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Chapter 1 – Definitions and Related Provisions

CHAPTER 1 DEFINITION AND RELATED PROVISIONS

RULE 101 DEFINITION AND INTERPRETATION

**RULE 101.1** ~~DEFINITION~~Definition

(1) The following terms have the following meanings ~~In these Rules, unless the context requires~~ otherwise; ~~requires or the contrary intention appears –~~

Term

Meaning

ABFMY1

~~means the~~ The ABF Malaysia Bond Index Fund ~~which that~~ is an Exchange Traded Fund listed and quoted on the Exchange and bears the stock short name ABFMY1.

ACE Market

The Exchange's stock market referred to in the ACE Market Listing Requirements.

Adverse Event(s)

~~for the purposes herein, Adverse Event(s) shall mean any~~ Any one or more of the events ~~as may be provided~~ specified in the Off-Balance Sheet Transaction(s) agreement ~~which that~~ have or, as the case may be, may have the effect of the obliges the Participating Organisation ~~being obliged~~ to perform and discharge ~~its the~~ Participating Organisation's obligations under ~~or pursuant to~~ the Off-Balance Sheet Transaction(s).

Annual Report

~~in~~ In relation to a Participating Organisation, ~~means~~ the annual report of the Participating Organisation prepared and submitted to the Exchange by an approved company auditor under the Companies Act ~~1965~~.

~~approved class of securities~~ Approved Class of Securities

~~means a~~ A class of ~~approved securities~~ Approved Securities.

Approved sSecurities

~~means any~~ In relation to Regulated Short Selling any of the ~~s~~ SSecurities from the class of ~~s~~ SSecurities set out below, of an Issuer, ~~which that~~ is declared by the Exchange ~~from time to time~~ ("declaration date" Declaration Date) to be included in a class of ~~s~~ SSecurities to which Section 98(4)(c) of the Capital Markets and Services Act applies:

- (a) the ~~s~~ SSecurities is for the time being admitted to the Official List ("the Securities");
- (b) the Securities has a daily market capitalisation of ~~Ringgit Malaysia five hundred (500) RM500~~ million for at least ~~three~~ 3 months prior to the ~~declaration date~~ Declaration Date. Market capitalisation means the market value of all the ordinary shares issued by the Issuer and admitted to the Official List;
- (c) the Securities has at least ~~fifty million (50)~~ 50 million in public float prior to the ~~declaration date~~ Declaration Date. 'Public float' means securities held in the hands of the public shareholders. 'Public' has the same meaning assigned to that expression in the Listing Requirements; and

**Comment [B1]:** Unless otherwise stated, amendments made to the definitions are in line with plain language drafting.

For consistency and for a person reading the rules to be able to immediately identify a defined term, the first letter of all defined terms will be capitalised.

**Comment [B2]:** Previously, in Rule 602.1(2).

**Comment [B3]:** Previously in Rule 704.1(1).

**Comment [B4]:** Previously in Rule 704.1(1)

## Chapter 1 – Definitions and Related Provisions

	(d)	the volume of trading for the Securities on a monthly basis on average is at least <del>one (1)</del> 1 million units for <del>twelve (12)</del> 12 months prior to the <u>Declaration Date</u> <del>declaration date</del> .
ATS		<del>Means the</del> <u>The</u> automated and computerised securities trading system established by the Exchange.
ATS Operator		ATS Operators in relation to a Participating Organisation, means Dealer's Representatives and <del>Trading</del> <u>eClerks</u> who are duly authorised by the Participating Organisation <del>inter alia</del> to enter orders into the ATS, to modify and cancel orders.
<del>authorised nominee</del> <u>Authorised Nominee</u>		<del>shall have the same</del> <u>Same</u> meaning as <del>is assigned to it</del> in the Securities Industry (Central Depositories) Act and the Depository Rules.
<u>Authorised SBL Participant</u>		<del>means the</del> <u>The</u> Clearing House or an entity approved by the Clearing House, <del>for the purpose of to undertaking</del> <u>undertake</u> securities borrowing and <del>or</del> lending activities as defined in Rule <del>608</del> <u>706</u> .
<u>Associated</u>		<u>Same meaning as in Section 3 of the Capital Markets and Services Act.</u>
<u>Associated Corporation</u>		<u>A corporation that is deemed to be associated with the person by virtue of the person holding, directly or indirectly, not less than 20% and not more than 50% of the issued share capital of the corporation.</u>
BAFIA		<del>means the</del> Banking and Financial Institutions Act 1989.
<u>Best Buy Price</u>		<u>The highest buy order price in the order book of the ATS</u>
<del>beneficial owner</del> <u>Beneficial Owner</u>		<del>shall have the same</del> <u>Same</u> meaning as <del>is assigned to it</del> in the Securities Industry (Central Depositories) Act and the Depository Rules.
<u>Best Order Price</u>		<del>In relation to Prevailing Price, means either the best buy order price or the best sell order price as determined by the Exchange.</del>
<u>Best Sell Price</u>		<u>The lowest sell order price in the order book of the ATS</u>
<del>board lot</del> <u>Board Lot</u>		<del>in</del> <u>In</u> relation to any securities quoted on the Official List, <del>means</del> a parcel of securities comprising <del>400</del> <u>number of</u> units <u>as determined by the Exchange</u> <del>or any other number of securities permitted by the Exchange to be traded on the stock market.</del>

**Comment [B5]:** Previously in Rule 704.1(1).

**Comment [B6]:** To have this definition in Chapter 1 of the Rules instead of having it in various parts of the Rules e.g. previous Rule 1105.8(3)(d)(ii).

**Comment [B7]:** This word is deleted as not used in any Rules.

## Chapter 1 – Definitions and Related Provisions

<a href="#">Board of Directors</a>	In relation to a Participating Organisation, the Participating Organisation's board of Directors.
<a href="#">Book Closing Date</a>	<del>The specified time and date set by an Issuer for the purpose of determining entitlements to dividends, interest, new securities or other distributions or rights of holders of Securities.</del>
<del>branch office</del> <a href="#">Branch Office</a>	<del>means the</del> A branch office <del>approved by</del> the Exchange <del>approves</del> as a branch office of a Participating Organisation. <del>In or in</del> the case of an Investment Bank, <del>the a</del> branch office <del>the Central Bank approves</del> <del>approved and/or recognised by the Central Bank</del> as a branch office of <del>an that</del> Investment Bank.
<del>business rules</del>	<del>shall have the same meaning as is ascribed thereto in paragraphs (b) and (e) (in so far as the same relates to an approved clearing house providing clearing house facilities in relation to futures contracts and an exchange holding company of a futures exchange) and (d) of the definition of 'rules' contained in Section 2(1) of the Capital Markets and Services Act.</del>
<a href="#">Capital Adequacy Requirements</a>	<a href="#">The capital adequacy requirements in Chapter 13.</a>
Capital Markets and Services Act	<del>means the</del> Capital Markets and Services Act 2007.
<a href="#">Capital Markets Services Licence</a>	<a href="#">Same meaning as in the Capital Markets and Services Act.</a>
Capital Markets Services Representative's Licence	<del>Same meaning as</del> shall have the meaning as is assigned to it in the Capital Markets and Services Act.
<del>CDS Account</del>	<del>means a securities account established by Depository or other central depository for an account holder.</del>
Central Bank	<del>means the</del> Central Bank of Malaysia established under the Central Bank of Malaysia Act 1958.
<del>central depository</del> <a href="#">Central Depository</a>	<del>means a</del> central depository established <del>in accordance with under</del> the Securities Industry (Central Depositories) Act and includes any foreign central depository <del>the Exchange may stipulate</del> determined by the Exchange from time to time after prior consultation with the Commission.
Chief Executive Officer	<del>in</del> <del>In</del> relation to an Investment Bank, <del>means the</del> 'Chief Executive Officer' referred to in the Guidelines on Investment Banks <del>and who is responsible for all activities of the Investment Bank in the manner envisaged in the Guidelines on Investment Banks and these Rules.</del>
<del>Clearing Account</del>	<del>has the same</del> Same meaning <del>as assigned to it in</del> <a href="#">Directive 701.5(1)-002, R/R 18 of 2005.</a>
Clearing House	<del>means the clearing house known as</del> BURSA MALAYSIA SECURITIES CLEARING SDN BHD and any other clearing house <del>as the Exchange designates for the purpose of clearing and settlement of Contract.</del> may be designated by <del>the Exchange from time to time in accordance with Rule</del>

**Comment [B8]:** This term is now known as "Futures Business Rules" and has been moved just above the definition of "Futures Exchange" below.

**Comment [B9]:** To provide a definition of Capital Adequacy Requirements as there are various references to this term throughout these Rules.

**Comment [B10]:** To provide a definition for Capital Markets Services Licence

**Comment [B11]:** Its is now referred to as securities account in the rules. See the definition of Securities Account below.

**Comment [B12]:** Previously in Rule 704.1(1).

## Chapter 1 – Definitions and Related Provisions

801.2	<del>in</del> <u>In</u> relation to a Clearing House, <del>means</del> the rules of the Clearing House.
<del>Client</del> <u>Client</u>	<del>means a</del> <u>A</u> person for whom a trading account <u>is proposed to be opened or</u> has been opened by a Participating Organisation <del>in accordance with</del> <u>under</u> these Rules <u>and who is and shall be a beneficial owner</u> <del>Beneficial Owner</del> or an <del>authorised nominee</del> <u>Authorised Nominee</u> or an <del>exempt authorised nominee</del> <u>Exempt Authorised Nominee</u> , <del>as the case may be.</del>
<del>Closing Price</del>	<u>'closing price' for On Market Transaction as stipulated by the Exchange</u> (a) <del>'closing price' as referred to in Rule 701.5A(6)(b) and (c); or</del>  (b) <del>where there are no trades, the Reference Price.</del>
Commission	<del>means the</del> <u>The</u> Securities Commission established under the Securities Commission Act.
Commissioned Dealer's Representative	<del>Means a</del> <u>A Dealer's Representative a Participating Organisation engages</u> <del>remiser or any other person who is engaged by a Participating Organisation as its dealer's representative</del> on a non-salaried basis.
<u>Commission's</u> Licensing Handbook	<del>means the</del> <u>The</u> licensing handbook <u>the Commission</u> issued by the <del>Commission</del> pursuant to Section 377 of the Capital Markets and Services Act <del>including all modifications, re-issuance or consolidations thereof and directives thereto.</del>
<del>Committee</del>	<del>means a committee formed by the Exchange for general or specific tasks pursuant to these Rules.</del>
Companies Act	<del>means the</del> Companies Act 1965.
<del>Compliance Officer</del>	<del>in relation to a Participating Organisation, means the compliance officer appointed by the Participating Organisation pursuant to and in accordance with Rule 309.</del>
<del>e</del> <u>Constituent</u> <del>s</del> <u>Securities</u>	<del>m</del> <u>Means any</u> <del>Any</del> of the <del>s</del> <u>Securities</u> admitted on the Official List which forms the basket or part of the basket of securities required for the creation of an ETF unit and/or underlying an ETF unit.
<del>contract</del> <u>Contract</u>	<del>means a</del> <u>A</u> contract for <del>the a</del> sale or purchase <del>transactions</del> <u>transaction</u> of <del>s</del> <u>Securities</u> entered into on the stock market of the Exchange <u>as described in Rule 801. 8(3).</u>
<del>contract date</del> <u>Contract Date</u>	<del>in</del> <u>In</u> relation to a <del>sale</del> <u>sell</u> or buy <del>contract</del> <u>Contract of On-Market Transaction</u> , <del>means the date of execution of the sale day the sell or buy order, as the case may be</del> <u>is matched in the ATS.</u>
<u>Contract Note</u>	<u>Same meaning as in Capital Markets and Services Act</u>
<del>conversion date</del> <u>Conversion</u>	<del>shall have the same</del> <u>Same</u> meaning as <del>is assigned to it</del> in the

Comment [B13]: We have done away with previous Rule 801.2.

Comment [B14]: Previously in Rule 701.1(1).

Comment [B15]: Deleted as this term is no longer used in these Rules.

Comment [B16]: Deleted as there is no longer a requirement for Compliance Officers to be registered with the Exchange.

Comment [B17]: For consistency with the terminology in Chapter 11.

## Chapter 1 – Definitions and Related Provisions

<u>Date</u>	Demutualisation Act.
<del>corporation action</del> <u>Corporate Action</u>	<del>corporation action means any</del> <u>Any</u> action taken by an Issuer in relation to or arising from <del>its</del> <u>the Issuer's</u> <del>s</del> <u>Securities</u> including payment of dividend, issue of bonus shares and other rights and interests associated with such <del>s</del> <u>Securities</u> , capital restructuring and share consolidation.
<del>corporate finance activities</del>	<del>shall bear the same meaning as 'advising on corporate finance' as is ascribed thereto in the Capital Markets and Services Act.</del>
<del>crossing</del>	<del>means a</del> <u>A</u> <del>Direct Business Transaction reported to the Exchange between:</del>  (a) <del>two</del> <u>2</u> <del>clients</del> <u>Clients</u> <del>of different Participating Organisations;</del>  (b) <del>two</del> <u>2</u> <del>different Participating Organisations; or</del>  (c) <del>a Participating Organisation and a client</del> <u>Client</u> <del>of another Participating Organisation.</del>
<del>dealer's licence</del>	<del>means a Capital Markets Services Licence to carry on the business of dealing in securities.</del>
<u>Day Trading</u>	<del>means Day Trading as defined in the 'Directives On The Use of Day Trading Activities Account ('The Said Directives') issued vide the Participating Organisations' Circular dated 22 December 2006 and numbered as R/R 17 of 2006</del> <u>Same meaning as in the Exchange's Directives on the use of Day Trading Activities Account.</u>
<u>Day Trading Activities Account</u>	<u>Same meaning as in the Exchange's directives on the use of Day Trading Activities Account.</u>
Dealer's Representative	<del>means a</del> <u>A</u> holder of a <del>dealer's representative's licence who is either a Commissioned Dealer's Representative or a Salaried Dealer's Representative</del> <u>Capital Markets Services Representative's Licence for Dealing in Securities – who trades on the Exchange's stock market.</u>
<del>dealer's representative's licence</del>	<del>means a Capital Markets Services Representative's Licence for the regulated activity of dealing in securities.</del>
<u>Dealing in Securities</u>	<u>Same meaning as in the Capital Markets and Services Act.</u>
<del>delivery</del>	<del>in relation to securities, means the deposit or transfer of such securities into a CDS Account in accordance with Depository Rules.</del>
Demutualisation Act	<del>means the</del> Demutualisation (Kuala Lumpur Stock Exchange) Act 2003.
Depository	<del>means the</del> BURSA MALAYSIA DEPOSITORY SDN BHD, a company <del>which has been</del> approved by the Minister to act as a central depository under <del>Section 5(1) of</del> the Securities Industry (Central Depositories) Act.
Depository Rules	<del>means the</del> <u>The</u> rules of Depository.

**Comment [B18]:** This term is no longer used in these Rules.

**Comment [B19]:** Deleted as this terminology is no longer used in the Rules

**Comment [B20]:** This term is no longer used in these Rules. The term Capital Markets Services Licence for Dealing in Securities is used instead.

**Comment [B21]:** For the purposes of the rules of the Exchange a DR is someone who holds a CMSRL and trades on the market operated by the Exchange. This excludes someone who holds a CMSRL to undertake specific activities separate from trading in securities on the Exchanges market e.g. dealings in unlisted corporate debt instruments.

**Comment [B22]:** This term is no longer used in these Rules. The term Capital Markets Services Representative's Licence for Dealing in Securities is used instead

**Comment [B23]:** The definition of Dealer's Representative refers to this term.

**Comment [B24]:** This term is no longer used in these Rules.

## Chapter 1 – Definitions and Related Provisions

<u>DF Account</u>	<u>A trading account opened by a Client of a Participating Organisation, that allows the Client to utilise Discretionary Financing under Rule 708.3.</u>
<u>DF Account Holder</u>	<u>A Client who has opened a DF Account with a Participating Organisation</u>
Direct Business Transaction	<del>means a transaction in securities entered into outside the ATS.</del> <u>A contract for sale and purchase of Securities done outside the ATS.</u>
Direct Market Access (DMA)	<del>Means</del> <u>The process by which orders to buy or sell Securities including any modifications and cancellations thereof are submitted into a DMA Infrastructure for execution in the ATS by a Client persons referred to in Rule 701A without any intervention by a Dealer's Representative or being entered or re-entered by a Dealer's Representative</u>
<del>directives</del> <u>Directives</u>	<del>means directives issued from time to time by the Exchange pursuant to these Rules</del> <u>Instructions, rulings or guidelines the Exchange issues by whatever name called for or in connection with any of these Rules including:</u>  <ul style="list-style-type: none"> <li><u>(a) any decision, request or requirement the Exchange makes or imposes pursuant to any act or thing done under these Rules;</u></li> <li><u>(b) any terms and conditions imposed pursuant to any act or thing done under these Rules; and</u></li> <li><u>(c) any requirement the Exchange imposes for the proper operation and management of the Exchange's stock market and facilities.</u></li> </ul>
<u>Director</u>	<u>Same meaning as in Companies Act</u>
<u>Discretionary Financing</u>	<u>A financing that a Participating Organisation provides to a Client under Rule 708.3.</u>
DMA Infrastructure	<del>Means the a</del> <u>An infrastructure established and/or maintained by or for the Participating Organisation which facilitates Direct Market Access.</u>
<u>DMA Client</u>	<u>A person who is allowed to key-in DMA orders under Rule 802.4.</u>
Document	<del>shall have the Same</del> meaning as <del>is assigned to it</del> in the Capital Markets and Services Act.
<u>DR Security Deposit</u>	<del>Any cash, bank guarantee, securities or other form of security acceptable to the Participating Organisation deposited with the Participating Organisation;</del>  <ul style="list-style-type: none"> <li><u>(a) to secure the Dealer's Representative's obligations to the Participating Organisation under the agreement setting out the Participating Organisation's arrangement with the Dealer's Representative; or</u></li> <li><u>(b) as security for the repayment of all monies that are or may be owing by the Dealer's Representative or the</u></li> </ul>

**Comment [B25]:** See rationale for this definition in the comment on renumbered Rule [301.5(1)]

**Comment [B26]:** To provide for a definition of "director" following the CMSA

**Comment [B27]:** Consequential to the introduction to Rule 310.7 that sets out the obligations of a PO vis-à-vis a Dealer's Representative. These obligations used to be in the Standard Remisier's Agreement which will be done away with

## Chapter 1 – Definitions and Related Provisions

Dealer's Representative's Client to the Participating Organisation arising from or in connection with transactions in Securities.

<del>eDual Licensed Dealer's Representative</del>	<del>means a Dealer's Representative who also holds a Capital Markets Services Representative's Licence for Trading in Futures Contracts has been issued with a valid futures broker's representative's licence.</del>	<p><b>Comment [B28]:</b> Previously in Rule 501.2(1)</p> <p><b>Comment [B29]:</b> "Futures broker's representative's licence" is no longer used in these Rules. The term "Capital Markets Services Representative's Licence for Trading in Futures Contracts" is used instead.</p>
<u>Effective Date</u>	<u>[the date that the New Rules comes into force]</u>	
<del>Effective Shareholders' Funds</del>	<del>means effective shareholders funds as defined under Rule 4405.4</del> <u>Same meaning as in Rule 1301.2(1).</u>	<p><b>Comment [B30]:</b> Previously in Rule 701.1(1).</p>
<del>eElectronic aAccess fFacility</del>	<del>means any</del> <u>Any</u> physical site, location or premise at which is situated or installed physical hardware or equipment –	<p><b>Comment [B31]:</b> Previously in Rule 501.2(1)</p>
	<p>(a) that does, or <del>as the case may be,</del> is able to, house or accommodate electronic systems, devices or platforms; and</p> <p>(b) which hardware or equipment when used in conjunction with the electronic systems <del>therein does,</del> or <del>as the case may be,</del> is able to, provide broker-client linkages or electronic client ordering systems.</p>	
Eligible Non-Universal Broker	<del>means a Non-Universal Broker which that</del> has merged with or acquired, <del>as the case may be,</del> the assets or any interests and business of at least <del>one (1) other Member Company(ies) and/or Participating Organisation(s)</del> <u>Participating Organisation or a Participating Organisation that was a Member Company.</u>	
<del>Eligible Securities</del>	<del>means such</del> <u>Such</u> Securities as <u>the Clearing House</u> may be prescribed <del>by the Clearing House prescribe from time to time</del> as being eligible for securities borrowing and/or lending in accordance with the Clearing House Requirements;	<p><b>Comment [B32]:</b> Previously in Rule 704.1(1).</p>
<del>Entity</del>	<del>shall bear the same meaning as is ascribed thereto in the Guidelines on Supervisory Functions. In relation to outsourcing of Supervisory Functions, same meaning as in the Commission's requirements on performance of Supervisory Functions at Group Level for capital market intermediaries.</del>	<p><b>Comment [B33]:</b> In line with principles-based rules and in order to keep these Rules flexible, we are doing away with naming the specific guidelines applicable. Instead, a general description of the relevant guidelines will be provided in the Rules.</p>
<u>Equity</u>	<u>In relation to Margin Financing</u> , the sum of <u>mMargin</u> and securities purchased and carried in <u>eClient's mMargin aAccount</u>	<p><b>Comment [B34]:</b> Previously, the definition of "Equity" in Rule 703.1(1).</p>
Equity-based Exchange Traded Fund	<del>means</del> <u>The</u> Exchange Traded Fund <del>which that</del> :	
	<p>(a) tracks the performance of a market index where constituent securities of that market index are wholly shares ("the constituent shares"); and</p> <p>(b) invests in the constituent shares of that market index.</p>	
<del>ETF</del>	<del>Equity-based Exchange Traded Fund</del>	<p><b>Comment [B35]:</b> Previously in Chapter 3A. 'Equity based' is deleted as there is already a definition of "Equity based Exchange Traded Fund".</p>
Exchange	<del>means</del> BURSA MALAYSIA SECURITIES BERHAD.	
<del>exchange company</del>	<del>means any body corporate approved as a futures exchange under Section 8(2) of the Capital Markets and Services Act</del>	<p><b>Comment [B36]:</b> This term is now known as "Futures Exchange" and has been moved just above the definition of "Group" below.</p>

## Chapter 1 – Definitions and Related Provisions

	<del>and which approval is in force.</del>
Exchange holding company <u>Holding Company</u>	<del>means</del> <u>BURSA MALAYSIA BERHAD</u>
Exchange Traded Fund (ETF)	<del>shall have the same</del> <u>Same</u> meaning as <del>assigned to it in the Commission's requirements on exchange traded funds</del> <u>Commission's Guidelines on Exchange Traded Funds</u> .
<del>executive director</del> <u>Executive Director</u>	<del>means a</del> <u>A</u> person who is an executive <del>director</del> <u>Director</u> and employee of a Participating Organisation.
Exempt Authorised Nominee	<del>shall have the same</del> <u>Same</u> meaning as <del>is assigned to that expression in the Depository Rules.</del>
External Party	<del>shall bear the same</del> <u>Same</u> meaning as 'external party' <del>as is ascribed thereto in the Commission's requirements on the performance of Supervisory Functions at Group Level for capital market intermediaries</del> <u>Guidelines on Supervisory Functions</u> .
FDSS	<del>means the Fixed Delivery and Settlement System</del> <u>The fixed delivery and settlement system</u> established by the Exchange <del>which that</del> fixes and regulates the day and time for the <del>delivery</del> <u>delivery</u> and settlement of <del>s</del> <u>Securities</u> traded <del>or reported</del> on the <u>Exchange's</u> stock market <del>maintained by the Exchange.</del>
Forward Contract	<u>A contract for the future delivery of securities at a pre-determined price and date.</u>
Fund Management	<u>Same meaning as in the Capital Markets and Services Act.</u>
<del>fund manager's representative</del> <u>Fund Manager's Representative</u>	<del>means a</del> <u>A</u> holder of a <del>fund manager's representative's licence</del> <u>Capital Markets Services Representative's Licence for Fund Management</u> .
<del>fund manager's representative's licence</del>	<del>means a Capital Markets Services Representative's Licence for the regulated activity of fund management.</del>
<del>futures broker</del> <u>Futures Broker</u>	<del>means a</del> <u>A</u> holder of a <del>futures broker's licence</del> <u>Capital Markets Services Licence for Trading in Futures Contracts</u> .
<del>futures broker's licence</del>	<del>means a Capital Markets Services Licence to carry on the business of trading in futures contracts.</del>
<del>futures broker's representative</del> <u>Futures Broker's Representative</u>	<del>means a</del> <u>A</u> holder of a <del>futures broker's representative's licence</del> <u>Capital Markets Services Representative's Licence for Trading in Futures Contracts</u> .
<del>futures broker's representative's licence</del>	<del>means a Capital Markets Services Representative's Licence for the regulated activity of trading in futures contracts.</del>
<del>futures broking business</del>	<del>shall bear the same meaning as 'trading in futures contracts' as is ascribed thereto in the Capital Markets and Services</del>

**Comment [B37]:** Same comment as in the definition of "Entity".

**Comment [B38]:** Same comment as in the definition of "Entity".

**Comment [B39]:** This term is no longer used in these Rules. The term Capital Markets Services Representative's Licence for Fund Management is used instead.

**Comment [B40]:** This term is no longer used in these Rules. The term Capital Markets Services Licence for Futures Contract is used.

**Comment [B41]:** This term is no longer used in these Rules. The term Capital Markets Services Representative's Licence is used instead.



## Chapter 1 – Definitions and Related Provisions

<p><del>business rules</del> <u>Futures Exchange Business Rules</u></p>	<p><del>Act.</del> <del>Same shall have the same</del> meaning as <del>is ascribed thereto</del> in paragraphs (b) and (e) (in so far as the same relates to an approved clearing house providing clearing house facilities in relation to futures contracts and an exchange holding company of a futures exchange) and (d) of the definition of 'rules' <del>contained</del> in Section 2(1) of the Capital Markets and Services Act.</p>	<p><b>Comment [B42]:</b> The term is no longer used in these Rules. The term "Trading in Futures Contracts" is used instead.</p>
<p><u>Futures Contract</u></p>	<p><u>Same meaning as in the Capital Markets and Services Act.</u></p>	
<p><del>Futures Exchange</del></p>	<p>A body corporate approved as a futures exchange under the Capital Markets and Services Act.</p>	<p><b>Comment [B43]:</b> To avoid confusion, to change this reference to "Futures Exchange" instead of the "exchange company".</p>
<p>Group <u>Level</u></p>	<p><del>shall bear the same</del> <u>In relation to outsourcing of Supervisory Functions same</u> meaning as <del>is ascribed thereto</del> in the <u>Commission's requirements on the performance of Supervisory Functions at group level for capital market intermediaries</u><del>Guidelines on Supervisory Functions.</del></p>	
<p><del>Guidelines</del></p>	<p><del>means guidelines issued from time to time by the Exchange pursuant to these Rules.</del></p>	<p><b>Comment [B44]:</b> References will be made to Directives instead of Guidelines in these Rules. See definition of Directives above.</p>
<p><del>Guidelines on Exchange Traded Funds</del></p>	<p><del>means the Guidelines on Exchange Traded Funds issued by the Commission, including all modifications, re-issuance or consolidations thereof and directives thereto.</del></p>	<p><b>Comment [B45]:</b> In line with principles-based rules and in order to keep these Rules flexible, we are doing away with naming the specific guidelines applicable. Instead, we will state the principle that the Commission's requirements must be complied with.</p>
<p><u>Guidelines on Back Office Functions</u></p>	<p><u>Guidelines on Outsourcing of Back Office Functions for Capital Market Intermediaries.</u></p>	
<p>Guidelines on Investment Banks</p>	<p><del>means the</del> Guidelines on Investment Banks <u>jointly</u> issued by the Central Bank and the Commission, <del>including all amendments, modifications, re-issuance or consolidations thereof and directives thereto.</del></p>	
<p><u>Guidelines on Supervisory Functions</u></p>	<p><u>Guidelines on Performance of Supervision Functions at Group Level for Capital Market Intermediaries.</u></p>	<p><b>Comment [B46]:</b> Same comment as above</p>
<p><del>Guidelines on Permitted Activities for Stockbroking Companies</del></p>	<p><del>means the Commission's policy on permitted activities for stockbroking companies set out in the Licensing Handbook and includes all amendments, modifications, variations, supplements or substitutes made thereto.</del></p>	<p><b>Comment [B47]:</b> Same comment as in the definition of "Guidelines on Exchange Traded Funds".</p>
<p><del>Guidelines on Supervisory Functions</del></p>	<p><del>means the "Guidelines on Performance of Supervisory Functions at Group Level for Capital Market Intermediaries" issued by the Commission on 29 June 2005, including subsequent amendments, modifications, variations, supplements or substitutes thereto and any directives or guidelines as may be issued thereunder.</del></p>	<p><b>Comment [B48]:</b> Same comment as in the definition of "Guidelines on Exchange Traded Funds".</p>
<p>Heads</p>	<p><del>means</del> Head of Dealing, Head of Operations and Head of Compliance and a "Head" <del>shall mean</del> <u>means</u> any one of <del>the</del> <u>these</u> Heads.</p>	
<p>Head Group Compliance</p>	<p><del>means</del> <u>The</u> 'head of compliance' referred to in the <u>guidelines issued by the Commission on the performance of</u></p>	

Chapter 1 – Definitions and Related Provisions

Supervisory Functions at a Group Level for capital market intermediaries  
Guidelines on Supervisory Functions.

Head of Compliance ~~means the A person who a Participating Organisation appoints under Rule 307.1(1) is responsible for all compliance matters of the Participating Organisation in the manner envisaged in these Rules and includes a Head of Compliance of an Investment Bank.~~

~~Head of Compliance of an Investment Bank means the 'Head of Compliance' referred to in the Guidelines on Investment Banks and who is responsible for all compliance matters of the Participating Organisation in the manner envisaged in the Guidelines on Investment Banks and these Rules.~~

**Comment [B49]:** Unnecessary. We have defined Head of Compliance. We have defined Investment Bank. This will suffice.

Head of Dealing ~~means a A person who a Participating Organisation appoints under Rule 305.1(1).~~

**Comment [B50]:** The requirements of a Head of Dealing are now in Rule [305.1(1)].

- ~~(a) holds a dealer's representative's licence; and~~
  - ~~(b) is responsible for the activities of the Participating Organisation related to dealing in securities in the manner envisaged in these Rules;~~
- ~~and includes a Head of Dealing of an Investment Bank.~~

~~Head of Dealing of an Investment Bank means the 'Head of Dealing' referred to in the Guidelines on Investment Banks and who~~

**Comment [B51]:** Unnecessary. We have defined Head of Dealing. We have defined Investment Bank. This will suffice.

- ~~(a) holds a dealer's representative's licence; and~~
- ~~(b) is responsible for the activities of the Participating Organisation related to dealing in securities in the manner envisaged in the Guidelines on Investment Banks and these Rules.~~

Head of Operations ~~means a A person who a Participating Organisation appoints under Rule 306.1(1).~~

- ~~(a) does not hold a dealer's representative's licence; and~~
  - ~~(b) is responsible for operational activities of the Participating Organisation in the manner envisaged in these Rules;~~
- ~~and includes a Head of Operations of an Investment Bank.~~

~~Head of Operations of an Investment Bank means a person who~~

**Comment [B52]:** Unnecessary. We have defined Head of Operations. We have defined Investment Bank. This will suffice.

- ~~(a) does not hold a dealer's representative licence; and~~
- ~~(b) is responsible for operational activities of the Participating Organisation in the manner envisaged in the Guidelines on Investment Banks and these Rules.~~

~~Immediate Basis Contract means a contract where its Scheduled Delivery Time and Scheduled Settlement Time for buying and selling of securities are as stipulated at Schedule 2A.~~

**Comment [B53]:** Doing away with Immediate Basis Contracts as no contracts are currently traded on an immediate basis. As such there is no utility in maintaining Immediate Basis Contracts.

~~interest in securities~~Interest in shall have the same Same meaning as is assigned to it

## Chapter 1 – Definitions and Related Provisions

### Securities

under Section 4 of in the Capital Markets and Services Act.

### ~~Internal Guidelines for Short Selling~~

~~means written guidelines formulated by Participating Organisations setting out the Participating Organisations' internal policies, procedures, controls and requirements in relation to regulated short selling whether for itself or its clients and for the supervision and monitoring of its regulated short selling activities to ensure strict compliance with the laws and these Rules including any regulations, directives, guidelines and rulings issued thereunder in relation to regulated short selling.~~

**Comment [B54]:** Previously in Rule 704.1(1). Deleted as the requirement will be in the PO Manual.

### Internal Guidelines for Permitted Short Selling

~~Means~~ Written guidelines formulated by Market Maker setting out the Market Maker's internal policies, procedures, controls and requirements in relation to Permitted Short Selling activities to ensure strict compliance with laws and these Rules including any regulations, directives, guidelines and rulings issued ~~thereunder~~ under the laws or these Rules in relation to Permitted Short Selling.

**Comment [B55]:** Previously in Chapter 3A

### Investment Bank

~~means an~~ An Investment Bank ~~as referred to under the Guidelines on Investment Banks Guidelines on Investment Banks and which is registered admitted~~ as a Participating Organisation of the Exchange in accordance with under Rule 301.2.302 unless the context otherwise permits.

### ~~Investment Bank Capital Adequacy Framework~~

~~means the Investment Bank Capital Adequacy Framework referred to in the Guidelines on Investment Banks.~~

**Comment [B56]:** This term is no longer used in these Rules as Investment Bank Capital Adequacy Framework is based on the Risk Weighted Capital Ratio and it is sufficient to refer to the Risk Weighted Capital Ratio that is defined in Rule 1301.2.

### Issuer

~~shall have the same~~ Same meaning as ~~is assigned to it under Section 2(1) of in~~ the Capital Markets and Services Act.

### ~~Licensing Handbook~~

~~means the licensing handbook issued by the Commission pursuant to Section 377 of the Capital Markets and Services Act including all modifications, re-issuance or consolidations thereof and directives thereto.~~

**Comment [B57]:** Moved above to define the term "Commission's Licensing Handbook".

### Last Done Price

~~the~~ last traded price of an ~~o~~On-market ~~t~~Transaction.

**Comment [B58]:** Previously in Rule 701.1(1).

**Comment [B59]:** This is taken from the definition stated in the previous rule 701.1

**Comment [B60]:** This term is used in Chapter 5 in relation to clients' assets and the DR Security Deposit.

**Comment [B62]:** MESDAQ Market and second board is no longer applicable.

**Comment [B63]:** Unnecessary as Rule 101.2(3) states amongst other things that a reference to a rule of the Exchange is to that rule so amended, supplemented, consolidated or substituted. This definition will be further amended upon the amendments to the Listing Requirements for the consolidation of the main board and second board coming into effect.

### Licensed Institution

Same meaning as in the BAFIA.

### Listing Requirements

~~means the~~ The rules governing the listing of securities and regulation of listed Issuer securities on the ~~main board, second board and MESDAQ Market, Main Market and ACE Market, as amended or consolidated and published by the Exchange from time to time.~~

### Lodgement Date

~~Means the~~ The date on any market day immediately preceding the Book Closing Date.

**Comment [B61]:** This def is equivalent to Book Closing Date. Should be redrafted or opt for either one.

### Lower Limit Price

~~Means the~~ The lowest price at which the sSecurities can be traded from a Reference Price, ~~in a trading session~~ as stipulated by the Exchange.

**Comment [B64]:** Previously in Rule 701.1(1). The words 'trading session' are removed. This will be reflected in the directives prescribing the lower upper limit price and the lower limit price.

Chapter 1 – Definitions and Related Provisions

<u>Main Market</u>	<u>The Exchange's stock market referred to under the Main Market Listing Requirements</u>
<u>Margin</u>	<del>means the</del> <u>The aggregate amount of cash and collateral deposited into a <u>client's margin account</u> <u>Client's Margin Account</u> but excludes <u>sSecurities which that</u> are purchased and carried in <u>his the Client's Margin Account</u> <u>margin account</u>.</u>
<u>Margin Account</u>	<del>means the account which a Participating Organisation allows to be opened and maintained by a client</del> <u>The account a Client maintains with a Participating Organisation for Margin Financing for the purpose of dealing in securities pursuant to margin financing facility made available by the Participating Organisation to that client.</u>
<u>Margin Financing</u>	<del>in relation to a Participating Organisation, means a</del> <u>financing that a facility the Participating Organisation makes made available by the Participating Organisation provides to a client Client under Rule 708.2 for trading exclusively in securities that are listed on the Official List, in accordance with the provisions of Rule 703.</u>
<u>market day</u> <u>Market Day</u>	<del>means a</del> <u>A day on which the Exchange's stock market maintained by the Exchange is open for trading in securities.</u>
<u>Market Maker</u>	<del>m</del> <u>Means a A person who performs market making.</u>
<u>m</u> <u>Market m</u> <u>Making</u>	<del>Unless the context otherwise requires, refers to t</del> <u>The act of entering bid and offer prices in the order book maintained in the ATS for a Specified Security based on the requirements stipulated by the Exchange, in Rule 303A.1(1).</u>
<u>married transaction</u>	<del>means a A Direct Business Transaction reported to the Exchange between:-</del>  <del>(a) two clients 2 Clients of the same Participating Organisation; or</del>  <del>(b) a Participating Organisation and its client</del> <u>the Participating Organisation's Client.</u>
<u>Member Company</u>	<u>A Participating Organisation who was a member of the Exchange Holding Company prior to the demutualisation of the Exchange Holding Company under the Demutualisation Act.</u>
<u>MESDAQ and/or MESDAQ Market</u>	<del>means the market for high growth and technology based companies as is presently known, or howsoever known, or by whatsoever named called from time to time.</del>
<u>Minimum Paid-Up Capital</u>	<del>means the</del> <u>The minimum paid-up capital specified in Rule 404.1302.1(1).</u>
<u>Minimum Shareholders' Funds</u>	<u>The minimum shareholders' funds unimpaired by losses specified in Rule 1302.1(1).</u>

**Comment [B65]:** Previously, defined in Rule 703.1(1).

**Comment [B66]:** Previously, defined in Rule 1105.1(1). Moved here as "Margin Account" is defined in the definition of "Margin" above.

**Comment [Bursa67]:** Deleted as Margin Financing Facility is defined to mention the types of securities allowed to be traded.

**Comment [B68]:** Amendment made for consistency between the definition of Margin Financing Facility and Rule 703.3(1).

**Comment [B69]:** Previously in Chapter 3A

**Comment [B70]:** Previously in Chapter 3A

**Comment [B71]:** Deleted as this terminology is no longer used in the Rules.

**Comment [B72]:** The term MESDAQ market is no longer used.

## Chapter 1 – Definitions and Related Provisions

Minister ~~means the~~ The Minister ~~for the time being charged with the responsibility~~ responsible for finance in Malaysia.

~~n~~Net ~~s~~Short ~~P~~osition ~~i~~n relation to an ~~a~~Approved ~~s~~Securities means the quantity of an ~~a~~Approved ~~s~~Securities short sold on a ~~m~~Market ~~d~~Day in accordance with Rule ~~704~~803 but which have yet to be closed off by subsequent purchases of ~~s~~Securities falling within the same class of ~~s~~Securities as the ~~a~~Approved ~~s~~Securities short sold and executed on the same ~~m~~Market ~~d~~Day that the ~~a~~Approved ~~s~~Securities was short sold.

New Rules The Rules of Bursa Malaysia Securities Bhd in force from the Effective Date.

No Cancellation Range ~~means~~ the range of prices specified in the table below where the Exchange will not cancel a ~~c~~Contract arising from a mistake made by a Participating Organisation as stipulated under Rule~~601.2B~~ 801.10. In relation to ~~s~~Securities denominated in foreign currency, the range of prices stated below will equally apply but denominated in the foreign currency in which the ~~s~~Securities are quoted and traded in.

Prevailing Price (RM)	No Cancellation Range
Below 0.50	Between RM 0.075 below the Prevailing Price and RM 0.075 above the Prevailing Price.
Between 0.50 and 1.00	Between RM 0.15 below the Prevailing Price and RM 0.15 above the Prevailing Price.
Above 1.00	Between the price 15% below the Prevailing Price and the price 15% above the Prevailing Price.

~~non-executive director~~Non-Executive Director ~~means a~~ A non-executive ~~director~~ Director of a Participating Organisation, ~~and who is not an employee of a Participating Organisation.~~

Non-Universal Broker ~~means a~~ A Participating Organisation ~~which~~ that is not a Universal Broker and includes an Eligible Non-Universal Broker and Special Scheme Broker.

Odd Lot In relation to any ~~s~~Securities quoted on the Official List, means any number of such ~~s~~Securities ~~which~~ that is less than the number of ~~s~~Securities ~~prescribed by~~ the Exchange ~~determines~~ as a ~~board lot~~Board Lot.

Off-Balance Sheet Transactions ~~include~~ Includes:

(a) uncalled amounts on securities, options, other contingent liabilities and capital commitments (whether secured or not); ~~and~~

(b) all assets pledged as security, forward purchase/ or sale contracts (other than in securities), ~~which is prohibited);~~

## Chapter 1 – Definitions and Related Provisions

	<p>(c) <del>_____</del> futures contracts and other commitments that contractually obliges a Participating Organisation to perform certain actions <del>which—that</del> are transacted outside the ATS,</p> <p>but <del>shall not include—excludes</del> underwriting or sub-underwriting <del>which—that</del> are required to be reported under Capital Adequacy Requirements.</p>
Official List	<p><del>means the</del> <u>The official list of sSecurities</u> <del>which—that</del>.</p> <p>(a) <del>have has</del> been admitted by the Exchange and <del>have has</del> not been removed <u>by the Exchange</u> <del>from that list; and/or</del></p> <p>(b) are quoted and traded on the Exchange, <del>subject to the Listing Requirements and these Rules.</del></p> <p><u>or both.</u></p>
<u>Old Rules</u>	<u>The Rules of Bursa Malaysia Securities Bhd in force prior to the Effective Date.</u>
<u>eOn-mMarket tTransaction</u>	<p><del>means either a</del> <u>A</u> transaction <del>which—that</del> is concluded by way of: <del>automatic</del></p> <p><u>(a) automated order—matching of orders entered into the order book maintained in the ATS,</u> in accordance with Rule <del>701.8</del><u>801.3</u> or</p> <p><u>(b) a transaction</u> <del>which—that</del> is concluded in accordance with Rule <del>701.8A</del><u>801.12</u>.</p>
On-Market Married Transaction	<p><del>Means a</del> <u>A</u> match of a buy order to a sell order for the same price and quantity made by the same Participating Organisation simultaneously entering and executing the buy and sell orders into the ATS in accordance with Rule <del>701.8A</del><u>801.12</u> between:</p> <p>(a) two Clients of the same Participating Organisation; or</p> <p>(b) a Participating Organisation and its Client.</p>
<u>Opening Price</u>	<p><del>'opening price'</del> <u>for On Market Transaction as stipulated by the Exchange</u> <del>referred to in Rule 701.5A(3)(b) and (c).</del></p>
<u>Outstanding Balance</u>	<p><del>means the</del> <u>The</u> amount owed by a <del>client</del> <u>Client</u> in <del>his margin account</del> <u>the Client's Margin Account</u> arising from <del>his—the</del> <u>Client's</u> transactions in <del>s</del> <u>Securities</u>, including all commission charges, interest, expenses and all other related expenses before deducting any cash deposited by <del>him—the Client</del> <u>as margin</u> <u>Margin</u>.</p>
<u>Participantship</u>	<del>Means being</del> <u>Being a Participating Organisation of the Exchange.</u>
Participating Dealer	<p><del>for the purposes of these Rules, has the same</del> <u>Same</u> meaning as <del>is assigned to that expression</del> in the <u>guidelines on Exchange Traded Funds issued by the</u></p>

Comment [B73]: Previously in Rule 701.1(1).

Comment [B74]: Previously, the definition of "Outstanding Balance" in Rule 703.1(1).

## Chapter 1 – Definitions and Related Provisions

	<u>Commission Guidelines on Exchange Traded Funds.</u>
Participating Organisation	<del>means a</del> <u>A company which that</u> carries on the business of <del>dealing in securities trading in Securities on the Exchange's stock market and is admitted as a</del> <u>for the time being recognised as</u> a Participating Organisation <del>of the Exchange under in accordance with the provisions of Rule 301.2302 and includes all the Participating Organisation's Branch Offices, and "participanship" shall be construed accordingly.</del>
Permitted Short Selling	<del>m</del> <u>Means the</u> <del>The</del> short selling of units of an ETF <del>and/or constituent securities pursuant to the Capital Markets Services (Non-Application of Subsection 98(1))(Exchange Traded Funds) Order 2009.</del>
Prevailing Price	<del>m</del> <u>Means the</u> <del>The</del> reference price used to establish the "No Cancellation Range" and the <u>reference</u> price is the Last Done Price or any other price the Exchange deems fit, prior to and on the same trading session that the mistake as described in Rule <del>601.2B</del> <u>801.10</u> is made by the Participating Organisation.
<del>principal office</del> <u>Principal Office</u>	<del>means the</del> <u>The</u> principal office approved <del>and recognised</del> by the Commission as <del>a the</del> principal office of a Participating Organisation, <del>or in</del> <u>In</u> the case of an Investment Bank, the principal office approved <del>and recognised</del> by the Central Bank as the principal office of an Investment Bank.
<del>proprietary accounts</del> <u>Proprietary Account</u>	<del>means A trading accounts which record transactions in securities opened by a Participating Organisations trading as principals for the Participating Organisation's own trades.</del>
<u>Proprietary Day Trader</u>	<u>A Dealer's Representative a Participating Organisation engages to execute Day Trading on the Participating Organisation's behalf.</u>
<del>public holiday</del> <u>Public Holiday</u>	<del>means a</del> <u>A day which that</u> is declared as a public holiday in the Federal Territory of Kuala Lumpur.
R/R 18 of 2005	<del>means the Participating Organisations' Circular dated 7 October 2005 issued by the Exchange and numbered as R/R 18 of 2005, pertaining to 'Directives For Participating Organisations On the Use of Clearing Account, Error or Mistake Account and Investment Account'.</del>
Ready Basis Contract	<del>means a</del> <u>A</u> <del>c</del> Contract where <u>its the delivery and settlement time for buying or selling of Securities are as stipulated in Schedule 3 Scheduled Delivery Time and Scheduled Settlement Time for buying or selling of securities are as stipulated at Schedule 2A.</u>
<del>recognised stock exchange</del>	<del>means</del> —
<u>Recognised Stock Exchange</u>	(a) <del>a</del> <u>A</u> body corporate <del>which has been</del> approved by the Minister under Section 8(2) of the Capital Markets and Services Act; or  (b) <del>a</del> <u>A</u> foreign stock exchange <u>the Exchange declares declared by the Exchange to be a recognised stock exchange</u> <u>Recognised Stock Exchange.</u>

**Comment [B76]:** To make it clear that a reference to a PO would include all the PO's branch offices. So that it is clear that these Rules would apply equally to all offices of the PO, principle or branch offices.

**Comment [B75]:** Previously in Chapter 3A

**Comment [B77]:** Introducing a new definition of Proprietary Day Trader consequent to incorporating the requirements of a PDT from R/R 17 of 2006 into these Rules.

**Comment [B78]:** Previously in Rule 701.1(1).

**Comment [B79]:** Amendments made in line with consistency with the drafting in Chapter 9.

Chapter 1 – Definitions and Related Provisions

<u>Record</u>	<u>Same meaning as in Capital Markets and Services Act</u>
Record of Depositors	<del>shall have the Same</del> meaning as <del>is assigned to it</del> in <u>the</u> Depository Rules.
<u>Reference Price</u>	<p><del>means</del></p> <p>(a) <del>e</del>Except for the situations <del>enumerated</del><u>stipulated</u> in paragraph (b) below, the Last Done Price of <u>Securities</u> <del>the</del>;</p> <p style="padding-left: 20px;">(i) <u>in the</u> previous trading session; or</p> <p style="padding-left: 20px;">(ii) <u>in the event no trade in respect of the of such</u> <del>s</del>Securities was effected on the previous trading session, <del>of</del> the last trading session in which trades were effected; or</p> <p>(b) if for <del>two (2)</del> consecutive trading sessions of <del>one (1)</del> <u>Market Day</u>, no trading has been done for a particular <del>s</del>Securities;--</p> <p style="padding-left: 20px;">(i) the Upper Limit Price at market close, if there is an order to buy at the Upper Limit Price and <del>it the</del> <u>Upper Limit Price</u> is greater than the last Reference Price; <del>or</del></p> <p style="padding-left: 20px;">(ii) the Lower Limit Price at market close, if there is an order to sell at the Lower Limit Price and <del>it the</del> <u>Lower Limit Price</u> is less than the last Reference Price; or</p> <p>(c) for <del>s</del>Securities quoted ex-entitlement, as <u>the Exchange determines</u><del>determined by the Exchange</del>; or</p> <p>(d) for <del>s</del>Securities <del>which that</del> have been approved by the Exchange for listing and quotation on the Official List, on the first day of their listing and quotation, the issue or offer price of such <del>s</del>Securities <u>or any other price as determined by the Exchange</u>; or</p> <p>(e) in any other circumstances, as <u>the Exchange determines</u><del>determined by the Exchange</del>.</p>
Register	<p><del>means such The list, register</del> or roll of Participating Organisations and <del>R</del>egistered <del>p</del>erson(s) <del>kept by or such other persons determined by the Exchange</del> the Exchange <del>keeps</del>.</p>
<del>registered person(s)</del> <u>Registered Officers</u> <u>Person</u>	<p><del>means such person(s) A Persons stipulated under Rule 302.1(1), other than a Participating Organisation, who are required to be who is</del> registered <del>by with</del> the Exchange. <del>pursuant to these Rules</del>.</p>
<u>Regulated</u>	<del>means the</del> <u>The</u> selling of <del>a</del> pproved <del>s</del> Securities where the

Comment [B80]: Previously in Rule 701.1(1).

Comment [B81]: For consistency with Rule 204.1



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<del>sShort sSelling</del>	seller does not, at the time of the execution of the sale, have an exercisable and unconditional right to vest such <del>sS</del> Securities in the purchaser but has, prior to the execution of the sale, borrowed the <del>aA</del> Approved <del>sS</del> Securities or obtained confirmation from an Authorised SBL Participant that the Authorised SBL Participant has the <del>aA</del> Approved <del>sS</del> Securities available to lend, pursuant to a SBL Agreement as will enable delivery of the same to be made to the purchaser under the said sale, in accordance with the Rules relating to delivery and settlement in Chapter <del>89</del> , and " <del>R</del> Regulated <del>sS</del> Short <del>sS</del> ale" means the sale relating to the same.	Comment [B82]: Previously in Rule 704.1(1).
<u>Retail Clients</u>	<u>Clients of a Participating Organisation who carry out Retail Trades as defined in Rule 1101.1.</u>	
<u>Related Corporation</u>	<u>Same meaning as 'related corporation' under section 6 in the Companies Act.</u>	Comment [B83]: To have this definition in Chapter 1 of the Rules instead of having it in various parts of the Rules e.g. previous Rule1105.8(3)(d)(ii).
<del>rulings</del>	<del>means rulings or decisions made from time to time by the Exchange in respect of any matters pursuant to these Rules.</del>	Comment [B84]: This term is no longer used in these Rules.
Salaried Dealer's Representative	<del>means a dealer's representative</del> <u>A Dealer's Representative a Participating Organisation employs who is employed by a Participating Organisation</u> on a salaried basis.	
<u>SBL Agreement</u>	<del>means an</del> <u>An</u> agreement for the purpose of securities borrowing <del>and/or</del> lending as defined in Rule <del>608</del> <u>706</u> .	Comment [B85]: Previously in Rule 704.1(1).
<del>Scheduled Delivery Time</del>	<del>in relation to delivery of securities by clients, Participating Organisations or the Clearing House, as the case may be, means such date and time on which contracts shall be due for delivery as prescribed by the Exchange from time to time in Schedule 2A.</del>	Comment [B86]: This term is no longer used in these Rules.
<del>Scheduled Settlement Time</del>	<del>in relation to any act or thing to be done by the Clearing House, a Participating Organisation or a client means the day and time as specified in Schedule 2A for such act or thing to be done by the client, the Clearing House or the Participating Organisation, as the case may be, prescribed by the Exchange from time to time.</del>	Comment [B87]: This term is no longer used in these Rules.
<u>Securities</u>	<u>Securities as defined in the Capita Markets and Services Act which are listed or quoted on the stock market of the Exchange.</u>	
<u>Securities Account</u>	<u>Same meaning as in the Securities Industry (Central Depositories) Act.</u>	Comment [B88]: To include a new definition of "Securities Account" for consistency with SICDA.
Securities Commission Act	<del>means the</del> Securities Commission Act 1993.	
Securities Industry (Central Depositories) Act	<del>means the</del> Securities Industry (Central Depositories) Act 1991.	
<u>Securities Laws</u>	<del>has the same meaning as is assigned to that expression in the Securities Commission Act.</del> <u>The Capital Markets and Services Act, Securities Industry (Central Depositories) Act, Securities Commission Act and any written notices, circulars or guidelines the Commission issues pursuant to any of the above mentioned Acts.</u>	Comment [B89]: Amendment made to include SC's guidelines.

## Chapter 1 – Definitions and Related Provisions

Special Scheme Broker	<del>shall have the same</del> <u>Same</u> meaning as <del>is ascribed thereto</del> in the <del>Licensing Handbook</del> <u>Commission's Licensing Handbook</u> .
<u>Specified Security</u>	The <del>security</del> <u>Securities</u> specified by the Exchange as available for <del>mMarket m</del> <u>M</u> aking.
<u>Standalone Broker</u>	<u>A Participating Organisation that has not complied with the Commission's policy framework for stockbroking industry consolidation.</u>
Supervisory Functions	<del>shall bear the same</del> <u>Same</u> meaning as <del>is ascribed thereto</del> in the <u>Commission's requirements on supervisory functions at Group Level for capital market intermediaries</u> <del>Guidelines on Supervisory Functions</del> .
<u>I</u>	<u>In relation to:-</u>  <u>a) On-Market Transaction, the day that the On-Market Transaction is done on ATS; and</u>  <u>b) Direct Business Transaction, the day the Direct Business Transaction is reported to the Exchange in accordance with Chapter 10; and</u>
these Rules	<del>means t</del> <u>These</u> Rules of Bursa Malaysia Securities Berhad.
<u>Tick</u>	<del>means the</del> <u>The</u> minimum change <del>that is</del> allowed in the price of <del>s</del> <u>Securities</u> , as stipulated by the Exchange.
<del>total short position</del> <u>Total Short Position</u>	<del>in</del> <u>In</u> relation to an <del>approved securities</del> <u>Approved Securities</u> , <del>means</del> the total quantity of an <del>approved securities</del> <u>Approved Securities</u> short sold in accordance with Rule <del>704</del> <u>803</u> .
<del>tradeable balance</del> <u>Tradeable Balance</u>	<del>means balances of securities in a CDS Account which are good for settlement of trade</del> <u>(a) Securities marked as "free" in the seller's Securities Account or</u>  <u>(b) Securities that are due to be delivered to a seller's Securities Account pursuant to an outstanding purchase Contract.</u>
<u>Trading Clerk</u>	<u>A trading clerk referred to in Rule 502.3.</u>
<u>Trading in Futures Contracts</u>	<u>Same meaning as in the Capital Markets and Services Act.</u>
Trading Loss	In relation to Rule <del>604.2B(2)</del> <u>801.10(2)</u> , means the difference between the value of the trade if executed based on the Prevailing Price and the value of the trade executed arising from the mistake by the Participating Organisation as described in Rule <del>604.2B</del> <u>801.10</u> .
Universal Broker	<del>means a</del> <u>A</u> Participating Organisation <del>which that</del> has:—  (a) merged with or acquired <del>, as the case may be, three</del> <u>(3)</u> or more <del>other former</del> Member Company(ies)

**Comment [B91]:** In line with principles-based rules and in order to keep these Rules flexible, we are no longer naming the specific guidelines applicable. Instead, we will state the principle that the Commission's requirements must be complied with.

**Comment [B90]:** Previously in Chapter 3A

**Comment [B92]:** Introducing the definition for Standalone Broker for the purpose of Rule 301.2(5).

**Comment [B93]:** Previously in Rule 701.1(1).

**Comment [B94]:** Previously in Rule 704.1(1).

**Comment [B95]:** Including the definition of Trading Clerk into this definitions section. This definition is derived largely from previous Rule 311.1(1)(b).

**Comment [B96]:** Introducing the definition of the term "Trading in Futures Contracts" which is used in these Rules.

## Chapter 1 – Definitions and Related Provisions

~~and/or~~ Participating Organisations or both;

- (b) fulfilled the necessary qualifying criteria ~~from time to time~~ stipulated by the Commission ~~and/or the Exchange~~ to the satisfaction of the Commission ~~and/or the Exchange~~; and
- (c) been approved in writing by the Commission to be a Universal Broker.

**Upper Limit Price** ~~Means the~~ The highest price at which the ~~s~~Securities can be traded from a Reference Price ~~in a trading session~~ as stipulated by the Exchange.

**Comment [B97]:** Previously in Rule 701.1(1). The words 'trading session' are removed. This will be reflected in the directives prescribing the upper limit price and the lower limit price.

**VWAP** ~~means the~~ The volume weighted average price of a particular ~~s~~Securities calculated as follows:

the total value of ~~s~~Securities transacted during a particular period of time ("the period")

-----  
the total number of ~~s~~Securities transacted during the period

**Worst Case scenario** ~~in~~ relation to Off-Balance Sheet Transaction(s), the assessment and determination of Worst Case scenario ~~shall will~~ include, ~~without limitation~~, consideration of: ~~the following~~

**Comment [B98]:** Previously, in Rule 602.1(2).

- (a) the assumption that the Off-Balance Sheet Transaction(s) will be fully exercised;
- (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
- (c) such other considerations or assumptions as the Exchange may ~~from time to time~~ stipulate.

~~(2) In these Rules, unless the context otherwise requires, words and expressions defined in~~

~~(a) Capital Markets and Services Act;~~

~~(b) Securities Industry (Central Depositories) Act;~~

~~(c) Securities Commission Act; or~~

~~(d) Companies Act;~~

~~shall, when used herein, bear the same meanings respectively.~~

**Comment [B99]:** Moved to Rule 101.2 as it is more appropriate under the heading of "interpretation" rather than "definitions".

~~(3) A reference to "employee" in these Rules shall include executive directors of the Participating Organisation, unless such designation as to executive directors specifically stipulates otherwise.~~

**Comment [B100]:** Moved to Rule 101.2 as it is more appropriate under the heading of "interpretation" rather than "definitions".

### **RULE 101.2 INTERPRETATION**Interpretation

~~(1) Unless the context requires otherwise, terms not defined in these Rules have the same meaning as in the:~~

**Comment [B101]:** Previously, Rule 101.1(2). It is more appropriate for this rule to be under this heading. This rule has been amended in line with plain language drafting

## Chapter 1 – Definitions and Related Provisions

- (a) Capital Markets and Services Act;
- (b) Securities Industry (Central Depositories) Act;
- (c) Securities Commission Act; or
- (d) Companies Act.

~~(2) A reference in these Rules to –~~

- ~~(a) a statute or a statutory provision shall be deemed to include all modifications, re-enactments or consolidation thereof and regulations, rules or other statutory instruments made pursuant thereto; and~~
- ~~(b) a rule, directive or guidelines of the Exchange, Exchange holding company, Depository, the Clearing House or such other relevant party shall be deemed to include all modifications, variations, amendments, supplements thereto or substitutions therefor.~~

(2) A reference to a statute is to that statute so modified, re-enacted or consolidated and includes regulations, rules or other statutory instruments made under that statute.

(3) A reference to a rule, directive, guideline or requirement of the Exchange, Exchange Holding Company, Depository, Clearing House, the Commission or the Central Bank or other relevant party is to that rule, directive, guideline or requirement so amended, supplemented, consolidated or substituted.

~~(4) In these Rules, unless the context otherwise requires –~~

- ~~(a) words importing the The singular number shall include includes the plural and vice versa;~~
- ~~(b) words importing the masculine gender shall include the feminine and neuter genders and vice versa;~~

(5) (c) words importing persons shall include firms, partnerships, companies and corporations. A reference to a person includes a firm, partnership and corporation;

(6) (d) a reference to writing shall be deemed to include includes any mode of representing or reproducing letters, figures or marks in a visible form.

~~(37) In these Rules, the abbreviation A reference to "RM" or "Ringgit Malaysia" is to Malaysian means the lawful currency of Malaysia.~~

~~(48) Where if a word or phrase is given a defined meaning in these Rules, any other grammatical form in respect of such word or phrase has a corresponding meaning.~~

~~(59) Any reference in these Rules to a numbered Chapter shall be construed as a reference to the Chapter bearing that number in these Rules. A reference to a rule, chapter, schedule or appendix is to the relevant rule, chapter, schedule and appendix to these Rules.~~

~~(6) Any reference in these Rules to a numbered Schedule shall be construed as a reference to the Schedule bearing that number attached in Chapter 15.~~

~~(710) The headings, Headings and sub-headings in these Rules are inserted for convenience of reference only and shall does not affect the interpretation and construction of the provision therein rule.~~

(11) A reference to a day or month is to a calendar day or calendar month.

(12) A reference to a time of day is a reference to Malaysian time.

**Comment [B102]:** Addressed in Rules 101.2(2) and (3) below. Split into 2 different rules to simplify the rule.

**Comment [B103]:** With reference to the period Rule 101.2(2) above, a statutory provision stems from the relevant statute. As this rule already addresses statutes, it is unnecessary to specifically provide for a statutory provision.

**Comment [B104]:** Unnecessary as the Rules avoid specifying gender.

**Comment [B105]:** To clarify that a reference to a rule, chapter, schedule or appendix in these Rules is to the relevant rule, chapter, schedule and appendix to these Rules.

**Comment [B106]:** Covered under Rule 101.2(9) above

**Comment [B107]:** Plain language drafting

**Comment [B108]:** Market Day is defined in Rule 101.1(1). The inclusion of this rule is to clarify that a reference to a day is to a calendar day.

**Comment [B109]:** To clarify that a reference to a time of day is a reference to Malaysian time.

## Chapter 1 – Definitions and Related Provisions

- (13) A reference to an "employee" in these Rules includes Executive Directors of the Participating Organisation, unless stated otherwise.
- (814) Any A reference in these Rules to "suspend" or "suspension" in relation to the trading of Securities, shall—where the context permits, be construed to include "forbidden", "interrupted", "reserved", "suspended" or "frozen" as referred to in Rule 701.5B 801.4.
- (15) A reference to 'trade' or 'transaction' means a contract to buy or sell Securities as permitted in these Rules.

**Comment [B110]:** Previously Rule 101.1(3). It is more appropriate for this rule to be under this heading. This rule has been amended in line with plain language drafting

**RULE 102 APPLICATION AND EFFECT OF THESE RULES**

**Comment [B111]:** To set out clearly the basis under which a PO or Registered Person is bound by these Rules.

**102.1 Rules of the Exchange**

(1) These Rules must be read together with:

- (a) the Directives;
- (b) the Capital Markets and Services Act;
- (c) the Commission's requirements applicable to Participating Organisations or Registered Person(s);
- (d) any other laws or requirements of any relevant authority applicable to Participating Organisations or Registered Person(s).

**102.2 Binding effect of Rules**

(1) These Rules are binding on Participating Organisations and Registered Person(s) in the manner set out in:

- (a) section 354(2) of the Capital Markets and Services Act; and
- (b) Rule 102.3.

**102.3 Covenants to observe Rules**

(1) These Rules have the effect of a contract between:

- (a) the Exchange and Participating Organisations under which each Participating Organisation covenants with the Exchange to observe these Rules and the Directives and to perform the obligations that these Rules and the Directives purport to impose on the Participating Organisation in the manner set out by these Rules and the Directives; and
- (b) the Exchange and Registered Person(s) under which each Registered Person(s) covenants with the Exchange to observe these Rules and the Directives and to perform the obligations that these Rules and the Directives purport to impose on the Registered Person(s), in the manner provided by these Rules and the Directives.

**102.4 Investment Banks**

- (1) ~~Where~~ If a provision in ~~this Chapter~~ these Rules is expressed to be inapplicable to an Investment Bank or a Registered Person(s) of an Investment Bank, ~~the it shall be substituted with the relevant requirements provisions~~ in the Guidelines on Investment Banks and/or any other requirements ~~of the Central Bank pertaining to the Central Bank specifies on the matter the same~~ ("the Relevant Guidelines and Requirements") will apply instead. The Relevant Guidelines and Requirements ~~will shall~~ be deemed to be part of these Rules.

**Comment [B112]:** (Previously Rule 301A.1. Moved here as this rule should apply across the board to the Rules as opposed to the provisions in only Chapter 3.

**RULE 1032 RELATED PROVISIONS TRANSITIONAL PROVISIONS**

**RULE 1023.1 TRANSITIONAL PROVISIONS Transitional provisions in relation to the Conversion Date**

(1) A Member Company Participating Organisation who ~~of the Exchange Holding Company~~ has not been expelled from membership of Exchange ~~holding company~~ Holding Company immediately prior to the ~~eConversion dDate shall be deemed to be is deemed~~ a Participating Organisation under these Rules until it ceases to be a Participating Organisation in accordance with these Rules and shall continue to be bound by these Rules and Directives ~~any rules, directives, guidelines and circulars made by the Exchange and the Exchange holding company for the time being in force and from time to time.~~

Comment [B113]: Plain language drafting

(2) All references to the Participating Organisation in ~~its that Participating Organisation's~~ former capacity as a Member Company of the Exchange ~~holding company~~ Holding Company in any undertaking, declaration, indemnity or other document ~~howsoever called, given or done by or to the Exchange holding company shall are~~ be construed as references to the Participating Organisation.

Comment [B114]: Plain language drafting

(23) For the avoidance of doubt, ~~and without derogation to the generality of the Demutualisation Act:-~~

- (a) these Rules;
- (b) all privileges, obligations and liabilities ~~accrued to or incurred by of~~ a person (including ~~without limitation~~ a Participating Organisation and/or Dealer's Representative) prior to the ~~conversion date~~ Conversion Date; and
- (c) all registrations made and approvals ~~made or~~ granted to a person (including ~~without limitation~~ a Participating Organisation and/or Dealer's Representative) ~~which that~~ were valid immediately prior to the ~~conversion date~~ Conversion Date,

~~shall~~ continue to be valid and binding on that person unless these Rules specify otherwise ~~subject to and upon these Rules.~~

(34) Unless ~~these Rules or the Exchange provides otherwise~~ otherwise provided in these Rules or required by the Exchange, as the case may be:-

Comment [B115]: Plain language drafting

(a) the Exchange must apply the rules and procedures ~~relating to on~~ disciplinary actions ~~from time to time applicable and/or effective~~ applicable prior to the ~~conversion date~~ Conversion Date ~~shall continue to apply to cases in which to a~~ disciplinary action ~~has been instituted against a Participating Organisation or registered person(s) in its/his capacity as a member of the Exchange holding company under the Exchange Holding Company's rules prior to the conversion date~~ Conversion Date, including that of the appeal and the appellate forum. The previous disciplinary rules and procedures will also apply to an appeal against a decision on a disciplinary action instituted prior to the Conversion Date;

Comment [B116]: To do away with redundancy, it is unnecessary to state the following:  
 (1) "from time to time applicable and/or effective" – it is sufficient to say rules applicable prior to the Conversion Date  
 (2) "against a PO or Registered Person in his capacity as a member of the Exchange Holding Company" – it is clear that what is meant here is disciplinary action instituted under the Exchange Holding Company's rules

(b) ~~The Exchange may institute disciplinary action for a breach of the breaches and/or defaults of the rules, directives, guidelines and circulars of the Exchange holding company Holding Company's rules or Directives committed from time to time applicable and/or effective, committed by a Participating Organisation or registered person(s) in its/his capacity as a member of the Exchange holding company prior to the conversion date~~ Conversion Date if no for which disciplinary action has ~~not~~ been instituted, ~~prior to and as at the conversion date may be instituted, continued, enforced and adjudicated in accordance with the procedures made pursuant to these Rules. The Exchange may apply the relevant procedures under these Rules in this disciplinary action.~~

Comment [B117]: The comment in [B22] applies equally here.

## Chapter 1 – Definitions and Related Provisions

(45) Any act or thing done ~~by a Participating Organisation or a Registered Person(s) under or for the purposes of any provision of the Exchange Holding Company's rules, or Directives, directives, guidelines and circulars of the Exchange holding company from time to time in force, applicable and/or effective in respect of a Participating Organisation or registered person(s) in its/his capacity as a member of the Exchange holding company~~ prior to the conversion date Conversion Date shall have ~~has~~ effect from the conversion date Conversion Date as if ~~it the act or thing~~ had been done under ~~or for the purposes of~~ the corresponding provision of these Rules.

(56) The reference to "any act or thing done" includes, ~~but is not limited to,~~

- (a) the making of a determination or the passing of a resolution;
- (b) the granting or exercise of a power (including delegated power);
- (c) the execution of a document; or
- (d) the appointment or removal of any person from any office or position.

(67) ~~Notwithstanding anything herein contained, all All Directives, directives, regulations and guidelines issued by way of circulars by the Exchange holding Holding eCompany prior to the conversion date Conversion Date shall, insofar as they are not inconsistent with these Rules, continue in force insofar as these Directives are not inconsistent with these Rules until expressly amended, revoked or replaced by these Rules, directives, rulings and guidelines issued by the Exchange on and after the conversion date.~~

### 103.2 Transitional Provisions in relation to the Old Rules

(1) ~~The New Rules do not affect:~~

- (a) ~~the accrued rights of the Exchange under the Old Rules;~~
- (b) ~~the accrued obligations of Participating Organisations and Registered Person(s) under the Old Rules;~~
- (c) ~~the right of the Exchange to take any action for breaches under the Old Rules discovered after the New Rules come into effect;~~
- (d) ~~the right of the Exchange to continue with any action initiated under the Old Rules after the New Rules come into effect; and~~
- (e) ~~any conditions, undertakings, decisions, waivers, act or thing imposed on or given by or done by the Participating Organisations and Registered Person(s) under the Old Rules.~~

(2) ~~If the Exchange initiates any disciplinary action on and after the Effective Date for breaches which occurred under the Old Rules, the following applies:~~

- (a) ~~the Exchange can apply the relevant rules and procedures relating to disciplinary matters under the New Rules; and~~
- (b) ~~the Exchange can apply the relevant penalties under the New Rules.~~

(3) ~~The Exchange can apply the rules, procedures, and penalties of the Old Rules to:~~

- (a) ~~disciplinary actions which was initiated prior to the Effective Date;~~
- (b) ~~appeals made prior to the Effective Date; or~~
- (c) ~~appeals made on or after the Effective Date in relation to disciplinary actions initiated or taken prior to the Effective Date.~~

Comment [B118]: Plain language drafting

Comment [B119]: Plain language drafting

Comment [B120]: "Directives" is sufficient as this term is defined in Rule 101.1(1) to mean requirements the Exchange specifies and this includes regulations and guidelines issued by way of circulars by the Exchange Holding Company.

Comment [B121]: Unnecessary to include these words. It is a given that that the Directives will continue in force until amended, revoked or replaced by rules issued after the Conversion Date

Comment [B122]: The rule provides for any rights that the exchange has under the old rules, any obligations that a PO and registered Person owes to the exchange under the old rules and anything given and committed to under the old rules to continue to apply under the New Rules.

Comment [B123]: For breaches of the Old Rules taken after the New Rules come into effect, the exchange will apply the procedures and penalties under the New Rules.

Comment [B124]: The procedures and penalties of the Old Rules will continue to apply after the New Rules come into effect for disciplinary actions and appeals commenced under the Old Rules and not completed when the New Rules come into effect. The procedures and penalties of the Old Rules will also apply to appeals taken after the New Rules come into effect but in relation to disciplinary action taken under the Old Rules.



**Chapter 1 – Definitions and Related Provisions**

(4) The reference to "any act or thing " in this Rule has the same meaning as stated under Rule 103.1(6).

Chapter 1 – Definitions and Related Provisions

**RULE 104 NOTICES**

**RULE 104.12 NOTICES**

- (1) ~~All notices~~ The Exchange will send all notices required to be sent under these Rules ~~shall be~~ in writing; ~~and sent~~
- (a) to the address and/or facsimile number (or both) of the addressee as contained in the records of the Exchange, or
- (b) using any other mode of giving notice the Exchange thinks fit, including electronic mail, other electronic means and advertisement in newspapers.
- (2) ~~The A notice given party giving any notice~~ under these Rules is regarded as shall regard such notice as having been received in the following circumstances:
- (a) if delivered by hand, at the time of delivery;
- (b) if sent by post within Peninsula Malaysia, on the 3<sup>rd</sup> Market eDay after posting;
- (bc) if sent by air mail to Sabah, Sarawak or outside Malaysia, on the 5<sup>th</sup> Market eDay after posting;
- (ed) if sent by courier, on the 2<sup>nd</sup> Market eDay after despatch; and
- (de) if sent by facsimile or other electronic media, immediately upon generation of a report indicating that the transmission was successful at the time of transmission; and
- (f) if published in any public media, at the time of publication.
- (3) ~~The Exchange may at any time specify such other methods of giving notice as it deems fit, including electronic mail, other electronic means and advertisement in newspapers.~~

Comment [B125]: Plain language drafting

Comment [B126]: To clarify that application of this Rule

Comment [B127]: The addition is required as the Exchange may issue notices via other modes,

Comment [B128]: Unless otherwise stated, amendments are in line with plain language drafting

Comment [B129]: To cater for notices delivered by hand.

Comment [B130]: To cater for notices by electronic media e.g. email

Comment [B131]: To cater for notices published in any public media.

Comment [B132]: Incorporated in Rule 104.1(1) above.

[End of Chapter]

CHAPTER 2 ADMINISTRATION

RULE 201 EXERCISE OF POWERS OF THE EXCHANGE

**Comment [B1]:** Amended due to plain language drafting.

**RULE 201.1 EXERCISE OF POWERS** Exercise of powers

(1) **General powers:**—The Exchange may exercise all such powers and do all such acts and things as may be exercised or done by the Exchange pursuant to the Securities Laws.

(2) **Description of powers:**—Subject to the provisions of the Securities Laws, the Exchange may exercise its powers in such manner and on such terms as it ~~shall deem~~ considers necessary or expedient ~~and which powers shall include~~ s, without limitation, the following –

**Comment [B2]:** Amended due to plain language drafting.

(a) to make new rules ~~for the order and good governance of the Participating Organisations or registered person(s) and their affairs;~~

(b) to add to, vary, repeal, enforce or waive any of these Rules or Directives;

**Comment [B3]:** Inserted to include Directives, as the Exchange should be empowered to add, vary, repeal, enforce or waive any of these rules or Directives. Directives has been defined under the revamp exercise to include any decision, request or requirement the Exchange makes or imposes pursuant to any act or thing done pursuant to these Rules and any terms and conditions imposed pursuant to any act or thing pursuant to these Rules.

(c) to administer, manage and formulate policies ~~and give directions to the Participating Organisations and such persons to whom these Rules are directed~~ in relation to these Rules;

(d) to issue ~~d~~Directives, ~~rulings or guidelines~~ for the purposes of or in connection with any of these Rules, including any modifications ~~thereto~~ to the Directives;

~~(e) to admit or refuse to admit any person or corporation as a Participating Organisation or registered person(s);~~

**Comment [B4]:** Deleted as rule 201.1(2)(d) already empowers the Exchange to issue directives for the purposes of or in connection with these Rules.

~~(fe) to interpret conclusively any provision in these Rules and any rulings, dDirectives or guidelines and the validity of any act or thing done pursuant thereto in the event of having regard to the spirit, intention, purpose and the substance of such Rules and Directives, in a case of any dispute or difference over interpretation of such Rules and any rulings, directives or guidelinesDirectives;~~

**Comment [B5]:** Inserted for completeness purposes.

**Comment [B6]:** Deleted as the Exchange already has the power to refuse registration in Chapter 3.

~~(gf) to release any at its absolute discretion information concerning any in relation to a Participating Organisation, the Participating Organisation's or rRegistered person(s) Person or Clients, to the Commission, Depository, Clearing House or any other relevant body or authority (in Malaysia or outside of Malaysia) when so requested as the Exchange considers fit;~~

**Comment [B7]:** Amended to clarify the consideration taken by the Exchange in interpreting these Rules and Directives.

**Comment [B8]:** Amended due to plain language drafting.

~~(hg) to disclose the following information to the Participating Organisations and the public or any other persons as the Exchange considers fit;~~

**Comment [B9]:** Deleted as to enable the exchange to release information to the relevant bodies as the Exchange think fit without having to first receive a request for such information.

~~(i) on the without identifying the clientClient of the Participating Organisation to whom the information relates to, the volume and/or value of On-Market Transactions securities traded on the Exchange and Direct Business Transactions transacted by all or any or each of the Participating Organisations or Market Maker(s) as defined in Chapter 3A, in such manner and frequency as the Exchange deems fit to Participating Organisations, the public or any other persons deemed fit by the Exchange Provided Always that such information shall be framed in such a way so as not to enable the identity of any client of the Participating Organisation to whom the information relates to be ascertained;~~

**Comment [B10]:** Amended due to plain language drafting and to enhance clarity.

~~(ii) any action taken against the Participating Organisation or Registered Person by the Exchange under these Rules;~~

**Comment [B11]:** Inserted to allow the Exchange to disclose to the relevant person or authority the disciplinary actions taken against the PO or Registered Person. Disclosure by the Exchange may include the name of the PO or Registered Person.

**Chapter 2 - Administration**

- (h) ~~(i)~~ to grant, suspend or revoke the rights of any Participating Organisation or ~~Registered person(s)~~ Person;
- (i) to impose terms and conditions in relation to any decisions, approvals or act or thing done by the Exchange in connection with these Rules at any time and to revoke, vary or amend the terms and conditions at any time thereafter;
- (j) to enforce the directions given by the Commission;
- ~~(k) to inspect the books and records of all Participating Organisations and registered person(s) from time to time and to require any Participating Organisation and/or registered person(s) to appear before it or any Committee at any time and produce the Participating Organisation's or registered person(s)'s books and records and furnish such information as may be required by the Exchange including information relating to any client of such Participating Organisation or registered person(s) and to answer any question regarding any violation of any Rules and any rulings, directives or guidelines;~~
- ~~(l) to order an investigation into the affairs of a Participating Organisation or registered person(s), without giving any reason therefor, who it may suspect or having violated any of the provisions of these Rules Depository Rules, Clearing House Rules and any rulings, directives or guidelines issued thereunder and for this purpose, to demand the production of all books, accounts, records or any other documents which he may deem necessary for inspection and to engage any accountant, advocate and solicitor or any other qualified person or persons to assist in the investigation;~~
- ~~(km) to require the Participating Organisations or and Registered persons Person to submit provide reports, information and/or documents to the Exchange in relation to any matter under these Rules or Directives;~~
- ~~(n) to exercise all such other powers as may be necessary for purposes of monitoring compliance with and enforcement of these Rules; and~~
- (l) to refer any act or conduct of the Participating Organisation or Registered Person to an appropriate authority;
- (m) to impose charges, fees and interest payment for late payment or non-payment of fees and charges or any other amount due to the Exchange;
- (n) to appoint a committee, sub-committee, officers of the Exchange or an agent to exercise the Exchange's powers under these Rules where appropriate;
- (o) to undertake readiness audit which scope, criteria and manner will be as determined by the Exchange. The cost of the readiness audit will be borne by the Participating Organisation;
- (p) to undertake any further, ancillary or consequential action pursuant to an initial decision or action taken by the Exchange, Commission, Clearing House or Depository in relation to a Participating Organisation, Registered Person or an Issuer;
- (q~~a~~) to exercise all such other powers as may be necessary for purposes of monitoring compliance with and enforcement of these Rules and Directives; and
- (~~er~~) to exercise any power and take any action (including preventive or pre-emptive action) for the purpose of maintaining which in the opinion of the Exchange is necessary for the existence or maintenance of an orderly and fair stock market; and
- (s) to exercise all such other powers as may be necessary for the performance of its functions as a stock exchange pursuant to the Capital Markets and Services Act.

**Comment [B12]:** This rule is already provided in Rule 1402.2 and also captured under Rule 201.1(2)(l) below.

**Comment [B13]:** Deleted as the investigation powers of the Exchange is stated in chapter 14.

**Comment [B14]:** Amended due to plain language drafting.

**Comment [B15]:** This power is included to cater for a situation where Bursa may come across breaches other than breaches of the rules and in which case Bursa will refer the matter to an appropriate authority e.g for breaches of securities laws, Exchange will refer the matter to SC.

**Comment [B16]:** This power is included to allow the Exchange to direct the PO to pay interest on amounts due to the Exchange.

**Comment [B17]:** Previously Rule 1204.2 is moved and incorporated in Chapter 2 as the rule relates to a general power of the Exchange to appoint a committee, sub-committee or officers of the Exchange to discharge the exercise of the Exchange's powers under these Rules.

**Comment [B18]:** This power of the Exchange to undertake readiness audit is moved and incorporated here from various rules in these Rules, so as to avoid duplication of similar rules in various rules in these Rules.

**Comment [B19]:** Introduced to provide for the power of the Exchange to take any further actions pursuant to any decision or action taken by the Exchange, SC, Clearing House or Depository on POs or listed issuer. Example designation of listed issuer by the Exchange under PN4 will necessitate further action by the Exchange to alter the trading conditions of securities in PN4 companies to cash upfront requirement and delivery before sale.

**Comment [B20]:** To further clarify that the nature of the action taken can be pre-emptive in nature notwithstanding that the market may still be orderly and fair .

**Comment [B21]:** Introduced to capture all other powers that the Exchange can exercise for the purpose of the performance of its functions as a stock exchange.

## Chapter 2 - Administration

(3) The exercise of any specific powers conferred on the Exchange in any other provisions in these Rules does not prejudice or waive the exercise of any power by the Exchange under Rule 201.1(2).

**Comment [B22]:** This is to clarify that the powers contained in this Rule is of general application and would not be undermined by the provision of any rule which requires specific action to be taken by the Exchange.

(34) ~~Effect of powers: Subject to Rule 201.3 the Exchange's~~ All decisions of the Exchange shall be final and binding on all Participating Organisations and ~~Registered person(s): Person unless these Rules expressly provides for a right of appeal.~~

**Comment [B23]:** Amended to clarify that the decision of the Exchange is final unless appeal is allowed under these Rules.

(45) ~~Incidental powers etc of the Exchange: Where~~ if any provision of these Rules empowers, authorises or enables the Exchange to do or enforce the doing of any act or thing, the Exchange ~~shall have~~ has all such powers or rights as may be necessary or reasonably incidental to the Exchange doing or enforcing the doing of the act or thing.

**Comment [B24]:** Amended due to plain language drafting.

(6) A Participating Organisation and a Registered Person must comply and give effect to any Directives the Exchange issues in exercising the powers under Rule 201.1(2).

### 201.2 DISSAPPLICATION Disapplication of Chapter 15

(1) ~~Disapplication: For the avoidance of doubt, t~~ The disciplinary proceedings stipulated in Rule 1306.5(1) Chapter 15 will not apply shall be disapplicable in relation to any actions taken under Rule 201.1(2)(es) or to any action described in any provision of these Rules or Directives as taken by the Exchange 'summarily' or 'automatically' ("the Relevant Rules").

**Comment [B25]:** This rule was previously in Rule 1306.5 (1) and is incorporated here. The rule has been further amended for clarity purposes.

(2) ~~Representations: In Where~~ an action is taken under Rule 201.1(2)(e) the Relevant Rules a Participating Organisation, or a Registered Personnel Person a Head of Dealing or a Dealer's Representative may make representations to the Exchange to for the discontinuance of the action taken. The Exchange may, after considering the representations made, discontinue with the action taken. However such discontinuance is not to be shall not be construed as an omission or error of any kind on the part of the Exchange in undertaking the action under Rule 201.1(2)(e) the Relevant Rules in the first place.

**Comment [B26]:** This rule is previously Rule 1306.5 (2) and is now incorporated here.

(3) ~~Extent of actions: In the event that the Exchange undertakes any of the actions under Rule 201.1(2)(e) directed against a Participating Organisation, a Head of Dealing or a Dealer's Representative or the client of the Participating Organisation, Head of Dealing or Dealer's Representative, such actions shall also be applicable and be binding to any person who is the proxy, agent, nominee or acting in concert with that Participating Organisation, Head of Dealing or Dealer's Representative or that particular client of the Participating Organisation, Head of Dealing or Dealer's Representative, as the case may be.~~

**Comment [B27]:** This rule was previously Rule 1306.5 (3) and is moved to Rule 201.6 as a general application

(4) ~~Liability of the Exchange: The Exchange shall not be held liable for any loss or damage suffered by any party arising or in connection with the action taken by the Exchange under Rule 201.1(2)(e).~~

**Comment [B28]:** This rule was previously Rule 1306.5 (4) and is deleted as this is covered by the general indemnity rule under Rule 203.

### 201.3 Validity of Actions

The Exchange may make amendments including deletions of any provisions of these Rules from time to time ("the Amendments"). Any action proposed to be taken or in the process of being taken or taken by the Exchange in relation to any provisions of these Rules which are effective prior to the Amendments, will not be invalidated by the Amendments even if the above action is taken on or after the effective date of the Amendments.

**Comment [B29]:** This provision is to clarify that any action taken by the exchange under a rule which has been further amended will not vitiate the Exchange's rights under that rule.

**RULE 201.24 POWERS OF EXCHANGE HOLDING COMPANY Powers of the Exchange Holding Company**

- (1) ~~Where~~ any provision of these Rules confers a right or power on the Exchange to do any act or thing, such ~~provision shall be deemed to confer the~~ right or power is also conferred on the Exchange ~~h~~ Holding ~~e~~ Company to do such act or thing on behalf of the Exchange.
- (2) ~~An applicant, a~~ A Participating Organisation, ~~a~~ R Registered ~~person(s)~~ Person and other persons to whom these Rules are directed ~~to shall~~ must comply with, observe or give effect to any action of the Exchange ~~h~~ Holding ~~e~~ Company pursuant to Rule 201.24 (1) ~~above~~.

**RULE 201.35 APPEALS AGAINST DECISIONS OF THE EXCHANGE Appeals against decisions of the Exchange**

- ~~(1) The Exchange shall establish a Committee to determine appeals from a party against whom a decision has been made by the Exchange on applications relating to registration by the Exchange.~~
- ~~(2) Unless otherwise provided, a~~ Any decision of the Exchange is final and binding and a person against whom a decision has been made by the Exchange may only appeal against any action or such decision taken or made by the Exchange under these Rules or Directives by notifying the Exchange of its/his intention to appeal within fourteen (14) days from receipt of the notification of the decision if the right of appeal is expressly provided under the relevant provisions of these Rules.
- ~~(3) The Committee referred to herein shall comprise such persons as may be appointed by the Exchange, all of whom must not have been involved in any other Committee of the Exchange that made the decision appealed against.~~
- ~~(4) The Committee referred to herein may affirm, vary or set aside the decision appealed against or any penalty imposed.~~
- ~~(5) The decision of the Exchange on appeal shall be~~ is final and binding on the ~~appellant~~ person appealing.

**Comment [B30]:** Deleted as the Exchange will be empowered in Rule 201.1(2)(o) to appoint any committee or sub-committee or officers of the Exchange to exercise the Exchange's powers under these Rules.

**Comment [B31]:** To clarify that an appeal would if applicable be stated in the relevant provisions of these Rules for example 301.3(1) where an applicant for admission as a PO can appeal for rejection of its application. There is no general right of appeal for all decisions of the Exchange.

**Comment [B32]:** Deleted as the discretion to appoint the members of the committee should be left to the Exchange. The Exchange will be mindful of any conflicts in the appointment of members of a committee.

**Comment [B33]:** Deleted as this is understood to be within the powers of the committee appointed by the Exchange.

**Comment [B34]:** Amended due to plain language.

**201.6 Parties affected by actions taken by the Exchange**

- ~~(1) Any action taken under these Rules against a Participating Organisation or Registered Person or effecting Clients of a Participating Organisation ("Affected Persons") is also binding on a proxy, agent, nominee and person acting in concert with the Affected Person..~~

**Comment [B35]:** This rule was previously Rule 1306.5 (3) and is now incorporated here as a general application.

**RULE 202 SUSPENSION OF RULES**

**RULE 202.1 POWER TO SUSPEND RULES** Power to suspend rules

- (1) The Exchange may ~~on or at any time after a declaration made under Rule 202.2 when any of emergency situation as described under Rule 202.2 happens,~~ suspend any of the provisions of these Rules ~~and, in place thereof, may proceed to or~~ make and impose new temporary rules ("Emergency Rules") to ensure the existence or continuance of an orderly and fair stock market.
- (2) Any Emergency Rules made and imposed by the Exchange ~~shall is, pursuant to such powers, be~~ binding on all Participating Organisations, ~~Registered person(s)~~ Person and employees for such period and in accordance with the terms and conditions stipulated by the Exchange.
- (3) ~~A breach of any Emergency Rules shall be treated as violation of these Rules and shall be dealt with accordingly by the Exchange.~~
- (3) The Exchange may take any other actions the Exchange deems fit to handle an emergency situation.

**Comment [B36]:** When an emergency happens adequate notice will be given naturally to parties affected by the steps that the Exchange need to take and as such a declaration is not necessary.

**Comment [B37]:** This is deleted as it is redundant. POs are bound by the rules and directives of the Exchange. There is no necessity to repeat the same here.

**Comment [B38]:** This phrase is deleted in line with simplifying the rules.

**Comment [B39]:** The Exchange must be empowered to take any other action apart from suspension of the rules to handle an emergency situation.

**Comment [B40]:** Amended to small capital letters due to the drafting convention for the rules under the revamp exercise.

**Comment [B41]:** Amended in line with the removal for declaration to be made before the Exchange can take action.

**RULE 202.2 EMERGENCY** Emergency

- (1) ~~Declaration: Where the Exchange is satisfied that an emergency situation with regard to the stock market exists, the Exchange may by a resolution make a declaration to that effect.~~  
An emergency situation with regard to the stock market includes -
  - (a) a situation that threatens, or may threaten, the integrity or the liquidity of any counter in the stock market or of the stock market;
  - (b) a situation that threatens, or may threaten, the financial integrity of the Exchange or its Participating Organisations;
  - (c) a manipulation or attempted manipulation of, or the creation of a corner situation in, any s securities as described under Rules 703 and 704 respectively;
  - (d) any internal or external factors which are likely to have direct and adverse effect on the Exchange;
  - (e) a situation where the operations of the Exchange are severely and adversely affected by the occurrence of any major incidents such as a fire, power failure or computer malfunction; or
  - (f) any other situation likely to have an adverse impact on the operation of an orderly and fair ~~and orderly~~ market.

RULE 203 INDEMNITY

**RULE 203.1 LIABILITY OF THE EXCHANGE** Liability of the Exchange

(1) Without prejudice to any immunity or defence available to the following persons by statute or in law, none of ~~such~~the following persons ~~shall be~~is liable ~~for , on account of or~~ in respect of anything done or omitted to be done, ~~any such statement made or omitted to be made~~ by such persons ~~or on behalf of such persons~~ in good faith in connection with the discharge or performance or purported discharge or performance of any function or duty, or the exercise or intended exercise of any power under these Rules or any applicable law or in respect of any decision made or enforcement action taken or notice of publication ~~thereof in relation to such enforcement action~~, whether resulting in any loss of profit, costs, damages or damage to reputation or otherwise:-

- (a) the Exchange or the Exchange ~~h~~Holding ~~e~~Company;
- (b) any person acting on behalf of the Exchange or the Exchange holding company, including:
  - (i) any member of the board of the Exchange or Exchange ~~h~~Holding ~~e~~Company or any member of any committee ~~or sub-committee~~ of the Exchange or Exchange ~~h~~Holding company;
  - (~~e~~i) any officer of the Exchange or Exchange ~~h~~Holding ~~C~~eompany; or
  - (~~d~~i) any agent of, or any person acting under the direction of the Exchange or Exchange ~~h~~Holding ~~e~~Company.

**Comment [B42]:** The amendments inserted is for consistency in the words used in s.376 of the CMSA.



RULE 204 REGISTERS

**RULE 204.1**

(1) The Exchange ~~shall~~will keep Registers of Participating Organisations, ~~Registered~~Person(s) and ~~of~~ such other persons as may be determined by the ~~Board~~Exchange ~~from time to time.~~

**Comment [B43]:** Amended due to plain language drafting.

(2) ~~The Register of Participating Organisations shall include the name, address, the type of privilege granted by the Exchange and such other information required by the Exchange or by Securities Laws or any other laws.~~

The Registers will contain relevant information relating to the persons mentioned in Rule 204.1(1) as determined by the Exchange.

**Comment [B44]:** Amended to make the rule more principle based.

[End of Chapter]

CHAPTER 3

PARTICIPATING ORGANISATIONS AND REGISTERED PERSONS

**RULE 301 GENERAL PROVISIONS FOR PARTICIPATING ORGANISATIONS**

**RULE 301A.1 INVESTMENT BANK**

- (1) ~~Where a provision in this Chapter is expressed to be inapplicable to an Investment Bank, it shall be substituted with the relevant provisions in the Guidelines on Investment Banks and/or any other requirements of the Central Bank pertaining to the same (“the Relevant Guidelines and Requirements”). The Relevant Guidelines and Requirements shall be deemed to be part of these Rules.~~
- (2) ~~In relation to a Participating Organisation who obtained approval to operate as an Investment Bank, after its registration as a Participating Organisation under this Chapter, the Participating Organisation shall notify the Exchange in writing of the same at least seven (7) days prior to the commencement of its business as an Investment Bank or such other time frames as may be determined by the Exchange, which notification shall be accompanied by the documents stipulated under Rule 302.2(1)(a), Rule 302.2(1)(b), the relevant documents prescribed under the Companies Act to evidence the change of name of the Participating Organisation (if any) and such other documents as may be requested by the Exchange. For the purpose of this Rule 301A.1(2), the term “Investment Bank” when used herein shall mean an Investment Bank as referred to under the Guidelines on Investment Banks.~~

**Comment [B1]:** Unless otherwise stated, amendments are in line with plain language drafting or simplification of the rule or both.

**Comment [B2]:** Moved to Rule 102.4 as this rule should apply across the board to these Rules as opposed to the provisions in this Chapter.

**Comment [B3]:** Moved to the PO Manual because this is an application procedure. We have included a general rule under “Application Procedures” in Rule 301.4 on a PO intending to change the PO’s status.

**RULE 301.1 CATEGORIES**

- (1) ~~The categories of Participating Organisations may be as determined by the Exchange from time to time and shall include such persons as may from time to time be approved and licensed by the Commission and registered by the Exchange in accordance with these Rules.~~

**Comment [B4]:** Moved to Rule 301.2(5) for a better flow of the Rules.

**RULE 301.1 QUALIFICATION Qualification criteria**

- (1) **Qualifications:** ~~To be eligible for admission as a A-Participating Organisation, an applicant must: shall at all times –~~
- (a) ~~be a company or corporation established in Malaysia that is carrying on or is incorporated or established in Malaysia with the primary object of carrying out the business of dealing in securities or in the case of an Investment Bank, having as one of its the applicant’s objects, the carrying out on of the business of dealing Dealing in securities Securities;~~
- (b) ~~hold a Capital Markets Services Licence for Dealing in Securities be the holder of a valid dealer’s licence and has satisfied or will satisfy upon registration with the Exchange, the terms and conditions of, or imposed by the Commission related to, such licence;~~
- (c) ~~have satisfied or will satisfy upon registration admission as a Participating Organisation with the Exchange, satisfy all the financial requirements prescribed set out in Chapter 11 13 of these Rules, as may be amended, varied, modified, supplemented or substituted therefor from time to time;~~
- (d) ~~unless otherwise permitted by the Commission, its principal business, or in the case of an Investment Bank, one of its businesses shall be that of dealing in securities and it shall not carry on any other business save those activities which are normally ancillary~~

**Comment [B5]:** Moved from Rule 302 to improve the structure of these Rules. Since the application procedures have been moved to the directives in the PO Manual, we have merged Rules 301 and 302.

**Comment [B6]:** Deleted as the nature of the conditions in Chapter 7 of SC’s Licensing Handbook are more continuing obligations and it may not be possible to satisfy all these conditions upon registration with the Exchange.

**Comment [B7]:** Unnecessary as under Rule 101.2(2), a reference to a rule includes all modifications, variations, amendments etc.

**Comment [B8]:** Unnecessary as SC would have considered this when granting the CMSL. Also, under Chapter 7 of the SC’s Licensing Handbook, the PO must obtain the approval of SC to change the core business that the PO is licensed to carry on. Doing away with duplication.

### Chapter 3 – Participating Organisations and Registered Persons

~~and closely related thereto as envisaged in these Rules and, in the case of an Investment Bank, such other businesses as may be permitted by the Commission;~~

(ed) have ~~or will maintain~~ facilities and personnel adequate for the expeditious and orderly carrying ~~out on of its the~~ business of ~~dealing trading~~ in securities ~~on the Exchange's stock market~~ (including those activities which are normally ancillary and closely related thereto as envisaged in these Rules) and such other businesses as may be permitted by the Commission from time to time; ~~and~~

(fe) ~~upon admission as a Participating Organisation, register~~ ~~have all the Participating Organisation's directors registered with the Exchange in accordance with Registered Person(s) under~~ these Rules; ~~and~~

~~(g) comply with such other requirements as prescribed in this Chapter and/or as may be prescribed by the Exchange from time to time.~~

**Comment [B9]:** Unnecessary as the activities that can be carried out by the PO are set out in the SC's Licensing Handbook and Regulation 2 of the Capital Markets and Services Regulations 2007.

**Comment [B10]:** Deleted as under Rule 201.1(2)(i) and (l) the Exchange can impose terms and conditions as well as ask for further information and documents.

#### **RULE 3021.2 APPLICATION PROCEDURE** ~~Application procedure~~

(1) ~~To become a Participating Organisation, an applicant must:~~

(a) ~~apply to the Exchange in accordance with the requirements the Exchange stipulates; and~~

(b) ~~satisfy the qualification criteria stipulated in Rule 301.1(1).~~

~~**Application:** Any person desirous of being registered as a Participating Organisation shall complete and submit an application to the Exchange in the form prescribed in Appendix 1A and which shall be accompanied by—~~

(a) ~~certified true copies of its memorandum and articles of association, or other constituent documents of the applicant evidencing the following but without limitation thereto:~~

~~(i) its directors and shareholders; and~~

~~(ii) its authorised and paid-up capital;~~

(b) ~~certified true copy of a valid dealer's licence and, where the applicant is an Investment Bank, a valid merchant banking licence issued by the Central Bank pursuant to Section 5 of BAFIA;~~

(c) ~~payment of a non-refundable application fee prescribed by the Exchange;~~

(d) ~~a statutory declaration by the applicant's authorised signatory(ies) as to the veracity of all information provided in the form prescribed as Appendix 2A; and~~

(e) ~~an undertaking to the Exchange in the form prescribed in Appendix 3A.~~

~~(2) **Additional documents:** The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.~~

~~(3) **Financial requirements:** The applicant shall provide such evidence as may be satisfactory to the Exchange that it is, at the time of making such application, able to comply with the financial requirements prescribed in Chapter 11, as may be amended, varied, modified, supplemented or substituted therefor from time to time.~~

(2) The Exchange may accept or reject an application to be a Participating Organisation.

**Comment [B11]:** Moved from Rule 302.2 to improve the structure of these Rules.

**Comment [B12]:** These application procedures have been moved to the PO Manual.

**Comment [B13]:** Covered under the general powers of the Exchange in Rule 201.1(2)(l) that the Exchange can request for additional documents the Exchange thinks fit.

**Comment [B14]:** This requirement has been moved to the PO Manual.

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~~(3) Notwithstanding the applicant meeting the qualification criteria under Rule 301.1(1), the Exchange may reject ~~refuse on the applicant's~~ application ~~made under this Chapter to register as to be~~ a Participating Organisation if: –~~

- ~~(a) the applicant does not provide information relating to the application as the Exchange requires ~~application was not made in accordance with the requirements of this Chapter or the information required therein was not submitted or adequate;~~~~
- ~~(b) any information or document that is furnished by the applicant to the Exchange is false or misleading;~~
- ~~(c) the applicant has failed to comply with any other requirement of the Securities Laws ~~these Rules and/or any regulations, directives or guidelines thereunder;~~~~
- ~~(d) the applicant is the subject of an investigation involving an allegation of fraud or dishonesty, whether in or out of Malaysia;~~
- ~~(e) the registration admission of the applicant is not in the interest of an orderly and fair and orderly stock market;~~
- ~~(f) the Exchange is satisfied that the qualifications or any of them prescribed in this Chapter has/have not been fulfilled by the applicant; or~~
- ~~(g) if the Exchange is of the opinion that the registration admission of the applicant may affect the optimum utilisation of ~~its~~ the Exchange's facilities, taking into account risk management and any other considerations.~~

~~(4) If the Exchange accepts an applicant's application to be a Participating Organisation, the applicant will be admitted as a Participating Organisation and the applicant's name will be entered into the Register.~~

~~(5) The Exchange will categorise a Participating Organisation as follows:~~

- ~~(a) Investment Bank;~~
- ~~(b) Universal Broker;~~
- ~~(c) Special Scheme Broker;~~
- ~~(d) 1 + 1 Broker; or~~
- ~~(e) Standalone Broker.~~

**301.3 AGAINST DECISIONS OF THE EXCHANGE Appeals**

~~(1) If the Exchange rejects an application to be a Participating Organisation under this Rule, the applicant may within 14 days after the applicant is notified of the Exchange's decision, appeal in writing to the Exchange.~~

~~(1) The Exchange shall establish a Committee to determine appeals from a party against whom a decision has been made by the Exchange on applications relating to registration by the Exchange.~~

~~(2) A person against whom a decision has been made by the Exchange may appeal against such decision by notifying the Exchange of its/his intention to appeal within fourteen (14) days from receipt of the notification of the decision.~~

~~(3) The Committee referred to herein shall comprise such persons as may be appointed by the Exchange, all of whom must not have been involved in any other Committee of the Exchange that made the decision appealed against.~~

**Comment [B15]:** Previously, Rule 301.6(1). Moved here to improve the structure of these Rules.

**Comment [B16]:** To clarify that even if the applicant meets the qualification criteria under these Rules, we can still reject an application to be a PO in the circumstances set out in this rule.

**Comment [B17]:** We have included the failure to comply with a requirement of the Securities Laws as a ground for rejection. We have deleted the requirement to comply with these Rules and the Directives as it is unlikely that the applicant would be in breach of these Rules and the Directives before commencing operations.

**Comment [B18]:** The Exchange should be able to reject an application to be a PO if the Exchange becomes aware that the applicant is the subject of an investigation involving an allegation of fraud or dishonesty. This is to avoid a situation where the Exchange has to accept the application to be a PO because the applicant satisfies the qualification criteria and no other grounds for rejection apply to an applicant who is the subject of an investigation involving an allegation of fraud or dishonesty.

**Comment [B19]:** Unnecessary as Rule 301.2(1) states that to be eligible for admission as a PO, the applicant must satisfy the qualification criteria.

**Comment [B20]:** Previously, Rule 301.1. Moved here for a better flow of the Rules. The categories are set out here for a person to be able to immediately identify the categories of POs. These Rules govern IBs, UBs and non-UBs and this is why these categories are set out in this rule. Stand alone, 1+1 and special scheme brokers would fall under the non-UB category which is defined in Rule 101.1(1) to mean a PO that is not a UB and includes an Eligible Non-UB and a Special Scheme Broker.

**Comment [B21]:** Previously, Rule 201.3 but moved here as it is more appropriate here.

**Comment [B22]:** Unnecessary – Rule 201.1(2) empowers the Exchange to appoint any committee, sub-committee etc. to discharge the exercise of the Exchange's powers under these Rules.

**Comment [B23]:** Covered under Rule 301.3(1).

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- (2) The ~~Committee~~ Exchange referred to herein may affirm, vary or set aside the decision appealed against ~~or any penalty imposed.~~
- (53) The Exchange's decision ~~of the Exchange~~ on appeal ~~is shall be~~ final and binding on the appellant ~~applicant.~~

Comment [B24]: This does not arise in an appeal against the decision of the Exchange for refusing an application to be a PO.

301.4 Change of status

- (1) If a Participating Organisation changes the Participating Organisation's status from one category to another based on the categorisation stipulated under Rule 301.2(5), the Participating Organisation must notify the Exchange in the manner the Exchange stipulates.

Comment [B25]: The Exchange will need to be notified of such change in order for the correct status to be reflected in the register.

**RULE 301.25 REGISTRATION OF PARTICIPATING ORGANISATIONS** Participantship

~~(1)~~ **Registration:**

Comment [B26]: Deleted as there is already a requirement for a person to be admitted as a Participating Organisation under Rule 301.2

~~(a)~~ No person shall –

~~(i)~~ have access to the markets or facilities organised and maintained by the Exchange; and/or

~~(ii)~~ be entitled to describe himself as a participating organisation of the Exchange,

~~unless it has been registered as a Participating Organisation in accordance with this Chapter and any description by a Participating Organisation of its participantship shall expressly and at all times clearly indicate the type or class of its participantship of the Exchange.~~

~~(b)~~ No person, other than a Participating Organisation, shall be entitled to describe itself as a stock broker or stockbroking company.

- (21) **Privileges:** ~~A Once admitted as a~~ Participating Organisation, a Participating Organisation may:

Comment [B27]: To note that "Participating Organisation" is defined in Rule 101.1(1) as a company that carries on the business of trading in securities and is admitted as a PO under Rule 301.2.

~~(a)~~ shall have access to the markets or facilities organised and maintained by the Exchange, ~~subject to and in accordance with the provisions of as provided in these Rules and the Directives all other rules, regulations, directives, guidelines and/or circulars issued by the Exchange from time to time; and~~

Comment [B28]: The definition of "Directives" in Rule 101.1(1) has been amended to be wide enough to encompass 'rules, regulations etc'

~~(b)~~ describe itself as a Participating Organisation of the Exchange.

- ~~(3)~~ **Compliance:** ~~Every person who has been registered as a Participating Organisation pursuant to this Chapter shall be bound by and comply with –~~

Comment [B29]: Moved this requirement under the heading "Continuing Obligations".

~~(a)~~ these Rules; and

~~(b)~~ all directives, rulings and guidelines (other than those guidelines which are expressed to be non-binding) issued by the Exchange from time to time under and in accordance with Chapter 2.

- ~~(4)~~ **No rights:** ~~A Participating Organisation shall have no claims whatsoever to ownership, shareholding or capital of the Exchange nor have any right to participate in the assets or profits of the Exchange.~~

Comment [B30]: Redundant in light of the Exchange's demutualisation as POs are no longer members of the Exchange.

- ~~(5)~~ **Renewal of registration:**

Comment [B31]: Deleted as it is unnecessary for registrations with us to be renewed. POs and registered Person(s) are registered with us until they inform us of their resignation or are struck off or its licence are not renewed or revoked by SC.

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(a) — The registration of a Participating Organisation with the Exchange shall be subject to renewal not later than fourteen (14) days from the date of the Commission's renewal of its dealer's licence as evidenced by the date of issuance of the dealer's licence, by submitting an application to the Exchange in such form as the Exchange may from time to time prescribe and which shall be accompanied by —

(i) — confirmation or evidence in such form as may be issued by the Commission of the renewal of the dealer's licence issued by the Commission pursuant to the Capital Markets and Services Act; and

(ii) — payment of a non-refundable subscription fee prescribed by the Exchange.

(b) — The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.

~~(6) — Additional conditions: The Exchange may impose such other conditions or restrictions on a Participating Organisation as it thinks fit at any time during the term of its participanship.~~

Comment [B32]: Unnecessary as we already have the power under Rule 201.1(2)(i) to impose terms and conditions

**RULE 301.3 — NON-TRANSFERABILITY**

~~(2) — The privileges of a Participating Organisation is not permitted to transfer the Participating Organisation's participanship in the Exchange to any other person shall be personal and shall not be transferable.~~

~~(13) — In addition to the provisions in these Rules relating to termination of participanship, a Participating Organisation shall will automatically cease to enjoy access to the markets or facilities maintained by the Exchange as described in Rule 301.5(1)(a) the privileges of participanship if the Participating Organisation: upon the happening of all or any of the following events —~~

Comment [B33]: Previously Rule 301.5(1).

~~(a) — a resolution is passed by the shareholders or a court order is made for the winding up of the Participating Organisation;~~

~~(b) — an arrangement or composition is made with the creditors of the Participating Organisation pursuant to any law;~~

~~(ea) it is suspended;~~

~~(eb) no longer holds a Capital Markets Services Licence for Dealing in Securities the dealer's licence of the Participating Organisation issued by the Commission is suspended or revoked by the Commission for whatsoever reason; and~~

~~(c) defaults in the Participating Organisation's payment or delivery obligation to the Clearing House arising from the purchase or sale of Securities; or~~

~~(ed) it is struck off from the Register of Participating Organisations ceases to be a Participating Organisation.~~

Comment [B34]: These events no longer trigger automatic cessation of the PO's privileges. If these circumstances arise, the Exchange will decide on the appropriate action to be taken under Rule 311 which may or may not involve the cessation of trading privileges.

~~(4) — A Participating Organisation must immediately notify the Exchange in writing upon becoming aware of any of the circumstances stipulated in Rule 301.5(3).~~

Comment [B35]: The privileges of a PO should automatically cease when a PO ceases to be a PO and not only when a PO is struck-off from the Register. A PO can cease to be a PO for any reason but a PO is struck-off the Register pursuant to a disciplinary action.

Comment [B36]: Imposing an obligation on the PO to immediately notify the Exchange upon becoming aware of any of the above circumstances arising in relation to that PO.

**RULE 301.36 CONTINUING OBLIGATIONS Continuing Obligations**

~~(1) Without prejudice to any provisions of these Rules from time to time in force, Throughout the term of a Participating Organisation's Participanship the following conditions shall apply to a Participating Organisation at all times throughout the term of its participanship: —~~

**Chapter 3 – Participating Organisations and Registered Persons**

- (a) ~~a Participating Organisation must continue to satisfy the qualification criteria~~ a Participating Organisation shall prior to and after being registered with the Exchange comply with the qualifications prescribed above;
- (b) ~~a Participating Organisation must comply with and give effect to the Securities Laws and the Commission's requirements,~~
- (c) ~~a Participating Organsiation must comply with and give effect to these Rules and Directives as well as to the spirit of these Rules and the Directives whether or not the provisions are directed at the Participating Organisation specifically and to any undertaking given to the Exchange whether before or after admission as a Participating Organisation,~~
- ~~(b) the Participating Organisation's principal business, or in the case of an Investment Bank, one of its businesses shall be that of dealing in securities and the Participating Organisation shall only carry out such other activities specifically permitted by the Commission pursuant to the dealer's licence issued by the Commission and in the case of an Investment Bank, by the Commission and the Central Bank pursuant to the dealer's licence and merchant banking licence issued by the Commission and the Central Bank respectively; in the manner and subject to such terms and conditions as may be prescribed in these Rules and such guidelines, directives and/or circulars issued by the Commission, the Central Bank, any other relevant authority and/or where applicable, the Exchange from time to time,~~
- ~~(bd) a Participating Organisation's the Participating Organisation shall notify the Exchange in writing of any amendments to its memorandum and/or articles of association with a written confirmation to the Exchange that the amendments thereto are must not be inconsistent with any of the provisions of these Rules or the Directives, directives, rulings or guidelines issued by the Exchange from time to time;~~
- ~~(d) the Participating Organisation shall promptly file with the Exchange and the Commission a copy of the annual return required to be filed by it pursuant to the Companies Act and such other documents as may be required by the Exchange from time to time;~~
- (e) the Participating Organisation shall register with the Exchange the address(es) from which it carries on its business of dealing in securities and the floor area and location of the premises from which trading is conducted and no change in its aforesaid address(es) or trading area shall be made without the prior written approval of the Exchange;
- (f) ~~the a Participating Organisation shall must~~ have a registered address in Malaysia and from time to time promptly notify the Exchange in writing of any change to the Participating Organisation's registered address 7 days after the change thereto, which new address shall be deemed to be its registered address in Malaysia;
- (g) ~~the a Participating Organisation shall from time to time must promptly~~ notify the Exchange in writing of any change to its the Participating Organisation's name as registered by the Exchange within 7 days after the change; and
- (h) ~~the a Participating Organisation shall must~~ not go into voluntary liquidation or apply for any order under Section 176 of the Companies Act without the Exchange's prior written approval of the Exchange;
- ~~(i) the Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules;~~
- (j) [Deleted]

**Comment [B37]:** Unnecessary - this is already covered under Rule 301.6(1) read together with Rule 301.2(1)(b). Further, the applicant will be providing us with an undertaking at the time of the application that the applicant complies with the qualification criteria.

**Comment [B38]:** Incorporating the requirements from previous Rule 301.2(3) here. Included SC's requirements for completeness.

**Comment [B39]:** To address rules which are not directly targeted at the PO but for which a PO must give effect to. For example some provisions may be stated factually like the trading functionalities in the ATS. Some of the provisions may be directed at the Registered Person(s) and by the POs not giving effect to the obligations imposed may be facilitating a breach of the Rules.

**Comment [B40]:** Unnecessary as SC governs this – see paragraph 7.02(4) of the SC's Licensing Handbook. Doing away with duplication.

**Comment [B41]:** Unnecessary - SC's Licensing Handbook sets out the other regulated activities that a PO may carry on. Doing away with duplication.

**Comment [B42]:** To note that we have set out the requirement for a PO to comply with the Securities, Laws, these Rules, the Directives and the Commission's requirements in the rule immediately above.

**Comment [B43]:** No longer requiring the PO to notify and confirm to the Exchange in writing the amendments to the PO's M&A and instead, placing the obligation on the PO to make sure that the PO's memorandum and articles of association are not inconsistent with any of the provisions of these Rules or the Directives.

**Comment [B44]:** Doing away with the requirement for the PO to file the PO's annual return with us. We will rely on the information from the Annual Report submitted by the POs under Rule 1202.1 instead of the annual return submitted under this rule. In any event, we have the power under Rule 201.1(2)(l) to, at any time, request for record and documents.

**Comment [B45]:** Unnecessary - a PO can only carry out the PO's permitted business at the PO's principal place of business or branch offices that have been approved by us. As such, we will have records of all the PO's premises.

**Comment [B46]:** Covered under Rule 301.8(1).

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~~(k) the Participating Organisation shall ensure the registration of all its Dealer's Representatives and registered person(s) with the Exchange pursuant to these Rules; and~~

Comment [B47]: Covered under Rule 302.2.

~~(l) the Participating Organisation shall comply, observe and perform all such other requirements or obligations as may be prescribed by the Exchange pursuant to these Rules.~~

Comment [B48]: Covered under paragraph (c) above as Directives include all the Exchange's requirements.

**RULE 301.47 RESIGNATION**

(1) **Procedure:** ~~—If a Participating Organisation intends to resign, wishes to resign from participantship of the Exchange, it shall~~ the Participating Organisation must:

(a) give ~~the Exchange at least not less than thirty (30) days' (or such period as may otherwise be prescribed by the Exchange) prior written notice to the Exchange of its intention to resign and stating~~ the proposed date of resignation;

(b) satisfy the Exchange that ~~it the Participating Organisation has taken, or will have taken, proper and adequate steps before the proposed date of resignation proper and adequate steps for the orderly winding down of its the Participating Organisation's business of trading in securities on the Exchange's stock market dealing in securities including being able to fulfil all the Participating Organisation's obligations to the Exchange and the Participating Organisation's Clients; and~~

Comment [B49]: Incorporating the requirement for a PO to fulfill or be able to fulfill its obligations that used to be in previous Rule 301.4(2)(a).

(c) ~~agree to stop entering not enter into any transactions in the period of thirty (30) days (or such period as may otherwise be prescribed by the Exchange) immediately preceding the proposed date of resignation except with the consent within the time frame of the Exchange stipulates;~~

Comment [B50]: "Transactions" has been amended to read "Contracts" as "Contracts" is a defined term. The time frame has also been removed as to provide more flexibility based on the circumstances.

~~(d) comply with such direction as may be issued by the Exchange in relation to the orderly winding down of its business of dealing in securities; and~~

Comment [B51]: Unnecessary the PO is already under a general obligation to comply with these Rules, the Directives and any decision of the Exchange – see Rule 301.6(1)(c).

~~(e) enter into such agreement or arrangement or undertaking with the Exchange as the Exchange shall deem fit or expedient.~~

Comment [B52]: Unnecessary - we already have the power under Rule 201.1(2)(d) to issue directives, rulings or guidelines for the purposes of or in connection with these Rules.

(2) **Acceptance:**

~~(a) The Exchange may accept or reject the Participating Organisation's resignation provided that in consultation with the Clearing House, the Exchange is satisfied that the Participating Organisation has fulfilled or will be able to fulfil all its obligations to the Exchange, the Clearing House and its clients whereupon.~~

Comment [B53]: Doing away with the requirement to consult with the Clearing House. At the end of the day, the requirement is for the Exchange to be satisfied that the PO will fulfill the PO's obligations to the Exchange and to the PO's Clients.

~~(3) If the resignation is accepted, the Exchange shall will notify all other Participating Organisations of its acceptance and the resigning Participating Organisation's effective date of resignation.~~

Comment [B54]: The decision to accept or reject the resignation would depend on whether all the conditions relating to the resignation of a PO in Rule 301.7(1) have been satisfied. We have incorporated the requirement for a PO to fulfill or be able to fulfill its obligations in Rule 301.7(1).

~~(b) Notwithstanding the Exchange's acceptance of a Participating Organisation's resignation, the resigning Participating Organisation shall remain liable for all outstanding liabilities as at the effective date of resignation incurred under these Rules and the Clearing House Rules.~~

Comment [B55]: Moved to the rule on continuing liability – see Rule 301.9(1).

~~(c) The resignation of a Participating Organisation shall not take effect until such resignation is officially accepted and approved by the Exchange and notwithstanding such acceptance and approval, the Exchange may impose any condition it deems fit on the resigning Participating Organisation.~~

Comment [B56]: Unnecessary - the effective date of resignation will be notified under Rule 301.7(3) above.

~~(3) Obligations: The resigning Participating Organisation is bound to comply with such restrictions on its participantship as may be imposed by the Exchange and/or the Clearing House until its effective date of resignation as published by the Exchange.~~

Comment [B57]: Unnecessary - the PO would be bound under Rule 301.6(1)(c) to comply with restrictions on the PO's participantship imposed by the Exchange until the effect date of resignation as the definition of "Directives" includes any requirement the Exchange specifies and this includes restrictions on the PO's participantship.



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- (4) ~~Removal:~~ The resigning Participating Organisation's name will be removed from the Register of Participating Organisations on the effective date of resignation.

Comment [B58]: Deleted as "Register" is defined in Rule 101.1(1).

**RULE 301.5 CESSATION**

Comment [B59]: Moved to Rule 301.5(3)

- (1) ~~In addition to the provisions in these Rules relating to termination of participantship, a Participating Organisation shall cease to enjoy the privileges of participantship upon the happening of all or any of the following events –~~
- ~~(a) a resolution is passed by the shareholders or a court order is made for the winding up of the Participating Organisation;~~
  - ~~(b) an arrangement or composition is made with the creditors of the Participating Organisation pursuant to any law;~~
  - ~~(c) it is suspended;~~
  - ~~(d) the dealer's licence of the Participating Organisation issued by the Commission is suspended or revoked by the Commission for whatsoever reason; and~~
  - ~~(e) it is struck-off from the Register of Participating Organisations.~~

**RULE 301.6 REFUSAL TO REGISTER**

Comment [B60]: Moved to Application Procedures under Rule 301.2(3) as it is more appropriate there.

- (1) ~~The Exchange may refuse an application made under this Chapter to register as a Participating Organisation if –~~
- ~~(a) the application was not made in accordance with the requirements of this Chapter or the information required therein was not submitted or adequate;~~
  - ~~(b) the applicant has failed to comply with any other requirement of these Rules and/or any regulations, directives or guidelines thereunder;~~
  - ~~(c) the registration of the applicant is not in the interest of a fair and orderly market;~~
  - ~~(d) the Exchange is satisfied that the qualifications or any of them prescribed in this Chapter has/have not been fulfilled by the applicant; or~~
  - ~~(e) if the Exchange is of the opinion that registration of the applicant may affect the optimum utilisation of its facilities, taking into account risk management and any other considerations.~~

**RULE 301.87 FEES ON REGISTRATION Fees**

Comment [B61]: Deleted "on registration" so that this rule applies across the board to all fees payable by the PO to us.

- (1) A Participating Organisation ~~must~~ shall be liable to pay the Exchange all registration fees and charges the Exchange or other fees and charges as may be stipulated in the manner and within the period the Exchange specifies ~~or imposed by the Exchange from time to time.~~
- ~~(2) All fees and charges payable by the Participating Organisation hereunder shall be paid promptly within such period as may be stipulated by the Exchange.~~
- ~~(2) Any~~ A Participating Organisation ~~which that~~ omits to pay the Exchange any ~~such fee or charge~~ subscription call or levy within the time frame the Exchange specifies ~~one (1) calendar month after the same shall have been is due, made or levied shall will~~ be sent a further written demand for payment, ~~thereof and if~~ the amount due is not paid within ~~one (1) further calendar month from the date of such~~ the period stipulated in the written demand ~~for payment,~~ the Exchange

Comment [B62]: Covered under Rule 301.8(1) above.

Comment [B63]: Previously, Rule 1005(2) on subscriptions and calls. Included in this general rule on fees as the Exchange should have the power specified in the rule in relation to the non-payment of all fees and charges payable to the Exchange and not only to non-payment of subscription and calls.

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may summarily ~~delete, suspend, terminate or take any other action the Exchange thinks fit against the name of~~ the Participating Organisation ~~from the register of Participating Organisations kept by the Exchange and will shall so~~ notify the Participating Organisation concerned by notice in writing.

**RULE 301.98 CONTINUING LIABILITY**Continuing liability

- (1) ~~A former~~ Notwithstanding that a Participating Organisation, may cease to be registered or be struck off the Register by the Exchange for any reason whatsoever, the Participating Organisation shall be bound by these Rules which are now or may hereafter be in force and all directives, ruling and guidelines issued by the Exchange and/or Exchange holding company insofar as they relate to any antecedent breach committed by the Participating Organisation.
- (a) remains subject to disciplinary action for any breach of these Rules committed during the period of the former Participating Organisation's Participanship; and
- (2b) ~~A Participating Organisation which has ceased to be registered or is struck off the Register shall~~ must retain all ~~its~~ the former Participating Organisation's records for at least ~~six (6)~~ six (6) years from the date of cessation and produce such records in a legible form to the Exchange upon demand. ~~Any such record shall be produced for inspection to the Exchange on demand and, where it is not retained in legible form, must be capable of being reproduced in that form.~~
- (c) all other Rules in these Rules continue to apply in respect of the former Participating Organisation to the extent required to give effect to Rules 301.9(1)(a) and 309.9(1)(b).

Comment [B64]: Previously, Rule 301.4(2)(b).

Comment [B65]: Covered under paragraph (a) below.

**RULE 301.9 DECISIONS OF THE EXCHANGE**

- (1) ~~Subject to Rule 201.3, any decision of the Exchange shall be final and binding on all Participating Organisations and registered person(s).~~

Comment [B66]: This has been addressed in Rule 201.5

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**RULE 302 — PARTICIPATING ORGANISATION**

**RULE 302.1 — QUALIFICATION**

- (1) **Qualifications:** A Participating Organisation shall at all times—
- (a) be a company or corporation that is carrying on or is incorporated or established in Malaysia with the primary object of carrying out the business of dealing in securities or in the case of an Investment Bank, having as one of its objects, the carrying out of the business of dealing in securities;
  - (b) be the holder of a valid dealer's licence and has satisfied or will satisfy upon registration with the Exchange, the terms and conditions of, or imposed by the Commission related to, such licence;
  - (c) have satisfied or will satisfy upon registration with the Exchange, all the financial requirements prescribed in Chapter 11, as may be amended, varied, modified, supplemented or substituted therefor from time to time;
  - (d) unless otherwise permitted by the Commission, its principal business, or in the case of an Investment Bank, one of its businesses shall be that of dealing in securities and it shall not carry on any other business save those activities which are normally ancillary and closely related thereto as envisaged in these Rules and, in the case of an Investment Bank, such other businesses as may be permitted by the Commission;
  - (e) have or will maintain facilities and personnel adequate for the expeditious and orderly carrying out of its business of dealing in securities (including those activities which are normally ancillary and closely related thereto as envisaged in these Rules) and such other businesses as may be permitted by the Commission from time to time;
  - (f) have all directors registered with the Exchange in accordance with these Rules; and
  - (g) comply with such other requirements as prescribed in this Chapter and/or as may be prescribed by the Exchange from time to time.

**Comment [B67]:** Moved to Rule 301.1 to improve the structure of these Rules. Since the application procedures have been moved to the PO Manual, we have merged Rules 301 and 302 for a better flow of the Rules.

**RULE 302.2 — APPLICATION PROCEDURE**

- (1) **Application:** Any person desirous of being registered as a Participating Organisation shall complete and submit an application to the Exchange in the form prescribed in Appendix 1A and which shall be accompanied by—
- (a) certified true copies of its memorandum and articles of association, or other constituent documents of the applicant evidencing the following but without limitation thereto:
    - (i) its directors and shareholders; and
    - (ii) its authorised and paid-up capital;
  - (b) certified true copy of a valid dealer's licence and, where the applicant is an Investment Bank, a valid merchant banking licence issued by the Central Bank pursuant to Section 5 of BAFIA;
  - (c) payment of a non-refundable application fee prescribed by the Exchange;
  - (d) a statutory declaration by the applicant's authorised signatory(ies) as to the veracity of all information provided in the form prescribed as Appendix 2A; and
  - (e) an undertaking to the Exchange in the form prescribed in Appendix 3A.

**Comment [B68]:** Moved to Rule 301.2.

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- (2) ~~Additional documents:~~ The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.
- (3) ~~Financial requirements:~~ The applicant shall provide such evidence as may be satisfactory to the Exchange that it is, at the time of making such application, able to comply with the financial requirements prescribed in Chapter 11, as may be amended, varied, modified, supplemented or substituted therefor from time to time.

#### ~~RULE 302.4 CIRCUMSTANCES APPLICABLE TO PARTICIPATING ORGANISATIONS~~

~~(1) Where, at any time after reviewing any financial or other reports or information submitted to the Exchange from time to time by a Participating Organisation pursuant to these Rules, and/or after examining or inspecting any books or other documents, accounts, transaction and other records of the Participating Organisation, and/or any reports or information obtained by the Exchange pursuant to any investigation carried out by it under any of the powers conferred upon it under these Rules, the Exchange is satisfied that the Participating Organisation –~~

- ~~(a) is insolvent;~~
- ~~(b) is unable or fails to maintain the capital adequacy requirements in accordance with Rule 1105;~~
- ~~(c) is likely to become unable to meet all or any of its financial obligations;~~
- ~~(d) is about to suspend making payments of the whole or any part of its debts; or~~
- ~~(e) conducts its business in a manner which is detrimental to, or could reasonably be considered as likely to be prejudicial to, the interests of its clients, the public or the Exchange;~~

~~the Exchange may, if in its opinion (after consultation with the Commission) that it is desirable to do so in order to protect the interests of the clients, the public or the Exchange or otherwise to ensure the existence of a fair and orderly stock market, resolve to take any one or more actions prescribed in Rule 302.5.~~

#### ~~RULE 302.5 ADDITIONAL POWERS OF THE EXCHANGE~~

~~(1) Preliminary Actions: In any of the circumstances set out under Rule 302.5 the Exchange may, upon written notice to the Participating Organisation, take any one or more of the following actions –~~

- ~~(a) As the Exchange considers necessary or expedient, direct the Participating Organisation and/or its directors and/or its employees or shareholders to take any steps or to do any act or thing relating to the business of dealing in securities as specified or particularised in the aforesaid notice and within such time as may be set out in the notice;~~
- ~~(b) As the Exchange thinks fit, prohibit or restrict the Participating Organisation from carrying out or transacting the business of dealing in securities or any class of such dealing in securities business, or from doing any other act or thing relating to its business as specified or particularised in the aforesaid notice, for such period and upon such terms and conditions set out in the notice;~~
- ~~(c) As the Exchange considers necessary or expedient, appoint one or more persons to perform any duties or functions with respect to the management or operation of the Participating Organisation's business (as specified in the instruments of appointment) and to require such persons to submit reports to the Exchange from time to time, and the Exchange may remove such persons and appoint others in such persons' place and may fix remuneration of any such persons. Such remuneration shall be paid by the Participating Organisation;~~

**Comment [B69]:** Covered under Rule 311 and the directives in the PO Manual elaborating on the principle in Rule 311.

**Comment [B70]:** Unless otherwise stated, incorporated in Paragraph 1.1(1) of the directives in the PO Manual on the powers of the Exchange and the circumstances when the Exchange may take action under Rule 311.1(1).

**Comment [B71]:** Not incorporated as covered under the limbs of when a resolution is passed by the shareholders of a PO or a court order is made for the winding-up of a PO or when an arrangement or composition is made with the creditors of the Participant pursuant to any law – see Paragraph 1.1(1) of the directives on the powers of the Exchange and the circumstances when the Exchange may take action under Rule 311.1(1).

**Comment [B72]:** Already a principle under Rule 311.1(1).

**Comment [B73]:** Covered under Rule 311 and the directives in the PO Manual elaborating the principle in Rule 311.

**Comment [B74]:** Incorporated under the Directives in the PO Manual.

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- ~~(d) As the Exchange considers appropriate, appoint one or more persons for the purpose of advising the Participating Organisation on any matters relating to the business operation or management of the Participating Organisation as particularised in the aforesaid notice, and to require such persons to submit reports to the Exchange from time to time, and the Exchange may remove such persons and appoint others in such persons' place and may fix remuneration of any such persons. Such remuneration shall be paid by the Participating Organisation;~~
- ~~(e) In the case of a Participating Organisation which is also a clearing member of a Clearing House and an authorised depository agent of a central depository, direct the Participating Organisation, for the purpose of protecting and preserving the Clearing House's lien in respect of such securities in priority over the rights of the Participating Organisation, to procure suspension of securities of its clients who have not made good their transactions;~~
- ~~(f) As the Exchange considers appropriate, direct the Participating Organisation to increase its paid up capital or shareholders' funds up to the amount specified in the aforesaid notice or otherwise to implement a scheme for injection of new assets into the Participating Organisation of a type and value prescribed in the notice.~~

~~(2) Further Actions: Where -~~

- ~~(a) at any time after reviewing the actions taken by it under Rule 302.5(1), the Exchange is satisfied that further actions must be taken in order to sufficiently or adequately protect the interest of the clients of the Participating Organisation, the public or the Exchange and/or to ensure the existence of a fair and orderly stock market; or~~
- ~~(b) Prior to taking any of the actions set out in Rule 302.5(1) the Exchange is satisfied that such actions if taken by the Exchange would not be sufficient or adequate to protect the interest of the clients of the Participating Organisation, the public or the Exchange and/or to ensure the existence of a fair and orderly stock market,~~

~~then the Exchange may, upon written notice to the Participating Organisation, take any one or more of the following actions –~~

- ~~(i) Upon notification to the Commission, to assume control of the whole of the property, business and affairs of the Participating Organisation, and carry on the whole of its business and affairs, or to assume control of such part of its property, business and affairs and carry on such part of its business and affairs as may be set out in the aforesaid notice or to appoint any person to do so on behalf of the Exchange and to order that the costs and expenses of the Exchange or the remuneration of the person so appointed, as the case may be, to be payable out of the funds and properties of the Participating Organisation;~~
- ~~(ii) Upon consultation with the Commission, to appoint one or more receivers or receivers and managers –
  - ~~(aa) to manage the whole of the business affairs and property of the Participating Organisation or such part thereof as may be set out in the aforesaid notice; and/or~~
  - ~~(bb) to close down the operations of the whole of the business affairs and property of the Participating Organisation or such part thereof as may be set out in the aforesaid notice.~~~~

~~For the purposes hereof, the Exchange shall be entitled to grant to the receiver, or receiver and manager such powers as the Exchange may specify in its absolute discretion, which shall include but are not limited to, the power to assume all powers and duties of the directors and other officers of the Participating Organisation and to do such lawful acts and things as may be necessary for or incidental to the carrying out of its functions hereunder. The receiver or receiver and manager so appointed shall be~~

**Comment [B75]:** Incorporated under the Directives in the PO Manual.

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~~deemed to be agents of the Participating Organisation and the Participating Organisation shall be solely responsible for his or their acts or defaults and for the payment of his or their remuneration. The Exchange may from time to time remove any receiver or receiver and manager so appointed and appoint another or others in his or their stead;~~

- ~~(iii) Upon notification to the Commission, to present a petition to the High Court for the winding-up of the Participating Organisation;~~
- ~~(iv) Upon notification to the Commission, subject to the consent of the clients concerned, to require the Participating Organisation to effect transfers of monies or securities of its clients' for the time being standing to the credit of the client's accounts to new accounts with another Participating Organisation as determined by the Exchange, provided that prior consent of such other Participating Organisation has been obtained;~~
- ~~(v) For the purpose of regularising the Participating Organisation's financial position to an amount as determined by the Exchange, upon consultation with the Commission, to require the Participating Organisation to effect a corporate restructuring exercise, which may include merger with or acquisition of other Participating Organisation or other entities, as accepted by the relevant authorities.~~

~~(3) **Effect of non-compliance:** Failure by a Participating Organisation to comply with any of the terms of notice referred to in Rule 302.5(1) and Rule 302.5(2), shall constitute a serious breach or violation of these Rules and the Exchange may take such actions as may be appropriate under these Rules to reprimand, fine, suspend and/or strike off the Participating Organisation.~~

**Comment [B76]:** Incorporated under the Directives in the PO Manual.

~~(4) **Amendment/replacement of notice:** Any notice issued by the Exchange pursuant to Rule 302.5(1) and 302.5(2) may from time to time be amended, replaced, supplemented or revoked by the Exchange as it considers appropriate after consultation with the Commission.~~

**Comment [B77]:** Doing away with this rule as it is already covered under Rule 201.1(2) that allows the Exchange to issue modifications to any directives, rulings or guidelines we have previously issued.

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**RULE 303.2 GENERAL PROVISIONS FOR REGISTERED PERSON(S)**

**RULE 303.2.1 CATEGORIES** Obligation to register

- (1) ~~Categories: The categories of A Participating Organisation must register the following persons with the Exchange: registered person(s) are as follows –~~
- (aa) Chief Executive Officer;
  - (ab) ~~directors~~ Director;
  - (cbb) Head of Dealing;
  - (d) ~~Head of Operations; Head of Dealing and~~
  - (e) ~~Head of Compliance;~~
  - (bf) Head Group Compliance: and  
Compliance Officer;
  - (eg) Dealer's Representatives;
  - (d) ~~key appointments of branch office(s) envisaged in Rule 506;~~
  - (e) ~~trading clerks; and~~
  - (f) ~~[Deleted]~~
  - (g) ~~Head Group Compliance~~
  - (h) ~~such other persons as may be prescribed by the Exchange from time to time.~~

**RULE 303.2 OBLIGATIONS**

- (1) ~~Registration: Every Participating Organisation shall ensure that such persons referred to in the preceding Rule who are employed, engaged or appointed by it are duly registered by the Exchange in the manner provided in this Chapter.~~
- (2) ~~Compliance: Every registered person(s) pursuant to this Chapter shall be bound by and comply with –~~
- (a) ~~these Rules; and~~
  - (b) ~~all directives, rulings and guidelines (other than those guidelines which are expressed to be non-binding) issued by the Exchange from time to time under and in accordance with Chapter 2.~~
- (3) ~~Responsibility of Participating Organisation: The Participating Organisation shall be responsible for all acts of its registered person(s).~~

**Comment [B78]:** To note that although a person can be appointed by the PO before that person is registered under these Rules, such person (except the CEO and Directors) cannot assume the functions proper unless registered with the Exchange – see Rule 302.4(2).

**Comment [B79]:** The Exchange is proposing for all POs and not just Investment Banks ("IB") and Universal Brokers ("UB"), to each have a Head of Compliance. This is to ensure parity in the requirements imposed on all POs and a clear accountability of the person responsible for compliance matters within the PO. Currently, a PO who is not an IB or UB are required to appoint COs to undertake compliance function within the PO. A PO currently may also appoint more than one CO and in this further blurs the line of accountability. Having just the Head of Compliance responsible, for compliance matters ensures that proper focus and supervision of compliance function is carried out in addition to accountability of the function. The experience requirement for Head of Compliance is proposed as follows:  
(a) Head of Compliance for Investment Banks and Universal Brokers- must have a recognised degree with at least 3 years of direct experience as a compliance officer in the capital market ("CM") or recognised degree and at least 5 years relevant experience in the CM or recognised diploma and at least 8 years relevant in the CM; and  
(b) Head of Compliance for non Investment Banks to be Universal Brokers – must have a recognised degree with 3 years relevant experience in the CM or a recognised diploma and 5 years relevant experience in the CM.

With the proposal for all POs to have Head of Compliance, the requirement to appoint and register compliance officers ("CO") with the Exchange is proposed to be removed. As stated earlier having both the Head of Compliance and the CO appointed and registered with the Exchange blurs the line of accountability between the Head of Compliance and the CO. It is sufficient to mandate the appointment and registration of the Head of Compliance as the person who is account... [1]

**Comment [B80]:** There is no longer a need to register key appointments of branch offices. The accountability for the function at the branch office will lie with the respective HOD, HOO and HOC.

**Comment [B81]:** Removing the requirement to register trading clerks but maintaining the requirements on trading clerks – see Rule 503.3.

**Comment [B82]:** Moved to paragraph (f) above.

**Comment [B83]:** Unnecessary as we have powers general enough to cover this under Chapter 2.

**Comment [B84]:** Covered under Rule 302.1 above.

**Comment [B85]:** Moved to Rule 302.5(1)(b) under continuing obligations of a Registered Personnel.

**Comment [B86]:** Covered under Rule 502.1(1).

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**302.2 Registration procedures**

- (1) To register a person under Rule 302.1(1), a Participating Organisation must:
- (a) submit the relevant documents to the Exchange; and
  - (b) make the submission only in respect of a person that satisfies the relevant qualification criteria applicable for the relevant category of Registered Persons as stipulated in these Rules.
- (2) The Exchange may accept or reject a submission for registration as a Registered Person.

**Comment [B87]:** Incorporating the general requirement on registration procedures to avoid repeating this requirement each time for the different categories of Registered Personnel.

**~~RULE 303.3 REFUSAL TO REGISTER~~**

- (43) ~~Notwithstanding the Registered Person(s) meeting the relevant qualification criteria under these Rules, the Exchange may refuse to register a person as a registered person Registered Person(s) if: –~~
- (a) ~~information relating to the submission as the Exchange requires is not provided that person does not comply with the registration procedures applicable therein or the information required therein was not submitted or adequate;~~
  - (b) any information or document that is furnished to the Exchange is false or misleading;
  - (b(c) ~~the proposed Registered Person(s) that person has failed to comply with any other requirement of the Securities Laws, these Rules and/or any regulations, directives or guidelines thereunder; or~~
  - (d) ~~the proposed Registered Person(s) is the subject of an investigation or proceeding involving an allegation of fraud or dishonesty, whether in or out of Malaysia.~~
  - ~~(e) the registration of that person is not in the interest of a fair and orderly market;~~
  - ~~(d) the Exchange is satisfied that that person does not fulfil any of the qualifications prescribed in this Chapter; or~~
  - ~~(e) the Exchange is of the opinion that the registration of that person may affect the optimum utilisation of its facilities, taking into account risk management or such other considerations.~~

**Comment [B88]:** Deleted the heading as the rules that follow flow as part of the registration procedures.

**Comment [B89]:** To clarify that even if the Registered Person(s) meets the relevant qualification criteria under these Rules, we can still reject a submission to register a person as a Registered Person(s) in the circumstances set out in this rule.

**Comment [B90]:** We have deleted the requirement to comply with these Rules and the Directives as it is unlikely that the applicant would be in breach of these Rules and the Directives before commencing operations.

**Comment [B91]:** This would be more relevant in the context of a reason for not admitting an applicant as a PO and as such, we have deleted this as a circumstance when we can reject a submission for registration as a Registered Personnel.

**Comment [B92]:** Unnecessary as Rule 302.2(1)(b) states that to be registered, the proposed Registered Person must satisfy the relevant qualification criteria.

**Comment [B93]:** Unnecessary as it is compulsory for a PO to register the relevant Registered Person(s) with us. As such, this should not be a ground for refusal of an application for registration as a Registered Personnel.

**Comment [B94]:** Moved from previous Rule 201.3 because it is more appropriate in this rule.

**302.3 AGAINST DECISIONS OF THE EXCHANGE Appeals**

- (1) If the Exchange rejects a submission for registration under this Rule, the applicant may within 14 days after the applicant is notified of the Exchange's decision, appeal in writing to the Exchange.
- (2) The Exchange may affirm, vary or set aside the decision appealed against.
- (3) The Exchange's decision on appeal is final and binding on the appellant.

**~~RULE 303.4 RENEWAL OF REGISTRATION~~**

- ~~(1) The registration of a registered person(s) shall be subject to renewal not later than –~~
- ~~(a) in the case of a registered person(s) who is required to be licensed pursuant to the Capital Markets and Services Act, fourteen (14) days from the date of the~~

**Comment [B95]:** Deleted as it is unnecessary for registrations with us to be renewed. POs and registered Person(s) are registered with us until they inform us of their resignation or are struck off or licence not renewed or have revoked by SC.



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~~Commission's renewal of his licence as evidenced by the date of issuance of the licence, by submitting to the Exchange such form as may be prescribed by the Exchange and which shall be accompanied by –~~

~~(i) confirmation or evidence in such form as may be issued by the Commission of the renewal of the licence issued by the Commission pursuant to the Capital Markets and Services Act;~~

~~(ii) payment of a non-refundable subscription fee prescribed by the Exchange; and~~

~~(b) in the case of a registered person(s) being a non-licensed person, fourteen (14) days prior to each anniversary of his registration by the Exchange or within such other period as may be prescribed by the Exchange from time to time, by submitting to the Exchange such form as may be prescribed by the Exchange and which shall be accompanied by payment of a non-refundable subscription fee prescribed by the Exchange.~~

~~(2) **Additional documents:** The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.~~

~~(3) **Additional conditions:** The Exchange may impose such other conditions or restrictions on a registered person(s) as it thinks fit at any time during the term of his registration.~~

**302.4 Prohibition on performing functions until registered**

(1) This Rule does not apply to Directors and Chief Executive Officers.

(2) No person may perform the functions of a Registered Person of a Participating Organisation unless registered with the Exchange as such.

**Comment [B96]:** To ensure that a person assuming any function of one of the Registered Person(s) is registered with the Exchange and we can take action against such person. This rule states clearly that a person cannot assume the functions of a Registered Person(s) (except Directors and CEOs) unless that person is first registered with us.

**302.5 Obligations**

(1) Throughout the term of a Registered Person's registration, a Registered Person must:

(a) continue to satisfy the qualification criteria applicable to that Registered Person;

(b) comply with and give effect to the Securities Laws and the Commission's requirements;

(c) comply with and give effect to these Rules and Directives and the spirit of these Rules and Directives whether or not the provisions are directed at the Registered Person specifically and to any undertaking given to the Exchange whether before or after registration as a Registered Person;

**Comment [B97]:** This new insertion is made so as to ensure that the registered Person(s) are clear on their continuing obligations.

**Comment [B98]:** For consistency with the continuing obligations of a PO in Rule 301.6(1)(a).

**Comment [B99]:** To address rules which are not directly targeted at the Registered Person(s) but for which a Registered Person(s) must give effect to. For example some provisions may be stated factually like the trading functionalities in the ATS. Some of the provisions may be directed at the PO and by the Registered Person(s) not giving effect to the obligations imposed may be facilitating a breach of the Rules.

(d) observe professional conduct, high standards of integrity and fair dealing and reasonable standards of skill, competence and diligence;

**Comment [B100]:** Introducing a requirement for Registered Person(s) to observe reasonable standards of competence and diligence.

(e) act honestly and in the best interest of their client/Client and the Participating Organisation;

**Comment [B101]:** These requirements used to be in previous Rule 404.3(1) and is reproduced here to apply to a Registered Person (instead of just a Dealer's Representative).

(f) carry out their business/the Registered Person's duties in a manner that contributes to the maintenance of an orderly and fair stock market;

**Comment [B102]:** Previously, Rule 307.4(1)(c). Included here as a continuing obligation of a Registered Person(s) generally instead of just a continuing obligation for a HOC.

(g) effectively discharge the Registered Person's duties while in office; and

(h) the Head of Compliance shall not solicit or execute orders on behalf of the Participating Organisation or a client and shall not act in a manner which that may compromise his the Registered Person's function and position; and.

**Comment [B103]:** Unnecessary as only those that hold a CMSRL to deal in securities may deal in securities. Head of Compliance would not be able to hold such licence.

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**302.6 Liability of a Registered Person**

(1) A Registered Person is liable for the Participating Organisation's breach of these Rules or the Directives if the Registered Person:

- (a) causes, aids or abets a breach of these Rules or the Directives by a Participating Organisation; or
- (b) permits, either knowingly or where the Registered Person had reasonable means of obtaining such knowledge, a Participating Organisation to commit a breach of these Rules or the Directives; or
- (c) did not exercise all such diligence to prevent the commission of the breach of these Rules or the Directives as the Registered Person ought to have exercised, having regard to the nature of the Registered Person's functions in the Participating Organisation and to all the circumstances.

**Comment [B104]:** This is to ensure that the Registered Person(s) does not do any action that would facilitate a breach of these Rules by a PO. If this happens the Registered Person(s) must account for their actions.

**302.7 Reporting**

(1) If a Registered Person ~~Where a Participating Organisation or registered person(s):~~

- (a) becomes aware of any matter in Rule 307. 6(1) that has not been reported to the Exchange or any breach, infringement, or non-compliance of any of these Rules or Directives. Rule ~~by another Participating Organisation, or a Registered Person; or~~
- (b) has reason to believe that another Participating Organisation or registered person(s) Registered Person(s) has breached, infringed or failed to comply with any of these Rules or Directives, the Participating Organisation or registered person(s) shall report the matter in writing to the Exchange. Such report shall give particulars of such breach, infringement or non-compliance together with any other relevant documents and information, or the reasons for believing the same.

the Registered Person must report the matter in writing to the Exchange.

**Comment [B105]:** Unnecessary as this is covered by requiring the Registered Person(s) to report the matter in writing to the Exchange.

(2) If a Registered Person:

- (a) fails to perform any obligations under these Rules or Directives;
- (b) is subject to any enforcement or disciplinary action by the Commission or any other regulatory authority; or
- (c) becomes aware of any other event or circumstances which may adversely affect the Registered Person's ability to perform any of the Registered Person's obligations under these Rules or Directives;

the Registered Person(s) must immediately report the matter in writing to the Exchange.

**Comment [B106]:** To impose self reporting obligation on Registered Person(s).

**302.8 Duty to manage conflicts of interest**

(1) A Registered Person must identify and manage any potential or actual conflicts of interest in relation to the discharge of obligations and functions under the Rules, Directives and Securities Laws.

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**302.9 Notice of cessation**

(1) A Participating Organisation must notify the Exchange in writing at least 7 days before the effective date of the Registered Person ceasing to hold the relevant office.

**302.10 Vacancy of Registered Person**

(1) This Rule 302.10 only applies to a Head of Dealing, Head of Operations, Head of Compliance and Head Group Compliance.

(2) If a vacancy occurs in the office of a person described in Rule 302.10, the Participating Organisation must fill the vacancy within 3 months from the date the vacancy occurs. In the interim, the Participating Organisation must identify a person and require that person to temporarily assume the responsibility for the functions of the vacated office.

(3) A person temporarily assuming responsibility for the functions of a vacated office under Rule 302.10(2):

- (a) must have the relevant experience and seniority to undertake the relevant functions;
- (b) is bound by these Rules and Directives except for the requirement for the Commission's approval to be appointed to the relevant vacated office;
- (c) may only undertake such functions for a period not exceeding 3 months; and
- (d) will, for so long as the person remains registered with the Exchange under Rule 302.10(4), be considered a Registered Person for the purposes of these Rules.

(4) A Participating Organisation must register a person temporarily assuming the responsibility for the functions of a vacated office under Rule 302.10(2) in the manner the Exchange stipulates.

**302.11 Automatic de-registration**

(1) A Registered Person will automatically cease to be registered under these Rules if the Registered Person:

- (a) becomes of unsound mind;
- (b) is made bankrupt, whether in or out of Malaysia;
- (c) no longer holds a Capital Markets Services Representative's Licence where the Registered Person is required to hold such licence under these Rules;
- (d) is convicted of an offence involving fraud or dishonesty; or
- (e) is convicted of an offence where the maximum sentence for that offence under the relevant law is 3 years or more.

(2) A Participating Organisation and Registered Person must immediately notify the Exchange in writing upon becoming aware of any of the above circumstances.

**Comment [B107]:** We are consolidating and streamlining this requirement across the board for all categories of Registered Person(s). Previously:

- (1) for DRs, COs and Head Group Compliance, 14 days prior notice must be given;
- (2) for Directors and Heads, 30 days prior notice must be given;
- (3) we must approve the cessation before a Director or Head is allowed to resign; and
- (4) for CEO, POs must immediately notify if no longer registered with the SC.

Now, the only requirement is for notice of cessation to be given at least 7 days before the effective cessation date.

**Comment [B108]:** In relation to a Registered Person(s) ceasing to hold the relevant office because of death or any other similar unexpected event, we will use our general powers under Rule 201.1(2) to waive the 7 days notice period in such unexpected event.

**Comment [B109]:** Imposing a positive obligation on POs to fill the vacancy within 3 months from the date the vacancy arises. Previously, this was contained in Rule 304.1(2) that stated that if the number of Heads were reduced below the minimum required, the Exchange may allow the PO to continue dealing in securities for a period not exceeding 3 months and subject to the conditions the Exchange may impose.

**Comment [B110]:** We are also setting out the minimum requirements for a person assuming the functions of the vacated office. We are proposing that the requirement for approval of the SC and the experience requirements in the SC Licensing Handbook would not apply to the person temporarily assuming the vacated office because the person assuming the position will only be doing so temporarily.

**Comment [B111]:** We are requiring the PO to register a person temporarily assuming the functions of a vacated office so that at all times, we have a record of who is responsible for the core functions of a PO namely dealing, operations and compliance.

**Comment [B112]:** Included pursuant to item 16 of our Proposals for Chapters 3 to 6.

**Comment [B113]:** Imposing an obligation on the PO and Registered Person(s) to immediately notify the Exchange upon becoming aware of any of the above circumstances arising in relation to a Registered Person(s).

Chapter 3 – Participating Organisations and Registered Persons

**RULE 3032.512 FEES ON REGISTRATION** Fees on registration

- (1) ~~A registered person(s) Participating Organisation must pay the Exchange all fees and charges the Exchange stipulates for the registration of a Registered Person in the manner and within the period the Exchange specifies shall be liable to pay a registration fee or other fees and charges prescribed by the Exchange from time to time.~~
- (2) ~~All fees and charges payable by the registered person(s) hereunder shall be paid promptly within such period as may be stipulated by the Exchange.~~
- (3) ~~The fees and charges payable by the registered person(s) shall be borne by the Participating Organisation with which the registered person(s) is employed, engaged or appointed. Without derogation of the foregoing, the Participating Organisation and the registered person(s) may mutually agree that the fees and charges payable hereunder shall be borne by the registered person(s).~~

**Comment [B114]:** Previously, Rule 303.5. The obligation to pay the fees relating to the registration of a Registered Person(s) is on the PO and we are clarifying this in the Rules.

**Comment [B115]:** Covered under Rule 302.12(1) above.

**Comment [B116]:** Doing away with prescribing commercial arrangements between POs and Registered Person. Under these Rules, the obligation is on the PO to pay the fees for the registration of a Registered Person. It would be up to the parties to agree on whether the PO may seek reimbursement for these fees.

**RULE 3032.136 CONTINUING LIABILITY** Continuing liability

- (1) ~~Notwithstanding that a registered person(s) may cease to be registered or be struck off the Register by the Exchange for any reason whatsoever, the registered person(s) shall be bound by these Rules which are now or may hereafter be in force and all directives, ruling and guidelines issued by the Exchange and/or Exchange holding company insofar as they relate to any antecedent breach committed by the registered person(s) A former Registered Person remains subject to disciplinary action for any breach of these Rules committed during the period of the former Registered Personnel's registration with the Exchange and all other Rules in these Rules, continue to apply in respect of the former Registered Person to the extent required to give effect to this Rule.~~

**Comment [B117]:** Previously, Rule 303.6. Amendments made are in line with consistency with Rule 301.9(1)(a) on POs.

**RULE 3032.714 DECISIONS OF THE EXCHANGE** Decisions of the Exchange

- (1) ~~Subject to Rule 201.3, a~~ Any decision of the Exchange shall ~~is~~ be final and binding on all Participating Organisations and ~~r~~ Registered person(s) ~~Person~~.
- (2) ~~A Registered Person can only appeal against any decision of the Exchange if these Rules or the Directives expressly provide for such a right.~~

**RULE 303.8 EFFECTIVE DATE OF REGISTRATION**

- (1) ~~The effective date of registration of a Chief Executive Officer or director required to be registered with the Exchange under these Rules shall be the date such person was appointed by the Participating Organisation to the relevant position at the Participating Organisation.~~

**Comment [B118]:** Moved to the PO manual that sets out the application procedures for the registration of CEOs and Directors.

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**RULE 3034A CHIEF EXECUTIVE OFFICER**

**RULE 3034A.1 REGISTRATION Requirement**

- (1) ~~Obligation to Register:~~ A Chief Executive Officer appointed by an Investment Bank shall be registered with the Exchange in accordance with this Chapter.
- (2) ~~Registration procedures:~~ In registering its Chief Executive Officer pursuant to the preceding Rule, the Investment Bank shall on the same day that notification is given to the Commission of the appointment of the chief executive officer as required under the Licensing Handbook ("Notification"), complete and submit to the Exchange the form prescribed in Appendix 1B, accompanied by—
- (a) a certified true copy of a valid dealer's representative's licence, in the event the Chief Executive Officer holds a dealer's representative's licence;
  - (b) a copy of the Notification;
  - (c) a certified true copy of the approval of the Central Bank to the Chief Executive Officer's appointment as a Chief Executive Officer of the Investment Bank;
  - (d) payment of a non-refundable fee prescribed by the Exchange;
  - (e) a statutory declaration by the Chief Executive Officer as to the veracity of all information provided in the form prescribed in Appendix 2B (if he is a licensed person, or Appendix 2C (if he not a licensed person)); and
  - (f) an undertaking by the Chief Executive Officer to the Exchange in the form prescribed in Appendix 3B.
- (3) ~~Additional documents:~~ The Exchange may, as it thinks fit, require the Investment Bank and/or its Chief Executive Officer to provide such additional information and/or documents as it may determine.
- (4) ~~Payment of fees:~~ An Investment Bank shall promptly within such period as may be stipulated, pay all fees and charges imposed by the Exchange pursuant to these Rules.

Comment [B119]: This rule is deleted as already covered under Rule 302.1

Comment [B120]: Covered under Rule 302.2(1). The detailed application procedures are spelt out in the PO Manual.

Comment [B121]: Covered under the general requirement in Rule 201.1(2) that the Exchange can request for additional documents the Exchange thinks fit.

Comment [B122]: Covered under Rule 302.12.

**RULE 3034A.21 CONTINUING OBLIGATIONS Obligations**

- (1) ~~Without Throughout the term of the Chief Executive Officer's registration prejudice to any provisions of these Rules from time to time in force,~~ the Chief Executive Officer ~~is shall~~ at all times throughout the term of his registration be responsible for:-
- (a) all the activities of the Investment Bank in relation to the business of trading in securities on the stock market of the Exchange; and
  - (b) the compliance by the Investment Bank with these Rules and the Directives, directives, rulings and guidelines issued by the Exchange.

**RULE 3034A.32 APPLICABILITY OF THE RULES Engagement in other business**

- (1) ~~The provisions in Rules 304.2 to 304.6 pertaining to a Head shall equally apply to and be read to include the Chief Executive Officer of an Investment Bank unless expressly excluded or modified in this Chapter or in these Rules.~~ A Chief Executive Officer of an Investment Bank must not engage in or hold any interest in any other business that might potentially conflict with being a Chief Executive Officer. Before engaging in or holding interest in another business that does

Comment [BB123]: This rule is deleted as it is no longer applicable. Rules relevant to a CEO of an investment bank is stated in this rule. We have inserted a new rule on the CEO's engagement in other business activity which is in the current Rule 304.2.

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[not potentially conflict with being a Chief Executive Officer, the Chief Executive Officer must get the Investment Bank's permission.](#)

~~**RULE 304A.4 RE-DESIGNATION AS DEALER'S REPRESENTATIVE**~~

~~(1) Where a Chief Executive Officer who holds a dealer's representative's licence intends, upon his resignation as envisaged in Rule 304, to be re-designated as a Dealer's Representative, the Chief Executive Officer shall comply with the requirements for registration as a Dealer's Representative as envisaged in Rule 310 unless otherwise permitted by the Exchange in this Rule.~~

**Comment [B124]:** Deleted as now a person is required to be registered under all relevant categories applicable to them. See our comment on previous Rule 305.4 on the re-designation of HOD to DR that applies here as well.

~~**RULE 304A.5 CESSATION**~~

~~(1) An Investment Bank shall immediately notify the Exchange in writing in the event its Chief Executive Officer ceases to be registered with the Commission for any reason whatsoever, whereupon the Exchange shall be entitled to remove the Chief Executive Officer from its register with immediate effect.~~

**Comment [B125]:** Covered under the general cessation rule in Rule 302.9.

Chapter 3 – Participating Organisations and Registered Persons

RULE 304 HEADS

**RULE 304.1** ~~MINIMUM NUMBER OF HEADS~~ Minimum number of Heads

(1) A Participating Organisation must have at least 3 Heads, namely Head of Dealing, Head of Operations and Head of Compliance. No other person other than the Heads is permitted to discharge the respective functions of the Heads as stipulated in these Rules. ~~shall~~

(a) ~~in the case of a Non-Universal Broker, have at least two (2) Heads, namely the Head of Dealing and the Head of Operations; and~~

(b) ~~in the case of a Universal Broker and Investment Bank, have at least three (3) Heads, namely the Head of Dealing, the Head of Operations and the Head of Compliance, unless otherwise exempted under Rule 307.1(3);~~

~~albeit a Non-Universal Broker is not precluded from appointing a Head of Compliance solely at its option, in which case, the provisions of these Rules in relation to a Head of Compliance shall apply *mutatis mutandis* to a Non-Universal Broker.~~

(2) ~~In the event the number of Heads of a Participating Organisation shall, at any time, be reduced below the minimum number specified in the preceding Rule for any reason beyond the control of the Participating Organisation, the Exchange may, at its discretion, allow the Participating Organisation to continue carrying on its business of dealing in securities for such period not exceeding three (3) months as the Exchange may determine and subject to such terms and upon such conditions as may be stipulated.~~

**Comment [B126]:** Amendments here made in line with requiring all POs (instead of just UBs and IBs) to have a HOC. See our comment in Rule 302.1(1) relating to the deletion of the requirement to register a CO.

**Comment [B127]:** Deleted as this provision is covered under Rule 302.10.

**RULE 304.2** ~~FULL TIME ENGAGEMENT~~

(1) ~~A Head of a Participating Organisation shall be engaged full time in the office of the Participating Organisation and shall not, without the prior written approval of the Exchange~~

(a) ~~engage himself in any business other than that of the business of the Participating Organisation; and/or~~

(b) ~~subject always to the Rule hereinafter appearing, hold shares in, or be a director, of a company or corporation.~~

**Comment [B128]:** This rule on full time engagement is deleted. The Exchange is of the opinion that by imposing and setting out clear obligations to be discharged by the respective heads in the specific rules relating to each head is sufficient. The Exchange need not further specify that the engagement has to be on a full time basis. In relation to engaging in other business this has been moved in the specific rule relating to each head and further amended. Please refer to Rule 305,306,307 and 308.

**RULE 304.3** ~~RESPONSIBILITY OF PARTICIPATING ORGANISATION~~

(1) ~~Any violation of these Rules by a Head shall also be deemed the responsibility of the Participating Organisation which shall be liable and be dealt with in accordance with Chapter 13.~~

**Comment [B129]:** Covered under Rule 604.2.

**RULE 304.4** ~~ADDITIONAL CONDITIONS~~

(1) ~~The Exchange may in its discretion impose additional conditions on the appointment of a Head of a Participating Organisation.~~

(2) ~~Such conditions imposed may, at the Exchange's discretion, be imposed retrospectively on such Heads.~~

**Comment [B130]:** Covered under Rule 201.1(2).

**RULE 304.5** ~~RESIGNATION OF HEADS~~

**Comment [B131]:** Covered under the general rule on cessation in Rule 302.6. To note that we will no longer need to accept and approve the resignation of Heads. However, POs are required to have at all times the minimum number of Heads as specified in Rule 304.1.

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- ~~(1) — Unless expressly provided to the contrary in these Rules, a Head of a Participating Organisation who wishes to resign from his position as a Head of a Participating Organisation shall notify the Exchange in writing not less than thirty (30) days prior to the proposed date of resignation.~~
- ~~(2) — The resignation of a Head of a Participating Organisation shall not take effect until such resignation is officially accepted and approved by the Exchange and subject to the Participating Organisation at all times maintaining the minimum number of Heads.~~

**~~RULE 304.6 — OTHER MATTERS~~**

- ~~(1) — Every Participating Organisation shall promptly notify the Exchange of the death of any of its Heads and of any person ceasing to be its Head for any other reason.~~
- ~~(2) — The Exchange upon the approval of the Commission shall have the power to issue directives, in connection with the duties and responsibilities of Heads as the Exchange deems fit from time to time.~~
- ~~(3) — Notwithstanding the provisions in Rules 305, 306, 307 and 308, the board of directors shall at all times be ultimately responsible and accountable in relation to compliance of these Rules.~~

**~~RULE 304.7 — DEEMING PROVISIONS~~**

- ~~(1) — [Deleted]~~

**~~RULE 304.8 — INVESTMENT BANK~~**

- ~~(1) — [Deleted]~~

**Comment [B132]:** Unnecessary. POs are required to have at all times the minimum number of Heads as specified in Rule 304.1. In relation to death of a Head or any person ceasing to be Head for an unexpected reason, see our comment on Rule 302.9(1).

**Comment [B133]:** Unnecessary as we already have the general power under Rule 201.1(2) to do this.

**Comment [B134]:** Covered under Rule 604.2.



**RULE 305 HEAD OF DEALING**

**RULE 305.1 REQUIREMENT**

- (1) Every ~~A~~ Participating Organisation shall must appoint at least ~~one~~ (1) Head of Dealing.
- (2) A Participating Organisation ~~which that~~ appoints more than ~~one~~ (1) Head of Dealing must ~~shall ensure; the following is satisfied –~~
- (a) clearly delineate and document the area and scope of responsibility of each Head of Dealing ~~is clearly delineated and documented~~ at the time of appointment of ~~each of the a~~ Heads of Dealing, ~~and in In~~ the event there is any of any changes change to in the area and scope of responsibility, the Participating Organisation must update the relevant documentation such changes to be updated accordingly; and
  - (b) ~~that there is have every no~~ area of the Participating Organisation's business in these Rules related to dealing in securities relating to trading in securities on the Exchange's stock market ~~does not~~ fall under the responsibility, ~~supervision and purview~~ of at least ~~one~~ (1) Head of Dealing.
- (3) ~~Joint liability: Further to Rule 305.1(2)(b), All Heads of Dealing of a Participating Organisation are jointly responsible for any where the Exchange finds that there is an area in these Rules related to dealing in securities relating to trading in securities on the Exchange's stock market that has not been assigned by the Participating Organisation to be within which does not fall under the responsibility, supervision and purview of any of the Heads of Dealing, all the Heads of Dealing shall be jointly liable for any breach that may occur in respect of that area.~~

**Comment [B135]:** Previously, Rule 305.3(2). Moved here for a better flow of the Rules.

**RULE 305.2 APPOINTMENT**

- (1) Qualification: A Head of Dealing appointed by a Participating Organisation must fulfil the following requirements ~~No person shall be appointed as a Head of Dealing of a Participating Organisation unless such person: –~~
- (a) ~~is approved by the Commission to be appointed as the a head of dealing~~ Head of Dealing of the Participating Organisation;
  - (b) holds a valid Capital Markets Services Representative's Licence for Dealing in Securities ~~dealer's representative's licence and has satisfied or will satisfy upon registration with the Exchange, the terms and conditions of, or imposed by the Commission related to, such licence;~~ and
  - (c) ~~has completed and satisfied the requirements for registration with~~ registered with the Exchange as a Head of Dealing.
- (2) ~~Registration procedures: A Participating Organisation, in respect of the registration of a Head of Dealing pursuant to this Rule 305, shall complete and submit to the Exchange the form prescribed in Appendix 1B and which shall be accompanied by –~~
- (a) ~~a certified true copy of a valid dealer's representative's licence;~~
  - (b) ~~certified true copy of the approval of the Commission to the Head of Dealing's appointment as a Head of Dealing of the Participating Organisation ;~~
  - (c) ~~payment of a non-refundable fee prescribed by the Exchange;~~

**Comment [B136]:** Amended to allow POs to appoint the Head first and then apply to us for registration of the Head. However to note that the Head must not assume any functions of the Head prior to registration with us.

**Comment [B137]:** The nature of the conditions in Chapter 7 of SC's Licensing Handbook are more continuing obligations and it may not be possible to satisfy all these conditions upon registration with the Exchange.

**Comment [B138]:** Covered under Rule 302.2(1). The detailed application procedures are spelt out in the PO Manual.

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- (d) ~~a statutory declaration by the Head of Dealing as to the veracity of all information provided in the form prescribed in Appendix 2B;~~
- (e) ~~an undertaking to the Exchange in the form prescribed in Appendix 3B; and~~
- (f) ~~the respective area and scope of responsibility of each of the Heads of Dealing, where more than one (1) Head of Dealing is appointed.~~

~~(3) **Additional documents:** The Exchange may, as it thinks fit, require such person desirous to be registered with the Exchange as a Head of Dealing, to provide such additional information and/or documents as it may determine.~~

**Comment [B139]:** Covered under the general requirement in Rule 201.1(2) that the Exchange can request for additional documents the Exchange thinks fit.

~~(4) **Payment of fees:** A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.~~

**Comment [B140]:** Covered under Rule 302.12.

**RULE 305.3 CONTINUING OBLIGATIONS Obligations**

(1) ~~Without prejudice to any provisions of these Rules from time to time in force, Throughout the term of a Head of Dealing's registration, the Head of Dealing must, the following conditions shall, at all times throughout the term of his registration, apply to a Head of Dealing –~~

- (a) ~~continue to satisfy the qualification criteria stated in Rule 305.2(1), the Head of Dealing shall prior to and after being registered comply with the qualifications prescribed above; and~~
- (b) ~~be responsible for the activities of the Participating Organisation related to dealing trading in securities on the Exchange's stock market, and where more than one (1) Head of Dealing is appointed, the area scope of responsibility of each Head of Dealing shall be as documented pursuant to Rule 305.1(2)(a); and~~
- (c) ~~supervise and direct compliance of the Rules and Directives by the Participating Organisation, Registered Persons, employees and agents in matters relating to trading in securities on the Exchange's stock market.~~

**Comment [B141]:** Unnecessary as Rule 305.1(2)(b) requires that all areas on Dealing in Securities must be under the responsibility of at least 1 Head of Dealing.

**Comment [B142]:** See our comment under Rule 307.1(1)(b).

**Comment [B143]:** Moved to Rule 305.1(3) above.

~~(2) **Joint liability:** Further to Rule 305.1(2)(b), where the Exchange finds that there is an area in these Rules related to dealing in securities which does not fall under the responsibility, supervision and purview of any of the Heads of Dealing, all the Heads of Dealing shall be jointly liable for any breach that may occur in respect of that area.~~

**Comment [B144]:** This is new rule. Under the previous Rule 304.2 which is applicable to all heads, a head is not allowed to engage in any other business activities. We have removed Rule 304.2 and inserted a new rule for each head respectively that the prohibition is only applicable in relation to engagement that could potentially result in a conflict of interest. If the engagement does not conflict with the discharge of the head of dealing function, the head of dealing can continue with the engagement if the PO approves of such an engagement. The PO's approval is still required so that the PO can make an assessment on whether the other engagement can potentially compromise on the effective discharge of the functions of the head with the PO.

**305.4 Engagement in other business**

- (1) ~~A Head of Dealing must not engage in or hold any interest in any other business that might potentially conflict with being a Head of Dealing. Before engaging in or holding interest in another business that does not potentially conflict with being a Head of Dealing, the Head of Dealing must first get the Participating Organisation's permission.~~
- (2) ~~- In this Rule, "engaging in any business" includes being a director of or a debenture holder in any entity.~~

**Comment [B145]:** Deleted as now a person is required to be registered under all relevant categories applicable to them. For example, a HOD that also carries on the functions of a DR (defined in Rule 101.1(1) as a holder of a CMSRL for Dealings in Securities who Trades in Securities) must be registered under both categories: HOD and DR. Please also see the requirements in the PO Manual on registration of a person falling within 2 or more categories of Registered Person(s).

**RULE 305.4 RE-DESIGNATION AS DEALER'S REPRESENTATIVE**

~~(1) A Head of Dealing who intends upon his resignation as envisaged in Rule 304 to be re-designated as a Dealer's Representative shall comply with the requirements for registration as a Dealer's Representative as envisaged in Rule 310 unless otherwise permitted by the Exchange in this Rule.~~

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**RULE 305.54** **REPORTING**Reporting

(1) A Head of Dealing (~~except a Head of Dealing of an Investment Bank~~) shall must report directly to the ~~board of directors~~Board of Directors of the Participating Organisation.

**Comment [B146]:** "Board of Directors" is now a defined term under Rule 101.1(1).

~~(2) The reporting line of the Head of Dealing of an Investment Bank shall be in accordance with the requirements in the Guidelines on Investment Banks and/or stipulated by the Commission or the Central Bank.~~

**Comment [B147]:** Unnecessary with the introduction of the new Rule 102.4. Rule 102.4 states that if a provision in these Rules is expressed to be inapplicable to an IB or a Registered Person(s) of an IB, the relevant requirements imposed by BNM or SC will apply instead.

(2) Rule 305.45(1) is not applicable to a Head of Dealing of an Investment Bank.

RULE 306 HEAD OF OPERATIONS

**RULE 306.1 REQUIREMENT**

- (1) Every A Participating Organisation shall must appoint at least ~~one (1)~~ Head of Operations.
- (2) A Participating Organisation ~~which that~~ appoints more than ~~one (1)~~ Head of Operations shall ~~must ensure; the following is satisfied—~~
  - (a) ~~clearly delineate and document~~ the area and scope of responsibility of each Head of Operations ~~is clearly delineated and documented~~ at the time of appointment of ~~a each of the~~ Heads of Operations, ~~and in~~ In the event ~~there is any of any changes change in~~ to the area and scope of responsibility, the Participating Organisation must update the relevant documentation such changes to be updated accordingly; and
  - (b) ~~that there is have no all the operational activities of the area in these Rules related to Participating Organisation relating to trading in securities on the Exchanges stock market (“operational activities”) the operational activities of the Participating Organisation which does not fall under the responsibility, supervision and purview of at least one (1) Head of Operations;~~
- (3) ~~Joint liability: Further to Rule 306.1(2)(b), All Heads of Operations of a Participating Organisation are jointly responsible for any operational activities of where the Exchange finds that there is an area in these Rules related to the Participating Organisation operational activities of the Participating Organisation that has not been assigned by the Participating Organisation to be within the which does not fall under the responsibility, supervision and purview of any of the Heads of Operations, all the Heads of Operations shall be jointly liable for any breach that may occur in respect of that area.~~

**Comment [B148]:** Previously, Rule 306.3(2). Moved here for a better flow of the Rules.

**RULE 306.2 APPOINTMENT**

- (1) **Qualification:** A Head of Operations appointed by a Participating Organisation must fulfil the following requirements ~~No person shall be appointed as a Head of Operations of a Participating Organisation unless such person:—~~
  - (a) ~~whose appointment as the Head of Operations of the Participating Organisation, is approved by the Commission as a head of operations and has satisfied or will satisfy upon registration with the Exchange, the terms and conditions of, or imposed by the Commission related to, such approval;~~
  - (b) does not hold a Capital Markets Services Representative’s Licence; and
  - (c) ~~has completed and satisfied the requirements registered with for registration with the Exchange as a Head of Operations.~~
- (2) **Registration procedures:** ~~A Participating Organisation, in respect of the registration of a Head of Operations pursuant to this Rule 306, shall complete and submit to the Exchange the form prescribed in Appendix 1B and which shall be accompanied by—~~
  - (a) ~~certified true copy of the approval of the Commission to the Head of Operations’ appointment as a Head of Operations of the Participating Organisation;~~
  - (b) ~~payment of a non-refundable fee prescribed by the Exchange;~~
  - (c) ~~a statutory declaration by the Head of Operations as to the veracity of all information provided in the form prescribed in Appendix 2B;~~

**Comment [B149]:** Amended to allow POs to appoint the Head first and then apply to us for registration of the Head. However to note that the Head must not assume any functions of the Head prior to registration with us.

**Comment [B150]:** For consistency with the rules on Head of Dealing and Head of Compliance.

**Comment [B151]:** Covered under Rule 302.2(1). The detailed application procedures are spelt out in the PO Manual.

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- (d) — an undertaking to the Exchange in the form prescribed in Appendix 3B; and
- (e) — the respective area and scope of responsibility of each of the Heads of Operations, where more than one (1) Head of Operations is appointed.

~~(3) — **Additional documents:** The Exchange may, as it thinks fit, require such person desirous to be registered with the Exchange as a Head of Dealing, to provide such additional information and/or documents as it may determine.~~

**Comment [B152]:** Covered under the general requirement in Rule 201.1(2) that the Exchange can request for additional documents the Exchange thinks fit.

~~(4) — **Payment of fees:** A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.~~

**Comment [B153]:** Covered under Rule 302.12.

**RULE 306.3 CONTINUING OBLIGATIONS**Obligations

(1) ~~Without Throughout the term of a Head of Operation's registration~~prejudice to any provisions of these Rules from time to time in force, ~~the Head of Operations must~~the following conditions shall, at all times throughout the term of his registration, apply to a Head of Operations —:

(a) ~~continue to satisfy the qualification criteria~~the Head of Operations shall prior to and after being registered comply with the qualifications prescribed above;

(b) be responsible for ~~the Participating Organisation's~~ operational activities ~~relating to trading in securities on the Exchanges stock market; and~~ and where more than one (1) Head of Operations is appointed, the area and scope of responsibility of each Head of Operations shall be as documented pursuant to Rule 306.1(2)(a); and

**Comment [B154]:** This is already in Rule 306.1(1).

**Comment [B155]:** Unnecessary as Rule 306.1(2)(b) requires that all operational activities are under the responsibility of at least 1 Head of Operations.

~~(c) — the Head of Operations shall not deal in securities on behalf of the Participating Organisation.~~

**Comment [B156]:** Unnecessary as only those that hold a CMSRL to deal in securities may deal in securities. HOO cannot hold CMSRL.

~~(c) — supervise and direct compliance of the Rules and Directives by the Participating Organisation, Registered Persons, employees and agents in matters relating to the Participating Organisation's operational activities.~~

**Comment [B157]:** See our comment under Rule 307.1(1).

~~(2) — **Joint liability:** Further to Rule 306.1(2)(b), where the Exchange finds that there is an area in these Rules related to the operational activities of the Participating Organisation which does not fall under the responsibility, supervision and purview of any of the Heads of Operations, all the Heads of Operations shall be jointly liable for any breach that may occur in respect of that area.~~

**Comment [B158]:** Moved to Rule 306.1(3) above.

**306.4 Engagement in other business**

(1) ~~A Head of Operation must not engage in or hold any interest in any other business that might potentially conflict with being a Head of Operation. Before engaging in or holding interest in another business that does not potentially conflict with being a Head of Operation, the Head of Operation must first get the Participating Organisation's permission.~~

**Comment [B159]:** This is new rule. Under the previous Rule 304.2 which is applicable to all heads, a head is not allowed to engage in any other business activities. We have removed Rule 304.2 and inserted a new rule for each head respectively that the prohibition is only applicable in relation to engagement that could potentially result in a conflict of interest. If the engagement does not conflict with the discharge of the head of dealing function, the head of dealing can continue with the engagement if the PO approves of such an engagement. The PO's approval is still required so that the PO can make an assessment on whether the other engagement can potentially compromise on the effective discharge of the functions of the head with the PO.

(2) ~~In this Rule, "engaging in any business" includes being a director of or a debenture holder in any entity.~~

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#### **RULE 306.45** **REPORTING** Reporting

(1) A Head of Operations ~~(except a Head of Operations of an Investment Bank)~~ shall must report directly to the ~~board of directors~~ Board of Directors of the Participating Organisation.

~~(2) The reporting line of the Head of Operations of an Investment Bank shall be in accordance with the requirements in the Guidelines on Investment Banks and/or stipulated by the Commission or the Central Bank.~~

(2) Rule 306.5(1) is not applicable to a Head of Operations of an Investment Bank.

**Comment [B160]:** Unnecessary with the introduction of the new Rule 102.4. Rule 102.4 states that if a provision in these Rules is expressed to be inapplicable to an IB or a Registered Person(s) of an IB, the relevant requirements imposed by BNM or SC will apply instead.

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RULE 307 HEAD OF COMPLIANCE

RULE 307.1 REQUIREMENT Requirement

- (1) ~~Unless otherwise exempted under Rule 307.1(3), A Participating Organisation every Universal Broker and Investment Bank shall must appoint at least one (1) Head of Compliance;~~
- (2) A Participating Organisation ~~which that~~ appoints more than ~~one (1)~~ Head of Compliance ~~shall must ensure; the following is satisfied—~~
- (a) ~~clearly delineate and document~~ the area and scope of responsibility of each Head of Compliance ~~is clearly delineated and documented~~ at the time of appointment of ~~a each of the~~ Heads of Compliance, ~~and in in~~ the event ~~there is any of any changes change in~~ to the area and scope of responsibility, ~~the Participating Organisation must update the relevant documentation such changes to be updated~~ accordingly; and
- (b) ~~that there is no have every~~ area ~~in these Rules related to relating to the~~ compliance matters of the Participating Organisation ~~which functions referred to in Rule 307. 3(1)(b) does not~~ fall under the responsibility, ~~supervision and purview~~ of at least ~~one (1)~~ Head of Compliance.
- (3) ~~If in the event~~ the compliance functions of a ~~Universal Broker Participating Organisation~~ are undertaken at Group ~~levelLevel~~ in accordance with ~~Rule 514 607~~, the ~~Universal Broker Participating Organisation~~ may ~~elect choose~~ not to appoint a Head of Compliance.
- (4) ~~Joint responsibility: Further to Rule 307.1(2)(b), All Heads of Compliance of a Participating Organisation are jointly responsible for any where the Exchange finds that there is an area in these Rules related to compliance function referred to in Rule 307. 3(1)(b) that has not been assigned by the Participating Organisation to be matters which within does not fall under the responsibility, supervision and purview of any of the Heads of Compliance, all the Heads of Compliance shall be jointly responsible for any compliance matter in respect of that area.~~

**Comment [B161]:** The responsibility of ensuring compliance is the responsibility of a PO and the management of PO. The role of head of Compliance and the Compliance Officers is to monitor and advise the POs on compliance matters. We have amended the rules to reflect the above position. The amendments are as follows:

(a) **Responsibility of a PO and Board of Directors** – obligation to ensure compliance with Securities Laws, these Rules, the Directives, any decision made by the Exchange and the PO's internal policies and procedures. The PO and BOD bears this responsibility whether or not the breach was caused by the PO's Registered Person(s), employee or officer or other person

(b) **Responsibility of HOC and HGC** – both have the same obligations in that to monitor compliance and to carry out checks from time to time to ensure compliance with the Securities Laws etc. Also, to advise and guide the PO and the PO's Registered Person(s) and employees on all regulatory requirements that they need to comply with. The role of the HOC here is drafted on this basis.

(c) **Responsibility of HOD** - obligation to supervise and direct compliance in matters relating to trading in securities.

(d) **Responsibility of HOO** – obligation to supervise and direct compliance in matters relating to operations.

The obligations in paragraphs (b), (c) and (d) will be covered under this Chapter 3.

**Comment [B162]:** We are proposing that the function of the HOC be required for all POs and not just for UBs and IBs. The experience and qualification level of a HOC of IBs and UBs and HOC of Non IBs and UBs are as follows:-

(a) HOC for IBs and UBs – Must have a recognised degree with at least 3 years direct experience in the CM or recognised diploma and at least 8 years relevant experience in capital market;

(b) HOC for non IBs and UBs – Must have a recognised degree with 3 years relevant experience in the capital market or a recognised diploma and 5 years relevant experience in the capital market.

**Comment [B163]:** Bringing this rule in line with SC's Guidelines on Performance of Supervisory Functions at Group Level for Capital Market Intermediaries which apply to all POs and not just UBs.

**Comment [B164]:** Previously, Rule 307.4(2). Moved her for a better flow of the Rules.

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**RULE 307.2 APPOINTMENT** Qualification criteria

- (1) ~~Qualification: A Head of Compliance appointed by a Participating Organisation must fulfil the following requirements. No person shall be appointed as a Head of Compliance of a Participating Organisation unless such person: –~~
- (a) ~~whose appointment as the Head of Compliance of the Participating Organisation is approved by the Commission as a Head of Compliance;~~
  - (b) does not hold a Capital Markets Services Representative's Licence; and
  - (c) registered with ~~whose application for registration has been approved by the Exchange as a Head of Compliance.~~

**Comment [B165]:** Amended to allow POs to appoint the Head first and then apply to us for registration of the Head. However to note that the Head must not assume any functions of the Head prior to registration with us.

- (2) ~~Registration procedures: A Participating Organisation, in respect of the registration of a Head of Compliance pursuant to this Rule 307, shall complete and submit to the Exchange the form prescribed in Appendix 1B and which shall be accompanied by –~~
- (a) ~~certified true copy of the approval of the Commission to the Head of Compliance's appointment as a Head of Compliance of the Participating Organisation, and has satisfied or will satisfy upon registration, the terms and conditions of, or imposed by the Commission related to, such approval;~~
  - (b) ~~a statutory declaration by the Head of Compliance as to the veracity of all information provided in the form prescribed in Appendix 2C;~~
  - (c) ~~an undertaking to the Exchange in the form prescribed in Appendix 3B; and~~
  - (d) ~~the respective area and scope of responsibility of each of the Heads of Compliance, where more than one (1) Head of Compliance is appointed.~~

**Comment [B166]:** Covered under Rule 302.2(1). The detailed application procedures are spelt out in the PO Manual.

- (3) ~~Additional documents: The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.~~

**Comment [B167]:** Covered under the general requirement in Rule 201.1(2) that the Exchange can request for additional documents the Exchange thinks fit.

- (4) ~~Payment of fees: A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.~~

**Comment [B168]:** Covered under Rule 302.12.

**RULE 307.3 VACANCY**

- (1) ~~In the event of a vacancy at any time in the position of the Head of Compliance –~~
- (a) ~~the functions, duties and responsibilities of the Head of Compliance shall be assumed by the next most senior Compliance Officer; and~~
  - (b) ~~the Universal Broker and Investment Bank shall fill the vacancy of the Head of Compliance within three (3) months from the vacancy arising.~~

**Comment [B169]:** Covered under Rule 302.10.

**RULE 307.43 CONTINUING OBLIGATIONS** Obligations

- (1) ~~Without prejudice to any provisions of these Rules from time to time in force, Throughout the term of a Head of Compliance's registration, the Head of Compliance must: the following conditions shall, at all times throughout the term of his registration, apply to a Head of Compliance –~~
- (a) continue to satisfy the qualification criteria ~~the Head of Compliance shall prior to and after being registered comply with the qualifications prescribed above; and~~



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(b) ~~the Head of Compliance shall be responsible for all the following compliance functions matters as envisaged in functions: these Rules and carry out such duties of a Compliance Officer as stipulated in Rule 309 and as may be prescribed by the Exchange from time to time. Where more than one (1) Head of Compliance is appointed, the area and scope of responsibility of each Head of Compliance shall be as documented pursuant to Rule 307.1(2)(a);~~

(i) ~~to monitor supervise and direct compliance of these Rules, the Directives and the Securities Laws by the Participating Organisation and the Participating Organisation's Registered Person(s), employees and agents and in this respect, to carry out proper checks and reviews to monitor and ensure compliance; and~~

(ii) ~~to advise and guide the Participating Organisation and the Participating Organisation's Registered Person(s), employees and agents on requirements of these Rules, the Directives and the Securities Laws that the Participating Organisation and the Participating Organisation's Registered Person(s), employees and agents need to comply with in the conduct of the Participating Organisation's business.~~

(c) ~~the Head of Compliance shall not solicit or execute orders on behalf of the Participating Organisation or a client and shall not act in a manner which may compromise his function and position; and~~

(i) ~~[Deleted]~~

(ii) ~~[Deleted]~~

(aa) ~~[Deleted]~~

(bb) ~~[Deleted]~~

(d) ~~the Head of Compliance may effect any personal dealing in securities Provided Always that any dealings permitted herein shall be subject to the requirements pertaining to transactions by directors as prescribed in these Rules.~~

(2) ~~**Joint responsibility:** Further to Rule 307.1(2)(b), where the Exchange finds that there is an area in these Rules related to compliance matters which does not fall under the responsibility, supervision and purview of any of the Heads of Compliance, all the Heads of Compliance shall be jointly responsible for any compliance matter in respect of that area.~~

**Rule 307.4 Engagement in other business**

(1) ~~A Head of Compliance must not engage in or hold any interest in any other business that might potentially conflict with being a Head of Compliance. Before engaging in or holding interest in another business that does not potentially conflict with being a Head of Compliance, the Head of Compliance must first get the Participating Organisation's permission.~~

(2) ~~In this Rule, "engaging in any business" includes being a director of or a debenture holder in any entity.~~

**RULE 307.75 REPORTING**

**Comment [B170]:** The responsibility of ensuring compliance is the responsibility of a PO and the management of PO. The role of head of Compliance and the Compliance Officers is to supervise and direct compliance of the Rules, the Directives and Securities Law by the POs. We have amended the rules to reflect the above position. The amendments are as follows:

(a) **Responsibility of a PO and Board of Directors** – obligation to ensure compliance with Securities Laws, these Rules, the Directives, any decision made by the Exchange and the PO's internal policies and procedures. The PO and BOD bears this responsibility whether or not the breach was caused by the PO's Registered Person(s), employee or officer or other person

(b) **Responsibility of HOC and HGC** – both have the same obligations in that to supervise and direct compliance and to carry out proper checks and reviews from time to time to monitor and ensure compliance with the Securities Laws etc. Also, to advise and guide the PO and the PO's Registered Person(s) and employees on all regulatory requirements that they need to comply with. The role of the HOC here is drafted on this basis.

(c) **Responsibility of HOD** - obligation to supervise and direct compliance in matters relating to trading in securities.

(d) **Responsibility of HOO** – obligation to supervise and direct compliance in matters relating to operations.

The obligations in paragraphs (b), (c) and (d) will be covered under this Chapter 3.

**Comment [B171]:** Unnecessary as the amended rules would now require the HOC to comply with the requirements of previous Rule 309.

**Comment [B172]:** Unnecessary as Rule 307.1(2)(b) requires that all compliance functions are under the responsibility of at least 1 Head of Compliance.

**Comment [B173]:** Unnecessary as only those that hold a CMSRL to deal in securities may deal in securities. HOC cannot hold CMSRL.

**Comment [B174]:** Included as a continuing obligation of a Registered Person(s) generally instead of just a continuing obligation for a HOC.

**Comment [B175]:** Unnecessary as this would be a repeat of the employee transaction rules under Chapter 7.

**Comment [B176]:** Moved to Rule 307.1(3) above.

**Comment [B177]:** This is new rule. Under the previous Rule 304.2 which is applicable to all heads, a head is not allowed to engage in any other business activities. We have removed Rule 304.2 and inserted a new rule for each head respectively that the prohibition is only applicable in relation to engagement that could potentially result in a conflict of interest. If the engagement does not conflict with the discharge of the head of dealing function, the head of dealing can continue with the engagement if the PO approves of such an engagement. The PO's approval is still r[... [2]

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(1) A Head of Compliance ~~(except a Head of Compliance of an Investment Bank)~~ shall must report directly to the ~~board of directors~~ Board of Directors of the Participating Organisation.

**Comment [B178]:** Previously, Rule 307.7.

~~(2) The reporting line of the Head of Compliance of an Investment Bank shall be in accordance with the requirements in the Guidelines on Investment Banks and/or as stipulated by the Commission or the Central Bank.~~

**Comment [B179]:** Unnecessary with the introduction of the new Rule 102.4. Rule 102.4 states that if a provision in these Rules is expressed to be inapplicable to an IB or a Registered Person(s) of an IB, the relevant requirements imposed by BNM or SC will apply instead.

(2) Rule 307.5(1) is not applicable to a Head of Compliance of an Investment Bank.

**307.6 Reporting of breaches or irregularities**

~~(1) A Head of Compliance must~~ Compliance Officer shall immediately report to the Participating Organisation's Board of Directors and the Exchange if the Head of Compliance ~~board of directors of the Participating Organisation and the Exchange if he~~ becomes aware of any matter ~~which that~~, in ~~his~~ the Head of Compliance's opinion, may: -

**Comment [B180]:** Previously, Rule 309.6 that applied to COs. In view of our clarification on the roles in relation to compliance highlighted in our comment on Rule 307.1(1)(b), this rule now applies to the HOC.

- (a) constitute a breach of any provision of the Securities Laws;
- (b) involve the potential default of the Participating Organisation against the Clearing House or other counterparty;
- (c) ~~result in a significant drop have a material effect upon to the minimum~~ financial requirements position of the Participating Organisation prescribed pursuant to under Section 67 of the Capital Markets and Services Act and these Rules to be complied with by the Participating Organisation;
- (d) ~~jeopardise have significant adverse effect on the monies, funds, collateral, property or assets of the clients~~ Client's assets held by the Participating Organisation holds; and/or
- (e) significantly ~~adverse affect effect on~~ the risk position and financial integrity of the Participating Organisation;

**Comment [B181]:** We have amended this rule to capture a drop to the financial position of the PO and not just a drop that would result in a breach of the minimum financial requirement of the PO.

~~(f) result in a regulatory or disciplinary action being taken against the Participating Organisation or any of the Participating Organisation's Registered Person(s), employees or agents by any other regulatory authority;~~

**Comment [B182]:** To impose an obligation on the HOC to report any regulatory or disciplinary action against the PO or its Registered Person(s), employees or agents.

~~(g) involve the Participating Organisation's Registered Person(s), employee or agent of the Participating Organisation in a fraudulent conduct; or~~

**Comment [B183]:** To impose an obligation on the HOC to report any matter that may involve a Registered Person(s), employee or agent of the PO in a fraudulent conduct.

~~(h) adversely affect the Participating Organisation's ability to comply with these Rules.~~

**Comment [B184]:** To impose an obligation on the HOC to report any matter that may adversely affect the PO's ability to comply with these Rules.

~~(2) In addition to the reporting requirement in Rule 307.56(1)309.6(1), the Compliance Officer~~ Head of Compliance must shall immediately report to the Commission upon ~~him~~ becoming aware of any matter under Rule ~~307.65(1)(a)309.6(1)(a).~~

**Comment [B185]:** Previously, Rule 309.6(2).

(3) The Head of Compliance must:

**Comment [B186]:** Previously, Rule 309.6(3).

(a) within 30 days of reporting to the Board of Directors under Rule 307.6(1), Compliance Officer shall inform the Exchange (in relation to matters reported under Rule 307.6(1)) and the Commission (in relation to matters reported under Rule 307.6(2)) ~~in relation to all matters reported under Rule 309.6(2) and the Exchange in relation to all matters reported under Rule 309.6(1) of:~~

- (i) the Board of Director's decision ~~of the Participating Organisation's board of in relation to the matter;~~ directors and
- (ii) ~~particulars of any the~~ corrective measures and decided courses of actions the Board of Directors will take or that have taken or to be taken, as the case

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~~may be, within thirty (30) days of his reporting thereof to the board of directors;~~  
and

(b) thereafter, inform the Exchange and Commission (if applicable) of the completion of the measures and actions taken, if any.

(4) In the case of an Investment Bank, the Head of Compliance of an Investment Bank must report on matters set out in Rule 307.6(1) to the person or committee to whom the Head of Compliance is required to report to under the Guidelines on Investment Banks. In this regard, reference to the Board of Directors in Rules 307. 6(1) and 307. 6(3) are to be read to include the 'person or committee' a Head of Compliance of an Investment Bank reports to under the Guidelines on Investment Banks.

**307.7 Reporting on compliance matters**

~~(1) In the course of his duties, a A Head of Compliance Compliance Officer may bring to the attention of the Heads or other senior management of the Participating Organisation, matters pertaining to compliance of the Participating Organisation to the attention of any of the Heads or other senior management of the Participating Organisation for so as to enable appropriate actions to be taken.~~

Comment [B187]: Previously, Rule 309.8(1).

~~(2) The A Head of Compliance Head of Compliance or in relation to a Participating Organisation which does not have such appointment, the Compliance Officer who heads the compliance functions for that Participating Organisation, shall must:~~

Comment [B188]: Previously, Rule 309.8(2).

~~(a) report directly to the Participating Organisation's Board of Directors board of directors and in this respect, must; and~~

~~(b) submit monthly written reports to the Participating Organisation's Board of Directors board of directors of the Participating Organisation on all matters pertaining to compliance with of the Participating Organisation to the Securities Laws, these Rules and the Directives, directives, rulings and guidelines issued by the Exchange, including matters which had been brought to the attention of the persons mentioned in Rule 309.8(1).~~

Comment [B189]: Deleted as "Directives" is now a defined term.

Comment [B190]: Unnecessary as all matters pertaining to compliance would include matters brought to the attention of the persons mentioned in Rule 307.5(1).

~~(3) In the case of an Investment Bank, the reporting and monthly written reports referred to in Rule 309.8(2) shall Rule 307. 7(2) must be submitted made to the relevant person (s), body and/or committee to whom the Head of Compliance of an Investment Bank reports to under in accordance with the requirements of the Guidelines on Investment Banks.~~

Comment [B191]: Previously, Rule 309.8(2A).

~~(4) The Participating Organisation's Board of Directors board of directors of the Participating Organisation, or in the case of an Investment Bank, the relevant person(s), body and/or committee to whom the Head of Compliance of an Investment Bank reports to, in accordance with the requirements of the Guidelines on Investment Banks must deliberate on the written written reports and decide on the referred to in the Rule 309.8(2) or Rule 309.8(2A), as the case may be, at its proper meeting so that appropriate actions or decisions can to be taken. Proper records of such deliberations must be maintained.~~

Comment [B192]: Previously, Rule 309.8(3).

~~(5) The written reports referred to in Rule 307. 7(2)(b) Rule 309.8(2) or Rule 309.8(2A) in the case of an Investment Bank shall must be submitted to the Exchange on a monthly basis, not later than the last day of the following month or such other period as may be prescribed by the Exchange from time to time, in regard to all matters pertaining to compliance of the Participating Organisation.~~

Comment [B193]: Doing away with a prescriptive rule and relying on Rule 501.4 that POs are required to keep proper records to evidence compliance with the Rules

Comment [B194]: Previously, Rule 309.8(4).

Comment [B195]: Doing away with a prescriptive rule and relying on the principle that the written reports must be submitted monthly to the Exchange

~~(6) Where the compliance functions are undertaken at Group level, the reporting envisaged under Rule 309.8(2) shall be undertaken by the Head Group Compliance.~~

Comment [B196]: Previously, Rule 309.8(5). Unnecessary as pursuant to Rule 308.4(1), the obligations of a HOC under Rule 307.5 and 307.6 would apply equally to a HGC.

**RULE 307.5 REPORTING OF BREACHES OR IRREGULARITIES**

Comment [B197]: Covered under Rule 307.5 above.

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- (1) ~~In addition to the provisions of these Rules relating to Compliance Officer which shall be applicable in all respects to the Head of Compliance unless expressly provided to the contrary, the Head of Compliance shall be required to immediately report to the Universal Broker's or Investment Bank's, as the case may be, board of directors and the Exchange upon him becoming aware of any matter, which in his opinion, may—~~
- ~~(a) constitute a breach of any provision of the Securities Laws.;~~
  - ~~(b) involve the potential default of the Universal Broker or Investment Bank, as the case may be, against the Clearing House or other counterparty;~~
  - ~~(c) have a material effect upon the minimum financial requirements prescribed pursuant to Section 67 of the Capital Markets and Services Act and these Rules to be complied with by the Universal Broker and Investment Bank;~~
  - ~~(d) jeopardise the monies, funds, collateral, property or assets of the clients held by the Universal Broker and Investment Bank; and/or~~
  - ~~(e) significantly affect the risk position and financial integrity of the Universal Broker and Investment Bank.~~
- (2) ~~In addition to the reporting requirement in the preceding Rule 307.5(1), the Head of Compliance shall immediately report to the Commission upon him becoming aware of any matter under Rule 307.5(1)(a).~~
- (3) ~~The Head of Compliance shall inform the Commission in relation to all matters reported under Rule 307.5(2) and the Exchange in relation to all matters reported under Rule 307.5(1) of the decision of the Universal Broker's and Investment Bank's board of directors and particulars of any corrective measures and decided course of actions taken or to be taken, as the case may be, within thirty (30) days of his reporting thereof to the board of directors and thereafter, of the completion of the measures and actions taken, if any.~~

**~~RULE 307.6 INAPPLICABILITY OF RULES~~**

- (1) ~~For the avoidance of doubt, the following provisions of these Rules shall not be applicable to a Universal Broker and Investment Bank—~~

Rule	Heading	Extent of Inapplicability
<del>309.6</del>	<del>Breach or Irregularities</del>	
<del>309.8</del>	<del>Reporting by Compliance Officer</del>	<del>To the extent that the Compliance Officer is to report to the board of directors.</del>

**Comment [B198]:** No longer relevant in light of the fact that the reporting obligations are now on the HOC and not on the CO.

**RULE 3087A HEAD GROUP COMPLIANCE**

**RULE 3087A.1 REQUIREMENT TO REGISTER Requirement**

(1) ~~Where if the Participating Organisation's compliance functions referred to in Rule 604 of a Participating Organisation are undertaken at Group level Level in accordance with Rule 511 607, the Participating Organisation shall must register the ensure that the Head Group Compliance with is registered with the Exchange in accordance with Rule 307A.2.~~

~~(2) A Participating Organisation that appoints more than 1 Head Group Compliance must:~~

~~(a) clearly delineate and document the area and scope of responsibility of each Head Group Compliance at the time of appointment of a Head Group Compliance. In the event there is any change in the area and scope of responsibility, the Participating Organisation must update the relevant documentation accordingly; and~~

~~(b) have every area relating to the compliance functions fall within the responsibility of at least 1 Head Group Compliance.~~

**Comment [B199]:** To cater for the situation where there is more than 1 Head Group Compliance. Also for consistency with the rules on HOD, HOO and HOC.

**RULE 307A.2 APPLICATION FOR REGISTRATION**

~~(1) Procedures: A Participating Organisation shall complete and submit to the Exchange to register the Head Group Compliance in the form prescribed in Appendix 1B and which shall be accompanied by—~~

~~(a) a statutory declaration by the Head Group Compliance as to the veracity of all information provided in the form prescribed in Appendix 2C; and~~

~~(b) an undertaking to the Exchange in the form prescribed in Appendix 3B.~~

**Comment [B200]:** Covered under Rule 302.2(1). The detailed application procedures are spelt out in the PO Manual.

~~(2) Additional documents: The Exchange may, as it thinks fit, require the Participating Organisation and/or Head Group Compliance to provide such additional information and/or documents as it may determine.~~

**Comment [B201]:** Covered under the general requirement in Rule 201.1(2) that the Exchange can request for additional documents the Exchange thinks fit.

~~(3) Payment of fees: A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.~~

**Comment [B202]:** Covered under Rule 302.12.

**RULE 307A.3 VACANCY**

~~(1) Notice: A Participating Organisation shall give to the Exchange fourteen (14) days notice prior to the effective date of the cessation of employment or engagement of a Head Group Compliance with the Entity. The Head Group Compliance shall be removed from the Register on the said effective date.~~

**Comment [B203]:** Covered under Rule 302.9.

~~(2) Vacancy: Upon vacancy in the position of the Head Group Compliance~~

~~(a) the functions, duties and responsibilities of the Head Group Compliance as envisaged under Rule 307A.4 shall be assumed by any one of the Compliance Officers registered pursuant to Rule 309.1(2); and~~

~~(b) the Participating Organisation shall ensure that the vacancy of the Head Group Compliance is filled within three (3) months from the date of the vacancy arising.~~

**Comment [B204]:** Covered under Rule 302.10.

**308.2 Qualification criteria**

(1) A Head Group Compliance appointed by the Participating Organisation must fulfil the following requirements:

**Comment [B205]:** Including the qualification criteria for a Head Group Compliance for consistency with the other rules e.g. rule on Head of Dealing, Head of Operations etc.

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- (a) does not hold a Capital Markets Services Representative's Licence; and
- (b) registered with the Exchange as a Head Group Compliance.

**RULE 307A.8.43 CONTINUING OBLIGATIONS Obligations**

- (1) Without prejudice to any provisions of these Rules from time to time in force, ~~Throughout the term of a Head Group Compliance's registration, the Head Group Compliance must~~ the following conditions shall, at all times throughout the term of his registration, apply to a Head Group Compliance—:
  - (a) ~~continue to satisfy the qualification criteria; and~~
  - (b) ~~the Head Group Compliance shall be responsible for all compliance matters as matters as set out under Rule 307.3(1)(b) envisaged in these Rules; and~~
  - (b) ~~the Head Group Compliance shall not solicit or execute orders on behalf of the Participating Organisation or a client and shall not act in a manner which may compromise his function and position.~~

**Comment [B206]:** For consistency with the other rules e.g. rule on Head of Dealing, Head of Operations etc.

**Comment [B207]:** Unnecessary as only those that hold a CMSRL to deal in securities may deal in securities. HGC cannot hold CMSRL.

**Comment [B208]:** Included as a continuing obligation of a Registered Person(s) generally instead of just a continuing obligation for a HGC.

**308.4 Engagement in other business**

- (1) A Head Group Compliance must not engage in or hold any interest in any other business that might potentially conflict with being a Head Group Compliance. Before engaging in or holding interest in another business that does not potentially conflict with being a Head Group Compliance, the Head Group Compliance must first get the Participating Organisation's permission.
- (2) In this Rule, "engaging in any business" includes being a director of or a debenture holder in any entity.

**308.5 Applicability of Rules**

- (21) All provisions in these Rules and the Directives, ~~directives, rulings and guidelines which are applicable and/or make reference to a Head of Compliance (except for provisions in Rules 307.2) will shall be also be applicable and shall be read to include Head Group Compliance,~~ unless expressly ~~excluded~~ disapplied.

**Comment [B209]:** The obligation to report breaches and irregularities and monthly reporting etc. in Rules 307.5 and 307.6 will apply to the HGC if the compliance functions referred to in Rule 307.3 (1)(b) are undertaken at Group level.

**RULE 307A.5 REPORTING**

- (1) ~~In addition to the provisions of these Rules relating to Compliance Officer which shall be applicable in all respects to the Head Group Compliance unless expressly provided to the contrary, the Head Group Compliance shall be required to immediately report to the Participating Organisation's board of directors and the Exchange upon him becoming aware of any matter, which in his opinion, may—~~
  - (a) ~~constitute a breach of any provision of the Securities Laws; and/or~~
  - (b) ~~involve the potential default of the Participating Organisation against the Clearing House or other counterparty; and/or~~

**Comment [B210]:** Covered under Rule 307.6 which is applicable to a HGC by virtue of Rule 308.5.

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- ~~(c) — have a material effect upon the minimum financial requirements prescribed pursuant to Section 67 of the Capital Markets and Services Act and these Rules to be complied with by the Participating Organisation; and/or~~
  - ~~(d) — jeopardise the monies, funds, collateral, property or assets of the clients held by the Participating Organisation; and/or~~
  - ~~(e) — significantly affect the risk position and financial integrity of the Participating Organisation.~~
- ~~(2) — In addition to the reporting under Rule 307A.5(1), the Head Group Compliance shall also immediately report to the Commission upon him becoming aware of any matter under Rule 307A.5(1)(a).~~
- ~~(3) — The Head Group Compliance shall inform the Commission in relation to matters reported under Rule 307A.5(2) and the Exchange in relation to all matters reported under Rule 307A.5(1) of the decision of the Participating Organisation's board of directors and particulars of any corrective measures and decided course of actions taken or to be taken, as the case may be, within thirty (30) days or such other period as may be determined by the Exchange of his reporting thereof to the board of directors and thereafter of the completion of the measures and action taken (if any).~~

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RULE 30908 DIRECTORS

RULE 3089.1 APPOINTMENT Requirement

(1) ~~Requirement for Registration:~~ A Participating Organisation shall ~~must~~ register with the ~~Participating Organisation's Directors with the~~ Exchange ~~all persons appointed as directors of the Participating Organisation.~~

~~(2) Registration procedures:~~ A Participating Organisation, in respect of the registration of a director pursuant to this Rule 308, shall on the same day that notification is given to the Commission of the appointment of the director as required under the Licensing Handbook ("Notification"), complete and submit to the Exchange the form prescribed in Appendix 1C and which shall be accompanied by—

~~(a)~~ a copy of the Notification;

~~(b)~~ payment of a non-refundable fee prescribed by the Exchange;

~~(c)~~ a statutory declaration by the director as to the veracity of all information provided in the form prescribed in Appendix 2C, or in the case of a director who holds a dealer's representative's licence, Appendix 2B; and

~~(d)~~ an undertaking to the Exchange in the form prescribed in Appendix 3B.

~~(3) Additional documents:~~ The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.

~~(4) Payment of fees:~~ A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.

Comment [B211]: Covered under Rule 302.2(1). The detailed application procedures are spelt out in the PO Manual.

Comment [B212]: Covered under the general requirement in Rule 201.1(2) that the Exchange can request for additional documents the Exchange thinks fit.

Comment [B213]: Covered under Rule 302.12.

RULE 3089.2 CONTINUING OBLIGATIONS Obligations

(1) Without prejudice to any provisions of these Rules from time to time in force, ~~Throughout the term of a Director's registration, the Director is responsible for~~ the following conditions shall, at all times throughout the term of his registration, apply to a director—

~~(a)~~ a director shall prior to and after being registered comply ~~all the activities of the Participating Organisation;~~

~~(b)~~ compliance with these Rules, the Directives and Securities Laws by the Participating Organisation and the Participating Organisation's Registered Person(s), employees and agents; and

~~(c)~~ satisfying with the qualifications ~~prescribed by the Commission or the Central Bank ( for a Director of an Investment Bank) stipulates,~~ in the case of the director of an Investment Bank, the qualifications prescribed by the Central Bank; and

~~(d)~~ a director shall not deal in securities on behalf of the Participating Organisation, except where the director holds a dealer's representative's licence.

Comment [B214]: Unnecessary as only those that hold a CMSRL to deal in securities may deal in securities.

RULE 308.3 RESIGNATION OF DIRECTORS

(1) Unless expressly provided to the contrary in these Rules, a director of a Participating Organisation who wishes to resign from his directorship shall notify the Exchange in writing not less than thirty (30) days prior to the proposed date of resignation.

Comment [B215]: Covered under Rule 302.9. No longer requiring the resignation of a Director to be accepted by us before the resignation of a Director can take effect.



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- (2) ~~The resignation of a director of a Participating Organisation shall not take effect until such resignation is officially accepted and approved by the Exchange. This Rule 308.3(2) does not apply to the directors of an Investment Bank.~~

### **RULE 308.4 OTHER MATTERS**

- (1) ~~Every Participating Organisation shall promptly notify the Exchange of the death of any of its directors and of any person ceasing to be its director for any other reason.~~
- (2) ~~The Exchange upon the approval of the Commission shall have the power to issue directives, in connection with the duties and responsibilities of directors as the Exchange deems fit from time to time.~~

Comment [B216]: See comment on Rule 302.9 (1).

Comment [B217]: Unnecessary as we already have a general power under Rule 201.1(2) to issue directives etc. for the purposes of or in connection with these Rules.

### **RULE 308.35 OTHER DIRECTORSHIPS Engagement in Other business**

- (1) ~~An executive director~~ A Director of a Participating Organisation must not engage in or hold any interest in any other business that might potentially conflict with being a Director of a Participating Organisation.
- (2) ~~Before engaging in or holding any interest in another business that does not potentially conflict with being a Director, the Director must first get the Participating Organisation's permission.~~
- (3) ~~A Participating Organisation must ensure that the Director is not permitted to hold more than 15 directorships in any other business.~~
- (4) ~~In this Rule, "engaging in any business" includes being a director of or a debenture holder in any entity.~~

Comment [B218]: Streamlining the prohibition on engaging in other business activities by Heads, DRs and EDs. To note that this means that if there is a conflict of interest in the ED holding shares in a particular company, the ED cannot hold such shares.

~~shall not hold more than fifteen (15) directorships in companies.~~

~~For the purpose herein, "companies" means companies incorporated under or corporations registered as foreign companies under the Companies Act, regardless whether such companies are public or private companies, listed or otherwise.~~

### **RULE 308.64 DEEMING PROVISION Deeming provision**

- (1) ~~A dDirector of a Participating Organisation who was, has not been expelled from membership of the Exchange holding company immediately prior to the eConversion dDate, a member of the Exchange Holding Company is shall be deemed to be a rRegistered pPerson(s) after the Conversion Date(s) until the Director ceases to be a Rregistered Pperson(s) in accordance with these Rules and shall continue to be bound by these Rules and the Directives, any rules, directives, guidelines and circulars made by the Exchange and the Exchange holding company for the time being in force and from time to time.~~
- (2) ~~All references to the a dDirector in his/her the Director's former capacity as a member of the Exchange hHolding eCompany in any undertaking, declaration, indemnity or other document howsoever called, given or done by or to the Exchange holding company shall will be construed as references to the dDirector in his the Director's capacity as a rRegistered pPerson(s) under these Rules.~~

Comment [B219]: Covered under Rule 302.5(1)(b).

### **309.5 Liability**

- (1) ~~Any action by the Exchange under these Rules against a Director of a Participating Organisation, may be taken against the Director either alone or jointly and severally with another or other Directors.~~

Comment [B220]: To ensure that we can take action against the BOD of a PO individually or collectively, we are clarifying that the Exchange may take action against a Director either alone or jointly and severally with another or other Directors.

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~~RULE 309 – COMPLIANCE OFFICER~~

Comment [B221]: See our comment in Rule 302.1(1) relating to the deletion of the requirement to register a Compliance Officer.

~~RULE 309.1 – REQUIREMENT~~

- ~~(1) Every Participating Organisation shall appoint and register with the Exchange one (1) or more Compliance Officer who shall be responsible to ensure that the compliance functions as set out in Rule 309.4(1) are carried out.~~
- ~~(2) In the event the compliance functions of a Participating Organisation are undertaken at Group level in accordance with Rule 511, the Participating Organisation shall ensure that:-~~
- ~~(a) the Entity designates at least one (1) dedicated Compliance Officer who shall be responsible to ensure that the compliance functions of the Participating Organisation as stipulated in Rule 309.4(1) are carried out; and~~
  - ~~(b) the dedicated Compliance Officer is registered with the Exchange in accordance with this Rule.~~

~~RULE 309.2 – APPOINTMENT~~

- ~~(1) **Qualification:** No person shall be appointed as a Compliance Officer of a Participating Organisation unless such person-~~
- ~~(a) is approved by the Commission to be appointed as a Compliance Officer and has satisfied or will satisfy upon registration with the Exchange, the terms and conditions of, or imposed by the Commission related to, such approval;~~
  - ~~(b) does not hold a Capital Markets Services Representative's Licence; and~~
  - ~~(c) is registered as a Compliance Officer with the Exchange.~~
- ~~(2) **Registration procedures:** A Participating Organisation, in respect of the registration of a Compliance Officer pursuant to this Rule 309, shall complete and submit to the Exchange for the registration of its Compliance Officer the form prescribed in Appendix 1C accompanied by-~~
- ~~(a) certified true copy of the approval of the Commission to the appointment as a Compliance Officer of the Participating Organisation;~~
  - ~~(b) a statutory declaration by the Compliance Officer as to the veracity of all information provided in the form prescribed in Appendix 2C; and~~
  - ~~(c) an undertaking to the Exchange in the form prescribed in Appendix 3B.~~
- ~~(3) **Additional documents:** The Exchange may, as it thinks fit, require an applicant to provide such other additional information and/or documents as it may determine.~~
- ~~(4) **Position:** The Compliance Officer must be equipped with the authority and ability to effect decision so as to be able to carry out his responsibilities effectively. Therefore, the Compliance Officer must be a person holding a senior position in the organisation of the Participating Organisation, the Entity or the Group, as the case may be who can act independently and is able to fully effect decisions.~~
- ~~(5) **Notice of cessation:** A Participating Organisation shall, give the Exchange not less than fourteen days (14) days notice prior to the effective date of the cessation of the employment or engagement of a Compliance Officer with the Participating Organisation. The Compliance Officer shall be removed from the Register of Compliance Officers on the said effective date.~~

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~~(6) — **Payment of fees:** A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.~~

**RULE 309.3 — CONTINUING OBLIGATIONS**

- ~~(1) — Without prejudice to any provisions of these Rules from time to time in force, the following conditions shall, at all times throughout the term of his registration, apply to a Compliance Officer—~~
- ~~(a) — the Compliance Officer shall prior to and after being registered comply with the qualifications prescribed above;~~
  - ~~(b) — the Compliance Officer shall carry out such duties as stipulated in Rule 309 and as may be prescribed by the Exchange from time to time;~~
  - ~~(c) — the Compliance Officer shall not solicit or execute orders on behalf of the Participating Organisation or a client and shall not act in a manner which may compromise his function and position; and~~
    - ~~(i) — [Deleted]~~
    - ~~(ii) — [Deleted]~~
      - ~~(aa) — [Deleted]~~
      - ~~(bb) — [Deleted]~~
  - ~~(d) — the Compliance Officer may effect any personal dealing in securities *Provided Always* that any dealings permitted herein shall be subject to the requirements pertaining to transactions by employees as prescribed in these Rules.~~

**RULE 309.4 — COMPLIANCE FUNCTIONS**

- ~~(1) — A Compliance Officer shall be responsible to ensure that all compliance functions as stipulated in these Rules, the guidelines, directives and/or rulings issued by the Exchange are carried out, which functions shall include—~~
- ~~(a) — supervising compliance with the Securities Laws, these Rules, directives, rulings and guidelines issued by the Exchange;~~
  - ~~(b) — supervising compliance with the Participating Organisation's internal policies and guidelines;~~
  - ~~(c) — reviewing the handling of complaints and reporting his findings to the Head of the Participating Organisation responsible for such matters;~~
  - ~~(d) — reviewing applications forms and documents of accounts opened by clients;~~
  - ~~(e) — regularly reviewing employee's securities transactions, dealings in securities in the Participating Organisation's own account, records of clients' accounts and dealings by Salaried Dealer's Representatives in respect of the Participating Organisation's proprietary trading;~~
  - ~~(f) — monitoring sales and educational literature and advertisements issued by the Participating Organisation; and~~
  - ~~(g) — such other functions as specified by the Exchange from time to time.~~

**Comment [B222]:** This will now be an obligation on the HOC and HGC. Please see the respective rules.

**RULE 309.5 — VACANCY OF COMPLIANCE OFFICER**

**Comment [B223]:** The requirements on filling a vacancy of a HOC and HGC is covered under Rule 302.10.

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- ~~(1) — Where, at any particular time, a total vacancy occurs in the office of—~~
- ~~(a) — the Head of Compliance and the Compliance Officers in a Universal Broker or Investment Bank; or~~
  - ~~(b) — the Compliance Officers in a Non-Universal Broker,~~
- ~~the responsibility for the carrying out of the compliance functions in the interim shall be assumed by any one of the officers who is carrying out the compliance functions for the Universal Broker, Investment Bank or Non-Universal Broker, as the case may be, or in the absence thereof, the Head of the Internal Audit.~~
- ~~(2) — Where, at any particular time, a vacancy occurs in the office of the Compliance Officers in a Universal Broker or Investment Bank, the functions of the Compliance Officers shall in the interim be assumed by the Head of Compliance.~~
- ~~(2A) — Where the compliance functions of a Participating Organisation is undertaken at Group level in accordance with Rule 511 and a vacancy occurs in the office of the Head Group Compliance and/or Compliance Officer, the following shall apply:-~~
- ~~(i) — Where a vacancy occurs in the office of a Compliance Officer, the Head Group Compliance shall in the interim be responsible to ensure the continued discharge of the compliance functions as envisaged in these Rules in the manner deemed fit by the Head of Compliance; or~~
  - ~~(ii) — Where a total vacancy occurs in the office of both the Head Group Compliance and Compliance Officer, the functions of the Head Group Compliance and Compliance Officer shall in the interim be assumed by any one of the officers of the Entity with suitable experience and seniority in carrying out compliance functions for the Entity or the Head of the Internal Audit for the Participating Organisation.~~
- ~~(3) — Such temporary duties referred to in the preceding Rules 309.5(1), 309.5(2) and 309.5(2A) shall be for a period not exceeding three (3) months. The person assuming such temporary duties as envisaged in the above Rules, save and except for the Head of Compliance and Head Group Compliance, shall be registered with the Exchange in accordance with the procedures stipulated in Rule 309.5(4) below and shall be bound to comply with all the provisions in these Rules applicable and relating to the position that the person is assuming the temporary duties for save and except any provisions relating to registration and/or approval of the Commission of that position as contained in these Rules. The Participating Organisation shall, within such period, ensure that all steps are taken as may be necessary to employ and/or engage one or more persons to be the Compliance Officer, Head of Compliance or Head Group Compliance, as the case may be.~~
- ~~(4) — A Participating Organisation shall submit to the Exchange the form prescribed in Appendix 1C to register the person assuming the temporary duties referred to in Rules 309.5(1), 309.5(2) and 309.5(2A) together with the statutory declaration and undertaking executed by the above person in the form prescribed in Appendix 2C and Appendix 3B respectively. The Exchange reserves the right not to register such person in the event the Exchange is not satisfied with the experience and seniority of the person proposed to be registered herein.~~

#### **RULE 309.6 REPORTING OF BREACHES OR IRREGULARITIES**

- ~~(1) — A Compliance Officer shall immediately report to the board of directors of the Participating Organisation and the Exchange if he becomes aware of any matter which, in his opinion, may—~~
- ~~(a) — constitute a breach of any provision of the Securities Laws;~~
  - ~~(b) — involve the potential default of the Participating Organisation against the Clearing House or other counterparty;~~

**Comment [B224]:** This will now be an obligation on the HOC and HGC. Please see the respective rules.

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- ~~(c) have a material effect upon the minimum financial requirements prescribed pursuant to Section 67 of the Capital Markets and Services Act and these Rules to be complied with by the Participating Organisation;~~
  - ~~(d) jeopardise the monies, funds, collateral, property or assets of the clients held by the Participating Organisation; and/or~~
  - ~~(e) significantly affect the risk position and financial integrity of the Participating Organisation.~~
- ~~(2) In addition to the reporting requirement in Rule 309.6(1), the Compliance Officer shall immediately report to the Commission upon him becoming aware of any matter under Rule 309.6(1)(a).~~
- ~~(3) The Compliance Officer shall inform the Commission in relation to all matters reported under Rule 309.6(2) and the Exchange in relation to all matters reported under Rule 309.6(1) of the decision of the Participating Organisation's board of directors and particulars of any corrective measures and decided course of actions taken or to be taken, as the case may be, within thirty (30) days of his reporting thereof to the board of directors and thereafter, of the completion of the measures and actions taken, if any.~~

#### **RULE 309.7 ULTIMATE RESPONSIBILITY ON COMPLIANCE MATTERS**

- ~~(1) Notwithstanding the duties of the Compliance Officers as referred to in these Rules, the ultimate responsibility for proper supervision and compliance of a Participating Organisation shall rest with the Participating Organisation and its board of directors.~~

**Comment [B225]:** Covered under Rule 604.2 which states that the PO and the PO's Board of Directors are responsible and accountable for compliance with these Rules, the Directives and Securities Laws by the PO, the PO's Registered Person(s), employees and agents.

#### **RULE 309.8 REPORTING ON COMPLIANCE MATTERS**

- ~~(1) In the course of his duties, a Compliance Officer may bring to the attention of the Heads or other senior management of the Participating Organisation, matters pertaining to compliance of the Participating Organisation so as to enable appropriate actions to be taken.~~
- ~~(2) The Head of Compliance or in relation to a Participating Organisation which does not have such appointment, the Compliance Officer who heads the compliance functions for that Participating Organisation, shall report directly to the board of directors and in this respect, must submit monthly written reports to the board of directors of the Participating Organisation on all matters pertaining to compliance of the Participating Organisation to the Securities Laws, these Rules, directives, rulings and guidelines issued by the Exchange, including matters which had been brought to the attention of the persons mentioned in Rule 309.8(1).~~
- ~~(2A) In the case of an Investment Bank, the monthly written reports referred to in Rule 309.8(2) shall be submitted to the relevant person(s), body and/or committee to whom the Head of Compliance of an Investment Bank reports in accordance with the requirements of the Guidelines on Investment Banks.~~
- ~~(3) The board of directors of the Participating Organisation, or in the case of an Investment Bank, the relevant person(s), body and/or committee to whom the Head of Compliance reports in accordance with the requirements of the Guidelines on Investment Banks must deliberate on the written reports referred to in the Rule 309.8(2) or Rule 309.8(2A), as the case may be, at its proper meeting so that appropriate actions or decisions can be taken. Proper records of such deliberations must be maintained.~~
- ~~(4) The written reports referred to in Rule 309.8(2) or Rule 309.8(2A) in the case of an Investment Bank shall be submitted to the Exchange on a monthly basis, not later than the last day of the following month or such other period as may be prescribed by the Exchange from time to time, in regard to all matters pertaining to compliance of the Participating Organisation.~~
- ~~(5) Where the compliance functions are undertaken at Group level, the reporting envisaged under Rule 309.8(2) shall be undertaken by the Head Group Compliance.~~

**Comment [B226]:** This will now be an obligation on the HOC and HGC. Please see the respective rules.

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~~RULE 309.9 — PERFORMANCE OF COMPLIANCE OFFICER~~

~~(1) — [Deleted]~~

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**RULE 310 DEALER'S REPRESENTATIVES**

**RULE 310.1 DEFINITION**

~~(1) For the purposes of this Rule—~~

~~Dealer's Representative shall not include a Dealer's Representative who is a Head of Dealing of a Participating Organisation.~~

**Comment [B227]:** Since a person is required to be registered under all categories applicable to him, this rule excluding the application of this rule to Heads of Dealing can be done away with. Besides, the requirements on continuing obligations, remuneration, transfer etc. should apply equally to Heads of Dealing.

To clarify, the transfer fee payable for the transfer of a HOD would depend on whether the HOD is paid on a salaried basis or on a commissioned basis.

**RULE 310.1 Categories**

~~(1) The categories of Dealer's Representatives are:~~

- ~~(a) Commissioned Dealer's Representatives;~~
- ~~(b) Salaried Dealer's Representatives; and~~
- ~~(c) Proprietary Day Traders.~~

**Comment [B228]:** To set out clearly the categories of DRs under these Rules. To note that the PO Manual requires a PO to specify in the relevant registration forms the category of DR the registration is in respect of.

**Comment [B229]:** Incorporating the requirement to register Proprietary Day Traders (currently in R/R 17 of 2006) into these Rules. As such, paragraph 6 of R/R 17 of 2006 can be revoked.

To clarify, PDTs are a category of DRs.

**RULE 310.2 EMPLOYMENT OR ENGAGEMENT OF DEALER'S REPRESENTATIVE Requirement**

~~(1) **Registration:** A No-Participating Organisation must register the Participating Organisation's Dealer's Representatives with the Exchange shall employ or engage a Dealer's Representative unless the Dealer's Representative is registered with the Exchange.~~

~~(2) The registration of a Proprietary Day Trader is a privilege extended to a Participating Organisation and the Proprietary Day Trader. As such, the Exchange may reject an application for registration of a Proprietary Day Trader without assigning any reasons for the rejection. Once registered, the Exchange may de-register or suspend a Proprietary Day Trade automatically at any time without assigning any reasons and subject to such terms and conditions the Exchange determines. Rule 302.3 does not apply to a rejection of an application for registration of a Proprietary Day Trader.~~

**Comment [B230]:** To make it clear that the Exchange has the right to reject an application for registration of a PDT without assigning any reasons for the rejection. Previously, this was in para 6.6 of R/R 17 of 2006.

~~(3) **Failure to register:** The employment or engagement by any Participating Organisation of a Dealer's Representative who has not been registered with the Exchange shall be considered as a serious offence and a violation of these Rules.~~

**Comment [B231]:** Unnecessary to state whether a particular breach of these Rules will be considered a serious offence and a violation of these Rules. A breach of any of these Rules will be dealt with under Chapter 15 of these Rules.

~~(4) **Time for registration:** Any Dealer's Representative employed or engaged by a Participating Organisation shall be registered with the Exchange within fourteen (14) days from the date of issuance of his dealer's representative's licence by the Commission.~~

**Comment [B232]:** Covered under Rule 302.2(1).

~~(5) **Remuneration:** The remuneration of a Salaried Dealer's Representative who is employed by a Participating Organisation in whatever capacity shall be determined by the Participating Organisation.~~

**Comment [B233]:** Moved to the rule on remuneration in Rule 310.6.

~~(6) **Commission:** The commission of a Commissioned Dealer's Representative shall be fully negotiable between the Participating Organisation and him.~~

**Comment [B234]:** Moved to the rule on remuneration in Rule 310.6.

~~(7) **No sharing of commission with others:** A Dealer's Representative who, in any circumstances either directly or indirectly, divides or shares his remuneration or commission, as the case may be, with any person other than his Participating Organisation and/or any other Dealer's Representative employed or engaged by the first-mentioned Dealer's Representative's Participating Organisation shall forthwith be struck off the Register by the Committee.~~

**Comment [B235]:** Moved to the rule on remuneration in Rule 310.6.

~~(8) **Participating Organisation to report any breach:** A Participating Organisation which is aware or ought to be aware of a breach of the foregoing Rule shall report to the Exchange~~

**Comment [B236]:** Deleted in view of the liberalization of the sharing structure.

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immediately and failure to do so shall render such Participating Organisation liable to an appropriate disciplinary action as envisaged in these Rules.

~~(8) **Standard Remisier's Agreement:** All Participating Organisations and their Commissioned Dealer's Representatives shall enter into a Standard Remisier's Agreement, in such format and upon such terms and conditions, as approved or prescribed by the Exchange. The Standard Remisier's Agreement may be modified, varied and/or updated from time to time by the Exchange upon approval of the Commission.~~

**Comment [B237]:** The key obligation of the DR contained in the Standard Remisier's Agreement ("SRA") has been incorporated into Rule 310.4(1). Key obligations of the PO contained in the SRA have been incorporated under Rule 310.7.

~~(9) **Notice of cessation:** A Participating Organisation shall, upon ceasing to employ or engage a Dealer's Representative, forthwith give notice of such cessation to the Exchange and extend a copy of the same to the Commission within fourteen (14) days after such cessation, whereupon the Dealer's Representative shall be removed from the Register of Dealer's Representatives.~~

**Comment [B238]:** Covered under Rule 302.6.

~~(10) **System to ensure compliance:** A Participating Organisation shall establish and maintain an adequate system to supervise the activities of all its Dealer's Representatives that is developed to achieve compliance with the relevant provisions of these Rules applicable to Dealer's Representatives.~~

**Comment [B239]:** Covered under Rule 501.3(1) and the directives elaborating the principle in this rule.

~~(11) **Payment of fees:** A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.~~

**Comment [B240]:** Covered under Rule 302.12.

~~(12) **Redesignation:** A Participating Organisation shall notify the Exchange of any redesignation of a Dealer's Representative from Commissioned to Salaried or vice versa within fourteen (14) days from the effective date of such redesignation.~~

**Comment [B241]:** Moved to Rule 310.9(1) below.

#### **RULE 310.3 REGISTRATION OF DEALER'S REPRESENTATIVE** Qualification criteria

~~(1) **Qualification:** A Dealer's Representative appointed by a Participating Organisation must fulfil the following requirements: No person shall be registered as a Dealer's Representative by the Exchange unless such person holds a valid~~

**Comment [B242]:** Amended to allow POs to appoint the DR first and then apply to us for registration of the DR.

~~(a) holds a Capital Markets Services Representative's Licence for Dealing in Securities dealer's representative's licence and has satisfied or will satisfy upon registration with the Exchange, the terms and conditions of, or imposed by the Commission related to, such approval; and~~

**Comment [B243]:** The nature of the conditions in Chapter 7 of SC's Licensing Handbook are more continuing obligations and it may not be possible to satisfy all these conditions upon registration with the Exchange.

~~(b) registered with the Exchange as a Dealer's Representative based on the categories in Rule 310.1(1).~~

~~(2) In addition to the requirements in Rule 310.3(1), a Proprietary Day Trader appointed by a Participating Organisation must also not hold a Capital Markets Services Representative's Licence for Trading in Futures Contracts.~~

**Comment [B244]:** Setting out the additional requirement for a PDT. The prohibition on PDTs to hold a futures broker's representative license is taken from para 6.2 of R/R 17 of 2006.

~~(2) **Registration procedures:** A Participating Organisation, in respect of the registration of a Dealer's Representative pursuant to this Rule 307, shall complete and submit to the Exchange the form prescribed in Appendix 1D and which shall be accompanied by –~~

**Comment [B245]:** Covered under Rule 302.2(1). The detailed application procedures are spelt out in the PO Manual.

~~(a) — certified true copy of a valid dealer's representative's licence;~~

~~(b) — a statutory declaration by such person as to the veracity of all information provided in the form prescribed in Appendix 2B; and~~

~~(c) — an undertaking to the Exchange in the form prescribed in Appendix 3B.~~

~~(4) **Additional documents:** The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.~~

**Comment [B246]:** Covered under the general requirement in Rule 201.1(2) that the Exchange can request for additional documents the Exchange thinks fit.



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~~(5) Payment of fees: A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.~~

Comment [B247]: Covered under Rule 302.12.

**RULE 310.4 CONTINUING OBLIGATIONS OF A DEALER'S REPRESENTATIVE Obligations**

(1) ~~Without Throughout the term of a Dealer's Representative's registration with the Exchange, the Dealer's Representative; prejudice to any provisions of these Rules from time to time in force, the following conditions shall, at all times throughout the term of his registration, apply to a Dealer's Representative –~~

- (a) ~~must continue to satisfy the qualification criteria the Dealer's Representative shall prior to and after being registered with the Exchange comply with the qualifications prescribed above;~~
- (b) ~~no person shall be registered as a Dealer's Representative to more than~~ must act for only one (1) Participating Organisation;
- (c) ~~a Dealer's Representative shall~~ must be employed or engaged on a full-time basis by a Participating Organisation;
- (d) must only operate as a Dealer's Representative from a place approved by the Commission;

~~(d) notwithstanding the foregoing Rule, a Dealer's Representative may act as a futures broker's representative in accordance with a futures broker's representative's licence issued to him provided that the Participating Organisation and the futures broker of which the Dealer's Representative is a representative have in place an arrangement satisfactory to the Exchange for the proper supervision of the Dealer's Representative's activities;~~

Comment [B248]: Moved to the rule on scope of activities on DRs in Rule 310.5 as this requirement is not so much a continuing obligation but rather an exclusion to the rule requiring a DR to be employed or engaged on a full-time basis by a PO.

~~(e) a Dealer's Representative shall from time to time undertake activities or undergo programmes as shall be prescribed by the Exchange for the purpose of ensuring continuous improvement in the quality and standard of services rendered by Dealer's Representatives generally;~~

Comment [B249]: Unnecessary as we have the general power to direct DRs to do so under Chapter 2.

~~(e) must be of good character and act faithfully for and on behalf of the Participating Organisation in all the Dealer's Representative's dealings;~~

Comment [B250]: Incorporated from the SRA.

~~(f) a Dealer's Representative shall not –~~

~~(f) must not accept payment from Clients or hold any Client's assets in the Dealer's Representative's name and must ensure that Clients make payments and lodgement of assets directly to the Participating Organisation;~~

Comment [B251]: Incorporating the principle in paragraph 5.1.7 of the Standard Remisier's Agreement that payments by Clients should be made directly to the Participating Organisation.

~~(g) must not engage in or hold any interest be engaged or participate in any other business activity that might potentially conflict with being a Dealer's Representative. Before engaging in or holding interest in another business that does not potentially conflict with being a Dealer's Representative, the Dealer's Representative must first get the Dealer's Representative's Participating Organisation's permission. save and except for the business activities which –~~

Comment [B252]: Liberalising the current prohibition on DRs from holding shares in or being a director of a company or corporation. Now, a DR may do so if the DR's PO consents and it is clear that there is no conflict with the DR's role as a DR in the PO.

~~(aa) are permitted to be carried out by the Participating Organisation by or with whom he is employed or engaged under these Rules;~~

~~(bb) the Dealer's Representative has been duly authorised to carry out by such Participating Organisation on its behalf; and~~

~~(cc) are expressly permitted to be carried out pursuant to his dealer's representative's licence issued by the Commission;~~

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In this Rule, “engaging in any business” includes being a director of or a debenture holder in any entity.

~~(ii) be a director of or a shareholder or debenture holder in –~~

~~(aa) any company which is formed for the purpose of dealing in shares or other securities or is otherwise engaged in the business of dealing in securities;~~

~~(bb) any company which in the conduct of its business makes use of share hawking or other methods discountenanced by the Exchange for the sale, disposal, purchase, exchange or acquisition of securities, or which as a broker or share dealer in the opinion of the Exchange, advertises securities for sale or purchase;~~

~~(iii) have any interest in –~~

~~(aa) any company which is formed for the purpose of transacting shares or other securities or is otherwise engaged in dealing in securities other than the Participating Organisation which he is appointed to, engaged by or employed with;~~

~~(bb) any company which in the conduct of its business makes use of share hawking or other methods discountenanced by the Exchange for the sale, disposal, purchase, exchange or acquisition of securities, or which as a broker or share dealer, in the opinion of the Exchange, advertises securities for sale or purchase; and~~

~~(iv) transact any business or deal with any person, or company described in subparagraphs (ii)(bb) or (iii)(bb) of this Rule; and~~

~~(h(v)) perform his duties as a Dealer’s Representative or carry out the business activities of the Participating Organisation by or with whom he is employed or engaged must not operate as a Dealer’s Representative from in a particular premises or at a particular location on a continuous basis so as to be construed as carrying out on a business of dealing in securities in that premises or at that location unless that premises or location has been approved by the Exchange to be a principal office, branch office or EAF under these Rules location is approved by the Exchange or the Commission as a place from where the Dealer’s Representative’s Participating Organisation may carry on the Participating Organisation’s business;~~

~~(i) if the Dealer’s Representative trades on Client’s behalf, A Dealer’s Representative must properly verify the identity of the applicant and the information provided in the applicant’s account opening application form. A Dealer’s Representative is shall be held liable for any losses loss arising from his the Dealer’s Representative breach of Rule 404.4(6)(a) failing to properly verify the identity of the applicant and the information provided in the applicant’s account opening application form;~~

~~(j) if the Dealer’s Representative is a Proprietary Day Trader, must only operate the Day Trading Activities Account and no other account; and and must comply with such other requirements relating to Day Trading the Exchange stipulates.~~

~~(k) must not undertake trading for the Participating Organisation’s Client if the Dealer’s Representative undertakes proprietary trading for the Participating Organisation and vice versa.~~

**Comment [B253]:** Covered under Rule 310.4(1)(g) above because being a director of or a debenture holder in such companies would amount to engaging in business that may potentially conflict with being a DR.

**Comment [B254]:** Covered under Rule 310.4(1)(g) above because being a director of or a debenture holder in such companies would amount to engaging in business that may potentially conflict with being a DR.

**Comment [B255]:** Covered under the general rule requiring all Registered Person(s) to observe professional conduct, high standards of integrity and fair dealing in Rule 302.5(1).

**Comment [B256]:** Previously, Rule 404.4(6)(a).

**Comment [B257]:** Incorporating paras 6.7(b) and (c) of R/R 17 of 2006 on Day Trading here.

**Comment [B258]:** This obligation is imposed on the DR as well and not just the PO.

**Comment [B259]:** New rule to set out clearly the scope of a DR’s activities as a DR.

### 310.5 Scope of activities

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(1) A Dealer's Representative must comply with the restrictions set out in Schedule 1 in respect of the scope of a Dealer's Representative's activities:

**310.6 Remuneration**

~~(41) **Remuneration:** The remuneration of a Salaried Dealer's Representative who is employed by a Participating Organisation in whatever capacity shall be determined by the Participating Organisation. A Participating Organisation may fully negotiate with a Dealer's Representative or Proprietary Day Trader on the remuneration to be paid. However a Participating Organisation is prohibited from paying commission to a Salaried Dealer's Representative.~~

~~(52) **Commission:** The commission of a Commissioned Dealer's Representative shall be fully negotiable between the Participating Organisation and him.~~

~~(62) **No sharing of commission with others:** A Commissioned Dealer's Representative and Proprietary Day Trader must not who, in any circumstances either directly or indirectly, divides or shares his the remuneration or commission paid, as the case may be, with any person other than his with the Commissioned Dealer's Representative's or Proprietary Day Trader's Participating Organisation and/or any of the Participating Organisation's other Dealer's Representatives employed or engaged by mentioned Dealer's Representative's Participating Organisation shall forthwith be struck off the Register by the Committee.~~

**Comment [B260]:** Amended to set out the following principles in relation to remuneration of DRs:  
(1) POs may determine the remuneration of SDRs but must not pay the SDR any form of commission;  
(2) CDRs must be paid commission at least 40% of the commission charged to Client;  
(3) a PDT's remuneration is as agreed between the PO and PDT; and  
(4) CDRs and PDTs must not share their remuneration with any person other than the PO or any of the PO's other DRs.

**Comment [B261]:** Previously, Rule 310.2(4) and 310.2(5).

**Comment [B262]:** Previously, Rule 310.2(5) which is now deleted and consolidated under Rule 310.6(1).

**Comment [B263]:** Previously, Rule 310.2(6).

**Comment [B264]:** We are proposing that a DR in breach of this rule be subject to normal disciplinary proceedings instead of being subject to the possibility of being immediate struck off the Register.

**310.7 Segregation of assets**

(1) A Participating Organisation must segregate and safeguard the DR Security Deposit from:

(a) the Participating Organisation's assets and securities; and

(b) other securities the Participating Organisation holds on behalf of the Participating Organisation's Clients.

(2) A Participating Organisation must place all cash DR Security Deposits the Participating Organisation receives in a trust account maintained with a Licensed Institution.

**Comment [B265]:** See new definition of "DR Security Deposit" in Rule 101.1(1).

**Comment [B266]:** See new definition of "Licensed Institution" in Rule 101.1(1).

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**310.8 Movement of Dealer's Representative**

(1) A Participating Organisation must notify the Exchange in writing of any transfer of any Dealer's Representative within the different offices of the Participating Organisation.

**Comment [B267]:** This is to ensure that the Exchange is kept informed on the movements of DRs within the PO.

**310.9 Re-designation**

(1) A Participating Organisation shall must notify the Exchange of a Commissioned Dealer's Representative's any re-designation of a Dealer's Representative from Commissioned to a Salaried Dealer's Representative or vice versa within fourteen (14) days from the effective date of such the re-designation.

**Comment [B268]:** Previously, Rule 310.2(12).

(2) A Participating Organisation must apply to the Exchange in the manner the Exchange specifies for a Commissioned Dealer's Representative or a Salaried Dealer's Representative re-designation to a Proprietary Day Trader.

**Comment [B269]:** The application procedures will be set out in a directive.

(3) A Participating Organisation must notify the Exchange of a Proprietary Day Trader's re-designation to either a Commissioned Dealer's Representative or Salaried Dealer's Representative at least 3 days prior to the effective date of the re-designation. The Exchange may disallow the re-designation on the grounds specified in Rule 302.2(3).

**Comment [B270]:** Incorporating para 6.9 of R/R 17 of 2006 into the Rules. To note that an existing CDR or SDR of a PO that intends to become a PDT has to make a fresh application to be registered as a PDT and it will not be the case of that CDR or SDR being re-designation to a PDT position.

**RULE 310.510 TRANSFER OF DEALER'S REPRESENTATIVES** ~~Transfer~~

(1) **Application:** Any Participating Organisation desirous of employing or engaging as the Participating Organisation's a registered Dealer's Representative, a Dealer's Representative: -

(a) who is ~~currently~~ employed or engaged by another Participating Organisation; or

(b) ~~who currently has a binding agreement with another Participating Organisation; or~~

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

(i) ~~has resigned from or whose employment has been terminated by another Participating Organisation not more than six (6) months prior to the intended date of employment or engagement or such other period as determined by the Exchange; or~~

(ii) ~~is being terminated by another Participating Organisation;~~

**Comment [B271]:** Covered by the amended wording of Rule 310.10(1)(b) above.

shall must apply to the Exchange for approval to transfer the registration of the Dealer's Representative to the Participating Organisation ~~therefor and be required to comply with the requirements appearing hereinafter.~~

(2) **Requirements:** (a) To obtain approval to transfer the registration of a Dealer's Representative, A Participating Organisation shall must:

(a) apply to the Exchange in the manner the Exchange stipulates;

(b) pay the transfer fee the Exchange stipulates; and

(c) submit a letter of release from the Participating Organisation that the Dealer's Representative is or was employed or engaged with.

~~submit to the Exchange a written application in such form as may be prescribed by the Exchange from time to time and which shall be accompanied by -~~

(i) ~~a letter of release from the Participating Organisation with whom the transferring Dealer's Representative is presently employed or engaged;~~

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~~(ii) certified true copy of a valid dealer's representative's licence issued to the transferring Dealer's Representative; and~~

~~(iii) payment of the transfer fee in the amount prescribed in Schedule 3 or such amount to be determined by the Exchange.~~

~~(3) A Participating Organisation must give a letter of release to a Dealer's Representative who requests for such letter within 14 days from the date of the request unless the Dealer's Representative:~~

~~(a) is in material breach of any of these Rules or the Directives; or~~

~~(b) has debt(s) owing to the Participating Organisation.~~

~~If there is a dispute on whether a particular breach constitutes a material breach of these Rules or the Directives, the Exchange will decide on such dispute. The Exchange's decision on the matter is final and binding.~~

~~(3) Processing: Such application shall be processed by the Exchange and the procedures for such application and processing shall be determined by the Exchange from time to time.~~

~~(4) Transfer fee:~~

~~(a) Any transfer of a Dealer's Representative pursuant to this Rule shall be registered subject to a payment to the Exchange of a transfer fee as prescribed in Schedule 3.~~

~~(b) A Dealer's Representative intending to transfer to another Participating Organisation within six (6) months of the re-designation of his status from a Salaried Dealer's Representative to a Commissioned Dealer's Representative shall be subject to the transfer fee of a Salaried Dealer's Representative.~~

~~(c) Unless otherwise agreed by the Dealer's Representative and the Participating Organisation desirous of employing or engaging the Dealer's Representative, the transfer fee shall be payable to the Exchange by the Participating Organisation to which the Dealer's Representative is applying for a transfer.~~

[The rest of this page is intentionally left blank]

Comment [B272]: Moved to the PO Manual that sets out the application process for a transfer of a DR.

Comment [B273]: Placing an obligation on a PO to give the letter of release within 14 days unless the DR is in material breach of these Rules or Directives or owed the PO money. This is to avoid delays by POs in issuing the relevant letters of release.

Comment [B274]: As we do not have a similar rule for the other applications to the Exchange, in line with standardising these rules, we have deleted this rule.

Comment [B275]: Covered under Rule 310.10(2)(b).

Comment [B276]: Moved to the PO Manual.

Comment [B277]: Covered in Rule 310.10(2)(b).

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~~RULE 311 – TRADING CLERK~~

**Comment [B278]:** Deleted from this chapter on registration as we are doing away with the requirement to register trading clerks. Obligations vis-à-vis a trading clerk will be included in Chapter 5.

~~RULE 311.1 – APPOINTMENT OF TRADING CLERK~~

~~(1) – Registration:~~

- ~~(a) – No Participating Organisation or Commissioned Dealer's Representative (who for the purposes herein shall be referred to as the trading clerk's principal) shall appoint any person to perform the duties of a trading clerk as envisaged in this Rules unless the trading clerk is registered with the Exchange.~~
- ~~(b) – For the purposes herein, a trading clerk is a person who is appointed by a Participating Organisation or Commissioned Dealer's Representative in the capacity of a clerk to carry out such functions to be ordinarily performed by clerks as envisaged within the ambit of permitted activities of a Dealer's Representative under the Capital Markets and Services Act. Trading clerks in the said context would include persons generally known as a Participating Organisation's central buyer or a Commissioned Dealer's Representative's assistant provided that such persons only carry out clerical functions for their principal.~~

~~(2) – Notice of cessation: – The Participating Organisation or the Commissioned Dealer's Representative, where applicable, shall require the trading clerk to give advance notice to his principal of his intention to resign from his appointment. If his principal is a Commissioned Dealer's Representative, the trading clerk shall also give a copy of the said notice to the Participating Organisation where he is a trading clerk. A Participating Organisation shall, upon ceasing to employ a trading clerk, forthwith give notice of such cessation to the Exchange within fourteen (14) days after such cessation whereupon the trading clerk shall be removed from the Register of trading clerks.~~

~~(3) – Payment of fees: – A Participating Organisation and where applicable, the Commissioned Dealer's Representatives shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.~~

~~RULE 311.2 – REGISTRATION OF TRADING CLERK~~

~~(1) – Registration procedures: – Any Participating Organisation or Commissioned Dealer's Representative desiring of appointing a trading clerk shall complete and submit to the Exchange such form as the Exchange may from time to time prescribe and which shall be accompanied by –~~

- ~~(a) – certified true copy(ies) of the trading clerk's letter of appointment;~~
- ~~(b) – payment of a non-refundable application fee prescribed by the Exchange; and~~
- ~~(c) – an undertaking by the Participating Organisation to the Exchange in the form prescribed in Appendix 3C.~~

~~(2) – Additional documents: – The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.~~

~~RULE 311.3 – CONTINUING OBLIGATIONS RELATING TO TRADING CLERK~~

~~(1) – Without prejudice to any provisions of these Rules from time to time in force, the following conditions shall, at all times throughout the term of the registration of a trading clerk, apply –~~

### Chapter 3 – Participating Organisations and Registered Persons

- ~~(a) — the Participating Organisation and/or the Commissioned Dealer's Representative has/have taken all adequate steps to ensure that the trading clerk is of good character and integrity and that he will carry out his duties efficiently, honestly and fairly;~~
- ~~(b) — the Participating Organisation shall be liable to honour all actions, contracts and obligations entered into by a trading clerk appointed by it or a trading clerk appointed by a Commissioned Dealer's Representative engaged by it to whom the Participating Organisation is the principal;~~
- ~~(c) — the Participating Organisation and/or Commissioned Dealer's Representative shall ensure that the trading clerk shall not in whatsoever form represent himself or carry out the functions of a Dealer's Representative, which shall include but not limited to:
  - ~~(i) — receiving and/or accepting orders from the clients or public whether by telephone, direct contact or in writing;~~
  - ~~(ii) — giving investment advice to clients or public whether by telephone, direct contact or in writing; and~~
  - ~~(iii) — persuading, inducing or attempting to induce clients or public to buy or sell securities or recommending securities to clients or public whether by telephone, direct contact or in writing; and~~~~
- ~~(d) — the Participating Organisation and/or Commissioned Dealer's Representative shall ensure that the trading clerk is limited to carry out such activities as shall be prescribed by the Exchange hereunder or from time to time —
  - ~~(i) — recording of order(s) of clients or public for the purchase or sale of securities as instructed by the principal after such order(s) have been accepted by the principal Provided all order(s) shall be made through and accepted by the principal;~~
  - ~~(ii) — input order(s) into the ATS on behalf of his principal;~~
  - ~~(iii) — preparing relevant documentation after execution of the order(s) as may be required by the Participating Organisation; and~~
  - ~~(iv) — clerical duties of his principal.~~~~
- ~~(2) — A Participating Organisation shall keep a record of each trading clerk, which shall include without limitation the following—
  - ~~(a) — full personal particulars;~~
  - ~~(b) — letter of appointment; and~~
  - ~~(c) — copies of correspondence between the Participating Organisation or Commissioned Dealer's Representative and the trading clerk.~~~~

#### **RULE 311.4 — RESPONSIBILITY OF PARTICIPATING ORGANISATION**

- ~~(1) — Any violation of these Rules by a trading clerk shall be deemed the responsibility of the Participating Organisation which shall be liable and be dealt with in accordance with Chapter 43.~~

**RULE 312 — KEY APPOINTMENTS**

**RULE 312.1 — [Deleted]**

(1) — [Deleted]

(2) — [Deleted]

(3) — [Deleted]

(4) — [Deleted]

**RULE 313 — CORPORATE FINANCE EXECUTIVES**

[Deleted]

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**RULE 311 PROTECTION OF PUBLIC, CLIENT AND EXCHANGE'S INTEREST**

**311.1 Powers of the Exchange**

- (1) The Exchange may automatically take such action the Exchange thinks fit against a Participating Organisation or Registered Person to protect the interests of Clients, the public or the Exchange if the Exchange is of the opinion that:
- (a) the manner in which the Participating Organisation or Registered Person conducts the Participating Organisation's business is detrimental to Clients, the public or the Exchange;
  - (b) the Participating Organisation or Registered Person has committed an act or omission that is detrimental to Clients, the public or the Exchange;
  - (c) the financial position or reputation of the Participating Organisation or Registered Person has a detrimental effect on Clients, the public or the Exchange.

**Comment [B279]:** Setting out the principle that the Exchange may take action against a PO to protect the interest of the Clients, the public or the Exchange in the circumstances mentioned in this rule. The specific circumstances of when we can take action under this Rule and our powers will be in the PO Manual and this includes: the Exchange's powers under previous Rule 302.4.

[End of Chapter]

The Exchange is proposing for all POs and not just Investment Banks ("IB") and Universal Brokers ("UB"), to each have a Head of Compliance. This is to ensure parity in the requirements imposed on all POs and a clear accountability of the person responsible for compliance matters within the PO. Currently, a PO who is not an IB or UB are required to appoint COs to undertake compliance function within the PO. A PO currently may also appoint more than one CO and in this further blurs the line of accountability. Having just the Head of Compliance responsible, for compliance matters ensures that proper focus and supervision of compliance function is carried out in addition to accountability of the function. The experience requirement for Head of Compliance is proposed as follows:

- (a) Head of Compliance for Investment Banks and Universal Brokers- must have a recognised degree with at least 3 years of direct experience as a compliance officer in the capital market ("CM") or recognised degree and at least 5 years relevant experience in the CM or recognised diploma and at least 8 years relevant in the CM; and
- (b) Head of Compliance for non Investment Banks to be Universal Brokers – must have a recognised degree with 3 years relevant experience in the CM or a recognised diploma and 5 years relevant experience in the CM.

With the proposal for all POs to have Head of Compliance, the requirement to appoint and register compliance officers ("CO") with the Exchange is proposed to be removed. As stated earlier having both the Head of Compliance and the CO appointed and registered with the Exchange blurs the line of accountability between the Head of Compliance and the CO. It is sufficient to mandate the appointment and registration of the Head of Compliance as the person who is accountable for matters relating to compliance. With this proposal all provisions in the current rules on compliance officers are proposed to be deleted.

This is new rule. Under the previous Rule 304.2 which is applicable to all heads, a head is not allowed to engage in any other business activities. We have removed Rule 304.2 and inserted a new rule for each head respectively that the prohibition is only applicable in relation to engagement that could potentially result in a conflict of interest. If the engagement does not conflict with the discharge of the head of dealing function, the head of dealing can continue with the engagement if the PO approves of such an engagement. The PO's approval is still required so that the PO can make an assessment on whether the other engagement can potentially compromise on the effective discharge of the functions of the head with the PO.

CHAPTER 43A MARKET MAKERS

RULE 301A – GENERAL

**RULE 301A.1 – DEFINITION**

<del>Authorised SBL Participant</del>	<del>shall have the same meaning as is assigned to that expression in 704.1(1).</del>
<del>constituent securities</del>	<del>means any of the securities admitted on the Official List which forms the basket or part of the basket of securities required for the creation of an ETF unit and/or underlying an ETF unit.</del>
<del>Internal guidelines for permitted short selling</del>	<del>means written guidelines formulated by Market Maker setting out the Market Maker's internal policies, procedures, controls and requirements in relation to permitted short selling activities to ensure strict compliance with laws and these Rules including any regulations, directives, guidelines and rulings issued thereunder in relation to permitted short selling.</del>
<del>Market Maker</del>	<del>means a person who performs market making.</del>
<del>market making</del>	<del>Unless the context otherwise requires, refers to the act of entering bid and offer prices in the ATS for a Specified Security based on the requirements stipulated by the Exchange in Rule 303A.1(1).</del>
<del>permitted short selling</del>	<del>means the short selling of units of an ETF and/or constituent securities pursuant to the Capital Markets Services (Non-Application of Subsection 98(1))(Exchange Traded Funds) Order 2009.</del>
<del>Specified Security</del>	<del>The security specified by the Exchange as available for market making.</del>

Comment [B1]: The Definition section is moved to and incorporated into Chapter 1 in line with the consolidation of the definitions in various chapters to Chapter 1

## RULE 43021A REGISTRATION OF MARKET MAKERS

RULE 43021A.1 ~~QUALIFICATION CRITERIA~~ Qualification Criteria

- (1) An applicant who intends to apply to be a Market Maker for a Specified Security must fulfil any one of the following requirements:
- (a) A Participating Organisation;
- (b) A licensed bank or licensed merchant bank as defined in the Banking and Financial Institutions Act 1989;
- (c) A ~~f~~Related company Corporation of (a) or (b) above, incorporated under Companies Act 1965 and it fulfils the following:
- (i) has a minimum paid up capital of RM 2 million; and
- (ii) has at least 2 personnel with at least 5 years experience in the following:
- (aa) trading in securities as a Dealer's Representative or trading in futures contracts as a ~~f~~Futures ~~b~~Broker's ~~r~~Representative;
- (bb) trading in treasury related instruments of a financial institution;
- (cc) trading in securities as a dealer on a ~~r~~Recognised ~~s~~Stock ~~e~~Exchange; or
- (dd) trading in futures contracts as a dealer on a Specified Exchange as defined in ~~the business rules of the exchange company~~ Futures Exchange Business Rules;
- (d) A foreign securities broker or foreign derivatives broker in a jurisdiction where the broker is regulated by a regulator who is a signatory to the International Organisation of Securities Commissions Multilateral Memorandum of Understanding ("IOSCO MMOU") or the Declaration on Cooperation and Supervision of International Futures Markets and Clearing Organisations ("BOCA Declaration") respectively ("Foreign Broker") and it fulfils the following:
- (i) has a minimum paid up capital of equivalent RM 2 million; and
- (ii) has the following:
- (aa) it has at least 3 years market making experience; or
- (bb) it has at least 2 personnel with at least 3 years experience in market making experience and it is related to a company who is also a Foreign Broker which has at least 3 years market making experience; or
- (e) A ~~f~~Related company Corporation of (d) above, incorporated under the Companies Act 1965 and it fulfils the following:
- (i) has a minimum paid up capital of RM 2 million;
- (ii) has at least 2 personnel with at least 3 years' experience in market making; and
- (iii) the Foreign Broker which is its ~~f~~Related company Corporation has at least 3 years experience in market making.
- (2) In addition to the requirements in Rule 43021A.1(1) an applicant as a Market Maker must also fulfil the following requirements:

**Comment [B2]:** Amended as the terminology used in the rule is a 'Related Corporation'

**Comment [B3]:** Consistent with the new terminology used in the Rules.

**Comment [B4]:** Amended as the terminology used in the rule is a 'Related Corporation'

**Comment [B5]:** Consistent with the new terminology used in the Rules.

- (a) have in place facilities and personnel adequate for the expeditious and orderly carrying out of its business of market making; and
- (b) have in place ~~proper~~ supervisory programme and a system of internal controls ~~to ensure the following in respect of:~~
  - (i) ~~proper conduct of the~~ business of market making;
  - (ii) ~~proper~~ undertaking of risk management; and
  - (iii) ~~proper~~ management of conflict of interest; and
  - (iv) compliance with these Rules.

Comment [B6]: Amended for simplification and clarity of language

**RULE 34021A.2 APPLICATION PROCEDURE** Application Procedure

- (1) An applicant is required to apply as a Market Maker in respect of each Specified Security that the applicant intends to do ~~m~~Market ~~m~~Market Making for.
- (2) The applicant must comply with application procedure and submit the relevant information and documents as determined by the Exchange.
- (3) ~~The Exchange has the discretion to reject an application to register as a Market Maker in circumstances the Exchange deems fit.~~ Even if the applicant has satisfied all of the qualification criteria set out in Rule 34021A.1 the Exchange has the discretion to reject an application to register as a Market Maker in circumstances the Exchange deems fit. ~~The decision of the Exchange in rejecting is final.~~
- (4) An applicant will be notified in writing of the Exchange's decision of its application.

Comment [B7]: Amended to small capital letters.

Comment [B8]: Amended for simplification of the language..

Comment [B9]: Deleted as this is already covered under Rule 201.5

**RULE 43021A.3 CONTINUING OBLIGATIONS** Continuing Obligations

- (1) The following conditions shall apply to a Market Maker at all times throughout the term of its registration–
  - (a) the Market Maker must comply with the qualification criteria stated under Rule 43021A.1;
  - (b) the Market Maker must notify the Exchange immediately of the following, in writing:
    - (i) any change that will disqualify them as a Market Maker based on Rule 34021A.1;
    - (ii) any change in the place of business of the Market Maker; and
    - (iii) change in name of the Market Maker.
  - (c) the Market Maker ~~must~~ comply with and give effect to these Rules and ~~e~~Directives and the spirit of these Rules and Directives whether or not the provisions are directed at the that are applicable to Market Maker specifically.

Comment [B10]: The amendments are for purpose of ensuring that Market Maker abides by the spirit of these Rules and provisions that may couched as statement of facts and hence not directed at the Market Maker for example the trading functionalities in the Rules.

**RULE 34032A OBLIGATIONS OF A MARKET MAKER****RULE 34032A.1 BID AND OFFER PRICES** Bid and Offer Prices

- (1) A Market Maker for a Specified Security must enter bid and offer prices into the order book in the ATS for the purpose of buying and selling of the Specified Security as follows:
- with a minimum presence as stipulated by the Exchange;
  - within the maximum spread allowed by the Exchange; and
  - must not be less than the minimum quantity allowed by the Exchange.
- (2) A Market Maker is exempted from entering bid and offer prices as required under Rule 34032A.1(1) in circumstances deemed fit or allowed by the Exchange.

**RULE 34032A.2 DESIGNATED TRADING ACCOUNT AND DESIGNATED CDS ACCOUNT** Designated Trading Account and Designated Securities Account

- (1) A Market Maker must undertake all ~~mMarket mMaking~~ activities through trading accounts and ~~CDS Securities~~ Accounts designated specifically for ~~mMarket mMaking~~ activities based on the terms stipulated by the Exchange.

**RULE 34032A.3 CONDUCT BY A MARKET MAKER** Conduct by Market Maker

- (1) A Market Maker can only carry out its ~~mMarket mMaking~~ activities for its proprietary position and not for ~~client~~ Clients or its ~~rRelated~~ companies Corporations.
- (2) A Market Maker is allowed to carry out ~~pPermitted~~ sShortselling as stipulated under Rule 34054A in the course of fulfilling its obligations under Rule 34032A.1(1).
- (3) If a Market Maker is not a Participating Organisation, ~~it~~ the Market Maker must enter the bid and offer prices into order book in the ATS through a Participating Organisation.
- (4) A Market Maker is required to notify the Exchange immediately if ~~it~~ the Market Maker is unable to fulfil ~~its~~ the Market Maker's ~~mMarket mMaking~~ obligations for any reason whatsoever and thereafter when ~~its~~ the Market Market is able to resume ~~its~~ the Market Maker's obligations under Rule 34032A.1(1).
- (5) A Market Maker must avoid any act or practice which ~~might~~ is likely to:
- lead to a false or misleading appearance of active trading in any ~~sSecurities~~ on the stock market of the Exchange or a false or misleading appearance with respect to the market for, or the price of, any such ~~sSecurities~~; or
  - directly or indirectly be tantamount to stock market manipulations,
- and shall not participate in any operation by others which might have the same result.

Comment [B11]: For consistency in the terminology used in the Rules.

**RULE 34043A RESIGNATION**

**RULE 34043A.1 RESIGNATION** Resignation

- (1) If a Market Maker wishes to resign as a Market Maker of a Specified Security, ~~it~~ the Market Maker must give not less than 30 days prior to the proposed date of resignation a written notice to the Exchange of ~~its~~ the Market Maker's intention to resign.
- (2) The Exchange may accept the Market Maker's resignation subject to any conditions imposed by the Exchange on the Market Maker.

**RULE 34043A.2** ~~TERMINATION, SUSPENSION OR RESTRICTION OF MARKET MAKING ACTIVITY~~ Termination, Suspension or Restriction of Market Making Activity

- (1) The Exchange may automatically suspend or terminate a Market Maker or restrict its ~~m~~Market making activities, upon the happening of all or any of the following events:
  - (a) If the Market Maker has been wound up whether on a voluntary basis or otherwise;
  - (b) if a receiver and manager, provisional liquidator or liquidator has been appointed for the Market Maker;
  - (c) if the Market Maker fails to fulfill any of the requirements in Rule 34021A.1;
  - (d) if the Market Maker is convicted of any offence in or outside of Malaysia involving dishonesty or fraud or had disciplinary action taken against it for breaches involving dishonesty or fraud; or
  - (e) if the Market Maker continuously breaches its obligations under Rule 34032A.1(1) for a period determined by the Exchange.

~~(2) Chapter 15 will not be applicable to any action taken under Rule 34043A.2(1).~~

- (32) The Exchange will inform the Market Maker in writing of any suspension or termination or restriction of market making activity under Rule 34043A.2.

**RULE 34043A.3** ~~CONTINUING LIABILITY~~ Continuing Liability

- (1) A Market Maker who has resigned or is terminated by the Exchange, will be bound by these Rules and ~~d~~Directives insofar as they relate to any antecedent breach committed by the Market Maker.

~~(2) All other Rules in these Rules will continue to apply in respect of the former Market Maker to the extent required to give effect to Rule 404.3(1).~~

Comment [B12]: Amended for clarity.

Comment [B13]: This is deleted with the insertion of new Rule 201.2.

Comment [B14]: Amended to small capital letters.

Comment [B15]: This is inserted to clarify that the relevant rules will continue to apply although the Market Maker has resigned for the purpose of commencing action for a breach of the rules.

## RULE 34054A PERMITTED SHORTSELLING

## RULE 34054A.1 GENERAL General

- (1) ~~Unless determined otherwise, a~~ A Market Maker is allowed to execute ~~permitted short selling~~ Permitted Short Selling for an ETF for which it is registered as a Market Maker, in the manner set out in ~~this~~ Rule 34054A and the Capital Markets Services (Non-Application of Subsection 98(1))(Exchange Traded Funds) Order 2009.
- (2) ~~Unless it is otherwise provided in this Rule 305A, a~~ All other provisions in these Rules shall apply to ~~p~~ Permitted ~~s~~ Short ~~s~~ Sales, as if they were normal sales of ~~s~~ Securities.
- (3) In this Rule 34054A, ETFs refer to ~~e~~ Equity based ETFs which are Specified Securities only.

## RULE 34054A.2 COMMENCEMENT OF PERMITTED SHORT SELLING Commencement of Permitted Short Selling

- (1) A Market Maker is ~~only~~ permitted to commence ~~permitted short selling~~ Permitted Short Selling ~~when the following requirements are complied with~~ ~~only if the Market Maker complies with the following requirements:~~
  - (a) the Market Maker has established ~~i~~ Internal ~~g~~ Guidelines for ~~permitted short selling~~ Permitted Short Selling;
  - (b) the Market Maker has in place systems and infrastructure ~~that including includes but not limited to~~ front office and ~~or~~ back office systems which are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of ~~permitted short selling~~ Permitted Short Selling in accordance with Rule 34054A; and
  - (c) the Market Maker notifies the Exchange that it intends to carry out ~~permitted short selling~~ Permitted Short Selling and provides ~~to the Exchange~~ the form ~~prescribed stipulated~~ in Appendix ~~145, two (2)~~ market days prior to the commencement of ~~permitted short selling~~ Permitted Short Selling.

Comment [B16]: All amendments here are due to plain language drafting.

## RULE 34054A.3 EXECUTION Execution

- (1) A Market Maker must ~~ensure that comply with~~ the following conditions ~~are complied with~~ prior to executing an order for a ~~permitted short selling~~ Permitted Short Selling:
  - (a) ~~where if~~ the Market Maker intends to shortsell ETF units; that it has borrowed the ETF units or the ~~constituent securities~~ Constituent Securities needed for the creation of the ETF units to settle the sale or has obtained a confirmation from the Authorised SBL Participant that the above ETF units or ~~constituent securities~~ Constituent Securities, ~~as the case may be~~, are available for borrowing to settle the sale; and
  - (b) ~~where if~~ the Market Maker intends to shortsell the ~~constituent securities~~ Constituent Securities; that it has borrowed the ~~constituent securities~~ Constituent Securities or the ETF units needed to redeem the units of ~~constituent securities~~ Constituent Securities to settle the sale or has obtained a confirmation from the Authorised SBL Participant that the above ~~constituent securities~~ Constituent Securities or ETF units, ~~as the case may be~~, are available for borrowing to settle the sale.
- (2) If the Market Maker is not an Authorised SBL Participant, it must execute all its borrowings through an Authorised SBL Participant.
- (3) All ~~permitted short selling~~ Permitted Short Selling must be executed in the designated trading accounts and ~~CDS Securities a~~ Accounts ~~stipulated in under~~ Rule 34034A.23(5) ~~above~~.

Comment [B17]: All amendments here are due to plain language drafting.



- (4) ~~No~~ A Market Maker ~~shall~~ must not execute ~~permitted short selling~~ Permitted Short Selling by way of Direct Business in any situation ~~whatsoever~~.
- (5) A Market Maker ~~shall~~ must execute the following purchases through the designated trading account/s and ~~CDS~~ Securities Accounts as stipulated by the Exchange after a shortsale for ETF units or ~~constituent securities~~ Constituent Securities is executed:
- a purchase of any of the ~~constituent securities~~ Constituent Securities or ~~f~~ Futures ~~e~~ Contracts for the purposes of hedging of the short sale of ETF units within the same ~~m~~ Market ~~d~~ Day, ~~where if~~ the short sale is in relation to ETF units; or
  - a purchase of ETF units or ~~f~~ Futures ~~e~~ Contracts for the purposes of hedging of the short sale of the ~~constituent securities~~ Constituent Securities within the same ~~m~~ Market ~~d~~ Day, ~~where if~~ the short sale is in relation to ~~constituent securities~~ Constituent Securities.
- (6) A Market Maker must ~~ensure that~~ procure and retain proper documents ~~are procured and retained by it~~ for at least 7 years for the purpose of satisfying the Exchange when requested, that ~~the Market Maker has complied with~~ the requirements of Rule ~~34054A.3(1) and Rule 34054A.3(3)~~ are complied with. The documents ~~shall~~ must be either in writing, tape recording or electronic form.
- (7) ~~No permitted short selling shall be executed by a~~ A Market Maker ~~must not short sell~~ in any of the following circumstances:
- in relation to the ~~constituent securities~~ Constituent Securities, during the period of ~~twenty-one (21)~~ days immediately following a takeover announcement involving the Issuer of the ~~constituent securities~~ Constituent Securities; or
  - when expressly directed by the Exchange, during the period where the ETF or its ~~constituent securities~~ Constituent Securities has been declared, and remains, as Designated Securities under Rule ~~67043~~.

**~~RULE 34054A.4~~      ~~LIMITS FOR PERMITTED SHORTSELLING~~ Limits for Permitted Short Selling**

- (1) A Market Maker ~~shall~~ must comply with the following limits in relation to ~~permitted short selling~~ Permitted Short Selling:
- that the total value of short positions of ETF units ~~shall~~ does not exceed the total value of the purchase positions for the ~~constituent securities~~ Constituent Securities and ~~f~~ Futures ~~e~~ Contracts purchased for purposes of hedging the shortsale of ETF units, by ~~10 percentum (10%)~~, when calculated at the end of the ~~m~~ Market ~~d~~ Day;
  - that the total value of short positions of ~~constituent securities~~ Constituent Securities ~~shall~~ does not exceed the total value of the purchase positions for ETF units and the ~~f~~ Futures ~~e~~ Contracts purchased for purposes of hedging the shortsale of ~~constituent securities~~ Constituent Securities by ~~10 percentum (10%)~~, when calculated at the end of the ~~m~~ Market ~~d~~ Day; and
  - the total quantity of short positions for each ~~constituent securities~~ Constituent Securities ~~shall~~ must not exceed the quantity of each ~~constituent securities~~ Constituent Securities required for the creation of the ETF units by ~~15 percentum (15%)~~, when calculated at the end of the ~~m~~ Market ~~d~~ Day.

**~~RULE 34054A.5~~      ~~DELIVERY AND SETTLEMENT~~ Delivery and Settlement**

- (1) The Rules relating to delivery and settlement under Chapter ~~89~~ shall apply to ~~permitted short selling~~ Permitted Short Selling in the same manner as they apply to normal sales.

Comment [B18]: Amendments are due to plain language drafting.

Comment [B19]: Amended due to plain language drafting.

**RULE 34054A.6 ACTION BY THE EXCHANGE** Action by the Exchange

(1) ~~In addition to any other powers of the Exchange contained in the Capital Markets and Services Act, this Rule 305A, 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 34054A.6(2) automatically in the manner stipulated therein in that rule against a Market Maker or its registered persons~~ Registered Person(s) in relation to ~~permitted short selling~~ Permitted Short Selling:

**Comment [B20]:** All amendments in this Rule are due to plain language drafting.

**Comment [B21]:** Deleted as it is not necessary since the Exchange is bound by any other powers conferred to it under this Rules anyway

(a) ~~where if~~ there is a breach or likelihood of breach of any provisions in Rule 34054A; or

(b) ~~where if~~ the execution of ~~permitted short selling~~ Permitted Short Selling ~~may lead or~~ is likely to lead to the commission of any of the offences under the Capital Markets and Services Act.

(2) Pursuant to Rule 34054A.6(1) the following actions may be taken by the Exchange in relation to any or all ETFs or ~~constituent securities~~ Constituent Securities and/or against any or all Market Makers ~~in the manner and for the period determined by the Exchange:~~

(a) suspension ~~and~~ or cessation of further ~~permitted short selling~~ Permitted Short Selling whether in relation to all, some or a particular ETF or ~~constituent securities~~ Constituent Securities by the Market Maker;

(b) imposition of restrictions or conditions on ~~permitted short selling~~ Permitted Short Selling carried out by the Market Maker; ~~or and~~

(c) any other action deemed fit by the Exchange.

**RULE 34054A.7 EFFECT OF ACTIONS TAKEN** Effect of Actions Taken

~~(1) In the event that the Exchange undertakes any of the actions under Rule 305A.6 against a Market Maker such actions shall also be applicable to any person who is the proxy, agent, nominee or acting in concert with that Market Maker, as the case may be.~~

**Comment [B22]:** Amended to small capital letters.

**Comment [B23]:** This rule is deleted in view of insertion of new Rule 201.2 .

~~(2) Where an action has been taken under Rule 305A.6, a Market Maker 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 305A.6 in the first place.~~

~~(3) The provisions in Rule 1303 shall not apply to any action taken under Rule 305A.6.~~

[End of chapter]

**CHAPTER 54 CONDUCT OF BUSINESS BY PARTICIPATING ORGANISATIONS**  
**CONDUCT OF BUSINESS**

**RULE 4501 PROHIBITED CONDUCT, ADVERTISING AND STAFF PINCHING AMONG PARTICIPATING ORGANISATIONS**  
**GENERAL REQUIREMENTS**

**RULE 4501.1 PROHIBITED CONDUCT**  
**Standard of conduct**

(1) A Participating Organisation must in the conduct of the Participating Organisation's business:-

- (a) adhere to just and equitable principles and act with due skill, care and diligence and with due regard for the integrity of the market; and
- (b) not through any act or omission, do anything which may result in or has the effect of the market not being orderly and fair.

**Comment [B1]:** To include a general principle that a PO must, act with due care, skill and diligence and with due regard for the integrity of the market in the conduct of the PO's business. The elaboration of this principle is in the PO Manual.

**501.2 Conflicts of interest and risk management**

(1) A Participating Organisation must have in place adequate arrangements to manage:-

- (a) all conflicts of interest that may arise in the conduct of the Participating Organisation's business; and
- (b) all risks that may arise in the conduct of the Participating Organisation's business.

**Comment [B2]:** Including a principle that a PO must identify, monitor and manage all conflicts of interest and risk that may arise in the conduct of the PO's business. The elaboration of this principle is in the PO Manual.

**501.3 Structures, policies, procedures and internal controls**

(1) A Participating Organisation must have in place structures, policies, procedures and internal controls designed to:

- (a) facilitate the supervision of the Participating Organisation's business activities and the conduct of the Participating Organisation's employees and agents;
- (b) identify, monitor and manage conflicts of interest and risks that may arise in the conduct of the Participating Organisation's business;
- (c) achieve compliance with these Rules, the Directives, Securities Laws and the Participating Organisation's written policies, procedures and internal controls ;and
- (d) provide for investor protection.

**Comment [B3]:** Sets out the principle requiring a PO to have effective policies and procedures to supervise the PO's business activities, manage conflicts of interest and risk and achieve compliance with these Rules, Directives Securities Laws and other applicable laws and regulations. The elaboration of this principle is in the PO Manual.

To note that previous Rule 509.6(1) states that a PO must be able to describe and demonstrate the objectives and operation of the PO's policies and procedures to the Exchange has not been incorporated in this Rule 501.3. This is because the objective for having adequate and effective written policies and procedures and internal controls is already in the principle in Rule 501.3(1) and it is unnecessary to include the requirement in previous Rule 509.6(1) because of this.

(2) A Participating Organisation must consider all relevant factors in determining the adequacy and effectiveness of the written policies, procedures and internal controls as required under Rule 501.3(1) including the:

- (a) size of the Participating Organisation's business;
- (b) Participating Organisation's financial position;
- (c) diversity of operations;
- (d) volume, size and frequency of transactions;
- (e) degree of risk associated with each area of operation; and

**Comment [B4]:** Merging previous Rules 404.1(7)(c) and 509.6(2) (see deleted text below). Previous Rule 404.1(7)(c) requires a PO to ensure that the supervisory programme and system of internal controls take into account the PO's operations, financial soundness, proper conduct of its business and proper undertaking of risk management.

(f) amount of control by the Participating Organisation's senior management over day to day operations.

~~at all times maintain a proper supervisory programme and a system of internal controls which must take into account the Participating Organisation's operations, financial soundness, proper conduct of its business and proper undertaking of its risk management. The final responsibility of the above rests with the Participating Organisation and its board of directors.~~

Comment [B5]: Previously, Rule 404.1(7)(c).

~~In determining the scope and nature of effective internal control, a Participating Organisation shall consider all relevant factors including the size of the business, the diversity of operations, the volume, size and frequency of transactions, the degree of risk associated with each area of operation and the amount of control by its senior management over day to day operations.~~

Comment [B6]: Previously, Rule 509.6(2).

(3) A Participating Organisation must ensure that:

(a) properly document and regularly review and update the Participating Organisation's written policies, procedures and internal controls ~~its supervisory, compliance and internal control systems are properly documented and regularly updated~~ to take into account any changes that may occur in the current regulatory requirements; and

Comment [B7]: Previously, Rule 404.1(9)(a).

(b) ~~and that such properly disseminate and effectively implement and enforce within the Participating Organisation, the documented written policies, procedures and internal controls systems and any updates to such policies, procedures and internal controls, thereon are properly disseminated and effectively enforced within the Participating Organisation; conduct regular and periodic reviews over its supervisory, compliance and internal control systems and a written record of the dates of such reviews shall be maintained.~~

Comment [B8]: Covered under the requirement to regularly review and update the PO's policies and procedures in Rule 501.3(3)(a) above.

#### 501.4 Records

(1) A Participating Organisation must keep proper records to evidence compliance with the requirements in these Rules.

Comment [B9]: Unnecessary as the general rule on record keeping in Rule 501.4 covers this.

Comment [B10]: Imposing a general principle that POs are required to keep proper records to evidence compliance with these Rules. All other requirements on keeping records in the other chapters in the Rules except for certain crucial areas will be deleted. The elaboration of this principle is in the PO Manual.

#### 501.5 Business premises

(1) A Participating Organisation must have:

(a) business premises that are adequately and properly equipped for the conduct of the Participating Organisation's business; and

Comment [B11]: Imposing a general principle on POs to have adequately equipped business premises and adequate security and emergency arrangements to provide continuous business operations with minimal disruptions. The elaboration of this principle is in the PO Manual.

(b) adequate security and emergency arrangements to provide continuous business operations with minimal disruptions.

Comment [B12]: This principle is elaborated in the PO Manual – see directives on the establishment of a disaster recovery centre site and the directives setting out the business premises code and disaster recovery code.

#### 501.6 Advertising

(1) A Participating Organisation's advertising or publicity in relation to the Participating Organisation's business must:

(a) be accurate and not misleading or ambiguous;

Comment [B13]: Previously Rule 401.2. We are proposing a more principles-based rule. We are also proposing to do away with the requirement for PO to submit the advertisement material to us for post vetting. This requirement was previously in the Guidelines on Advertising in R/R 11 of 2003 that we are proposing to revoke.

(b) not contain claims that are not verifiable;

(c) not tend to bring the Exchange or the Exchange's Related Corporations or any other Participating Organisation into disrepute; and

Comment [B14]: Incorporating the important principles from the Guidelines on Advertising in R/R 11 of 2003.

(d) contain adequate risk disclosure statements.

**501.7 Communication within the Participating Organisation**

(1) ~~Exchange's notices, etc.:~~ A Participating Organisation must promptly disseminate ~~shall (if not already disseminated on-line via the Exchange's computer network) ensure that all these Rules, Directives relevant notices, bulletins and circulars issued by~~ and requirements the Exchange and the Commission issues are promptly disseminated to all ~~its the Participating Organisation's Registered Person(s) registered person(s)~~ and relevant employees. ~~Procedures for the said prompt dissemination shall be established by Participating Organisations.~~

**501.8 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 501.8(7) ~~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:~~ The parties to a dispute notified to the Exchange under Rule 4501.8(1) must not resort to any outside tribunal or a court of law for determination of such dispute for a period of 30 days from the Exchange's receipt of the Notice of Dispute.

(3) If there is no response from the Exchange ~~Unless the Exchange, for any reason whatsoever, fails to respond in writing, within thirty (30) days from the Exchange's~~ receipt of the Notice of Dispute, confirming that the Exchange is not willing to act on the matter in dispute, the parties to the dispute referred to in Rule 6012.76(1)(a) shall not can resort to any an outside tribunal or a court of law for determination of any such dispute.

(4) ~~Exchange to inform parties:~~ Where ~~If~~ the Exchange decides to act in any such dispute, it the Exchange shall without delay so will so inform the party or parties to the dispute within the period of 30 days from the Exchange's receipt of the Notice of Dispute.

(5) ~~Appointment of arbitrators:~~ If the Exchange decides to act as aforesaid and gives notice thereof, ~~The Exchange when acting in any dispute may~~ 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 to adjudicate ~~adjudicating in the dispute if the parties to the dispute fail to reach an agreement for settlement of the matter in dispute.~~

**Comment [B15]:** We have simplified paragraphs 3.14(i) and 3.7 of the Guidelines on Advertising in R/R 11 of 2003 and have incorporated the same into this rule i.e. that the PO's advertising or publicity must contain adequate risk disclosure statements.

Paragraph 3.14(i) required all advertisements to clearly display a warning statement advising investors to read and understand all applicable terms and conditions and to consider the risks and charges involved before investing in or subscribing to the products and services offered.

Paragraph 3.7 prohibits advertisements that: (a) give an investor the impression that from any investments made through or with the Member Company, the investor's capital is secure and his income/profits guaranteed or that such rate of return is certain; and (b) implies that an investor could profit without risk by using the services of the PO.

**Comment [B16]:** Previously, Rule 404.5(1). Setting out the requirement that a PO must ensure proper dissemination of all Exchange's circulars etc.

**Comment [B17]:** Covered in the Exchange's Directives on Conduct of Business.

**Comment [B18]:** Previously, Rule 601.7. Moved to Chapter 5 as the disputes could relate to any matter arising from these Rules and not just to trading disputes and as such it is more appropriate in Chapter 5 on the conduct of business of POs.

**Comment [B19]:** Moved to the end of this rule for consistency throughout the Rules as the definition section for a term used only in a particular rule is inserted at the end of the rule.

**Comment [B20]:** Amendments have been made to make this rule clearer. In gist, the parties to a dispute must not seek relief from any outside tribunal or a court of law within the 30 day period from when the Notice of Dispute is received by the Exchange. It is only when the Exchange fails to respond to the Notice of Dispute within 30 days from the date of receipt of the Notice of Dispute then can the parties resort to other avenues to settle their dispute.

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- (56) ~~Award to be binding:~~—Any arbitrator(s) ~~or arbitrators~~ appointed by the Exchange under ~~pursuant to Rule 601.7 (5) 4501.8(5) shall will~~ 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 2005 and.~~ † The award of such arbitrator(s) ~~or arbitrators shall be is~~ final and binding upon the parties to such dispute.
- (17) ~~Definition:~~—For purposes of ~~in~~ this Rule ~~4501.8 601.7, the following words will bear these meanings unless otherwise defined:-~~
- (a) "disputes" means disputes arising out of any matter governed by these Rules and Directives between or involving:-
- (i) Market Participants; or
- (ii) Market Participants and the Exchange.;
- (b) "Market Participants" means Participating Organisations and Dealer's Representatives.

501.9 Statements, information and reports to the Exchange

- (1) ~~A Any statement, information or document that a Participating Organisation and Registered Person submits to the Exchange whether before or after registration as a Participating Organisation or a Registered Person in relation to any matter under these Rules or Directives must:~~
- (a) ~~shall~~ be clear, unambiguous and accurate;
- (b) not contain any material omission; and
- (c) ~~not be provide the Exchange any information which is false, or misleading or inaccurate in a material particular and shall comply or as the case may be procure compliance with a request by the Exchange for explanation or verification of information provided to the Exchange.~~
- (2) ~~If any statement, information or document the Exchange receives from or on behalf of a Participating Organisation or Registered Person does not fulfill the requirements in Rule 501.9(1), the Participating Organisation and the relevant Registered Person will be held responsible for such breach notwithstanding that the statement, information or document was signed or submitted by a person other than the relevant Registered Person.~~
- (3) ~~A Participating Organisation or Registered Person must promptly notify the Exchange if the Participating Organisation or Registered Person becomes aware that any statement, information or document provided to the Exchange may not fulfill the requirements in Rule 501.9(1).~~

501.10 Currency

- (1) Unless stated otherwise, all Rules containing references to RM values which relate to transactions in eSecurities, will also apply to all transactions in eSecurities denominated in foreign currency. In order to apply the Rules, the foreign currency values must be converted to RM values.
- (2) Unless stated otherwise, all monies payable to the Participating Organisation from the Exchange or from the Participating Organisation to the Exchange pursuant to these Rules or ~~directives~~ the Directives will be in RM even where the monies payable relate to transactions in eSecurities denominated in foreign currency.

**Comment [B21]:** Previously, Rule 1205.1(4). To ensure that any statement, information or document disclosed pursuant to the Rules within the scope of the responsibility of that person is (a) clear, unambiguous and accurate; (b) does not contain any material omission; and (c) is not false or misleading.

**Comment [B22]:** To extend this rule to Registered Person(s).

**Comment [B23]:** The purpose of the inclusion of this rule is to ensure that the PO and the relevant Registered Person(s) be aware of and ensure the accuracy of all statements, information or documents sent to the Exchange. This is because the PO and the relevant Registered Person(s) will be held responsible for such breach notwithstanding that the statement, information or document was signed by a person other than the relevant Registered Person(s).

**Comment [B24]:** To require a PO and Registered Person(s) to promptly notify us upon becoming aware that any statement, information or document provided to us may not fulfill the requirements in Rule 501.9(1).

**Comment [B25]:** Previously, Rule 404.8.

501.11 Segregation of Client's Securities

Comment [B26]: Previously in Rule 505.2

~~For purposes of protection of clients' assets in relation to securities which are held in safe custody under custodial services rendered, a~~ A Participating Organisation must ensure that all Clients' securities in its possession shall ensure that these securities are held by ~~are held by~~ its nominee company which is a wholly-owned subsidiary and an a ~~Authorized~~ Nominee pursuant to Depository Rules.

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**RULE 502 RESOURCES**

**502.1 Proper performance of business activities**

~~(1) Every A Participating Organisation must have shall at all times maintain adequate and effective financial and operational resources and efficient procedures necessary for the proper performance of the Participating Organisation's business activities conduct of its business.~~

**Comment [B27]:** Previously, Rule 404.1(6). Amended to set out the principle that a PO must have adequate resources for the proper performance of the PO's business activities.

~~(2) A Participating Organisation is responsible for the quality, reliability and integrity of all systems the Participating Organisation uses in the Participating Organisation's business in trading in Securities on the Exchange's stock market.~~

**Comment [B28]:** Unnecessary in light of Rule 501.1(3) that requires a PO to have effective written policies and procedures to supervise the PO's business activities, manage conflicts of interest and risk and achieve compliance with these Rules, the Directives and Securities Laws.

**502.2 Personnel**

~~(1) Every Participating Organisation shall ensure that its A Participating Organisation must only employ or engage Registered Person(s), employees and agents who are fit and proper persons with suitable skill and experience with regard to the position and responsibility they hold.~~

**Comment [B29]:** To place the obligation on a PO to ensure the quality, reliability and integrity of all systems the PO uses in the PO's business in trading in securities.

**Comment [B30]:** Previously, Rule 404.1(7)(a).

**502.3 Trading Clerks**

~~(1) A Participating Organisation or a Dealer's Representative may appoint a Trading Clerk to assist the Participating Organisation or Dealer's Representative in entering orders into the ATS and in administrative and clerical duties.~~

~~(2) A Participating Organisation and the Dealer's Representative who appointed the Trading Clerk:~~

~~(a) must ensure that the Trading Clerk does not represent himself as a Dealer's Representative or carry out the functions of a Dealer's Representative; and~~

~~(b) is liable for all acts and omissions of the Trading Clerk.~~

**Comment [B31]:** Previously, Rule 311.3. Simplifying this rule to state that a PO and the DR who appointed the Trading Clerk must ensure that the Trading Clerk does not represent himself as a DR or carry out the functions of a DR and that a PO and DR who appointed the Trading Clerk are responsible for all acts and omissions of the Trading Clerk.

~~(3) A Participating Organisation must keep a record of each trading clerk, appointed or engaged by the Participating Organisation or the Commissioned Dealer's Representative.~~

What the Exchange considers as part of the functions of a DR will be set out in the directives elaborating on the principle in this Rule.

**Comment [B32]:** Inserted to require proper records of trading clerks by PO for inspection by regulators.

~~Without prejudice to any provisions of these Rules from time to time in force, the following conditions shall, at all times throughout the term of the registration of a trading clerk, apply –~~

~~(a) the Participating Organisation and/or the Commissioned Dealer's Representative has/have taken all adequate steps to ensure that the trading clerk is of good character and integrity and that he will carry out his duties efficiently, honestly and fairly;~~

~~(b) the Participating Organisation shall be liable to honour all actions, contracts and obligations entered into by a trading clerk appointed by it or a trading clerk appointed by a Commissioned Dealer's Representative engaged by it to whom the Participating Organisation is the principal;~~



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- ~~(c) — the Participating Organisation and/or Commissioned Dealer's Representative shall ensure that the trading clerk shall not in whatsoever form represent himself or carry out the functions of a Dealer's Representative, which shall include but not limited to:~~
- ~~(i) — receiving and/or accepting orders from the clients or public whether by telephone, direct contact or in writing;~~
  - ~~(ii) — giving investment advice to clients or public whether by telephone, direct contact or in writing; and~~
  - ~~(iii) — persuading, inducing or attempting to induce clients or public to buy or sell securities or recommending securities to clients or public whether by telephone, direct contact or in writing; and~~

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**RULE 503 CLIENTS**

**503.1 Client information and opening of accounts with Clients**

(1) Before a Participating Organisation opens a trading account for a Client, the Participating Organisation must:

- (a) obtain all essential information about the Client relevant to the services to be provided; and
- (b) verify the genuineness and authenticity of the Client and the application to open a trading account with the Participating Organisation.

~~(a) Where a client submits an application to open an account with the Participating Organisation through a Dealer's Representative, the Dealer's Representative shall authenticate his client's application for account opening by ensuring that the application form(s) for account opening is(are) –~~

- ~~(i) duly completed and all particulars and information of the client in the application form(s) are verified against relevant supporting documents in accordance with the requirements stipulated by the Exchange, the Depository and the written procedures established by the Participating Organisation; and~~
- ~~(ii) duly executed by his client in person before the Dealer's Representative.~~

~~(b) A Dealer's Representative shall be held liable for any losses arising from his breach of Rule 404.4(6)(a).~~

(2) If the Client ~~Where the client~~ represents that he the Client is trading on behalf of another person, the Participating Organisation may ~~shall only be allowed to~~ open a trading account for that client the Client only if: ~~in the event the following conditions are complied with:-~~

- (i) that the client Client is an authorised nominee Authorised Nominee or exempt authorised nominee Exempt Authorised Nominee; and
- (ii) the Participating Organisation brings to the notice of that client the Client, the Client's of its obligation as stipulated in Rule 404.3(7) under Rule 503.1(8) ~~and the consequence of a breach thereof.~~

(3) Every Participating Organisation shall open a trading account for each and every client and bring to the notice of every person who applies to open trading account with it the terms and conditions upon which such account shall be operated, which shall include an obligation on the part of the client to comply with these Rules, where the provisions therein apply to the client directly or indirectly and the consequence of a breach thereof. In this respect, the Participating Organisation shall ensure that the client executes the relevant A Participating Organisation must enter into a written agreement with a Client. The written agreement must set out agreement to be bound by the terms and conditions prescribed herein for the operation of the Client's trading account and must include the Client's obligation to comply with these Rules and Directives, whether these Rules and Directives apply directly or indirectly to the Client.

(4) All particulars of clients of every A Participating Organisation must:

- (a) shall be properly recorded record and maintained maintain up-to-date and relevant information on the Participating Organisation's Clients at the office of the Participating Organisation. Participating Organisations should, from time to time as and when

**Comment [B33]:** Setting out the requirements that need to be complied with before a PO opens a trading account for a Client. The requirements pertaining to obtaining essential information about the Client and taking reasonable steps to verify the identity of the applicant and information in the account application form will be in the PO Manual. The elaboration of this principle is in the PO Manual.

**Comment [B34]:** Previous Rule 404.4(6)(a) (see deleted rule below) required POs to ensure that the account opening forms are duly completed and all particulars are verified against relevant supporting documents in accordance with the requirements the Exchange, Depository and the PO's written procedures is very prescriptive. The principle behind these prescriptive requirements is that a PO must take suitable steps to verify the genuineness and authenticity of the applicant and the application to open a trading account with the PO. This principle will replace the previous prescriptive rule.

Also, we are proposing to place this obligation on the PO (instead of the DR) as it should be the PO that is responsible to ensure that suitable steps are taken to authenticate the identity and the information in the account opening application form.

**Comment [B35]:** Previous Rule 404.4(6)(a).

**Comment [B36]:** Previous Rule 404.4(6)(b). Deleted as we will be included this under the section on Dealer's Representatives in Chapter 3.

**Comment [B37]:** Previously, Rule 404.4(1)(d) (second sentence).

**Comment [B38]:** Previously, Rule 404.4(1).

**Comment [B39]:** Previously, Rule 404.4(1)(c).

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~~material changes occur or otherwise as they deem fit, request their clients to update their particulars as previously provided by them; and~~

(b) record and maintain relevant information on the Participating Organisation's Client's trading account and trades executed in the Client's trading account.

(5) Where a trading account is opened for a client, the A Participating Organisation shall must clearly identify the CDS Securities Account where the Securities arising from all dealings in the trading account ~~shall must~~ be credited into or debited from, ~~as the case may be.~~

(6) In relation to the CDS Account referred to in Rule 404.4(1A)(a), the Participating Organisation shall procure confirmation and undertaking in writing from the client that the beneficial owner in relation to the securities dealt with in the trading account and the CDS Account is the same in the circumstances stipulated below: If:

(ia) Where the client Client is an authorised nominee Authorised Nominee or exempt authorised nominee Exempt Authorised Nominee in relation to for the sSecurities held in the CDS account Securities Account; or

(iib) Where the client Client is not the beneficial owner Beneficial Owner, authorised nominee Authorised Nominee or exempt authorised nominee Exempt Authorised Nominee for in relation to the sSecurities held in the CDS account Securities Account.

the Participating Organisation must obtain the Client's confirmation and undertaking in writing that the Beneficial Owner for the Securities in the trading account and Securities Account is the same.

(7) If the Securities Account holder is not the Client, In addition to the requirements stipulated under Rule 404.4(1A)(b), the client shall submit to the Participating Organisation must obtain from the Client, a written authorisation and consent from the Securities Account holder permitting the following: beneficial owner, authorised nominee or exempt authorised nominee, as the case may be:-

(ia) to effect any entries effecting any entry in the CDS Securities Account, in relation to or arising from any transactions trade executed in accordance with these Rules, the Clearing House Rules and Depository Rules in the Client's trading account of the client; and

(iib) to the exercise of any rights by the Participating Organisation, Exchange or Clearing House over the sSecurities held in the CDS Securities Account therein in accordance with these Rules, the Clearing House Rules and Depository Rules, in relation to or arising from any transactions trade executed by the client as stipulated under Rule 404.4(1A)(e)(i) in the Client's trading account.

For the avoidance of doubt and without prejudice to Rule 404.4(1):

(i) the particulars of the CDS Account given for the purpose stipulated under Rule 404.4(1A)(a) need not match the particulars of the trading account of the client, provided always the requirements of Rule 404.4(1A)(b) is complied with; and

(ii) notwithstanding that the client may be an authorised nominee or exempt authorised nominee, as the case may be, the particulars of the trading account need only stipulate the particulars of the client.

(8) Without derogation to the generality of Rule 404.4(1)(b), If requested by the Exchange, a Participating Organisations shall Organisation must, when requested by the Exchange, require a client Client to disclose (and the client Client must shall be bound to disclose,)

**Comment [B40]:** Removing unnecessary prescriptive requirements. It is sufficient that we rely on the principle that a PO must maintain up-to-date information about the PO's Clients.

**Comment [B41]:** Imposing a requirement on POs to properly record and maintain information on the PO's Client's trading account and trades executed in the Client's trading account.

**Comment [B42]:** Previously, Rule 404.4(1A)(a).

**Comment [B43]:** Previously, Rule 404.4(1A)(b). Amendments in line with simplifying the rule.

**Comment [B44]:** Previously, Rule 404.4(1A)(c).

**Comment [B45]:** Previously, Rule 404.4(1A)(d). This rule is deleted as it is unnecessary.

(1) It is clear from Rule 504.1(7) that the CDS Account holder need not be the Client i.e. the trading account holder.

(2) There is no requirement in these Rules for the particulars of the trading account to stipulate the particulars of the BO if the Client is an Authorised Nominee or Exempt Authorised Nominee.

**Comment [B46]:** Previously, Rule 404.3(7)(a). This rule has been broken up into 2 rules to simplify the rule. See also Rule 504.1(9) below.

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information and documents in relation to any dealing in ~~s~~Securities in respect of the ~~client's~~ Client's trading account.

~~(9) The information referred to in Rule 503.1(8) includes account(s), including but not limited to information on whether or not any dealing in the above Client's trading account is carried out on another person's behalf and in such instance, the name of, and particulars sufficient to identify the such person from whom, through whom or on whose behalf the securities are dealt with by the client. If that person is not the beneficial owner(s) Beneficial Owner of the sSecurities, the client Client must shall also be required to procure the particulars of the beneficial owner(s) Beneficial Owner of the sSecurities.~~

**Comment [B47]:** Previously, Rule 404.3(7)(a). This rule has been broken up into 2 rules to simplify the rule. See also Rule 504.1(8) above.

**503.2 Doing business with Clients**

~~(1) A Participating Organisation and Registered Person(s) must, in doing business with and for Clients, act:~~

- ~~(a) with due skill, care and diligence;~~
- ~~(b) honestly and fairly; and~~
- ~~(c) in the best interests of the Participating Organisation's Clients.~~

**Comment [B48]:** Incorporating a principle that a PO and Registered Person(s) must, in conducting the PO's business activities, act with due skill, care and diligence, honestly, fairly and in the best interest of the Clients. The elaboration of this principle is in the PO Manual.

~~(2) A Participating Organisations Organisation and Registered Person(s) must shall take reasonable steps to ensure that make adequate and accurate information are given to their clients and shall not make any misleading or deceptive representation or statement to any of its clients disclosure of the risk, benefits and conflicts of interest to the Clients in the Participating Organisation's and Registered Person(s)'s dealings with the Clients.~~

**Comment [B49]:** Previously, Rule 404.3(4). To introduce a principle that a PO must make adequate and accurate disclosure of relevant material information in the PO's dealings with the PO's Clients. The elaboration of this principle is in the PO Manual.

~~(3) A Participating Organisation must forward all communication and documents relating to the affairs of the Client directly to the Client unless the Client has authorised in writing for such communication and documents to be sent to a third party. shall not forward any form of communication or duplicate copies thereof intended for a client to any other person unless the said client has instructed the Participating Organisation in writing to forward such communication to such other person.~~

**Comment [B50]:** Amended to extend this rule to Registered Person(s).

**Comment [B51]:** Previously, Rule 404.5(2)(b). Amendments made in line with simplifying the rule.

~~(4) A Participating Organisation must account for and adequately safeguard Client assets.~~

**Comment [B52]:** To introduce a principle that a PO must ensure that Client assets are promptly and properly accounted for and adequately safeguarded. The elaboration of this principle is in the PO Manual.

~~(5) A Participating Organisation must, in relation to a complaint from a Client (whether written or otherwise) relating to the Participating Organisation's business:~~

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

**Comment [B53]:** Introducing a principle that a PO must handle Client's complaints in a timely and appropriate manner and take steps to investigate and respond promptly to the complaint. The elaboration of this principle is in the PO Manual.

~~(6) A Participating Organisation must protect the secrecy of the Client information in the Participating Organisation's possession unless:~~

- ~~(a) the Client authorises the disclosure of the information in writing;~~
- ~~(b) the law requires the disclosure of the information;~~
- ~~(c) the Exchange or any other relevant authority (whether in or outside of Malaysia) requires the disclosure of the information;~~
- ~~(d) the information is already available publicly; or~~

**Comment [B54]:** To clarify that this rule will apply to oral complaints as well. The rule on handling of complaints was previously in Rule 403.3(2). Instead of the prescriptive rule that a record of complaints is required to be maintained, we are introducing the principle that complaints are required to be attended and responded to promptly. The rule in Rule 501.4 requiring a PO to keep sufficient records to evidence compliance with the requirements in these Rules will require POs to keep sufficient records to evidence that complaints from Clients relating to the PO's business are handled in a timely and appropriate manner.

**Comment [B55]:** Introducing a new rule to require the protection of the secrecy of Client information to ensure that client information is kept confidential by the PO. The exceptions to this rule are specified as well.

(e) the information is in the form of a summary or collection of information set out in such manner as does not enable information relating to any particular Client to be ascertained from the information.

~~(7) Without prejudice to any of the powers granted to the Exchange in these Rules or under any written law, the Exchange may direct a Participating Organisation to refrain from trading and/or from effecting any dealings in securities for a any Client client, whether that client is a client of the Participating Organisation or of another Participating Organisation, in any of the following circumstances:-~~

(ia) In in relation to a request made under Rule 404.3(7)(a)4503.1(8), until the information and document requested therein is furnished by the client-Client or where the client Client refuses to furnish the same; and/or

(iib) where an act or omission by the client-Client in relation to or arising from any transactions or dealings in sSecurities reflected in the trading account(s) of the client and/or held in CDS Account(s) pursuant to Rule 404.4(1A), directly or indirectly causes, aids or facilitates a breach of these Rules or Directives.

~~(b) The Exchange may impose any other terms and conditions it deems fit in relation to the directive issued herein. Where such a directive is issued, the Participating Organisation(s) shall be bound to comply with the same.~~

~~(c) The Exchange shall notify the Securities Commission of any action taken under Rule 404.3(13).~~

**Comment [B56]:** Previously, Rule 404.3(13).

**Comment [B57]:** The words that have been deleted are unnecessary. So long as the person commits an act or omission concerning any transaction in securities that causes, aids or facilitates a breach of the Rules, the Exchange may issue a directive under this Rule directing a PO to refrain from trading or effecting any dealings in securities for any Client.

**Comment [B58]:** Previously, Rule 404.3(13)(b). Covered under Chapter 2.

**Comment [B59]:** Previously, Rule 404.3(13)(c). Unnecessary to be included in the Rules as this is a matter between the SC and the Exchange.

**Comment [B60]:** Inserted from previously Rule 403.1 and amended as the Exchange is not required to undertake due diligence exercise. It is also simplified in line with plain language drafting.

**Comment [B61]:** Deleted as it relates to financial obligations of the Clients only.

**RULE 4503.13 CLIENTS' FAILURE TO MEET OBLIGATIONS Posting a Client as a Defaulter**

(1) Where a person ("alleged defaulter") ~~If a Client fails to meet settle~~ a financial obligation with a Participating Organisation of not less than Ringgit Malaysia Two Thousand (RM2,000) ("Defaulter") ~~or any other obligation relating to or in respect of any transaction in securities on the stock market of the Exchange or Recognised Exchange or arising out of any matter regulated by these Rules, the Participating Organisation may report to the Exchange such failure by the person notify the Exchange to post the Client as a Defaulter. However, a Participating Organisation may only report such a person to the Exchange if it has satisfied all requirements as stipulated in Schedule 5 of these Rules.~~

(2) Upon receipt of a report under Rule 403.1(1), the Exchange will-

(a) enquire into the report, and may call upon the Participating Organisation to-

(i) furnish in writing full particulars of any open transaction with the alleged defaulter;

(ii) disclose any information of which the Participating Organisation may have cognisance in relation thereto;

(iii) provide or submit any evidence in its possession bearing on the transaction in question; and

(b) call upon the alleged defaulter to-

(i) furnish in writing full particulars of any open transaction with the Participating Organisation in respect of the transaction in question or request the alleged defaulter to be present before an authorised officer of the Exchange;

(ii) provide or submit any evidence in his possession bearing on the transaction in question.

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A Participating Organisation must comply with the requirements set out in Schedule 2 when notifying the Exchange under Rule 503.3(1).

- (3) ~~Where the Exchange is satisfied that a default has been made or committed by the alleged defaulter (“defaulter”), the Exchange shall, unless a satisfactory arrangement has been made between the defaulter and the Participating Organisation and the same is reported to the Exchange promptly-~~
- ~~(a) — cause him to be posted as a “defaulter” in the relevant defaulters list maintained by the Exchange; and~~
  - ~~(b) — cause such matter to be notified to all Participating Organisations accordingly.~~
- (43) The Participating Organisation who notified the Exchange to post the Client as a Defaulter (“reporting Participating Organisation”) and all other A-Participating Organisations are prohibited shall not from transacting any business for a Defaulter from the date the Defaulter is posted in the list of defaulters any person who has been notified to the Participating Organisation as a defaulter under Rule 403.1(3) save and except that a Participating Organisation may proceed except to sell securities held by the in dDefaulter’s in accounts held with the Participating Organisations to reduce any debt owing to the Participating Organisations and consequently to other Participating Organisations solely for the purpose of reducing a financial obligation or any other obligation relating to or in respect of any transaction in securities arising out of any matter regulated by these Rules in relation to the defaulter and Provided That –
- ~~(a) there is no dispute by any party with respect to the outstanding obligation aforesaid such debt owing;~~
  - ~~(b) the Participating Organisations has have the contractual right to sell the securities and the defaulter being given prior reasonable notice;~~
  - ~~(c) the proceeds from the sale of the securities shall must be fully utilised to wards reduceing the outstanding obligation aforesaid debt owing; and~~
  - ~~(d) the mark to market value (as defined in Rule 14051301.2) of the securities sold in the manner herein shall cannot exceed the debt owing outstanding obligation aforesaid.~~
- (4A4) A Participating Organisation posting the Client as a Defaulter under Rule 503.3(1) and carrying out any sale of securities held by a defaulter in accounts of a Defaulter held with the Participating Organisation pursuant to Rule 403.1(4) shall must indemnify and keep the Exchange indemnified against all suits, actions, claims, demands, proceedings, losses, damages, charges and expenses of whatsoever nature and howsoever arising from, incidental to or in connection with the aforesaid saleaction.
- (5) A ~~person’s name~~ Defaulter will may be removed by the Exchange from the defaulters list in ~~any of the following circumstances -~~
- ~~(a) if the Participating Organisation who notified the Exchange under Rule 503.3(1) informs the Exchange in writing that the upon the fulfilment by him of his obligation Defaulter has settled the debt owing to the Participating Organisation concerned provided that the same shall have been notified to the Exchange by the Participating Organisation in writing; or~~
  - ~~(b) where the Exchange in its absolute discretion is of the view that such posting can no longer be justified, if there is an order of court or an award from arbitration instructing for the Defaulter to be removed from the list of defaulters maintained by the Exchange or that there is no debt owing to the Participating Organisation who notified the Exchange under Rule 503.3(1).~~

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RULE 504 INSURANCE REQUIREMENTS

504.1 Requirement to take out insurance policy

~~(1) Every A Participating Organisation must either, on its own or at Group level, take out and maintain at all times an insurance policy that is adequate having regard to: in connection with its business as permitted in Rule 503 (“Permitted Activities”)~~

**Comment [B62]:** Previously, Rule 407.1(1). Amendments consequential to the fact that the permitted activities of a PO are no longer contained in these Rules and are all contained in SC’s policy on permitted activities for stockbroking companies in SC’s Licensing Handbook.

~~(a) the nature and extent of the Participating Organisation’s business as permitted under the Capital Markets Services Licence and the Commission’s policy on permitted activities for stockbroking companies contained in the Commission’s Licensing Handbook; and~~

~~(b) the responsibilities and risks assumed or which may be assumed by the Participating Organisation in connection with those activities.~~

~~(2) The Participating Organisation must ensure that the insurance policy taken out and maintained in accordance with Rule 407.1 (1) above complies with the relevant laws, rules and guidelines. A Participating Organisation may maintain the above insurance policy at Group Level.~~

**Comment [B63]:** Previously Rule 407.1(2). Unnecessary as this is stating the obvious.

~~(2) A Participating Organisation must notify the Exchange that the insurance policy is in place.~~

504.2 Notification of claims

~~(1) The A Participating Organisation must notify the Exchange of any claim or potential claim against the insurance policy referred to in Rule 504.1(1) taken out and maintained in accordance with Rule 407.1 (1) above within 2 market daysMarket Days from when it the Participating Organisation becomes aware of the claim or potential claim.~~

**Comment [B64]:** Previously, Rule 407.3(1).

~~(2) The Participating Organisation must ensure that the notification includes the relevant details of the claim or potential claim.~~

**Comment [B65]:** Previously, Rule 407.3(2). Deleted as this is unnecessary.

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**CHAPTER 4 — CONDUCT OF BUSINESS BY PARTICIPATING ORGANISATIONS**

**RULE 401 — PROHIBITED CONDUCT, ADVERTISING AND STAFF PINCHING AMONG PARTICIPATING ORGANISATIONS**

**RULE 401.1 — PROHIBITED CONDUCT**

~~(1) — No Participating Organisation, Head of Dealing or Dealer's Representative shall, in the conduct of their business for the sale, disposal, purchase, acquisition or exchange of securities—~~

~~(a) — make use of share hawking or other methods which are not approved by the Exchange, or which, in the opinion of the Exchange, amounts to advertising securities for sale or purchase;~~

~~(b) — knowingly transact business for or on behalf of any person, firm or company which conducts business in whole or in part in the manner as stated in paragraph (a) of this Rule 401.1(1);~~

~~(c) — knowingly permit any other company or firm in which it has an interest to do any of the acts contained in paragraphs (a) or (b) of this Rule 401.1;~~

~~(d) — deal with any stockbroking firm or company other than another Participating Organisation or a member of a recognised stock exchange, unless the prior written consent of the Exchange has been obtained;~~

~~(e) — for the purpose of evading the same, act as principal or in any other manner in connection with any dealing prohibited under paragraph (d) of this Rule 401.1(1);~~

~~(f) — engage themselves in, or be a party to, any unlawful practices; and~~

~~(g) — without the prior written consent of the Exchange, knowingly employ in its business a person who has—~~

~~(i) — committed a default under these Rules or a breach of any provision of the Securities Laws; or~~

~~(ii) — has been expelled from membership or participation of the Exchange for any reason whatsoever.~~

~~(2) — Participating Organisations, Heads of Dealing and Dealer's Representatives shall, in the conduct of their business for the sale, disposal, purchase, acquisition or exchange of securities, refrain themselves from engaging in, or be a party to, any unethical practices that may damage the confidence of investors and hamper the sound development of the stock market.~~

~~(3) — Participating Organisations, Heads of Dealing and Dealer's Representatives shall avoid any act or practice which might—~~

~~(a) — lead to a false or misleading appearance of active trading in any securities on the stock market of the Exchange or a false or misleading appearance with respect to the market for, or the price of, any such securities; or~~

~~(b) — directly or indirectly be tantamount to stock market manipulations,~~

~~and shall not participate in any operation by others which might have the same result.~~

**Comment [B66]:** Unless otherwise stated, the requirements in this rule has been incorporated in the Directives on Conduct of Business.

**Comment [B67]:** Not incorporated as Registered Person(s) who causes, aids or abets a breach of the Rules by a PO is liable for such breach by the PO under Rule 302.6 (2).

**Comment [B68]:** Not incorporated as it is unnecessary to state these specifically and instead, we will be relying on the principle that a PO must not engage in any act that amounts to advertising securities for sale or purchase or share hawking.

**Comment [B69]:** Not incorporated as this is covered under the principle that POs are required to employ fit and proper persons. If a person has committed a serious breach of Rules etc. or expelled from membership, they would not be considered fit and proper.

**Comment [B70]:** See the Directives on Conduct of Business.

**Comment [B71]:** See the Directives on Conduct of Business.

**RULE 401.2 – ADVERTISING**

**Comment [B72]:** See Rule 501.6.

- (1) ~~**Advertising:** No Participating Organisation shall advertise its business of dealing in securities or any other services or matters in connection thereto other than in the manner determined by the Exchange from time to time.~~
- (2) ~~**Literature:** Every Participating Organisation shall take reasonable steps to ensure that all sales and educational literature, bulletins, newsletters and similar publication issued by the Participating Organisation to its clients from time to time do not contain—~~
- ~~(a) any information which is untrue or inaccurate;~~
  - ~~(b) claims that are unwarranted, exaggerated or incapable of substantiation;~~
  - ~~(c) any material which would be likely to bring the Exchange or Participating Organisations into disrepute; or~~
  - ~~(d) any unqualified statement on profit forecasts or projections with respect to any securities or their Issuers.~~

~~Participating Organisations shall take reasonable steps to ensure the accuracy and contents of their sales and educational literatures, bulletins, newsletters and similar public medium and may be required by the Exchange to justify the contents thereof. For the purposes of this Rule, every Participating Organisation shall establish and implement properly documented procedures for the review of all sales and educational literature, bulletins, newsletters and similar public medium.~~

**RULE 401.3 – STAFF PINCHING AMONG PARTICIPATING ORGANISATIONS**

- (1) ~~Participating Organisations shall at all times promote the continuous enhancement of business professionalism in the stockbroking industry. Participating Organisations shall ensure that the training system established and implemented by them pursuant to Rule 404.2 promotes such professionalism among their employees and Commissioned Dealer's Representatives.~~
- (2) ~~A Participating Organisation shall recruit and train its own employees and Commissioned Dealer's Representatives and shall not employ an employee or engage a Commissioned Dealer's Representative of another Participating Organisation except in accordance with guidelines or directives as may be issued by the Exchange in respect thereof from time to time and in the case of an employee other than a Salaried Dealer's Representative of an Investment Bank, in accordance with the guidelines or directives issued by the Central Bank.~~
- (3) ~~[Deleted]~~

**Comment [B73]:** We are proposing to do away with this rule as this is covered under the general principle requiring POs to have an adequate system of training under the Directives on Conduct of Business. It would be up to the POs to decide whether to include promoting continuous enhancement of business professionalism in the stockbroking industry. To note that we have prescribed the main requirements on training in the Directives on Conduct of Business i.e. awareness of all applicable legal and regulatory requirements, the Exchange's trading system and internal controls, policies and procedures and operational aspects of the PO's business.

**Comment [B74]:** We are proposing to do away with the prohibition on POs from employing or engaging an employee of another PO. The rationale for such proposal is to do away with rules that are no longer necessary and to ensure our Rules are on par with the rules of other jurisdictions. The engagement of DRs of another PO is covered under Chapter 3.

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**RULE 402 — BUSINESS INTERESTS**

**RULE 402.1 — INTERESTS IN OTHER COMPANY DEALING IN SECURITIES**

~~(1) — Unless otherwise approved in writing by the Commission, no Participating Organisation shall~~

~~(a) — directly hold any shares, debentures or any other securities or interests in another Participating Organisation or any company which is incorporated for the purpose of, or is in fact engaged in the business of dealing in securities; or~~

~~(b) — subject to Chapter 3, appoint as its director any person who —~~

~~(i) — is a director of another Participating Organisation;~~

~~(ii) — is a shareholder or debenture holder in another Participating Organisation; or~~

~~(iii) — has any direct interest in another Participating Organisation or in any corporation which is formed for the purpose of carrying out, or is in fact engaged in, the business of dealings in securities.~~

~~(2) — Nothing contained in Rule 402.1(1) shall prevent a Participating Organisation from acquiring any shares, other securities or interests in another Participating Organisation in any of the following circumstances —~~

~~(a) — an acquisition of such shares, other securities or interests made pursuant to or in the exercise of —~~

~~(i) — any of its underwriting obligations;~~

~~(ii) — its rights in respect of any margin account established by it in favour of its clients or any collateral provided by the clients in respect thereof;~~

~~(b) — an acquisition of such shares, other securities or interests in another Participating Organisation which is for the time being quoted on the Official List; or~~

~~(c) — an acquisition of such shares, other securities or interests in another Participating Organisation pursuant to a corporate restructuring scheme approved by the Exchange and the Commission;~~

~~Provided that the acquisition or holding of such shares or other securities or interests shall be subject to such terms and conditions as determined by the Exchange from time to time.~~

**Comment [B75]:** The SC's Licensing Handbook requires SC's prior approval for any change in the shareholding of a PO that results in a change in the PO's controller (as defined under section 60(7) of the CMSA). Since the CMSA regulates the shareholding of a PO in the manner described above, we are proposing to delete this rule.

**Comment [B76]:** Under the CMSA, a person may be appointed as a director of a PO only if he is fit and proper and none of the grounds specified in paragraph 65(1)(d), (e), (f), (g), (i), (j) or (k) of the CMSA would prevent him from holding such office. Under SC's Licensing Handbook, a PO must ensure that none of the grounds specified in paragraph 64(1)(h), (i), (l) and (m) of the CMSA apply to its directors. This includes ensuring that there are no circumstances likely to lead to the improper conduct of business by a director and that there is no reason to believe that a director will not carry on the PO's activities efficiently, honestly or fairly. Since the CMSA already regulates this, we are proposing to delete this rule.  
C

**Comment [B77]:** Consequential to the deletion of Rule 402.1(1)

**RULE 402.2 — INTERESTS OTHER THAN DEALING IN SECURITIES**

(1) — [Deleted]

(2) — [Deleted]

**RULE 403 — CLIENTS RELATION**

**RULE 403.1 — CLIENTS' FAILURE TO MEET OBLIGATIONS**

Comment [B78]: Moved to Rule 503.3.

- (1) ~~Where a person ("alleged defaulter") fails to meet a financial obligation with a Participating Organisation of not less than Ringgit Malaysia Two Thousand (RM2,000) or any other obligation relating to or in respect of any transaction in securities or arising out of any matter regulated by these Rules, the Participating Organisation may report to the Exchange such failure by the person. However, a Participating Organisation may only report such a person to the Exchange if it has satisfied all requirements as stipulated in Schedule 5 of these Rules.~~
- (2) ~~Upon receipt of a report under Rule 403.1(1), the Exchange will—~~
- (a) ~~enquire into the report, and may call upon the Participating Organisation to—~~
- (i) ~~furnish in writing full particulars of any open transaction with the alleged defaulter;~~
- (ii) ~~disclose any information of which the Participating Organisation may have cognisance in relation thereto;~~
- (iii) ~~provide or submit any evidence in its possession bearing on the transaction in question; and~~
- (b) ~~call upon the alleged defaulter to—~~
- (i) ~~furnish in writing full particulars of any open transaction with the Participating Organisation in respect of the transaction in question or request the alleged defaulter to be present before an authorised officer of the Exchange;~~
- (ii) ~~provide or submit any evidence in his possession bearing on the transaction in question.~~
- (3) ~~Where the Exchange is satisfied that a default has been made or committed by the alleged defaulter ("defaulter"), the Exchange shall, unless a satisfactory arrangement has been made between the defaulter and the Participating Organisation and the same is reported to the Exchange promptly—~~
- (a) ~~cause him to be posted as a "defaulter" in the relevant defaulters list maintained by the Exchange; and~~
- (b) ~~cause such matter to be notified to all Participating Organisations accordingly.~~
- (4) ~~A Participating Organisation shall not transact business for any person who has been notified to the Participating Organisation as a defaulter under Rule 403.1(3) save and except that a Participating Organisation may proceed to sell securities held by the defaulter in accounts held with the Participating Organisation solely for the purpose of reducing a financial obligation or any other obligation relating to or in respect of any transaction in securities arising out of any matter regulated by these Rules in relation to the defaulter and Provided That—~~
- (a) ~~there is no dispute by any party with respect to the outstanding obligation aforesaid;~~
- (b) ~~the Participating Organisation has the contractual right to sell the securities and the defaulter being given prior reasonable notice;~~
- (c) ~~the proceeds from the sale of the securities shall be fully utilised towards reducing the outstanding obligation aforesaid; and~~
- (d) ~~the mark to market value (as defined in Rule 1105) of the securities sold in the manner herein shall not exceed the outstanding obligation aforesaid.~~

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- ~~(4A) — A Participating Organisation carrying out any sale of securities held by a defaulter in accounts held with the Participating Organisation pursuant to Rule 403.1(4) shall indemnify and keep the Exchange indemnified against all suits, actions, claims, demands, proceedings, losses, damages, charges and expenses of whatsoever nature and howsoever arising from, incidental to or in connection with the aforesaid sale.~~
- ~~(5) — A person's name will be removed by the Exchange from the defaulters list in any of the following circumstances —~~
- ~~(a) — upon the fulfilment by him of his obligation to the Participating Organisation concerned provided that the same shall have been notified to the Exchange by the Participating Organisation in writing;~~
  - ~~(b) — where the Exchange in its absolute discretion is of the view that such posting can no longer be justified.~~

**RULE 403.2 — COMPLAINTS**

- ~~(1) — Where a person ("Complainant") lodges a written complaint to the Exchange against a Participating Organisation or its Dealer's Representative in respect of transactions in securities effected on the stock market of the Exchange, the Exchange shall look into the circumstances of the complaint with a view to assessing whether an investigation into the complaint is necessary.~~
- ~~(2) — If the Exchange decides that an investigation is necessary, the Exchange shall inform the complainant and the Exchange shall cause an investigation to be carried out in respect of the complaint and in cases where further action is appropriate or necessary, to submit the results of the investigation for purposes of disciplinary proceedings, and the Participating Organisation or its Dealer's Representative against whom the complaint is made shall be bound to submit to the jurisdiction of the Exchange, whose decision shall be final and binding on the Participating Organisation or its Dealer's Representative, as the case may be, and the Complainant.~~

**Comment [B79]:** It would be more appropriate and useful to the investors if our procedure for complaints against a PO or DR is published on our website. As such, this rule will be deleted from the Rules and published on our website.

**RULE 403.3 — RECORD OF COMPLAINTS**

- ~~(1) — Every Participating Organisation shall establish and implement written procedures for the handling of complaints received by it, including the performance of reviews on clients' complaint files to ensure that all complaints have been duly investigated and dealt with within such time as shall be prescribed under such procedures. Every Participating Organisation shall designate an officer of the level of an assistant manager or above to handle all complaints lodged with it, and the name of such officer shall be displayed at a prominent place in the premises of the Participating Organisation.~~
- ~~(2) — Every Participating Organisation shall maintain a copy of all written complaints received by it, together with a copy of any reply thereto, in a file or register established for that purpose. All such complaints and replies shall be maintained in the file or register for a period of not less than seven (7) years from the date of the last correspondence in relation to the complaint.~~
- ~~(3) — The contents of the file or register kept under this Rule shall be made available by the Participating Organisation to the Exchange forthwith upon a request made by the Exchange.~~

**Comment [B80]:** See Rule 504.2(5) and the Directives on Conduct of Business.

**RULE 404 — BEST BUSINESS PRACTICE**

**RULE 404.1 — GENERAL CONDUCT**

- ~~(1) — Participating Organisations shall adhere to the principles of good business practice in the conduct of their respective business and shall take all such steps as may be reasonably necessary in order to ensure that the Securities Laws and the Companies Act, these Rules, any directives or rulings of the Exchange as may from time to time be imposed or issued upon them or otherwise applicable to them, the Depository Rules and Clearing House Rules are complied with, both in letter and in spirit.~~
- ~~(2) — All decisions, rulings and directives of the Exchange or Exchange holding company, as the case may be, and any other persons authorised by the Exchange in the lawful execution of its authority pursuant to these Rules shall be final and binding on Participating Organisations and where applicable, the registered person(s).~~
- ~~(3) — Participating Organisations shall not do or cause or permit to be done any act which—~~
- ~~(a) — would adversely affect the goodwill or public image of the Exchange;~~
  - ~~(b) — would bring or is likely to bring the Exchange into disrepute;~~
  - ~~(c) — is injurious to the character and interest or prejudicial to the objects of the Exchange.~~
- ~~(4) — A Participating Organisation shall not allow any form of irregular and/or unhealthy practice to exist or prevail in its daily and professional business conduct.~~
- ~~(5) — A Participating Organisation shall ensure issues and problems which affect itself and other Participating Organisations be deliberated and resolved amicably without affecting or prejudicing the interests of their clients.~~
- ~~(6) — Every Participating Organisation shall at all times maintain adequate financial and operational resources and efficient procedures necessary for the proper conduct of its business.~~
- ~~(7) — Every Participating Organisation shall—~~
- ~~(a) — ensure that its employees are fit and proper persons with regard to the position and responsibility they hold;~~
  - ~~(b) — at all times exercise strict supervision over the overall operation of its business activities and the activities of its registered person(s) and employees, and for this purpose shall maintain a proper and adequate supervisory and compliance system with a view to preventing any contravention of the Securities Laws and other applicable laws and regulations, these Rules, any directives or rulings issued by the Exchange from time to time, the Depository Rules, the Clearing House Rules and the Participating Organisation's own internal policies and procedures;~~
  - ~~(c) — at all times maintain a proper supervisory programme and a system of internal controls which must take into account the Participating Organisation's operations, financial soundness, proper conduct of its business and proper undertaking of its risk management. The final responsibility of the above rests with the Participating Organisation and its board of directors;~~
  - ~~(d) — ensure that it has in place internal guidelines for the purpose of reviewing unusual patterns of large trading, frequent margin calls or other signs of apparent increase of risk exposure pertaining to margin facilities;~~
  - ~~(e) — ensure that the internal disciplinary procedures be regularly reviewed;~~
  - ~~(f) — ensure and be satisfied with the good character, business repute, qualification and experience of a person before appointing him as a supervisor or head of department or delegating to him supervisory functions;~~

**Comment [B81]:** Principles to be followed is covered in new 501.1.

**Comment [B82]:** Justification for the deletion of the requirement for the PO to ensure compliance with:

(a) Securities Laws, these Rules and the Directives – covered under Rule 302.5(1).

(b) Depository Rules & Clearing House Rules – covered under these respective rules.

(c) Companies Act - the purpose of these Rules is to set out requirements applicable to POs and Registered Person(s) for investor protection and maintenance of an orderly and fair market. The mere compliance with the Companies Act does not add much to this purpose. We would rather rely on the principle that a PO must act with due skill, care and diligence and in due regard for the integrity of the market in the conduct of the PO's business. Further, under Rule 311.1(1), we can take action against a Participant to protect the Client's interest, the public or the Exchange in the circumstances set out in that rule. This is sufficient and there is no necessity to specifically require the POs to comply with the Companies Act.

**Comment [B83]:** Covered under Rule 201.1(4).

**Comment [B84]:** See the Directives on Conduct of Business.

**Comment [B85]:** Covered in the Directives on Conduct of Business.

**Comment [B86]:** Doing away with this prescriptive rule and relying instead on the requirement in the Directives on Conduct of Business that requires a PO to have adequate policies and procedures to minimise conflicts of interest between a PO or DR and the Client.

**Comment [B87]:** Covered under the principles in Rule 501.

**Comment [B88]:** Covered under Rules 501 and 502.

**Comment [B89]:** Covered in the Directives on Conduct of Business.

**Comment [B90]:** Covered in the Directives on Conduct of Business.

**Comment [B91]:** Covered under Rule 501.

**Comment [B92]:** Covered under Rule 501.

**Comment [B93]:** Covered in the Directives on Conduct of Business.

**Comment [B94]:** Covered in the Directives on Conduct of Business.

**Comment [B95]:** Covered under the principle in Rule 502.

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~~(g) maintain an internal record of all employees designated as supervisors and those delegated with supervisory functions, including the dates on which such designation or delegation take effect and ensure that all supervisors and heads of departments are registered with the Exchange; and~~

**Comment [B96]:** We are proposing to delete this prescriptive requirement to maintain an internal record of supervisors.

~~(h) establish and maintain procedures for the review, by its Compliance Officer or other supervisory personnel, of transactions carried out and correspondences undertaken or received by its Dealer's Representatives pertaining to the solicitation or execution of transactions;~~

**Comment [B97]:** See the Directives on Conduct of Business.

~~The Exchange may require at any time that the name, terms of employment, and actual duties of any person employed by a Participating Organisation be furnished to the Exchange together with such other information of such employee as it deems fit to enable it to enforce compliance with these Rules.~~

**Comment [B98]:** Covered under Rule 201.1(2).

~~(8) Every Participating Organisation shall formulate a code of conduct for its registered person(s) and employees which shall deal with matters including best sales practices, compliance and transactions by registered person(s) and employees. The code of conduct shall be reviewed by the Compliance Officer to ensure its adequacy and effectiveness.~~

**Comment [B99]:** Covered in the Directives on Conduct of Business.

~~(9) Every Participating Organisation shall -~~

**Comment [B100]:** See Rule 501.

~~(a) ensure that its supervisory, compliance and internal control systems are properly documented and regularly updated to take into account any changes that may occur in the current regulatory requirements, and that such documented systems and any updates thereon are properly disseminated and effectively enforced within the Participating Organisation;~~

~~(b) conduct regular and periodic reviews over its supervisory, compliance and internal control systems and a written record of the dates of such reviews shall be maintained.~~

~~(10) Where a Participating Organisation or registered person(s) becomes aware of any breach, infringement, or non-compliance of any Rule by another Participating Organisation, or has reason to believe that another Participating Organisation or registered person(s) has breached, infringed or failed to comply with any Rule, the Participating Organisation or registered person(s) shall report the matter in writing to the Exchange. Such report shall give particulars of such breach, infringement or non-compliance together with any other relevant documents and information, or the reasons for believing the same.~~

**Comment [B101]:** See Rule 307.6.

~~(11) Every Participating Organisation shall have an appropriate internal risk management system which will be able to detect, monitor and control risks in relation to financial losses or legal suits arising from theft, fraud and other dishonest act and/or omissions.~~

**Comment [B102]:** Covered under Rule 501.

~~(12) Every Participating Organisation shall ensure there is a clear segregation of duties and reporting lines between those employees dealing in securities and those having duties administrative/operational in nature. For this purpose, such segregation of duties shall have the basis of protecting clients' interest and any form of abuse in such clients' interest resulting from the overlapping of job functions will be viewed seriously by the Exchange.~~

**Comment [B103]:** Covered in the Directives on Business Conduct.

~~(13) **Chinese Walls:**~~

**Comment [B104]:** See the Directives on Business Conduct.

~~(a) Every Participating Organisation which assumes more than one function, permitted by its dealer's licence or otherwise must maintain proper segregation of those functions within its organization to prevent -~~

~~(i) the flow of "information" between different parts of its organization which performs each function; and~~

~~(ii) any conflict of interest which may arise as a result.~~

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- (b) ~~For the purpose of this Rule 404.1(13), "information" means information as defined in Section 183 of the Capital Markets and Services Act, relating to—~~
- ~~(i) one or more corporations admitted to the Official List; or~~
  - ~~(ii) any securities of the corporations mentioned above; and~~
- (c) ~~such "information" if it were communicated would amount to an offence under Section 188(3) of the Capital Markets and Services Act.~~

- (14) ~~Every Participating Organisation shall establish effective policies and procedures to minimise the existence of conflict of interests, potential or otherwise, between the Participating Organisation and its clients. In cases where conflict of interests and/or conflict of duty cannot be avoided, the conflict shall be fully disclosed to the client prior to the execution of the transaction.~~

Comment [B105]: See the Directives on Business Conduct.

Comment [B106]: See the Directives on Business Conduct.

**RULE 404.2 — TRAINING SYSTEM**

Comment [B107]: See Rule 503.2(1) and the relevant directive elaborating on this rule.

- (1) ~~Every Participating Organisation shall establish, implement and maintain a reasonably comprehensive system of training towards—~~
- ~~(a) ensuring the continuous improvement in critical areas of its principal activities and operations; and~~
  - ~~(b) enhancing the technical knowledge of its employees to enable them to understand the operational and internal control policies and procedures of the Participating Organisation and all applicable legal and regulatory requirements.~~
- (2) ~~Such system of training shall be properly documented in a manual form which shall—~~
- ~~(a) set out details of the training programmes which the Participating Organisation proposes to implement; and~~
  - ~~(b) be regularly updated in line with the development in the securities industry.~~
- (3) ~~The training programmes shall be—~~
- ~~(a) conducted regularly by Participating Organisations; and~~
  - ~~(b) open to—~~
    - ~~(i) their Commissioned Dealer's Representatives, employees and apprentices, in an equitable manner and without any form of discrimination whatsoever; and~~
    - ~~(ii) students from tertiary institutions of learning involved in studies relating to the securities industry.~~
- (4) ~~Every Participating Organisation shall—~~
- ~~(a) make available to the Exchange a copy of the manual referred to in Rule 404.2(2) forthwith upon request from the Exchange. The Exchange shall be promptly notified by the Participating Organisation in respect of any amendments or updating made from time to time to the contents of the manual;~~
  - ~~(b) keep proper records of all training programmes carried out by it including particulars of the trainees, apprentices and students who have taken part in such programmes; and~~
  - ~~(c) at the end of every year, submit to the Exchange a complete report in respect of the training programmes carried out by it during the preceding year period.~~



~~(5) — The Exchange may from time to time, if it considers appropriate, require any part of the manual kept by a Participating Organisation pursuant to Rule 404.2 (2) to be amended so as to ensure the maintenance of reasonably acceptable standard and quality of training carried out by the Participating Organisation.~~

**RULE 404.3 — DOING BUSINESS WITH CLIENTS**

~~(1) — **Standard of conduct:** Every Participating Organisation and every Dealer's Representative employed or engaged by the Participating Organisation shall at all times—~~

- ~~(a) — observe professional standards of integrity and fair dealing;~~
- ~~(b) — act honestly and in the best interest of their clients; and~~
- ~~(c) — conduct their business in a manner which contributes to the maintenance of a fair and orderly market.~~

~~(2) — **Guidelines on regulated short selling:** Every Participating Organisation shall formulate guidelines on regulated short selling by its clients as required under Rule 704.3 and shall ensure that such guidelines are strictly complied with by all its Dealer's Representatives.~~

~~(3) — **Knowledge about client:** Every Participating Organisation shall implement and maintain appropriate guidelines for its Dealer's Representatives to assist them in learning essential facts about their clients' backgrounds, including the clients' investment objectives, knowledge and experience in dealing in securities, financial background and any other information as may be required by the Exchange from time to time.~~

~~(4) — **Information given to client:** Participating Organisations shall take reasonable steps to ensure that accurate information are given to their clients and shall not make any misleading or deceptive representation or statement to any of its clients.~~

~~(5) — **Recommendations to clients:** Where a Participating Organisation or its Dealer's Representative recommends to any client any transaction for the buying or selling of securities, the Participating Organisation or Dealer's Representative shall—~~

- ~~(a) — take into account and ensure the suitability for the client of such recommended transaction, on the basis of accurate information provided by the client concerning his investment objectives, knowledge and experience in dealing in securities, financial background and other relevant information. In assessing the client's suitability to any transaction, a Participating Organisation or its Dealer's Representative is entitled to rely on representations made by the client;~~
- ~~(b) — disclose to the client the potential risk involved in such recommended transactions and ensure that the client has the knowledge and experience in financial matters that will enable him to evaluate such risks;~~
- ~~(c) — satisfy itself that the client has the financial capability to bear any risk attached to such recommended transactions.~~

~~It is the responsibility of the Compliance Officer to ensure that the Dealer's Representative takes due consideration of information provided by the client as well as other available information in determining whether a client shall be approved in respect of a transaction or recommendation and the extent to which the client shall be so approved.~~

~~(6) — **Client's order:**~~

- ~~(a) — Every Participating Organisation shall ensure that its Dealer's Representatives carry out client's instructions with proper skill, care and diligence and give priority to execution of orders given by the clients in the sequence in which they are received.~~

**Comment [B108]:** See Directive on Business Conduct. Previous Rule 404.3(1)(b) is a principle on its own in Rule 503.

**Comment [B109]:** Covered in the Directives on Business Conduct.

**Comment [B110]:** Covered in the Directives on Business Conduct.

**Comment [B111]:** Covered under Rule 503.2.

**Comment [B112]:** See Rule 503.2 and the relevant directive elaborating on the principle in this rule.

**Comment [B113]:** See the Directives on Business Conduct.

~~(b) — No Participating Organisation, Head of Dealing and Dealer's Representative shall, prior to obtaining written authorisation from a client, accept or act on any instruction received from any other person purporting to act on behalf of that client.~~

~~(7) — Disclosure by Clients:~~

Comment [B114]: See Rule 503.1(8) and (9).

~~(a) — Without derogation to the generality of Rule 404.4(1)(b), Participating Organisations shall, when requested by the Exchange, require a client to disclose and the client shall be bound to disclose, information and documents in relation to any dealing in securities in respect of the client's trading account(s), including but not limited to information on whether or not any dealing in the above account is carried out on another person's behalf and in such instance, the name of, and particulars sufficient to identify the person from whom, through whom or on whose behalf the securities are dealt with by the client. If that person is not the beneficial owner(s) of the securities, the client shall also be required to procure the particulars of the beneficial owner(s) of the securities.~~

~~(b) — [Deleted]~~

~~(8) — [Deleted]~~

~~(9) — Contract Note:~~

Comment [B115]: See the Directives on Business Conduct.

~~(a) — Every Participating Organisation shall ensure that all contract notes issued to its client shall comply with the Regulations issued by the Minister pursuant to Section 90 of the Capital Markets and Services Act and that currency values reflected in the contract note is the currency in which the securities are traded in.~~

~~(b) — The names of the buyer and seller in the contract notes issued in respect of trades done on the Exchange shall, unless otherwise permitted by the Exchange upon notification to the Commission, be the name of the client.~~

~~(10) — Conflict of interest:~~

Comment [B116]: See the Directives on Business Conduct.

~~(a) — No Participating Organisation nor any of its Dealer's Representatives shall knowingly enter into any transaction in which either of them has any interest which conflicts or which may possibly conflict with the interest of any of its client or otherwise conflict with its duty to such client.~~

~~(b) — Notwithstanding Rule 404.3(10)(a) hereinabove, in cases where conflict of interest or conflict of duty cannot be avoided, the Dealer's Representative shall fully disclose such conflict to the Participating Organisation and the client prior to the execution of the transaction.~~

~~(11) — Clients' assets: A Participating Organisation shall ensure that clients' assets which for the time being are in its custody are adequately safeguarded. It shall promptly and properly account for such assets and always ensure compliance with any laws, the provisions of these Rules and directives issued by the Exchange in respect thereof.~~

Comment [B117]: Covered under Rule 504.2(4) and the relevant directive elaborating the principle in this rule.

~~(12) — No unethical inducement: No Participating Organisation shall practise nor provide any form of unethical inducement to any of its clients.~~

Comment [B118]: Covered under in the Directives on Business Conduct.

~~(13) — Action against a client:~~

Comment [B119]: See Rule 503.2(7).

~~(a) — Without prejudice to any of the powers granted to the Exchange in these Rules or under any written law, the Exchange may direct a Participating Organisation to refrain from trading and/or from effecting any dealings in securities for a client, whether that client is a client of the Participating Organisation or of another Participating Organisation, in any of the following circumstances:-~~

~~(i) — In relation to a request made under Rule 404.3(7)(a), until the information and document requested therein is furnished by the client or where the client refuses to furnish the same; and/or~~

- (ii) ~~where an act or omission by the client in relation to or arising from any transactions or dealings in securities reflected in the trading account(s) of the client and/or held in CDS Account(s) pursuant to Rule 404.4(1A), directly or indirectly causes, aids or facilitates a breach of these Rules.~~
- (b) ~~The Exchange may impose any other terms and conditions it deems fit in relation to the directive issued herein. Where such a directive is issued, the Participating Organisation(s) shall be bound to comply with the same.~~
- (c) ~~The Exchange shall notify the Securities Commission of any action taken under Rule 404.3(13).~~

#### **RULE 404.4 – CLIENTS' ACCOUNTS**

##### **~~(1)~~ Opening of Accounts by Participating Organisations:**

- (a) ~~Every Participating Organisation shall open a trading account for each and every client and bring to the notice of every person who applies to open trading account with it the terms and conditions upon which such account shall be operated, which shall include an obligation on the part of the client to comply with these Rules, where the provisions therein apply to the client directly or indirectly and the consequence of a breach thereof. In this respect, the Participating Organisation shall ensure that the client executes the relevant agreement to be bound by the terms and conditions prescribed herein.~~
- (b) ~~Participating Organisation shall take all reasonable steps to ensure that all essential particulars and information about their clients (including but not limited to the clients' financial standing or credit worthiness and clients investment objectives) are obtained and shall satisfy themselves that all such information are accurate before opening any trading account for them. For the purposes of this Rule, Participating Organisations shall establish written procedures on the opening of accounts for their clients and adequate internal control to ensure that all information obtained is properly verified.~~
- (c) ~~All particulars of clients of every Participating Organisation shall be properly recorded and maintained up to date at the office of the Participating Organisation. Participating Organisations should, from time to time as and when material changes occur or otherwise as they deem fit, request their clients to update their particulars as previously provided by them.~~
- (d) ~~In amplification of Rule 404.4(1)(a) and Rule 404.4(b) and without prejudice to Rule 404.3(7), a Participating Organisation shall enquire from its client as to whether the client is trading for himself as a beneficial owner or on behalf of another person. Where the client represents that he is trading on behalf of another person, the Participating Organisation shall only be allowed to open a trading account for that client in the event the following conditions are complied with:-~~
  - (i) ~~that the client is an authorised nominee or exempt authorised nominee; and~~
  - (ii) ~~brings to the notice of that client of its obligation as stipulated in Rule 404.3(7) and the consequence of a breach thereof.~~

**Comment [B120]:** See Rule 503.1(1) and the relevant directives elaborating the principle in this rule.

##### **~~(1A)~~ CDS Account:**

- (a) ~~Where a trading account is opened for a client, the Participating Organisation shall clearly identify the CDS Account where the securities arising from all dealings in the trading account shall be credited into or debited from, as the case may be.~~
- (b) ~~In relation to the CDS Account referred to in Rule 404.4(1A)(a), the Participating Organisation shall procure confirmation and undertaking in writing from the client that~~

**Comment [B121]:** See Rules 503.1(5), (6) and (7).

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~~the beneficial owner in relation to the securities dealt with in the trading account and the CDS Account is the same in the circumstances stipulated below:-~~

~~(i) — Where the client is an authorised nominee or exempt authorised nominee in relation to the securities held in the CDS account; or~~

~~(ii) — Where the client is not the beneficial owner, authorised nominee or exempt authorised nominee in relation to the securities held in the CDS account.~~

~~(c) — In addition to the requirements stipulated under Rule 404.4(1A)(b), the client shall submit to the Participating Organisation a written authorisation and consent from the beneficial owner, authorised nominee or exempt authorised nominee, as the case may be:-~~

~~(i) — to effect any entries in the CDS Account, in relation to or arising from any transactions executed in accordance with these Rules, the Clearing House Rules and Depository Rules, in the trading account of the client; and~~

~~(ii) — to the exercise of any rights over the securities held in the CDS Account therein in accordance with these Rules, the Clearing House Rules and Depository Rules, in relation to or arising from any transactions executed by the client as stipulated under Rule 404.4(1A)(c)(i).~~

~~(d) — For the avoidance of doubt and without prejudice to Rule 404.4(1):~~

~~(i) — the particulars of the CDS Account given for the purpose stipulated under Rule 404.4(1A)(a) need not match the particulars of the trading account of the client, provided always the requirements of Rule 404.4(1A)(b) is complied with; and~~

~~(ii) — notwithstanding that the client may be an authorised nominee or exempt authorised nominee, as the case may be, the particulars of the trading account need only stipulate the particulars of the client.~~

~~(2) — **Maintenance of Records:** — Participating Organisation shall in respect of each client's account maintain records including the following:-~~

~~(a) — date of opening of the account;~~

~~(b) — client's financial position;~~

~~(c) — name of the officer which approved the opening of the account and the date of approval;~~

~~(d) — the types of transactions for which the account is approved;~~

~~(e) — in respect of the transactions effected under the account, the following information -~~

~~(i) — particulars of all transactions including amount of commissions charged in respect of each transaction and type of transactions;~~

~~(ii) — current position of the account including compliance with any margin set by the Participating Organisation;~~

~~(f) — the Dealer's Representative handling the account; and~~

~~(g) — where credit facilities have been granted to the client, the information as to whether the client is a spouse, parent or child of any of the Commissioned Dealer's Representatives of the Participating Organisation.~~

**Comment [B122]:** See Rule 503.1(4) and the relevant directive elaborating the principle in this rule.

~~(3) **Suitability of Requirements:** A Participating Organisation shall ensure that all necessary evaluations and assessments of its clients including those recommended by Commissioned Dealer's Representatives be undertaken. For this purpose the Participating Organisation shall maintain an internal guideline that shall be reviewed from time to time.~~

**Comment [B123]:** See the Directives on Business Conduct. Under the requirements on policies and procedures, there is a requirement to have procedures on opening of accounts including evaluating and assessing clients. We further require POs to ensure that the documented procedures are effectively enforced. As such, we are proposing to delete this rule.

~~(4) **Monthly Statement:** A Participating Organisation shall in respect of each client send monthly statements, in such form as may be prescribed by the Participating Organisation or the Exchange if deemed necessary or expedient, to such client on the movement of the client's assets (which shall include monies, other assets and collateral) by such date every month as determined by the Exchange. Such monthly statements shall also include interest and other charges imposed on the clients.~~

**Comment [B124]:** See the Directives on Business Conduct.

~~(5) **Rule on Debtor - Client:**~~

**Comment [B125]:** Moved to the directives relating to Rule 1201 to consolidate similar requirements under one rule.

~~(a) Every Participating Organisation shall maintain accounts for each client and such account shall be maintained in such a way that the outstanding balance can be readily identified with specified transactions and with the dates on which those transactions occur;~~

~~(b) All clients' accounts having debit balances of Ringgit Malaysia Two Thousand (RM2,000) or more which have remained unpaid for two (2) months or more must be listed so far as they have not been compensated for by subsequent credits or are not secured by satisfactory collateral. Such debts may be excluded from the computation of net assets if they are considered bad or doubtful by the Inspector (as defined in Rule 1303.2).~~

~~(6) **Authentication of clients' application for account opening by Dealer's Representatives:**~~

**Comment [B126]:** See the Directives on Business Conduct.

~~(a) Where a client submits an application to open an account with the Participating Organisation through a Dealer's Representative, the Dealer's Representative shall authenticate his client's application for account opening by ensuring that the application form(s) for account opening is(are) –~~

~~(i) duly completed and all particulars and information of the client in the application form(s) are verified against relevant supporting documents in accordance with the requirements stipulated by the Exchange, the Depository and the written procedures established by the Participating Organisation; and~~

~~(ii) duly executed by his client in person before the Dealer's Representative.~~

~~(b) A Dealer's Representative shall be held liable for any losses arising from his breach of Rule 404.4(6)(a).~~

~~(7) **Exception:** Notwithstanding Rule 404.4(6)(a), a Participating Organisation may at its discretion –~~

**Comment [B127]:** See the Directives on Business Conduct.

~~(a) in the case of an application for the opening of an account made by an institution or corporation, approve such application without requiring the authorised representative of such institution or corporation to be present before the Participating Organisation or its Dealer's Representative; or~~

~~(b) in the case of an application by a client other than that specified in Rule 404.4(7)(a), allow the authentication of a client's application for account opening under Rule 404.4(6)(a) to be done by any of the following persons in place of a Dealer's Representative –~~

~~(i) officers authorised by the Participating Organisation;~~

~~(ii) authorised officers of a Malaysian Embassy or High Commission Consulate;~~

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- ~~(iii) — Notary Public, or in countries that do not have a Notary Public, advocates and solicitors or officers authorised by a licenced stockbroking company with a recognised stock exchange;~~
- ~~(iv) — officer of a registered person referred to under the third column of Item 1(b) of Schedule 4 of the Capital Markets and Services Act, who is authorised by the such registered person to perform the activities referred to under the second column of the said Item 1(b) of Schedule 4; or~~
- ~~(v) — authorised officer of:
  - ~~— (aa) — a licensed bank as defined under BAFIA; or~~
  - ~~— (bb) — an Islamic bank as licensed under the Islamic Banking Act 1983,~~
  - ~~— and with which the individual holds an account; or~~~~
- ~~(vi) — such other person as may be approved by the Exchange from time to time, provided that notification of such approval is forwarded to the Commission within three market days from the date of such approval.~~

~~PROVIDED THAT the Participating Organisation shall in such cases take all such steps as shall be necessary to ensure the genuineness or authenticity of the application.~~

- ~~(c) — Where reference is made to the following terms in Rule 404.4(7), it shall be construed respectively as follows —
  - ~~(i) — “pass through activities” means the act of a registered person, of soliciting and accepting orders from its clients to transact in securities and passing such orders to a participating organisation for execution; as referred to in the context of the Guidelines;~~
  - ~~(ii) — “registered person” means:—
    - ~~(aa) — banks licensed under the Islamic Banking Act 1983; and~~
    - ~~(bb) — licensed institutions as defined under the BAFIA,~~which have been specified to be registered persons under the Capital Markets and Services Act; and~~
  - ~~(iii) — “Guidelines” means Guidelines for Exempt Dealers on Pass Through Activities issued jointly by the Commission and Central Bank on 24 April 2003.~~~~

~~(8) — **Arrangement with Clients:** Except where expressly permitted by the Exchange, no Participating Organisation, Head of Dealing and Dealer's Representative shall —~~

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

~~(9) — **Unauthorised Trading Through Client's Account:** No Participating Organisation, Head Of Dealing and Dealer's Representative shall —~~

**Comment [B128]:** See the Directives on Business Conduct.

**Comment [B129]:** See the Directives on Business Conduct.

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- (a) — execute their personal trades in the account of a client; or
- (b) — use a client's account to trade for a third party.

**RULE 404.5 — COMMUNICATION**

~~(1) — Exchange's notices, etc.: A Participating Organisation shall (if not already disseminated on-line via the Exchange's computer network) ensure that all relevant notices, bulletins and circulars issued by the Exchange and the Commission are promptly disseminated to all its registered person(s) and relevant employees. Procedures for the said prompt dissemination shall be established by Participating Organisations.~~

Comment [B130]: See Rule 501.7.

~~(2) — Communication:~~

~~(a) — A Participating Organisation shall record and retain the names of persons who prepared materials in all sales and educational literature, and advertisements, the name of persons who approved the same and the source of any recommendation contained therein for a minimum period of seven (7) years.~~

Comment [B131]: We are proposing to do away with this requirement and rely on Rule 501.4 that requires POs to keep proper records to evidence compliance with the requirements of these Rules.

~~(b) — A Participating Organisation shall not forward any form of communication or duplicate copies thereof intended for a client to any other person unless the said client has instructed the Participating Organisation in writing to forward such communication to such other person.~~

Comment [B132]: See Rule 503.2(3).

**RULE 404.6 — BROKERS ACCOUNTS**

~~(1) — Every Participating Organisation shall maintain accounts for each other Participating Organisation and each account shall be kept in such a way that the outstanding balance can be readily identified with specified transactions and the date on which these transactions occurred.~~

Comment [B133]: We are proposing to do away with the requirement for a PO to maintain accounts for other POs as this requirement is no longer necessary as a PO's obligations are to the Clearing House.

**RULE 404.7 — BASIC REQUIREMENTS**

~~(1) — All Participating Organisations shall have accounting systems and controls designed in such a way that —~~

Comment [B134]: Covered under Rule 1201.1 read together with the relevant directives.

~~(a) — Outstanding contracts can be readily identified with date sequence within counter;~~

~~(b) — Outstanding debtor balances can be readily identified with specific transactions and with the dates on which these transactions occur;~~

~~(c) — General ledger trial balances can and shall be, extracted and squared at least once a month by not later than the tenth (10th) day of the following month;~~

~~(d) — Where client and broker balances are represented by control accounts in the general ledger, the individual client and broker balance can and shall be extracted and reconciled with the control account at least once a month by not later than tenth (10th) day of the following month; and~~

~~(e) — Bank reconciliations shall be prepared at least once a month by not later than the tenth (10th) day of the following month.~~

~~(2) — All Participating Organisations shall submit to the Exchange a monthly declaration in the format set out in Appendix 4 or such other format as may be determined by the Exchange, not later than the fifteenth (15<sup>th</sup>) day of the following calendar month or as may be prescribed by the Exchange from time to time.~~

Comment [B135]: We are no longer requiring POs to submit written confirmations of compliance of the Rules to us. We will be relying on the fact that POs are required to comply with these Rules.

**RULE 404.8 — CURRENCY**

Comment [B136]: Moved to Rule 501.10.

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- (1) ~~Unless stated otherwise, all Rules containing references to RM values which relate to transactions in securities, will also apply to all transactions in securities denominated in foreign currency. In order to apply the Rules, the foreign currency values must be converted to RM values.~~
- (2) ~~Unless stated otherwise, all monies payable to the Participating Organisation from the Exchange or from the Participating Organisation to the Exchange pursuant to these Rules or directives will be in RM even where the monies payable relate to transactions in securities denominated in foreign currency.~~

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**RULE 405 — PARTICIPATING ORGANISATION'S TRUST ACCOUNT**

**~~RULE 405.1 — PARTICIPATING ORGANISATION'S TRUST ACCOUNT~~**

- ~~(1) Every Participating Organisation shall open or maintain at least one (1) trust account with a licensed institution as defined in the Banking and Financial Institutions Act 1989 ("Trust Account").~~
- ~~(2) A Participating Organisation shall pay into its Trust Account—~~
- ~~(a) all monies, less any brokerage and other proper charges, received by the Participating Organisation from or on account of a client for the purchase of securities, not later than the next bank business day or such other day as may be specified by the Commission on which they were received by the Participating Organisation;~~
  - ~~(b) all monies, less any brokerage and other proper charges, received by the Participating Organisation for or on account of a client for the sale of securities by a client, not later than the next bank business day or such other day as may be specified by the Commission on which they were received by the Participating Organisation.~~
- ~~(3) Any cheques issued to a client in respect of sale of securities by the client shall be issued out of the Trust Account.~~
- ~~(4) Participating Organisations shall establish clear written guidelines on the treatment of client's monies under this Rule 405.~~
- ~~(5) A Participating Organisation shall not, by way of an agreement or by any other way, obtain the consent of the client which would result in a variation or avoidance of the obligation imposed on the Participating Organisation under this Rule 405.~~

**Comment [B137]:** See Rule 503.2(4) and the directives elaborating on the principle in this rule.

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~~RULE 406~~ — ~~OUTSOURCING~~

**Comment [B138]:** We are proposing to incorporate these requirements on outsourcing of back office functions under the requirements on organisation and structure of POs under Chapter 6.

~~RULE 406.1~~ — ~~DEFINITION~~

~~(1) — For the purposes of this Rule 406 —~~

~~Back Office Functions means the back office functions as envisaged under clause 4 of the Guiding Principles.~~

~~Guiding Principles means the “Guiding Principles For Outsourcing of Back Office Functions For Capital Market Intermediaries” issued by the Securities Commission on 29 June 2005, including subsequent amendments, modifications, variations, supplements or substitutes thereto and any directives or guidelines as may be issued thereunder.~~

~~RULE 406.2~~ — ~~OUTSOURCING OF BACK OFFICE FUNCTIONS~~

~~(1) — A Participating Organisation may be permitted to outsource its Back Office Functions subject to the prior approval of the Exchange and compliance with the Guiding Principles.~~

~~(2) — The Guiding Principles shall be regarded as part of these Rules and consequently, any breach by the Participating Organisations of the Guiding Principles shall be deemed to be a breach of these Rules.~~

~~(3) — The Exchange may issue any directives, rulings and guidelines in relation to the outsourcing of the Back Office Functions of a Participating Organisation, in consultation with the Commission, from time to time.~~

~~RULE 406.3~~ — ~~INVESTMENT BANK~~

~~(1) — This Rule 406 does not apply to an Investment Bank and is substituted with the provisions in the Guidelines on Investment Bank and such other requirements of the Central Bank relating to the outsourcing of back office functions (“the Relevant Guidelines and Requirements”), if any. The Relevant Guidelines and Requirements are deemed to be part of these Rules.~~

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**RULE 407 — INSURANCE REQUIREMENTS**

**Comment [B139]:** See Rule 504.1 and the directives elaborating on the principles in this rule.

**RULE 407.1 — OBLIGATION TO HAVE INSURANCE**

- (1) — Every Participating Organisation must either, on its own or at Group level, take out and maintain at all times an insurance policy in connection with its business as permitted in Rule 503 (“Permitted Activities”).
- (2) — The Participating Organisation must ensure that the insurance policy taken out and maintained in accordance with Rule 407.1 (1) above complies with the relevant laws, rules and guidelines.

**RULE 407.2 — AMOUNT AND NATURE OF COVER**

- (1) — The Participating Organisation must ensure that the insurance policy taken out and maintained in accordance with Rule 407.1 (1) above is adequate having regard to the nature and extent of its Permitted Activities and the responsibilities and risks assumed or which may be assumed by the Participating Organisation in connection with those activities.
- (2) — Without restricting the generality of Rule 407.2 (1) above, the Participating Organisation must ensure that the insurance policy taken out and maintained by it:-
  - (a) — has a minimum limit of indemnity of RM5 million; and
  - (b) — includes the areas of coverage set out in Schedule 11.
- (3) — The Participating Organisation must within 2 weeks following the issuance of a new insurance policy or the renewal of an existing insurance policy:-
  - (a) — notify the Exchange in writing of the following:-
    - (i) — the name of the insurer;
    - (ii) — the amount and nature of cover;
    - (iii) — the date on which the cover becomes effective; and
    - (iv) — the date on which the cover will expire.
  - (b) — submit to the Exchange a written confirmation that the amount and nature of cover complies with Rules 407.2(1) and 407.2(2).

**RULE 407.3 — NOTIFICATION OF CLAIMS**

- (1) — The Participating Organisation must notify the Exchange of any claim or potential claim against the insurance policy taken out and maintained in accordance with Rule 407.1 (1) above within 2 market days from when it becomes aware of the claim or potential claim.
- (2) — The Participating Organisation must ensure that the notification includes the relevant details of the claim or potential claim.

[End of Chapter]



**CHAPTER 56 ORGANISATION AND STRUCTURE OF PARTICIPATING ORGANISATIONS**

**~~RULE 501~~ GENERAL**

**~~RULE 501.1 GENERAL PROVISIONS~~**

~~(1) This Chapter is applicable in all respects to Participating Organisations—~~

~~(a) which qualify, and intend to apply to the Commission for the status of a Universal Broker and to the Exchange for approvals related to the commencement of operations as a Universal Broker in accordance with the provisions herein contained;~~

~~(b) which are Universal Brokers, Investment Banks and Non-Universal Brokers respectively in respect of the following:~~

~~(i) scope of permitted businesses;~~

~~(ii) establishment and operation of branch office(s);~~

~~(iii) permitted businesses of principal office and branch office(s);~~

~~(iv) basic organisational and reporting structure of a branch office;~~

~~(v) proprietary trading;~~

~~(vi) corporate finance activities; and~~

~~(vii) risk management; and~~

~~(c) which are Universal Brokers and Investment Banks in respect of the following:~~

~~(i) compliance function~~

~~(ii) [Deleted]~~

~~(iii) [Deleted]~~

~~(iv) [Deleted]~~

~~(v) [Deleted]~~

**~~RULE 501.1A INVESTMENT BANK~~**

~~(1) Where a provision in the Chapter is expressed to be inapplicable to Investment Banks, it shall be substituted with the relevant provisions in the Guidelines on Investment Banks and/or any other requirements of the Central Bank pertaining to the same (“the Relevant Guidelines and Requirements”). The Relevant Guidelines and Requirements shall be deemed to be part of these Rules.~~

**~~RULE 501.2 DEFINITIONS AND INTERPRETATION~~**

~~(1) For the purposes of this Chapter, unless the context otherwise requires—~~

~~Acquired Participating means the Participating Organisation(s) for which a proposal for the acquisition, merger, take-over or amalgamation of its/their~~

**Comment [B1]:** Deleted as the Exchange is proposing for all rules governing other capital market activities other than trading in securities on the stock market of the Exchange be deleted from this rule and covered under SC's Licensing handbook. The rule will only reflect the principle that POs will need to inform the Exchange in the event they undertake any other business activities permitted by SC or BNM in the case of an Investment Bank. See Rule 601.1

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Organisation(s)	<del>assets or any interests and business thereof has been made by an Applicant Participating Organisation, and where the context so permits, the expression "Acquired Participating Organisation" shall mean any of them.</del>
Applicant Participating Organisation	<del>means a Participating Organisation which intends to make, or is making an application to the Exchange and/or the Commission pursuant to, and in accordance with, this Chapter.</del>
clearing house	<del>means the clearing house known as BURSA MALAYSIA DERIVATIVES CLEARING SDN. BHD. and any other clearing house approved by the Commission under Section 38 of the Capital Markets and Services Act to, inter alia, provide clearing house facilities for futures contracts traded on a futures market.</del>
clients' monies	<del>means all amounts, less any brokerage and other proper charges, received by a Participating Organisation from, on behalf of or on account of a client for the purchase or sale, as the case may be, of securities.</del>
Consolidation Policy Framework	<del>means the Commission's Policy Framework on the Consolidation of the Stockbroking Industry, as may be amended from time to time.</del>
corporate finance activities	<del>means all activities as envisaged in the Guidelines on Permitted Activities for Stockbroking Companies to be corporate finance activities and all primary market activities in relation to unlisted debt securities undertaken by advisers as stipulated in the Guidelines on Permitted Activities for Stockbroking Companies.</del>
dual-licensed Dealer's Representative	<del>means a Dealer's Representative who has been issued with a valid futures broker's representative's licence.</del>
EAF Guidelines	<del>means the Commission's Guidelines on the Establishment of Electronic Access Facilities by a Universal Broker and Eligible Non-Universal Broker, as may be amended from time to time.</del>
electronic access facility	<del>means any physical site, location or premise at which is situated or installed physical hardware or equipment—</del>  <del>(a) that does, or as the case may be, is able to, house or accommodate electronic systems, devices or platforms; and</del>  <del>(b) which hardware or equipment when used in conjunction with the electronic systems therein does, or as the case may be, is able to, provide broker-client linkages or electronic client ordering systems.</del>
Guidelines on Permitted Activities for Stockbroking Companies	<del>means the Commission's policy on permitted activities for stockbroking companies set out in the Licensing Handbook and includes all amendments, modifications, variations, supplements or substitutes made thereto.</del>
Local Member	<del>shall have the same meaning as prescribed thereto in the business rules.</del>
Nominating Member	<del>shall have the same meaning as prescribed thereto in the business rules.</del>
Operative Date	<del>means 1 January 2002 or such other date as may from time to time be prescribed by the Commission in its absolute discretion.</del>

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<del>paid-up capital</del>	<del>in relation to a Participating Organisation, means its issued capital which has been fully paid-up by the shareholders.</del>
<del>Proposed Consolidation</del>	<del>in relation to a Participating Organisation, means the proposed acquisition, merger, take-over or amalgamation of the assets or any interests and business of other Participating Organisation(s) pursuant to the Consolidation Policy Framework.</del>
<del>Supervisory branch office</del>	<del>means a branch office of a Participating Organisation which undertakes and performs the compliance functions of another branch office of the Participating Organisation, as envisaged in this Chapter.</del>

~~(2) For the purposes of this Chapter:-~~

- ~~(a) words and expressions defined in the business rules of the exchange company or the clearing house, as the case may be, shall save as otherwise defined herein or unless the context otherwise requires, bear the same meaning in these Rules; and~~
- ~~(b) where a word or expression used herein has not been defined in these Rules, then that word or expression shall bear the same meaning as is ascribed thereto in the Capital Markets and Services Act.~~

**~~RULE 501.3 — RIGHT TO REVIEW~~**

~~The provisions in this Chapter shall remain in full force and effect unless and until amended, varied, modified, supplemented or substituted therefor as the Exchange may deem to be necessary and expedient by way of any circulars, directives or guidelines issued by the Exchange from time to time.~~

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~~RULE 502 – QUALIFICATION AS UNIVERSAL BROKER~~

~~RULE 502.1 – PRE-REQUISITE CRITERIA~~

~~Pursuant to the process of consolidation under the Consolidation Policy Framework, an Applicant Participating Organisation intending to make, or is making, an application for the recognition as a Universal Broker shall fulfil, to the satisfaction of the Exchange and the Commission, such qualifying criteria or conditions prescribed by the Commission by way of directives or guidelines (and all subsequent amendments, variations, modifications or supplement thereto) issued by the Commission from time to time.~~

~~RULE 502.2 – APPLICATION PROCEDURES~~

~~An Applicant Participating Organisation intending to make, or is making, an application pursuant to Rule 502.1 shall comply with the procedures prescribed by the Exchange and/or the Commission by way of directives, circulars or guidelines as may be issued from time to time.~~

**Comment [B2]:** This rule 502 is deleted as the categories of POs and qualification for the different categories of POs are contained in the SC's Policy Framework on the Consolidation of the Stockbroking Industry and as such, is governed by SC.

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**RULE 56031 PERMITTED BUSINESS OF  
PARTICIPATING ORGANISATIONS**

**RULE 56031.1 UNIVERSAL BROKER AND INVESTMENT BANK Permitted Business**

~~(1) Subject always to such terms, conditions, restrictions and/or limitations as may be imposed by the Exchange and/or the Commission from time to time and without derogation to any provisions of these Rules (including without limitation all directives, guidelines and circulars issued by the Exchange from time to time) and the Securities Laws, a Participating Organisation upon achieving the status of Universal Broker and Investment Bank – may carry out any other business apart from trading in Securities on the stock market of the Exchange if permitted by the Commission or the Central Bank (“Permitted Business”).~~

**Comment [B3]:** Deleted as activities or business other than trading activities on the stock market of the Exchange are proposed to be governed by SC. The Exchange will only regulate trading activities on the stock market of the Exchange.

~~(2) A Participating Organisation must notify the Exchange in writing prior to the commencement of the Permitted Businesses.~~

**Comment [B4]:** The POs will be required to notify the Exchange of its other permitted activities notwithstanding that the Exchange may not regulate the activities.

~~(a) shall be permitted to carry out the businesses for which a licence under Part III of the Capital Markets and Services Act is required, including:~~

**Comment [B5]:** (a) to (e) are deleted in view of the general principle stated under Rule 601.1. In any event the same is reflected in the SC's Licensing Handbook and the Policy on Permitted Activities.

~~(i) dealings in securities for its own account and/or as agent on account of its clients pursuant to Rule 601.3 and margin financing;~~

~~(ii) futures broking business;~~

~~(iii) corporate finance activities pursuant to Rule 508; and~~

~~(iv) provision of custodial services and fund management;~~

~~Provided Always the Universal Broker and Investment Bank shall at all times fully comply with these Rules; and~~

~~(b) shall be permitted to carry out the business of dealings in debt securities, such as any government and corporate debentures, at such time as may be appropriate Provided Always that the relevant framework, rules and regulations in respect thereof have been developed and implemented by the Exchange, in consultation with the Commission;~~

~~(c) in the event of any other capital market products being introduced at any time in the future by the Commission, the Exchange or the exchange company, as the case may be, would be permitted to trade in such products Provided Always that the relevant framework, rules and regulations in respect thereof have been developed and implemented by the Exchange, the exchange company or such other relevant authority, as the case may be;~~

~~(d) in the event that the Universal Broker or Investment Bank is a Participating Dealer, shall be permitted to carry out the activities of a Participating Dealer as stipulated in the Guidelines on Exchange Traded Funds Provided Always that the Universal Broker and Investment Bank comply with the relevant rules, regulations, directives, guidelines or other instruments in respect of and relating to Exchange Traded Funds; and~~

~~(e) shall be permitted to carry out all activities allowed to be undertaken by a Universal Broker and Investment Bank pursuant to the Guidelines on Permitted Activities of Stockbroking Companies or such other relevant guidelines, regulations or directives or other instruments issued by the Commission Provided Always that the Universal Broker and Investment Bank comply with the relevant rules, regulations, directives,~~

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~~guidelines or other instruments issued in respect thereof by the Commission and/or the Exchange.~~

~~(3)(5) The Exchange shall be entitled to impose any terms and conditions on any of these businesses require the Participating Organisation to take such steps as the Exchange deems thinks fit to ensure that the manages the potential risks and potential conflicts of interest arising from carrying out such both the Permitted BBusinesses and the Participating Organisation's business of dealing/trading in Securities on the stock market of the Exchange. Investment Bank~~

**Comment [B6]:** Deleted as the Exchange has the power to impose any term or condition to the POs under Rule 201.1(2)

~~(34) A Participating Organisation may carry out the Permitted Businesses at its Principal Office or Branch Offices~~

**Comment [B7]:** This provision is taken from Rule 504.4(1) in relation to the permitted activities that can be conducted by the POs at the branch office. We have now reflected a principle that a PO can conduct its Permitted Business whether at the principal office or any of the branch offices.

~~(2) Subject to the Securities Laws, a Universal Broker and an Investment Bank intending to carry out the businesses referred to in Rule 503.1(1)(a)(ii) shall be required to make the requisite application(e) to—~~

**Comment [B8]:** Deleted as other capital market activities are no longer covered by the Exchange.

- ~~(a) the Commission to be licensed to carry on the business of trading in futures contracts under Part III of the Capital Markets and Services Act;~~
- ~~(b) to the exchange company to be admitted as a participant; and~~
- ~~(c) to the clearing house to be admitted as a clearing participant;~~

~~whereupon the Universal Broker and Investment Bank shall comply with, and be subject to, all rules, regulations, circulars, directives and guidelines as may from time to time be issued by the exchange company, or the clearing house, as the case may be.~~

~~(3) For the avoidance of doubt, the following provisions of these Rules shall not be applicable to a Universal Broker and an Investment Bank—~~

**Comment [B9]:** Deleted as this activities in relation to corporate finance is proposed to be deleted from the rules and consolidated under SC's licensing handbook.

Rule	Heading	Extent of Inapplicability
601.4	New Issue of Securities	To the extent of— (a) its corporate finance activities; and (b) the business permitted pursuant to Rule 503.1(1)(a)(ii).
1001.5	Flotation	To the extent of its corporate finance activities.

~~(4) A Universal Broker and Investment Bank intending to carry out any of the businesses referred to in Rule 503.1(1) shall notify the Exchange in writing prior to the commencement of each of these businesses. The Exchange shall be entitled to impose any terms, conditions, restrictions and/or limitations on any of these businesses as the Exchange deems fit.~~

**Comment [B10]:** This rule is already reflected in Rule 601.1(2) and (3).

~~(5) An Investment Bank may, in addition to the businesses referred to in this Rule 503.1(1), carry out the businesses for which a merchant banking licence under BAFIA is required, subject to compliance with the Guidelines on Investment Banks and/or such other guidelines, regulations, circulars and directives and guidelines as may from time to time be issued by the Central Bank. An Investment Bank intending to carry out any of the businesses referred to herein shall notify the Exchange in writing prior to the commencement of each of these businesses. The Exchange shall be entitled to impose any terms and conditions on any of these businesses as the Exchange deems fit to ensure that the Investment Bank's business of dealing in securities is not affected by—~~

**Comment [B11]:** This rule is already reflected in Rule 601.1(2) and (3).

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- ~~(a) — the inherent risks in carrying out these businesses; and/or~~
- ~~(b) — potential conflicts of interest arising from carrying out these businesses and the business of dealing in securities on the stock market of the Exchange.~~

**RULE 503.2 — NON-UNIVERSAL BROKER**

~~(1) — Subject always to such terms, conditions, restrictions and/or limitations as may be imposed by the Exchange and/or the Commission from time to time and without derogation to any provisions of these Rules and the Securities Laws, a Non-Universal Broker shall be permitted to carry out only the following types of business and/or activities *Provided Always* these Rules are at all times complied with —~~

- ~~(a) — dealings in securities for its own account and/or as agent on account of its clients;~~
- ~~(b) — margin financing;~~
- ~~(c) — corporate finance activities pursuant to Rule 508;~~
- ~~(d) — in the event that the Non-Universal Broker is a Participating Dealer, carrying out the activities of a Participating Dealer as stipulated in the Guidelines on Exchange Traded Funds *Provided Always* that the Non-Universal Broker complies with the relevant rules, regulations, directives, guidelines or other instruments in respect of and relating to Exchange Traded Funds; and~~
- ~~(e) — all activities allowed to be undertaken by a Non-Universal Broker pursuant to the Guidelines on Permitted Activities for Stockbroking Companies or such other relevant guidelines, regulations or directives or other instruments issued by the Commission *Provided Always* that the Non-Universal Broker complies with the relevant rules, regulations, directives, guidelines or other instruments issued in respect thereof by the Commission and/or Exchange.~~

~~(2) — In addition to the permitted businesses under Rule 503.2(1), an Eligible Non-Universal Broker and Special Scheme Broker shall be permitted to undertake or carry on the business of trading in futures contracts for which a licence under Part III of the Capital Markets and Services Act is required *Provided Always* the Eligible Non-Universal Broker and Special Scheme Broker shall at all times fully comply with the requirements prescribed in Rule 503.2(3), which shall equally apply to the Eligible Non-Universal Broker and Special Scheme Broker.~~

~~(3) — Subject to the Securities Laws, an Eligible Non-Universal Broker and Special Scheme Broker intending to carry on the businesses referred to in Rule 503.2(2) shall be required to make the requisite application(s) to —~~

- ~~(a) — the Commission to be licensed to carry on the business of trading in futures contracts under Part III of the Capital Markets and Services Act;~~
- ~~(b) — to the exchange company to be admitted as a trading participant; and~~
- ~~(c) — to the clearing house to be admitted as a clearing participant;~~

~~whereupon the Eligible Non-Universal Broker and Special Scheme Broker shall comply with, and be subject to, all rules, regulations, circulars, directives and guidelines as may from time to time be issued by the exchange company, or the clearing house, as the case may be.~~

Comment [B12]: Deleted as activities other than trading activities on the stock market of the Exchange is proposed to be consolidated under SC's licensing handbook.

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~~(4) An Eligible Non-Universal Broker, Special Scheme Broker and Non-Universal Broker intending to carry out any of the businesses referred to in paragraphs (1) and (2) of this Rule 503.2 shall notify the Exchange in writing prior to the commencement of each of these businesses. The Exchange shall be entitled to impose any terms, conditions, restrictions and/or limitations on any of these businesses as the Exchange deems fit.~~

**Comment [B13]:** Deleted as this requirement is contained in the new Rule 601.1(2) which requires the PO to give a written notice to the Exchange prior to the commencement of the Permitted Business.

~~**RULE 503.3 – FUTURES BROKING BUSINESS BY UNIVERSAL BROKER, INVESTMENT BANK, ELIGIBLE NON-UNIVERSAL BROKER AND SPECIAL SCHEME BROKER**~~

**Comment [B14]:** This rule is deleted as the Exchange only regulates the trading activities of the PO on the stock market of the Exchange

~~(1) **Structure:** A Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker may at its discretion determine the structure of its futures broking activities permitted under Rule 503.1(1)(a)(ii) and Rule 503.2(2), subject to the requirements prescribed in Rule 503.1(2) and Rule 503.2(3) and the conditions hereinafter appearing being fulfilled to the satisfaction of the Exchange.~~

~~(2) **Subsidiary:** In relation to a Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker which conducts futures broking business through its subsidiary or related company licensed to carry on the business of trading in futures contracts under the Capital Markets and Services Act ("licensed futures company"), the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker shall be permitted to station the following persons at its principal office and/or any of its branch office(s):-~~

~~(a) futures broker's representatives engaged or employed by the licensed futures company; and~~

~~(b) Local Participants for whom the licensed futures company is a Nominating Participant,~~

~~Subject Always to the requirements prescribed hereinafter appearing.~~

~~(3) **Specific requirements:** Further to the preceding Rule, the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker shall ensure the following:-~~

~~(a) the licences of the futures broker's representatives engaged or employed by the licensed futures company who are stationed in the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's principal office or any of its branch office(s) are varied or cause to be varied, as the case may be, by the Commission accordingly;~~

**Comment [B15]:** Deleted as the requirements on dual licensing arrangement is proposed to be consolidated under SC's licensing handbook.

~~(b) the futures broking business permitted to be conducted at the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's principal office and/or any of its branch office(s) shall be segregated from the other activities of the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker, which measures shall include without limitation the following~~

**Comment [B16]:** This requirement is deleted as we have reflected a general principle in Rule 501.2(1)(a) coupled with a directive (500-001) that the PO must maintain segregation of its other businesses from the business of trading in securities.

~~(i) there shall be no sharing of employees who are common to the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker and the licensed futures company for any purpose whatsoever except for the purpose of carrying out the back office system and operations in relation to the conduct of futures broking business at the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's principal office and/or any of its branch;~~

**Comment [B17]:** This rule is deleted as it is covered under a general rule that allows for outsourcing of back office functions and supervisory functions. See Rule 603 and Rule 607.

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~~(ii) the back office system and operations in relation to the conduct of futures broking business at the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's principal office and/or any of its branch office(s) shall at all times remain under the auspices and purview of the licensed futures company;~~

~~(iii) maintenance of Chinese Walls and firewalls to prevent the flow of information between the licensed futures company's Local Participants and futures broker's representatives and the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's Dealer's Representatives and in respect hereof, include without limitation:~~

~~(aa) the trading facilities pertaining to futures broking business shall be physically segregated from the ATS of the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker; and~~

~~(bb) the establishment and implementation of policies and procedures governing restricted access to the trading facilities pertaining to futures broking business and the ATS;~~

~~(c) in relation to compliance functions –~~

~~(i) the licensed futures company shall designate one or more of its compliance officers to carry out the supervisory responsibilities in relation to compliance with the business rules in respect of the futures broking business being conducted at the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's principal offices and/or any of its branch office(s), albeit the compliance officer need not be physically present thereat unless otherwise required by the Exchange and/or the exchange company;~~

~~(ii) notwithstanding the preceding paragraph and unless otherwise required by the Exchange, the exchange company and/or the Commission, the licensed futures company may elect to have the Compliance Officers of the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker undertake the compliance functions envisaged in the business rules *Provided Always:*~~

~~(aa) the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's Compliance Officers' roles and responsibilities are not in any way whatsoever compromised or affected; and~~

~~(bb) the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's Compliance Officer so acting shall have passed the relevant examination approved by the exchange company pursuant to the business rules;~~

~~whereupon the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker shall submit all compliance reports pertaining to futures broking business to the licensed futures company's compliance officer but without derogation to the responsibility for supervisory activities of the futures broking business pursuant to the business rules being at all times vested in the licensed futures company and its compliance officer;~~

~~(d) the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker respectively furnishes a written declaration to the Exchange and shall cause the licensed futures company to furnish a written declaration to the exchange~~

**Comment [B18]:** This requirement is deleted as we have reflected a general principle in Rule 501.2(1)(a) coupled with a directive (500-001) that the PO must maintain segregation of its other businesses from the business of trading in securities.

**Comment [B19]:** Deleted as these requirements are reflected in the Rules of Bursa Derivatives.

**Comment [B20]:** This provision is now reflected in a directive issued under Rule 604 pertaining to compliance functions to be undertaken by a PO.

**Comment [B21]:** Deleted as Bursa Derivatives would know where the futures broker's representatives are located as they are registered with Bursa Derivatives.

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~~company, in form and substance acceptable to the Exchange or the exchange company, of –~~

~~(i) the particulars of the futures broker's representative stationed at the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's principal office and/or any of its branch office(s) and any changes thereto from time to time; and~~

~~(ii) the respective activities of such futures broker's representatives, whether proprietary or agency trading; and~~

~~(e) the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker respectively gives the Exchange and the Commission, and shall cause the licensed futures company to give to the exchange company and the Commission, prior notification in writing of the respective locations of its Local Participants who are stationed at the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's principal office and/or any of its branch office(s) and such notice shall not be less than fourteen (14) market days from the commencement date of the Local Participant concerned at the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's premises.~~

~~(4) **Integrated business:** In relation to a Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker which intends to merge or amalgamate the futures broking business being carried out by a licensed futures company with its other businesses as a Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker, the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker shall at all times comply with:-~~

~~(a) the relevant business rules of the exchange company and the clearing house, including but not limited to the transfer of participants from the licensed futures company to the Universal Broker, Investment Bank, Eligible Non-Universal Broker or Special Scheme Broker, as the case may be, and contribution by the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker to the Fidelity Fund; and~~

~~(b) such terms and conditions as may be prescribed by the Exchange, the exchange company, the clearing house and/or the Commission from time to time.~~

### ~~RULE 503.4 – FUND MANAGEMENT BY UNIVERSAL BROKER AND INVESTMENT BANK~~

~~(1) **Specific requirements for fund management:** In amplification of Rule 503.1(1)(a)(iv), a Universal Broker and Investment Bank shall be permitted to carry on the business of fund management pursuant to Section 58 of the Capital Markets and Services Act subject to the following conditions:-~~

~~(a) the Universal Broker or Investment Bank, as the case may be, holding a valid licence to carry on the business of fund management under Part III of the Capital Markets and Services Act;~~

~~(b) the Universal Broker and Investment Bank respectively employs or engages or has employed or engaged, as the case may be, person(s) on a full-time basis to carry out the activities of a fund manager's representative ("dedicated fund manager's representative(s)");~~

~~(c) a dedicated fund manager's representative(s) shall be a person who has passed the examination(s) prescribed by the Commission from time to time in respect of fund manager's representatives, unless otherwise exempted in the cases set out in the Licensing Handbook;~~

**Comment [B22]:** Deleted as this requirement will be reflected in the Exchange's directive in relation to the submission of information by POs.

**Comment [B23]:** Deleted as Bursa Derivatives would know where the Local Participants are stationed since they are registered with Bursa Derivatives.

**Comment [B24]:** Deleted as these requirements are already reflected in Rule 601A.4 of the Rules of Bursa Derivatives.

**Comment [B25]:** Deleted as all fund management activities are proposed to be consolidated under SC's Licensing Handbook.

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- ~~(d) a Dealer's Representative qualifies to be employed or engaged as a dedicated fund manager's representative(s) upon his fulfilment of the criteria prescribed in the preceding Rule;~~
- ~~(e) the dedicated fund manager's representative(s) shall not be permitted to effect any personal dealings in securities except for—~~
  - ~~(i) securities which he had been holding prior to his employment or engagement as a dedicated fund manager's representative(s); or~~
  - ~~(ii) securities which he had been holding or hold by virtue of an Employee Share Option Scheme;~~

~~Provided Always that any dealings permitted herein shall be subject to the requirements pertaining to transactions by employees as prescribed in these Rules.~~

~~(2) **Unit trust:** In amplification of Rule 503.1(1)(a)(iv), a Universal Broker and Investment Bank shall be permitted to act as a management company in relation to a unit trust scheme *Subject Always to the Universal Broker and Investment Bank being at all times in compliance with the relevant rules, regulations, directives, guidelines or other instruments made pursuant thereto from time to time by the Commission and/or any other relevant regulatory authority.*~~

**Comment [B26]:** Deleted as all unit trust activities are proposed to be consolidated under SC's Licensing Handbook.

~~**RULE 503.5 – DEALINGS IN DEBT SECURITIES BY UNIVERSAL BROKER, INVESTMENT BANK AND NON-UNIVERSAL BROKER**~~

**Comment [B27]:** Deleted as all activities in debt securities are proposed to be consolidated under SC's Licensing Handbook.

- ~~(1) **Dealings in unquoted private debt securities of listed Issuer by Non-Universal Broker:** Further to Rules 503.2 and 601.3, a Non-Universal Broker is permitted to deal in unquoted private debt securities issued by a company which has its shares listed and quoted on the Official List of the Exchange ("listed Issuer"), whether as principal or agent subject to the following conditions—~~
  - ~~(a) the Non-Universal Broker shall have:~~
    - ~~(i) adequate capital at all times and in any event, Effective Shareholders' Funds (as defined in Rule 1105) of not less than Ringgit Malaysia One Hundred Million (RM100,000,000) or such other amount as may from time to time be prescribed by the Exchange or directed by the Commission; and~~
    - ~~(ii) adequate experienced personnel and resources, as well as sufficient internal controls, to undertake and manage these activities, and~~
  - ~~(b) a Non-Universal Broker is not permitted to participate in the primary market of such unquoted private debt securities issued by listed Issuers (whether as principal dealers, advisers, lead managers, lead agents or main underwriters), save and except for acting as:~~
    - ~~(i) sub-underwriter; and/or~~
    - ~~(ii) agent for placement,~~

~~in connection with such issue.~~

~~For the purposes herein, the expression "private debt securities" shall bear the same meaning as is ascribed thereto in the Commission's Guidelines On the Offering Of Private Debt Securities" (as may be amended from time to time), which provides that the expression "private debt securities" bears the same meaning and is used synonymously as the term "debenture" as defined in Section 2(1) of the Securities Commission Act (currently defined in Section 2(1) of the Capital Markets and Services Act).~~

- ~~(2) — Dealings in unquoted private debt securities of non-listed Issuer by Non-Universal Broker: — Notwithstanding the aforesaid and further to Rules 503.2 and 601.3, a Non-Universal Broker is permitted to deal in private debt securities other than that envisaged in the preceding Rule subject to the following conditions —~~
- ~~(a) — the Non-Universal Broker shall have:~~
- ~~(i) — adequate capital at all times and in any event, Effective Shareholders' Funds of not less than Ringgit Malaysia One Hundred Million (RM100,000,000) or such other amount as may from time to time be prescribed by the Exchange or directed by the Commission; and~~
- ~~(ii) — adequate experienced personnel and resources, as well as sufficient internal controls, to undertake and manage these activities;~~
- ~~(b) — a Non-Universal Broker is not permitted to participate in the primary market of such private debt securities (whether as principal dealers, advisers, lead managers, lead agents or main underwriters), save and except for acting as:~~
- ~~(i) — sub-underwriter; and/or~~
- ~~(ii) — agent for placement;~~
- ~~in connection with such issue; and~~
- ~~(c) — a Non-Universal Broker which has not completed an acquisition, merger, take-over or amalgamation of the assets or any interests and business of at least one (1) Member Company/Participating Organisation pursuant to the Consolidation Policy Framework and desirous of dealing in private debt securities shall be required to procure the prior written consent of the Exchange pursuant to Rule 601.3(1)(f) and Rule 601.3(2) on a case to case basis;~~
- ~~(d) — a Non-Universal Broker which has completed an acquisition, merger, take-over or amalgamation of the assets or any interests and business of at least one (1) Member Company/Participating Organisation pursuant to the Consolidation Policy Framework is exempted from having to procure the Exchange's prior consent and/or approval pursuant to Rule 601.3(1)(f), Rule 601.3(2) and Rule 602.2 subject to the conditions appearing hereinafter; and~~
- ~~(e) — such other considerations, terms and/or conditions as the Exchange may at any time deem necessary or expedient.~~
- ~~(3) — Conditions to exemption: — The Non-Universal Broker which qualifies for the exemption as envisaged in the preceding Rule shall comply with the following requirements —~~
- ~~(a) — the Non-Universal Broker shall notify the Exchange in writing no later than the next market day (or such other period as may be prescribed by the Exchange from time to time) following the date of execution of the relevant document(s) or order, as the case may be, in respect of any dealing in private debt securities, which notification shall include the following:~~
- ~~(i) — in relation to activities as a sub-underwriter and/or agent for placement, information on —~~
- ~~(aa) — type of private debt securities;~~
- ~~(bb) — background of the Issuer;~~
- ~~(cc) — identity of lead underwriter(s) or primary subscriber(s);~~



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- ~~(dd) — indicative rating of the private debt securities;~~
  - ~~(ee) — principal amount of the private debt securities required to be sub-underwritten or placed out;~~
  - ~~(ff) — transaction price of the private debt securities required to be sub-underwritten or placed out;~~
  - ~~(gg) — date of the relevant document(s) relating to the sub-underwriting or placement;~~
  - ~~(hh) — indicative issue date of the private debt securities; and~~
  - ~~(ii) — in the case of activities as a placement agent, the basis on which the placement is to be taken, that is, whether there is an obligation by the Non-Universal Broker to take up the securities not placed out or otherwise;~~
- ~~(ii) — in relation to secondary market activities, information on—~~
  - ~~(aa) — stock code of the private debt securities;~~
  - ~~(bb) — type and credit rating of the private debt securities;~~
  - ~~(cc) — remaining maturity of the private debt securities;~~
  - ~~(dd) — transaction price and amount of private debt securities transacted;~~
  - ~~(ee) — deal date of the transaction;~~
  - ~~(ff) — in the case of an agency trade, settlement date(s), counterparty(ies) and commission to be charged on the transaction; and~~
- ~~(b) — the Non-Universal Broker shall submit to the Exchange on a once-off basis prior to undertaking any dealings in private debt securities as permitted hereunder, a written declaration and confirmation, in such format as may be acceptable to the Exchange, made by its Head of Operations and Compliance Officer to the following:~~
  - ~~(i) — that all information and statements contained or made in any document(s) submitted to the Exchange in connection with the dealing in private debt securities issued by non-listed Issuers are correct and true;~~
  - ~~(ii) — that the Non-Universal Broker has adequate experienced personnel and resources, as well as sufficient internal controls, to undertake and manage the dealing in private debt securities;~~
- ~~(c) — in the case of activities as a sub-underwriter and agent for placement, the Non-Universal Broker shall submit to the Exchange the prevailing market price of the private debt securities sub-underwritten or to be placed out, on a weekly basis until the date the private debt securities are issued;~~
- ~~(d) — there shall be adequate supervision, review and monitoring by the Compliance Officer of all activities of the Non-Universal Broker in relation to its dealing in private debt securities; and~~
- ~~(e) — the Non-Universal Broker shall develop and implement adequate risk assessment, monitoring and management measures with the objective of ensuring that the risks assumed by the Non-Universal Broker in relation to dealings in private debt securities will be managed and monitored accordingly.~~

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- (4) ~~**Universal Broker/Investment Bank:** For the avoidance of doubt, a Universal Broker and Investment Bank shall pursuant to Rule 503.1(1)(b) be permitted to conduct dealings in all private debt securities, including without limitation:-~~
- ~~(a) all activities in the primary market of such private debt securities (whether as principal dealers, advisers, lead managers, lead agents, main underwriters, sub-underwriters, agent for the placement of the private debt securities in connection with such issue); and~~
  - ~~(b) all activities in the secondary market.~~
- (5) ~~**Compliance with relevant guidelines:** A Participating Organisation permitted to conduct dealings in private debt securities as envisaged in this Rule shall at all times—~~
- ~~(a) comply with the relevant Securities Laws, rules, regulations, directives, codes and guidelines; and~~
  - ~~(b) be subject to such restrictions or prohibitions,~~
- ~~for the time being in force and effect in relation to dealings in private debt securities, as may be issued by the Commission and any other relevant authority from time to time.~~
- (6) ~~**Readiness audit:** Participating Organisations which intend to carry out dealings in private debt securities as envisaged in this Rule 503.5 shall be subject to a readiness audit to the satisfaction of the Exchange.~~

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**RULE 56042 ESTABLISHMENT OF BRANCH OFFICE AND ELECTRONIC ACCESS FACILITIES**

**RULE 602.1 Application of Rule 602**

- (1) ~~Rule 56042 shall~~ not be applicable to an Investment Bank ~~in respect of its~~ ~~branch office or electronic access facility~~ ~~is not in the event only the carrying out the~~ business(es) for which a merchant banking licence under BAFIA is required ~~is (are) carried out at that branch office of trading in Securities in the stock market of the Exchange.~~
- (2) ~~This Rule 5604A2 shall~~ only apply to any ~~electronic access facilities~~ located outside a ~~principal office and/or branch office.~~
- (3) A ~~Universal Broker's, Investment Bank's and Eligible Non-Universal Broker's Participating Organisation's Branch Office and electronic access facility(ies)~~ shall form part of the ~~Universal Broker's, Investment Bank's and Eligible Non-Universal Broker's Participating Organisation's~~ business as a single entity recognised by law and as such, all the provisions in these Rules apply to the Branch Office and Electronic Access Facility.

**RULE 56042.12 PRIOR TO OPERATIVE DATE ESTABLISHMENT OF BRANCH OFFICE Establishment of Branch Office and Electronic Access Facilities**

- (1) ~~Subject to the~~ A Participating Organisation may establish, and maintain and operate Branch Offices and Electronic Access Facilities upon approval ~~by of the Exchange subject to the Commission's requirements on Branch Offices and Electronic Access Facilities, provisions hereinafter appearing and pursuant to the process of consolidation under the Consolidation Policy Framework, a Participating Organisation shall be permitted by the Commission to establish and maintain branch office(s) on the occurrence of the following events prior to the Operative Date~~
- (2) A Participating Organisation must in relation to every branch appoint 1 person who is engaged on a full time basis with the PO to undertake the following:
- (i) ensure the proper segregation of duties at the branch office; and
  - (ii) to oversee the administrative activities at the branch office.
- (3) This Rule 56042.12(1) shall not be applicable to an Investment Bank.
- (a) ~~the Participating Organisation achieving the status of Universal Broker, in which event the Participating Organisation shall be granted the right to establish and maintain an additional branch office for each of the licences of other Member Companies/Participating Organisations acquired by the first Participating Organisation surrendered to the Commission; and~~
  - (b) ~~where the Participating Organisation is a Universal Broker, it has and is able to maintain a Core Capital of not less than Ringgit Malaysia Five Hundred Million (RM500,000,000.00), in which event it shall be granted the right to establish and maintain a branch office in addition to the branch office(s) established pursuant to the preceding Rule; or~~
  - (c) ~~where the Participating Organisation is a Non-Universal Broker, the Participating Organisation shall be granted the right to establish and maintain one (1) branch office for each of the licence(s) of the other Participating Organisation(s) acquired and surrendered to the Commission.~~

**Comment [B28]:** Amended to reflect the merging of previous Rule 504A (on EAF) with Rule 504 (on branch office) under this Rule 602.

**Comment [B29]:** Rule 504.2B(2) is moved to, incorporated and amended here to include EAF in line with the merging of Rule 504A (on EAF) with Rule 504 (on branch office) under this Rule 602.

**Comment [B30]:** This rule 504A.1(1) is moved to and incorporated here in line with the merging of Rule 504A (on EAF) with Rule 502 (on branch office) under this Rule 602.

**Comment [B31]:** This rule 504A.4(3) is moved to and incorporated here in line with the merging of Rule 504A (on EAF) with Rule 504 (on branch office) under this Rule 602.

**Comment [B32]:** This rule 504A.2.1 is moved to here in line with the merging of Rule 504A (on EAF) with Rule 504 (on branch office) under this Rule 602 and clarified to exclude the Special Scheme Broker and Standalone Broker from this rule as they are not allowed to establish Branch Office.

**Comment [B33]:** Deleted as these requirements are governed by SC and contained in the SC's Guidelines on the Establishment and Location of a Branch Office by Universal Brokers and Eligible Non-Universal Brokers, Guidelines on Investment Bank and Policy Framework on the Consolidation of the Stockbroking Industry.

**Comment [B34]:** Previously in Rule 506.2(1)(a) and amended to show that the Exchange is no longer requiring the appointment of heads at branch level but only 1 person supervising the branch office.

**Comment [B35]:** Inserted to emphasize the duties and responsibilities.

**Comment [B36]:** Rule 504.3(1) is incorporated here in line with the merging of the requirements in relation to the establishment of branch office and EAF in Rule 602.2.

**Comment [B37]:** Deleted as these requirements are governed by SC and contained in the SC's Guidelines on the Establishment and Location of a Branch Office by Universal Brokers and Eligible Non-Universal Brokers, Guidelines on Investment Bank and Policy Framework on the Consolidation of the Stockbroking Industry.

**Comment [B38]:** Deleted as these requirements are governed by SC and contained in the SC's Guidelines on the Establishment and Location of a Branch Office by Universal Brokers and Eligible Non-Universal Brokers, Guidelines on Investment Bank and Policy Framework on the Consolidation of the Stockbroking Industry.

**Comment [B39]:** Deleted as these requirements are governed by SC and contained in the SC's Guidelines on the Establishment and Location of a Branch Office by Universal Brokers and Eligible Non-Universal Brokers, Guidelines on Investment Bank and Policy Framework on the Consolidation of the Stockbroking Industry. ... [1]

**RULE 504.2 – POST OPERATIVE DATE**

~~(1) With effect from the Operative Date, a Universal Broker may be permitted by the Exchange at its absolute discretion to establish and maintain branch office(s) Subject Always to the Exchange's and/or Commission's criteria and guidelines in respect thereof.~~

**Comment [B40]:** Deleted as the requirement is already reflected in the SC's Guidelines on Establishment and Location of a Branch Office by Universal Brokers and Eligible Non-Universal Brokers.

**RULE 504.2A – BRANCH OFFICES BY A ELIGIBLE NON-UNIVERSAL BROKER**

~~(1) With effect from 3 January 2006, an Eligible Non-Universal Broker shall be permitted to establish and maintain branch office(s) Subject Always to the Exchange's and/or the Commission's criteria and guidelines in respect thereof.~~

**Comment [B41]:** Deleted as the requirement is already reflected in the SC's guidelines on Establishment and Location of a Branch Office by Universal Brokers and Eligible Non-Universal Brokers.

**RULE 504.2B – BRANCH OFFICES BY AN INVESTMENT BANK**

~~(1) An Investment Bank may, upon approval of the Central Bank, establish and maintain branch office(s) subject to compliance with the requirements in these Rules pertaining to branch offices.~~

**Comment [B42]:** Deleted as IBs will be governed by the requirements of the Central Bank.

~~(2) Rule 504 shall not be applicable to an Investment Bank in respect of its branch office in the event only the business(es) for which a merchant banking licence under BAFIA is required is(are) carried out at that branch office.~~

**Comment [B43]:** This rule is moved to, and incorporated as Rule 602.1(1) in line with the new structure of the rules.

**RULE 504.3 – ESTABLISHMENT OF BRANCH OFFICE**

~~(1) **Application:** No Participating Organisation which is eligible to establish a branch office pursuant to this Rule 504 shall establish any branch office without an application being made to the Exchange. [This Rule 504.3(1) shall not be applicable to an Investment Bank.]~~

**Comment [B44]:** Deleted as all operational aspects of the rules will be moved to and incorporated into the PO Manual.

~~(2) **Approval:**~~

**Comment [B45]:** Deleted as this rule will be incorporated into the PO Manual.

~~(a) The Exchange may, on application by a Participating Organisation to establish a branch office in the manner prescribed in these Rules, undertake an evaluation of such application and approve such application.~~

**Comment [B46]:** Deleted as this rule will be incorporated as Rule 602.2(2).

~~(b) In determining whether or not to approve such application, the Exchange may consider all matters relevant including but not limited to the following in respect of the applicant Participating Organisation –~~

**Comment [B47]:** Deleted as the approval process will be incorporated into the PO Manual.

~~(i) area which the Participating Organisation is applying to establish a branch office;~~

~~(ii) business integrity;~~

~~(iii) financial standing;~~

~~(iv) experience of dealing in securities.~~

~~(c) [Deleted]~~

~~(d) Where an approval is being granted by the Exchange in respect of the applicant Participating Organisation to operate a branch office, the Exchange may attach conditions which may be varied from time to time.~~

~~(2A) Rule 504.3(2) above shall not be applicable to an Investment Bank.~~

~~(3) **Approval of Operations:**~~

**Comment [B48]:** Except for Rule 504.3(3)(a) (i), (iv) and (v), the requirements for approval of operations for the branch office will be incorporated in the PO Manual.

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~~(a) Upon the fulfilment of conditions and/or restrictions imposed by the Exchange, or in the case of an Investment Bank, by the Central Bank, the Exchange may allow a Participating Organisation approved to establish a branch office, to operate such a branch office upon adherence to all of the following—~~

~~(i) the key appointments envisaged in Rule 506.2 being filled, unless otherwise permitted as provided therein;~~

~~(ii) satisfactory completion of the branch readiness audit;~~

~~(iii) must have adequate human resources with the necessary qualification, expertise and experience to manage and administer the branch office;~~

~~(iv) must have adequate and appropriate systems, procedures and processes to manage and administer the branch office in a proper and efficient manner; and~~

~~(v) such other conditions as prescribed by the Exchange from time to time.~~

~~(b) Before a Participating Organisation may operate a branch office, it shall be subjected to a branch readiness audit, which scope, manner and criteria shall be prescribed by the Exchange from time to time.~~

~~(c) [Deleted]~~

~~(4) Rules of Operation:~~

~~(a) The Participating Organisation shall responsible for all business activities of its branch office including but not limited to any breach of the rules and/or directives of the Exchange. Any breach by the branch office is deemed to be a breach or act of non-compliance by the Participating Organisation and the Exchange may subject the Participating Organisation to the relevant disciplinary action(s).~~

~~(b) A Participating Organisation shall notify and provide the Exchange with the identity and relevant particulars of the person heading the branch office and any changes or replacement therefrom.~~

~~(c) The branch office shall carry the name of the Participating Organisation and not any other name.~~

~~(d) A Participating Organisation operating a branch office shall ensure—~~

~~(i) its financial statement is on a consolidated basis supplemented by separate information and financial statements for purposes of distinguishing its branch office from the principal office;~~

~~(ii) computations of all matters relating to Capital Adequacy Requirements, gearing ratio, margin facilities, exposures to single client and exposures to single security be on an aggregated basis. For this purpose, such computations of the branch office and the principal office shall be aggregated as a single entity; and~~

~~(iii) all transactions undertaken by its branch office are duly accounted.~~

~~(e) A Participating Organisation operating a branch office shall in addition to the normal requirements to operate a branch office, put in place and enforce internal guidelines on—~~

~~(i) credit policies, capital allocations, trading limits, and designated approving authorities at the branch office;~~

**Comment [B49]:** Except for Rule 504.3(3)(a) (i), (iv) and (v), all other the requirements for approval of operations for the branch office stated here will be incorporated in the PO Manual.

**Comment [B50]:** Deleted in line with providing greater flexibility to POs to manage their business by allowing them to structure its operations as it sees fit provided that the relevant Heads remain accountable for the operations of the branch office and all conflicts required to be addressed in the Rules are addressed.

**Comment [B51]:** Deleted as this requirement will be reflected in a Directive.

**Comment [B52]:** Deleted as the same is incorporated in Rule 502.2. as a general requirement.

**Comment [B53]:** Deleted as the same is incorporated in Rule 501 as a general conduct of a PO. This is in line with simplifying the Rules and consolidating all relevant requirements under one rule, where we would have an all encompassing rule relating to internal controls and policies and procedures of a PO in respect of its activities in Chapter 5.

**Comment [B54]:** Deleted as the Exchange has the general power under Chapter 2 to impose such conditions and to ask the PO to bear the cost of such audit.

**Comment [B55]:** Deleted as there is a provision in Chapter 2 that empowers the Exchange to carry out readiness audit on POs and this will be reflected as part of the application process in the PO Manual (see Directives 602-00).

**Comment [B56]:** Deleted, as a PO is defined in the rules to include its operations at branch offices as well. A PO is accountable for all its activities and this is stipulated under Rule 604.2.

**Comment [B57]:** Deleted as the Exchange can request for such information under Chapter 2.

**Comment [B58]:** Deleted as this is stating the obvious.

**Comment [B59]:** Deleted as this rule will be moved to, and incorporated into the PO Manual.

**Comment [B60]:** This rule is deleted as the same will be incorporated in Rule 501 on the general conduct of a PO. This is in line with simplifying the Rules and consolidating all relevant requirements under one rule, where we would have an all encompassing rule relating to internal controls and policies and procedures of a PO in respect of its activities in Chapter 5 and PO Manual.

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- ~~(ii) — adequate monitoring of the branch office activities with sufficient systems and controls to ensure compliance with these Rules;~~
- ~~(iii) — reporting requirements by the branch office to the principal office to ensure sufficient supervision and control;~~
- ~~(iv) — internal controls and policies on the operations of proprietary accounts and client accounts by the branch office;~~
- ~~(v) — risk management; and~~
- ~~(vi) — daily reporting to the principal office of its back-office activities.~~

~~(f) — The Participating Organisation shall furnish to the Exchange, any variation in respect of the office of trading of its Dealer's Representatives.~~

~~(g) — The Exchange may from time to time prescribe other terms and conditions governing the branch operations of a Participating Organisation.~~

**Comment [B61]:** Deleted as there will be a general obligation of POs to submit the information regarding the DRs engaged by the POs in Rule 310.8.

**Comment [B62]:** Deleted as the Exchange is already empowered to do as such under the general powers of the Exchange in Chapter 2.

**RULE 56042.43 — PERMITTED ACTIVITIES AT THE BRANCH OFFICE Permitted activities at the Branch Office and Electronic Access Facility**

~~(1) — In amplification of and subject always to Rules 503 and 504, a Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall, in respect of its A Participating Organisation may carry out all Permitted Businesses at the location of a b Branch Office(s), be permitted to carry out all types of business permitted to be carried out by the principal office. Subject Always to such terms, conditions, restrictions and/or limitations as may be imposed by the Exchange and/or the Commission from time to time *Provided Always* the Universal Broker, Investment Bank and Eligible Non-Universal Broker has —~~

**Comment [B63]:** This rule is amended to clarify the activities that can be carried out at the PO's branch office.

~~(a) — established and maintains effective and sufficient policies, practices and procedures on risk management and has in place a system of monitoring risk daily;~~

**Comment [B64]:** This provision is deleted as the same is provided in Chapter 5.

~~(b) — obtained its board of directors' approval in respect of all activities carried out, and intended to be carried out, by the branch office(s); and~~

**Comment [B65]:** This provision is deleted as it would be left to PO's policies and procedures.

~~(c) — implemented and complied with the relevant rules, circulars, directives or guidelines issued from time to time by the Exchange in respect of or in connection with the segregation of the various businesses permitted to be carried out by the Universal Broker, Investment Bank and Eligible Non-Universal Broker and/or its group of related or associated companies.~~

**Comment [B66]:** This provision is deleted as the same is provided in Rule 501.2.

(2) — A Participating Organisation is only permitted to carry out activities as permitted by the Exchange at the Electronic Access Facility as determined by the Exchange.

**Comment [B67]:** This rule is introduced to clarify that activities that can be undertaken at the EAF will be as determined by the Exchange. The scope of activities allowed will be detailed in the PO Manual. See Directives 602.2-001.

**RULE 56042.51 CONVERSION OF ELECTRONIC ACCESS FACILITY TO BRANCH OFFICE Conversion**

(1) — A Participating Organisation may convert its Electronic Access Facility to a Branch Office or vice versa upon approval of the Exchange.

**Comment [B68]:** Amended to clarify that a PO may convert its EAF to branch office or vice versa if it is approved by the Exchange.

~~(1) — In the event a Universal Broker, Investment Bank or Eligible Non-Universal Broker, as the case may be, elects to convert an electronic access facility to a branch office the Universal Broker, Investment Bank or Eligible Non-Universal Broker shall submit to the Exchange, at least three (3) months prior to the date of the proposed conversion, a written application in accordance with Rule 504.3.~~

**Comment [B69]:** Deleted as this will be covered in the PO Manual.

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~~(2) The provisions of Rule 504.3 to Rule 504.4 shall apply in relation to an application made under this Rule 504.5.~~

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**Comment [B70]:** Deleted as this is not necessary, since it is understood that once converted to either branch office or EAF, that branch office or EAF must comply with the requirements that are applicable to the branch office or EAF.

**~~RULE 504A – ESTABLISHMENT OF ELECTRONIC ACCESS FACILITY~~**

Comment [B71]: Deleted as this rule is merged with the provisions of branch office in Rule 602 and all operational requirements here will be consolidated in the PO Manual.

**~~RULE 504A.1 – SCOPE~~**

- ~~(1) This Rule 504A shall only apply to any electronic access facilities located outside a principal office and/or branch office.~~

**~~RULE 504A.2 – ESTABLISHMENT~~**

- ~~(1) A Universal Broker, Investment Bank and Eligible Non-Universal Broker may establish, maintain and operate electronic access facility(ies) Subject Always to the approval of the Exchange and compliance with the provisions of the EAF Guidelines and other directives and guidelines as may be issued by the Exchange and the Commission from time to time in relation to the electronic access facility(ies).~~
- ~~(2) **Application:** No Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall establish any electronic access facility(ies) without making an application to the Exchange.~~
- ~~(3) **Application Procedures:** A Universal Broker, Investment Bank and Eligible Non-Universal Broker shall submit to the Exchange a written application, in such form and substance as may from time to time be prescribed by or acceptable to the Exchange, together with a written notification of the intended commencement date of the operations of the electronic access facility, not later than thirty (30) market days prior to the intended commencement date of the operations of the electronic access facility.~~

**~~RULE 504A.3 – APPROVAL~~**

- ~~(1) The Exchange, on receipt of the application made by a Universal Broker, Investment Bank or an Eligible Non-Universal Broker, as the case may be, to establish an electronic access facility(ies) under Rule 504A.2, shall subject the Universal Broker, Investment Bank or an Eligible Non-Universal Broker to a readiness audit, the scope, criteria and manner of which shall be as prescribed by the Exchange.~~
- ~~(2) [Deleted]~~
- ~~(3) [Deleted]~~

**~~RULE 504A.4 – COMMENCEMENT OF OPERATIONS~~**

- ~~(1) Upon the approval of the application referred to in Rule 504A.3 by the Exchange and the fulfilment of conditions imposed by the Exchange, if any, the Exchange may allow the Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, to commence with the operations of the electronic access facility.~~
- ~~(2) The Exchange may, from time to time after commencement of the operations of the electronic access facility, amend, vary, add or modify any conditions imposed on the Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, in relation to the operations of the electronic access facility.~~
- ~~(3) A Universal Broker's, Investment Bank's and Eligible Non-Universal Broker's electronic access facility(ies) shall form part of the Universal Broker's, Investment Bank's and Eligible Non-Universal Broker's business as a single entity recognised by law.~~
- ~~(4) An electronic access facility which is established, maintained and operated by a Universal Broker, Investment Bank and Eligible Non-Universal Broker Participating Organisation shall not be considered to be a branch office of the Universal Broker, Investment Bank and Eligible~~



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~~Non-Universal Broker Participating Organisation and as such, the relevant rules, circulars, directives and guidelines in respect of branch office shall not be applicable.~~

### **RULE 504A.5 – PERMITTED ACTIVITIES**

- (1) ~~A Universal Broker, Investment Bank and Eligible Non-Universal Broker shall, in respect of its electronic access facility(ies), be permitted to carry out the following activities—~~
- ~~(a) the deposit and collection of relevant forms duly executed by the clients (save and except where such forms are required to be witnessed in accordance with these Rules and the relevant Depository Rules) for onward transmission to the Universal Broker's, Investment Bank's and Eligible Non-Universal Broker's principal office or branch office(s); and~~
  - ~~(b) the publication or dissemination of written analyses or reports or any similar communications (or part or parts thereof) promulgated by the Universal Broker, Investment Bank and Eligible Non-Universal Broker in the course of carrying on the regulated activity of investment advice.~~
- (2) ~~A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, which establishes, maintains or operates an electronic access facility is permitted to position or station at its electronic access facility such number, as it may in its discretion deem expedient, of its employee(s), or as may be permitted by the Exchange, such third party(ies) as may be engaged or appointed by the Universal Broker, Investment Bank and Eligible Non-Universal Broker solely and exclusively for the following purposes only—~~
- ~~(a) providing technical assistance to clients utilising the electronic access facility;~~
  - ~~(b) providing maintenance services to the electronic access facility;~~
  - ~~(c) providing security to the electronic access facility and its site(s); and~~
  - ~~(d) such other activities as may be approved by the Commission and/or Exchange from time to time.~~

### **RULE 504A.6 – PROHIBITED ACTIVITIES**

- (1) ~~A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, which establishes, maintains and operates an electronic access facility in the manner envisaged in these Rules shall ensure that the following activities related to its business of dealing in securities shall not be carried out or undertaken at the electronic access facility—~~
- ~~(a) any type of front office and back office operations and activities, including without limitation the following—~~
    - ~~(i) the opening and closing of trading accounts and/or securities accounts (as defined in the Securities Industry (Central Depositories) Act);~~
    - ~~(ii) dealings in securities, but excluding such orders entered into the electronic access facility by the clients in the manner envisaged in these Rules;~~
    - ~~(iii) the processing, production or printing of contract notes;~~
    - ~~(iv) the acceptance of payment of moneys from clients for any reason whatsoever;~~
    - ~~(v) the regulated activities of advising on corporate finance, investment advice and/or financial planning; and~~

- ~~(b) — such other activities as may be stipulated by the Commission and/or the Exchange from time to time by way of any circulars, directives or guidelines.~~

**RULE 504A.7 — ADDITIONAL PROHIBITION**

- ~~(1) — A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall be prohibited from positioning or stationing any Dealer's Representatives at the site(s) of the electronic access facility(ies).~~

**RULE 504A.8 — OBLIGATIONS**

- ~~(1) — A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall be responsible for all business activities of its electronic access facility(ies), including but not limited to any breach of the rules and/or directives of the Exchange. Any breach by the electronic access facility is deemed to be a breach or act of non-compliance by the Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, and the Exchange may subject the Universal Broker, Investment Bank and Eligible Non-Universal Broker to the relevant disciplinary action(s).~~
- ~~(2) — A Universal Broker, Investment Bank and Eligible Non-Universal Broker shall notify and provide the Exchange with the identity and relevant particulars of the person(s) responsible for the management of the electronic access facility(ies) and any changes or replacement therefrom.~~
- ~~(3) — The electronic access facility shall carry the name of the Universal Broker, Investment Bank or Eligible Non-Universal Broker, as the case may be, and not any other name.~~
- ~~(4) — A Universal Broker, Investment Bank and Eligible Non-Universal Broker operating an electronic access facility shall, in addition to the normal requirements to operate an electronic access facility, put in place and enforce internal guidelines on —~~
- ~~(a) — adequate monitoring of the electronic access facility activities with sufficient systems and controls to ensure compliance with these Rules; and~~
- ~~(b) — reporting requirements by the electronic access facility to the principal office and/or branch office to ensure sufficient supervision and control.~~
- ~~(5) — A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall be responsible for the commissioning of the electronic access facility, notwithstanding that a third-party vendor(s) may be engaged or appointed to undertake the commissioning of the electronic access facility.~~
- ~~(6) — A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall be responsible for the quality, reliability and integrity of the electronic access facility.~~
- ~~(7) — A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall be accountable and liable for all orders entered into through the electronic access facility that is accepted by the SCORE.~~
- ~~(8) — A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall obtain the prior approval of the Commission and the Exchange in respect of any material change(s) to the electronic access facility implemented pursuant to these Rules.~~
- ~~(9) — A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall comply with all terms and conditions as may be prescribed by the Commission and/or the Exchange from time to time in relation to the electronic access facility.~~

**~~RULE 504A.9 SPECIFIC SECURITY AND SYSTEM REQUIREMENTS~~**

- ~~(1) A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, Participating Organisation shall ensure that the electronic access facility established, maintained or operated or, as the case may be, intended to be established, maintained or operated shall contain adequate and effective specifications and capabilities to ensure the electronic access facility is reasonably and adequately secure such that the security of transactions and confidentiality of clients are at all times preserved.~~
- ~~(2) Without limitation to the generality of the foregoing paragraph, the Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, Participating Organisation shall ensure the following—~~
- ~~(a) the electronic access facility is, in terms of the applications or software, the physical site location and the hardware, reasonably secured from unauthorised tampering and intrusion and in this respect, the Universal Broker, Investment Bank and Eligible Non-Universal Broker shall at the minimum strictly comply with all relevant rules, circulars, directives, guidelines and codes relating to security issued by the Commission and/or the Exchange from time to time; and~~
- ~~(b) the applications at the electronic access facility conform in all material respects with—~~
- ~~(i) all relevant rules, circulars, directives, guidelines, codes and standards issued by the Commission and/or the Exchange with respect to the use of information technology; and~~
- ~~(ii) all relevant rules, circulars, directives and guidelines issued by the Commission and/or the Exchange from time to time with respect to trading of securities on the stock market.~~

Comment [B72]: Deleted we have incorporated a general requirement in relation to this in Rule 502.1(2).

**~~RULE 504A.10 CONVERSION OF BRANCH OFFICE TO ELECTRONIC ACCESS FACILITY~~**

- ~~(1) In the event a Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, elects to convert a branch office to an electronic access facility, the Universal Broker, Investment Bank and Eligible Non-Universal Broker shall—~~
- ~~(a) submit to the Exchange, at least three (3) months prior to the date of the proposed conversion, a written application in accordance with Rule 504A.2; and~~
- ~~(b) give prior written notification to its clients who may be affected by the proposed conversion, which notification shall not be less than two (2) months before the proposed date of conversion.~~
- ~~(2) The provisions of Rule 504A.2 to Rule 504A.9 shall apply in relation to an application made under Rule 504A.10.~~

Comment [B73]: This rule will be incorporated into PO Manual.

~~**RULE 505 – PERMITTED BUSINESS OF  
PRINCIPAL OFFICE AND BRANCH OFFICE**~~

~~**RULE 505.1 – UNIVERSAL BROKERS AND INVESTMENT BANKS**~~

~~(1) In amplification of and subject always to Rule 503, a Universal Broker and Investment Bank shall be permitted to carry out all types of business permitted to be carried out by a Universal Broker and Investment Bank respectively under Rule 503 at its principal office.~~

~~(a) [Deleted]~~

~~(i) [Deleted]~~

~~(ii) [Deleted]~~

~~(iii) [Deleted]~~

~~(b) [Deleted]~~

~~(2) In amplification of, and subject always to, Rule 503, a Non-Universal Broker shall be permitted to carry out all types of business permitted to be carried out by a Non-Universal Broker under Rule 503 in respect of its principal office.~~

~~(a) [Deleted]~~

~~(b) [Deleted]~~

~~(c) [Deleted]~~

~~**RULE 505.2 – SEGREGATION FOR SAFE CUSTODY**~~

~~(1) For purposes of protection of clients' assets in relation to securities which are held in safe custody under custodial services rendered, a Participating Organisation shall ensure that these securities are held by its nominee company which is a wholly-owned subsidiary and an authorised nominee pursuant to Depository Rules.~~

**Comment [B74]:** This rule is incorporated in Rule 601.1 and the provisions are replaced with a general rule to state that a PO may carry out its permitted business at its principal office or its branch offices.

**Comment [B75]:** This rule is incorporated in rule 601.1 and the provisions are replaced with a general rule to state that a PO may carry out its permitted business at its principal office or its branch offices.

**Comment [B76]:** This rule is incorporated in Rule 501.11.

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**RULE 506 – BASIC ORGANISATION AND REPORTING STRUCTURE OF A BRANCH OFFICE**

**RULE 506A – INVESTMENT BANK**

~~(1) Without derogation to the obligation of an Investment Bank to centralise at its principal office, the back office system and operations of its principal office and branch office(s) under Rule 506.7, the other provisions in Rule 506 shall not be applicable to an Investment Bank in respect of its branch office in the event only the business(es) for which a merchant banking licence under BAFIA is required is(are) being carried out at that branch office.~~

**Comment [B77]:** Deleted as already addressed in Rule 602.1(1).

**RULE 506.1 – STATUS OF PRINCIPAL AND BRANCH OFFICE**

~~(1) A Participating Organisation's principal office and branch office(s) shall form part of the Participating Organisation's business as a single entity as recognised by law.~~

**Comment [B78]:** This rule is moved to and merged with Rule 602.1(3) which provides that branch office and EAF forms part of the business of PO. As for the principal office, there is no need to provide for the same as it is understood that principal office is part of PO.

**RULE 506.2 – KEY APPOINTMENTS AT BRANCH OFFICE**

~~(1) Requisite appointments: Subject to Rule 506.5 and unless otherwise prescribed by the Exchange upon notification to the Commission, a Participating Organisation shall in relation to every branch office appoint the following –~~

**Comment [B79]:** Moved to Rule 602.2(2) and amended to show that the Exchange is no longer requiring the appointment of heads at branch level but only 1 person supervising the branch office.

~~(a) one (1) person to head and supervise the branch office ("Head of Branch Office") who must:~~

~~(i) be engaged in full time employment with the Participating Organisation at the branch office; and~~

~~(ii) be registered with the Exchange in such manner as may be prescribed by the Exchange from time to time.~~

~~Provided Always he shall not hold the position of Head of Branch Office in the event he is removed from such register maintained by the Exchange for any reason whatsoever and the Participating Organisation shall notify the Exchange of his resignation or termination, as the case may be; and~~

**Comment [B80]:** The Exchange will no longer require the appointment or registration of Head of Branch Office. The Exchange only require appointment of 1 person to supervise the branch office.

~~(b) one (1) person to head and supervise the activities of dealing in securities of the branch office ("Branch Head of Dealing") who must:~~

~~(i) hold a dealer's representative's licence; and~~

~~(ii) not have been suspended from his right to trade in the Exchange; and~~

**Comment [B81]:** The Exchange will no longer be requiring the appointment of heads at branch level as the respective Head of Dealing, Head of Operations and Head of Compliance will be held accountable for the supervision and management of the activities at the branch level.

~~(c) one (1) person who is responsible for and supervises the back office functions of a branch office ("Branch Head of Operations"); and~~

~~(d) unless exempted under Rule 506.2(2) or Rule 506.3, at least one (1) Compliance Officer ("Branch Compliance Officer") who must:~~

~~(i) be registered with the Exchange in such manner as may be prescribed by the Exchange from time to time in these Rules;~~

~~(ii) have passed such other examinations as may be prescribed by the Exchange and the Commission; and~~

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~~(iii) be engaged in full time employment with the Participating Organisation at the branch office.~~

~~(e) [Deleted]~~

~~(2) In the event the compliance functions of a Participating Organisation are undertaken at Group level in accordance with Rule 511, no Branch Compliance Officer is required for each of the Participating Organisation's branch offices, unless determined otherwise by the Participating Organisation.~~

**RULE 506.3 – FLEXIBILITIES**

~~(1) In amplification of Rule 506.2, the requirement for the following in respect of a branch office(s) may be waived by the Exchange, upon notification to the Commission, subject always to such terms and conditions as may be at any time be imposed by the Exchange and/or the Commission in respect thereof:-~~

~~(a) a Branch Head of Dealing if the conditions below are fulfilled to the satisfaction of the Exchange –~~

~~(i) the operations of the branch office(s) are solely limited to back office activities; and~~

~~(ii) the branch office(s) does not directly or indirectly carry out activities of dealing in securities in any manner whatsoever; and/or~~

~~(iii) in the case of a Universal Broker, Investment Bank and Non-Universal Broker and without derogation to the Universal Broker's, Investment Bank's and Non-Universal Broker's compliance at all times with the requirements relating to corporate finance activities prescribed in Rule 508 where:~~

~~(aa) the sole activities of the branch office(s) are limited to corporate finance activities; and~~

~~(bb) the branch office(s) does not directly or indirectly carry out activities of dealing in securities in any manner whatsoever;~~

~~(b) a Branch Head of Operations if the conditions below are fulfilled to the satisfaction of the Exchange –~~

~~(i) the operations of the branch office(s) are solely limited to activities of dealing in securities and the branch office(s) does not directly or indirectly carry out back office activities in any manner whatsoever;~~

~~(ii) the back office system and operations of the branch office(s) are integrated with the back office system and operations of the Participating Organisation which is centralised in accordance with Rule 506.7;~~

~~(iii) further to Rule 513.1, the Participating Organisation is at all times able to comply with the statutory obligations regarding accounts to be kept by dealers in respect of the whole entity; and~~

~~(iv) in the event the branch office(s) carries out the activities of account opening and/or credit control, the Participating Organisation has appointed a person or persons to be responsible therefor and such person(s) shall report directly to the relevant appointment at the principal office in accordance with the requisite reporting structure prescribed in Rule 506; and/or~~

**Comment [B82]:** Deleted in line with providing greater flexibility to POs to manage their business by allowing them to structure its operations as it sees fit provided that the segregation rules and conflicts of interests are complied with as provided in Chapter 5. In addition to this, since the Heads will be held accountable, the flexibility is also given to the PO to manage the organization and structure at its branch office provided the aforementioned segregation rules and conflicts of interests are complied.

**Comment [B83]:** Deleted in line with providing greater flexibility to POs to manage their business by allowing them to structure its operations as it sees fit provided that the segregation rules and conflicts of interests are complied with as provided in Chapter 5. In addition to this, since the Heads will be held accountable, the flexibility is also given to the PO to manage the organization and structure at its branch office provided the aforementioned segregation rules and conflicts of interests are complied.

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~~(v) — in the case of a Universal Broker, Investment Bank and Non-Universal Broker and without derogation to the Universal Broker's, Investment Bank's and Non-Universal Broker's compliance at all times with the requirements relating to corporate finance activities prescribed in Rule 508 where:~~

~~(aa) — the sole activities of the branch office(s) are limited to corporate finance activities; and~~

~~(bb) — the branch office(s) does not directly or indirectly carry out activities of dealing in securities in any manner whatsoever;~~

~~(c) — a Branch Compliance Officer if the conditions below are fulfilled or are able to be fulfilled, as the case may be, to the satisfaction of the Exchange—~~

~~(i) — the compliance function in respect of the branch office(s) shall be capable of being undertaken and performed effectively by the Compliance Department at the principal office or Supervisory branch office, as the case may be, in the same manner and degree as if a full-time Compliance Officer has been appointed to the branch office(s);~~

~~(ii) — the compliance function of the Participating Organisation shall not in any way whatsoever be compromised or affected as a result of such waiver;~~

~~(iii) — the Compliance Officer at the principal office or Supervisory branch office, as the case may be, responsible for the branch office(s) is at all times able to satisfy his obligations in relation to branch office(s) as stipulated in guidelines, directives and/or circulars relating to compliance functions issued by the Exchange and/or the Commission from time to time;~~

~~(iv) — the internal audit department of the Participating Organisation shall conduct regular internal audits in respect of the branch office(s) in accordance with the scope prescribed in Rule 510 and the internal audit report shall be submitted to the Exchange and the Commission in separate copies as soon as reasonably practicable after the completion of the internal audits envisaged; and~~

~~(v) — the frequency of visits by the Compliance Officer(s) of the principal office or the Supervisory branch office, as the case may be, to the branch office(s), to be clearly determined and stipulated at the outset in the internal policies and procedures of the Participating Organisation;~~

~~**Provided Always** the waiver granted by the Exchange may at any time be revoked in the event of the Exchange not being satisfied that the relevant controls and monitoring policies and procedures of the Participating Organisation as required herein is/are adequate and/or effective.~~

**RULE 506.4 — OPTIONAL APPOINTMENT**

~~(1) — In the event of a Participating Organisation intending to appoint or having appointed, as the case may be, a Chief Executive Officer or Managing Director or similar positions by whatsoever name called, the Participating Organisation's board of directors shall ensure the following—~~

~~(a) — the reporting structures prescribed in this Part are not in any way compromised and are at all times complied with; and~~

~~(b) — such appointments comply with such rules, circulars, directives or guidelines as may from time to time be issued by the Exchange in respect of or in connection~~

**Comment [B84]:** Deleted as the Exchange would leave the Head of Compliance to determine how the monitoring or compliance function is done. If there are lapses, the Exchange will hold the Head of Compliance accountable for such lapses.

**Comment [B85]:** Deleted. The substance of this Rule is incorporated under Rule 304.1(1) whereby functions performed by HOD, HOO or HOC cannot be performed by any other persons.

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~~with segregation of the various businesses permitted to be carried out by the Participating Organisation and/or its group of related or associated companies,~~

~~but in the event the position of the Chief Executive Officer or Managing Director or such similar positions by whatsoever name called is at its principal office, these appointments shall at all times be required to report directly to its board of directors.~~

~~(2) Rule 506.4(1) above shall not be applicable to an Investment Bank.~~

**RULE 506.5 – ORGANISATIONAL AND REPORTING STRUCTURE**

~~(1) A Participating Organisation shall establish and maintain organisational and reporting structures that ensure the segregation between its activities of dealing in securities, middle office and back office operations is at all times maintained, and that there are no situations of conflicts of interest, potential or actual.~~

~~(2) Unless otherwise prescribed by the Exchange in consultation with the Commission, the reporting structure of a Participating Organisation is as envisaged hereunder –~~

~~(a) in the event the Head of Branch Office holds a dealer's representative's licence:~~

- ~~(i) the Branch Head of Dealing (when he does not also hold the position of Head of Branch Office) shall report directly to the Head of Branch Office;~~
- ~~(ii) the Head of Branch Office (who may also hold the position of Branch Head of Dealing) shall report directly to the Head of Dealing; and~~
- ~~(iii) the Branch Head of Operations shall report directly to the Head of Operations and report administratively to the Head of Branch Office;~~

~~(b) in the event the Head of Branch Office does not hold a dealer's representative's licence:~~

- ~~(i) the Branch Head of Operations (when he does not also hold the position of Head of Branch Office) shall report directly to the Head of Branch Office;~~
- ~~(ii) the Head of Branch Office (who may also hold the position of Branch Head of Operations) shall report directly to the Head of Operations; and~~
- ~~(iii) the Branch Head of Dealing shall report directly to the Head of Dealing and report administratively to the Head of Branch Office;~~

~~(c) the Branch Compliance Officer shall:~~

- ~~(i) in the case of a Universal Broker, report directly to the Head of Compliance and report administratively to the Head of Branch Office; and~~
- ~~(ii) in the case of a Non-Universal Broker with branch office(s), report directly to the Compliance Officer at its principal office;~~

~~(d) the Secondary Head of Corporate Finance as defined in Rule 508.4(1)(d) shall report directly to the Head of Corporate Finance as defined in Rule 508.4(1)(c);~~

~~(e) [Deleted]~~

~~(f) [Deleted]~~

**Comment [B86]:** Deleted in line with the proposed new all encompassing rule on internal controls and policies and procedures of a PO which require segregation of duties and reporting lines between those employees dealing in securities and those having administrative or operational duties in Chapter 5.

**Comment [B87]:** Deleted as the supervision and management of the branch office will be left to the PO and the respective Heads.



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~~(g) — in the event the Participating Organisation has appointed a Chief Executive Officer or Managing Director or similar positions by whatsoever name called, the following persons shall report directly to the Participating Organisation's board of directors and report administratively to the said Chief Executive Officer or Managing Director or similar positions by whatsoever name called:~~

~~(i) — Head of Dealing; and~~

~~(ii) — Head of Operations,~~

~~*Provided Always* the reporting in such manner to the said Chief Executive Officer or Managing Director or similar positions by whatsoever name called does not result in or give rise to situation(s) of potential conflict of interest and the various businesses permitted to be carried out and the functions of the relevant personnel thereof are and continue to be properly segregated at all times. This Rule 506.5(2)(g) shall not apply to the Chief Executive Officer or Managing Director or similar positions by whatsoever name called of an Investment Bank.~~

~~(3) — For the purposes of this Chapter, to “report administratively” shall be construed to mean the reporting of all matters which do not require any decision on the part of the person being reported to, administrative matters and other matters in connection therewith.~~

**~~RULE 506.6 — COMPLIANCE FUNCTION AT PRINCIPAL OFFICE AND BRANCH OFFICE~~**

~~(1) — [Deleted]~~

~~(2) — The Participating Organisation must ensure that it has established and maintains effective and sufficient policies, practices, mechanisms and procedures to oversee all matters relating to and in connection with compliance by its principal office and branch office(s).~~

**Comment [B88]:** The substance of this Rule is incorporated under Rule 304.1 whereby the functions performed by HOD, HOO or HOC cannot be performed by any other persons.

**Comment [B89]:** Deleted in line with deletion of the above rule.

**Comment [B90]:** This rule is incorporated in Chapter 5, in line with consolidating similar requirements in relation to compliance obligation under one rule.

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**RULE 603 BACK OFFICE FUNCTIONS**

**RULE 5063.71 BACK OFFICE SYSTEM AND OPERATIONS Back office system and operations**

- (1) ~~The back office system and operations of a Participating Organisation's principal office and branch office(s) must be centralised at its principal office and if this is not the case, the location of the back office system and operations must be notified to the Exchange and the Commission subject always to such terms and conditions as may at any time be imposed by the Exchange and/or the Commission in respect thereof.~~ A Participating Organisation must operate its own back office system and operations whether at the Principal Office or any of the Branch Office unless the back office systems and operations have been outsourced in accordance with the Guidelines on Back Office Functions. The Guidelines on Back Office Functions are deemed part of these Rules and any breach by the Participating Organisation of the same is a breach of these Rules.
- (2) ~~The back office system and operations of a Participating Organisation's principal office and branch office(s) must include an effective monitoring system, which enables timely reporting and transmission of data from a branch office to the principal office, to facilitate supervision of the activities of the principal office and the branch office(s).~~ A Participating Organisation must have a back office system and operations that are capable of the following:
- (a) timely reporting and transmission of data from a Branch Office to the Principal Office;
  - (b) daily reconciliation of all records of the Principal Office and the Branch Office; and
  - (c) reconciliation of all transactions undertaken by the Branch Office.
- (3) ~~The back office system and operations of a Participating Organisation's principal office and branch office(s) must ensure that daily reconciliation of all records of the principal office and the branch office(s) will be conducted.~~
- (4) ~~A Participating Organisation shall ensure that all trading and transactions undertaken by its branch office(s) are reconciled and duly accounted for.~~
- (3) ~~The back office system and operations of a Participating Organisation's principal office and branch office(s) must be centralised at its principal office and if this is not the case, the~~ A Participating Organisation may maintain separate locations for the back office system and operations of the Participating Organisation's Principal Office and Branch Office(s). A Participating Organisation must notify the Exchange and the Commission of the location of the back office system and operations must be notified to the Exchange and the Commission subject always to such terms and conditions as may at any time be imposed by the Exchange and/or the Commission in respect thereof.

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**Comment [B91]:** Amended to clarify that the PO must operate its own back office system and operations unless it is outsourced in accordance with the Commission's requirements on outsourcing of back office functions under the Guiding Principles For Outsourcing Of Back Office Functions For Capital Market Intermediaries (the "Guiding Principles"). The Guiding Principles is deemed part of these Rules and any breach by the Participating Organisation of the Guiding Principles is a breach of these Rules.

**Comment [B92]:** Amended to incorporate the requirements in the current Rule 506.7(3) and (4) under one rule.

**Comment [B93]:** This requirement is moved to and incorporated into Rule 603.1(2).

**Comment [B94]:** This requirement is moved to and incorporated into Rule 603.1(2).

**Comment [B95]:** Previously, Rule 506.7(1). Moved here as this relates to how the back office system and operations of a PO's principal office and branch office must be structured.

Doing away with requiring a PO to centralise the back office system and operations of the PO's principal office and branch office and instead allowing a PO to maintain separate locations for the back office system and operations if the Exchange and the Commission is notified.

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**RULE 506.8 — APPRAISAL**

[Deleted]

**Comment [B96]:** Deleted as this Rule has been deleted under the current rules.

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**RULE 56074 COMPLIANCE FUNCTION PARTICIPATING ORGANISATION**

**RULE 56074.1 COMPLIANCE FUNCTION AT PARTICIPATING ORGANISATION**  
**Compliance function**

- (1) Every Participating Organisation ~~shall~~ **must ensure that it carries out the compliance function as envisaged under Rule 309.4(1). The responsibility to ensure that such compliance functions are properly carried out lies with the Head of Compliance, in the case of a Universal Broker and Investment Bank and Compliance Officers, in the case of a Non-Universal Broker. Where the compliance functions of a Participating Organisation are undertaken at Group level in accordance with Rule 511, the responsibility prescribed herein to ensure that the compliance functions are properly carried out lies with the Head Group Compliance to monitor compliance with these Rules, Directives and the Securities Laws and to provide advice on all the relevant requirements that a Participating Organisation must comply with, in carrying out the Participating Organisation's business.**
- (2) ~~A Participating Organisation shall be responsible to ensure that its Head of Compliance, in the case of a Universal Broker and Investment Bank and Compliance Officers, in the case of a Non-Universal Broker fully discharge their duties as envisaged under these Rules. The same responsibility herein applies to the Participating Organisation in respect of the Head Group Compliance, notwithstanding that the compliance functions are undertaken at Group level in accordance with Rule 511.~~
- (3) ~~Notwithstanding the duties of the Head of Compliance, Head Group Compliance and Compliance Officers as referred to in these Rules, the ultimate responsibility for the proper supervision and compliance of a Participating Organisation shall rest with the Participating Organisation and its board of directors.~~

**Comment [B97]:** Amended to clarify that a PO must carry out compliance functions for the purpose of monitoring compliance with these Rules, and providing advice on all matters that the PO needs to comply with under these Rules, Directives and Securities Laws.

**Comment [B98]:** This rule is redundant in view of the rule above requiring the PO to appoint the relevant persons as HOC to carry out compliance functions as provided under Rule 604.1.

**Comment [B99]:** The obligation to ensure compliance should vest with the POs, the board of directors and the management. We have amended the rule to reflect the above structure as follows:

**604.2 Accountability**

- (1) A Participating Organisation and the Participating Organisation's Board of Directors are responsible and accountable for compliance with these Rules, the Directives and Securities Laws by the Participating Organisation, the Participating Organisation's Registered Person(s), employees and agents.
- (2) If there is a breach of these Rules, the Directives and Securities Laws, the Participating Organisation and the Participating Organisation's Board of Directors are liable for such breach whether or not such breach was by or caused by Participating Organisation's Registered Person(s), employees or agents.

(a) Responsibility of a PO and management – obligation to ensure compliance with Securities Laws, these Rules, the Directives, any decision made by the Exchange and the PO's internal policies and procedures. The PO and BOD bears this responsibility whether or not the breach was caused by the PO's Registered Person(s), employee or officer or other person

(b) Responsibility of Head of Compliance and Head Group Compliance – both have the same obligations in that to carry out checks from time to time to ensure compliance with the Securities Laws etc.

(c) Responsibility of Head of Dealing – obligation to supervise and direct compliance in matters relating to trading in securities.

(d) Responsibility of Head of Operations – obligation to supervise and direct compliance in matters relating to operations.

The obligations in paragraphs (b), (c) and (d) will be covered under Chapter 3.

**Comment [B100]:** Previously, Rule 404.1(10). Including the obligation of a PO to report any matter in Rule 307.5(1) that has not been reported to the Exchange. The equivalent rule for a Registered Person(s) is in Rule 302.7.

**Comment [B101]:** Unnecessary as this is covered by requiring the PO or Registered Person(s) to report the matter in writing to the Exchange.

**604.3 Reporting**

- (1) ~~If Where~~ a Participating Organisation ~~or registered person(s)~~:
- (a) becomes aware of ~~any matter in Rule 307. 6(1) that has not been reported to the Exchange or~~ any breach, ~~infringement, or non-compliance~~ of any of these Rules ~~Rule~~ by another Participating Organisation, ~~or a Registered Person(s); or~~
- (b) has reason to believe that another Participating Organisation or ~~registered person(s)~~ **a Registered Person(s)** has breached, ~~infringed~~ or failed to comply with any of these Rules, ~~the Participating Organisation or registered person(s)~~ shall report the matter in writing to the Exchange. ~~Such report shall give particulars of such breach, infringement or non-compliance together with any other relevant documents and information, or the reasons for believing the same.~~
- the Participating Organisation must report the matter immediately in writing to the Exchange.

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(2) If a Participating Organisation:

- (a) fails to perform any obligations under these Rules or Directives;
- (b) is subject to any enforcement or disciplinary action by the Commission or any other regulatory authority; or
- (c) becomes aware of any other event or circumstances which may adversely affect the Participating Organisation's ability to perform any of the obligations under these Rules or Directives;

the Participating Organisation must immediately report the matter in writing to the Exchange.

**Comment [B102]:** To impose self reporting obligation on the PO.

604.4 Compliance with the Capital Markets and Services Act or Securities Laws

(1) Where these Rules require a Participating Organisation to comply with a provision of the Capital Markets and Services Act or the Securities Laws:

- (a) the Exchange may enforce that provision as if it were repeated as a Rule;
- (b) any action taken or determination made by the Exchange is not to be regarded as an action or determination under the Capital Markets and Services Act or the Securities Laws but as an action or determination under these Rules; and
- (c) any action taken or to be taken or determination made or to be made by the Exchange is not affected by any previous, subsequent or pending action or determination by any court, the Commission or any other authority in relation to a breach of that provision.

**Comment [B103]:** This is to clarify the Exchange's position when imposing requirement to comply with the securities laws.

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~~**RULE 508 – CORPORATE FINANCE ACTIVITIES BY  
PARTICIPATING ORGANISATION**~~

**Comment [B104]:** All provisions in previous Rule 508 are deleted as all corporate finance activities are proposed to be consolidated under SC's Licensing Handbook

~~**Rule 508.1 – DEFINITION**~~

~~(1) For the purposes of this Rule 508 –~~

~~(a) [Deleted]~~

~~(b) “Persons connected with the Participating Organisation”, in relation to corporate finance activities shall mean –~~

~~(i) a director or substantial shareholder of the Participating Organisation;~~

~~(ii) a person in his capacity as trustee of a private or family trust (other than a pension scheme), the beneficiaries of which include any person in (1) above;~~

~~(iii) a body corporate which is associated with the individual in (1) above by virtue of the said individual being a director of or having a substantial shareholding in the body corporate; or~~

~~(iv) a company which is a member of the same group of companies as the Participating Organisation.~~

~~(c) “insiders” means employees, directors, Dealer’s Representatives or any other agents engaged or employed by the Participating Organisations who are –~~

~~(i) in possession of information that is not generally available which on becoming generally available a reasonable person would expect it to have a material effect on the price or the value of securities; and~~

~~(ii) know or ought reasonably to know that the information is not generally available.~~

~~(d) The words and phrases “information”, “information generally available”, “information that on becoming generally available would or would tend to have a material effect on the price or value of securities”, “trading in securities” and “procure” or “procuring” shall have the same meanings as are assigned to them in Sections 183, 184, 185, 186 and 187 respectively of the Capital Markets and Services Act.~~

~~**RULE 508.2 – SCOPE OF CORPORATE FINANCE ACTIVITIES**~~

~~(1) All Participating Organisations are permitted to carry out corporate finance activities, the scope and extent thereof shall be subject to the Guidelines on Permitted Activities for Stockbroking Companies or such other relevant guidelines, regulations or directives or other instruments issued by the Commission from time to time pertaining thereto (and includes amendments, modifications, variations, supplements or substitutes thereto), *Subject Always* that in the case of Participating Organisations which are allowed to carry out the activities of principal advisor pursuant to the Guidelines on Permitted Activities for Stockbroking Companies, the Participating Organisations shall have and maintain its Effective Shareholders’ Fund (as defined in Rule 1105) of at least Ringgit Malaysia One Hundred Million (RM100,000,000.00) at all times or such other amount as may from time to time be prescribed by the Exchange or directed by the Commission.~~

**RULE 508.3 – GENERAL REQUIREMENTS**

- (1) ~~The Participating Organisation shall be responsible for all its business activities in relation to corporate finance, including but not limited to, any breach of the rules and/or directives of the Exchange.~~
- (2) ~~The Participating Organisation undertaking the corporate finance activities shall at all times comply and adhere to the Guidelines on Permitted Activities for Stockbroking Companies and such other guidelines and policies on the same, as issued from time to time. A failure to comply or a breach of such policies and guidelines shall render the Participating Organisation liable to the relevant disciplinary action as stipulated in these Rules.~~
- (3) ~~Where the Participating Organisation is desirous of providing services in relation to corporate finance activities to persons connected with the Participating Organisation, it shall thereupon inform the Commission and the Exchange in writing of the same.~~
- (4) ~~Where such Participating Organisation's services in relation to corporate finance activities referred to in the foregoing paragraph is undertaken, the Participating Organisation shall incorporate additional measures to avoid any conflict of interest.~~

**RULE 508.4 – ORGANISATIONAL AND REPORTING REQUIREMENTS**

- (1) ~~**Organisational requirements:** In relation to a Participating Organisation permitted to conduct corporate finance activities pursuant to, and in accordance with this Chapter, the Participating Organisation must—~~
  - (a) ~~[Deleted]~~
  - (b) ~~establish and maintain a separate department(s) ("Corporate Finance Department(s)") to undertake the activities of corporate finance at its principal office and branch office(s) Subject Always to the following:~~
    - (i) ~~all corporate finance activities shall preferably be conducted at its principal office;~~
    - (ii) ~~in the event that corporate finance activities are to be conducted at any of its branch office(s), it shall notify, and identify such branch office(s) to, the Exchange and the Commission;~~
  - (c) ~~appoint at least one (1) person recognised by the Commission to head the Corporate Finance Department(s) and to be responsible for all matters relating to or in connection with the Participating Organisation's corporate finance activities ("Head of Corporate Finance");~~
  - (d) ~~appoint at least one (1) person recognised by the Commission to be responsible for all matters relating to or in connection with the Participating Organisation's corporate finance activities ("Secondary Head of Corporate Finance") at each of the other office(s) of the Participating Organisation carrying out corporate finance activities; and~~
  - (e) ~~maintain at all times of professional standards and sufficient resources in, and for, the carrying out of its corporate finance activities.~~
- (2) ~~**Approvals for submissions:** The Participating Organisation shall ensure that all submissions to the Commission in respect of or in connection with corporate finance activities are approved by—~~
  - (a) ~~the Head of Corporate Finance; or~~

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~~(b) any other person who holds a senior position in the organisation of the Participating Organisation,~~

~~who is authorised by the board of directors of the Participating Organisation to approve the submissions to the Commission.~~

~~(3) **Risk Management:** Notwithstanding Rule 508.4(2) above, the Participating Organisation shall be ultimately responsible for the corporate finance activities of the Participating Organisation and the proper management of risks inherent in these activities. In this respect, the Participating Organisation shall ensure that—~~

~~(a) the lines of authority and reporting structure for the Corporate Finance Department(s) are clearly delineated so that confidentiality of information pertaining to all corporate finance activities is maintained at all times;~~

~~(b) there are sufficient risk management measures to address any concerns on risks that are inherent in corporate finance activities.~~

**RULE 508.5 – CONFIDENTIALITY**

~~(1) Every Participating Organisation shall, for the prevention of insider trading, misuse of confidential information and/or the commission of other offences relating to the abuse of confidential information, ensure that there is strict and full confidentiality of all relevant information, including without limitation, information that on becoming generally available would or would tend to have a material effect on the price or value of securities.~~

~~(2) **Physical segregation:** In amplification of Rule 508.5(1) above, every Participating Organisation shall ensure that the Corporate Finance Department(s) at its principal office and where applicable, branch office(s) respectively are physically separated from the other activities of the Participating Organisation **Subject Always** to such rules, circulars, directives or guidelines as may from time to time be issued by the Exchange in respect of or in connection with segregation of the various businesses permitted to be carried out by the Participating Organisation and/or its group of related or associated companies, as the case may be.~~

~~For the purposes herein, “physically separated” means—~~

~~(a) that the Corporate Finance Department(s) shall be located on different floor(s) of the building wherein the other activities of the Participating Organisation are situated; or~~

~~(b) that the Corporate Finance Department(s) shall be located at an area that is physically separated by wall(s) from the areas where the other activities of the Participating Organisation are carried out or situated. The wall(s) shall be constructed from the floor to the ceiling and made of solid and non-transparent material.~~

~~(3) **Chinese Walls and firewalls:** In addition to Rule 508.5(2), a Participating Organisation shall formulate and enforce adequate and effective internal policies, procedures and/or guidelines on the maintenance of “Chinese Wall” and firewalls to ensure that persons involved in other activities of the Participating Organisation have no direct or indirect access to the corporate finance activities and shall take all steps and actions necessary to implement and comply with the relevant rules, circulars, directives or guidelines issued from time to time by the Exchange in respect of or in connection with the segregation of the various businesses permitted to be carried out by the Participating Organisation and/or its group of related or associated companies, as the case may be, and in respect thereof, include without limitation the following—~~



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- (a) ~~measures to avoid the flow of material non-public information known by the Corporate Finance Department(s) to persons involved in other activities of the Participating Organisation;~~
- (b) ~~procedures for communications between the personnel of the Corporate Finance Department(s) and persons involved in other activities of the Participating Organisation;~~
- (c) ~~policies, procedures and internal controls and mechanisms to prevent the misuse of confidential information, including without limitation, information that on becoming generally available would or would tend to have a material effect on the price or value of securities; and~~
- (d) ~~policies and procedures on permissible crossing of such barriers as may be erected.~~

**RULE 508.6 – MANAGEMENT OF CONFLICTS OF INTEREST**

(1) ~~A Participating Organisation shall ensure that there is, at all times, a proper management of conflicts of interest, whether actual, potential or perceived, which arise or may arise from the carrying out of corporate finance activities and the other activities of the Participating Organisation. In this respect, the Participating Organisation shall develop and maintain –~~

- (a) ~~in relation to the corporate finance activities undertaken by the Corporate Finance Department which involve information that is not generally available which on becoming generally available would or would tend to have a material effect on the price or value of the securities of the clients, a list of securities of such clients (“Watch List”);~~
- (b) ~~internal policies, controls and mechanisms to monitor trading activities of insiders in relation to the securities contained in the Watch List to ensure compliance with Rule 508.6(2);~~
- (c) ~~internal policies and controls for avoidance of insider trading; and~~
- (d) ~~measures and procedures to ensure the Participating Organisation does not conduct or undertake any activities tantamount, or likely to be tantamount or similar, to front-running.~~

(2) **Prohibition in Trading/Publication of Research:**

- (a) ~~In amplification of and without prejudice to the generality of Rule 508.6(1) above, there shall be a prohibition imposed against an insider from~~
  - (i) ~~trading, procuring trades and instructing any person to trade or procure trade (whether for themselves or for the Participating Organisation in relation to its proprietary or agency trades or indirectly through any form of discretionary trading) in the securities of the clients of the Corporate Finance Department(s) to which information as mentioned in the definition of ‘insiders’ relates, including restrictions on the trading in futures, options and other instruments derived from such securities; and~~
  - (ii) ~~publication of research or other materials with comments, recommendations or otherwise in respect of the securities which are the subject of corporate finance exercise(s) to which information as mentioned in the definition of ‘insiders’ relates.~~
- (b) ~~The prohibitions stipulated herein on the insider shall remain in effect for as long as the insider remains an insider.~~

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- (3) — **Restricted List:** — In giving effect to Rule 508.6(2) above, a Participating Organisation shall, distribute to an insider a list of securities to which the prohibition in Rule 508.6(2) is applicable to that insider (“Restricted List”).
- (4) — **Register of Conflicts:** — Without prejudice to the generality of Rule 508.6(1), a Participating Organisation shall maintain a register of conflicts to record all cases of conflicts of interest whenever they arise and the manner these cases of conflicts of interest have been addressed.

**RULE 508.7 — REVIEW OF CORPORATE FINANCE ACTIVITIES**

- (1) — The corporate finance activities shall be subject to regular reviews by Compliance Officers.
- (2) — The Compliance Officers shall ensure the following —
- (a) — the adequacy of all internal controls and information barriers developed and implemented by the Participating Organisation pursuant to Rule 508.5;
  - (b) — the internal controls and information barriers referred to in the preceding paragraph are effectively implemented and complied with by the Participating Organisation;
  - (c) — that there is adequate supervision and monitoring of all the activities of the Corporate Finance Department(s); and
  - (d) — the Participating Organisation shall not effect, take part in, engage in, be concerned in, or carry out, either directly or indirectly, any activities which are tantamount, or likely to be considered tantamount, or similar, to front-running, insider dealing and other offences related to the abuse of confidential information, including without limitation, information that on becoming generally available would or would tend to have a material effect on the price or value of securities.

**RULE 508.8 — STRUCTURE OF CORPORATE FINANCE ACTIVITIES**

- (1) — **Structure:** — A Participating Organisation may at its discretion determine the structure of its corporate finance activities permitted under Rule 503.1(1)(a)(iii) and Rule 503.2(1)(c) subject to the relevant requirements prescribed in these Rules.
- (2) — **Subsidiary:** — In relation to a Participating Organisation which conducts corporate finance activities through a subsidiary, the Participating Organisation shall at all times comply with the following conditions —
- (a) — the Participating Organisation has controlling shareholding in the subsidiary (for the purposes herein “controlling shareholding” of a subsidiary shall mean not less than fifty per cent (50%) of the issued and paid up capital of the subsidiary plus one (1) share);
  - (b) — the subsidiary is licensed to carry on the business of advising on corporate finance pursuant to the Capital Markets and Services Act;
  - (c) — the activities of the subsidiary is, subject always to the terms, conditions and restrictions of the licence issued thereto, at all times limited to the following —
    - (i) — submission to the Commission of all applications for proposals requiring the approval of the Commission pursuant to any law, rules and regulations as may be applicable; and
    - (ii) — acting in a strictly advisory capacity only to the Participating Organisation in relation to, *inter alia*, underwriting and placement of securities;

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- ~~(d) — the Participating Organisation ensures that the subsidiary deals with and addresses issues of conflict of interest adequately in the same manner and degree as required of the Participating Organisation pursuant to the relevant provisions of these Rules;~~
- ~~(e) — the Participating Organisation procures an agreement with the subsidiary in such form and substance as may be stipulated by the Exchange from time to time, and which agreement shall contain, *inter alia*, the following terms —~~
  - ~~(i) — that the Exchange shall be permitted to conduct such inspections as may from time to time be deemed necessary by the Exchange in accordance with its powers pursuant to these Rules;~~
  - ~~(ii) — that the subsidiary shall comply with the relevant provisions of these Rules, including without limitation:
    - ~~(aa) — the provisions relating to Chinese Walls and firewalls;~~
    - ~~(bb) — the provisions relating to the authority and duties of the Compliance Officer in the supervision and monitoring of the activities of the subsidiary; and~~
    - ~~(cc) — the provisions relating to the reporting structure of the Corporate Finance Department(s) of the Participating Organisation.~~~~

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**RULE 56095 RISK MANAGEMENT FUNCTIONS AND RISK-MANAGEMENT COMMITTEE OF PARTICIPATING ORGANISATIONS**

**RULE 56095.51 DUTIES OF A PARTICIPATING ORGANISATION Risk management functions**

- (1) Every Participating Organisation ~~shall~~ must ensure the proper discharge of the risk management functions for the purpose stipulated under Rule 501.3(1) and actions to mitigate such risks.-
- (a) ~~establish, maintain and exercise effective policies and procedures on risk management and~~
- (b) ~~have its own system of monitoring risk on a daily basis.~~

**Comment [B105]:** The previous Rule 509.5(1) is now Rule 605.1 and is amended to state the principle that a PO is required to undertake the performance of risk management functions to manage its risk as required under Rule 501.3(1) i.e. to identify, monitor and manage conflicts of interest and risks that may arise in the conduct of the Participating Organisation's business.

**RULE 509.1 SPECIFIC REQUIREMENTS**

- (1) ~~Establishment: Every Participating Organisation, upon commencement of any of the activities stipulated under Rule 503.1 and Rule 503.2 other than dealing in securities and margin financing, shall ensure the following—~~
- (a) ~~the proper carrying out of risk management functions by the relevant department and the reporting of the same to the Risk Management Committee; and~~
- (b) ~~the establishment and maintenance of a Risk Management Committee which shall report to its board of directors periodically as the board of directors may determine or where the Rule 509.1(4) applies, which shall submit a report to board of directors of the Participating Organisation in relation to any matters relating to risk management of the Participating Organisation—~~
- (2) ~~Implementation: The Participating Organisation shall develop and implement relevant terms of reference, policies and procedures to govern the conduct and activities of the Risk Management Committee.~~
- (2) A Participating Organisation must ensure that the risk management functions are reported to the Board of Directors of the Participating Organisation or any other committee as determined by the Board of Directors whose function is to manage and monitor the discharge of the risk management functions of the Participating Organisation.
- (3) ~~Reporting: The Risk Management Committee shall report directly to the Participating Organisation's board of directors.~~
- (43) ~~Group Level: If in the event the functions of risk management functions and the Risk Management Committee are undertaken or established at Group Level in accordance with Rule 607, all provisions in these Rules relating to risk management functions, and Risk Management Committee except Rule 509.3(1)(b) and Rule 509.3(3) shall will equally apply, unless expressly provided to the contrary.-~~

**Comment [B106]:** Deleted as the same will be incorporated in chapter 5 on the general conduct of a PO. This is in line with simplifying the Rules and consolidating all relevant requirements under one rule, where we would have an all encompassing rule relating to internal controls and policies and procedures of a PO in respect of its activities.

**Comment [B107]:** Deleted as the same will be incorporated in Chapter 5 on the general conduct of a PO. This is in line with simplifying the Rules and consolidating all relevant requirements under one rule, where we would have an all encompassing rule relating to internal controls and policies and procedures of a PO in respect of its activities, including requirements on record keeping in Chapter 5.

**Comment [B108]:** This requirement is covered under the revised Rule 605.1(1) and the reporting to RMC is reflected in Rule 605.1(2) and is applicable to all POs and not just Investment Banks and Universal Brokers.

**Comment [B109]:** This requirement is covered in Rule 605.1(2).

**Comment [B110]:** Deleted as this requirement is stipulated in Chapter 5.

**Comment [B111]:** This rule is inserted to ensure that the risk management functions is reported to the BOD of the PO or any other committees determined by the BOD.

**Comment [B112]:** This requirement is covered in Rule 605.1(2).

**Comment [B113]:** Amended to simplify the language of this Rule.

**RULE 509.2 FUNCTIONS**

- (1) ~~The functions of the Risk Management Committee shall include but not be limited to the following—~~
- (a) ~~to develop and implement adequate risk assessment, monitoring and management policies and procedures with the objective of ensuring that the risks assumed by the~~

**Comment [B114]:** This rule will be incorporated into the PO Manual, consistent with the approach of setting out the operational details in the PO Manual.

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~~Participating Organisation in relation to the permitted businesses pursuant to Rule 503, will be managed and monitored accordingly and any requisite steps and action in mitigating such risks are effective; and~~

~~(b) to ensure that the Participating Organisation is at all times in compliance with the following—~~

~~(i) Capital Adequacy Requirements promulgated in Rule 1105;~~

~~(ii) all requirements from time to time of the exchange company and clearing house in respect of risks and exposures in relation to the permitted business pursuant to Rule 503.1(1)(a)(ii) and Rule 503.2(2); and~~

~~(iii) all such other requirements from time to time in respect of risks and exposures in relation to such other businesses as may be permitted pursuant to Rule 503.1(1)(a)(iii), Rule 503.1(1)(b), Rule 503.1(1)(c), Rule 503.1(1)(d), Rule 503.1(1)(e), Rule 503.2(1)(c), Rule 503.2(1)(d) and 503.2(1)(e), as the case may be.~~

~~(2) The department carrying out the risk management functions shall ensure that the policies and procedures established and formulated by the Risk Management Committee are efficaciously and effectively implemented at each branch office(s).~~

**Comment [B115]:** Deleted, consistent with the deletion of all the requirements under this rule.

**Comment [B116]:** This requirement is deleted as it is provided under Chapter 13.

**Comment [B117]:** This requirement is deleted as it is provided in Chapter 2, under the general compliance of the PO with the rules, directives or regulations issued by the Exchange.

**Comment [B118]:** This requirement is deleted as it is provided in Chapter 5 as part of the general requirement on policies and procedures to be maintained by POs.

**RULE 56095.32** ~~COMPOSITION OF RISK MANAGEMENT COMMITTEE~~ Composition of the committee for risk management

~~(1) Unless otherwise determined by the Exchange upon notification to the Commission, the Risk Management Committee must. The Participating Organisation must ensure that members of the Board of Directors or committee stipulated in Rule 605.1(2) comprise of such number and such persons as may be determined by the Participating Organisation. Provided Always subject to the following conditions— persons who are independent, competent, have no conflict of interest in the discharge of their functions and collectively have the relevant skills and experience in the following areas:~~

~~(a) trading;~~

~~(b) operations; and~~

~~(c) compliance~~

~~(a) the person does not hold a dealer's representative's licence; and~~

~~(b) the following persons shall be members—~~

~~(i) Head of Operations; and~~

~~(ii) Head of Compliance or in the case of Non-Universal Broker, Compliance Officer.~~

~~(2) Without being in derogation to the foregoing paragraph, the Head of Dealing may be invited to attend at meetings or proceedings of the Risk Management Committee when there are issues concerning risk management that affect or may affect the activities of dealing in securities of the Participating Organisation.~~

~~(2) The Participating Organisation must ensure that the majority of the members of the Board of Directors or committee for the risk management as determined by the Board of Directors of the Participating Organisation must not consist of persons who hold a dealer's representative's licence.~~

**Comment [B119]:** Amended to reflect the principle in relation to the composition requirements of the board of directors or committee determined by BOD for risk management and the competency of the board or members of this committee.

**Comment [B120]:** This rule is moved to and incorporated as the revised Rule 605.2(2).

**Comment [B121]:** Deleted as the Exchange is no longer prescribing who should sit in the committee.

**Comment [B122]:** This rule is deleted so as to give flexibility to PO or the committees determined by the BOD as provided under the revised Rule 605.1(2) in performing their functions in respect of the risk management.

**Comment [B123]:** This provision is previously Rule 509.3(1)(a) and is amended for purposes of plain language drafting.

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~~(3) The provisions in Rule 509.3(1)(b)(ii) would not apply where the Participating Organisation does not have a Head of Compliance for reason stipulated in Rule 307.1(3).~~

**Comment [B124]:** Deleted as the Exchange is no longer prescribing who should sit in the committee.

### ~~RULE 509.4 – INVESTMENT BANK~~

~~(1) All provisions in this Rule 509 relating to Risk Management Committee shall not be applicable to an Investment Bank and shall be substituted with the relevant provisions in the Guidelines on Investment Banks and/or requirements of the Central Bank pertaining to the same (“the Relevant Guidelines and Requirements”). The Relevant Guidelines and Requirements shall be deemed to be part of these Rules.~~

**Comment [B125]:** Deleted as the revised rule 605 is applicable to IBs since this rule 605 only stipulates the general requirements in relation to risk management.

### ~~RULE 509.5 – DUTIES OF A PARTICIPATING ORGANISATION~~

~~(1) Every Participating Organisation shall –~~

- ~~(a) establish, maintain and exercise effective policies and procedures on risk management; and~~
- ~~(b) have its own system of monitoring risk on a daily basis.~~

~~The policies and procedures on risk management shall be put in written form. The Participating Organisation should be able to describe and demonstrate the objectives and operation of the system to the Exchange.~~

~~(2) Every Participating Organisation shall determine and record in its financial records appropriate credit limits for all counterparties to which it has a credit exposure.~~

~~(3) The credit limits established shall be appropriate to the type, nature and volume of business undertaken and the financial status of the counterparty and shall be reviewed on a regular basis.~~

~~(4) A Participating Organisation's financial records shall be capable of being summarised in such a way as to permit actual exposures to be measured regularly against the established credit limits.~~

~~(5) A Participating Organisation shall maintain its records in a manner such that they disclose, or are capable of disclosing, in a prompt and appropriate manner, the financial and business information which will enable its management to –~~

- ~~(a) identify, quantify, control and manage the Participating Organisation's risk exposures;~~
- ~~(b) make timely and informed decisions;~~
- ~~(c) monitor the performance of all aspects of the Participating Organisation's business on an up-to-date basis;~~
- ~~(a) monitor the quality of the Participating Organisation's assets; and~~
- ~~(b) safeguard the assets of the Participating Organisation and assets belonging to other persons for which the Participating Organisation is responsible.~~

**Comment [B126]:** Deleted as the same will be incorporated in Rule 501.3 on the general conduct of a PO. This is in line with simplifying the Rules and consolidating all relevant requirements under one rule, where we would have an all encompassing rule relating to internal controls and policies and procedures of a PO in respect of its activities, including requirements on record keeping in Chapter 5.

### ~~RULE 509.6 – INTERNAL CONTROL~~

~~(1) Every Participating Organisation shall establish and maintain at all times written policies and procedures on internal control and should be able to describe and demonstrate the objectives and operation of such policies and procedures to the Exchange.~~

**Comment [B127]:** Deleted as the same will be incorporated in Chapter 501.3 on the general conduct of a PO. This is in line with simplifying the Rules and consolidating all relevant requirements under one rule, where we would have an all encompassing rule relating to internal controls and policies and procedures of a PO in respect of its activities, including requirements on record keeping in Chapter 5.

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- ~~(2) In determining the scope and nature of effective internal control, a Participating Organisation shall consider all relevant factors including the size of the business, the diversity of operations, the volume, size and frequency of transactions, the degree of risk associated with each area of operation and the amount of control by its senior management over day-to-day operations.~~
- ~~(3) The systems of internal control shall be designed in such a way as to ensure that—~~
- ~~(a) all transactions and commitments entered into are recorded and are within the scope of authority of the Participating Organisation or the individual acting on behalf of the Participating Organisation entering into such transactions or commitments;~~
  - ~~(b) there are procedures to safeguard assets and control liabilities, including assets belonging to other persons for which the Participating Organisation is accountable;~~
  - ~~(a) there are measures, so far as is reasonably practicable, to minimise the risk of losses to the Participating Organisation from irregularities, fraud or error and to identify such matters should they occur so that prompt remedial action may be taken by the management; and~~
- ~~there is clear delineation of responsibilities and proper segregation of tasks among the departments and the personnel of the Participating Organisation.~~

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**RULE 56106 INTERNAL AUDIT OF PARTICIPATING ORGANISATIONS**

**RULE 56106.1 INTERNAL AUDIT FUNCTIONS AND AUDIT COMMITTEE Internal audit functions**

~~(1) Internal Audit Functions~~ A Participating Organisation shall ~~must ensure that it carries internal audit functions whether on its own or in accordance with Rule 511~~ the department carrying out internal audit functions for the Participating Organisation shall have adequate audit policies and resources for the purposes of examining, evaluating and reporting on the adequacy and efficiency of the Participating Organisation's management, operations and internal controls. The discharge of the internal audit functions shall be reported to the audit committee ("Audit Committee") for the Participating Organisation, established in accordance with Rule 510.1(2): establish and maintain an internal audit function which is independent from all other functions of the Participating Organisation for the purpose of:

**Comment [B128]:** This rule is moved here from the previous rule 510.1(1), and amended further to simplify its language.

(a) examining, evaluating and advising the Participating Organisation of the following:

**Comment [B129]:** Inserted to stipulate the principles to be undertaken in respect of internal audit functions of POs.

- (i) the effectiveness and efficiency of the the operations of the Participating Organisation, including its internal system and controls;
- (i) reliability and integrity of the Participating Organisation's financial and operating information, including the reporting of such information;
- (iii) compliance with the rules and laws relating to the business of the Participating Organisation;
- (iv) compliance with the relevant policies and procedures established by the Participating Organisation; and
- (vii) adequacy and effectiveness of all other areas in the business of the Participating Organisation that is relevant to the achievement, objectives and obligations of the Participating Organisation.

(b) reporting to the Board of Directors or a committee selected by the Board of Directors on the findings of its examinations and evaluations of the areas mentioned in Rule 606.1(1)(a).

(c) making appropriate recommendations on the corrective actions to be taken or improvements (if any) based on the findings above; and

(d) verifying whether the recommendations made above has been adhered to by the Participating Organisation.

(2) The Participating Organisation must establish and maintain an audit committee, whether on its own or at the Group Level in accordance with Rule 607. The audit committee is responsible for monitoring and overseeing all matters relating to the discharge of the internal audit functions of the Participating Organisation.

**Comment [B130]:** This rule is introduced to state the principle of having an audit committee.

(3) A Participating Organisation must report all matters in relation to the internal audit to the audit committee.

**Comment [B131]:** This rule is introduced to clarify the requirement in relation to the reporting of the internal audit functions of the POs.

~~(2) Audit Committee: A Participating Organisation shall ensure that it establishes an Audit Committee whether on its own or at Group level in accordance with Rule 511, whose functions shall include the following-~~

**Comment [B132]:** This rule will be moved to, and incorporated into, the PO Manual.

~~(a) to ensure that the financial and accounting system of the Participating Organisation represents a true and fair view of its current financial position;~~

~~(b) to oversee the Participating Organisation's internal control structure and its financial reporting process;~~



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- ~~(c) — to review the findings of the internal and annual statutory audit and to recommend as well as implement appropriate remedial and corrective measures relating to the same;~~
- ~~(d) — to discuss any matters arising from the previous year's audit, to review the scope of the current year's audit, the plans for carrying out the audit, the extent of planned reliance on the work of the statutory auditor and the Participating Organisation's internal auditors;~~
- ~~(e) — to ensure proper implementation and recommend appropriate remedial and corrective measures in respect of such findings arising from inspections conducted by the Exchange;~~
- ~~(f) — to review the changes in statutory requirements and any rules issued thereunder, and any significant audit problems that can be foreseen either as a result of the previous year's experience or because of new developments;~~
- ~~(g) — to ensure the independence and objectivity of both the internal as well as the statutory auditor and that the audits are conducted in a thorough and effective manner; and~~
- ~~(h) — to monitor the Participating Organisation's compliance with applicable laws and regulations.~~

~~(3) (a) **Composition of Audit Committee at Participating Organisation:** The Audit Committee established whether at the Participating Organisation or Group level shall comprise of at least three (3) members, two (2) of whom shall be non-executive directors of the Participating Organisation or of the Entity where the Audit Committee is established at Group level. The chairman of the audit committee shall be appointed from amongst the non-executive directors of the Participating Organisation or the Entity where the Audit Committee is established at Group level.~~

**Comment [B133]:** Deleted as Exchange will no longer be prescribing who should sit in the committee but rather the skill and experience of members as in the revised Rule 606.2(1).

~~— In the event that the composition of the audit committee exceeds the prescribed minimum stipulated herein, non-executive directors shall form the majority of such audit committee.~~

~~(b) **Meeting:** A Participating Organisation shall ensure that non-executive directors shall form the majority of the Audit Committee members present at any meetings of the Audit Committee referred to in Rule 510.1(1).~~

**Comment [B134]:** This rule will be moved to, and incorporated into, the Procedures Manual.

~~(4) — [Deleted]~~

~~(5) — [Deleted]~~

~~(6) **Minutes of Audit Committee:** A copy of the minutes of each meeting of the audit committee referred to in Rule 510.1(2) shall be submitted to the Exchange within thirty (30) days from the date the minutes were adopted by board of directors of the Participating Organisation, or such period specified by the Exchange.~~

**Comment [B135]:** This rule is moved to, and incorporated into Rule 606.4(3).

~~(7) **Audit Committee Meeting:** The audit committee referred to in Rule 510.1(1) shall meet at least every quarter in a calendar year.~~

**Comment [B136]:** This rule is moved from here, and incorporated into Rule 606.4(1).

~~(8) **Reporting of Audit Committee:** The Audit Committee for the Participating Organisation shall report to the board of directors of the Participating Organisation or, in the case where the audit committee is established at the Group level, such audit committee shall report to the board of directors of the Participating Organisation on any matters set out under Rule 510.1(2) relating to the Participating Organisation (if any).~~

**Comment [B137]:** This rule is incorporated as Rule 606.4(2).

**Comment [B138]:** This rule is incorporated as Rule 606.4(4).

**606.2 Composition of Audit Committee**

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~~(1) Composition of Audit Committee at Participating Organisation: The Audit Committee established whether at the Participating Organisation or Group level shall~~ must ensure that members of the audit committee ~~comprise of persons who are at least three (3) members, two (2) of whom shall be non-executive directors of the Participating Organisation or of the Entity where the Audit Committee is established at Group level. The chairman of the audit committee shall be appointed from amongst the non-executive directors of the Participating Organisation or the Entity where the Audit Committee is established at Group level.~~ independent, competent, have no conflict of interest in the discharge of their functions as members of the audit committee and collectively have the relevant skills and experience in the following areas:

**Comment [B139]:** Amended to reflect the principle in relation to the composition requirements of an Audit Committee and the competency of the members of the Audit Committee.

- (a) accounting;
- (b) trading;
- (c) operations;
- (d) compliance;
- (e) auditing; and
- (f) financial reporting.

~~In the event that the composition of the audit committee exceeds the prescribed minimum stipulated herein, non-executive directors shall form the majority of such audit committee.~~

**RULE 56106.23 SCOPE OF INTERNAL AUDIT** Internal audit

~~(1) Every Participating Organisation shall cause its internal audit department to conduct internal audit(s) on itself and its branch office(s) and formulate a written risk assessment profile for such areas at such times as it deems necessary, subject always to a minimum of one (1) internal audit in each calendar year.~~

**Comment [B140]:** Deleted as covered under the revised Rule 606.3(1).

~~(12) The audit shall include the following areas-~~ Participating Organisation must clearly identify the areas in the business of Participating Organisation that must be covered for the purpose of discharging its internal audit functions under these Rules. These areas must at the minimum include the following:

**Comment [B141]:** Amended to clarify the areas of internal audit functions that a PO must cover, which should also include credit control and risk management.

- (a) ~~to appraise~~ the performance of the management of the Participating Organisation;
- (b) ~~to appraise~~ the efficiency and effectiveness of communication between personnel and supervisors;
- (c) ~~to ensure maintenance of clearly presented and comprehensive~~ written policies and procedures that appropriately on allocateion of responsibilities and duties and clear lines of reporting and on credit control and risk management;
- (d) ~~to ensure the~~ adequacy of employee training policies and procedures;
- (e) ~~to ensure the~~ efficiency and effectiveness of policies and procedures in relation to credit control and risk management;
- (f) ~~to review the relevance, reliability and integrity of~~ financial and operational information generated and the means used to identify, measure, classify and report such information;
- (g) ~~to ensure the adequacy of its~~ internal controls and procedures that are specifically designed to detect ~~and~~ or prevent violations;

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(h) ~~to ensure the adequacy of its~~ information system and other information technology-related matters;

~~(i) to ensure compliance by the Participating Organisation of the Securities Laws, any other applicable laws and regulations, these Rules, its internal policies and procedures, and disciplinary actions imposed by any relevant authorities;~~

**Comment [B142]:** Deleted as this is covered under Rule 606.1(1)(a).

(j) ~~to appraise and evaluate~~ all operational aspects of the Participating Organisation's business; and

(k) ~~to ensure and ascertain that~~ the financial and accounting records and reports of the Participating Organisation contain accurate, reliable, timely, complete and relevant information and are prepared in compliance with approved accounting standards; and

~~(l) to ensure that any major findings and/or frauds uncovered in the course of the internal audit that may affect the Participating Organisation's financial position or its operations, are reported to the board of directors and management immediately, so as to ensure prompt corrective actions are taken.~~

**Comment [B143]:** This rule is moved to and incorporated as Rule 606.3(5).

~~(3) Every Participating Organisation shall also cause its internal audit department to submit its annual audit plan to the Exchange within thirty (30) days from the date the audit plan was approved by the audit committee or board of directors of the Participating Organisation, whichever is earlier, or such other period prescribed by the Exchange from time to time.~~

**Comment [B144]:** Deleted as the Exchange is entitled under Chapter 2 to request for any documents, as and when necessary, from the PO. This includes annual audit plan of a PO.

(2) A Participating Organisation may determine the scope of its annual audit based on the risk assessment undertaken by the Participating Organisation in the areas covered under Rule 606.3(1).

**Comment [B145]:** Introduced to clarify that the scope of the annual audit may be determined by the PO based on the risk assessment undertaken by the PO.

(3) A Participating Organisation must, in relation to the risk assessment undertaken by it, ensure the following:

**Comment [B146]:** Introduced to require the PO in undertaking the risk assessment, to have a clear written risk assessment methodology to assess the risks, and to identify and document the results of the risk assessment.

(a) formulate a clear written risk assessment methodology to be adopted when assessing the risks in the areas covered under Rule 606.3(1);

(b) the risk assessment results of the above areas must be clearly identified and documented

(4) Upon completion of the internal audit, a Participating Organisation must prepare a written report on the findings of the internal audit and table the report to the audit committee. The written report must contain recommendations or corrective actions to be taken, if any.

**Comment [B147]:** Introduced to require the PO to prepare and submit the written report of the findings of the internal audit to the Audit Committee. Such written report must contain recommendations or corrective actions to be taken, if any.

(5) to ensure that A Participating Organisation must report any major findings and/or frauds uncovered in the course of the internal audit that may affect the Participating Organisation's financial position or its operations, are reported to the board of directors and management immediately, so as to ensure prompt corrective actions are taken.

**Comment [B148]:** The previous Rule 510.2(2)(l) is incorporated here and amended due to plain language drafting.

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**RULE 510.34 REPORTING Audit Committee**

~~(1) Minutes of Audit Committee:—~~The audit committee referred to in Rule ~~56406.1(2)~~ shall ~~must~~ meet at least ~~once~~ every quarter in a calendar year.

**Comment [B149]:** This rule is moved from the previous Rule 510.1(7) to here as it is part of the reporting requirements of a PO in relation to internal audit functions.

~~(1) The relevant department carrying out the internal audit functions for the Participating Organisation shall table all its audit reports to the Audit Committee referred to in Rule 510.1(2) irrespective of significance of issues raised as soon as reasonably practicable after the completion of the internal audit referred to in Rule 510.2(1).~~

**Comment [B150]:** Deleted as this is covered under Rule 606.1(3).

~~(2) The audit committee shall thereafter must present to the bBoard of dDirectors of the Participating Organisation amongst others the audit report, its course action and/or any corrective measures taken, to address any non compliance or irregularities stated in the audit report.~~

**Comment [B151]:** Amended due to plain language drafting.

~~(3) and A Participating Organisation must submit a copy of the minutes of each meeting of the audit committee and a copy of the audit report including its course action or any corrective measures taken, to address any non compliance or irregularities stated in the audit report each of the aforesaid to the Exchange within thirty (30) days from the date the minutes were adopted by and the audit report was presented to, the bBoard of dDirectors of the Participating Organisation, or such other period as prescribed by the Exchange from time to time.~~

**Comment [B152]:** The requirements to submit a copy of an audit report and report on the corrective actions are (which are part of the previous rule 510.3(2)) are incorporated here. The requirement to submit a copy of the minutes of the Audit Committee meeting is incorporated here from the previous rule 510.1(6) and combined with the requirement for submission of a copy of an audit report and report on the corrective actions.

~~(4) In the case where the audit committee is established at the Group lLevel, such audit committee shall must report to the bBoard of dDirectors of the Participating Organisation on any matters set out under Rule 56406.1(1) relating to the Participating Organisation, (if any).~~

**Comment [B153]:** The previous Rule 510.1(8) is incorporated here as it is relevant to this rule 606.4.

~~The board of directors of Participating Organisation shall be responsible for the submission of all documents referred to in Rule 510.3(2).~~

**Comment [B154]:** This rule is deleted as this would be covered under a more general provision in Rule 501 and Rule 604.1 which states that the board of directors of the PO and the PO shall be ultimately accountable for all matters under the Rules.

**RULE 510.4 INVESTMENT BANKS**

~~(1) All provisions in this Rule 510 relating to Audit Committee shall not be applicable to an Investment Bank and shall be substituted with the relevant provisions in the Guidelines on Investment Banks and/or requirements of the Central Bank pertaining to the same ("the Relevant Guidelines and Requirements"). The Relevant Guidelines and Requirements shall be deemed to be part of these Rules.~~

**Comment [B155]:** This provision is deleted as the rules on Audit Committee is principle based, as such is applicable to IBs.

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**RULE 511.607 PERFORMANCE OF SUPERVISORY FUNCTIONS, RISK MANAGEMENT COMMITTEE AND AUDIT COMMITTEE AT GROUP LEVEL**

**RULE 511.1 – 607.1 Performance of Supervisory Functions**

- (1) A Participating Organisation may ~~be permitted to~~ have its Supervisory Functions ~~undertaken at its Group Level, and in relation to its internal audit functions carried out by an External Party as may be permitted provided it obtains the prior written approval of the Exchange pursuant to~~ under the Guidelines on Supervisory Functions, ~~and provided further that it is in compliance with, on a continuing basis, the Guidelines on Supervisory Functions and all rules, directives, rulings and guidelines issued by the Exchange pertaining to the same.~~
- (2) The Guidelines on Supervisory Functions ~~is~~ shall be regarded deemed ~~as~~ part of these Rules and ~~consequently~~ any breach by the Participating Organisations of the Guidelines on Supervisory Functions ~~shall be~~ is deemed to be a breach of these Rules.

Comment [B156]: Amended due to plain language drafting.

Comment [B157]: Deleted as the same is governed under the SC's guidelines on Performance of Supervisory Functions at Group Level for Capital Market Intermediaries, hence PO are required to comply with the same.

Comment [B158]: Amended due to plain language drafting.

Comment [B159]: Amended due to plain language drafting.

**607.2 Risk Management Committee and Audit Committee**

- ~~(3) The Exchange may issue any rules, directives, rulings and guidelines in relation to the performance of Supervisory Functions at a Participating Organisation's Group level, as it deems fit, from time to time.~~

Comment [B160]: This rule is deleted as it is not necessary since the Exchange already has the power under Chapter 2 to issue any rules, directives, rulings and guidelines to the POs.

**RULE 511.2**

- (1) A Participating Organisation may ~~have~~ have the relevant committee for the risk management its risk management committee and/or its the audit committee functions established or undertaken at the Group Level provided if it obtains the prior ~~written~~ approval of the Exchange, ~~and provided further that it is in compliance with, on a continuing basis, with the provisions of this Rule 511.2.~~
- (2) ~~Where~~ If the Exchange ~~approval under Rule 607.2(1) is obtained from the Exchange, for the risk management committee and/or the audit committee functions of a Participating Organisation to be established or undertaken at Group Level, the all~~ provisions set out in ~~paragraph 3 of~~ the Guidelines on Supervisory Functions ~~shall~~ are equally applicable to and be-binding on the Participating Organisation with the following modifications:
- (a) all references to 'supervisory functions' in ~~paragraph 3 of~~ the Guidelines on Supervisory Functions ~~shall~~ are for the purposes of this Rule be read to include the risk management ~~and audit~~ committee functions ~~and the audit committee functions;~~ and
- (b) all references to 'market intermediary' and 'dealer' in ~~paragraph 3 of~~ the Guidelines on Supervisory Functions ~~shall~~ are be read to include the Participating Organisation herein.
- (3) ~~A Participating Organisation in making an application for the approval under Rule 607.2(1), of the Exchange to establish or undertake its risk management committee and/or its audit committee functions at Group Level, a Participating Organisation shall~~ must comply with the application procedures set out in ~~paragraph 7 of~~ the Guidelines on Supervisory Functions ~~which shall equally apply to and be binding on the Participating Organisation~~ with the following modifications:

Comment [B161]: Amended to clarify that the PO may have the relevant committee for risk management and the Audit Committee established or undertaken at the group company level, if it obtains the prior approval of the Exchange.

Comment [B162]: Amended due to plain language drafting.

Comment [B163]: Deleted to avoid inconsistency with the changes made, in the future, if any, to the Guidelines on Supervisory Functions issued by the SC.

Comment [B164]: Deleted to avoid inconsistency with the changes made, in the future, if any, to the Guidelines on Supervisory Functions issued by the SC.

Comment [B165]: Amended due to plain language drafting.

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- (a) all references to 'dealers', 'market intermediary' in ~~paragraph 7 of~~ the Guidelines on Supervisory Functions ~~shall for the purposes of this Rule be read to include a~~ Participating Organisation stipulated herein; and
- (b) all references to 'supervisory functions' in ~~paragraph 7 of~~ the Guidelines on Supervisory Functions ~~shall for the purposes of this Rule be read to include the~~ committee for risk management ~~committee functions~~ and the audit committee functions.

**RULE ~~561107.3~~ Investment Bank**

- (1) The provisions in Rule ~~561107.1 and 511.2~~ are not applicable to an Investment Bank, ~~and are substituted with the provisions in the Guidelines on Investment Bank and the requirements of Central Bank relating to the performance of the Supervisory Functions of an Investment Bank by an entity other than the Investment Bank ("the Relevant Guidelines and Requirements"). The Relevant Guidelines and Requirements are deemed to be part of these Rules.~~

**Comment [B166]:** Deleted to avoid inconsistency with the changes made, in the future, if any, to the Guidelines on Supervisory Functions issued by the SC.

**Comment [B167]:** Deleted to avoid inconsistency with the changes made, in the future, if any, to the Guidelines on Supervisory Functions issued by the SC.

**Comment [B168]:** Deleted due to plain language drafting.

**Comment [B169]:** This provision on the application of the Guidelines on IBs issued by BN and SC is reflected and generalised under Rule 102.4.

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~~RULE 512 — PROPRIETARY TRADING~~

~~RULE 512.1 — LOCATION~~

- ~~(1) Without derogation to the provisions of these Rules in respect of proprietary trading, all proprietary trading in respect of securities on the stock market maintained by the Exchange of a Participating Organisation with branch office(s), as the case may be, shall preferably be conducted at its principal office.~~
- ~~(2) In the event that the proprietary trading in respect of securities on the stock market maintained by the Exchange of the Participating Organisation with branch office(s), as the case may be, is to be conducted at any of its branch office(s), it shall identify such branch office(s) to the Exchange in writing.~~

**Comment [B170]:** This rule is deleted to provide greater independence and flexibility to POs to manage their business.

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**RULE 513 — ACCOUNTS**

**RULE 513.1 — CONSOLIDATED BASIS**

~~(1) For purposes of reporting and submissions by a Participating Organisation with branch office(s), as the case may be, in accordance with the Securities Laws, rules, guidelines, directives and/or regulations of the Exchange and/or the Commission, the financial statements and accounts (including but not limited to reports and submissions relating to gearing ratio, margin accounts, exposure to single client and exposure to single security) of such Participating Organisation must be drawn up on a consolidated basis, with detailed breakdowns for the principal office and the branch office(s).~~

**Comment [B171]:** This rule is moved to Chapter 12 on maintenance of financial records in line with consolidating similar requirements under one rule to avoid repeating similar requirements under various rules.

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**RULE 514 — INSPECTION**

**RULE 514.1 — POWER TO INSPECT**

~~(1) In amplification of, but not derogation of, the provisions contained in Rule 1203 regarding the Exchange's powers of inspection, a Universal Broker and Investment Bank shall be subject to such inspections as may from time to time and at any time deemed necessary or expedient by the Exchange, the scope and criteria of which shall be as prescribed by the Exchange, upon notification to the Commission, from time to time.~~

**Comment [B172]:** This rule is moved to Chapter 14 in relation to the Exchange's power to inspect in line with consolidating similar requirements under one rule to avoid repeating similar requirements under various rules.

[End of Chapter]

Deleted as these requirements are governed by SC and contained in the SC's Guidelines on the Establishment and Location of a Branch Office by Universal Brokers and Eligible Non-Universal Brokers, Guidelines on Investment Bank and Policy Framework on the Consolidation of the Stockbroking Industry.

CHAPTER 76 DEALINGS IN SECURITIES

RULE 6701 DEALINGS IN SECURITIES ON THE MARKET

RULE 6701.1 GENERALGeneral

~~(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.~~

**Comment [B1]:** This rule is moved to and incorporated into the new Rule 701.3(1).

~~(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.~~

**Comment [B2]:** This rule is moved to and incorporated into the new Rule 701.3(2).

~~(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.~~

**Comment [B3]:** Deleted as this rule is unnecessary since only DRs who have been issued with a CMSRL for dealing in securities may deal in securities.

~~(4) No Commissioned Dealer's Representative shall undertake proprietary trading on behalf of the Participating Organisation.~~

**Comment [B4]:** This rule is moved to, and incorporated as the new Rule 701.4.

~~(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.~~

**Comment [B5]:** This rule is moved to, and incorporated as the new Rule 701.4.

~~(6) All proprietary trading of the Participating Organisation undertaken by a Salaried Dealer's Representative shall be subject to review by the Compliance Officer.~~

**Comment [B6]:** Deleted as this is micro managing the PO. The responsibility of the PO, its directors and the Head of Compliance in ensuring and monitoring compliance of the rules have been clearly set in Rules 307.1, 502.1 and 604. The PO, board of directors and the Head of Compliance will have to come up with suitable procedures and processes in ensuring and monitoring compliance.

~~(7) Participating Organisations shall maintain a list of all its Dealers Representatives conducting clients' trading and proprietary trading respectively.~~

**Comment [B7]:** Deleted as there is a requirement for a PO to keep records to evidence compliance with these rules i.e. Rule 501.4.

~~(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.~~

**Comment [B8]:** Deleted as this would be covered under the proposed all encompassing rule on internal controls and policies and procedures of a PO in respect of its activities in Chapter 5. Taping of conversation is now in a new rule ie Rule 701.4.

~~(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.~~

**Comment [B9]:** This provision is moved to and incorporated as Rule 701.4(3).

~~(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-~~

**Comment [B10]:** Deleted as this requirement is in Rule 504.1.

~~(a) utilise accounts within the Participating Organisation for purposes as authorised nominees;~~

**Comment [B11]:** This rule is moved to, and incorporated as the new Rule 701.5(1).

~~(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:~~

## Chapter 776 – Trading/Dealing in Securities

- (1) ~~The provisions in this Chapter are applicable in respect of eOn-Market Transactions and Direct Business Transactions whether transacted in Board Lots or Odd Lots of the Participating Organisations.~~
- (2) A Participating Organisation's connection to the ATS for the purpose of trading of securities on the stock market of the Exchange must be through an access point approved by the Exchange.
- (3) A Participating Organisation ~~shall~~ **must**, at all times, take all reasonable security measures to prevent unauthorised access into the ATS, ~~including establishing and maintaining such procedures for the administration and monitoring of access to the ATS.~~
- (4) ~~Prohibition: No~~ A Participating Organisation ~~shall~~ **must not**, without the prior written approval of the Exchange -
- (a) establish or permit the establishment of any form of electronic system capable of routing orders directly from its ~~client~~ **Clients** into ~~SCOREATS or any other part of the ATS;~~
  - (b) connect ~~or cause to be connected to~~ -
    - (i) the ATS or any part ~~thereof of the ATS, (whether directly or indirectly)~~ any device, equipment or facilities for any purpose ~~whatsoever~~; or
    - (ii) any device, equipment or facilities which have been approved by the Exchange to be connected to the ATS or any part ~~thereof of the ATS~~, any additional device, equipment or facilities.
- (5) ~~All the provisions in this Chapter 6 are applicable to dealing in securities in odd lots unless specifically stated otherwise.~~
- (5) A Participating Organisation must not carry out any transactions in Securities on "Forward Contract" basis.
- (6) ~~Where a trade confirmation is generated by the Participating Organisation's front end system, it is the responsibility of the Participating Organisation to check the details of the orders matched as stated in the trade confirmation as against the records of the Exchange. The rAll Records maintained by the Exchange in relation to any trades or any matters entered or reflected in the ATS will however prevail over all other records, as evidence of the truth of the matter over all other Records maintained by the Participating Organisation, all contracts matched in the ATS.~~

### 6701.2 Quotation and trading in securities

- (1) All Securities admitted for quotation on the stock market of the Exchange will be traded based on the following conditions:
- (a) on board(s) and classification as determined by the Exchange;
  - (b) in the currency in which the securities is quoted in;
  - (c) in both Board Lots and Odd Lots;
  - (d) FDSS as stipulated under Schedule 3; and
  - (e) on "ex-entitlement basis" (ex dividend, ex bonus, ex interest, ex rights issue, ex all, ex offer) one (1) clear market day before the last date for lodgement or such other period determined by the Exchange.

**Comment [B12]:** This rule is amended to reflect the scope of this Chapter 7 i.e. that it is applicable to both on-market transactions and DBTs. On market transactions is defined to include on market married transactions.

**Comment [B13]:** Rule 601.2(2) is moved here in line with the new structure of the rules in Chapter 7.

**Comment [B14]:** Rule 601.2(1) is moved here as it relates to the general principle in relation to trading in securities on the stock market. This rule is also amended due to plain language drafting.

**Comment [B15]:** Rule 601.9(1) is moved here as it relates to the general principle in relation to trading in securities on the stock market. This rule is also amended due to plain language drafting.

**Comment [B16]:** This rule is incorporated here from the Members' Circular no 333 of 1986 on resumption of Ready Basis Contracts.

**Comment [B17]:** Rule 601.10 is incorporated here and amended to clarify the principle that records maintained by the Exchange in relation to ATS will prevail as evidence of the truth of the matter over all other records maintained by the PO.

**Comment [B18]:** Inserted to provide for the general conditions of which dealings in securities are carried out.

## Chapter 776 – Trading/Dealing in Securities

(2) A Participating Organisation who intends to buy or sell Securities that are traded on the stock market of the Exchange whether for the Participating Organisation's own account or for Client, must execute the transaction:

(a) as either On-Market Transaction or Direct Business Transaction;

(b) on a Ready Basis; and

(c) through ATS only.

(3) The delivery and settlement of Securities arising from On-Market Transaction and Direct Business Transaction will be in accordance with the requirements of the Clearing House by way of book entries in the Securities Account.

(4) ~~For Odd Lots, before a~~ A Participating Organisation can only sell Securities in Odd Lots if the ~~enter an order into ATS, to sell securities in odd lots if the Participating Organisation must ensure that the quantity for the sale of such s~~ Securities are designated as 'free' balance in the CDS Securities Account of the seller maintained with the Participating Organisation prior to the entry of the order into the ATS.; when the order is entered

**Comment [B19]:** To clearly set out the types of trades allowed on the stock market.

**Comment [B20]:** Inserted to clarify that in relation to on market transactions, the delivery and settlement of this transaction will be in accordance with the requirement of the Clearing House Rules by way of book entries in the CDS Account.

**Comment [B21]:** This was previously in Rule 701.3(2)(c). This rule is moved here and is amended due to plain language drafting.

### **RULE 6701.13 GENERAL** Acting as principal

(1) ~~A Participating Organisations shall, in respect of all transactions is deemed to act as a principal for all orders and trades entered and executed in the ATS (whether the orders or trades were entered on their for the Participating Organisation's own account or for the accounts of their clientClients), 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 must not deal trade in securities as a principal as defined in Section 97(2) of the Capital Markets and Services Act with a clientClient without so informing the clientClient. 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.~~

**Comment [B22]:** The clearing and settlement provision is deleted as the same should be reflected in the Rules of the Clearing House.

### **701.4 Proprietary trading**

(1) ~~No Salaried Dealer's Representative undertaking proprietary trading on behalf of the A Participating Organisation shall deal on behalf of the Participating Organisation's clients; must not allow a Dealer's Representative who undertakes proprietary trading for the Participating Organisation to also deal for the Participating Organisation's clientClients.~~

(2) ~~No Commissioned A Participating Organisation may allow a Dealer's Representative shall who undertakes proprietary trading on behalf of for the Participating Organisation to undertake trade for any entity within the Participating Organisation's Related Corporation except for Proprietary Day Traders.~~

(3) A Participating Organisation must have an audio recording of the conversations of Dealer's Representatives who conduct proprietary trading for the Participating Organisation.

**Comment [B23]:** Rule 601.1(5) is incorporated here as it relates to proprietary trading and amended to impose an obligation on the POs to ensure that its DR who undertake proprietary trading for the PO does not undertake trading for the PO's clients. Similarly, this requirement is also imposed on a DR.

**Comment [B24]:** This Rule 601.1(4) is incorporated here and amended to allow the DR to undertake proprietary trading for any entity within the PO's Related Corporations.

### **701.5 Trading accounts**

(1) ~~A Participating Organisation dealing in securities whether as principal or agent may, can only open and operate the following types of trading accounts: subject to~~

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~~appropriate approvals from the Exchange in consultation with other relevant authorities.~~

- ~~(a) utilise accounts within the Participating Organisation for purposes as authorised nominees;~~
- ~~(ba) utilise accounts within the Participating Organisation for purposes of pProprietary tradingAccount in the name of the Participating Organisation;~~
- ~~(cb) utilise accounts within the Participating Organisation for purposes of facilitating cClient's tradingaccount in the name of the respective Client; and~~
- ~~(c) utilise accounts within the Participating Organisation for purposes of facilitating client's trading, as aAuthorized nNominees account in the name of the Participating Organisation or its wholly owned nominee company;~~

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

- ~~(11) It shall not be necessary for a Participating Organisation to issue contract notes to a counter-party Participating Organisation for all contracts executed in the ATS.~~

### 701.6 Breakdown or malfunction

- (1) Participating Organisations and Dealer's Representatives must not intentionally take advantage of a situation which arises as a result of a breakdown, malfunction or error in the ATS (committed by the Exchange or by other Participating Organisations) or in any other systems, service or facility of the Exchange ("Systems Malfunction or Error");
- (2) A Participating Organisation who encounters a Systems Malfunction or Error must immediately notify the Exchange; and
- (3) Additionally, a Participating Organisation must take any necessary and appropriate action to mitigate any potential losses arising from the Systems Malfunction or Error immediately after the Participating Organisation knew or should have known that there is a Systems Malfunction or Error; and

### ~~RULE 601.2 — INVOLABILITY OF CONTRACTS IN RELATION TO ON-MARKET TRANSACTIONS~~

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

### ~~(2) **Cancellation of a contract**~~

- ~~(a) Without prejudice to the powers of the Exchange under Rule 601.2(2)(b), Rule 701.7(1)(d) and Rule 701.11, all orders, howsoever entered and executed in the ATS shall not be subject to any cancellation and shall be binding on Participating Organisations.~~
- ~~(b) The Exchange may cancel any contract executed in the ATS in the following circumstances:-~~
  - ~~(i) Where in the opinion of the Exchange, the contract executed in the ATS is in violation of the Rules and the Securities Laws;~~

Comment [B25]: Previously rule 601.1(10)(a).

Comment [B26]: Deleted as the Exchange already has the power to do so under Chapter 2.

Comment [B27]: Deleted as this requirement is not applicable.

Comment [B28]: This is to ensure that the POs do not take advantage of an obvious situation of an error or mistake.

Comment [B29]: This provision is deleted. New rule inserted under Rule 801.8(3)

Comment [B30]: These rules on cancellation of contract are moved to and consolidated in Chapter 8, consistent with the consolidation of all rules on on-market transaction specifically in Chapter 8.

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- (ii) ~~the Exchange may, subsequent to the contract being executed in the ATS and upon an application being made to it in its absolute discretion cancel such a contract where :-~~
    - (aa) ~~both the delivery and settlement relating to such contract have not been effected;~~
    - (bb) ~~such cancellation is agreed to by buying and selling Participating Organisations and their respective clients; and~~
    - (cc) ~~the relevant parties comply with all other requirements that may be imposed by the Exchange for the cancellation of the contract;~~
  - (iii) ~~erroneous execution of contracts in the ATS arising from :-~~
    - (aa) ~~system failure or malfunction in the ATS; or~~
    - (bb) ~~a mistake by the Exchange~~  
~~in accordance with Rule 601.2A below.~~
  - (iv) ~~erroneous execution of contracts in the ATS arising from a mistake by a Participating Organisation in entering orders in the ATS as provided in Rule 601.2B.~~
- (c) ~~Any cancellation of contracts executed in the ATS in accordance with Rule 601.2(2)(b) is irrevocable.~~
- (d) ~~Where a Participating Organisation is not satisfied with the cancellation made pursuant to Rule 601.2(2)(b), the Participating Organisation may apply to the Exchange for a review of the cancelled contract on the same market day of the cancellation of the contract. Without prejudice to the rights of the Exchange under these Rules and the law, the Exchange may take any action it deems fit arising from the review.~~

### ~~601.2B Mistakes by the Participating Organisation~~

- (1) ~~A mistake by a Participating Organisation refers to a mistake made by an ATS Operator of the Participating Organisation on the price of an order for board lot(s) entered into the ATS during the main trading phase.~~
- (2) ~~A Participating Organisation may only apply to the Exchange to cancel a contract executed arising from a mistake by the Participating Organisation if:-~~
  - (a) ~~the price at which the contract was executed falls outside the No Cancellation Range;~~
  - (b) ~~the Participating Organisation which entered the order resulting in the erroneous contract makes the request to the Exchange to cancel the contract within 15 minutes of the execution of the contract; and~~
  - (c) ~~The potential Trading Loss if the trade is not cancelled is at least RM10,000.00.~~
- (3) ~~Once a request has been made to the Exchange to cancel a contract executed resulting from a mistake by a Participating Organisation pursuant to Rule 601.2B(2), the following procedures will apply:-~~
  - (a) ~~the Exchange will immediately notify the counterparty Participating Organisation of the contract of the request; and~~

Comment [B31]: This rule is moved to and incorporated into Chapter 8.

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- ~~(b) the Exchange will immediately notify the market of the request and the details of the contract in relation to which the request for cancellation has been made.~~
- ~~(4) The Exchange may cancel the contract specifically requested by the Participating Organisation for cancellation and any other contracts that may have been executed arising from the erroneous contract executed by the Participating Organisation if:-~~
  - ~~(a) the Exchange is satisfied that it is in the interest of an orderly and fair market for the contracts to be cancelled; and~~
  - ~~(b) the relevant Participating Organisation complies with all other requirements that may be imposed by the Exchange for the cancellation of the contracts.~~
- ~~(5) The cancellation of contracts pursuant to Rule 601.2B(4) will be effected on the day on which the contracts were executed.~~
- ~~(6) If the Exchange cancels contracts pursuant to Rule 601.2B(5) above:-~~
  - ~~(a) the Exchange will immediately notify the counterparty Participating Organisation of its decision; and~~
  - ~~(b) the Exchange will immediately notify the market of its decision and the details of the contracts which will be cancelled.~~
- ~~(7) The Exchange is not precluded from taking action against Participating Organisation and/or the ATS Operator for the breach of Rule 701.7(2) although the contract has been cancelled under this Rule.~~
- ~~(8) The Exchange may instead of cancelling the contract upon a request being made under 601.2B(2), take any other action it deems fit in lieu of cancellation.~~

~~(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:~~

**Comment [B32]:** This rule is deleted. A new rule on amendments is inserted in Chapter 8. See Rule 801.8(4)

**Comment [B33]:** This rule is deleted as there is already a provision in Chapter 5 for the PO to have in place adequate internal controls and procedures to achieve compliance with the rules.

**Comment [B34]:** Deleted in light of the proposed all encompassing rule on internal controls and policies and procedures of a PO in Chapter 5.

**Comment [B35]:** Deleted as there will be a general rule to state that PO must keep proper records to evidence compliance with the rules in Chapter 5.

**Comment [B36]:** This rule is deleted as there is already a provision in Chapter 5 for the PO to have in place adequate internal controls and procedures to achieve compliance with the rules

**Comment [B37]:** Deleted as the rules already permit the PO to amend the contract under certain specific circumstances. If the PO does not comply with the rules, the PO would be in breach of the rules. As such, the rule on abuse is redundant.

**Comment [B38]:** This rule is deleted. New rule on amendments inserted in Chapter 8. See Rule 801.8(4).



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~~(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.~~

**Comment [B39]:** This rule is moved to and incorporated into Chapter 8.

~~(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.~~

**Comment [B40]:** Deleted in line with the proposal to do away with Immediate Basis Contracts. The term "Immediate Basis Contracts" is deleted as the same is not used. Immediate Basis Contracts were introduced when the delivery and settlement cycle was T+7. No contracts are currently traded based on immediate basis and as such there is no utility in maintaining Immediate Basis Contracts.

~~(6) Mistake: Where a mistake has been made in respect of contracts executed through the ATS 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.~~

**Comment [B41]:** Deleted as this matter should be left to the PO and clients to settle. Also, the provision on the responsibility of the PO to make good for the losses is stating the obvious in circumstances where the mistake was not due to the client's fault.

~~601.2A SYSTEM FAILURE OR MALFUNCTION OR MISTAKES BY THE EXCHANGE~~

**Comment [B42]:** This rule is moved to and incorporated into Chapter 8.

~~(1) For the purpose of this Rule 601.2A, a mistake by the Exchange refers to a mistake in the entries made by the Exchange in the ATS.~~

**Comment [B43]:** This rule is moved to and incorporated into Chapter 8.

~~(2) Where a system failure or malfunction in the ATS or a mistake by the Exchange has resulted in erroneous execution of contracts in the ATS, the following will apply:-~~

**Comment [B44]:** This rule is moved to and incorporated into Chapter 8.

~~(a) the Exchange will immediately notify the market of the system failure or malfunction in the ATS or the mistake by the Exchange; and~~

~~(b) the Exchange may interrupt or forbid trading on the ATS in accordance with Rule 701.5B(2)(a).~~

~~(3) The Exchange may cancel the contracts erroneously executed arising from the system failure or malfunction in the ATS or a mistake by the Exchange if the Exchange is satisfied that it is in the interest of a fair and orderly market for the contract to be cancelled.~~

**Comment [B45]:** This rule is moved to and incorporated into Chapter 8.

~~(4) The cancellation of contracts pursuant to Rule 601.2A (3) above will be effected on the day on which the system failure or malfunction in the ATS or the mistake by the Exchange occurred.~~

**Comment [B46]:** This rule is moved to and incorporated into Chapter 8.

~~(5) If the Exchange cancels contracts pursuant to Rule 601.2A(3) above:-~~

**Comment [B47]:** This rule is moved to and incorporated into Chapter 8.

~~(a) the Exchange will immediately notify the market of the details of these contracts and the reasons for the cancellation; and~~

~~(b) where trading has been interrupted or forbidden, it will be resumed after the system failure or malfunction in the ATS or the mistake by the Exchange has been rectified.~~

**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 6701.76 LIEN ON SECURITIES~~ Lien on Securities**

~~(1) A Participating Organisation may, in respect of for monies owing to the Participating Organisation by a Client for any purchase of any sSecurities, by a client, have a lien on all other sSecurities 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 held in the Securities Account of the cClient maintained with the Participating Organisation, if the Client agrees to the~~

**Comment [B48]:** Deleted. We are proposing that all other activities other than trading in securities on the stock market of the Exchange be incorporated under the Permitted Activities Policy issued by SC. Consequently, R/R 8 of 2004 and R/R 9 of 2002 on private placement of unquoted new issue of securities is to be incorporated under the Permitted Activities Policy issued by SC.

**Comment [B49]:** Deleted as "approved market place" is no longer applicable pursuant to deletion of the same under the amendments to LR in relation to cross border listings issued on 9/4/07. The rule on 'recognised stock exchange' is moved to Rule 701.9.

**Comment [B50]:** Deleted. We are proposing that all other activities other than trading in securities on the stock market of the Exchange be incorporated under the Permitted Activities Policy issued by SC.

**Comment [B51]:** Deleted. We are proposing that all other activities other than trading in securities on the stock market of the Exchange be incorporated under the Permitted Activities Policy issued by SC.

**Comment [B52]:** This rule is deleted, consistent with the deletion of its sub rules previously.

**Comment [B53]:** Amended to clarify that a PO may have a lien on the client's securities if the client agrees.

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~~term in writing 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.~~

**Comment [B54]:** This rule is deleted as this is a matter that should be agreed to by Clients in the agreement.

~~(2) The requirement for Client's agreement as stipulated in Rule 701.7(1) are not applicable in circumstances stipulated in Rule 701.7(3).~~

~~(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.~~

**Comment [B55]:** This rule is deleted as this is a matter to be addressed in the agreement with Clients.

~~((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 until the securities have been credited into the buying client's CDS account.~~

**Comment [B56]:** We have reflected the principle under Rule 701.7(3).

~~(3) Pursuant to section 35(3) of the Securities Industry (Central Depositories) Act, a Participating Organisation has a lien over Securities purchased by a Client which has not been paid.~~

**Comment [B57]:** Amended to give effect to PO's statutory lien under Section 35(3) of the SICDA.

**RULE 601.7 – DISPUTES**

~~(1) Definition: For purposes of this Rule 601.7, the following words will bear these meanings unless otherwise defined –~~

**Comment [B58]:** This rule is moved to and incorporated into Chapter 5.

**Comment [B59]:** This rule is moved to and incorporated into Chapter 5.

~~(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.~~

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- (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 6701.8 REPORTING OF TRADE DISPUTE** Reporting of trade dispute

- (1) ~~A Participating Organisations shall~~ must 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 that either singularly or when aggregated involves an amount, value or liability of Ringgit Malaysia One Million (involving RM1,000,000) or more (whether the amount is a single or an aggregated amount) during the period so reported. Such report must contain details of the trade dispute, the amount in question and the parties thereto involved in the dispute.~~
- (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.~~

### **701.9 Recognised Stock Exchange**

- (1) A Participating Organisation may trade on a Recognised Stock Exchange whether for the Participating Organisation's proprietary position or the Clients'

### **RULE 603.2701.10 DEALING WITH OR CREATION OF OTHER MARKET** 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 ~~s~~Securities or interests in ~~s~~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.~~

**Comment [B60]:** This provision is previously part of Rule 601.8(3) and is incorporated here to clarify the minimum information that should be contained in the report.

**Comment [B61]:** Deleted in line with the proposal on the board of directors of the PO and the PO being ultimately accountable for all matters under the Rules. As such the contents of all reports will be taken as good and submitted by the PO itself.

**Comment [B62]:** In line with our proposal to revoke POs' Circular R/R 18 of 1997 (which sets out the prescribed format for reporting of trade disputes) and providing POs the flexibility to determine the format for such reporting, we are proposing to delete the first sentence of sub-rule 601.8(3). Consequently, POs would be free to send us their reports in any form they deem fit so long as the report contains the details required by us in rule 701.8(1).

**Comment [B63]:** This provision is moved to and incorporated into Rule 701.8(1).

**Comment [B64]:** Deleted as this is stating the obvious.

**Comment [B65]:** Previously Rule 603.2

**Comment [B66]:** This is provided for under Rule 701.9

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- (~~3~~2) A Participating Organisation ~~shall~~ must not permit dealings in Securities ~~whether for the Participating Organisation's own account or a Client~~ by a client if ~~that Participating Organisation has reason to believe that the purchase by that client~~ dealings is intended to facilitate the dealings in Securities or interest in Securities outside the stock market of the Exchange unless expressly permitted by the Exchange ~~or outside such other market place approved by the Exchange.~~

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**RULE 6702 OFF-BALANCE SHEET TRANSACTIONS**

**RULE 6702A.1 INVESTMENT BANKS** Investment Banks

(1) All provisions in this Rule 6702 ~~on Off-Balance Sheet Transactions shall not do not be applicable apply to Participating Organisation that is~~ an Investment Bank. ~~These disapplied 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.~~

**Comment [B67]:** This provision is moved to and incorporated in Chapter 2 as a general provision.

**RULE 602.1 DEFINITION**

(2) ~~For the purposes of this Rule 602-~~

**Comment [B68]:** These definitions have been moved to Chapter 1, in line with the consolidation of definitions to Chapter 1.

**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** ~~in relation to Off-Balance Sheet Transaction(s), the assessment and determination of Worst Case scenario shall include, without limitation, consideration of the following—~~

- ~~(a) the assumption that the Off-Balance Sheet Transaction(s) will be fully exercised;~~
- ~~(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~~
- ~~(c) such other considerations or assumptions as the Exchange may from time to time stipulate.~~

**RULE 6702.2 MAINTENANCE OF A REGISTER ON OFF-BALANCE SHEET TRANSACTIONS** Records of Off-Balance Sheet Transactions

(1) ~~Every Participating Organisation shall must maintain a register to, rRecord all Off-Balance Sheet Transaction(s) that sufficiently explains Off-Balance Sheet Transactions entered by it, records and documents as prescribed below relating to such Off-Balance Sheet Transaction(s):~~

**Comment [B69]:** Amended to reflect clearly the objective of this rule i.e that PO must maintain record of the off-balance sheet transactions that explains the explains the transactions entered by the PO.

~~(a) the duly executed agreement(s) relating to the Participating Organisation’s entry into Off-Balance Sheet Transaction(s);~~

**Comment [B70]:** This rule is moved to and incorporated into PO Manual.

~~(b) specific reasons for entering into the Off-Balance Sheet Transaction(s);~~

**Comment [B71]:** This rule is moved to and incorporated into PO Manual.

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- ~~(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);~~
- ~~(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.~~

**Comment [B72]:** This rule is moved to and incorporated into PO Manual.

**Comment [B73]:** This rule is moved to and incorporated into PO Manual.

**Comment [B74]:** This rule is moved to and incorporated into PO Manual.

**Comment [B75]:** This rule is moved to and incorporated into PO Manual.

**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.~~

**Comment [B76]:** Deleted in line with consolidating similar requirements under one rule (relating to internal controls and policies and procedures of a PO in respect of its activities) in Chapter 5.

~~(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~~

**Comment [B77]:** This rule is moved to, and incorporated into PO Manual on the policies and procedures to be maintained by a PO.

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~~(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.~~

**Comment [B78]:** Deleted as the Exchange already has the general power to request for information or documents from the POs in Chapter 2.

**RULE 6702.43 REPORTING OF OFF-BALANCE SHEET TRANSACTION(S) Reporting of Off-Balance Sheet Transactions**

~~(1) **Duty to Report:** Participating Organisations shall must lodge with the Exchange a monthly report in the form provided in Appendix 2, report and declare to the Exchange on a monthly basis by not later than the fifth (5<sup>th</sup>) market day of the immediately following every month in respect of the following matters:-~~

**Comment [B79]:** Amended due to plain language drafting.

~~(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;~~

**Comment [B80]:** Amended due to plain language drafting.

~~(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 any 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 during the preceding month);~~

**Comment [B81]:** Amended due to plain language drafting.

~~(c) all any 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 during the preceding month;~~

**Comment [B82]:** Amended due to plain language drafting.

~~(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~~

**Comment [B83]:** Amended due to plain language drafting.

~~(e) any changes, amendments, variations or supplements to the original the terms and conditions of the Off-Balance Sheet Transaction(s) specified in Rule 6702.3(1)(a), (b) and (c);~~

**Comment [B84]:** Amended to merge and simplify the requirements as reflected in Rule 702.3 (1)(a) due to plain language drafting.

~~(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:-~~

**Comment [B85]:** Deleted as the same is provided in Rule 702.3(1).

~~(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.~~

**Comment [B86]:** Deleted as the respective heads will be responsible for matters under their purview and charge. As such, if the reports relates to matters under the head's purview, that head will be responsible. Who signs the report is just a formality and should be left to the PO to decide.

**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.~~

Comment [B87]: Deleted as it is redundant since it is governed under LR.

~~(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.~~

Comment [B88]: Deleted as it is redundant since it is governed under LR.

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

Comment [B89]: Moved and amended in Rule 701.10

~~(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.~~

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**RULE 67043 DESIGNATED SECURITIES**

**RULE 67043.1 DESIGNATED SECURITIES/Designated Securities**

- (1) ~~Notwithstanding any Rules to the contrary,~~ The Exchange -
- (a) ~~may, upon notification to the Commission where it is of the opinion that it is desirable to do so to maintain an orderly and fair market and after notifying the Commission of its intention to do so,~~ declare any ~~listed s~~Securities ~~as to be~~ "Designated Securities" ~~if in its opinion there has been manipulation or excessive speculation on such listed securities for such period as the Exchange thinks fit;~~ or
  - (b) ~~shall,~~ as directed by the Commission, declare any ~~s~~Securities ~~quoted on the Official List~~ as "Designated Securities" ~~for such period directed by the Commission;~~ ~~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~~ decides.
- (2) ~~For so long as the declaration remains in force,~~ The Exchange may impose ~~the following any~~ conditions on the dealings of ~~the~~ Designated Securities, ~~including the following conditions:-~~
- (a) a margin of cover ~~for purchases on all dealings relating to such Designated Securities;~~
  - (b) ~~a restriction on all such dealings to delivery before sale bargains;~~
  - (bc) ~~a restriction on all trading in the Designated Securities by a Participating Organisation to the extent that the outstanding contracts of that a Participating Organisation in respect of for~~ the Designated Securities at any one time do not exceed ~~five per cent (5%)~~ of the paid-up capital of the Issuer ~~of the Designated Securities whose securities have been so designated~~ or such other percentage as the Exchange may from time to time direct;
  - (dc) 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;
  - (ed) prohibition of the use of ~~m~~Margin ~~f~~inancing ~~for~~to purchase ~~transactions of the~~ Designated Securities;
  - (e) ~~any other conditions deem fit by the Exchange.~~
- (3) Any condition ~~or conditions~~ imposed by the Exchange under ~~this~~ Rule 604 shall ~~703.1(2)~~ apply, ~~whenever applicable,~~ to all outstanding contracts entered into before or after the date when such ~~s~~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).~~

Comment [B90]: Deleted due to plain language drafting. The word 'listed' is deleted as 'Securities' has been defined to mean those listed and quoted on the Exchange.

Comment [B91]: Amended due to plain language drafting.

Comment [B92]: Deleted as the period for which the counter can be designated is already captured under (a) and (b).

Comment [B93]: Amended due to plain language drafting.

Comment [B94]: Deleted due to plain language drafting.

Comment [B95]: This Rule is deleted as under Rule 703.1 the period for designation will be as determined by the Exchange or the Commission.

~~**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.~~

**Comment [B96]:** This rule is deleted as the Exchange already has the general power to request for information from the POs.

**Comment [B97]:** This rule is deleted as it is understood that if the PO failed to give the information to the Exchange upon request, such failure is a breach of the rules.

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**RULE 67045 CORNER**

**RULE 67054.1 DECLARATION Declaration**

(1) The Exchange may declare a corner situation in any sSecurities (“the Affected Securities”) in the following circumstances:-

- (a) ~~where~~if it is of the opinion that a single interest or group has acquired such control of a sSecurities 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) ~~if it is otherwise desirable in the interest of an orderly and fair market; or~~
- (bc) ~~where~~as 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~~may impose the following conditions: -

- (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 for deliveries~~delivery of the Affected Securities;
- (c) to declare that if the Affected Securities ~~is~~are not delivered on any eContract at or before the time which has been fixed by the Exchange for such delivery such eContract ~~shall~~must 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 eContract 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 eContract 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~~is be determined by the Exchange and ~~in accordance with Rule 605.2 and shall be~~is 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.~~

**Comment [B98]:** Amended due to plain language drafting.

**Comment [B99]:** This requirement is incorporated into (b) below.

**Comment [B100]:** This rule is introduced to empower the Exchange to declare a corner situation when it is desirable in the interest of an orderly and fair market. This is to facilitate the exchange in taking actions in a corner situation where it does not fall under rule 704.1(a) and (c).

**Comment [B101]:** Amended due to plain language drafting.

**Comment [B102]:** Deleted due to plain language drafting.

**Comment [B103]:** Deleted due to plain language drafting.

**Comment [B104]:** Amended due to plain language drafting.

**Comment [B105]:** Amended due to plain language drafting.

**Comment [B106]:** Deleted as covered under Rule 704.1(3).

**Comment [B107]:** Deleted as the calculation of fair settlement price should be left to the exchange. The exchange is bound to exercise its powers in good faith and with reasonable care and diligence. Where the circumstances warrant, the Exchange will hear the views of the relevant parties.

**RULE ~~67065~~ ISLAMIC STOCKBROKING ACTIVITIES**

**RUL**

**~~E-67065.1~~ APPROVAL OF THE EXCHANGEApproval 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.~~

Comment [B108]: Amended due to plain language drafting.

(1) A Participating Organisation must obtain prior approval of the Exchange before carrying out any trading activities based on Islamic Shariah principles.

(2) The Exchange may grant approval after consulting the Commission.

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~~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.~~

**Comment [B109]:** The entire Rule 607 is deleted as there is a provision in Chapter 2 which empowers the Exchange to take any further actions pursuant to a decision or action taken by the Exchange, SC, Clearing House or Depository on POs or listed issuer (such as designation of listed issuer under PN4, conversion exercise and etc).

~~RULE 607.2 – IMPOSITION OF CONDITIONS ON TRADING~~

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

~~(a) — on market transactions ; 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~~

**Comment [B110]:** Deleted as there will be a provision in Chapter 2 which empowers the Exchange to request for information from POs.

**Comment [B111]:** Deleted as it is understood that any failure to provide for such information as requested by the Exchange or comply with the conditions prescribed by the Exchange will constitute a breach of the rules.

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~~(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.~~

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**RULE 67086 SECURITIES BORROWING AND LENDING**

**RULE 67086.1 DEFINITIONS/Definitions**

(1) For the purposes of this Rule 67086:-

Clearing House Requirements	<del>means</del> <u>The requirements of the Clearing House as contained in the Clearing House Rules and any other document(s) by whatever name called as prescribed by the Clearing House</u> in relation to securities borrowing and/or lending;
Effective Shareholders' Funds	shall have the same meaning assigned to that expression under Rule <del>405</del> <u>1301.2(1)</u> ;
Eligible Securities	<del>means</del> <u>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;</u>
<del>h</del> <u>H</u> aircut	<del>means</del> <u>The deduction of certain amount of value of the collateral referred to in Rule 67086.7;</u>
<del>i</del> <u>I</u> ncome	<del>means</del> <u>Any interest, dividends or other distribution of any kind whatsoever with respect to any Eligible Securities;</u>
<del>Internal Guidelines for Securities Borrowing and Lending</del>	<del>means</del> <u>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 by the Clearing House;</u>
SBL Negotiated Transaction	Has the same meaning assigned to that expression in the Clearing House Rules
<del>s</del> <u>S</u> ecurities <del>b</del> <u>B</u> orrowing and/or <del>l</del> <u>L</u> ending	<del>means</del> <u>The borrowing and/or lending of Eligible Securities as described in Rule 67086.2(1).</u>

**RULE 67086.2 GENERAL/General**

~~(1) A Participating Organisation shall may only be permitted to carry out the activities of borrowing and/or Lending of Securities of Eligible Securities;~~

(a) if permitted by the Clearing House;

(b) for Eligible Securities only; and

(c) in accordance with the Clearing House Requirements and this Rule 67086.

Comment [B112]: Amended due to plain language drafting.



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(2) ~~Subject always to the Clearing House Requirements, a Participating Organisation may only undertake the Securities bBorrowing or Lending of any Eligible Securities~~ whether for the Participating Organisation itself or its ~~clientClient~~ ~~is only permitted~~ for purposes allowed by the Clearing House.

Comment [B113]: Deleted due to plain language drafting.

(3) ~~Any settlement of sale trade executed by a Participating Organisation arising from a borrowing made in breach of Rule 67086.2(2), such sale shall be deemed to be a Short Sale which is not executed in accordance with these Rules. sale in breach of Rule 704, Rule 305A 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 and Rule 704 and Rule 305A.~~

Comment [B114]: Amended or deleted due to plain language drafting.

(4) ~~Every A Participating Organisation shall~~ ~~must~~ ensure where the ~~sSecurities~~ ~~bBorrowing and/or Lending~~ involves a ~~clientClient~~ that the following are complied with:

Comment [B115]: Amended or deleted due to plain language drafting.

(a) ~~that the Participating Organisation executes a written agreement is duly executed between the Participating Organisation and with its clientClient~~ in respect of the ~~Securities bBorrowing or Lending mentioned herein~~ and the terms of the written agreement complies with Rule 67086.6. This provision is not applicable where the ~~sSecurities bBorrowing and/or Lending~~ is a SBL Negotiated Transaction;

Comment [B116]: Amended or deleted due to plain language drafting.

(b) that collateral is lodged in accordance with Rule 67086.7. This provision is not applicable where the ~~sSecurities bBorrowing and/or Lending~~ is a SBL Negotiated Transaction;

(c) ~~that whereif~~ Margin Securities of a Margin Account Client as defined in Rule 67086.8 ~~is are~~ utilised for lending, the utilisation ~~thereof shall be~~ subject to Rule 6087706.8;

Comment [B117]: Amended due to plain language drafting.

(d) ~~that whereif~~ Custodial Securities of a Custodial Client as defined in Rule 67086.9 ~~is are~~ utilised for lending, the utilisation ~~thereof shall be~~ subject to Rule 67086.9; and

Comment [B118]: Amended due to plain language drafting.

(e) that a copy of the Risk Disclosure Statement prescribed under Appendix 51 is given to and acknowledged by its ~~clientClient~~ prior to the execution of any written agreement for borrowing by the ~~clientClient~~ of Eligible Securities.

**RULE 67086.3 INTERNAL GUIDELINES AND SYSTEMS** ~~Internal Guidelines and Systems~~

(1) **Internal Guidelines**

(a) ~~A Participating Organisation desirous of engaging in sSecurities bBorrowing and/or lending Lending activities shall must formulate internally a set of internal its Internal Guidelines for Securities Borrowing or and Lending as stipulated by the Exchange, the contents of which shall include the areas set out under Schedule 9.~~

Comment [B119]: The areas to be covered in the internal guidelines are set out in the directives. See Directives 500-001.

(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.~~

Comment [B120]: The requirement to disseminate to the relevant employees is in Rule 501.7. We are deleting the requirement for the guidelines to be approved by the board of directors as this would be left to the POs to decide. As the board is accountable for all compliance matters under the Rules it would be up to the board to put in place the relevant procedures and processes.

(2) Every Participating Organisation ~~shall~~ ~~must~~ establish, implement and maintain the following:

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- (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 ~~s~~Securities ~~b~~Borrowing ~~and/or~~ ~~l~~Lending in accordance with Rule ~~6086~~706; and
- (b) all the policies, procedures, controls and all other requirements set out in the ~~l~~Internal ~~G~~uidelines for Securities Borrowing ~~or and~~ Lending.

**RULE ~~67086.4~~ COMMENCEMENT OF SECURITIES BORROWING AND/OR LENDING ACTIVITIES**  
**Commencement of Securities Borrowing or Lending Activities**

~~(1) Subject always to the Clearing House Requirements, a~~ Participating Organisation ~~shall~~ ~~is~~ ~~may~~ only ~~be permitted to~~ commence with its ~~s~~Securities ~~b~~Borrowing ~~and/or~~ ~~l~~Lending activities ~~when if it complies with~~ the following requirements ~~are complied with~~:

Comment [B121]: Amended due to plain language drafting.

(a) the Participating Organisation ~~shall~~ ~~has~~ ~~ve~~ 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 ~~67086.4~~(1)(d) and ~~shall~~ ~~continues~~ to maintain the same for as long as it is carrying out ~~s~~Securities ~~b~~Borrowing ~~and/or~~ ~~l~~Lending activities;

Comment [B122]: Amended due to plain language drafting.

(b) the Participating Organisation has established ~~internally~~ ~~Internal G~~uidelines for Securities Borrowing and Lending ~~as stipulated required~~ in Rule ~~67086.3~~;

Comment [B123]: Amended to clarify that the PO must establish internally a guidelines for Securities Borrowing and Lending as required under Rule 706.

(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 ~~s~~Securities ~~b~~Borrowing ~~and/or~~ ~~l~~Lending activities in accordance with Rule ~~67086~~ and the Clearing House Requirements; and

(d) subject to Rule ~~67086.5~~, the Participating Organisation has submitted a written declaration in ~~the a~~ form ~~prescribed in Appendix 10 to~~ ~~prescribed by~~ the Exchange of its compliance with Rules ~~67086.4~~(1)(a), ~~67086.4~~(1)(b) and ~~67086.4~~(1)(c) at least ~~two~~ ~~(2)~~ market days prior to the commencement of its ~~s~~Securities ~~b~~Borrowing ~~and/or~~ ~~l~~Lending activities.

**RULE ~~67086.5~~ INSPECTION AND/OR AUDIT BY THE EXCHANGE:**  
**Inspection 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 ~~67086.4~~(1)(d) undertake an inspection ~~and/or~~ audit on the Participating Organisation's compliance with the requirements stipulated under Rules ~~67086.4~~(1)(a), ~~67086.4~~(1)(b) and ~~67086.4~~(1)(c), in the manner determined by the Exchange.

Comment [B124]: Amended due to plain language drafting.

(2) In determining compliance with Rule ~~67086.4~~(1)(c), the following ~~shall~~ apply:

(a) the Exchange ~~shall be~~ ~~is~~ 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,

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requirements and controls in place for the carrying out of sSecurities bBorrowing and/or lLending in accordance with Rule 67086 and the Clearing House Requirements; and

- (b) the Exchange shall be is entitled to rely on the confirmation provided by the Participating Organisation herein in accordance with Rule 6706.5(2)(a).

- (3) The Exchange Participating Organisation shall will be given a written notice in writing to the Participating Organisation by the Exchange prior to the commencement of any inspection and/or audit referred to under Rule 67086.5(1).

Comment [B125]: Amended due to plain language drafting.

- (4) Where if a notice under Rule 67086.5(3) has been issued to a Participating Organisation which that has yet to submit the declaration under Rule 67086.4(1)(d) or has submitted the declaration under Rule 67086.4(1)(d) but has yet to commence with its sSecurities bBorrowing and/or lLending activities, the Participating Organisation shall must not commence with its sSecurities bBorrowing and/or lLending activities until the following has been complied with:

Comment [B126]: Amended due to plain language drafting.

- (a) the inspection and/or audit referred to in Rule 67086.5(1) has been completed;
- (b) the corrective and/or preventive measures and actions referred to in Rules 67086.5(5) and 67086.5(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 67086.5(6).

- (5) Upon completion of the inspection and/or audit, the Exchange shall will 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 67086.4(1)(a), 67086.4(1)(b) and 67086.4(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 67086.5(4), suspend the carrying out of any further sSecurities bBorrowing and/or lLending by the Participating Organisation until the corrective and/or preventive measures and actions (if any) are carried out and completed by the Participating Organisation.

Comment [B127]: Amended due to plain language drafting.

- (6) Where if the corrective and/or preventive measures and actions referred to in Rule 67086.5(5) have been duly carried out and completed, the Participating Organisation shall must confirm in writing to the Exchange of the same. In relation to a Participating Organisation referred to in Rule 67086.5(4) which has yet to submit the declaration under Rule 67086.(1)(d), the Participating Organisation shall must together with the confirmation mentioned herein submit the declaration stipulated under Rule 67086.4(1)(d).

Comment [B128]: Amended due to plain language drafting.

- (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 67086.5(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 67086.5(5) and 67086.5(6).

Comment [B129]: Amended due to plain language drafting.

**RULE 67086.6 WRITTEN AGREEMENT Written Agreement**

Comment [B130]: Amended to small capital due to the drafting convention for the rules under the revamp exercise.

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(1) A Participating Organisation ~~shall ensure must execute that the~~ written agreement referred to in Rule 67086.2(4)(a) for the sSecurities bBorrowing and/or lLending of Eligible Securities ~~with its Client entered into with its client is executed~~ prior to the borrowing and/or lending of the Eligible Securities.

Comment [B131]: Amended due to plain language drafting.

(2) The terms and conditions stipulated in the written agreement between the Participating Organisation and its eClient, with the exception of the fees chargeable or payable in relation to the sSecurities bBorrowing and/or lLending of the Eligible Securities, ~~shall must~~ 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 sSecurities bBorrowing and/or lLending of the Eligible Securities and ~~shall includes~~ but not limited to matters specified below:

Comment [B132]: Amended due to plain language drafting.

(a) the party that lends is absolutely entitled to pass full legal and beneficial ownership of the sSecurities lent free from all liens, charges and encumbrances;

(b) subject to Rule 67086.7, requirement for deposit of collateral, (if any) including the management and utilisation of the collateral deposited ~~thereof by the Client~~;

Comment [B133]: Amended due to plain language drafting.

(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 eClient in relation to the Eligible Securities borrowed and/or lent;

Comment [B134]: Amended due to plain language drafting.

(e) the fees, to be paid for the borrowing and/or lending of the Eligible Securities;

(f) the circumstances ~~under which where~~ the Participating Organisation and or its eClient ~~is are~~ entitled to terminate the agreement entered into for the borrowing and/or lending of the Eligible Securities; and

Comment [B135]: Amended due to plain language drafting.

(g) the rights and remedies of the parties to the agreement in the event of a default by the other party of its obligations under the agreement.

(3) This Rule is not applicable where the securities borrowing and/or lending is a SBL Negotiated Transaction.

**RULE 67086.7 COLLATERAL Collateral**

(1) A Participating Organisation ~~shall must~~ in relation to any borrowing of Eligible Securities by a eClient ("the Borrowed Securities") obtain collateral from the eClient in accordance with this Rule 67086.7.

Comment [B136]: Amended to small capital due to the drafting convention for the rules under the revamp exercise.

Comment [B137]: Amended due to plain language drafting.

(2) The Participating Organisation ~~shall must~~ comply with the following requirements in relation to the collateral required to be deposited by a eClient pursuant to Rule 67086.7(1):

Comment [B138]: Amended due to plain language drafting.

(a) the collateral ~~shall must~~ only be the types of collateral provided in ~~Schedule 8J Directive~~ and ~~shall is be~~ subject to a hHaircut. The rate of the hHaircut for a particular type of collateral ~~shall must~~ at least be the same as the rate prescribed by the Clearing House for that collateral in relation its sSecurities bBorrowing and/or lLending activities. In the absence of any hHaircut ~~thereof~~ prescribed by the Clearing House, the hHaircut for that collateral ~~shall must~~ at least be same as the 'discounting' rate provided in ~~Schedule 8J the Directive issued by the Exchange~~ for ~~that type of discounting on~~ collateral pursuant to ~~Capital Adequacy Requirements~~. For the purposes of this Rule 67086.7, any reference made to the value of collateral ~~shall be is~~ taken to mean the value of the collateral based on the valuation prescribed in Rule 67086.7(2)(d) after applying the prescribed hHaircut ~~herein under this rule~~;

Comment [B139]: Amended due to plain language drafting.

Comment [B140]: Refer to Directive 1303-001

Comment [B141]: Refer to Directive 1303-001

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- (b) the eClient shall must deposit the collateral prior to the borrowing envisaged in Rule 67086.7(1);
- (c) the value of collateral obtained from the eClient, shall must 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 eClient; and
- (d) the value of the Borrowed Securities and the collateral deposited by the eClient for the Borrowed Securities shall must be marked to market on a daily basis based on the valuation stipulated in Rule ~~7036708.2(7)~~ 708.2(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 sSecurities;
  - (ii) non-existence of active market for the sSecurities; or
  - (iii) no possibility of immediate liquidation for the sSecurities.
- (3) ~~Whereif~~ 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 must comply with the following:
- (a) ~~whereif~~ the collateral falls below ~~one hundred and five per centum (105%)~~ the Participating Organisation shall must issue a notice to the eClient to lodge additional collateral in order to top up the short fall. Pending such topping up, the eClient shall must not be permitted to borrow any additional sSecurities; and
  - (b) ~~Whereif~~ the value of the collateral falls below ~~one hundred and two per centum (102%)~~, the Participating Organisation shall must issue a notice to the eClient for the return of the sSecurities borrowed within ~~three (3)~~ market days from the date of the notice. In the event the eClient fails to return the sSecurities borrowed, the Participating Organisation shall must liquidate the collateral. The proceeds from the liquidation shall must be utilised to purchase the relevant sSecurities for the purpose of returning the sSecurities borrowed to the Clearing House.
- (4) A Participating Organisation may allow a eClient 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 67086.7(6), ~~a Participating Organisation shall ensure that~~ all collateral deposited by a eClient ~~with the Participating Organisation is must be~~ 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 eClients and can be clearly identified as that of the eClient;
  - (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 eClient; and

Comment [B142]: Amended due to plain language drafting.

Comment [B143]: Amended due to plain language drafting.

Comment [B144]: Amended due to plain language drafting.

Comment [B145]: Amended due to plain language drafting.

Comment [B146]: This deletion is because the Exchange has a general power to vary or modify the rules under Rule 201.1(2)(b).

Comment [B147]: Amended due to plain language drafting.

Comment [B148]: Amended due to plain language drafting.

Comment [B149]: Amended due to plain language drafting.

Comment [B150]: This deletion is because the Exchange has a general power to vary or modify the rules under Rule 201.1(2)(b).

Comment [B151]: Amended due to plain language drafting.

Comment [B152]: Amended due to plain language drafting.

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- (c) ~~whereif~~ the collateral is in respect of securities deposited with the Depository, the collateral is held in a separate CDS Securities Account specifically for the eClient.
- (6) A Participating Organisation may only utilise the collateral deposited by its eClient for the purpose of providing the collateral required by the Clearing House for the borrowing made or to be made for the eClient.
- (7) A Participating Organisation ~~shall~~ must incorporate ensure that the provisions ~~in of~~ Rule ~~67086.7~~ except Rule ~~67086.7(8) is incorporated~~ into the written agreement referred to in Rule ~~67086.6~~.
- (8) A Participating Organisation ~~shall~~ must submit a report to the Exchange on a weekly basis, in respect of all of its clientClients 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>)~~ market day of the following week.
- (9) ~~No A~~ Participating Organisation ~~shall beis permitted to~~ must not onward pledge to any party or utilise any of the collateral lodged by its clientClients pursuant to this Rule ~~67086.7~~ for ~~whatsoeverany~~ reason ~~save and~~ except as permitted in Rule ~~67086.7(6)~~.
- (10) This Rule is not applicable where the sSecurities bBorrowing and/or lLending is a SBL Negotiated Transaction.

Comment [B153]: Amended due to plain language drafting.

Comment [B154]: Amended due to plain language drafting.

Comment [B155]: Amended due to plain language drafting.

Comment [B156]: Amended due to plain language drafting.

### **RULE 67086.8 SECURITIES IN MARGIN ACCOUNT** Securities in Margin Account

- (1) A Participating Organisation may borrow any Eligible Securities carried in the mMargin aAccount of a eClient ("Margin Securities"), for the purpose of carrying out lending activities permitted under the Clearing House Requirements subject to the following requirements:
- (a) ~~A~~ written agreement referred to in Rule ~~67086.6~~ ~~shall beis~~ executed between the Participating Organisation and the eClient (in this Rule, "Margin Account Client") to borrow the Margin Securities from the Margin Account Client.
- (b) ~~A~~ Margin Account Client ~~shall~~ must at all times be entitled to deal with his mMargin aAccount in the ordinary manner as provided for under the terms of the margin agreement entered into between ~~him the Client~~ and the Participating Organisation, notwithstanding:
- (i) that Margin Securities carried in the mMargin aAccount is used for purposes of sSecurities bBorrowing and/or lLending; and
- (ii) any shortfall or gains arising from sSecurities bBorrowing and/or lLending transactions involving the Margin Securities of the Margin Account Client.
- (c) A Margin Account Client ~~shall~~ must be entitled to a portion of the fees earned by the Participating Organisation on that eClient's Margin Securities from the above sSecurities bBorrowing and/or lLending on such terms as to be mutually agreed between the Participating Organisation and that eClient, notwithstanding that the sSecurities bBorrowing and/or lLending for which ~~his the Client's~~ Margin Securities have been utilised has resulted in any shortfall or gain.
- (d) A Participating Organisation must allow a Margin Account Client, ~~shall give reasonable notice to the Participating Organisation to for anyeach~~ withdrawal or ~~sale sell~~ of the Margin Securities borrowed; if reasonable notice is given to the Participating Organisation for such withdrawal or sale and such notice to

Comment [B157]: Amended due to plain language drafting.

Comment [B158]: Amended due to plain language drafting.

Comment [B159]: Amended due to plain language drafting.

Comment [B160]: Amended due to plain language drafting.

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be given within a specified time as mutually agreed between the Participating Organisation and the Margin Account Client.

- (e) ~~Notwithstanding~~ that the Margin Securities are borrowed by the Participating Organisation, the Participating Organisation ~~shall~~**must** comply ~~strictly~~ with all the requirements of Rule ~~7036~~**708**.
- (f) The Participating Organisation ~~shall~~**must** not utilise more than ~~fifty per cent (50%)~~ of the value, at the time of lending, of the Margin Securities in any ~~e~~**C**lient's margin account.
- (g) ~~The~~ Participating Organisation ~~shall~~**must** issue a monthly statement to Margin Account Client containing all necessary details in relation to the borrowing including the quantity of Margin Securities utilised and the fees earned thereon.

Comment [B161]: Amended due to plain language drafting.

Comment [B162]: Amended due to plain language drafting.

Comment [B163]: Amended due to plain language drafting.

- (2) A Participating Organisation ~~shall ensure that~~**must incorporate** the requirements stipulated in Rule ~~76086~~**8**.8(1)(b) ~~are incorporated~~ into the written agreement referred to in Rule ~~67086~~**6**.

Comment [B164]: Amended due to plain language drafting.

### **RULE 67086.9 SECURITIES HELD IN CUSTODY** Securities In Custody

- (1) A Participating Organisation may borrow Eligible Securities which are held in its custody ("Custodial Securities") for its ~~client~~**C**lients ("Custodial Clients" and singly, "Custodial Client") for purposes of carrying out lending activities as permitted under the Clearing House Requirements provided that ~~the Participating Organisation executes~~ a written agreement as referred to in Rule ~~67086.6~~ ~~is executed~~ between the Participating Organisation and the Custodial Client to borrow the Custodial Securities from the Custodial Client.

Comment [B165]: Amended due to plain language drafting.

- (2) A Participating Organisation ~~shall~~**must be**, at all times, ~~fair, equitable and transparent ensure that~~ in the process of selecting the custodial accounts to be utilised for the purposes of ~~s~~**S**ecurities ~~b~~**B**orrowing ~~and / or l~~**L**ending, ~~is fair, equitable and transparent~~.

Comment [B166]: Amended due to plain language drafting.

### **RULE 67086.10 DESIGNATED CDS ACCOUNTS** Designated Account

- (1) A Participating Organisation ~~must hold~~~~shall ensure that~~ all Eligible Securities borrowed ~~and/or~~ lent pursuant to ~~s~~**S**ecurities ~~b~~**B**orrowing ~~and/or l~~**L**ending ~~are held~~ in the ~~CDS Securities~~ Account(s) prescribed in the Clearing House Requirements and in no other ~~CDS Securities~~ Account(s).
- (2) Where the Eligible Securities borrowed are held in a ~~CDS Securities a~~ Account maintained in the name of a Participating Organisation in the Participating Organisation's capacity as ~~a~~**A**uthorised ~~a~~**N**ominee or ~~e~~**E**xempt ~~a~~**A**uthorised ~~a~~**N**ominee, the Participating Organisation can only hold the Eligible Securities in that ~~CDS Securities a~~ Account for a maximum period of ~~three 3~~ days from the date the Eligible Securities is credited into the ~~CDS Securities a~~ Account.

### ~~RULE 608.11 REPORTING BY COMPLIANCE OFFICER~~ Reporting on borrowing of Eligible Securities

- (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:~~

Comment [B167]: Deleted as the Head of Compliance is suppose to report any breaches of the Rules in monthly compliance report pursuant to Rule 307.

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- ~~(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.~~

- (23) ~~Where~~ ~~if~~ the Clearing House permits borrowing of Eligible Securities for the purpose of meeting the Participating Organisation's delivery obligations pursuant to a sale trade erroneously executed by the Participating Organisation, the Participating Organisation ~~shall~~ **must** submit to the Exchange a report of all Eligible Securities borrowed for the above purpose 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 no report submitted to the Exchange on the first (1<sup>st</sup>) market day of the week, the Exchange shall will assume that there were no borrowings of Eligible Securities in the preceding week, unless proven otherwise. This provision will not be applicable where the borrowing is made pursuant to SBL Negotiated Transaction.~~

Comment [B168]: Amended due to plain language drafting

**RULE**

**67086.4211 ACTION BY THE EXCHANGE** **Actions 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 67086.4211(2) ~~in the manner stipulated therein~~ **automatically** against any or all Participating Organisations ~~or the~~ **Registered Person(s)** ~~and client~~ **Clients** and/or in relation to any or all Eligible Securities:
- ~~(a) whereif~~ there is a breach or likelihood of breach of any provisions in Rule ~~67086, and/or Rule 704 and/or Rule 305A;~~ or
  - ~~(b) whereif~~ the ~~s~~Securities ~~b~~Borrowing ~~and/or~~ ~~l~~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 67086.4211(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 ~~or~~ **Registered Person(s)** ~~and~~ **Clients** ~~in the manner and for the period determined by the Exchange:~~
- ~~(a) suspension and/or~~ cessation of further ~~s~~Securities ~~b~~Borrowing ~~and/or~~ ~~l~~Lending of Eligible Securities by the Participating Organisation ~~and/or~~ ~~registered persons~~ **Registered Person(s)** whether for ~~itself~~ **the Participating Organisation** 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~~ **Registered Person(s)** whether for itself or any or all of its **Clients**; or
  - (c) imposition of restriction or conditions on the ~~s~~Securities ~~b~~Borrowing ~~and/or~~ ~~l~~Lending activities carried out by the Participating Organisation ~~and/or~~ ~~registered persons~~ **Registered Person(s)** whether for itself or any or all of its **Clients** or by any or all of its **Clients**.

Comment [B169]: Deleted since the power to take actions and the manner the actions are taken are already provided generally in Chapter 2.

Comment [B170]: Deleted since the power to take actions and the manner the actions are taken should be consistent.

Comment [B171]: Amended due to plain language drafting.

Comment [B172]: Amended due to plain language drafting.

Comment [B173]: Amended due to plain language drafting.

Comment [B174]: Amended due to plain language drafting.



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~~(3) In the event that the Exchange undertakes any of the actions under Rule 67086.1211(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.~~

**Comment [B175]:** Deleted as this rule is incorporated in Rule 201.6

~~(4) Where an action has been taken under Rule 67086.1211(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 67086.12(2) in the first place.~~

**Comment [B176]:** Deleted as this rule is incorporated in Rule 201.2

~~(5) The provisions in Rule 13503 shall not apply to any action taken under Rule 67086.1211(2).~~

**Comment [B177]:** Deleted as this rule is incorporate in Rule 201.2

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**RULE 70707 TRANSACTIONS BY EMPLOYEES, COMMISSIONED DEALER'S REPRESENTATIVES AND DIRECTORS**  
**Transactions By Employees, Commissioned Dealer's Representatives and Directors**

**707.1 Opening of Trading Account**

- (1) ~~Restrictions: No employee or Commissioned Dealer's Representative may open a trading account other than with the Participating Organisation by whom he is employed or engaged. A Participating Organisation must not open a trading account to trade in Securities for employees, Dealer's Representatives or Executive Directors of another Participating Organisation.~~
- (2) ~~Restrictions: No employee, or Commissioned Dealer's Representative or Executive Director may open a trading account to trade in Securities other than with the Participating Organisation by whom he is employed or engaged.~~
- (3) ~~A Participating Organisation must require the Participating Organisation's employees, Dealer's Representatives and Executive Directors to trade in Securities through the Participating Organisation.~~
- (2) ~~Authorisation: A Dealer's Representative shall not place an order on behalf of an employee or Commissioned Dealer's Representative of the Participating Organisation to whom the Dealer's Representative is attached, unless for each transaction the order is first authorised in writing by a director of the Participating Organisation.~~

**Comment [B178]:** Amended to clarify that PO cannot open an account for other POs' CDRs, EDs, PDTs and employees to trade in securities on the stock market of the Exchange, as CDRs, EDs, PDTs and employees of other POs can only trade in securities on the stock market of the Exchange with the PO whom the CDRs, EDs, PDTs and employees are employed or engaged with.

**Comment [B179]:** Renumbered to 707.1(2) for a better flow of the rule.

**Comment [B180]:** This is to ensure that the PO puts in the relevant policies, processes and controls in place to ensure that the employees trade through the PO only.

**Comment [B181]:** Deleted as the substance of the rule is provided in Rule 707.2(1) and 707.3(2).

**707.2 Approval**

- (1) (a) ~~A Participating Organisation may not transact in Securities shall be transacted by a Participating Organisation on account of its the Participating Organisation's employees, or Commissioned Dealer's Representatives and Directors except with their a prior and separate written consent approval is issued for each transaction from a director of the by the Participating Organisation, provided always that no such consent shall be given unless if the director is satisfied that the said transaction does not in any way conflict with the interests of the clients of his Participating Organisation. All transactions executed on account of its employees and Commissioned Dealer's Representatives shall be subject to strict supervision and control by the Participating Organisation. For purposes of this Rule 707.2, a director's account will include all accounts within the director's control.~~
- (b) ~~Such consent A Participating Organisation can only issue approval as stipulated in Rule 707.2(1)(a) shall given unless the director if the Participating Organisation is satisfied that the said transaction does not in any way conflict with the interests of the Participating Organisation's client Clients of his Participating Organisation. All transactions executed on account of its employees and Commissioned Dealer's Representatives shall be subject to strict supervision and control by the Participating Organisation.~~
- (bc) ~~Notwithstanding the foregoing Rule, the board of directors of the Participating Organisation may resolve to authorise the Head of Branch Office or any other employee(s) to grant consent for and on behalf of the designated director above stated in respect of the business transacted on account of the employees and Commissioned Dealer's Representatives of the branch office concerned or the principal office, as the case may be, on the same grounds therein **Provided Always:**~~
- (i) ~~the board of directors has developed and maintains internal controls and mechanisms to monitor the business transacted for and on behalf of the Participating Organisation's employees and Commissioned Dealer's Representatives, including without limitation:~~

**Comment [B182]:** This requirement is broken up from sub rule (a) and become sub rule (b) for clarity.

**Comment [B183]:** Deleted in line with consolidating similar requirements under one rule (relating to internal controls and policies and procedures of a PO in respect of its activities) in chapter 5. This will also avoid repeating similar requirements under various rules.

**Comment [B184]:** This provision is introduced to restrict the director from trading in securities for his own account or for an account in which he has control or influence unless he obtains approval of the board of Directors of the PO or an authorised person.

**Comment [B185]:** Deleted in line with consolidating similar requirements under one rule (relating to internal controls and policies and procedures of a PO in respect of its activities) in chapter 5.

**Comment [B186]:** Deleted as there is no longer the requirement for a director to approve transaction by employees. It would be up to the PO to determine the appropriate person within the PO to approve the transaction.

**Comment [B187]:** Deleted in line with consolidating similar requirements under one rule (relating to internal controls and policies and procedures of a PO in respect of its activities) in chapter 5. This will also avoid repeating similar requirements under various rules.

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~~(aa) ratification by the board of directors or designated director aforesaid, as the case may be, of the employees' and Commissioned Dealer's Representatives' trades approved by the Head of Branch Office and any other employee(s); and~~

~~(bb) the restrictions and prohibitions envisaged in Rule 508; and~~

~~(ii) internal policies and controls for avoidance of insider dealing;~~

~~which ensure that there are no situations of conflict of interest, actual or potential.~~

~~(c) In the circumstance of the foregoing Rule where the board of directors of the Participating Organisation has resolved to authorise the Head of Branch or any other employee(s) as provided above to consent to employees' and Commissioned Dealer's Representatives' transactions, the transactions of the Head of Branch Office or the said employee(s), as the case may be, shall nevertheless be subject to the prior and separate written consent of the director designated pursuant to Rule 702.2(3)(a) as envisaged therein.~~

**6707.3 Transactions by Employees, Directors and Dealer's Representative**

~~(41) **Designated Dealer's Representative:** A Every Participating Organisation shall identify and designate a Dealer's Representative to undertake can only transactions in securities for the Dealer's Representative's own account through another Dealer's Representative, by all its employees and its Commissioned Dealer's Representatives. A Participating Organisation must identify and designate Dealer's Representatives who are specifically permitted to undertake transactions in Securities for all its employees, Directors and Dealer's Representative.~~

~~(52) **Brokerage:** Brokerage payable by employees and Commissioned Dealer's Representatives shall be as provided in Rule 1004.1(8)(b). A designated Dealer's Representative can only execute transactions in Securities for employees, Directors or Dealer's Representatives of a Participating Organisation if approval under Rule 707.2(1)(a) is obtained.~~

~~(3) An employee, Director and Dealer's Representatives of a Participating Organisation can only undertake transactions in Securities through a designated Dealer's Representative appointed by the Participating Organisation under Rule 707.3(1).~~

~~(4) A designated Dealer's Representative is prohibited from executing trades for his own account.~~

~~(6) **Monitoring:** Every Participating Organisation shall maintain proper records on all its employees' accounts and ensure that all such accounts are subject to active monitoring by its Compliance Officer.~~

**RULE 702.3 TRANSACTIONS BY DIRECTORS**

**Comment [B188]:** Deleted in line with consolidating similar requirements under one rule (relating to internal controls and policies and procedures of a PO in respect of its activities) in chapter 5. This will also avoid repeating similar requirements under various rules.

**Comment [B189]:** Deleted as there is no longer the requirement for a director to approve transaction by employees. As such its left to the PO to decide. It is also obvious that the person authorised by the PO to approve the transaction cannot be approving his own transaction as this would be a conflict of interest.

**Comment [B190]:** This requirement on having a designated DR to carry out trading for employees is deleted and replaced with a rule imposing obligation on the DR to not transact his own trades. This is to avoid front running.

**Comment [B191]:** The rule on brokerage is deleted as the same is already provided in Rule 1101.

**Comment [B192]:** Deleted as there will be a general rule in Chapter 5 which requires the PO to keep proper records to evidence compliance of the rules.

~~(1) **Restriction:** No director of a Participating Organisation shall undertake any trading in securities for his own account and/or an account in which such a director has an interest either direct or indirect except with the prior written consent from the board of directors of the Participating Organisation provided always that no such consent shall be given unless the board of directors is satisfied that the said transaction does not in any way conflict with the interests of the clients of that Participating Organisation. All transactions executed on account of its directors shall be subject to strict supervision and control by the Participating Organisation.~~

**Comment [B193]:** This rule is deleted as the same is incorporated in Rule 707.2(1).

~~(2) **Board of Director's Resolution:** For the purpose of consent, the board of directors may resolve to authorise any of its director(s) or any other employee(s) to grant consent for and on its behalf. Notwithstanding such resolution the board of directors shall still be responsible and liable for all actions of the director(s) and any other employee(s) so authorised.~~

**Comment [B194]:** Deleted as what is important is that prior written approval is issued for the transactions, as provided in Rule 707.1(2). The person who is authorised to approve will be as determined under the PO's internal procedures.

~~(3) **Records:** The Participating Organisation shall keep proper records of all written consents from the board of directors referred to in Rule 702.3(1) in respect of each transaction executed on account of its directors, to be made available to the Exchange for inspection forthwith upon request from the Exchange.~~

**Comment [B195]:** Deleted as there will be a general rule in Chapter 5 which requires the PO to keep proper records to evidence compliance of the rules.

#### **RULE 702.4 — DISCLOSURE**

~~(1) All transactions undertaken by an employee, a Commissioned Dealer's Representative and a director shall be disclosed to the Participating Organisation and the onus of such disclosure is on the employee, Commissioned Dealer's Representative or the director concerned.~~

**Comment [B196]:** Deleted as it is not necessary to disclose the transactions undertaken to the PO, as PO has issued a prior written approval for the transaction to be undertaken.

#### **RULE 702.5 — SANCTIONS**

~~(1) Violation of any of the provisions under this Rule 702 may result in suspension and/or fine or expulsion of the Dealer's Representative, or the director of the Participating Organisation concerned, or both of them. Where the employee concerned has violated provisions under this Rule 702, the Exchange may after due investigation recommend appropriate action to be taken by the Participating Organisation or refer such violation to an appropriate authority.~~

**Comment [B197]:** Deleted as this rule on the consequences of violation of this Rule 707 will be covered under Chapter 15 on Disciplinary Actions.

#### **RULE 702.6 — DEFINITION**

~~(1) For the purposes of this Rule 702, the words "transaction" or "trade" whenever appearing shall mean –~~

~~(a) any of the permitted dealings under Rule 601.3; and~~

**Comment [B198]:** Deleted in line with the deletion of the previous rule 601.3.

~~(b) trades executed on the futures market maintained by the exchange company.~~

**Comment [B199]:** Deleted in line with the principle that the Rules should be confined to matters relating to trading in securities on the stock market maintained by the Exchange.

**RULE 703~~6~~708 FINANCING**

**~~RULE 703.1~~ DEFINITIONS**

~~(1) For the purposes of this Rule 703-~~

<del>Equity</del>	<del>means the sum of margin and securities purchased and carried in client's margin account.</del>
<del>Effective Shareholders' Funds</del>	<del>means effective shareholders funds as defined under Rule 1105.1.</del>
<del>Last Done Price</del>	<del>means in relation to securities, the last traded price of the securities on the preceding market day, and if there was no trading on that day, the last traded price of the securities on the last trading day for that securities, prior to the preceding market day.</del>
<del>Margin</del>	<del>means the aggregate amount of cash and collateral deposited into a client's margin account but excludes securities which are purchased and carried in his margin account.</del>
<del>outstanding balance</del>	<del>means the amount owed by a client in his margin account arising from his transactions in securities, including all commission charges, interest, expenses and all other related expenses before deducting any cash deposited by him as margin.</del>

**Comment [B200]:** These definitions are moved to and incorporated in Chapter 1, in line with the consolidation of the definitions in various chapters to Chapter 1.

**~~RULE 703708.21 TYPES OF FINANCING ALLOWED AND PRE-REQUISITE~~ Types of Financing Allowed**

~~(1) A Participating Organisation is prohibited from providing financing other than the following types of financing:-~~

- ~~(a) to Clients, for subscription or purchase of securities as stated under Rule 708.1(2); and~~
- ~~(b) to Related Corporation as stated in Rule 708.4.~~

~~(2) Subject to Rule 703.2(2) below, A Participating Organisations may can only provide the following types of financing to its clients as an approved business activity – the following types of financing to its clientClients for subscription or purchase of securities: unless the financing is in the form of:~~

- ~~(a) margin financing, subject to adherence to as provided in this Rule 703708.2; and~~
- ~~(b) discretionary financing, as provided in Rule 708.3; and~~
- ~~(c) any other type of financing financing, for the purpose of subscription and purchase of securities, other than margin financing, as determined by the Exchange in consultation with the Commission, subject to any terms and conditions as may be prescribed by the Exchange.~~

**Comment [B202]:** Amended to state that POs can extend any type of financing to clients. We have removed the requirement for POs to obtain the approval of the Exchange before extending any other types of financing other than margin financing.

~~(23) For the avoidance of doubt, the In this Rule 708, 'securities' referred to herein refer to means:-~~

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- (i**a**) the new issue of **s**Securities ~~in respect~~ of an unlisted company for the purpose of qualifying the company for official listing on the Exchange; and
  - (i**b**) the **s**Securities issued or to be issued by a company that is listed on the Exchange.
- (2) ~~Without prejudice to Rule 503.1(5) in respect of an Investment Bank, no Participating Organisation may provide any other types of financing other than that stipulated in Rule 703.2(1) above.~~

Comment [B203]: Deleted as the same is provided in Rule 708.1(1).

### **RULE 703.32 PURPOSE AND PERIOD** Margin financing

- (1) ~~Subject to the provisions of this Rule 703, a~~ Participating Organisation may extend **m**Margin **f**Financing to its **client**Clients for the following purpose –
- (a) ~~subscription and purchase of any new issue of securities in respect of an unlisted company for the purpose of qualifying the company for official listing on the Exchange; and~~
    - (b) ~~subscription and purchase of any securities issued or to be issued by a company that is listed on the Exchange; and/or~~
  - (e**b**) redemption of all or any **e**Outstanding **b**Balance in **m**Margin **a**Accounts of **client**Clients held with other Participating Organisations ~~and/or~~ persons or entities approved or licensed to provide financing under any written law in Malaysia and the subsequent transfers of the **m**Margin **a**Accounts to the Participating Organisation.

Comment [B204]: As we have defined the word securities under Rule 708.1(1), it not necessary to have the words that have been deleted .

Comment [B205]: This Rule is deleted as we have defined the word Securities under Rule 708.1(2).

(2) ~~[Deleted]~~

- (3**2**) A Participating Organisation may extend **m**Margin **f**Financing to its **client**Clients for the purpose stipulated under Rule 703.32(1) for a period of ~~three (3)~~ months only, with rollover, if necessary.

### **RULE 703.4 — LIMIT OF OUTSTANDING BALANCES**

- (4**3**) The aggregate **e**Outstanding **b**Balances ~~in the margin accounts~~ maintained by all **client**Clients of a Participating Organisation ~~shall~~**must** not exceed ~~two hundred percent (200%)~~ of the Effective Shareholders' Funds of the Participating Organisation.

### **RULE 703.5 — SINGLE CLIENT RULE**

- (14) **Limit of credit:**—The amount of **m**Margin **f**Financing that a Participating Organisation may extend to any single **client**Client ~~shall~~**must** not be more than ~~twenty per cent (20%)~~ of its Effective Shareholders' Funds.
- (25) **Single client:**—~~For the purposes of this Rule 703.5(4), 609.2(5) and 609.2(6),~~ in computing the total amount of margin financing given to any single **client**Client the term **"single client"** is defined as follows —
- (a) Where such single **client**Client is an individual, any **m**Margin **f**Financing given to the individual, spouse of the individual, the partnership of which he is a partner, any partner of the individual, the spouse of the partner and all the companies or corporations over which the individual exercises control, shall be deemed to be **m**Margin **f**Financing extended to a single **client**Client. ~~For the purpose of this paragraph (a), an individual is deemed to exercise "control"~~

over a company or corporation if the individual or the individual's spouse, severally or jointly –

- (i) holds, directly or indirectly, more than ~~fifty per cent (50%)~~ of the shares of the company or corporation;
  - (ii) has the power to appoint, or cause to be appointed, a majority of the directors of the company or corporation; or
  - (iii) has the power to make, or cause to be made, decisions in respect of the business or administration of the company or corporation, and to give effect to such decisions, or cause them to be given effect to.
- (b) Where such single ~~client~~Client is a company or corporation, any ~~m~~Margin ~~f~~Financing extended to the company or corporation, its ~~r~~Related ~~company or~~ ~~e~~Corporation and its ~~a~~Associated ~~companies~~ ~~Corporation~~ shall be ~~is~~ deemed to be ~~m~~Margin ~~f~~Financing extended to a single ~~client~~Client. ~~For the purpose of this paragraph (b), a "related company or corporation" shall have the meaning as defined by section 6 of the Companies Act~~

~~(3) **Associated company:** A company is deemed to be an associated company of a corporation where the corporation holds, directly or indirectly, not less than twenty per cent (20%) and not more than fifty per cent (50%) of the issued share capital of such company.~~

Comment [B206]: This has been defined in Rule 101.

#### **RULE 703.6 – RESTRICTIONS**

~~(4)~~ ~~No~~ ~~A~~ Participating Organisation shall ~~must not~~ extend ~~m~~Margin ~~f~~Financing to the following persons –

- (a) any of its ~~d~~Directors, employees, ~~or~~ ~~Commissioned~~ ~~or~~ Dealer's Representatives;
- (b) any firm ~~or corporation~~ in which any of its ~~d~~Directors, employees ~~or~~ ~~Commissioned~~ Dealer's Representatives is ~~interested as a~~ ~~director,~~ partner, manager, guarantor or agent other than as a stockbroking agent;
- ~~(c) any corporation in which any of its directors, employees or Commissioned Dealer's Representatives is interested as a director, manager, guarantor or agent other than as a stockbroking agent;~~
- ~~(cd)~~ any corporation in which any of its ~~d~~Directors, employees or ~~Commissioned~~ Dealer's Representatives holds shares except –
  - (i) where none of its ~~e~~Executive ~~d~~Directors, employees or ~~Commissioned~~ Dealer's Representatives holds ~~five per cent (5%)~~ or more of the issued share capital of that corporation;
  - (ii) ~~in respect of~~ any corporation, whether listed or not listed on the Exchange, where no ~~n~~Non-~~e~~Executive ~~d~~Director of the Participating Organisation holds, directly or indirectly ~~five per cent (5%)~~ or more of the issued share capital of that corporation;
  - (iii) ~~in respect of~~ a corporation not listed on the Exchange, where no ~~n~~Non-~~e~~Executive ~~d~~Director of a Participating Organisations holds shares in his personal capacity;
- ~~(de)~~ any individual to whom any of its ~~d~~Directors, employees or ~~Commissioned~~ Dealer's Representatives has provided a guarantee;
- ~~(ef)~~ any person who is prohibited under Section 94(2) of the Capital Markets and Services Act; and

Comment [B207]: Deleted as this rule is moved to and merged into Rule 708.2(6)(b).

- (g) any other person as may be determined by the Minister with prior written notice given to all the Participating Organisations.

For the purposes of this Rule 703.6, the term “Director”, and “employee” and “Dealer’s Representatives” shall who are Proprietary Day Traders or Salaried Dealer’s Representatives include the spouse, parent and child thereof.

**RULE 703.7 — VALUATION OF COLLATERALS**

~~(17) Valuation of collateral: The collateral that a client may deposit into his margin account and the method of valuation thereof shall be limited to the following — A Participating Organisation must value any collateral that a Client may deposit into the Clients Margin account and any securities purchased and carried in the Margin Account in the manner determined by the Exchange.~~

Comment [B208]: Amended due to plain language drafting.

~~(a) For securities quoted on the Exchange and other recognised stock exchanges, the value shall be based on the Last Done Price of the securities on the preceding market day;~~

Comment [B209]: This rule will be moved to and incorporated into the PO Manual, as it prescribes the specific requirements on the valuation of the collateral.

~~(b) For cash or fixed deposit certificates, the value shall be —~~

Comment [B210]: This rule will be moved to and incorporated into the PO Manual, as it prescribes the specific requirements on the valuation of the collateral.

~~(i) in the case of cash or fixed deposit certificates denominated in Ringgit Malaysia, their face value thereof;~~

~~(ii) in the case of cash or fixed deposit certificates denominated in currencies other than in Ringgit Malaysia, the prevailing market exchange rate;~~

~~(c) For Malaysian Government securities, Cagamas bonds, Government investment issues and Malaysian Treasury Bills, the value shall be calculated at the Last Done Price as reported to the Central Bank;~~

Comment [B211]: This rule will be moved to and incorporated into the PO Manual, as it prescribes the specific requirements on the valuation of the collateral.

~~(d) [Deleted];~~

Comment [B212]: Deleted as it is already deleted previously.

~~(e) For negotiable certificates of deposit and bankers’ acceptances issued in Malaysia, the value shall be at the price determined by the issuing banks;~~

Comment [B213]: This rule will be moved to and incorporated into the PO Manual, as it prescribes the specific requirements on the valuation of the collateral.

~~(f) [Deleted];~~

Comment [B214]: Deleted as it is already deleted previously.

~~(g) [Deleted]; and~~

Comment [B215]: Deleted as it is already deleted previously.

~~(h) For guarantees issued by banks, merchant banks or finance companies or standby letters of credit issued by commercial banks or merchant banks, the value shall be their face value thereof.~~

Comment [B216]: This rule will be moved to and incorporated into the PO Manual, as it prescribes the specific requirements on the valuation of the collateral.

~~(2) Valuation of securities purchased: In respect of securities purchased and carried in the margin account, the method of valuation thereof shall be as follows —~~

Comment [B217]: This rule will be moved to and incorporated into the PO Manual, as it prescribes the specific requirements on the valuation of the collateral.

~~(a) For securities purchased through an initial public offering, the value shall be the issue price and for securities purchased through a rights issue, the value shall be the subscription price of the securities.~~

~~(b) For the types of securities stipulated under Rule 703.7(1), the value shall be as stipulated therein.~~

~~(c) For all other types of securities other than that stipulated in Rule 703.7(1), the value shall be zero.~~



**RULE 703.8 – CONTROL AND MAINTENANCE OF RECORDS BY PARTICIPATING ORGANISATIONS**

- (1) ~~Every Participating Organisation shall establish and implement internal guidelines and procedures for the granting of credit facilities in relation to any margin account. Such guidelines and procedures shall include—~~
- ~~(a) detailed procedures on the processing of applications for credit facilities by a client, including but not limited to, procedures to ensure compliance with Rule 703.6(1) by the Participating Organisation;~~
  - ~~(b) the criteria to assess the creditworthiness of a client;~~
  - ~~(c) the documentation in respect of credit facilities extended to a client; and~~
  - ~~(d) an effective monitoring system.~~
- (2) ~~Without derogation to the generality of the foregoing provision, when granting credit facilities to a client, every Participating Organisation shall require its client to disclose as to whether the client is a spouse, parent or child of any of its Commissioned Dealer's Representatives in order for the Participating Organisation to, and which it shall, maintain proper records of all margin accounts opened in the name of the Commissioned Dealer's Representatives' spouse, parent and child.~~

**Comment [B218]:** Deleted in line with consolidating similar requirements under one rule (relating to internal controls and policies and procedures of a PO in respect of its activities), which will include proper maintenance of records in Chapter 5. This will also avoid repeating similar requirements under various rules.

**Comment [B219]:** Deleted as this disclosure by clients is required in Chapter 5 whether they are related to the employees or DR.

**Comment [B220]:** Deleted in line with consolidating similar requirements under one rule (relating to internal controls and policies and procedures of a PO in respect of its activities), which will include proper maintenance of records in Chapter 5. This will also avoid repeating similar requirements under various rules.

**RULE 703.9 – WRITTEN AGREEMENT**

- (18) **Requirement :** ~~A Participating Organisation must enter into a~~ There shall be a written agreement executed between the Participating Organisation and with its client/Client for any mMargin account/Financing extended to a Client.
- ~~(2) Special clauses : The written agreement referred to in Rule 703.9(1) shall contain, inter alia, provisions which authorise the Participating Organisation to:~~
- ~~(a) subject to Rule 703.9(3), mortgage, pledge or hypothecate the client's securities for a sum not exceeding the outstanding balance in the margin account and without any obligation to retain in its possession or control securities of like character;~~
  - ~~(b) use its discretion to sell or dispose of any or all the collateral, in any manner in order to meet the prescribed margin requirements as are specified in Rule 701.10(3).~~
- (39) A Participating Organisation ~~shall~~may not mortgage, pledge, charge, hypothecate or grant security arrangements over a ~~client/Client's~~ client/Client's securities and collateral ~~in the Margin Account unless with no obligations on the Participating Organisation to retain in its possession or control securities of like character if:~~
- ~~(i) the aggregate mMark to mMarket (as defined in Rule 4405/1301.2) value of the securities and collateral of that client/Client which are mortgaged, pledged, charged, hypothecated or security arrangements granted shall not at any time exceed the eOutstanding bBalance of that client/Client's mMargin aAccount; and~~
  - ~~(ii) there are no without any obligation on the Participating Organisation to retain in its possession or control, securities of like character; and~~
  - ~~(iii) the Participating Organisation has entered into an agreement with the client/Client allowing the Participating Organisation to do so.~~

**Comment [B221]:** Deleted in line with our objective to, not prescribe the commercial terms and arrangements between POs and their clients in the rules, instead to reflect the principles to be complied with by the PO as stipulated in rule 708.2 (9).

**Comment [B222]:** This provision is incorporated into Rule 708.2(14).

**Comment [B223]:** Deleted as POs should be aware of the clauses they need to include in their margin agreements with their clients in light of sub-rule 708.2(12) which requires liquidation of a client's margin account in the event the Equity in such client's margin account falls below 130% of the Outstanding Balance.

**Comment [B224]:** This provision is previously part of Rule 703.9(2)(a), and incorporated and amended here due to plain language drafting.

**Comment [B225]:** This provision is previously Rule 703.9(2)(a), and incorporated and amended here due to plain language drafting.

~~(410)~~ A Participating Organisation may, ~~subject to requirements stipulated in Rule 608,~~ utilise any ~~Eligible Securities~~ securities (as defined in Rule 608.1) deposited or purchased or carried in a ~~eClient's mMargin aAccount~~ for the purpose of ~~sSecurities~~ ~~bBorrowing and/or Lending~~ as envisaged ~~provided~~ in Rule ~~67086~~.

**RULE 703.10 – MAINTENANCE OF MARGINS**

~~(111)~~ **Initial margin:** ~~An initial margin must be placed by the client with the Participating Organisation must ensure that the client has Equity of not later than three (3) market days following the contract date of the purchases of securities and the amount of margin shall be such that his equity is not less than one hundred fifty per cent (150%) equity of against of the eOutstanding bBalance in the Mmargin Aaccount within 3 market days following the contract date of the purchases of securities.~~

Comment [B226]: Amended to ensure plain language drafting.

~~(212)~~ **Topping-up:**

~~(a)~~ Whenever the equity in a client's margin account falls below one hundred fifty per cent (150%) of the outstanding balance, a ~~A~~ Participating Organisation shall immediately request its client to top-up the shortfall so as to bring the equity to not less than ~~one hundred fifty per cent (150%)~~ of the ~~eOutstanding bBalance~~ whenever the Equity in a Client's Margin Account falls below 150% of the Outstanding Balance.

Comment [B227]: Amended to ensure plain language drafting.

~~(b13)~~ The ~~Participating Organisation shall ensure that the~~ topping-up of the ~~mMargin~~ by such ~~eClient shall be is~~ effected within ~~three (3)~~ market days following the date of written notice given by the Participating Organisation. The Participating Organisation shall not permit any new purchases in the ~~Mmargin Aaccount~~ unless the resulting ~~eEquity~~ in the account would be not less than ~~one hundred fifty per cent (150%)~~ of the ~~eOutstanding bBalance~~.

~~(314)~~ **Equity margin:** ~~No A~~ Participating Organisation ~~shall permit~~ must not allow the ~~eEquity~~ in any ~~eClient's mMargin aAccount~~ to fall below ~~one hundred thirty per cent (130%)~~ of the ~~eOutstanding bBalance~~.

~~(415)~~ **Liquidation of margin account:** ~~In the event that~~ Unless the Participating Organisation has agreed to the client's request or proposal under Rule 6708.2(16), the Participating Organisation must carry out the following if the ~~eEquity~~ in ~~any eClient's mMargin aAccount~~ falls below ~~one hundred thirty per cent (130%)~~ of the ~~eOutstanding bBalance~~, ~~the Participating Organisation concerned shall, with or without notice to such client, either~~ liquidate ~~his~~ the Client's ~~mMargin aAccount~~, including the ~~sSecurities~~ purchased and carried in such account, so that the ~~eEquity~~ is not less than ~~one hundred fifty per cent (150%)~~ of the ~~eOutstanding bBalance~~.

~~unless the Participating Organisation consents to the following—~~

~~(1316)~~ A Participating Organisation must not liquidate the Client's Margin Account under Rule 6708.2(15) if the Participating Organisation agreed to the following:

Comment [B228]: Amended to ensure that the PO will not liquidate the margin account of the client if the client and PO have agreed to the arrangements provided under this rule.

(a) a request made in writing by the ~~client~~ Client not to liquidate his ~~mMargin aAccount~~; and

(b) a proposal made by the ~~client~~ Client in writing to settle the ~~eOutstanding bBalance~~ upon terms and conditions agreed to by the Participating Organisation,

in which case, no further ~~mMargin fFinancing shall~~ can be extended to that ~~eClient~~.

~~(44A17)~~ A Participating Organisation may impose a higher ~~eEquity~~ amount than that prescribed ~~in this Rule in Rules 70360.109(1), 703.10(2), 703.10(3) and 703708.102(411) and Rule 708.2(14) provided that if due prior written~~ notice is given to the ~~client~~ Client.

~~(4518) (a) Not to exceed credit limit: No A~~ Participating Organisation ~~shall~~**must not** extend credit facilities to a ~~e~~CClient beyond the approved limit that is set out in the written agreement between the Participating Organisation and its ~~e~~CClient.

~~(4619)~~ In assessing whether the credit facilities exceed the approved limit, the Participating Organisation ~~shall~~**must** include all charges, rollover fees, interest and other charges incurred by the ~~e~~CClient for which no actual payment has been made by the ~~e~~CClient and the charges are debited towards the ~~e~~Outstanding ~~b~~Balance of the ~~e~~CClient and financed by the Participating Organisation, until actual payment by the ~~e~~CClient.

~~(6) Daily review: Participating Organisations shall review all margin accounts daily to ensure that the margin requirements of this Rule are complied with at all times.~~

**Comment [B229]:** Deleted as it is for the POs to establish its compliance and risk management programme to achieve compliance with the rules

~~(1720) Value of equity:—~~For the purpose of computing the value of ~~e~~Equity in a ~~m~~Margin ~~a~~Account, the securities and other collaterals in such account ~~shall~~**must** be valued based on the valuation ~~determined by the Exchange set out in Rule 703.708.72(7).~~ All transactions done on the same day ~~shall~~**must** be combined on a transaction date basis and the total cost of purchase or the net proceeds of sale, including any commission charges, interest expenses and all other related expenses, ~~shall~~**must** be taken into account for computing ~~m~~Margin requirements.

~~(4821) Additional margin requirement and haircuts:~~

~~(a) Subject to Rule 703.10(8)(b), aA~~ Participating Organisation ~~s shall ensure that the internal guidelines and procedures of the Participating Organisation must provide for the requirements of for~~ additional ~~m~~Margin and imposition of haircuts, ~~the amount of which shall must be as determined by the Participating Organisation, on any collateral and securities purchased and carried in mMargin accounts in the event of on~~ the occurrence of any of the following ~~—~~

- ~~(i)~~ unusually rapid or volatile changes in value of the securities;
- ~~(ii)~~ non-existence of active market for the securities;
- ~~(iii)~~ ~~subject to Rule 703.708.1092(18)(b),~~ suspension of the securities from trading on a market. ~~If the suspension is more than 3 Market Days, the haircut must be 100%;~~ or
- ~~(iv)~~ no possibility of immediate liquidation for the securities.

~~(b) The following haircuts shall must be imposed on securities which that have been suspended from trading on the relevant market and the haircuts shall must be calculated based on the value of the securities at the Last Done Price:~~

<del>Length of suspension</del>	<del>Haircut Percentage</del>
<del>1 to 3 market days</del>	<del>50%</del>
<del>More than 3 market days</del>	<del>100%</del>

**Comment [B230]:** Deleted to remove the burden on POs to impose haircuts for such short periods of time as suspensions for such short periods of time are normally due to corporate actions and not because the company is in 'distress'. This imposition of haircut would necessarily mean POs have to revalue the securities for just three days and this may not be practical. However the removal of the '50% haircut' does not mean that the PO is prohibited from imposing a haircut if it deems fit. The discretion to impose a haircut and the rate would, in this instance, vest with the POs.

~~(4922) Withdrawal: A eClient may only withdraw from his mMargin aAccount sales proceeds or any part thereof in~~ cash and any collateral for the time being deposited into his ~~m~~Margin ~~a~~Account provided that the value of the ~~e~~Equity in the said ~~m~~Margin ~~a~~Account does not fall below ~~one hundred fifty per cent (150%)~~ of the ~~e~~Outstanding ~~b~~Balance.

~~(10) Variation of margin:—The Exchange shall have the discretion to vary the margin requirements stipulated under Rules 703.10 (1), 703.10 (2) and 703.10 (3).~~

**Comment [B231]:** This rule is deleted as the Exchange already has the general power to amend or vary any of the rules in Chapter 2.

~~RULE 703.11 – BASIS OF TRANSACTION~~

- ~~(1) All securities transactions in a margin account shall be carried out as Ready or Immediate Basis Contract.~~

**Comment [B232]:** This rule is deleted as there is only Ready Basis and this is reflected in Rule 701.1.

~~RULE 703.12 – MONTHLY RETURNS~~

~~(12023) Every Participating Organisation shall must submit returns notify the Exchange on of the mMargin fFinancing extended in relation to margin accounts to the Clients on a monthly basis in accordance with the format prescribed in the Appendix 3 not later than the 10<sup>th</sup> day of each month.~~

- ~~(a) to the Balance of Payments Department, Central Bank, on a monthly basis in accordance with the format prescribed in the Appendix 7 within ten (10) days from the last day of the reporting month.~~

**Comment [B233]:** Deleted as the POs sends the information to the Exchange and not BNM.

**Comment [B234]:** This provision is moved to and Incorporated into Rule 708.2(23).

708.3 Discretionary Financing

- (1) Notwithstanding Rule 905, a Participating Organisation may allow a buying Client to effect payment of its outstanding purchase position for an On-Market Transaction between the T+3 and the T+7 (Discretionary Financing”) if :

**Comment [B235]:** Incorporated RR22 of 2005 on discretionary financing into this Rule and amended for simplification of the Rules

- (a) a Participating Organisation has allowed the Client to open and operate a DF Account after evaluating the suitability of the Client to be given Discretionary Financing facility;
- (b) the Client is a Retail Client (with or without a Margin Account) and excludes a person stipulated under Rule 708.2(6);
- (c) the terms and conditions for the opening and operation of DF Account are in writing and the consented to by the Client; and
- (d) the Client has notified the Participating Organisation not later than T+3 that Discretionary Financing is required in relation to the particular On-Market Transaction and the Participating Organisation accepts the utilisation of Discretionary Financing for that transaction.

- (2) If a Participating Organisation does not receive any notification in accordance with Rule 708. 3 (1)(d) the Participating Organisation can deem that the timing for payment of the outstanding purchase position in relation to an On-Market Transaction done on a Contract Date by a DF Account Holder is in accordance with Rule 905.

- (3) A DF Account Holder who utilised the Discretionary Financing must effect settlement of the outstanding purchase position of an On-Market Transaction not later than 12.30 p.m. on T+7.

- (4) If a DF Account Holder fails to effect settlement of an outstanding purchase position in relation to an On-Market Transaction as stated in Rule 708. 3(3), the Participating Organisation must institute a selling out at any time after 12.30 pm on T+7 but not later than T+8 without giving notice to the Client. However a Participating Organisation may still accept payment from the Client at any time prior to a selling-out being carried out.

- (5) A Participating Organisation may permit a DF Account Holder to sell any Securities bought on T, at any time after the time of purchase but prior to 12.30 pm on T+7. Such sale is deemed to be a sale to close off the purchase position and such close-off is referred to as “contra”. Accordingly all provisions in 905.2 on contra (except

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provisions relating to the timing for contra) are applicable to the Participating Organisation.

- (6) A Participating Organisation may charge a DF Account Holder a fee for providing Discretionary Financing (“DF Fees”). The rate of DF Fees is on a fully negotiable basis between the Participating Organisation and the DF Account Holder and the Participating Organisation can share DF Fees with the Commissioned Dealer’s Representative.
- (7) A Participating Organisation must ensure that the back office system of the Participating Organisation is capable of identifying all DF Accounts opened and all Discretionary Financing granted to Clients.

**708.4 Financing to Related Corporation**

- (1) Subject to any restriction or prohibition under any law, a Participating Organisation may extend financing to any related corporation of the Participating Organisation for any purpose if the Participating Organisation has effective implementation of policies and procedures to control and manage risk exposure when carrying out financing activities.
- (2) The Participating Organisation must ensure that the policies and procedures in Rule 708.4(1) must be duly endorsed by the Participating Organisation’s Board of Directors.

**Comment [B236]:** Inserted in view of the proposed removal of the Guidelines on Chinese Walls for Dealers and Future Brokers.

[End of Chapter]

CHAPTER 87 TRADING

RULE 7801 AUTOMATED TRADING SYSTEM

**RULE 701.1 — DEFINITION**

~~(1) — For the purposes of this Rule 701—~~

<del>ATS Operators</del>	<del>ATS Operators in relation to a Participating Organisation, means Dealer's Representatives and trading clerks who are duly authorised by the Participating Organisation <i>inter alia</i> to enter orders into the ATS, to modify and cancel orders</del>
<del>closing price</del>	<del>means—  (a) — 'closing price' as referred to in rule 701.5A (6) (b) and (c); or  (b) — where there are no trades, the Reference Price</del>
<del>Equity-based Exchange Traded Fund</del>	<del>means Exchange Traded Fund which:  (a) — tracks the performance of a market index where constituent securities of that market index are wholly shares ("the constituent shares"); and  (b) — invests in the constituent shares of that market index.</del>
<del>Last Done Price</del>	<del>means the last traded price of an on-market transaction.</del>
<del>Lower Limit Price</del>	<del>means the lowest price at which the securities can be traded from a Reference Price in a trading session as stipulated by the Exchange.</del>
<del>matching interval</del>	<del>means the elapse time between two matches.</del>
<del>Opening Price</del>	<del>means 'opening price' as referred to in Rule 701.5A (3) (b) and (c).</del>
<del>public holiday</del>	<del>means a day which is declared as a public holiday in the Federal Territory of Kuala Lumpur.</del>
<del>Reference Price</del>	<del>means—  (a) — except for the situations enumerated in paragraph (b) below, the Last Done Price of the previous trading session or, in the event no trade in respect of the securities was effected on the previous trading session, of the last trading session in which trades were effected ;  (b) — if for two (2) consecutive trading sessions of one (1) market day no trading has been done for a particular securities—  (i) — the Upper Limit Price at market close, if there is an order to buy at the Upper Limit Price and it is greater than the last</del>

**Comment [B1]:** These definitions were moved from Chapter 8 to Chapter 1, in line with the consolidation of the definitions in various chapters to Chapter 1 .

Reference Price; or

(ii) ~~the Lower Limit Price at market close, if there is an order to sell at the Lower Limit Price and it is less than the last Reference Price;~~

(c) ~~for securities quoted ex-entitlement, as determined by the Exchange; or~~

(d) ~~for securities which have been approved by the Exchange for listing and quotation on the Official List, on the first day of their listing and quotation, the issue or offer price of such securities; or~~

(e) ~~in any other circumstances, as determined by the Exchange.~~

Tick means the minimum change that is allowed in the price of securities, as stipulated by the Exchange.

Upper Limit Price means the highest price at which the securities can be traded from a Reference Price in a trading session as stipulated by the Exchange

**RULE 7~~8~~01.21 GENERAL**

(1) All the provisions in this Chapter are only applicable to ~~on-market~~ ~~tr~~ transactions whether traded in Board Lots or Odd Lots, unless specifically stated otherwise.

(2) ~~A Participating Organisation's connection to the ATS for the purpose of trading of securities on the stock market of the Exchange must be through an access point approved by the Exchange.~~

(3) ~~Participating Organisation shall at all times take all reasonable security measures to prevent unauthorised access to the ATS including establishing and maintaining such procedures for the administration and monitoring of access to the ATS.~~

~~A Participating Organisation can only enter an order through the Odd Lots Board into the ATS to sell securities in odd lots if the quantity for the sale of such securities is designated as 'free balance' in the CDS Account of the seller when the order is entered.~~

**Comment [B2]:** This rule applies to both on-market and off-market transactions, as such, it is moved to, and incorporated in Chapter 7 Chapter 7 will contain requirements that are applicable to on-market and DBTs.

**Comment [B3]:** This rule applies to both on-market and off-market transactions, as such, it is moved to, and incorporated in Chapter 7 as contains requirements that are applicable to on-market and DBTs.

**Comment [B4]:** This rule is now in Chapter 7.

**RULE 701.3 QUOTATION**

(1) ~~Ex-entitlement: For the purposes of quotation and trading all securities shall be quoted by the Exchange and traded on "ex-entitlement" basis (ex-dividend, ex-bonus, ex-interest, ex-rights issue, ex-all, ex-offer) one (1) clear market day before the last date for lodgement or such other period determined by the Exchange.~~

**Comment [B5]:** Deleted as is addressed in chapter 7 i.e. in Rule 701.2.

(2) **Odd lots:**

**Comment [B6]:** Deleted as the same is provided in Chapter 7.

(a) The buying and/or selling quotations of securities of less than board lots shall be put on the Odd Lots Board

~~(b) All the provisions in this Chapter 7 are applicable to odd lots unless specifically stated otherwise.~~

~~(c) A Participating Organisation can only enter an order into ATS to sell securities in odd lots if the quantity for the sale of such securities is designated as "free" balance in the CDS Account of the seller when the order is entered.~~

**Comment [B7]:** This rule is moved to and incorporated in Chapter 7.

~~(3) **Securities with multiple quotations:** Securities may, at the request of the Issuer, be quoted separately according to different categories or classes determined by the Issuer, and for each category or class, there shall be assigned a separate code. Similarly, securities with limitation on foreign ownership which have two separate quotations, namely "foreign" and "local", shall carry a separate code for each quotation.~~

**Comment [B8]:** Deleted as this requirement if applicable should be governed under the LR.

**RULE 7~~801.52~~ TRADING DAYS, TRADING SESSIONS AND TRADING HOURS** Trading days, trading sessions and trading hours

~~(1) Trading of securities shall be carried out from Monday to Friday (except on any day that has been gazetted as a public holiday and other day on which the stock market of the Exchange is officially closed by the Exchange) or such other day(s) as may be determined by the Exchange in two (2) trading sessions as follows: in trading sessions, trading hours and trading phases as prescribed by the Exchange.~~

**Comment [B9]:** Deleted as the Exchange has the general power in Chapter 2 to determine as such.

~~(a) Morning session : 9.00 a.m. to 12.30 p.m.~~

~~(b) Afternoon session : 2.30 p.m. to 5.00 p.m.~~

~~(2) Notwithstanding Rule 701.5(1), the Exchange may at any time, as it deems fit, change the time prescribed for a trading session.~~

**Comment [B10]:** Deleted as the Exchange has the general power to do so in Chapter 2.

~~(3) The trading hours of each of the trading sessions and the trading phases stipulated in Rule 7801.5A shall be as prescribed by the Exchange.~~

**RULE 7~~801.5A~~ MANNER OF TRADING**

**Comment [B11]:** Deleted as will be covered in the Trading Manual as it is operational in nature.

~~(1) Trading Phases~~

~~(a) Subject to the provisions of these Rules, all trading securities shall must be carried out in the phases and sequence stipulated in this Rule 7801.5A3. The sequence of the trading phases shall be in the order set out hereinafter.~~

~~(b) The Exchange may change the trading phases and the sequence of the trading phases as it deems fits.~~

~~(cb) This Rule does not apply to an On-Market Married Transaction.~~

~~(2) Pre-Opening Phase~~

~~(a) The pre-opening phase is an order accumulation period during which orders may be entered by Participating Organisations into the ATS. However, there shall be no matching of orders during this phase.~~

~~(b) Without prejudice to the rights of the Exchange under Rule 701.7(1)(d), Participating Organisations may modify or cancel any orders entered during this phase.~~

~~(c) The ATS shall calculate the theoretical opening price ("TOP") based on such algorithm as prescribed by the Exchange. The TOP shall be continuously updated and disseminated to Participating Organisations and any other parties as determined by the Exchange.~~



~~(3) Opening Auction~~

- ~~(a) The opening auction is an order-matching phase during which orders in the order book of the ATS are matched. During the opening auction, no new orders shall be entered and existing orders in the order book of the ATS shall not be modified or cancelled.~~
- ~~(b) The opening price is the last TOP calculated at the pre-opening phase. Subject to Rule 7801.7A, orders in the order book of the ATS at the opening auction are matched at the opening price in accordance with the principles for matching of orders as set out in Rule 7801.89.~~
- ~~(c) Where no TOP is or can be computed for any reason whatsoever:-~~
  - ~~(i) the existing orders in the order book of the ATS will be carried forward to the main trading phase; and~~
  - ~~(ii) the price of the first order matched at the main trading phase shall be designated as the opening price.~~

~~(4) Main Trading Phase~~

- ~~(a) During the main trading phase, Participating Organisations may enter new orders as well as modify or cancel orders entered, subject to the rights of the Exchange under Rule 701.7(1)(d).~~
- ~~(b) All orders entered or maintained in the order book of the ATS at this phase shall be matched on a continuous basis in accordance with the principles for matching of orders as set out in Rule 7801.8. For the purpose of this Rule, "continuous basis" means that orders shall be immediately considered for matching upon entry into the ATS, in accordance with the principles for matching of orders as set out in Rule 7801.8.~~
- ~~(c) All orders which are not matched immediately upon the entry of the orders into the order book in the ATS shall, subject to Rule 7801.7A, be maintained in the order book of the ATS for possible matching in accordance with the principles for matching of orders as set out in Rule 7801.8.~~

~~(5) Pre-Closing Phase~~

- ~~(a) The pre-closing phase is an order accumulation period during which orders may be entered by Participating Organisations into the order book in the ATS. However, there shall be no matching of orders during this phase.~~
- ~~(b) Without prejudice to the rights of the Exchange under Rule 701.7(1)(d), Participating Organisations may modify or cancel any orders entered during this phase.~~
- ~~(c) The ATS shall calculate the theoretical closing price ("TCP") based on such algorithm as may be prescribed by the Exchange. The TCP shall be continuously updated and disseminated to Participating Organisations and any other parties as determined by the Exchange.~~

~~(6) Closing Auction~~

- ~~(a) The closing auction is an order-matching phase during which orders in the ATS are matched. During the closing auction, no new orders shall be entered and existing orders in the order book of the ATS shall not be modified or cancelled.~~
- ~~(b) The closing price is the last TCP calculated at the pre-closing phase. Subject to Rule 7801.7A, orders in the ATS at the closing auction are matched at the closing price in accordance with the principles for matching of orders as set out in Rule 7801.8.~~

- (c) ~~Where no TCP is or can be computed for any reason whatsoever:-~~
- ~~(i) the existing orders in the ATS will be carried forward to the trading-at-last phase; and~~
  - ~~(ii) the price of the last order matched at the main trading phase shall be designated as the closing price.~~

**(7) Trading-At-Last**

- ~~(a) The trading-at-last phase is a period during which Participating Organisations may enter new orders as well as to modify or cancel orders entered, subject to the rights of the Exchange under Rule 701.7(1)(d). The price at which orders may be entered or modified to is the closing price only.~~
- ~~(b) Orders entered during this phase shall be matched at the closing price in accordance with Rule 7801.8.~~

**RULE 7801.5B3 TRADING STATUS Trading status**

- (1) ~~Information on the Trading Status~~ The Exchange may, in the manner stipulated in Rules 7801.5B4(2) and 7801.5B4(3), ~~provide, information as to whether orders~~ prescribe when orders in respect of sSecurities or sSecurities categorised within a group (“Securities Group”) as prescribed by the Exchange, may be entered, modified, and cancelled, ~~matched and executed (“the Trading Status”)~~ into the order book in the ATS. Participating Organisations ~~shall~~ must give effect to the Trading Status.

**(2) Trading Status of a Securities Group**

- (a) ~~Pursuant to Rule 7801.5B(1), the can~~ Trading Status of a Securities Group shall be specified by the Exchange in any one of the following manner:-

**(i) Authorised**

~~When a Securities Group is specified as ‘authorised’, orders in relation to the Securities Group may be entered, modified, cancelled and matched.~~

**(ii) Interrupted**

~~When a Securities Group is specified as ‘interrupted’, orders in relation to the Securities Group may be entered, modified and cancelled but shall not be matched.~~

~~(iii) **Forbidden** When a Securities Group is specified as ‘forbidden’, orders in relation to the Securities Group shall not be entered, modified, cancelled and matched.~~

~~(b) The circumstances in which a Securities Group shall be specified with any one of the Trading Status stipulated in Rule 7801.5B(2)(a), are prescribed by the Exchange.~~

**(3) Trading Status of Securities**

- (a) ~~Pursuant to Rule 7801.5B(1), the Trading Status of sSecurities shall comprise the following:-~~
- ~~(i) the general trading status of sSecurities (“the General Trading Status”); and/or~~
  - ~~(ii) the current trading status of sSecurities (“the Current Trading Status”).~~

Comment [B12]: Deleted as will be covered in the Trading Manual

- (b) ~~The General Trading Status of sSecurities shall be specified by the Exchange in any one of the following manner as follows:-~~
- (i) ~~**Authorised**~~  
~~When the sSecurities is specified as 'authorised', orders in respect of the sSecurities may be entered, modified, cancelled and matched.~~
  - (ii) ~~**Forbidden**~~  
~~When the sSecurities is specified as 'forbidden', orders in respect of the sSecurities shall not be entered, modified and cancelled. All orders already entered shall not be matched or executed.~~
- (c) ~~The Current Trading Status of sSecurities shall be specified by the Exchange in any one of the following manner as follows:-~~
- (i) ~~**Open**~~~~When the sSecurities is specified as 'open', orders in respect of the securities may be entered, modified, cancelled and matched.~~
  - (ii) ~~**Reserved**~~~~When the sSecurities is specified as 'reserved', orders in respect of the securities may be entered, modified and cancelled but not matched.~~
  - (iii) ~~**Suspended**~~~~When the sSecurities is specified as 'suspended', orders in respect of the securities may be entered, modified, cancelled but not matched.~~
  - (iv) ~~**Frozen**~~~~When the sSecurities is specified as 'frozen', orders in respect of the securities shall not be entered, modified, cancelled and matched.~~
- (d) ~~The circumstances in which the sSecurities shall be specified with any one of the Trading Status stipulated in Rules 7801.5B(3)(b)(4) and 7801.5B(3)(c)(5), are prescribed by the Exchange.~~

**RULE 7801.654 ATS OPERATORS Keying-In of Orders**

- (1) ~~A Participating Organisation No person other than must not allow any person other than can only allow an~~ ATS Operator or a DMA Client s shall to enter orders into the ATS, modify or cancel orders into the order book in the ATS.
- (2) ~~The Exchange shall issue to every ATS Operator a unique personal identification number which shall be used to sign on to, and sign off from the ATS.~~
- (3) ~~All ATS Operators shall be familiar with the use of the ATS.~~
- (4) ~~A Participating Organisations shall is solely be responsible for the accuracy of details of all orders entered, into modified or cancelled into the order book in the ATS and the modification or cancellation of such orders by their its ATS Operators or DMA Clients.~~
- (5) ~~ATS Operators shall at all times when carrying out their duties at their Participating Organisation's office wear their identification tags.~~
- (6) ~~ATS Operators shall at all times strictly comply with all the Rules, directives and guidelines issued from time to time by the Exchange relating to entry of orders into the ATS, modification or cancellation of orders notwithstanding that the Rules, directive and guidelines are directed at Participating Organisations.~~

**Comment [B13]:** Amended to impose the obligation on the PO to only permit the ATS Operators and DMA Clients to enter, modify or cancel orders into the ATS.

**Comment [B14]:** Deleted as this requirement is governed under the IT requirements of he Exchange.

**Comment [B15]:** Deleted as this provision is not necessary. In any event, PO must ensure that its Person(s) are competent, and have the necessary skill and qualification to carry out their functions as specified in Chapter 5.

**Comment [B16]:** Deleted as it is up to PO to monitor its ATS operators

**Comment [B17]:** Deleted as there is a general requirement on registered Person(s) to comply with the rules and for the POs to be accountable for compliance of the rules by their registered Person(s) and employees in Chapter 5.

**RULE 7801.765 ORDERS Orders**

- (1) **General Terms and Conditions** A Participating Organisation and an ATS Operator must comply with the following for orders entered into ATS:
- (a) **Order Particulars:** All orders entered into the order book in the ATS shall ~~must~~ contain such particulars or information as ~~may be prescribed~~ specified by the Exchange;
  - (b) **Order Size:** ~~For board lots. The~~ quantity for a single order of ~~s~~ Securities entered into the order book in the ATS shall ~~must~~ not exceed ~~five thousand (5000) board lots the amount prescribed by the Exchange; or such other quantity of board lots as determined by the Exchange from time to time.~~
  - (c) **Tick size:** The price of orders entered into the order book in the ATS must be based on the Tick size or multiples of the Tick size.
  - (d) **Modification and Cancellation:**
    - (i) Any order entered into the order book in the ATS may be modified or cancelled ~~by the Participating Organisation if:~~
      - (i) ~~the modification or cancellation is prior to the matching of the order and not with the intention to create a misleading impression of market activity; subject always to the rights of the Exchange not to allow for such modification or cancellation in circumstances it deems fit.~~
      - (ii) ~~A Participating Organisation shall only be permitted to modifying the quantity of the order entered to a lesser quantity. No other modification is allowed, once the order is entered into ATS.~~
      - (iii) ~~In the event a modification or cancellation is made to any order with the intention to create a misleading impression of market activity, the Exchange may take such disciplinary action as it deems appropriate against the Participating Organisation and/or ATS Operator concerned.~~
  - (e) Rule ~~7801.765~~ (1)(b) ~~above~~ is not applicable to orders entered into the order book in the ATS in relation to odd lots; ~~and-~~
  - (f) **On-Market Married Transactions:** Rule ~~7801.7~~ 56(1)(d) above is not applicable to orders entered into the order book in the ATS in relation to an On-Market Married Transaction.
- (2) A Participating Organisations and ATS Operators must enter orders into the order book in the ATS correctly and accurately, particularly in relation to the stock code, price and volume of the orders.
- (3) A Participating Organisation must ensure that all trades executed and matched in accordance with Rule ~~7801.8~~ are delivered and settled in accordance with Chapter ~~8-9~~ of these Rules.

**Comment [B18]:** Depends on the front end system, so this is not right for DMA orders.

**Comment [B19]:** This provision on creation of misleading impression of market activity is merged into Rule 801.5 (1)(d)(i). As for the provision in relation to the disciplinary action that the Exchange may take against the PO, it is deleted as there is a general power of the Exchange to undertake disciplinary action against the PO for breaches of the rules in Chapter 15.

**RULE 7801.67A** **TYPES OF ORDERS** Types of orders

- (1) ~~The following types of orders may be entered by Participating Organisations into the order book in the ATS-~~
- (a) ~~market orders; and~~

(b) ~~limit orders. The types of orders that may be entered by Participating Organisations into the ATS will be as prescribed by the Exchange.~~

**Comment [B20]:** Types of orders will be prescribed in the PO's Trading Manual.

(2) ~~Market Orders~~

(a) ~~A market order shall be matched at the best available prices until all quantity of the market order has been matched.~~

(b) ~~A Participant Organisations may enter market orders during the pre-opening, pre-closing and the main trading phases.~~

(3) ~~Limit Orders~~

(a) ~~A limit order is an order which stipulates a maximum buy price or minimum sell price ("the Stipulated Price"). Limit orders shall be matched at the Stipulated Price or at a price better than the Stipulated Price.~~

(b) ~~Participating Organisations may enter limit orders during the pre-opening, pre-closing, the main trading and trading-at-last phases.~~

**RULE 7801.7B87** ~~VALIDITY CONDITION~~ Validity condition

(1) ~~Subject to the provisions of these Rules, any order entered into the order book in the ATS for each trading session shall be valid for that trading session only. The Exchange will prescribe the duration for which any orders entered into the system remain valid ("Validity Condition"). The Participating Organisation must specify the Validity Condition when entering any order into the ATS.~~

**RULE 7801.898** ~~ORDER MATCHING~~ Order matching

(1) ~~**Eligibility:** Unless otherwise determined by the Exchange, each orders for securities listed on the Official Lists entered into the ATS during trading hours as prescribed under Rule 701.5 shall be considered for a possible match in accordance with Rule 701.5A. The provisions of Rule 601.2 shall apply to all orders matched and executed in the ATS, in accordance with this Rule notwithstanding that the matching and execution of the orders take place after trading hours. Orders will be matched based on the matching algorithm prescribed by the Exchange.~~

(2) ~~**Matching:** All orders entered into the ATS and matched in accordance with the provisions stipulated in Chapter 7 Rule 801.8(1) shall be deemed executed except in the following circumstances:-~~

(a) ~~whereif~~ the matching of the orders results in a breach of the price limits referred to in Rule 7801.11; and

(b) in any other circumstances ~~prescribed~~ stipulated in these Rules, ~~or d~~ Directives, ~~or guidelines issued by the Exchange from time to time.~~

(3) ~~A Participating Organisation is deemed to have entered into a firm and binding contract once the orders are matched and executed in ATS in accordance with Rule 801.8(1) ("Contract"). The Contract can only be cancelled in circumstances provided under Rule 801.8(65).~~

**Comment [B21]:** Inserted to stipulate the principle that a PO have entered into a firm and binding contract once the orders are matched and executed in the ATS.

(3) ~~Matching priority to the order book in the during the main trading phase:~~

(a) ~~All orders shall be matched in priority of price and then time.~~

(b) ~~Market orders shall have priority over limit orders.~~

(c) — Price/Time priority:

- (i) — ~~best price: A buy order at the highest price (“best buy price”) and a sell order at the lowest price (“best sell price”) has priority over other orders entered for the same securities; and~~
- (ii) — ~~earliest time stamp: Each order receives a time stamp upon entry into the ATS. In the event that there are competing orders, or identical prices entered for the orders, the orders are matched in the order of time in which the orders are entered into the ATS. The time stamp given to an order entered into the ATS shall be changed in any of the following circumstances:-~~
  - (aa) — ~~where the quantity of the order is increased; or~~
  - (bb) — ~~where a change is made to the price of the order.~~

(54) — A Participating Organisation is prohibited from amending a Contract if:

- (a) the amendments are on particulars other than the Securities Account number;
- (b) the amendments are not as a result of an error;
- (c) the amendments result in a change of the original party who placed the order and for whom the order was supposed to be executed for, if it is not for the error; and
- (d) the amendments are made later than the time determined by the Exchange.

Comment [B22]: New rule on contract amendments Rule 601.2(3) is deleted.

(265) — Cancellation of a contract

~~(a) Without prejudice to the powers of the Exchange under Rule 601.2(2)(b), Rule 701.7(1)(d) and Rule 701.11, all orders, however entered and executed in the ATS shall not be subject to any cancellation and shall be binding on Participating Organisations~~

~~(ba)~~ The Exchange may cancel any eContract ~~executed in the ATS~~ in the following circumstances:-

- (i) ~~Whereif~~ in the opinion of the Exchange, the eContract executed in the ATS is in violation of these ~~se~~ Rules ~~and~~or the Securities Laws;
- (ii) ~~the Exchange may, subsequent to the contract being executed in the ATS and upon an application being made by a Participating Organisation to itthe Exchange in its absolute discretion to~~ cancel such a eContract where :-
  - (aa) both the delivery and settlement ~~relating to~~ of such eContract have not been effected ~~;~~ and
  - (bb) ~~such cancellation is agreed to by the~~ buying and selling Participating Organisations and their respective ~~client~~Clients ~~agreed to the cancellation~~;

~~and~~

(iii) erroneous execution of eContracts in the ATS arising from:-

- (aa) system failure or malfunction in the ATS; or
  - (bb) a mistake by the Exchange
- in accordance with Rule ~~601.2A~~ 801.9 below.;

- (iv) erroneous execution of eContracts in the ATS arising from a mistake by a Participating Organisation in entering orders in the ATS as provided in Rule ~~604.2B~~ 7801.10.

~~(eb)~~ Any cancellation of eContracts cancelled in accordance with Rule 7801.8(5)(a) executed in the ATS in accordance with Rule 604.2(2)(b) is irrevocable.

**Comment [B23]:** Amended to clarify that cancellation of contract is not revoked by actions taken by the Exchange under the review process.

~~(ec)~~ ~~Where~~If a Participating Organisation is not satisfied with the cancellation made pursuant to Rule ~~604.2(2)(b)~~7801.8(5)(a), the Participating Organisation may apply to the Exchange for a review of the ~~cancelled contract~~cancellation. The application for review must be made on the same mMarket eDay of the cancellation of the eContract. ~~Without prejudice to the rights of the Exchange under these Rules and the law, the Exchange may take any action it deems fit arising from the review.~~

~~(d)~~ Without prejudice to the rights of the Exchange under these Rules and the law, the Exchange may take any action it deems fit arising from the review in Rule 7801.8(5)(c) other than revoking the cancellation done.

**Comment [B24]:** Rule 601.2(2)(d) is moved and amended here to clarify that the powers of the Exchange to review the cancellation does not prejudice its rights under these Rules and the law, and that any actions taken by the Exchange arising from the review would not include reversing the cancellation done.

**~~RULE 601.2A~~7801.109 SYSTEM FAILURE OR MALFUNCTION OR MISTAKES BY THE EXCHANGE**  
**System failure or malfunction or mistakes by the Exchange**

- (1) For the purpose of this Rule ~~67~~801.2A109 a mistake by the Exchange refers to a mistake in the entries made by the Exchange in the ATS.
- (2) ~~Where~~If a system failure or malfunction in the ATS or a mistake by the Exchange has resulted in erroneous execution of eContracts in the ATS, the following will apply:-
  - (a) the Exchange will immediately notify the market of the system failure or malfunction in the ATS or the mistake by the Exchange; and
  - (b) the Exchange may ~~interrupt or forbid suspend~~ trading on the ATS ~~or take any other action the Exchange deems fit in accordance with Rule 701.5B(2)(a)~~7801.43.
- (3) The Exchange may cancel the eContracts erroneously executed arising from the system failure or malfunction in the ATS or a mistake by the Exchange if the Exchange is satisfied that it is in the interest of an ~~fair and~~ orderly ~~and fair~~ market, ~~for the contract to be cancelled.~~
- (4) The cancellation of ~~the~~ eContracts pursuant to Rule ~~601~~7801.2A109 (3) ~~above~~ will be effected on the ~~same~~ day ~~on which that~~ the system failure or malfunction in the ATS or the mistake by the Exchange occurred.
- (5) If the Exchange cancels ~~the~~ eContracts pursuant to Rule ~~601~~7801.2A 109(3) ~~above~~:-
  - (a) the Exchange will immediately notify the market of the details of ~~these~~ eContracts and the reasons for the cancellation; and
  - (b) where trading has been ~~interrupted or forbidden~~ suspended, ~~it~~trading will be resumed after the system failure or malfunction in the ATS or the mistake by the Exchange has been rectified.

**~~7801.1011~~10 MISTAKES BY THE PARTICIPATING ORGANISATION**  
**Mistakes by the Participating Organisation**

- (1) A mistake by a Participating Organisation refers to a mistake ~~made by an ATS Operator of the Participating Organisation on the~~ in price of an order for board lot(s) entered into the ATS during the main trading phase.
- (2) A Participating Organisation may only apply to the Exchange to cancel a eContract executed arising from a mistake by the Participating Organisation if:-
  - (a) the price at which the eContract was executed falls outside the No Cancellation Range;

**Comment [B25]:** Deleted as with the introduction of DMA, the keying in is not restricted to ATS Operator only.

(b) the Participating Organisation ~~which entered the order resulting in the erroneous contract~~ makes the request to the Exchange to cancel the eContract within 15 minutes of the execution of the eContract; and

~~(c) The potential Trading Loss if the trade is not cancelled is at least RM10,000.00; and~~

~~(d) the order entered is a limit order.~~

**Comment [B26]:** This is inserted to clarify that the application of this rule is only to limit orders.

- (3) Once a request has been made to the Exchange to cancel a eContract executed resulting from a mistake by a Participating Organisation pursuant to Rule ~~604.2B(2)~~801.4410 (2), the following procedures will apply:-
- (a) the Exchange will immediately notify the counterparty Participating Organisation of the eContract of the request; and
  - (b) the Exchange will immediately notify the market of the request and the details of the eContract in relation to which the request for cancellation has been made.
- (4) The Exchange may cancel the eContract specifically requested by the Participating Organisation for cancellation and any other eContracts that may have been executed arising from the erroneous eContract executed by the Participating Organisation if:-
- (a) the Exchange is satisfied that it is in the interest of an orderly and fair market for the eContracts to be cancelled ; and
  - (b) the relevant Participating Organisation complies with all other requirements that may be imposed by the Exchange for the cancellation of the eContracts.
- (5) The cancellation of eContracts pursuant to Rule ~~604.2B7~~801.4410 (4) will be effected on the day on which the eContracts were executed.
- (6) If the Exchange cancels eContracts pursuant to Rule ~~604.2B7~~801.4410 (5) ~~above~~:-
- (a) the Exchange will immediately notify the counterparty Participating Organisation of its decision ; and
  - (b) the Exchange will immediately notify the market of its decision and the details of the eContracts which will be cancelled.
- (7) The Exchange is not precluded from taking action against ~~the~~ Participating Organisation ~~and/or~~ the ATS Operator for the breach of Rule ~~7801.765(2)~~ ~~even if although~~ the eContract has been cancelled under this Rule.
- (8) The Exchange may instead of cancelling the eContract upon a request being made under ~~Rule 604.2B7~~801.4410 (2), take any other action it deems fit in lieu of cancellation.

**RULE 701.9 — CONNECTIONS TO ATS**

- ~~(1) **Prohibition:** No Participating Organisation shallis permitted, without the prior written approval of the Exchange, to~~
- ~~(a) establish or permit the establishment of any form of electronic system capable of routing orders directly from its clients into SCORE or any other part of the ATS except as permitted under Rule 701A;~~
  - ~~(b) without the prior approval of the Exchange connect or cause to be connected to~~
    - ~~(i) the ATS or any part thereof (whether directly or indirectly) any device, equipment or facilities for any purpose whatsoever; or~~

**Comment [B27]:** This rules has been moved to chapter 7.



~~(ii) any device, equipment or facilities which have been approved by the Exchange to be connected to the ATS or any part thereof, any additional device, equipment or facilities.~~

~~(2) **Conditions of approval:** In giving its approval under Rule 701.9(1), the Exchange may impose such terms and conditions and or issue such directives as it considers appropriate. Any breach of the terms and conditions imposed by the Exchange or the directives issued under this Rule shall be treated as a violation of these Rules.~~

**Comment [B28]:** Deleted as the Exchange has the general power in Chapter 2 to do so.

~~(3) **System audit:**~~

~~(a) The Participating Organisation shall undergo an annual system audit which shall be conducted by its internal audit department or a firm of public accountants and a report in respect thereof shall be submitted to the Exchange.~~

**Comment [B29]:** Deleted as the areas to be covered for internal audit and audit functions to be performed by PO are stated in chapter 6. Under chapter 13, the exchange has the power to do surprise audit.

~~(b) Notwithstanding Rule 701.9(3)(a), the Exchange may, as it deems fit, at any time and from time to time conduct or cause to be conducted a surprise system audit of any approved electronic system, device, equipment or facilities belonging to or used by any Participating Organisation. All costs or expenses incurred by the Exchange in conducting the surprise audit shall be borne equally between the Exchange and the Participating Organisation.~~

**Comment [B30]:** Deleted as the areas to be covered for internal audit and audit functions to be performed by PO are covered under chapter 6.

**Comment [B31]:** Deleted as the power to conduct a surprise system audit on a PO is covered under chapter 13.

~~(c) In the event the report submitted to the Exchange pursuant to a system audit conducted under Rule 701.9(3)(a) or Rule 701.9(3)(b) contains any adverse findings, the Participating Organisation concerned shall immediately upon receipt of such report take such remedial measures as may be necessary to remedy or overcome such adverse findings within such period as may be specified or allowed by the Exchange. Failure of the Participating Organisation to take such remedial measures within the period specified or allowed by the Exchange shall be treated as a serious violation of these Rules.~~

**Comment [B32]:** Deleted as the requirements for audits and findings arising from audits are covered under chapter 6.

~~(4) **Supervision:** Every Participating Organisation which has been given approval by the Exchange under this Rule 701.9 shall at all times exercise strict supervision over the usage and operation of the electronic system, device, equipment or facilities so as to ensure that their usage and operation do not contravene any Securities Laws, these Rules or any licence or permit issued to it by the relevant authorities.~~

**Comment [B33]:** Deleted as a general principle is incorporated in Chapter 5 which provides that a PO must have adequate and effective written policies and procedures and internal controls to supervise the Participating Organisation's business activities and to achieve compliance with the with these Rules, the Directives and Securities Laws.

~~(5) **Revocation/suspension of approval:** Notwithstanding any approval given by it under this Rule 701.9, the Exchange may at any time revoke or suspend such approval if, in its sole opinion, the usage and operation of any approved electronic system, device, equipment or facilities by any Participating Organisation affects or is likely to affect the performance, security or integrity of the ATS.~~

**Comment [B34]:** Deleted as a general principle is incorporated in Chapter 2 which provides that the Exchange may impose, amend, vary, add or modify the terms and conditions of the approval granted to the PO or registered persons after the approval was granted.

~~(6) **Trained personnel:** A Participating Organisation shall at all times ensure that no person other than a trained personnel is authorised to operate any approved electronic system, device, equipment or facilities.~~

**Comment [B35]:** Deleted as there is a principle in Chapter 5 that states that the Person(s) of PO must be fit and proper persons with regard to the position and responsibility that they hold.

**RULE 701.10 TRADE CONFIRMATION**

~~(1) Where a trade confirmation is generated by the Participating Organisation's front end system, it is the responsibility of the Participating Organisation to check the details of the orders matched as stated in the trade confirmation as against the records of the Exchange. The records maintained by the Exchange will however prevail over all other records, as evidence of all contracts matched in the ATS.~~

**Comment [B36]:** This rule is moved to and amended in chapter 7 as Rule 701.1(6).

**RULE 7~~01.12~~ 111 TRADING SAFEGUARDS** Price limits

(1) **Price limits for board lots**

- (a) ~~If a Participating Organisation enters O~~orders for board lots entered at a price above the Upper Limit Price or below the Lower Limit Price, ~~the orders shall will~~ not be accepted by the ATS.
- (b) ~~In the event if~~ a matching of an order for board lots in the ATS results in a breach of the Upper Limit Price or Lower Limit Price, the Exchange ~~may shall specify the s~~Securities in respect of the order as 'frozen' in accordance with Rule 7801.5B4(35)(c)(iv). ~~The Exchange may thereafter take any action it deems appropriate, which may include but is not limited to, the cancellation of~~canceling the relevant order.
- (c) The Exchange may ~~from time to time~~change the Upper Limit Price and the Lower Limit Price. ~~of securities.~~
- (d) ~~Where~~if an Upper Limit Price or Lower Limit Price ~~as the case may be~~ is reached in a trading session of a ~~m~~Market ~~d~~Day and is followed by another Upper Limit Price or Lower Limit Price in the next trading session on the same ~~m~~Market ~~d~~Day or the next ~~m~~Market ~~d~~Day ~~as the case may be~~, the Exchange ~~shall will maintain~~may use ~~the trading price for the following trading session or sessions at the Last Done Price of the previous trading session ("the said Last Done Price") for such period as specified by the Exchange~~ the Upper Limit Price or the Lower Limit Price ~~as the case may be of the last trading session as the Upper Limit Price or the Lower Limit Price for the next trading session.~~

Comment [B37]: The details of the possible action that may be taken will be in the Trading Manual.

(2) **Price limits for odd lots**

- (a) ~~If a Participating Organisation enters O~~orders for ~~e~~Odd ~~l~~Lots entered at a price above the Upper Limit Price or below the Lower Limit Price for ~~b~~Board ~~l~~Lots as ~~prescribed~~stipulated in Rule 7801.1214 (1)(a), ~~the orders shall will~~ not be accepted by the ATS.
- (b) In the event a matching of an order for ~~e~~Odd ~~l~~Lots in the ATS results in a breach of the Upper Limit Price or Lower Limit Price, the Exchange ~~may take any action it deems fit, shall specify the s~~Securities in respect of the order as 'frozen' in accordance with Rule 7801.5B4(35)(c)(iv). ~~The Exchange may thereafter take any action it deems appropriate including cancelling the relevant order.~~
- (c) ~~If~~ the trading price for ~~b~~Board ~~l~~Lots of a particular ~~s~~Securities has been maintained at the ~~said Last Done Price, Upper Limit Price or the Lower Limit Price~~ pursuant to Rule 7801.11 (1) (d), ~~then~~ the trading price for ~~e~~Odd lots of that ~~s~~Securities will ~~also~~ be maintained at the said ~~price Last Done Price~~ for the following trading session or sessions for such period as specified by the Exchange.

Comment [B38]: The details of the possible action will be in the Trading Manual.

~~Rules 701.8A801.1312~~ **ON-MARKET MARRIED TRANSACTION** ~~On-Market Married Transaction~~

- (1) A Participating Organisation must comply with the following conditions when executing an On-Market Married Transaction:
  - (a) must only allow buy and sell orders from within the same branch of the same Participating Organisation to be matched;
  - (b) both the buy and sell orders must be entered into the ATS by the same Dealer's Representative;
  - (c) must only execute the On-Market Married Transaction during ~~trading phases specified by the Exchange~~the main trading phase or the trading at last phase;
  - (d) must only enter limit orders for On-Market Married Transaction;

Comment [B39]: The details will be in the Trading Manual since the details of trading phases are removed from the rules and inserted into the Trading Manual.

- (e) must not execute the On-Market Married Transaction for Regulated Short Selling (~~as defined in Rule 704~~), Permitted Short Selling (~~as defined in Rule 301A~~) and Day Trading;
  - (f) must not execute the On-Market Married Transaction in ~~e~~Odd lots; and
  - (g) may amend and request for the cancellation of the On-Market Married Transaction in accordance with Rule ~~704.2801.8~~701.2801.8
- (2) Price Limits An On-Market Transaction must be executed within the price limits determined by the Exchange.
- ~~(a) If an On-Market Married Transaction is executed during the main trading phase, a Participating Organisation must effect the On-Market Married Transaction based on the following price:~~
    - ~~(i) at or within the bBest bBuy pPrice and the bBest sSell pPrice in the ATS at the time of execution;~~
    - ~~(ii) if there is no bBest bBuy pPrice, at or within the Lower Limit Price and the bBest sSell pPrice in the ATS at the time of execution;~~
    - ~~(iii) if there is no bBest sSell pPrice, at or within the bBest bBuy pPrice in the ATS at the time of execution and the Upper Limit Price; or~~
    - ~~(iv) if there is no bBest bBuy pPrice and no bBest sSell pPrice, at or within the Lower Limit Price and Upper Limit Price~~
  - ~~(b) If an On-Market Transaction is executed during the trading at last phase, a Participating Organisation must effect the On-Market Married Transaction at the eClosing pPrice.~~

**Comment [B40]:** The details of the price at which On-Market Married Transaction will be executed will be in the Trading Manual.

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**RULE 802 DIRECT MARKET ACCESS ORDER**

**~~RULE 701A.1~~802.1 ~~DMA ORDER~~DMA Order**

- (1) For the purpose of this Rule ~~701A~~802, “DMA Order” means a Direct Market Access order.

**~~RULE 701A.2~~802.2 ~~GENERAL~~General**

- (1) A Participating Organisation may provide Direct Market Access if:
- (a) the Direct Market Access is effected through a DMA Infrastructure which complies with the terms stipulated by the Exchange; and
  - (b) the Direct Market Access is only provided to persons who comply with the requirements stipulated in Rule ~~701A~~802.4.
- (2) For the avoidance of doubt, other than the provisions in this Rule ~~701A~~802, all other provisions in these Rules will also apply to Participating Organisations and Registered Persons when providing Direct Market Access.
- (3) Direct Market Access must only be made available for execution of ~~eOn-m~~Market ~~tr~~ansactions and not Direct Business Transactions.

**~~RULE 701A.3~~802.3 ~~DMA INFRASTRUCTURE~~DMA Infrastructure**

- (1) A Participating Organisation must send all DMA Orders through the DMA Infrastructure in the manner determined by the Exchange.
- (2) A Participating Organisation must obtain the approval of the Exchange prior to the establishment of the DMA Infrastructure or effecting any change to the DMA Infrastructure after the commencement of the operation of the DMA Infrastructure, unless determined otherwise by the Exchange.
- (3) A Participating Organisation must submit to the Exchange at least ~~two (2) m~~Market ~~d~~Days prior to the commencement of the operation of the DMA Infrastructure or prior to effecting any changes to the DMA Infrastructure, a written confirmation that the DMA Infrastructure and all the requirements in relation to the functionalities, connectivity, operation and security requirements of the DMA Infrastructure comply with these Rules, ~~unless determined otherwise by the Exchange.~~
- (4) Even if a Participating Organisation has complied with the requirements in Rules ~~701A~~802.3(2) and (3) above, it is the responsibility of the Participating Organisation to have all other controls and measures in place to comply with all the relevant provisions in these Rules.
- (5) A Participating Organisation ~~must assume full responsibility~~ is at all times responsible for the use of the DMA Infrastructure.

**~~RULE 701A.4~~802.4 ~~CLIENTS~~Clients**

- (1) A Participating Organisation must only make Direct Market Access available to a ~~client~~Client and the persons authorised by the ~~client~~Client to act on behalf of the ~~client~~Client ~~in accordance with Rule 404.3(6)(b)~~ who fulfill the following requirements:

Comment [B41]: Deleted as this provisions is now in a directive.

- (a) having knowledge of the process of entering DMA Orders through the DMA Infrastructure;
  - (b) having knowledge of the requirements in these Rules in relation to trading on the ~~Market~~stock market of the Exchange; and
  - (c) having knowledge of the relevant laws pertaining to trading on the ~~Market~~stock market of the Exchange.
- (2) A Participating Organisation must execute a written agreement with the ~~client~~Clients to whom ~~it~~the Participating Organisation intends to provide Direct Market Access to and the agreement must address the following areas:
- (a) the duties, obligations and rights of the Participating Organisation and ~~its client~~Clients in relation to the Direct Market Access; and
  - (b) the ~~client~~Clients' compliance with these ~~se~~Rules.

**~~RULE 701A.5~~802.5     ~~DMA ORDERS~~DMA Orders**

- (1) For the avoidance of doubt, the following Rules are applicable to all DMA Orders:
- (a) the Participating Organisation is deemed to be the principal in relation to all trades effected through Direct Market Access and the Exchange will not recognise the interest of any third party; and
  - (b) all DMA Orders are deemed as orders submitted for execution in the ATS by a Dealer's Representative on behalf of a ~~client~~Client.

**~~RULE 701A.6~~802.6     ~~ACTIONS BY THE EXCHANGE~~Actions by the Exchange**

- (1) The Exchange may, at its absolute discretion and without notice automatically take any of the actions enumerated in Rule ~~701A~~802.6(2) where:
- (a) there is a breach or likelihood of breach of any provisions in Rule ~~701A~~802; and/or
  - (b) there is a commission or likelihood of a commission of any of the offences under the Capital Markets and Services Act.
- (2) Pursuant to Rule ~~701A~~802.6(1), the following actions may be taken by the Exchange:
- (a) suspend or ~~cease~~terminate the provision of Direct Market Access by a Participating Organisation; and/or
  - (b) to direct a Participating Organisation to suspend or cease the provision of Direct Market Access by the Participating Organisation to any one or more of the ~~client~~Clients and the persons authorised by the ~~client~~Clients.

**~~RULE 802.7~~     ~~EFFECT OF ACTION TAKEN BY THE EXCHANGE~~**

- ~~(1) In the event that the Exchange undertakes any of the actions under Rule ~~701A~~802.6(2) against the persons referred to in Rule ~~701A~~802.4, such actions will also apply to any person who is the proxy, agent, nominee or persons acting in concert with such persons.~~
- ~~(2) Where an action has been taken under Rule ~~701A~~802.6(2), a Participating Organisation 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 cannot be construed as an omission or error of any kind on the part of the Exchange in undertaking the action under Rule ~~701A~~802.6(2) in the first place.~~

Comment [B42]: Deleted as this provision is reflected in Rule 201.6.

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~~**RULE 702**~~ ~~**TRANSACTIONS BY EMPLOYEES,  
COMMISSIONED DEALER'S  
REPRESENTATIVES  
AND DIRECTORS**~~

Comment [B43]: This rule is moved to and incorporated into chapter 7 i.e. Rule 707).

~~**RULE 702.1**~~

~~[Deleted]~~

~~**RULE 702.2**~~ ~~**TRANSACTIONS BY EMPLOYEES AND COMMISSIONED DEALER'S REPRESENTATIVES**~~

- ~~(1) — **Restrictions:** No employee or Commissioned Dealer's Representative may open a trading account other than with the Participating Organisation by whom he is employed or engaged.~~
- ~~(2) — **Authorisation:** A Dealer's Representative shall not place an order on behalf of an employee or Commissioned Dealer's Representative of the Participating Organisation to whom the Dealer's Representative is attached, unless for each transaction the order is first authorised in writing by a director of the Participating Organisation.~~
- ~~(3) — **Director's Consent:**~~
- ~~(a) — No business shall be transacted by a Participating Organisation on account of its employees or Commissioned Dealer's Representatives except with the prior and separate written consent for each transaction from a director of the Participating Organisation, provided always that no such consent shall be given unless the director is satisfied that the said transaction does not in any way conflict with the interests of the clients of his Participating Organisation. All transactions executed on account of its employees and Commissioned Dealer's Representatives shall be subject to strict supervision and control by the Participating Organisation.~~
- ~~(a) — Notwithstanding the foregoing Rule, the board of directors of the Participating Organisation may resolve to authorise the Head of Branch Office or any other employee(s) to grant consent for and on behalf of the designated director abovestated in respect of the business transacted on account of the employees and Commissioned Dealer's Representatives of the branch office concerned or the principal office, as the case may be, on the same grounds therein **Provided Always:**~~
- ~~(i) — the board of directors has developed and maintains internal controls and mechanisms to monitor the business transacted for and on behalf of the Participating Organisation's employees and Commissioned Dealer's Representatives, including without limitation:~~
- ~~(aa) — ratification by the board of directors or designated director aforesaid, as the case may be, of the employees' and Commissioned Dealer's Representatives' trades approved by the Head of Branch Office and any other employee(s); and~~
- ~~(bb) — the restrictions and prohibitions envisaged in Rule 508; and~~

~~(ii) — internal policies and controls for avoidance of insider dealing,~~

~~which ensure that there are no situations of conflict of interest, actual or potential.~~

~~(c) — In the circumstance of the foregoing Rule where the board of directors of the Participating Organisation has resolved to authorise the Head of Branch or any other employee(s) as provided above to consent to employees' and Commissioned Dealer's Representatives' transactions, the transactions of the Head of Branch Office or the said employee(s), as the case may be, shall nevertheless be subject to the prior and separate written consent of the director designated pursuant to Rule 702.2(3)(a) as envisaged therein.~~

~~(4) — **Designated Dealer's Representative:** — Every Participating Organisation shall identify and designate a Dealer's Representative to undertake transactions by all its employees and its Commissioned Dealer's Representatives.~~

~~(5) — **Brokerage:** — Brokerage payable by employees and Commissioned Dealer's Representatives shall be as provided in Rule 1001.1(8)(b).~~

~~(6) — **Monitoring:** — Every Participating Organisation shall maintain proper records on all its employees' accounts and ensure that all such accounts are subject to active monitoring by its Compliance Officer.~~

#### **RULE 702.3 — TRANSACTIONS BY DIRECTORS**

~~(1) — **Restriction:** — No director of a Participating Organisation shall undertake any trading in securities for his own account and/or an account in which such a director has an interest either direct or indirect except with the prior written consent from the board of directors of the Participating Organisation provided always that no such consent shall be given unless the board of directors is satisfied that the said transaction does not in any way conflict with the interests of the clients of that Participating Organisation. All transactions executed on account of its directors shall be subject to strict supervision and control by the Participating Organisation.~~

~~(2) — **Board of Director's Resolution:** — For the purpose of consent, the board of directors may resolve to authorise any of its director(s) or any other employee(s) to grant consent for and on its behalf. Notwithstanding such resolution the board of directors shall still be responsible and liable for all actions of the director(s) and any other employee(s) so authorised.~~

~~(3) — **Records:** — The Participating Organisation shall keep proper records of all written consents from the board of directors referred to in Rule 702.3(1) in respect of each transaction executed on account of its directors, to be made available to the Exchange for inspection forthwith upon request from the Exchange.~~

#### **RULE 702.4 — DISCLOSURE**

~~(1) — All transactions undertaken by an employee, a Commissioned Dealer's Representative and a director shall be disclosed to the Participating Organisation and the onus of such disclosure is on the employee, Commissioned Dealer's Representative or the director concerned.~~

#### **RULE 702.5 — SANCTIONS**

~~(1) — Violation of any of the provisions under this Rule 702 may result in suspension and/or fine or expulsion of the Dealer's Representative, or the director of the Participating Organisation concerned, or both of them. Where the employee concerned has violated provisions under this Rule 702, the Exchange may after~~



~~due investigation recommend appropriate action to be taken by the Participating Organisation or refer such violation to an appropriate authority.~~

**RULE 702.6 — DEFINITION**

~~(1) For the purposes of this Rule 702, the words “transaction” or “trade” whenever appearing shall mean—~~

~~(a) any of the permitted dealings under Rule 601.3; and~~

~~(b) trades executed on the futures market maintained by the exchange company.~~

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~~RULE 703 – FINANCING~~

**Comment [B44]:** This rule 703 is moved to and incorporated into chapter 7 i.e. Rule 708.

~~RULE 703.1 – DEFINITIONS~~

~~(1) For the purposes of this Rule 703–~~

<del>Equity</del>	<del>means the sum of margin and securities purchased and carried in client's margin account.</del>
<del>Effective Shareholders' Funds</del>	<del>means effective shareholders funds as defined under Rule 1105.1.</del>
<del>Last Done Price</del>	<del>means in relation to securities, the last traded price of the securities on the preceding market day, and if there was no trading on that day, the last traded price of the securities on the last trading day for that securities, prior to the preceding market day.</del>
<del>Margin</del>	<del>means the aggregate amount of cash and collateral deposited into a client's margin account but excludes securities which are purchased and carried in his margin account.</del>
<del>outstanding balance</del>	<del>means the amount owed by a client in his margin account arising from his transactions in securities, including all commission charges, interest, expenses and all other related expenses before deducting any cash deposited by him as margin.</del>

~~RULE 703.2 – TYPES OF FINANCING ALLOWED AND PRE-REQUISITE~~

~~(1) Subject to Rule 703.2(2) below, Participating Organisations may provide the following types of financing to its clients as an approved business activity–~~

- ~~(a) margin financing, subject to adherence to this Rule 703; and~~
- ~~(b) any other type of financing for the purpose of subscription and purchase of securities, other than margin financing, as determined by the Exchange in consultation with the Commission, subject to any terms and conditions as may be prescribed by the Exchange. For the avoidance of doubt, the securities referred to herein refer to–~~
  - ~~(i) the new issue of securities in respect of an unlisted company for the purpose of qualifying the company for official listing on the Exchange; and~~
  - ~~(ii) the securities issued or to be issued by a company that is listed on the Exchange.~~

~~(2) Without prejudice to Rule 503.1(5) in respect of an Investment Bank, no Participating Organisation may provide any other types of financing other than that stipulated in Rule 703.2(1) above.~~

~~RULE 703.3 – PURPOSE AND PERIOD~~

- ~~(1) Subject to the provisions of this Rule 703, a Participating Organisation may extend margin financing to its clients for the following purpose—~~
- ~~(a) subscription and purchase of any new issue of securities in respect of an unlisted company for the purpose of qualifying the company for official listing on the Exchange;~~
  - ~~(b) subscription and purchase of any securities issued or to be issued by a company that is listed on the Exchange; and/or~~
  - ~~(c) redemption of all or any outstanding balance in margin accounts of clients held with other Participating Organisations and/or persons or entities approved or licensed to provide margin financing under any written law in Malaysia and the subsequent transfers of the margin accounts to the Participating Organisation.~~
- ~~(2) [Deleted]~~
- ~~(3) A Participating Organisation may extend margin financing to its clients for the purpose stipulated under Rule 703.3(1) for a period of three (3) months only, with rollover, if necessary.~~

#### **RULE 703.4 — LIMIT OF OUTSTANDING BALANCES**

- ~~(1) The aggregate outstanding balances in the margin accounts maintained by all clients of a Participating Organisation shall not exceed two hundred percent (200%) of the Effective Shareholders' Funds of the Participating Organisation.~~

#### **RULE 703.5 — SINGLE CLIENT RULE**

- ~~(1) **Limit of credit:** The amount of margin financing that a Participating Organisation may extend to any single client shall not be more than twenty per cent (20%) of its Effective Shareholders' Funds.~~
- ~~(2) **Single client:** For the purposes of this Rule 703.5, in computing the total amount of margin financing given to any single client the term "single client" is defined as follows—~~
- ~~(a) Where such single client is an individual, any margin financing given to the individual, spouse of the individual, the partnership of which he is a partner, any partner of the individual, the spouse of the partner and all the companies or corporations over which the individual exercises control, shall be deemed to be margin financing extended to a single client. For the purpose of this paragraph (a), an individual is deemed to exercise "control" over a company or corporation if the individual or the individual's spouse, severally or jointly—~~
    - ~~(i) holds, directly or indirectly, more than fifty per cent (50%) of the shares of the company or corporation;~~
    - ~~(ii) has the power to appoint, or cause to be appointed, a majority of the directors of the company or corporation; or~~
    - ~~(iii) has the power to make, or cause to be made, decisions in respect of the business or administration of the company or corporation, and to give effect to such decisions, or cause them to be given effect to.~~
  - ~~(b) Where such single client is a company or corporation, any margin financing extended to the company or corporation, its related company or corporation and its associated companies shall be deemed to be margin~~

~~financing extended to a single client. For the purpose of this paragraph (b), a "related company or corporation" shall have the meaning as defined by section 6 of the Companies Act.~~

- (3) ~~**Associated company:** A company is deemed to be an associated company of a corporation where the corporation holds, directly or indirectly, not less than twenty per cent (20%) and not more than fifty per cent (50%) of the issued share capital of such company.~~

#### **RULE 703.6 — RESTRICTIONS**

~~(1) No Participating Organisation shall extend margin financing to the following persons—~~

- ~~(a) any of its directors, employees or Commissioned Dealer's Representatives;~~
- ~~(b) any firm in which any of its directors, employees or Commissioned Dealer's Representative is interested as a partner, manager, guarantor or agent other than as a stockbroking agent;~~
- ~~(c) any corporation in which any of its directors, employees or Commissioned Dealer's Representatives is interested as a director, manager, guarantor or agent other than as a stockbroking agent;~~
- ~~(d) any corporation in which any of its directors, employees or Commissioned Dealer's Representatives holds shares save and except—~~
- ~~(i) where none of its executive directors, employees or Commissioned Dealer's Representatives holds five per cent (5%) or more of the issued share capital of that corporation;~~
- ~~(ii) in respect of any corporation, whether listed or not listed on the Exchange where no non-executive director of the Participating Organisation holds, directly or indirectly five per cent (5%) or more of the issued share capital of that corporation;~~
- ~~(iii) in respect of a corporation not listed on the Exchange, where no non-executive director of a Participating Organisations holds shares in his personal capacity;~~
- ~~(e) any individual to whom any of its directors, employees or Commissioned Dealer's Representatives has provided a guarantee;~~
- ~~(f) any person who is prohibited under Section 94(2) of the Capital Markets and Services Act; and~~
- ~~(g) any other person as may be determined by the Minister with prior written notice given to all the Participating Organisations.~~

~~For the purposes of this Rule 703.6, the term "director" and "employee" shall include the spouse, parent and child thereof.~~

#### **RULE 703.7 — VALUATION OF COLLATERALS**

- ~~(1) **Valuation of collateral:** The collateral that a client may deposit into his margin account and the method of valuation thereof shall be limited to the following—~~
- ~~(a) For securities quoted on the Exchange and other recognised stock exchanges, the value shall be based on the Last Done Price of the securities on the preceding market day;~~

- ~~(b) For cash or fixed deposit certificates, the value shall be—
    - ~~(i) in the case of cash or fixed deposit certificates denominated in Ringgit Malaysia, their face value thereof;~~
    - ~~(ii) in the case of cash or fixed deposit certificates denominated in currencies other than in Ringgit Malaysia, the prevailing market exchange rate;~~~~
  - ~~(c) For Malaysian Government securities, Cagamas bonds, Government investment issues and Malaysian Treasury Bills, the value shall be calculated at the Last Done Price as reported to the Central Bank;~~
  - ~~(d) [Deleted];~~
  - ~~(e) For negotiable certificates of deposit and bankers' acceptances issued in Malaysia, the value shall be at the price determined by the issuing banks;~~
  - ~~(f) [Deleted];~~
  - ~~(g) [Deleted]; and~~
  - ~~(h) For guarantees issued by banks, merchant banks or finance companies or standby letters of credit issued by commercial banks or merchant banks, the value shall be their face value thereof.~~
- ~~(2) **Valuation of securities purchased:**— In respect of securities purchased and carried in the margin account, the method of valuation thereof shall be as follows—~~
- ~~(a) For securities purchased through an initial public offering, the value shall be the issue price and for securities purchased through a rights issue, the value shall be the subscription price of the securities.~~
  - ~~(b) For the types of securities stipulated under Rule 703.7(1), the value shall be as stipulated therein.~~
  - ~~(c) For all other types of securities other than that stipulated in Rule 703.7(1), the value shall be zero.~~

**RULE 703.8 CONTROL AND MAINTENANCE OF RECORDS BY PARTICIPATING ORGANISATIONS**

- ~~(1) Every Participating Organisation shall establish and implement internal guidelines and procedures for the granting of credit facilities in relation to any margin account. Such guidelines and procedures shall include—~~
- ~~(a) detailed procedures on the processing of applications for credit facilities by a client, including but not limited to, procedures to ensure compliance with Rule 703.6(1) by the Participating Organisation;~~
  - ~~(b) the criteria to assess the creditworthiness of a client;~~
  - ~~(c) the documentation in respect of credit facilities extended to a client; and~~
  - ~~(d) an effective monitoring system.~~
- ~~(2) Without derogation to the generality of the foregoing provision, when granting credit facilities to a client, every Participating Organisation shall require its client to disclose as to whether the client is a spouse, parent or child of any of its Commissioned Dealer's Representatives in order for the Participating Organisation~~

to, and which it shall, maintain proper records of all margin accounts opened in the name of the Commissioned Dealer's Representatives' spouse, parent and child.

**RULE 703.9 — WRITTEN AGREEMENT**

- (1) ~~Requirement :~~ There shall be a written agreement executed between the Participating Organisation and its client for any margin account.
- (2) ~~Special clauses :~~ The written agreement referred to in Rule 703.9(1) shall contain, inter alia, provisions which authorise the Participating Organisation to:
  - (a) ~~subject to Rule 703.9(3), mortgage, pledge or hypothecate the client's securities for a sum not exceeding the outstanding balance in the margin account and without any obligation to retain in its possession or control securities of like characters;~~
  - (b) ~~use its discretion to sell or dispose of any or all the collateral, in any manner in order to meet the prescribed margin requirements as are specified in Rule 701.10(3).~~
- (3) ~~A Participating Organisation shall not mortgage, pledge, charge, hypothecate or grant security arrangements over a client's securities and collateral unless the aggregate mark to market (as defined in Rule 1105) value of the securities and collateral of that client which are mortgaged, pledged, charged, hypothecated or security arrangements granted shall not at any time exceed the outstanding balance of that client's margin account.~~
- (4) ~~A Participating Organisation may, subject to requirements stipulated in Rule 608, utilise any Eligible Securities (as defined in Rule 608.1) deposited or purchased or carried in a client's margin account for the purpose of securities borrowing and/or lending as envisaged in Rule 608.~~

**RULE 703.10 — MAINTENANCE OF MARGINS**

- (1) ~~Initial margin:~~ An initial margin must be placed by the client with the Participating Organisation not later than three (3) market days following the contract date of the purchases of securities and the amount of margin shall be such that his equity is not less than one hundred fifty per cent (150%) of the outstanding balance in the margin account.
- (2) ~~Topping-up:~~
  - (a) ~~Whenever the equity in a client's margin account falls below one hundred fifty per cent (150%) of the outstanding balance, a Participating Organisation shall immediately request its client to top-up the shortfall so as to bring the equity to not less than one hundred fifty per cent (150%) of the outstanding balance.~~
  - (b) ~~The topping-up of the margin by such client shall be effected within three (3) market days following the date of written notice given by the Participating Organisation. The Participating Organisation shall not permit any new purchases in the margin account unless the resulting equity in the account would be not less than one hundred fifty per cent (150%) of the outstanding balance.~~
- (3) ~~Equity margin:~~ No Participating Organisation shall permit the equity in any client's margin account to fall below one hundred thirty per cent (130%) of the outstanding balance.
- (4) ~~Liquidation of margin account:~~ In the event that the equity in any client's

~~margin account falls below one hundred thirty per cent (130%) of the outstanding balance, the Participating Organisation concerned shall, with or without notice to such client, liquidate his margin account, including the securities purchased and carried in such account, so that the equity is not less than one hundred fifty per cent (150%) of the outstanding balance, unless the Participating Organisation consents to the following—~~

- ~~(a) a request made in writing by the client not to liquidate his margin account; and~~
- ~~(b) a proposal made by the client in writing to settle the outstanding balance upon terms and conditions agreed to by the Participating Organisation,~~

~~in which case, no further margin financing shall be extended to that client.~~

~~(4A) A Participating Organisation may impose a higher equity amount than that prescribed in Rules 703.10(1), 703.10(2), 703.10(3) and 703.10(4) provided that due notice is given to the client.~~

~~(5) **Not to exceed credit limit:**~~

- ~~(a) No Participating Organisation shall extend credit facilities to a client beyond the approved limit that is set out in the written agreement between the Participating Organisation and its client.~~
- ~~(b) In assessing whether the credit facilities exceed the approved limit, the Participating Organisation shall include all charges, rollover fees, interest and other charges incurred by the client for which no actual payment has been made by the client and the charges are debited towards the outstanding balance of the client and financed by the Participating Organisation, until actual payment by the client.~~

~~(6) **Daily review:** Participating Organisations shall review all margin accounts daily to ensure that the margin requirements of this Rule are complied with at all times.~~

~~(7) **Value of equity:** For the purpose of computing the value of equity in a margin account, the securities and other collaterals in such account shall be valued based on the valuation set out in Rule 703.7. All transactions done on the same day shall be combined on a transaction date basis and the total cost of purchase or the net proceeds of sale, including any commission charges, interest expenses and all other related expenses, shall be taken into account for computing margin requirements.~~

~~(8) **Additional margin requirement and haircuts:**~~

- ~~(a) Subject to Rule 703.10(8)(b), a Participating Organisation shall ensure that the internal guidelines and procedures of the Participating Organisation provide for the requirement of additional margin and imposition of haircuts, the amount of which shall be as determined by the Participating Organisation, on any collateral and securities purchased and carried in margin accounts in the event of the occurrence of any of the following—~~
  - ~~(i) unusually rapid or volatile changes in value of the securities;~~
  - ~~(ii) non-existence of active market for the securities;~~
  - ~~(iii) subject to Rule 703.10(8)(b), suspension of the securities from trading on a market; or~~
  - ~~(iv) no possibility of immediate liquidation for the securities.~~

(b) ~~The following haircuts shall be imposed on securities which have been suspended from trading on the relevant market and the haircuts shall be calculated based on the value of the securities at the Last Done Price:~~

<b>Length of suspension</b>	<b>Haircut Percentage</b>
1 to 3 market days	50%
More than 3 market days	100%

(9) ~~**Withdrawal:** A client may only withdraw from his margin account sales proceeds or any part thereof in cash and any collateral for the time being deposited into his margin account provided that the value of the equity in the said margin account does not fall below one hundred fifty per cent (150%) of the outstanding balance.~~

(10) ~~**Variation of margin:** The Exchange shall have the discretion to vary the margin requirements stipulated under Rules 703.10 (1), 703.10 (2) and 703.10 (3).~~

**RULE 703.11 – BASIS OF TRANSACTION**

(1) ~~All securities transactions in a margin account shall be carried out as Ready or Immediate Basis Contract.~~

**RULE 703.12 – MONTHLY RETURNS**

(1) ~~Every Participating Organisation shall submit returns on margin financing extended in relation to margin account –~~

(a) ~~to the Balance of Payments Department, Central Bank, on a monthly basis in accordance with the format prescribed in the Appendix 7 within ten (10) days from the last day of the reporting month;~~

(b) ~~to the Exchange at such time and in accordance with such format as prescribed by the Exchange from time to time.~~

**RULE 78043 REGULATED SHORT SELLING**

**RULE 7041.1 – DEFINITION**



~~(1) For the purposes of this Rule 704: -~~

<del>approved class of securities</del>	<del>means a class of approved securities.</del>
<del>Approved securities</del>	<del>means any of the securities from the class of securities set out below, of an Issuer, which is declared by the Exchange from time to time (“declaration date”) to be included in a class of securities to which Section 98(4)(c) of the Capital Markets and Services Act applies:</del>
	<del>(a) the securities is for the time being admitted to the Official List (“the Securities”);</del>
	<del>(b) the Securities has a daily market capitalisation of Ringgit Malaysia five hundred (500) million for at least three months prior to the declaration date. Market capitalisation means the market value of all the ordinary shares issued by the Issuer and admitted to the Official List;</del>
	<del>(c) the Securities has at least fifty million (50) million in public float prior to the declaration date. ‘Public float’ means securities held in the hands of the public shareholders. ‘Public’ has the same meaning assigned to that expression in the Listing Requirements; and</del>
	<del>(d) the volume of trading for the Securities on a monthly basis on average is at least one (1) million units for twelve (12) months prior to the declaration date.</del>
<del>Authorised SBL Participant</del>	<del>means the Clearing House or an entity approved by the Clearing House, for, the purpose of undertaking securities borrowing and/or lending activities as defined in Rule 608.</del>
<del>Client SBL Agreement</del>	<del>means a written agreement executed between a client and an Authorised SBL Participant in accordance with Rule 608 for the purpose of securities borrowing and/or lending as defined in Rule 608.</del>
<del>Clearing Account</del>	<del>has the same meaning assigned to it in R/R 18 of 2005.</del>
<del>Eligible Securities</del>	<del>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;</del>
<del>Internal Guidelines for Short Selling</del>	<del>means written guidelines formulated by Participating Organisations setting out the Participating Organisations’ internal policies, procedures, controls and requirements in relation to regulated short selling whether for itself or its clients and for the supervision and monitoring of its regulated short selling activities to ensure strict compliance with the laws and these Rules including any regulations, directives, guidelines and rulings issued thereunder in relation to regulated short selling;</del>
<del>net short position</del>	<del>in relation to an approved securities means the quantity of an approved securities short sold on a market day in accordance with Rule 704 but which have yet to be closed off by</del>

**Comment [B45]:** These definitions have been moved to Chapter 1, in line with the consolidation of the definitions in various chapters to Chapter 1.

	<del>subsequent purchases of securities falling within the same class of securities as the approved securities short sold and executed on the same market day that the approved securities was short sold.</del>
Regulated short selling	means the selling of approved securities where the seller does not, at the time of the execution of the sale, have an exercisable and unconditional right to vest such securities in the purchaser but has, prior to the execution of the sale, borrowed the approved securities or obtained confirmation from an Authorised SBL Participant that the Authorised SBL Participant has the approved securities available to lend, pursuant to a SBL Agreement as will enable delivery of the same to be made to the purchaser under the said sale, in accordance with the Rules relating to delivery and settlement in Chapter 8, and "regulated short sale" means the sale relating to the same.
R/R 18 of 2005	means the Participating Organisations' Circular dated 7 October 2005 issued by the Exchange and numbered as R/R 18 of 2005, pertaining to 'Directives For Participating Organisations On the Use of Clearing Account, Error or Mistake Account and Investment Account'.
SBL Agreement	means an agreement executed between two (2) Authorised SBL Participants in accordance with the Clearing House Requirements, for the purpose of securities borrowing and/or lending as defined in Rule 608.
total short position	in relation to an approved securities means the total quantity of an approved securities short sold in accordance with Rule 704.

**RULE 78043.12 GENERAL Regulated short selling**

- (1) A Participating Organisation ~~shall be permitted to may~~ execute ~~rRegulated sShort sSelling~~ provided that if the same is carried out in accordance with the provisions in ~~this~~ Rule 78043 and section 98(4)(c) of the Capital Markets and Services Act.
- (2) ~~No~~A Participating Organisation ~~shall be permitted to must not~~ execute ~~rRegulated sShort sSelling~~ where if the ~~eClient~~ of the Participating Organisation or the person on whose behalf the ~~eClient~~ of the Participating Organisation is executing the ~~rRegulated Short sSelling~~ for, is ~~a~~Associated with the body corporate that issued or made available the ~~a~~Approved ~~s~~Securities. For purposes of Rule 704 ~~the following interpretation shall apply to the words used herein: the word 'eClient' includes the Participating Organisation where it the Participating Organisation is executing rRegulated sShort sSelling for itself; and~~  
~~'associated' has the same meaning assigned to it under section 3 of the Capital Markets and Services Act.~~
- (3) ~~Insofar as it is not Unless otherwise provided in this Rule 78043, a~~All other provisions in these Rules shall apply to ~~rRegulated sShort sSales~~ as if they were normal sales of ~~s~~Securities.
- (4) ~~For the avoidance of doubt, t~~The following ~~conditions~~shall apply to ~~rRegulated sShort sSelling~~:
  - (a) ~~rRegulated sShort sSelling shall can be carried out~~ only be permitted for ~~a~~Approved ~~s~~Securities;
  - (b) the Exchange shall ~~has~~ve the discretion to declare ~~from time to time~~ any of the ~~s~~Securities that meets the criteria as set out in the definition of ~~a~~Approved ~~s~~Securities

Comment [B46]: Deleted as already defined in the definition chapter i.e. Chapter 1

~~in Rule 704.1(1) as a Approved sSecurities and may, after the declaration, thereafter declare otherwise, where if the a Approved sSecurities no longer meets the criteria as set out in the definition of a Approved sSecurities in Rule 704.1(1) or in any other circumstances it deems fit.~~

- (c) ~~the Exchange may determine not to declare a sSecurities as a Approved sSecurities notwithstanding although that it the securities fulfils the criteria as set out in the definition of a Approved sSecurities in Rule 704.1(1); and~~
- (d) ~~the Exchange may, with the prior approval of the Commission, vary the criteria of a Approved sSecurities as set out in the definition of a Approved sSecurities in Rule 704.1(1).~~

~~(5) All provisions in this Rule 704 relating to a Participating Organisation except for Rules 704.3, 704.10 and 704.11 shall equally apply to a Dealer's Representative unless the context otherwise permits.~~

**~~RULE 70413.3 INTERNAL GUIDELINES AND SYSTEMS~~**

**~~(1) Internal Guidelines:~~**

- (a) ~~A Participating Organisation desirous of executing regulated short selling shall must formulate a set of its Internal Guidelines for Short Selling that the contents of which shall include the areas set out under Schedule 10.~~
- (b) ~~The Internal Guidelines for Short Selling shall be approved by the board of directors of the Participating Organisation and the Participating Organisation shall ensure that the Internal Guidelines for Short Selling is brought to the notice of, read and understood by, all relevant employees and registered persons of the Participating Organisation.~~

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

- (a) ~~systems and infrastructure including but not limited to front office and/or back office systems and infrastructure which are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of the regulated short selling in accordance with Rule 7041;~~ and
- (b) ~~all the policies, procedures, controls and all other requirements set out in the Internal Guidelines for Short Selling.~~

**~~RULE 78043.42 COMMENCEMENT OF REGULATED SHORT SELLING~~ Commencement of Regulated Short Selling**

- (1) Participating Organisation ~~shall only be permitted~~ may only to commence ~~with its r~~ Regulated ~~s~~ Short ~~s~~ Selling activities only if it complies when with the following requirements ~~are complied with~~:
  - (a) the Participating Organisation has established ~~an~~ internal ~~G~~ guidelines for Regulated Short Selling as stipulated by the Exchange that includes the areas set out under Schedule 10 ~~as stipulated in Rule 704.3(1);~~
  - (b) the Participating Organisation has in place systems and infrastructure including ~~but not limited to~~ front office and/or back office systems which are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of ~~r~~ Regulated ~~s~~ Short ~~s~~ Selling in accordance with Rule ~~78043;~~ and
  - (c) ~~subject to Rule 78043.42(2)(ed),~~ the Participating Organisation has submitted a written declaration in the form ~~prescrib~~ stipulated in Appendix ~~104~~ to the Exchange of

**Comment [B47]:** This requirement will be incorporated into Chapter 5 and the PO Manual in relation to the PO's requirements to establish and comply with the policies and procedures in relation to the activities carried out by the PO

its compliance with Rules 78043.42(1)(a) and 78043.42(1)(b) at least ~~two (2)~~ market days prior to the commencement of its ~~R~~egulated ~~s~~Short ~~s~~Selling activities.

(2) **Inspection ~~and/~~ or Audit by the Exchange**

- (a) 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 ~~as required~~ in Rule 78043.42(1)(c) undertake an inspection ~~and/~~ or audit on a Participating Organisation's compliance with the requirements stipulated under Rules 78043.4.2(1)(a) and 78043.4.2(1)(b) ~~in the manner determined by the Exchange.~~
- (b) In determining compliance with Rule 78043.42(1)(b), the following ~~shall~~ apply:
- (i) ~~the Exchange shall be entitled to require~~ the Participating Organisation ~~must when requested by the Exchange 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 its~~ front office ~~and/or~~ back office systems and infrastructure are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of ~~R~~egulated ~~s~~Short ~~s~~Selling in accordance with Rule 78043; and
- (ii) the Exchange ~~shall~~ ~~is~~ be entitled to rely on the confirmation provided ~~to the Exchange under rule 7803.2(2)(b)(i) herein.~~
- (c) The Participating Organisation ~~shall~~ ~~must~~ ~~will~~ be given ~~a~~ notice in writing by the Exchange prior to the commencement of any inspection ~~and/~~ or audit referred to under Rule 78043.42(2)(a).
- (d) ~~Where~~ ~~if~~ a notice under Rule 78043.42(2)(c) has been issued to a Participating Organisation which has yet to submit the declaration under Rule 78043.42(1)(c) or has submitted the declaration under Rule 78043.42(1)(c) but has yet to commence with its ~~R~~egulated ~~s~~Short ~~s~~Selling activities, the Participating Organisation ~~shall~~ ~~must~~ not commence ~~with its R~~egulated ~~s~~Short ~~s~~Selling activities until ~~it has complied with~~ the following ~~have been complied with~~:
- (i) the inspection ~~and/~~ or audit referred to in Rule 78043.42(2)(a) has been completed;
- (ii) the corrective ~~and/~~ or preventive measures and actions referred to in Rules 78043.42(2)(e) and 78043.42(2)(f), ~~(if any),~~ have been duly carried out and completed by the Participating Organisation; and
- (iii) the submission of the confirmation, ~~(if applicable),~~ and the declaration referred to in Rule 78043.42(2)(f).
- (e) Upon completion of the inspection ~~and/~~ or audit, the Exchange ~~shall~~ ~~will~~ 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 704.4(1)(a) and 704.4(1)(b)~~ and the corrective ~~and/~~ or preventive measures and actions, ~~(if any),~~ to be taken by the Participating Organisation for the purpose of complying with Rules 78043.42(1)(a) and 78043.42(1)(b). 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 78043.43(2)(d), suspend the carrying out of any further ~~R~~egulated ~~s~~Short ~~s~~Selling by the Participating Organisation until the corrective ~~and/~~ or preventive measures and actions, ~~(if any),~~ are carried out and completed by the Participating Organisation.
- (f) ~~Where~~ ~~if~~ the corrective ~~and/~~ or preventive measures and actions referred to in Rule 78043.43(2)(e) have been duly carried out and completed, the Participating

Organisation ~~shall~~**must** confirm in writing to the Exchange of the same. In relation to a Participating Organisation referred to in Rule ~~7804.3.42~~(2)(d) which has yet to submit the declaration under Rule ~~7804.42~~(1)(c), the Participating Organisation ~~shall~~**must** together with the confirmation mentioned herein submit the declaration stipulated under Rule ~~7804.3.42~~(1)(c).

- (g) 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 ~~7804.3.43~~(2)(a), ~~notwithstanding despite although that~~ a Participating Organisation may have duly carried out and completed the corrective ~~and/or~~ preventive measures and actions referred to in Rules ~~7804.3.43~~(2)(e) and ~~7804.3.43~~(2)(f).

**RULE ~~7804.3.35~~ DESIGNATED TRADING ACCOUNT AND CDS ACCOUNT** Designated trading account and CDS Securities a Account

- (1) A Participating Organisation ~~shall~~**must** open a separate trading account designated as 'RSS', in the name of the Participating Organisation ~~whereif~~ it is executing ~~r~~Regulated ~~s~~Short ~~s~~Selling for itself or in the name of each ~~e~~Client where it is executing ~~r~~Regulated ~~s~~Short ~~s~~Selling for its ~~e~~Clients ("RSS Account").
- (2) ~~A Participating Organisation shall only execute ensure that all rRegulated sShort sSelling and transactions permitted under Rule 7803.3(5) whether for itself or its clients are executed through in the RSS Account and that utilise the RSS Account is utilised only for regulated short selling and transactions permitted under Rule 704.5(5).~~
- (3) ~~Where if~~ the Participating Organisation intends to execute ~~r~~Regulated ~~s~~Short ~~s~~Selling in a Clearing Account, the Participating Organisation ~~shall also ensure that~~**must open** a separate Clearing Account ~~is opened~~ for that purpose and ~~shall~~ designate that account as 'RSS' together with the designation ~~present stipulated in the directives issued by the Exchange relating to Clearing Account R/R 18 of 2005~~. Any reference in these Rules to 'RSS Account' ~~shall~~**must** be read to include a Clearing Account opened ~~to execute Regulated Short Selling the purpose stipulated herein~~. All other provisions in ~~R/R 18 of 2005 Directive 701.5(1)-002 shall are~~ applicable to a Clearing Account opened ~~herein by the Participating Organisation subject to the provisions contained herein in Rule 704.5(3) and the following: for Regulated Short Selling to the extent that those provisions are not inconsistent with the provisions in this Rule 803:~~
- ~~(a) provisions contained in Rule 704.6(4); and~~
- ~~(b) the provisions in paragraph 3.12 of R/R 18 of 2005 pertaining to transfer of securities shall not be applicable to purchases of securities made in the Clearing Account in accordance with Rule 704.5(5) and held in the CDS Account opened by the Participating Organisation in accordance with Rule 704.5(6).~~
- (4) A Participating Organisation ~~must, shall ensure the following~~ prior to opening a RSS Account:
- (a) ~~where the RSS Account is to be opened in the name of a client, obtain confirmation in writing from the client Client a confirmation in writing from the client Client that the client Client has a a copy of the Client SBL Agreement in place; or and~~
- (cb) bring to the notice of the ~~client Client~~ that a copy of the SBL Agreement must be furnished when requested by the Exchange and that where there is a failure to do so, the Exchange may take appropriate action including directing the Participating Organisation to suspend trading for the ~~client Client~~;
- (bc) ~~where if~~ the RSS Account is to be opened in the name of ~~the~~ Participating Organisation, ~~that the Participating Organisation has executed ed~~ a SBL Agreement; and

**Comment [B48]:** This has been reorganized as (c) for better flow.

~~(c) bring to the notice of the client that a copy of the SBL Agreement must be furnished when requested by the Exchange and that where there is a failure to do so, the Exchange may take appropriate action including directing the Participating Organisation to suspend trading for the client.~~

Comment [B49]: This has been reorganized as (b) for better flow.

(5) A Participating Organisation ~~shall be permitted to~~ may execute purchase of ~~approved~~ ~~s~~Securities in the RSS Account ~~but only~~ for the following purposes ~~only~~:

(a) to contra in full or ~~in partially~~ any ~~r~~Regulated ~~s~~Short ~~s~~Sale of an ~~a~~Approved ~~s~~Securities executed in the RSS Account;

(b) for redelivery of securities arising from any borrowing of ~~a~~Approved ~~s~~Securities under a SBL Agreement; ~~and~~

~~(c) for borrowing to execute another regulated short sale of that Approved Securities in accordance with the requirements of Rule 704.~~

(6) A Participating Organisation ~~shall must~~ open a separate ~~CDS-Securities~~ Account for each trading account opened pursuant to Rule ~~78043.53~~(1) and Rule ~~78043.53~~(3). ~~The is~~ ~~CDS Securities~~ Account ~~shall must~~ be designated in accordance with the Depository Rules ~~and/or~~ any directives issued by the Depository. A Participating Organisation ~~shall can~~ only utilise ~~the is~~ ~~CDS-Securities~~ Account ~~opened herein~~ for the following purposes ~~only~~:

(a) settlement of ~~r~~Regulated ~~s~~Short ~~s~~Selling;

(b) settlement of purchases as permitted under Rule ~~78043.53~~(5);

(c) to hold ~~s~~Securities for purposes of subsequent redelivery of the ~~s~~Securities arising from the borrowing of ~~a~~Approved ~~s~~Securities under a SBL Agreement; or

(d) to hold borrowing of ~~a~~Approved ~~s~~Securities for executing the ~~r~~Regulated ~~s~~Short ~~s~~Sale, provided Rule ~~67086.10~~(2) is complied with, if the ~~a~~Approved ~~s~~Securities are held in a ~~CDS-Securities~~ ~~a~~Account maintained in the name of a Participating Organisation, in the Participating Organisation's capacity as ~~a~~Authorised ~~n~~Nominee or ~~e~~Exempt ~~a~~Authorised ~~n~~Nominee.

~~(7) Where~~If a Participating Organisation executes a purchase of ~~s~~Securities in the RSS Account other than for the purposes stipulated in Rule ~~78043.53~~(5) by reason of mistake, the Participating Organisation ~~shall be is~~ permitted to subsequently sell the ~~s~~Securities so purchased subject to the following conditions:

(a) the Head of Dealing ~~shall must~~ report to the Exchange of the sale made herein not later than the end of the next ~~m~~Market ~~d~~Day from the date of the sale; and

(b) the Head of Dealing ~~shall must~~, together with the report, provide an explanation as to the cause of the mistake.

~~(8) Notwithstanding that the Participating Organisation is permitted sell the Securities purchased by mistake as stipulated under Rule 803.3(7), this does not prejudice the rights of the Exchange to take action against the Participating Organisation for a breach of Rule 803.3(5).~~

Comment [B50]: This new rule is inserted to clarify that the Exchange can take action for the mistakes made.

~~(89) Where~~If the Exchange is not satisfied that the purchase of ~~s~~Securities as stipulated in Rule ~~78043.53~~(7), arose from a mistake made by the Participating Organisation or ~~where~~if the mistake was caused by reason of a breach of ~~the requirements under the internal guidelines for short selling as stipulated under~~ Rule ~~704.3(2),~~~~7803.2~~(1) the Exchange reserves its rights to take action against the Participating Organisation for ~~a~~breach of Rule ~~78043.53~~(5).

**RULE ~~78043.64~~ EXECUTION**Execution

- (1) ~~A Participating Organisation~~ Upon receiving any request from a ~~eClient~~ to effect a sell order, ~~a Participating Organisation or transaction shall must~~ enquire from the ~~same eClient~~ whether the intended sale is a ~~rRegulated sShort sSale~~. ~~Where if the clientClient~~ confirms that the sale is a ~~rRegulated sShort sSale~~, the Participating Organisation ~~shallmust~~ comply with the provisions in Rule ~~78043.64~~(2) for the execution of the sell order.
- (2) A Participating Organisation ~~shall ensure that must comply with~~ the following conditions ~~are complied with~~ prior to executing an order for a ~~rRegulated sShort sSale~~ whether for itself or a ~~eClient~~:
- (a) ~~whereif~~ the order is executed for the Participating Organisation itself, the Participating Organisation has borrowed the ~~aApproved sSecurities~~ to be short sold from an Authorised SBL Participant or has obtained a confirmation from the Authorised SBL Participant that the ~~aApproved sSecurities~~ to be short sold are available for borrowing to settle the sale;
  - (b) ~~whereif~~ the order is for a ~~eClient~~, confirmation from the ~~eClient~~, that the ~~eClient~~ has borrowed the ~~aApproved sSecurities~~ to be short sold from an Authorised SBL Participant or that the ~~eClient~~ has obtained a confirmation from an Authorised SBL Participant that the ~~aApproved sSecurities~~ to be short sold are available for borrowing to settle the sale;
  - (c) confirmation from the ~~eClient~~, that the ~~eClient~~ or if the ~~eClient~~ is acting on behalf of another person, the person for whom the ~~eClient~~ is acting for, is not ~~aAssociated~~ with the body corporate that issued or made available the ~~aApproved sSecurities~~ in relation to which the order for short sale is to be executed. ~~Where the order is executed for the Participating Organisation itself, the Participating Organisation shall ensure that it is not associated with the body corporate mentioned herein. "Associated" shall have the same meaning as is assigned to it under Rule 704.2(2)(b);~~
  - (d) ~~If~~ the order is executed for the Participating Organisation itself, the Participating Organisation ~~shall ensure that it must is not be~~ ~~aAssociated~~ with the body corporate mentioned herein. ~~"Associated" shall have the same meaning as is assigned to it under Rule 704.2(2)(b);~~
  - (e) the order price of the ~~aApproved sSecurities~~ to be entered into the ATS is higher than the Last Done Price of the ~~aApproved sSecurities~~ ~~prior to~~ the intended entry of the above order. ~~Last Done Price has the meaning assigned to that expression under Rule 701.4; and~~
  - (f) the order ~~shallmust~~ be entered into ATS through the screen designated in the ATS for ~~rRegulated sShort sSale~~.
- (3) ~~No~~ Participating Organisation ~~shallmust not~~ execute ~~any rRegulated sShort sSale by way of or~~ Direct Business ~~in any situation whatsoever~~.
- (4) All orders for ~~rRegulated sShort sSale~~ in a Clearing Account ~~shallmust~~ be executed on the same ~~mMarket dDay~~ that the ~~clientClient~~ has instructed for the order to be executed ~~and cannot be~~. ~~No Participating Organisation shall be is permitted to carry carried forward any execution of an order for a regulated short sale in a Clearing Account to the next mMarket dDay from the date of the above instruction notwithstanding despite that the even though the order remains unexecuted, whether fully or partially.~~
- (5) A Participating Organisation ~~shall ensure that must keep documents relating to procure proper documents are procured and retained by it for at least seven (7) years for the purpose of satisfying the Exchange when requested, that the requirements of on~~ Rules ~~78043.64~~ (2)(a), (b) and (c) ~~for at least 7 years are complied with~~. The documents ~~shallmust~~ be either in writing, tape recording or electronic form.
- (6) The Head of Dealing ~~shallmust is~~ be responsible to ensure that ~~the relevant reports are reviewed for the purpose of ensuring that~~ no ~~rRegulated sShort sSale~~ are executed in ATS through a screen other than the screen designated in the ATS for ~~rRegulated sShort sSale~~.

Comment [B51]: This sentence is deleted and inserted as a separate paragraph in (d).

Comment [B52]: Deleted as the word "last done price" will be defined in Chapter 1.

Where ~~if~~ upon the above review it is found that any ~~r~~Regulated ~~s~~Short ~~s~~Sale has been executed not through the screen designated in the ATS for ~~r~~Regulated ~~s~~Short ~~s~~Sale, the Head of Dealing ~~shall~~ **must** report the same by the next ~~m~~Market ~~d~~Day to the Exchange.

~~(7) A Compliance Officer shall also ensure that must review the relevant reports as stipulated under Rule 704.6 (6) are reviewed for the purpose mentioned therein in that rule. Whereif the Compliance Officer detects of any regulated short sale executed not through the screen designated in the ATS for regulated short sale, the Compliance Officer shall ensure must report thatthe same is reported to the Exchange pursuant to Rule 309.8(4).~~

**Comment [B53]:** Deleted as this will now be under responsibility for Head of Compliance and the Head of Compliance must report all breaches anyway.

(87) No ~~r~~Regulated ~~s~~Short ~~s~~Sale ~~shall~~ **can** be executed by a Participating Organisation in any of the following circumstances -

- (a) during the period of ~~twenty-one (21)~~ days immediately following a takeover announcement involving the Issuer of an approved securities; or
- (b) when expressly directed by the Exchange, during the period where the ~~a~~Approved ~~s~~Securities has been declared, ~~and remains~~, as Designated Securities under Rule ~~67043~~.

**RULE ~~78043.75~~ CONTRACT NOTE FOR REGULATED SHORT SALE** Contract note for Regulated Short Sale

(1) A Participating Organisation ~~shall~~ **must** upon execution of a ~~r~~Regulated ~~s~~Short ~~s~~Sale stipulate on the ~~e~~Contract ~~n~~Note issued by the Participating Organisation to the ~~e~~Client, that the sale is a ~~r~~Regulated ~~s~~Short ~~s~~Sale.

**RULE ~~78043.86~~ PROHIBITION ON AMENDMENTS OF CONTRACTS** Prohibition on amendments of contracts

(1) ~~Despite~~ **Notwithstanding** Rules ~~67801.28(34), 601.2(4) and 601.2(5)~~, no Participating Organisation ~~shall~~ **beis** permitted to effect any amendments of ~~e~~Contract from a trading account ~~and/or~~ a ~~CDS Securities a~~Account opened not ~~under Rule 704.5 for execution of a Regulated Short Sale to a trading account and/or CDS Securities Account opened under Rule 78043.53 for execution of Regulated Short Sales.~~

**Comment [B54]:** Deleted as Rule 601.2(4) is incorporated as Rule 801.8 (4) and Rule 601.2(5) is deleted in line with the proposal to do away with Immediate Basis Contracts in Chapter 7.

(2) ~~The~~ **A** Head of Dealing ~~shall~~ **beis** responsible to ensure that proper systems and procedures for review and monitoring are in place to ensure that all amendments of ~~e~~Contracts made in accordance with Rules ~~67801.28(34), 601.2(4) and 601.2(5)~~ are not in breach of Rule ~~78043.86(1)~~. In the event of a breach, ~~thereof~~ the Head of Dealing ~~shall~~ **must** report the breach to the Exchange by the next market day after the amendments were made.

**Comment [B55]:** Deleted as Rule 601.2(4) is incorporated as Rule 801.8(4) and Rule 601.2(5) is deleted in line with the proposal to do away with Immediate Basis Contracts in Chapter 7.

**RULE ~~78043.97~~ DELIVERY AND SETTLEMENT** Delivery and settlement

(1) The Rules relating to delivery and settlement under Chapter ~~89~~ **shall** apply to ~~r~~Regulated ~~s~~Short ~~s~~Sales in the same manner as they apply to normal sales.

~~(2) Failure by the seller in a regulated short sale to deliver the securities in accordance with Chapter 8 shall beis deemed as a failure by the respective Participating Organisation to make available in its CDS Account the securities as "tradeable balance" and in such event, the Exchange upon instructions of the Clearing House shallwill automatically institute a buying-in against the Participating Organisation concerned without giving a buying-in notice.~~

**Comment [B56]:** Deleted because (1) is wide enough to cover (2)

**RULE ~~78043.108~~ REPORTING BY PARTICIPATING ORGANISATION** Reporting by Participating Organisation

(1) Participating Organisations shall report to the Exchange daily or in such other frequency as may be determined by the Exchange, in the format prescribed by the Exchange, the ~~n~~Net ~~s~~Short ~~p~~Position and/or any other information in relation to the ~~n~~Net ~~s~~Short ~~p~~Position as may be required by the Exchange from time to time.



**RULE 704.11 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 regulated short selling:~~

~~(a) inaccuracies and errors in relation to any reports submitted by the Participating Organisation 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 Short Selling;~~

~~(c) execution of any regulated short sale through a screen in the ATS other than the screen designated for regulated short sale;~~

~~(d) the CDS Account utilised for the settlement of any regulated short sales other than the CDS Account stipulated in Rule 704.5;~~

~~(e) sale of securities executed pursuant to Rule 704.5(7);~~

~~(f) amendments to contracts in breach of Rule 704.8; and~~

~~(g) any other breaches in relation to Rule 704.~~

Comment [B57]: Deleted as the Head of Compliance must report all breaches in the monthly compliance report as stipulated under Chapter 3.

**RULE 78043.429 LIMIT FOR REGULATED SHORT SELLING** Limit for regulated short selling

(1) Without prejudice to affecting Rule 78043.4310, the Exchange may ~~shall~~ commence suspension suspend any order entry into the order book in the ATS for any further R Regulated sShort sSelling of an aApproved sSecurities, in the following circumstances:

(a) where~~if~~ the quantity of the total short position of an aApproved sSecurities on a particular mMarket dDays is as follows:

(i) where~~if~~ the quantity of the total short position of the shares of an Issuer, on a particular market day is at ~~three per centum (3%)~~ of the outstanding shares of the Issuer on that mMarket dDay. Outstanding shares means the total quantity of shares held by the shareholders of the Issuer including shares held by the Issuer pursuant to a share buy back scheme as provided for in the Listing Requirements; or

(ii) where~~if~~ the quantity of the total short position of a class of sSecurities other than shares of an Issuer ("securities") on a particular mMarket dDay is at ~~three per centum (3%)~~ of the quantity of the outstanding sSecurities on that market day. Outstanding sSecurities means the total quantity of sSecurities held by the holders of the sSecurities; or

(b) where~~if~~ the quantity of the total short position of an aApproved sSecurities referred to in Rule 78043.429(1)(a)(i) and 78043.429(1)(a)(ii) aggregated over a period of time is ~~ten per centum (10%)~~ of the quantity of outstanding shares or sSecurities.

(2) The suspension referred to in Rule 78043.942(1) shall~~may must~~ be for the following period:

(a) In relation to the circumstance described in Rule 78043.429(1)(a), the suspension shall~~must~~ be for the remaining mMarket dDay from the time the suspension was instituted on that mMarket dDay; and

(b) In relation to the circumstance described in Rule 78043.429(1)(b), the suspension shall~~must~~ be in place until the aggregated quantity falls below ~~ten per centum (10%)~~

of the quantity of outstanding shares or sSecurities. The fall in the 'aggregated quantity' referred to herein would occur when there is a return of the sSecurities borrowed to the Authorised SBL Participant.

- (3) ~~Where~~if a suspension on ~~r~~Regulated ~~s~~Short ~~s~~Selling is imposed on the shares of an Issuer pursuant to Rule ~~78043.9.42(1)(a)~~ or Rule ~~78043.129(1)(b)~~, ~~the~~such suspension ~~thereof~~ shall also apply to the following:
- (a) all sSecurities referred to in Rule ~~78043.912(1)(a)(ii)~~ notwithstanding although the total short position of the sSecurities is not in breach of the limit referred to in Rule ~~78043.129(1)(a)~~ or Rule ~~78043.129(1)(b)~~; and
  - (b) all sSecurities issued by any Issuer ~~where~~if the underlying instrument of the sSecurities issued, comprise solely the shares of an Issuer in relation to which suspension under Rule ~~78043.129(1)(a)~~ or Rule ~~78043.129(1)(b)~~ has been imposed.
- (4) ~~Where~~if the shares or securities referred to under Rules ~~78043.129(1)(a)~~ and Rule ~~78043.129(1)(b)~~ respectively falls within the class of Eligible Securities, the following shall apply:
- (a) the suspension referred to in Rule ~~78043.129(1)(a)~~, Rule ~~78043.129(1)(b)~~ and Rule ~~78043.129(2)~~ shall include suspension on the short selling of the Eligible Securities; and
  - (b) the 'securities' referred to in Rule ~~78043.129(3)~~ shall ~~must be read to~~ include Eligible Securities and the suspension referred to ~~therein in that rule shall be~~ applicable to the short selling of that Eligible Securities.

**RULE ~~78043.10.13~~ ACTION BY THE EXCHANGE** Action by the Exchange

- (1) ~~Without prejudice, any other powers of the Exchange contained in the Capital Markets and Services Act, this Rule 704, these Rules and/or any other directives, ruling or guidelines issued by the Exchange from time to time, t~~The Exchange may in the following circumstances take any of the actions enumerated under Rule ~~78043.1310(2)~~ in the manner stipulated ~~therein that rule automatically~~ against a Participating Organisation ~~and~~, its ~~r~~Registered persons Person(s) or in relation to any or all Approved Securities and clients and/or in relation to any or all approved securities:
- (a) ~~where~~if there is a breach (or likelihood of breach) of any provisions in Rule ~~78043~~; or
  - (b) ~~where~~if the execution of a ~~r~~Regulated ~~s~~Short ~~s~~Sale 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 ~~704.13(1)~~ 803.10(1) the following actions may be taken by the Exchange in relation to any or all ~~a~~Approved sSecurities 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 termination cessation~~ of further ~~r~~Regulated ~~s~~Short ~~s~~Selling by the Participating Organisation and/or ~~r~~Registered persons Person(s) whether for itself or any or all of its eClients;
  - (b) imposition of limits on the ~~n~~Net ~~s~~Short ~~p~~Positions or total short positions that may be held by the Participating Organisation and/or ~~r~~Registered persons Person(s) whether for itself or any or all of its eClients; or
  - (c) imposition of restrictions or conditions on ~~r~~Regulated ~~s~~Short ~~s~~Selling carried out by the Participating Organisation and/or ~~r~~Registered persons Person(s) whether for itself or any or all of its eClients.

Comment [B58]: Deleted as it is not necessary, since the Exchange is bound by any other powers conferred to it under this Rules anyway.

~~RULE 7041.14 – EFFECT OF ACTION TAKEN~~

- ~~(1) — In the event that if the Exchange undertakes any of the actions under 704.130 against a Participating Organisation, registered persons or the client of the Participating Organisation, such actions shall are also be applicable to any person who is the proxy, agent, nominee or acting in concert with that Participating Organisation, registered persons or that particular client of the Participating Organisation, as the case may be.~~
- ~~(2) — Where if an action has been taken under Rule 704.130, 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 must not be construed as an omission or error of any kind on the part of the Exchange in undertaking the action under Rule 704.130 in the first place.~~
- ~~(3) — The provisions in Rule 1303 shall do not apply to any action taken under Rule 704.130.~~

Comment [B59]: Deleted as this is covered under Rule 201.6 .

Comment [B60]: Deleted as covered under Rule 201.2.

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**~~RULE 704A PERMITTED SHORT SELLING~~**

**Comment [B61]:** Under the revamp, this rule is removed as the rule is under Chapter 4 for market making.

**~~RULE 704A.1 DEFINITION~~**

~~{Deleted}~~

**~~RULE 704A.2 PERMITTED SHORT SELLING~~**

~~(1) {Deleted}~~

~~(2) {Deleted}~~

**~~RULE 704A.3 COMMENCEMENT OF PERMITTED SHORT SELLING~~**

~~(1) {Deleted}~~

**~~RULE 704A.4 DESIGNATED TRADING ACCOUNT AND CDS ACCOUNT~~**

~~(1) {Deleted}~~

~~(2) {Deleted}~~

~~(3) {Deleted}~~

~~(4) {Deleted}~~

**~~RULE 704A.5 EXECUTION~~**

~~(1) {Deleted}~~

~~(2) {Deleted}~~

~~(3) {Deleted}~~

~~(4) {Deleted}~~

~~(5) {Deleted}~~

**~~RULE 704A.6 LIMITS FOR PERMITTED SHORTSELLING~~**

~~(1) {Deleted}~~

**~~RULE 704A.7 DELIVERY AND SETTLEMENT~~**

~~(1) {Deleted}~~

~~(2) {Deleted}~~

**~~RULE 704A.8 ACTION BY THE EXCHANGE~~**

~~(1) {Deleted}~~

~~(2) {Deleted}~~

**~~RULE 704A.9 EFFECT OF ACTIONS TAKEN~~**

~~(1) {Deleted}~~

~~(2) {Deleted}~~

~~(3) {Deleted}~~

**RULE 705 — SUSPENSION ON CONVERSION EXERCISE**

**RULE 705.1 — DEFINITION**

~~(1) For the purposes of this Rule 705—~~

<del>Conversion exercise</del>	<del>means the conversion of singly quoted restricted securities of an Issuer to enable two or more separate quotations on the Official List.</del>
<del>effective date</del>	<del>means the date fixed by the Issuer for the determination of rights and obligations to foreign or other class of depositors.</del>
<del>singly quoted restricted securities</del>	<del>shall have the same meaning ascribed to it in the Listing Requirements.</del>
<del>Suspended Securities</del>	<del>means the singly quoted restricted securities which has been suspended from trading by the Exchange pursuant to Rule 705.2.</del>

**Comment [B62]:** These definitions are deleted consistent with the deletion of the sub-rules herein.

**RULE 705.2 — SUSPENSION OF TRADING**

~~(1) Where, in relation to any singly quoted restricted securities, an application is made to the Exchange by its Issuer for suspension of trading thereof in order to facilitate a conversion exercise, the Exchange may suspend the trading of the securities.~~

~~(2) The date of the suspension of singly quoted restricted securities under Rule 705.2(1) shall be four (4) clear market days before the effective date.~~

~~(3) Where in its opinion the situation warrants, the Exchange may in its absolute discretion allow an extension of the period of suspension.~~

**Comment [B64]:** This rule is deleted as the Exchange has the general power to suspend trading pursuant to LR.

**Comment [B65]:** This rule is deleted as the Exchange has the general power to suspend trading pursuant to LR for a duration as specified by the Exchange.

**Comment [B66]:** This rule is deleted as the Exchange has the general power to suspend trading pursuant to LR for a duration as specified by the Exchange.

**RULE 705.3 — SETTLEMENT OF SUSPENDED SECURITIES**

~~(1) Notwithstanding the suspension of the securities under Rule 705.2, any outstanding transactions involving such securities may be settled in accordance with FDSS until the market day before the effective date.~~

**Comment [B67]:** Deleted in line with the proposal to move the delivery and settlement obligations between the POs and the Clearing House from the Rules of Bursa Securities to the Clearing House Rules. As such, this rule is moved to the Clearing House Rules.

**RULE 705.4 — BUYING-IN OF SUSPENDED SECURITIES**

~~(1) Notwithstanding the suspension of the trading of securities under Rule 705.2, buying-in shall be instituted against any failure to deliver and the last market day of such buying-in shall be on the effective date.~~

~~(2) Where failure to buy-in occurs on the effective date being the last market day of buying-in referred to in Rule 705.4(1), such buying-in shall only be resumed upon the uplifting of the Suspended Securities in accordance to Rule 705.6.~~

~~(3) The resumption of buying-in of the said securities upon and after the cessation of their suspension shall only be instituted against such securities with "local" quotation.~~

**Comment [B68]:** Deleted in line with the proposal to move the delivery and settlement obligations between the POs and the Clearing House from the Rules of Bursa Securities to the Clearing House Rules. As such, this rule is moved to the Clearing House Rules.

**Comment [B69]:** Deleted in line with the proposal to move the delivery and settlement obligations between the POs and the Clearing House from the Rules of Bursa Securities to the Clearing House Rules. As such, this rule is moved to the Clearing House Rules.

**Comment [B70]:** Deleted in line with the proposal to move the delivery and settlement obligations between the POs and the Clearing House from the Rules of Bursa Securities to the Clearing House Rules. As such, this rule is moved to the Clearing House Rules.

**RULE 705.5 — REVOCATION OF SUSPENSION**

~~(1) The Exchange may, at any time and in its absolute discretion, revoke the suspension of trading of the Suspended Securities.~~

**Comment [B71]:** This rule is deleted as the Exchange has the general power to suspend trading pursuant to LR for a duration as specified by the Exchange.

**RULE 705.6 — LIFTING OF SUSPENSION**

- ~~(1) — The Exchange shall obtain a confirmation from the Issuer, which confirmation shall be further affirmed by Depository, when the conversion exercise is completed.~~
- ~~(2) — Upon receipt of the confirmation referred to in Rule 705.6(1), the Exchange may, at any time thereafter and in its absolute discretion, lift the suspension of the trading of the Suspended Securities.~~

**Comment [B72]:** Deleted as this is not necessary to be stipulated into the rules, since this is administrative to the Exchange.

**Comment [B73]:** Deleted as this is not necessary to be stipulated into the rules, since this is administrative to the Exchange.

[The rest of this page is intentionally left blank]

**RULE 706804 STOCK MARKET TRADING SUSPENSION**

**RULE 706804.1 TRADING SUSPENSION**

- (1) Pursuant to Section 11 of the Capital Markets and Services Act, the Exchange may suspend trading of Securities traded on the stock market of the Exchange in the following circumstances:
- (a) in the event of significant changes drop to its in the Exchange's benchmark composite index (as is presently known or howsoever known or by whatsoever name called from time to time). In this instance the Exchange may suspend all Securities traded on the stock market of the Exchange upon notification to the Commission.
  - (b) if a suspension from trading is imposed pursuant to these Rules or the Listing Requirements. In this instance the Exchange may suspend any or all of Securities traded on the stock market of the Exchange.
- (2) A suspension on trading of securities as envisaged in the preceding paragraph shall be effective for such period or periods and upon such terms and conditions as the Exchange may, upon notification to the Commission, deem fit.
- (3) Nothing herein contained shall be construed so as to limit the ability of the Minister, the Commission and/or the Exchange pursuant to the Securities Laws, these Rules and/or any other rules or policy to prohibit, constrain or impose any trading practice in connection with the trading of securities on the stock market of the Exchange.

**Comment [B74]:** Deleted as the period for suspension and the conditions for the suspension will be notified by the Exchange in the directive that is issued to the PO in relation to the suspension.

**Comment [B75]:** Deleted as this is stating the obvious.

**RULE 706.2 PRESCRIPTION OF CIRCUIT BREAKER LEVELS AND OTHER RULES, DIRECTIVES, ETC.**

- (1) The Exchange may issue such rules, directives and guidelines in respect of Rule 706.1 as may at any time and from time to time be deemed necessary or expedient in relation to, or in connection with, the prescription of circuit breaker levels based on the changes to its benchmark Composite Index which represent the thresholds at which the trading in all securities on the stock market of the Exchange shall be suspended in the manner envisaged in this Rule.

**Comment [B76]:** Deleted as the power of the Exchange to issue directives is stated in Chapter 2.

[End of Chapter]

**CHAPTER 89 DELIVERY AND SETTLEMENT**

**RULE 8901 GENERAL**

**RULE 8901.1 DEFINITION Scope**

~~(1) For the purposes of this Chapter 8—~~

**Comment [B1]:** Deleted as all definitions where applicable will be moved to chapter 1.

~~book entry in relation to any transaction made or effected in respect of securities, prescribed by the Exchange pursuant to Section 14 of Securities Industries (Central Depositories) Act, means the simultaneous debiting of the selling client's CDS Account with the number of securities sold and the crediting of the buying client's CDS Account with the number of securities purchased.~~

~~clearing bank accounts in relation to a Participating Organisation, means the bank account established by the Participating Organisation with a clearing bank designated by the Clearing House for the purposes of enabling the Clearing House to settle all amounts due to the Participating Organisation pursuant to Rule 801.1(4).~~

~~(2) In this Chapter 8, the expression "in immediately available funds" shall include payments by way of electronic fund transfers to an account from time to time specified by the Clearing House or any other instrument which can be cleared within the same day and the Clearing House shall obtain value on the same day.~~

**Comment [B2]:** Deleted as the definition is proposed to be moved to the Clearing House Rules in line with the approach under the revamp exercise, whereby delivery and settlement obligation between the PO and the clients will be in these Rules, whereas the delivery and settlement obligation between POs and the Clearing House will be in the Clearing House Rules.

~~(31) All the provisions in this Chapter are only applicable to eOn-mMarket Transactions and Direct Business Transactions which are cleared and settled as Novated Contracts in the Clearing House Rules.~~

**RULE 801.2 CLEARING HOUSE**

**Comment [B3]:** Deleted since there is only one Clearing House currently.

~~(1) Designation of clearing house: The Exchange may, from time to time, upon approval of the Commission, designate any clearing house for the clearing and settlement of transactions in securities listed on the stock market maintained by the Exchange which are effected through the trading facilities established by the Exchange or otherwise.~~

~~(2) Notification to members: A designation by the Exchange of a clearing house pursuant to Rule 801.2(1) shall be notified by circulars to all Participating Organisations not less than fourteen (14) days prior to the date on, and from, which transactions in securities or any type or class thereof will be effected by the clearing house so designated.~~

**RULE 801.3 CLEARING AND SETTLEMENT Clearing and Settlement**

~~(1) Clearing and settlement between Participating Organisations in respect of transactions in securities effected through the trading facilities of the Exchange shall be effected through the Clearing House wherein securities are delivered by way of book entries in CDS Accounts by Depository in accordance with these Rules, the Clearing House Rules and/or the Depository Rules, as the case may be.~~

**Comment [B4]:** Deleted as the same is incorporated and amended in Chapter 7.



**RULE 8902 DELIVERY OF SECURITIES**

**RULE 8902.1 READY AND IMMEDIATE BASIS CONTRACTS** Ready Basis Contracts

~~(1) Ready and Immediate Basis Contracts shall be due for delivery by the Scheduled Delivery Time relating thereto in respect of delivery to the buying client, is not later than 9.00 a.m by the 3rd market day following the contract date.~~

**Comment [B5]:** Deleted as this will be set out under the new Rule 902.1.

~~(2) Delivery of securities from selling clients to buying clients shall be effected by Depository by means of book entries in the relevant CDS Accounts in accordance with Depository Rules.~~

**Comment [B6]:** Deleted as incorporated in Chapter 7.

(1) If a Participating Organisation is a seller in a Contract, the Participating Organisation must have the quantity of Securities sold in the Contract as Tradeable Balance in the Securities Account used for the sale which is maintained with the Participating Organisation, not later than the day and time stipulated in Schedule 3.

**Comment [B7]:** This provision is introduced to clarify that in relation to delivery obligation of a selling PO, the obligation is fulfilled if the PO has the quantity of the securities sold in the contract as tradeable balance in the selling client's CDS account by the day and time as stipulated in Schedule 3.

(2) If a Participating Organisation is a buyer in a Contract, the Securities in the Contract will be delivered by the Clearing House at the day and time stipulated in Schedule 3 –if the Participating Organisation who is the seller in the Contract complies with the requirements of the Clearing House Rules in relation to delivery and settlement of the Contract.

**Comment [B8]:** Inserted to clarify that securities will be delivered to the buyer in a contract in accordance with the day and time stipulated in Schedule 3 provided that the seller comply with his obligation to deliver the securities as provided in Rule 902.1(1).

**RULE 802.2 GOOD DELIVERY**

~~(1) The deposit or transfer of securities into or from a CDS Account as evidenced by book entries made therein in accordance with Depository Rules shall constitute good delivery provided that the deposit or transfer of the securities has been entered into the computer system (as defined in the Depository Rules) and has not been rejected by Depository.~~

**Comment [B9]:** Deleted, as this has been addressed in Rule 902.1(1),

**RULE 802.3 PARTIAL DELIVERY**

~~(1) Delivery of securities, including odd lots, shall represent the exact quantity sold as between the selling client and Participating Organisation.~~

**Comment [B10]:** This is not necessary in view of sub-rule (3) below.

~~(23) A Participating Organisation may make Partial delivery of Securities if, however, be made by a selling client provided that such deliveries are but in board lots only, but in such circumstances this case, the Participating Organisation's delivery obligation of the selling client is extinguished fulfilled only to the extent of that number of Securities so that are actually delivered.~~

**RULE 8902.42 SECURITIES WITH MULTIPLE QUOTATIONS** Securities with Multiple Quotations

~~(1) Participating Organisations No are not allowed to do cross settlement delivery of Securities for shall be permitted in the case of Securities having with separate quotations.~~

**RULE 8903 FAILED CONTRACTS OF BOARD LOTS**

**RULE 803 BUYING-IN**

**RULE 8903.1 AUTOMATIC BUYING-IN Automatic Buying-In**

(1) ~~Where a Participating Organisation, having sold securities in board lots, fails by the Scheduled Delivery Time to make available in the relevant securities account, the securities in board lots as tradeable balance the Exchange shall upon being advised by the Clearing House of the failed contract, automatically buy-in against the defaulting Participating Organisation concerned without notice, on the market day specified in Schedule 2 A of these Rules. If a Participating Organisation fails to deliver Securities traded in board lots in accordance with Rule 902.1(1), the Exchange will commence buying-in against the Participating Organisation without any notice given, at the date and time stipulated in Schedule 3 as instructed by the Clearing House. The Exchange will conduct the buying-in in accordance with the procedures set in Rule 903.2 and the bidding price for such buying-in will be as instructed by the Clearing House.~~

**Comment [B11]:** This provision is introduced to clarify that buying-in is carried out by the Exchange in accordance with Schedule 3 as instructed by the Clearing House.

**Comment [A12]:** Inserted to clarify that bidding price for buying-in of any securities will be dictated by the Clearing House.

(2) ~~Where, the Exchange institutes an automatic buying-in against the defaulting Participating Organisation-~~

(a) ~~no withdrawal from, or suspension of, buying-in is permitted except as provided for under Rule 803.1(3); and~~

(b) ~~the defaulting Participating Organisation shall have the right to be fully indemnified by the seller in the failed contract for all losses and consequential expenses thereby suffered or incurred by the defaulting Participating Organisation; and~~

~~(2a) (c) For the avoidance of doubt, if buying-in is carried out, the buyer in the failed Contract is not prohibited from selling the sSecurities and any person who further buys the same sSecurities are is also not prohibited from selling the sSecurities, subject to Rule 903.3(1) and Rule 904.1.~~

**Comment [B13]:** Buying-in is subject to the cash settlement rule where the Clearing House can stop further selling.

~~(3) No withdrawal from buying-in is permitted except under the following circumstances-~~

(a) ~~automatic withdrawal from buying-in will be allowed where the seller in the failed contract has an outstanding purchase contract for the same type of securities sold. The outstanding purchase contract means a purchase contract that was executed by the seller in the failed contract prior to the sale in the failed contract and the securities in the purchase contract have not been delivered to the account of the seller in the failed contract; and/or~~

(b) ~~where the Exchange receives instructions from the Clearing House on the due date to withdraw the buying-in.~~

**Comment [B14]:** Rules 803.1(3) is moved to the Clearing House Rules, as buying-in is upon instructions and under the purview of the Clearing House. Therefore, all requirements for buying-in will be in the Clearing House Rules.

~~(3) The Exchange may only withdraw or suspend any buying-in if instructed by the Clearing House.~~

**Comment [B15]:** Inserted to clarify that the Exchange will only withdraw or suspend any buying-in if instructed by the Clearing House. The circumstances for withdrawal and suspension will be in the Clearing House Rules.

(4) Where buying-in is withdrawn based on Rule 8903.1(3), the settlement obligations of the defaulting Participating Organisation will be as stated in the Clearing House Rules.

**RULE 8903.2 BUYING-IN PROCEDURES Buying-In Procedures**

(1) ~~The Exchange will publish T~~the name, quantity and bidding price of the sSecurities for buying-in ~~shall be announced or published by the Exchange through its on-line electronic~~

~~display system in the ATS~~ half an hour before the commencement of ~~trading~~the buying-in on ~~every a m~~Market dDay.

**Comment [B16]:** Amended to state clearly that the name, quantity and bidding price for buying-in is displayed in the ATS.

- (2) ~~Unless otherwise determined by the Exchange, The Exchange will conduct~~ buying-in shall be conducted through ATS from 8.30 a.m. to 12.30 p.m. and 2.00 p.m. to 5.30 p.m. ~~based on the period determined by the Clearing House and in the event that if~~ the buying-in is not executed ~~whether fully or otherwise or executed fully~~ during that period, the buying-in may be continued on the following mMarket dDays ~~during the same period as instructed by the Clearing House.~~

~~(3)~~ A Participating Organisation can only enter an order to sell to the buying-in if the relevant Securities appear as "free" in the Securities Account of the seller.

**Comment [B17]:** Inserted to clarify when the PO can enter the order to sell to the buying in.

- ~~(43)~~ Allocation of contracts to Participating Organisations offering ~~The Exchange will match orders entered into the ATS~~ to sell to the buying-in shall be on a "first come first served" basis, provided that in the case of securities, the Participating Organisations or their client (hereinafter referred to as "new sellers") shall have the relevant securities in their CDS Accounts to fulfil their delivery obligation at the time when the offer was made. In the event ~~that if~~ the available balance of the Securities appear as "free" in the Securities Accounts of the ~~seller new sellers~~ differs from the offer quantity in the sell order, the allocation ~~matching for such orders~~ for buying-in shall be ~~is~~ for the lesser of those two quantities.

~~(4A)~~ The bidding price for buying-in of securities effected during the first trading session is ten (10) Ticks as specified in Schedule 4A above the Closing Price of such securities on the previous market day, rounded up, where necessary to the higher Tick.

**Comment [B18]:** The bidding price will be in the rules of the Clearing House.

~~(4)~~ The bidding price for buying-in of securities effected on the second trading session is ten (10) Ticks as specified in Schedule 4A, above the following prices, rounded up, where necessary, to the higher Tick –

**Comment [B19]:** The bidding price will be in the rules of the Clearing House.

~~(a)~~ — the Closing Price on previous market day; or

~~(b)~~ — the Last Done Price for the previous trading session, of such securities, whichever is higher.

~~(5)~~ The bidding price for buying-in by the Exchange of any securities officially quoted as "cum entitlement" shall be ten (10) Ticks above the last "cum entitlement" price or the Last Done Price, whichever is higher, from the date the securities were quoted "ex entitlement" up to the close of business on the lodgement date.

**Comment [B20]:** The bidding price will be in the rules of the Clearing House.

~~(6)~~ If buying-in is not executed fully or otherwise on the first market day, the buying-in shall be continued on the second and each succeeding market day and the bidding price shall be raised by at least five (5) Ticks until the securities are bought or buying-in is withdrawn pursuant to Rule 803.1(3).

~~(7)~~ The Exchange may, if it deems necessary, suspend the daily increase in the bidding price or revise the bid so that the bidding price shall be not more than twenty-five percent (25%) above the last recorded sale or the Last Done Price bid of the previous market day, whichever is the higher.

**Comment [B21]:** The bidding price will be in the rules of the Clearing House.

~~(8)~~ Deleted.

~~(95)~~ A trading halt or suspension from trading on a counter imposed pursuant to these Rules or the Listing Requirements shall not affect the Exchange's decision to proceed with the buying-in of the affected securities. ~~The Exchange may proceed with buying-in even if a trading suspension is imposed on Securities of a listed Issuer pursuant to these Rules or Listing Requirements.~~

~~(106)~~ Payment of securities shall be effected on the first (1st) market day following the date of buying-in contract. ~~A selling Participating Organisation in a buying-in contract must make payment received from the Clearing House pursuant to the buying-in, to the selling Client in the buying-in contract not later than 12.30 p.m on the next Market Day following the date of the buying-in contract.~~

~~(76) The Securities obtained pursuant to a buying-in will be delivered~~ Delivery to the following on buying-in shall be effected by way of book entry on the date of the buying-in contract to the Securities Account on the date of the buying-in itself:-

Comment [B22]: Amended to clarify the delivery day of the securities obtained pursuant to a buying-in and the CDS account of which the securities will be delivered to.

(a) the buyer in the failed Contract; or

(b) if the buyer in the failed Contract has sold the Securities, to the ultimate buyer of the Securities.

(148) Securities sold by a ~~new~~ seller to any buying-in between the period the Securities were quoted/traded on "ex entitlement" basis up to the lodgement date (inclusive) shall be on a "cum entitlement" basis.

(129) ~~Defaulting A defaulting~~ Participating Organisations against whom buying-in is carried out are prohibited from must not charge ing brokerage for the buying-in against the seller selling Client in the failed eContract.

(10) The selling client in the failed Contract must make payment to the defaulting Participating Organisation against whom buying-in is carried out not later than 12.30 pm on the next Market Day following the date of the buying-in contract.

~~(13110) A levy of one percent (1%) of the buying-in contract value shall be charged by the Exchange to the defaulting Participating Organisation and is payable in the currency in which the securities are traded in. The defaulting Participating Organisation concerned shall have the right to recover such levy from the defaulting client and shall be entitled to a rebate of fifty percent (50%) from that levy. The Clearing House may charge a levy on the defaulting Participating Organisation against whom a buying-in is carried out. If such levy is charged, the defaulting Participating Organisation may recover such levy paid from the seller of the failed Contract.~~

Comment [B23]: Deleted, as the amount of the levy that is charged will be determined by the Clearing House, as such, this provision will be moved to the Clearing House Rules.

**RULE 8903.2A3 CASH SETTLEMENT** Cash Settlement

(1) If buying-in is not successful by T+8, the buying-in will be withdrawn if instructed by the Clearing House. The eContract will then be settled by payment of cash for the quantity not done through the buying-in, ~~based on the requirements of~~ in accordance with the Clearing House Rules, to the person ~~stated below~~ based on the cash settlement amount determined by the Clearing House:

(a) the buyer in the failed eContract; or

(b) if the buyer in the failed eContract has further sold the sSecurities ~~on or after the Schedule Delivery Time~~ subsequent to the purchase, the ultimate buyer of the sSecurities.

(2) In order to facilitate the settlement of cash to the buyer as stipulated in Rule 8903.2A3(1), the buying Participating Organisation may be directed by the Clearing House not to further sell the sSecurities and the Participating Organisation must ensure that it gives effect to such direction.

~~RULE 803.3 DEATH OF SELLER~~

~~(1) In the event of the death of the seller in the failed contract after his order to sell securities has been executed and by the Scheduled Delivery Date there were insufficient or no tradeable balance of such securities in his CDS Account, the executors or administrators of the deceased seller shall be liable to pay for all losses and expenses incurred by the defaulting Participating Organisation as a result of any buying-in instituted in respect thereof.~~

Comment [B24]: Deleted as this is a commercial arrangement between the PO and its clients and therefore, should be left to the PO to manage, hence, should not be part of the rules.

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**[RULE 8904](#) [FAILED CONTRACTS OF ODD LOTS](#)**

**[RULE 8904.3A1](#) [FAILED CONTRACTS OF ODD LOTS](#)[Cash settlement](#)**

- (1) ~~Where~~if a Participating Organisation, ~~having sold securities,~~ fails ~~by the Scheduled Delivery Time to make available in the relevant securities account, securities as tradeable balance, to deliver Securities traded in odd lots in accordance with the Clearing House Rules,~~ the ~~e~~Contract will ~~then~~ be settled by payment of cash to the person ~~stated~~ below based on the cash settlement ~~price~~ amount determined by the Clearing House:-
- (a) the buyer in the failed Contract; or
  - (b) ~~in the event~~if the buyer in the failed Contract has further sold the ~~s~~Securities ~~subsequent to the purchase on or after the Scheduled Delivery Time,~~ the ultimate buyer of the ~~s~~Securities.
- (2) In order to facilitate the settlement of cash to the buyers as stipulated in Rule ~~803.3A(1)~~ [904.1\(1\)](#) the buying Participating Organisation may be directed by the Clearing House to not further sell the Securities and the Participating Organisation must ensure that it gives effect to such direction.

**RULE 89045 SETTLEMENT OF PAYMENT**

**RULE 804.1 BETWEEN PARTICIPATING ORGANISATIONS AND CLEARING HOUSE**

- (1) ~~All amounts –~~
- (a) ~~payable by Participating Organisations to the Clearing House; and~~
- (b) ~~receivable by Participating Organisations from the Clearing House;~~
- ~~on every market day shall be netted in accordance with the Clearing House Rules.~~
- (2) ~~By the Scheduled Settlement Time, the Clearing House shall inform every Participating Organisation of the net amount payable by the Participating Organisation to the Clearing House or the net amount receivable by the Clearing House from the Participating Organisation, being the difference between –~~
- (a) ~~the amount due to the Participating Organisation in respect of securities delivered by the Participating Organisation to the Clearing House; and~~
- (b) ~~the amount due from the Participating Organisation in respect of securities received by the Participating Organisations from Clearing House.~~
- (3) ~~Settlement of amounts due from Participating Organisations to the Clearing House under Rule 804.1(2) shall be effected in immediately available funds by the Participating Organisations not later than the Scheduled Settlement Time.~~
- (4) ~~Settlement of amounts due from Clearing House to Participating Organisations pursuant to Rule 804.1(2) shall be effected by the Clearing House by the Scheduled Settlement Time by way of remittances of funds through banks to the clearing bank accounts of the respective Participating Organisations.~~
- (5) ~~Default in settlement of amounts due from Participating Organisations to the Clearing House shall be dealt with in accordance with the Clearing House Rules.~~

**Comment [B25]:** This rule 804.1 is moved to the Clearing House Rules .

**RULE 89045.21 READY AND IMMEDIATE BASIS CONTRACTS Settlement between a Participating Organisation and Client**

- (1) ~~Ready and Immediate Basis Contracts: If a Participating Organisation is a seller in a Contract, the Participating Organisation must settle the Ppayment for Ready and Immediate Basis Contracts shall be effected – received for the Contract to the selling clientClient by the day and time stipulated in Schedule 3. Scheduled Settlement Time relating thereto.~~
- (2) ~~If a Participating Organisation is a buyer in a Contract, the Participating Organisation must receive the payment from the buying Client by the day and time stipulated in Schedule 3 notwithstanding that the seller may not have delivered the Securities in accordance with Rule 902.1(1).~~
- (23) ~~Notwithstanding Paragraph 1(a)Rule 905.1(2), a buying clientClient may sell sSecurities for which he has not paid at any time before 12.30 p.m. on the third (3<sup>rd</sup>) market day following the eContract dDate (T+3), and such sale shall be is deemed to be a sale to close-off the buying clientClient's purchase position in respect of that sSecurities. and such close-off is referred to as "contra".~~

**Comment [B26]:** The term "Immediate Basis Contracts" is deleted as the same is not used. Immediate Basis Contracts were introduced when the delivery and settlement cycle was T+7. No contracts are currently traded based on immediate basis and as such there is no utility in maintaining Immediate Basis Contracts.

**Comment [B27]:** Inserted to clarify the day and time that the PO who is a buyer in a contract receives the payment from the buying client.

**Comment [B28]:** This provision is moved here from paragraph A3, part 2 of Schedule 2A.

**905.2 Contra**

- (2) **Settlement by way of "Contra":**
- (a) ~~Settlement by way of "contra" may only be effected in respect of Ready Basis Contracts.~~

~~(1)(b) Settlement between A Participating Organisations may permit a client Client to "contra" and their clients for outstanding purchase positions against outstanding sale positions of the same securities on a "contra" basis shall be at the discretion of the Participating Organisations concerned, subject however to the terms and conditions set out in Schedule 2B. Participating Organisations shall have in place internal guidelines to ensure that a client permitted to engage in contra transactions does not incur outstanding losses deemed not within the financial ability of the client provided the following are complied with:~~

~~Participating Organisations shall have in place internal guidelines to ensure that a client permitted to engage in contra transactions does not incur outstanding losses deemed not within the financial ability of the client.~~

- ~~(a) a Participating Organisation must have guidelines for "contra" transaction:~~
- ~~(b) a Participating Organisation must notify the Clients of the guidelines prior to doing "contra";~~
- ~~(c) in allowing for a Client to contra, a Participating Organisation must take into account of the Client's financial ability to pay for losses (if any) arising from the contra;~~
- ~~(d) contra may only be effected not later than the time and date stipulated under Rule 905.1(3); and~~
- ~~(e) sales of Securities made pursuant to a selling out under Rule 906 is not considered a "contra".~~

~~(c) No Participating Organisation may allow or permit any of its clients to effect settlement by way of "contra" unless it has issued "contra" guidelines to its clients.~~

~~(2) Participating Organisations may impose charges on the client Clients only in respect of the for "contra" of purchase against subsequent sales made after the date of contract or against subsequent sales to close off the purchase position.~~

~~(3) Any difference resulting from a "contra" between outstanding position and outstanding sale position shall must be settled between the Participating Organisations and their client Clients not later than the fifth (5<sup>th</sup>) market day following the date of such "contra".~~

**RULE 89045.3 MISCELLANEOUS Set-off**

~~(12) Other than a "contra" as provided under Rule 905.2, a selling Participating Organisation must not set-off the payment due to selling Clients arising from a sale of Contract against the Clients' outstanding purchase position, whether due for payment or not, unless the Clients have agreed in writing with the Participating Organisation to allow for such set-off to be carried out.~~

~~(1) Stamp Duty: Duty payable on contracts shall be borne by the client for whose account the purchase or sale is made.~~

~~(2) Payment: Payment to selling clients from the trust account maintained by the Participating Organisation in respect of any sale of securities shall be made by Participating Organisations after delivery of the securities.~~

~~(3) Interest: A Participating Organisation which fails to make payment of any amount due to its selling client by the Scheduled Settlement Time shall pay interest on such amount at such rate as shall be determined by the Exchange save that nothing herein shall affect the right of the Exchange to take action against the Participating Organisation for such breach under any other provisions of these Rules.~~

**Comment [B29]:** This provision is incorporated and amended in Rule 905.2(1)(a).

**Comment [B30]:** Deleted as incorporated under Rule 905.2(1)(c)

**Comment [B31]:** This rule is moved here from para 2 of Schedule 2B and amended due to plain language drafting.

**Comment [B32]:** Deleted and incorporated under Rule 905.2(1)(a)and(b)

**Comment [B33]:** This rule is moved here from para 3 of Schedule 2B.

**Comment [B34]:** This rule is moved here from para 4 of Schedule 2B.

**Comment [B35]:** This rule is incorporated here from R/R 23 of 1999 on the FAQs on the previous Rules of the KLSE – question 1 on Chapter 6 on page 17.

**Comment [B36]:** Deleted in line with doing away with requirements on matters already regulated by other authorities, in this case the Inland Revenue Board of Malaysia.

**Comment [B37]:** This rule is considered under the rule relating to trust account.

**Comment [B38]:** Deleted as failure to make payment will be dealt with as a breach of the rules.



**RULE 89056 SELLING-OUT**

**RULE 89056.1 DEFAULT IN PAYMENT** ~~Default in payment~~

(1) ~~A Participating Organisations shall must, in relation to FDSS contracts, close off the purchase positions of their respective clients ("Defaulting Clients") who fail to pay for their purchases by the Scheduled Settlement Time and shall institute a selling-out within the day and time stipulated in Schedule 3 against a clientClient on the market day who fails to pay for their the Client's purchases by the time stipulated in Schedule 3 prescribed in Schedule 2, on any such securities for which the Defaulting Clients have not made full payment by the Scheduled Settlement Time.~~

Comment [B39]: Amended for clarity.

(2) ~~A Participating Organisation may still accept payment from a Client who failed to pay for the Client's purchases at any time prior to a selling-out being carried out.~~

Comment [B40]: Inserted to clarify that PO can accept payment from the buying client up till T+4, provided that the PO has not instituted a selling out against the clients. This is allowed although the PO can institute a selling out if the client has not paid the buying PO by 12.30 p.m on T+3 in accordance with Schedule 3.

**RULE 89056.2 NOTICE NOT REQUIRED** ~~Notice not required~~

(1) ~~It shall is A Participating Organisation need not be necessary for Participating Organisations to give prior notice of a selling-out to the defaulting Clients.~~

**RULE 805.3 DEATH OF PURCHASER**

(1) ~~In the event of the death of a purchaser of securities between the time of his placing the order to buy but before he has paid for such securities, the Participating Organisation's right to institute selling-out proceedings against the purchaser shall not be impaired and the executors or administrators, as the case may be, of the deceased purchaser shall be liable to pay for all losses and expenses incurred by the Participating Organisation as a result of the selling-out.~~

Comment [B41]: Deleted since pursuant to Rule 906.1(1), POs must institute selling out in accordance with the Scheduled Settlement Time in the event their clients failed to pay for their purchases, regardless of whether their clients have passed away. Further, a PO's right in law against a client is not diminished or extinguished by death of the client.

**RULE 805.4 RIGHT OF PARTICIPATING ORGANISATIONS**

(1) ~~Participating Organisations may, at any time after the institution of a selling-out, sue the Defaulting Clients for the difference between the contract price and the market price together with all consequential losses and expenses, and all damages which the Participating Organisation may sustain shall be recoverable from the Defaulting Client as liquidated damages.~~

Comment [B42]: Deleted as it is a PO's right in law to be able to claim against the client for such losses.

**RULE 89067 CLAIMS AND ENTITLEMENTS AND CLAIMS ARISING OUT OF FAILURE TO DELIVER**

**RULE 89067.1 CLAIMS ARISING OUT OF FAILURE TO DELIVER Securities transacted on "Cum Entitlements" basis**

(1) **Securities bought "cum entitlements":**

Where ~~if~~ -

- (a) ~~s~~ Securities are bought "cum entitlements" by a buyer;
- (b) ~~there are insufficient or no tradeable balance of such securities in the seller's Securities Account on the Scheduled Delivery Time by such time and day stipulated in Rule 902.1(1); and~~
- (c) ~~as a result of which, the buyer is not registered in the Record of Depositors as at lodgement date,~~

~~the buying Participating Organisation may buying Participating Organisation shall, at settlement, deduct from the contract price claim on the entitlements the appropriate amount will be as determined by in accordance with the Exchange Clearing House Rules. If however in the case of securities bought "cum entitlements" other than "cum dividend" or "cum interests" when the buying Participating Organisation claims against the selling Participating Organisation through the Clearing House, the Exchange will thereafter institute a buying in against the selling Participating Organisation within seven (7) market days from the date of notification of claim by the Clearing House to the selling Participating Organisation.~~

(2) ~~A buying Participating Organisation must inform the buying Client of the claims on the entitlements that are allowed by the Clearing House and the procedures for the claims.~~

(3) ~~A buying Participating Organisation must submit any claims requested by the Client within the time frame stipulated by the Clearing House.~~

~~(2) Securities sold "cum entitlements":~~

~~Where -~~

- ~~(a) securities are sold "cum entitlements";~~
- ~~(b) there are insufficient or no tradeable balance in the CDS account of the seller on the Scheduled Delivery Time; and~~
- ~~(c) as a result of which, the buyer is not registered in the Record of Depositors as at lodgement date,~~

~~the selling Participating Organisation shall, at settlement, deduct from the contract price any amount permitted under paragraph (b) of Rule 803.1(2) and such other amount as determined by the Exchange~~

~~(3) Securities sold cum "Restricted Offer on a Ballot basis" entitlement: When securities are sold cum "Restricted Offer on a Ballot basis" entitlement and the securities are not delivered in time for the buyer to register before the closing of the Issuer's books, the Clearing House shall deduct from the sum payable to the selling Participating Organisation an amount which is equivalent to ten per cent (10%) of the offer price for each of the securities so entitled.~~

**Comment [B43]:** This term is incorporated here so that the this rule applies to the circumstances where the shares are sold cum entitlements.

**Comment [B44]:** Amended consistent with the deletion of the definition of "Scheduled Delivery Time" from Chapter 1 and to cross refer to Rule 902.1(1) in relation to the delivery obligation of a PO.

**Comment [B45]:** This provision is introduced to ensure that the client is informed of his right to claim for entitlement.

**Comment [B46]:** This provision of previously Rule 806.2(2)(b) is incorporated here and amended to provide for the obligation of the PO to submit the claims that are allowed by the Clearing House in respect of the entitlements within the time frame stipulated by the Clearing House.

**Comment [B47]:** This rule is deleted as the same has been covered and generalized in Rule 907.1.

**Comment [B48]:** This rule is moved to the Clearing House Rules in line with the removing of the delivery and settlement obligation between POs and the Clearing House from the rules to the Clearing House Rules.

**RULE 806.2 SUBMISSION OF CLAIMS**

~~(1) The registered owner of securities shall be solely responsible to the buyer for the amount of dividends, interest, bonus issues or other rights accruing to the securities sold.~~

~~(2) Submission of claims shall be made in the following manner—~~

~~(a) It shall be the responsibility of the buyer to forthwith advise and instruct the buying Participating Organisation to submit a claim to the Clearing House.~~

~~(b) All claims for amount of dividend, interest, bonus issues or other rights shall be submitted by claiming Participating Organisations to the Clearing House within three (3) months from the respective books closure date.~~

~~(c) Claims shall be prepared by the claiming Participating Organisation which must contain such information and indemnity as prescribed by the Clearing House under or pursuant to the Clearing House Rules.~~

**Comment [B49]:** Deleted consistent with the deletion of the sub-rules herein.

**Comment [B50]:** This rule is moved to Rule 907.1(2), 907.2(2) and 907.3(2).

**Comment [B51]:** Deleted as the claims are handled by the Clearing House since it relates to the settlement of the trade. As such, details of the claims will be in the Clearing House Rules.

**Comment [B52]:** The time frame to submit the claims is reflected in the Clearing House Rules.

**Comment [B53]:** This rule is moved to the Clearing House Rules.

**RULE 89067.32 SECURITIES TRANSACTED "EX-ENTITLEMENT" BASIS Securities transacted on "Ex Entitlement" basis**

~~(1) Buyers of securities who transacted on an "ex entitlement" basis shall have no rights to the entitlements declared by the Issuer concerned.~~

(1) If a buying Participating Organisation who transacted on "ex entitlement" basis obtains the entitlement, the Clearing House will undertake whichever appropriate actions to reinstate the entitlements to the seller who sold the securities on "ex entitlement" basis.

(2) A selling Participating Organisation must inform the selling Client of the claims on the entitlements that are allowed by the Clearing House and the procedures for the claims.

(3) A selling Participating Organisation must submit any claims requested by the Client within the time frame stipulated by the Clearing House.

**Comment [B54]:** Inserted to clarify that the Clearing House may take some actions to reinstate the entitlements to the seller who sold the securities on "ex entitlement" basis.

**Comment [B55]:** This provision is introduced to ensure that the client is informed of his right to claim for entitlement.

**Comment [B56]:** This provision of previously Rule 806.2(2)(b) is incorporated here and amended to provide for the obligation of the PO to submit the claims that are allowed by the Clearing House in respect of the seller who sold securities on "ex entitlement" basis who did not get the entitlements within the time frame stipulated by the Clearing House.

**RULE 89067.43 CLAIMS ON SALE OF RIGHTS Sale of rights**

~~(1) The seller of rights, who has not effected delivery in time for the buyer to complete the transfer to enable the buyer to secure or obtain new securities pursuant to the rights, shall do all things necessary to obtain the new securities and in due course deliver them to the buyer, unless otherwise instructed in writing by the buyer. Accordingly, the seller shall—~~

~~(a) apply to the Issuer for the securities in respect of such rights; and~~

~~(b) pay the amount of application money payable by the seller in respect thereof but not exceeding the minimum amount required by the Issuer together with any other incidental costs, all of which shall be reimbursed by the buyer.~~

(1) The claims on rights will be made in accordance with the Clearing House Rules if:

(a) the rights are bought by a buyer;

(b) there are insufficient or no Tradeable Balance of such rights in the seller's Securities Account by such time and day stipulated in Rule 902.1(1);

(c) as a result of which the buyer is not registered in the Register of Depositors as at Lodgement Date; and

(d) the rights have expired.

**Comment [B57]:** Deleted as this rule does not capture the scenarios where such claims can be made clearly. As such, the new Rule 907.3(1) is introduced to replace this rule to clarify the position in respect to the claims for rights and settlements for securities transacted on ex entitlement basis.

**Comment [B58]:** This rule is introduced to clarify claims for rights

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~~(2) If a buyer does not wish the seller to protect him as required under Rule 806.4(1) in the acquisition of rights, he shall notify the seller in writing to that effect, such notice to be given not later than three (3) market days before the closing time for applications for such rights.~~

**Comment [B59]:** Amended due to plain language drafting and to ensure that the client is informed of his right to claim for entitlement.

(2) A buying Participating Organisation must inform the buying Client of the claims on the rights that are allowed by the Clearing House and the procedures for the claims.

**Comment [B60]:** This provision is introduced to ensure that the client is informed of his right to claim for the rights.

(3) A buying Participating Organisation must submit any claims requested by the Client within the time frame stipulated by the Clearing House.

**Comment [B61]:** This provision of previously Rule 806.2(2)(b) is incorporated here and amended to provide for the obligation of the PO to submit the claims that are allowed by the Clearing House in respect of the entitlements within the time frame stipulated by the Clearing House.

[End of Chapter]

CHAPTER 910 DIRECT BUSINESS TRANSACTIONS

RULE 91001 GENERAL

RULE 91001.1 GENERAL REQUIREMENTS General

- (1) All Direct Business Transactions shall be permitted on the following conditions:-
- (a) ~~the reporting of~~ the Direct Business Transactions is ~~done~~ reported to the Exchange in accordance with Rule 91002.2;
  - (b) ~~the delivery and settlement of the securities arising from Direct Business Transaction shall will be by way of book entries in the Securities Account effected through in accordance with the requirements of the Clearing House and based on FDSS as stipulated in Schedule 4. in accordance with the FDSS established by the Exchange through the Clearing House;~~
  - (c) the Direct Business Transaction results in a change of the beneficial owner of the securities concerned; and
  - (d) the prior approval of the Exchange is obtained for a Direct Business Transaction stated below:
    - (i) involving quantity of less than 50,000 units; and
    - (ii) ~~where~~if at the time of reporting of the Direct Business Transaction pursuant to Rule 91002.2, the price of such transaction will triggers the obligations stated in Rules 91002.5(2), ~~902.5(3)~~ and Rule 91003.1(2),

except where such transaction is executed for the purpose of to fulfilling an order which that cannot be completed through eOn-mMarket tTransaction or to rectify an eOn-mMarket tTransaction that has erroneously been executed.

- (2) ~~A Participating Organisation must apply to the Exchange for the prior approval as stated in Rule 91001.1(1)(d) in the following manner:~~

- (a) at least 3 markets days prior to the reporting of the Direct Business Transaction under Rule 91002.2; and
- (b) provide the information as stated in Rule 91002.5(2)(a) and the document as stated in Rules 91002.5(2)(b).

- (3) ~~Where~~if an approval has been given for the Direct Business Transaction stipulated under Rule 91001.1(1)(d), the Participating Organisation will not be subjected to the requirements in Rule 91002.5(2) except in relation to the retention period of the documents as stated in Rule 91002.5(2)(c).

- (4) ~~A Direct Business Transaction reported to the Exchange can be either a any of the following:- crossing or a married transaction.~~

- ~~(a) a crossing; or~~
- ~~(b) a married transaction.~~

- (5) The computation of VWAP, where VWAP is referred to in this Chapter 9, will not include On-Market Married Transactions.

**Comment [B1]:** Amended to clarify that the delivery and settlement of securities arising from DBT will be in accordance with the Clearing House's requirements by way of book entries in the CDS Account.

**Comment [B2]:** Amended for clarity purposes.

**Comment [B3]:** We have deleted this rule as there is no distinction in terms of the rules that apply to a crossing and a married transaction. As such the same rules apply whether the DBT is between two clients of the same PO or clients of two different PO or where the PO itself is the counter party of the transaction.

**RULE 91001.2 PROHIBITION**

(1) No Direct Business Transaction shall can be reported to the Exchange in relation to Securities where a trading halt is imposed pursuant the release of a material announcement by an Issuer under the Listing Requirements (“trading halt”) or suspension from trading is imposed pursuant to these Rules or the Listing Requirements (“suspension”).

~~(2) Mistake: Where a mistake has been made in respect of a Direct Business Transaction reported to the Exchange 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.~~

**Comment [B4]:** This rule is deleted as it is a matter between the PO and its clients hence should be left to the PO and clients to manage.

**1001.3 Delivery and settlement**

(1) Notwithstanding any provisions in the Clearing House Rules, a Participating Organisation must ensure that a Direct Business Transaction reported under Rule 1002.2 is delivered and settled in full based on the day and time stipulated in this Rule 1001.3.

(2) If a Participating Organisation is a seller in a Direct Business Transaction, the Participating Organisation must deliver the Securities in full by having the quantity of Securities sold in the Direct Business Transaction as Tradeable Balance in the Securities Account of the seller not later than the day and time stipulated in Schedule 4.

**Comment [B5]:** This provision is introduced to clarify that in relation to delivery obligation of a selling PO in a DBT, the obligation is fulfilled if the PO has the quantity of the securities sold in the DBT as tradeable balance in the selling client’s CDS account by the day and time as stipulated in Schedule 4.

(3) If a Participating Organisation is a buyer in a Direct Business Transaction, the Securities in the Direct Business Transaction will be delivered to the buyer’s Securities Account by the Clearing House at the day and time stipulated in Schedule 4, if both the selling and the buying Participating Organisation complies with the requirements in the Clearing House Rules on delivery and settlement of Direct Business Transactions.

**Comment [B6]:** Inserted to clarify that securities will be delivered to the buyer in a DBT in accordance with the day and time stipulated in Schedule 4.

(4) If a Participating Organisation is a seller in a Direct Business Transaction, the Participating Organisation must settle the payment received for the Direct Business Transaction to the selling Client by the day and time stipulated in Schedule 4.

**Comment [B7]:** Amended to clarify that PO must settle the payment received for the DBT to the selling client by the day and time stipulated in Schedule 4.

(5) If a Participating Organisation is a buyer in a Direct Business Transaction, the Participating Organisation must receive the payment in full from the buying Client by the day and time stipulated in Schedule 4, if Securities is delivered in accordance with Rule 1001.3(2).

**Comment [B8]:** Inserted to clarify the day and time that the PO who is a buyer in a DBT receives the payment from the buying client.

(6) A PO’s obligation to deliver and settle in full as stipulated in Rule 1001.3(2) and Rule 1001.3(5) is not waived even if the Clearing House clears and settles a Direct Business Transaction partially.

**Comment [B9]:** This provision is to clarify that a PO must settle all DBTs in full notwithstanding that the clearing house may settle the DBT partially. The reason why DBT must be settled in full is because the Exchange does not want a DBT which is reported to the public to be used to mislead the public.

**1001.4 Selling Out**

(1) If a buying Client fails to pay a Participating Organisation in accordance with Rule 1001.3, the Participating Organisation must institute a selling-out within the day and time stipulated in Schedule 4 against the Client.

**Comment [B10]:** To clarify that PO must institute a selling out for non payment by clients and the timing of the selling out follows OMT.

(2) A Participating Organisation may still accept payment from a Client who failed to pay for the Client’s purchases at any time prior to a selling-out being carried out.

**Comment [B11]:** Inserted to clarify that PO can accept payment from the buying client up till T+4, provided that the PO has not instituted a selling out against the clients. This is allowed although the PO can institute a selling out if the client has not paid the buying PO by 12.30 p.m on T+3.

**RULE 91002 MODE OF DIRECT BUSINESS TRANSACTIONS**

**RULE 91002.1 CONDUCT OF DIRECT BUSINESS TRANSACTIONS**Conduct of Direct Business Transactions

- (1) ~~All~~ A Participating Organisations ~~shall be~~ is deemed to ~~be act as the~~ principal in respect of ~~all~~ a Direct Business Transactions reported to the Exchange and the Exchange ~~shall do~~ es not recognise the interest of any third party, ~~regardless of whether the contract notes state that they are acting only as brokers.~~

Comment [B12]: Deleted as redundant in the light of the fact that we have expressly stated that we don't recognise the interest of 3rd parties.

**RULE 91002.2 REPORTING**Reporting of Direct Business Transactions

- (1) ~~All~~ A Participating Organisation ~~must report a~~ Direct Business Transactions ~~shall be reported~~ to the Exchange ~~by the Participating Organisation(s) by entering the details of the Direct Business Transactions into the ATS in the manner~~ as set out below:-
- (a) ~~enter~~ the details of the Direct Business Transactions ~~to be entered~~ as required by the Exchange into the ATS; ~~shall be as prescribed by the Exchange from time to time;~~
- (b) the buying and selling Participating Organisations ~~shall~~ must enter the exact details of the Direct Business Transaction into the ATS;
- (c) the reporting of a Direct Business Transaction to the Exchange ~~shall~~ will not be accepted if one Participating Organisation fails to enter the corresponding information ~~on of the the transaction~~ Direct Business Transaction;
- (d) the reporting of a Direct Business Transaction to the Exchange ~~shall be~~ is confirmed on the ATS ~~as soon as immediately after~~ the second Participating Organisation enters the corresponding information ~~on the transaction of the Direct Business Transaction into the ATS; and~~
- (e) the reporting of a Direct Business Transaction to the Exchange ~~shall~~ will be confirmed on the ATS as soon as the second Participating Organisation enters the corresponding information of the Direct Business Transaction into the ATS within the time frame ~~prescribed~~ stipulated by the Exchange.

~~(2) Deleted~~

~~(3) Deleted~~

**RULE 91002.3 ACCURACY OF REPORTS**Accuracy of reports

- (1) A Participating Organisations ~~shall be~~ is responsible for the accuracy and correctness of all information on Direct Business Transactions reported to the Exchange.

**RULE 91002.4 TRADING DAYS, TRADING SESSION AND TRADING TIME**Trading days, trading session and trading timehours

- (1) The reporting of all Direct Business Transactions by a Participating Organisation to the Exchange ~~shall be~~ is from 8.30 a.m. to 5.15 p.m. every day from Monday to Friday, ~~(except on any day that has been gazetted as a public holiday and other day on which the stock market of the Exchange is officially closed by the Exchange), or such other day(s) as may be determined by the Exchange.~~

Comment [B13]: This provision is deleted as the Exchange has the general powers in Chapter 2 to determine as such.

**RULE 91002.5 PRICES OF SECURITIES BEING TRANSACTED IN DIRECT BUSINESS TRANSACTIONS**  
Price of Securities

- (1) Direct Business Transactions can be transacted at any price as agreed between the parties.
- (2) ~~Where at the time of the reporting of a Direct Business Transaction to the Exchange, the price at which the Direct Business Transaction is transacted is either 15% above or 15% below the VWAP of the securities of the preceding market day or, in the event no trade in respect of the securities was effected on the preceding market day, the VWAP of the last market day in which trades were conducted, the Participating Organisation must ensure that:-~~ If the price of a Direct Business Transaction reported to the Exchange falls within the price stipulated in Schedule 5, a Participating Organisation must comply with the following:
- (a) ~~the following information is submitted to the Exchange in writing by 12.30 p.m. on the market day following the market day on which the Direct Business Transaction was reported to the Exchange:-~~ submit the following information to the Exchange in writing by 12.30 pm on the next Market Day after Direct Business Transaction was reported to the Exchange:
- (i) the details of the buyer and seller-;
  - (ii) the number of ~~s~~Securities involved and the price-;
  - (iii) the basis on which the price of the Direct Business Transaction was agreed; and
  - (iv) ~~the reason for the Direct Business Transaction, -; and~~
  - ~~(v) such other information as may be required by the Exchange to be submitted.~~
- (b) ensure that the ~~client~~Client executes the declaration in the format ~~prescribed~~provided in Appendix ~~126~~6; and
- (c) ~~the declaration, the written agreement evidencing the Direct Business Transaction and the relevant documents in relation to the information referred to in Rule 902.5(2)(a) above are maintained by the Participating Organisation for at least 5 years.~~ maintain the following documents for at least 5 years:
- (i) ~~at~~the declaration executed by the clientClient in the format prescribed in Appendix 6; -
  - (ii) ~~the~~ written agreement evidencing the Direct Business Transaction; and
  - (iii) ~~and any other~~ the relevant documents in relation to the information referred to in Rule 91002.5(2)(a). ~~above are maintained by the Participating Organisation for at least 5 years.~~

Comment [B14]: Deleted as the Exchange can request for information from PO and Registered Person(s) under Chapter 2.

Comment [B15]: Deleted as it is a repetition.



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~~(3) Where at the time of the reporting of a Direct Business Transaction to the Exchange, the VWAP of the securities of the preceding market day or, in the event no trade in respect of the securities was effected on the preceding market day, the VWAP of the last market day in which trades were conducted ("PVWAP") is below RM1.00, the Participating Organisation must ensure that it complies with the obligations in Rule 902.5(2) if the price at which the Direct Business Transaction is transacted is either 15 sen above or 15 sen below the PVWAP of the securities.~~

Comment [B16]: Deleted as the same is provided and simplified in the Schedule.

**RULE 91003 THE FIRST DAY OF TRADING OF SECURITIES UPLIFTED FROM IMPOSED WITH TRADING HALT OR SUSPENSION, SECURITIES LISTED AND QUOTED UNDER INITIAL PUBLIC OFFER AND SECURITIES ON THE FIRST DAY OF TRADING EX-ENTITLEMENT OR AFTER A CORPORATE ACTION**

**RULE 91003.1 REPORTING Reporting of Direct Business Transaction**

- (1) No Direct Business Transaction can be reported under Rule 1002.2 during the first hour of the first trading session of the following Securities~~In relation to Direct Business Transactions involving :-~~
- (a) ~~securities which are imposed with trading halt or suspension from trading;~~ Securities on the first day upon upliftment of the Securities from trading halt or suspension;
  - (b) ~~sSecurities under Initial Public Offer,~~ on the first day of listing and quotation of the sSecurities on the Exchange; and
  - (c) sSecurities on the first day of trading the Securities on ex-entitlement basis or, ~~as the case may be~~ after a corporate action.
- (2) The Participating Organisation must ~~ensure that it~~ complies with the obligations in Rule 91002.5(2) for a Direct Business Transaction transacted on the Securities mentioned in Rule 1003.1(1) if the Direct Business Transaction was transacted at the price stipulated in Schedule 6.
- ~~it involves the securities mentioned stipulated in Rule 91003.1(1) in the following circumstances Direct Business Transaction is transacted :- and~~
- (i) ~~if the price at which the Direct Business Transaction is transacted is either 15% above or 15% below the VWAP of the first trading session; or~~
  - (ii) ~~if the price at which the Direct Business Transaction is transacted is either 15% above or 15% below the Reference Price, where there are no trades in the first trading session.~~
- (3) In relation to Direct Business Transactions involving sSecurities which are imposed with a trading halt, reporting under Rule 91002.2 and the VWAP to be used to discharge the obligations mentioned in Rule 91003.1(42) are set in the table below:

	Time of Release of Material Announcement	Trading Halt Period	When Direct Business Transactions can be reported under Rule 91002.2	VWAP to be used to discharge the obligations under Rule 91003.1(42)
(1)	Before the	9.00am to	After 11.00am	VWAP of On-

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	commencement of trading at 9.00am	10.00am		Market Trading (“OMT”) session from 10.00am to 11.00am
(2)	9.00am until 10.30am	1 hour from the time the material announcement is released	1 hour after OMT session commences	VWAP of 1 hour <u>of</u> OMT Session
(3)	10.31am until 11.00am	1 hour from the time the material announcement is released	} <u>After 3.30pm</u>	} <u>VWAP of OMT session from 2.30pm to 3.30pm</u>
(4)	11.01 a.m. and before 12.30 pm	From the time the material announcement is released until 12.30 pm		
(5)	12.30pm until 1.30pm	No trading halt will be Imposed		
(6)	1.31pm until 2.30pm	2.30pm to 3.30pm	After 4.30pm	VWAP of OMT session from 3.30pm to 4.30pm
(7)	2.31pm until 3.00pm	1 hour from the time the material announcement is released	1 hour after OMT session commences	VWAP <u>of</u> 1 hour <u>of</u> OMT Session
(8)	3.01pm until 3.30pm	1 hour from the time the material announcement is released	} Next Market Day 1 hour after OMT session commences	} Next Market Day VWAP of OMT session from 9.00am to 10.00am
(9)	3.31pm and before 5.00pm	From the time the material announcement is released until 5.00pm		

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- (4) The Participating Organisation must ensure that it complies with the obligations in Rule 91002.5(2) for a Direct Business Transaction involving the sSecurities mentioned in Rule 91003.1(3), in the following circumstances:
- (a) if the price at which the Direct Business Transaction is transacted is either more than 15% ~~above~~ or less than 15% ~~below~~ of the VWAP referred to in Rule 91003.1(3) ("OMT VWAP"); or
  - (b) if the price at which the Direct Business Transaction is transacted is either more than 15% ~~above~~ or less than 15% ~~below~~ of the Reference Price, where there is no OMT VWAP.

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~~RULE 904~~ — ~~BROKERAGE~~

~~(1) — The brokerage payable as commission in respect of Direct Business Transactions shall be calculated in the manner prescribed in Rule 1001.~~

**Comment [B17]:** This rule is deleted as the same is already provided in Rule 1101.

**RULE 90591004 AMENDMENTS AND CANCELLATION OF DIRECT BUSINESS TRANSACTIONS**

**1004.1 Amendments and Cancellation**

- (1) ~~All Direct Business Transactions that is reported to the Exchange in accordance with Rule 1002.2(1) shall be a firm contract and accordingly there shall be no amendment except as permitted in Rule 905 (2) below or cancellation of the same cannot be cancelled, once the Direct Business Transactions have been reported to the Exchange and confirmed.~~
- (2) A Participating Organisations are may only permitted to amend any details of a Direct Business Transactions which have been reported to the Exchange in accordance with Rule 1002.2(1) and confirmed provided that:-
- (a) the amendment is ~~necessary~~ arising from a keying-in error by a Participating Organisation; and
  - (b) the amendment is effected not later than 5.15 p.m. on the day ~~on which~~ the Direct Business Transaction is reported.
- (3) Participating Organisations ~~shall ensure that~~must submit a report of the amendments effected ~~in under~~ Rule ~~910054~~ (2) ~~above shall be submitted~~ to the Exchange before the commencement of trading on the next ~~m~~Market ~~d~~Day.

**Comment [B18]:** Amended to clarify that all DBTs that are reported to the Exchange are firm contract and that no amendment or cancellation of DBTs are allowed.

**RULE ~~9069~~1005**

**FAILURE TO DELIVER OR TO MAKE PAYMENT  
PURSUANT ~~FOR TO~~ A DIRECT BUSINESS TRANSACTION**

**1005.1 Action by the Exchange**

- (1) Even if the Clearing House allows for partial delivery and settlement of a Direct Business Transaction, this does not prejudice the rights of the ~~The~~ Exchange ~~may to~~ take action against the selling Participating Organisation for any failure to deliver ~~s~~Securities in full in accordance with Rule 1001.3(2) ~~the FDSS whether it is a total or partial failure.~~
- (2) The Exchange may take action against the buying Participating Organisation for any failure to settle the amount due ~~underfor~~ a Direct Business Transaction in accordance with ~~the FDSS~~ the Clearing House Rules.

RULE ~~907~~1006

SECURITIES COMMISSION LEVY

~~RULE 907.1 LEVY~~  
1006.1 Claim

- (1) Participating Organisations ~~will be solely responsible to~~must pay to, or claim from, the Securities Commission the difference on the levy imposed by the Securities Commission arising from the failure of a buying or selling Participating Organisation in accordance with Rule ~~907-1005~~above.

[End of Chapter]



CHAPTER 101 COMMISSION AND OTHER FEES AND CHARGES

RULE 11001 BROKERAGE DEFINITIONS

11001.1 Definitions

(91) ~~Definitions: For the purposes herein~~ In this Chapter, unless the context otherwise requires: ~~:-~~

Cash uPfront

~~means full~~ Full payment by the buying Client to the buying Client's Participating Organisation for the purchase of Securities ~~prior to the entry of the order to purchase into the ATS on the same day the Securities are purchased.~~ Full payment ~~shall must~~ be in the form of cash or any other mode of payment where clearance of or good value is given to the mode of payment ~~prior to the entry of the order on the same day the Securities are purchased.~~

Comment [B1]: Moved from previous Rule 1001.1(9).

Contract Value

~~For the purposes of this Chapter, the expression "contract value" in relation to securities means~~

(a) ~~the~~ The total value of the sSecurities of the same counter a Client purchases or sells ~~purchased or sold, as the case may be, by a Participating Organisation on behalf of a client in any market day a Market Day pursuant to any contract arising from any order or orders placed by the client for that market day determined by reference to the price at which the securities were purchased or sold; or, as the case may be PROVIDED THAT~~

(b) if the Client instructs for the transaction described in paragraph (a) above to be reflected in more than one contract, the value of Securities for each contract.

The value of Securities is determined with reference to the price at which the Securities were purchased or sold.

~~(i) where a Participating Organisation is instructed by a client to appropriate various transactions executed on a particular market day to different contracts, each of such contracts thereby arising shall be deemed to be a separate order for the purposes of determining the brokerage payable to the Participating Organisation;~~

~~(ii) where a Participating Organisation is instructed by a client to purchase or sell, as the case may be, different quantities of securities of the same counter at different prices on a particular market day, all such transactions shall be deemed to be one (1) contract for the purpose herein contained.~~

Comment [B2]: This definition was previously in Rule 1001.1(3). We have simplified this definition to the effect that contract value is the total value of securities of the same counter purchased in a given Market Day. If the client instructs for the contract to be broken into more than one contract, the contract value will be the value of securities for each contract.

Intraday Trade

The buying and subsequent selling (whether or not of the entire amount bought) of Securities of the same counter within the same Market Day.

Comment [B3]: Included a new definition of "Intraday Trades" for clarity. If for example, the Client buys 10 lots and sells 5 lots, there is an intraday trade in respect of 5 lots – the amount that was bought and subsequently sold within that same Market Day.

Minimum Fixed Commission

The following minimum fixed commission:

(a) for trade other than Retail Trade

Comment [B4]: Previously in Rule 1001.1(6)(a) and referred to as Minimum Fixed Brokerage. Now all references to brokerage will read "commission".

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- (i) on transactions in loan instruments RM2.00;
- (ii) on any other transaction RM40.00.

(b) for Retail Trade

- (i) where the Contract Value is RM100,000 or below, the minimum commission payable shall be calculated at 0.6% of the Contract Value or the amount prescribed under paragraph (a) above, whichever is higher;
- (ii) where the Contract Value exceeds RM100,000, the minimum commission payable shall be calculated at 0.3% of the Contract Value or the amount prescribed under paragraph (a) above, whichever is higher;
- (iii) where the trade is an Intraday Trade, the minimum commission payable shall be calculated at 0.15% of the Contract Value or the amount prescribed under paragraph (a) above, whichever is higher.

~~e~~Online ~~f~~Routed  
~~t~~Trade

~~means trades-Trade arising from an order routed by a eClient to the Participating Organisation through the Participating Organisations' Eelectronic order routing Client-Ordering System for submission into ATS and includes an order routed through Direct Market Access, as envisaged in the Exchange's Participating Organisations' Circular R/R-1 of 2004 as may be amended, varied, supplemented, substituted therefor or revoked by the Exchange from time to time or any code, directives or guidelines as may be issued by the Exchange from time to time in relation to electronic client ordering systems.~~

~~f~~Retail ~~t~~Trades

~~means t~~Trades or transactions other than trades or transactions by or on behalf of:

- (a) life insurance companies;
- (b) general insurance companies;
- (c) superannuation or employees provident funds;
- (d) banks, including merchant banks and co-operative banks established or licensed to operate in Malaysia under the laws of Malaysia or elsewhere under the laws of the jurisdiction concerned;
- (e) a wholly-owned subsidiary of the institutions under paragraph (d) above;
- (f) finance companies;
- (g) asset management companies and unit trust management companies;
- (h) trust companies or institutions;
- (i) co-operatives established under statute;

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- (j) central, state or local government-owned or linked funds;
- (k) members or member companies of recognised stock exchanges;
- (l) securities dealers who are not members of such recognised stock exchanges but who are authorised to carry out the business of dealing in securities by the relevant authorities in jurisdictions of the recognised stock exchange; and
- (m) any other institutions or types of as determined from time to time by the Committee.

**RULE 11002 COMMISSION**

**RULE 11002.1 RATES Rates**

~~(1) Brokerage for buying and selling transactions in securities shall be charged in the manner prescribed in this Rule 1001.~~

**Comment [B5]:** Covered under the amended Rule 1102.1(1)

(1) A Participating Organisation must charge the Participating Organisation's Client, commission for every buy and sell trade executed for the Client, at the rate set out in Schedule 7.

(2) ~~If Where~~ a Participating Organisation acts for both the seller and the buyer in any bona fide a transaction, the Participating Organisation must charge both the seller and the buyer commission brokerage as at the rate set out in Schedule 7 ~~prescribed in this Rule 1001 shall be paid by each of the seller and the buyer.~~

(3) A Participating Organisation and a Dealer's Representative must not:

**Comment [B6]:** Incorporating Rule 1001.6(1) in relation to sharing of minimum brokerage here for a better flow of the Rules.

(a) share any commission the Participating Organisation or Dealer's Representative receives in connection with a trade executed for a Client with any person except as provided in Rule 310.6(3); and

(b) give any rebate on the commission that results in the Client paying less than the minimum commission set out in Schedule 7.

(4) ~~A Participating Organisation must charge Brokerage commission on trades executed for Clients in respect of dealings in overseas securities which are not quoted on the Official List in the Recognised Stock Exchanges shall be charged at the rates stated pursuant to this Chapter in Schedule 7 or the rates applied by the Recognised Stock Exchanges through which such securities are transacted, whichever is higher.~~

**Comment [B7]:** Previously Rule 1001.7. The amendments are to add clarity to the rules.

~~(3) For the purposes of this Chapter, the expression "contract value" in relation to securities means the total value of the securities purchased or sold, as the case may be, by a Participating Organisation on behalf of a client in any market day pursuant to any contract arising from any order or orders placed by the client for that market day determined by reference to the price at which the securities were purchased or sold, as the case may be PROVIDED THAT—~~

~~(i) where a Participating Organisation is instructed by a client to appropriate various transactions executed on a particular market day to different contracts, each of such contracts thereby arising shall be deemed to be a separate order for the purposes of determining the brokerage payable to the Participating Organisation;~~

~~(ii) where a Participating Organisation is instructed by a client to purchase or sell, as the case may be, different quantities of securities of the same counter at different prices on a particular market day, all such transactions shall be deemed to be one (1) contract for the purpose herein contained.~~

**Comment [B8]:** Moved to Rule 1101.1(1) which sets out the other definitions for this Chapter – see above.

~~(4) Brokerage rates chargeable shall be as follows –~~

**Comment [B9]:** Basis for calculation of commission is now set out in a table for clarity and so that the same is easier to understand. See table in Schedule 7.

~~(a) **Stocks, ordinary shares, preference shares and other listed securities executed in board lots**~~

~~For all trades (excluding Direct Business Transactions) in stocks, ordinary shares, preference shares and other securities listed and traded on the stock market of the Exchange executed in board lots, but excluding the instruments described in Rule 1001.1(4)(b) and Rule 1001.1(7), the brokerage payable shall be the minimum brokerage as prescribed in Rule 1001.1(6) or such brokerage on a fully negotiated basis between the Participating Organisation and its client subject to a maximum of 0.70% of the contract value, whichever is the higher.~~

**(b) — Other instruments**

~~For all trades in the instruments described hereinbelow regardless of the contract value or the nominal value, as the case may be, the brokerage payable shall be on a fully negotiated basis between the Participating Organisation and its client—~~

- ~~(i) — Government bonds, Municipal debentures, and Asian Dollar bonds;~~
- ~~(ii) — other non-convertible debentures;~~
- ~~(iii) — overseas options; and~~
- ~~(iv) — such other instruments as the Exchange may prescribe by way of any circulars, directives or guidelines issued by the Exchange from time to time.~~

**(c) — Online routed trades and Cash Upfront**

~~Notwithstanding any other provisions in these Rules, all trades in securities listed and traded on the stock market of the Exchange including Direct Business Transactions conducted in the manner stipulated in (i) and (ii) below, whether on a board lot basis or otherwise, the brokerage payable shall be on a fully negotiated basis between the Participating Organisation and its clients and the minimum brokerage as prescribed under Rule 1001.1(6) shall not be applicable:~~

- ~~(i) — Online routed trades; or~~
- ~~(ii) — trades paid by cash upfront~~

**(d) — Stocks, ordinary shares, preference shares and other listed securities executed in less than a board lot**

~~Notwithstanding any other provisions in these Rules, all trades in securities listed and traded on the stock market of the Exchange including Direct Business Transactions executed in less than a board lot, the brokerage payable shall be on a fully negotiated basis between the Participating Organisation and its clients and the minimum brokerage as prescribed under Rule 1001.1(6) shall not be applicable.~~

**(5) — Direct Business Transactions:**

- ~~(a) — The brokerage payable in respect of any Direct Business Transactions except for ABFMY1 trades shall be on a fully negotiated basis between the Participating Organisations and its clients but shall not be less than the Minimum Fixed Brokerage prescribed in Rule 1001.1(6)(a) **Provided Always** for all Direct Business Transactions in respect of retail trades (as hereinafter defined), the brokerage payable shall not be less than the Minimum Fixed Brokerage prescribed in Rule 1001.1(6)(a), or less than half of the Minimum Retail Brokerage prescribed in Rule 1001.1(6)(b), whichever is the higher.~~

- ~~(b) — [Deleted]~~

**(6) — Minimum brokerage:**

- ~~(a) — Subject to Rule 1001.1(4)(a) and unless otherwise provided, Participating Organisations are entitled to, and shall at all times ensure that, a minimum fixed brokerage (“Minimum Fixed Brokerage”) is payable by both the buyer and the seller as follows—~~
  - ~~(i) — in relation to transactions in securities denominated in RM:~~

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- ~~(aa) on transactions of loan instruments RM2.00;~~
- ~~(bb) on any other transaction RM40.00~~
- ~~(ii) in relation to transactions in securities denominated in foreign currency, as stipulated by the Exchange.~~
- ~~(b) Notwithstanding the foregoing rule, Participating Organisations are entitled to, and shall at all times ensure that, a minimum brokerage ("Minimum Retail Brokerage") calculated as follows is payable by both the buyer and seller for retail trades—~~
  - ~~(i) where the contract value is RM100,000 or below, the minimum brokerage payable shall be calculated at 0.6% of the contract value or the Minimum Fixed Brokerage, whichever is the higher;~~
  - ~~(ii) where the contract value exceeds RM100,000, the minimum brokerage payable shall be calculated at 0.3% of the contract value or the Minimum Fixed Brokerage, whichever is the higher;~~
  - ~~(iii) for trades of a particular securities where the outstanding purchase positions are settled against sale positions of the same securities when the purchase and sale transactions are transacted on the same contract date, the minimum brokerage payable shall be calculated at 0.15% of the contract value or the Minimum Fixed Brokerage, whichever is the higher.~~

~~(7) Brokerage rates chargeable for ABFMY1 trades:~~

~~Participating Organisations shall at all times ensure that the following brokerage is payable by both the buyer and the seller as follows—~~

- ~~(a) For all retail trades or otherwise (excluding Direct Business transactions), the brokerage payable shall be calculated at a rate of up to a maximum of 0.3% of the contract value or RM 12.00, whichever is the higher ("Brokerage Payable");~~
- ~~(b) For the avoidance of doubt, the Brokerage Payable shall also apply to all retail trades or otherwise (excluding Direct Business transactions), where the outstanding purchase positions for ABFMY1 are settled against sale positions of ABFMY1 when the purchase and sale transactions are transacted on the same contract date; and~~
- ~~(c) Direct Business: The brokerage payable in respect of any Direct Business transactions in respect of retail trades or otherwise, shall be on a fully negotiated basis between the Participating Organisations and its clients, but shall not be less than RM12.00.~~

~~(8) Discounts:~~

~~(a) [Deleted]~~

~~(b) Transactions by employees:~~

~~Participating Organisations shall be permitted to give discounts of an amount up to the equivalent to fifty percent (50%) of the brokerage payable in this Rule 1001.1 to their employees, provided that, the amount of brokerage after the abovementioned discount shall not be less than the Minimum Fixed Brokerage or in the case of ABFMY1, RM 12.~~

**Comment [B10]:** Since the rate is now negotiable subject to either a minimum or maximum charge (or both), it is no longer necessary to state that POs are permitted to give discounts to their employees.

~~(9) Definitions: For the purposes herein, unless the context otherwise requires—~~

~~cash upfront~~

~~means full payment by the buying client to the buying~~

**Comment [B11]:** Moved to Rule 1101.1(1) above.

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~~Participating Organisation for the purchase of securities prior to the entry of the order to purchase into the ATS. Full payment shall be in the form of cash or any other mode of payment where clearance of or good value is given to the payment prior to the entry of the order as mentioned above.~~

~~online-routed trades~~

~~means trades arising from orders routed by clients through the Participating Organisations' Electronic Client-Ordering System as envisaged in the Exchange's Participating Organisations' Circular R/R-1 of 2004 as may be amended, varied, supplemented, substituted therefor or revoked by the Exchange from time to time or any code, directives or guidelines as may be issued by the Exchange from time to time in relation to electronic client ordering systems.~~

~~retail trades~~

~~means trades or transactions other than trades or transactions by or on behalf of:~~

- ~~(a) — life insurance companies;~~
- ~~(b) — general insurance companies;~~
- ~~(c) — superannuation or employees provident funds;~~
- ~~(d) — banks, including merchant banks and co-operative banks established or licensed to operate in Malaysia under the laws of Malaysia or elsewhere under the laws of the jurisdiction concerned;~~
- ~~(e) — a wholly owned subsidiary of the institutions under paragraph (d) above;~~
- ~~(f) — finance companies;~~
- ~~(g) — asset management companies and unit trust management companies;~~
- ~~(h) — trust companies or institutions;~~
- ~~(i) — co-operatives established under statute;~~
- ~~(j) — central, state or local government-owned or linked funds;~~
- ~~(k) — members or member companies of other recognised stock exchanges;~~
- ~~(l) — securities dealers who are not members of such recognised stock exchanges but who are authorised to carry out the business of dealing in securities by the relevant authorities in jurisdictions of the recognised stock exchanges; and~~
- ~~(m) — any other institutions or types of companies as determined from time to time by the Committee.~~

### **RULE 1001.2 — AMOUNT OF BROKERAGE TO BE SHOWN**

~~(4) The brokerage charged in respect of transactions in securities in relation to any contract shall be evidenced in the contract notes required to be given by Participating Organisations to its clients as prescribed in the Regulations issued by the Minister pursuant to Section 90 of the Capital Markets and Services Act.~~

**Comment [B12]:** Unnecessary. For our regulatory purposes, we are more concerned with ensuring that POs comply with the minimum and maximum commission rates required to be charged. POs must be able to evidence compliance with this requirement by showing us records relating to the same, not necessarily the contract notes. Investors are still protected as the regulations issued pursuant to section 90 of the CMSA specify the requirements on contract notes.

**RULE 1001.311002.2 NET CONTRACTS PROHIBITED** ~~Net contracts prohibited~~

~~(1) In amplification of Rule 1001.2, net contracts are prohibited and no A Participating Organisation must not set off a Client's buy Contract against the same Client's sell Contract or vice versa for the purpose of calculating the Contract Value set out in Schedule 7 shall make such contract with any client.~~

**Comment [B13]:** To clarify what previously used to be termed as net contracts i.e. setting off a buy Contract against a sell Contract entered into by the same Client.

**RULE 1001.4 BANK CHARGES**

~~(1) All bank charges or expenses incurred by a Participating Organisation on behalf of its clients or in respect of any contracts entered into on behalf of its clients, as the case may be, shall be paid or apportioned in such manner as may be mutually agreed between the Participating Organisation and its client. Any other expenses incurred by a Participating Organisation on behalf of its clients or in respect of any contracts entered into on behalf of its clients, as the case may be, shall be borne by the clients.~~

**Comment [B14]:** We are proposing to do away with this rule as this is a matter that should be agreed to between the PO and the PO's Clients and not something the Exchange regulates.

~~(2) Bank charges or other expenses incurred by a Participating Organisation on behalf of its clients or in respect of any contracts entered into on behalf of its clients, as the case may be, in relation to transactions entered into with brokers of other recognised stock exchanges shall be paid or apportioned in such manner and by such amounts as may be mutually agreed pursuant to the terms of any agreement or contract made between the Participating Organisation and the parties thereto.~~

**RULE 1001.5 FLOTATION**

~~(1) Where a company makes a flotation, whether by public issue, offer for sale, placing or tender and no brokerage is payable to Participating Organisations, then and in such cases Participating Organisations are prohibited from handling such public issue, offer, placing or tender unless a prior approval has been given by the Exchange.~~

**Comment [B15]:** We are proposing to do away with this rule as this concerns primary market activities governed by SC and it is not regulated by Bursa.

**RULE 1001.6 REBATES ON BROKERAGE**

~~(1) Sharing or rebate of the minimum brokerage prescribed in Rule 1001.1(6) shall be prohibited.~~

**Comment [B16]:** Amended and moved to Rule 1102.1(3) above for a better "flow" of the Rules.

**RULE 1001.7 OVERSEAS SECURITIES**

~~(1) Brokerage in respect of dealings in overseas securities which are not quoted on the Official List shall be charged at the rates pursuant to this Chapter or the rates applied by the recognised stock exchanges through which such securities are transacted, whichever is higher.~~

**Comment [B17]:** Incorporated into 1102.1.



**RULE 110023 LEVY BY SECURITIES COMMISSION OTHER FEES AND CHARGES**

**RULE 110023.1 TRANSACTION ON THE STOCK MARKET Levy by Commission**

~~(1) Pursuant to the Securities Commission (Levy on Securities Transactions) Order 1995, the rate of levy to be paid by a purchaser or seller in respect of the purchase or sale of securities recorded on the Exchange or securities notified to the Exchange in accordance with these Rules shall be 0.015% of the purchase price of such purchase or sale.~~

(1) In this Rule 1103, a "Transaction" means a purchase or sale of:

- (a) Securities recorded on the Exchange; or
- (b) Securities notified to the Exchange in accordance with these Rules.

**RULE 1002.2 RATES**

~~(1) For all purchases and sales of securities recorded on the Exchange or securities notified to the Exchange in accordance with these Rules, including on-market transactions and Direct Business Transactions, Participating Organisations shall remit to the Exchange, for account of the Commission, from the amount payable by each purchaser and seller, a sum equivalent to 0.015% of the contract value on all bought and sold contracts.~~

(2) Pursuant to the Securities Commission (Levy on Securities Transactions) Order 1995, every selling Participating Organisation and buying Participating Organisation must pay to the Exchange, for the account of the Commission, a levy on a Transaction as stipulated in Schedule 8.

~~(2) In the event that only brokerage is payable on such purchase or sale of securities, the said levy of 0.015% shall form part of the brokerage payable by purchasers and sellers to Participating Organisations.~~

~~(3) In the event that only clearing fee is payable on such purchase or sale of securities, the said levy shall be derived as follows-~~

- ~~(a) 0.0075%, being half of the said levy, from the clearing fee payable by the purchaser and seller to the Clearing House; and~~
- ~~(b) 0.0075%, being half of the said levy, from the Participating Organisations acting for the purchaser or seller.~~

~~(4) In the event that both clearing fees and brokerage are payable on such purchase or sale of securities, the said levy shall be derived as follows-~~

- ~~(a) 0.0075%, being half of the said levy, from the clearing fees payable by the purchaser and seller to the Clearing House; and~~
- ~~(b) 0.0075%, being half of the said levy, from the brokerage payable by the purchaser and seller to the Participating Organisations.~~

~~(5) In the event that neither brokerage nor clearing fee is payable on such purchase or sale of securities, the said levy of 0.015% shall be borne by the Participating Organisations acting for the purchaser or seller.~~

**Comment [B18]:** To refine the structure of the Rules, SC Levy to be a sub-heading under "Other Fees and Charges"

Amendments have been made to clarify and improve the "flow" of this Rule in the following manner:

1. that SC Levy is payable;
1. how SC Levy is derived if both clearing fee and commission is payable on the Leviable Transaction -0.0075% from clearing fee, 0.0075% from commission;
4. how SC Levy is derived if only commission (no clearing fee) is payable on the Leviable Transaction;
5. how SC Levy is derived if only clearing fee (no commission) is payable on the Leviable Transaction;
6. how SC Levy is derived if neither commission nor clearing fee is payable;
7. the cap on the portion of SC Levy payable from clearing fee;
8. that the Exchange collects the SC Levy for the SC;
9. that POs and the Clearing House must submit their respective portions to the Exchange within the specified time frame.

POs should note that no cap is applicable for the portion of SC Levy payable from commission.

**Comment [B19]:** This is deleted as the levy payable is already prescribed under the new Rule 1103.1(2)

**Comment [B20]:** This term is now defined as we are bringing the SC Levy provisions in line with the Securities Commission (Levy on Securities Transactions) Order 1995. It will be clarified that SC Levy is based on the purchase price of securities recorded on the Exchange or securities notified to the Exchange in accordance with these Rules.

**Comment [B21]:** Unnecessary as this is covered in the other rules in this Rule 1103.1.

**Comment [B22]:** Unnecessary as on-market transactions and Direct Business Transactions are contracts recorded on the Exchange.

**Comment [B23]:** Moved to Schedule 8.

**Comment [B24]:** Moved to Schedule 8.

**Comment [B25]:** Moved to Schedule 8. We have split this Rule to cater specifically for bought contracts and sold contracts to clarify the Rule.

**Comment [B26]:** Moved to Schedule 8.

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~~(6) Notwithstanding the foregoing provisions, where the said levy of 0.015% is derived in part from the clearing fee as envisaged in Rule 1002.2(3) and Rule 1002.2(4) hereof, such part equivalent to 0.0075% from the clearing fee payable by the purchaser or seller to the Clearing House shall be subject to the maximum of Ringgit Malaysia Ninety Three and Sen Seventy Five (RM93.75) per contract.~~

~~For the avoidance of doubt, in the circumstances provided in the preceding paragraph, the part of the said levy derived from the brokerage payable by the purchaser or seller shall remain at 0.0075% of the contract value on all bought and sold contracts, being half of the said levy.~~

~~(7) The Participating Organisations and the Clearing House shall remit the said levy to the Exchange, who shall be authorised to collect the said levy of 0.015% on behalf of the Commission, within one (1) week of the Exchange's billing date.~~

~~**RULE 1003 CLEARING FEES**~~

~~**RULE 11003.4 Clearing fees CLEARING FEES**~~

~~(1) A Participating Organisation must pay to the Clearing House, Clearing-clearing fees payable by both buyers and sellers of services provided by a Clearing House designated by the Exchange shall be as determined by as the Clearing House determines from time to time.~~

**Comment [B27]:** Instead of prescribing the details, we will be setting out the principle that if there is a cap on the clearing fee, there will be a corresponding cap on the SC Levy payable from the clearing fee. This way, the rule will be flexible and be able to accommodate any change in the clearing fee cap.

**Comment [B28]:** The obligation on the PO to pay the Exchange, for the account of the Commission, the SC Levy is already in Rule 1103.1(3) above. It is unnecessary to place, in these Rules, the obligation on the Clearing House to remit the levy to the Exchange and this is why we are removing it.

**Comment [B29]:** To refine the structure of the Rules. Clearing Fees to be a sub-heading under "Other Fees and Charges"

**Comment [B30]:** Amended to place the obligation on the PO to pay the Clearing House the clearing fees as the Clearing House determines.

**Comment [B31]:** Unnecessary as "Clearing House" is defined in Rule 101.1(1) to mean the clearing house known as "Bursa Malaysia Securities Clearing Sdn Bhd" and any other clearing house as may be designated by the Exchange .

~~RULE 1004 — SYSTEM MAINTENANCE FEE~~

~~RULE 1004.1 — SYSTEM MAINTENANCE FEE~~

~~The Exchange shall maintain and manage the system. For this purpose the Exchange shall levy on Participating Organisations a fee as determined by the Exchange from time to time. Such fee shall be a percentage of the contract value on all bought and sold contracts. All Participating Organisations shall remit such fee to the Exchange within one (1) week from the Exchange's billing date.~~

**Comment [B32]:** Moving this requirement to pay the Exchange a system maintenance fee to Paragraph 4.2 of Directive No. [300-001]. This is because we are restricting this Chapter to payments a PO needs to make other than payments the Exchange specifies e.g. rate of commission, SC Levy and clearing fee. This is a system maintenance fee that is imposed by the Exchange on POs and as such should not be in this Chapter.

**RULE 1005 — SUBSCRIPTION AND CALLS**

**RULE 1005.1 — SUBSCRIPTION AND CALLS**

~~The Exchange may from time to time require Participating Organisations to pay such monthly or other subscriptions, calls and levies for the privileges of trading on the Exchange and the use of the Exchange's trading facilities as the Exchange from time to time determine. Any Participating Organisation which omits to pay any such subscription call or levy within one (1) calendar month after the same shall have been due, made or levied shall be sent a further written demand for payment thereof and if the amount due is not paid within one (1) further calendar month from the date of such written demand for payment the Exchange may summarily delete the name of the Participating Organisation from the register of Participating Organisations kept by the Exchange and shall so notify the Participating Organisation concerned by notice in writing.~~

**Comment [B33]:** Moving this rule that empowers the Exchange to require POs to pay such monthly or other fees and charges for the privileges of trading on the Exchange and the use of the Exchange's trading facilities as the Exchange may determine to Paragraph 4.3 of Directive No. [300-001] and Rule 301.8. This is because we are restricting this Chapter to payments a PO needs to make other than payments the Exchange specifies e.g. rate of commission, SC Levy and clearing fee. This will be a fee that is imposed by the Exchange on POs and as such should not be in this Chapter.

**Comment [B34]:** This has been included in Rule 301.8(2) as the Exchange should have the power specified in the rule in relation to the non-payment of all fees and charges payable to the Exchange and not only to non-payment of subscription and calls.

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~~RULE 1006 — RIGHT TO REVIEW~~

**Comment [B35]:** Unnecessary in view of our general power under Rule 201.1(2)(b) to add to, vary, repeal, enforce or waive any of these Rules.

~~RULE 1006.1 — REVIEW OF RATES~~

- ~~(1) Notwithstanding any of the foregoing provisions, the Exchange may at any time and from time to time, or at the direction of the Commission, prescribe such other rate or rates as the Exchange and/or the Commission may determine by way of any circulars, directives or guidelines issued by the Exchange~~

[End of Chapter]

**CHAPTER 124 FINANCIAL RESOURCES RULES, CAPITAL ADEQUACY REQUIREMENTS AND ACCOUNTING, AUDIT AND FINANCIAL REPORTING REQUIREMENTS**

**RULE 1101 PAID-UP CAPITAL AND RESERVE FUND**

**RULE 1101.1 PAID-UP CAPITAL AND MINIMUM SHAREHOLDERS' FUNDS UNIMPAIRED BY LOSSES OF PARTICIPATING ORGANISATIONS**

- (1) ~~The paid-up capital and minimum shareholders' funds unimpaired by losses of every Participating Organisation shall not be less than Ringgit Twenty Million (RM20,000,000.00) each or such other amount as the Minister may from time to time determine. The Minister may exempt any Participating Organisation from the provisions of this Rule 1101.1 for such period and on such terms and conditions as he deems fit.~~
- (2) ~~Notwithstanding the provisions in Rule 1101.1(1), an Investment Bank shall all times comply with the provisions in the Guidelines on Investment Bank or any other requirements of the Central Bank pertaining to its minimum paid-up capital requirements and other requirements pertaining to its capital ("the Relevant Guidelines and Requirements") and the Relevant Guidelines and Requirements shall be deemed to be part of these Rules.~~

**Comment [Bursa1]:** All capital requirements have been moved to the new Chapter 13.

**RULE 1101.2 RESERVE FUND**

- (1) ~~Every Participating Organisation shall annually set aside a certain minimum percentage of its audited profit after tax to a reserve fund in accordance with the following—~~

<i>Shareholders' fund of Participating Organisation (including Reserve Fund)</i>	<i>Minimum percentage or profit after tax to be placed in the Reserve Fund</i>
<i>RM (million)</i>	
<i>Less than 10</i>	<i>20%</i>
<i>Between 10-30</i>	<i>10%</i>
<i>More than 30</i>	<i>0%</i>

- (2) ~~The Reserve Fund shall not be available for payment of dividends.~~
- (3) ~~Where in any financial year the retained earnings of a Participating Organisation shall be in a deficit, the Participating Organisation may transfer out an amount equal to the deficit from the Reserve Fund to the retained earnings and any such amount so transferred out shall not be available for payment of dividend.~~

**Comment [Bursa2]:** Doing away with the requirement for a reserve fund to allow POs the flexibility to manage their own funds. We will focus on and monitor the PO's Effective Shareholders Funds and CAR.

**RULE 124021 FINANCIAL RECORDS AND REPORTING ACCOUNTS AND FINANCIAL REPORTING**

**RULE 124021.1 MAINTENANCE OF FINANCIAL RECORDS Accounts**

- (1) ~~Every A Participating Organisation shall must maintain keep or cause to be maintained on a continual basis up-to-date accounting and other books and records. The accounting and other books and records must:~~
- (a) ~~comply with the Exchange's requirements; and~~
- (b) ~~be kept for a period of not less than 7 years from the date the records are first prepared. in a form and manner which—~~

**Comment [Bursa3]:** This rule sets out the general principle that a PO must keep up-to-date accounting and other records. The details of what exactly the accounting and other records must reflect will be included in the directives on accounting and financial reporting requirements in the PO Manual.

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- ~~(a) will enable its statutory auditor to supply the information required under Rule 1201.1;~~
- ~~(b) sufficiently show and explain the transactions and financial position of its business such that they are able to disclose with substantial accuracy the financial position of the Participating Organisation at the close of business on any day;~~
- ~~(c) which are up-to-date and continually updated.~~
- ~~(2) A Participating Organisation shall also keep or cause to be kept in Bahasa Malaysia or English all accounting and other records in accordance with Division 4 of Part III of the Capital Markets and Services Act and any other legislation relating to the securities industry, and in compliance with the accounting directives set out in Schedule 6A;~~
- ~~(3) A Participating Organisation may keep a record in a form other than a document provided that such record can be reproduced in hard printed form;~~
- ~~(4) A Participating Organisation shall keep and preserve its accounting and other records for a period of no less than seven (7) years after the date on which they are first made or prepared;~~
- ~~(5) A Participating Organisation shall maintain adequate procedures and system to ensure reasonable safeguard against loss, unauthorised access, alteration or destruction of its accounting and other records;~~
- ~~(6) The provisions of this Rule 1102.1 shall apply not only to the records of the principal office of every Participating Organisation but shall also apply mutatis mutandis to the records of any other offices from time to time established by the Participating Organisation with the approval of the Exchange;~~

**RULE 121021.2 FINANCIAL REPORTING** **Financial reporting statements**

- ~~(1) A Participating Organisation shall must prepare and submit to the Exchange such all financial reporting statements reports within such time as the Exchange may from time to time stipulate specifies within the period specified. The financial reporting statements must comply with the Exchange's requirements;~~
- ~~(2) A Participating Organisation other than an Investment Bank shall observe the directives set out in Schedule 6B and an Investment Bank shall observe the requirements stipulated in the Guidelines on Investment Banks in the preparation of its reporting statements and –~~
  - ~~(a) any reporting statements submitted by the Participating Organisation or the Investment Bank shall be signed by the Head of Operations who has been duly authorised by its board of directors to do so;~~
  - ~~(b) any capital adequacy returns pursuant to Rule 1105 and required under this Chapter must be signed by the Head of Operations and/or any duly authorised person in the case of Investment Bank and any other director or its Compliance Officer;~~
  - ~~(c) all statements and returns required to be submitted by the Participating Organisation and the Investment Bank under this Rule shall be addressed to the Head Intermediary Supervision Group and shall be submitted either by electronic transmission or in paper form in the manner determined by the Exchange. All such submissions by electronic transmission shall be deemed to be a declaration by the Head of Operations or any duly authorised person and Compliance Officer, that the information and records contained therein are true and accurate in all material aspects; and~~
  - ~~(d) submit on a daily basis, the cash flow position and/or projection returns in the form and frequency that may be prescribed by the Exchange;~~

**Comment [Bursa4]:** Doing away with duplication. There is already a general provision in Rule 301.6 requiring the PO to comply with Securities Laws.

**Comment [Bursa5]:** Moved to the directives on accounting and financial reporting requirements in the PO Manual as the directives are operational in nature.

**Comment [Bursa6]:** Covered under Rule 501.4 and PO Manual i.e. Directives 500-001

**Comment [Bursa7]:** Included under Rule 1201.1(1)(b) above.

**Comment [Bursa8]:** Covered under Rule 501.4 and the PO Manual which requires POs to ensure the integrity, security and confidentiality in the transmission and storage of all records including accounting records.

**Comment [Bursa9]:** Unnecessary in light of the general requirement in 602.1(3) that all relevant Rules are applicable to branch offices of the PO

**Comment [Bursa10]:** Plain language drafting. Incorporating the principle that the financial reporting statements must comply with the Exchange's requirements.

**Comment [Bursa11]:** Moved to the directives on accounting and financial reporting requirements in the PO Manual. The principle that the financial reporting statements must comply with the Exchange's requirements is set out in Rule 1201.2 above.

**Comment [Bursa12]:** We are doing away with the requirement of having specific persons sign reports. Rule 501.9 allows an authorised person to sign the report. However, POs and Registered Person(s) must ensure that all information provided that is within the scope of responsibility of that person is complete, accurate and not misleading. Also, if such person becomes aware that the information provided is incomplete, inaccurate or misleading, such person must promptly inform us. If the Registered Person(s) fails to do so, he will be accountable. See Rule 501.9

**Comment [Bursa13]:** There is already a general power on the Exchange to issue directives, rulings for the purposes of these Rules. POs would have to comply with these directives, rulings etc.

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~~(3) — The Exchange shall at all times be entitled to inspect Participating Organisations' financial and other records in order to verify their compliance with this Chapter.~~

**Comment [Bursa14]:** Unnecessary as we have the general power to inspect under Rule 1401.2.



~~RULE 1103 — RISK MANAGEMENT AND INTERNAL CONTROL~~

~~RULE 1103.1 — RISK MANAGEMENT~~

~~(1) — [Deleted]~~

~~(2) — [Deleted]~~

~~(3) — [Deleted]~~

~~(4) — [Deleted]~~

~~(5) — [Deleted]~~

~~RULE 1103.2 — INTERNAL CONTROL~~

~~(1) — [Deleted]~~

~~(2) — [Deleted]~~

~~(3) — [Deleted]~~

RULE 12402 STATUTORY AUDIT

RULE 12403.1 ANNUAL STATUTORY AUDIT AND ANNUAL REPORT ~~Annual statutory audit and Annual Report~~

- (1) ~~Every A Participating Organisation shall~~ must have an auditor to audit ~~cause~~ accounts relating to ~~its the Participating Organisation's~~ business ~~to be audited by a company auditor ("statutory auditor")~~ for each financial year ~~of the Participating Organisation~~ in accordance with the Companies Act and Capital Markets and Services Act ("Statutory Auditor").
- (2) ~~Every A Participating Organisation must~~ shall furnish to the Exchange and all relevant ~~statutory authority~~ within three (3) months after the close of the financial year, or such other period as permitted by the relevant statutory authority, submit to the Exchange an audited financial statement, the accounts audited by the Statutory Auditor as stipulated in Rule 12402.1(1) ("Annual Statutory Audit Report") ~~any other documents deemed necessary or expedient~~ and an Annual Report ~~stating~~ within 3 months after the close of the financial year. The Annual Statutory Audit Report and Annual Report must comply with the Exchange's requirements.
- (3) The Annual Statutory Audit Report must contain the Statutory Auditor's opinion on whether the Participating Organisation has complied with the relevant requirements in these Rules and laws on the Participating Organisation's financial position and treatment of Client's assets.
- (a) ~~whether the Minimum Paid-Up Capital and the capital adequacy requirements have been maintained and complied with as required by these Rules;~~
- (b) ~~whether, in the opinion of the statutory auditor, the financial position of the Participating Organisation is such as to enable it to conduct its business on sound lines, having regard to the nature and volume of the business transacted during its past financial year as shown in its books of accounts and records;~~
- (c) ~~whether, in the opinion of the statutory auditor, the provisions of Sections 111 to 114 of the Capital Markets and Services Act and these Rules, have been complied with;~~
- (d) ~~whether in the opinion of the statutory auditor, the provisions relating to the treatment of clients' assets under these Rules have been complied with;~~
- (e) ~~whether, in the opinion of the statutory auditor, the books of accounts and records of the Participating Organisation are those usual in a business of this nature and appear to have been kept in a proper manner and in accordance with the relevant laws; and~~
- (f) ~~whether the statutory auditor has obtained all the necessary information and explanations for the proper conduct of the audit and to enable the auditor to furnish his Annual Report;~~
- (34) Each A Participating Organisation shall must, within 2 months from commencing business as a Participating Organisation, notify inform the Exchange, in writing, ~~of any change to: -~~
- (a) the date of ~~its the Participating Organisation's~~ financial year end; and
- (b) the name of the ~~statutory auditor~~ Statutory Auditor who will furnish the Annual Report.
- (45) ~~A Participating Organisation commencing or resuming business after the coming into effect of these Rules shall must inform the Exchange in writing of any change to the financial year end or the Statutory Auditor of the Participating Organisation within two (2) months after such commencement or resumption comply with the foregoing requirements of Rule 1201.1(3).~~

**Comment [Bursa15]:** Previously Rule 1201. Moved here to refine structure of the Rules as this rule on statutory audit and annual report relates to financial reporting. Mark-up shows amendments made to the wording in the previous Rule 1201.1.

**Comment [Bursa16]:** The requirement for a PO to furnish the relevant audited financial statements to other statutory authorities is covered in the respective legislation.

**Comment [Bursa17]:** The detailed requirements of an audited financial statement and an Annual Report are set out in the accounting and financial reporting directives in the PO Manual.

**RULE 124043 SUSPENSION OF INTEREST AND  
PROVISIONS FOR BAD AND DOUBTFUL DEBTS**

**RULE 124043.1 OBLIGATION TO COMPLY WITH GUIDELINES** **Directives**

(1) A Participating Organisation ~~shall~~ **must** comply with the Exchange's Directives which sets out the minimum requirements on guidelines set out in Schedule 7 for

(a) the treatment of interest charged by the Participating Organisation to a Client; and

(b) the impairment provisions for bad and doubtful debts irrespective of whether such debts have been assigned, unless otherwise approved by the Exchange.

~~(2) In making the provisions, a Participating Organisation may adopt standards which are more stringent than those envisaged in the guidelines provided the Participating Organisation establishes, implements and maintains effective systems of controls and procedures to ensure compliance with the stricter standards.~~

**Comment [Bursa18]:** The guidelines on the suspension of interest and provision for bad and doubtful debts will be removed from the Rules and included in the PO Manual as these guidelines are prescriptive in nature.

**Comment [Bursa19]:** The inclusion of these words is unnecessary as it is a given. Doing away with redundancy.

**Comment [B20]:** Unnecessary to include this rule as Rule 1203.1(1) has been amended to state that at minimum, a PO must comply with the Exchange's Directives. This means that a PO is free to adopt more stringent standards. As for having effective systems of controls and procedures to ensure compliance with standards in general is covered in Chapter 5 where a PO must have adequate written policies and procedures to prevent any contravention by the PO or any Registered Person(s) of the PO's own internal policies and procedures which will include the stricter standards.

**RULE 1104.2 REPORTING ON SUSPENSION OF INTEREST AND PROVISIONS**

(1) ~~[Deleted]~~

**RULE 124043.32 DUTY TO DISCLOSE** **Duty to disclose**

(1) A Participating Organisation ~~must~~ **shall ensure that the relevant information on suspension of interest and provision for bad and doubtful debts are disclosed ensure disclosure of the following in its the Participating Organisation's** audited financial statements ~~–,~~

(a) ~~confirmation of its compliance with the guidelines;~~

(b) ~~total outstanding amount of impaired accounts;~~

(c) ~~total outstanding amount of impaired accounts classified as doubtful;~~

(d) ~~total amount of impaired accounts classified as bad;~~

(e) ~~movements of interest in suspense and impairment provision for bad and doubtful debts; and~~

(f) ~~information about its accounting policies and methods adopted in accounting for impaired accounts.~~

**Comment [Bursa21]:** The details of what should be included in the audited financial statements in relation to suspension of interest and provision for bad and doubtful debts has been moved to the PO Manual.

**RULE 1104.4 RIGHT OF REVIEW**

(1) ~~This Rule 1104 together with the applicable Schedules and any other tables, appendices or annexures thereto shall be subject to such variations, amendments, modifications or substitutions as the Exchange may deem to be necessary and expedient by way of any circulars or directives issued by the Exchange from time to time.~~

**Comment [Bursa22]:** Unnecessary as we have a general power under Rule 201.1(2)(b) to add to, vary, repeal or waive any of these Rules.

**RULE 1105 — CAPITAL ADEQUACY REQUIREMENTS**

**Comment [Bursa23]:** All capital requirements have been moved to the new Chapter 13.

~~This Rule sets out the capital adequacy requirements which are principally designed to ensure that Participating Organisations are entities of substance so as to foster confidence in the stock market and to create an environment in which Participating Organisations are able to wind down their stockbroking businesses without loss to their clients and without disruption to the stock market.~~

**RULE 1105A — INVESTMENT BANKS**

~~(1) — The capital adequacy requirements in relation to an Investment Bank shall be the Investment Bank Capital Adequacy Framework as prescribed in the Guidelines on Investment Banks and the same shall be deemed to be part of these Rules. The capital adequacy requirements prescribed in the provisions contained in Rules 1105.4, 1105.5, 1105.6, 1105.7, 1105.8, 1105.9 and 1105.10 shall not be applicable to an Investment Bank. All other provisions in Rule 1105 shall be applicable to the extent the provisions therein are expressed to be applicable to an Investment Bank.~~

**RULE 1105.1 — DEFINITIONS**

~~(1) — In this Rule 1105, unless the context otherwise requires –~~

<del>Capital Adequacy Ratio</del>	<del>in relation to a Participating Organisation, means the ratio linking the liquid capital of the Participating Organisation to risks faced, calculated as the Participating Organisation's Liquid Capital divided by its Total Risk Requirement.</del>
<del>call option(s)</del>	<del>means an instrument(s) which give(s) its holder the right, but not the obligation, to buy a specified quantity of the underlying securities from the writer of the option at a specified exercise price within a set period.</del>
<del>Capital Base</del>	<del>shall have same meaning as assigned to that expression in the Guidelines on Investment Banks.</del>
<del>Collateral</del>	<del>in relation to securities borrowing and lending referred to in 1105.7(5)(d) means the 'collateral' mentioned in Rule 608.7 and where the collateral consist of securities, to the extent those securities have been subdivided or consolidated, made the subject of a bonus issue or event similar to any of the foregoing, the expression Collateral shall have the following meaning:</del> <ul style="list-style-type: none"> <li><del>(a) in the case of subdivision or consolidation, the securities into which the Collateral have been subdivided or consolidated;</del></li> <li><del>(b) in the case of a bonus issue, the Collateral together with the securities allotted by way of bonus issue thereon; and</del></li> <li><del>(c) in the case of any event similar to any of the foregoing events, the Collateral, together with or replaced by a sum of money and/or securities equivalent to that received in respect of such Collateral resulting from such event.</del></li> </ul>
<del>Core Capital</del>	<del>in relation to a Participating Organisation, means the level of financial resources or capital maintained in a readily realisable form to meet its Operational Risk Requirement, as computed in accordance with Schedule 8A.</del>

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<del>Counterparty</del>	<del>means any person with or for whom a Participating Organisation carries on, or intends to carry on, any dealings in securities.</del>
<del>Counterparty Risk</del>	<del>means the risk of a counterparty defaulting on its financial obligation to a Participating Organisation.</del>
<del>Counterparty Risk Requirement</del>	<del>in relation to a Participating Organisation, means the amount necessary to accommodate a given level of its Counterparty Risk, as calculated in accordance with Rule 1105.7 and, where applicable, Rule 1105.10.</del>
<del>Debt</del>	<del>means borrowed funds represented by a security or instrument that must be repaid by the issuer.</del>
<del>DF Account</del>	<del>shall have the same meaning as “DF Account” stipulated in the Directives Allowing For the Provision of Discretionary Financing By Participating Organisations To Their Clients Pursuant to Rule 703.2(3) of the Rules of Bursa Malaysia Securities Bhd.</del>
<del>Effective Shareholders' Funds</del>	<del>in relation to a Participating Organisation, means its last audited shareholders' funds less unaudited losses.</del>
<del>equity derivative</del>	<del>means an instrument evidencing rights, futures or options in or to securities which derive an existence from exchange traded equity securities and the value of which is dependent on the underlying investment.</del>
<del>equity securities</del>	<del>means securities other than debt securities.</del>
<del>exchange traded</del>	<del>means traded or listed on an exchange.</del>
<del>exercise price</del>	<del>means the price at which the holder of an option(s) can buy or, as the case may be, sell the underlying securities of the option(s).</del>
<del>hybrid securities</del>	<del>hybrid securities means such securities which are a combination of a conventional securities and an embedded derivative and which may consist of virtually any combination of two or more financial instrument building blocks e.g. bond or note, swap, forward or future, or option.</del>
<del>income</del>	<del>has the same meaning assigned to that expression under Rule 608.1</del>
<del>in the money</del>	<del>Means that –</del> <ul style="list-style-type: none"> <li><del>(a) — in relation to call options and warrants –</del> <ul style="list-style-type: none"> <li><del>(i) — where the Participating Organisation as the buyer is the holder of the right to exercise, the exercise price is less than the current market price of the underlying instrument;</del></li> <li><del>(ii) — where the Participating Organisation as the writer is the holder of the obligation, the exercise price is greater than the current market price of the underlying instrument;</del></li> </ul> </li> <li><del>(b) — in relation to put options and warrants –</del></li> </ul>

	(i) <del>where the Participating Organisation as the buyer is the holder of the right to exercise, the exercise price is greater than the current market price of the underlying instrument;</del>
	(ii) <del>where the Participating Organisation as the writer is the holder of the obligation, the exercise price is less than the current market price of the underlying instrument.</del>
Intermediary Supervision	<del>means Intermediary Supervision of the Exchange, as is presently known, or howsoever known or by whatsoever name called from time to time.</del>
Large Exposure Risk	<del>means risks to which a Participating Organisation is exposed arising from the following—</del>
	<del>(a) a proportionally large amount of exposure to a particular counterparty;</del>
	<del>(b) a proportionally large exposure to a single issuer of debt;</del>
	<del>(c) a proportionally large exposure to a single security.</del>
Large Exposure Risk Requirement	<del>in relation to a Participating Organisation, means the amount necessary to accommodate a given level of its Large Exposure Risk, as calculated in accordance with Rule 1105.8.</del>
Liquid Capital	<del>in relation to a Participating Organisation, represents its financial resources or liquid capital maintained in a readily realisable form to meet its Total Risk Requirement, as calculated in accordance with Rule 1105.4.</del>
Liquid Margin	<del>in relation to a Participating Organisation, means the amount in excess of Liquid Capital after deducting the Total Risk Requirement.</del>
margin account	<del>means the account which a Participating Organisation allows to be opened and maintained by a client for the purpose of dealing in securities pursuant to margin financing facility made available by the Participating Organisation to that client.</del>
margin financing facility	<del>in relation to a Participating Organisation, means a facility made available by the Participating Organisation to a client for trading exclusively in securities that are listed on the Official List, in accordance with the provisions of Rule 703.</del>
Margin Financing Onward Lent Risk	<del>means the risks to which a Participating Organisation is exposed from Margin Securities which have been onward lent pursuant to securities borrowing and/or lending by the Participating Organisation to such third party, as may be permitted from time to time pursuant to the Clearing House Requirements.</del>
Margin Financing On-Pledged Risk	<del>means the risks to which a Participating Organisation is exposed from securities held by it as collateral pursuant to margin financing facilities but which have been onward pledged by the Participating Organisation to such third party, as may from time to time be permitted pursuant to these Rules and/or</del>

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	<del>Depository Rules, to which the Participating Organisation has a balance owing which is secured against onward pledged collateral.</del>
<b>Margin Securities</b>	<del>has the same meaning assigned to that expression under Rule 608.8.</del>
<b>mark-to-market</b>	<del>in relation to securities, means to value the securities at its closing price on a market day.</del>
<b>mark-to-market difference</b>	<del>in relation to securities, means its contract value less its mark to market value.</del>
<b>marketable securities</b>	<del>means all securities held by a Participating Organisation as principal, including its investments, holdings in clearing accounts and/or such other accounts and/or securities as may be permitted or prescribed by the Exchange from time to time.</del>
<b>Minimum Operational Risk Requirement</b>	<del>means the absolute minimum amount necessary to accommodate the Operational Risk of a Participating Organisation ascertained by reference to the types of business activities carried out by that Participating Organisation, and determined in accordance with Rule 1105.5(3).</del>
<b>Operational Risk</b>	<del>means the risks to which a Participating Organisation is exposed arising from inadequate management of operational risk and includes risk of fraud, operational or settlement failure and shortage of liquid resources.</del>
<b>Operational Risk Requirement</b>	<del>in relation to a Participating Organisation, means the amount necessary to accommodate a given level of its Operational Risk, as stipulated under Rule 1105.5.</del>
<b>option(s)</b>	<del>means the put option(s) and the call option(s), and where the context so permits, shall be construed to mean any of them.</del>
<b>out of the money</b>	<del>means those options and warrants which are not in the money.</del>
<b>OTC derivatives</b>	<del>means those derivatives not traded or listed on an exchange.</del>
<b>permitted business</b>	<del>in relation to a Participating Organisation, means such business as expressly permitted in the dealer's licence and shall include any other business as may be permitted by the Commission and the Exchange from time to time.</del>
<b>Position Risk</b>	<del>means the risks to which a Participating Organisation is exposed arising from securities held by it as principal and where applicable, shall include Margin Financing On-Pledged Risk.</del>
<b>Position Risk Requirement</b>	<del>in relation to a Participating Organisation, means the amount necessary to accommodate a given level of Position Risk, as calculated in accordance with Rule 1105.6 and where applicable Rule 1105.10.</del>
<b>put option(s)</b>	<del>means an instrument(s) which give(s) its holder the right, but not the obligation, to sell a specified quantity of the underlying securities to the writer of the option at a specified exercise price within a set period.</del>
<b>Recall</b>	<del>means redelivery of Securities Borrowed to the lender and/or redelivery of the Collateral to the borrower, whether partial or in</del>

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	<del>full pursuant to the terms of the Client SBL Agreement or SBL Agreement as defined in Rule 704.</del>
<del>Recognised Market Indices</del>	<del>means the market indices of the recognised stock exchanges which are acceptable to the Exchange from time to time, as set out in Schedule 8C.</del>
<del>Risk-Weighted Capital Ratio</del>	<del>shall have the same meaning that is assigned to that expression in the Guidelines on Investment Banks.</del>
<del>securities borrowing and/or lending</del>	<del>has the same meaning assigned to that expression as referred to in Rule 608.</del>
<del>Securities Borrowed or Securities Lent</del>	<del>means any securities borrowed or securities lent pursuant to securities borrowing and/or lending and to the extent that the securities borrowed or securities lent consist of securities that have been subdivided or consolidated, made the subject of a bonus issue or event similar to any of the foregoing, the expression Securities Borrowed or Securities Lent shall have the following meaning:</del> <ul style="list-style-type: none"> <li><del>(a) in the case of subdivision or consolidation, the securities into which the Securities Borrowed or Securities Lent have been subdivided or consolidated;</del></li> <li><del>(b) in the case of a bonus issue, the Securities Borrowed or Securities Lent together with the securities allotted by way of bonus issue thereon; and</del></li> <li><del>(c) in the case of any event similar to any of the foregoing events, the Securities Borrowed or Securities Lent, together with or replaced by a sum of money and/or securities equivalent to that received in respect of such Securities Borrowed or Securities Lent resulting from such event.</del></li> </ul>
<del>Total Risk Requirement</del>	<del>in relation to a Participating Organisation, means the sum of Operational Risk Requirement, Position Risk Requirement, Counterparty Risk Requirement, Large Exposure Risk Requirement and Underwriting Risk Requirement Subject Always to the Rule 1105.10.</del>
<del>Underwriting Risk</del>	<del>Means any risks to which a Participating Organisation is exposed arising from a contingent binding commitment by a Participating Organisation to acquire securities at a certain price and time.</del>
<del>Underwriting Risk Requirement</del>	<del>in relation to a Participating Organisation, means the amount necessary to accommodate a given level of its Underwriting Risk, as calculated in accordance with Rule 1105.9.</del>

**RULE 1105.2 – INTERPRETATION**

~~In this Rule 1105, references to "related or associated person" shall include—~~

- ~~(a) a related corporation, which in relation to a corporation, means a corporation that is related to the first-mentioned corporation by virtue of Section 6 of the Companies Act, 1965;~~
- ~~(b) an associated corporation, which in relation to a corporation, means a corporation that is deemed to be associated with the first-mentioned corporation by virtue of the first-mentioned~~



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mentioned corporation holding, directly or indirectly, not less than twenty per cent (20%) and not more than fifty per cent (50%) of the issued and paid-up capital of such corporation;

- (c) a shareholder or a person connected with a shareholder as construed in accordance with Section 132G(4) of the Companies Act, 1965;
- (d) a director or person connected with a director as construed in accordance with Section 122A of the Companies Act, 1965.

**RULE 1105.3 – OBLIGATIONS**

**(1) Primary Obligation:** Every Participating Organisation shall ensure that—

- (a) its Liquid Capital is at all times greater than its Total Risk Requirement;
- (b) its Core Capital is at all times greater than its Operational Risk Requirement.

**(2) Requirement to Notify Exchange:** Where at any one time—

- (a) its Liquid Capital is equal to or less than its Total Risk Requirement; or
- (b) its Core Capital is equal to or less than its Operational Risk Requirement;

a Participating Organisation shall immediately notify the Exchange and take all necessary steps to increase its Liquid Capital or reduce its risk exposures. The Exchange may at its discretion, after receipt of the notice, give such directions to the Participating Organisation as it deems fit and/or impose such conditions within or upon which the business operations of the Participating Organisation may be carried on.

**(3) Capital Adequacy and Risk Weighted Capital Ratios:** A Participating Organisation shall—

- (a) in the case of a Participating Organisation other than an Investment Bank, calculate and monitor its Capital Adequacy Ratio for purposes of complying with Rule 1105.3(1) on a daily basis and in the case of an Investment Bank, the Risk Weighted Capital Ratio as prescribed in the Investment Bank Capital Adequacy Framework; and
- (b) submit to the Exchange through electronic transmission the information and records which are relevant in calculating its Capital Adequacy Ratio in the manner and at the times prescribed below; and—

	<b>Capital Adequacy Ratio</b>	<b>Frequency</b>	<b>Positions as at</b>	<b>Time for reporting being not later than</b>
(i)	More than or equal to four point zero (4.0)	Monthly	Last market day of the month	4.00 p.m on following market day
(ii)	Less than four point zero (4.0) but more than or equal to two point zero (2.0)	Fortnightly	<ul style="list-style-type: none"> <li>• 15<sup>th</sup> calendar day of the month if market day, or the market day immediately preceding the 15<sup>th</sup> calendar day</li> <li>• last market day of the month</li> </ul>	4.00 p.m on following market day
(iii)	Less than two	Daily	Each market day	4.00 p.m on

	point zero (2.0)			following market day
<p><b>Change in Capital Adequacy Ratio:</b>  <del>In the event there is change in Capital Adequacy Ratio for which a change in the reporting frequency is required, a Participating Organisation shall report to the Exchange no later than 4.00 p.m. of the market day immediately following the market day on which such change occurred for the position thereat.</del></p>				

All such submissions by electronic transmission shall be deemed to be a declaration by the Head of Operations and any director or Compliance Officer of the Participating Organisation that the information and records contained therein are true and accurate in all material aspects.

- (4) ~~Reporting:~~ A Participating Organisation shall submit to the Exchange a return, in the form prescribed in Schedule 8A, pertaining to its Liquid Capital, Total Risk Requirement, Liquid Margin and Capital Adequacy Ratio –
- (a) ~~on a monthly basis, not later than 4.00 p.m. on the tenth (10th) calendar day after the end of the month;~~
  - (b) ~~on a weekly basis, not later than 4.00 p.m. on the first (1st) market day of the following week, if its Capital Adequacy Ratio is between (but not including) one point one zero (1.10) and one point two zero (1.20);~~
  - (c) ~~on a daily basis, not later than 4.00 p.m. the following market day, if its Capital Adequacy Ratio is one point one zero (1.10) or less.~~

~~Notwithstanding the times and manner provided above, the Exchange may at any time prescribe such other manner for monitoring the Capital Adequacy Ratio or require ad-hoc or more frequent submissions of the abovementioned return by the Participating Organisation by the Participating Organisation as it may determine in consultation with the Commission.~~

- (4A) ~~In the case of an Investment Bank, the Exchange may at any time, in addition to the requirements prescribed under Investment Bank Capital Adequacy Framework, prescribe such other manner for monitoring the Risk Weighted Capital Ratio and/or require ad-hoc or more frequent submission of returns and/or prescribe additional submissions of returns.~~
- (5) ~~Declaration:~~ In the event the Capital Adequacy Ratio of the Participating Organisation shall at any time be one point two zero (1.20) or less, or in the case of an Investment Bank, in the event the Risk Weighted Capital Ratio shall at any time be at the minimum level or less than that which has been prescribed in the Guidelines on Investment Banks, the Participating Organisation shall as soon as reasonably practicable or immediately upon a request from the Exchange submit in writing to Intermediary Supervision its decided course of action or corrective measures taken (if any) accompanied by a written declaration, in form and substance acceptable to the Exchange, by the Head of Operations and any director or Compliance Officer of the Participating Organisation that the decided course of action or corrective measures are being carried out or as the case may be, have been duly carried out and completed.
- (6) ~~Inspection:~~ A Participating Organisation shall –
- (a) ~~provide any documents or other information required by the Exchange for purposes of monitoring compliance of this Rule 1105 and the Investment Bank Capital Adequacy Framework, as the case may be;~~

- ~~(b) — prepare and keep available for inspection by the Exchange details of its Liquid Capital, Total Risk Requirement and Liquid Margin computations and in the case of an Investment Bank, the Risk Weighted Capital Ratio computations.~~

**RULE 1105.4 — LIQUID CAPITAL**

- ~~(1) — **General Principle:** — Every Participating Organisation shall, in computing its Liquid Capital deduct all fixed or non-liquid assets. For the purposes of these Rules—~~

- ~~(a) — "liquid assets" means securities or other current assets which have a ready market, or which are capable of realisation within thirty (30) days;~~
- ~~(b) — in relation to an asset, "ready market" means a market where the asset can be realised without materially and adversely affecting its value.~~

- ~~(2) — **Computation of Liquid Capital:**~~

- ~~(a) — Subject to Rules 1105.4(3) to (6), the Liquid Capital of a Participating Organisation shall be determined in accordance with the computation as set out in Schedule 8A.~~

- ~~(b) — For the avoidance of doubt—~~

- ~~(i) — unaudited profits shall be included in the computation of Liquid Capital;~~
- ~~(ii) — unaudited losses (which must include all unrealised losses except unrealised losses from principal positions which are provided for hereinafter) shall be deducted from Liquid Capital;~~
- ~~(iii) — unrealised gains from principal positions shall be included in the computation of Liquid Capital; and~~
- ~~(iv) — unrealised losses from principal positions shall be deducted from Liquid Capital.~~

- ~~(c) — Participating Organisations shall mark to market all its marketable securities reported in Schedule 8A on a daily basis.~~

- ~~(3) — **Sources of Capital:** — In the computation of its Liquid Capital, a Participating Organisation may, to the extent that they meet the criteria as prescribed in respect thereof, include the following sources of capital—~~

- ~~(a) — **Preference Shares**~~

~~Non-cumulative and non-redeemable preference share capital shall be included in the Core Capital.~~

- ~~(b) — **Approved Subordinated Debts**~~

~~Approved subordinated debts, being debts which are legally subordinated for a period of at least two (2) years in the manner approved or determined by the Exchange and are only repayable with the prior written approval of the Exchange. Approved subordinated debts shall also be subject to the following—~~

- ~~(i) — The aggregate amount of the debts shall be restricted to one hundred percent (100%) of the Participating Organisation's Effective Shareholders' Funds. Unless expressly permitted by the Exchange, there shall be no recognition by the Exchange of any subordinated debts in the event the Participating Organisation's Effective Shareholders' Funds is in negative and the Participating Organisation's subordinated debts (whether previously~~

~~approved or otherwise) shall not be included in the computation of Liquid Capital.~~

- ~~(ii) The lender or creditor ("subordinated creditor") shall have expressly and irrevocably agreed that:
    - ~~(aa) its right to receive principal and interest in respect of the debts shall at all times be subordinated to all other lenders or creditors of the Participating Organisation ("senior creditors"); and~~
    - ~~(bb) it shall not be entitled to claim or receive payment from the Participating Organisation, by way of set-off or in any other manner, of the subordinated debts unless and until all other debts of the Participating Organisation not being debts subordinated hereunder ("senior debts") has been paid or except where the Exchange has given its written approval in respect thereof pursuant to Rule 1105.4(3)(b)(v).~~~~
  - ~~(iii) The debts shall not be subject to any cross default and negative pledge.~~
  - ~~(iv) Subject to such terms and conditions as may be imposed by the Exchange, the debts shall be converted into equity if the Participating Organisation fails:
    - ~~(aa) to comply with the Capital Adequacy Requirements under this Rule 1105; and~~
    - ~~(bb) to undertake or effect an appropriate capital reconstruction of the Participating Organisation which has been approved by the Exchange.~~~~
  - ~~(v) Repayment of the whole or part of the debts shall be made only with the prior written approval of the Exchange provided always that the Exchange may withhold its consent if it is not satisfied that the Participating Organisation is able to continuously comply with the Capital Adequacy Requirements under this Rule 1105.~~
  - ~~(vi) In the event of dissolution, winding up, liquidation or reorganisation of the Participating Organisation, the senior creditors of the Participating Organisation shall have the prior right to receive payment in full of their debts before the subordinated creditor receives any payment in respect of the subordinated debt.~~
  - ~~(vii) If, notwithstanding the provisions set out in the preceding paragraphs of this Rule 1105.4(3)(b), any distribution is received by the subordinated creditors in respect of the subordinated debts such distribution shall be paid over to the senior creditors for application rateably against their senior debts until they have been paid in full.~~
- (c) Revaluation Reserves**
- Revaluation reserves of fixed assets on an "as is" basis subject to the following-
- ~~(i) The revaluation reserves of the fixed asset included in the computation of Liquid Capital being the lower of:
    - ~~(aa) any excess between the force sale value and the net book value; or~~
    - ~~(bb) fifty per cent (50%) of any excess between the fair market value and the net book value; and~~~~
  - ~~(ii) The revaluation exercise from which the revaluation reserves is calculated was conducted-~~

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- ~~(aa) — not earlier than the expiry of ten (10) years from the date the fixed asset was purchased or the date of the last revaluation on the fixed asset, unless otherwise determined by the Exchange from time to time upon consultation with the Commission; and~~
- ~~(bb) — by a professional valuer acceptable to the Exchange and who is licensed under the Valuers, Appraisers and Estate Agents Act, 1981 and all regulations and re-enactments thereto.~~

~~(4) — **Specific Excluded Assets:** — Notwithstanding anything contained in this Rule 1105, the following assets shall be excluded from the computation of Liquid Capital in the following manner—~~

~~(a) — **Fixed Assets and Intangible Assets**~~

~~The total net book value of fixed assets and intangible assets as reported in the balance sheet including goodwill, capitalised development costs, licences, trademarks and similar rights.~~

~~(b) — **Tax Assets**~~

~~The full amount of tax assets or advance tax payments, unless the Participating Organisation has a written statement from the relevant tax authorities indicating that payment will be made within three (3) months therefrom.~~

~~The Exchange may, from time to time as it considers appropriate, include any other types of assets under this Rule 1105.4(4).~~

~~(5) — **Excluded Asset Types:** — In addition to the assets specified in Rule 1105.4(4), the following assets shall also be fully excluded from the computation of Liquid Capital—~~

~~(a) — **Other Non-current Assets**~~

~~All other non-current assets including (but not limited to) investments in the form of equity holding of more than twenty percent (20%) in a company. Investment in excess of twenty percent (20%) in a company shall be regarded as an investment in an associated company.~~

~~(b) — **Charged Asset**~~

~~Liquid assets charged to third parties except where the asset is charged for the sole purpose of raising funds from a third party on an arm's length basis for use exclusively in the Participating Organisation's business and provided that the Participating Organisation has duly notified the Exchange of the details of the charged assets.~~

~~(c) — **Deposits With Non-approved Institution**~~

~~Deposits other than those with approved financial institutions, to the extent that they are not adequately secured. For the purpose of this paragraph (c), "approved financial institutions" means banking and financial institutions licensed under Malaysian laws and includes international banking or financial institutions approved or prescribed by the Exchange from time to time.~~

~~(d) — **Related/Associated Persons Balances**~~

~~Balances with a related or associated person regardless of whether such balances are secured or otherwise.~~

~~(e) — **Other Debtors**~~

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~~Balances with other debtors which are due for payment for more than thirty (30) days, to the extent that they are not adequately secured. Such balances shall not include those with related or associated persons.~~

~~(f) — Prepayments~~

~~Prepayments not capable of being cancelled and realised into cash within thirty (30) days.~~

~~(g) — Other Assets~~

~~Assets not realisable within thirty (30) days except to the extent that they are secured by securities or some other form of collateral acceptable to the Exchange, including loans to affiliated companies or corporations which are regulated under any law or regulation and which are, for the purposes of such law or regulation, treated as part of the regulatory or statutory capital of the affiliates.~~

~~For the purposes of this Rule 1105.4(5), a Participating Organisation may use collateral or security in reduction of the exclusion of the above assets, where applicable, provided that the conditions set out in Rule 1105.7(6)(b) are complied with and the value of the collateral envisaged shall be determined by applying the applicable discounts as prescribed in Schedule 8J.~~

~~(6) — Contingent Liabilities:~~

~~(a) — General~~

~~A Participating Organisation intending to enter into a position in relation to an instrument, financial or otherwise which gives rise to a contingent liability, shall at all times throughout the period of maintaining the aforementioned position, be able to maintain-~~

~~(i) — Liquid Margin which is adequate to enable the Participating Organisation to fully perform and/or discharge its obligations under the contingent liability; and~~

~~(ii) — minimum Capital Adequacy Ratio of not less than 1.20 times or such other minimum as may be from time to time prescribed by the Exchange.~~

~~(b) — Guarantees~~

~~(i) — Guarantees issued by Participating Organisations shall be excluded from the computation of Liquid Capital, subject to Rule 1105.4(6)(b)(ii) below.~~

~~(ii) — Notwithstanding Rule 1105.4(6)(b)(i), a Participating Organisation may apply to the Exchange for partial inclusion or full inclusion of a guarantee issued by the Participating Organisation, into the computation of Liquid Capital. Approval for such partial inclusion or full inclusion of a guarantee issued by a Participating Organisation into the computation for Liquid Capital shall be at the discretion of the Exchange.~~

~~(iii) — Notwithstanding Rule 1105.4(6)(b)(i), where a guarantee is given to a company within the Participating Organisation's group of companies, that company's assets and liabilities (to the extent that they are covered by the guarantee) shall be taken into account as being part of the Participating Organisation's assets and liabilities for purposes of the computation, and in such case, the guarantee shall not be deducted from the capital computations (except where the Exchange agrees otherwise).~~

~~(iv) — The Exchange shall be immediately informed in writing of any intra-group and related party guarantees.~~

~~(c) — Option(s)~~

- ~~(i) — A Participating Organisation's liability arising from put option(s) written, or entered into by it, shall be—
  - ~~(aa) — treated as contingent liabilities of the Participating Organisation as from the date of its unequivocal acceptance of the commitment of the put option(s) or the date on which the agreement(s) for the put option(s) is signed, whichever is earlier; and~~
  - ~~(bb) — deducted from the computation of Liquid Capital.~~~~
- ~~(ii) — A Participating Organisation shall calculate all contingent liabilities arising from put option(s) written by it in the manner prescribed in Schedule 8N.~~
- ~~(iii) — In calculating contingent liabilities arising from put option(s), the Participating Organisation may reduce its contingent liabilities in respect thereof to the extent that it holds collateral in accordance with the conditions set out in Rule 1105.7(6).~~
- ~~(iv) — For the purposes herein, the value of collateral shall be determined by applying the applicable discounts prescribed in Schedule 8J of Rule 1105.~~

**RULE 1105.5 — OPERATIONAL RISK**

~~(1) — **General Principle:** Every Participating Organisation shall ensure that its Operational Risk Requirement is, at all times, less than its Core Capital.~~

~~(2) — **Computation of Operational Risk Requirement:**~~

- ~~(a) — The Operational Risk Requirement of a Participating Organisation shall be the greater of—
  - ~~(i) — the applicable Minimum Operational Risk Amount as determined under Rule 1105.5(3); or~~
  - ~~(ii) — twenty five percent (25%) of the Participating Organisation's annual expenditure requirement based on the last auditor's report lodged with the Exchange for the preceding twelve (12) months.~~~~
- ~~(b) — Notwithstanding Rule 1105.5(2)(a), the Exchange may, at its absolute discretion, require a Participating Organisation to increase its Operational Risk Requirement if the Exchange is not satisfied that the internal controls of the Participating Organisation are ad euate.~~

~~(3) — **Minimum Operational Risk Requirement:**~~

- ~~(a) — The Minimum Operational Risk Requirement applicable to a Participating Organisation shall be determined by whether a Participating Organisation is a Universal Broker or Non-Universal Broker.~~
- ~~(b) — A Participating Organisation which is a Universal Broker shall apply a Minimum Operational Risk Amount stipulated under category A of Schedule 8B.~~
- ~~(c) — A Participating Organisation which is a Non-Universal Broker shall apply a Minimum Operational Risk Amount stipulated under category B of Schedule 8B.~~

~~(4) — **Annual Expenditure Requirement:** The annual expenditure requirement of a Participating Organisation shall be calculated with reference to its most recent auditor's report lodged with the Exchange as follows—~~

- ~~(a) — its total revenue less profit before taxation; or~~
  - ~~(b) — the aggregate of its total revenue and any loss before taxation;~~
- ~~less the aggregate of the following items-~~
- ~~(i) — non-contractual bonuses paid out of the relevant year's profits to directors and employees;~~
  - ~~(ii) — payments and other appropriations of profit in whatever form, except for fixed or guaranteed remunerations which shall be made payable even if the company makes a loss for that year;~~
  - ~~(iii) — paid commissions which are shared with persons other than employees or directors;~~
  - ~~(iv) — fees, levy and other charges paid to the Clearing House, the Commission and Depository;~~
  - ~~(v) — interest payable to counterparties;~~
  - ~~(vi) — interest payable on borrowings to finance the company's investment business and associated business carried on in connection therewith;~~
  - ~~(vii) — exceptional items (including but not limited to those items which arise from events or transactions within the ordinary activities of the business of a Participating Organisation and which are both material and not expected to recur frequently or regularly), with the prior written approval of the Exchange;~~
  - ~~(viii) — losses arising on the translation of foreign currency balances; and~~
  - ~~(ix) — any other costs and expenses that the Exchange may from time to time stipulate.~~

~~(5) — **Exemption: If a Participating Organisation does not have an auditor's report -**~~

- ~~(a) — in the case where it has just commenced business or it has not carried on business long enough to have submitted its auditor's report to the Exchange, it shall base its annual expenditure requirement on budgeted or other accounts which it submitted to the Exchange as part of its application to become a Participating Organisation;~~
- ~~(b) — in the case where its accounts represent a period in excess of twelve (12) months, it shall calculate its annual expenditure requirement on a proportionate basis approved by the Exchange.~~

~~(6) — **Adjustment:** — The Exchange may require a Participating Organisation to adjust its annual expenditure requirement if—~~

- ~~(a) — there has been a significant change in the circumstances or activities of the Participating Organisation; or~~
- ~~(b) — the Participating Organisation has a material proportion of its expenditure incurred on its behalf by third parties and such expenditure is not fully recharged to the Participating Organisation.~~

**RULE 1105.6 — POSITION RISK**

~~(1) — **General Principle:** — Subject Always to Rule 1105.10, every Participating Organisation shall calculate its Position Risk Requirement -~~

- ~~(a) — in respect of all securities held by it as principal, including those held pursuant to its intra-day activities;~~



- ~~(b) — on an intra-day basis to ensure that its Total Risk Requirement does not exceed its Liquid Capital;~~
- ~~(c) — in respect of all Securities Borrowed and/or Securities Onward Lent for itself as principal; and~~
- ~~(d) — in respect of all securities other than Margin Securities held by it which has been onward lent by it as principal for the purpose of securities borrowing and lending.~~
- ~~(2) — **Principles Applicable to Equity Position Risk Requirement:**— In calculating the Position Risk Requirement in respect of its equity and equity derivative positions, a Participating Organisation shall observe the following principles—~~
  - ~~(a) — in accordance with Rule 1105.6(1), a Participating Organisation shall calculate all principal positions held by it;~~
  - ~~(b) — a Participating Organisation shall, on a daily basis, mark to market all its principal positions;~~
  - ~~(c) — a Participating Organisation may, in the case of securities held by it pursuant to intra-day activities, reduce its risk exposure to the extent of the mark to market value of any collateral held after deducting the applicable discounts prescribed in Schedule 8J;~~
  - ~~(d) — where applicable, a Participating Organisation shall calculate its Position Risk Requirement on a country by country basis;~~
  - ~~(e) — in the case of depository receipts, a Participating Organisation shall allocate a share represented by that depository receipt to the same country as the underlying share; and~~
  - ~~(f) — a Participating Organisation shall add any income accrued on any Securities Borrowed, Securities Lent or Collateral and shall deduct any fees and charges imposed on the borrowing, lending or the Collateral.~~
- ~~(3) — **Position Risk Requirement for other instruments:**— Where a Participating Organisation has a position in an instrument for which no treatment is specified under this Rule 1105, the Participating Organisation shall immediately, in writing, seek guidance from Intermediary Supervision on the treatment to apply to such position, and until an appropriate treatment has been determined by the Exchange, the Position Risk Requirement shall be one hundred per cent (100%) of the mark to market value of the instrument.~~
- ~~(4) — **Methods of Computation of Equity Position Risk Requirement:**— A Participating Organisation shall calculate its Position Risk Requirement in respect of its equity and equity equivalent positions based on either of the following approaches—~~
  - ~~(a) — the Standard Approach (Rule 1105.6(9));~~
  - ~~(b) — the Building Block Approach (Rule 1105.6(10));~~

~~which, in the case of equity derivatives, may be supplemented by the following methods—~~

  - ~~(i) — the Margin Method (Rule 1105.6(11));~~
  - ~~(ii) — the Hedging Method (Rule 1105.6(12));~~
  - ~~(iii) — the Basic Method (Rule 1105.6(13)).~~
- ~~(5) — **Types of Positions to be Included:**~~

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- (a) ~~A Participating Organisation shall apply either the Standard Approach or the Building Block Approach in calculating the equity Position Risk Requirement in respect of equity shares.~~
- (b) ~~Subject to Rule 1105.6(6)(b), a Participating Organisation may, in the calculation of its equity Position Risk Requirement, include positions in the following equity derivatives as equity equivalent positions by applying with the Standard Approach or the Building Block Approach—~~
- ~~(i) equity swaps;~~
  - ~~(ii) exchange traded options and stock options;~~
  - ~~(iii) individual share futures;~~
  - ~~(iv) over-the-counter share options;~~
  - ~~(v) warrants over single share;~~
  - ~~(vi) index and basket equity derivatives;~~
  - ~~(vii) depository receipts; and~~
  - ~~(viii) convertible notes.~~

~~Provided that where the relevant provisions of Rule 1105.6(6)(b) are not satisfied, a Position Risk Requirement shall be calculated by the Participating Organisation applying either the Margin Method, the Hedging Method or the Basic Method as may be appropriate.~~

- (c) ~~Where the conversion of a convertible note or any equity derivative into an equity equivalent position gives rise to a notional loss, such loss shall be treated as an additional capital charge. A Participating Organisation shall derive the equity equivalent position of a convertible note prior to applying the Standard Approach or Building Block Approach in calculating the equity Position Risk Requirement.~~

~~(6) **Qualifying criteria for application of the Standard Approach or Building Block Approach to equity derivatives:**~~

- (a) ~~Convertible notes shall be treated as equity instruments where—~~
- ~~(i) there remain less than one (1) year to the conversion date; and~~
  - ~~(ii) they are traded at a "premium" of less than ten per cent (10%).~~

~~If the abovesaid criteria are not fulfilled, the Participating Organisation may treat the convertible notes as either an equity instrument (as described above) or as a debt instrument under Rule 1105.6(15). The expression "premium" means the current mark to market value of the convertible less the current mark to market value of the underlying security, expressed as a percentage of the current mark to market value of the underlying security.~~

- (b) ~~The conversion of the instruments referred to in Rule 1105.6(5)(b) into equity equivalent positions shall be subject to the following rules—~~
- ~~(i) Equity swaps shall be treated as two notional positions;~~
  - ~~(ii) An option position may only qualify for an inclusion in the Standard Approach or Building Block Approach if it is in the money by at least the Position Risk Factor used in the Standard Approach as prescribed in Schedule 8C. In any other case, the Position Risk Requirement shall be calculated by the~~

~~Participating Organisation by applying either the Basic, Hedging or Margin Methods, as may be appropriate, and not as an equity equivalent position;~~

- ~~(iii) Purchased call options and written put options shall be treated as long positions;~~
- ~~(iv) Purchased put options and written call options shall be treated as short positions;~~
- ~~(v) Individual share futures may be included as single equity equivalent positions at their current mark to market value;~~
- ~~(vi) A warrant position may only qualify for an inclusion in the Standard Approach or Building Block Approach if it is in the money by at least the Position Risk Factor used in the Standard Approach as prescribed in Schedule 8C. In any other case, the Position Risk Requirement shall be calculated by the Participating Organisation by applying either the Basic, Hedging or Margin Methods, as may be appropriate, and not as an equity equivalent position;~~
- ~~(vii) Equity options and futures contracts over indices or baskets of shares may be treated as either a single equity equivalent position or as a notional position in the constituent equities;~~
- ~~(viii) Conversion of any other instruments shall be as determined by the Exchange on a case by case basis.~~

~~(7) **Calculation of Equity Equivalent Positions:** Subject to Rule 1105.6(5) and Rule 1105.6(6), a Participating Organisation must calculate the equity equivalent position of equity derivatives or such other instruments for which no treatment is specified under this Rule 1105 in accordance with such rules, guidelines, directives or circulars as may be prescribed by the Exchange from time to time.~~

~~(8) **Position Netting:** A Participating Organisation may, in respect of-~~

- ~~(a) an equity, net a long position against a short position where the positions are in the same type of equity;~~
- ~~(b) an equity equivalent positions resulting from the equity derivative identified in Rule 1105.6(5)(b), net a long position against a short position where the positions are in the same type of instrument provided that the instrument has been converted into an equity equivalent position in accordance with Rule 1105.6(6)(b); and~~
- ~~(c) securities borrowing and/or lending, net a position of Securities Lent against Securities Borrowed where the positions are of the same type.~~

~~(9) **Standard Approach:**~~

- ~~(a) **Net position:** Any positions to which this approach is applied must be converted into a net position.~~
- ~~(b) **Methodology:** The total Position Risk Requirement based on the Standard Approach shall be calculated on a country by country basis as follows-~~

~~Step 1~~

~~Calculate the Position Risk Requirement for each net equity position. Net long and net short positions must both generate positive Position Risk Requirements.~~

$$PRR_{\text{equity position}} = \frac{\text{Mark to market value of net}}{\text{value of net}} \times PRF$$

position

Where,

PRR = Position Risk Requirement

PRF = Applicable Position Risk Factor, as prescribed in Schedule 8C

Step 2

Calculate the Position Risk Requirement based on the Standard Approach for each country portfolio as follows –

$PRR_{\text{country portfolio}} = \text{Aggregate of PRR applicable to the net long and net short position within the country portfolio}$

Step 3

Calculate the total Position Risk Requirement based on the Standard Approach as follows –

$\text{Total PRR}_{\text{Standard Approach}} = \text{Aggregate of the PRRs of all country portfolios}$

(10) ~~Building Block Approach:~~

(a) ~~Additional qualifying criteria: The Building Block Approach may be used on equity and equity equivalent positions only if the following conditions are satisfied –~~

- (i) ~~where, within a country's portfolio, there are at least five (5) net long or five (5) net short positions held from market indices maintained or recognised by the Exchange; and~~
- (ii) ~~where a particular net long or short position exceeds twenty per cent (20%) of the gross value of the country's portfolio, only the amount up to twenty per cent (20%) may be treated under the Building Block Approach. The excess amount shall be treated under the Standard Approach.~~

(b) ~~Methodology:~~

~~The total Position Risk Requirement based on the Building Block Approach shall be calculated on a country by country basis as the sum of the specific risk and general market risk.~~

$PRR_{\text{country portfolio}} = \text{General Market Risk} + \text{Specific Market Risk}$

~~The specific risk and general market risk shall be calculated as follows –~~

~~Specific Risk~~

~~The specific risk shall be calculated on a country by country basis as follows –~~

~~Step 1~~

~~Calculate the specific risk for an individual equity position. Net long and net short positions shall both generate positive Position Risk Requirement.~~

$SR_{\text{each equity position}} = \text{Mark-to-market value of the individual net position} \times PRF$

Where,  
 SR = Specific Risk  
 PRF = Applicable Position Risk Factor, as prescribed in Schedule 8D

Step 2

Calculate the specific risk for each country portfolio as specified below. Netting of long and short specific risk is prohibited.

$SR_{\text{each country portfolio}} = \text{Aggregate of the Position Risk Requirements applicable to the net long and net short positions within the country portfolio}$

**General Market Risk**

The general market risk shall be calculated on a country by country basis as follows-

Step 1

Calculate the general market risk for an individual equity position as follows-

$GMR_{\text{individual equity position}} = \frac{\text{Mark to market value of the individual net position}}{\text{position}} \times PRF$

Where,  
 GMR = General Market Risk  
 PRF = Position Risk Factor, as prescribed in Schedule 8D

Step 2

Calculate the general market risk for a country portfolio. Netting of long and short general market risk is allowed.

$GMR_{\text{specific country portfolio}} = \text{Net value of PRRs applicable to the net long and short positions within the country portfolio}$

If the net amount is in the negative the sign must be reversed to a positive value.

**Total PRR**

Upon determining the Position Risk Requirement for each country portfolio in the manner aforesaid, the total Position Risk Requirement based on the Building Block Approach shall be the sum of the Position Risk Requirements of all country portfolios.

$\text{Total PRR}_{\text{Building Block Approach}} = \text{Aggregate of the PRRs of all country portfolios}$

(11) **Margin Method:**

(a) **Criteria:**

- (i) A Participating Organisation may apply the Margin Method to all exchange traded equity derivative positions which have a positive initial margin requirement.

- ~~(ii) — A Participating Organisation may use the Margin Method where it chooses not to utilise any of the other available methods, but shall use it when it has not satisfied the criteria for those other methods.~~

~~(b) — **Methodology**~~

- ~~(i) — The Position Risk Requirement is determined by multiplying one hundred percent (100%) of the initial margin requirement of the relevant exchange by four (4).~~
- ~~(ii) — If the relevant exchange calculates the margin requirement on an overall basis, or offsets futures and options in the margin calculation the Position Risk Requirement may be based on the overall margin.~~

~~(12) — **Hedging Method:**~~

- ~~(a) — A Participating Organisation may apply the Hedging Method for calculating the Position Risk Requirement of an equity position hedged by an option or a warrant.~~
- ~~(b) — The Hedging Method may only be used to the extent that the nominal amount of the equity underlying the option matches the nominal amount of the equity.~~
- ~~(c) — The Position Risk Requirement for positions using Hedging Method shall be determined in accordance with Schedule 8E.~~

~~(13) — **Basic Method:**~~

- ~~(a) — A Participating Organisation may apply the Basic Method for calculating Position Risk Requirement for equity derivatives.~~
- ~~(b) — The Position Risk Requirement positions using the Basic Method shall be determined in accordance with Schedule 8E.~~

~~(14) — **Foreign Exchange:** The Position Risk Requirement for foreign exchange exposure shall be calculated by applying the applicable discount prescribed in Schedule 8J to the sum of the net long positions in foreign currencies.~~

~~(15) — **Debt Instruments:** The Position Risk Requirement for debt instruments shall be calculated as follows –~~

$$\text{PRR} = \text{Market Value} \text{ multiply by } 8\%$$

~~Where,~~

~~PRR = Position Risk Requirement~~

~~(16) — **Suspended Securities:**~~

- ~~(a) — **Methodology:** The Position Risk Requirement for suspended securities shall be calculated by applying the applicable Position Risk Factor prescribed in Schedule 8C to the Last Done Price (as defined in Rule 701.1(1)) of the securities unless the security has been suspended for a continuous period of more than 3 market days, in which case the applicable Position Risk Factor shall be 100%, unless otherwise permitted or notified by the Exchange.~~

~~(17) — **Exchange Traded Funds:**~~

- ~~(a) — Proprietary positions in equities and debt securities held solely for the purpose of creation of an ETF shall have its exposure reduced in proportion to the amount of Exchange Traded Funds actually sold.~~

- (b) ~~Proprietary positions in equities and debt securities arising from reverse repo transactions shall have its exposure based on the positive difference of the mark-to-market value of the underlying instrument and the pre-determined re-sale value of the underlying instrument as agreed between the Participating Organisation and the repo seller.~~

**RULE 1105.7 COUNTERPARTY RISK**

- (1) ~~General Principle: Subject Always to Rule 1105.10, a Participating Organisation shall calculate its Counterparty Risk Requirement for all counterparty exposures arising from –~~

- (i) ~~unsettled agency (including those under DF Accounts) and principal trades;~~
- (ii) ~~debt, contra losses and other amounts due;~~
- (iii) ~~free deliveries;~~
- (iv) ~~securities borrowing and lending transactions;~~
- (v) ~~derivatives transactions;~~
- (vi) ~~sub-underwriting arrangements; and~~
- (vii) ~~other exposures as determined by the Exchange from time to time.~~

- (2) ~~Principles applicable in calculating CRR: In calculating Counterparty Risk Requirement, a Participating Organisation shall observe the following -~~

- (a) ~~It is only required to calculate a Counterparty Risk Requirement if it has a positive exposure to a counterparty;~~
- (b) ~~It shall not include any Counterparty Risk Requirement if it is a negative amount;~~
- (c) ~~Counterparty Risk Requirement shall be calculated at least once each market day;~~
- (d) ~~It shall mark to market all counterparty exposures;~~
- (e) ~~It may reduce its Counterparty Risk Requirement to the extent that it holds collateral in accordance with the conditions set out in Rule 1105.7(6);~~
- (f) ~~It may offset positive and negative counterparty exposures prior to the calculation of Counterparty Risk Requirement provided that it complies with Rule 1105.7(7);~~
- (g) ~~It may reduce the counterparty exposure on which its Counterparty Risk Requirement is calculated to the extent of any provisions made;~~
- (h) ~~It shall calculate a Counterparty Risk Requirement for all counterparty exposures irrespective of any connection with the counterparty;~~
- (i) ~~It is not required to calculate a Counterparty Risk Requirement for an option over shares of a company if it is the writer of the option.~~

- (3) ~~Exceptional instruments: Where an instrument –~~

- (a) ~~cannot be classified under any of the items specified in Rule 1105.7(1) or it is in doubt as to the classification of an item specified in the said Rule 1105.7(1); or~~
- (b) ~~is not of a standard form;~~

~~the Participating Organisation shall immediately, in writing, seek guidance from Intermediary Supervision on the treatment to apply to such instrument and until such time as the Participating Organisation shall be advised on the treatment applicable to such instrument; the Counterparty Risk Requirement of that instrument shall be its full mark to market value net of any collateral held which satisfies the conditions prescribed in Rule 1105.7(6)(b), after deducting the applicable discounts prescribed in Schedule 8J.~~

- (4) ~~Computation: Unless otherwise provided for under this Rule 1105.7, the Counterparty Risk Requirement shall be calculated in accordance with the following formula-~~

$$\frac{CR}{R} = CE \text{ multiply by } \frac{C}{W} \text{ multiply by } 8\%$$

Where,

- CRR = Counterparty Risk Requirement  
CE = Counterparty Exposure, as determined in accordance with Rule 1105.7(5)  
CW = Counterparty Weighting, as specified in Schedule 8F.

- (5) ~~General rules in calculating CE and CRR: A Participating Organisation shall calculate its counterparty exposures and Counterparty Risk Requirement in accordance with the following-~~

- (a) ~~Unsettled Agency (including those under DF Accounts) and Principal Trades:~~

- (i) ~~Counterparty exposures: Subject to Rule 1105.7(5)(a)(iii), a Participating Organisation's counterparty exposures on-~~

(aa) ~~an agency purchase or a principal sale shall be equal to the mark to market difference; and~~

(bb) ~~an agency sale or a principal purchase shall be equal to the mark to market difference.~~

- (ii) ~~CRR for unsettled "delivery vs. payment" trades: A Participating Organisation shall determine or calculate its Counterparty Risk Requirement on its unsettled agency and principal "delivery versus payment" trades in accordance with Schedule 8G.~~

- (iii) ~~In the event that the mark to market value is not available for whatsoever reason for the purpose of computing the mark to market difference as stipulated under Rule 1105.7(5)(a)(i)(aa) and Rule 1105.7(5)(a)(i)(bb), the counterparty exposures shall be equal to the purchase contract value or sale contract value respectively.~~

- (b) ~~Debt, Contra Losses and Other Amounts Due:~~

- (i) ~~Counterparty exposure: A Participating Organisation has a counterparty exposure if a debt, contra loss or other amount due is not paid on its agreed due date save that in the case of a contra loss, the due date shall be the date of contra.~~

- (ii) ~~Calculation of CRR: A Participating Organisation shall calculate its Counterparty Risk Requirement in respect of such an exposure in the manner prescribed in Schedule 8H.~~

- (c) ~~Free Deliveries:~~

- (i) ~~Where a Participating Organisation delivers securities without receiving payment, or pays for securities without receiving the securities, its counterparty exposure shall be the full contract value of the transaction and~~



~~its Counterparty Risk Requirement shall be calculated in accordance with Rule 1105.7(4).~~

~~(ii) Notwithstanding Rule 1105.7(5)(c)(i), where delivery or settlement remains outstanding for more than two (2) market days after the due date, the Counterparty Risk Requirement of the Participating Organisation shall be the full contract value of the transaction.~~

~~(iii) For the purposes herein, the due date shall be -~~

~~(aa) where the Participating Organisation delivers securities without receiving payment, the date of such delivery;~~

~~(bb) where the Participating Organisation pays for securities without receiving the securities, the date of such payment.~~

~~(d) **Securities Borrowing and Lending:**~~

~~(i) **Counterparty exposures:** A Participating Organisation shall calculate its counterparty exposures for securities borrowing and lending as follows -~~

~~(aa) for borrowing transactions entered into on behalf of its client Participating Organisation's counterparty exposures shall be computed based on the difference between the mark to market value of the Securities Borrowed and the mark to market value of the Collateral deposited subject to the provisions of Rule 1105.7(6). In computing the mark to market value of the Securities Borrowed or the Collateral, a Participating Organisation shall add any income accrued on the same and shall deduct any fees and charges imposed on the borrowing or the Collateral; and~~

~~(bb) for lending transactions entered into on behalf of its, a Participating Organisation's counterparty exposures shall be computed based on the difference between the mark to market value of the Securities Lent and the mark to market value of the Collateral deposited, if any subject to the provisions of Rule 1105.7(6). In computing the mark to market value of the Securities Lent or the Collateral, a Participating Organisation shall add any income accrued on the same and shall deduct any fees and charges imposed on the lending or the Collateral.~~

~~(ii) **Calculation of CRR:** Pursuant to the above-mentioned a Participating Organisation shall calculate its Counterparty Risk Requirement for securities borrowing and lending in accordance with Schedule 8G.~~

~~(e) **Derivatives Transactions:**~~

~~(i) **Exchange traded derivatives**~~

~~(aa) **Counterparty exposure:**~~

~~(i) A Participating Organisation's counterparty exposure on an exchange traded derivative contracts shall be the uncovered margin or the margin call due for the contract and/or any additional margin requirements, whichever is higher, as may be required by the Participating Organisation or by the recognised clearing house approved by the Minister.~~

~~(ii) **Options (bought)**~~

~~A Participating Organisation has a counterparty exposure on the uncovered premium in respect of the options bought (in~~

~~the case of the buyer of an option) where the transaction is unsettled and the uncovered premium shall be the unpaid premium due from the buyer of the options.~~

~~(iii) Options (sold)~~

~~A Participating Organisation has a counterparty exposure on the uncovered margin in respect of the options sold (in the case of the seller of an option) where the transaction is unsettled and the uncovered margin shall be the margin due less any premium received.~~

~~(bb) Calculation of CRR: A Participating Organisation shall calculate its Counterparty Risk Requirement on exchange traded derivatives as follows:~~

$$\text{CR} = \text{CE} \text{ multiply } \text{C} \text{ multiply } \text{CRR charge (\%)} \\ \text{R} \quad \quad \quad \text{by} \quad \quad \quad \text{W} \quad \quad \quad \text{by}$$

~~Where;~~

~~CE = Counterparty Exposure, as determined in accordance with Rule 1105.7(5)(e)~~

~~CW = Counterparty Weighting, as prescribed in Schedule 8F~~

~~CRR charge = CRR charge as prescribed in Schedule 8G~~

~~(ii) OTC Derivative Contracts:~~

~~(aa) Counterparty exposure: A Participating Organisation's counterparty exposure on an OTC derivative contract shall be the credit equivalent amount as specified in Schedule 8I.~~

~~(bb) Calculation of CRR: A Participating Organisation shall calculate its Counterparty Risk Requirement on OTC derivative in accordance with Rule 1105.7(4).~~

~~(f) Sub-underwriting:~~

~~(i) Counterparty exposure: Where a Participating Organisation, acting as lead underwriter, enters into a sub-underwriting agreement with a counterparty, the Participating Organisation's counterparty exposure shall be equal to thirty percent (30%) of the sub-underwritten amount.~~

~~(ii) Calculation of CRR: A Participating Organisation shall calculate its sub-underwriting Counterparty Risk Requirement in accordance with Rule 1105.7(4).~~

~~(g) Reverse Repo Transactions:~~

~~(i) Where a Participating Organisation purchases instruments through a reverse repo transaction, its counterparty exposure shall be the full pre-determined re-sale value of the instruments as agreed between the Participating Organisation and the repo seller and its Counterparty Risk Requirement shall be calculated in accordance with Rule 1105.7(4).~~

~~(6) Collateral:~~

~~(a) General rule: A Participating Organisation may reduce the counterparty exposure on which its Counterparty Risk Requirement is calculated or determined to the extent that it holds collateral or security to cover the~~

~~exposure provided that the conditions set forth in this Rule 1105.7(6) are complied with.~~

~~(b) **Conditions to be complied:** A Participating Organisation may use collateral or security including collateral placed by its Commissioned Dealer's Representative to reduce its counterparty exposure only if the following conditions are satisfied-~~

~~(i) the Participating Organisation has an unconditional right to apply or realise the collateral or security in the event of default by the counterparty;~~

~~(ii) the collateral or security is liquid in nature, which includes but is not limited to-~~

~~(aa) cash deposit in Ringgit;~~

~~(bb) cash deposit in foreign currency acceptable to the Exchange, as prescribed in Schedule 8J;~~

~~(cc) securities listed on the Exchange or other recognised stock exchanges;~~

~~(dd) government bonds or other debt instruments which have a ready market; and~~

~~(ee) any other collaterals which may be specified by the Exchange from time to time.~~

~~(c) **Discounting:** Subject to any directives or guidelines issued from time to time by the Commission or the Exchange relating to collaterals, where a collateral held by a Participating Organisation is in a form other than cash deposit in Ringgit, the value of the collateral shall be discounted by applying the applicable discounts as prescribed in Schedule 8J.~~

~~(d) **Reconciliation:** Every collateral held by a Participating Organisation shall be reconciled at least once a month.~~

~~(e) **Deposits and commission:** Deposits placed by Commissioned Dealer's Representatives with, and commissions held by, a Participating Organisation may be applied against the clients of its Commissioned Dealer's Representatives, who have outstanding contract, debts or other outstanding amounts. No deposit of one Commissioned Dealer's Representative may be used as collateral for another Commissioned Dealer's Representative who has insufficient funds.~~

~~(7) **Counterparty Netting Agreements:** A Participating Organisation may net positive and negative counterparty exposures provided that-~~

~~(a) they are with the same counterparty;~~

~~(b) they are similar in nature in that they fall within the same class as set out in Rule 1105.7(1); and~~

~~(c) the Participating Organisation has a valid and binding netting agreement with the counterparty.~~

~~(8) **Additional Counterparty Risk Requirement:**~~

~~(a) **Potential material loss:** Where, in the opinion of the Exchange, a Participating Organisation is exposed to a potential material loss in relation to any unsettled transaction, the Exchange may require a Participating Organisation to provide acceptable evidence of the client's commitment to meet its obligations on due date.~~

- ~~(b) — Acceptable evidence: — Acceptable evidence of a client's commitment to meet its obligations on due date may take the form of a documentary confirmation of the transactions concerned supported by any of the following —~~
- ~~(i) — acceptable evidence of financial standing;~~
  - ~~(ii) — the provision of adequate security; or~~
  - ~~(iii) — the provision of acceptable guarantees.~~
- ~~(c) — Absence of acceptable evidence: — In the absence of acceptable evidence as required under Rule 1105.7(8)(b), the Exchange may at its discretion, inter alia, require a Participating Organisation to increase its Counterparty Risk Requirement by an amount not exceeding its exposure to loss. Such exposure to loss will be determined as the difference between the amount of the client's obligations and the amount of any assets available to meet such obligations.~~

~~RULE 1105.8 — LARGE EXPOSURE RISK~~

~~(1) — Principles applicable in calculating LERR:~~

- ~~(a) — General principle: — Participating Organisation shall compute its Large Exposure Risk Requirement in relation to —~~
- ~~(i) — its exposure to a single client or counterparty;~~
  - ~~(ii) — its direct exposure to debt; and~~
  - ~~(iii) — its direct exposure to a single equity;~~
- ~~for all amounts arising in the normal course of trading in equity securities, debts or equity derivatives in accordance with the provisions set out under this Rule 1105.8.~~
- ~~(b) — Hybrid securities: — A Participating Organisation must calculate its Large Exposure Risk to a hybrid securities or such other instrument for which no treatment is specified under this Rule 1105 in accordance with such rules, guidelines, directives or circulars as may be prescribed by the Exchange from time to time.~~

~~(2) — Variation to LERR:~~

- ~~(a) — Waiver for Participating Organisation: — The Exchange may, upon a written application from a Participating Organisation, reduce or waive the Large Exposure Risk Requirement for the Participating Organisation subject to terms and conditions as the Exchange deems fit upon notification to the Commission.~~
- ~~(b) — Variation of maximum LER: — The Exchange may reduce, increase, vary or waive the maximum Large Exposure Risk prescribed in this Rule 1105 as the Exchange deems fit upon notification to the Commission.~~

~~(3) — Exposure to a single client/counterparty:~~

- ~~(a) — Large Exposure Risk: — A Participating Organisation has a Large Exposure Risk in relation to a single client or counterparty if the sum of its counterparty exposure to that client or counterparty as calculated in accordance with Rule 1105.7(5) exceeds ten percent (10%) of the Participating Organisation's Effective Shareholders' Funds.~~

- ~~(b) — Connected persons: — In determining a Participating Organisation's Large Exposure Risk in relation to a single client or counterparty, the Participating Organisation shall include its exposure to persons connected to that client or counterparty.~~
- ~~(c) — Large Exposure Risk Requirement: — The Large Exposure Risk Requirement of a Participating Organisation to a single client or counterparty shall be equal to the amount calculated to be the Counterparty Risk Requirement for that particular client or counterparty as calculated in accordance with 1105.7(4).~~
- ~~(d) — Meaning of single client/counterparty: — For the purposes of this Rule 1105.8, the expression "single client or counterparty" includes —~~
- ~~(i) — where such single client or counterparty is an individual, the individual, spouse of the individual, the partnership of which he is a partner, any partner of the individual, the spouse of the partner and all the companies or corporations over which the individual exercises control. For the purpose of this Rule 1105.8, an individual is deemed to exercise "control" over a company or corporation if the individual or the individual's spouse, severally or jointly —~~
- ~~(aa) — holds, directly or indirectly, more than fifty per cent (50%) of the shares of the corporation,~~
- ~~(bb) — has the power to appoint, or cause to be appointed, a majority of the directors of the company or corporation, or~~
- ~~(cc) — has the power to make, cause to be made, decisions in respect of the business or administration of the company or corporation, and to give effect to such decisions, or cause them to be given effect to.~~
- ~~(ii) — where such single client or counterparty is a company or corporation, the company or corporation, its related company or corporation and its associated companies. For the purpose of this Rule 1105.8 —~~
- ~~(aa) — a related corporation shall have the meaning as defined by section 6 of the Companies Act, 1965, and~~
- ~~(bb) — a company is deemed to be an associated company of the company or corporation where the company or corporation holds, directly or indirectly, not less than twenty per cent (20%) and not more than fifty per cent (50%) of the issued share capital of such company.~~
- ~~For the purpose of this Rule 1105.8, an individual is deemed to exercise "control" over a company or corporation if the individual or the individual's spouse, severally or jointly —~~
- ~~(aa) — holds, directly or indirectly, more than fifty per cent (50%) of the shares of the corporation,~~
- ~~(bb) — has the power to appoint, or cause to be appointed, a majority of the directors of the company or corporation, or~~
- ~~(cc) — has the power to make, cause to be made, decisions in respect of the business or administration of the company or corporation, and to give effect to such decisions, or cause them to be given effect to.~~
- ~~(e) — Maximum LER: The maximum Large Exposure Risk that a Participating Organisation is allowed to bear in relation to any one particular client or counterparty is thirty percent (30%) of its Effective Shareholders' Funds.~~

~~(f) — Reporting: A Participating Organisation shall report to the Exchange promptly all its Large Exposure Risk relating to a counterparty.~~

~~(4) — Direct Exposure to Debt:~~

~~(a) — Large Exposure Risk: A Participating Organisation has a Large Exposure Risk in relation to an issuer of debt if the total amount of debt held against the issuer exceeds fifteen percent (15%) of the Participating Organisation's Effective Shareholders' Funds.~~

~~(b) — Large Exposure Risk Requirement: The Large Exposure Risk Requirement for the exposure to debt under Rule 1105.8(4)(a) shall be equal to the Position Risk Requirement as calculated in accordance with Rule 1105.6(15).~~

~~(c) — Maximum LER: The maximum Large Exposure Risk in relation to a debt that a Participating Organisation is allowed to undertake is thirty percent (30%) of its Effective Shareholders' Funds unless otherwise prescribed by the Exchange from time to time.~~

~~(d) — Reporting: A Participating Organisation shall report to the Exchange promptly all its Large Exposure Risk relating to debt.~~

~~(5) — Exposure to a Single Equity:~~

~~(a) — Large Exposure Risk: A Participating Organisation has a large exposure to a single equity if –~~

~~(i) — it has a net position or exposure (either long or short) that exceeds ten percent (10%) of the total issue of the equity; or~~

~~(ii) — it has a net position or exposure that exceeds fifteen percent (15%) of its Effective Shareholders' Funds.~~

~~(b) — Net position or exposure: In calculating its net position or exposure in relation to a single equity, a Participating Organisation –~~

~~(i) — need not include its underwriting or sub-underwriting commitment, unless that commitment has become a principal position;~~

~~(ii) — shall include an equity OTC options Options or an equity warrant that is in the money at its full underlying value;~~

~~(iii) — shall not treat an out of the money equity OTC options or an equity warrant as an exposure; and~~

~~(iv) — shall not treat an Exchange Traded Fund, where the underlying instruments are government and/or government-related agency bonds, as an exposure.~~

~~(c) — Meaning of "single equity": For the purposes of this Rule 1105.8, the expression "single equity" includes –~~

~~(i) — 30% of the value of the collateral underlying debtors or margin accounts (including interest) to the extent that it is used to secure the exposure;~~

~~(ii) — 30% of the value of the collateral underlying loans and advances to the extent that it is used to secure the exposure;~~

~~(iii) — investment in the stock accounts;~~

- ~~(iv) — the net purchase contract value of single equity underlying clients' accounts arising from transactions either under a Ready or Immediate Basis Contract, to the extent that it has not been paid for on and subsequent to the FDSS due settlement date; and~~
- ~~(v) — the net purchase contract value of single equity underlying clients' accounts arising from transactions under a DF Account to the extent that it has not been paid for.~~
- ~~(d) — **LERR for net purchase contract value of single equity underlying clients' accounts:**
  - ~~(i) — The LERR of a Participating Organisation in relation to the net purchase contract value of single equity underlying clients' accounts arising from transactions either under a Ready or immediate Basis Contract, shall start from the date that it has not been paid for on and subsequent to the FDSS due settlement date; and~~
  - ~~(ii) — The LERR of a Participating Organisation in relation to the net purchase contract value of single equity underlying clients' accounts arising from transactions under a DF Account shall start from the date that it has been paid for on and subsequent to the FDSS due settlement date.~~~~
- ~~(e) — **LERR for Exposure to Equity Relative to Instrument on Issue:**
  - ~~(i) — Where a Participating Organisation has a Large Exposure to a single equity relative to its total issue as specified in Rule 1105.8(5)(a)(i), the Participating Organisation shall calculate its Large Exposure Risk Requirement by multiplying the value of the exposure which is in excess of ten percent (10%) of the total issue by the Position Risk Factor used in the Standard Approach in the manner prescribed in Schedule 8K.~~
  - ~~(ii) — Where a Participating Organisation has an exposure in excess of twenty percent (20%) of the issuer's capital arising from its investment in the stock accounts as stipulated in Rule 1105.8(5)(c)(iii), the Participating Organisation shall be deemed to be an associate of the issuer.~~~~
- ~~(f) — **LERR for Exposure to an Equity relative to Effective Shareholders' Funds:** Where a Participating Organisation has a Large Exposure to a single equity relative to the Participating Organisation's Effective Shareholders' Funds as specified in Rule 1105.8(5)(a)(ii), the Participating Organisation shall calculate its Large Exposure Risk Requirement by multiplying the value of the exposure which is in excess of ten percent (10%) of its Effective Shareholders' Funds by the Position Risk Factor used in the Standard Approach, in the manner prescribed in Schedule 8K.~~
- ~~(g) — **Large Exposure relative to an instrument and Effective Shareholders' Funds:** Where a Participating Organisation has both a large exposure to a single equity relative to an instrument on issue and a large exposure to the same equity relative to the Participating Organisation's Effective Shareholders' Funds, the Large Exposure Risk Requirement for the Participating Organisation shall be the higher of the two requirements.~~
- ~~(h) — **Maximum LER:** Notwithstanding anything herein contained, unless otherwise approved by the Exchange in writing, every Participating Organisation, shall at all times limit its Large Exposure Risk to a single equity, to a gross exposure of two hundred fifty per cent (250%) of the Participating Organisation's Effective Shareholders' Funds.~~
- ~~(i) — **Reporting:** A Participating Organisation shall report to the Exchange promptly all its Large Exposure Risk relating to a single equity.~~

**RULE 1105.9 – UNDERWRITING RISK**

(1) ~~**General Principle:** A Participating Organisation has an Underwriting Risk if it has entered into a binding commitment to take up securities at a predetermined price and time.~~

(2) ~~**Computation:** The Underwriting Risk Requirement of a Participating Organisation shall be thirty percent (30%) of the underwritten commitment multiplied by the Standard Approach Position Risk Factor, depending on the type of securities underwritten, as set out in Schedule 8C.~~

$$\frac{UR}{R} = UE \text{ Multiply by } PRF \text{ Multiply by } 30\%$$

URR = Underwriting Risk Requirement

UE = Underwriting Exposure as defined in Rule 1105.9(3)(a)

PRF = Applicable Position Risk Factor, as prescribed in Schedule 8C

(3) ~~**Methodology:** In assessing its underwriting and sub-underwriting commitment, a Participating Organisation shall observe the following –~~

(a) ~~An Underwriting Exposure is an underwriting commitment which shall be computed based on the quantity and price as stated in the underwriting agreement or document or any amendments or supplements thereto from time to time.~~

(b) ~~An Underwriting Risk exists as from the date of its unequivocal acceptance of the underwriting commitment or the date on which the underwriting agreement or document is signed, whichever is the earlier.~~

(c) ~~Where a third party sub-underwrites part of a Participating Organisation's underwriting commitment, the Participating Organisation's underwriting commitment may be reduced by such sub-underwritten amount provided that proper documentation or an agreement for the sub-underwriting has been executed.~~

(d) ~~The sub-underwriting amount under paragraph (c) above shall be treated by the Participating Organisation as a Counterparty Risk.~~

(e) ~~Where a Participating Organisation undertakes a sub-underwriting commitment, the sub-underwriting commitment shall be treated as an underwriting commitment as from the later of the following events:~~

(i) ~~the date of its unequivocal acceptance of the sub-underwriting commitment or the date on which the sub-underwriting agreement or document is signed, whichever comes first; or~~

(ii) ~~the date of the unequivocal acceptance of the underwriting commitment or the date on which the underwriting agreement or document is signed, by the lead underwriter(s), whichever comes first.~~

(f) ~~An underwriting commitment shall continue as an Underwriting Risk until the date the application closes, in which event such Underwriting Risk either –~~

(i) ~~ceases; or~~

(ii) ~~becomes a Position Risk.~~

(4) ~~**Register of Underwriting Commitments:** Every Participating Organisation shall maintain a register of all its underwriting commitments which shall contain the following information –~~

(a) ~~The description of the securities~~



- ~~(b) — The quantity and price of its underwriting commitment~~
- ~~(c) — The quantity and price of its underwriting commitment that has been sub-underwritten~~
- ~~(d) — The date the underwritten commitment is discharged.~~

#### **RULE 1105.10 – MARGIN FINANCING FACILITIES**

##### **(1) — Margin Financing Facilities:**

- ~~(a) — Every Participating Organisation which provides margin financing facilities has:-~~
  - ~~(i) — a Counterparty Risk in relation to margin financing facilities which is dependent on the quality and value of collateral pledged and the quality of the counterparty;~~
  - ~~(ii) — a Position Risk in the form of market risk relating to Margin Financing On-Pledged Risk in respect of securities held by it as collateral but which have been onward pledged; and~~
  - ~~(iii) — a Position Risk in the form of market risk relating to Margin Financing Onward Lent Risk in respect of Margin Securities which have been onward lent as principal for the purpose of securities borrowing and lending.~~
- ~~(b) — For the purposes herein:-~~
  - ~~(i) — the expression “equity”, “margin” and “outstanding balance” of a margin account shall bear the same meaning as is respectively ascribed thereto in Rule 703, unless otherwise provided for under this Rule 1105.10;~~
  - ~~(ii) — for the avoidance of doubt, the Participating Organisation must ensure that the aggregate mark to market value of any client’s securities held by it as collateral which are onward pledged by the Participating Organisation to such third party, as may from time to time be permitted pursuant to these Rules and/or Depository Rules, shall not at any time exceed the outstanding balance of the client’s margin account.~~

##### **(2) — General principles: Every**

~~A Participating Organisation which provides margin financing facilities shall calculate the following:-~~

- ~~(a) — its Counterparty Risk Requirement in respect of counterparty exposures arising from margin financing facilities, to the extent as provided in Rule 1105.10(3)(b);~~
- ~~(b) — its Position Risk Requirement in respect of Margin Financing On-Pledged Risk for all securities held by it as collateral pursuant to margin financing facilities but which have been onward pledged, to the extent as provided in Rule 1105.10(4)(a); and~~
- ~~(c) — its Position Risk Requirement in respect of Margin Financing Onward Lent Risk for all Margin Securities which have been onward lent as principal for the purpose of securities borrowing and lending as envisaged in Rule 608.2(1)(a)(ii), to the extent as provided in Rule 1105.10(5).~~

##### **(3) — Counterparty Risk Requirement for margin financing facilities:**

- ~~(a) — **Counterparty exposure: A Participating Organisation’s counterparty exposure in respect of a margin financing facility shall be the outstanding balance of the margin account.**~~

~~(b) — **Principles Applicable to Margin Financing Counterparty Risk Requirement:**~~

~~(i) — In calculating Counterparty Risk Requirement in relation to margin financing facilities, a Participating Organisation shall, in addition to the principles applicable in calculating Counterparty Risk Requirement provided in Rule 1105.7(2), observe the following:~~

~~(aa) — it is not required to calculate a Counterparty Risk Requirement in respect of any margin account with credit balance;~~

~~(bb) — it is not required to calculate a Counterparty Risk Requirement in respect of any margin account where at any time specific provisions equivalent to one hundred per cent (100%) of the amount outstanding (as defined in Schedule 7) have been made in accordance with the provisions of Rule 1104 and Schedule 7;~~

~~(cc) — it shall calculate a Counterparty Risk Requirement in respect of any margin account where the equity, after applying the applicable discounts prescribed in Rule 1105.7(6)(c) and Schedule 8J, is below one hundred fifty per cent (150%) of the outstanding balance.~~

~~(ii) — **Calculation of CRR:**~~

~~(aa) — A Participating Organisation shall calculate its Counterparty Risk Requirement in respect of margin financing facilities in the manner prescribed in Schedule 8L.~~

~~(bb) — The sum of such Counterparty Risk Requirements calculated in accordance with Rule 1105.10(3)(b)(ii) shall represent the total Counterparty Risk Requirement of a Participating Organisation in relation to margin financing facilities.~~

~~(4) — **Position Risk Requirement for Margin Financing On-Pledged Risk:**~~

~~(a) — **Principles Applicable to Position Risk Requirement for Margin Financing On-Pledged Risk:** In calculating the Position Risk Requirement in respect of Margin Financing On-Pledged Risk in relation to securities held by it as collateral pursuant to margin financing facilities and which have been onward pledged by a Participating Organisation, the Participating Organisation shall observe the following principles:~~

~~(i) — the Participating Organisation shall calculate all positions where the securities held by it as collateral pursuant to margin financing facilities have been onward pledged by the Participating Organisation to such third party, as may from time to time be permitted pursuant to these Rules and/or Depository Rules, to which the Participating Organisation has a balance owing which is secured against onward pledged collateral;~~

~~(ii) — the sum of such positions shall represent the total Position Risk Requirement in respect of its Margin Financing On-Pledged Risk in relation to all securities held by it as collateral pursuant to margin financing facilities which have been onward pledged in the manner aforesaid;~~

~~(iii) — the Participating Organisation shall, on a daily basis, mark to market all its collateral, and where required, the value of the collateral shall be discounted in the manner prescribed in Rule 1105.7(6)(c) and Schedule 8J.~~

~~(b) — **Methodology: The Position Risk Requirement in respect of securities held by a Participating Organisation as collateral pursuant to margin financing facilities**~~

~~and which have been onward pledged to such third party as may from time to time be permitted pursuant to these Rules and/or Depository Rules shall be calculated in the manner prescribed in Schedule 8M.~~

~~(5) — Position Risk Requirement for Margin Financing Onward Lent Risk:~~

~~In calculating the Position Risk Requirement in respect of Margin Financing Onward Lent Risk in relation to Margin Securities which have been onward lent by a Participating Organisation as principal, the Participating Organisation shall observe the principles prescribed in Rule 1105.6.~~

**RULE 1105.11 RIGHT TO REVIEW**

~~The Schedules applicable and referred to this Rule 1105 shall be subject to such variations, amendments, modifications or substitutions as the Exchange may deem to be necessary and expedient by way of any circulars or directives issued by the Exchange from time to time.~~

~~RULE 1106~~ — **GEARING RATIO**

**Comment [Bursa24]:** All capital requirements have been moved to the new Chapter 13.

~~RULE 1106.1~~ — **DEFINITION**

~~(1) — For the purposes of this Rule —~~

<del>Core Capital</del>	<del>has the same meaning assigned to that expression in Rule 1105.1(1).</del>
<del>Effective Shareholders' Funds</del>	<del>has the same meaning assigned to that expression in Rule 1105.1(1).</del>
<del>Gearing Ratio</del>	<del>means the ratio linking a Participating Organisation's Utilised Level and its Effective Shareholders' Funds, calculated as the Utilised Level divided by Effective Shareholders' Funds.</del>
<del>proprietary accounts</del>	<del>means accounts operated by a Participating Organisation for the purpose of trading as principal.</del>
<del>subordinated debt</del>	<del>means the approved subordinated debt that fulfils the requirements stipulated in Rule 1106.4(3)(b).</del>
<del>Utilised Level</del>	<del>means the aggregate amount of borrowings already utilised by a Participating Organisation.</del>

~~RULE 1106.2~~ — **GEARING RATIO**

~~(1) — Unless otherwise permitted under this Rule 1106, a Participating Organisation shall at all times ensure that its borrowing exposure is in accordance with the following:~~

$$\frac{\text{Utilised Level}}{\text{Effective Shareholders' Funds}} \leq 2.5 \text{ times}$$

~~(2) — For the purpose of compliance with Rule 1106.2(1), a Participating Organisation's subordinated debt will be excluded from the Gearing Ratio provided the amount of such subordinated debt does not exceed fifty per cent (50%) of the Participating Organisation's paid up capital unimpaired by losses.~~

~~(3) — The Exchange with the consent of the Commission may determine a schedule for the gradual reduction in a Participating Organisation's exposure to all borrowings obtained.~~

~~(4) — For the purposes of the provisions of this Rule 1106, the Exchange may at any time prescribe by way of any directives or circulars issued by the Exchange from time to time:-~~

~~(a) — that references to "Effective Shareholders' Funds" be substituted by "Liquid Capital" (as is defined in the rules relating to capital adequacy requirements contained in Rule 1105) or such other term, expression or concept as the Exchange may deem to be necessary or expedient; and~~

~~(b) — the date when the provisions of Rule 1106.2(4)(a) shall take effect.~~

~~(5) — The Gearing Ratio prescribed above shall not apply to —~~

Chapter 124 – [Accounting, Audit and Financial Reporting Requirements](#) ~~Financial Resources Rules,  
Capital Adequacy  
Requirements and Accounting Requirements~~

- ~~(a) — a Universal Broker provided the Universal Broker shall at all times maintain a Core Capital of not less than Ringgit Malaysia Five Hundred Million (RM500,000,000.00); and~~
- ~~(b) — an Investment Bank provided the Investment Bank shall at all times maintain minimum capital funds unimpaired by losses of not less than Ringgit Malaysia Two Billion (RM2,000,000,000.00) on a banking group basis or, for an Investment Bank which does not form part of a banking group, minimum capital funds of Ringgit Malaysia Five Hundred Million (RM500,000,000.00), as referred to in the Guidelines on Investment Banks.~~

~~Notwithstanding the aforesaid, the Exchange may from time to time prescribe other requirements to be applicable to a Universal Broker or an Investment Bank as it deems necessary or expedient.~~

[End Of Chapter]

CHAPTER 13 CAPITAL REQUIREMENTS

RULE 1105.1301 CAPITAL ADEQUACY REQUIREMENTS GENERAL

~~This Rule sets out the capital adequacy requirements which are principally designed to ensure that Participating Organisations are entities of substance so as to foster confidence in the stock market and to create an environment in which Participating Organisations are able to wind down their stockbroking businesses without loss to their clients and without disruption to the stock market.~~

**Comment [Bursa1]:** Deleted as this is the rationale for the rule on Capital Adequacy Requirements and it is unnecessary to state the rationale for a rule in the Rules.

RULE 1105A.1301.1 INVESTMENT BANKS Investment Banks

(1) ~~An Investment Bank must comply with the capital adequacy requirements the Central Bank stipulates. The Central Bank's capital adequacy requirements will form part of these Rules. In relation to the capital requirements stipulated in Chapter 13, only Rules 1302.1 and 1303.2 are applicable to an Investment Bank. The capital adequacy requirements in relation to an Investment Bank shall be the Investment Bank Capital Adequacy Framework as prescribed in the Guidelines on Investment Banks and the same shall be deemed to be part of these Rules. The capital adequacy requirements prescribed in the provisions contained in Rules 1105.4, 1105.5, 1105.6, 1105.7, 1105.8, 1105.9 and 1105.10 shall not be applicable to an Investment Bank. All other provisions in Rule 1105 shall be applicable to the extent the provisions therein are expressed to be applicable to an Investment Bank.~~

**Comment [Bursa2]:** To make it clear that an IB need not comply with the capital requirements in this Chapter unless stipulated otherwise. To keep the Rules flexible we will not be naming the specific guidelines. Instead, we will be making a general reference to the requirements e.g. the capital adequacy requirements the Central Bank stipulates.

RULE 1105.11301.2 DEFINITIONS Definitions

(1) ~~In this Rule 1105, unless the context otherwise requires, The following terms have the following meanings in this Chapter unless the context requires otherwise.~~

**Comment [Bursa3]:** Deleted because in line with plain language drafting it is enough to say an IB is not required to comply with the capital adequacy requirements in this Chapter unless otherwise stipulated. Further, to simplify the Rules, we have extracted the provisions expressed to be applicable to IBs and set them out specifically in the new Rule 1303.2.

**Term**

**Meaning**

~~Capital Adequacy Ratio~~ ~~in relation to a Participating Organisation, means the~~ ~~The ratio linking the liquid capital of the Participating Organisation's Liquid Capital to total risks faced, calculated as follows:~~ ~~the Participating Organisation's Liquid Capital divided by its Total Risk Requirement.~~

**Comment [Bursa4]:** Unless otherwise stated, amendments have been made in line with plain language drafting. Also, we have made it clear which terms are defined by capitalising the defined terms.

**Comment [B5]:** To simplify the rules, we have set out the formula itself rather than setting the formula out in words.

Liquid Capital

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Total Risk Requirement

~~call option(s)~~ ~~means an instrument(s) which give(s) its holder the right, but not the obligation, to buy a specified quantity of the underlying securities from the writer of the option at a specified exercise price within a set period.~~

**Comment [B6]:** Moved to the directives on CAR

~~Capital Base~~ ~~shall have the meaning as assigned to that expression in the Guidelines on Investment Banks.~~

**Comment [B7]:** This term is not used in this Chapter

~~Collateral~~ ~~in relation to securities borrowing and lending referred to in 1105.7(5)(d) means the 'collateral' mentioned in Rule 608.7 and where the collateral consist of securities, to the extent those securities have been subdivided or consolidated, made the subject of a bonus issue or event similar to any of the foregoing, the expression Collateral shall have the following meaning:~~

**Comment [Bursa8]:** Moved to the directives on CAR

~~(a) in the case of subdivision or consolidation, the securities~~

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	<p><del>into which the Collateral have been subdivided or consolidated;</del></p> <p>(b) <del>in the case of a bonus issue, the Collateral together with the securities allotted by way of bonus issue thereon; and</del></p> <p>(c) <del>in the case of any event similar to any of the foregoing events, the Collateral, together with or replaced by a sum of money and/or securities equivalent to that received in respect of such Collateral resulting from such event.</del></p>
Core Capital	<p><del>in relation to a Participating Organisation, means the The</del> level of financial resources or capital maintained in a readily realisable form to meet <del>its the Participating Organisation's</del> Operational Risk Requirement, <del>as computed calculated</del> in accordance with <del>Schedule 8A the Directives issued by the Exchange.</del></p>
Counterparty	<p><del>means any A person or Client</del> with or for whom a Participating Organisation carries on, or intends to carry on, any <del>dealings in securities</del><u>Dealings in Securities.</u></p>
Counterparty Risk	<p><del>means the The</del> risk of a <del>counterparty</del><u>Counterparty</u> defaulting on <del>its the Counterparty's</del> financial obligation to a Participating Organisation.</p>
Counterparty Risk Requirement <u>or CRR</u>	<p><del>in relation to a Participating Organisation, means the The</del> amount necessary to accommodate a given level of <del>its the Participating Organisation's</del> Counterparty Risk, <del>as calculated in accordance with in the manner the Exchange determines</del><u>Rule 1105.7 and, where applicable, Rule 1105.10.</u></p>
Debt	<p><del>means borrowed Borrowed</del> funds <del>represented by a security or instrument</del> that must be repaid by the <del>issuer</del><u>borrower to the lender.</u></p>
<u>Debt Securities</u>	<p><u>Securities listed or unlisted of which the underlying asset comprises of debt and includes FI Securities.</u></p>
<u>Derivatives</u>	<p><u>Derivatives products traded either on an Exchange or OTC.</u></p>
DF Account	<p><del>shall have the same Same</del> meaning as <del>in "DF Account" stipulated in the Exchange's Directives on provision of discretionary financing by Allowing For the Provision of Discretionary Financing By a Participating Organisation Organisations To Their the Participating Organisation's Clients Pursuant to Rule 703.2(3) of the Rules of Bursa Malaysia Securities Bhd.</del></p>
Effective Shareholders' Funds	<p><del>in relation to a Participating Organisation, means its The Participating Organisation's</del> last audited shareholders' funds less unaudited losses.</p>
<del>equity derivative</del> <u>Equity Exchange Traded Derivative</u>	<p><del>means an An</del> instrument evidencing rights, futures or <del>options</del> <u>Options, Debt Securities or securities which are Exchange Traded</u> <del>in or to securities which derive an existence from exchange traded equity securities and where</del> the value of <del>the instrument which</del> is dependent on the <del>sum of its</del> underlying investment.</p>
<del>equity securities</del> <u>Equity Securities</u>	<p><del>means securities Securities</del> other than <del>debt securities</del><u>Debt Securities.</u></p>

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~~exchange-traded~~ Exchange Traded means ~~traded~~ Traded or listed on ~~an~~ a ~~Recognised s~~ Stock Exchange.

~~exercise price~~ means ~~the price at which the holder of an option(s) can buy or, as the case may be, sell the underlying securities of the option(s).~~

**Comment [Bursa9]:** Moved to the directives on CAR

FI Securities ~~Fixed income securities including Malaysian Government Securities, Malaysian Treasury Bills, Government Investment Issues, Cagamas Instruments, commercial papers, medium term notes and private debt securities but excludes Debt Securities that are listed on the Exchange.~~

**Comment [B10]:** Consequential to the incorporation of the CAR requirements for activities in debt securities into this Chapter.

~~hybrid securities~~ Hybrid Securities means ~~such securities which are a combination of a conventional securities and an embedded derivatives and which that may consist of virtually any combination of two or more financial instruments building blocks. For example, e.g. a combination of bond or note, swap, forward or future, or option~~ Option.

~~income~~ has the same meaning assigned to that expression under Rule 608.1

**Comment [Bursa11]:** Moved to the directives on CAR

~~in the money~~ Means that –

**Comment [B12]:** Moved to the directives on CAR

- (a) ~~in relation to call options and warrants –~~
  - (i) ~~where the Participating Organisation as the buyer is the holder of the right to exercise, the exercise price is less than the current market price of the underlying instrument;~~
  - (ii) ~~where the Participating Organisation as the writer is the holder of the obligation, the exercise price is greater than the current market price of the underlying instrument;~~
- (b) ~~in relation to put options and warrants –~~
  - (i) ~~where the Participating Organisation as the buyer is the holder of the right to exercise, the exercise price is greater than the current market price of the underlying instrument;~~
  - (ii) ~~where the Participating Organisation as the writer is the holder of the obligation, the exercise price is less than the current market price of the underlying instrument~~

~~Intermediary Supervision~~ means ~~Intermediary Supervision of the Exchange, as is presently known, or howsoever known or by whatsoever name called from time to time.~~

**Comment [B13]:** In the Rules, the obligation on POs would be to inform the "Exchange" and not specifically a department of the Exchange. We will specify in the directives on CAR which specific department at the Exchange is to be notified.

Large Exposure Risk means ~~The risks to which~~ a Participating Organisation is exposed ~~to arising from a proportionally large exposure to; the following –~~

- (a) ~~a proportionally large amount of exposure to a particular~~ counterparty ~~Client or Counterparty;~~
- (b) ~~a proportionally large exposure to a single issuer~~ Issuer

**Comment [Bursa14]:** Issuer is a defined term in Rule 101.1(1)



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of ~~debt~~ Debt Securities;

- (c) ~~a proportionally large exposure to a single security~~ equity.

Large Exposure Risk Requirement

~~in relation to a Participating Organisation, means the~~ The amount necessary to accommodate a given level of ~~its~~ the Participating Organisation's Large Exposure Risk, ~~as calculated in accordance with in the manner the Exchange determines~~ Rule 1105.8.

Liquid Capital

~~in relation to a Participating Organisation, represents its~~ The Participating Organisation's financial resources or liquid capital maintained in a readily realisable form to meet ~~its~~ the Participating Organisation's Total Risk Requirement, ~~as calculated in accordance with Rule 1105.4~~ in the manner the Exchange determines.

Liquid Margin

~~in relation to a Participating Organisation, means the~~ The amount in excess of a Participating Organisation's Liquid Capital after deducting the Total Risk Requirement.

~~margin account  
margin financing facility  
Margin Financing  
Onward Lent Risk~~

~~means the risks to which a Participating Organisation is exposed from Margin Securities which have been onward lent pursuant to securities borrowing and/or lending by the Participating Organisation to such third party, as may be permitted from time to time pursuant to the Clearing House Requirements.~~

**Comment [B15]:** Deleted as this definition is in Rule 101.1(1).

**Comment [B16]:** Deleted as this definition is in Rule 101.1(1).

**Comment [B17]:** Moved to the directives on CAR

Margin Financing On-Pledged Risk

~~means the~~ The risks to which a Participating Organisation is exposed from Onward Pledged MFF Collateral ~~securities held by it as collateral pursuant to margin financing facilities but which have been onward pledged by the Participating Organisation to such third party, as may from time to time be permitted pursuant to these Rules and/or Depository Rules, to which the Participating Organisation has a balance owing which is secured against onward pledged collateral.~~

Margin Securities

has the same Same meaning as in assigned to that expression under Rule ~~670~~ 68.8.

~~mark to market~~ Mark to Market

~~in~~ In relation to securities, ~~means to value the securities at its~~ based on the closing price of the securities on a ~~market day~~ Market Day.

~~mark to market difference~~

~~in relation to securities, means its contract value less its mark to market value.~~

**Comment [B18]:** Moved to the directives on CAR

~~marketable securities~~

~~means all securities held by a Participating Organisation as principal, including its investments, holdings in clearing accounts and/or such other accounts and/or securities as may be permitted or prescribed by the Exchange from time to time.~~

**Comment [Bursa19]:** Moved to the directives on CAR

Minimum Operational Risk Requirement

~~means the~~ The absolute minimum amount necessary to accommodate the Operational Risk of a Participating Organisation ~~ascertained by reference to the types of business activities carried out by that Participating Organisation, and determined in accordance with set out in Rule 1105.5(3)~~ 13205.3.

**Comment [Bursa20]:** Unnecessary as Rule 1305.3 sets out the Minimum Operational Risk Requirement.

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<u>Onward Lent Margin Securities</u>	<u>Margin Securities that a Participating Organisation onward lends to a third party under Securities Borrowing and Lending.</u>
<u>Onward Pledged MFF Collateral</u>	<u>Securities the Participating Organisation holds as collateral under a Margin Financing Facility that the Participating Organisation onward pledges to a third party as security for a Debt the Participating Organisation owes to the third party.</u>
Operational Risk	<del>means the</del> <u>The risks to which</u> a Participating Organisation is exposed <del>to arising</del> from inadequate management of operational risk and includes risk of fraud, operational or settlement failure and shortage of liquid resources.
Operational Risk Requirement	<del>in relation to a Participating Organisation, means the</del> <u>The</u> amount necessary to accommodate a given level of <del>its</del> <u>the Participating Organisation's</u> Operational Risk, <del>as stipulated under set out in Rule 1105.513205.2(1).</del>
<del>option(s) out of the money OTC derivatives permitted business</del>	<del>in relation to a Participating Organisation, means such business as expressly permitted in the dealer's licence and shall include any other business as may be permitted by the Commission and the Exchange from time to time.</del>
Position Risk	<del>means the</del> <u>The risks to which</u> a Participating Organisation is exposed <del>to arising</del> from securities held by <del>it</del> <u>the Participating Organisation</u> as principal and <del>where applicable, shall include</del> <u>Margin Financing On-Pledged Risk.</u>
Position Risk Requirement or PRR	<del>in relation to a Participating Organisation, means the</del> <u>The</u> amount necessary to accommodate a given level of <u>the Participating Organisation's</u> Position Risk, <del>as calculated in accordance with in the manner the Exchange determines</del> <u>Rule 1105.6 and where applicable Rule 1105.10.</u>
<del>put option(s)</del>	<del></del>
<del>Recall</del>	<del></del>
<u>Recognised Market Indices</u>	<del>means the market indices of the recognised stock exchanges which are acceptable to the Exchange from time to time, as set out in Schedule 8C.</del>
<u>Related or Associated Person</u>	<u>In relation to a Participating Organisation includes:</u> (a) <del>a related corporation, which in relation to a corporation, means a corporation that is related to the first-mentioned corporation by virtue of Section 6 of the Companies Act, 1965;</del> <u>the Participating Organisation's Related Corporations;</u> (b) <del>an associated corporation, which in relation to a corporation, means a corporation that is deemed to be associated with the first-mentioned corporation by virtue of the first-mentioned corporation holding, directly or indirectly, not less than twenty per cent (20%) and not more than fifty per cent (50%) of the issued and paid-up capital of such corporation</del> <u>the Participating Organisation's Associated Corporations; and</u>

**Comment [B21]:** Moved to the directives on CAR

**Comment [B22]:** Moved to the directives on CAR

**Comment [Bursa23]:** This term is not used in this Chapter 13

**Comment [Bursa24]:** Moved to the directives on CAR

**Comment [Bursa25]:** Deleted as this term is not used in this Chapter.

**Comment [Bursa26]:** Moved to the directives on CAR

**Comment [Bursa27]:** Moved from previous Rule 1205.2 to here as this is more appropriate as a definition instead of an interpretation.

**Comment [Bursa28]:** "Related Corporation" is now a defined term in Chapter 1

**Comment [Bursa29]:** "Associated Corporation" is now a defined term in Chapter 1

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	<p><del>(c) a shareholder or a person connected with a shareholder as construed in accordance with Section 132G(4) of the Companies Act, 1965;</del></p> <p>(ec) a director <u>of the Participating Organisation</u> or person <u>considered</u> connected with <u>the</u> director <u>under as construed in accordance with</u> Section 122A of the Companies Act, <del>1965</del>.</p>
Risk Weighted Capital Ratio	<del>shall have the same</del> <u>Same</u> meaning <u>as that is assigned to that expression in the Guidelines on Investment Banks</u> <u>guidelines on Investment Banks issued by the Central Bank and Commission.</u>
<del>securities borrowing and/or lending</del> <u>Securities Borrowing and Lending</u>	<del>has the same</del> <u>Same</u> meaning <u>as in assigned to that expression as referred to in</u> Rule <u>6086706.1(1).</u>
Securities Borrowed or Securities Lent	<del>means any</del> <u>Any</u> securities borrowed or securities lent <del>pursuant to securities borrowing and/or lending under Securities Borrowing and Lending, and to the extent that</del> <u>if</u> the securities borrowed or securities lent consist of securities that have been subdivided or consolidated; <del>or</del> <u>made the subject of a bonus issue or an event similar to any of the foregoing events mentioned, the expression</u> Securities Borrowed or Securities Lent <del>shall have the following meaning</del> <u>means:</u>
	<p>(a) in the case of <u>a</u> subdivision or consolidation, the securities into which the Securities Borrowed or Securities Lent have been subdivided or consolidated;</p> <p>(b) in the case of a bonus issue, the Securities Borrowed or Securities Lent <u>(as applicable)</u> together with the securities allotted by way of <u>the</u> bonus issue <del>thereon</del>; and</p> <p>(c) in the case of any event similar to any of <del>the foregoing</del> <u>the events mentioned</u>, the Securities Borrowed or Securities Lent, together with or replaced by a sum of money <u>and/or</u> securities <u>(or both)</u> equivalent to <u>that received in respect of such the value or amount arising or due in relation to the</u> Securities Borrowed or Securities Lent resulting from such event.</p>
Total Risk Requirement	<del>in relation to a Participating Organisation, means the</del> <u>The</u> sum of <u>the Participating Organisation's:</u>
	<p><u>(a) Operational Risk Requirement;</u></p> <p><u>(b) Position Risk Requirement;</u></p> <p><u>(c) Counterparty Risk Requirement;</u></p> <p><u>(d) Large Exposure Risk Requirement;</u> and</p> <p><u>(e) Underwriting Risk Requirement</u> <del>Subject Always to the Rule 1105.10;</del></p>
Underwriting Risk	<del>Means any risks to which</del> <u>The risks</u> a Participating Organisation is exposed <u>to arising from a the Participating Organisation's</u> contingent binding commitment <del>by a Participating Organisation</del> to acquire securities at a certain price and time.

**Comment [Bursa30]:** Deleted as S132G of the Companies Act has been deleted by the Companies (Amendment) Act 2007

**Comment [Bursa31]:** Redundant as we have incorporated the requirements for calculation of the risk requirements for margin financing facilities into the relevant rules e.g. CRR in Rule 1207 and PRR in Rule 1306.

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Underwriting Risk Requirement or URR

~~in relation to a Participating Organisation, means the~~ The amount necessary to accommodate a given level of its the Participating Organisation's Underwriting Risk, as calculated in the manner the Exchange determines ~~accordance with Rule 1105.9.~~

**RULE 1105.2 – INTERPRETATION**

~~In this Rule 1105, references to "related or associated person" shall include—~~

- ~~(a) — a related corporation, which in relation to a corporation, means a corporation that is related to the first mentioned corporation by virtue of Section 6 of the Companies Act, 1965;~~
- ~~(b) — an associated corporation, which in relation to a corporation, means a corporation that is deemed to be associated with the first mentioned corporation by virtue of the first mentioned corporation holding, directly or indirectly, not less than twenty per cent (20%) and not more than fifty per cent (50%) of the issued and paid-up capital of such corporation;~~
- ~~(c) — a shareholder or a person connected with a shareholder as construed in accordance with Section 132G(4) of the Companies Act, 1965;~~
- ~~(d) — a director or person connected with a director as construed in accordance with Section 122A of the Companies Act, 1965.~~

**Comment [Bursa32]:** Moved to Rule 1301.2(1) as part of the definitions. See above for the amendments made to this Rule in line with plain language drafting

**RULE 1302 CAPITAL REQUIREMENTS**

**~~RULE 1101~~1302.1 PAID UP CAPITAL AND MINIMUM SHAREHOLDERS' FUNDS UNIMPAIRED BY LOSSES OF PARTICIPATING ORGANISATIONS**  
**Minimum paid-up capital and minimum shareholders' funds unimpaired by losses**

**Comment [Bursa33]:** Previously Rule 1101.1

~~(1) The paid up capital and minimum shareholders' funds unimpaired by losses of every Participating Organisation shall not be less than Ringgit Twenty Million (RM20,000,000.00) each or such other amount as the Minister may from time to time determine. The Minister may exempt any Participating Organisation from the provisions of this Rule 1101.1 for such period and on such terms and conditions as he deems fit.~~

**Comment [Bursa34]:** The minimum paid-up capital and minimum shareholders' funds unimpaired by losses is set out in the new Rule 1302.1(1). Retaining this rule is unnecessary.

(1) The minimum paid-up capital and minimum shareholders' funds unimpaired by losses that must be maintained by:

**Comment [Bursa35]:** Under section 67 of the CMSA, a PO that does not meet the minimum financial requirements must get the SC's consent if the PO wants to carry on dealing in securities. We are doing away with this sentence to avoid any inconsistency with section 67 of the CMSA.

(a) an Investment Bank is as the Central Bank stipulates;

(b) a Universal Broker is RM100 million; and

(c) any other Participating Organisation is RM20 million.

~~(2) Notwithstanding the provisions in Rule 1101.1(1), an Investment Bank shall all times comply with the provisions in the Guidelines on Investment Bank or any other requirements of the Central Bank pertaining to its minimum paid up capital requirements and other requirements pertaining to its capital ("the Relevant Guidelines and Requirements") and the Relevant Guidelines and Requirements shall be deemed to be part of these Rules.~~

**Comment [Bursa36]:** Covered under Rule 1301.1

RULE 1303 CAPITAL ADEQUACY REQUIREMENTS

RULE 1105.31303.1 OBLIGATIONS Obligations of a Participating Organisation

- (1) ~~Primary Obligation: Every~~ A Participating Organisation shall ~~must~~ ensure that: -
- (a) ~~its the Participating Organisation's Capital Adequacy Ratio is at all times more than 1.2~~ Liquid Capital is at all times greater than its Total Risk Requirement; ~~and~~
  - (b) ~~its the Participating Organisation's~~ Core Capital is at all times ~~greater~~ more than ~~its the Participating Organisation's~~ Operational Risk Requirement.
- (2) ~~Requirement to Notify Exchange: Where at any one time~~ -
- (a) ~~its a Participating Organisation's Capital Adequacy Ratio~~ Liquid Capital is equal to or less than 1.2 ~~its Total Risk Requirement~~; or
  - (b) ~~its a Participating Organisation's~~ Core Capital is equal to or less than ~~its the Participating Organisation's~~ Operational Risk Requirement,
- a ~~the~~ Participating Organisation shall ~~must~~ undertake the following actions:
- (a) immediately ~~notify~~ inform the Exchange; ~~and~~
  - (b) immediately ~~devise and take corrective measures~~ take all necessary steps to increase ~~its the Participating Organisation's Capital Adequacy Ratio to more than 1.2~~;
  - (c) as soon as reasonably practicable or immediately upon the Exchange's request, inform the Exchange of the corrective measures intended to be taken or that have been taken; and
  - (d) inform the Exchange immediately after all corrective measures have been taken. Liquid Capital or reduce its risk exposures. The Exchange may at its discretion, after receipt of the notice, give such directions to the Participating Organisation as it deems fit and/or impose such conditions within or upon which the business operations of the Participating Organisation may be carried on.
- (3) ~~Capital Adequacy and Risk Weighted Capital Ratios: A Participating Organisation shall~~ must:
- (a) ~~in the case of a Participating Organisation other than an Investment Bank, calculate and monitor its the Participating Organisation's Capital Adequacy Ratio for purposes of complying with Rule 1105.3(1) on a daily basis and in the case of an Investment Bank, the Risk Weighted Capital Ratio as prescribed in the Investment Bank Capital Adequacy Framework; and~~
  - (b) ~~submit to the Exchange through electronic transmission the relevant information and records which are relevant in calculating its relating to the Participating Organisation's Capital Adequacy Ratio in accordance with the requirements of the Exchange. the manner and at the times prescribed below; and~~
- (4) ~~Reporting: A Participating Organisation shall~~ must submit to the Exchange a return, ~~in the form prescribed in Schedule 8A, pertaining to its on the Participating Organisation's~~ Liquid Capital, Total Risk Requirement, Liquid Margin and Capital Adequacy Ratio in the form the Exchange requires.
- (a) ~~on a monthly basis, not later than 4.00 p.m. on the tenth (10th) calendar day after the end of the month;~~

Comment [Bursa37]: Plain language drafting

Comment [Bursa38]: To make it clear that a PO must at all times maintain a CAR of more than 1.2

Comment [Bursa39]: Unnecessary as we have a general power under Rule 201.1(2)(d) to among other things, issue directives for the purposes of or in connection with these Rules.

Comment [Bursa40]: Unless otherwise stated, amendments are in line with plain language drafting.

Comment [Bursa41]: Unnecessary to state "for the purposes of complying with Rule 1205.3(1)" as there is already a requirement that a PO must ensure that its Liquid Capital is at all times greater than its Total Risk Requirement and that its Core Capital is at all times greater than its Operational Risk Requirement. The requirement in this rule is for the PO to calculate and monitor its Capital Adequacy Ratio on a daily basis.

Comment [Bursa42]: Covered under Rule 1303.2(1)(a). Rule 1303.2(1)(a) refers to the minimum level of Risk Weighted Capital Ratio the Central Bank stipulates instead of as prescribed in the Investment Bank Capital Adequacy Framework. This amendment is for consistency where the requirement for an IB is to maintain the minimum level of RWCR required by the Central Bank. Hence, it is not necessary to refer to the Investment Bank Capital Adequacy Framework.

Comment [Bursa43]: The details of how the relevant information and records should be submitted have been moved to the PO Manual.

Comment [B44]: The principle that a PO must submit a return on the PO's Liquid Capital, Total Risk Requirement, Liquid Margin and Capital Adequacy Ratio in the form the Exchange requires is in these Rules. The details have been moved to the PO Manual.

**1303.2 Obligations of an Investment Bank**

(1) An Investment Bank must:

- (a) ensure that the Investment Bank maintains the minimum level of Risk Weighted Capital Ratio the Central Bank stipulates; and
- (b) calculate and monitor the Investment Bank's Risk Weighted Capital Ratio on a daily basis.

(2) An Investment Bank with a Risk Weighted Capital Ratio at the minimum level or less than what is required by the Central Bank must:

- (a) immediately inform the Exchange;
- (b) immediately devise and take corrective measures to increase the Investment Bank's Risk Weighted Capital Ratio to above the minimum level;
- (c) as soon as reasonably practicable or immediately upon the Exchange's request inform the Exchange of the corrective measures intended to be taken or that have been taken; and
- (d) inform the Exchange immediately after all corrective measures have been taken.

**Comment [Bursa45]:** By virtue of Rule 1301.1, all requirements in Chapter 12 do not apply to Investment Banks except for Rule 1302.1 and this Rule.

**Comment [Bursa46]:** Included an obligation on an IB to immediately take action to increase the IB's Risk Weighted Capital Ratio above the minimum level

**RULE 1105.41304 LIQUID CAPITAL**

~~(1) 1304.1 General Principle: General principle~~

Comment [Bursa47]: Plain language drafting

~~(1) Every A Participating Organisation shall must, in computing calculating its the Participating Organisation's Liquid Capital, deduct all fixed or non-liquid assets. In this Rule: For the purposes of these Rules—~~

- ~~(a) "liquid assets" means securities or other current assets which that have a ready market, or which that are capable of realisation within thirty (30) days;~~
- ~~(b) in relation to an asset, "ready market" means a market where the asset can be realised without materially and adversely affecting its that asset's value.~~

~~(2) 1304.2 Computation of Liquid Capital: Computation of Liquid Capital~~

Comment [Bursa48]: Plain language drafting

~~(1) (a) Subject to Rules 1105.4(3) to (6), the A Participating Organisation must calculate the Participating Organisation's Liquid Capital in the manner the Exchange determines of a Participating Organisation shall be determined in accordance with the computation as set out in Schedule 8A.~~

Comment [Bursa49]: As the details on computation of Liquid Capital, namely the sources of capital, specific excluded assets and excluded asset types and contingent liabilities are very specific, we have moved these details to the PO Manual.

~~(b) For the avoidance of doubt—~~

- ~~(i) unaudited profits shall be included in the computation of Liquid Capital;~~
- ~~(ii) unaudited losses (which must include all unrealised losses except unrealised losses from principal positions which are provided for hereinafter) shall be deducted from Liquid Capital;~~
- ~~(iii) unrealised gains from principal positions shall be included in the computation of Liquid Capital; and~~
- ~~(iv) unrealised losses from principal positions shall be deducted from Liquid Capital.~~

~~(c) Participating Organisations shall mark to market all its marketable securities reported in Schedule 8A on a daily basis.~~

~~(3) Sources of Capital: In the computation of its Liquid Capital, a Participating Organisation may, to the extent that they meet the criteria as prescribed in respect thereof, include the following sources of capital—~~

~~(a) Preference Shares~~

~~Non-cumulative and non-redeemable preference share capital shall be included in the Core Capital.~~

~~(b) Approved Subordinated Debts~~

~~Approved subordinated debts, being debts which are legally subordinated for a period of at least two (2) years in the manner approved or determined by the Exchange and are only repayable with the prior written approval of the Exchange. Approved subordinated debts shall also be subject to the following—~~

- ~~(i) The aggregate amount of the debts shall be restricted to one hundred percent (100%) of the Participating Organisation's Effective Shareholders' Funds. Unless expressly permitted by the Exchange, there shall be no recognition by the Exchange of any subordinated debts in the event the Participating Organisation's Effective Shareholders' Funds is in negative and the Participating Organisation's subordinated debts (whether previously~~



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~~approved or otherwise) shall not be included in the computation of Liquid Capital.~~

- ~~(ii) — The lender or creditor ("subordinated creditor") shall have expressly and irrevocably agreed that -
  - ~~(aa) — its right to receive principal and interest in respect of the debts shall at all times be subordinated to all other lenders or creditors of the Participating Organisation ("senior creditors"); and~~
  - ~~(bb) — it shall not be entitled to claim or receive payment from the Participating Organisation, by way of set-off or in any other manner, of the subordinated debts unless and until all other debts of the Participating Organisation not being debts subordinated hereunder ("senior debts") has been paid or except where the Exchange has given its written approval in respect thereof pursuant to Rule 1105.4(3)(b)(v).~~~~
- ~~(iii) — The debts shall not be subject to any cross default and negative pledge.~~
- ~~(iv) — Subject to such terms and conditions as may be imposed by the Exchange, the debts shall be converted into equity if the Participating Organisation fails -
  - ~~(aa) — to comply with the Capital Adequacy Requirements under this Rule 1105; and~~
  - ~~(bb) — to undertake or effect an appropriate capital reconstruction of the Participating Organisation which has been approved by the Exchange.~~~~
- ~~(v) — Repayment of the whole or part of the debts shall be made only with the prior written approval of the Exchange provided always that the Exchange may withhold its consent if it is not satisfied that the Participating Organisation is able to continuously comply with the Capital Adequacy Requirements under this Rule 1105.~~
- ~~(vi) — In the event of dissolution, winding up, liquidation or reorganisation of the Participating Organisation, the senior creditors of the Participating Organisation shall have the prior right to receive payment in full of their debts before the subordinated creditor receives any payment in respect of the subordinated debt.~~
- ~~(vii) — If, notwithstanding the provisions set out in the preceding paragraphs of this Rule 1105.4(3)(b), any distribution is received by the subordinated creditors in respect of the subordinated debts such distribution shall be paid over to the senior creditors for application rateably against their senior debts until they have been paid in full.~~

**(c) — Revaluation Reserves**

~~Revaluation reserves of fixed assets on an "as is" basis subject to the following—~~

- ~~(i) — The revaluation reserves of the fixed asset included in the computation of Liquid Capital being the lower of -
  - ~~(aa) — any excess between the force sale value and the net book value; or~~
  - ~~(bb) — fifty per cent (50%) of any excess between the fair market value and the net book value; and~~~~
- ~~(ii) — The revaluation exercise from which the revaluation reserves is calculated was conducted—~~

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- (aa) ~~not earlier than the expiry of ten (10) years from the date the fixed asset was purchased or the date of the last revaluation on the fixed asset, unless otherwise determined by the Exchange from time to time upon consultation with the Commission; and~~
- (bb) ~~by a professional valuer acceptable to the Exchange and who is licensed under the Valuers, Appraisers and Estate Agents Act, 1981 and all regulations and re-enactments thereto.~~

~~(4) **Specific Excluded Assets:** Notwithstanding anything contained in this Rule 1105, the following assets shall be excluded from the computation of Liquid Capital in the following manner-~~

~~(a) **Fixed Assets and Intangible Assets**~~

~~The total net book value of fixed assets and intangible assets as reported in the balance sheet including goodwill, capitalised development costs, licences, trademarks and similar rights.~~

~~(b) **Tax Assets**~~

~~The full amount of tax assets or advance tax payments, unless the Participating Organisation has a written statement from the relevant tax authorities indicating that payment will be made within three (3) months therefrom.~~

~~The Exchange may, from time to time as it considers appropriate, include any other types of assets under this Rule 1105.4(4).~~

~~(5) **Excluded Asset Types:** In addition to the assets specified in Rule 1105.4(4), the following assets shall also be fully excluded from the computation of Liquid Capital-~~

~~(a) **Other Non-current Assets**~~

~~All other non-current assets including (but not limited to) investments in the form of equity holding of more than twenty percent (20%) in a company. Investment in excess of twenty percent (20%) in a company shall be regarded as an investment in an associated company.~~

~~(b) **Charged Asset**~~

~~Liquid assets charged to third parties except where the asset is charged for the sole purpose of raising funds from a third party on an arm's length basis for use exclusively in the Participating Organisation's business and provided that the Participating Organisation has duly notified the Exchange of the details of the charged assets.~~

~~(c) **Deposits With Non-approved Institution**~~

~~Deposits other than those with approved financial institutions, to the extent that they are not adequately secured. For the purpose of this paragraph (c), "approved financial institutions" means banking and financial institutions licensed under Malaysian laws and includes international banking or financial institutions approved or prescribed by the Exchange from time to time.~~

~~(d) **Related/Associated Persons Balances**~~

~~Balances with a related or associated person regardless of whether such balances are secured or otherwise.~~

~~(e) **Other Debtors**~~

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~~Balances with other debtors which are due for payment for more than thirty (30) days, to the extent that they are not adequately secured. Such balances shall not include those with related or associated persons.~~

~~(f) — Prepayments~~

~~Prepayments not capable of being cancelled and realised into cash within thirty (30) days.~~

~~(g) — Other Assets~~

~~Assets not realisable within thirty (30) days except to the extent that they are secured by securities or some other form of collateral acceptable to the Exchange, including loans to affiliated companies or corporations which are regulated under any law or regulation and which are, for the purposes of such law or regulation, treated as part of the regulatory or statutory capital of the affiliates.~~

~~For the purposes of this Rule 1105.4(5), a Participating Organisation may use collateral or security in reduction of the exclusion of the above assets, where applicable, provided that the conditions set out in Rule 1105.7(6)(b) are complied with and the value of the collateral envisaged shall be determined by applying the applicable discounts as prescribed in Schedule 8J.~~

~~(6) — Contingent Liabilities:~~

~~(a) — General~~

~~A Participating Organisation intending to enter into a position in relation to an instrument, financial or otherwise which gives rise to a contingent liability, shall at all times throughout the period of maintaining the aforementioned position, be able to maintain-~~

- ~~(i) — Liquid Margin which is adequate to enable the Participating Organisation to fully perform and/or discharge its obligations under the contingent liability; and~~
- ~~(ii) — minimum Capital Adequacy Ratio of not less than 1.20 times or such other minimum as may be from time to time prescribed by the Exchange.~~

~~(b) — Guarantees~~

- ~~(i) — Guarantees issued by Participating Organisations shall be excluded from the computation of Liquid Capital, subject to Rule 1105.4(6)(b)(ii) below.~~
- ~~(ii) — Notwithstanding Rule 1105.4(6)(b)(i), a Participating Organisation may apply to the Exchange for partial inclusion or full inclusion of a guarantee issued by the Participating Organisation, into the computation of Liquid Capital. Approval for such partial inclusion or full inclusion of a guarantee issued by a Participating Organisation into the computation for Liquid Capital shall be at the discretion of the Exchange.~~
- ~~(iii) — Notwithstanding Rule 1105.4(6)(b)(i), where a guarantee is given to a company within the Participating Organisation's group of companies, that company's assets and liabilities (to the extent that they are covered by the guarantee) shall be taken into account as being part of the Participating Organisation's assets and liabilities for purposes of the computation, and in such case, the guarantee shall not be deducted from the capital computations (except where the Exchange agrees otherwise).~~
- ~~(iv) — The Exchange shall be immediately informed in writing of any intra-group and related-party guarantees.~~

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~~(c) — Option(s)~~

- ~~(i) — A Participating Organisation's liability arising from put option(s) written, or entered into by it, shall be
  - ~~(aa) — treated as contingent liabilities of the Participating Organisation as from the date of its unequivocal acceptance of the commitment of the put option(s) or the date on which the agreement(s) for the put option(s) is signed, whichever is earlier; and~~
  - ~~(bb) — deducted from the computation of Liquid Capital.~~~~
- ~~(ii) — A Participating Organisation shall calculate all contingent liabilities arising from put option(s) written by it in the manner prescribed in Schedule 8N.~~
- ~~(iii) — In calculating contingent liabilities arising from put option(s), the Participating Organisation may reduce its contingent liabilities in respect thereof to the extent that it holds collateral in accordance with the conditions set out in Rule 1105.7(6).~~
- ~~(iv) — For the purposes herein, the value of collateral shall be determined by applying the applicable discounts prescribed in Schedule 8J of Rule 1105.~~

**Comment [Bursa50]:** Moved to PO Manual. See comment in Rule 1304.2 above.

**RULE 1105.51305 OPERATIONAL RISK**

**(1)1305.1 General Principle: General principle**

(1) ~~Every~~ A Participating Organisation shall ~~must~~ ensure that ~~its the Participating Organisation's~~ Operational Risk Requirement is, ~~at all times,~~ less than ~~its the Participating Organisation's~~ Core Capital.

**(2)1305.2 Computation of Operational Risk Requirement: Computation of Operational Risk Requirement**

(a)(1) ~~The A Participating Organisation's~~ Operational Risk Requirement ~~of a Participating Organisation shall must~~ be the greater of:-

(i)(a) the applicable Minimum Operational Risk ~~Amount as determined under Rule 1105.5(3) Requirement;~~ or

(ii)(b) ~~twenty five percent (25%)~~ of the Participating Organisation's annual expenditure requirement based on the last auditor's report lodged with the Exchange for the preceding ~~twelve (12)~~ months.

(b)(2) ~~Notwithstanding Rule 1105.5(2)(a), the The~~ Exchange may, ~~at its absolute discretion,~~ require a Participating Organisation to increase ~~its the Participating Organisation's~~ Operational Risk Requirement if the Exchange is not satisfied that the internal controls of the Participating Organisation are adequate.

**(3)1305.3 Minimum Operational Risk Requirement: Minimum Operational Risk Requirement**

(a) ~~The Minimum Operational Risk Requirement applicable to a Participating Organisation shall be determined by whether a Participating Organisation is a Universal Broker or Non-Universal Broker.~~

(b1) A ~~Participating Organisation which is a~~ Universal Broker shall ~~apply must maintain~~ a Minimum Operational Risk ~~Amount Requirement of RM10 million stipulated under category A of Schedule 8B.~~

(c2) A ~~Participating Organisation which is a~~ Non-Universal Broker shall ~~apply must maintain~~ a Minimum Operational Risk ~~Amount Requirement of RM5 million stipulated under category B of Schedule 8B.~~

**(4)1305.4 Annual Expenditure Requirement: Annual Expenditure Requirement**

(1) A Participating Organisation must calculate the Participating Organisation's ~~The~~ annual expenditure requirement ~~of a Participating Organisation shall be calculated with reference to its most recent auditor's report lodged with the Exchange as follows in the manner the Exchange determines.~~

(a) ~~its total revenue less profit before taxation; or~~

(b) ~~the aggregate of its total revenue and any loss before taxation;~~

~~less the aggregate of the following items-~~

(i) ~~non-contractual bonuses paid out of the relevant year's profits to directors and employees;~~

(ii) ~~payments and other appropriations of profit in whatever form, except for fixed or guaranteed remunerations which shall be made payable even if the company makes a loss for that year;~~

**Comment [Bursa51]:** Unnecessary to have this explanatory rule. The following rules are clear to set out the requirements for a UB and a non-UB.

**Comment [Bursa52]:** The details of how a PO must calculate the annual expenditure requirement will be set out in the Exchange's directives on CAR in the PO Manual.

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- (iii) — ~~paid commissions which are shared with persons other than employees or directors;~~
- (iv) — ~~fees, levy and other charges paid to the Clearing House, the Commission and Depository;~~
- (v) — ~~interest payable to counterparties;~~
- (vi) — ~~interest payable on borrowings to finance the company's investment business and associated business carried on in connection therewith;~~
- (vii) — ~~exceptional items (including but not limited to those items which arise from events or transactions within the ordinary activities of the business of a Participating Organisation and which are both material and not expected to recur frequently or regularly), with the prior written approval of the Exchange;~~
- (viii) — ~~losses arising on the translation of foreign currency balances; and~~
- (ix) — ~~any other costs and expenses that the Exchange may from time to time stipulate.~~

~~(5) — Exemption: If a Participating Organisation does not have an auditor's report -~~

- ~~(a) — in the case where it has just commenced business or it has not carried on business long enough to have submitted its auditor's report to the Exchange, it shall base its annual expenditure requirement on budgeted or other accounts which it submitted to the Exchange as part of its application to become a Participating Organisation;~~
- ~~(b) — in the case where its accounts represent a period in excess of twelve (12) months, it shall calculate its annual expenditure requirement on a proportionate basis approved by the Exchange.~~

~~(6)~~1305.5 Adjustment: Adjustment

~~(1)~~ The Exchange may require a Participating Organisation to adjust ~~its~~ the Participating Organisation's annual expenditure requirement if:—

- (a) there has been a significant change in the circumstances or activities of the Participating Organisation; or
- (b) ~~the Participating Organisation has~~ a material proportion of ~~its~~ the Participating Organisation's an expenditure was incurred or accrued on its ~~the Participating Organisation's behalf~~ by third parties and where such expenditure is known by the Participating Organisation but was not fully ~~recharged~~ to the Participating Organisation.

RULE 1405.61306 POSITION RISK

~~(1)~~1306.1 General Principle: ~~General Principle~~

~~(1)~~ Subject Always to Rule 1405.10, every ~~A~~ Participating Organisation ~~shall~~ must calculate ~~its~~ the Participating Organisation's Position Risk Requirement ~~for the securities listed below.~~

- ~~(a)~~ ~~in respect of all~~ All securities held by ~~it~~ the Participating Organisation as principal, including those held pursuant to ~~its~~ the Participating Organisation's intra-day activities;
- ~~(b)~~ ~~on an intra-day basis to ensure that its Total Risk Requirement does not exceed its Liquid Capital;~~
- ~~(c)~~ ~~in respect of all~~ All Securities Borrowed ~~and/or~~ Securities ~~Onward~~ Lent for ~~itself~~ the Participating Organisation as principal; ~~and~~
- ~~(d)~~ ~~in respect of all~~ All securities other than Margin Securities held by ~~it~~ which has the Participating Organisation ~~that have~~ been onward lent by ~~it~~ the Participating Organisation as principal for the purpose of ~~securities borrowing and lending~~ Securities Borrowing and Lending;
- ~~(d)~~ All Onward Pledged MFF Collateral; and
- ~~(e)~~ All Onward Lent Margin Securities.

Comment [Bursa53]: This is redundant as we have included in this rule, the requirement to calculate PRR for (1) all securities held by the PO as collateral under margin financing facilities that have been onward pledged to a third party (Onward Pledged MFF Collateral) and (2) all Margin Securities that have been onward lent as principal for Securities Borrowing and Lending (Onward Lent Margin Securities).

Comment [Bursa54]: Unnecessary as Rule 1303.1(3)(a) already requires POs to calculate the PO's Capital Adequacy Ratio on a daily basis. Capital Adequacy Ratio is calculated as the PO's Liquid Capital divided by its Total Risk Requirement. Further, Rule 1303.1(1)(a) requires a PO's CAR to be more than 1.2 i.e. that a PO's Liquid Capital is at all times greater than its Total Risk Requirement by 1.2 times.

~~(2)~~1306.2 Principles Applicable to Equity Position Risk Requirement: ~~Position Risk Requirement for equity and Equity Exchange Traded Derivatives Instruments~~

~~(1)~~ A Participating Organisation ~~must~~ In calculating calculate the Position Risk Requirement ~~in respect of its~~ for the Participating Organisation's equity and ~~equity derivative~~ Equity Exchange Traded Derivative positions ~~in the manner the Exchange determines.~~ ~~a Participating Organisation shall observe the following principles-~~

- ~~(a)~~ ~~in accordance with Rule 1405.6(1), a Participating Organisation shall calculate all principal positions held by it;~~
- ~~(b)~~ ~~a Participating Organisation shall, on a daily basis, mark to market all its principal positions;~~
- ~~(c)~~ ~~a Participating Organisation may, in the case of securities held by it pursuant to intra-day activities, reduce its risk exposure to the extent of the mark to market value of any collateral held after deducting the applicable discounts prescribed in Schedule 8J;~~
- ~~(d)~~ ~~where applicable, a Participating Organisation shall calculate its Position Risk Requirement on a country by country basis;~~

Comment [Bursa55]: The details of how a PO must calculate the PRR for the PO's equity and Exchange Traded Derivative positions will be set out in the Exchange's directives on CAR.

~~(3)~~1306.3 Position Risk Requirement for Debt Securities

~~(1)~~ A Participating Organisation ~~must~~ calculate the Position Risk Requirement for Debt Securities ~~in the manner the Exchange determines.~~

Comment [Bursa56]: The method how to calculate PRR for Debt Securities will be set out in the Exchange's directives on CAR.

1306.4 Position Risk Requirement for other instruments: ~~Position Risk Requirement for other instruments~~

~~(1)~~ ~~Where~~ ~~A~~ a Participating Organisation ~~intending to take~~ ~~has~~ a position in an instrument for which no treatment is specified under this ~~Rule 1405~~Chapter, ~~the Participating Organisation shall~~ must, at least 15 Market Days before the implementation or effective date of the

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~~instrument, immediately, in writing, seek the Exchange's direction guidance from Intermediary Supervision on the treatment calculation to apply applicable to such the position instrument, and until~~

**Comment [Bursa57]:** To require guidance on the treatment to apply to such position to be sought at least 15 Market Days before the implementation or effect date of the instrument. This is to ensure that the Exchange has sufficient time to consider the treatment to apply to such position as the same is not specified in the Rules.

~~(2) A Participating Organisation must, for that instrument, apply a Position Risk Requirement of 100% of the Mark to Market value of the instrument until the Exchange determines the appropriate calculation an appropriate treatment has been determined by the Exchange, the Position Risk Requirement shall be one hundred per cent (100%) of the mark to market value of the instrument.~~

~~(4) **Methods of Computation of Equity Position Risk Requirement:** A Participating Organisation shall calculate its Position Risk Requirement in respect of its equity and equity equivalent positions based on either of the following approaches—~~

**Comment [Bursa58]:** Deleted as the Exchange's directives on CAR will stipulated the approaches a PO may use to calculate PRR.

- ~~(a) — the Standard Approach (Rule 1105.6(9));~~
- ~~(b) — the Building Block Approach (Rule 1105.6(10));~~

~~which, in the case of equity derivatives, may be supplemented by the following methods—~~

- ~~(i) — the Margin Method (Rule 1105.6(11));~~
- ~~(ii) — the Hedging Method (Rule 1105.6(12));~~
- ~~(iii) — the Basic Method (Rule 1105.6(13)).~~

~~(5) **Types of Positions to be Included:**~~

**Comment [Bursa59]:** The types of positions to be included in the calculation of the PRR for the PO's equity and equity equivalent positions will be set out in the Exchange's directives on CAR in the PO Manual.

~~(a) A Participating Organisation shall apply either the Standard Approach or the Building Block Approach in calculating the equity Position Risk Requirement in respect of equity shares.~~

~~(b) Subject to Rule 1105.6(6)(b), a Participating Organisation may, in the calculation of its equity Position Risk Requirement, include positions in the following equity derivatives as equity equivalent positions by applying with the Standard Approach or the Building Block Approach—~~

- ~~(i) — equity swaps;~~
- ~~(ii) — exchange traded options and stock options;~~
- ~~(iii) — individual share futures;~~
- ~~(iv) — over-the-counter share options;~~
- ~~(v) — warrants over single share;~~
- ~~(vi) — index and basket equity derivatives;~~
- ~~(vii) — depository receipts; and~~
- ~~(viii) — convertible notes.~~

$$PRR_{\text{equity-position}} = \frac{\text{Mark to market value of net position}}{\text{position}} \times PRF$$

Where,

- PRR = Position Risk Requirement
- PRF = Applicable Position Risk Factor, as prescribed in Schedule 8C

Step 2



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Calculate the Position Risk Requirement based on the Standard Approach for each country portfolio as follows–

$PRR_{\text{country portfolio}} = \text{Aggregate of PRR applicable to the net long and net short position within the country portfolio}$

**Step 3**

Calculate the total Position Risk Requirement based on the Standard Approach as follows–

$\text{Total PRR}_{\text{Standard Approach}} = \text{Aggregate of the PRRs of all country portfolios}$

~~(10) Building Block Approach:~~

~~(a) Additional qualifying criteria: The Building Block Approach may be used on equity and equity equivalent positions only if the following conditions are satisfied–~~

~~(i) where, within a country's portfolio, there are at least five (5) net long or five (5) net short positions held from market indices maintained or recognised by the Exchange; and~~

~~(ii) where a particular net long or short position exceeds twenty per cent (20%) of the gross value of the country's portfolio, only the amount up to twenty per cent (20%) may be treated under the Building Block Approach. The excess amount shall be treated under the Standard Approach.~~

**Comment [Bursa60]:** This rule on the Building Block Approach to calculate PRR will be set out in the Exchange's directives on CAR in the PO Manual.

~~(11) Margin Method:~~

~~(a) Criteria:~~

~~(i) A Participating Organisation may apply the Margin Method to all exchange traded equity derivative positions which have a positive initial margin requirement.~~

~~(ii) A Participating Organisation may use the Margin Method where it chooses not to utilise any of the other available methods, but shall use it when it has not satisfied the criteria for those other methods.~~

~~(b) Methodology~~

~~(i) The Position Risk Requirement is determined by multiplying one hundred percent (100%) of the initial margin requirement of the relevant exchange by four (4).~~

~~(ii) If the relevant exchange calculates the margin requirement on an overall basis, or offsets futures and options in the margin calculation the Position Risk Requirement may be based on the overall margin.~~

**Comment [Bursa61]:** This rule on the Margin Method to calculate PRR will be set out in the Exchange's directives on CAR in the PO Manual.

~~(12) Hedging Method:~~

~~(a) A Participating Organisation may apply the Hedging Method for calculating the Position Risk Requirement of an equity position hedged by an option or a warrant.~~

~~(b) The Hedging Method may only be used to the extent that the nominal amount of the equity underlying the option matches the nominal amount of the equity.~~

~~(c) The Position Risk Requirement for positions using Hedging Method shall be determined in accordance with Schedule 8E.~~

**Comment [Bursa62]:** This rule on the Hedging Method to calculate PRR will be set out in the Exchange's directives on CAR in the PO Manual.

~~(13) Basic Method:~~

**Comment [Bursa63]:** This rule on the Basic Method to calculate PRR will be set out in the Exchange's directives on CAR in the PO Manual.

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- (a) — ~~A Participating Organisation may apply the Basic Method for calculating Position Risk Requirement for equity derivatives.~~
- (b) — ~~The Position Risk Requirement positions using the Basic Method shall be determined in accordance with Schedule 8E.~~

~~(14) — **Foreign Exchange:** The Position Risk Requirement for foreign exchange exposure shall be calculated by applying the applicable discount prescribed in Schedule 8J to the sum of the net long positions in foreign currencies.~~

**Comment [Bursa64]:** This rule on the calculation of PRR for foreign exchange exposure will be set out in the Exchange's directives on CAR in the PO Manual.

**RULE ~~1105.7~~1307 COUNTERPARTY RISK**

**~~(1)~~1307.1 General Principle: General Principle**

~~(1)~~ ~~Subject Always to Rule 1105.10, a~~A Participating Organisation shall ~~must~~ calculate ~~its the~~ ~~Participating Organisation's~~ Counterparty Risk Requirement for all ~~counterparty~~Counterparty exposures arising from:—

- ~~(i)~~(a) unsettled agency (including those under DF Accounts) ~~and principal trades~~;
- ~~(ii)~~(b) ~~debt~~Debt, contra losses and other amounts due;
- ~~(iii)~~(c) free deliveries;
- ~~(iv)~~(d) ~~securities borrowing and lending~~Securities Borrowing and Lending transactions;
- ~~(v)~~(e) derivatives transactions;
- ~~(vi)~~(f) sub-underwriting arrangements; and
- (g) Margin Financing Facilities; and
- ~~(vii)~~(h) other exposures ~~the Exchange as determined determines~~by the Exchange from time to time.

**Comment [Bursa65]:** Deleted as we have done away with Rule 1205.10 and incorporated the requirements on margin financing facilities in the relevant rules for example, we have included in this rule on counterparty risk, the requirement to calculate CRR for Margin Financing Facilities.

**~~(2)~~1307.2 Principles applicable in calculating CRR: Computation of Counterparty Risk Requirement**

~~(1)~~ A Participating Organisation must ~~In calculating calculate the Participating Organisation's~~ Counterparty Risk Requirement, ~~a Participating Organisation shall observe the following in the manner the Exchange determines.~~

- ~~(a)~~ — It is only required to calculate a Counterparty Risk Requirement if it has a positive exposure to a counterparty;
- ~~(b)~~ — It shall not include any Counterparty Risk Requirement if it is a negative amount;

**Comment [Bursa66]:** The details of how a PO must calculate the PO's CRR for will be set out in the Exchange's directives on CAR in the PO Manual.

**~~(3)~~1307.3 Exceptional instruments: Exceptional instruments**

~~(1)~~ ~~Where~~ If a Participating Organisation ~~an instrument~~; -

- (a) cannot ~~be classified classify an item or product~~ under any of the items ~~specified~~ in Rule ~~1105.7(1)~~13207.1(1) or it is in doubt as to the classification of an item specified in the said Rule ~~1105.7(1)~~13207.1(1); or
- (b) is of the opinion that the item or product is not of a standard form,

the Participating Organisation shall ~~must, at least 15 Market Days before the implementation or effective date of the item or product~~immediately, in writing, seek ~~the Exchange's direction~~ guidance from Intermediary Supervision on the treatment calculation to apply applicable to such instrumentthe item or product.

**Comment [Bursa67]:** To require guidance on the treatment to apply to such counterparty risk to be sought at least 15 Market Days before the implementation or effect date of the instrument. This is to ensure that the Exchange has sufficient time to consider the treatment to apply to such risk as the same is not specified in the Rules.

~~(2)~~ A Participating Organisation must, for that item or product, and until such time as the ~~Participating Organisation shall be advised on the treatment applicable to such instrument, the apply a~~ Counterparty Risk Requirement of that instrument shall be its full mark to market of 100% of the Mark to Market value ~~of the item or product~~ net of any collateral held, ~~which~~

~~(3)~~ The Participating Organisation must ensure that the collateral the Participating Organisation holds ~~satisfies~~ satisfies the conditions ~~prescribed in Rule 1105.7(6)(b), Directive 1303-001, the Exchange specifies and deduct the applicable discounts after deducting the applicable discounts prescribed in Schedule 8J~~ the Exchange stipulates.

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(4) ~~Computation:~~ Unless otherwise provided for under this Rule 1105.7, the Counterparty Risk Requirement shall be calculated in accordance with the following formula –

$$\text{CRR} = \text{CE multiply-by} \quad \text{CW multiply-by} \quad 8\%$$

Where,

- CRR = Counterparty Risk Requirement
- CE = Counterparty Exposure, as determined in accordance with Rule 1105.7(5)
- CW = Counterparty Weighting, as specified in Schedule 8F.

(5) ~~General rules in calculating CE and CRR:~~ A Participating Organisation shall calculate its counterparty exposures and Counterparty Risk Requirement in accordance with the following –

(a) ~~Unsettled Agency (including those under DF Accounts) and Principal Trades:~~

(i) ~~Counterparty exposures:~~ Subject to Rule 1105.7(5)(a)(iii), a Participating Organisation's counterparty exposures on –

(aa) – an agency purchase or a principal sale shall be equal to the mark to market difference; and

(bb) – an agency sale or a principal purchase shall be equal to the mark to market difference.

(ii) ~~CRR for unsettled "delivery vs. payment" trades:~~ A Participating Organisation shall determine or calculate its Counterparty Risk Requirement on its unsettled agency and principal "delivery versus payment" trades in accordance with Schedule 8G.

(iii) ~~In the event that the mark to market value is not available for whatsoever reason for the purpose of computing the mark to market difference as stipulated under Rule 1105.7(5)(a)(i)(aa) and Rule 1105.7(5)(a)(i)(bb), the counterparty exposures shall be equal to the purchase contract value or sale value respectively.~~

(b) ~~Debt, Contra Losses and Other Amounts Due:~~

(i) ~~Counterparty exposure:~~ A Participating Organisation has a counterparty exposure if a debt, contra loss or other amount due is not paid on its agreed due date save that in the case of a contra loss, the due date shall be the date of contra.

(ii) ~~Calculation of CRR:~~ A Participating Organisation shall calculate its Counterparty Risk Requirement in respect of such an exposure in the manner prescribed in Schedule 8H.

(c) ~~Free Deliveries:~~

(i) ~~Where a Participating Organisation delivers securities without receiving payment, or pays for securities without receiving the securities, its counterparty exposure shall be the full contract value of the transaction and its Counterparty Risk Requirement shall be calculated in accordance with Rule 1105.7(4).~~

(ii) ~~Notwithstanding Rule 1105.7(5)(c)(i), where delivery or settlement remains outstanding for more than two (2) market days after the due date, the Counterparty Risk Requirement of the Participating Organisation shall be the full contract value of the transaction.~~

(iii) ~~For the purposes herein, the due date shall be –~~

**Comment [Bursa68]:** The method how to calculate CRR will be set out in the Exchange's directives on CAR in the PO Manual.

**Comment [Bursa69]:** The principles in calculating counterparty exposure and CRR will be set out in the Exchange's directives on CAR in the PO Manual.

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- (aa) ~~where the Participating Organisation delivers securities without receiving payment, the date of such delivery;~~
- (bb) ~~where the Participating Organisation pays for securities without receiving the securities, the date of such payment.~~

~~(d) – **Securities Borrowing and Lending:**~~

~~(i) – **Counterparty exposures:** A Participating Organisation shall calculate its counterparty exposures for securities borrowing and lending as follows –~~

~~(aa) – for borrowing transactions entered into on behalf of its clients a Participating Organisation's counterparty exposures shall be computed based on the difference between the mark to market value of the Securities Borrowed and the mark to market value of the Collateral deposited subject to the provisions of Rule 1105.7(6). In computing the mark to market value of the Securities Borrowed or the Collateral, a Participating Organisation shall add any income accrued on the same and shall deduct any fees and charges imposed on the borrowing or the Collateral; and~~

~~(bb) – for lending transactions entered into on behalf of its clients, a Participating Organisation's counterparty exposures shall be computed based on the difference between the mark to market value of the Securities Lent and the mark to market value of the Collateral deposited, if any subject to the provisions of Rule 1105.7(6). In computing the mark to market value of the Securities Lent or the Collateral, a Participating Organisation shall add any income accrued on the same and shall deduct any fees and charges imposed on the lending or the Collateral.~~

~~(ii) – **Calculation of CRR:** Pursuant to the above-mentioned a Participating Organisation shall calculate its Counterparty Risk Requirement for securities borrowing and lending in accordance with Schedule 8G.~~

~~(e) – **Derivatives Transactions:**~~

~~(i) – **Exchange traded derivatives**~~

~~(aa) – **Counterparty exposure:**~~

~~(i) – A Participating Organisation's counterparty exposure on an exchange traded derivative contracts shall be the uncovered margin or the margin call due for the contract and/or any additional margin requirements, whichever is higher, as may be required by the Participating Organisation or by the recognised clearing house approved by the Minister.~~

~~(ii) – **Options (bought)**~~

~~A Participating Organisation has a counterparty exposure on the uncovered premium in respect of the options bought (in the case of the buyer of an option) where the transaction is unsettled and the uncovered premium shall be the unpaid premium due from the buyer of the options.~~

~~(iii) – **Options (sold)**~~

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~~A Participating Organisation has a counterparty exposure on the uncovered margin in respect of the options sold (in the case of the seller of an option) where the transaction is unsettled and the uncovered margin shall be the margin due less any premium received.~~

- (i) ~~Where a Participating Organisation purchases instruments through a reverse repo transaction, its counterparty exposure shall be the full pre-determined re-sale value of the instruments as agreed between the Participating Organisation and the repo seller and its Counterparty Risk Requirement shall be calculated in accordance with Rule 1105.7(4).~~

~~(6)1307.4 Collateral:Collateral~~

(a) ~~General rule: A Participating Organisation may reduce the counterparty exposure on which its Counterparty Risk Requirement is calculated or determined to the extent that it holds collateral or security to cover the exposure provided that the conditions set forth in this Rule 1105.7(6) are complied with.~~

(b1) ~~Conditions to be complied: A Participating Organisation may use collateral or security including collateral placed by its the Participating Organisation's Commissioned Dealer's Representative to reduce its counterparty the Participating Organisation's Counterparty exposure in the manner the Exchange determines, only if the following conditions are satisfied~~

(i) ~~the Participating Organisation has an unconditional right to apply or realise the collateral or security in the event of default by the counterparty;~~

(ii) ~~the collateral or security is liquid in nature, which includes but is not limited to (ee) any other collaterals which may be specified by the Exchange from time to time.~~

(c2) ~~Discounting: Subject to any directives or guidelines issued from time to time by the Commission or the Exchange relating to collaterals, where A Participating Organisation must discount the value of collateral held in the following forms in the manner the Exchange determines:~~

(a) ~~in a form other than a Ringgit cash deposita collateral held by a Participating Organisation is in a form other than cash deposit in Ringgit, the value of the collateral shall be discounted by applying the applicable discounts as prescribed in Schedule 8J; and~~

(b) ~~in a form of Debt Securities.~~

(d3) ~~Reconciliation: Every A Participating Organisation must reconcile all collateral held by a the Participating Organisation shall be reconciled at least once a month.~~

(e) ~~Deposits and commission: Deposits placed by Commissioned Dealer's Representatives with, and commissions held by, a Participating Organisation may be applied against the clients of its Commissioned Dealer's Representatives, who have outstanding contract, debts or other outstanding amounts. No deposit of one Commissioned Dealer's Representative may be used as collateral for another Commissioned Dealer's Representative who has insufficient funds.~~

~~(7)1307.5 Hedging:~~

(a1) ~~A Participating Organisation may hedge the Counter Party Risk Requirement of an equity position against a derivative position as envisaged in determined by the Exchange 1105.7(2)(f).~~

Comment [Bursa70]: This is actually a repetition of the rule immediately after this rule and can be done away with.

Comment [Bursa71]: The conditions to be complied with before a PO may use collateral or security to reduce the PO's Counterparty exposure will be set out in the Exchange's directives on CAR in the PO Manual.

Comment [Bursa72]: The discounts that must be applied by POs will be set out in the Exchange's directives on CAR in the PO Manual.

Comment [Bursa73]: To incorporate this requirement that previously was contained in R/R 10 of 2004 (capital adequacy requirements for activities in debt securities).

Comment [Bursa74]: This has been moved to the Exchange's directives on CAR in the PO Manual as it specifies when deposits placed by CDRs and commissions held by POs may be applied against the clients of the CDRs.

Comment [B75]: This has been moved to the Exchange's directives on CAR

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- (b2) The hedging may only be used to the extent that value of the equity underlying the derivative position matches the value of the equity position.
- (e3) The Counterparty Risk Requirement for hedging positions shall where applicable, be determined in the manner the Exchange stipulates~~accordance with Schedule 8F.~~

Comment [B76]: This has been moved to the Exchange's directives on CAR

**(8)1307.6 Additional Counterparty Risk Requirement: Additional Counterparty Risk Requirement**

- (a) ~~Potential material loss:~~
- (1) ~~If the Exchange thinks that~~ ~~Where, in the opinion of the Exchange,~~ a Participating Organisation is exposed to a potential material loss in relation to any unsettled transaction, the Exchange may require ~~at the~~ Participating Organisation to provide acceptable evidence of the ~~client's~~ Client's commitment to meet ~~its~~ the Client's obligations on the due date of that commitment.
- (b) ~~Acceptable evidence:~~
- (2) Acceptable evidence of a ~~client's~~ Client's commitment to meet ~~its~~ the Client's obligations on the due date may take the form of a documentary confirmation of the transactions concerned supported ~~by any of the following by:~~ –
- (i) acceptable evidence of financial standing;
  - (ii) the provision of adequate security; or
  - (iii) the provision of acceptable guarantees.
- (c) ~~Absence of acceptable evidence:~~
- (3) In the absence of acceptable evidence ~~as required under Rule 1405.7(9)(b),~~ the Exchange may ~~at its discretion, inter alia, amongst other things,~~ require a Participating Organisation to increase ~~its~~ the Participating Organisation's Counterparty Risk Requirement by an amount not exceeding ~~its~~ the Participating Organisation's exposure to loss. ~~Such~~ The Participating Organisation's exposure to loss ~~is will be determined as~~ the difference between the amount of the ~~client's~~ Client's obligations and the amount of any assets available to meet ~~such~~ the obligations.

Comment [Bursa77]: What is considered acceptable evidence is already set out in Rule 1307.6(2) and there is no need to refer to it again here.

RULE 1105.81308 LARGE EXPOSURE RISK

(1) 1308.1 Principles applicable in calculating LERR: General principles

(a) General principle:

(1) A Participating Organisation shall ~~must compute~~ calculate ~~its the~~ Participating Organisation's Large Exposure Risk Requirement ~~in relation to~~ ~~for the~~ Participating Organisation's:

(i) ~~its~~ exposure to a single ~~client~~ Client or ~~counterparty~~ Counterparty;

(ii) ~~its~~ direct exposure to ~~debt~~ Debt Securities; and

(iii) ~~its~~ direct exposure to a single equity;

for all amounts arising in the normal course of trading in ~~equity securities~~ Equity Securities, ~~debts~~ Debt Securities or ~~equity derivatives~~ Equity Exchange Traded Derivatives in accordance with the provisions set out under this Rule 1105.813208.

(b) Hybrid securities:

(2) A Participating Organisation must calculate ~~its the~~ Participating Organisation's Large Exposure Risk to a ~~hybrid securities~~ Hybrid Security or such other instrument for which no treatment is specified under this Rule 1105.13208 in the manner the Exchange determines ~~accordance with such rules, guidelines, directives or circulars as may be prescribed by the Exchange from time to time.~~

(2) Variation to LERR:

(a) ~~Waiver for Participating Organisation:~~ The Exchange may, upon a written application from a Participating Organisation, reduce or waive the Large Exposure Risk Requirement for the Participating Organisation subject to terms and conditions as the Exchange deems fit upon notification to the Commission.

(b) ~~Variation of maximum LER:~~ The Exchange may reduce, increase, vary or waive the maximum Large Exposure Risk prescribed in this Rule 1105 as the Exchange deems fit upon notification to the Commission.

(3) 1308.2 Exposure to a single client/counterparty: Exposure to a single Client or Counterparty

(a) Large Exposure Risk:

(1) A Participating Organisation has a Large Exposure Risk in relation to a single ~~client~~ Client or ~~counterparty~~ Counterparty if the sum of ~~its counterparty~~ the Participating Organisation's Counterparty exposure to ~~that client~~ the Client or ~~counterparty~~ Counterparty as calculated in the manner the Exchange determines ~~accordance with Rule 1105.7(5)~~ exceeds ~~ten percent~~ (10%) of the Participating Organisation's Effective Shareholders' Funds.

(b) ~~Connected persons:~~ In determining a Participating Organisation's Large Exposure Risk in relation to a single client or counterparty, the Participating Organisation shall include ~~its exposure to persons connected to that client or counterparty.~~

(c) Large Exposure Risk Requirement:

(2) A Participating Organisation's ~~The~~ Large Exposure Risk Requirement ~~of a Participating Organisation to a single client~~ Client or ~~counterparty~~ Counterparty shall be ~~is~~ equal to the amount calculated to be the Counterparty Risk Requirement for ~~that particular client~~ the Client or ~~counterparty~~ Counterparty ~~as calculated in accordance with 1105.7(4).~~

(3) A Participating Organisation's Large Exposure Risk Requirement to a single Client as to the Participating Organisation's activities in Debt Securities must be calculated in the manner the Exchange determines.

(e) Maximum LER:

(4) A Participating Organisation must not bear a Large Exposure Risk ~~The maximum Large Exposure Risk that a Participating Organisation is allowed to bear in relation to~~ any one

Comment [Bursa78]: Unnecessary as under Rule 201.1(2)(b), we have the power to add to, vary, repeal, enforce or waive any of these Rules.

Comment [Bursa79]: Deleted as the definition of "single Client or Counterparty" in Rule 1308.2(6) below already includes connected persons.

Comment [Bursa80]: Incorporating this requirement from the Capital Adequacy Requirements in relation to a PO's activities in debt securities contained in R/R 10 of 2004. The method of calculation will be in the Exchange's directives on CAR in the PO Manual.



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particular ~~client Client~~ or ~~counterpartyCounterparty of more than~~ is thirty percent (30%) of its ~~the Participating Organisation's~~ Effective Shareholders' Funds.

~~(f) — Reporting:~~

~~(5) A Participating Organisation shall must report to the Exchange promptly all its the Participating Organisation's Large Exposure Risk relating to a counterpartyClient or Counterparty.~~

~~(6d) In For the purposes of this Rule 1105.813208.2; the expression~~

~~(a) "single client Client or counterpartyCounterparty" includes:—~~

~~(i) where if such the single client Client or counterpartyCounterparty is an individual, the individual, the spouse of the individual, the partnership of which he the individual is a partner, any partner of the individual, the spouse of the partner and all the companies or corporations over which the individual exercises control; and For the purpose of this Rule 1105.8, an individual is deemed to exercise "control" over a company or corporation if the individual or the individual's spouse, severally or jointly—~~

~~(aa) — holds, directly or indirectly, more than fifty per cent (50%) of the shares of the corporation,~~

~~(bb) — has the power to appoint, or cause to be appointed, a majority of the directors of the company or corporation, or~~

~~(cc) — has the power to make, cause to be made, decisions in respect of the business or administration of the company or corporation, and to give effect to such decisions, or cause them to be given effect to.~~

~~(ii) — where if such the single client Client or counterpartyCounterparty is a company or corporation, the company or corporation, its and the corporation's related company or corporationRelated Corporations and its associated companiesAssociated Corporations. For the purpose of this Rule 1105.8—~~

~~(aa) — a related corporation shall have the meaning as defined by section 6 of the Companies Act, 1965, and~~

~~(bb) — a company is deemed to be an associated company of the company or corporation where the company or corporation holds, directly or indirectly, not less than twenty per cent (20%) and not more than fifty per cent (50%) of the issued share capital of such company.~~

~~(b) For the purpose of this Rule 1105.8, an an individual is deemed to exercises "control" over a company or corporation if the individual or the individual's spouse, severally or jointly:—~~

~~(aa) holds, directly or indirectly, more than fifty per cent (50%) of the shares of the corporation,~~

~~(bb)ii) has the power to appoint, or cause to be appointed, a majority of the directors of the company or corporation; or~~

~~(cc)iii) has the power to make, cause to be made, decisions in respect of the business or administration of the company or corporation, and to give effect to such decisions, or cause them to be given effect to.~~

~~(4)1308.3 Direct Exposure to Debt:Direct exposure to Debt Securities~~

~~(a) — Large Exposure Risk:~~

Comment [Bursa81]: Plain language drafting and as the "Related Corporation" and "Associated Corporation" are now defined terms under Chapter 1.

Comment [Bursa82]: Moved to Chapter 1

Comment [Bursa83]: Moved to Chapter 1

Comment [Bursa84]: Previously, Rule 1105.8(3)(d)(i)

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(1) A Participating Organisation has a Large Exposure Risk ~~in relation as~~ to an ~~issuer~~ Issuer of ~~debt~~ Debt Securities if the total amount of ~~debt~~ Debt Securities held against the ~~issuer~~ Issuer exceeds ~~fifteen percent (15%)~~ of the Participating Organisation's Effective Shareholders' Funds.

~~(b) — Large Exposure Risk Requirement:~~

(2) A Participating Organisation's ~~The~~ Large Exposure Risk Requirement for the exposure to ~~debt~~ Debt Securities under Rule 1105.8(4)(a) ~~shall be~~ is equal to the Position Risk Requirement for Debt Securities ~~as~~ calculated in ~~the manner the Exchange determines~~ accordance with Rule 1105.6(15).

~~(c) — Maximum LER:~~

(3) A Participating Organisation ~~must not bear a Large Exposure Risk~~ The maximum Large Exposure Risk ~~in relation to a debt~~ Debt Securities ~~that a Participating Organisation is allowed to undertake of more than~~ is thirty percent (30%) of its ~~the~~ Participating Organisation's Effective Shareholders' Funds ~~unless otherwise prescribed by the Exchange from time to time~~.

~~(d) — Reporting:~~

(4) A Participating Organisation ~~shall~~ must report to the Exchange promptly all ~~its~~ the Participating Organisation's Large Exposure Risk relating to ~~debt~~ Debt Securities.

Comment [Bursa85]: The inclusion of these words is unnecessary as it is a given. Doing away with redundancy.

**(5) 1308.4 Exposure to a Single Equity: Exposure to a single equity**

~~(a) — Large Exposure Risk:~~

(1) A Participating Organisation has a ~~large exposure~~ Large Exposure Risk to a single equity if ~~the Participating Organisation has:-~~

(i) ~~it has~~ a net position or exposure (either long or short) that exceeds ~~ten percent (10%)~~ of the total issue of the equity; or

(ii) ~~it has~~ a net position or exposure that exceeds ~~fifteen percent (15%)~~ of ~~its~~ the Participating Organisation's Effective Shareholders' Funds.

~~(b) — Net position or exposure:~~

(2) A Participating Organisation ~~must~~ In calculating its ~~calculate~~ the Participating Organisation's net position or exposure ~~in relation to a single equity, a Participating Organisation~~ in the manner the Exchange determines.

(i) ~~need not include its underwriting or sub-underwriting commitment, unless that commitment has become a principal position;~~

(ii) ~~shall include an equity OTC options Options or an equity warrant that is in the money at its full underlying value;~~

(iii) ~~shall not treat an out of the money equity OTC options or an equity warrant as an exposure; and~~

(iv) ~~shall not treat an Exchange Traded Fund, where the underlying instruments are government and/or government-related agency bonds, as an exposure.~~

(c) ~~Meaning of "single equity":~~ For the purposes of this Rule 1105.8, the expression "single equity" includes ~~-~~

(i) ~~30% of the value of the collateral underlying debtors or margin accounts (including interest) to the extent that it is used to secure the exposure;~~

(ii) ~~30% of the value of the collateral underlying loans and advances to the extent that it is used to secure the exposure;~~

Comment [Bursa86]: The details of how a PO must calculate the PO's net position or exposure to a single equity will be set out in the Exchange's directives on CAR in the PO Manual.

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~~(iii) — investment in the stock accounts;~~

~~(iv) — the net purchase contract value of single equity underlying clients' accounts arising from transactions either under a Ready or Immediate Basis Contract, to the extent that it has not been paid for; and~~

~~(v) — the net purchase contract value of single equity underlying clients' accounts arising from transactions under a DF Account to the extent that it has not been paid for;~~

~~(d) — LERR for net purchase contract value of single equity underlying clients' accounts:~~

~~(i) — The LERR of a Participating Organisation in relation to the net purchase contract value of single equity underlying clients' accounts arising from transactions either under a Ready or Immediate Basis Contract, shall start from the date that it has not been paid for on and subsequent to the FDSS due settlement date; and~~

~~(ii) — The LERR of a Participating Organisation in relation to the net purchase contract value of single equity underlying clients' accounts arising from transactions under a DF Account, shall start from the date that it has not been paid for on and subsequent to the FDSS due settlement date.~~

~~(e) — LERR for Exposure to Equity Relative to Instrument on Issue:~~

~~(i) — Where a Participating Organisation has a Large Exposure to a single equity relative to its total issue as specified in Rule 1105.8(5)(a)(i), the Participating Organisation shall calculate its Large Exposure Risk Requirement by multiplying the value of the exposure which is in excess of ten percent (10%) of the total issue by the Position Risk Factor used in the Standard Approach in the manner prescribed in Schedule 8K.~~

~~(ii) — Where a Participating Organisation has an exposure in excess of twenty percent (20%) of the issuer's capital arising from its investment in the stock accounts as stipulated in Rule 1105.8(5)(c)(iii), the Participating Organisation shall be deemed to be an associate of the issuer.~~

~~(f) — LERR for Exposure to an Equity relative to Effective Shareholders' Funds: Where a Participating Organisation has a Large Exposure to a single equity relative to the Participating Organisation's Effective Shareholders' Funds as specified in Rule 1105.8(5)(a)(ii), the Participating Organisation shall calculate its Large Exposure Risk Requirement by multiplying the value of the exposure which is in excess of ten percent (10%) of its Effective Shareholders' Funds by the Position Risk Factor used in the Standard Approach, in the manner prescribed in Schedule 8K.~~

~~(g) — Large Exposure relative to an instrument and Effective Shareholders' Funds: Where a Participating Organisation has both a large exposure to a single equity relative to an instrument on issue and a large exposure to the same equity relative to the Participating Organisation's Effective Shareholders' Funds, the Large Exposure Risk Requirement for the Participating Organisation shall be the higher of the two requirements.~~

~~(h) — Maximum LER:~~

~~(3) Notwithstanding anything herein contained, unless otherwise approved by the Exchange in writing, every A Participating Organisation, shall must at all times aggregate limit its the Participating Organisation's exposures Large Exposure Risk to a single equity, referred to in Rule 1208.4(5). A Participating Organisation's aggregated Large Exposure Risk to a single equity must not exceed to a gross exposure of two hundred fifty per cent (250%) of the Participating Organisation's Effective Shareholders' Funds.~~

Comment [Bursa87]: Moved to the end of this Rule 1308.4 for better structure of the Rules.

Comment [B88]: This requirement will be set out in the Exchange's directives on CAR in the PO Manual.

Comment [Bursa89]: This requirement will be set out in the Exchange's directives on CAR in the PO Manual.

Comment [Bursa90]: This requirement will be set out in the Exchange's directives on CAR in the PO Manual.

Comment [Bursa91]: This requirement will be set out in the Exchange's directives on CAR in the PO Manual.

Comment [Bursa92]: The inclusion of these words is unnecessary as it is a given. Doing away with redundancy.

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(i) ~~Reporting:~~

(4) A Participating Organisation ~~shall~~ must report to the Exchange promptly all ~~its~~ the Participating Organisation's Large Exposure Risk relating to a single equity.

(5e) ~~For the purposes of~~ In this Rule 1105.813208.4, ~~the expression~~ "single equity" includes:—

- (ia) 30% of the value of the collateral ~~underlying pledged by~~ debtors or ~~margin accounts~~ Margin Accounts (including interest) ~~to the extent that it if the collateral~~ is used to secure the exposure;
- (ib) 30% of the value of the collateral underlying loans and advances ~~to the extent if the collateral that it~~ is used to secure the exposure;
- (ic) investment in the stock accounts or proprietary positions;
- (id) the net purchase contract value of single equity ~~underlying aggregated from clients'~~ Clients' accounts arising from transactions ~~either~~ under a Ready ~~or Immediate~~-Basis Contract, ~~to the extent that it if the transaction~~ has not been paid for; and
- (ie) the net purchase contract value of single equity underlying ~~clients'~~ Clients' accounts arising from transactions under a DF Account ~~to the extent that it if the transaction~~ has not been paid for.

RULE 1405.91309 UNDERWRITING RISK

~~(1)~~1309.1 ~~General Principle: General principle~~

~~(1)~~ A Participating Organisation has an Underwriting Risk if ~~it~~ the Participating Organisation ~~has entered~~ enters into a binding commitment to take up securities at a predetermined price and time.

~~(2)~~1309.2 ~~Computation: Computation~~

~~(1)~~ A Participating Organisation must calculate the Participating Organisation's ~~The~~ Underwriting Risk Requirement ~~of a Participating Organisation shall be thirty percent (30%) of the underwritten commitment multiplied by the Standard Approach Position Risk Factor, depending on the type of securities underwritten, as set out in Schedule 8C in the manner the Exchange determines.~~

**Comment [Bursa93]:** The details of how a PO is to calculate the PO's Underwriting Risk Requirement will be set out in the Exchange's directives on CAR in the PO Manual.

~~(3)~~ ~~Methodology: In assessing its underwriting and sub-underwriting commitment, a Participating Organisation shall observe the following-~~

**Comment [Bursa94]:** The principles a PO must observe in assessing the PO's underwriting and sub-underwriting commitment will be set out in the Exchange's directives on CAR in the PO Manual.

~~(a)~~ An Underwriting Exposure is an underwriting commitment which shall be computed based on the quantity and price as stated in the underwriting agreement or document or any amendments or supplements thereto from time to time.

~~(b)~~ An Underwriting Risk exists as from the date of its unequivocal acceptance of the underwriting commitment or the date on which the underwriting agreement or document is signed, whichever is the earlier.

~~(c)~~ Where a third party sub-underwrites part of a Participating Organisation's underwriting commitment, the Participating Organisation's underwriting commitment may be reduced by such sub-underwritten amount provided that proper documentation or an agreement for the sub-underwriting has been executed.

~~(d)~~ The sub-underwriting amount under paragraph (c) above shall be treated by the Participating Organisation as a Counterparty Risk.

~~(e)~~ Where a Participating Organisation undertakes a sub-underwriting commitment, the sub-underwriting commitment shall be treated as an underwriting commitment as from the later of the following events:

~~(i)~~ the date of its unequivocal acceptance of the sub-underwriting commitment or the date on which the sub-underwriting agreement or document is signed, whichever comes first; or

~~(ii)~~ the date of the unequivocal acceptance of the underwriting commitment or the date on which the underwriting agreement or document is signed, by the lead underwriter(s), whichever comes first.

~~(f)~~ An underwriting commitment shall continue as an Underwriting Risk until the date the application closes, in which event such Underwriting Risk either -

~~(i)~~ ceases; or

~~(ii)~~ becomes a Position Risk.

~~(4)~~1309.3 ~~Register of Underwriting Commitments: Register of underwriting commitments~~

~~(1)~~ ~~Every~~ A Participating Organisation ~~shall~~ must maintain a register of all ~~its~~ the Participating Organisation's underwriting commitments. ~~The register which shall~~ must contain the following information: -

~~(a)~~ ~~The~~ the description of the securities;

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- (b) ~~The the~~ quantity and price of ~~its the Participating Organisation's~~ underwriting commitment;
- (c) ~~The the~~ quantity and price of ~~its the Participating Organisation's~~ underwriting commitment that has been sub-underwritten; and
- (d) ~~The the~~ date the underwritten commitment is discharged.

**RULE 1105.10 – MARGIN FINANCING FACILITIES**

**(1) Margin Financing Facilities:**

~~(a) Every Participating Organisation which provides margin financing facilities has:-~~

- ~~(i) a Counterparty Risk in relation to margin financing facilities which is dependent on the quality and value of collateral pledged and the quality of the counterparty;~~
- ~~(ii) a Position Risk in the form of market risk relating to Margin Financing On-Pledged Risk in respect of securities held by it as collateral but which have been onward pledged; and~~
- ~~(iii) a Position Risk in the form of market risk relating to Margin Financing Onward Lent Risk in respect of Margin Securities which have been onward lent as principal for the purpose of securities borrowing and lending.~~

~~(b) For the purposes herein:-~~

- ~~(i) the expression "equity", "margin" and "outstanding balance" of a margin account shall bear the same meaning as is respectively ascribed thereto in Rule 703, unless otherwise provided for under this Rule 1105.10;~~
- ~~(ii) for the avoidance of doubt, the Participating Organisation must ensure that the aggregate mark to market value of any client's securities held by it as collateral which are onward pledged by the Participating Organisation to such third party, as may from time to time be permitted pursuant to these Rules and/or Depository Rules, shall not at any time exceed the outstanding balance of the client's margin account.~~

**(2) General principles:** ~~Every Participating Organisation which provides margin financing facilities shall calculate the following:-~~

- ~~(a) its Counterparty Risk Requirement in respect of counterparty exposures arising from margin financing facilities, to the extent as provided in Rule 1105.10(3)(b);~~
- ~~(b) its Position Risk Requirement in respect of Margin Financing On-Pledged Risk for all securities held by it as collateral pursuant to margin financing facilities but which have been onward pledged, to the extent as provided in Rule 1105.10(4)(a); and~~
- ~~(c) its Position Risk Requirement in respect of Margin Financing Onward Lent Risk for all Margin Securities which have been onward lent as principal for the purpose of securities borrowing and lending as envisaged in Rule 608.2(1)(a)(ii), to the extent as provided in Rule 1105.10(5).~~

**(3) Counterparty Risk Requirement for margin financing facilities:**

- ~~(a) Counterparty exposure: A Participating Organisation's counterparty exposure in respect of a margin financing facility shall be the outstanding balance of the margin account.~~

**Comment [Bursa95]:** The requirements for calculation of the risk requirements for margin financing facilities are incorporated into the relevant rules e.g. CRR in Rule 1307 and PRR in Rule 1306.

**Comment [Bursa96]:** Deleted as this is a repetition of the requirements on the calculation of PRR for Onward Pledged MFF Collateral and Onward Lent Margin Securities and the calculation of CRR for Margin Financing Facilities contained in the Exchange's directives on CAR in the PO Manual.

**Comment [Bursa97]:** Unnecessary as the definitions of these terms (except Margin which is not used in this Chapter 13) is now in Chapter 1.

**Comment [Bursa98]:** Unnecessary as this is a repetition of the requirement to calculate CRR in respect of counterparty exposures arising from Margin Financing Facilities in the Exchange's directives on CAR in the PO Manual.

**Comment [Bursa99]:** Unnecessary as this is a repetition of the requirement to calculate PRR in respect of Margin Financing On Pledged Risk for all Onward Pledged MFF Collateral in the Exchange's directives on CAR in the PO Manual.

**Comment [Bursa100]:** Unnecessary as this is a repetition of the requirement to calculate PRR in respect of Margin Financing Onward Lent Risk for all Onward Lent Margin Securities in the Exchange's directives on CAR in the PO Manual.

**Comment [Bursa101]:** This rule is now in the Exchange's directives on CAR in the PO Manual.

**Comment [Bursa102]:** Unnecessary to state "outstanding balance of the margin account" as Margin Outstanding Balance is a defined term – see Rule 101.1(1).

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~~(b) Principles Applicable to Margin Financing Counterparty Risk Requirement:~~

~~(i) In calculating Counterparty Risk Requirement in relation to margin financing facilities, a Participating Organisation shall, in addition to the principles applicable in calculating Counterparty Risk Requirement provided in Rule 1105.7(2), observe the following:~~

~~(aa) it is not required to calculate a Counterparty Risk Requirement in respect of any margin account with credit balance;~~

~~(bb) it is not required to calculate a Counterparty Risk Requirement in respect of any margin account where at any time specific provisions equivalent to one hundred per cent (100%) of the amount outstanding (as defined in Schedule 7) have been made in accordance with the provisions of Rule 1104 and Schedule 7;~~

~~(cc) it shall calculate a Counterparty Risk Requirement in respect of any margin account where the equity, after applying the applicable discounts prescribed in Rule 1105.7(6)(c) and Schedule 8J, is below one hundred fifty per cent (150%) of the outstanding balance.~~

~~(ii) Calculation of CRR:~~

~~(aa) A Participating Organisation shall calculate its Counterparty Risk Requirement in respect of margin financing facilities in the manner prescribed in Schedule 8L.~~

~~(bb) The sum of such Counterparty Risk Requirements calculated in accordance with Rule 1105.10(3)(b)(ii) shall represent the total Counterparty Risk Requirement of a Participating Organisation in relation to margin financing facilities.~~

~~(4) Position Risk Requirement for Margin Financing On-Pledged Risk:~~

~~(a) Principles Applicable to Position Risk Requirement for Margin Financing On-Pledged Risk: In calculating the Position Risk Requirement in respect of Margin Financing On-Pledged Risk in relation to securities held by it as collateral pursuant to margin financing facilities and which have been onward pledged by a Participating Organisation, the Participating Organisation shall observe the following principles:~~

~~(i) the Participating Organisation shall calculate all positions where the securities held by it as collateral pursuant to margin financing facilities have been onward pledged by the Participating Organisation to such third party, as may from time to time be permitted pursuant to these Rules and/or Depository Rules, to which the Participating Organisation has a balance owing which is secured against onward pledged collateral;~~

~~(ii) the sum of such positions shall represent the total Position Risk Requirement in respect of its Margin Financing On-Pledged Risk in relation to all securities held by it as collateral pursuant to margin financing facilities which have been onward pledged in the manner aforesaid;~~

~~(iii) the Participating Organisation shall, on a daily basis, mark to market all its collateral, and where required, the value of the collateral shall be discounted in the manner prescribed in Rule 1105.7(6)(c) and Schedule 8J.~~

~~(b) Methodology: The Position Risk Requirement in respect of securities held by a Participating Organisation as collateral pursuant to margin financing facilities and which have been onward pledged to such third party as may from time to time be permitted pursuant to these Rules and/or Depository Rules shall be calculated in the manner prescribed in Schedule 8M.~~

**Comment [Bursa103]:** The principles applicable to Margin Financing CRR will be in the Exchange's directives on CAR in the PO Manual.

**Comment [Bursa104]:** The principles applicable to PRR for Margin Financing On-Pledged Risk will be in the Exchange's directives on CAR in the PO Manual.

**Comment [Bursa105]:** The method how to calculate the PO's PRR as to Onward Pledged MFF Collateral will be in the Exchange's directives on CAR in the PO Manual.

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~~(5) Position Risk Requirement for Margin Financing Onward Lent Risk:~~

~~In calculating the Position Risk Requirement in respect of Margin Financing Onward Lent Risk in relation to Margin Securities which have been onward lent by a Participating Organisation as principal, the Participating Organisation shall observe the principles prescribed in Rule 1105.6.~~

**Comment [Bursa106]:** The requirement for the PO to observe the principles in the previous Rule 1105.6 will be in the Exchange's directives on CAR in the PO Manual.

~~**RULE 1105.11 RIGHT TO REVIEW**~~

~~The Schedules applicable and referred to this Rule 1105 shall be subject to such variations, amendments, modifications or substitutions as the Exchange may deem to be necessary and expedient by way of any circulars or directives issued by the Exchange from time to time.~~

**Comment [Bursa107]:** Unnecessary as we have a general power under Rule 201.1(2)(b) to add to, vary, repeal or waive any of these Rules.



**RULE 11061310 GEARING RATIO**

**RULE 11061310.1 DEFINITION Definition**

(1) ~~For the purposes of this Rule – The following terms have the following meanings in this Rule 1210 unless the context requires otherwise.~~

**Comment [Bursa108]:** For consistency with the other definitions sections in these Rules.

<b>Term</b>	<b>Meaning</b>
Core Capital	<del>has the same</del> <u>Same</u> meaning <u>as assigned to that expression</u> in Rule <del>1105.113201.2</del> (1).
Effective Shareholders' Funds	<del>has the same</del> <u>Same</u> meaning <u>as assigned to that expression</u> in Rule <del>1105.113201.2</del> (1).
Gearing Ratio	<del>means the</del> <u>The</u> ratio linking a Participating Organisation's Utilised Level and <del>its the Participating Organisation's</del> Effective Shareholders' Funds, calculated as <u>follows</u> : <del>the Utilised Level divided by Effective Shareholders' Funds</del> $\frac{\text{Utilised Level}}{\text{Effective Shareholders' Funds}}$

**Comment [Bursa109]:** To simplify the rules, we have set out the formula itself rather than setting the formula out in words.

~~proprietary accounts~~ means accounts operated by a Participating Organisation for the purpose of trading as principal.

**Comment [B110]:** This term is not used in this Rule 1310.

~~subordinated debt~~ Subordinated Debt means the The approved subordinated debt that fulfils the requirements ~~stipulated in Rule 1106.4(3)(b)~~ the Exchange determines.

Utilised Level ~~means the~~ The aggregate amount of borrowings a Participating Organisation has already utilised ~~by a Participating Organisation.~~

**RULE 11061310.2 GEARING RATIO Gearing Ratio**

(1) ~~Unless otherwise permitted under this Rule 1106, a~~ A Participating Organisation ~~shall~~ must ~~at all times ensure that its the Participating Organisation's Gearing Ratio does not exceed 2.5 times.~~ borrowing exposure is in accordance with the following:

**Comment [Bursa111]:** Amended to avoid repetition as "Gearing Ratio" is already defined above.

$$\frac{\text{Utilised Level}}{\text{Effective Shareholders' Funds}} \leq 2.5 \text{ times}$$

(2) ~~For the purpose of compliance with Rule 1106.2(1), a~~ A Participating Organisation's ~~subordinated debt will be~~ Subordinated Debt ~~is~~ excluded from the Gearing Ratio ~~provided if the amount of such subordinated debt~~ Subordinated Debt ~~does not exceed fifty per cent (50%) of the Participating Organisation's paid up capital unimpaired by losses.~~

(3) ~~The Exchange with the consent of the Commission may determine a schedule for the gradual reduction in a Participating Organisation's exposure to all borrowings obtained, (a) that references to "Effective Shareholders' Funds" be substituted by "Liquid Capital" (as is defined in the rules relating to capital adequacy requirements contained in Rule 1105) or such other term, expression or concept as the Exchange may deem to be necessary or expedient; and~~

**Comment [Bursa112]:** Unnecessary as we have a general power under Rule 201.1(2)(d) to issue directives, rulings or guidelines for the purposes of these Rules.

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~~(b) — the date when the provisions of Rule 1106.2(4)(a) shall take effect.~~

(53) The Gearing Ratio ~~prescribed~~ stipulated above ~~does shall~~ not apply to: —

- (a) a Universal Broker ~~if provided~~ the Universal Broker ~~shall at all times maintains at all times~~ a Core Capital of not less than ~~Ringgit Malaysia Five Hundred Million (RM500,000,000.00) million~~; and
- (b) an Investment Bank ~~if provided~~ the Investment Bank ~~shall at all times maintains at all times the Investment Bank's~~ minimum capital funds unimpaired by losses of not less than ~~Ringgit Malaysia Two Billion (RM2,000,000,000.00)~~ on a banking group basis or, for an Investment Bank which does not form part of a banking group, minimum capital funds of ~~Ringgit Malaysia Five Hundred Million (RM500,000,000.00)~~, as referred to in the Guidelines on Investment Banks.

~~Notwithstanding the aforesaid, the Exchange may from time to time prescribe other requirements to be applicable to a Universal Broker or an Investment Bank as it deems necessary or expedient.~~

[End Of Chapter]

**Comment [Bursa113]:** Unnecessary as we have a general power under Rule 201.1(2)(b) to add to, vary, repeal or waive any of these Rules.

**Comment [Bursa114]:** Unnecessary as we have a general power under Rule 201.1(2)(b) to add to, vary, repeal or waive any of these Rules.

**CHAPTER 14~~2~~ AUDITS, INSPECTION AND INVESTIGATION**

**RULE 1201 — STATUTORY AUDIT ON CORPORATE PARTICIPANTS**

**RULE 1201.1 — ANNUAL STATUTORY AUDIT AND ANNUAL REPORT**

- ~~(1) — Every Participating Organisation shall cause accounts relating to its business to be audited by a company auditor ("statutory auditor") for each financial year of the Participating Organisation in accordance with the Companies Act and Capital Markets and Services Act.~~
- ~~(2) — Every Participating Organisation shall furnish to the Exchange and all relevant statutory authority within three (3) months after the close of the financial year, or such other period as permitted by the relevant statutory authority, an audited financial statement, any other documents deemed necessary or expedient and an Annual Report stating—~~
- ~~(a) — whether the Minimum Paid-Up Capital and the capital adequacy requirements have been maintained and complied with as required by these Rules;~~
  - ~~(b) — whether, in the opinion of the statutory auditor, the financial position of the Participating Organisation is such as to enable it to conduct its business on sound lines, having regard to the nature and volume of the business transacted during its past financial year as shown in its books of accounts and records;~~
  - ~~(c) — whether, in the opinion of the statutory auditor, the provisions of Sections 111 to 114 of the Capital Markets and Services Act and these Rules, have been complied with;~~
  - ~~(d) — whether in the opinion of the statutory auditor, the provisions relating to the treatment of clients' assets under these Rules have been complied with;~~
  - ~~(e) — whether, in the opinion of the statutory auditor, the books of accounts and records of the Participating Organisation are those usual in a business of this nature and appear to have been kept in a proper manner and in accordance with the relevant laws; and~~
  - ~~(f) — whether the statutory auditor has obtained all the necessary information and explanations for the proper conduct of the audit and to enable the auditor to furnish his Annual Report.~~
- ~~(3) — Each Participating Organisation shall notify the Exchange, in writing, of any change to—~~
- ~~(a) — the date of its financial year end; and~~
  - ~~(b) — the name of the statutory auditor who will furnish the Annual Report.~~
- ~~(4) — A Participating Organisation commencing or resuming business after the coming into effect of these Rules shall within two (2) months after such commencement or resumption comply with the foregoing requirements of Rule 1201.1(3).~~

**Comment [B1]:** To refine the structure of the Rules, all requirements pertaining to audit (includes previous Rule 1201.1) has been moved to Chapter 12.

**RULE 1201.2 — PARTICIPATING ORGANISATIONS' DECLARATION**

- ~~(1) — Each Participating Organisation shall, annually within one (1) month after the close of the financial year of the Participating Organisation, furnish to the Exchange a statutory declaration in the form specified in Appendix 9 and signed by all its directors stating that no securities received by it from or on behalf of a client for safe custody or sale have been dealt with otherwise than in accordance with the client's instructions or in the absence of specified instructions from the client, that such securities are held by it or lodged with its bank for safe custody only.~~
- ~~(2) — A Participating Organisation commencing or resuming business after the coming into effect of these Rules shall, within two (2) months after such commencement or resumption comply with the foregoing requirements of Rule 1201.2(1).~~

**Comment [B2]:** Covered under:

(1) Rule 504.2(4) which requires a PO to promptly and properly account for and adequately safeguard Client's assets and the directives elaborating the principle in Rule [504.2(4)]; and

(2) Rule 1202.1(3) which inter alia, requires the statutory auditor to opine whether the provisions relating to treatment of client's assets under the Rules have been complied with.

**~~RULE 1202 — INTERNAL AUDIT~~**

**~~RULE 1202.1 — INTERNAL AUDIT FUNCTIONS AND AUDIT COMMITTEE~~**

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

**~~RULE 1202.2 — SCOPE OF INTERNAL AUDIT~~**

- ~~(1) — [Deleted]~~
- ~~(2) — [Deleted]~~
- ~~(3) — [Deleted]~~

**~~RULE 1202.3 — REPORTING~~**

- ~~(1) — [Deleted]~~
- ~~(2) — [Deleted]~~
- ~~(3) — [Deleted]~~

**~~RULE 1202.4 — INVESTMENT BANKS~~**

- ~~(1) — [Deleted]~~

**RULE 142031 INSPECTION**Inspection

**1401.1 Definition**

(1) In this Rule 1401, "Relevant Person" includes the Participating Organisation's Registered Person, agent and -employee.

**RULE 142031.12 EXCHANGE'S RIGHT TO INSPECTION**Exchange's right to inspection

- (1) ~~The Exchange may conduct an inspection on the affairs of a Participating Organisation or Registered Person(s) at any time. Every Participating Organisation shall from time to time, with or without notice, be subject to inspections and/or audits by the Exchange to ensure and appraise the Participating Organisation's compliance with provisions of the Depository Rules, Clearing House Rules, these Rules, Participating Organisation's internal policies and procedures and/or on other rules and regulations related to its business in dealing in securities.~~
- (2) ~~Without prejudice to Rule 1203.1, a~~ Participating Organisation and Relevant Person shall must afford, and shall procure its registered person(s) and/or its employees to
- (a) ~~give or procure produce to for the Inspector (as hereinafter defined) Exchange all information, books and records the Exchange requests and allow the Exchange to take copies and extracts of such books and records; and~~
- (b) ~~give the Exchange access to the relevant premises for the Exchange to conduct an inspection under this Rule.~~
- ~~such documents, books or records for purposes of inspection and this may include to make copies of, and/or take extracts from such documents, books or records to enable the Exchange to properly perform its inspection and its other duties under the Securities Laws and these Rules.~~
- (3) ~~No~~ A Participating Organisation and Relevant Person, its registered person(s);
- (a) ~~and its employees must not shall hinder or obstruct the ExchangeInspector from discharging his duties during the inspection; and shall~~
- (b) ~~mustwithout reasonable excuse give the InspectorExchange such all assistance that he the Exchange may reasonably require requires to discharge his dutiesconduct the inspection.~~

**Comment [B3]:** We have inserted a general principle to describe the scope of Exchange's inspection powers.

**Comment [B4]:** These Rules should only relate to our inspections to ensure compliance with the Rules and the Directives. Compliance with the Depository Rules and the Clearing House Rules is covered under those rules. A breach of a PO's internal policies and procedures amounts to a breach of the Rules by the PO under Rule [501.3(3)]. This rule, inter alia, requires a PO to effectively enforce within the PO the documented policies and procedures and any updates.

**Comment [B5]:** Plain language drafting and to ensure that a Relevant Person renders all assistance necessary to the Exchange

**Comment [B6]:** For consistency with Rule 1201.2(1) and as it is unnecessary to state that access be given to the Inspector (as oppose to the Exchange generally), "Inspector" has been amended to read "Exchange".

**Comment [B7]:** To clarify our right to carry out an inspection at the premises of POs.

**RULE 1203.2 APPOINTMENT**

- (1) ~~Without prejudice to Rule 201.2, the Exchange shall have the authority to appoint –~~
- (a) ~~an officer of the Exchange;~~
- (b) ~~an officer of the Exchange holding company; and/or~~
- (c) ~~a qualified accountant or an advocate and solicitor;~~
- ~~as the Exchange's inspector ("Inspector"), for the purposes of exercising all or any of the inspection powers vested in it under Rule 1203.~~

**Comment [B8]:** Covered under chapter 2 which empowers the Exchange to appoint any committee, sub-committee or officers of the Exchange or Exchange Holding Company to discharge the exercise of the Exchange's powers under these Rules.

**RULE 142031.3 INSPECTION COST**Inspection cost

(1) The Exchange may, ~~at its absolute discretion, charge~~ require the Participating Organisation concerned to pay the Exchange a fee proportionate for the work performed by the Inspector carrying out the inspection, ~~which shall be payable by the Participating Organisation on~~

~~which the inspection and/or audit was conducted, and there shall be no dispute as to the fee payable to the Exchange.~~

**Comment [B9]:** Unnecessary as this is covered in Rule 301.8 which requires a PO to pay the Exchange all fees and charges the Exchange requires in the manner and within the period the Exchange specifies.

**RULE 142031.4 REPORTING Reporting**

- (1) ~~The Exchange may will notify the Participating Organisation concerned forward to the Participating Organisation of the findings of the Exchange's inspection the whole, parts or a summary of any report issued by the Exchange as a result of an inspection under Rule 1203.~~
- (2) ~~The A Participating Organisation shall must table the Exchange's findings of the Exchange's inspection to the Participating Organisation's board of directors Board of Directors as soon as practicable possible.~~
- (3) A Participating Organisation must within 1 month from the Board of Directors' meeting referred to in Rule 1401.4(2):

(a) take corrective measures to address the Exchange's findings; and

(b) notify the Exchange in writing The of the Participating Organisation's Board of Director's decided course of action and corrective measures taken (if any) by the Participating Organisation's board of directors to address any the Exchange's findings non-compliance or irregularities in respect of the inspection report.

~~shall be submitted to the Exchange together with a written declaration, by the Participating Organisation's chairman or Head, in such form acceptable to the Exchange stating that the decided course of action and corrective measures (if any) have been duly carried out or completed, within one (1) month or such other period determined by the Exchange at any time from the date of the relevant meeting of the board of directors.~~

**Comment [B10]:** Deleted as it is sufficient to state the principle that a PO must take corrective measures to address the findings of the Exchange's inspection

**1401.5 Provision of audit report to the Exchange**

- (1) The Exchange may, by notice to the Participating Organisation or Registered Person(s), require the Participating Organisation to provide a report from an independent auditor or other expert approved by the Exchange expressing an opinion as to:
  - (a) the performance by the Participating Organisation or Registered Person(s) of the Participating Organisation's or Registered Person(s)'s obligations under these Rules;
  - (b) the Participating Organisation's or Registered Person(s)'s capacity to continue to meet the requirements for admission as a Participating Organisation or registration as a Registered Person(s); or
  - (c) any other matter necessary to assist the Exchange in the discharge of the Exchange's functions under these Rules.
- (2) The Participating Organisation that is required to provide the report referred to in Rule 1401.5(1) must bear the costs in connection with obtaining the report.

**Comment [B11]:** To require a PO or Registered Person(s) to provide at the Exchange's request, a report from an independent auditor or other expert expressing an opinion as to the matters specified in subparagraphs (a) to (c) of this new rule.

We are proposing to introduce this rule to enable the Exchange to appoint specified persons to exercise the Exchange's inspection powers. This new rule gives the Exchange the option to require a PO or Registered Person(s) to procure a report on, for example, the performance of that PO or Registered Person(s) of their obligations under the Rules instead of the Exchange conducting the inspection itself. This will result in a more efficient allocation of resources by the Exchange.

**RULE 142042 INVESTIGATION**

**1402.1 Definition**

(1) In this Rule 1402 “Relevant Person” includes the Participating Organisation’s Registered Person, agent and employee.

**RULE 142042.2 Power of investigation POWER OF INVESTIGATION**

- (1) ~~The Exchange may, at any time and from time to time as it thinks expedient or if requested by the Commission or other relevant authorities, conduct an investigation into the affairs of a Participating Organisation or Registered Person, on the accounts and affairs of any Participating Organisation, and on any matter regarding Participating Organisations, their registered person(s) and employees which may involve a breach of the Depository Rules, the Clearing House Rules and/or these Rules.~~
- (2) ~~Without prejudice to generality of the foregoing, the The Exchange is shall be particularly empowered to:~~
- (a) ~~to require a Participating Organisations, or Relevant Person their registered person(s) and/or their employees to attend before at the premises of the Exchange at any time and to give such information that is relevant to the as may be in their possession relevant to any matter brought before or under investigation by the Exchange;~~
  - (b) ~~record statements from the persons referred to in Rule 1402.2(2)(a). A recorded statement may be used in disciplinary proceedings against a Participating Organisation or Relevant Person (including the person making such statement);~~
  - (c) ~~to require a Registered person Personnel Person(s) or a Participating Organisation to procure the attendance of any Relevant Person, any agent, and consultant, its registered person(s) and/or employees before any authorized officer of the Exchange and to give or procure such information as may be in the possession of such person relevant to any matter brought before or under the investigation by the Exchange;~~
  - (d) ~~to require the Relevant Person any Participating Organisation, its registered person(s) and/or their employees to give or procure for the Exchange information, books or records that may be relevant to the investigation furnish any particulars required and to produce to any authorized officer of the Exchange, all books, letters, telexes or copies thereof, and any other document in its possession relevant to any matter brought before or under investigation by the Exchange. The production of information, books or records document, books, letters, and telexes may also include requiring the Participating Organisation, Relevant Person or the registered person to make copies and/or the Exchange taking extracts of the same;~~
  - (de) ~~through its Investigation Officers (as hereinafter defined), to enter the Participating Organisation's or Relevant Person's premises to seize, detain or take possession of any property, books or other document records or article found, upon at the Participating Organisation's or Relevant Person's premises or in direct or indirect possession of the Participating Organisation, or registered person or their employees direct or indirect or in possession, custody or control of a registered person(s) and/or employees Relevant Person that may be relevant to for the purpose of the investigation being carried out;~~
  - (f) ~~impose such requirement on the Relevant Person that the Exchange thinks reasonably necessary to facilitate the investigation or~~
  - (e) ~~to investigate the accounts and affairs of any Participating Organisation, its Dealers' Representatives, registered person(s) and/or employees whenever in its opinion there is sufficient reason to do so; and~~

**Comment [B12]:** We have inserted a principle that the scope of investigation by the Exchange is on the affairs of the PO and the registered person.

**Comment [B13]:** These Rules should only relate to our investigations to appraise compliance with the Rules and the Directives. Compliance with the Depository Rules and the Clearing House Rules is covered under the respective rules.

**Comment [B14]:** “Relevant Person” is defined in Rule 1402.1(1) as the PO, the PO’s Registered Person(s), employee and agent.

**Comment [B15]:** No need to state “through its Investigation Officers” as Rule 1402.3 (1) makes it clear that we exercise our investigation powers through persons appointed by us.

**Comment [B16]:** To clarify our power to enter the PO’s or Relevant Person’s premises pursuant to an investigation

**Comment [B17]:** Consistent with (d)

**Comment [B18]:** To empower us, in relation to an investigation, to impose any requirement that we think is reasonably necessary to facilitate the investigation.

**Comment [B19]:** This is reflected in Rule 1402.2(1)

(f) in addition to any action taken by the Exchange, ~~to require a Registered person~~ Person(s) or Participating Organisation to ~~discipline take appropriate action against the Relevant Person its registered person(s) and/or employees in an appropriate manner if such person shall have caused the Relevant Person caused~~ the ~~Registered person~~ Person(s) or the Participating Organisation to violate the Securities Laws, the Depository Rules, the Clearing House Rules, ~~and/or these Rules or the Directives.~~

(3) A Participating Organisation and Relevant Person:

- (a) must not hinder or obstruct the Exchange during the investigation;
- (b) must give the Exchange all assistance the Exchange reasonably requires to conduct the investigation; and
- (c) must comply and give effect to any Directives the Exchange issues in exercising the powers under Rule 1402.2(2)

**Comment [B20]:** To mirror Rule [1401.2(3)] for consistency between Rules [1401] and [1402].

~~(3) The powers conferred by this Rule is in addition to and not in derogation of any powers conferred upon the Exchange under any written law.~~

**Comment [B21]:** This will be a general provision reflected under Chapter 2.

**RULE 1204.2 – APPOINTMENT**

~~(1) Without prejudice to Rule 201.2, the Exchange shall have the authority to appoint -~~

- ~~(a) an officer of the Exchange~~
- ~~(b) an officer of the Exchange holding company; and/or~~
- ~~(c) a qualified accountant or an advocate and solicitor,~~

~~as the Exchange's investigation officer ("Investigation Officer"), for the purposes of exercising all or any of the investigative powers vested in it under Rule 1204.1.~~

**Comment [B22]:** Covered under Chapter 2 which empowers the Exchange to appoint any committee, sub-committee or officers of the Exchange or Exchange Holding Company to discharge the exercise of the Exchange's powers under these Rules.

~~(2) An investigation may be carried out by a team of personnel headed by a senior officer of the Exchange or otherwise by any person appointed by the Exchange pursuant to the foregoing Rule.~~

**Comment [B23]:** Unnecessary to have to specify this specifically. See also our comment immediately above.

**RULE 1204.3 – RECORDING OF STATEMENTS**

~~(1) Where the Investigation Officer is of the opinion that registered person(s) and/or employees are acquainted with the facts and circumstances of a case, the Investigation Officer may record statements from such persons.~~

**Comment [B24]:** Incorporated into Rule [1402.2(2)(b)].

~~(2) Where such statements recorded from registered person(s) and/or employees may be used in disciplinary proceedings against such person(s) whose statement is recorded, the Investigation Officer shall inform such person(s) of such fact before the recording of the statement.~~

**Comment [B25]:** Unnecessary to state this as from Rule [1402.2(2)(b)] it is clear that recorded statements may be used against the persons whose statement is recorded.

**RULE 143042.43 INVESTIGATION COST**

~~(1) Where the report submitted to the Exchange pursuant to any investigation carried out under Rule 1204 discloses or reveals any breach of the Securities Laws, the Depository Rules, the Clearing House Rules and/or these Rules, ~~t~~The Exchange may, at its absolute discretion, require the Participating Organisation ~~and/or registered person(s)~~ concerned to ~~pay or~~ reimburse the Exchange all costs ~~the Exchange incurs~~ incurred by it in connection with ~~such an~~ investigation.~~

**Comment [B26]:** Plain language drafting

**Comment [B27]:** All costs should be borne by the PO. The Registered Person(s) or other Relevant Persons are agents of the PO.



~~RULE 1205 – SUPPLY OF INFORMATION~~

~~RULE 1205.1 – SUPPLY OF INFORMATION~~

- ~~(1) — The Exchange may, for purpose of obtaining information about any matter which it considers may relate to these Rules or the integrity of the Exchange's market—~~
- ~~(a) — require the provision forthwith by a Participating Organisation, its registered person(s) and/or employees of accurate information about its business and transactions in a format, electronic or otherwise, specified by the Exchange;~~
  - ~~(b) — require the production forthwith by a Participating Organisation, its registered person(s) and/or employees of documents (which, for the purpose of this Chapter, shall include anything in which information of any description if recorded) in his possession, custody, power or control and if, any such documents cannot be produced, require the Participating Organisation, its registered person(s) and/or employees to state to the best of his knowledge and belief where and in whose possession, custody, power or control they are and require the Participating Organisation, its registered person(s) and/or employees to use his best endeavours to secure the documents;~~
  - ~~(c) — interview any registered person(s) or employee or agent (or any employee of such registered person(s) or agent of a Participating Organisation and require him to answer questions and provide explanations and/or require answers and explanations from the registered person or Participating Organisation and record such answers and explanations electronically or otherwise;~~
  - ~~(d) — require the attendance, upon reasonable notice, of any registered person(s) or employee or agent (or any employee of such registered person(s) or agent) of a Participating Organisation at a specified date, time and place, to answer questions, provide explanations and/or give evidence and require the registered person or Participating Organisation to procure such attendance;~~
  - ~~(e) — require the provision of information relating to any person who is to be, is or has been a registered person(s) or employee of the Participating Organisation or engaged in its business or any person who is to be, is or has been employee of registered person or engaged in its business;;~~
  - ~~(f) — send any officer of the Exchange or Exchange holding company, as the case may be, to a Participating Organisation's or registered person's premises at any time, for the purpose of investigations and to ensure compliance with these Rules; and~~
  - ~~(g) — make copies or require copies to be made of documents or information for retention by it or otherwise to take extracts from such documents or information and/or require any person who was a party to the compilation or preparation of such documents or information to provide an explanation for any of them.~~
- ~~(2) — A Participating Organisation and registered person shall be shall procure compliance with any requirement of the Exchange made pursuant to this Rule.~~
- ~~(3) — A Participating Organisation is responsible to the Exchange for the conduct of its registered person(s), employees and agents. Such conduct shall be treated for the purpose of these Rules as conduct of the Participating Organisation.~~
- ~~(4) — A Participating Organisation or registered person shall not provide the Exchange any information which is false, misleading or inaccurate in a material particular and shall comply or as the case may be procure compliance with a request by the Exchange for explanation or verification of information provided to the Exchange.~~
- ~~(5) — For the purpose herein, "information" includes without limitation information in writing or in any other means of electronic, magnetic, mechanical or other recording whatsoever or on any medium, substance, material, thing or article.~~

**Comment [B28]:** This rule is now an elaboration (in the PO Manual) of the principle in Rule [201.1(2)(l)] that requires a [PO, the PO's Registered Person(s), employees and agents to provide reports, information or documents to the Exchange].

Chapter 1432 – ~~Audits~~, Inspection and Investigation

RULE 14~~23063~~ CONFIDENTIALITY

RULE 14~~23063~~.1 Confidentiality of findings ~~CONFIDENTIALITY OF FINDINGS~~

- (1) The Exchange will keep the findings and results of all inspections and investigations under this Chapter Rule 1204 ~~shall be deemed to be confidential and will only disclose the findings and results to a third party for enforcement purposes or as the Exchange deems fit~~ and shall not be revealed other than to the Exchange, the Committee concerned with such information the Commission or any authorised officer of the Commission or any investigating governmental authorities or agencies. ~~No findings or results of such investigations shall be used, except in connection with a hearing (whether conducted by the Exchange, Exchange holding company, the Commission or a court of law), resulting from the investigations or except when permitted under these Rules or required by law.~~

**Comment [B29]:** Instead of specifying the persons to whom we may disclose the findings and results of investigations and inspections, we are proposing a principle that we may only disclose the findings and results to third party for enforcement purposes or as we think fit.

**Comment [B30]:** Deleted as there need not be any restrictions on when we can use the findings or results of investigations or inspections in view of our confidentiality obligations under this Rule.

[End Of Chapter]

**CHAPTER 153 DISCIPLINARY ACTIONS**

**RULE 15301 DISCIPLINARY POWERS**

**(THIS CHAPTER HAS BEEN ISSUED FOR PUBLIC CONSULTATION UNDER THE EXPEDITED PROCEEDING CONSULTATION PAPER. NO COMMENTS ARE REQUIRED FOR THIS CHAPTER)**

CHAPTER 164 COMPENSATION FUND

RULE 16401 ESTABLISHMENT AND ~~MANAGEMENT~~ ADMINISTRATION OF COMPENSATION FUND

~~RULE 16401.1 ESTABLISHMENT OF COMPENSATION FUND~~ Establishment of Compensation Fund

- (1) The Exchange ~~shall~~will, pursuant to the requirement under Section 141 of the Capital Markets and Services Act, establish and maintain a Compensation Fund, ~~in accordance with Part IV of the Capital Markets and Services Act.~~

**Comment [B1]:** Deleted as it is understood from Section 141 that the Exchange will establish and maintain compensation fund in accordance with Part IV of the CMSA.

~~RULE 16401.2 MANAGEMENT OF COMPENSATION FUND~~ Administration of Compensation Fund

- (1) The Exchange ~~shall~~will administer and manage the Compensation Fund in accordance with Part IV of the Capital Markets and Services Act and the Capital Markets and Services Regulations 2007 (~~in this Chapter 14 referred to as~~ "the said Regulations").

- ~~(2) Subject to such extent permissible by law, the Exchange may appoint such Committee to which the Exchange may, as it deems expedient, delegate any of its powers, authorities or discretions insofar as it relates to the Compensation Fund.~~

**Comment [B2]:** Deleted as the power to appoint a committee, sub-committee or officers of the Exchange to discharge the exercise of the Exchange's powers under these Rules will be provided in Chapter 2.

~~RULE 16401.3 CONTRIBUTION BY PARTICIPATING ORGANISATIONS~~ Contribution by Participating Organisation

- (1) ~~Every~~A Participating Organisation ~~shall~~must -
- (i) ~~upon being registered as a Participating Organisation and issued a dealer's licence under Section 58(1) of the Capital Markets and Services Act~~ contribute a sum in the amount as stipulated in the Capital Markets and Services Act to the Compensation Fund; and
- (ii) thereafter, on or before the 31<sup>st</sup> day of December every year, contribute a sum in the amount as stipulated ~~in the manner envisaged~~ in the Capital Markets and Services Act to the Compensation Fund.
- (2) Contributions made to Participating Organisations ~~shall~~will not be refundable.
- (3) ~~Notwithstanding the foregoing provisions, t~~he Exchange may ~~, from time to time, with the approval of the Commission,~~ vary the amount and manner of the contributions payable by Participating Organisations to the Compensation Fund.

**Comment [B3]:** Deleted as the word "PO" refers to person or entity that are licensed as a dealer under CMSA and registered with the Exchange as such.

**RULE 16402 CLAIMS OUT OF COMPENSATION FUND**

**~~RULE 1402.1~~ DEFINITION**

~~In this Rule 1402, "books" shall include any register or other record of information and any accounts or accounting records, howsoever compiled, recorded or stored, and shall also include any document.~~

**Comment [B4]:** This rule is moved to and incorporated as Rule 1602.3(7).

**~~RULE 16402.21~~ ENTITLEMENT TO CLAIM Entitlement to claim**

(1) Any person ("the Claimant") suffering a loss in the manner as referred to in Section 152 of the Capital Markets and Services Act ("Claimable Loss") ~~shall~~will be entitled to claim from the Compensation Fund.

**~~RULE 16402.32~~ PROCEDURE FOR CLAIM Procedures for claim**

(1) ~~Where~~If a claim is made for compensation pursuant to Rule 16402.21 and in accordance with the said Regulations, the Exchange may ~~cause to be published, in two (2) daily newspapers, one in the National Language and the other in the English Language, published and circulated generally in Malaysia,~~ a notice specifying a date, not being earlier than ~~three (3) months~~ after the publication of the notice or such other longer period as may be specified in the notice, ~~after the date of the said publication, on which~~ or before which date claims for compensation in relation to the person specified in the notice may be made.

**Comment [B5]:** This provision is moved to and incorporated as Rule 1602.2(2).

**Comment [B6]:** Amended to be clearer as to the notice calling for compensation fund's claims.

(2) ~~The notice in Rule 1602.2(1) will be published in 2~~ daily newspapers, one in the National Language and the other in the English Language, ~~that are~~ published and circulated ~~generally~~ in Malaysia.

**Comment [B7]:** This provision is previously part of Rule 1402.3(1) and is incorporated and amended here for clarity purpose and due to plain language drafting.

(23) A claim for compensation from the Compensation Fund in respect of any Claimable Loss ~~shall~~must be made by notice in writing to the Exchange ("Notice of Claim") as follows -

- (a) where a notice under Rule 16402.32(1) has been published, on or before the period stated in the notice; or
- (b) where no notice pursuant to Rule 16402.32(1) has been published, within ~~six (6)~~ months after the Claimant becomes aware of the circumstances referred to in Section 152 of the Capital Markets and Services Act.

(43) ~~Unless otherwise determined by the Exchange, a~~The Exchange will not accept or consider any claim that are not made in accordance with Rule 16402.32(23), ~~shall be barred.~~

(4) ~~[Deleted]~~

**~~RULE 1402.4~~ INQUIRY OR INVESTIGATION OVER CLAIM**

(1) ~~[Deleted]~~

(2) ~~[Deleted]~~

(3) ~~[Deleted]~~

(4) ~~[Deleted]~~

**~~RULE 164502.53~~ POWERS OF THE EXCHANGE IN RESPECT OF CLAIMS Powers of the Exchange in respect of claims**

Chapter 1645 – Compensation Fund

- (1) The Exchange ~~shall~~ will make a determination in respect of a claim under this Chapter within ~~six (6)~~ months from the date of the Notice of Claim, or such longer period as the Exchange decides.
- (2) Subject to ~~this Chapter~~, Part IV of the Capital Markets and Services Act and the said Regulations, the Exchange ~~shall~~ will, after due inquiry, ~~make a determination on~~ the following matters:-
  - (a) whether the claim should be allowed, partially allowed, disallowed or impose such conditions as it thinks fit;
  - (b) if the claim is allowed or partially allowed, to specify:-
    - (i) the total amount of compensation ~~determined to be~~ payable;
    - (ii) the amount of reasonable costs and disbursements payable ~~thereon~~; and
    - (iii) the time of payment of the amounts referred to in ~~sub-paragraphs~~ Rule 16502.3(2)(b)(i) and (ii); and
  - (c) if the claim is disallowed or partially allowed, the reasons for the disallowance or partial allowance, ~~as the case may be~~.

~~(3) [Deleted]~~

~~(43) The Exchange shall~~ will notify the Claimant in writing of its determination on a claim ("Notice of Determination"). ~~by notice in writing ("Notice of Determination") by registered post.~~

Comment [B8]: Deleted as it is not necessary to state the manner on which the Notice of Determination will be given to the Claimant.

~~(64) The Exchange may at any time require a Claimant or any other person to provide information or to produce any books, documents or statement of evidence or summon and examine witness which it considers material to~~ for the purpose of -

- (a) supporting a claim for compensation from the Compensation Fund;
- (b) exercising its powers against a Participating Organisation; or
- (c) enabling civil or criminal proceedings to be taken against the Participating Organisation or a person in respect of a defalcation or fraudulent misuse of money or other property.

~~(65) The Exchange may disallow the claim of the Claimant who in-person fails, within one (1) month or such longer period as the Exchange may allow, to provide information or to produce any books, documents or statement of evidence as required under Rule 1402.5(5) by the Exchange pursuant to the claim under this Chapter, if it is satisfied that the information, securities, documents or statements of evidence are in the possession of or are available to the Claimant.~~

~~(7) A Participating Organisation or its registered person(s) or employee who refuses or fails to comply with a requirement made under Rule 1402.5(5) shall be deemed to have violated the provisions of these Rules and shall be liable to any disciplinary action as the Exchange deems necessary.~~

Comment [B9]: Deleted as the Exchange is empowered under Chapter 2 to request for any information or documents on matters under these Rules, hence, it is understood that if the PO refuses or fails to provide the information or to produce any books, documents or statement of evidence as required by the Exchange pursuant to the claim under this Chapter, such refusal or failure is a breach of the Rules.

~~(78) In this Rule 164502, the word "books" shall include any register, or other record of information and any accounts, or and accounting records, or other record of information or document howsoever that are compiled, recorded or stored, and shall also include any document.~~

Comment [B10]: This Rule 1402.1 is incorporated here and amended due to plain language.

RULE 164503 RIGHT OF APPEAL

RULE 164503.1 ~~RIGHT TO APPEAL~~ Right of appeal

(1) A person who is aggrieved by a determination of the Exchange ~~made~~ under Rule 14502.54 may, within ~~one (1)~~ month of receipt of a Notice of Determination, appeal against such determination to the Commission whose decision ~~shall~~will be final.

[End Of Chapter]



**APPENDIX 1A – FORM OF APPLICATION – PARTICIPATING ORGANISATION**

**Comment [B1]:** Moved to Directive 300-001 of the POs Manual.

Name of Applicant:

Company Registration No.:

Address:

Date:

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

Dear Sirs,

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

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

- ~~(1) \_\_\_\_\_ a duly completed application form together with the required supporting documents;~~
- ~~(2) \_\_\_\_\_ the non-refundable application fee of RM[\_\_\_\_\_];~~
- ~~(3) \_\_\_\_\_ the memorandum and articles of association of [Applicant];~~
- ~~(4) \_\_\_\_\_ a certified true copy<sup>1</sup> of a valid Dealer’s Licence issued by the Securities Commission;~~
- ~~(5) \_\_\_\_\_ a statutory declaration in the prescribed form;~~
- ~~(6) \_\_\_\_\_ an undertaking in the prescribed form.~~

Yours faithfully,

Signed by Authorised Signatory(ies) \_\_\_\_\_ )  
 \_\_\_\_\_ )  
 for and on behalf of Applicant \_\_\_\_\_ )  
 \_\_\_\_\_ )  
 in the presence of: \_\_\_\_\_ )

<sup>1</sup> For purposes of this application, copy(ies) must be certified true by a Commissioner for Oaths or Advocate & Solicitor.

**~~APPENDIX 1B – REGISTRATION FORM – CHIEF EXECUTIVE OFFICER AND HEADS~~**

**Comment [B1]:** Moved to Directive 300-001 of the POs Manual.

Name of Participating Organisation:

Company Registration No.:

Address:

Date:

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

Dear Sirs,

**Appointment and Registration of a Chief Executive Officer /a Head**

~~We, \_\_\_\_\_, are desirous of appointing and registering the following person as a Chief Executive Officer/Head of Dealing\*/Operations\*/Compliance\* of [Participating Organisation] upon the terms and subject in all respects to the Rules of the Exchange which are now or hereafter in force, as may be amended from time to time and all directives, rulings and guidelines issued by the Exchange. In support of the registration, we enclose herewith:~~

Name:

NRIC:

Address:

~~(1) a duly completed registration form together with the required supporting documents;~~

~~(2) the non-refundable fee of RM[ \_\_\_\_\_ ];~~

~~\*(3) a certified true copy<sup>1</sup> of a valid dealer's representative's licence issued by the Securities Commission\*\*;~~

~~(4) a certified true copy<sup>1</sup> of the approval of the Securities Commission for the abovenamed appointment as a Head of Dealing\*/Operations\*/Compliance / a certified true copy<sup>1</sup> of the notification given to the Securities Commission of the applicant's appointment as a Chief Executive Officer as required under the Licensing Handbook\*;~~

~~(5) a statutory declaration by the abovenamed in the prescribed form; and~~

~~(6) an undertaking by the abovenamed in the prescribed form.~~

Yours faithfully,

Signed by Authorised Signatory(ies) \_\_\_\_\_ )  
For and on behalf of [Participating Organisation] \_\_\_\_\_ )  
In the presence of: \_\_\_\_\_ )

\*-Delete whichever is not applicable  
\*\*-Only applicable to Head of Dealing Applicants

<sup>1</sup>-Copy(ies) must be certified true by a Commissioner for Oaths or Advocate & Solicitor.

~~APPENDIX 1C – REGISTRATION FORM – REGISTERED PERSONS (OTHER THAN DEALER’S REPRESENTATIVE, CHIEF EXECUTIVE OFFICER AND HEADS)~~

Comment [B1]: Merged with Appendix IB and moved to Directive 300-001 of the POs Manual.

Name of Participating Organisation:

Company Registration No.:

Address:

Date:

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

Dear Sirs,

**Employment and Registration of a [Registered Person\*]**

~~We, \_\_\_\_\_, are desirous of employing and registering the following person as a [Registered Person\*] upon the terms of and subject in all respects to the Rules of the Exchange which are now or hereafter may be in force, as may be amended from time to time, and all directives rulings and guidelines issued by the Exchange:~~

Name:

NRIC:

Address:

In support of the registration, we enclose herewith the following documents:-

- ~~(1) a duly completed registration form together with the required supporting documents;~~
- ~~(2) a certified true copy<sup>†</sup> of the approval of the Securities Commission on the appointment of the abovenamed as a [Registered Person]\*\* / a certified true copy<sup>†</sup> of the notification given to the Securities Commission of the abovenamed appointment as a [Registered Person\*] as required under the Licensing Handbook\*\*;~~
- ~~(3) the non-refundable fee of RM[ ] and registration fee of RM[ ]; and~~
- ~~(4) an undertaking in the prescribed form.~~

~~Yours faithfully,~~

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

\* Please specify the category of Registered Person other than a Dealer’s Representative, Chief Executive Officer or Head.  
\*\* Delete whichever is not applicable

<sup>†</sup> Copy(ies) must be certified true by a Commissioner for Oaths or Advocate & Solicitor.

~~APPENDIX 1D – REGISTRATION FORM – DEALER'S REPRESENTATIVE~~

**Comment [B1]:** Merged with Appendix 1B and moved to Directive 300-001 of the POs Manual.

~~Name of Participating Organisation:~~

~~Company Registration No.:~~

~~Address:~~

~~Date:~~

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

~~Dear Sirs,~~

**Employment/Engagement\* and Registration of Dealer's Representative**

~~We, \_\_\_\_\_, are desirous of employing/engaging\* and registering the following person as a Commissioned/Salaried\* Dealer's Representative upon the terms of and subject in all respects to the Rules of the Exchange which are now or hereafter may be in force, as may be amended from time to time, and all directives, rulings and guidelines issued by the Exchange:~~

~~Name:~~

~~NRIC:~~

~~Address:~~

~~In support of the registration, we enclose herewith the following documents:-~~

- ~~(1) a duly completed registration form together with the required supporting documents;~~
- ~~(2) a certified true copy<sup>†</sup> of a valid dealer's representative licence issued by the Securities Commission;~~
- ~~(3) a duly executed and stamped duplicate of the Standard Remisiers' Agreement between the abovenamed and [Participating Organisation]\*\*;~~
- ~~(4) the non-refundable fee of [—];~~
- ~~(5) a statutory declaration by the abovenamed in the prescribed form; and~~
- ~~(6) an undertaking by the abovenamed in the prescribed form.~~

~~Yours faithfully,~~

~~Signed by Authorised Signatory(ies) \_\_\_\_\_ )  
For and on behalf of [Participating Organisation] \_\_\_\_\_ )  
in the presence of: \_\_\_\_\_ )~~

~~\* Delete whichever is not applicable  
\*\* Only applicable to Commissioned Dealer's Representative Applicants~~

~~<sup>†</sup> Copy(ies) must be certified true by a Commissioner for Oaths or Advocate & Solicitor.~~

~~APPENDIX 2A – STATUTORY DECLARATION – PARTICIPATING ORGANISATION~~

**Comment [B1]:** Deleted as we have removed the requirement for statutory declaration . POs are now required to give an undertaking as per Directive 300-001.

~~We, \_\_\_\_\_ of \_\_\_\_\_, the directors of [Applicant] and for the purpose of admission and registration of [Applicant] as a Participating Organisation of Bursa Malaysia Securities Berhad (“the Exchange”) under Rule 302 of the Rules of the Exchange (“the Rules”), do solemnly declare and undertake as follows:-~~

- ~~(a) that [Applicant] satisfies all the conditions prescribed in Chapter 3 of the Rules for admission and registration as a Participating Organisation of the Exchange;~~
- ~~(b) that the information and documents accompanying the application for admission and registration as a Participating Organisation of the Exchange are complete and accurate;~~
- ~~(c) that we hereby authorise the Exchange to obtain and pass all or any information directly or indirectly related to [Applicant] from and to, any regulatory authority in Malaysia and elsewhere for the purposes of discharging all or any of the functions of the Exchange and for regulatory purposes including for any other purpose related thereto;~~
- ~~(d) that we shall notify the Exchange immediately in writing of any changes hereafter, in the information given;~~
- ~~(e) that we hereby agree to abide by the decision of the Exchange in relation to the application for admission and registration as a Participating Organisation of the Exchange;~~
- ~~(f) that we hereby agree, if approved, to comply with and be bound by the Rules and all directives and guidelines issued by the Exchange which are or may be in force from time to time.~~

~~We make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declaration Act 1960.~~

~~**SUBSCRIBED AND SOLEMNLY** \_\_\_\_\_ )  
declared by the abovenamed \_\_\_\_\_ )  
at \_\_\_\_\_ )  
\_\_\_\_\_ )  
in the State of \_\_\_\_\_ )  
\_\_\_\_\_ )  
this \_\_\_\_\_ day of \_\_\_\_\_ 20 \_\_\_\_\_ )~~

Before me,  
Commissioner for Oaths

~~APPENDIX 2B – STATUTORY DECLARATION – LICENSED REGISTERED PERSON~~

**Comment [B1]:** Statutory declaration for both licensed and non-licensed registered person removed and it is proposed that only undertaking is required to be submitted as per Directive 300-001.

~~I, \_\_\_\_\_ of \_\_\_\_\_, the proposed [Registered Person\*] of [Participating Organisation] and for the purpose of registration with Bursa Malaysia Securities Berhad ("the Exchange") as a [Registered Person\*] under the Rules of the Exchange ("the Rules"), do solemnly declare and undertake as follows:-~~

- ~~(a) that I satisfy all the conditions prescribed in Chapter 3 of the Rules for registration with the Exchange as a [Registered Person\*] of [Participating Organisation];~~
- ~~(b) that I am a holder of a valid dealer's representative licence issued by the Securities Commission;~~
- ~~(c) that the information and documents furnished or submitted to the Exchange for the purposes of registration as [Registered Person\*] are complete and accurate;~~
- ~~(d) that I hereby authorise the Exchange to obtain and pass all or any information directly or indirectly related to me from and to, any regulatory authority in Malaysia and elsewhere for the purposes of discharging all or any of the functions of the Exchange and for regulatory purposes including for any other purpose related thereto;~~
- ~~(e) that I shall notify the Exchange immediately in writing of any changes hereafter, in the information given;~~
- ~~(f) that until and unless I have been duly registered by the Exchange as a [Registered Person\*], I shall not in any manner whatsoever act for and on behalf of [Participating Organisation];~~
- ~~(g) that I hereby agree to abide by the decision of the Exchange in relation to my registration as a [Registered Person\*] with [Participating Organisation];~~
- ~~(h) that I hereby agree, if registered, to comply with and be bound by the Rules and all directives and guidelines issued by the Exchange which are or may be in force from time to time.~~

~~I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declaration Act 1960.~~

~~SUBSCRIBED AND SOLEMNLY \_\_\_\_\_ )  
declared by the abovenamed \_\_\_\_\_ )  
\_\_\_\_\_ )  
at \_\_\_\_\_ )  
in the State of \_\_\_\_\_ )  
this \_\_\_\_\_ day of \_\_\_\_\_ )  
20 \_\_\_\_\_ ) \_\_\_\_\_ Before me,~~

~~Commissioner for Oaths~~

~~\* Please specify the category of Licensed Registered Person.~~

~~APPENDIX 2C – STATUTORY DECLARATION – NON-LICENSED REGISTERED PERSON~~

**Comment [B1]:** Statutory declaration for both licensed and non-licensed registered person removed and it is proposed that only undertaking is required to be submitted as per Directive 300-001.

~~I, \_\_\_\_\_ of \_\_\_\_\_,  
the proposed [Registered Person\*] of [Participating Organisation] and for the purpose of  
registration with Bursa Malaysia Securities Berhad ("the Exchange") as a [Registered  
Person\*] under the Rules of the Exchange ("the Rules"), do solemnly declare and undertake  
as follows:-~~

- ~~(a) that I satisfy all the conditions prescribed in Chapter 3 of the Rules for registration with  
the Exchange as a [Registered Person\*] of [Participating Organisation];~~
- ~~(b) that I am not a holder of a valid dealer's representative licence issued by the Securities  
Commission;~~
- ~~(c) that the information and documents furnished or submitted to the Exchange for the  
purposes of registration as [Registered Person\*] are complete and accurate;~~
- ~~(d) that I hereby authorise the Exchange to obtain and pass all or any information directly or  
indirectly related to me from and to, any regulatory authority in Malaysia and elsewhere  
for the purposes of discharging all or any of the functions of the Exchange and for  
regulatory purposes including for any other purpose related thereto;~~
- ~~(e) that I shall notify the Exchange immediately in writing of any changes hereafter, in the  
information given;~~
- ~~(f) that until and unless I have been duly registered by the Exchange as a [Registered  
Person\*], I shall not in any manner whatsoever act for and on behalf of [Participating  
Organisation];~~
- ~~(g) that I hereby agree to abide by the decision of the Exchange in relation to my registration  
as a [Registered Person\*] with [Participating Organisation];~~
- ~~(h) that I hereby agree, if registered, to comply with and be bound by the Rules and all  
directives and guidelines issued by the Exchange which are or may be in force from time  
to time.~~

~~I make this solemn declaration conscientiously believing the same to be true, and by virtue of  
the provisions of the Statutory Declaration Act 1960.~~

~~**SUBSCRIBED AND SOLEMNLY** \_\_\_\_\_ )  
declared by the abovenamed \_\_\_\_\_ )  
\_\_\_\_\_ )  
at \_\_\_\_\_ )  
in the State of \_\_\_\_\_ )  
this \_\_\_\_\_ day of \_\_\_\_\_ )  
20 \_\_\_\_\_ )~~

~~\_\_\_\_\_ Before me,  
Commissioner for Oaths~~

~~\*Please specify the category of Non-Licensed Registered Person.~~

~~APPENDIX 3A - UNDERTAKING - PARTICIPATING ORGANISATION~~

Comment [B1]: Deleted and moved to Directive 300-001.

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

~~Bursa Malaysia Securities Berhad ("the Exchange")~~

~~In consideration of the Exchange approving at our request our application for admission and registration with the Exchange as a Participating Organisation in accordance with the Rules of Bursa Malaysia Securities Berhad ("the Rules") and all directives and guidelines issued by the Exchange, we hereby irrevocably and unconditionally undertake and agree as follows:-~~

- ~~(a) to be bound in all respects by and to comply with the Rules which now are or may hereafter be in force and all directives rulings and guidelines issued by the Exchange in so far as they apply directly or indirectly to a Participating Organisation;~~
- ~~(b) to indemnify and keep the Exchange fully indemnified from and against all losses, damages, costs, expenses, actions and claims or otherwise which the Exchange may incur arising out of any act or omission on our part or failure by us to comply with any provisions in the Rules and/or any directives and guidelines issued by the Exchange; and~~
- ~~(c) notwithstanding our ceasing to be a Participating Organisation of the Exchange for any reason whatsoever, to continue to be bound by the Rules which now are or may hereafter be in force and all directives rulings and guidelines issued thereunder in so far as they may relate to any act or omission that we may, in the opinion of the Exchange have committed or omitted to do during our tenure as a Participating Organisation of the Exchange.~~

~~We acknowledge that the approval of our application for admission and registration as a Participating Organisation by the Exchange hereunder, or any indulgence or delay in making any demand or instituting any action by the Exchange shall not constitute or be deemed to operate as a waiver by the Exchange of any of its/their rights hereunder or under the Rules.~~

~~We further acknowledge that [Applicant] shall remain registered as a Participating Organisation of the Exchange at the discretion of the Exchange.~~

~~The above undertaking has been signed by me/us as ..... (designation) of [Applicant] pursuant to authority granted to me by resolution of the board of directors of [Applicant] on .....~~

Signed by Authorised Signatory(ies) \_\_\_\_\_ )  
 for and on behalf of the Applicant \_\_\_\_\_ )  
 \_\_\_\_\_ )  
 in the presence of \_\_\_\_\_ )



~~APPENDIX 3B – UNDERTAKING – REGISTERED PERSON (ALL CATEGORIES)~~

Comment [B1]: Deleted and moved to Directive 300-001.

~~....., 20.....~~

To:

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

~~In consideration of the Exchange approving the application for my registration with the Exchange as a [Registered Person\*] in accordance with the Rules of Bursa Malaysia Securities Berhad (“the Rules”) and all directives and guidelines issued by the Exchange, I hereby irrevocably and unconditionally undertake and agree as follows:-~~

- ~~(a) to be bound in all respects by and to comply with the Rules which now are or may hereafter be in force and all directives rulings and guidelines issued by the Exchange in so far as they apply directly or indirectly to a [Registered Person\*];~~
- ~~(b) to indemnify and keep the Exchange fully indemnified from and against all losses, damages, costs, expenses, actions and claims or otherwise which the Exchange may incur arising out of any act or omission on my part or failure by me to comply with any provisions in the Rules and/or any directives and guidelines issued by the Exchange; and~~
- ~~(c) notwithstanding my cessation to be registered as a [Registered Person\*] with the Exchange for any reason whatsoever, I further undertake to continue to be bound by the Rules which now are or may hereafter be in force and all directives rulings and guidelines issued by the Exchange in so far as they may relate to any act or omission that I may, in the opinion of the Exchange, have committed or omitted to do during the period of my registration with the Exchange.~~

~~I hereby acknowledge that the approval of the application for my registration as a [Registered Person\*] with the Exchange hereunder, or any indulgence or delay in making any demand or instituting any action by the Exchange shall not constitute or be deemed to operate as a waiver by the Exchange of any of its/their rights hereunder or under the Rules.~~

~~I further acknowledge that I shall remain registered as a [Registered Person\*] with the Exchange only at the discretion of the Exchange.~~

~~Signed by [the Applicant] \_\_\_\_\_ )  
\_\_\_\_\_ )  
in the presence of \_\_\_\_\_ )~~

~~\*Please specify category of Registered Person.~~

~~APPENDIX 3C – UNDERTAKING BY PARTICIPATING ORGANISATION  
FOR THE EMPLOYMENT OF TRADING CLERK~~

**Comment [B1]:** Deleted as the Exchange is proposing for removal of registration of trading clerks.

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

To

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

~~In consideration of the Exchange registering .....  
NRIC No. .... as a Trading Clerk of [Participating Organisation] with the Exchange in  
accordance with the Rules of Bursa Malaysia Securities Berhad (“the Rules”) and all  
directives and guidelines issued by the Exchange, we hereby irrevocably and unconditionally  
undertake and agree as follows:-~~

- ~~(a) — to take all steps necessary to ensure that the Trading Clerk complies with the Rules  
which now are or may hereafter be in force and all directives rulings and guidelines  
issued by the Exchange in so far as they apply directly or indirectly to a Trading  
Clerk;~~
- ~~(b) — to be liable to honour all actions, contracts and obligations entered into by the Trading  
Clerk in the course of his duties regardless of whether [Participating Organisation] is  
his principal; and~~
- ~~(c) — to indemnify and keep the Exchange fully indemnified from and against all losses,  
damages, costs, expenses, actions and claims or otherwise which the Exchange may  
incur arising out of any act or omission on the part of the Trading Clerk to comply or  
failure by us to take all necessary steps to ensure compliance by the Trading Clerk  
with any provisions in the Rules and/or any directives and guidelines issued by the  
Exchange.~~

~~We acknowledge that the abovenamed shall remain registered with the Exchange as a  
Trading Clerk of [Participating Organisation] at the discretion of the Exchange.~~

~~The above undertaking has been signed by me as ..... (designation) of  
[Participating Organisation] pursuant to authority granted to me by resolution of the board of  
directors of [Participating Organisation] on .....~~

Signed by Authorised Signatory(ies) \_\_\_\_\_ )  
for and on behalf of the Participating Organisation \_\_\_\_\_ )  
\_\_\_\_\_ )  
in the presence of \_\_\_\_\_ )

**APPENDIX 4 - PARTICIPATING ORGANISATION'S MONTHLY DECLARATION**  
**[Rule 404.7]**

**Comment [B1]:** Deleted as the Exchange is proposing for the requirement for submission of monthly declaration to be removed for current Rule 404.7(2).

**PARTICIPATING ORGANISATION:** \_\_\_\_\_

We hereby declare that the Participating Organisation's accounting books and records, and the accounting system and controls in relation to Rule 404.7 of the Rules of Bursa Malaysia Securities Berhad for the month of \_\_\_\_\_ are as follows:-

- (i) Outstanding contracts *can/cannot*\* be readily identified with the date sequence within counter;
- (ii) Outstanding debtors *can/cannot*\* be readily identified with the specific transactions and with the dates on which these transactions occur;
- (iii) General ledger trial balances *can/cannot*\* and *shall/shall not*\* be extracted and squared at least once a month by not later than the tenth (10<sup>th</sup>) day of the following month;
- (iv) Where the client and broker balances are represented by control accounts in the general ledger, the individual client and broker balance *can/cannot*\* and *shall/shall not*\* be extracted and reconciled with the control account at least once a month by not later than the tenth (10<sup>th</sup>) day of the following month;
- (v) Bank reconciliations *have/have not*\* been prepared at least once a month by not later than the tenth (10<sup>th</sup>) day of the following month.

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

Signature: \_\_\_\_\_

(Head of Operations)

Name of signatory: \_\_\_\_\_

Signature: \_\_\_\_\_

(Head of Compliance/Compliance Officer\*)

Name of signatory: \_\_\_\_\_

\* Please delete whichever is not applicable

**APPENDIX 51 - RISK DISCLOSURE STATEMENT ON SECURITIES BORROWING**

1. This statement is provided to you in accordance with Rule ~~608.2(4)(e)~~706.2(4)(e) of the Rules of Bursa Malaysia Securities Berhad.
2. The purpose of this statement is to inform you that the risk of loss in borrowing securities for the purposes permitted under the Rules of Bursa Malaysian Securities Bhd, which can be substantial. You should therefore assess if borrowing securities is suitable for you in light of your financial circumstances. In deciding whether to borrow securities you should be aware of the following:-
  - (a) where the return of securities to the lender, which securities is equivalent to the securities borrowed, is by way of purchase on the market, the buy price of the securities may be substantially higher than the price of the securities at the time of borrowing;
  - (b) under certain conditions, it may be difficult to buy back securities equivalent to the securities borrowed;
  - (c) the lender may recall on the securities borrowed at any time which necessitates the buying back of securities equivalent to the securities borrowed; and
  - (d) the securities borrowed may no longer be eligible for borrowing in the future and as such the lender may recall on all of that securities borrowed by all borrowers which may necessitate the buying back of the securities equivalent to that securities borrowed, by all borrowers. This 'buying back' thereof may result in the buy price of those securities to go up significantly.
3. This brief statement cannot disclose all the risks and other aspects of borrowing of securities. You should therefore carefully study the terms, conditions, the rules and regulations pertaining to borrowing of securities before engaging in this activity. If you are in doubt in relation to any aspect of this statement, you should consult your Participating Organisation.

-----

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

I acknowledge that I have received a copy of the RISK DISCLOSURE STATEMENT ON SECURITIES BORROWING and understand its contents which have been explained to me by the Participating Organisation.

Signature : \_\_\_\_\_  
Full name : \_\_\_\_\_  
Date : \_\_\_\_\_

**APPENDIX 62 - ~~PARTICIPATING ORGANISATION~~ - DECLARATION ON OFF-BALANCE SHEET TRANSACTIONS**  
**[~~RULE 602.4~~702.3]**

PARTICIPATING ORGANISATION: \_\_\_\_\_

We, for and on behalf of the Participating Organisation, to the best of our knowledge and belief, and having made appropriate enquiries on other directors and officers of \_\_\_\_\_ (name of the Participating Organisation), hereby make the following representations:-

- (i) The Participating Organisation \*has in the month of \_\_\_\_\_, entered into Off-Balance Sheet Transaction(s) as specified in the attachment(s) / \*has not undertaken any Off-Balance Sheet Transaction in the month of \_\_\_\_\_;
- (ii) that the Off-Balance Sheet Transaction(s) entered into by the Participating Organisation prior to the month of \_\_\_\_\_, which remain to be performed or discharged are as specified in the attachment(s) / \*does not have Off-Balance Sheet Transaction(s) entered into previous to the month of \_\_\_\_\_ which remain to be performed or discharged;
- (iii) that all Adverse Event(s) in relation to the Participating Organisation's entry into the Off-Balance Sheet Transaction(s) specified in (i) and (ii) above is(are) appended to the attachment herein; and
- (iv) that all changes, amendments, variations or supplements to the terms and conditions of the Off-Balance Sheet Transaction(s) are reported herein as required under Rule ~~602.4(1)(e)~~ 702.3(1)(e) and is (are) appended to the attachment herein.

\_\_\_\_\_  
~~(Head of Operations)~~ Authorised signatory

\_\_\_\_\_  
~~(Compliance Officer)~~

OR, in the case of a Universal Broker: -

\_\_\_\_\_  
~~(Head of Compliance)~~

Date: \_\_\_\_\_

\* Delete if not applicable

PARTICIPATING ORGANISATION: \_\_\_\_\_

No	Date of Transaction / Agreement	Nature of Transaction	Name of Securities (if applicable)	Quantity	Value (RM)	Counterparty	Transaction Period	Nature of Financial Arrangement and Financier (if applicable)

- Note: 1. Report(s) on Adverse Events in relation to the abovementioned Off-Balance Sheet Transaction(s) must be appended to this attachment.  
2. Report(s) relating to any changes, amendments, variations or supplements to the terms and conditions of the abovementioned Off-Balance Sheet Transaction(s) must be appended to this attachment.

To: Bursa Malaysia Securities Berhad~~Pengurus~~  
Participants Supervision Division~~Jabatan Imbangan Pembayaran~~  
Level 12, Exchange Square~~Bank Negara Malaysia~~  
Bukit Kewangan~~Jalan Date Onn~~  
~~50480-50200~~Kuala Lumpur

Name of Participating Organisation:-

Report on Margin Accounts  
as at last market day  
for the month of ..... 20.....

Name of client (a)	*1 Approved limit RM (b)	*2 Outstanding balance RM (c)	*3 Value of equity RM (d)	*4 (d/c) x 100 (e)	(b/g x 100) (f)
<b>TOTAL</b>					

RM

- (g) Participating Organisation's Effective Shareholders Funds of which  
.....
- (h) Paid-up capital .....
- (i) Published reserves .....
- (j) Total of (c) = \_\_\_\_\_ times  
-----  
(g)

Authorised signature:

.....  
Name:

.....  
Designation:

.....  
Date:  
.....

- Note: 1\* "Approved limit" refers to the maximum amount of margin financing permitted to be utilised by the client.  
2\* "Outstanding balance" is as defined under Rule 703101.1 of the Rules.  
3\* "Equity" is as defined under Rule 703101.1 of the Rules.

~~APPENDIX 8 -- MONTHLY REPORT ON INTEREST IN SUSPENSE AND PROVISION FOR BAD & DOUBTFUL DEBTS~~  
~~{Rule 1104}~~

————— [Deleted]



~~APPENDIX 9 – FORM OF STATUTORY DECLARATION  
[Rule 1201.2] – (Participating Organisation's Declaration)~~

**Comment [B1]:** Deleted as we have removed the requirement for submission of this declaration.

~~We, \_\_\_\_\_ of \_\_\_\_\_  
being the directors in [name the Participating Organisation] of \_\_\_\_\_ do solemnly  
declare that no securities received by the said Participating Organisation from or on behalf of  
a client for safe custody or sale have been dealt with otherwise than in accordance with the  
client's instructions, and, in the absence of specific instructions, that such securities are held  
by the said Participating Organisation or lodged with the bank of the said Participating  
Organisation for safe custody only, and we make this solemn declaration conscientiously  
believing the same to be true, and by virtue of the provisions of the Statutory Declaration Act  
1960.~~

~~SUBSCRIBED AND SOLEMNLY \_\_\_\_\_ )  
\_\_\_\_\_)  
declared by [director] \_\_\_\_\_ )  
\_\_\_\_\_)  
at \_\_\_\_\_ )  
\_\_\_\_\_)  
this \_\_\_\_\_ day of \_\_\_\_\_ )  
20 \_\_\_\_\_ )~~

~~SUBSCRIBED AND SOLEMNLY \_\_\_\_\_ )  
\_\_\_\_\_)  
declared by [director] \_\_\_\_\_ )  
\_\_\_\_\_)  
at \_\_\_\_\_ )  
\_\_\_\_\_)  
this \_\_\_\_\_ day of \_\_\_\_\_ )  
20 \_\_\_\_\_ )~~

Before me,  
Commissioner for Oaths

**APPENDIX 404 – DECLARATION ON COMPLIANCE FOR REGULATED SHORT SELLING**  
**[~~704.4(1)(e)~~803.2(1)(c)]**

To: Bursa Malaysia Securities Berhad

**DECLARATION ON COMPLIANCE**

Pursuant to the requirements of Rule ~~704.4(1)(e)~~803.2(1)(c), we [name of Participating Organisation ] hereby declare as follows:

1. that we have formulated a set of the ~~i~~internal ~~G~~guidelines for Regulated Short Selling which have been approved by the board of directors;
2. the ~~i~~internal ~~G~~guidelines for Regulated Short Selling have been brought to the notice of the relevant employees and registered persons who have read and understood the contents therein;
3. that the ~~i~~internal ~~G~~guidelines for Regulated Short Selling comply with the requirements set out in Rule ~~704.3~~803.2(1)(a);
4. that all relevant systems and infrastructure including front office and/or back office systems have been verified and assessed in terms of application as well as software and the hardware capabilities and are confirmed to be operational and have all the functionalities, requirements and controls in place for the purpose of carrying out securities borrowing and lending activities and regulated short selling activities in accordance with these Rules; and

Dated this [ ] day of [ ] [year].

Signed : ~~[Head of Operations]~~ Authorised signatory  
Date :

~~Signed : [Head of Compliance/Compliance Officer]~~  
~~Date :~~

**APPENDIX 115 – NOTIFICATION REQUIRED IN ORDER TO CARRY OUT MARKET MAKING AND PERMITTED SHORT SELLING AND DECLARATION REQUIRED FOR PERMITTED SHORT SELLING**

[~~RULE 303A.2(1)~~402.2(1), ~~RULE 305A.2(1)(e)~~404.2(1)(c) AND ~~RULE 305A.3(5)~~404.3(5)]

To: **Bursa Malaysia Securities Berhad**

**PART A**

**NOTIFICATION REQUIRED FOR MARKET MAKING**

Pursuant to the requirements of Rule ~~303A.2(1)~~402.2(1) we [name of Market Maker] hereby provide notification as follows:

Name of Market Maker	
Designated Trading account/s	
Designated CDS account numbers:	
The date of opening of accounts:	

Dated this [ ] day of [ ] [year].

Signed : [Authorised Signatory]

Date :

**PART B**

Pursuant to the requirements of Rule ~~305A.3(5)~~404.3(5) we [name of Market Maker] hereby provide notification as follows:

Futures accounts numbers:	
The date of opening of accounts:	

**DECLARATION ON COMPLIANCE**

Pursuant to the requirements of Rule ~~305A.2(1)(e)~~404.2(1)(c) we [name of Market Maker] hereby provide notification as follows:

1. that we have formulated the internal guidelines for permitted short selling which have been approved by the board of directors;
2. that the internal guidelines for permitted short selling comply with the requirements set out in Rule ~~305A.2(1)(a)~~404.2(1)(a) respectively; and
3. that all relevant systems and infrastructure including front office and/or back office systems have been verified and assessed in terms of application as well as software and the hardware capabilities and are confirmed to be operational and have all the functionalities, requirements and controls in place for the purpose of carrying out permitted short selling activities in accordance with these Rules.

Dated this [ ] day of [ ] [year]

Signed : [Authorised Signatory]Date :



**SCHEDULE 1**  
**[Rule 310.5(1)]**

**DEALER'S REPRESENTATIVE'S SCOPE OF ACTIVITIES**

	<u>Permitted Activities</u>	<u>Prohibited Activities</u>
<u>(a) Commissioned Dealer's Representative</u>	<ul style="list-style-type: none"> <li>▪ <u>Trading on behalf of Clients only</u></li> <li>▪ <u>Any other activity the Commission permits</u></li> </ul>	<ul style="list-style-type: none"> <li>▪ <u>Proprietary trading for the Commissioned Dealer's Representative's Participating Organisation</u></li> <li>▪ <u>Day Trading</u></li> </ul>
<u>(b) Salaried Dealer's Representative</u>	<ul style="list-style-type: none"> <li>▪ <u>Proprietary trading for the Salaried Dealer's Representative's Participating Organisation (only if not trading on behalf of Clients). Includes trades executed for the Participating Organisation's Related Corporations referred to in Rule [6 ]</u></li> <li>▪ <u>Trading on behalf of Clients (only if not doing proprietary trading for the Salaried Dealer's Representative's Participating Organisation)</u></li> <li>▪ <u>Any other activity the Commission permits</u></li> </ul>	<ul style="list-style-type: none"> <li>▪ <u>Trading on behalf of Clients (if doing proprietary trading for the Salaried Dealer's Representative's Participating Organisation). This prohibition does not extend to trades executed for the Participating Organisation's Related Corporations referred to in Rule [6 ]</u></li> <li>▪ <u>Proprietary trading for the Salaried Dealer's Representative's Participating Organisation (if trading on behalf of Clients)</u></li> <li>▪ <u>Day Trading</u></li> </ul>
<u>(c) Proprietary Day Trader</u>	<ul style="list-style-type: none"> <li>▪ <u>Day Trading</u></li> <li>▪ <u>Any other activity the Commission permits</u></li> </ul>	<ul style="list-style-type: none"> <li>▪ <u>Proprietary trading for the Proprietary Day Trader's Participating Organisation other than Day Trading</u></li> <li>▪ <u>Trading on behalf of Clients</u></li> <li>▪ <u>Acting as a Future's Broker's Representative</u></li> </ul>

**Comment [B1]:** The table below simplifies the scope of activities of a DR so that the reader of our rules can at one glance see the permitted activities and the prohibited activities of DRs.

**Comment [B2]:** In gist, the permitted activities for a SDR are:  
 (a) proprietary trading (if not trading on behalf of clients);  
 (b) trading on behalf of clients (if not doing proprietary trading).

Since we are giving the flexibility for a DR who is conducting proprietary trades for its PO to also execute trades for the PO's Related Corporations, we have reflected this in this table as well i.e. SDRs who do proprietary trades may also execute trades for the PO's Related Corporations. Likewise, the prohibition on trading on behalf of Clients (if the SDR does proprietary trading) does not extend to trades executed for the PO's Related Corporations.

**SCHEDULE 52**  
**[Rule 503 CHAPTER 45]**

**SCHEDULE 5-2 [Rule 403] PROCEDURES PURSUANT TO RULE 403.3 DECLARATION ON DEFAULTERS**

**Comment [B1]:** This Schedule is amended to reflect the fact that the Exchange will no more be undertaking due diligence exercise in posting the names in the Defaulter's list maintained by the Exchange. The Exchange will be relying to the on declaration by the Participating Organisation.

1. For the purpose of ~~reporting to the Exchange under~~ posting a Client as a Defaulter under Rule 4503.43(1) of these Rules, all ~~a~~ Participating Organisations must declare to the Exchange that the Participating Organisation has ~~shall comply~~ complied with the procedures mentioned ~~hereunder~~ below.
  - (a) ~~All Participating Organisations shall~~ issued a written notices of demand to the Client ~~their clients who have an outstanding obligation~~, by giving at least fourteen (14) days notice to settle ~~any obligations~~ the debt as mentioned under Rule ~~4503.43(1)~~.
  - (b) The said notice of demand ~~shall~~ must contain ~~inter-alia~~ the following matters -
    - (i) Total amount of the ~~financial outstanding or details of other outstanding obligations~~ debt owing;  
;
    - (ii) A formal demand to the ~~said eClient~~ to settle or regularise the alleged ~~financial outstanding or other obligations~~ debt owing; and
    - (iii) To inform the ~~eClient~~ that his failure to respond to the ~~or entertain the said~~ notice of demand ~~to the satisfaction of the Participating Organisations concerned~~ may result in ~~the reporting of the eClient~~ being posted to the Exchange as a Defaulter by the Exchange and to further inform the Client of the consequences of being posted as Defaulter ~~in accordance to Rule 403.1(1)~~;
  - (c) ~~If in the event~~ the ~~said eClient~~ responds to the Participating Organisations' demand with ~~some allegation, complaint or dispute on the alleged outstanding~~ debt owing, the Participating Organisations must first enquire into it before ~~reporting~~ notifying the Exchange to the Exchange pursuant to Rule ~~4503.43(1)~~. If the dispute cannot be resolved, the Participating Organisation cannot notify the Exchange to post Client as a Defaulter.
  - (d) ~~If in the event that~~ the ~~eClient~~ fails to respond in writing to the demand made by the Participating Organisations within the specified period or does not dispute the debt owing after due process as mentioned in para (c), the Participating Organisations may notify the Exchange to post ~~proceed to report to the Exchange~~ the Client as a Defaulter pursuant to Rule ~~4503.43(1)~~.
2. ~~(e)~~ A Participating Organisation must submit the following document and information ~~The said report forwarded to the Exchange must inter-alia contain and/or specify the following matters -~~
  - (i) an undertaking from the Participating Organisations to grant an absolute indemnity in favour of the Exchange as a result of ~~the any action of the~~ Exchange posting the Client as a Defaulter under Rule ~~4503.43~~; and
  - (ii) detail particulars of the ~~eClient~~ including the name of the Dealer's Representative concerned; and
  - ~~(iii) to attach any relevant documents supporting the alleged outstanding obligations.~~
2. ~~Notwithstanding anything mentioned in this Schedule or under Rule 403.1 of these Rules, the Exchange may in its discretion not entertain any report from the respective Participating Organisations under the following circumstances -~~

**SCHEDULE 2A-3 [Chapter 89]**

**PART 4 DELIVERY TIME**

**A. READY BASIS CONTRACT**

~~1. The Scheduled Delivery Time for Ready Basis Contract shall be as follows—~~

~~(a) where a transfer of securities, as provided in the Depository Rules, is to be executed to ensure there are sufficient securities in a selling client's CDS account to facilitate delivery by the selling client, by the second (2<sup>nd</sup>) market day following the contract date and within such time(s) in relation to lodgement of transfers as may be prescribed by Depository;~~

~~(b) in respect of delivery to the buying client, not later than 9.00 a.m. by the third (3<sup>rd</sup>) market day following the contract date.~~

**Comment [B1]:** Deleted as the same is incorporated in Rule 802.1(1).

**Comment [B2]:** Deleted as the same is incorporated in Rule 802.1(1).

**B. IMMEDIATE BASIS CONTRACT**

~~1. The Scheduled Delivery Time for Immediate Basis Contract shall be as follows—~~

~~(a) where a transfer of securities, as provided in the Depository Rules, is to be executed to ensure there are sufficient securities in a selling client's CDS account to facilitate delivery by the selling client, by the first (1<sup>st</sup>) market day following the contract date and within such time(s) in relation to lodgement of transfers as may be prescribed by Depository;~~

~~(b) in respect of delivery to the buying client, not later than 9.00 a.m. by the second (2<sup>nd</sup>) market day following the contract date.~~

**Comment [B3]:** The term "Immediate Basis Contracts" is deleted from the rules as the same is no longer relevant to the Exchange. Immediate Basis Contracts were introduced when the delivery and settlement cycle was T+7. No contracts are currently traded based on immediate basis and as such there is no utility in maintaining Immediate Basis Contracts.

**Comment [B4]:** The term "Immediate Basis Contracts" is deleted from the rules as the same is no longer relevant to the Exchange. Immediate Basis Contracts were introduced when the delivery and settlement cycle was T+7. No contracts are currently traded based on immediate basis and as such there is no utility in maintaining Immediate Basis Contracts.

The Scheduled Delivery Time as specified above is illustrated in the table under Schedule 2A-1.

The provisions herein shall be read in conjunction with—

~~(i) in respect of Paragraph A(1)(a) and Paragraph B(1)(a), the Depository Rules relating to accepted deposits and free securities as may from time to time be prescribed therein; and~~

~~(ii) in respect of Paragraph A(1)(b) and Paragraph B(1)(b), the Depository Rules relating to the delivery of securities by way of book-entry as may from time to time be prescribed therein.~~

**PART 2 — SCHEDULED SETTLEMENT TIME**

**A. — READY BASIS CONTRACT**

1. The Scheduled Settlement Time for Ready Basis Contract shall be as follows—

- (a) in respect of payment by buying clients to Participating Organisations, not later than 12.30 p.m. by the third (3<sup>rd</sup>) market day following the contract date;
- (b) in respect of payment by the net buying Participating Organisations to the Clearing House, not later than 10.00 a.m. on the third (3<sup>rd</sup>) market day following the contract date;
- (c) in respect of payment by the Clearing House to the net selling Participating Organisations, not later than 10.00 a.m. on the third (3<sup>rd</sup>) market day following the contract date;
- (d) in respect of payment by Participating Organisations to selling clients, not later than 12.30 p.m. on the third (3<sup>rd</sup>) market day following the contract date.

2. The Scheduled Settlement Time as specified above is illustrated in the table under Schedule 2A-1.

3. Notwithstanding Paragraph 1(a), a buying client may sell securities for which he has not paid at any time before 12.30 p.m. on the third (3<sup>rd</sup>) market day following the contract date, and such sale shall be deemed to be a sale to close off the buying client's purchase position in respect of that securities.

**B. — IMMEDIATE BASIS CONTRACT**

1. The Scheduled Settlement Time for Immediate Basis Contract shall be as follows—

- (a) in respect of payment by buying clients to Participating Organisations (for contracts not attributable to buying in), not later than 12.30 p.m. by the second (2<sup>nd</sup>) market day following the contract date;
- (b) in respect of payment by the buying Participating Organisations to the Clearing House, not later than 10.00 a.m. on the second (2<sup>nd</sup>) market day following the contract date;
- (c) in respect of payment by the Clearing House to the selling Participating Organisations, not later than 10.00 a.m. on the second (2<sup>nd</sup>) market day following the contract date;
- (d) in respect of payment by Participating Organisations to selling clients, not later than 12.30 p.m. on the second (2<sup>nd</sup>) market day following the contract date.

2. The Scheduled Settlement Time as specified above is illustrated in the table under Schedule 2A-2.

3. Notwithstanding Paragraph 1(a), a buying client may sell securities for which he has not paid at any time before 12.30 p.m. on the second (2<sup>nd</sup>) market day following the contract date, and such sale shall be deemed to be a sale to close off the buying client's purchase position in respect of that securities.

**Comment [B5]:** Deleted as the same is incorporated in Rule 804.2(1)(a).

**Comment [B6]:** This requirement is moved to the Clearing House Rules, in line with removing the delivery and settlement obligation between POs and the Clearing House from the rules to the Clearing House Rules.

**Comment [B7]:** This requirement is moved to the Clearing House Rules, in line with removing the delivery and settlement obligation between POs and the Clearing House from the rules to the Clearing House Rules.

**Comment [B8]:** Deleted as the same is incorporated in Rule 804.2(1)(b).

**Comment [B9]:** Deleted as the same is merged and incorporated into

**Comment [B10]:** Deleted as the same is incorporated in Rule 804.2(2).

**Comment [B11]:** The term "Immediate Basis Contracts" is deleted from the rules as the same is no longer relevant to the Exchange.. Immediate Basis Contracts were introduced when the delivery and settlement cycle was T+7. No contracts are currently traded based on immediate basis and as such there is no utility in maintaining Immediate Basis Contracts.

**Comment [B12]:** The term "Immediate Basis Contracts" is deleted from the rules as the same is no longer relevant to the Exchange.. Immediate Basis Contracts were introduced when the delivery and settlement cycle was T+7. No contracts are currently traded based on immediate basis and as such there is no utility in maintaining Immediate Basis Contracts.



**C. BUYING-IN CONTRACTS**

~~1. The Scheduled Settlement Time for buying-in contracts shall be as follows—~~

~~(a) in respect of payment by the defaulting Participating Organisations to the Clearing House, not later than 10.00 a.m. on the next market day following the date of the buying-in contract;~~

~~(b) in respect of payment by the Clearing House to the selling Participating Organisations, not later than 10.00 a.m. on the next market day following the date of the buying-in contract;~~

~~(c) in respect of payment by the Participating Organisations to the selling clients, not later than 12.30 p.m. on the next market day following the date of the buying-in contract.~~

~~2. The Scheduled Settlement Time as specified above is illustrated in the table under Schedule 2A-4.~~

**Comment [B13]:** This requirement is moved to the Clearing House Rules, in line with removing the delivery and settlement obligation between POs and the Clearing House from the rules to the Clearing House Rules.

**Comment [B14]:** This requirement is moved to the Clearing House Rules, in line with removing the delivery and settlement obligation between POs and the Clearing House from the rules to the Clearing House Rules.

**Comment [B15]:** Deleted as the same is incorporated in Rule 804.2(4).

**Comment [B16]:** This requirement is moved to the Clearing House Rules, in line with removing the delivery and settlement obligation between POs and the Clearing House from the rules to the Clearing House Rules.

~~PART 3 — AUTOMATIC BUYING-IN~~

~~A. — READY BASIS CONTRACT~~

~~Automatic buying-in shall be instituted against defaulting Participating Organisations on the third (3<sup>rd</sup>) market day following the contract date.~~

**Comment [B17]:** Deleted as the same is covered under Rule 803.1(1).

~~B. — IMMEDIATE BASIS CONTRACT~~

~~Automatic buying-in shall be instituted against the defaulting Participating Organisations on the second (2<sup>nd</sup>) market day following the contract date.~~

**Comment [B18]:** The term "Immediate Basis Contracts" is deleted from the rules as the same is no longer relevant to the Exchange. Immediate Basis Contracts were introduced when the delivery and settlement cycle was T+7. No contracts are currently traded based on immediate basis and as such there is no utility in maintaining Immediate Basis Contracts.

~~PART 4 — SELLING-OUT~~

~~A. — READY BASIS CONTRACT~~

~~Participating Organisations shall close off purchase positions of their respective clients who fail to pay for their purchases by 12.30 p.m. on the third (3<sup>rd</sup>) market day following the contract date and shall institute a selling-out by the fourth (4<sup>th</sup>) market day following the contract date.~~

**Comment [B19]:** Deleted as the same is covered under Rule 805.1(1).

~~B. — IMMEDIATE BASIS CONTRACT~~

~~Participating Organisations shall close off purchase positions of their respective clients who fail to pay for their purchases by 12.30 p.m. on the second (2<sup>nd</sup>) market day following the contract date and shall institute a selling-out by the third (3<sup>rd</sup>) market day following the contract date.~~

**Comment [B20]:** The term "Immediate Basis Contracts" is deleted from the rules as the same is no longer relevant to the Exchange. Immediate Basis Contracts were introduced when the delivery and settlement cycle was T+7. No contracts are currently traded based on immediate basis and as such there is no utility in maintaining Immediate Basis Contracts.

[End Of Schedule]

**SCHEDULE 2A-1 — READY BASIS CONTRACT**

<b>SCHEDULED DELIVERY TIME</b>					
EVENTS	T*	T+1	T+2	T+3	T+4
1 Date of Contracts					
2 Delivery of Securities					
2+1 Transfer of Securities		(By such time(s) as may be prescribed by Depository)			
			(Not later than 3.00 pm)		
P-4 Book Entry Delivery				(Not later than 10.00 am)	
P-4 Automatic Buying In			(Between 8.30 am to 12.30 pm / 2.00 to 5.00 pm)		
3 Settlement (Money)					
<b>SCHEDULED SETTLEMENT TIME</b>					
P-4 PO to Selling Client				(Not later than 12.30 pm)	
P-4 Clearing House to PO				(Not later than 10.00 am)	
P-4 PO to Clearing House				(Not later than 10.00 am)	
P-4 Buying Client to PO (Closing of Purchase Position)				(Not later than 12.30 pm)	
4 Automatic Buying in					
H-4 PO to Selling Client				(Not later than 12.30 pm)	
H-4 Clearing House to PO				(Not later than 10.00 am)	
H-4 PO to Clearing House				(Not later than 10.00 am)	
H-4 Selling Out				12.30 pm	by T+4

T\* : Transaction Date  
 PO : Participating Organisation  
 Clearing House : Bursa Malaysia Securities Clearing Sdn Bhd

**Comment [B21]:** Deleted as the delivery obligation by the seller is clarified in Rule 802.1(1) i.e PO must deliver the securities by having the quantity of securities sold in the contract as tradeable balance in the selling client's CDS Account not later than the day and time stipulated in Schedule 2. In this respect, a PO must comply with the necessary procedures and timing set under the Depository Rules to ensure that the PO comply with this obligation.

**Comment [B22]:** Deleted as the same is covered under Rule 802.1(1) and in the table in 1 below.

**Comment [B23]:** Deleted as the same is covered under Rule 802.1(1) and in the table in 1 below.

**Comment [B24]:** Deleted as the same is covered under Rule 803.2(5) and in the table in 1 below.

**Comment [B25]:** The scheduled settlement time for Ready Basis contract that is applicable to PO and clients is moved to and simplified in the table in 1 below.

**Comment [B26]:** Deleted as the same is moved to and simplified in the table in 1 below.

**Comment [B27]:** This requirement is moved to the Clearing House Rules, in line with removing the delivery and settlement obligation between POs and the Clearing House from the rules to the Clearing House Rules.

**Comment [B28]:** This requirement is moved to the Clearing House Rules, in line with removing the delivery and settlement obligation between POs and the Clearing House from the rules to the Clearing House Rules.

**Comment [B29]:** Deleted as the same is moved to and simplified in the table in 1 below.

**Comment [B30]:** Deleted as the same is covered under Rule 803.2(6) and in the table in 1 below.

**Comment [B31]:** This requirement is moved to the Clearing House Rules, in line with removing the delivery and settlement obligation between POs and the Clearing House from the rules to the Clearing House Rules.

**Comment [B32]:** This requirement is moved to the Clearing House Rules, in line with removing the delivery and settlement obligation between POs and the Clearing House from the rules to the Clearing House Rules.

**Comment [B33]:** Deleted as the same is moved to and simplified in the table in 1 below.

**Comment [B34]:** Deleted as the term is no longer used in this Schedule.

**Comment [B35]:** The delivery and settlement time for Ready Basis contract as reflected in the previous Schedule 2A is incorporated in a table format here for clarity purpose.

**DELIVERY AND SETTLEMENT TIME FOR ON MARKET TRANSACTION**

Type of Contract	Tradeable Balance in seller's account (Rule 902.1(1))	Payment to selling Client (Rule 905.1(1))	Delivery to buying Client (Rule 902.1(2))	Payment by buying Client (Rule 905.1(2))	Selling-out (Rule 906.1(1))
Ready Basis	T+2 by 4.00 p.m	T+3, not later than 12.30 p.m	T+3, not later than 9.00 a.m	Not later than 12.30 p.m on T+3	T+3, from 12.30 p.m until T+4

**SCHEDULE 2A-2 IMMEDIATE BASIS CONTRACT**

<b>SCHEDULED DELIVERY TIME</b>					
	<b>EVENTS</b>	<b>T*</b>	<b>T+1</b>	<b>T+2</b>	<b>T+3</b>
1	Date of Contracts				
2	Securities Settlement During prescribed period				
2.1	Transfer of Securities	(By such time(s) as may be prescribed by Depository)			
2.2	Book Entry Delivery			(Not later than 9.00 am)	
2.3	Automatic Buying-In		(Between 8.30 am to 12.30pm - 2.00 to 5.00pm)		
3	Settlement (Money)				
<b>SCHEDULED SETTLEMENT TIME</b>					
3.1	PO to Selling Client		(Not later than 12.30 pm)		
3.2	Clearing House to PO		(Not later than 10.00 am)		
3.3	PO to Clearing House		(Not later than 10.00 am)		
3.4	Buying Client to PO (closing off Purchase Position)		(Not later than 12.30 pm)		
4	Selling Out				
T* : Transaction Date PO : Participating Organisation Clearing House : Bursa Malaysia Securities Clearing Sdn Bhd					

**Comment [B36]:** The term "Immediate Basis Contracts" is deleted from the rules as the same is no longer relevant to the Exchange. Immediate Basis Contracts were introduced when the delivery and settlement cycle was T+7. No contracts are currently traded based on immediate basis and as such there is no utility in maintaining Immediate Basis Contracts.

**Comment [B37]:** The term "Immediate Basis Contracts" is deleted from the rules as the same is no longer relevant to the Exchange. Immediate Basis Contracts were introduced when the delivery and settlement cycle was T+7. No contracts are currently traded based on immediate basis and as such there is no utility in maintaining Immediate Basis Contracts.

**Comment [B38]:** The term "Immediate Basis Contracts" is deleted from the rules as the same is no longer relevant to the Exchange. Immediate Basis Contracts were introduced when the delivery and settlement cycle was T+7. No contracts are currently traded based on immediate basis and as such there is no utility in maintaining Immediate Basis Contracts.

**Comment [B39]:** Deleted as the term is no longer used in this Schedule.



**SCHEDULE 4**  
**[Rule 1001.3]**

**DELIVERY AND SETTLEMENT TIME FOR DIRECT BUSINESS TRANSACTIONS**

<u>Delivery by selling PO</u>	<u>Payment to selling Client</u>	<u>Delivery to buying Client</u>	<u>Payment by buying Client</u>	<u>Selling Out</u>
<u>Not later than T+2 by 4.00 pm</u>	<u>T+3, not later than 12.30 pm</u>	<u>T+3, not later than 12.00 p.m</u>	<u>Not later than 12.30 pm on T+3</u>	<u>T+3, from 12.30 p.m until T+4</u>

**Comment [B1]:** This Schedule on delivery and settlement for Direct Business transactions is incorporated to provide for the delivery and settlement between PO and its clients in relation to Direct Business transactions. The delivery and settlement obligations are incorporated into a table format consistent with the format for the delivery and settlement time for Ready Basis contract in the amended Schedule 3.

**SCHEDULE 5**  
**[Rule 1002.5(2)]**

**PRICES OF SECURITIES TRANSACTED IN DIRECT BUSINESS TRANSACTIONS**

Comment [B1]: This Schedule is adopted from current Rule 902.5(3).

<u>Price of securities</u>	<u>Transaction price</u>
<u>RM1 or more</u>	<u>more than 15% or less than 15% of PVWAP</u>
<u>less than RM1</u>	<u>more than 15 sen or less than 15 sen of PVWAP</u>

\* PVWAP means the VWAP of the Securities on the preceding Market Day or, if no trade in respect of the Securities was effected on the preceding Market Day, the VWAP of the Securities on the last Market Day in which trades were conducted.



**SCHEDULE 6**  
**[Rule 1003.1(2)]**

**PRICES OF SECURITIES TRANSACTED IN DIRECT BUSINESS TRANSACTIONS FOR THE FIRST DAY OF TRADING OF SECURITIES UPLIFTED FROM TRADING HALT OR SUSPENSION, LISTED AND QUOTED AND TRADING EX-ENTITLEMENT OR AFTER A CORPORATE ACTION**

<b><u>Transaction Price</u></b>	
<b><u>When there are trades on the first trading session</u></b>	<b><u>When there are no trades in the first trading session</u></b>
<b><u>more than 15% or less than 15% of the VWAP of the first trading session</u></b>	<b><u>more than 15% or less than 15% of the Reference Price</u></b>

**Comment [B1]:** The table below adopted and simplifies current Rules 903.1(2).

**SCHEDULE 7**  
**[Rule 1102.1(3)]**

**COMMISSION RATES\***

	<b><u>Type of Trade</u></b>	<b><u>Basis for determining commission</u></b>	<b><u>Minimum commission</u></b>	<b><u>Maximum commission</u></b>
(a)	<b><u>Online Routed Trades</u></b>	<u>Fully negotiable</u>	<u>Not applicable</u>	<u>Not applicable</u>
(b)	<b><u>Trades paid for by Cash Upfront</u></b>	<u>Fully negotiable</u>	<u>Not applicable</u>	<u>Not applicable</u>
(c)	<b><u>ABFMY1 trades:</u></b>  <u>Direct Business Transactions of ABFMY1 trades</u>  <u>All other ABFMY1 trades (including ABFMY1 Intraday Trades)</u>	<u>Negotiable subject to the minimum commission</u>  <u>Negotiable subject to the maximum commission</u>	<u>RM12.00</u>  <u>Not applicable</u>	<u>Not applicable</u>  <u>0.3% of the Contract Value or RM12.00, whichever is higher</u>
(d)	<b><u>Direct Business Transactions other than Direct Business Transactions (c) above</u></b>	<u>Negotiable subject to the minimum commission</u>	<u>Minimum Fixed Commission</u>	<u>Not applicable</u>
(f)	<b><u>All other trades in Securities not specifically mentioned in the items set out above in this table executed in Board Lots</u></b>	<u>Negotiable subject to the minimum and maximum commission</u>	<u>Minimum Fixed Commission</u>	<u>0.7% of the Contract Value</u>
(g)	<b><u>All other trades in Securities not specifically mentioned in the items set out above in this table executed in less than a Board Lot</u></b>	<u>Fully negotiable</u>	<u>Not applicable</u>	<u>Not applicable</u>

**Comment [B1]:** The table below simplifies previous Rules 1001.1(4) to (7). We have also done away with the distinction between retail and institutional commission rates and have standardised the two. There will now be only one rate applicable to both institutional and retail Clients and this would be the rate currently applicable to institutional clients. Schedule 7 has been drafted on this basis.

\*For transactions in Securities denominated in foreign currency, the commission rate will be stipulated by the Exchange in Directives.

**SCHEDULE 8**  
**[Rule 1103.1]**

**SC Levy**

**Comment [B1]:** The table below is adopted from the current Rule 1002.2 for ease of reference.

		<b>SC Levy to be paid from or by:</b>	<b>Proportion</b>
(a)	<b><u>If both commission and clearing fee are payable on the Transaction:</u></b>	<u>The clearing fee payable to the Clearing House under the Clearing House Rules</u>	<u>Half of the SC Levy being 0.0075% of the price of the Transaction*</u>
		<u>The commission payable by the buyer or the seller to the buyer's or seller's Participating Organisation</u>	<u>Half of the SC Levy being 0.0075% of the price of the Transaction</u>
(b)	<b><u>If only commission is payable on the Transaction:</u></b>	<u>The commission payable by the buyer or the seller to the buyer's or seller's Participating Organisation</u>	<u>The entire SC Levy being 0.015% of the price of the Transaction</u>
(c)	<b><u>If only clearing fee is payable on the Transaction:</u></b>	<u>The clearing fee payable to the Clearing House under the Clearing House Rules</u>	<u>Half of the SC Levy being 0.0075% of the price of the Transaction*</u>
		<u>The buyer's or the seller's Participating Organisation</u>	<u>Half of the SC Levy being 0.0075% of the price of the Transaction</u>
(d)	<b><u>If neither commission nor clearing fee is payable on the Transaction:</u></b>	<u>The buyer's and the seller's Participating Organisation</u>	<u>The entire SC Levy being 0.015% of the price of the Transaction</u>

\*If the clearing fee is subject to a ceiling, there will be corresponding ceiling on the SC Levy payable from the clearing fee as the Securities Commission (Levy on Securities Transactions) Order 1995 stipulates.

SCHEDULE 8N METHODS OF COMPUTATION OF CONTINGENT LIABILITIES ARISING FROM PUT OPTION(S)

Comment [B1]: This is the repetition of Schedule 8N. This Schedule is deleted and moved to Directive 1301-001 of the PO Manuals.

Purpose of Put Option(s)	Calculation of Amount of Contingent Liabilities for Put Option(s)	
	If EP is more than Price <sub>MTM</sub>	If EP is equal to or less than Price <sub>MTM</sub>
To guarantee performance as placement agent	<p><b>European option(s)-</b>  <math>[Q \times (EP - Price_{MTM}) \times ISDM\ Fraction] - Less\ Collateral</math></p>	Nil
To support security arrangements for credit facilities	<p><b>European option(s)-</b>  <math>[Q \times (EP - Price_{MTM}) \times ISDM\ Fraction] - Less\ Collateral</math></p> <p><b>American option(s)-</b>  <math>[Q \times (EP - Price_{MTM})] - Less\ Collateral</math></p>	Nil
<p>Notes:</p> <p>American option(s) An option which may be exercised any time between its initiation and expiration dates, inclusive            ISDM Fraction A fraction based on Inverse-Sum-of-Digit Method, figured on yearly basis if option(s) period exceeds one (1) year            European option(s) An option which may only be exercisable on the expiration date            EP Exercise price of the option(s)            Price<sub>MTM</sub> The mark to market price of the underlying securities forming the subject matter of the option(s)            Q Number of underlying securities over which the option(s) is granted</p>		

**SCHEDULE 2B [CHAPTER 8]**

**SCHEDULE 2B [Rule 804.2(b)] — SETTLEMENT BY WAY OF “CONTRA”**

1. ~~“Contra” against purchase position: Settlement of the outstanding purchase position by way of “contra” shall be effected by the date specified in Paragraph 2.~~
2. ~~Period to effect “contra”: Settlement by way of “contra” in respect of any purchase contract may only be effected not later than 12.30 p.m. on the third (3<sup>rd</sup>) market day following the contract date. This Paragraph 2 shall not apply to subsequent sales of securities made in pursuance of a selling-out under Rule 805.~~
3. ~~Charges: Participating Organisations may impose charges on the clients only in respect of the “contra” of purchase against subsequent sales made after the date of contract or against subsequent sales to close-off the purchase position.~~
4. ~~Payments: Any difference resulting from a “contra” between outstanding purchase position and outstanding sale position shall be settled between the Participating Organisations and their clients not later than the fifth (5<sup>th</sup>) market day following the date of such “contra”.~~

**Comment [B1]:** Deleted as the same is incorporated in Rule 905.1(3).

**Comment [B2]:** Deleted as the same is incorporated in Rule 905.1(3).

**Comment [B3]:** Deleted as the same is incorporated in Rule 905.2(2)

**Comment [B4]:** Deleted as the same is incorporated in Rule 905.1(3)

[End Of Schedule]

**SCHEDULE 3 [CHAPTER 3]**

**Comment [B1]:** Refer to Directive 1301-001 of the POs Manual.

**SCHEDULE 3 — FEES FOR REGISTRATION AND TRANSFER OF DEALER'S REPRESENTATIVE**

1. Fees payable to the Exchange for registration and transfer pursuant to Rule 310 shall be as follows -

(a) **Registration fee — RM**

Dealer's Representative — 500.00

(b) **Transfer fee:**

(i) ~~Commissioned Dealer's Representative -~~

~~First (1st) transfer — 2,000.00  
Second (2nd) transfer — 4,000.00  
Third (3rd) transfer — 8,000.00~~

(ii) ~~Dealer's Representative who is employed in any capacity other than Commissioned Dealer's Representative -~~

~~First (1st) transfer — 20,000.00  
Second (2nd) transfer — 24,000.00  
Third (3rd) transfer — 32,000.00~~

(iii) ~~After the third transfer, the Exchange may refuse any further application for transfer in respect of the Dealer's Representative or may otherwise approve the same subject to payment of a fee at twice the rate applicable on the third transfer.~~

(iv) ~~A Dealer's Representative intending to transfer to another Participating Organisation within six (6) months of the re-designation of his status from a Salaried Dealer's Representative to a Commissioned Dealer's Representative shall be subject to the transfer fee of a Salaried Dealer's Representative.~~

(v) ~~Unless otherwise agreed by the Dealer's Representative and the Participating Organisation desirous of engaging or employing the Dealer's Representative, the transfer fee shall be payable to the Exchange by the Participating Organisation concerned to which the Dealer's Representative is applying for transfer.~~

2. Notwithstanding the above, the Exchange shall have the discretion in reducing or waiving the transfer fee chargeable hereunder.

[End Of Schedule]

**SCHEDULE 4**

~~SCHEDULE 4 [Rule 701.7(1)(c)] — TICK SIZE  
[Rule 803.2(4)]~~

[Deleted]

[End Of Schedule]

**SCHEDULE 4A**

**Comment [B1]:** This Schedule is moved to the Clearing House Rules.

**SCHEDULE 4A — TICK SIZE IN RELATION TO BUYING-IN  
[Rule 803.2(4)]**

(i) Tick Sizes for Securities Quoted in RM

Price of Securities	Tick Size
(RM)	(Sen)
Less than 1.00	0.5
Between 1.00 to 2.99	1
Between 3.00 to 4.98	2
Between 5.00 to 9.95	5
Between 10.00 to 24.90	10
Between 25.00 to 99.75	25
100.00 and above	50

(ii) Tick Sizes for Securities Quoted in USD, EUR, AUD and SGD

Price of Securities	Tick Size
(Dollar)	(Cent)
Less than 1.00	0.5
Between 1.00 to 2.99	1
Between 3.00 to 4.98	2
Between 5.00 to 9.95	5
Between 10.00 to 24.90	10
Between 25.00 to 99.75	25
100.00 and above	50

(iii) Tick Sizes for Securities Quoted in GBP

Price of Securities	Tick Size
(Pound)	(Pence)
Less than 1.00	0.5
Between 1.00 to 2.99	1
Between 3.00 to 4.98	2
Between 5.00 to 9.95	5
Between 10.00 to 24.90	10
Between 25.00 to 99.75	25
100.00 and above	50



~~SCHEDULE 6A [CHAPTER 11]~~

Comment [B1]: This Schedule is moved to Directive 1201-001.

~~SCHEDULE 6A (Chapter 11) [Rule 1102.1] — ACCOUNTING DIRECTIVES~~

~~1. — Date of record~~

~~All financial transactions shall be recorded at the date on which the Participating Organisation enters into an irrevocable commitment to carry out the transaction.~~

~~2. — Reconciliation of balances~~

~~A Participating Organisation shall reconcile all balances as frequently as is appropriate for the volume of transactions on the accounts. Any differences, other than differences in timing, shall be corrected forthwith.~~

~~3. — Trade date accounting~~

~~A Participating Organisation must use trade date accounting.~~

~~4. — Securities lending~~

~~A Participating Organisation which is a lender of securities must record and value the securities lent as part of its own positions.~~

~~5. — Repurchase and reverse repurchase agreements, securities borrowing and lending and sale and buy back agreements~~

~~A Participating Organisation must —~~

- ~~(a) — record repurchase and sale and buy back agreements as secured borrowing and reverse repurchase and buy and sale back agreements as secured lending; and~~
- ~~(b) — when it is the repurchaser or seller of the securities in a sale and buy back agreement, record and value the securities sold as part of its own positions and provide for accrued interest on the borrowing.~~

~~6. — Valuation of positions~~

~~A Participating Organisation must value all positions whether held for trading or investment on a prudent and consistent basis, as well as having regard to the liquidity of the instrument concerned and any special factors which may adversely affect the closure of the position, and must adopt the following general policies —~~

- ~~(a) — a position must be valued at its close out price (close out price means that a long position shall be valued at current bid price and short position at current offer price); and~~
- ~~(b) — where prices are not published for its options positions, a Participating Organisation must determine the mark to market value of standard options as follows —~~
  - ~~(i) — for purchased options, the mark to market value must be the intrinsic value of the option (i.e. ignoring time value);~~
  - ~~(ii) — for written options, the mark to market value must be the sum of —~~
    - ~~(aa) — the intrinsic value of the option (i.e. ignoring time value); and~~
    - ~~(bb) — the initial premium received for the option.~~
- ~~(c) — a Participating Organisation must calculate the value of a swap contract or a forward rate agreement having regard to the net present value of the future cash flows of the~~

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Schedule 6A [Chapter 11]

~~contract, using current interest rates relevant to the periods in which the cash flows will arise.~~

**6A. Provisions relevant to Investment Banks**

~~Paragraph 6 above on "Valuation of Positions" shall not be applicable to an Investment Bank and shall be substituted with the requirements of the Central Bank in relation to the same ("Central Bank's Requirements"). The Central Bank's Requirements shall be deemed to be part of these Rules.~~

**7. Instruments of non-standard form**

~~Where a Participating Organisation holds a position in an instrument that is not of a standard form, the Participating Organisation must, in writing, seek immediate guidance from the Exchange on the valuation treatment to apply.~~

**8. Definitions**

~~For the purposes herein, the following expressions shall have the following meanings—~~

~~"repurchase and sale and buy back agreement" means an agreement for the sale of securities which is subject to a commitment to repurchase from the same person the same or similar securities at pre-determined conditions.~~

~~"forward rate agreement" means an agreement pursuant to which two (2) parties agree on payment of an amount of interest calculated on an agreed interest rate for a specified period from a specified settlement date applied to an agreed principal amount.~~

~~"option" means an instrument that allows its holder the right, though not the obligation, to either buy or sell its underlying investment at an agreed price within a stipulated period.~~

~~"swap contract" means a transaction in which two (2) counterparties agree to exchange streams of payments over time according to a pre-determined basis.~~

[End-Of-Schedule]

As at 8 November 2006

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~~SCHEDULE 6B — FINANCIAL REPORTING DIRECTIVES  
(Chapter 11) [Rule 1102.2]~~

Comment [B1]: Deleted and moved to Directive 1201-001 of the POs Manual.

~~1. Agreement with records~~

~~A Participating Organisation shall prepare the financial reporting statements from, and ensure that they are in agreement with, the books and records of the Participating Organisation.~~

~~2. True and fair~~

~~A Participating Organisation must prepare the financial reporting statements so as to give a true and fair view of the result for the period, the financial position and state of affairs of the Participating Organisation.~~

~~3. Offsetting or netting~~

~~A Participating Organisation may not offset amounts on the balance sheet and profit and loss account in its financial reporting statements in respect of items representing assets and or income against amounts in respect of items representing liabilities or expenditure except in the case of balances with counterparties where the parties to the transaction have expressly agreed that they shall be settled on a net basis for the same value date.~~

~~4. Consolidation~~

~~A Participating Organisation must not consolidate the accounts of a separately incorporated body within the group into the figures of that Participating Organisation, but it must include the assets, liabilities, income and expenditure of all branches of the Participating Organisation, unless the Exchange decides otherwise.~~

~~5. Greater detail~~

~~A Participating Organisation may show any item required to be shown in any of its financial reporting statements in greater detail than required by the appropriate format.~~

~~6. Items not otherwise covered~~

~~A Participating Organisation must show as a separately identified item appended to a financial reporting statement any item representing or covering the amount of any asset or liability, income or expenditure not otherwise covered by any of the items on the required format of the statement.~~

~~7. Reporting currency~~

~~Unless otherwise permitted in writing by the Exchange, a Participating Organisation must use the Malaysian Ringgit as its reporting currency in its financial reporting statements.~~

~~8. General rule~~

~~Unless otherwise provided in these Rules, a Participating Organisation shall prepare its financial reporting statements in a form which is appropriate for its business and in a manner which complies with the Companies Act and generally accepted accounting principles.~~

~~9. Substance over legal form~~

~~A Participating Organisation must include each item in its financial reporting statements in such a way as to reflect the substance and not merely the legal form of the underlying transactions and balances.~~

~~10. Debts and liabilities~~

~~A Participating Organisation shall promptly make adequate impairment provisions or adjustments for changes in order to reflect the fair value of its debts and liabilities based on established internal policies, criteria and procedures. Provided Always if the Exchange is of the opinion that such impairment provision or adjustment is inadequate, the Exchange may at its absolute discretion require a Participating Organisation to vary or adjust its impairment provisions in such manner as the Exchange may stipulate.~~

~~11. Provision for taxation~~

~~A Participating Organisation must make adequate provision for both current and deferred taxation.~~

~~12. Foreign currency~~

~~A Participating Organisation must translate assets and liabilities denominated in currencies other than the reporting currency into the reporting currency using the closing mid market rate of exchange, or, where appropriate, the rates of exchange fixed under the terms of related or matching forward contracts.~~

~~13. Guidance~~

~~The methodologies which have been developed assume instruments with standard characteristics. There are many examples, however, of instruments which, although based on a standard contract, contain structural features which make the rules, as stated, inappropriate. In such circumstances, the Exchange will need to be consulted. Where a Participating Organisation is in any doubt, it must seek guidance from the Exchange in writing on the treatment to apply to such instruments, where applicable.~~

[End Of Schedule]

**SCHEDULE 7 [CHAPTER 11]**

**Comment [B1]:** Deleted and moved to Directive 1203-001 of the POs Manual.

**SCHEDULE 7 (Chapter 11) — GUIDELINES ON THE SUSPENSION  
[Rule 1104.1] OF INTEREST AND PROVISION  
FOR BAD AND DOUBTFUL DEBTS**

**Definitions**

1. For the purpose of these guidelines, unless the context otherwise requires—

"amount outstanding" means in relation to any account, the aggregate of all amounts outstanding under the account at any time (including commission charges, interest expenses and other relevant expenses).

"claw-back" shall have the meaning as is ascribed to it in paragraph 5 herein.

"contra losses" means all or any losses suffered by clients in the course of dealings in contra transactions and shall include all charges, costs and expenses.

"contra transaction" means a transaction where a Participating Organisation allows its client to settle outstanding purchase positions against outstanding sale positions of the same securities where the orders in respect of the purchase and sale transactions are transacted within the period stipulated in Schedule 2B and/or in the 'Directives Allowing For The Provision Of Discretionary Financing By Participating Organisations To Their Clients Pursuant To Rule 703.2(3) Of The Rules of Bursa Malaysia Securities Bhd'.

"DF Account" shall have the same meaning as "DF Account" as stipulated in the 'Directives Allowing For The Provision Of Discretionary Financing By Participating Organisations To Their Clients Pursuant To Rule 703.2(3) Of The Rules of Bursa Malaysia Securities Bhd'.

"effective date" means 1 July 1999.

"equity" shall have the meaning as is ascribed to it in Rule 703.1.

"immovable property" means any land (including any parcel of sub-divided building) with or without registered title and whether in perpetuity or for a term of years.

"interest" shall include all charges and fees payable to a Participating Organisation by a client pursuant to any agreement between the Participating Organisation and the client.

"interest in suspense" means such interest that has been suspended and credited to the interest in suspense account in accordance with these guidelines.

"interest in suspense account" means such account which has been so designated for purposes of these guidelines.

"margin account" means an account opened and maintained by a client with the agreement of the Participating Organisation for the purpose of trading exclusively in securities that are listed on the Exchange pursuant to credit facilities made available by the Participating Organisation to the client.

"outstanding balance" shall have the meaning as is ascribed to it in Rule 703.1.

"overdue purchase contract" means a contract for the purchase of securities entered into on the stock market of the Exchange which is, in accordance with the FDSS and/or the 'Directives Allowing For The Provision Of Discretionary Financing By Participating Organisations To Their Clients Pursuant To Rule 703.2(3) Of The Rules of Bursa Malaysia Securities Bhd', outstanding, but for which no selling-out has been instituted due to the following circumstances—

- ~~(a) — the securities giving rise to the outstanding position have been suspended from trading in accordance with the Listing Requirements of the Exchange—~~
  - ~~(b) — there is no ready market; or~~
  - ~~(c) — such other circumstances as may be acceptable to the Exchange,~~
- ~~and includes an outstanding contract remaining in the error or mistake account and an outstanding contract due to trade disputes.~~

#### **Compliance**

- ~~2. (a) — For the purpose of the preparation of its audited financial statements, a Participating Organisation shall comply with these guidelines in respect of the financial year commencing on or after 1st July 1999.~~
- ~~(b) — For the purpose of the preparation of management accounts and any returns required by the Exchange, a Participating Organisation shall comply with these guidelines forthwith from the effective date.~~

#### **Accrual Basis Of Accounting**

- ~~3. — A Participating Organisation shall prepare its accounting records for all transactions, including interest charged on contra losses, overdue purchase contracts and margin accounts, in accordance with the accrual basis of accounting. According to this basis, revenues and costs are accrued and recognised as they are earned or incurred (notwithstanding that the revenues or costs have not in fact been received or paid) and recorded in the financial statements of the periods to which they relate.~~

#### **TREATMENT OF INTEREST ON IMPAIRED ACCOUNTS**

- ~~4. — All interest accrued but not collected from the date an account is classified as impaired shall be suspended and credited to the interest in suspense account. Such interest in suspense must be reflected in the Participating Organisation's books of accounts and must not be maintained in a memorandum record.~~
- ~~5. — Interest that has accrued and been recognised by the Participating Organisation as income prior to the date the account is classified as impaired, but which has not been collected shall be reversed out of income.~~
- ~~6. — For accounts with contract dates occurring on or after the effective date of these guidelines, interest shall be suspended when the account is classified as impaired and claw-back of interest to the effective date shall be required.~~
- ~~7. — For accounts that are classified as impaired accounts prior to the effective date, interest shall be suspended immediately from the effective date and no claw-back of interest shall be required.~~
- ~~8. — For accounts with contract dates occurring prior to the effective date and classified as impaired accounts on or after the effective date, interest shall be suspended immediately upon the account being classified as an impaired account. Claw-back of interest to the effective date shall be required.~~
- ~~9. — A Participating Organisation shall comply with the following guidelines on the classification of impaired accounts and the suspension of interest thereof—~~

Schedule 7 [Chapter 11]

No.	Types of Accounts	Criteria For Classification of Accounts As Impaired	Date For Classification	Date For Suspension Of Interest
1.	Contra Losses	When an account remains outstanding for 16 calendar days or more from the date of the contra transaction	On the 16 <sup>th</sup> calendar day of the account becoming outstanding	From the 16 <sup>th</sup> calendar day of the account becoming outstanding
2.	Overdue Purchase Contracts	<ul style="list-style-type: none"> <li>When an account remains outstanding from T+5 market days onwards;</li> <li>When a DF Account remains outstanding from T+9 market days onwards</li> </ul>	<ul style="list-style-type: none"> <li>On T+5 market days</li> <li>On T+9 market days</li> </ul>	<ul style="list-style-type: none"> <li>From T+5 market days</li> <li>From T+9 market days</li> </ul>
3.	Margin Accounts	When the equity has fallen below 130% of the outstanding balance, as determined in accordance with Rule 703	On the last day of each calendar month	From the last day of each calendar month
<p><b>Key</b> T — Contract Date</p>				

**Reversal Of Interest-In-Suspense**

10. Interest-in-suspense shall be reversed under the following circumstances:

	Types of Accounts	Circumstances
1.	Contra Losses	When full or partial payment in settlement is received, to the extent of the amount of cash received in settlement
2.	Overdue Purchase Contracts	When full or partial payment in settlement is received, to the extent of the amount of cash received in settlement
3.	Margin Accounts	When the margin account's equity exceeds 130% of the outstanding balance, as determined in accordance with Rule 703, at the end of the calendar month of that occurring

**IMPAIRMENT PROVISION FOR BAD AND DOUBTFUL DEBTS**

**Individual Impairment Provisions**

11. **General Principle:** A Participating Organisation must have in place and comply with the Participating Organisation's internal policies and procedures on the following:

**Schedule 7 [Chapter 11]**

- ~~(a) — the classification of debts as 'doubtful' or 'bad' for impaired accounts as described under paragraph 9 ("Impaired Accounts");~~
- ~~(b) — the making of individual impairment provisions for debts classified as 'doubtful' and 'bad';~~
- ~~(c) — the circumstances for the reclassification of debts under (a) or from an Impaired Account to a non-Impaired Account; and~~
- ~~(d) — the circumstances for the reversal of the individual impairment provision made under (b).~~

~~The Participating Organisation must ensure that the internal policies and procedures in relation to the matters set out above are appropriate and adequate having regard to the approved accounting standards and practices.~~

~~12. — [Deleted]~~

~~13. — [Deleted]~~

~~14. — [Deleted]~~

~~15. — **Basis for Individual Impairment Provision:** The provision for impaired accounts shall be applied on the basis of individual accounts.~~

~~16. — **Dealer's Representatives' Deposits:** For purposes of determining the individual impairment provision to be made, the Dealer's Representatives' deposits placed with the Participating Organisation may be taken into account and applied on such basis as the Participating Organisation may determine provided the Participating Organisation establishes, implements and maintains adequate internal criteria and procedures for such application of the Dealer's Representatives' deposits which –~~

- ~~(a) — are clear and applied in a consistent manner; and~~
- ~~(b) — will result in the fair treatment of its clients.~~

~~17. — **Collateral Value:** For the purposes herein –~~

- ~~(a) — the value of collateral (other than collateral which is immovable property) shall be determined by applying the applicable discounts prescribed in Schedule 8J to Rule 1105 in respect of the rules relating to Capital Adequacy Requirements of Participating Organisation; and~~
- ~~(b) — without derogation to any other provisions of these Rules and for the purposes of these guidelines –
  - ~~(i) — the value of immovable property held as collateral by the Participating Organisation shall be determined in accordance with such guidelines, directives or circulars as may be prescribed by the Exchange from time to time in consultation with the Commission; and~~
  - ~~(ii) — the Exchange may at any time and from time to time require ad-hoc or more frequent valuations to be conducted on any immovable property held as collateral by the Participating Organisation in accordance with such guidelines, directives or circulars for the time being in force.~~~~

**Reversal Of Specific Provision**

~~18. — [Deleted]~~

~~19. — [Deleted]~~



**GENERAL PROVISION**

~~20. — [Deleted].~~

**WRITE-OFF OF BAD DEBTS**

~~21. — A Participating Organisation shall establish written policies for the writing off of bad debts.~~

~~22. — A Participating Organisation may write off any amount which cannot be collected as evidenced by the Participating Organisation having exhausted all proceedings or actions for recovery thereof, or should judgement be obtained against the debtor and there is no prospect of recovery from execution proceedings instituted on that judgement.~~

~~23. — (a) — A Participating Organisation must ensure that any amounts intended to be written off must first be approved by its board of directors.~~

~~(b) — In connection with the preceding paragraph, the Participating Organisation's board of directors may, at its discretion and in accordance with its Articles of Association, delegate such authority and duty to a Management Committee (which shall comprise senior management staff or individuals of senior positions) subject always to such conditions and limits as the board of directors may deem fit to impose.~~

~~(c) — A Participating Organisation must ensure that any amounts written off at the approval of such delegated authority be ratified by the board of directors as soon as practicable.~~

~~24. — A Participating Organisation shall ensure that it keeps proper records of all bad debts written off. Such records are to be made available to the Exchange for inspection forthwith upon request from the Exchange.~~

[End Of Schedule]

~~SCHEDULE 8A [CHAPTER 11]~~

Comment [B1]: This Schedule is deleted and moved to Directive 1301-001 of the POs Manual.

~~SCHEDULE 8A (CHAPTER 11) — CAPITAL ADEQUACY RETURN  
[Rule 1105.3(4)]~~

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

~~Return Prescribed in terms of Rule 1105 of the Rules of the Exchange~~

~~Participating Organisation .....~~

~~Capital Adequacy Requirements as at .....~~

**DECLARATION**

~~We the undersigned, confirm that:-~~

- ~~(a) — This statement has been drawn up in accordance with Rule 1105 of the Rules of the Exchange which is relevant to the company in calculating the company’s capital adequacy requirements. It has been prepared from, and is in agreement with the books and records of the company.~~
- ~~(b) — The company’s accounting records, system and controls are maintained in accordance with Rule 1105 and the relevant guidelines issued by the Exchange.~~
- ~~(c) — We are not aware of any matters which could have a material effect upon the financial position of the company before the due date of the next statement, which are not declared herein, or have not been notified to, and acknowledged by the Exchange.~~
- ~~(d) — Since the date of the last reporting statement, the company has been in compliance with Rule 1105 except as been notified to the Exchange.~~
- ~~(e) — We are aware that a false declaration may result in disciplinary action being taken against the company.~~

~~Signed \_\_\_\_\_ Head of Operations  
Date \_\_\_\_\_~~

~~Signed \_\_\_\_\_ Director/Compliance Officer  
Date \_\_\_\_\_~~

**SCHEDULE 8A [CHAPTER 11]**

	RM Total	RM Ranking For Liquid Capital	RM Not Ranking For Liquid Capital
<b>RETURN PRESCRIBED IN TERMS OF RULE 1105</b>			
Member company _____			
Balance Sheet as at _____			
<b>Capital Employed</b>			
Ordinary Share Capital	=====	=====	
Preference Share Capital—Non-Cumulative/Non-Redeemable	=====	=====	
Reserve Fund—Non-distributable	=====	=====	
Share Premium Account	=====	=====	
Capital Reserves	=====	=====	
Audited Retained Earnings	=====	=====	
<b>CORE CAPITAL</b>	=====	=====	
Preference Share Capital—Others	=====	=====	
Share Premium Account—Others	=====	=====	
Approved Subordinated Loan	=====	=====	
Revaluation Reserves	=====	=====	(=)
Unaudited Profits/Unaudited Losses	=(-)	=(-)	
Unrealised Gains/Unrealised Losses from principal positions	=(-)	=(-)	
Loans secured against Fixed Assets	=====		=====
Term Loan	=====		=====
Unsecured Loans	=====		=====
Deferred Taxation	=====		=====
Provision for Taxation	=====		=====
Hire Purchase Creditors	=====		=====
<b>Total</b>	=====	=====	=====
	Total	Not Ranking For Liquid Capital	Ranking For Liquid Capital
<b>Employment of Capital</b>			
Intangible Assets	=====	=====	
Fixed Assets	=====	=====	
Long Term Investments			
- Listed Investments	=====	=====	
- Unlisted Investments	=====	=====	
- Subsidiary/Related Companies	=====	=====	
Long Term Receivables	=====	=====	
Other Non-current Assets/ Tax Assets	=====	=====	
<b>Total Fixed Assets</b>	=====	=====	

**Comment [B1]:** This Schedule is deleted and moved to Directive 1301-001 of the POs Manual.

**SCHEDULE 8B [CHAPTER 11]**

**Comment [B1]:** This Schedule is deleted and moved to Directive 1301-001.

**SCHEDULE 8B (Chapter 11) — MINIMUM OPERATIONAL RISK REQUIREMENT [Rule 1105.5(3)]**

<b>CATEGORY</b>	<b>A</b>	<b>B</b>
<b>MINIMUM OPERATIONAL RISK REQUIREMENT</b>	RM10-Million	RM5-Million

**SCHEDULE 8A [CHAPTER 11]**

	RM Total	RM Not Ranking For Liquid Capital	RM Ranking For Liquid Capital
<b>Current Assets</b>			
Cash and Bank Balances			
— Trust	=====		=====
— Non-Trust	=====		=====
Deposits — approved banks & financial institutions			
— Trust	=====		=====
— Non-Trust	=====		=====
Deposits — others			
— Trust	=====	=====	
— Non-Trust	=====		
Marketable Securities	=====		=====
Trade Debtors — Dealers (gross)	=====		=====
— Less: Specific Provision for Bad and Doubtful Debts	(==)		(==)
— Less: Provision for Interest in Suspense	(==)		(==)
Trade Debtors — Clients (gross)	=====		=====
— Less: Specific Provision for Bad & Doubtful Debts	(==)		(==)
— Less: Provision for Interest in Suspense	(==)		(==)
Clients Margin Accounts	=====		=====
— Less: Specific Provision for Bad & Doubtful Debts	(==)		(==)
— Less: Provision for Interest in Suspense	(==)		(==)
Less: General Provision	(==)	(==)	
Outstanding contracts < T+4	=====		=====
Directors Account	=====	=====	
Loans & Advances	=====	=====	
Amount due from Holding Company	=====	=====	
Amount due from Subsidiary/Related Companies	=====	=====	
Prepayment	=====	=====	
Other Debtors	=====	=====	
Others/Charged Assets	=====	=====	
<b>Total Current Assets</b>	=====	=====	=====

As at 28 September 2007

**SCHEDULE 8A [CHAPTER 11]**

	RM Total	RM Not Ranking For Liquid Capital	RM Ranking For Liquid Capital
<b>Current Liabilities</b>			
Bank Overdraft/Revolving Credits	=====		=====
Short-Term Loans/Borrowings	=====		=====
Trust Accounts – Dealers and clients	=====		=====
– others	=====		=====
Trade Creditors			
– Dealers	=====		=====
– Clients	=====		=====
Outstanding Contracts < T+4	=====		=====
Directors Account	=====		=====
Other Creditors and Accruals	=====		=====
Remisiers' Accounts	=====		=====
Hire Purchase Creditors	=====		=====
Provision for Taxation	=====		=====
Proposed Dividends	=====		=====
Amount due to Holding Company	=====		=====
Amount due to Subsidiary/Related Companies	=====		=====
<b>Total Current Liabilities</b>	=====		=====
<b>Net Assets</b>	=====		
– Add: Collateral used to secure Deposit with Non-Approved Institution		=====	
– Add: Collateral used to secure Other Debtors		=====	
– Add: Collateral used to secure Other Assets		=====	
Less Contingent Liabilities		(=====)	
<b>LIQUID CAPITAL</b>		=====	
Total Risk Requirement		=====	
<b>LIQUID MARGIN</b>		=====	
<b>CAPITAL ADEQUACY RATIO</b> _____		=====	
<b>SCHEDULE _____ COUNTERPARTY RISK</b>			

As at 28 September 2007

**SCHEDULE 8A [CHAPTER 11]**

**RETURN PRESCRIBED IN TERMS OF RULE 1105**  
**Risk Components that form the Total Risk Requirement:**

<b>Ref</b>	<b>Position Risk Requirement (PRR):</b>	
	<i>Total-PRR</i>	
	<b>Counterparty Risk Requirement (CRR):</b>	
	Total-clients-contra-loss-CRR	
	Total-counterparties-trade-settlement-CRR	
	Total-free-deliveries-CRR	
	Total-netting-losses-CRR	
	Total-Sub-underwriting-given-CRR	
	<i>Total-CRR</i>	
	<b>Large Exposure Risk Requirement (LERR):</b>	
	Total-LERR-to-Single-Client/Counterparty (relative to Effective Shareholders' Funds)	
	Total-LERR-to-Single-Equity (relative to issuer's paid-up capital)	
	Total-LERR-to-Single-Equity (relative to Effective Shareholders' Funds)	
	Total-LERR-to-Single-Issuer-of-debt (relative to Effective Shareholders' Funds)	
	<i>Total-LERR</i>	
	<b>Underwriting Risk Requirement (URR):</b>	
	<i>Total-URR</i>	
	URR = exposure x PRF of equity x 30%	
	<b>Operational Risk Requirement (ORR):</b>	
	For Category A, 25% of Annual Expenditure Requirement of RM10m, whichever is higher	
	For Category B, 25% of Annual Expenditure Requirement of RM5m, whichever is higher	
	<b>Total Risk Requirement</b>	
	<b>Effective Shareholders' Funds</b>	

[End-of-Schedule]

**SCHEDULE 8C [CHAPTER 11]**

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

**SCHEDULE 8C (Chapter 11) — POSITION RISK FACTOR FOR STANDARD APPROACH [Rule 1105.6(9)]**

<b>INSTRUMENT</b>	<b>POSITION RISK FACTOR</b>
<b>Bursa Malaysia Equities</b>	
• FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX stocks	15%
• Other stocks, including MESDAQ	24%
• FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX futures	5%
<b>Suspended Securities (more than 3 market days)</b>	<b>100%</b>
<b>Unit trust/Exchange Traded Fund</b>	
• Equity fund	15%
• Debt securities fund	5%
<b>International Equities</b>	
• Single stocks in Recognised Market Indices	12%
• Other single international stocks of recognised stock exchanges	16%
• Recognised Market Indices	8%
<b>Other Securities</b> Not being those categorised above	100%

**Recognised Market Indices**

<b>Country</b>	<b>Index</b>	<b>Country</b>	<b>Index</b>
Australia	All Ordinaries	Netherlands	EOE 25
Austria	ATX	Spain	IBEX 35
Belgium	BEL 20	Sweden	OMX
Canada	TSE 35	Switzerland	SMI
France	CAC40	UK	FTSE 100
Germany	DAX	UK	FTSE mid 250
Japan	Nikkei 225	USA	S&P 500

As at 06 July 2009



**SCHEDULE 8D [CHAPTER 11]****SCHEDULE 8D (Chapter 11) — POSITION RISK FACTOR FOR BUILDING  
[Rule 1105.6(10)] — BLOCK APPROACH**

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

<b>INSTRUMENT</b>	<b>POSITION RISK FACTOR</b>
<b>Bursa Malaysia Equities</b>  <b>Specific Risk</b> <ul style="list-style-type: none"> <li>• FTSE-BURSA-MALAYSIA-KUALA-LUMPUR COMPOSITE-INDEX stocks 10%</li> <li>• Other stocks, including MESDAQ 16%</li> <li>• FTSE-BURSA-MALAYSIA-KUALA-LUMPUR COMPOSITE-INDEX futures 0%</li> </ul> <b>General Risk</b> <ul style="list-style-type: none"> <li>• All single stocks and market indices 5%</li> </ul>	
<b>Unit trust/Exchange Traded Fund</b>  <b>Specific Risk</b> <ul style="list-style-type: none"> <li>• Equity fund 0%</li> <li>• Debt securities fund 0%</li> </ul> <b>General Risk</b> <ul style="list-style-type: none"> <li>• Equity fund 15%</li> <li>• Debt securities fund 5%</li> </ul>	
<b>International Equities</b>  <b>Specific Risk</b> <ul style="list-style-type: none"> <li>• Single stocks in Recognised Market Indices 4%</li> <li>• Other single international stocks of recognised stock exchanges 8%</li> <li>• Recognised Market Indices 0%</li> </ul> <b>General Risk</b> <ul style="list-style-type: none"> <li>• All single stocks and market indices 8%</li> </ul>	
<b>Other Securities</b> Not being those categorised above	100%

**SCHEDULE 8E [CHAPTER 11]**

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

**SCHEDULE 8E (Chapter 11) POSITION RISK REQUIREMENT USING HEDGING  
[Rule 1105.6(12) and (13)] METHOD OR BASIS METHOD**

	Equity Position	Option Position	In the Money-% ≥PRF%	In the Money< PRF%	Out of the Money
<b>Basic Method</b>	Naked	Long call	NL	NL	NL
		Long put	NL	NL	NL
		Short call	NSI	NSO	NSI
		Short put	NSO	NSO	NSI
<b>Hedging Method</b>	Long in security	Long put	0%	LPI	HO
		Short call	SHI	SHI	HO
	Short in security	Long call	0%	LCI	HO
		Short put	SHI	SHI	HO
<b>Key</b>					
PRF%	The Standard Approach PRF%				
NL	The lesser of the underlying instrument multiplied by PRF% and the current value of the option on the Participating Organisation's books				
NSI	The market value of the underlying instrument multiplied by PRF%				
NSO	The market value of the underlying position multiplied by PRF% minus 0.5 times the amount by which the option is in the money, subject to a maximum reduction to zero				
LPI	The market value of the underlying position minus (1-PRF%) times the underlying position at exercise price				
HO	The market value of the underlying position times PRF%				
SHI	The market value of the underlying position times PRF% minus market value of option, subject to a maximum reduction to zero				
LCI	(1+PRF%) times the underlying position at exercise price minus the market value of the underlying position, subject to a maximum reduction to zero				

**SCHEDULE 8F [CHAPTER 11]**

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

**SCHEDULE 8F (Chapter 11) — COUNTERPARTY WEIGHTING  
[Rule 1105.7(4)]**

<b>Counterparty Exposure</b>	<b>Weight</b>
<b>Government</b> <ul style="list-style-type: none"><li>• Central government</li><li>• Government related agencies</li></ul>	0%
<b>Cagamas Berhad</b>	10%
<b>State/local Government</b> <ul style="list-style-type: none"><li>• State/local government</li></ul>	20%
<b>Financial Institutions</b> <ul style="list-style-type: none"><li>• Banks and financial institutions licensed under the Banking and Financial Institutions Act, 1989</li><li>• Banks licensed under the Islamic Banking Act, 1983</li></ul>	20%
<b>Clearing Houses and Exchanges</b> <ul style="list-style-type: none"><li>• Clearing houses</li><li>• recognised stock exchanges</li><li>• exchange approved by the Minister</li></ul>	20%
<b>Malaysian authorised investment firms</b> <ul style="list-style-type: none"><li>• A holder of a Capital Markets Services Licence to carry on the business of fund management under the Capital Markets and Services Act</li><li>• A registered person under item 4 of Part 1 of Schedule 4 of the Capital Markets and Services Act in relation to unit trust schemes</li></ul>	50%
<b>Participating Organisation</b> <ul style="list-style-type: none"><li>• Participating Organisation under trading restrictions as announced by the Exchange</li><li>• Participating Organisation not under trading restrictions</li></ul>	100% 50%
Other counterparties (not being those categorised above)	100%

As at 28 September 2007

~~SCHEDULE 8G [CHAPTER 11]~~

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

~~SCHEDULE 8G (Chapter 11) — COUNTERPARTY RISK REQUIREMENT  
[Rule 1105.7(5)(a)] — FOR UNSETTLED AGENCY TRADES~~

<del>Agency Transaction</del>	<del>Time period for application of Percentage</del>	<del>*Counterparty Risk Requirement</del>
<del>1. Sales contract (scrip delivery)</del>	<del>T to T + 2 of clients</del>	<del>0.5%</del>
	<del>From T + 3 to T + 30 of clients</del>	<del><ul style="list-style-type: none"><li>8% of the mark to market difference of the contract multiplied by the weighting, if the mark to market value less the sales contract value of the stock is positive</li><li>0%, if the mark to market value less the sales contract value of the stock is zero or negative</li></ul></del>
	<del>Beyond T + 30 of clients</del>	<del><ul style="list-style-type: none"><li>The mark to market difference multiplied by the weighting, if the mark to market value less the sales contract value of the stock is positive</li><li>0%, if the mark to market value less the sales contract value of the stock is zero or negative</li></ul></del>
<del>2. Purchase contracts (cash payments)</del>	<del>T to T + 3 of clients</del>	<del>0.5%</del>
	<del>From T + 4 to T + 30 of clients</del>	<del><ul style="list-style-type: none"><li>8% of the mark to market difference of the contract multiplied by the weighting, if the purchase contract value less mark to market value of the stock is positive</li><li>0%, if the purchase contract value less mark to market value of the stock is zero or negative</li></ul></del>

	Beyond T + 30 of clients	<ul style="list-style-type: none"><li>• <del>The mark to market difference multiplied by the weighting, if the purchase contract value less mark to market value of the stock is positive</del></li><li>• <del>0%, if the purchase contract value less mark to market value of the stock is zero or negative</del></li></ul>
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[End of Schedule]

~~SCHEDULE 8G [CHAPTER 11]~~

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

~~SCHEDULE 8G (Chapter 11) COUNTERPARTY RISK REQUIREMENT  
[Rule 1105.7(5)(a)] FOR PRINCIPAL TRADES~~

<del>Principal Transaction</del>	<del>Time period for application of Percentage</del>	<del>Counterparty Risk Requirement</del>
<del>1. Sales contract (cash receipt)</del>	<del>T to T+3 of counterparties, i.e. Clearing House or other Participating Organisations</del>	<del>0.5%</del>
	<del>From T+4 to T+ 30 of counterparties</del>	<del><ul style="list-style-type: none"><li>8% of the mark to market difference of the contract multiplied by the weighting, if the sales contract value less mark to market value of the stock is positive</li><li>0%, if the sale contract value less mark to market value of the stock is zero or negative</li></ul></del>
	<del>Beyond T + 30 of counterparties</del>	<del><ul style="list-style-type: none"><li>The mark to market difference multiplied by the weighting, if the sales contract value less mark to market value of the stock is positive</li><li>0%, if the sales contract value less mark to market value of the stock is zero or negative</li></ul></del>
<del>2. Purchase contracts (scrip delivery)</del>	<del>T to T+3 of counterparties, i.e. Exchange or other Participating Organisations</del>	<del>0.5%</del>
	<del>From T+ 4 to T+ 30 of counterparties</del>	<del><ul style="list-style-type: none"><li>8% of the mark to market difference of the contract multiplied by the weighting, if the mark to market value less the purchase contract value of the stock is positive</li><li>0%, if the mark to market value less the purchase contract value is zero or negative</li></ul></del>

	Beyond T + 30 of counterparties	<ul style="list-style-type: none"><li>• <del>The mark to market difference multiplied by the weighting, if the mark to market value less the purchase contract value of the stock is positive</del></li><li>• <del>0%, if the mark to market value less the purchase contract value of the stock is zero or negative</del></li></ul>
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[End of Schedule]

**SCHEDULE 8G [CHAPTER 11]**

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

**SCHEDULE 8G (Chapter 11) — COUNTERPARTY RISK REQUIREMENT  
[Rule 1105.7(5)(d)] — FOR SECURITIES BORROWING / LENDING TRANSACTIONS**

<b>Securities Borrowing and Lending Transaction</b>		<b>Time period for application of Percentage</b>	<b>Counterparty Risk Requirement</b>
1. Borrowing	On-borrowing	Pre-Recall	CE x CW x 0%
	On-Recall	From Recall to Recall + 3 days	CE x CW x 8%
	On-Recall	Beyond Recall + 3 days	CE x CW x 100%
2. Lending	On-Lending	Pre-Recall	CE x CW x 0%
	On-Recall	From Recall to Recall + 3 days	CE x CW x 8%
	On-Recall	Beyond Recall + 3 days	CE x CW x 100%

**Where:**

CE = Counterparty Exposure, as determined in accordance with Rule 1105.7(5)(d).

CW = Counterparty Weighting, as specified in Schedule 8F.

'On Borrowing' means upon crediting of the securities borrowed into the Borrower's CDS account.

'On Lending' means upon debiting of the securities lent from the Lender's CDS account.

[End of Schedule]

As at 17 August 2009



~~SCHEDULE 8H [CHAPTER 11]~~

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

~~SCHEDULE 8H (Chapter 11) — COUNTERPARTY RISK REQUIREMENT FOR  
[Rule 1105.7(5)(h)] — DEBT, CONTRA LOSSES AND OTHER AMOUNTS DUE~~

<del>Debt Aging Period</del>	<del>Counterparty Risk Requirement (CRR)</del>
<del>Less than 16 days</del>	<del>zero</del>
<del>16 to 30 days</del>	<del>50% of the amount due</del>
<del>Over 30 days</del>	<del>100% of the amount due</del>

**SCHEDULE 8I [CHAPTER 11]**

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

**SCHEDULE 8I — METHODOLOGY FOR CALCULATING COUNTERPARTY  
(Chapter 11) — EXPOSURES (CREDIT EQUIVALENT AMOUNTS)  
[Rule 1105.7(5)(e)] — FOR OTC DERIVATIVE TRANSACTIONS**

Type of OTC Derivative Transaction	Credit Equivalent Amount	
	If A is positive	If A is negative
Written Options	0 (no risk)	0 (no risk)
Individual share futures, OTC options, warrants and equity swaps		
less than one year to maturity	A + 1% of N	1% of N
over one year to maturity	A + 5% of N	5% of N
Notes: A = the mark to market value of the OTC derivative N = the notional or actual principal amount or value underlying the contract		

~~SCHEDULE 8J [CHAPTER 11]~~

~~SCHEDULE 8J (Chapter 11) — DISCOUNTING FOR COLLATERAL  
[Rule 1105.7(6)(c)]~~

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

<del>Type of Collateral</del>	<del>Applicable Discount</del>
<del><b>Foreign-Currency-Cash-Deposit</b> • Foreign currency acceptable to the Exchange:-<ul style="list-style-type: none"><li>• US Dollar</li><li>• Currencies from European Economic Community (EEC) countries</li><li>• Japanese Yen</li><li>• Hong Kong Dollar</li><li>• New Zealand Dollar</li><li>• Singapore Dollar</li></ul></del>	<del>8% after conversion into Ringgit by applying prevailing Central Bank's best available exchange rate quoted by commercial banks of Kuala Lumpur or by applying any other rate as may be determined by the Exchange</del>
<del>• Other foreign currency not acceptable to the Exchange</del>	<del>100% after conversion into Ringgit by applying prevailing Central Bank's best available exchange rate quoted by commercial banks of Kuala Lumpur or by applying any other rate as may be determined by the Exchange</del>
<del><b>Quoted Securities</b> Securities listed on the Exchange or other recognised stock exchange (mark to market on daily basis)</del>	<del>Position Risk Factor used in the Standard Approach, as prescribed in Schedule 8C</del>
<del><b>Suspended Securities</b></del>	<del>Position Risk Factor used in the Standard Approach, as prescribed in Schedule 8C</del>
<del><b>Malaysian Government securities, Khazanah bonds, Malaysian treasury bills, Malaysian Government investment certificates</b><ul style="list-style-type: none"><li>• Up to one (1) year maturity</li><li>• More than one (1) year maturity</li></ul></del>	<del>2.5% 5.0%</del>

Type of Collateral	Applicable Discount
<p><b>Cagamas Bonds</b></p> <ul style="list-style-type: none"> <li>• Up to one (1) year maturity</li> <li>• More than one (1) year maturity</li> </ul>	<p style="text-align: right;">12.5%</p> <p style="text-align: right;">15.0%</p>
<p><b>Letters of Credit/Bank Guarantee</b></p> <p>Letters of credit/ Bank Guarantee guaranteed by financial institutions licensed under the Banking and Financial Institutions Act, 1989 or the Islamic Banking Act, 1983</p>	<p style="text-align: right;">20%</p>
<p><b>Negotiable Instruments of Deposit</b></p> <p>Negotiable instruments of deposit guaranteed by financial institutions licensed under the Banking and Financial Institutions Act, 1989 or the Islamic Banking Act, 1983</p>	<p style="text-align: right;">20%</p>
<p><b>Other collateral or security</b></p> <p>Any other collateral or security (not being those categorised above)</p>	<p style="text-align: right;">100%</p>

{End of Schedule}

As at 28 September 2007

**SCHEDULE 8K [CHAPTER 11]**

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

**SCHEDULE 8K (Chapter 11) — LARGE EXPOSURE RISK REQUIREMENT  
[Rule 1105.8(5)(d) and (e)] — FOR SINGLE EQUITY**

<b>LERR for exposure to Equity Relative to Instrument on Issue</b>	
<b>Types of Equity</b>	<b>LERR</b>
FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX Stocks	15% of the amount in excess of the net exposure or position
Other Stocks, including MESDAQ	21% of the amount in excess of the net exposure or position
Unit trust/Exchange Traded Fund —	
• Equity fund	15% of the amount in excess of the net exposure or position
• Debt securities fund	5% of the amount in excess of the net exposure or position
Single Stocks in Recognised Market Indices	12% of the amount in excess of the net exposure or position
Other single stocks of recognised stock exchanges	16% of the amount in excess of the net exposure or position
<b>LERR for exposure to Equity Relative to Effective Shareholders' Funds</b>	
<b>Types of Equity</b>	<b>LERR</b>
FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX Stocks	15% of the amount in excess
Other Stocks, including MESDAQ	21% of the amount in excess
Unit trust/Exchange Traded Fund —	
• Equity fund	15% of the amount in excess of the net exposure or position
• Debt securities fund	5% of the amount in excess of the net exposure or position
Single Stocks in Recognised Market Indices	12% of the amount in excess
Other single stocks of recognised stock exchanges	16% of the amount in excess

**SCHEDULE 8K [CHAPTER 11]**

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

**SCHEDULE 8K (Chapter 11) — LARGE EXPOSURE RISK REQUIREMENT  
[Rule 1105.8(5)(d) and (e)] — FOR SINGLE EQUITY**

<b>LERR for exposure to Equity Relative to Instrument on Issue</b>	
<b>Types of Equity</b>	<b>LERR</b>
FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX Stocks	15% of the amount in excess of the net exposure or position
Other Stocks, including MESDAQ	21% of the amount in excess of the net exposure or position
Unit trust/Exchange Traded Fund —	
• Equity fund	15% of the amount in excess of the net exposure or position
• Debt securities fund	5% of the amount in excess of the net exposure or position
Single Stocks in Recognised Market Indices	12% of the amount in excess of the net exposure or position
Other single stocks of recognised stock exchanges	16% of the amount in excess of the net exposure or position
<b>LERR for exposure to Equity Relative to Effective Shareholders' Funds</b>	
<b>Types of Equity</b>	<b>LERR</b>
FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX Stocks	15% of the amount in excess
Other Stocks, including MESDAQ	21% of the amount in excess
Unit trust/Exchange Traded Fund —	
• Equity fund	15% of the amount in excess of the net exposure or position
• Debt securities fund	5% of the amount in excess of the net exposure or position
Single Stocks in Recognised Market Indices	12% of the amount in excess
Other single stocks of recognised stock exchanges	16% of the amount in excess

~~SCHEDULE 8L (CHAPTER 11)~~

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

~~SCHEDULE 8L (CHAPTER 11) — METHODOLOGY FOR CALCULATING  
 [Rule 1105.10(3)] — COUNTERPARTY RISK REQUIREMENT FOR  
 — MARGIN FINANCING TRANSACTIONS~~

<del>Category of Margin Accounts</del>	<del>Counterparty Risk Requirement (CRR)</del>
<del>Margin Accounts where equity is above 130% of outstanding balance</del>	<del> <math display="block">CRR_{\text{margin-financing}} = CE \text{ multiply by } GW \text{ multiply by } CS \text{ multiply by } 8\%</math>                     Where,  <math display="block">CS = MEM \text{ minus } EM</math> <math display="block">EM = \frac{\text{Discounted MTM}}{CE} \times 100\%</math> </del>
<del>Margin Accounts where equity is below 130% of outstanding balance</del>	<del> <math display="block">CRR_{\text{margin-financing}} = (CE \text{ minus } \text{Discounted MTM}) \text{ multiply by } SP\%</math> </del>
<del><b>Key</b></del>	
<del>CE</del>	<del>Counterparty Exposure, being the outstanding balance in the margin account as defined in Rule 703.1</del>
<del>GW</del>	<del>Counterparty Weight, as prescribed in Schedule 8F</del>
<del>CS</del>	<del>Collateral Shortfall</del>
<del>MEM</del>	<del>The minimum equity of 150% of outstanding balance, as determined in the manner prescribed in Rule 703</del>
<del>EM</del>	<del>Equity Margin</del>
<del>Discounted MTM</del>	<del>The mark to market value of the collateral after applying the applicable discounts prescribed in Schedule 8J</del>
<del>SP%</del>	<del>The applicable percentage (%) of specific provision required to be made for amounts outstanding in respect of margin accounts as may from time to time be classified as Doubtful and Bad in accordance with the provisions of Rule 1104 and Schedule 7</del>

~~SCHEDULE 8M (CHAPTER 11)~~

Comment [B1]: This Schedule is moved to Directive 1301-001 of the POs Manual.

~~SCHEDULE 8M (CHAPTER 11) — POSITION RISK REQUIREMENT FOR  
[Rule 1105.10(4)] — SECURITIES ONWARD PLEDGED~~

<b>Position Risk Requirement (PRR)</b>	<b>Calculation</b>
<del>PRR<sup>onward pledged collateral</sup></del>	<del>BO multiply by (OPMM minus OPM)</del>  <del>Where,</del>  <del>OPM =</del> <del>Discounted MTM of collateral onward pledged x 100%</del> <del>Balance owing to third party</del>
<b>Key</b>	
<del>BO</del>	<del>The balance owing to the third party secured by onward pledged collateral</del>
<del>OPMM</del>	<del>The Onward Pledge Minimum Margin of onward pledged collateral, after applying the applicable discounts prescribed in Schedule 8J, being 150% of BO</del>
<del>OPM</del>	<del>The Onward Pledge Margin</del>
<del>Discounted MTM</del>	<del>The mark to market value of the onward pledged collateral after applying the applicable discounts prescribed in Schedule 8J</del>



**SCHEDULE 8N — METHODS OF COMPUTATION OF CONTINGENT LIABILITIES ARISING FROM PUT OPTION(S)**

**Comment [B1]:** This Schedule is moved to Directive 1301-001 of the POs Manual.

Purpose of Put Option(s)	Calculation of Amount of Contingent Liabilities for Put Option(s)	
	If EP is more than Price <sub>MTM</sub>	If EP is equal to or less than Price <sub>MTM</sub>
To guarantee performance as placement agent	<p><b>European option(s)-</b>  <math>[Q \times (EP - \text{Price}_{\text{MTM}}) \times \text{ISDM Fraction}] - \text{Less Collateral}</math></p>	Nil
To support security arrangements for credit facilities	<p><b>European option(s)-</b>  <math>[Q \times (EP - \text{Price}_{\text{MTM}}) \times \text{ISDM Fraction}] - \text{Less Collateral}</math></p> <p><b>American option(s)-</b>  <math>[Q \times (EP - \text{Price}_{\text{MTM}})] - \text{Less Collateral}</math></p>	Nil
<p><i>Notes:</i></p> <p>American option(s) An option which may be exercised any time between its initiation and expiration dates, inclusive            ISDM Fraction A fraction based on Inverse-Sum-of-Digit Method, figured on yearly basis if option(s) period exceeds one (1) year            European option(s) An option which may only be exercisable on the expiration date            EP Exercise price of the option(s)            Price<sub>MTM</sub> The mark to market price of the underlying securities forming the subject matter of the option(s)            Q Number of underlying securities over which the option(s) is granted</p>		

~~SCHEDULE 9 [CHAPTER 6]~~

**Comment [B1]:** This Schedule is moved to Directive 500-001 of the POs Manual.

~~SCHEDULE 9 (Chapter 6) — INTERNAL GUIDELINES FOR SECURITIES  
[Rule 608.3(1)(a)] — BORROWING AND LENDING~~

- ~~1) Criteria to assess the suitability of clients in borrowing or lending of Eligible Securities prior to the borrowing or lending and on an ongoing basis;~~
- ~~2) Risk management policies and procedures including but not limited to limits in terms of volume and value of borrowing and/or lending permitted for each client and/or the Participating Organisation itself;~~
- ~~3) The authority matrix in relation to the approval process within the Participating Organisation for the borrowing and/or lending of Eligible Securities whether by its clients or the Participating Organisation;~~
- ~~4) The list of Eligible Securities where the Participating Organisation will not be borrowing and/or lending (if any);~~
- ~~5) Relevant documentation in relation to the borrowing and/or lending of Eligible Securities which includes but not limited to the written agreement in Rule 608.6 and the risk disclosure statement;~~
- ~~6) the handling and distribution of fees and / or income in relation to Eligible Securities lent and the collateral deposited;~~
- ~~7) the handling of corporate actions in respect of Eligible Securities lent and the collateral deposited; and~~
- ~~8) the carrying out of review in relation to the requirements and controls set out in the Internal Guidelines for Securities Borrowing and Lending and compliance with these Rules and the Clearing House Requirements pertaining to securities borrowing and/or lending activities.~~

~~[End of Schedule]~~

~~SCHEDULE 10 [CHAPTER 7]~~

Comment [B1]: This Schedule is moved to Directive 500-001 of the POs Manual.

~~SCHEDULE 10 (CHAPTER 7) — INTERNAL GUIDELINES  
[Rule 704.3(1)(a)] — FOR SHORT SELLING~~

- ~~1. Criteria to assess the suitability of client in carrying out regulated short selling prior to the opening of RSS Account and on an ongoing basis;~~
- ~~2. The authority matrix in relation to the approval process within the Participating Organisation for the carrying out of regulated short selling by the clients and/or the Participating Organisation;~~
- ~~3. The list of approved securities for which the Participating Organisation will not allow for regulated short selling (if any);~~
- ~~4. Procedures on amendments of orders and amendments of contracts for regulated short selling, including the supervision, monitoring and approval request for the amendments;~~
- ~~5. Relevant documentation in relation to the carrying out of regulated short selling which includes but not limited to the account opening form and documentation required pursuant to Rule 704.6;~~
- ~~6. Risk management policies and procedures which addresses the market risk, operational risk, credit risk and regulatory risk in relation to the conduct of regulated short selling including but not limited to limits in terms of volume and value prescribed for the carrying out of regulated short selling by each client and/or the Participating Organisation; and~~
- ~~7. The carrying out of review in relation to the requirements and controls set out in the Internal Guidelines for Short Selling and compliance with the laws and rules relating to regulated short selling.~~

[End of Schedule]

As at 3 January 2007

~~SCHEDULE 11 [Chapter 4]~~

Comment [B1]: This Schedule is moved to Directive 500-001 of the POs Manual.

~~SCHEDULE 11(Chapter 4)  
[Rule 407.2(2)(b)]~~

~~MINIMUM  
COVERAGE  
OF  
INSURANCE  
POLICY~~

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

~~[End of Schedule]~~

As at 1 July 2007