

## CHAPTER 6 DEALINGS

## RULE 601 DEALINGS IN SECURITIES

## RULE 601.1 GENERAL

- (1) Participating Organisations shall, in respect of all transactions (whether on their own account or for the accounts of their clients) cleared or settled through the Clearing House, be deemed as between themselves to contract as principals, whether the contract notes state expressly that they are acting only as brokers or not.
- (2) A Participating Organisation, its officers, employees or representatives shall not deal in securities as a principal with a client without so informing the client. The requirement under this Rule shall also apply in situations where the Participating Organisation deals as principal on account of its associates. For the purposes of this Rule, "associate" shall be construed in accordance with Section 3(1)(d) of the Capital Markets and Services Act.
- (3) No Head of Operations of a Participating Organisation shall undertake dealings on behalf of the Participating Organisation or the Participating Organisation's clients in whatsoever form.
- (4) No Commissioned Dealer's Representative shall undertake proprietary trading on behalf of the Participating Organisation.
- (5) No Salaried Dealer's Representative undertaking proprietary trading on behalf of the Participating Organisation shall deal on behalf of the Participating Organisation's clients.
- (6) All proprietary trading of the Participating Organisation undertaken by a Salaried Dealer's Representative shall be subject to review by the Compliance Officer.
- (7) Participating Organisations shall maintain a list of all its Dealers Representatives conducting clients' trading and proprietary trading respectively.
- (8) Participating Organisations shall maintain a proper and adequate system of internal control. Such system of internal control shall include the maintenance of adequate and comprehensive records and taping of conversations of Dealer's Representatives conducting proprietary trading.
- (9) Unless otherwise permitted by the Securities Laws and Depository Rules, a Participating Organisation shall only allow dealings in securities by clients who are trading as the beneficial owners of such securities or as authorised nominees, as the case may be.
- (10) A Participating Organisation dealing in securities whether as principal or agent may, subject to appropriate approvals from the Exchange in consultation with other relevant authorities -
  - (a) utilise accounts within the Participating Organisation for purposes as authorised nominees;
  - (b) utilise accounts within the Participating Organisation for purposes of proprietary trading;
  - (c) utilise accounts within the Participating Organisation for purposes of facilitating client's trading.

The Exchange, upon notification to the Commission, may prescribe the treatment of such accounts.

## RULE 601.2 INVIOABILITY OF CONTRACTS

- (1) **Annulment:** Failure to deliver or to accept and pay on delivery shall not annul a contract.

(2) **Cancellation:**

- (a) Subject to Rule 601.2(2)(b), no contract executed through SCORE shall be subject to any cancellation.
- (b) The Exchange may, subsequent to the contract being executed through SCORE and upon an application being made to it in its absolute discretion cancel such a contract where -
  - (i) both the delivery and settlement relating to such contract have not been effected; and
  - (ii) such cancellation is agreed to by buying and selling Participating Organisations and their respective clients.

(3) **Amendments generally:**

- (a) No amendments to any contract shall be made except in accordance with this Rule 601.2.
- (b) A Participating Organisation shall ensure that any request made by its Dealer's Representative shall first be approved by an authorized officer or Head of the Participating Organisation concerned.
- (c) A Participating Organisation shall establish written guidelines and procedures on the method of supervision, monitoring and approval of requests for and, amendments to contracts.
- (d) A Participating Organisation shall maintain proper records on all requests for and amendments made, and such records shall be subject to inspection by the Exchange.
- (e) A Participating Organisation shall take all reasonable steps to ensure that all requests for amendments to contracts are genuine.
- (f) Any abuse relating to request for amendments and a failure of the written guidelines and procedures established pursuant to Rule 601.2(3)(c) to prevent such abuse, shall be deemed to be a violation of these Rules.

(4) **Amendments to Ready Basis Contracts:**

- (a) For Ready Basis Contracts, only amendments in respect of securities account number which do not result in a change of the original party to the contract (who is the party placing the order and for whom the contract was, but for the error, executed) may be permitted.
- (b) Amendments to Ready Basis Contracts may only be effected if made not later than 8.00 p.m. on the contract date.

(5) **Amendments to Immediate Basis Contracts:**

- (a) For Immediate Basis Contracts, only amendments in respect of securities account number which do not result in a change of the original party to the contract (who is the party placing the order and for whom the contract was, but for the error, executed) may be permitted.
- (b) Amendments to Immediate Basis Contracts may only be effected if made not later than 8.00 p.m. on the contract date.

- (6) **Mistake:** Where a mistake has been made in respect of contracts executed through SCORE and such mistake was not due to any fault of the relevant client, the Participating Organisation concerned shall be responsible to make good any loss suffered by its client in consequence of such mistake.

**RULE 601.3 PERMITTED DEALINGS**

- (1) Dealings may be made in the following securities -
  - (a) securities which are quoted on the Official List of the Exchange;
  - (b) treasury bills, loans, short term securities and other obligations issued by the Government of Malaysia or any other governments;
  - (c) securities which have been granted quotation on a recognised stock exchange or by such other market places approved by the Exchange;
  - (d) units of unit trusts managed in Malaysia;
  - (e) subject to Rule 601.5, securities borrowing and lending;
  - (f) any other securities, dealing in which is specifically permitted by the Exchange.
- (2) Except as provided in Rule 601.3(1), Participating Organisations are prohibited from transacting in any other securities unless the Exchange has officially given its consent thereto.

**RULE 601.4 NEW ISSUE OF SECURITIES**

- (1) No Participating Organisations nor their Dealer's Representatives shall deal in, or otherwise make quotations in respect of -
  - (a) any securities of a new company being formed;
  - (b) any new issue or placement of securities made in respect of an unlisted company for the purpose of qualifying the company for official listing on the Exchange,unless the Exchange has given its approval.

**RULE 601.5 SECURITIES BORROWING AND LENDING**

- (1) [Deleted]
- (2) [Deleted]
- (3) [Deleted]
- (4) [Deleted]
- (5) [Deleted]
- (6) [Deleted]
- (7) [Deleted]
- (8) [Deleted]

**RULE 601.6 LIEN ON SECURITIES**

- (1) A Participating Organisation may, in respect of any purchase of securities by a client, have a lien on all securities for the time being standing to the credit of accounts (including trading accounts, CDS accounts and any other account, as the case may be) opened and maintained with the Participating Organisation by the client upon such terms and conditions as may be

agreed pursuant to the written agreement between the client and the Participating Organisation.

- (2) In the event any monies shall be owing to the Participating Organisation by a client in respect of a purchase of any securities, the client shall be deemed to have given his consent to the Participating Organisation borrowing on such securities and for such purpose pledging the securities or any of them to the extent of the amount outstanding on the client's account and without obligation to retain in its possession or control securities of like character or amount for such period until the monies owing are fully paid by the client.
- (3) Where the terms and conditions of an agreement between a client and a Participating Organisation do stipulate and the client being given prior reasonable notice, a Participating Organisation may sell such securities of the client as are agreed pursuant to the terms of the aforesaid agreement and henceforth claim from the client such other amount still outstanding.
- (4) Until such time the buying client's cheque has been cleared by his bank and the proceeds fully in the possession of a buying Participating Organisation, the Participating Organisation shall, in relation to any securities purchased by the client, have a lien over the securities so purchased and accordingly, the Participating Organisation shall have the right at all times to prohibit the buying client from dealing in such securities in the event the securities have been credited into the buying client's CDS account.

#### **RULE 601.7 DISPUTES**

- (1) **Definition:** For purposes of this Rule 601.7, the following words will bear these meanings unless otherwise defined -
  - (a) "disputes" means disputes arising out of any matter governed by these Rules between or involving -
    - (i) Market Participants;
    - (ii) Market Participants and the Exchange;
  - (b) "Market Participants" means Participating Organisations and Dealer's Representatives.
- (2) **Notice of Dispute:** Any disputes between parties referred to in Rule 601.7(1)(a) relating to -
  - (a) any securities transaction; and/or
  - (b) any matter arising from these Rules,may be brought to the notice of the Exchange, by notice in writing by either party to the dispute ("Notice of Dispute").
- (3) **Referral to court of law:** Unless the Exchange, for any reason whatsoever, fails to respond in writing, within thirty (30) days of receipt of the Notice of Dispute, confirming that the Exchange is not willing to act on the matter in dispute, parties referred to in Rule 601.7(1)(a) shall not resort to any outside tribunal or a court of law for determination of any such dispute.
- (4) **Exchange to inform parties:** Where the Exchange decides to act in any such dispute, it shall without delay so inform the party or parties to the dispute.
- (5) **Appointment of arbitrators:** If the Exchange decides to act as aforesaid and gives notice thereof, the Exchange shall, if the parties to the dispute are unable to reach an agreement for settlement of the matter in dispute, appoint in its sole discretion either one (1) or three (3) arbitrators for the purpose of adjudicating in the dispute.
- (6) **Award to be binding:** Any arbitrator or arbitrators appointed by the Exchange pursuant to Rule 601.7 (5) shall arbitrate in the matter in dispute in accordance with the provisions of, and with all the powers of an arbitrator appointed pursuant to the Arbitration Act 1952 and the

award of such arbitrator or arbitrators shall be final and binding upon the parties to such dispute.

**RULE 601.8 REPORTING OF TRADE DISPUTE**

- (1) Participating Organisations shall immediately report to the Exchange all trade disputes arising from time to time in respect of any securities transactions or other transaction relating to dealings in securities entered into by them including inter-broker transactions, which singularly or when aggregated involve an amount, value or liability of Ringgit Malaysia One Million (RM1,000,000) or more during the period so reported.
- (2) The report to the Exchange pursuant to Rule 601.8(1) shall be signed by a Head of Dealing or Head of Operations of the Participating Organisation.
- (3) Every report under this Rule 601.8 shall be made in such form as may be determined by the Participating Organisation and acceptable to the Exchange or as may be prescribed by the Exchange if deemed necessary or expedient. All reports envisaged herein shall provide details of the trade dispute, the amount in question and the parties thereto.
- (4) The Exchange may, upon the trade dispute being reported by a Participating Organisation, take whatsoever action deemed appropriate within these Rules.

**RULE 602 OFF-BALANCE SHEET TRANSACTIONS****RULE 602A.1 INVESTMENT BANKS**

- (1) All provisions in this Rule 602 on Off-Balance Sheet Transactions shall not be applicable to an Investment Bank. These disappplied provisions shall be substituted with the relevant provisions in the Guidelines on Investment Banks and/or any other requirements of the Central Bank pertaining to it ("the Relevant Guidelines and Requirements"). The Relevant Guidelines and Requirements shall be deemed to be part of these Rules.

**RULE 602.1 DEFINITION**

- (1) For the purposes of this Rule 602 -

Adverse Event(s)	for the purposes herein, Adverse Event(s) shall mean any one or more of the events as may be provided in the Off-Balance Sheet Transaction(s) agreement which have or, as the case may be, may have the effect of the Participating Organisation being obliged to perform and discharge its obligations under or pursuant to the Off-Balance Sheet Transaction(s).
Off-Balance Sheet Transactions	include uncalled amounts on securities, options, other contingent liabilities and capital commitments (whether secured or not) and all assets pledged as security, forward purchase/sale contracts, (other than in securities, which is prohibited) futures contracts and other commitments that contractually oblige a Participating Organisation to perform certain actions which are transacted outside the ATS, but shall not include underwriting or sub-underwriting which are required to be reported under Capital Adequacy Requirements.
Worst Case scenario	<p>in relation to Off-Balance Sheet Transaction(s), the assessment and determination of Worst Case scenario shall include, without limitation, consideration of the following –</p> <ul style="list-style-type: none"> <li>(a) the assumption that the Off-Balance Sheet Transaction(s) will be fully exercised;</li> <li>(b) any corresponding obligation with, or by, a third party to buy, or as the case may be, sell the same underlying securities may be taken into account only to the extent that there is collateral provided by such third party; and</li> <li>(c) such other considerations or assumptions as the Exchange may from time to time stipulate.</li> </ul>

**RULE 602.2 MAINTENANCE OF A REGISTER ON OFF-BALANCE SHEET TRANSACTIONS**

- (1) Every Participating Organisation shall maintain a register to record all Off-Balance Sheet Transaction(s) entered by it and shall maintain records and documents as prescribed below relating to such Off-Balance Sheet Transaction(s):
- (a) the duly executed agreement(s) relating to the Participating Organisation's entry into Off-Balance Sheet Transaction(s);
  - (b) specific reasons for entering into the Off-Balance Sheet Transaction(s);

- (c) description of the counterparty(ies) to the Off-Balance Sheet Transaction(s), including without limitation, their identities, corporate profile(s) and background, in sufficient detail to apprise of the Participating Organisation's potential risks related or incidental to the Off-Balance Sheet Transaction(s);
- (d) description of the collateral intended to be provided in relation to the Off-Balance Sheet Transaction(s), if applicable;
- (e) the resolution of the Participating Organisation's board of directors at a meeting approving the entry into, the Off-Balance Sheet Transaction(s) by the Participating Organisation; and
- (f) such other documents and information as may be required by the Exchange.

### **RULE 602.3 REQUIREMENT FOR CONTROL MECHANISM**

#### **(1) Internal policies and procedures:**

- (a) A Participating Organisation which intends to enter into, Off-Balance Sheet Transaction(s) shall establish and implement adequate and effective written internal policies and procedures to govern, monitor and control the carrying out of these activities by the Participating Organisation in ensuring compliance with these Rules, relevant Securities Laws and the relevant circulars, directives or guidelines issued from time to time by the Exchange.
- (b) The Participating Organisation's written internal policies and procedures aforesaid shall be duly approved and endorsed by its board of directors by way of a resolution passed in a meeting of the board of directors.

#### **(2) Minimum requirements:** The Participating Organisation's requisite written internal policies and procedures shall include without limitation the following –

- (a) policy statement(s) pertaining to circumstances under which the Participating Organisation is permitted to enter into, Off-Balance Sheet Transaction(s);
- (b) 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 it will be managed and monitored accordingly and any requisite steps and action in mitigating such risks are effective;
- (c) establishment of procedures and requirements for adequate reporting of information to be made to the Participating Organisation's board of directors to enable them to make informed decisions where necessary in a timely manner;
- (d) establishment and maintenance of organisational and reporting structures in relation to the Participating Organisation's activities in the entry into Off-Balance Sheet Transaction(s) that ensures regular reporting to its board of directors;
- (e) maintenance of a proforma computation of the Capital Adequacy Ratio, in the form of Schedule 8A of these Rules, incorporating the contingent liabilities arising from the Off-Balance Sheet Transaction(s) on the basis of Worst Case scenario, accompanied by a detailed comparison thereof 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);
- (f) a detailed action plan describing the Participating Organisation's decided course of action or measures taken or to be taken, as the case may be, to fully perform and discharge its obligations under Off-Balance Sheet Transaction(s); and

- (g) such other requirements as may from time to time be stipulated by the Exchange, upon notification to the Commission.
- (2) A Participating Organisation shall produce to the Exchange, upon its request, a copy of the policies and procedures and/or documents required to be maintained under Rule 602.3.

**RULE 602.4 REPORTING OF OFF-BALANCE SHEET TRANSACTION(S)**

- (1) **Duty to Report:** Participating Organisations shall report and declare to the Exchange on a monthly basis not later than the fifth (5<sup>th</sup>) market day of every month the following:-
  - (a) whether or not, as at the last day of the preceding month, any Off-Balance Sheet Transaction(s) has been entered into by a Participating Organisation during the preceding month;
  - (b) in the event that Off-Balance Sheet Transaction(s) has been entered into by a Participating Organisation during the preceding month as reported pursuant to Rule 602.4(1)(a); all Off-Balance Sheet Transaction(s) entered into during that preceding month, as at the last day of the preceding month (including Off-Balance Sheet Transaction(s) entered into by the Participating Organisation in that preceding month and performed and/or discharged by the Participating Organisation in the same month);
  - (c) all Off-Balance Sheet Transactions entered into (excluding those reported under Rule 602.4(1)(b)) which remain to be performed and/or discharged as at the last day of the preceding month;
  - (d) the occurrence of any Adverse Event(s) in relation to a Participating Organisation's entry into the Off-Balance Sheet Transaction(s) specified in Rule 602.4(1)(b) and (c); and
  - (e) any changes, amendments, variations or supplements to the terms and conditions of the Off-Balance Sheet Transaction(s) specified in:
    - (i) the Participating Organisation's report for the preceding month, pursuant to Rule 602.4(1)(b) within the preceding month; and/or
    - (ii) the Participating Organisation's last report prior to the preceding month, which continue to be reported as unperformed and/or undischarged in the report for the preceding month pursuant to Rule 602.4(1)(c).
- (2) **Form of report:** The report and the declaration pursuant to Rule 602.4(1) shall be in the form prescribed in Appendix 6 and shall be signed by: -
  - (a) in the case of a Universal Broker, the Head of Compliance;
  - (b) in the case of any other Participating Organisation:
    - (i) the Head of Operations; and
    - (ii) the Compliance Officer.

**RULE 603 OFFICIAL LIST AND OTHER MARKET**

**RULE 603.1 THE OFFICIAL LIST**

- (1) **Admission for listing:** Admission of companies for quotation and trading on the Official List shall be upon application in such form and on such terms and conditions as the Exchange shall from time to time determine.
- (2) **Exchange's rights:** The Exchange may, after approval(s) from the Commission and other regulatory authorities (where applicable) are obtained, admit or refuse to admit any company to quotation on the Official List or suspend for any period or withdraw any company from quotation and/or trading on the Official List at any time without assigning any reason therefor and the decision of the Exchange shall be final and conclusive.

**RULE 603.2 DEALING WITH OR CREATION OF OTHER MARKET**

- (1) No Participating Organisation shall in any manner deal with or create any other market for transactions in securities or interests in securities other than the stock market of the Exchange.
- (2) Notwithstanding Rule 603.1(1), the Exchange may, upon approval of the Commission, approve any form of market place other than the stock market of the Exchange in which Participating Organisations may deal with upon such terms and conditions as it shall determine.
- (3) A Participating Organisation shall not permit dealings in securities by a client if that Participating Organisation has reason to believe that the purchase by that client is intended to facilitate the dealing in securities or interest in securities outside the stock market of the Exchange or outside such other market place approved by the Exchange.

**RULE 604 DESIGNATED SECURITIES****RULE 604.1 DESIGNATED SECURITIES**

- (1) Notwithstanding any Rules to the contrary, the Exchange -
- (a) may, upon notification to the Commission, declare any listed securities as "Designated Securities" if in its opinion there has been manipulation or excessive speculation on such listed securities; or
  - (b) shall, as directed by the Commission, declare any securities quoted on the Official List as "Designated Securities"; and/or
  - (c) impose the declaration for such period as the Exchange may or, as the case may be, if in the case of a direction by the Commission, as the Commission may, deem fit,
- and shall make that declaration known to the public in such manner as the Exchange may decide.
- (2) For so long as the declaration remains in force, the Exchange may impose any conditions on the dealings of the Designated Securities, including the following conditions:-
- (a) a margin of cover on all dealings relating to such Designated Securities;
  - (b) a restriction on all such dealings to delivery before sale bargains;
  - (c) a restriction on all trading in the Designated Securities by a Participating Organisation to the extent that the outstanding contracts of that Participating Organisation in respect of the Designated Securities at any one time do not exceed five per cent (5%) of the paid-up capital of the Issuer whose securities have been so designated or such other percentage as the Exchange may from time to time direct;
  - (d) a prohibition on any sale of the Designated Securities unless the seller delivers the Designated Securities to the Participating Organisation at the time of entering into the contract sale;
  - (e) prohibition of the use of margin financing for purchase transactions of Designated Securities;
- (3) Any condition or conditions imposed by the Exchange under this Rule 604 shall apply, whenever applicable, to all outstanding contracts entered into before or after the date when such securities were declared as "Designated Securities" as from the date of such declaration.
- (4) The Exchange may withdraw the declaration at its absolute discretion or as directed by the Commission, in the case where the direction to designate the securities as "Designated Securities" is given by the Commission pursuant to Rule 604.1(1).

**RULE 604.2 PARTICULARS OF TRANSACTION**

- (1) The Exchange may by notice in writing require all Participating Organisations to furnish the Exchange within twenty-four (24) hours with full particulars of all outstanding contracts, dealings and transactions in any Designated Securities.
- (2) Any Participating Organisation failing or neglecting without reasonable excuse to furnish the particulars required under Rule 604.2(1) or failing to comply with the conditions laid down by the Exchange shall be deemed to have committed a breach of these Rules.

**RULE 605 CORNER****RULE 605.1 DECLARATION**

- (1) The Exchange may declare a corner situation in any securities ("the Affected Securities") in the following circumstances:-
- (a) where it is of the opinion that a single interest or group has acquired such control of a securities and that the same cannot be obtained for delivery except at prices and on terms dictated by such interest or group, or it is otherwise desirable in the interest of an orderly and fair market; or
  - (b) where directed by the Commission.
- (2) Upon such declaration, the Exchange shall have the power to impose any conditions as it deems fit, including the following: -
- (a) to postpone the time for delivery of the Affected Securities to such time as may be fixed by the Exchange or until further action by the Exchange;
  - (b) extend further the time of deliveries;
  - (c) to declare that if the Affected Securities is not delivered on any contract at or before the time which has been fixed by the Exchange for such delivery such contract shall be settled not by delivery but by payment -
    - (i) in the case of a seller who contracted to sell to the buyer at the price lower than the fair settlement price, by the seller to the buyer, of the difference between the fair settlement price and the contract price;
    - (ii) in the case of a seller who contracted to sell at a higher price than the fair settlement price, by the buyer to the seller, of the difference between the contract price and the fair settlement price;
    - (iii) in the case of a buyer who contracted to buy from the seller at a price higher than the fair settlement price, by the buyer to the seller, of the difference between the contract price and the fair settlement price;
    - (iv) in the case of a buyer who contracted to buy from the seller at a price lower than the fair settlement price, by the seller to the buyer, of the difference between the fair settlement price and the contract price.
- (3) The fair settlement price shall be determined in accordance with Rule 605.2 and shall be binding and conclusive on all parties to any outstanding contract dealings in the Affected Securities.

**RULE 605.2 FAIR SETTLEMENT PRICE**

- (1) For the purposes of this Rule 605, the fair settlement price shall be determined by the Exchange or Committee appointed by the Exchange.
- (2) The Exchange or such Committee shall, before fixing the fair settlement price, hear evidence from such persons as it shall in its absolute discretion deem necessary and proper.

**RULE 606 ISLAMIC STOCKBROKING ACTIVITIES**

**RULE 606.1 APPROVAL OF THE EXCHANGE**

- (1) The Exchange, in consultation with the Commission and/or other relevant authorities, may grant approval for a Participating Organisation to carry out stockbroking activities and/or provide facilities based on the Islamic Shariah principles.

**RULE 607      CONDITIONS ON TRADING IMPOSED  
ON AFFECTED LISTED ISSUERS**

**RULE 607.1    DEFINITIONS**

- (1) In this Rule 607, unless the context otherwise requires –
- |                        |   |
|------------------------|---|
| affected listed issuer | means a listed Issuer which fulfils the criteria prescribed under paragraph 8.14 of the Listing Requirements, or as may be amended, modified, varied, supplemented or substituted therefor from time to time. |
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**RULE 607.2    IMPOSITION OF CONDITIONS ON TRADING**

- (1) Pursuant to the Listing Requirements, the Exchange may impose such conditions as it deems fit on:-

- (a) transactions made through the ATS; and
- (b) Direct Business transactions,

in relation to the securities of any affected listed issuer and for such period as the Exchange deems fit.

- (2) The conditions envisaged in the preceding Rule may include without limitation, the requirement for full payment to be made for all purchases of the securities of the affected listed issuer prior to the purchase contract being executed.

For the avoidance of doubt, full payment prior to purchase as envisaged herein shall mean the buying Participating Organisation being in receipt of cash or, as the case may be, upon clearance of or good value being given to demand drafts, bankers cheques and cheques of the buying client delivered to the buying Participating Organisation.

- (3) The condition or conditions imposed by the Exchange in relation to the securities of the affected listed issuer must be complied with by Participating Organisations and is applicable to all contracts entered into in relation to the securities of the affected listed issuer from the effective date to be specified by the Exchange until notification otherwise.
- (4) The condition or conditions aforesaid, the effective date and the date of cessation of the condition or conditions may be notified by way of directives, circulars or such other manner as may be determined by the Exchange from time to time.

**RULE 607.3    SUBMISSION OF PARTICULARS**

- (1) The Exchange may, by notice in writing, require all Participating Organisations to furnish the Exchange within such time as may be prescribed in the notice full particulars of all outstanding contracts, dealings and transactions in the securities of any affected listed issuer.
- (2) Any Participating Organisation which –
- (a) fails or neglects without reasonable cause to furnish the particulars required pursuant to the preceding Rule; or
  - (b) fails to comply with the conditions prescribed by the Exchange as envisaged under this Rule shall be deemed to have committed a breach of these Rules.

**RULE 608      SECURITIES BORROWING AND LENDING**

**RULE 608.1 DEFINITIONS**

(1) For the purposes of this Rule 608:-

Clearing House Requirements	means the Clearing House Rules, the SBL Conditions and any other document(s) by whatever name called issued by the Clearing House in relation to securities borrowing and/or lending;
Effective Shareholders' Funds	shall have the same meaning assigned to that expression under Rule 1105;
Eligible Securities	means such securities as may be prescribed by the Clearing House from time to time as being eligible for securities borrowing and/or lending in accordance with the Clearing House Requirements;
haircut	means the deduction of certain amount of value of the collateral referred to in Rule 608.7;
income	means any interest, dividends or other distribution of any kind whatsoever with respect to any Eligible Securities;
Internal Guidelines for Securities Borrowing and Lending	means written guidelines formulated by Participating Organisations setting out the Participating Organisations' internal policies, procedures, controls and requirements in relation to securities borrowing and/or lending activities referred to in Rule 608.2(1) and for the supervision and monitoring of their securities borrowing and/or lending activities to ensure strict compliance with the laws, these Rules and the Clearing House Requirements including any regulations and requirements issued thereunder;
SBL Conditions	has the same meaning assigned to that expression in the Clearing House Rules; and
securities borrowing and/or lending	means the borrowing and/or lending of Eligible Securities as described in Rule 608.2(1).

**RULE 608.2 GENERAL**

(1) A Participating Organisation shall only be permitted to carry out the activities of borrowing and/or lending of Eligible Securities as described below, subject to the provisions in the Clearing House Requirements and this Rule 608:

- (a) A Participating Organisation may borrow Eligible Securities from:-
  - (i) the Clearing House whether for itself or its client, or
  - (ii) its client provided that such borrowing is for the sole purpose of lending the Eligible Securities borrowed to the Clearing House.
- (b) A Participating Organisation may lend Eligible Securities to:-
  - (i) the Clearing House whether for itself or its client; or
  - (ii) its client provided that the Eligible Securities being lent are the Eligible Securities that have been borrowed from the Clearing House for the sole purpose of lending to such client.

(2) Subject always to the Clearing House Requirements, the borrowing of any Eligible Securities whether for itself or its client is only permitted in the following circumstances:

- (a) for the execution of a regulated short sale and permitted short selling in accordance with Rule 704 and Rule 704A respectively;
  - (b) where there are no or insufficient securities as will enable a seller pursuant to a sale trade executed by the seller on the Exchange, to meet its delivery obligations to the purchaser in accordance with the Rules relating to delivery and settlement in chapter 8, as a result of a mistake howsoever made when executing the sale trade provided always that the mistake was made in good faith and discovered only after the sale trade has been executed; or
  - (c) for such other purposes as may be determined by the Clearing House.
- (3) Any settlement of sale trade executed by a Participating Organisation arising from a borrowing made in breach of Rule 608.2(2), such sale shall be deemed to be a sale in breach of Rule 704, Rule 704A and section 98(1) of the Capital Markets and Services Act and the matter shall be referred to the Commission. The referral of the matter to the Commission shall not preclude the right of the Exchange to exercise any of its powers in relation to a breach of Rule 608.2, Rule 704 and Rule 704A.
- (4) Every Participating Organisation shall ensure where it borrows or lends Eligible Securities, on behalf of its client or where it onward lends to or borrows from its client as envisaged in Rule 608.2(1) that the following are complied with:
- (a) that a written agreement is duly executed between the Participating Organisation and its client in respect of the borrowing or lending mentioned herein and the terms of the written agreement complies with Rule 608.6;
  - (b) that collateral is lodged in accordance with Rule 608.7;
  - (c) that where Margin Securities of Margin Account Client as defined in Rule 608.8 is utilised for lending, the utilisation thereof shall be subject to Rule 608.8;
  - (d) that where Custodial Securities of Custodial Client as defined in Rule 608.9 is utilised for lending, the utilisation thereof shall be subject to Rule 608.9; and
  - (e) that a copy of the Risk Disclosure Statement prescribed under Appendix 5 is given to and acknowledged by its client prior to the execution of any written agreement for borrowing by the client of Eligible Securities.

### **RULE 608.3 INTERNAL GUIDELINES AND SYSTEMS**

#### **(1) Internal Guidelines**

- (a) A Participating Organisation desirous of engaging in securities borrowing and/or lending activities shall formulate a set of its Internal Guidelines for Securities Borrowing and Lending, the contents of which shall include the areas set out under Schedule 9.
- (b) The Internal Guidelines for Securities Borrowing and Lending shall be approved by the board of directors of the Participating Organisation and the Participating Organisation shall ensure that the Internal Guidelines for Securities Borrowing and Lending is brought to the notice of, read and understood by, all relevant employees and registered persons of the Participating Organisation.

#### **(2) Every Participating Organisation shall establish, implement and maintain the following:**

- (a) systems and infrastructure including but not limited to back office systems and infrastructure, which are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of securities borrowing and/or lending in accordance with Rule 608; and

- (b) all the policies, procedures, controls and all other requirements set out in the Internal Guidelines for Securities Borrowing and Lending.

**RULE 608.4 COMMENCEMENT OF SECURITIES BORROWING AND/OR LENDING ACTIVITIES**

- (1) Subject always to the Clearing House Requirements, a Participating Organisation shall only be permitted to commence with its securities borrowing and/or lending activities when the following requirements are complied with:
  - (a) the Participating Organisation shall have Effective Shareholders' Funds of not less than Ringgit Malaysia Fifty Million (RM50,000,000) (or such other amount as shall be determined by the Exchange from time to time) as at the date of the declaration in Rule 608.4(1)(d) and shall continue to maintain the same for as long as it is carrying out securities borrowing and/or lending activities;
  - (b) the Participating Organisation has established Internal Guidelines for Securities Borrowing and Lending stipulated in Rule 608.3;
  - (c) the Participating Organisation has in place systems and infrastructure including but not limited to back office systems and infrastructure, which are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of securities borrowing and/or lending activities in accordance with Rule 608 and the Clearing House Requirements; and
  - (d) subject to Rule 608.5, the Participating Organisation has submitted a written declaration in the form prescribed in Appendix 10 to the Exchange of its compliance with Rules 608.4(1)(a), 608.4(1)(b) and 608.4(1)(c) at least two (2) market days prior to the commencement of its securities borrowing and/or lending activities.

**RULE 608.5 INSPECTION AND/OR AUDIT BY THE EXCHANGE :**

- (1) Without prejudice to any other powers conferred on the Exchange in these Rules pertaining to the conduct of inspection and/or audit on a Participating Organisation, the Exchange may at any time and/or from time to time prior to or after the receipt of the declaration in Rule 608.4(1)(d) undertake an inspection and/or audit on the Participating Organisation's compliance with the requirements stipulated under Rules 608.4(1)(a), 608.4(1)(b) and 608.4(1)(c), in the manner determined by the Exchange.
- (2) In determining compliance with Rule 608.4(1)(c), the following shall apply:
  - (a) the Exchange shall be entitled to require the Participating Organisation to provide a confirmation as and in the manner determined by the Exchange, that adequate verification and assessment has been carried out to ensure that its systems and infrastructure including but not limited to back office systems and infrastructure, are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of securities borrowing and/or lending in accordance with Rule 608 and the Clearing House Requirements; and
  - (b) the Exchange shall be entitled to rely on the confirmation provided herein.
- (3) The Participating Organisation shall be given notice in writing by the Exchange prior to the commencement of any inspection and/or audit referred to under Rule 608.5(1).
- (4) Where a notice under Rule 608.5(3) has been issued to a Participating Organisation which has yet to submit the declaration under Rule 608.4(1)(d) or has submitted the declaration

under Rule 608.4(1)(d) but has yet to commence with its securities borrowing and/or lending activities, the Participating Organisation shall not commence with its securities borrowing and/or lending activities until the following has been complied with:

- (a) the inspection and/or audit referred to in Rule 608.5(1) has been completed;
  - (b) the corrective and/or preventive measures and actions referred to in Rules 608.5(5) and 608.5(6) (if any) have been duly carried out and completed by the Participating Organisation; and
  - (c) the submission of the confirmation (if applicable) and the declaration referred to in Rule 608.5(6).
- (5) Upon completion of the inspection and/or audit, the Exchange shall notify the Participating Organisation in writing of the findings of the inspection and/or audit which shall include but not limited to findings of any non compliances with Rules 608.4(1)(a), 608.4(1)(b) and 608.4(1)(c) and the corrective and/or preventive measures and actions (if any) to be taken by the Participating Organisation for the purpose of complying with above Rules. The Exchange may pending the carrying out and completion of the corrective and/or preventive measures and actions (if any) by a Participating Organisation other than the Participating Organisation referred to in Rule 608.5(4), suspend the carrying out of any further securities borrowing and/or lending by the Participating Organisation until the corrective and/or preventive measures and actions (if any) are carried out and completed by the Participating Organisation.
- (6) Where the corrective and/or preventive measures and actions referred to in Rule 608.5(5) have been duly carried out and completed, the Participating Organisation shall confirm in writing to the Exchange of the same. In relation to a Participating Organisation referred to in Rule 608.5(4) which has yet to submit the declaration under Rule 608.4(1)(d) the Participating Organisation shall together with the confirmation mentioned herein submit the declaration stipulated under Rule 608.4(1)(d).
- (7) The Exchange is not precluded from exercising any of its powers under these Rules for any non compliances of these Rules found pursuant to the inspection and/or audit referred to under Rule 608.5(1), notwithstanding that a Participating Organisation may have duly carried out and completed the corrective and/or preventive measures and actions referred to in Rule 608.5(5) and 608.5(6).

#### **RULE 608.6 WRITTEN AGREEMENT**

- (1) A Participating Organisation shall ensure that the written agreement referred to in Rule 608.2(4)(a) for the securities borrowing and/or lending of Eligible Securities entered into with its client is executed prior to the borrowing and/or lending of the Eligible Securities.
- (2) 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/or lending of the Eligible Securities shall be 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/or lending of the Eligible Securities and shall include but not limited to 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 Rule 608.7, requirement for deposit of collateral (if any) including the management and utilisation of the collateral deposited thereof;
  - (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 and/or lent;
- (e) the fees, to be paid for the borrowing and/or lending of the Eligible Securities;
- (f) the circumstances under which the Participating Organisation and its client is entitled to terminate the agreement entered into for the borrowing and/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.

**RULE 608.7 COLLATERAL**

- (1) A Participating Organisation shall ensure that where it borrows Eligible Securities on behalf of a client as envisaged in Rule 608.2(1)(a)(i) or where it onward lends Eligible Securities as envisaged in Rule 608.2(1)(b)(ii) to its client ("the Borrowed Securities") that it obtains collateral from the client in relation to the borrowing in accordance with this Rule 608.7.
- (2) The Participating Organisation shall comply with the following requirements in relation to the collateral required to be deposited by a client pursuant to Rule 608.7(1):
  - (a) the collateral shall only be the types of collateral provided in Schedule 8J and shall be subject to a haircut. The rate of the haircut for a particular type of collateral shall at least be the same as the rate prescribed by the Clearing House for that collateral in relation its securities borrowing and/or lending activities. In the absence of any haircut thereof prescribed by the Clearing House, the haircut for that collateral shall at least be same as the 'discounting' rate provided in Schedule 8J for that type of collateral. For the purposes of this Rule 608.7, any reference made to the value of collateral shall be taken to mean the value of the collateral based on the valuation prescribed in Rule 608.7(2)(d) after applying the prescribed hair cut herein;
  - (b) the client shall deposit the collateral prior to the borrowing envisaged in Rule 608.7(1);
  - (c) the value of collateral obtained from the client, shall be at least one hundred and five per centum (105%) or such other percentum as may be determined by the Exchange from time to time, 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 shall be marked to market on a daily basis based on the valuation stipulated in Rule 703.7. 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 active market for the securities; or
    - (iii) no possibility of immediate liquidation for the securities.
- (3) Where the value of the collateral falls below one hundred and five per centum (105%) or such other per centum as may be determined by the Exchange from time to time, of the market value of the Borrowed Securities, a Participating Organisation shall comply with the following:
  - (a) where the collateral falls below one hundred and five per centum (105%) the Participating Organisation shall issue a notice to the client to lodge additional collateral in order to top up the short fall. Pending such topping up, the client shall not be permitted to borrow any additional securities; and

- (b) Where the value of the collateral falls below one hundred and two per centum (102%), the Participating Organisation shall issue a notice to the client for the return of the securities borrowed within three (3) market days from the date of the notice. In the event the client fails to return the securities borrowed, the Participating Organisation shall liquidate the collateral. The proceeds from the liquidation shall be utilised to purchase the relevant securities for the purpose of returning the securities borrowed 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 herein is at least one hundred and five per centum (105%) or such other percentum as may be determined by the Exchange, of the market value of the Borrowed Securities on the withdrawal date.
- (5) Subject to Rule 608.7(6), a Participating Organisation shall ensure that all collateral deposited by a client is kept 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 Participating Organisation shall ensure that the cash deposited can be clearly identified from its records as that of the client; and
  - (c) where the collateral is in respect of securities deposited with the Depository, the collateral is held in a separate CDS 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 shall ensure that the provisions in Rule 608.7 except Rule 608.7(8) is incorporated into the written agreement referred to in Rule 608.6.
- (8) A Participating Organisation shall submit a report to the Exchange on a weekly basis, in respect of all of its clients whose collateral has fallen below one hundred and two per centum (102%) of the market value of the Borrowed Securities for the week, in the format as may be prescribed by the Exchange from time to time, on the first market day (1<sup>st</sup>) day of the following week.
- (9) No Participating Organisation shall be permitted to onward pledge to any party or utilise any of the collateral lodged by its clients pursuant to this Rule 608.7 for whatsoever reason save and except as permitted in Rule 608.7(6).

**RULE 608.8 SECURITIES IN MARGIN ACCOUNT**

- (1) A Participating Organisation may borrow any Eligible Securities carried in the margin account of a client, whether such securities are purchased or deposited as collateral ("Margin Securities"), for the purpose of lending the Margin Securities as envisaged in Rule 608.2(1)(a)(ii), subject to the following requirements:-
  - (a) A written agreement referred to in Rule 608.6 shall be executed between the Participating Organisation and the client (in this Rule, "Margin Account Client") to borrow the Margin Securities from the Margin Account Client for purpose of lending the Margin Securities as envisaged in Rule 608.2(1)(a)(ii).
  - (b) A Margin Account Client shall 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 him and the Participating Organisation, notwithstanding:

- (i) that Margin Securities carried in the margin account is used for purposes of securities borrowing and/or lending as envisaged in Rule 608.2(1)(a)(ii); and
  - (ii) any shortfall or gains arising from securities borrowing and/or lending transactions as envisaged in Rule 608.2(1)(a)(ii) involving the Margin Securities of the Margin Account Client.
- (c) A Margin Account Client whose Margin Securities are utilised for purposes of securities borrowing and/or lending as envisaged in Rule 608.2(1)(a)(ii) shall 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/or lending on such terms as to be mutually agreed between the Participating Organisation and that client, notwithstanding that the securities borrowing and/or lending for which his Margin Securities have been utilised has resulted in any shortfall or gain.
- (d) A Margin Account Client, shall give reasonable notice to the Participating Organisation for any withdrawal or sale of the Margin Securities utilised for the purpose of securities borrowing and/or lending as envisaged in Rule 608.2(1)(a)(ii), 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 utilised for securities borrowing and/or lending as envisaged in Rule 608.2(1)(a)(ii), the Participating Organisation shall comply strictly with all the requirements of Rule 703.
- (f) The Participating Organisation shall not utilise more than fifty per cent (50%) of the value, at the time of lending, of the Margin Securities in any client's margin account for the purposes of securities borrowing and/or lending as envisaged in Rule 608.2(1)(a)(ii).
- (g) The Participating Organisation shall issue a monthly statement to Margin Account Client whose Margin Securities are used for the purposes of securities borrowing and/or lending as envisaged in Rule 608.2(1)(a)(ii), and such statement shall contain all necessary details in relation to the securities borrowing and/or lending transactions envisaged in Rule 608.2(1)(a)(ii) including the quantity of Margin Securities utilised and the fees earned thereon.
- (2) A Participating Organisation shall ensure that the requirements stipulated in Rule 608.8(1)(b) are incorporated into the written agreement referred to in Rule 608.6.

**RULE 608.9 SECURITIES HELD 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 purposes of lending the Custodial Securities as envisaged in Rule 608.2(1)(a)(ii), provided that a written agreement as referred to in Rule 608.6 is executed between the Participating Organisation and the Custodial Client to borrow the Custodial Securities from the Custodial Client.
- (2) A Participating Organisation shall at all times ensure that the process of selecting the custodial accounts to be utilised for the purposes of securities borrowing and / or lending is fair, equitable and transparent.

**RULE 608.10 DESIGNATED CDS ACCOUNTS**

- (1) A Participating Organisation shall ensure that all Eligible Securities borrowed and/or lent pursuant to securities borrowing and/or lending are held in the CDS Account(s) prescribed in the Clearing House Requirements and in no other CDS Account(s).

**RULE 608.11 REPORTING BY COMPLIANCE OFFICER**

- (1) The Head of Compliance or in the case of Non Universal Brokers the Compliance Officer or where there is more than one Compliance Officer, the Compliance Officer that is heading the compliance functions, shall ensure that the report submitted pursuant to Rule 309.8(4) shall address the following areas in relation to securities borrowing and/or lending:
- (a) inaccuracies and errors in relation to any reports submitted by the Participating Organisations pursuant to this Rule or any directives, rulings and guidelines issued by the Exchange;
  - (b) non compliances with any requirements stipulated in the Internal Guidelines for Securities Borrowing and Lending; and
  - (c) any other breaches in relation to Rule 608.
- (2) A Participating Organisation shall submit to the Exchange a report of all Eligible Securities borrowed for the purpose stipulated in Rule 608.2(2)(b) on a weekly basis, in the format and manner as may be prescribed by the Exchange from time to time, on the first (1<sup>st</sup>) market day of the following week. In the event there is no report submitted to the Exchange on the first (1<sup>st</sup>) market day of the week, the Exchange shall assume that there were no borrowings of Eligible Securities in the preceding week unless proven otherwise.

**RULE 608.12 ACTION BY THE EXCHANGE**

- (1) Without prejudice to any other powers of the Exchange contained in the Capital Markets and Services Act, this Rule 608, these Rules and/or any other directives, ruling or guidelines issued by the Exchange from time to time, the Exchange may in the following circumstances take any of the actions enumerated under Rule 608.12(2) in the manner stipulated therein against any or all Participating Organisations, registered persons and clients and/or in relation to any or all Eligible Securities:
- (a) where there is a breach or likelihood of breach of any provisions in Rule 608 and/or Rule 704 and/or Rule 704A; or
  - (b) where the securities borrowing and/or lending activities may lead or likely to lead to the commission of any of the offences under the Capital Markets and Services Act.
- (2) Pursuant to Rule 608.12(1), the following actions may be taken by the Exchange in relation to any or all Eligible Securities and/or against any or all Participating Organisations, registered persons and clients in the manner and for the period determined by the Exchange:
- (a) suspension and/or cessation of further securities borrowing and/or lending of Eligible Securities by the Participating Organisation and/or registered persons whether for itself or any or all of its clients;
  - (b) imposition of limits on the total number or the type of Eligible Securities that may be borrowed or lent by the Participating Organisation and/or registered persons whether for itself or any or all of its clients or by any or all of its clients; or
  - (c) imposition of restriction or conditions on the securities borrowing and/or lending activities carried out by the Participating Organisation and/or registered persons whether for itself or any or all of its clients or by any or all of its clients.
- (3) In the event that the Exchange undertakes any of the actions under Rule 608.12(2) against a Participating Organisation, a registered person or a client of the Participating Organisation, such actions shall also be applicable to any person who is the proxy, agent, nominee or acting in concert with that Participating Organisation, registered person or that particular client of the Participating Organisation as the case may be.

- (4) Where an action has been taken under Rule 608.12(2), a Participating Organisation and/or registered person, may make representations to the Exchange for the discontinuance of the action taken. The Exchange may after the representations were made, discontinue with the action taken. However such discontinuance shall not be construed as an omission or error of any kind on the part of the Exchange in undertaking the action under Rule 608.12(2) in the first place.
- (5) The provisions in Rule 1303 shall not apply to any action taken under Rule 608.12(2).

[End of Chapter]