CONSULTATION PAPER NO. 2/2012

PROPOSED AMENDMENTS TO LISTING REQUIREMENTS AND RULES OF BURSA MALAYSIA SECURITIES BHD, RULES OF BURSA MALAYSIA DEPOSITORY SDN BHD AND RULES OF BURSA MALAYSIA SECURITIES CLEARING SDN BHD IN RELATION TO EXCHANGE TRADED BONDS

Date of Issue: 4 May 2012

Bursa Malaysia Securities Berhad (Bursa Securities), Bursa Malaysia Depository Sdn Bhd and Bursa Malaysia Securities Clearing Sdn Bhd invite your written comments on the issues set out in this Consultation Paper by **18 May 2012** via:

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Respondents to this Consultation Paper are requested to use the reply format in **Attachment 1**.

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TABLE OF CONTENTS **PAGE**

A. PURPOSE OF THE CONSULTATION PAPER

This consultation paper seeks views from the public regarding the proposal to allow the listing and quotation of sukuk and bonds issued by the government of Malaysia, local and foreign listed or unlisted corporations on the stock exchange of Bursa Malaysia Securities Berhad ("**Bursa Securities**" or "**the Exchange**"). This will enable these debentures (called "**Exchange Traded Bond(s)**") to be invested and traded by investors both retail and institutional, through the stock market of Bursa Securities.

This proposal entails amendments to be made to Bursa Securities Main Market and ACE Market Listing Requirements ("**Main LR**" and "**ACE LR**" respectively), the Rules of Bursa Securities, the Rules of Bursa Malaysia Depository Sdn Bhd ("**Bursa Depository**") and the Rules of Bursa Malaysia Securities Clearing Sdn Bhd ("**Bursa Clearing (S)**") (collectively the Main LR, ACE LR, Rules of Bursa Malaysia Securities Berhad, Rules of Bursa Malaysia Depository Sdn Bhd and Rules of Securities Malaysia Clearing Sdn Bhd to be referred to as "**Rules**") as discussed below.

As the proposal is open to public feedback, the final amendments may be different from those stated in this Consultation Paper. The proposals in this Consultation Paper and the proposed rule amendments attached **HAVE NOT** been approved by the Securities Commission ("**SC**") and therefore, are not the final rule amendments. We will submit the finalised rule amendments to SC for approval after receipt of comments on the rule amendments pursuant to this Consultation Paper and making the relevant changes where appropriate, to the rule amendments.

B. BACKGROUND

In 2010, the Malaysian Minister of Finance announced in the 2011 budget that Bursa Securities would launch a sukuk and conventional bonds trading platform to meet retail investors' demand for debt securities. The Economic Transformation Programme outlined a plan to deepen and broaden the Malaysian bond market which includes increasing retail participation.

An Industry Working Committee (the "**Committee**") was established in December 2010. The members of the Committee include SC, Bursa Securities, Malaysian Investment Banking Association ("**MIBA**"), Bank Negara Malaysia ("**BNM**"), Malaysian Electronic Clearing Corporation Sdn Bhd ("**MyClear**") and Persatuan Pasaran Kewangan Malaysia ("**PPKM**"). The role of this committee is to set up a framework to enable sukuk and bonds to be traded by retail investors. Bursa Securities has been tasked with providing a platform to increase vibrancy and liquidity by enabling the retail market to tap into the Malaysian bond market.

The introduction of the Exchange Traded Bonds is aimed at providing issuers with access to a new segment of retail investors which was previously unavailable. The ability of issuers to structure a retail offering in the sukuk and bond market provides further flexibility to issuers in their fund raising exercises. Furthermore, public investors are eagerly awaiting the new investment opportunities in the form of bonds which was previously only available to high net worth individuals or large corporations.

Investments in sukuk and bonds have generally been regarded as lower risk instruments compared to equity securities. Thus, the availability of a new class of sukuk and bonds fulfil the appetite of retail investors for lower risk instruments. The introduction of sukuk and bonds to be invested by retail investors opens up a new world of fixed-income investment alternatives which is able to provide higher returns compared to the current vanilla bank deposit offerings. In addition, Exchange Traded Bonds assures investors visibility on the order book depth and bid-offer level allowing efficient price discovery of the listed sukuk and bonds.

C. CURRENT STRUCTURE OF SUKUK AND BONDS

Bonds are generally issued by a corporation or government ("**issuer**") to investors in return for cash. The investors investing in the bonds are commonly referred to as bondholders. In its simplest form, the issuer is a borrower, borrowing money from the bondholders. Interest is paid to the bondholders over the life of a bond, with the payment terms dependent on the details of the issue. The 'coupon rate' or 'interest rate' is the annual or semi-annual interest rate paid on the bonds and is the rate used to determine the amount of interest the issuer pays to the bondholders at regular intervals throughout the lifetime of the bond. The principal, also known as the 'nominal value' or 'par value' of a bond, is the amount that the issuer will pay back to the bondholder on maturity of the bonds. The maturity or 'redemption date' of a bond is the date on which the issuer agrees to pay back the principal amount of the bond. Details of the coupon rate, interest rate, principal, maturity or redemption date are usually set out in the prospectus or term sheet (in the case of bond programme) which is provided to the potential bondholders.

1. Current Regulatory Structure of Sukuk and Bonds

Sukuk and bonds issued in Malaysia are issued by either a corporation or a government entity and regulated by different authorities. The current regulatory structure of corporate and government sukuk and bonds are described further below:

(a) Corporate Sukuk and Corporate Bonds

Corporate sukuk and corporate bonds are currently regulated by the SC pursuant to the Capital Markets and Services Act 2007 ("**CMSA**") and the approval of the SC under Section 212 is required for any issue, offer for subscription or purchase, or invitation to subscribe for or purchase of securities and quotation of securities on a stock market of a stock exchange. The issuance of corporate bonds is regulated under the SC's Private Debt Securities Guidelines ("**PDS Guidelines**") while the issuance of sukuk is regulated by SC's Islamic Securities Guidelines ("**Sukuk Guidelines**").

(b) Government Issued Sukuk and Bonds

Sukuk and bonds issued by the Government of Malaysia are governed under several different laws. The Malaysian Government Securities ("**MGS**") are issued under the Treasury Bills (Local) Act 1964 and Malaysian Treasury Bills ("**MTB**") are issued under the Loan (Local) Act 1959. Government Investment Issues ("**GII**") and the Malaysian Islamic Treasury Bills ("**MITB**") which are Islamic debt securities, are issued under Government Funding Act 1983. These Acts provide the regulatory framework to raise funds for the government which includes setting out the powers of the government to borrow or to receive investments.

2. Current Clearing and Settlement of Sukuk and Bonds

MyClear, a wholly-owned subsidiary of BNM, is empowered to operate the Real Time Electronic Transfer of Funds and Securities ("**RENTAS**") and the Fully Automated System for Issuing / Tendering ("**FAST**") Systems on BNM's behalf. Participants using RENTAS or FAST are required to comply with the relevant operating rules of MyClear.

3. Current Offering Of Sukuk/ Bonds In Bursa Malaysia

Currently there is a framework under the Main LR that allows for the listing of sukuk or bonds on the Exchange, but which sukuk or bonds are not quoted for trading. This "**Exempt Regime**" is for issuers of sukuk or bonds that are issued, offered or subscribed in accordance with section 229(1) and section 230(1) of the CMSA who wish to list their sukuk or bonds for profiling purposes. The investors intended for these instruments are sophisticated high net worth individuals.

A listed issuer may also issue and list its debt securities on Bursa Securities. However, such debt securities, although listed, are not actively traded by investors.

D. OBJECTIVES AND BENEFITS OF EXCHANGE TRADED BONDS

The Exchange Traded Bonds framework is aimed at providing a cost effective and transparent means to access investment grade fixed income products by retail savers and investors who seek alternatives to their plain vanilla bank deposits and equity instruments on Bursa Securities.

A compelling reason for Bursa Securities to offer Exchange Traded Bonds is to provide efficient and transparent access to investment in fixed income market to non-sophisticated investors, mainly the retail investors. Currently the over-the-counter ("**OTC**") trading market for fixed income securities is inaccessible to retail investors and the only exposure they get to bonds is through the bond funds which carry upfront fees and yearly management fees.

Once on an exchange platform, Exchange Traded Bonds may be accessed by not only retail but also institutions that may require transparency of bid ask quotes and a reliable clearing and settlement system.

Benefits to Issuers – New Class of Investor

- A new class of investors for the debt capital markets
  The Exchange Traded Bonds opens access to a new segment of investors in the form of the broad investing public. The ability to structure a retail offering provides further flexibility to issuers in fund raising exercises, especially for high profile issuers and projects.

- A diversified class of investors
  A large base of underlying investors means the market will not be dominated by a handful of players, providing more competitive pricing for the retail offering.

- Low-correlation class of investors
  The broader retail investors consider investment in absolute yield terms. This enables issuers to access funding avenues in periods of stress for institutional investors.

Benefits to Investors – A New Class of Investments

- A new form of instrument of investment
  The Exchange Traded Bonds provide a new investment option for the general public which is different from current retail offerings. This complements an existing retail offering which ranges from equity instruments to structured deposits to baskets of assets.

- Satisfies gap in the risk/reward spectrum
  Debt capital products are generally lower risk than the equity investments which are generally available to the public. Sukuk and bonds provide fixed-income investment alternative to investors with higher returns than vanilla bank deposit offerings.

- Exchange traded mechanism ensure transparent markets
  Non-listed investments are only tradable OTC. Having securities listed on a matched-order platform assures ability for investors to invest and trade in a regulated and transparent manner with visibility on the bid offer level with the provision of market making on Exchange Traded Bonds.

E. PROPOSED FRAMEWORK/ KEY FEATURES OF EXCHANGE TRADED BONDS

The Exchange Traded Bonds will be listed on the Main Market of Bursa Securities and traded on the Bursa Trade Securities platform. The proposed framework/ key features of the Exchange Traded Bonds market are characterised in three aspects, namely, product characteristics & issuance, trading, and post trading as detailed below:

Product and Issuance

Areas	Proposed framework/ key features of Exchange Traded Bonds
Regulatory approval	• SC's approval will be required pursuant to SC's PDS Guidelines, Guidelines on the Offering of Asset-Backed securities and Islamic Securities Guidelines (Sukuk Guidelines) • Bursa Securities' approval will be required pursuant to the Main Market LR • Automatic quotation is proposed to be granted for any issue of sukuk or debt securities by or guaranteed by the State Government, Federal Government of Malaysia and Bank Negara Malaysia. No post listing obligations will be imposed for such issues.
Prospectus requirement	Prospectus is required for all private debt securities ("**PDS**") issuance, unless the PDS is made or guaranteed by the Federal Government or any State Government or Bank Negara.
Distribution	Distribution may be through private placement, or subscription of

Areas	Proposed framework/ key features of Exchange Traded Bonds
	new or existing issue
Trading	Trading will be on Bursa Trade System (BTS)
Listing & quotation	• Automatic quotation is proposed for any issue of sukuk or debt securities by or guaranteed by the State Government, Federal Government of Malaysia and BNM • SC and Bursa Securities are to grant approval for listing and quotation of PDS with retail offering
Eligible Issuer/ Rating	• Local and foreign issuers which issue bonds of investment grade and above. • Minimum rating as may be prescribed by SC from time to time such as the following: ➢ Local rating: AAA, AA ➢ International rating: BBB and above
Types of bonds	MGS, PDS (including those which are convertible and exchangeable into listed shares), Medium Term Notes (MTN).
Minimum size	No minimum size
Minimum Tenure	Minimum tenure of more than 1 year (No maximum tenure)
Credit Rating	Credit rating is proposed to be mandatory except for those exempted under paragraph 7.09 of the SC's PDS Guidelines, including the following: (a) Irredeemable convertible loan stocks; and (b) Bonds or loan stocks convertible or exchangeable into listed securities.
Public spread	No public spread requirement is proposed
Trustee	A trustee is required to be appointed
Post Listing Obligations (not applicable for any issue of sukuk or debt securities by or guaranteed by the State Government, Federal Government of Malaysia	Obligations include the disclosure of: • Half yearly financial statement • Annual audited financial statement • Any material announcements

Areas	Proposed framework/ key features of Exchange Traded Bonds
and Bank Negara Malaysia)	
Delisting	De-listing of the ETB is proposed upon: • Maturity • Early redemption

Trading

Due to the attractive interest derived income from sukuk or debt securities, investors will tend to buy and hold these instruments. Therefore, Bursa Securities proposes some enhanced trading features for Exchange Traded Bonds as stated below. It is proposed that market makers registered under the Bursa Securities Rules undertake voluntary market making to provide for liquidity in the trading of Exchange Traded Bonds on the Exchange.

Areas	Proposed framework/key features of Exchange Traded Bonds
Pricing – Decimals	3
Pricing – Clean / Dirty	Dirty (Quoted Price)
Board lot size (i.e the minimum trading size)	100 unit
Quotation	RM 1.00
Minimum bids	RM0.001
Price trading limits per day	10% or minimum 10 sen
Brokerage payable	Minimum of RM12 and maximum of 0.3% of contract value (online fully negotiable)
Clearing Fee payable	0.03% capped at RM1,000
Trading Fee payable	0.25bps
Market Making	Lead Managers to market make

Post trade

Generally the post trade framework for ETB will be identical to securities currently traded on Bursa Trade Securities.

Areas	Proposed framework/key features of Exchange Traded Bonds
Settlement	T + 3
Depository	Bursa Depository
Clearing / Settlement	Bursa Clearing (S)
Buying in	Existing "Buying-in" model to apply
Paying Agent	Bursa Depository or payment agent appointed by issuer
Fungibility between OTC and Exchange Traded Bonds	Permitted for market makers

To help facilitate market making in the Exchange Traded Bonds market, market makers will be given the flexibility to move sukuk or debt securities from OTC to Exchange Traded Bonds and vice versa. Movement of sukuk or debt securities between Exchange Traded Bonds and OTC will be facilitated by Bursa Depository together with the Facility Agent using similar mechanics that is already in place for dual listed companies.

F. KEY PROPOSED AMENDMENTS

1. In conjunction with the introduction of the Exchange Traded Bonds we are proposing amendments to the Rules ("**Proposed Amendments**").

2. The Proposed Amendments cover the following key areas:

   (a) Main LR

      (i) Admission of Exchange Traded Bonds;

      (ii) Trustee and trust deed requirements;

      (iii) Requirements relating to a foreign issuer;

(iv) Continuing listing obligations of an issuer and its guarantor;

(v) Submission of financial statements; and

(vi) Events for de-listing by the Exchange.

ACE LR

Clarification that an ACE listed corporation seeking a listing of its sukuk or debt securities must comply with the Exchange Traded Bonds framework under the Main LR.

(b) Rules of Bursa Malaysia Securities Berhad (“**Bursa Securities Rules**”)

Market making requirements

(c) Rules of Bursa Malaysia Depository Sdn Bhd (“**Bursa Depository Rules**”)

(i) Deposit of bearer securities with Bursa Depository;

(ii) Transmission of securities between stock markets in circumstances as may be prescribed by Bursa Depository; and

(iii) Cash payments in connection with deposited non-equity securities.

(d) Rules of Bursa Malaysia Securities Clearing Sdn Bhd (“**Bursa Clearing (S) Rules**”)

Securities Borrowing and Lending Negotiated Transaction provisions to address a possible settlement failure.

G. STRUCTURE OF THE CONSULTATION PAPER

The detailed rationale and proposals are provided in the “**Details of Proposals**” in Part 1 to Part 4 of this Consultation Paper.

The full text of the Proposed Amendments is provided in **Annexures A** to **D**:

Part No.	Details of Proposal	Proposed Amendments (Annexure)
1.	Proposed amendments to the Main LR and ACE LR;	A
2.	Proposed amendments to the Bursa Securities Rules	B
3.	Proposed amendments to the Bursa Depository Rules	C
4.	Proposed amendments to the Bursa Clearing (S) Rules	D

The Proposed Amendments are reflected in the following manner:

- portions underlined are text newly inserted/ added/ replaced onto the existing rules; and
- portions struck through are text deleted.

Comments on the Proposed Amendments can be provided by filling up the template attached as **Attachment 1**.

H. DETAILS OF PROPOSALS

PART 1 PROPOSED AMENDMENTS TO THE MAIN LR AND ACE LR

In conjunction with the issuance of the Exchange Traded Bonds, the salient proposed changes to the Main LR and ACE LR are set out below.

Proposal 1.1

Description	Affected Provision(s) – Main LR
Issuers which are or guaranteed by State Government, Federal Government and BNM	• Paragraph 4B.01(3)

1. Sukuk and debt securities issued or guaranteed by State Government, Federal Government of Malaysia and BNM provide an attractive investment option for investors who wish to tap into fixed income instruments. In this connection, Bursa Securities encourages and welcomes any issues of sukuk or debt securities by or guaranteed by the State Government, Federal Government of Malaysia and BNM, such as Malaysian Government Securities (MGS) and Government Investment Issues (GII) to be listed and quoted for trading on Bursa Securities, so that investors may diversify their portfolio investments on the Exchange.

2. Bursa Securities proposes that any issues of sukuk or debt securities by or guaranteed by the State Government, Federal Government of Malaysia and BNM will be accorded automatic listing status on the Exchange. It is further proposed that the admission criteria and post listing obligations of an Exchange Traded Bond under the amended Chapter 4B of the Main LR will not be applicable to such issuers.

Proposal 1.2

Description	Affected Provision(s) – Main LR
Convertible or Exchangeable sukuk and bonds	• Paragraph 4B.09 • Part I Chapter 6 • Paragraph 8.28

3. Currently, a listed issuer issuing convertible securities is required to comply with Part I of Chapter 6 of the Main LR.

4. Bursa Securities proposes to maintain the above provision. Additionally, Bursa Securities proposes that an issuer, whose Exchange Traded Bonds are convertible and exchangeable into listed shares will also be required to comply with the provisions in Part I of Chapter 6 of the Main LR, as if it were the listed issuer, where applicable and with the necessary modifications.

5. Hence, the additional requirements which a convertible or exchangeable Exchange Traded Bonds must comply with under the Main LR, include the following:

   (a) The issuer's trust deed must contain the provisions set out in Appendix 6F of the Main LR, as follows:

      (i) The step-up or step down pricing mechanism (if any) which must be on a fixed basis, i.e. stated in absolute amounts or terms and must not be made conditional upon the occurrence of certain events.

      (ii) The amount of step-up or step-down and the time frames for the exercise or conversion price adjustment.

      (iii) Provisions for changes in the terms of convertible securities during the tenure of the securities.

   (b) The issuer must issue a notice of the maturity or expiry of any convertible security to its holders and advertise a summary of the same in at least one nationally circulated Bahasa Malaysia or English daily newspaper not less than 1 month before the last conversion/exercise date or maturity date, whichever is the earlier.

   (c) The issuer must include the following in a notice of conversion or exercise in respect of convertible securities:

      (i) The full title of the security;

      (ii) The maturity date;

      (iii) The conversion or exercise price;

      (iv) The conversion or exercise period;

      (v) The mode of payment of the exercise price; and

(vi) The treatment of the security at maturity.

Proposal 1.2 – Issue(s) for Consultation:
1. Do you agree that an issuer of Exchange Traded Bonds which are convertible and exchangeable into listed shares must comply with the provisions in Part I of Chapter 6 of the Main LR? If no, please state your reasons.

Proposal 1.3

Description	Affected Provision(s) – Main LR & ACE LR
Public Spread	• Main LR - Paragraphs 6.47 & 6.51 • ACE LR – Rules 6.48 and 6.52

6. Currently, a listed issuer must ensure that at admission, its debt securities or convertible securities fulfil a public spread of 100 holders, holding not less than 1 board lot each. This public spread requirement is only applicable upon admission and a listed issuer is not required to comply with it as a continuing listing obligation. Therefore, such requirement may not achieve its intended objective of providing liquidity to the market.

7. Bursa Securities now proposes to remove this requirement entirely. Listed issuers which issue debt securities or convertible securities and issuers of Exchange Traded Bonds are no longer required to comply with any minimum public spread requirement. This approach is consistent with that adopted by other jurisdictions such as Singapore, Hong Kong, Australia and the United Kingdom.

8. The removal of public spread requirements for sukuk and bonds is aimed at according greater flexibility to issuers of sukuk or debt securities such as Exchange Traded Bonds to structure their methods issuance and offerings to investors.

9. In respect of Exchange Traded Bonds, Bursa Securities further proposes that market makers registered under the Bursa Securities Rules undertake voluntary market making to provide for liquidity in the trading of such sukuk or debt securities on the Exchange instead. Further details on market making are set out in Part 2 below.

Proposal 1.3 – Issue(s) for Consultation:
1. Do you agree that Bursa Securities should remove the public spread requirements for

	debt and convertible securities? If no, please state your reasons.
2.	Do you agree that there should not be any public spread requirement for Exchange Traded Bonds?

Proposal 1.4

Description	Affected Provision(s) – Main LR
Trustee and Trust Deed	• Paragraph 4B.10 • Appendix 4B-A

10. Currently, under section 257 of the CMSA and SC's PDS Guidelines, an issue, offer or invitation of corporate bonds which falls within Schedule 8 of the CMSA will be exempted from the mandatory requirements of trust deed, trustee and other provisions as stated in the CMSA. Under Schedule 8 of the CMSA, all AAA rated bonds (local rating) and BBB rated bonds (international rating)[1] are exempted from complying with the requirements of trustee, trust deed and the relevant provisions under the CMSA.

11. Notwithstanding the exemption under the CMSA, Bursa Securities proposes that an issuer must appoint a trustee and enter into a trust deed for all Exchange Traded Bonds, unless the sukuk or debt securities are guaranteed by the Federal Government or BNM. This is because the trustee, in any issue of sukuk or debt securities, plays a critical role in safeguarding the interests of bonds holders, especially in an event of default.

12. Bursa Securities proposes that a trustee appointed for an issue of Exchange Traded Bonds must comply with the SC's Guidelines and Practice Note on Trustees. Further, the trust deed must comply with the SC's Trust Deed Guidelines and additional provisions as set out in Appendix 4B-A of the Main LR. Some of the key additional provisions required by Bursa Securities include the following:

    (a) Notice period of sukuk or debt securities holders meeting (14 days for ordinary resolution and 21 days for special resolution);

    (b) rights of a sukuk or security holder at the securities holders meeting; and

    (c) rights of a chairman in the case of an equality of votes.

[1] Paragraph 12 of Schedule 8, CMSA 2007

Proposal 1.4 – Issue(s) for Consultation:

1. Do you agree that the appointment of a trustee should be made mandatory for all Exchange Traded Bonds, except those which are guaranteed by the Federal Government or BNM? If no, please state your reasons.
2. Do you agree with the additional contents to be included in the trust deed for Exchange Traded Bonds? If no, please state your reasons. If so, are there any other additional provisions which should be included in the trust deed for better investor protection?

Proposal 1.5

Description	Affected Provision(s) – Main LR
Obligations of a Foreign Issuer	• Paragraph 4B.11

13. Currently, the SC Trust Deed Guidelines provides that an issuer will maintain a paying agent or its equivalent, who is based in Malaysia in the case of ringgit-denominated sukuk or bonds.

14. Bursa Securities proposes to mandate a paying agent or its equivalent to be based in Malaysia under the Main LR, irrespective of the currency in which the Exchange Traded Bonds are issued or listed. This is to ensure that our sukuk, debt securities holders or investors are paid promptly and efficiently.

15. In addition Bursa Securities proposes that a foreign issuer must also appoint an agent or representative in Malaysia to be responsible for communicating with the Exchange on behalf of the applicant.

16. The requirement for a local agent or representative as a contact person with Bursa Securities is necessary for greater efficiency and administrative convenience. However, the responsibility for compliance with the Main LR still lies with the issuer and guarantor (in the case of a guaranteed issue). The agent or representative will only act as the key person to be responsible for all communications between the issuer or guarantor (in the case of a guaranteed issue) and the Exchange.

Proposal 1.5 – Issue(s) for Consultation:

1. Do you agree that a foreign issuer must appoint an agent or representative to be responsible for all communications between the Issuer and Exchange? If no, please

	state your reasons.
2.	Do you agree that a foreign issuer must maintain a paying agent or its equivalent in Malaysia?

Proposal 1.6

Description	Affected Provision(s) – Main LR
Guarantors, directors of an issuer and guarantor	• Paragraph 4B.12 • Paragraph 4.2, Annexure PN26-B & Annexure • PN 26-C of Practice Note 26

17. Bursa Securities proposes that in a case where the Exchange Traded Bonds are guaranteed, the guarantor must comply with the relevant obligations applicable to an issue, as if the guarantor were the issuer. Hence, amongst others, a guarantor will also be required to announce its periodic financial statements on a semi annual basis and annual audited accounts to the Exchange.

18. Bursa Securities believes this requirement is essential, in particular, if an issuer is only a Special Purpose Vehicle (SPV). In such instance, bondholders should also be apprised of the financial health of the guarantor.

19. Therefore, Bursa Securities proposes that the guarantor of the issuer (in the case of a guaranteed issue) must provide an undertaking to Bursa Securities in the form of Annexure PN26-B to comply with the Main LR.

20. It is further proposed that both the directors of the issuer and the guarantor (in the case of guaranteed issues) must also provide an undertaking in the form of Annexure PN26-C to Bursa Securities, to comply with the Main LR.

21. The undertaking is required to ensure that the issuer, its guarantors (in the case of guaranteed issues) and their respective directors are aware of their obligations under the Main LR and be bound by the Main LR, including the amendments as may be made from time to time.

22. However, if the guarantor is the Federal or State Government of Malaysia, or Bank Negara Malaysia, the above requirements are not applicable.

Proposal 1.6 – Issue(s) for Consultation:
1. Do you agree that a guarantor must be required to comply with relevant obligations which are applicable to an issuer, such as financial reporting requirements, as if the guarantor were the issuer? If no, please state your reasons. If so, what additional obligations should a guarantor be expected to comply with?
2. Do you agree that a guarantor and its directors are required to provide undertakings and confirmations that they agree to comply with the Main LR? If no, please state your reasons.

Proposal 1.7

Description	Affected Provision(s) – Main LR
Events of Immediate Announcement	• Paragraph 4B.13

23. Currently, an issuer under the Exempt Regime must immediately announce to the Exchange any material information. "Material information" has been defined to mean information which is reasonably expected to have a material effect on –

    (a) the price or value of the issuer's sukuk or debt securities; or

    (b) the decision of a sukuk or debt securities holder or an investor whether to trade in such debt securities

24. In addition, an issuer under the Exempt Regime must also disclose information relating to the following:

    (a) any change in the terms of the sukuk or debt securities;

    (b) any redemption or cancellation of the sukuk or debt securities;

    (c) any amendment to the trust deed, if applicable;

    (d) any appointment or replacement of Trustee or fiscal agent, if applicable; and

    (e) any change of its Shariah adviser appointed by the issuer as required under the SC's Islamic Securities Guidelines (Sukuk Guidelines).

25. Bursa Securities proposes that an issuer of Exchange Traded Bonds must comply with the same disclosure requirements currently required of an issuer under the Exempt Regime as stated above. Bursa Securities now proposes to enhance the immediate disclosure requirements, by requiring an issuer to immediately make an announcement upon the following events:

    (a) an issuance of new tranche or programme by the issuer;

(b) any occurrence of an event of default as provided under the SC's Trust Deed Guidelines; and

(c) credit rating of its sukuk or debt securities, including a summary of the rating analysis or credit assessment reports relevant to the sukuk or debt securities published by a credit rating agency.

26. The proposed enhanced disclosure requirements are aimed at providing investors, with all the relevant salient information which may aid them in making informed investment decisions.

27. Under the proposed Exchange Traded Bonds framework, only an issue of sukuk or debt securities which has a credit rating of investment grade and above, as may be prescribed by the SC from time to time may seek listing and quotation on Bursa Securities.

28. Paragraph 2.30 of the SC's Guidelines on Registration of Credit Rating Agencies provides that a credit rating agency must ensure its annual rating review of a bond issue is conducted and rating report is published within a period not later than 15 months after the last annual rating review.

29. In this connection, Bursa Securities proposes to require an issuer to immediately announce the credit rating of its sukuk or debt securities arising from such annual rating review, including a summary of the rating analysis or credit assessment reports relevant to the sukuk or debt securities published by a credit rating agency.

30. In view of the above, Bursa Securities believes that all the salient information pertaining to the an issuer of Exchange Traded Bonds would already be covered in the summary of the rating analysis or credit assessment reports published by the credit rating agency, which will be announced to the Exchange arising from the annual rating review. Therefore, Bursa Securities proposes that an issuer of Exchange Traded Bonds will not be required to announce or issue any Annual Reports to the Exchange as a continuing listing obligation.

Proposal 1.7 – Issue(s) for Consultation:

1. Do you agree with the additional disclosure requirements introduced? If no, please state your reasons. If so, are there any additional disclosure requirements that should also be considered?
2. Do you agree that an issuer of Exchange Traded Bonds must immediately announce to the Exchange the credit rating summaries issued by the credit rating agencies?
3. Do you think the complete credit rating rationale report on an issuer of Exchange

	Traded Bonds should be announced to the Exchange as well?
4.	Do you think that an issuer of Exchange Traded Bonds should be required to issue its Annual Reports, even though an issuer is already required to announce the credit rating summaries issued by the credit rating agency?

Proposal 1.8

Description	Affected Provision(s) – Main LR & ACE LR
Issuance and Advertisement of Notice of Maturity	• Main LR - Paragraph 8.28 • ACE LR – Rule 8.30

31. Under paragraph 8.28 of the Main LR and Rule 8.30 of the ACE LR, a listed issuer must issue a notice of the maturity or expiry of any listed debt security or convertible security to its holders and advertise a summary of the same in at least one nationally circulated Bahasa Malaysia or English daily newspaper not less than 1 month before the last conversion/exercise date or maturity date, whichever is the earlier.

32. Currently, an issuer under the Exempt Regime is only required to announce to the Exchange, the maturity date of each issuance of sukuk or debt securities at least 1 month before the maturity date. There is no advertisement requirement.

33. Bursa Securities proposes that a sukuk or debt security issuer be required to announce the maturity date of each issuance of sukuk or debt securities at least 1 month before the maturity date, instead of complying with the above requirements to issue a notice of maturity to its holders or to advertise a summary of the notice,. Investors are expected to monitor the announcements made by issuer of their sukuk or debt securities accordingly.

34. However, the requirement for issuance a notice of maturity and advertisement will be maintained for a convertible security. Hence, in the case of convertible or exchangeable debt securities, the issuer must also comply with paragraph 8.28 of the Main LR or Rule 8.30 of the ACE LR, as the case may be.

Proposal 1.8 – Issue(s) for Consultation:	
1.	Do you agree with Bursa Securities' proposal to remove the requirement to issue a notice of maturity or expiry of its listed debt security and advertise the same in newspapers?
2.	Do you agree with Bursa Securities' proposal to maintain the requirement to issue a notice of maturity or expiry of its listed debt security and advertise the same in newspapers for a convertible security? If no, please state your reasons.

Proposal 1.9

Description	Affected Provision(s) – Main LR
Financial Statements	• Paragraph 4B.15 • Paragraph 4B.17

35. Currently, a listed issuer must announce to the Exchange, an interim financial report that is prepared on a quarterly basis, within a period not later than 2 months after the end of each quarter of a financial year. The listed issuer must also announce to the Exchange its annual audited financial statements together with the auditors' and directors' reports within 4 months.

36. On the other hand, an issuer under an Exempt Regime are required to announce its unaudited or audited financial statements within 2 months after the close of half year of the issuer's financial year, but only if such financial statements are available. However, an issuer under the Exempt Regime must issue to its sukuk or debt securities holders and give to the Exchange, the issuer's annual audited financial statement, within 4 month after the close of the financial year of the issuer.

37. In respect of Exchange Traded Bonds, Bursa Securities proposes that an issuer must announce its unaudited or audited financial statements covering profit and loss position and the balance sheet position on a consolidated basis within 2 months after the close of the half year of the issuer's financial year. The issuer must state whether there is any abnormal circumstance that has affected or will affect the business and financial position of the issuer.

38. In addition to the half yearly financial statements, an issuer of Exchange Traded Bonds must announce to the Exchange its annual audited financial statement, together with auditors' and directors' reports within 4 months after the close of the financial year of the issuer. However, an issuer of Exchange Traded Bonds is not required to issue or send a hard copy of its annual audited financial statements to all its sukuk or debt securities holders. Investors should refer to

Bursa Securities' website for all announcements released by the issuer, including its financial statements.

39. The above proposal is made as Bursa Securities is mindful of the issue of costs of compliance, which may be of concern to an issuer of Exchange Traded Bonds. Bursa Securities believes that as long as information is readily available to the investing public in a timely and easily assessable manner, despatch of a hard copy of the annual audited financial statements to all the sukuk or debt securities holders may not be necessary.

40. Bursa Securities also proposes that an issuer under the Exempt Regime be exempted from the mandatory requirement of issuing a hard copy of its annual audited financial statement to its sukuk or debt securities holders.

Proposal 1.9 – Issue(s) for Consultation:

1. Do you agree with the financial reporting requirements proposed for an Exchange Traded Bonds?
2. Do you agree that an issuer under the Exempt Regime or Exchange Traded Bonds is not required to despatch a hard copy of the annual audited financial statement to all its sukuk or debt securities holders? If no, please state your reasons.

<u>Proposal 1.10</u>

Description	Affected Provision(s) – Main LR
Events for delisting	• Paragraph 4B.20

41. Currently, in addition to the circumstances set out in paragraph 16.11 of the Main LR, Bursa Securities may delist an issue of any class of sukuk or debt securities under the Exempt Regime in any of the following circumstances:

(a) Upon the occurrences of any events which the Trustee has declared the sukuk or bond to be immediately due and repayable pursuant to the trust deed; or

(b) Upon the maturity or expiry of the sukuk or bonds.

42. Bursa Securities proposes that the following additional circumstances be included as an event for de-listing:

(a) Upon full redemption of the sukuk or bonds; and

(b) Any other circumstances which in the opinion of the Exchange, do not warrant the continued listing of the sukuk or bonds.

43. This allows Bursa Securities to delist sukuk or debt securities which are redeemed early by an issuer, or where there are occurrences of events where the continued listing of the sukuk or debt securities may no longer be in the best interest of investors.

Proposal 1.10 – Issue(s) for Consultation:
1. Do you agree to the additional events for de-listing? If no, please state your reasons. If so, are there any additional circumstances to be included as an event for de-listing?

Proposal 1.11

Description	Affected Provision(s) – ACE LR
ACE Market issuers	• Part H, Rules 6.47, 6.48 • Guidance Note 17

44. Currently, a listed corporation which is listed on the ACE Market ("**listed corporation**") and intends to list its debt securities must comply with the provisions in Part H, Chapter 6, ACE Market Listing Requirements ("**ACE LR**"), which relate to an issue of debt securities.

45. Bursa Securities proposes that a listed corporation under the ACE Market which seeks listing and quotation of sukuk or debt securities must now comply with the proposed regulatory framework for Exchange Traded Bonds, as set out under Chapter 4B of the Main LR. This is regardless of whether the sukuk or debt securities are convertible or exchangeable securities.

46. In this connection, all the sukuk or debt securities listed and quoted as Exchange Traded Bonds will be classified under the Bonds sector, under the Main Market of Bursa Securities. The issuers of Exchange Traded Bonds could be listed issuers from Main Market or ACE Market, any unlisted issuers, foreign issuers, the Federal Government, any State Government or Bank Negara Malaysia.

Proposal 1.11 – Issue(s) for Consultation:
1. Do you agree that an ACE listed corporation, which seeks listing of its sukuk or debt securities, must comply with the proposed regulatory framework for Exchange Traded Bonds, as set out under Chapter 4B of the Main LR?

[End of Part 1]

PART 2 PROPOSED AMENDMENTS TO THE BURSA SECURITIES RULES

In conjunction with the issuance of the Exchange Traded Bonds, the salient proposed changes to the Bursa Securities Rules are as follows:

Proposal 2.1

Description	Affected Provision(s)
Market maker	• New Rule 302A.4

1. Under the Bursa Securities Rules, market makers must comply with the Bursa Securities Rules and directives that are applicable to market makers. For example, a market maker is currently required to comply with the provisions specific to market makers in Chapter 3A and all other general provisions that are relevant to market makers in the Bursa Securities Rules and the Directives in relation to Market Making set out in Participating Organisations' Circular No. R/R 3 of 2009 dated 8 May 2009.

2. Bursa Securities is proposing to clarify the rules to specify that where appropriate, Bursa Securities could modify the application of the rules to market makers and impose terms and conditions in relation to the registration of a market maker.

3. This proposed amendment is to make it clear that Bursa Securities may make further provisions in relation to market makers and also to alert all participants that other than the provisions in Chapter 3A of the Bursa Securities Rules, there could be further provisions related to market makers that may be applicable.

[End of Part 2]

PART 3 PROPOSED AMENDMENTS TO THE BURSA DEPOSITORY RULES

In conjunction with the issuance of the Exchange Traded Bonds, the salient proposed changes to the Bursa Depository Rules are as follows:

Proposal 3.1

Description	Affected Provision(s)
Deposit of bearer securities	• Rule 1.02(1) • Rule 6.12 • New Rule 18.09 • New Chapter 23A.0

1. The provisions in the Bursa Depository Rules currently contemplate that securities deposited with Bursa Depository must be held in the name of Bursa Malaysia Depository Nominees Sdn. Bhd.

2. It is noted that while the Securities Industry (Central Depositories) Act 1991 ("**SICDA**") contemplates bearer securities being deposited with Bursa Depository, none have been deposited with Bursa Depository to date. "Bearer security" is defined in SICDA to mean a security the title to which is transferable by delivery (with or without endorsement) of the scrip representing such security.

3. Sukuk and bonds are currently issued in bearer form. Thus, to facilitate the deposit of global certificates issued by the issuers of the Exchange Traded Bonds, Bursa Depository is proposing to clarify the rules in the following manner:

   (a) bearer securities may be deposited with Bursa Depository;

   (b) such deposit must be in the manner and in such denominations as Bursa Depository may prescribe;

   (c) only registrable securities are required to be held in the name of Bursa Malaysia Depository Nominees Sdn. Bhd.;

   (d) in relation to bearer securities deposited or to be deposited with Bursa Depository, that the relevant provisions on deposit of securities in the rules apply with such modifications as Bursa Depository may prescribe; and

   (e) that Bursa Depository is empowered to enter into arrangements with a third party, including another depository, to hold the legal title or possession of the physical scrips underlying the deposited securities or to hold the rights and liabilities to such securities on behalf of Bursa Depository, as bare trustee for the depositors.

4. For paragraph 3(d) above, examples of rules that would need to be applied with modification if bearer securities are deposited with Bursa Depository include:

   (a) Rule 20.07 in relation to a public offer; and

   (b) Rule 20A.05(5) in relation to the procedure for handling an exercise of rights prior to the maturity of non-equity securities.

Proposal 3.1 – Issue(s) for Consultation:
1. Do you foresee any issues with an issuer depositing bearer securities with Bursa Depository? Please provide details.
2. What other considerations should Bursa Depository be aware of in accepting deposits of bearer securities?

<u>Proposal 3.2</u>

Description	Affected Provision(s)
Transmission of securities between stock markets	• Rules 6.01A(3) and 27.01A(3) • Rules 7.01, 19.01, 19.02 and 28.01 • Rules 18.08, 19.03, 27.08, 28.07 and 29.01(4)

5. The rules currently provide only for a transmission of securities to facilitate cross-border listings where an issuer is listed both on Bursa Securities and also on a foreign stock exchange, in that, a transmission of securities between Malaysia and the relevant foreign country.

6. Bursa Depository is proposing to amend the rules to set out a general principle that transmission of securities to or from another stock market (whether within or outside Malaysia) could be allowed if Bursa Depository decides to facilitate such transmission.

7. Bursa Depository, will after assessing the viability of facilitating such transmission of securities, prescribe the scope, details and procedures of such transmission of securities in the relevant Bursa Depository's procedures manual.

8. The procedures in the existing Rules 18.08, 19.01, 27.08 and 28.07 for transmission of securities from a Foreign Register to a Malaysian Register and vice versa will be included in the relevant Bursa Depository's procedures manual.

9. Specifically for Exchange Traded Bonds, Bursa Depository is intending to facilitate a request by an issuer's market maker for a transmission of the bonds between the Bursa Depository depository framework (where the Exchange Traded Bonds will be traded) and the RENTAS framework (which facilitates the OTC trading for the bonds). The transmission of bonds between markets is allowed for market makers to enable them to discharge their roles as market makers more effectively.

10. We are currently working on the operational processes for the transmission of the bonds between the OTC and the exchange traded markets to arrive at the shortest time possible, within the constraints of the current legal and regulatory requirements governing both the OTC and Bursa Depository's framework.

Exemption to the mandatory deposit rule

11. In order to facilitate fungibility between two markets, Bursa Depository will be prescribing the entire bond issuance to be deposited with Bursa Depository pursuant to s14 SICDA. This would include the portion that will be traded on the OTC market. Currently under the rules, it is mandatory to deposit with Bursa Depository, the securities that have been prescribed under s14 SICDA. As such, an exception to such rule must be made to allow the OTC portion of the bond issuance to continue to be deposited and settled in the RENTAS framework.

12. Bursa Depository is proposing to amend Rules 6.01A(3) and 27.01A(3) to set out such an exception. Specifically for Exchange Traded Bonds, Bursa Depository is proposing to exclude the following category of securities from the mandatory deposit rule:

> *"securities or class of securities of an issuer, which is deposited and settled in RENTAS which is operated by the Malaysian Electronic Clearing Corporation Sdn. Bhd. (a subsidiary of Bank Negara Malaysia)".*

Additional circumstance for withdrawal from Bursa Depository

13. Under section 24 SICDA, a depositor is not permitted to withdraw securities which have been deposited with Bursa Depository except in such manner as may be specified in the Bursa Depository Rules.

14. Rules 7.01 and 28.01 currently set out the circumstances when withdrawal of securities from Bursa Depository is permitted.

15. We are proposing to amend Rules 7.01 (applicable to authorised depository agents ("**ADAs**")) and 28.01 (applicable to depositors) and introduce a new Rule 19.01 (applicable to issuers) to:

(a) allow a withdrawal to facilitate redemption or partial redemption of non-equity securities;

(b) allow a withdrawal to facilitate a transmission of securities out from Bursa Depository as contemplated under Rule 19.03 and 28.07; and

(c) clarify the circumstances when such withdrawal is to be processed by the ADAs and when such withdrawal is to be processed by the issuer.

16. The purpose of these proposed amendments is, among others, to facilitate the fungibility of the bonds as described in paragraph 9.

Proposal 3.2 – Issue(s) for Consultation:

1. Do you agree that the transmission of bonds between the OTC and exchange traded markets should be allowed? If no, please state your reasons

2. Do you agree that such transmission should only be confined to market makers and should not be available to the entire market? Please state your reasons

3. What other considerations should Bursa Depository be aware of in respect of the transmission of bonds between the OTC and exchange traded markets contemplated under this Proposal 3.2?

4. In relation to the circumstances when withdrawal will be permitted (see proposed Rules 7.01, 19.01 and 28.01), are there any other circumstances when withdrawal may need to be allowed e.g. upon a default of the bonds? Please provide details.

Proposal 3.3

Description	Affected Provision(s)
Cash payments in connection with deposited non-equity securities	• Rule 20A.09(2) • Rule 31A.06(2)

17. The proposed new Rule 18.09 empowers Bursa Depository to enter into arrangements with a third party, including another depository, for that third party to hold legal title or possession of the physical scrips or to hold the rights and liabilities to securities on behalf of Bursa Depository.

18. Flowing from the new Rule 18.09, in a situation where the deposited non-equity securities are held by a third party and where Bursa Depository then holds securities through a securities account maintained with such third party:

(a) the proposed new Rule 20A.09(2) requires the issuer to instruct Bursa Depository on how payments received by Bursa Depository (by virtue of Bursa Depository holding such securities account with the third party) on behalf of the depositors are to be paid to the depositors; and

(b) the depositors would need to, through the proposed new Rule 31A.06(2), authorise Bursa Depository to:

(i) receive, on the depositor's behalf, cash payments in connection with the depositor's securities for which arrangements have been made to Bursa Depository under Rule 18.09; and

(ii) deal with the payments received in the manner as may be instructed by the issuer to enable the issuer to fulfil its obligations to make the cash payments to the depositor.

19. The purpose of these rule amendments are to clarify:

(a) that it is the issuer that is responsible for the coupon and other cash payments arising from the bonds;

(b) that in a situation where Bursa Depository holds the deposited non-equity securities through an account maintained with a third party, the issuer must then instruct Bursa Depository on how payments received by Bursa Depository on behalf of the depositors are to be paid directly to the depositors; and

(c) that Bursa Depository is authorised by the depositors to receive the monies on the depositors' behalf and to pay such monies to a service provider who is appointed by the issuer, for payment directly to the depositors.

Proposal 3.3 – Issue(s) for Consultation:
(1) Do you foresee any issues with the proposed Rules 20A.09(2) and 31A.06? If yes, please provide details.

[End of Part 3]

PART 4 PROPOSED AMENDMENTS TO THE BURSA CLEARING (S) RULES

In conjunction with the issuance of the Exchange Traded Bonds, the salient proposed changes to the Bursa Clearing (S) Rules are as follows:

Proposal 4.1

Description	Affected Provision(s)
Borrowing securities under the SBLNT model to facilitate a possible settlement failure	• Rule 8.5

1. If a seller trades securities on Bursa Securities and fails to meet its delivery obligations under the Bursa Securities Rules, buying-in under Rule 803.1 of the Bursa Securities Rules will be effected to settle the seller's failed trade.

2. Currently, while a seller is allowed to borrow Eligible Securities under the Bursa SBL Transaction framework to address a possible settlement failure within the ambit of Rule 7.6(a)(ii) of the Bursa Clearing (S) Rules, the seller is not allowed to borrow for such purpose under the SBL Negotiated ("**SBLNT**") framework. Eligible Securities are securities prescribed by Bursa Clearing (S) as approved for lending or borrowing.

3. Rule 7.6(a)(ii) of the Bursa Clearing (S) Rules allows a seller/borrower to borrow Eligible Securities to facilitate a settlement of a sale where there are insufficient securities in the seller's securities account as a result of a mistake made when executing the sale, and where the mistake was made in good faith and discovered only after the sale has been executed.

4. Bursa Clearing (S) is proposing to allow a seller to borrow Exchange Traded Bonds <u>under the SBLNT framework</u> to settle a possible settlement failure. As an extension to this proposal, Bursa Clearing (S) is proposing to allow this purpose for borrowing to apply to all Eligible Securities and not just to Exchange Traded Bonds and Rule 8.5 will be amended accordingly.

5. This proposal is in line with international standards i.e. Recommendation 5 of the International Organisation of Securities Commission ("**IOSCO**") Committee on Payment and Settlement Systems (November 2001) which states that securities lending and borrowing should be encouraged as a method for expediting the settlement of securities transactions and that barriers that inhibit the practice of lending securities for this purpose should be removed. It was further recommended that even in jurisdictions that restrict securities lending because of other public policy concerns, authorities should consider permitting lending to reduce settlement failures.

Also, Recommendation 7 of the G30 of the G30 Global Clearing and Settlement: Final Monitoring Report (2006) states that the relevant authorities should permit securities borrowing and lending as a method of expediting the settlement of securities transactions.

6. For the avoidance of any doubt, the other purposes for borrowing under the SBLNT framework will be retained and this includes:

(a) to facilitate the settlement of a regulated short sale in Eligible Securities executed in accordance with the Bursa Securities Rules;

(b) in relation to Exchange Traded Funds or its constituent securities, to facilitate the settlement of a sale of such securities provided the specified requirements are complied with; and

(c) to onward lend the Loaned Securities subject to compliance with the Bursa Clearing (S) Rules and requirements.

Proposal 4.1 – Issue(s) for Consultation:

1. Do you agree with Bursa Clearing (S)'s proposal to expand the purpose of borrowing under the SBLNT framework to facilitate a possible settlement failure within the ambit set out in the proposed rule? Please state the reasons for your response.

[End of Part 4]

ANNEXURE A

PROPOSED AMENDMENTS TO LISTING REQUIREMENTS OF

BURSA MALAYSIA SECURITIES BHD

IN RELATION TO THE EXCHANGE TRADED BONDS

ANNEXURE B

PROPOSED AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES BHD

IN RELATION TO THE EXCHANGE TRADED BONDS

ANNEXURE C

PROPOSED AMENDMENTS TO THE RULES OF BURSA MALAYSIA DEPOSITORY SDN BHD IN RELATION TO THE EXCHANGE TRADED BONDS

ANNEXURE D

PROPOSED AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES CLEARING SDN BHD IN RELATION TO THE EXCHANGE TRADED BONDS