

RULES OF BURSA MALAYSIA SECURITIES BHD

PROPOSED AMENDMENTS TO THE RULES IN RELATION TO THE INTRODUCTION OF T+2 SETTLEMENT CYCLE

RULE	CURRENT PROVISION	RULE	AMENDED PROVISION	RATIONALE
1.01	<p>Definition</p> <p>The following terms have the following meanings unless the context requires otherwise:</p> <p>Immediate Basis Contract A contract where the date and time for delivery and settlement for the buying and selling of securities traded on the stock market of the Exchange are as stipulated in Schedule 2.</p>	1.01	<p>Definition</p> <p>The following terms have the following meanings unless the context requires otherwise:</p> <p>Immediate Basis Contract A contract where the date and time for delivery and settlement for the buying and selling of securities traded on the stock market of the Exchange are as stipulated in Schedule 2. <i>[Deleted]</i></p>	<p>We propose to remove all references to Immediate Basis Contract for the following reasons:</p> <p>Under the proposed T+2 settlement cycle, Immediate Basis Contract is no longer relevant as it would not be feasible for the settlement cycle in respect of the same to be shorter than the proposed T+2 settlement cycle.</p> <p>Under the current framework, the settlement period for Immediate Basis Contracts is one day earlier, i.e. on T+2, in respect of which the transfers are done by 4pm on T+1. However, if the delivery would have to be performed on T day itself under the proposed T+2 settlement cycle, to set the cut-off time at 4pm (which is the cut-off time under the current framework) would not be feasible as trading is only allowed up to 5pm.</p> <p>Moreover, the 5pm cut-off time is also the book closure cut-off time to determine Record of Depositors (ROD) for all corporate exercises based on announcements by listed issuers. To</p>

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				<p>set a later time beyond 5pm may delay the process of the corporate exercise processing, which in turn may cause further delays in announcements to the public.</p> <p>Furthermore, based on historical record (20 years), there has not been any processing of Immediate Basis Contracts.</p> <p>For the avoidance of doubt, the Exchange may still declare a securities as a designated securities under Rule 7.14, where the Exchange may impose a condition that a seller make available the securities as “free securities” in the securities account prior to the sale.</p>
7.02 (2A)	<p>Quotation and trading in securities</p> <p>(2A) The transactions mentioned in Rule 7.02(2)(a) and (b) must be executed either on a Ready Basis Contract or Immediate Basis Contract as determined by the Exchange.</p>	7.02 (2A)	<p>Quotation and trading in securities</p> <p>(2A) The transactions mentioned in Rule 7.02(2)(a) and (b) must be executed either on a Ready Basis Contract or Immediate Basis Contract as determined by the Exchange. <i>[Deleted]</i></p>	<p>We propose to delete this provision to reflect the proposal to remove all references to Immediate Basis Contract and with the deletion of Immediate Basis Contract, this provision will become redundant as it is understood that the transactions mentioned in Rule 7.02(2)(a) and (b) refer to Ready Basis Contracts.</p>

RULE	CURRENT PROVISION	RULE	AMENDED PROVISION	RATIONALE
7.22(2)	<p>Designated Account</p> <p>(2) Where the Eligible Securities borrowed are held in a Securities Account maintained in the name of a Participating Organisation in the Participating Organisation's capacity as an Authorised Nominee or Exempt Authorised Nominee, the Participating Organisation can only hold the Eligible Securities in that Securities Account for a maximum period of 3 Market Days from the date the Eligible Securities are credited into the Securities Account.</p>	7.22(2)	<p>Designated Account</p> <p>(2) Where the Eligible Securities borrowed are held in a Securities Account maintained in the name of a Participating Organisation in the Participating Organisation's capacity as an Authorised Nominee or Exempt Authorised Nominee, the Participating Organisation can only hold the Eligible Securities in that Securities Account for a maximum period of 3 2 Market Days from the date the Eligible Securities are credited into the Securities Account.</p>	To reflect the migration to a T+2 cycle in relation to the period for the Participating Organisation to hold the Eligible Securities borrowed in the Securities Account maintained in its name in its capacity as an Authorised Nominee or Exempt Authorised Nominee.
7.30 (19)	<p>Margin Financing</p> <p>(19) (a) A Participating Organisation must request for additional Margin and impose Haircuts on any collateral and securities purchased and carried in Margin accounts on the occurrence of:</p> <ul style="list-style-type: none"> (i) unusually rapid or volatile changes in value of the securities; (ii) non-existence of an active market for the securities; (iii) suspension of the securities from trading on a market; or (iv) no possibility of immediate liquidation for the securities. 	7.30 (19)	<p>Margin Financing</p> <p>(19) (a) A Participating Organisation must request for additional Margin and impose Haircuts on any collateral and securities purchased and carried in Margin accounts on the occurrence of:</p> <ul style="list-style-type: none"> (i) unusually rapid or volatile changes in value of the securities; (ii) non-existence of an active market for the securities; (iii) suspension of the securities from trading on a market; or (iv) no possibility of immediate liquidation for the securities. 	To reflect the migration to a T+2 cycle in relation to the imposition of Haircut on the occurrence of suspension of the securities from trading on a market.

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RULE	CURRENT PROVISION	RULE	AMENDED PROVISION	RATIONALE
	(b) If the suspension stated in Rule 7.30(19)(a)(iii) is more than 3 Market Days, the Haircut must be 100%.		(b) If the suspension stated in Rule 7.30(19)(a)(iii) is more than 3 2 Market Days, the Haircut must be 100%.	
7.31(1)(d)	<p>Discretionary Financing</p> <p>(1) Notwithstanding 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:</p> <p>(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.</p>	7.31(1)(d)	<p>Discretionary Financing</p> <p>(1) Notwithstanding 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<u>T+3</u> and T+7 (“Discretionary Financing”) if:</p> <p>(d) the Client has notified the Participating Organisation not later than T+3<u>T+2</u> 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.</p>	To reflect the migration to a T+2 cycle in relation to the period allowed for Discretionary Financing.

RULE	CURRENT PROVISION	RULE	AMENDED PROVISION	RATIONALE
7.38(2)	Designated Account (2) Where the ISSBNT Eligible Securities purchased pursuant to ISSBNT are held in a Securities Account maintained in the name of a Participating Organisation in its capacity as an Authorised Nominee or Exempt Authorised Nominee, the Participating Organisation can only hold the ISSBNT Eligible Securities in that Securities Account for a maximum period of 3 Market Days from the date the ISSBNT Eligible Securities are credited into the Securities Account.	7.38(2)	Designated Account (2) Where the ISSBNT Eligible Securities purchased pursuant to ISSBNT are held in a Securities Account maintained in the name of a Participating Organisation in its capacity as an Authorised Nominee or Exempt Authorised Nominee, the Participating Organisation can only hold the ISSBNT Eligible Securities in that Securities Account for a maximum period of 3 2 Market Days from the date the ISSBNT Eligible Securities are credited into the Securities Account.	To reflect the migration to a T+2 cycle in relation to the period for the Participating Organisation to hold the ISSBNT Eligible Securities purchased pursuant to ISSBNT in the Securities Account maintained in its name in its capacity as an Authorised Nominee or Exempt Authorised Nominee.
9.03	Ready and Immediate Basis Contracts	9.03	Ready and Immediate Basis Contracts	To reflect the proposal to remove all references to Immediate Basis Contract.
9.06(1)	Buying-In Procedures (1) The Exchange will publish the name, quantity and bidding price of the securities for buying-in in the ATS half an hour before the commencement of the buying-in on a Market Day.	9.06(1)	Buying-In Procedures (1) The Exchange will publish the name, quantity and bidding price of the securities for buying-in in the ATS half an hour before the commencement of the buying-in on a Market Day .	Under the proposed T+2 settlement cycle, buying-in will be carried out in 2 sessions in a day. The amendment is made to generalise this provision in order to avoid any perception that buying-in is carried out in 1 session in a day.

RULE	CURRENT PROVISION	RULE	AMENDED PROVISION	RATIONALE
9.06(2)	(2) The Exchange will conduct buying-in through the ATS based on the period determined by the Clearing House and if the buying-in is not executed or executed fully during that period, the buying-in may be continued on the following Market Days as instructed by the Clearing House.	9.06(2)	(2) The Exchange will conduct buying-in through the ATS based on the period determined by the Clearing House and if the buying-in is not executed or executed fully during that period, the buying-in may be continued on the following Market Days as instructed by the Clearing House. <u>[Deleted]</u>	<p>Under the proposed T+2 settlement cycle, this provision is no longer relevant in view of the proposal that the buying-in without notice takes place from 2-5pm on T+2, and if the buying-in is unsuccessful, the transaction will be cash settled on T+3.</p> <p>Under the current framework, the period for buying-in without notice is on the settlement day i.e. T+3, up to T+8. However, based on statistic, most of the buying-in is done on the settlement day and the remaining securities that are not bought in will usually be cash settled after T+8. Therefore, it is proposed not to extend the period for buying-in without notice under the proposed T+2 settlement cycle to beyond the settlement day i.e. T+2.</p>

RULE	CURRENT PROVISION	RULE	AMENDED PROVISION	RATIONALE
9.07(1)	<p>Cash Settlement</p> <p>(1) If buying-in is not successful by T+8 or within such period as may be stipulated by the Clearing House, the buying-in will be withdrawn if instructed by the Clearing House. The Contract will then be settled by payment of cash for the quantity not done through the buying-in, in accordance with the Clearing House Rules, to the person below based on the cash settlement amount determined by the Clearing House:</p>	9.07(1)	<p>Cash Settlement</p> <p>(1) If buying-in is not successful by T+8 <u>on T+2</u> or within such period as may be stipulated by the Clearing House, the buying-in will be withdrawn if instructed by the Clearing House. The Contract will then be settled by payment of cash for the quantity not done through the buying-in, in accordance with the Clearing House Rules, to the person below based on the cash settlement amount determined by the Clearing House:</p>	To reflect the migration to a T+2 cycle in relation to the cash settlement after an unsuccessful buying-in.
9.09(1)	<p>Settlement between a Participating Organisation and Client</p> <p>(1) 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.</p>	9.09(1)	<p>Settlement between a Participating Organisation and Client</p> <p>(1) If a Participating Organisation is a seller in a Contract, the Participating Organisation must pay the selling Client for the securities sold by on the day and by the time stipulated in Schedule 2.</p>	The cut-off time for payment to selling Client for On-Market Transactions is proposed to be <u>on T+2 by 3pm</u> so as to have a single cut-off time to facilitate the Participating Organisations' back office operations and to create a level playing field amongst the Participating Organisations in terms of settlement of payment to selling clients.
9.09(3)	<p>(3) Notwithstanding Rule 9.09(2), a buying Client may sell securities for which he has not paid, at any time before 12.30 p.m. on the 3rd Market Day following the Contract Date (T+3) and such sale will be deemed to be a sale to close-off the buying Client's purchase position in respect of that securities and such close-off is referred to as "contra".</p>	9.09(3)	<p>(3) Notwithstanding Rule 9.09(2), a buying Client may sell securities for which he has not paid, at any time before 12.30 <u>3.00</u> p.m. on the 3rd <u>2nd</u> Market Day following the Contract Date (T+3 <u>T+2</u>) and such sale will be deemed to be a sale to close-off the buying Client's purchase position in respect of that securities and such close-off is referred to as "contra".</p>	To reflect the migration to a T+2 cycle and the proposed cut-off time for payment by buying Client at 3pm, in relation to the period during which a buying Client may sell securities for which he has not paid.

[End of Proposed Rule Amendments]

Annexure A
Consultation Paper No. 5/2018
AMENDMENTS TO THE RULES OF BMS
In Relation to the T+2 Settlement Cycle



ANNEXURE 1

SCHEDULE 2
[Chapters 7 & 9]

DELIVERY AND SETTLEMENT TIME FOR ON-MARKET TRANSACTIONS

Type of Contract	Tradeable Balance in seller's account (Rule 9.03(1))	Payment to selling Client (Rule 9.09(1))	Delivery to buyer (Rule 9.03(2))	Payment by buying Client (Rule 9.09(2))	Selling-out (Rule 9.12(1))
Ready Basis	<p><u>For first batch settlement-run:</u> T+2T+1 by 4.00-4.30 p.m.</p> <p><u>For second batch settlement-run:</u> T+2 by 11.30 a.m.*</p>	T+3T+2, not later than 12.30 3.00 p.m.	<p><u>For first batch settlement-run:</u> T+3T+2, not later than 10.00 a.m.</p> <p><u>For second batch settlement-run:</u> T+2, not later than 3.00 p.m.</p>	T+3T+2, not later than 12.30 3.00 p.m.	T+3T+2 from 12.30 3.00 p.m. until T+4 T+3
Immediate Basis	T+1 by 4.00 p.m. [Deleted]	T+2, not later than 12.30 p.m. [Deleted]	T+2, not later than 10.00 a.m. [Deleted]	T+2, not later than 12.30 p.m. [Deleted]	T+2 from 12.30 p.m. until T+3 [Deleted]

* The Exchange will only commence buying-in without notice under Rule 9.05(1) if the Participating Organisation fails to have the quantity of securities sold in the Contract as the Tradeable Balance in the Securities Account used for the sale by the time stipulated for second batch settlement-run.

[End of Schedule]

Commented [BM3]: When the settlement cycle is reduced from T+3 to the T+2, the window processing time for the Clearing Participant to perform their clearing process has been reduced from 2 clear market days to 1 clear market day. The introduction of 2 settlement runs is to reduce failure in trade settlement especially due to clients from different time zones. Likewise, the delivery to buyer has been revised to 10am and 3pm to coincide with the Clearing House's settlement runs for On-Market Transactions.

Commented [BM5]: To reflect the proposal to amend the cut-off time for payments to and by the Clients at 3.00pm. The selling-out period will remain the same as per the current framework i.e. +1 day after.

Commented [BM1]: The amendment is made to cater for the 2-batch processing runs introduced to reduce failure in trade settlement especially due to clients from different time zones.

Buying-in without notice will only commence if the Participating Organisation fails to have the Tradeable Balance in the Securities Account by T+2 10.45am.

Commented [BM2]: The cut-off time for payment to selling Client for On-Market Transactions is proposed to be **on T+2 by 3pm** so as to have a single cut-off time to facilitate the Participating Organisations' back office operations and to create a level playing field amongst the Participating Organisations in relation to settlement of payment to a selling client.

Commented [BM4]: The cut-off time for payment by buying Client is proposed to be at 3.00pm so as to have a single cut-off time to facilitate the Participating Organisations' back office operations.

Commented [BM6]: To reflect the proposal to remove all references to Immediate Basis Contract.

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ANNEXURE 2

SCHEDULE 3
[Rule 10.03]

DELIVERY AND SETTLEMENT TIME FOR DIRECT BUSINESS TRANSACTIONS

Type of Contract	Tradeable Balance in seller's account	Payment to selling Client	Delivery to buyer	Payment by buying Client	Selling Out
Ready Basis	<p><u>For first batch settlement-run: T+2-T+1 by 4.00-4.30 p.m.</u></p> <p><u>For second batch settlement-run: T+2 by 11.30 a.m.</u></p>	T+3T+2, not later than <u>12.30 4.00</u> p.m.	<p><u>For first batch settlement-run: T+3T+2, not later than 12.00 p.m 11.00 a.m.</u></p> <p><u>For second batch settlement-run: T+2, not later than 4.00 p.m.</u></p>	T+3T+2, not later than <u>12.30 3.00</u> p.m.	T+3T+2, from <u>12.30 3.00 pm</u> until <u>T+4T+3</u>
Immediate Basis	T+1 by 4.00 p.m. [Deleted]	T+2, not later than <u>12.30 pm</u> [Deleted]	T+2, not later than <u>12.00 pm</u> [Deleted]	T+2, not later than <u>12.30 pm</u> [Deleted]	T+2, from <u>12.30 pm</u> until <u>T+3</u> [Deleted]

[End of Schedule]

Commented [BM11]: To reflect the proposal to amend the cut-off time for payments by the Clients at 3pm. The selling-out period will remain the same as per the current framework i.e. +1 day after.

Commented [BM8]: The cut-off time for payment to selling Client for Direct Business Transactions is proposed to be **on T+2 by 4pm** so as to have a single cut-off time to facilitate the Participating Organisations' back office operations and to create a level playing field amongst the Participating Organisations in relation to settlement of payment to a selling client. In respect of the second batch settlement-run, payment to selling Clearing Participants can only be effected by 4pm on T+2 contingent on receipt of payment from the buying Clearing Participants by 3pm on T+2. Hence, the payment to the selling client and payment by the buying client for T+2 is proposed to coincide with the said timing.

Commented [BM9]: When the settlement cycle is reduced from T+3 to the T+2, the window processing time for the Clearing Participant to perform their clearing process has been reduced from 2 clear market days to 1 clear market day. The introduction of 2 settlement runs is to reduce failure in trade settlement especially due to clients from different time zones. Likewise, the delivery to buyer has been revised to 11am and 4pm to coincide with the Clearing House's settlement runs for Direct Business Transactions.

Commented [BM10]: The cut-off time for payment by buying Client is proposed to be at 3pm so as to have a single cut-off time to facilitate the Participating Organisations' back office operations. In respect of the second batch settlement-run, payment to selling Clearing Participants can only be effected by 4pm on T+2 contingent on receipt of payment from the buying Clearing Participants by 3pm on T+2. Hence, the payment to the selling client and payment by the buying client for T+2 is proposed to coincide with the said timing.

Commented [BM7]: The amendment is made to cater for the 2-batch processing runs introduced to reduce failure in trade settlement especially due to clients from different time zones.

Commented [BM12]: To reflect the proposal to remove all references to Immediate Basis Contract.