;">8.0%</p>	<p style="text-align: center;">3.0%</p> <p style="text-align: center;">3.5%</p> <p style="text-align: center;">4.5%</p> <p style="text-align: center;">5.5%</p> <p style="text-align: center;">6.0%</p> <p style="text-align: center;">8.0%</p>	<p style="text-align: center;">3.5%</p> <p style="text-align: center;">4.5%</p> <p style="text-align: center;">5.5%</p> <p style="text-align: center;">7.0%</p> <p style="text-align: center;">8.0%</p>

**Fixed Income Securities**

**General Risk**

All types of Fixed Income Securities

Remaining Maturities

<ul style="list-style-type: none"> <li>▪ Up to 1 month</li> <li>▪ &gt; 1 to 3 month</li> <li>▪ &gt; 3 to 6 months</li> <li>▪ &gt; 6 to 12 months</li> <li>▪ &gt; 1 to 2 years</li> <li>▪ &gt; 2 to 3 years</li> <li>▪ &gt; 3 to 4 years</li> <li>▪ &gt; 4 to 5 years</li> <li>▪ &gt; 5 to 7 years</li> <li>▪ &gt; 7 to 10 years</li> <li>▪ &gt; 10 to 15 years</li> <li>▪ &gt; 15 to 20 years</li> <li>▪ Over 20 years</li> </ul>	<p>0.00%</p> <p>0.20%</p> <p>0.50%</p> <p>0.80%</p> <p>1.40%</p> <p>2.00%</p> <p>2.70%</p> <p>3.40%</p> <p>4.30%</p> <p>4.90%</p> <p>6.50%</p> <p>7.70%</p> <p>9.10%</p>
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[End of Schedule 7]

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**Schedule 8**  
[Paragraph 5.12(3)]

**TEMPLATES FOR MANUAL COMPUTATION OF POSITION RISK REQUIREMENT (PRR) FOR FIXED INCOME SECURITIES**

Name of Participating Organisation :  
Position as at :

No.	Type of FI Securities	Ratings (RAM and MARC short and long term ratings)	Time to Maturity [(The different between reporting date and the Maturity Date of FI Securities (months/years)]	Quantity	Market Value of the FI Securities (RM)  (a)	Position Risk Factors (PRFs)			PRR (RM)
						PRFsp  (b)	PRFg  (c)	Total PRFs  (d) [d=b+c]	(e) [e=axd]
<b>Total PRR</b>									

We hereby declare that the information contained herein are true and correct in all aspects.

\_\_\_\_\_  
Date:

\_\_\_\_\_  
Date:

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**Schedule 9**  
[Paragraph 5.15]

**TEMPLATES FOR MANUAL COMPUTATION OF POSITION RISK REQUIREMENT (PRR) FOR UNIT TRUST**

Name of Participating Organisation :  
Position as at :

No.	Name of Unit Trust	Quantity of Limit Trust	Market Value of Unit Trust (RM)	Position Risk Factor (PRF)	PRR (RM)
			(a)	(b)	(c) [c=axb]
<b>Category 1 : Equity Fund</b>					
1				15%	
2					
3					
<b>Category 2 : Bond Fund</b>					
1				5%	
2					
3					
<b>Total PRR</b>					

We hereby declare that the information contained herein are true and correct in all aspects.

\_\_\_\_\_

Date:

\_\_\_\_\_

Date:

Schedule 10  
[Paragraph 5.16(2)]

POSITION RISK REQUIREMENT FOR  
ONWARD PLEDGED MFF COLLATERAL

Position Risk Requirement	Calculation								
<b>PRR</b> <small>onward pledged collateral</small>	$BO \times (OPMM - OPM)$ Where, $OPM = \frac{\text{Discounted MTM of Onward Pledged MFF Collateral}}{\text{Balance owing to third party}} \times 100\%$								
<b>Key:</b>  <table border="0"> <tr> <td style="vertical-align: top; padding-right: 20px;">BO</td> <td>The balance owing to the third party secured by Onward Pledged MFF Collateral</td> </tr> <tr> <td style="vertical-align: top; padding-right: 20px;">OPMM</td> <td>The Onward Pledge Minimum Margin of Onward Pledged MFF Collateral, after applying the applicable discounts stipulated in Schedule 18, being 150% of BO</td> </tr> <tr> <td style="vertical-align: top; padding-right: 20px;">OPM</td> <td>The Onward Pledge Margin</td> </tr> <tr> <td style="vertical-align: top; padding-right: 20px;">Discounted MTM</td> <td>The Mark to Market value of the Onward Pledged MFF Collateral after applying the applicable discounts stipulated in Schedule 18</td> </tr> </table>		BO	The balance owing to the third party secured by Onward Pledged MFF Collateral	OPMM	The Onward Pledge Minimum Margin of Onward Pledged MFF Collateral, after applying the applicable discounts stipulated in Schedule 18, being 150% of BO	OPM	The Onward Pledge Margin	Discounted MTM	The Mark to Market value of the Onward Pledged MFF Collateral after applying the applicable discounts stipulated in Schedule 18
BO	The balance owing to the third party secured by Onward Pledged MFF Collateral								
OPMM	The Onward Pledge Minimum Margin of Onward Pledged MFF Collateral, after applying the applicable discounts stipulated in Schedule 18, being 150% of BO								
OPM	The Onward Pledge Margin								
Discounted MTM	The Mark to Market value of the Onward Pledged MFF Collateral after applying the applicable discounts stipulated in Schedule 18								

[End of Schedule 10]



**Schedule 11**  
**[Paragraphs 6.2, 6.3(e)(i)(bb) and 6.3(i)(i)]**

**COUNTERPARTY WEIGHTING**

Counterparty Exposure	Weight
<b>Government</b> <ul style="list-style-type: none"> <li>▪ Central government</li> <li>▪ Government related agencies</li> </ul>	0%
<b>Cagamas Berhad</b>	10%
<b>State or local Government</b> <ul style="list-style-type: none"> <li>▪</li> </ul>	20%
<b>Financial Institutions</b> <ul style="list-style-type: none"> <li>▪ Banks and financial institutions licensed under BAFIA</li> <li>▪ Banks licensed under the Islamic Banking Act 1983</li> </ul>	20%
<b>Clearing Houses and Exchanges</b> <ul style="list-style-type: none"> <li>▪ Clearing HousesRecognised Stock Exchanges</li> <li>▪ exchange approved by the Minister</li> </ul>	20%
<b>Malaysian authorised investment firms</b> <ul style="list-style-type: none"> <li>▪ A holder of a Capital Markets Services Licence to carry on the business of fund management under the Capital Markets and Services Act</li> <li>▪ A registered person under item 4 of Part 1 of Schedule 4 of the Capital Markets and Services Act as to unit trust schemes</li> </ul>	50%
<b>Participating Organisation</b> <ul style="list-style-type: none"> <li>▪ A Participating Organisation under trading restrictions as announced by the Exchange</li> <li>▪ A Participating Organisation not under trading restrictions</li> </ul>	100%
Other counterparties (not being those categorised above)	50%
	100%

[End of Schedule 11]

**SCHEDULE 12**  
**[Paragraphs 6.3(a)(ii) and 6.3(e)(i)(bb)]**

**COUNTERPARTY RISK REQUIREMENT**  
**FOR UNSETTLED AGENCY TRADES**

Agency Transaction	Time period for application of Percentage	Counterparty Risk Requirement
1. Sales contract	T to T+2 of clients	0.5%
	From T+3 to T+30 of clients	<ul style="list-style-type: none"> <li>▪ 8% of the Mark to Market Difference of the Contract multiplied by the weighting, if the Mark to Market value less the sales contract value of the stock is positive</li> <li>▪ 0%, if the Mark to Market value less the sales contract value of the stock is zero or negative</li> </ul>
	Beyond T+30 of clients	<ul style="list-style-type: none"> <li>▪ The Mark to Market Difference multiplied by the weighting, if the Mark to Market value less the sales contract value of the stock is positive</li> <li>▪ 0%, if the Mark to Market value less the sales contract value of the stock is zero or negative</li> </ul>
2. Purchase contracts (cash payments)	T to T+3 of clients	0.5%
	From T+4 to T+30 of clients	<ul style="list-style-type: none"> <li>▪ 8% of the Mark to Market Difference of the Contract multiplied by the weighting, if the purchase contract value less Mark to Market value of the stock is positive</li> <li>▪ 0%, if the purchase contract value less Mark to Market value of the stock is zero or negative</li> </ul>
	Beyond T+30 of clients	<ul style="list-style-type: none"> <li>▪ The Mark to Market Difference multiplied by the weighting, if the purchase contract value less Mark to Market value of the stock is positive</li> <li>▪ 0%, if the purchase contract value less the Mark to Market value of the stock is zero or negative</li> </ul>

[End of Schedule 12]

**SCHEDULE 13  
[Paragraph 6.3(b)(ii)]****COUNTERPARTY RISK REQUIREMENT FOR  
DEBT, CONTRA LOSSES AND OTHER AMOUNTS DUE**

<b>Contract default Aging Period</b>	<b>Counterparty Risk Requirement</b>
Less than T+16 days	Zero
T+16 to T+30 days	50% of the amount due
Over T+30 days	100% of the amount due

[End of Schedule 13]

**Schedule 14  
[Paragraph 6.3(d)(ii)]**

**COUNTERPARTY RISK REQUIREMENT  
FOR SECURITIES BORROWING AND LENDING TRANSACTIONS**

<b>Securities Borrowing and Lending Transaction</b>		<b>Time period for application of Percentage</b>	<b>Counterparty Risk Requirement</b>
1. Borrowing	On borrowing	Pre-Recall	CE x CW x 0%
	On Recall	From Recall to Recall + 3 days	CE x CW x 8%
	On Recall	Beyond Recall + 3 days	CE x CW x 100%
2. Lending	On Lending	Pre-Recall	CE x CW x 0%
	On Recall	From Recall to Recall + 3 days	CE x CW x 8%
	On Recall	Beyond Recall + 3 days	CE x CW x 100%

**Where:**

CE = Counterparty exposure, as determined under Paragraph 6.3(d).

CW = Counterparty weighing, as specified in Schedule 11.

'On Borrowing' means upon crediting of the securities borrowed into the borrower's CDS Account.

'On Lending' means upon debiting of the securities lent from the lender's CDS Account.

[End of Schedule 14]

**Schedule 15**  
**[Paragraph 6.3(e)(ii)]**

**METHODOLOGY FOR CALCULATING COUNTERPARTY EXPOSURES  
(CREDIT EQUIVALENT AMOUNTS) FOR  
OVER-THE-COUNTER DERIVATIVE TRANSACTIONS**

Type of Over-the-Counter Derivative Transaction	Credit Equivalent Amount	
	If A is positive	If A is negative
Written Options	0 (no risk)	0 (no risk)
Individual share futures, over-the-counter Options, Warrants and equity swaps:		
▪ less than 1 year to maturity	A + 1% of N	1% of N
▪ over 1 year to maturity	A + 5% of N	5% of N
Notes: A = the Mark to Market value of the over-the-counter derivative N = the notional or actual principal amount or value underlying the Contract		

[End of Schedule 15]

**Schedule 16**  
**[Paragraph 6.3(h)(iii)(aa)]**

**METHODOLOGY FOR CALCULATING  
COUNTERPARTY RISK REQUIREMENT FOR MARGIN FINANCING TRANSACTIONS**

Category of Margin Accounts	Counterparty Risk Requirement
Margin Accounts where Equity is above 130% of the Outstanding Balance	$CRR_{\text{margin financing}} = CE \times CW \times CS \times 8\%$ <p>Where,  <math>CS = MEM - EM</math>  <math>EM = \frac{\text{Discounted MTM}}{CE} \times 100\%</math></p>
Margin Accounts where Equity is below 130% of Outstanding Balance	$CRR_{\text{margin financing}} = (CE - \text{Discounted MTM}) \times SP\%$
<b>Key</b>	
CE	Counterparty exposure, being the Outstanding Balance in the Margin Account
CW	Counterparty weighting, as stipulated in Schedule 11
CS	Collateral Shortfall
MEM	The minimum equity of 150% of the Outstanding Balance, as determined in the manner stipulated in Rule 101.1(1)
EM	Equity Margin
Discounted MTM	The Mark to Market value of the collateral after applying the applicable discounts stipulated in Schedule 18
SP%	The applicable percentage (%) of specific provision required to be made for amounts outstanding in Margin Accounts as may from time to time be classified as doubtful and bad following Rule 1203 and directives issued pursuant to that Rule.

[End of Schedule 16]

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**Schedule 17**  
**[Paragraph 6.3(i)(v)]**

**TEMPLATES FOR MANUAL COMPUTATION OF COUNTERPARTY RISK REQUIREMENT (CRR) FOR FIXED INCOME SECURITIES**

**Name of Participating Organisation :**  
**Position as at :**

No.	Counterparty Name	Type of FI Securities	Debt Ageing Period <i>(no. of market days overdue)</i>	Counterparty Exposure (RM)	Discounted Collaterals and/or value of provisions made (RM)	Net Counterparty Exposure (RM)	Counterparty Weight (%)	CRR%	CRR (RM)	Total CRR (RM)
				(a)	(b)	(c) [c=a-b]	(d)	(e)	(f) [f=cxdxe]	
<b>Grand Total of CRR</b>										

We hereby declare that the information contained herein are true and correct in all aspects.

\_\_\_\_\_  
Date:

\_\_\_\_\_  
Date:

## SCHEDULE 18

[Paragraphs 3.3(2), 3.4(9), 5.1(2), 5.11, 5.16, 6.3(h)(ii)(bb), 6.4(1)(b) and 6.4(2)]

## DISCOUNTING FOR COLLATERAL

Type of Collateral	Applicable Discount
<p><b>Foreign Currency Cash Deposit</b></p> <ul style="list-style-type: none"> <li>▪ Foreign currency acceptable to the Exchange: <ul style="list-style-type: none"> <li>▪ US Dollar</li> <li>▪ Euro and the currency of countries of the European Union that do not use the Euro</li> <li>▪ Japanese Yen</li> <li>▪ Hong Kong Dollar</li> <li>▪ New Zealand Dollar</li> <li>▪ Singapore Dollar</li> <li>▪ Australian Dollar</li> </ul> </li> <li>▪ Cash deposits of any other currency that the Exchange specifies</li> <li>▪ <i>Other foreign currency not acceptable to the Exchange</i></li> </ul>	<p>8% after conversion into Ringgit by applying the Central Bank's best available exchange rate quoted by commercial banks of Kuala Lumpur or by applying any other rate as the Exchange decides.</p> <p>100% after conversion into Ringgit by applying the Central Bank's best available exchange rate quoted by commercial banks of Kuala Lumpur or by applying any other rate as the Exchange decides.</p>
<p><b>Quoted Securities</b> Securities listed on the Exchange or other Recognised Stock Exchange (Mark to Market on a daily basis)</p>	<p>Position Risk Factor used in the Standard Approach, as stipulated in Schedule 3.</p>
<p><b>Suspended Securities</b></p>	<p>Position Risk Factor used in the Standard Approach, as stipulated in Schedule 3.</p>
<p><b>Malaysian Government Securities, Khazanah Bonds, Malaysian Treasury Bills, Malaysian Government Investment Certificates</b></p> <ul style="list-style-type: none"> <li>▪ Up to 1 year maturity</li> <li>▪ More than 1 year maturity</li> </ul>	<p>2.5%</p> <p>5.0%</p>



<b>DIRECTIVES ON CAPITAL ADEQUACY REQUIREMENTS</b>	<b>No. 13-001</b>
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<b>Type of Collateral</b>	<b>Applicable Discount</b>
<b><i>Cagamas Bonds</i></b> <ul style="list-style-type: none"> <li>▪ Up to 1 year maturity</li> <li>▪ More than 1 year maturity</li> </ul>	<p style="text-align: right;">12.5%</p> <p style="text-align: right;">15.0%</p>
<b><i>Letters of Credit/Bank Guarantee</i></b> Letters of credit or bank guarantees guaranteed by financial institutions licensed under BAFIA or the Islamic Banking Act 1983	<p style="text-align: right;">20%</p>
<b><i>Negotiable Instruments of Deposit</i></b> Negotiable instruments of deposit guaranteed by financial institutions licensed under BAFIA or the Islamic Banking Act 1983	<p style="text-align: right;">20%</p>
<b><i>Other collateral or security</i></b> Any other collateral or security (not being those categorised above)	<p style="text-align: right;">100%</p>

[End of Schedule 18]

<b>DIRECTIVES ON CAPITAL ADEQUACY REQUIREMENTS</b>	<b>No. 13-001</b>
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**Schedule 19**  
[Paragraph 7.1]

**TEMPLATES FOR MANUAL COMPUTATION OF LARGE EXPOSURE RISK REQUIREMENT (LERR) TO SINGLE CLIENT**

Name of Participating Organisation :  
Position as at :

No.	Counterparty Name [only report if (e) >10% of ESF]	Type of FI Securities	Net Counterparty Exposure (CE) for FI Securities  (RM)	CRR for FI Securities  (RM)  (a)	Net CE for the client as extracted from LER_0001 report  (RM)  (b)	CRR for the client as extracted from LER_0001 report  (RM)  (c)	Total Net CE  (RM)  (d)	LERR = Total CRR  (RM)  (e) [e=a+c]	30% of ESF  (RM)  (f) [f=b+d]	Breach maximum LER limit if Total CE exceeds 30% of ESF (yes/no)
<b>Grand Total of LERR</b>										

We hereby declare that the information contained herein are true and correct in all aspects.

\_\_\_\_\_  
Date:

\_\_\_\_\_  
Date:

<b>DIRECTIVES ON CAPITAL ADEQUACY REQUIREMENTS</b>	<b>No. 13-001</b>
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**Schedule 20**  
[Paragraph 7.2]

**TEMPLATES FOR MANUAL COMPUTATION OF POSITION RISK REQUIREMENT (PRR) FOR FIXED INCOME SECURITIES**

Name of Participating Organisation :  
Position as at :

No.	Type of FI Securities (only report if (a) > 15% of ESF)	Ratings (RAM and MARC short and long term ratings)	Time to Maturity (The different between reporting date and the Maturity Date of FI Securities (months/years))	Quantity	Market Value of the FI Securities  (a)	Position Risk Factors			LERR (RM)  (e) [e=axd]	30%, 250% or 500% of ESF whichever is applicable (RM)	Breach maximum LER limit if (a) exceeds 30%, 250% or 500% of ESF, whichever is applicable (yes/no)
						PRFsp (b)	PRFg (c)	Total PRFs (d) [d=b+c]			
<b>Category 1: FI Securities issued by the central government or government related</b>											
1											
2											
3											
<b>Category 2: FI Securities issued by company with AA or AAA rating</b>											
1											
2											
3											
<b>Category 3: FI Securities issued by other than the above</b>											
1											
2											
3											
<b>TOTAL LERR</b>											

We hereby declare that the information contained herein are true and correct in all aspect

**DIRECTIVES ON CAPITAL ADEQUACY REQUIREMENTS**

**No. 13-001**

Date: \_\_\_\_\_

Date: \_\_\_\_\_

[End of Schedule 20]

**Schedule 21**  
**[Paragraph 7.6(1) and 7.7]**

**LARGE EXPOSURE RISK REQUIREMENT**  
**FOR SINGLE EQUITY**

<b>LERR for exposure to Equity Relative to Instrument on Issue</b>	
<b>Types of Equity</b>	<b>LERR</b>
FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX stocks	15% of the amount in excess of the net exposure or position
Other stocks, including ACE Market	21% of the amount in excess of the net exposure or position
<b><i>Bursa Malaysia Derivatives</i></b>	
<ul style="list-style-type: none"> <li>▪ KLCI futures</li> </ul>	5% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ KLIBOR futures</li> </ul>	4.5% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ Crude Palm Oil futures</li> </ul>	5% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ Kernel Palm Oil futures</li> </ul>	5% of the amount in excess of the net exposure or position
Unit trust or Exchange Traded Fund:	
<ul style="list-style-type: none"> <li>▪ Equity fund</li> </ul>	15% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ Debt securities fund</li> </ul>	5% of the amount in excess of the net exposure or position
Single stocks in Recognised Market Indices	12% of the amount in excess of the net exposure or position
Other single stocks of Recognised Stock Exchanges	16% of the amount in excess of the net exposure or position

<b>LERR for exposure to Equity Relative to Effective Shareholders' Funds</b>	
<b>Types of Equity</b>	<b>LERR</b>
FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX stocks	15% of the amount in excess
Other stocks, including ACE Market	21% of the amount in excess
<b><i>Bursa Malaysia Derivatives</i></b>	
<ul style="list-style-type: none"> <li>▪ KLCI futures</li> </ul>	5% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ KLIBOR futures</li> </ul>	4.5% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ Crude Palm Oil futures</li> </ul>	5% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ <i>Kernel Palm Oil futures</i></li> </ul>	5% of the amount in excess of the net exposure or position
Unit trust or Exchange Traded Fund:	
<ul style="list-style-type: none"> <li>▪ Equity fund</li> </ul>	15% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ Debt securities fund</li> </ul>	5% of the amount in excess of the net exposure or position
Single stocks in Recognised Market Indices	12% of the amount in excess
Other single stocks of Recognised Stock Exchanges	16% of the amount in excess

[End of Schedule 21]

<b>DIRECTIVES ON MANUAL WORKAROUND COMPUTATION FOR CAPITAL ADEQUACY REQUIREMENTS</b>	<b>No. 13.04(4)-001</b>
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Relevant to : Rule 13.04(4)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 14 of 2006  
Refer also to Directive No(s). : N/A

**1. Rule 13.04(4)**

- (1) Rule 13.04(4) provides that the Participating Organisation must:
- (a) calculate and monitor the Participating Organisation's Capital Adequacy Ratio on a daily basis; and
  - (b) submit to the Exchange the relevant information and records relating to the Participating Organisation's Capital Adequacy Ratio in accordance with the requirements of the Exchange.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Submission of Capital Adequacy Ratio**

- (1) Participating Organisation must submit the information and records stated in Rule 13.04(4)(b) to the Exchange through electronic transmission in the manner as prescribed by the Exchange.
- (2) If for any reason, a Participating Organisation is unable to submit the information and records through electronic transmission, the Participating Organisation must manually compute its Capital Adequacy Ratio following the manual workaround template in **Appendix 1** of this Directive and submit to the Exchange the manual computation in the manner and at the times prescribed by the Exchange.

[End of Directive]

**APPENDIX 1**

**MANUAL WORKAROUND COMPUTATION FOR CAPITAL ADEQUACY REQUIREMENTS  
(CAR)**

NAME OF PARTICIPATING ORGANISATION: \_\_\_\_\_

CAR ratio as at: \_\_\_\_\_

CAR COMPUTATION SUMMARY :-

		RM	RM
LIQUID CAPITAL (A)			
1. Position Risk Requirement			
2. Counterparty Risk Requirement			
3. Large Exposure Risk Requirement	(i) to single client		
	(ii) to single debt issuer		
	(iii) to single equity		
4. Underwriting Risk Requirement			
5. Operational Risk Requirement			
TOTAL RISK REQUIREMENT (B)=1+2+3+4+5			
CAR RATIO (A)/(B)			

We hereby declare that the information contained herein is true and correct in all aspects.

\_\_\_\_\_

(Head of Operations)

Name:

Date:

\_\_\_\_\_

(Head of Compliance)

Name:

Date:

[End of Appendix]



Relevant to : Rule 13.32  
 Introduced with effect from : 2 May 2013  
 Amended : N/A  
 POs' Circular No(s). : R/R 3 of 2011  
 Refer also to Directive No(s). : N/A  
 Refer also to Best Practice : 13-001  
 No(s).

**1. Rule 13.32**

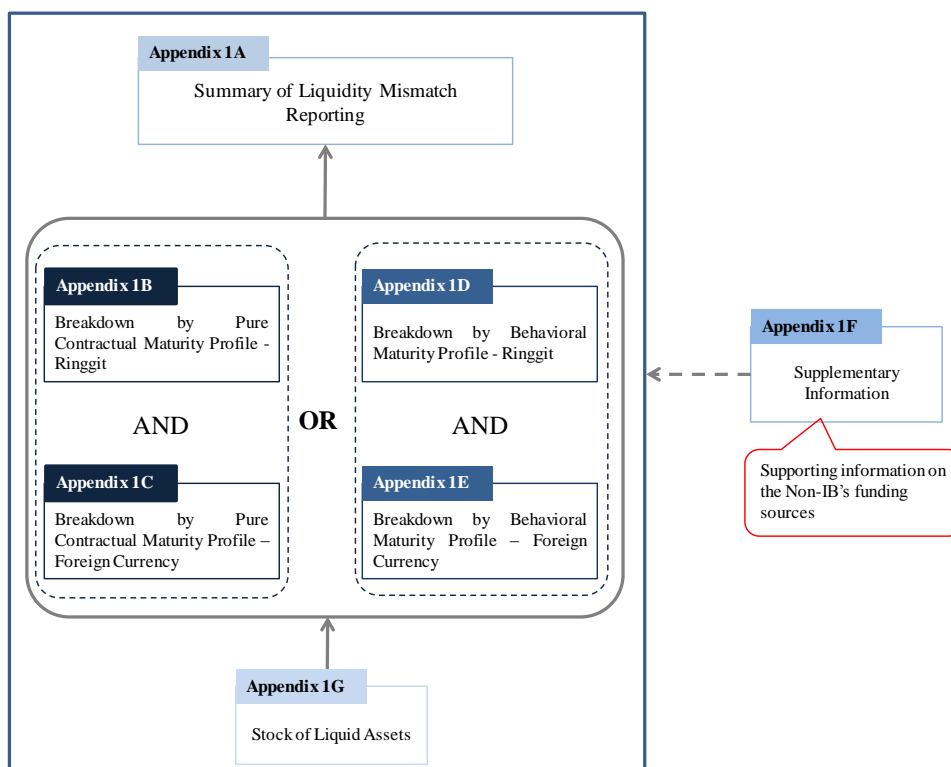
- (1) A Participating Organisation must at all times maintain a cumulative net liquid asset surplus at least at the minimum level(s) as prescribed by the Exchange ("Net Surplus Requirements").
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.
- (3) For the purpose of this directive, "liquid assets" has the same meaning assigned to that expression in Rule 13.06(a).

**1.1 Liquidity Reporting Requirements**

- (1) The Participating Organisation must submit the duly completed Liquidity Reporting Forms to the Exchange in the templates prescribed below. The templates and a user guide in completing the templates ("the User Guide") are set out in **Appendix 1** of this Directive.
- (2) The Liquidity Reporting Forms templates are as set out below:

<b>Liquidity Reporting Forms</b>	<b>Details</b>
Appendix 1A	Summary of Maturity Mismatch Reporting
Appendix 1B	Breakdown by Pure Contractual Maturity Profile – RM
Appendix 1C	Breakdown by Pure Contractual Maturity Profile – Foreign Currency
Appendix 1D	Breakdown by Behavioural Maturity Profile – RM
Appendix 1E	Breakdown by Behavioural Maturity Profile – Foreign Currency
Appendix 1F	Supplementary Information
Appendix 1G	Stock of Liquid Assets

- (3) The Liquidity Reporting Forms must be completed in the manner described in the User Guide. The map below provides the user with an overview of the relationships between the Liquidity Reporting Forms.



## 1.2 Approach to Completing the Liquidity Reporting Forms

- (1) The Participating Organisation must classify the components that make up their Liquid Capital according to the maturity buckets as stated in the table in paragraph 1.3(1). The Participating Organisation may begin by using Form Appendix 1G to report its proprietary positions and available credit line.
- (2) Following from the above, the Participating Organisation must choose, in accordance with established internal policies, one of the following approaches:
  - (a) Forms Appendix 1B and 1C for the breakdown of the maturity profiles based on a contractual basis; or
  - (b) Forms Appendix 1D and 1E for the breakdown of the maturity profiles based on a behavioral basis.
- (3) When choosing to complete either Forms Appendix 1B and 1C, or Forms Appendix 1D and 1E, the Participating Organisation is to be guided by the Best Practice Guidelines for Participating Organisations.
- (4) For the initial stage, the Participating Organisation must rely on categorizing maturity profiles based on contractual basis. When the Participating Organisation becomes proficient in understanding the behaviour of the maturity profile of the assets and liabilities, it may embark on the more sophisticated and refined approach to categorization. The Exchange has not prescribed any specific approaches to be chosen by a Participating Organisation.
- (5) The Participating Organisation must complete Form Appendix 1F. The Participating Organisation must provide information that would enable the Exchange to assess the impact

to the Participating Organisation's overall funding structure and liquidity risk in the scenario of a market disruption, including the following information:

- (a) Large customer cash funding;
  - (b) Interbank market (if any); and
  - (c) Offshore market (if any).
- (6) If a Participating Organisation does not have any relevant information, the Participating Organisation must submit the report as 'NIL'.
- (7) The Participating Organisation must submit the forms to the Exchange before the end of every Wednesday based on the previous business day's closing position or in any other reporting frequency as determined by the Exchange.
- (8) If the reporting day falls on a public holiday, the Participating Organisation must submit the said forms to the Exchange before the end of the following business day. For example, if the submission day (Wednesday) falls on a public holiday, the Participating Organisation must submit the said forms to the Exchange before the end of the following business day (Thursday).
- (9) If the day in which the reporting of the closing position is required, (for example, Tuesday) falls on a public holiday, the Participating Organisation must report based on the previous business day's (Monday) closing position.
- (10) The Participating Organisation must ensure that the forms submitted to the Exchange are accurate and true. The Liquidity Reporting Forms must be submitted electronically using the prescribed templates and emailed to the Exchange at [psd@bursamalaysia.com](mailto:psd@bursamalaysia.com).
- (11) The Liquidity Reporting Forms received by the Exchange are deemed to have been duly signed off by the Head of Operations and Head of Compliance.

**1.3 Net Surplus Requirements Compliance**

- (1) The table below stipulates the Net Surplus Requirements ("NSR") minimum levels that the Participating Organisation must comply with according to the maturity buckets:

BUCKET	MATURITY BUCKETS	NET SURPLUS REQUIREMENTS ("NSR") MINIMUM LEVELS
A	Up to three (3) market days	3%
B	Four (4) market days to seven (7) calendar days	5%
C	Eight (8) calendar days to 14 calendar days	7%
D	15 calendar days to 30 calendar days	9%

- (2) The NSR level for Bucket A has been prescribed at 3%. As the maturity progresses from Bucket A to D, the difference of NSR levels between buckets has been prescribed at +2% per bucket on cumulative basis. In this regard, the result for the cumulative NSR level for final Bucket D has been prescribed at 9% as stated in the table above.
- (3) The Exchange may adjust the NSR levels as it deems fit, according to prevailing market conditions.
- (4) The Participating Organisation must determine whether it is able to comply and maintain a minimum cumulative net liquid asset surplus according to the prescribed NSR levels. The cumulative net liquid asset surplus will be calculated automatically and will be reflected in Appendix 1A once the Participating Organisation has completed Appendix 1B (or 1D), Appendix 1C (or 1E) and Appendix 1G.
- (5) The Exchange requires the Participating Organisation's compliance with the NSR based on the average cumulative net liquid asset surplus reported to the Exchange over a period of 1 month. In this regard, the Participating Organisation is considered to have complied with the NSR if on a daily basis the reported cumulative net liquid asset surplus does not fall more than 5% below the required NSR minimum level prescribed for each maturity bucket on any given day.

#### **1.4 Best Practice Guidelines and Self-Assessment Questionnaire**

- (1) The Exchange has come up with 15 key principles that form the Exchange's best practice guidelines on managing liquidity risks ("the Best Practice Guidelines"). Effective 31 March 2014, POs must comply with the Best Practice Guidelines. In the meantime, POs are encouraged to adopt the Best Practice Guidelines in implementing sound liquidity risk management practices. The Best Practice Guidelines can be found at Best Practice 13-001.
- (2) POs are required to submit to the Exchange the duly completed Self-Assessment Questionnaire ("SAQ") in the form marked as **Appendix 2** of this Directive. All POs are required to submit the SAQ to the Exchange on a yearly basis no later than 31 January of each calendar year for the reporting date as at 31 December of the previous year or as determined by the Exchange. The SAQ is designed for the Exchange to determine a PO's position on its adoption of the principles set out in the Best Practice Guidelines when managing its liquidity risk.

[End of Directive]

# **APPENDIX 1**

## **User Guide and Reporting Forms**

## **SELF ASSESSMENT QUESTIONNAIRES**

**Self Assessment Questionnaires**

**Liquidity Risk Management Governance Framework – Self Assessment Questionnaires**

Bursa will engage Non-IBs from time to time to establish the Non-IBs' position in adopting the leading business practices in managing the liquidity risk. Bursa will use the results of the Self Assessment Questionnaires in order to evaluate the Non-IBs' governance position in managing their liquidity risk. Further to this, the Non-IBs will be required to perform a self-assessment and submit it to Bursa on a yearly basis no later than 31 January of each calendar year for the reporting date as at 31 December of the previous year.

<b>Categories</b>		<b>Yes</b>	<b>No</b>
<b>Strategy and Policy</b>			
<b>1</b>	Do you have a formal liquidity risk policy, i.e., strategies, policies and practices, in place to manage liquidity risk in accordance with the risk tolerance? Do you maintain sufficient liquidity <sup>1</sup> ?		
<b>2</b>	Have you adequately defined the following in the strategy and policy: <ul style="list-style-type: none"> <li>▪ Composition of assets &amp; liabilities</li> <li>▪ Diversity &amp; stability of funding sources</li> <li>▪ Approach to managing liquidity in different currencies, across borders and across business lines and legal entities;</li> <li>▪ Approach to intraday liquidity management</li> <li>▪ Assumptions on asset liquidity</li> </ul>		
<b>3</b>	Did your strategy include various high-level quantitative and qualitative targets such as: <ul style="list-style-type: none"> <li>▪ Guidelines or limits on the composition of assets and liabilities;</li> <li>▪ The relative reliance on certain funding sources, both on an ongoing basis and under contingent liquidity scenarios; and</li> <li>▪ The marketability of assets to be used as contingent sources of liquidity.</li> </ul>		

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<sup>1</sup> Sufficient Liquidity means "adequate to meet current and planned business requirements (including known contingencies) while complying with Bursa's requirements".

4	<p>Did your strategy consider the appropriate nature, scale and complexity of your activities, in addition to the followings:</p> <ul style="list-style-type: none"> <li>▪ Set the objectives for the management of both short-term and long-term funding risk;</li> <li>▪ Set the objectives for the management of contingent liquidity risk;</li> <li>▪ Define the basis for managing liquidity (e.g. whether the liquidity is being managed on regional or central basis);</li> <li>▪ Set the identification of appropriate or inappropriate risk management tools;</li> <li>▪ Set the degree of concentrations, potentially affecting liquidity risk, that are acceptable to the firm; and</li> <li>▪ Define ways of managing its aggregate foreign currency liquidity needs and its needs in each individual currency.</li> </ul>		
5	<p>Did your Board approve your strategies and policies and review them at least annually thereafter?</p>		
6	<p>Have you established and document your liquidity risk management strategies and do you ensure that it is consistent with your funding strategy?</p>		
7	<p>Did your liquidity risk management strategies cover the overall appetite for liquidity risk, such as tolerance that is within compliance parameter of capital adequacy frameworks for concentration and the use of approved funding instruments and markets?</p>		
8	<p>Did your liquidity risk management policy statement include the following areas:-</p> <ul style="list-style-type: none"> <li>▪ Governance and organisational structure for liquidity risk;</li> <li>▪ Risk tolerance and limits;</li> <li>▪ Liquidity risk measurement methodology;</li> <li>▪ Stress testing and scenario analysis;</li> <li>▪ Reporting and monitoring policies; and</li> <li>▪ Liquidity risk contingency plan;</li> </ul>		
9	<p>Have you established and documented your funding strategy that contains overall goals and objectives for short and long term funding?</p> <p>Did it consider correlations between sources of funds and market conditions, strategy for maintaining funding under adverse conditions, different currencies, sources, geographies and inter-company funding that may exist in your operations?</p>		
10	<p>Are the strategies and policies demonstrated and represented in the form of operational procedures?</p>		



<b>Organisation &amp; Structure</b>			
<b>1</b>	<p>Have you established appropriate organisational and management structure for liquidity risk and does it at least cover the following areas:</p> <ul style="list-style-type: none"> <li>▪ Have clear lines of authority and proper delegation of responsibilities;</li> <li>▪ Have adequate resources skilled for liquidity risk decisions either via Finance unit of the Non-IBs, or some other suitable function depending on size and nature of the organisation which other units could also be responsible;</li> <li>▪ Should include function which responsible for the identification, measurement and monitoring of liquidity risk;</li> <li>▪ Support communication network between the Non-IB's personnel responsible for the identification, measurement and monitoring of liquidity risk;</li> <li>▪ Prompt and flexible decision making and actions; and</li> <li>▪ Clear segregation of functions in the management of liquidity risk.</li> </ul>		
<b>2</b>	<p>Did your Board approve &amp; monitor liquidity risk strategy &amp; policy, and risk appetite?</p> <p>If yes, is the Board ultimately responsible for:</p> <ul style="list-style-type: none"> <li>▪ Approving the liquidity risk strategy, liquidity risk policy (including procedures) and risk appetite concerning liquidity risk;</li> <li>▪ Implementing an appropriate organisation and management structure for liquidity risk;</li> <li>▪ Monitoring the liquidity risk profile on a regular basis and at an appropriate frequency;</li> <li>▪ Ensuring that liquidity risks are identified, measured, monitored and controlled;</li> <li>▪ Ensuring that responsibilities are clearly and comprehensively defined;</li> <li>▪ Ensuring that liquidity risk is managed and controlled by Senior Management within the established risk management framework;</li> <li>▪ Reviewing contingency plans; and</li> <li>▪ Reviewing liquidity decisions.</li> </ul>		
<b>3</b>	<p>Did your Senior management manage risk within established framework? For example, does Senior Management hold responsibilities which include:</p> <ul style="list-style-type: none"> <li>▪ Adhering to the lines of authority and responsibility defined by the Board;</li> <li>▪ Implementing and maintaining appropriate policies and procedures that translate the Board's approved objectives and risk tolerances into operating standards;</li> <li>▪ Directing the identification, measurement and monitoring of liquidity risk through the implementation of management information and other systems;</li> <li>▪ Ensuring effective internal controls over the liquidity risk management processes are implemented; in doing so, the managers should request regular standardised reports concerning liquidity risk and conduct regular reviews of the methods and processes used; and</li> </ul>		

- |  |  |  |
|--|--|--|
| <ul style="list-style-type: none"><li>▪ Providing guidance on managing and aligning the whole organisation to be risk aware and etc (or risk management in general), as usually liquidity risk is an after-effect of other risk, i.e. market, credit or reputation risk.</li></ul> |  |  |
|--|--|--|

<b>Risk Tolerance, Ratios and Limits</b>			
<b>1</b>	Do you have an established tolerance, ratios and limits <b>which are in line</b> with business objectives, strategy, and overall risk appetite?		
<b>2</b>	<p>Do you ensure the risk tolerance, ratios, and limits <b>comply</b> with minimum financial requirements?</p> <p>Limits will vary depending on the nature of operations and circumstances. However, limits can also be tied to balance sheet ratios. Do you have the following in practice:</p> <ul style="list-style-type: none"> <li>▪ Maximum projected cash flow shortfall tolerated for specified time period (for example, one week ahead, one month ahead, one quarter ahead);</li> <li>▪ Minimum ratio of liquid assets to total assets;</li> <li>▪ Maximum overnight borrowings to total assets; and</li> <li>▪ Maximum ratio of total wholesale borrowings to total assets.</li> </ul>		
<b>3</b>	<p>Do you establish target liquidity ratio, maturity mismatch limits, concentration, and diversification?</p> <p>Did your funding liquidity ratios and limits used for liquidity risk management include:</p> <ul style="list-style-type: none"> <li>▪ Target liquidity ratio;</li> <li>▪ Maturity mismatch limits for local and foreign currencies; and</li> <li>▪ Concentration limits and diversification.</li> </ul>		
<b>4</b>	<p>Do you also consider additional ratios or indicators to measure your ability to meet the liquidity needs, in particularly under stressful market conditions? For example:</p> <ul style="list-style-type: none"> <li>▪ A “barometer” that measures the number of days that the firm could survive with no new sources of funding;</li> <li>▪ The “liquidation potential,” measuring how a firm could meet its funding needs in the first 14 days of a stress scenario; and</li> <li>▪ A “maximum cumulative outflow” (“MCO”) standard that establishes the amount of short term unsecured funds required to fund cash outflows in a stress event.</li> </ul>		

**Stress Testing and Scenario Analysis**

1 Do you conduct regular stress testing and scenario analysis periodically and on timely basis? Do you have in place hypothetical scenarios & impacts that reflect risk appetite and possible risk exposures? For example:

Description	Impact	Magnitude of Shocks
<b>Scenario 1: Global Financial Crisis</b>		
To simulate stress event where there is a local liquidity issue arising from regional / global shortage of credit, such as the 2008 / 09 global financial crisis, resulting in the increase in short-term interest rates.	Risk areas: <ul style="list-style-type: none"> <li>Market risk,</li> <li>Liquidity risk.</li> </ul>	<ul style="list-style-type: none"> <li>Based on the maturity buckets as stipulated in the Bursa's Net Surplus Requirements (NSR), increase of liquidity outflow: <ul style="list-style-type: none"> <li>Plausible scenario, 10%; and</li> <li>Worst case scenario, 30%</li> </ul> </li> <li>Based on the scenario above, determine the potential shortfall required as per the compliance requirement.</li> </ul>
<b>Scenario 2: Illiquid Instruments</b>		
To simulate stress event where there are non-tradable / illiquid instruments / securities.	Risk areas: <ul style="list-style-type: none"> <li>Market risk,</li> <li>Liquidity risk.</li> </ul>	<ul style="list-style-type: none"> <li>Additional cost of executing the illiquid instruments.</li> </ul>
<b>Scenario 3: Money Market Crunch</b>		
To simulate stress event where there is a breakdown / crunch in the money market.	Risk areas: <ul style="list-style-type: none"> <li>Market risk,</li> <li>Liquidity risk.</li> </ul>	<ul style="list-style-type: none"> <li>Imbalances between the maturity dates on assets and liabilities</li> <li>Lack of adequate funding liquidity.</li> </ul>

**Stress Testing and Scenario Analysis**

<b>2</b>	<p>Are the tests conducted regularly according to scenarios identified and do you report the stress-tests results to your Board, Senior Management and relevant business line managers?</p> <p>If yes, do you perform the following, at the minimum, to ensure that stress testing technique applied is reflective of your risk appetite and possible risk exposures:</p> <ul style="list-style-type: none"> <li>▪ Verify all relevant assumptions and model parameters periodically taking into considerations their experience in any crisis;</li> <li>▪ Review and modify existing stress scenarios and parameters periodically, if necessary reflecting the current market conditions or new experiences; and</li> <li>▪ Review entire business profile periodically to assess the need of additional stress scenarios.</li> </ul>		
<b>3</b>	<p>Do you review &amp; modify existing stress scenarios and parameters periodically, reflecting the current market conditions or new experiences?</p>		

<b>Measurement</b>			
<b>1</b>	<p>Have you established the processes for measuring the liquidity risk to which you are exposed to by using a robust and consistent methodology?</p> <p>If yes, is the measurement method responsive to dynamic nature of your liquidity profile, economic, and market conditions?</p>		
<b>2</b>	<p>Do you have in place a methodology for comparing cash inflows and outflows over future timeframes to calculate the cumulative net excess or deficit of funds at selected maturity dates?</p> <p>Did your methodology consider the following:-</p> <ul style="list-style-type: none"> <li>▪ Robustly measure the extent of liquidity risk;</li> <li>▪ Be forward looking;</li> <li>▪ Be responsive to the dynamic nature of the institution's liquidity profile, economic and market conditions;</li> <li>▪ Appropriate level of sophistication for the nature, size and complexity according to the Non-IB's activities;</li> <li>▪ Be able to accommodate stress and scenario analysis; and</li> <li>▪ Be applied consistently and based on accurate data.</li> </ul>		
<b>3</b>	<p>Have you ensured the measurement / method is able to accommodate stress &amp; scenario analysis, applied consistently based on accurate data?</p> <p>Did the liquidity measurement method consider:</p> <ul style="list-style-type: none"> <li>▪ Assessing Cash Inflows against Cash Outflows;</li> <li>▪ Determining the Liquid Value of its assets (securities or other current assets which have a ready market, or which are capable of realisation within one (1) week in relation to the portfolio);</li> <li>▪ Measuring and forecasting cash flows for: <ul style="list-style-type: none"> <li>➢ Assets;</li> <li>➢ Liabilities;</li> <li>➢ Off-balance sheet commitments; and</li> <li>➢ Derivatives; and</li> </ul> </li> </ul> <p>In terms of market liquidity, do you consider factors such as:</p> <ul style="list-style-type: none"> <li>▪ Bid / ask spread;</li> <li>▪ Quote size;</li> <li>▪ Volume of trade in an instrument / number of trades in that instrument;</li> <li>▪ Days of no price quotation, particularly bid price; and</li> <li>▪ Days of no transaction.</li> </ul>		

<b>Monitoring &amp; Reporting</b>			
<b>1</b>	<p>Have you established and maintained appropriate monitoring systems to examine and manage the amount of liquidity risk to which you are exposed to, based on established strategies, policies and procedures defined by the entity?</p> <p>If yes, do you have a framework of policies containing specific and detailed guidelines for the day-to-day monitoring of your liquidity risk, with proper communication processes in place throughout the organisation?</p>		
<b>2</b>	<p>Do you use appropriate reporting measures that would include documentations, approvals, internal transfer pricing and compliance?</p> <p>If yes, do you document the assumptions following the maturity buckets in measuring liquidity risk and the plan in place to mitigate any identified gaps (if any) in the internally generated behavioural maturity mismatches in the relevant policy such as liquidity management policy?</p> <p>Are the guidelines mentioned above properly documented and approved by Senior Management?</p>		
<b>3</b>	<p>Did your Internal Audit report any audit findings to the Board incorporating corrective &amp; preventive measures?</p>		
<b>4</b>	<p>Do you have a proper management information system and reporting frequency which is in accordance with the business and the risks undertaken? Is your reporting on the funding capacity, capital utilisation etc. being carried out according to appropriate frequency?</p> <p>If yes, do you have reporting lines and responsibilities that are clearly established and followed? Do you provide the weekly reports and monthly reports to the Board?</p>		
<b>5</b>	<p>Do you have a comprehensive review process including daily monitoring of funding capacity and capacity utilisation, weekly reports of the firm's balance sheet usage, and a formal quarterly review of the system conducted by an appropriate committee?</p> <p>Do you monitor your liquidity positions daily using, for example, ledger balances (supplemented with spread sheet analysis), loans and placement systems, trading systems, Cash Capital models, daily liquidity positions, and reconciliation of data and aggregate balances to the firm's financial accounting and / or regulatory reports?</p>		

<b>Contingency Planning</b>			
<b>1</b>	Do you have in place a contingency plan that addresses the strategy for handling unexpected events that will severely impact the entity's liquidity, including specific procedures for raising cash in emergency situations?		
<b>2</b>	Do your contingency plans generally focus on conserving and/or creating liquidity, by specifying the order in which liquidity reserves are to be accessed and any limitation or modification of trading activity?  For example, do the key components of the contingency plans include: <ul style="list-style-type: none"> <li>▪ Estimating the funding requirements or potential fund erosion for material legal entities;</li> <li>▪ Determining the pledge value of firm collaterals; and</li> <li>▪ Preparing cash projections for the company's funding chain.</li> </ul>		
<b>3</b>	Is your estimation of funding requirements documented, approved and reviewed regularly?  If yes, have you considered the following during the formulation of contingency plan: <ul style="list-style-type: none"> <li>▪ Early warning indicators;</li> <li>▪ Contingency scenarios;</li> <li>▪ Triggers;</li> <li>▪ Contingency funding strategies; and</li> <li>▪ Contingency procedures.</li> </ul>		
<b>4</b>	Have you considered the following when formulating contingency plans or identifying opportunities: <ul style="list-style-type: none"> <li>▪ Revisit business strategy;</li> <li>▪ Allocate and plan capital and liquid assets, including re-allocation and sourcing of alternative funding;</li> <li>▪ Review of trading limits or introduction of new limits (i.e. stop-loss limits, sensitivity limits);</li> <li>▪ Conduct supplementary stress testing;</li> <li>▪ Closely monitor exposures in negative outlook / vulnerable risk areas;</li> <li>▪ Source additional liquid assets to cope with potential negative impact arising from stressed conditions; and</li> <li>▪ Conduct portfolio re-balancing to avoid concentration and diversifying exposures, while also looking identifying opportunities.</li> </ul>		
<b>5</b>	Have you established key considerations e.g. early warning signs and measurable characteristics trigger?  For example, internal indicators are specific, such as assets, funding costs, concentration, and cash flows. Market indicators refer to warning signals picked out from interaction with the market such as the clients, credit providers or counterparties. Breaches of the limits for the cumulative cash flow gaps are an example of a possible trigger.		
<b>6</b>	Do you identify and quantify funding sources and rank them by preference in the contingency funding strategies?		



	<p>If yes, have you considered the following:</p> <ul style="list-style-type: none"> <li>▪ In times of liquidity crisis, even committed lines of credit may not be honoured;</li> <li>▪ Although “excess” capital may be available to the Non-IB, the amount of the cushion may diminish substantially in a time of crisis, as the firm may have higher liquidity needs and little ability to secure new funds;</li> <li>▪ “Downsizing the balance sheet” through the selling of assets to raise money could accelerate a Non-IB’s financial deterioration by forcing sales in a weak market, thus substantially reducing proceeds; and</li> <li>▪ The potential impacts of the scenarios arising from the institution’s secondary market credit activities such as providing underwriting facilities for the issuance of bonds.</li> </ul>		
6	<p>Are the established contingency plans reviewed periodically, at least yearly, in light of market events and their impact on the firm’s liquidity?</p>		
7	<p>Did the contingency plan contain the procedures which enable the plan to be executed once a contingency arises?</p> <p>Did the corrective action plans include the following:</p> <ul style="list-style-type: none"> <li>▪ Allocating responsibilities during a funding crisis – reporting paths and responsibilities not only by function but also for each of Non-IBs’ personnel needs to be defined;</li> <li>▪ Having procedures for internal reporting and communication to enable timely decision making and monitoring;</li> <li>▪ Establishing timeframes within which each action should be taken;</li> <li>▪ Having procedures for communication with external stakeholders such as customers, analysts, shareholders and regulators;</li> <li>▪ Dealing with the press and the wider public – public disclosure is a crucial part of liquidity management, as market perceptions need to be managed especially during crisis situations; and</li> <li>▪ Before implementing any of the contingency funding procedures, assessing the likely impact of particular courses of action on the market’s perception of the Non-IB.</li> </ul>		

[End of Appendix 2]

Relevant to : Rule 3.39(2)(b)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

## 1. Rule 3.39(2)(b)

- (1) Rule 3.39(2)(b) requires a Participating Organisation to ensure that its Head of Compliance submits monthly written reports to the Participating Organisation's Board of Directors on all matters pertaining to compliance with the Securities Laws, these Rules and the Directives.
- (2) In discharging the obligations under the said Rule, a Participating Organisation and Head of Compliance are encouraged to adopt the best practices set out below.

### 1.1 Recommendations on compliance reporting

- (1) The items recommended below for inclusion in the compliance monitoring are only intended to be taken as additional review items and does not in any manner imply that these are the only items that requires compliance monitoring. Compliance officers are advised to continue the monitoring of other essential items that is perceived to be of importance / critical to their organization and as directed by the board of directors of their respective companies. Only items that require the attention of the Board and/or the Exchange and exceptions noted (based on the compliance reviews carried out) are to be reported in the monthly compliance reports. Items recommended to be included in the compliance officers' monthly review (for Participating Organisations of Bursa Securities):

#### (a) Trading Accounts

Areas to be reported include opening of accounts, maintenance of accounts and updating of account particulars including:

- *Number of new accounts opened and number of accounts updated for the period.*
- *Remarks on whether the accounts opened and updated were duly authorised and complied with the company's policies and procedures.*
- *Exceptions in respect of accounts that were granted large limits which is not in compliance with the authority limits set by the Board.*

#### (b) Dealer's Representatives

The areas to be reported under this section should include:

- *Information on dealer's representative who is not engaged in the office on a full time basis.*
- *Exceptions on inactive dealer's representatives.*
- *Exceptions on dealer's representatives who are involved in back office operations.*
- *Ratio computations on the extent of Bumiputra participation and level of compliance with the relevant requirements.*
- *Exceptions noted in respect of sharing of brokerage and standard remisier's agreement. To state period of coverage and the samples taken.*
- *Exceptions on registration, renewal and cessation of dealer's representatives' licences.*
- *Exceptions on unlicensed trading.*

- *Instances of sharing of User-IDs and passwords and leaving BFE terminals unattended without temporarily logging off. To state the date and time of each visit to the trading floor.*

**(c) Segregation of duties and policies and procedures**

The areas to be reported under this section should include:

- *Irregularities noted on the segregation of duties especially between the back and front office.*
- *Remarks on the adequacy of policies and procedures and the code of conduct of the company.*
- *Computation on the extent of Bumiputra participation at all levels.*

**(d) Complaints**

The areas to be reported under this section should include:

- *Remarks on the adequacy of the procedures for handling complaints.*
- *Number of complaints received and resolved during the coverage period.*
- *Remarks on whether the complaints were handled satisfactorily.*

**(e) Business policies and practices by a Participating Organisation**

The areas to be reported under this section should include:

- *Number and subject matter of the internal policy(s) issued during the coverage period.*
- *Exceptions noted on sufficiency of the notice period and application of policies in a fair and consistent manner.*

**(f) Brokerage**

The areas to be reported under this section should include:

- *Exceptions noted on the brokerage charged and reflected in the contract notes. To state the period of coverage.*

**(g) Advertising**

The areas to be reported under this section should include:

- *Exceptions noted on the compliance with the requirements on advertising.*

**(h) Training**

The areas to be reported under this section should include:

- *Remarks on the sufficiency and comprehensiveness of the training system and program.*
- *Remarks on whether appropriate and sufficient record has been maintained.*

**(i) Dissemination of information**

The areas to be reported under this section should include:

- *Remarks on the promptness of dissemination of information in the company especially in regard to new Rules and guidelines issued by the authorities.*
- *Remarks on the adequacy of policies and procedures on dissemination of information.*

**(j) Stamp duty**

The areas to be reported under this section should include:

- *Exceptions noted on imposition and remittance of stamp duty to the authorities.*

**(k) Research office**

The areas to be reported under this section should include:

- *Remarks on the research activities. State the date and time of visit to the research office.*

<b>RECOMMENDATIONS ON COMPLIANCE REPORTING</b>	<b>No. 3.39(2)-001</b>
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- (2) A copy of the self assessment questionnaire that has been formulated for the purposes of the compliance reporting requirements is set out in **Appendix 1** below.

[End of Best Practices]



**COMPLIANCE PROGRAM  
FOR  
PARTICIPATING ORGANISATIONS**

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 1.0 Trading Accounts

#### 1.1 Opening Of Trading Accounts

##### *Objectives*

- To ensure that the policies and procedures for opening of trading accounts are established
- To ensure compliance with the established policies and procedures

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
<p>1. Do the internal policies and procedures for opening of trading accounts include the following?:-</p> <ul style="list-style-type: none"> <li>• Approving authorities (e.g. EDO, EDD, Credit Control Committee, BOD, etc) to approve the opening of trading accounts.</li> <li>• Clear policy of assignment of trading limits.</li> <li>• Clear policy on acceptable collateral.</li> <li>• The requirement to submit appropriate supporting documents.</li> <li>• Measures to ensure that all essential particulars and information about a client are obtained (including but not limited to the client's financing standing or creditworthiness and clients' investment objectives). POs shall also satisfy themselves that all such information is accurate before proceeding to open trading accounts for clients.</li> </ul> <p>2. Has the approving authorities schedule (for principal and branch offices) been approved by the Board of Directors prior to implementation?</p> <p>3. Ensure that all clients have properly disclose the information as required in the manner according to Rules 503.1(8) and 503.1(9).</p> <p>4. Is the daily report on trading account opening or similar documents reviewed by an authorised person and does such report bear evidence of checking?</p>				

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
<p>5. Tagging of Securities account to Trading account Verify the clients' data in back office system against CDS; all clients' trading account opened shall be tagged to a Securities account.</p> <p>6. Check the accounts opened against the respective application forms to ensure that all accounts opened are duly supported. Peruse application forms and ensure that:</p> <ul style="list-style-type: none"> <li>• Application forms are duly completed by the applicant and signed by the approving authorities as evidence of approval.</li> <li>• Approval on the application is granted before the client's first transaction.</li> <li>• Application forms are supported by at least the following documents:</li> </ul> <p><u>Individual</u></p> <ul style="list-style-type: none"> <li>• Clear and legible photocopy identity card attached to the application form.</li> </ul> <p><u>Corporate</u></p> <ul style="list-style-type: none"> <li>• Board Resolution to open trading account, trade in securities, appointment of signatories to open trading account and deal in securities.</li> <li>• Copy of Memorandum and Articles of Association (M&amp;A). The M&amp;A must incorporate with the clause which allows the client to deal in securities.</li> <li>• Certified copies of Form 9, 24 and 44.</li> </ul> <p><u>Nominee</u></p> <ul style="list-style-type: none"> <li>• In addition to the requirements spelt out for corporate clients, the following is also applicable: <ul style="list-style-type: none"> <li>- name of the principal (ie. beneficial owner) for whom the agent is acting for and written evidence on the agent's authority to trade.</li> </ul> </li> <li>• Ensure that all clients' accounts under the</li> </ul>				

**COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS**

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
<p>nominees (in CDS) are identifiable and designated with the full name of the clients and not designated with a symbol or number.</p> <p><u>DMA Clients</u></p> <ul style="list-style-type: none"> <li>• Ensure DMA clients have executed an agreement.</li> </ul> <p><b><u>MULTIPLE TRADING ACCOUNTS</u></b></p> <p>1. POs shall maintain one trading account for every client. If the PO allows clients to open more than 1 trading account at either the principal office or branches, or both, PO must meet the minimum requirements:-</p> <ol style="list-style-type: none"> <li>only 1 Securities account is allowed to be maintained for each individual client with the PO irrespective of how many trading account he has opened; and</li> <li>for corporate/institutional client, the client has the option to tag any trading account with any Securities account at its discretion;</li> </ol> <p>2. Ensure that individual clients are limited to maintaining not more than:-</p> <ol style="list-style-type: none"> <li>5 trading accounts, if the PO has no branch offices;</li> <li>10 trading accounts, if the PO has branch offices.</li> </ol> <p>3. Review the policies and procedures on maintenance of multiple trading accounts, ensure that procedures on Chinese wall and firewalls have been incorporated.</p>				

**Conclusion**



## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 1.2 Maintenance of Trading Accounts

#### *Objectives*

- To ensure that proper records of trading accounts are maintained.
- To ensure that monthly statements are sent to account holders for their records/reference purposes.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
<p>1. Ensure that the PO maintain records in respect of the following information (either in account opening form, back office system or report) for all accounts opened:</p> <ul style="list-style-type: none"> <li>• Date of account opened;</li> <li>• Client's financial position;</li> <li>• Name of the officer who approved the account opening and date of such approval;</li> <li>• Types of transactions for which the account is approved;</li> <li>• Information in relation to transactions effected:               <ul style="list-style-type: none"> <li>a) Particulars of all transactions;</li> <li>b) Current position of the account.</li> </ul> </li> <li>• The dealer's representative handling the account.</li> </ul> <p>2. The outstanding balance in each account should be readily identifiable with specified transactions and with the date the transactions occurred.</p> <p>3. Ensure that monthly statements are sent to clients. The statements shall contain the following:</p> <ul style="list-style-type: none"> <li>(i) Movement of clients' assets (e.g. monies, collateral, etc.); and</li> <li>(ii) Interest and other charges imposed.</li> </ul>				

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### Conclusion

#### 1.3 Updating Of Trading Account Particulars

##### *Objectives*

- To ensure that internal controls are adequate to prevent unauthorised update of client's particulars.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Review the internal policies and procedures for updating of account particulars and ensure that it is adequate.  2. Ensure that there is proper segregation of duties between staff who:- a. Initiates the update; b. Approve the update; and c. Confirm/check the updated information.  3. Ensure that the report generated by back office system upon completion of every update is checked by authorised personnel.				

### Conclusion

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 2.0 Dealer's Representatives ("DR")

#### Objective

- To ensure that PO comply with the Rules on the conducts of DR.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Note licensed DRs who were not dealing in securities for more than 3 consecutive months. Note DRs who were attached to back office. Inform SC on this.  2. Ensure that DRs do not share their commission directly/ indirectly with any person.  3. Ensure that the PO has notified the Exchange and the SC in writing on cessation of employment of DR and deleted/disabled the BFE user-ID immediately.  4. Ensure that a trainee DR is not in whatsoever form carrying out the functions of a DR i.e. dealing in securities.  5. Review the Remisier's Agreement (RA) and ensure that: <ul style="list-style-type: none"> <li>The required clauses have been incorporated accordingly;</li> <li>No contradicting terms and conditions are incorporated in the agreement of which may deviate from the Exchange's requirements.</li> </ul> 6. Ensure that the PO and all of its remisiers have complied with the Rules by executing the agreement.  7. Ensure that the security deposit placed by remisiers for trading purpose are segregated from clients' deposit and are safeguarded. Record must be maintained for security deposit of each remisier:-				

**COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS**

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Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
a. collateral in the form of cash shall be maintained in a Remisiers' Trust Account; b. collateral in the form of quoted securities shall be maintained in a pledged securities account.  8. Ensure that DRs are being assigned with the correct trading limits daily based on the policies and procedures.  9. For increase in limit during trading hours, ensure that it is done in accordance with the policies and procedures.  10. Ensure that there are no sharing of passwords and User-IDs among DRs. The "Re-assignment" and "Associate" functions should be used. Ensure that the use of these functions comply with the company's policies and procedures.  11. Ensure that the DRs temporarily log-off when they are away from their workstation. This will prevent unauthorised usage of the terminal.				

**Conclusion**

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 3.0 Segregation of Duties and Policies and Procedures

#### Objective

- To ensure adequate segregation of duties between operations and dealing.
- To ensure that there are adequate policies and procedures being established for all areas of the company's operations.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that there is segregation of duties between employees dealing in securities and those having duties administrative or operational in nature in Principal office and branches.				
2. Ensure that the PO has established a code of conduct for its employees and dealer's representatives which shall address, among others, conflict of interest situations.				
3. Ensure that there are adequate policies and procedures in respect of all areas of the company's operations including at the branches. Adequate policies and procedures must also be in place to monitor and supervise dealer's representatives. All operations manuals must be approved by the Board before implementation and must be regularly updated.				
4. Ensure that the branch offices adopt the same policies and procedures as the Principal Office.				

#### Conclusion

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 4.0 Complaints

#### Objective

- To ensure that the PO comply with the Rules on handling of complaints.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the PO has established written procedures for handling of complaints.				
2. Ensure that the PO has appointed staff at the Principal office and branch offices to handle clients' complaints as required. The name of these staff must be prominently displayed at the premises.				
3. Ensure that a register of complaints is maintained, including copies of written complaints received and copies of PO's replies.				
4. Review the complaints lodged. Ensure that the complaints are handled properly and in accordance with the established policies and procedures.				

#### Conclusion

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 5.0 Business Policies and Practices by PO

#### Objectives

- To ensure that the PO comply with the Rules and directives on imposition of new business policies or practices.
- To ensure that clients and dealer's representatives are treated fairly and consistently.

Compliance Procedures	Completed by		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the following are followed for new internal policy issued: <ul style="list-style-type: none"> <li>a. a sufficient notice on the impending change has been issued to clients;</li> <li>b. the changes shall only be implemented after a lapse of one trading session, not including the trading session during which the notice was issued.</li> </ul> 2. For policies relating to dealer's representatives, ensure that the policies are applied fairly and consistently among all the dealer's representatives. These include policies on suspension of remisiers, trading limits assigned, trading multiples, deposits requirement, etc.				

#### Conclusion

**COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS**

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**6.0 Brokerage****Objectives**

- To ensure that brokerage charge on each transaction complied with Exchange's directives.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the brokerage charged by the PO is in accordance with prescribed rates stipulated.  2. Ensure that the brokerage charged is shown on every contract note. No net contracts are allowed.				

**Conclusion**



## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 7.0 Advertising

#### *Objective*

- To ensure that the PO complies with the Rules on advertising.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Peruse through publications for the purpose of soliciting or attracting business e.g. catalogue, pamphlet, etc. and also the following publications: <ol style="list-style-type: none"> <li>a) Recruitment/vacancies;</li> <li>b) Tombstone;</li> <li>c) Change of address;</li> <li>d) Resignation of staff;</li> <li>e) Change in telephone numbers;</li> <li>f) Listing of telephone numbers;</li> <li>g) Congratulatory messages;</li> <li>h) Condolence messages;</li> <li>i) Communication in yellow pages;</li> <li>j) Communication in financial magazine;</li> <li>k) Communication in World Directory;</li> <li>l) Notice of book closure; and</li> <li>m) Notice of Annual General Meeting.</li> </ol>				
2. Ensure that the publications are in compliance with the Rules.				
3. Ensure that the publication materials are vetted and reviewed before they are issued.				

### Conclusion

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 8.0 Training

#### Objective

- To ensure that adequate training system and program is established.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the PO has established a comprehensive training system and program. The training system and program should: <ul style="list-style-type: none"> <li>a) Ensure continuous improvements in critical areas of principal activities and operations; and</li> <li>b) Enhance the technical knowledge and knowledge of applicable legal and regulatory requirements.</li> </ul>				
2. Ensure that the training system and program are documented and the program should: <ul style="list-style-type: none"> <li>• set out the details of the training program that the PO proposes to implement;</li> <li>• be regularly updated in line with the development of the industry.</li> </ul>				
3. Ensure that the PO maintains proper records for training provided.				

#### Conclusion

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 9.0 Dissemination of Information

#### *Objective*

- To ensure that the PO complies with the Rules by promptly disseminating the relevant notices issued by the Exchange and the SC to dealer's representatives and employees.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the PO disseminates notices, bulletins and circulars issued by the Exchange and the SC to its dealer's representatives and employees promptly.				
2. Ensure that policies and procedures on dissemination of information are established. The procedures should include: <ol style="list-style-type: none"> <li>a. Predetermined timeframe for information received to be disseminated to all staff (including branch) under normal circumstances.</li> <li>b. Ways to ensure that all relevant staff is aware/ have received such information.</li> <li>c. The need to conduct briefing for all staff concerned to ensure no misinterpretation and no conflict in opinion.</li> <li>d. Appointing an officer to act as co-ordinator in assisting others to resolve/overcome difficulties arising with the implementation of new requirements/ guidelines.</li> </ol>				

#### **Conclusion**

**COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS**

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**10.0 Stamp Duty****Objective**

- To ensure that stamp duty is appropriately charged and remitted.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the stamp duty on contract notes are appropriately imposed and remitted.				

**Conclusion**

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**COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS**

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**11.0 Research Office**

**Objectives**

- To ensure that research office is properly maintained.
- To ensure that research office is strictly used for research purposes only.

Compliance Procedures	Completed by		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the research department/office is engaging solely in research activities and does not conduct any dealing activities.  2. Ensure that the research department/office is physically segregated from other operational activities.  3. Ensure that the PO has a valid publishing licence issued by Kementerian Dalam Negeri.				

**Conclusion:**

[End of Best Practices]

Relevant to : Rule 7.16  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 16 of 2007  
Refer also to Directive No(s). : N/A

**1. Rule 7.16**

- (1) This Rule provides that a Participating Organisation must obtain the Exchange's prior approval before carrying out any trading activities based on Islamic Shariah principles.
- (2) In discharging the obligations under the said Rule, a Participating Organisation is encouraged to adopt the best practices set out below.

**1.1 Best practices**

The best practices are set out in **Appendix 1** below.

[End of Best Practices]

**BEST PRACTICES IN ISLAMIC STOCKBROKING SERVICES**

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**A. BACKGROUND**

1. In pursuit of developing a comprehensive Islamic capital market, the Securities Commission has emphasized on the importance of establishing an effective Shariah regulatory framework to govern the shariah compliant services or business that are available in the capital market. The framework thereof is aimed amongst others to ensure uniformity of the industry practices that are shariah compliant which will ultimately contribute and facilitate the orderly development of a strong and competitive environment of intermediation services undertaken by the industry players, in particular, the Participating Organisations.
2. A Participating Organisation who conducts its stockbroking business in accordance with shariah principles whether on a full fledged basis or 'window' basis ("Islamic Participating Organisation") is required to adhere to the same regulatory framework and requirements as that of a conventional Participating Organisation.
3. In line with SC's objectives as mentioned above Bursa Malaysia Securities Bhd is issuing herein a set of industry best practices with the objective of providing guidance and assistance to the Islamic Participating Organisation in observing the desired practices when carrying out its stockbroking business in accordance with the shariah principles whether on a full fledged basis or 'window' basis ("Best Practices"). Compliance with these Best Practices is voluntary in nature, thus, it is strongly recommended for the Participating Organisations to adopt these Best Practices in carrying out the Islamic stockbroking business or services.
4. When implementing these Best Practices, the Islamic Participating Organisations should implement them flexibly and sensibly to suit their respective needs and circumstances. Therefore the Best Practices enumerated herein should not be read as prescriptive nor construed in a rigid or literal manner. Nevertheless, the application of shariah principles in the operations of the Islamic Participating Organisations must not be compromised in any circumstances. In this respect, the flexibility lies in the ingenuity of the respective Islamic Participating Organisations to



apply the relevant shariah principles and concepts in carrying out their business or services.

**B. KEY OBJECTIVES**

The key objectives of the Best Practices include among other things:

1. to provide guidance to the Islamic Participating Organisations in respect of practices recommended to be observed in the carrying out of Shariah compliant stockbroking services undertaken by the Islamic Participating Organisations whether on a full fledged basis or 'window' basis; and
2. to meet the national aspirations to further develop the Islamic Capital Market to strengthen Malaysia's position as an international Islamic financial centre by strengthening the role of Islamic market intermediaries in the domestic intermediation process.

**C. DEFINITION:**

1. In these Best Practices:

**"Bursa Securities"** means Bursa Malaysia Securities Berhad

**"contra losses"** means all or any losses suffered by clients in the course of dealings in contra transactions and shall include all charges, costs and expenses.

**"contra transaction"** means a transaction where a Participating Organisation allows its client to settle outstanding purchase positions against outstanding sale positions of the same securities where the orders in respect of the purchase and sale transactions are transacted within the period stipulated by the FDSS.

**"Dealers Representatives"** shall have the meaning as ascribed thereto in the Rules of Bursa Securities.

“**FDSS**” shall have the meaning as ascribed thereto in the Rules of Bursa Securities.

“**hibah**” means a gift awarded to a person. For the purpose of this Best Practices, the term “hibah” defined herewith will be used together with the term “token” for ease of reference.

“**ibra**” means an act by a person to withdraw his rights i.e. his rights to collect payment from a person who has the obligation to repay the amount borrowed from him.

“**Islamic Participating Organisation**” means a Participating Organisation who conduct its stockbroking business in accordance with shariah principles whether on a full fledge basis or ‘window’ basis.

“**Islamic stockbroking services**” means the business of trading in securities carried out by an Islamic Participating Organisation on the stock market of Bursa Securities whether on full fledged basis or via an Islamic window services.

“**Islamic window services**” means Islamic stockbroking services provided by the Participating Organisations, other than on a full fledge basis.

“**Murabahah**” means a contract that refers to the sale and purchase transaction for the financing of an asset whereby the cost and profit margin (mark-up) are made known and agreed by all parties involved. The settlement for the purchase can be settled either on a deferred lump sum basis or on an installment basis, and is will be specified in the agreement.

“**Participating Organisation**” shall have the same meaning as is ascribed to it in the Rules of Bursa Securities.

“**recognized stock exchange**” means the stock exchanges listed as the recognized stock exchanges in the Participating Organisations Circular No. R/R 15 of 2005.

“**Shariah**” means Islamic law, originating from the *Qur`an* (the holy book of Islam), as well as practices and explanations rendered by the prophet Muhammad ( *pbuh* ) and *ijtihad* of ulamak (personal effort by qualified Shariah scholars to determine the true ruling of the divine law in a subject matter on which the revelation is not explicit).

“**SAC**” means **Shariah Advisory Council**” established by the Securities Commission under section 18 of the Securities Commission Act 1993.

“**SC**” means Securities Commission established under the Securities Commission Act 1993.

“**Shariah Member**” represent shariah individuals registered with the SC.

“**Shariah Advisers**” represent shariah companies registered with the SC.

“**riba**” means an increase, which in a loan transaction or in exchange of a commodity, accrues to the owner (lender) without giving an equivalent counter value or recompense in return to the other party. It covers interest both on commercial and consumer loans, and is prohibited according to Shariah. For the purpose of this Best Practices, the term “*riba*” defined herewith will be used together with the term “interest” for ease of reference.

“**Takaful operators**” shall have the meaning as is ascribed thereto in section 2 of the Takaful Act 1984.

“**ta'widh**” means penalty agreed upon by the contracting parties as compensation that can rightfully be claimed by the creditor when the debtor fails or is late in meeting his obligation to pay back the debt. For the purpose of this Best Practices, the term “*ta'widh*” defined herewith will be used together with the term “compensation” for ease of reference.

“**uqud muawadha**” means contracts of exchange.

*“wadiah yad amanah”* means Goods or deposits, which have been deposited with another person, who is not the owner, for safekeeping. As *wadiah yad amanah* is a trust concept to safeguard clients and remisers trust money. The depositors are not entitled to any of the profits but the depository may provide returns to the depositors as a token of appreciation. For the purpose of this Best Practices, the term *“wadiah”* defined herewith will be used together with the term “custody” for ease of reference.

#### **D. INTERPRETATION**

1. Unless the context otherwise requires-
  - (b) words denoting the singular shall also include the plural where applicable and vice versa;
  - (c) word importing the masculine gender shall include the feminine and neuter genders and vice versa.

#### **E. BEST PRACTICES IN CARRYING OUT ISLAMIC STOCKBROKING SERVICES**

##### **1. Adequate human resources with the necessary qualification, expertise and experience to manage and administer the provision of Islamic stockbroking services**

1.1 An Islamic Participating Organisations should, at all time, has adequate human resources with the necessary qualification, expertise and experience to manage and administer its provision and affairs in respect of its Islamic stockbroking services.

1.2 An Islamic Participating Organisation should provide adequate and proper training whether internal or otherwise for all of its employees, not only to equip and familiarise its employees with the necessary knowledge in conducting the Islamic stockbroking services, but also to enhance the technical knowledge of its employees in respect of all the applicable legal and regulatory requirements, as the case may be, in conducting Islamic stockbroking services as well as the operational

and the internal control and policies of the Participating Organisations in its conduct of Islamic stockbroking services. Training should also be conducted for its employees involved in its front office activities such as Dealers Representatives in order to enhance their skills and professionalism, and apprise them of the developments of the Islamic capital market to enable them to give accurate, adequate and updated information or advice to the clients.

- 1.3 Particular attention should be given to the training of the Compliance Officer, who should be responsible to monitor the activities carried out and services provided, in relation to the Islamic stockbroking services, are in compliance with Shariah principles. In this respect, the Islamic Participating Organisation is encouraged to appoint a Compliance Officer who has exposure to Shariah knowledge.

**2. Compliance with Shariah principles, regulations, standards or rulings issued by the SAC or SC.**

- 2.1 An Islamic Participating Organisation should ensure that its Islamic stockbroking services are carried out in such way that it adheres to and complies with the Shariah principles and regulations, standards or rulings issued by the SAC or SC, as may be amended from time to time.

For example, dealings in securities traded on the Bursa Securities by an Islamic Participating Organisation should be limited to the Shariah compliant securities, as determined and endorsed as such by the SAC or SC. A list of the Shariah compliant securities, which is amended from time to time by SC with the advice of SAC, can be obtained from the SC.

- 2.2 Dealings in securities traded on the stock exchanges other than Bursa Securities should be allowed to be undertaken by the Islamic Participating Organisations only in respect of securities traded on any of the recognised stock exchanges, which are endorsed to be Shariah compliant securities by the recognised stock exchange or by a competent shariah standard setting body or a reputed or competent shariah scholar, either in Malaysia or elsewhere.

- 2.3 An Islamic Participating Organisation should, in respect of dealings under item no. 2.2 above, maintain or retain all records relating to the dealings thereof, including the relevant advice or confirmation or publication given or made by the recognised stock exchange or the competent shariah standard setting bodies or shariah scholar, either in Malaysia or otherwise that the securities is Shariah compliant securities.

### **3. Independent Shariah Member or Shariah Adviser**

#### **3.1 Engagement:**

- 3.1.1 It is recommended that the Islamic Participating Organisation engages independent Shariah Member(s) and/or Shariah Adviser either from or within the Islamic Participating Organisation or its group of companies for the purpose of advising the Islamic Participating Organisation on Shariah principles and Shariah requirements as set out in item 2 above.

#### **3.2 Independence:**

- 3.2.1 The Participating Organisation should take reasonable steps to ensure that the Shariah Member (s) or Shariah Adviser are independent and not subject to any conflict of interest with the Participating Organisation's business or operations thereto, whether in respect of the Islamic stockbroking services or otherwise.

#### **3.3 Functions of Shariah Member (s) or Shariah Adviser**

- 3.3.1 The functions of the Shariah Member(s) and/or Shariah Adviser is to advice on adherence to Shariah principles in relation to the business or services offered by the Islamic Participating Organisations which have been identified and/or represented by the Islamic Participating Organisations to be adhering to Shariah principles.
- 3.3.2 The Shariah Member(s) and/or Shariah Adviser should also be responsible to provide interpretation and clarification, as and when

requested by the Islamic Participating Organisation relating to Shariah principles and any regulations, standards or rulings either issued by the SAC or SC from time to time or any other competent Shariah standard setting bodies or shariah scholars, either in Malaysia or elsewhere.

- 3.3.3 In this respect, the Shariah Member(s) and/or Shariah Adviser are encouraged to be consistent and objective in performing its duties, especially in the areas involving interpretation or clarification of the Shariah principles, regulations or requirements as aforementioned.
- 3.3.4 In the event that there is ambiguity or uncertainty as to the Shariah principles applicable in relation to the Islamic stockbroking services, the Islamic Participating Organisation is advised to refer the matter to and consult the Shariah Member(s) and/or Shariah Adviser for advice and resolution. The Shariah Member(s) and/or Shariah Adviser may also refer any ambiguity or uncertainty in relation to any matters pertaining to the Islamic stockbroking services to the SAC or SC, as the case may be, for consultation.
- 3.3.6 In order to ensure that the Shariah Member(s) and/or Shariah Adviser of the Participating Organisation discharges its duties or functions effectively, the Islamic Participating Organisations are encouraged to take the following steps:
- (a) provide assistance to the Shariah Member(s) and/or Shariah Adviser as it reasonably requires;
  - (b) give right of access to the Shariah Member(s) and/or Shariah Adviser in respect of all relevant documents and information, as may be requested by the Shariah Member(s) and/or Shariah Adviser from time to time;
  - (c) ensure that it does not interfere with the Shariah Member(s) and/or Shariah Adviser in its ability to discharge or in the course of discharging its duties; and

- (d) ensure that the information provided to the Shariah Member(s) and/or Shariah Adviser at all times are accurate and not misleading.

**3.4 Records of advice given or issued by the Shariah Member(s) and/or Shariah Adviser to the Islamic Participating Organisation**

3.4.1 Records of all advice given by the Independent Shariah Member(s) and/or Shariah Adviser, whether adopted or implemented by the Islamic Participating Organisation or not, should be maintained or caused to be maintained by the Islamic Participating Organisation.

3.4.2 Such records stipulated under clause 3.4.1 should be maintained or caused to be maintained in such a form that is readily accessible and convertible to writing.

3.4.3 There should be regular meetings with the Shariah Member (s) or Shariah Adviser to resolve any inhouse matter arising from day-to-day operations.

3.4.4 The Shariah Member (s) or Shariah Adviser must endorse and approve the operations of the Participating Organisation to be shariah compliant.

**4. Operations, Systems and Procedures comply with Shariah principles, and regulations, standards or rulings issued by the SAC or SC**

4.1 Participating Organisations should establish and implement adequate policies, systems, operational procedures and internal controls in relation to the company's day to day business operations in respect of the Islamic stockbroking services to ensure that it complies with the Shariah principles. This is also to ensure that the risk associated with such affairs relating to the Islamic stockbroking business is properly managed.

4.2 In respect of a Participating Organisation who operate an Islamic window services, the systems and controls should be in place to ensure appropriate separation of the Islamic stockbroking services from the conventional



stockbroking services and other conventional business of the Participating Organisation.

4.3 For the purposes herein, an Islamic Participating Organisation should, at all times, adhere to Shariah principles in carrying out its Islamic stockbroking services which principles include but not limited to the following :

4.3.1 No *riba* or interest

- (a) **Riba or interest on accounts opened, operated or maintained by the Participating Organisation:** Under no circumstances, unless otherwise expressly allowed by the SAC or SC, that any accounts opened, operated or maintained by the Islamic Participating Organisation, either for its clients or for the Islamic Participating Organisation itself accrue or be attributed with interest. The trust accounts maintained by the Islamic Participating Organisation pursuant to section 44 of the Securities Industry Act 1983 (“SIA”) will be placed under *wadiah yad amanah*. *Hibah* is usually given by the licensed Islamic banks at their discretion.
- (b) **Financings:** All financings undertaken for the Islamic Participating Organisation itself or offered by the Islamic Participating Organisation to its clients e.g. margin financing and discretionary financing, in connection with the Islamic stockbroking services provided by the Participating Organisation, should be confined to the financings which adheres to Shariah principles e.g. financings which are based on *Murabahah*.
- (c) **No interest on settlement of trade:** Interest or any other charges which operates as an interest or penalty in relation to any amount outstanding pursuant to settlement of trade should be prohibited. For settlement of trade on contra transactions, in the event that there

are losses arising from such contra transactions i.e. contra losses, no interest should be charged against the client for the amount due to the Islamic Participating Organisation pursuant to the contra losses thereof. The Islamic Participating Organisation is only entitled to recover the principal amount in connection to the contra trade thereof. Thus, for settlement on trade on contra transactions resulting in the contra profits, the client enjoys the full amount of the profit and no interest should be imposed on such profits.

**4.3.2 Segregation of funds:**

- (a) All funds maintained by the Participating Organisation whether for itself or its clients in respect of the Islamic stockbroking services should be segregated from those funds maintained by the Participating Organisation in respect of its conventional stockbroking services. This is to avoid co-mingling of the funds derived from the Islamic stockbroking services and funds derived from conventional stockbroking services. In the event the assets mentioned herein are, co-mingled, such co-mingling will result in the former to become non Shariah compliant.
  
- (b) For Islamic window services the Islamic Participating Organisation should ensure that the trading account of the clients within the Islamic window services is clearly tagged and used as trading account for the purpose of Islamic window services only.

**4.3.3 *Ta'widh* or compensation on late and default payment:** For clients who defaulted in its payment or delay in making payment to the Islamic Participating Organisation in respect of trades

executed by the Islamic Participating Organisation, the Islamic Participating Organisation may impose a *ta'widh* on the late payment. *Ta'widh* or compensation can be imposed if it is found that deliberate delay in payment is present on the part of the investor to settle payment of the principal or profit at the rate in the manner prescribed by the SAC of SC. The rate cannot be compounded and in addition, upon request by the client for an early settlement, a rebate (*ibra'*) will be allowed.

4.3.4 **Investments:** The proprietary investments, either short-term or long-term investments of an Islamic Participating Organisation should be confined only to Shariah-approved investments instruments, as issued or approved by SAC, SC or the securities endorsed to be Shariah compliant securities by recognized stock exchange or a competent Shariah standard setting bodies or a competent shariah standard setting body or a shariah scholar, either in Malaysia or elsewhere

4.3.5 **System:** The system that is being applied and operated by the Islamic Participating Organisation should where possible facilitate and support the conduct of the activities and operations of the Islamic Participating Organisation in a Shariah compliant manner. For example, the trading system applied and operated by the Islamic Participating Organisation should be able to identify/tag Shariah compliant securities from the list of securities that are available to be traded on Bursa Securities The finance module applied and operated in the back-office system, should be one that facilitates the keeping of the Islamic Participating Organisation's financial matters in accordance with Shariah principles

## **5. Responsibility of the management of Participating Organisations**

5.1 The responsibility for ensuring that the Islamic Participating Organisation complies with Shariah principles and the regulations, standards or rulings issued

by the SAC or SC in the provision of the Islamic stockbroking services should ultimately rests with the board of directors of the Islamic Participating Organisation.

## **6. Audit**

- 6.1 The department that is carrying out the internal audit functions for the Islamic Participating Organisation should conduct audit in relation to the Islamic stockbroking services of the Participating Organisation for the purposes of examining, reporting and evaluating on the adequacy and efficiency of the Islamic Participating Organisation's management, operations and internal controls to ensure that the quality and integrity of the Islamic stockbroking services provided to its clients and its adherence to these Best Practices, the Shariah principles and all regulations, standards and rulings issued by the SAC or SC.
- 6.2 For the purpose stipulated in paragraph 6.1, the Islamic Participating Organisation should ensure that there are adequate audit policies, procedures and resources for the carrying out of the functions stipulated in paragraph 6.1
- 6.3 The internal audit personnel are encouraged to equip themselves with the required knowledge in connection with the activities pertaining to the Islamic stockbroking services, these Best Practices, Shariah principles and all regulations, standards and rulings issued by the SAC or SC from time to time in order to perform their duty effectively.

## **7. Compliance Functions**

- 7.1 The Compliance Officer of the Islamic Participating Organisation should monitor compliance of the Islamic Participating Organisation with these Best Practices, the Shariah principles and all regulations, standards and rulings issued by the SAC or SC, as amended from time to time.
- 7.2 However, reporting of the compliance as stated in para 7.1 need not be reflected in the monthly compliance report required to be submitted by a Participating

Organisation under the Rules of Bursa Securities. Thus, the Islamic Participating Organisation is strongly encouraged to report whatever findings by the Compliance Officer directly to its Board of Director.

**8. Written Confirmation**

- 8.1 A written confirmation should be obtained by the Islamic Participating Organisation from the Shariah Member or Adviser on an annual basis stating that it is providing an Islamic stockbroking services and that it complies with these Best Practices, the Shariah principles and all regulations, standards and rulings issued by the SAC or SC, as amended from time to time.
- 8.2 In the absence of the annual written confirmation under para 8.1 above, a Participating Organisation should not describe itself as an Islamic Participating Organisation or advertises the Shariah compliant stockbroking services.

**9. Transparency**

- 9.1 An Islamic Participating Organisation should in relation to its Islamic stockbroking services indicate very clearly to all its clients whether it is offering a full-fledge Islamic stockbroking services or Islamic window services. For example, the letter head of the Islamic Participating Organisation should indicate that it is operating a full-fledge Islamic stockbroking services or Islamic window services.,

**10. Memorandum &Articles of Association**

- 10.1 The Memorandum and Articles of Associations of an Islamic Participating Organisation who is providing Islamic stockbroking services on a full fledge basis should stipulate amongst others that it is providing the Islamic stockbroking services and that its corporate mission is amongst others to achieve its commercial objectives within the confines of Shariah principles.

**11. Advertisement**

- 11.1 An Islamic Participating Organisation may advertise their Islamic stockbroking services provided that it complies at all times with the requirements prescribed by Bursa Securities pertaining to advertisement.

**12. Insurance**

- 12.1 An Islamic Participating Organisation is encouraged to procure any arrangement akin to an insurance policy from *Takaful* operators covering amongst others comprehensive crime and professional indemnity.

Relevant to : Rule 8.16  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 9 of 2012, R/R 8 of 2011  
Refer also to Directive No(s). : Directive 8-001

**1. Rule 8.16**

- (1) This Rule provides that a Participating Organisation may provide Direct Market Access if the Direct Market Access complies with the requirements stipulated by the Exchange.
- (2) In discharging the obligations under the said Rule, a Participating Organisation is encouraged to adopt the best practices set out below.

**1.1 DMA Handbook**

The best practices in providing Direct Market Access is set out in the DMA Handbook attached as **Appendix 1**.

[End of Best Practice]



**BURSA MALAYSIA SECURITIES BERHAD**

**DIRECT MARKET ACCESS HANDBOOK**



**Document Revision**

<b>Version</b>	<b>Author</b>	<b>Description of Change</b>	<b>Effective Date</b>
1.00	Infrastructure Planning	<ul style="list-style-type: none"> <li>Published to the Industry on 6<sup>th</sup> Nov. 2009</li> </ul>	9 <sup>th</sup> November 2009
1.01	Infrastructure Planning	<ul style="list-style-type: none"> <li>Explanation on Section C – 4.7, 4.8 and 4.9</li> <li>Incorporate Section B – 3, 3.1 and 3.2</li> </ul>	17 <sup>th</sup> December 2009
2.0	Exchanges Operations	<ul style="list-style-type: none"> <li>Deleted Section A, B, D and E.</li> <li>Revised Section C.</li> </ul>	5 <sup>th</sup> September 2011
3.0	Regulatory Policy & Advisory, Participants' Supervision, Technology & Systems	<ul style="list-style-type: none"> <li>Updated sections on Definitions and on DMA Client – Criteria and Requirements</li> </ul>	18 <sup>th</sup> September 2012

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**DIRECT MARKET ACCESS HANDBOOK**

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**BACKGROUND**

The introduction of Direct Market Access (“DMA”) by Bursa Malaysia Securities Bhd (“Bursa Securities”) will enable direct electronic access by clients to Bursa Trade, which is the Bursa Securities’ Automated Trading System. Connectivity to Bursa Trade via Open Application Programming Interface (“API”) will provide users with flexibility and choice of front-end systems and interface solutions.

The DMA regulatory framework encompasses the Rules of Bursa Securities, directives on pre-trade risk filters and the Bursa Malaysia Information Technology Security Code version 2.0 1998.

**KEY OBJECTIVES**

Bursa Securities is issuing herein the “Direct Market Access Handbook” (“DMA Handbook”) with the following objectives:

1. To highlight key obligations of Participating Organisations (“POs”) under the Rules and the directives on pre-trade risk filters in relation to DMA.
2. To provide guidance to POs in respect of practices recommended to be observed in relation to the discharge of their obligations under some of the Rules and the directives on pre-trade risk filters. Whilst not mandatory, these recommended practices are instructive of the minimum standards required to be observed by POs, which may adopt additional controls as deemed fit in relation to their DMA business.

**DEFINITIONS**

Unless otherwise stated, words or expressions defined in the Rules of Bursa Securities shall when used in the DMA Handbook, carry the same definition.

“Direct Market Access” or “DMA”	Rule 1.01 defines DMA as the process by which orders to buy or sell securities, or modifications or cancellations of the orders, are submitted for execution in the ATS by a Client without any intervention or keying-in by a Dealer’s Representative.
“DMA Participant”	POs offering DMA.
“DMA Client”	Rule 1.01 defines DMA Client as a person who is allowed to key-in DMA orders under Rule 8.18.
“ASEAN Link”	An electronic trading link among Bursa Securities and other participating ASEAN exchanges.

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**GUIDELINE ON RISK MANAGEMENT REQUIREMENTS**

**1. Conditions for Connectivity of DMA Clients**

**1.1. Clients' knowledge of the process for the submission of DMA orders into the Exchange's order book including Laws and Rules in relation to Trading on the Malaysian Securities Market**

1.1.1 Rule 8.18(1) provides that DMA Participants shall take reasonable steps to ensure that a DMA Client and persons authorised by the DMA Client have :

- knowledge of the process of entering DMA orders into the Exchange's order book;
- knowledge of the requirements in the Rules in relation to trading on the market; and
- knowledge of the relevant laws pertaining to trading on the Market

1.1.2 For the purpose of discharging its obligations under Rule 8.18(1), we recommend DMA Participants to have procedures in place to ensure that the DMA Client demonstrates that it has knowledge of the matters set out in Rule 8.18(1) (refer to paragraph 1.1.1 above). For example, the level of knowledge of DMA Clients can be assessed by asking relevant questions on the matters set out in Rule 8.18(1). The DMA Participant should also implement review procedures, such as discussions with DMA Clients and updates, to ensure that the DMA Client's required level of knowledge remains satisfactory.

In this respect, we recommend that the DMA Participant should provide its DMA Clients with information, guidance and training<sup>1</sup> on the following areas:

- Bursa Trade features and functionalities i.e. trading phases, market timing, matching mechanism, order types, execution conditions and instrument state<sup>2</sup>;
- Contract specifications of products listed on Bursa Securities; and
- Prohibited trading practices and trading offences.

1.1.3 In relation to DMA Clients accessing Bursa Trade via Internet (refer to paragraph 1.2.2 below), a DMA Participant may rely on a confirmation from the DMA Client that the Client and the persons authorised by the Client have knowledge of the matters set out in Rule 8.18(1).

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<sup>1</sup> The requirements for the DMA Participant to train the DMA Client in the requirements of the Exchange Rules in relation to the entry of orders and trading and other applicable requirements, and to ensure that revisions and updates to the Laws, Exchange Rules are promptly communicated to the DMA Client should be incorporated in the Agreement between DMA Participant and DMA Client. Refer paragraph 1.3.1 on Recommended Terms of Agreement.

<sup>2</sup> Refer to the "Participating Organisation's Trading Manual" in Bursa Malaysia's website at [http://www.bursamalaysia.com/website/bm/regulation/rules/bursa\\_rules/downloads/bm\\_cir\\_rr2\\_110411.pdf](http://www.bursamalaysia.com/website/bm/regulation/rules/bursa_rules/downloads/bm_cir_rr2_110411.pdf) under R/R 2 of 2011.

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### 1.2. DMA Client – Criteria and Requirements

The DMA regulatory framework encompasses the Rules of Bursa Securities and the directives on pre-trade risk filters, and regulates all forms of access to Bursa Trade where there is no manual intervention by a PO. This includes direct connectivity to the DMA Participant's Order Management System ("OMS") server or access to Bursa Trade through the ASEAN Link to facilitate order routing and algorithmic trading by buy-side institutions (sometimes referred to as "direct access"), and internet trading to facilitate retail participation in the equities market of Bursa Securities.

#### 1.2.1 DMA Clients Accessing Bursa Trade via an Access Device connected to a DMA Participant's OMS server or through the ASEAN Link

The DMA Participant should limit such access to Bursa Trade to DMA Clients which are subjected to Client Due Diligence ("CDD").

There are 2 types of CDD – simplified and enhanced. Clients of regulated nature of business may be subjected to simplified CDD whilst Clients of unregulated nature of business may be allowed to connect "directly" to the DMA Participant's OMS server or to access to Bursa Trade through the ASEAN Link only if enhanced CDD measures (refer paragraph 1.2.3 below) and careful consideration of the client risk profile have been carried out.

#### 1.2.2 DMA Clients Accessing Bursa Trade via Internet

Bursa Securities envisages that Clients that access the market via internet ("Internet Clients") will comprise primarily retail clients and should be subject to enhanced CDD measures (refer paragraph 1.2.3 below), unless there are special mitigating circumstances e.g. where reliable information on the Client can be obtained publicly, or where the Client has a good track record.

Internet Clients must be connected via an additional Web server, which is connected to an OMS server. The Web server may contain enhanced security features and added risk management controls/filters.

#### 1.2.3 DMA Client Due Diligence – Know Your Client ("KYC") Requirements

Rule 5.15 requires a PO to exercise due diligence in learning the essential facts as to the Client and its or his investment objectives and financial situation prior to the commencement of trading. The requirements to monitor and report suspicious transactions are also set out under the Anti-Money Laundering Act 2001<sup>3</sup> and the Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries<sup>4</sup> issued by the Securities Commission. In this respect, the DMA Participant must ensure that all reasonable steps are taken to ensure adherence to these KYC requirements.

We recommend that all reasonable steps should be taken to accurately establish the DMA Client's business and financial background, and its'

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<sup>3</sup> <http://www.agc.gov.my/Akta/Vol.%2013/Act%20613.pdf>

<sup>4</sup> Revised edition issued in January 2007 [http://www.sc.com.my/eng/html/resources/guidelines/2007%20AMLA-GL%20Final\\_1.pdf](http://www.sc.com.my/eng/html/resources/guidelines/2007%20AMLA-GL%20Final_1.pdf)

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investment objectives. The DMA Participant should be assured of the financial probity of the DMA Client and that it has sufficient financial resources to meet its obligations.

Enhanced CDD should be undertaken for clients with higher risk profiles, whilst simplified CDD may be conducted for clients with lower risk profiles e.g. regulated entities. The KYC measures undertaken in relation to eligibility requirements for DMA Clients should be reviewed regularly, at least on an annual basis. Suggested and recommended data to be obtained for simplified or enhanced CDD are as follows:

<b>Client Type</b>	<b>Simplified CDD</b>	<b>Enhanced CDD</b>
Individual	<ul style="list-style-type: none"> <li>• IC or passport</li> <li>• Address – residential and permanent address, if different</li> </ul>	<ul style="list-style-type: none"> <li>• IC or passport</li> <li>• Address – residential and permanent address, if different</li> <li>• Occupation</li> <li>• Latest 3 months’ payslip or latest income tax statement or bank statement</li> </ul>
Corporation	<ul style="list-style-type: none"> <li>• Certification of Incorporation</li> <li>• Memorandum &amp; Articles of Association</li> <li>• Board Resolution on opening of account</li> <li>• Specimen signature of authorised signatories</li> </ul>	<ul style="list-style-type: none"> <li>• Certification of Incorporation</li> <li>• Memorandum &amp; Articles of Association</li> <li>• Board Resolution on opening of account</li> <li>• Specimen signature of authorised signatories</li> <li>• Information on the nature of business and its corporate structure</li> <li>• Latest audited financial statement and/or management financial statements</li> <li>• Latest 3 month bank statement</li> <li>• Power of Attorney (if applicable)</li> </ul>

In carrying out the above, the PO should exercise due diligence and be aware of any suspicious client behaviour(s) that warrant further enquiry or probe (herein referred to as “Red Flag”). Some of the situations of Red Flag are as follows:

- a series of transactions or activities which are senseless or irrational in nature (e.g. constantly buying and selling securities at a loss)
- the client requests to pay third parties or receives funding from third parties
- the client is reluctant to co-operate in verifying his/her identity
- the client frequently makes last minute changes to payment instructions
- orders are received from persons other than the account holder.

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POs should properly monitor other doubtful circumstances where clients' accounts may be subjected to abuse, including but not limited to cases where a few clients' accounts carry identical correspondence addresses.

Any unexplained information should always be investigated.

Assessments of the expected pattern of the activity of the client on a continuous basis throughout the business relationship with the client should also be considered.

### 1.2.4 Record of DMA Clients

The Participating Organisations should maintain the following records in respect of each client's account:

- (a) date of opening of the account;
- (b) client's financial position;
- (c) name of the officer which approved the opening of the account and the date of approval;
- (d) the types of transactions for which the account is approved;
- (e) in respect of the transactions effected under the account, the following information –
  - i) particulars of all transactions including amount of commissions charged in respect of each transaction and type of transactions;
  - ii) current position of the account including compliance with any margin set by the Participating Organisation;
- (f) the Dealer's Representative handling the account; and
- (g) where credit facilities have been granted to the client, the information as to whether the client is a spouse, parent or child of any of the Commissioned Dealer's Representatives of the Participating Organisation.

### 1.3. Agreement between DMA Participant and DMA Client

Rule 8.19 stipulates that DMA Participants is deemed to be the principal in relation to all trades effected through DMA and the Exchange will not recognise the interest of any third party and that all DMA Orders are deemed as orders submitted for execution in the ATS by a Dealer's Representative on behalf of a client.

Rule 8.18(2) requires the DMA Participant to execute a written agreement with DMA Clients to address the following areas:

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- The duties, obligations and rights of the DMA Participant and its Clients in relation to DMA; and
- The Clients' compliance with the Rules.

### 1.3.1 Recommended Terms of Agreement

The following terms are recommended to be incorporated in the written agreement between the DMA Participant and the DMA Client to ensure that crucial provisions are agreed to prior to trading, to mitigate disputes, and to empower DMA Participants to take immediate preventive and corrective measures with respect to fair and orderly trading.

- The DMA Client shall enter orders and trade in compliance with the Rules of the Exchange and other applicable regulatory requirements;
- Specific parameters defining the orders that may be entered by the DMA Client are stated, including restriction to specific instruments or size of orders, and the DMA Participant shall have the right to reject orders that do not fall within the designated parameters of authorised orders;
- The DMA Participant has the right to reject an order for any reason;
- The DMA Participant has the right to change or remove an order in the Order Book and has the right to cancel any trade by the DMA Client for any reason;
- The DMA Participant has the right to discontinue accepting orders from the DMA Client at any time without notice;
- The DMA Participant agrees to train the DMA Client in the requirements of the Exchange Rules in relation to the entry and trading of orders and other applicable requirements;
- The DMA Participant agrees to ensure that revisions and updates to Laws and Rules are promptly communicated to the DMA Client.

## 2. DMA Participant Internal Control Requirements

The DMA Participant shall have written policies and procedures and comply with the following internal control requirements in relation to the provision of connectivity of its OMS server to DMA Clients.

### 2.1 Internal Controls: Areas of Focus for DMA Participants

Whilst the fundamental requirements of effective internal control as set out in the Bursa Malaysia Guidelines for Compliance Officers ("Compliance Guidelines") remain relevant for all POs regardless of the medium of communication or delivery, there are a few critical internal control areas in relation to DMA trading that the DMA Participant should focus on:



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### 2.1.1 Segregation of Duties

It is stated in the Compliance Guidelines that there must be strict separation between the credit control function, and the trading, dealing and marketing functions to ensure independence, and mitigate the risk and consequences of conflicts of interests.

It is recommended for DMA Participants to segregate the DMA direct execution desk from other Agency desks to ensure confidentiality of DMA Client Orders. Anonymity, along with increased control and speed of execution are the key benefits of trading via DMA, and the DMA Participant should endeavour to maximise these features.

### 2.1.2 Credit Controls

It is stated in the Compliance Guidelines that POs must ensure that suitable credit limits are set for their clients. It is recommended that the CDD assessment of DMA Client's financial probity must be decided independently of the trading, dealing or marketing functions.

We recommend for DMA Participants to consider enforcing stricter credit control for clients requiring enhanced CDD requirements, especially in relation to overseas accounts. These may include the collection of deposits and/or collateral as guarantee of performance, restriction on total open positions.

It is recommended that credit limits and any subsequent variation of credit limits are authorised by a senior management officer of the DMA Participant who is independent of trading, dealing and marketing functions, and is not associated with the DMA Client in question.

It is stated in the Compliance Guidelines that POs must ensure that proper systems and control procedures are implemented to ensure that their clients do not trade beyond the credit limits imposed. Further, the directives on pre-trade risk filters states that risk filters (automated pre-execution checks) must be undertaken for all DMA Clients' orders. The risk filters are covered in greater detail under paragraph 2.2 below.

### 2.1.3 Post-Trade Review

DMA Participants should also ensure that proper and adequate post trade risk management monitoring systems and procedures are set in place to monitor risk exposure of DMA Clients' trades with respect to daily net cash position, daily maximum total capital engaged, etc. DMA Participants should ensure that account activity is monitored at least on a daily basis.

In addition, we also recommend that regular analysis of trading behaviours ought to be carried out to complement CDD measures and also to detect any possibilities of market offences that may potentially arise.

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### 2.2 Risk Filters

DMA Participants, in providing DMA services, must ensure the following principles are adhered to at all times:

- a) Fair and orderly trading;
- b) Prevention of trade error; and
- c) Manage trade exposures / credit / counterparty risks.

DMA Participants need to install appropriate automated risk filters to help them comply with the above principles.

Each DMA Participants must determine what constitutes “appropriate filters” for their business. The nature and scope of the filters adopted is a matter for the DMA Participants to determine based upon its regulatory risk profile and what the DMA Participants are comfortable with. They have the discretion to decide and impose the pre-trade risk filters subject to the 3 mandatory types of pre-trade risk filters prescribed in the directives and set out below in paragraph 2.2.1.

These risk filters, with pre-defined criteria and values, will check and screen all DMA orders before these DMA orders are executed in the ATS, for the purpose of ensuring that these DMA orders do not pose any risk to the DMA Participants and to the market.

Risk filters are intended to establish points at which DMA orders are tested and passed to the market only when pre-set conditions are met.

The DMA Participants must regularly review the risk filters set for each DMA client as the DMA Participants will be the responsible parties bearing their clients’ risk exposure.

#### 2.2.1 Mandatory Minimum Types of Pre-Trade Risk Filters

Subject to paragraph 2.2, DMA Participants must, at the very least, establish the following types of pre-trade risk filters to screen through every DMA order prior to entry into the Exchange’s order book as set out in the directives on pre-trade risk filters:

- i) Trade exposure risk filter  
This type of filter manages the maximum exposure in which a client may trade. It may be set on the basis of gross or net or both.
- ii) Order size risk filter  
This type of filter manages the maximum DMA order size which a client may enter into the Exchange order book at any single time. It may be set on the basis of value in RM or in quantity (units) or both.
- iii) Price limit risk filter  
This type of filter manages the maximum price of DMA order which a client may enter into the Exchange order book at any single time. It may be set on the basis of percentage or tick/bids away from the last traded price or in combination.

The above are the minimum pre-trade risk filters that the DMA Participants must establish.

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DMA Participants must ensure regular review is carried out to refine and adjust the pre-trade risk filters and the screening process. Examples of various risk filters and how they may be implemented are set out in paragraph 3 below.

### 2.2.2 Filter Parameters

Filter parameters are variables set at the respective pre-trade risk filters in terms of pre-defined criteria and values responsible for the checking and screening of DMA orders. The directives on pre-trade risk filters require DMA Participants to establish policies and procedures on which to provide internal guidance on the setting of the filter parameters for the risk filters. These parameters can be changed to modify the effectiveness of the filters without changing the nature of the rule to which the filter applies. Any changes, including intra-day changes to filter parameters must be controlled, monitored, authorized and recorded properly.

DMA Participants should not give its DMA clients the same rights or capacity as granted to Dealer's Representative ("DR") in setting the filters parameters because they are not licensed as a DR.

**2.2.3** It is recommended that the tracking and utilisation of the filters established for the purpose of checking and screening the DMA orders to be updated on real-time on-line basis.

In the event that an order is rejected by a risk filter, it is recommended that both the DMA Client and the DR should each receive a rejection notice. The DR will normally contact the DMA Client to assess how to handle the rejection. Any actions taken to manage an exception must be in accordance with the DMA Participant's internal control policies and procedures, and logged and appropriately documented.

## 2.3 Maintenance of DMA Infrastructure Activity Log

DMA Participants must establish and maintain a DMA activity log ("Log") to record all the events/activities/processes of all Users and Administrators, encompassing the full order flow.

Access to the Log shall be restricted to Administrators and any other authorised person/(s) as may be designated by the DMA Participant. Any work carried out on this Log shall be recorded with full details. The date and time references in the Log shall be that of the ATS. In relation to the above directive, the following applies:

### 2.3.1 Details to be Recorded in the Log

- (i) References to the DMA client/Dealer's Representative responsible for the DMA Order;
- (ii) Date and time-stamp;
- (iii) Client sign-on;

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- (iv) Client sign-off and the manner in which the sign-off was carried out i.e. manual or automated;
- (v) Order identification/sequence number;
- (vi) The outcome/status of the risk filter screening;
- (vii) The outcome/status of the DMA Order entering the Exchange order book;
- (viii) Modifications made by DMA client to DMA Order; and
- (ix) Order match confirmation received from the ATS and the notification of the same when it was made to the DMA client.

**2.3.2 Recommended Practices in Storage of DMA Log and Records**

The DMA Participant should ensure that DMA records can be easily retrievable by authorised personnel, stored securely and that proper back-up controls are kept. The DMA Participant must be able to produce a complete audit trail of transactions, from receipt of an order to its settlement upon request by the Exchange.

The DMA Participant should also ensure that appropriate backup of DMA records are kept with reference to recommendations of PO IT Security Code – Baseline Procedures for ITSS 6: Computer Operations, Section 6.4 “Backup Storage Media Protection”.

**2.4 Error and/or Exception Handling**

Refer to Item 4 of the directives on pre-trade risk filters for the requirements on risk filters’ error and/or exception handling. We recommend that any errors, rejections and exceptions be monitored and investigated/resolved on a daily basis, and a review of the actions taken in relation to errors and/or exceptions should be undertaken by the Head of Compliance on a regular basis.

**3. Examples of Pre-Trade Risk Filters That May Be Implemented**

**3.1 Daily Net Cash Position**

The DMA Participant ABC initializes the DNCP for the Client XYZ before the start of Trading Day [Tues, Dec 16, 2008]

**Order Entry & Execution**

Order	Price	Qt	Side	New DNCP	Event
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				RM 1,000.000	
1	RM 10.000	10	Buy	RM 900.000	Order Entry
1	RM 10.000	10	Buy	unchanged	Order Execution
2	RM 12.000	5	Sell	unchanged	Order Entry
3	RM 14.000	5	Sell	unchanged	Order Entry
2	RM 12.000	5	Sell	RM 960.000	Order Execution
3	RM 14.000	3	Sell	RM 1,002.000	Order Execution
4	USD 2.00	10	Buy	RM 930.751	Order Entry

**Order Modification & Matching @ book price**

5	RM 10.000	10	Buy	RM 830.751	Order Entry
5	RM 11.000	10	Buy	RM 820.751	Order Modification
5	RM 10.500	10	Buy	RM 825.751	Order Execution

**Partial Matching & Order Cancellation**

6	RM 5.000	20	Buy	RM 725.751	Order Entry
6	RM 5.000	5	Buy	RM 725.751	Part Execution
6	RM 5.000	15	Buy	RM 800.751	Order Cancel

**3.2 Daily MAX Total Capital Engaged**

The DMA Participant ABC initializes the DMTCE for the Client XYZ before the start of Trading Day [Tues, Dec 16, 2008] based on his RM 1,000 Cash + 30% of his collaterals (RM 1,500 Equities marked to market).

Equities: RM 1,500 / Warrant: RM 900

Instrument	Order	Price	Qt	Side	Client Pos/DMTCE	Event	Instr. Type
					RM 0 / RM 1,500		
Bursa	1	RM 10.000	10	Buy	RM 100.000	Order Entry	Share
TM	2	RM 15.000	20	Buy	RM 400.000	Order Entry	Share
Bursa Warrant	3	RM 1.000	1000	Buy	<b>REJECTED</b>	Order Entry	Warrant
Bursa Warrant	4	RM 1.000	500	Buy	RM 500.000	Order Entry	Warrant
Tenaga	5	RM 6.500	150	Buy	RM 1,375.000	Order Entry	Share
Bursa	6	RM 14.000	10	Sell	unchanged	Order Entry	Share
Bursa	6	RM 14.000	10	Sell	RM 1,235.000	Order Exec	Share

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## 3.3 Max Capital Engaged per Order

The DMA Participant ABC initializes the MCEO for his client

Instrument	Order	Price	Qt	Side	Order Value	Event
Example 1					<b>MCEO = RM 200</b>	
Bursa	1	RM 10.000	10	Buy	RM 100.000	Order Entry
TM	2	RM 15.000	20	Buy	RM 300.000	<b>REJECTED</b>
Bursa	3	RM 20.000	11	Sell	RM 220.000	<b>REJECTED</b>
Example 2					<b>MCEO = 0.001% with RM 100,000,000</b>	
Genting	3	RM 27.000	5000	Buy	RM 135,000.000	<b>REJECTED</b>

## 3.4 % Far from Market Spread

The DMA Participant ABC set the FMS for the Client XYZ to 15% for the groups 01, 02 and 03. All the other groups are set to 20%.

Bursa	<b>Bid</b>	5.35
	<b>Ask</b>	5.45

Genting	<b>Bid</b>	20
	<b>Ask</b>	21

Instrument	Grp	Order	Price	Qt	Side	FMS Check	Accepted?
Bursa	01	1	RM 5.400	10	Buy	Price ?>Ask+15%	OK
Bursa	01	2	RM 5.450	10	Buy	Price ?>Ask+15%	OK
Bursa	01	3	RM 5.700	10	Buy	Price ?>Ask+15%	OK
Bursa	01	4	RM 6.300	5	Buy	Price ?>Ask+15%	<b>6.30 &gt; 6.267</b>
Bursa	01	5	RM 5.000	5	Sell	Price ?<Bid-15%	OK
Bursa	01	6	RM 4.540	3	Sell	Price ?<Bid-15%	<b>4.54 &lt; 4.548</b>
Genting	05	7	RM 16.500	8	Sell	Price ?<Bid-20%	OK
Genting	05	8	RM 15.800	3	Sell	Price ?<Bid-20%	<b>15.80 &lt; 16</b>

## 3.5 % Far from Last Traded Price

The DMA Participant ABC set the FLTP for the Client XYZ to 15%

<b>LTP=</b>	<b>5.5</b>	<b>Bid</b>	<b>Ask</b>
		5.35	5.45

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Order	Price	Qt	Side	Check	Accepted?
1	RM 5.400	10	Buy	Price ?>LTP+15%	OK
2	RM 5.450	10	Buy	Price ?>LTP+15%	OK
3	RM 5.700	10	Buy	Price ?>LTP+15%	OK
4	RM 6.300	5	Buy	Price ?>LTP+15%	OK
5	RM 6.350	5	Buy	Price ?<LTP+15%	6.35 > 6.325
6	RM 4.540	3	Sell	Price ?<LTP-15%	4.54 < 4.675

## 3.6 Small Order Quantity far from Last Traded Price

The DMA Participant ABC set the FLTP for the Client XYZ to 20% and 80 shares.

LTP=	5.5	Bid	Ask	Qt=80
		5.35	5.45	20%

Order	Price	Qt	Side	Qt triggered	Accepted?
1	RM 7.000	100	Buy	No (100 > 80)	Not checked
2	RM 3.000	100	Buy	No (100 > 80)	Not checked
3	RM 7.000	80	Sell	Yes (80 = 80)	Yes
4	RM 3.000	80	Sell	Yes (80 = 80)	No (3 < 5.5 - 20%)
5	RM 5.900	50	Buy	Yes (50 < 80)	Yes
6	RM 5.000	50	Sell	Yes (50 < 80)	Yes
7	RM 7.000	10	Buy	Yes (10 < 80)	No (7 > 5.5 + 20%)
8	RM 3.000	10	Buy	Yes (10 < 80)	Yes
9	RM 6.100	10	Sell	Yes (10 < 80)	Yes
10	RM 9.000	10	Sell	Yes (10 < 80)	Yes

## 3.7 Market Type Authorization

By default, all the market types are authorized for all “sponsored access” clients. If the DMA Participant wants to restrict the access for a given client, all the authorized market types have to be listed using this risk filter.

The market codes are the following:

N : Normal Market  
 B : Buying-in Market  
 O : Odd-lot Market

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They should be listed separated by comma.

Examples:

**DMA Participant ABC authorizes the Client XYZ trade on “N,B”. In this case the client is not authorized to trade on Odd-lot.**

1. The DMA Participant DEF authorizes the Client TUV trade on Normal Market only "N"

	ISIN Code	Name	Market	Status
Order on	MYO1818OR---	Bursa	Odd lot	Rejected
Order on	MYI1818-----	Bursa	Buying in	Rejected
Order on	MYN1818-----	Bursa	Normal	Accepted

### 3.8 Instrument Type Authorization

By default, all the instrument types are authorized for all “sponsored access” clients. If the DMA Participant wants to restrict the access for a given client, all the authorized instrument types have to be listed using this risk filter.

The instrument codes are the following:

<b>O</b>	:	<b>Ordinary share</b>
<b>P</b>	:	<b>Preference</b>
<b>T</b>	:	<b>Property Trust</b>
<b>F</b>	:	<b>Close End Fund</b>
<b>W</b>	:	<b>Warrants/TSR</b>
<b>C</b>	:	<b>Call Warrants</b>
<b>L</b>	:	<b>Loan Stocks</b>
<b>N</b>	:	<b>Loan Notes</b>
<b>D</b>	:	<b>Debentures</b>
<b>B</b>	:	<b>Bonds</b>
<b>E</b>	:	<b>ETF</b>

They should be listed separated by comma.

Examples:

1. The DMA Participant ABC authorizes the Client XYZ to trade on:  
O,P,T,F,L,N,D,B,E  
This client is not authorized to trade on Warrants and Call Warrants.
2. The DMA Participant DEF authorizes the Client TUV to trade on: N, D, B, E,  
O, P, T, F

	ISIN Code	Name	Market	Status
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Order on	MYN2003WB---	Kulim (M)	Odd lot	Rejected
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### 3.9 Order Technical Origin Authorization

This risk filter is set by the DMA Participant according to the agreement it has with its client. If this risk filter is not set, all the activities are authorized for a client. This risk filter must be set correctly before authorizing a client to trade via DMA.

The activities are listed below:

- A : Other Front-end than Winscore
- R : RSS sell order
- P : PDT sell order
- I : Internet Trading
- J : Internet Trading RSS sell order
- K : Internet Trading PDT sell order
- T : Algorithmic Trading
- V : Algorithmic Trading RSS sell order
- W : Algorithmic Trading PDT sell order
- D : Direct Market Access – Sponsored Access
- E : Direct Market Access – Sponsored Access – RSS sell order
- F : Direct Market Access – Sponsored Access – PDT sell order

**Notes:**

- a) A client should not be given P.
- b) A dealer should not be given D, E, F.

If you setup D for a DMA client, he won't be able to send RSS order.

**Example:** The DMA Participant ABC has a DMA Client XYZ, who is a PDT. Therefore, the authorized values are: W, F.  
If the Client XYZ tries to send an order with the tag 9941 set to D, his order will be rejected.

Relevant to : Rule 12.04  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 11 of 1999  
Refer also to Directive No(s). : Directive 12-001

**1. Rule 12.04**

- (1) Rule 12.04 requires a Participating Organisation to comply with the Exchange's Directives in relation to the minimum requirements on the treatment of interest charged by the Participating Organisation to a Client and the impairment provisions for bad and doubtful debts irrespective of whether such debts have been assigned.
- (2) In discharging the obligations under the said Rule, a Participating Organisation is encouraged to adopt the best practices set out below.

**2. Best Practices**

This document sets out the best practices for the suspension of interest and provision of bad and doubtful debts and valuation of immovable property.

**Definition**

For the purposes of these best practices, unless the context requires otherwise:

"Amount Outstanding" means in relation to any account, the aggregate of all amounts outstanding under the account at any time (including commission charges, Interest expenses and other relevant expenses).

"Claw-back" means the reversal of interest out of income described in item 4.2 below.

"Contra Losses" means all or any losses suffered by Clients in the course of dealings in Contra Transactions and includes all charges, costs and expenses.

"Contra Transaction" means a transaction where a Participating Organisation allows the Participating Organisation's Client to settle outstanding purchase positions against outstanding sale positions of the same securities if the orders for the purchase and sale transactions are transacted with the period stipulated in Rule 9.09(3) or in Rule 7.31(5).

"Immovable Property" shall mean any land (including any parcel of sub-divided building) with or without registered title and whether existing in perpetuity or for a term of years.

"Interest" includes all charges and fees payable to a Participating Organisation by a Client under any agreement between the Participating Organisation and the Client.

"Interest-in-Suspense" means the interest that has been suspended and credited to the Interest-in-Suspense account under this Best Practice.

"Interest-in-Suspense Account" means the account that has been so designated for purposes of this Best Practice.

"Overdue Purchase Contract" means an On Market Transaction for the purchase of securities where payment for that transaction by the Client is outstanding but for which no selling-out has been instituted due to the following circumstances:

- (a) the securities have been suspended from trading; or
- (b) there is no ready market,

and includes an outstanding Contract remaining in the error or mistake account and an outstanding Contract due to trade disputes.

**3. Accrual basis of accounting**

- (1) A Participating Organisation may prepare the Participating Organisation’s accounting records for all transactions, including interest charged on Contra Losses, Overdue Purchase Contracts and Margin Accounts, following the accrual basis of accounting.
- (2) According to the accrual basis, revenues and costs are accrued and recognised as they are earned or incurred (despite the revenues or costs having not in fact been received or paid) and recorded in the financial statements of the periods to which they relate.

**4. Treatment of interest on impaired accounts**

- (1) All interest accrued but not collected from the date an account is classified as impaired may be suspended and credited to the Interest-in-Suspense Account. This Interest-in-Suspense may be reflected in the Participating Organisation’s books of accounts.
- (2) Interest that has accrued and the Participating Organisation recognises as income prior to the date the account is classified as impaired but not collected, may be reversed out of income.
- (3) The guidelines on the classification of impaired accounts and the suspension of interest are as follows:

No.	Types of Accounts	Criteria for Classification of Accounts as Impaired	Date for Classification	Date for Suspension of Interest
1.	Contra Losses	When an account remains outstanding for 16 calendar days or more from the date of the Contra Transaction	On the 16 <sup>th</sup> calendar day of the account becoming outstanding	From the 16 <sup>th</sup> calendar day of the account becoming outstanding
2.	Overdue Purchase Contracts	When an account remains outstanding from T+5 Market Days onwards;  When a DF Account remains outstanding from T+9 Market Days onwards	On T+5 Market Days  On T+9 Market Days	From T+5 Market Days  From T+9 Market Days
3.	Margin Accounts	When the Equity has fallen below 130% of the Outstanding Balance	On the last day of each calendar month	From the last day of each calendar month
<b>Key</b>				
T Contract date				

- (4) Interest-in-Suspense may be reversed under the following circumstances:

<b>No.</b>	<b>Types of Accounts</b>	<b>Circumstances</b>
1.	Contra Losses	When full or partial payment in settlement is received, to the extent of the amount of cash received in settlement.
2.	Overdue Purchase Contracts	When full or partial payment in settlement is received, to the extent of the amount of cash received in settlement.
3.	Margin Accounts	When the Margin Account Equity exceeds 130% of the Outstanding Balance at the end of the calendar month of that occurring.

## **5. Impairment provision for bad and doubtful debts**

- (1) Basis for Individual Impairment Provision

The provision for impaired accounts may be applied on the basis of individual accounts.

- (2) DR Security Deposit

To determine the individual impairment provision to be made, the DR Security Deposit the Participating Organisation holds may be taken into account and applied on such basis as the Participating Organisation may determine if the Participating Organisation establishes, implements and maintains adequate internal criteria and procedures for such application of the DR Security Deposit. The internal criteria and procedures must:

- (a) be clear and applied in a consistent manner; and
- (b) result in the fair treatment of the Participating Organisation's Clients.

## **6. Write off of bad debts**

- (1) A Participating Organisation may write-off any amount that cannot be collected as evidenced by:

- (a) the Participating Organisation having exhausted all proceedings or actions for recovery of the amount; or
- (b) should judgment be obtained against the debtor and there is no prospect of recovery from execution proceedings instituted on that judgment.

- (2) A Participating Organisation may obtain the approval of the Participating Organisation's Board of Directors or person or committee authorised by the Board of Directors to write-off any amount.

- (3) A Participating Organisation may ensure that the Participating Organisation keeps proper records of all bad debts written-off.

**7. Collateral Value**

**Immovable Property**

- (1) The value of Immovable Property the Participating Organisation holds as collateral may be determined by the following guidelines on valuation of Immovable Property.
- (2) Without derogation to any other provisions of the Rules of Bursa Securities, the value of Immovable Property which is properly charged in favour of a Participating Organisation as collateral shall be the lower of either its force sale value or the reserve price in the event of foreclosure proceedings having been instituted, subject always to the following conditions:
  - (a) the valuation exercise in determining the force sale value of the Immovable Property shall be conducted by a professional valuer acceptable to the Exchange and who is licensed under the Valuers, Appraisers and Estate Agents Act, 1981 and all related regulations and re-enactments;
  - (b) the valuation exercise shall be conducted on an "as is" basis and for the purpose of the creation of a registered or equitable charge as security;
  - (c) no value whatsoever shall be attributed to any building or structure affixed to the Immovable Property (if applicable) which may be under construction or if completed, has not been issued with the temporary certificate of fitness for occupation (if required) by the relevant authorities;
  - (d) the relevant valuation report shall be addressed to the Participating Organisation; and
  - (e) the valuation exercise was conducted and completed not earlier than 5 years prior to the Participating Organisation's financial year end for purposes of preparation of its audited financial statements or such other time frame specified in the approved accounting standards, whichever earlier.

**(3) Immovable Property Properly Charged**

The Immovable Property shall be regarded as properly charged in favour of a Participating Organisation subject to the following conditions:

- (a) in respect of Immovable Property to which a registered title (whether qualified or final) has been issued by the relevant authorities:
  - (i) the charge over the Immovable Property must be registered under the provisions of the National Land Code, 1965;
  - (ii) the whole, but not a part only or any undivided share, of the Immovable Property must be charged in favour of the Participating Organisation;
  - (iii) in the event the Immovable Property intended to be charged to Participating Organisation is held under leasehold, there must be at least 1/3 of the leasehold's term remaining unexpired as at the date the charge is presented for registration at the relevant land authority provided always such unexpired term of the leasehold as permitted must exceed the repayment period under the charge; and

- (iv) the Participating Organisation may take a subsequent registered charge (not being the first legal charge) over Immovable Property provided always the following stipulations are observed –
  - (aa) the right of the Participating Organisation to exercise its statutory remedy of sale pursuant to the subsequent charge must not be subject to the consent of the registered chargees having a priority over the subsequent charge; and
  - (bb) the force sale value of the Immovable Property over which the Participating Organisation intends to take the subsequent charge must not at any time be less than the aggregate of all amounts outstanding under the registered charges and the Participating Organisation's subsequent charge or the aggregate of all principal amounts secured by the registered charges and the Participating Organisation's subsequent charge, whichever is the higher;
- (b) in respect of Immovable Property to which a registered title has yet to be issued by the relevant authorities:
  - (i) the charge over the Immovable Property must be by way of an assignment of all the benefits, rights, title and interest in and to the Immovable Property (together with a power of attorney in favour of the Participating Organisation empowering it, but not limited thereto, to sell, assign or dispose of the immovable property and to sign, execute and do all documents, agreements, acts and things in relation thereto) duly executed, attested, stamped and registered with the High Court of Malaya; and
  - (ii) the acknowledgement and consent of the developer to the assignment in favour of the Participating Organisation and any sale, assignment or disposal thereof by the Participating Organisation to any third party arising from the said assignment must be first be had and obtained as an annexure to the assignment;
- (c) the registered charge or the assignment may be created by the Participating Organisation's client whose liabilities are to be secured as a first party security or may be by way of a third party security;
- (d) the Participating Organisation and its client, or in the case of third party security, and the chargor/assignor must have entered into a written agreement setting out, but not limited to the following:
  - (i) the events of default which entitle the Participating Organisation to exercise its rights to transfer, sell, dispose or foreclose on the Immovable Property;
  - (ii) that the Participating Organisation shall be entitled at any time and from time to time for the purposes of conducting a valuation on the immovable property –
    - (aa) to engage such professional valuers as it may think fit at the costs and expense of the client, or the chargor/assignor in the case of third party security; or
    - (bb) require the client or the chargor/assignor in the case of third party security, to engage such professional valuers referred to in paragraph 7.1(a) above; and

- (e) the document evidencing the security over the immovable property must be created in favour of the Participating Organisation.

**Collateral other than collateral that is Immovable Property**

- (4) The value of collateral other than collateral that is an Immovable Property may be determined by applying the applicable discounts stipulated in Schedule 18 of Directive 13.04.

[End of Best Practices]

Relevant to : Rule 12.04  
 Introduced with effect from : 2 May 2013  
 Amended : N/A  
 POs' Circular No(s). : R/R 8 of 2010  
 Refer also to Directive No(s). : Directive 12-001

**1. Rule 12.04**

- (1) Rule 12.04 requires a Participating Organisation to comply with the Exchange's Directives which set out the minimum requirements on the treatment of interest charged by the Participating Organisation to a Client and the impairment provisions for bad and doubtful debts irrespective of whether such debts have been assigned.
- (2) In discharging the obligations under the said Rule, a Participating Organisation is encouraged to adopt the best practices set out below.

**2. Recommendation**

- (1) **Classification of accounts and specific provisions:** A Participating Organisation may consider the following recommended guidelines (not exhaustive) to classify its accounts and make specific provisions:

<b>Types of Accounts</b>	<b>Default Period</b>	<b>Classification</b>	<b>Specific Provision</b>
1. Contra Losses	<ul style="list-style-type: none"> <li>• 16 to 30 calendar days</li> <li>• &gt; 30 calendar days</li> </ul>	<ul style="list-style-type: none"> <li>• Doubtful</li> <li>• Bad</li> </ul>	<ul style="list-style-type: none"> <li>• Note a.</li> <li>• Note b.</li> </ul>
2. Overdue Purchase Contracts	<p>Where securities are purchased in accordance with FDSS:</p> <ul style="list-style-type: none"> <li>• T+5 Market Days to 30 calendar days</li> <li>• &gt; 30 calendar days</li> </ul> <p>Where securities are purchased under a DF Account:</p> <ul style="list-style-type: none"> <li>• T+9 Market Days to 30 calendar days</li> <li>• &gt; 30 calendar days</li> </ul>	<ul style="list-style-type: none"> <li>• Doubtful</li> <li>• Bad</li> <li>• Doubtful</li> <li>• Bad</li> </ul>	<ul style="list-style-type: none"> <li>• Note a.</li> <li>• Note b.</li> <li>• Note a.</li> <li>• Note b.</li> </ul>
3. Margin Accounts	When the equity has fallen below 130% of the Outstanding Balance,	<ul style="list-style-type: none"> <li>• Bad</li> </ul>	<ul style="list-style-type: none"> <li>• Note b.</li> </ul>



**Key:**

T Contract Date

**Note:**

- a. **Specific provision for Accounts classified as Doubtful:** A Participating Organisation may make specific provision in respect of each doubtful account of an amount equal to fifty per cent (50%) of the amount outstanding after deducting the amount of interest-in-suspense, the value of collateral held and the deposit of and all amounts due to the Dealer's Representative having charge of or assigned to the said account.
- b. **Specific provision for Accounts classified as Bad:** A Participating Organisation may make specific provision in respect of each bad account of an amount equal to one hundred per cent (100%) of the aggregate amount outstanding after deducting the amount of interest-in-suspense, the value of collateral held and the deposit of and all amounts due to the Dealer's Representative having charge of or assigned to the said account.

- (2) **Circumstances of reversal:** A Participating Organisation may consider the following guidelines (not exhaustive) to re-classify its accounts and to reverse specific provisions:

<b>Types of Accounts</b>	<b>Circumstances</b>
1. Contra Losses	<ol style="list-style-type: none"> <li>a. When full or partial payment in settlement is received, to the extent of the amount of cash received in settlement</li> <li>b. When there is an increase in the DR Security Deposit or the value of the collateral the Participating Organisation holds that will reduce the exposure of the Contra Losses and the provision required, to the extent of the increase.</li> </ol>
2. Overdue Purchase Contracts	When full or partial payment in settlement is received, to the extent of the amount of cash received in settlement.
3. Margin Accounts	When the equity exceeds 130% of the Outstanding Balance, at the end of the calendar month of that occurring.

- (3) **Treatment of interest on impaired accounts:** A Participating Organisation may consider the following guidelines on the classification of impaired accounts and the suspension of interest:

<b>No.</b>	<b>Types of Accounts</b>	<b>Criteria For Classification of Accounts As Impaired</b>	<b>Date For Classification</b>	<b>Date For Suspension Of Interest</b>
1.	Contra Losses	When an account remains outstanding for 16 calendar days or more from the date of the Contra Transaction	On the 16 <sup>th</sup> calendar day of the account becoming outstanding	From the 16 <sup>th</sup> calendar day of the account becoming outstanding

2.	Overdue Purchase Contracts	<ul style="list-style-type: none"> <li>▪ When an account remains outstanding from T+5 Market Days onwards;</li> <li>▪ When a DF Account remains outstanding from T+9 Market Days onwards</li> </ul>	<ul style="list-style-type: none"> <li>▪ On T+5 Market Days</li> <li>▪ On T+9 Market Days</li> </ul>	<ul style="list-style-type: none"> <li>▪ From T+5 Market Days</li> <li>▪ From T+9 Market Days</li> </ul>
3.	Margin Accounts	When the Equity has fallen below 130% of the Outstanding Balance	On the last day of each calendar month	From the last day of each calendar month
<b>Key</b> T Contract date				

- (4) A Participating Organisation may consider the following guidelines to reverse the Interest-in-Suspense under the following circumstances:

	<b>Types of Accounts</b>	<b>Circumstances</b>
1.	Contra Losses	When full or partial payment in settlement is received, to the extent of the amount of cash received in settlement.
2.	Overdue Purchase Contracts	When full or partial payment in settlement is received, to the extent of the amount of cash received in settlement.
3.	Margin Accounts	When the Margin Account Equity exceeds 130% of the Outstanding Balance at the end of the calendar month of that occurring.

[End of Best Practices]

<b>BEST PRACTICE GUIDELINES FOR PARTICIPATING ORGANISATIONS IN RELATION TO LIQUIDITY RISK MANAGEMENT</b>	<b>No. 13.32-001</b>
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Relevant to : Rule 13.32  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 3 of 2011  
Refer also to Directive No(s). : 13.32-001

**1. Rule 13.32**

- (1) Rule 13.32 requires a Participating Organisation to maintain a cumulative net liquid asset surplus at least at the minimum level(s) as prescribed by the Exchange ("Net Surplus Requirements") at all times.
- (2) In discharging the obligations under the said Rule, a Participating Organisation is encouraged to adopt the best practices set out below.

**2. Best Practice Guidelines**

The Exchange has come up with 15 key principles that form the Exchange's best practice guidelines on managing liquidity risks ("the Best Practice Guidelines"). The Best Practice Guidelines are marked as **Appendix 1** below.

[End of Best Practice]

**Appendix 1**

**BEST PRACTICE GUIDELINES**

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## **1.0 Introduction to Best Practice Guidelines (“Best Practice Guidelines”)**

### **1.1 Introduction**

An important step in managing liquidity risk effectively is to be able to identify manners in which a firm’s activities and external influences can affect its liquidity risk profile. It is also essential to establish a common definition of “liquidity” and “liquidity risk.”

Liquidity is the ability of an institution to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk is inherent in the financial intermediation process that transforms short-term liabilities into long-term assets. Liquidity risk appears in two forms, namely:

- I. Funding liquidity risk - the risk in which an institution will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or the financial condition; and
- II. Market liquidity risk - the risk that an institution cannot easily offset or eliminate a position without significantly affecting the market price due to inadequate market depth or market disruption.

As the interaction between funding and market liquidity is more critical during stressed market conditions as they are intertwined, Non-IBs should manage both funding and market liquidity in a holistic way, through established and well-thought liquidity risk measurements that prompt Non-IBs of any impending liquidity crunch.

### **1.2 Summary of Key Principles**

There are 15 key principles contained in the Best Practice Guidelines, which will serve as guidance to Non-IBs. Those key principles were developed based on Bursa’s regulatory principles which are aimed at achieving their regulatory goals and ensuring a consistent and cohesive approach to their actions and decisions. The relevant Bursa’s regulatory principles are:-

- Value-based approach
- Risk-based approach
- Outcome focused; and

- Transparency.

In implementing sound liquidity risk management practices, all Non-IBs should adopt the key principles which are grouped into seven (7) categories as below:

- Strategy and Policy
- Organisation and Structure
- Risk Tolerance, Ratios and Limits
- Stress Testing and Scenario Analysis
- Measurement
- Monitoring and Reporting
- Contingency Planning

### **1.2.1 Strategy and Policy**

**Principle 1** - Non-IBs shall develop strategies, policies and practices to manage liquidity risk in accordance with the risk tolerance and maintain sufficient liquidity.<sup>1</sup>

**Principle 2** - Non-IBs shall establish and document liquidity risk management strategies and ensure that it is consistent with their funding strategy.

**Principle 3** - Non-IBs shall establish and document funding strategy that contains the overall goals and objectives for short and long term funding.

### **1.2.2 Organisation and Structure**

**Principle 4** - Non-IBs shall establish an appropriate organisational and management structure for liquidity risk. Both Non-IBs' Board of Directors ("Board") and Senior Management shall be responsible to ensure a robust and coherent oversight structure for liquidity risk management is established and communicated throughout the organisation.

**Principle 5** - Non-IBs' Board shall have the ultimate responsibility for the risks and exposures incurred and for establishing a level of tolerance for risk, including liquidity risk, though it may delegate that task to certain committees.

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<sup>1</sup> Sufficient Liquidity means "adequate to meet current and planned business requirements (including known contingencies) while complying with Bursa's requirements".

**Principle 6** - Non-IBs' Senior Management shall have primary responsibility to develop, establish and maintain policies and procedures that translate the goals, objectives and risk tolerances of Non-IBs into operating standards which are consistent with the liquidity risk strategy approved by the Board.

### **1.2.3 Risk tolerance, ratios, and limits**

**Principle 7** - Non-IBs shall clearly articulate liquidity risk tolerance that is suitable for the business strategy of the organisation and its role in the securities market.

**Principle 8** - Non-IBs shall establish liquidity ratios and set limits to control the nature and level of liquidity risk that the entity is capable to undertake.

### **1.2.4 Stress Testing and Scenario Analysis**

**Principle 9** - Non-IBs shall conduct regular stress testing and scenario analysis to test the liquidity risk that they may be exposed to and also to ensure that they have adequate liquidity to cope with stressed conditions. Stress-tests results shall then be timely reported to the Non-IBs' Board, Senior Management and relevant business line managers periodically.

### **1.2.5 Measurement**

**Principle 10** - Non-IBs shall establish processes for measuring liquidity risk to which they are exposed to using a robust and consistent methodology.

### **1.2.6 Monitoring and Reporting**

**Principle 11** - Non-IBs shall establish and maintain appropriate monitoring systems to examine and manage the amount of liquidity risk to which they are exposed to, based on established strategies, policies and procedures defined by the entity.

**Principle 12** - Non-IBs shall establish a proper management information system and reporting frequency in accordance with the business and the risks undertaken.

### **1.2.7 Contingency Planning**

**Principle 13** - Non-IBs shall have in place a contingency plan that will address the strategy for handling unexpected events that will severely impact the entity's liquidity, including specific procedures for raising cash in emergency situations. These "Funding Action Plans" or "Contingency Financing Plans" shall detail "key tasks" that need to be performed within certain timelines. The tasks may be dependent upon the severity of the crisis at hand as outlined in a variety of scenarios.

**Principle 14** - Non-IBs shall identify and quantify funding sources and rank them by preference in its contingency funding strategies.

**Principle 15** - Non-IBs' contingency plan shall contain the procedures which will enable the plan to be executed once a contingency arises.



## 2.0 Scope of Best Practice Guidelines

### 2.1 Strategy and Policy

#### 2.1.1 Principle 1 - Non-IBs shall develop strategies, policies and practices to manage liquidity risk in accordance with the risk tolerance and maintain sufficient liquidity.

The Board and Senior Management of the Non-IB are responsible for developing and implementing a liquidity risk management strategy in accordance with the Non-IB's risk tolerance. The strategy should include specific policies on liquidity management, for example:

- The composition of assets and liabilities;
- The diversity and stability of funding sources;
- The approach to manage liquidity in different currencies, across borders, and across business lines and legal entities;
- The approach to intraday liquidity management; and
- The assumptions on the liquidity and marketability of assets.

The strategy should take into account liquidity needs under normal conditions as well as under periods of liquidity stress, the nature of which may be institution-specific or market-wide or a combination of the two. The strategy may include various high-level quantitative and qualitative targets. The targets that may be considered are as follows:

- Guidelines or limits on the composition of assets and liabilities;
- The relative reliance on certain funding sources, both on an ongoing basis and under contingent liquidity scenarios; and
- The marketability of assets to be used as contingent sources of liquidity.

As appropriate to the nature, scale and complexity of the Non-IB's activities, the strategy shall also:

- Set the objectives for the management of both short-term and long-term funding risk;
- Set the objectives for the management of contingent liquidity risk;
- Define the basis for managing liquidity (e.g. whether the liquidity is being managed on regional or central basis);
- Set the identification of appropriate or inappropriate risk management tools;

- Set the degree of concentrations that could potentially affecting liquidity risk, that are acceptable to the firm; and
- Define ways of managing its aggregate foreign currency liquidity needs and its needs in each individual currency.

The Board should approve the strategy and critical policies and practices and review them at least annually. The Board shall ensure that Senior Management translates the strategy into clear guidance and operating standards (e.g. in the form of operational policies, controls or procedures).

The liquidity strategy, key policies for implementing the strategy, and the liquidity risk management structure shall be communicated throughout the organisation by Senior Management. All business units conducting activities that have an impact on liquidity shall be fully aware of the liquidity strategy and operate under the approved policies, procedures, limits and controls. The Non-IB's personnel responsible for liquidity risk management shall maintain close links with those monitoring market conditions, as well as with other personnel with access to critical information.

**2.1.2 Principle 2 - Non-IBs shall establish and document liquidity risk management strategies and ensure that it is consistent with the funding strategy.**

The liquidity risk management strategies shall cover the overall appetite for liquidity risk, such as tolerance that is within compliance parameter of capital adequacy frameworks for concentration and the use of approved funding instruments and markets.

The liquidity risk management strategies must complement Non-IBs' business strategies and goals and should be appropriate to the nature, scale and complexity of the institutions' activities. Other than the liquidity strategy, their liquidity risk management policy statement should include the following areas:

- Governance and organisational structure for liquidity risk;
- Risk tolerance and limits;
- Liquidity risk measurement methodology;
- Stress testing and scenario analysis;
- Reporting and monitoring policies; and

- Liquidity risk contingency plan;

Details on the above areas are given in the following subsections.

### **2.1.3 Principle 3 - Non-IBs shall establish and document funding strategy that contains the overall goals and objectives for short and long term funding.**

The funding strategy shall describe how funding should be maintained under various financial conditions, covering the use of liability diversification and asset realisation. Taking into consideration correlations between sources of funds and market conditions, it should contain the strategy for maintaining funding under adverse conditions, which is where contingency planning comes in. The funding strategy shall appropriately consider different currencies, sources, geographies and inter-company funding that may exist in the Non-IBs' operation.

Non-IBs must demonstrate that these strategies and policies have been established and represented in the form of operational procedures which is ready to promptly mitigate the identified risks. Hence it is not sufficient to just establish a strategy; it also has to be fortified with according policies and guidelines as well as procedure manuals where applicable.

## **2.2 Organisation and Structure**

### **2.2.1 Principle 4 - Non-IBs shall establish an appropriate organisational and management structure for liquidity risk. Both Non-IBs' Board of Directors ("Board") and Senior Management shall be responsible to ensure a robust and coherent oversight structure for liquidity risk management is established and communicated throughout the organisation.**

The organisational and management structure shall at least cover the following areas:

- Have clear lines of authority and proper delegation of responsibilities;
- Have adequate resources skilled for liquidity risk decisions either via Finance unit of the Non-IBs, or some other suitable function depending on size and nature of the Non-IBs which other units could also be responsible;
- Should include function which responsible for the identification, measurement and monitoring of liquidity risk;

- Support communication network between the Non-IB's personnel responsible for the identification, measurement and monitoring of liquidity risk;
- Prompt and flexible decision making and actions; and
- Clear segregation of functions in the management of liquidity risk.

**2.2.2 Principle 5 - Non-IBs' Board shall have the ultimate responsibility for the risks and exposures incurred and for establishing a level of tolerance for risk, including liquidity risk, though it may delegate that task to certain committees.**

The Board's role shall include approving Non-IB's liquidity risk strategy in line with the expressed risk tolerance. The Board should establish a structure for the management of liquidity risk including the allocation of appropriate senior managers who have both the authority and responsibility to undertake the firm's day-to-day liquidity management.

The Board shall be ultimately responsible for:

- Approving the liquidity risk strategy, liquidity risk policy (including procedures) and risk appetite concerning liquidity risk;
- Implementing an appropriate organisation and management structure for liquidity risk;
- Monitoring the liquidity risk profile on a regular basis and at an appropriate frequency;
- Ensuring that liquidity risks are identified, measured, monitored and controlled;
- Ensuring that responsibilities are clearly and comprehensively defined;
- Ensuring that liquidity risk is managed and controlled by Senior Management within the established risk management framework;
- Reviewing contingency plans; and
- Reviewing liquidity decisions.

**2.2.3 Principle 6 - Non-IBs' Senior Management shall have primary responsibility to develop, establish and maintain policies and procedures that translate the goals, objectives and risk tolerances of Non-IBs into operating standards which are consistent with the liquidity risk strategy approved by the Board.**

The Senior Management of Non-IBs shall develop, establish and maintain policies and procedures to manage the liquidity risk. Their responsibilities shall include:

- Adhering to the lines of authority and responsibility defined by the Board;

- Implementing and maintaining appropriate policies and procedures that translate the Board's approved objectives and risk tolerances into operating standards;
- Directing the identification, measurement and monitoring of liquidity risk through the implementation of management information and other systems;
- Ensuring effective internal controls over the liquidity risk management processes are implemented; in doing so, the managers should request regular standardised reports concerning liquidity risk and conduct regular reviews of the methods and processes used; and
- Providing guidance on managing and aligning the whole organisation to be risk aware and etc (or risk management in general), as usually liquidity risk is an after-effect of other risk, i.e. market, credit or reputation risk.

## **2.3 Risk tolerance, ratios, and limits**

### **2.3.1 Principle 7 - Non-IBs shall clearly articulate liquidity risk tolerance that is suitable for the business strategy of the organisation and its role in the securities market.**

The liquidity risk tolerance shall be in line with its business objectives, strategic direction and overall risk appetite. In the earlier part of this document states the applicable definition of liquidity risk.

The Board is ultimately responsible for the risks and exposures incurred by a Non-IB and for establishing a level of tolerance for risk, including liquidity risk. The tolerance shall be appropriate with the Non-IB's financial condition and funding capacity which defines the level of liquidity risk that the Non-IB is willing to assume. The tolerance shall ensure that the firm manages its liquidity appropriately at all times according to the stress levels imposed by the conditions of the overall financial environment. At the same time, it is essential that the approved risk tolerance must continue to ensure that compliance to the minimum financial requirements remains uncompromised. This is in addition to complying with the current Capital Adequacy Framework prescribed under the Rules of Bursa Securities. A Non-IB, may for example, expresses its risk tolerance by quantifying its liquidity risk tolerance in terms of the level of unmitigated funding liquidity risk the Non-IB decides to take under normal and stressed business conditions. It is the Board's responsibility to approve the Non-IB's liquidity risk strategy in line with the firm's expressed risk tolerance.

### **2.3.2 Principle 8 - Non-IBs shall establish liquidity ratios and set limits to control the nature and level of liquidity risk that they are capable to undertake.**

The minimum limits shall be prescribed, but Non-IBs may set higher standards based on their own business strategies and activities, past performance, level of earnings and capital available to absorb potential losses, as well as its tolerance for risk. It should match the nature, scale and complexity of the Non-IB itself. Suggested funding liquidity ratios and limits used by Non-IBs for liquidity risk management include<sup>2</sup>:

- Target liquidity ratio;
- Maturity mismatch limits for local and foreign currencies; and
- Concentration limits and diversification.

Limits will vary depending on the nature of Non-IBs operations and circumstances. Limits can also be tied to balance sheet ratios. For example:

- Maximum projected cash flow shortfall tolerated for specified time period (for example, one week ahead, one month ahead, one quarter ahead);
- Minimum ratio of liquid assets to total assets;
- Maximum overnight borrowings to total assets; and
- Maximum ratio of total wholesale borrowings to total assets.

Non-IBs shall also consider additional ratios or indicators to measure their ability to meet their liquidity needs, in particularly under stressful market conditions. These other indicators include amongst others, for example:

- A “barometer” that measures the number of days that the firm could survive with no new sources of funding;
- The “liquidation potential,” measuring how a firm could meet its funding needs in the first 14 days of a stress scenario; and
- A “maximum cumulative outflow” (“MCO”) standard that establishes the amount of short term unsecured funds required to fund cash outflows in a stress event.

As for market liquidity, Non-IBs should determine the level of liquidity of the market, based on certain instruments held within their portfolio. Traditional measures of market

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<sup>2</sup> Further clarifications in Appendix 1

liquidity or high quality liquid assets may include trade volume (or the number of trades), market turnover, bid-ask spreads and trading velocity. Additionally, liquidity is also highly dependable on various macroeconomic and market fundamentals namely, fiscal policy, market sentiment, investor’s confidence etc would be key factors in determining liquidity conditions or liquidity cost which in term translates into ‘Force Sale’ discount factor.

The Non-IBs shall leverage on the Volume Weighted Average Price (“VWAP”) in measuring the liquidity of the securities as it measures the cost of executing a single trade of limited size as well as the price impact of a trade. Furthermore, this approach is simple to calculate with data that are widely available on a real time basis.

## **2.4 Stress Testing and Scenario Analysis**

**2.4.1 Principle 9 - Non-IBs shall conduct regular stress testing and scenario analysis to test the liquidity risk that they may be exposed to and also to ensure that they have adequate liquidity to cope with stressed conditions. Stress-tests results shall then be timely reported to the Non-IBs’ Board, Senior Management and relevant business line managers periodically.**

Non-IBs shall simulate distress market / financial conditions and introduce hypothetical scenarios to their positions when conducting stress testing and scenario analysis, i.e., by applying various “what-ifs” scenarios on their liquidity position, in order to consider the effects both on and off balance sheet and on both assets and liabilities.

### ***Scenario Analysis: Example of the Development of Hypothetical Scenarios***

The scenarios shown in Figure 1 below shall be used as a guideline when developing hypothetical scenarios during stress testing and the spill over impact of other risk areas.

Description	Impact	Magnitude of Shocks
<b>Scenario 1: Global Financial Crisis</b>		
To simulate stress event where there is a local liquidity issue arising from regional / global shortage of credit, such as the 2008 / 09	Risk areas: ▪ Market risk, Liquidity risk.	▪ Based on the maturity buckets as stipulated in the Bursa’s Net Surplus Requirements (NSR), increase of liquidity outflow:

Description	Impact	Magnitude of Shocks
global financial crisis, resulting in the increase in short-term interest rates.		<ul style="list-style-type: none"> <li>– Plausible scenario, 10%; and</li> <li>– Worst case scenario, 30%</li> <li>▪ Based on the scenario above, determine the potential shortfall required as per the compliance requirement.</li> </ul>
<b>Scenario 2: Illiquid Instruments</b>		
To simulate stress event where there are non-tradable / illiquid instruments / securities.	Risk areas: <ul style="list-style-type: none"> <li>▪ Market risk,</li> <li>Liquidity risk.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Additional cost of executing the illiquid instruments.</li> </ul>
<b>Scenario 3: Money Market Crunch</b>		
To simulate stress event where there is a breakdown / crunch in the money market.	Risk areas: <ul style="list-style-type: none"> <li>▪ Market risk,</li> <li>Liquidity risk.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Imbalances between the maturity dates on assets and liabilities</li> <li>▪ Lack of adequate funding liquidity.</li> </ul>

**Figure 1: Guidance to Hypothetical Scenarios**

Non-IBs should construct appropriate adverse scenarios and examine the results on the liquidity needs, varying degrees of stress based on among others firm-specific elements and market wide crisis. Historical market events may provide a basis for choosing appropriate scenarios but it is unlikely that such historical event will repeat again. Hence, Non-IBs are encouraged to break away from historical trends, spreads and normal market conditions when deciding on the appropriate scenarios.

Non-IBs should also consider possible changes such as effect of market's perception of the firm on its access to the markets and also market turbulence which may trigger substantial increase in the drawdown of contingent commitments.



Non-IBs should perform the following, at the minimum, to ensure that stress testing technique applied is reflective of its risk appetite and possible risk exposures:

- Verify all relevant assumptions and model parameters periodically taking into considerations their experience in any crisis;
- Review and modify existing stress scenarios and parameters periodically, if necessary reflecting the current market conditions or new experiences; and
- Review entire business profile periodically to assess the need of additional stress scenarios.

Non-IBs should be guided by a clear set of internal principles in determining whether remedial actions should be taken in response to stress-testing results. The level of authority for determining remedial actions to be taken should also be clearly designated. Remedial actions recommended should be properly documented and implemented.

## **2.5 Measurement**

### **2.5.1 Principle 10 - Non-IBs shall establish processes for measuring liquidity risk to which they are exposed to using a robust and consistent methodology.**

In terms of funding liquidity, Non-IBs shall have in place a methodology for the comparison of cash inflows and outflows over future timeframes to calculate the cumulative net excess or deficit of funds at selected maturity dates (referred to as a maturity ladder or cash flow gap analysis). This should:

- Robustly measure the extent of liquidity risk;
- Be forward looking;
- Be responsive to the dynamic nature of the institution's liquidity profile, economic and market conditions;
- Appropriate level of sophistication for the nature, size and complexity according to the Non-IB's activities;
- Be able to accommodate stress and scenario analysis; and
- Be applied consistently and based on accurate data.

The maturity time bands prescribed should be reflective of the short term nature of the equity business, where the maturity time bucket is categorised as stipulated by Bursa's NSR.

The bucketing days are made up of market / trading days and calendar days.

The basis for determining the appropriate time bands for both assets and liabilities is to reference it against the contractual cash and security flows of their residual contractual maturity or when the cash flow materialises. However, adjustments are permitted for those assets and liabilities that have distinct characteristics such as roll-in and roll-out, embedded options etc in the contracts in order to indicate those said contracts as 'behavioural maturity' instead of contractual maturity. Non-IBs shall then adjust the cash flows on a behavioural basis, as the contractual maturities pertaining to some assets and liabilities do not bear close relation to their actual behavioural characteristics.

The assumptions to design the behavioural maturity profile should be reflective of the equity business and demonstrate consistency and reasonableness for each scenario / portfolio. The assumptions selected should be verified and supported by sufficient evidence, experience and performance rather than arbitrarily selected. As such, it is encouraged that the Non-IBs utilise at least one (1) year historical observation period to be used as the basis of the assumptions.

Non-IBs liquidity measurement methods shall consider:

- Assessing Cash Inflows against Cash Outflows;
- Determining the Liquid Value of its assets (securities or other current assets which have a ready market, or which are capable of realisation within one (1) week in relation to the Non-IBs' portfolio);
- Measuring and forecasting cash flows for:
  - Assets;
  - Liabilities;
  - Off-balance sheet commitments; and
  - Derivatives; and

In terms of market liquidity, among the factors considered to measure<sup>3</sup> liquidity include:

- Bid / ask spread;
- Quote size;
- Volume of trade in an instrument / number of trades in that instrument;

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<sup>3</sup> More explanation in Appendix 1

- Days of no price quotation, particularly bid price; and
- Days of no transaction.

## **2.6 Monitoring and Reporting**

### **2.6.1 Principle 11 - Non-IBs shall establish and maintain appropriate monitoring systems to examine and manage the amount of liquidity risk to which they are exposed to, based on established strategies, policies and procedures defined by the entity.**

Non-IBs shall have a framework of policies containing specific and detailed guidelines for day-to-day monitoring of their liquidity risk, with proper communication processes in place throughout the organisation.

Non-IBs shall use appropriate reporting measures that would include documentations, approvals, internal transfer pricing and compliance. Non-IBs should document the assumptions following the maturity buckets in measuring liquidity risk and the plan in place to mitigate any identified gaps (if any) in the internally generated behavioural maturity mismatches in the relevant policy such as liquidity management policy. This is to ensure its relevancy and applicability to the Non-IBs and their business activities. All of these should be approved by Senior Management and should be reviewed regularly.

Consistent with Rule 510.3 of the Rules of Bursa Securities, Non-IBs' internal audit should present any audit findings in this regards to the Board, including any course action and / or with any corrective measures taken in order to address any non compliance or irregularities stated in the audit report. The Board shall be responsible for the submission of all documents referred to in Rule 510.3(2).

### **2.6.2 Principle 12 - Non-IBs shall establish a proper management information system and reporting frequency in accordance with the business and the risks undertaken.**

Non-IBs shall have reporting lines and responsibilities that are clearly established and followed. Weekly reports are provided to key personnel and monthly reports are provided to the Board. Non-IBs should assign relevant personnel to hold the responsibility of compiling the relevant reports.

Non-IBs shall have a comprehensive review process including daily monitoring of funding capacity and capacity utilisation, weekly reports of the firm's balance sheet usage, and a formal quarterly review of the system conducted by an appropriate committee.

Non-IBs shall monitor their liquidity positions daily, using for example, ledger balances (supplemented with spread sheet analysis), loans and placement systems, trading systems, Cash Capital models, daily liquidity positions, and reconciliation of data and aggregate balances to the firm's financial accounting and / or regulatory reports. These are done while taking into account of the ratios being set as mentioned in the strategy section earlier.

## **2.7 Contingency Planning**

**2.7.1 Principle 13 - Non-IBs shall have in place a contingency plan that will address the strategy for handling unexpected events that will severely impact the entity's liquidity, including specific procedures for raising cash in emergency situations. These "Funding Action Plans" or "Contingency Financing Plans" shall detail "key tasks" that need to be performed within certain timelines. The tasks may be dependent upon the severity of the crisis at hand as outlined in a variety of scenarios.**

The plans should generally focus on conserving or creating liquidity, by specifying the order in which liquidity reserves are to be accessed and any limitation or modification of trading activity. Key components of these plans include:

- Estimating the funding requirements or potential fund erosion for material legal entities;
- Determining the pledge value of firm collaterals; and
- Preparing cash projections for the company's funding chain.

Non-IBs should also include estimates of additional needs for liquidity in a crisis, such as limited repurchase of long-term debt to demonstrate that the Non-IB has sufficient liquidity sources.

The contingency plan should be documented, approved and reviewed regularly. Considerations in formulating the contingency plan include:

- Early warning indicators;
- Contingency scenarios;
- Triggers;
- Contingency funding strategies; and
- Contingency procedures.

Examples of key considerations to be used as a guideline when formulating contingency plans or identifying opportunities are:

- Revisit business strategy;

- Allocate and plan capital and liquid assets, including re-allocation and sourcing of alternative funding;
- Review of trading limits or introduction of new limits (i.e. stop-loss limits, sensitivity limits);
- Conduct supplementary stress testing;
- Closely monitor exposures in negative outlook / vulnerable risk areas;
- Source additional liquid assets to cope with potential negative impact arising from stressed conditions; and
- Conduct portfolio re-balancing to avoid concentration and diversifying exposures, while also looking identifying opportunities.

#### ***Internal indicators and market indicators as warning signs***

Internal indicators are Non-IB specific, such as its assets, funding costs, concentration, and cash flows. Non-IBs should identify internal indicators that can be used to warn of a potential liquidity crisis which may be driven by internal actions. Market indicators refer to warning signals picked out from the Non-IBs interaction with the market such as the clients, credit providers or counterparties.

In either case, whether through its internal indicators or market indicators, Non-IBs should establish a system for identifying and tracking such indicators to spot potential problems even at an early stage.

#### ***Observable and measurable characteristics trigger***

The contingency plan should define the circumstances and specific triggers will lead the institution to put any part of its contingency plan into action. Breaches of limits for the cumulative cash flow gaps are an example of a possible trigger.

### **2.7.2 Principle 14 - A Non-IB shall identify and quantify funding sources and rank them by preference in its contingency funding strategies**

The contingency plan should consider funding strategies and action plans relating to the Non-IB's assets as well as liabilities.

Non-IB's shall consider the following:

- In times of liquidity crisis, even committed lines of credit may not be honoured;
- Although "excess" capital may be available to the Non-IB, the amount of the cushion may diminish substantially in a time of crisis, as the firm may have higher liquidity needs and little ability to secure new funds;
- "Downsizing the balance sheet" through the selling of assets to raise money could accelerate a Non-IB's financial deterioration by forcing sales in a weak market, thus substantially reducing proceeds; and
- The potential impacts of the scenarios arising from the institution's secondary market credit activities such as providing underwriting facilities for the issuance of bonds.

The established contingency plans should be reviewed periodically, at least yearly, in light of market events and their impact on the firm's liquidity.

**2.7.3 Principle 15 – A Non-IB's contingency plan shall contain the procedures which will enable the plan to be executed once a contingency arises.**

The corrective action plans shall include the following:

- Allocation of responsibilities during a funding crisis – reporting paths and responsibilities not only by function but also for each of Non-IBs' personnel needs to be defined;
- Procedures for internal reporting and communication to enable timely decision making and monitoring;
- Timeframes within which each action should be taken;
- Procedures for communication with external stakeholders such as customers, analysts, shareholders and regulators;
- Dealing with the press and the wider public – public disclosure is a crucial part of liquidity management, as market perceptions need to be managed especially during crisis situations; and
- Before implementing any of the contingency funding procedures, the Non-IB should assess the likely impact of particular courses of action on the market's perception of the Non-IB.

Once established, the contingency plan should also be subjected to regular review and revision to ensure it remains robust over time and continues to reflect the Non-IB's changing operating circumstances.



## APPENDIX 1

Further Clarification on Funding Liquidity Ratios, Limits, and Measurements.

**Target liquidity ratio** – Based on various liquidity ratios that have been established as a liquidity monitoring tool, Non-IBs should set a target for these ratios. The actual position of liquidity ratios should be compared with the targets and any breaches and follow-up action taken by management to restore the ratios should be properly documented.

**Maturity mismatch limits** – Will control the size of the cumulative net mismatch position (i.e. cumulative cash outflows exceeding cumulative cash inflows), and are usually set for short term time bands up to one month, i.e. next day, 7 days and 1 month.

**Concentration limits and diversification** – Diversification is a tool to spread risk such that the impact of the materialisation of the risk factor in one area is contained within reasonable limits or the damage in one area is offset by a positive effect in another area. Similarly, concentration in one area would normally be subjected to limits and controls to ensure the materialisation of the risk are contained. Among the diversification that can undertaken by Non-IBs include:

- Creditor diversification - such as limiting the amount or percentage of holding of commercial paper by one investor / issuer.
- Spreading debt maturities.
- Diversify debt instruments – secured and unsecured.
- Diversify markets or country of issuance.

**Bid / ask spread** – The difference between the bid price and the asking price of the instrument. The measurement can be based on the width of the bid / ask spread, which will indicate the likelihood of a successful transaction in the market. In addition, if this factor is monitored together with the Days of no transaction, it will provide a better definitive of the illiquidity status of the instrument.

**Quote size** – In the eyes of the public, quote size of the best bid and ask prices are visible, leaving the rest of the order book invisible to market participants. However, Bursa should be able to observe the quote size, not only at the best bid and ask prices. The quantity that can be traded at the bid and ask prices helps account for the depth of the market and complements the bid / ask spread as a measure of market liquidity

**Volume of trade in an instrument / number of trades in an instrument** – These two factors may seem similar but further analysis would demonstrate that one factor highlights a better liquidity position as compared to the other. Number of trades in an instrument demonstrates better liquidity as there is more demand in comparison to a single large transaction performed on an instrument.

**Days of no price quotation** – Measures the number of days in which a certain instrument has no demand or supply, but for the purpose of measuring illiquidity, the focus would be on bid price as it constitutes the demand for the instrument.

[End of Best Practice]