

Our Ref: RPA/ISS/TAC(kar)/59B/010/17 [LEAP Market rules]

15 June 2017

**Industry Associations**

**By Email**

**Dear Sir/Madam,**

1. **BURSA MALAYSIA SECURITIES BERHAD LEAP MARKET LISTING REQUIREMENTS (“LEAP LR”);**
2. **AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES BERHAD (“RULES OF BURSA SECURITIES”) IN RELATION TO THE INTRODUCTION OF THE LEAP MARKET;**
3. **AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES CLEARING SENDIRIAN BERHAD (“RULES OF BURSA CLEARING (S)”) IN RELATION TO THE INTRODUCTION OF THE LEAP MARKET; AND**
4. **AMENDMENTS TO THE RULES OF BURSA MALAYSIA DEPOSITORY SENDIRIAN BERHAD (“RULES OF BURSA DEPOSITORY”) IN RELATION TO THE INTRODUCTION OF THE LEAP MARKET.**

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**1. INTRODUCTION**

- 1.1 Pursuant to section 9 of the Capital Markets and Services Act 2007 (“**CMSA**”), Bursa Malaysia Securities Berhad (“**the Exchange**”) has issued the LEAP LR which governs the listing framework of the LEAP Market.
- 1.2 The Exchange has also amended the Rules of Bursa Securities where a new Chapter 16 has been inserted to set out the additional provisions, modifications to existing provisions and disapplication of existing provisions for trading in securities in the LEAP Market.
- 1.3 In relation to the clearing, settlement and depository framework for the LEAP Market, amendments have been made to the Rules of Bursa Clearing (S) and Rules of Bursa Depository. The latter has been amended pursuant to section 7 of the Securities Industry (Central Depositories) Act 1991.

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- 1.4 The LEAP LR, the Rules of Bursa Securities, the Rules of Bursa Clearing (S) and Rules of Bursa Depository have been duly approved by the Securities Commission Malaysia (“SC”).

**2. BACKGROUND**

- 2.1 The Exchange has established a new market called the LEAP Market that is aimed at facilitating access by small and medium-sized enterprises (“SMEs”) to raise capital from the capital market. It is a qualified market meant mainly for sophisticated investors<sup>1</sup>, according them with an opportunity to broaden their investment options in SMEs in a transparent and regulated environment.
- 2.2 On 2 September 2016, the Exchange issued a concept consultation paper to seek feedback on the business model for the LEAP Market. Subsequently on 8 November 2016, the Exchange issued a public consultation paper to seek views from the industry and public on the rules relating to listing, trading, clearing and depository for the LEAP Market.
- 2.3 The Exchange also conducted 4 focus group sessions in November 2016, where selected investment banks, corporate finance advisers, industry associations, brokers, capital providers and legal firms were invited to discuss the rule framework governing the LEAP Market and provided their verbal feedback on the same.
- 2.4 In formulating the rules, the Exchange is guided by the following key principles:
- (a) cost efficiency - SMEs are able to raise capital in a cost effective and efficient manner;
  - (b) appropriate regulation - an appropriate and proportionate regulatory framework which promotes cost effective fund raising and safeguards investor protection; and
  - (c) qualified market for sophisticated investors - a qualified market which is meant mainly for sophisticated investors only, who are able to evaluate their investment risks and make informed investment decisions based on the available information in the market.

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<sup>1</sup> Sophisticated investors means any person who falls within any of the categories of investors set out in Part I of Schedule 6 or Part I of Schedule 7 of the Capital Market Services Act 2007.

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2.5 In finalising the rules, the Exchange considered all views received including from the industry and market.

**3. THE LEAP LR**

3.1 The LEAP LR governs the admission requirements as well as the post listing obligations of a company listed on the LEAP Market. The key chapters set out in the LEAP LR are as follows:

- (a) Admission;
- (b) Advisers;
- (c) New issues of securities;
- (d) Continuing listing obligations;
- (e) Transactions; and
- (f) Suspension, de-listing and enforcement.

3.2 The key requirements under the LEAP LR are as follows:

***General (Chapter 2 of the LEAP LR)***

- allowing issuance of documents by electronic means to securities holders in accordance with the requirements prescribed under the LEAP LR;
- requiring the applicant or a listed corporation to ensure that all securities offered or issued in conjunction with its listing or post-listing are to sophisticated investors or existing securities holders;

***Admission (Chapter 3 of the LEAP LR)***

- setting out the admission requirements that an applicant must comply with, including having a clearly identifiable core business and public shareholding spread requirements;
- prescribing the initial listing process, including the submission of the initial listing application to the Exchange concurrently with the deposit of the information memorandum with the SC;

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- prescribing the minimum contents of an information memorandum for e.g. the information on the applicant's principal activities, business model and future plans, history of business from the inception date and the shareholding structure of the applicant;
- imposing moratorium requirements on the promoters;
- requiring an applicant to place all monies received from investors in a trust account opened with a financial institution licensed by Bank Negara Malaysia and jointly operated by both the applicant and a custodian;
- requiring an applicant to maintain the services of a Continuing Adviser for at least 3 full financial years after its admission to the LEAP Market or at least 1 full financial year after the applicant has generated operating revenue, whichever is the later;

***Advisers (Chapter 4 of the LEAP LR)***

- setting out 2 types of adviser for the LEAP Market, namely the Approved Advisers i.e. a listing adviser who is authorised to undertake both initial listing activities and post-listing activities, and the Continuing Adviser i.e. an adviser who is only allowed to undertake post-listing activities only;
- allowing a wider pool of qualified advisers to act in the LEAP Market as the Approved Advisers, Continuing Advisers or both, i.e. corporate finance advisers licensed by the SC who meet the prescribed eligibility requirements for each category;
- requiring the Approved Advisers to assess and determine the suitability of an applicant for listing based on prescribed considerations, in line with the adviser driven framework for the LEAP Market;
- requiring an applicant to maintain its Approved Adviser as its Continuing Adviser for at least 1 full financial year after listing;
- prescribing the roles and responsibilities of an Adviser<sup>2</sup>;

***New Issues of Securities (Chapter 5 of the LEAP LR)***

- setting out the general requirements for new issue of securities, including requiring the appointment of an Adviser for submission of a listing application to the Exchange;

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<sup>2</sup> Advisers comprise of both Approved Advisers and Continuing Advisers.

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- allowing a general mandate for directors to issue new shares or convertible securities of 100% of the total number of issued shares of the listed corporation in the case of an issuance on a pro rata basis and 50% of the total number of issued shares of the listed corporation in the case of an issuance on a non pro rata basis;
- allowing issuance of shares or convertible securities to director, major shareholder or chief executive or person connected with them under a general mandate on a non-pro rata basis, subject to the prescribed conditions;
- prescribing the contents of an announcement to the Exchange and circular to shareholders in a new issue of securities;
- allowing a listed corporation to undertake both renounceable and non-renounceable rights issue;
- requiring a listed corporation to ensure sufficiency of reserves to cover the capitalisation issue if it undertakes a bonus issue by way of capitalisation;

***Continuing Listing Obligations (Chapter 6 of the LEAP LR)***

- prescribing some of the key functions of the board of directors of a listed corporation under the LEAP LR;
- requiring a listed corporation to maintain a clearly identifiable core business at all times;
- requiring listed corporation to adhere to the corporate disclosure policy when making disclosures to investors and public, including immediate disclosure of material information;
- prescribing the standard of disclosure in an announcement and circular;
- requiring immediate announcement upon the occurrence of the prescribed events;
- prescribing the requirements for issuance of semi-annual financial statements and annual audited financial statements;

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***Transactions (Chapter 7 of the LEAP LR)***

- requiring a listed corporation to announce a non-related party transaction to the Exchange if the percentage ratio of the transaction is 10% or more and requiring shareholders' approval if the percentage ratio of the transaction is 25% or more;
- requiring a listed corporation to announce a related party transaction ("RPT") to the Exchange if the percentage ratio of the transaction is 5% or more and requiring shareholders' approval if the percentage ratio of the transaction is 10% or more
- prescribing RM250,000 as the monetary limit in the de minimis requirement for the LEAP Market to exempt small or immaterial transactions from the RPT and non-RPT requirements;
- requiring a listed corporation to obtain shareholders' approval for a major disposal or a transaction which will result in a significant change in the business direction or policy of the listed corporation<sup>3</sup>;
- imposing the requirement to appoint an Approved Adviser for a transaction which will result in a significant change in the business direction or policy of the listed corporation;
- prescribing the contents of an announcement to the Exchange and circular to shareholders on transactions;

***Suspension, De-Listing and Enforcement (Chapter 8 of the LEAP LR)***

- setting out the requirements in respect of suspension, withdrawal and de-listing framework of the LEAP Market;

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<sup>3</sup> "Significant change in business direction or policy of the listed corporation" means -

- (a) an acquisition of assets such that any one of the percentage ratios is 100% or more, except where the assets to be acquired are in a business similar to the core business of the listed corporation;
- (b) an acquisition of assets which results in a change in the controlling shareholder of the listed corporation;
- (c) an acquisition of assets which results in a change in the board of directors of the listed corporation;  
or
- (d) a restructuring exercise involving the transfer of the listed corporation's listing status and the introduction of new assets to the other corporation.

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- setting out the enforcement framework for the LEAP Market; and
  - prescribing the enforcement proceedings applicable to the LEAP Market, including the full enforcement proceedings, expedited enforcement proceedings, agreed settlement, appeal & etc.
- 3.3 The full text of the LEAP LR is attached in **Appendix 1**.
- 3.4 In addition, we have provided some “Questions and Answers” in **Appendix 2** to facilitate the better understanding of, and compliance with the LEAP LR.
- 3.5 To facilitate compliance, the Exchange has also prescribed the listing application forms (for admission and additional listing), application form and annual return by an Adviser, and undertaking letters to comply with the LEAP LR. These documents are available at Bursa Malaysia Berhad’s website at [www.bursamalaysia.com](http://www.bursamalaysia.com).
- 3.6 If you have any queries in relation to the LEAP LR, please do not hesitate to contact the following persons from Listing Division:
- (a) Ms. Joanne Tan Chin Ling (03-20347553);
  - (b) Ms. Norfarrelyn Hazwin (03-20347774), or
  - (c) Mr. Mohamad Idzham (03-20347093).

#### **4. THE RULES OF BURSA SECURITIES**

- 4.1 In addition to amendments in Chapter 1 to introduce a definition for the LEAP Market and to include the listing requirements in respect of the LEAP Market in the definition of “Listing Requirements”, a new Chapter 16 has been inserted to set out the amendments to the Rules of Bursa Securities.
- 4.2 The key changes to the Rules of Bursa Securities are as follows:

##### ***Trading on the LEAP Market***

- Setting out that trading on the LEAP Market is only for persons who qualify as “Sophisticated Investors”. In the case of persons who do not qualify as Sophisticated Investors but are existing securities holders of a corporation listed on the LEAP Market, such persons are allowed to sell their existing securities in the corporation.

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- Prescribing the definition of “Sophisticated Investors”.
- Requiring a PO to carry out its proprietary trading only in circumstances prescribed by the Exchange in a new directive
- Prohibiting margin financing for the subscription or purchase of LEAP Market securities.
- Excluding the LEAP Market securities from the securities eligible for Day Trading.

***Account Opening for Sophisticated Investors***

- Requiring the PO to ensure that it obtains information that a Client qualifies as a Sophisticated Investor before opening a trading account for the Client to trade on the LEAP Market.
- Requiring a PO to provide a risk disclosure statement to a Sophisticated Investor for the purposes of trading on the LEAP Market.

***Compliance Report***

- Setting out that LEAP Market compliance matters are to be included in a Head of Compliance’s compliance report every quarter of a calendar year, rather than on a monthly basis as is currently prescribed in Rules 3.39(2)(b) and 3.39(5).

***Direct Business Transaction***

- Stating that a Direct Business Transaction (“**DBT**”) is permitted to be carried out on the LEAP Market and that a PO does not need to apply to the Exchange for prior approval of a DBT on the LEAP Market, even if the DBT meets the criteria prescribed in Rule 10.01(1)(d).

***Commission Rates***

- Setting out that there is no prescribed commission for trades on the LEAP Market, and that commission rates are fully negotiable.

4.3 The full text of the amendments to the Rules and Directives of Bursa Securities is attached as **Appendix 3** and the Frequently Asked Questions in relation to the trading framework is attached as **Appendix 4**.



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4.4 The provisions on buying-in under Chapter 6 of the Participating Organisation's Trading Manual have also been updated to reflect the amendments made in relation to the introduction of the LEAP Market. The updated Chapter 6 of the Trading Manual is attached as **Appendix 5**.

4.5 The circular issued to the Participating Organisations is attached as **Appendix 6**.

**5. RULES OF BURSA CLEARING (S)**

5.1 The definition of 'Listing Requirements' in the Interpretation chapter of the Rules of Bursa Clearing (S) has been generalised so that the LEAP LR would also be included in the said definition. This is premised on the fact that the same clearing and settlement framework currently applicable to trades on the Main and ACE Markets will similarly be applicable to trades done on the LEAP Market.

5.2 The amendment to the Rules of Bursa Clearing (S) and the Frequently Asked Questions in relation to the clearing and settlement framework are attached as **Appendix 7**.

**6. RULES OF BURSA DEPOSITORY**

6.1 The key amendment made to the Rules of Bursa Depository is to allow a listed corporation on the LEAP Market to request from Bursa Depository the relevant bank account information of its securities holders to make payments of cash distributions directly into their bank accounts. This is in view of the fact that corporations listed on the LEAP Market have the option to pay such cash distributions via direct credit into the securities holders' bank accounts instead of being required to do so, as is the case of issuers on the Main and ACE Markets.

6.2 The amendments to the Rules of Bursa Depository and the Frequently Asked Questions in relation to the depository framework are attached as **Appendix 8**.

**7. IMPLEMENTATION**

The LEAP LR, amendments to the Rules of Bursa Securities, Rules of Bursa Clearing (S), Rules of Bursa Depository and the Participating Organisation's Trading Manual as set out in **Appendices 1, 3- 8** shall take effect from **16 June 2017**.

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**8. ADDITIONAL INFORMATION**

This letter and all the above documents are also available at Bursa Malaysia Berhad's website at [www.bursamalaysia.com](http://www.bursamalaysia.com).

The above is for your information only.

Thank you.

Yours faithfully,



**YEW YEE TEE**  
**Chief Regulatory Officer**

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