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Relevant to : Rules 5.01(1), 5.02(a), 5.02(b), 5.03(1), 5.04(1), 5.13, 5.14(2)(a), 5.15(1)(a), 5.15(1)(b), 5.15(4), 5.16(1), 5.16(2), 5.16(4), 5.16(5), 5.19(1), 5.19(2) and 5.19(3)

Introduced with effect from : 2 May 2013

Amended : N/A

POs' Circular No(s). : N/A

Refer also to Directive No(s). : N/A

Introduction

Chapter 5 of the Rules sets out the general requirements relating to a Participating Organisation's conduct of business. This directive sets out the minimum obligations in relation to those general requirements.

1. Rule 5.01(1)

- (1) Rule 5.01(1) requires a Participating Organisation and Registered Person in the conduct of the Participating Organisation's business, 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 must not through any act or omission, do anything which may result in or has the effect of the market not being orderly and fair.
- (2) In discharging the obligations under the said Rule, a Participating Organisation and Registered Person must, amongst others, comply with the requirements set out below.

1.1 Standard of Conduct

- (1) A Participating Organisation and Registered Person must:
- (a) observe professional conduct and high standards of integrity and fair dealing;
 - (b) conduct their business in a manner that contributes to the maintenance of an orderly and fair market;
 - (c) prevent insider trading, misuse of confidential information and the commission of other offences relating to the abuse of confidential information. In doing so, a Participating Organisation and Registered Person must strictly maintain the confidentiality of all relevant information, including information that on becoming generally available would or would tend to have a material effect on the price or value of securities;
 - (d) not engage in any act that amounts to advertising securities for sale or purchase or share hawking;
 - (e) not engage in any unlawful or irregular or unhealthy practice;
 - (f) not engage in any act that may damage the confidence of investors or hamper the sound development of the stock market of the Exchange;
 - (g) not do or cause or permit to be done any act which:
 - (i) would adversely affect the goodwill or public image of the Exchange;
 - (ii) would bring or is likely to bring the Exchange into disrepute;

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- (iii) is injurious to the character and interest or prejudicial to the objects of the Exchange.
 - (h) not engage in any act or practice:
 - (i) that might 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
 - (ii) directly or indirectly be tantamount to stock market manipulations,
- and must not participate in any operation by others that might have the same result.
- (2) In addition to the requirements above, a Participating Organisation must:
- (a) exercise strict supervision over the Participating Organisation's business activities and the activities of the Participating Organisation's Registered Persons and employees to achieve compliance with these Rules, the Directives and Securities Laws; and
 - (b) must not unlawfully delegate powers or assign duties properly vested in the Registered Person to unauthorised person or persons.

2. Rule 5.02(a)

Rule 5.02(a) requires a Participating Organisation to have in place adequate arrangements to manage all conflicts of interest that may arise in the conduct of the Participating Organisation's business. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

2.1 Segregation of functions

- (1) A Participating Organisation must segregate the Participating Organisation's front office, middle office and back office operations to prevent any conflict of interest, potential or actual.
- (2) A Participating Organisation must establish and maintain separate reporting structures that ensure the segregation of the Participating Organisation's front office, middle office and back office operations.
- (3) A Participating Organisation assuming more than one function, permitted under the Participating Organisation's Capital Markets and Services Licence or otherwise, must maintain proper segregation of those functions within its organisation to prevent:
 - (a) the flow of "information" between different parts of its organisation that performs each function; and
 - (b) any conflict of interest that may arise as a result.
- (4) In paragraph 4(3)(a), "information" means information as defined in Section 183 of the Capital Markets and Services Act, relating to:

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- (a) any corporation admitted to the Official List; or
- (b) any securities listed and quoted on the Exchange; and

such "information" if it were communicated would amount to an offence under Section 188(3) of the Capital Markets and Services Act.

2.2 Transactions by Participating Organisations, its Registered Persons or employees

- (1) A Participating Organisation must not knowingly enter into any transaction in which it has any interest which conflicts or may conflict with the interest of any Client. A Participating Organisation must also ensure that its Registered Persons and employees comply with the above requirements in relation to Registered Persons and employees' own transactions.
- (2) In cases where conflict of interest cannot be avoided, the Participating Organisation or the Dealer's Representative must fully disclose such conflict to the Participating Organisation and the Client prior to the execution of the transaction.

3. Rule 5.02(b)

Rule 5.02(b) requires a Participating Organisation to have in place adequate arrangements to manage all risks that may arise in the conduct of the Participating Organisation's business. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

3.1 Risk management

- (1) A Participating Organisation must have its own system of monitoring risk on a daily basis.
- (2) A Participating Organisation must determine and record in its financial records appropriate credit limits for all counterparties to which the Participating Organisation has a credit exposure. The credit limits established must be appropriate to the type, nature and volume of business undertaken and the financial status of the counterparty and must be reviewed on a regular basis.
- (3) A Participating Organisation's financial records must be capable of being summarised in such a way as to permit actual exposures to be measured regularly against the established credit limits.
- (4) A Participating Organisation must maintain records in a manner such that the records disclose, or are capable of disclosing, in a prompt and appropriate manner, the financial and business information that enables the Participating Organisation's 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;
 - (d) monitor the quality of the Participating Organisation's assets; and
 - (e) safeguard the assets of the Participating Organisation and assets belonging to other persons for which the Participating Organisation is responsible.

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4. Rule 5.03(1)

- (1) Rule 5.03(1) requires a Participating Organisation to 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 Registered Persons, employees and agents;
 - (b) identify, monitor and manage conflicts of interests and risk that may arise in the conduct of the Participating Organisation's business;
 - (c) achieve compliance with these Rules, the Directives, Securities Laws; and
 - (d) provide for investor protection.
- (2) In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

4.1 Written policies and procedures and internal controls

A Participating Organisation must have adequate and effective written policies and procedures in relation to:

Supervision of business activities

- (1) Clients:
- (a) on opening accounts for Clients including:
 - (i) steps to verify the Client's identity ~~of an applicant~~ and ~~the information in the applicant's account opening~~ the authenticity of the application form;
 - (ii) evaluating and assessing applicants; and
 - (iii) assisting the Participating Organisation's Dealer's Representatives in learning essential information about the applicant as required under Rule 5.15(1)(a);
 - (b) on handling complaints received by the Participating Organisation, including reviewing complaint files to ensure that all complaints are duly investigated and dealt with within the time stipulated under such procedures;
 - (c) on the treatment of Client's assets;
- (2) Trading, transactions and business:
- (a) on reviewing unusual patterns of large trading to detect a breach of these Rules and the Securities Laws in relation to market misconduct;
 - (b) on granting credit facilities in relation to any margin account and reviewing frequent margin calls or other signs of apparent increase of risk exposure pertaining to margin facilities;

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- (c) on supervising, monitoring and approving requests for and amendments to contracts;
 - (d) on supervising and monitoring Off-Balance Sheet Transactions that must include the items listed in **Appendix 1** of this Directive;
 - (e) on the operation and monitoring of the Participating Organisation's accounts and Client accounts including maintaining adequate records on Dealer's Representatives conducting trading;
 - (f) to ensure 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;
 - (g) on credit policies, capital allocations, trading limits, and designated approving authorities;
 - (h) to control liabilities and safeguard assets including assets belonging to other persons for which the Participating Organisation is accountable;
 - (i) to monitor the activities of the Participating Organisation's Dealer's Representatives including transactions carried out and correspondences undertaken or received by the Participating Organisation's Dealer's Representatives on the solicitation or execution of transactions;
 - (j) on Securities Borrowing and Lending, if the Participating Organisation is desirous of engaging in Securities Borrowing and Lending under these Rules, that must include the items listed in **Appendix 2** of this Directive;
 - (k) on Regulated Short Selling, if the Participating Organisation is desirous of executing Regulated Short Selling under these Rules, that must include the items listed in **Appendix 3** of this Directive;
- (3) Advertising:
- On reviewing the Participating Organisation's advertising and publicity materials;
- (4) Employees:
- (a) on prompt dissemination of these Rules, the Directives and requirements the Exchange and the Commission issues, to the Participating Organisation's Registered Person and relevant employees;
 - (b) on the ethical standards and conduct at work required of the Participating Organisation's Registered Person and employees and the Participating Organisation's internal disciplinary procedures;
 - (c) to monitor the business transacted for the Participating Organisation's employees, Dealer's Representatives and Directors;

Governance

- (5) Governance:

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- (a) on reporting requirements by the Branch Office to the Principal Office to ensure sufficient supervision and control of the Branch Office;
- (b) on supervising and monitoring the Participating Organisation's back office system and operations that include:
 - (i) timely reporting and transmission of data from a Participating Organisation's Branch Office to the Principal Office;
 - (ii) daily reconciliation of all records of the Participating Organisation's Principal Office and the Branch Office(s); and
 - (iii) reconciling and duly accounting for all trading and transactions undertaken by the Participating Organisation's Branch Office(s).
- (6) Frequency of board of directors' meetings:

To ensure that at least 1 board of directors meeting is held every 2 months.

Risk management

- (7) Generally, and in particular 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;

Compliance

- (8) Compliance, to prevent any contravention by the Participating Organisation or any of its Registered Person, employees and agents of:
 - (a) these Rules and the Directives;
 - (b) the Securities Laws and other applicable laws and regulations; and
 - (c) the Participating Organisation's own internal policies and procedures;

Conflicts of Interests

- (9) Conflicts of interests:
 - (a) to minimise conflicts of interests, whether actual, potential or perceived between the Participating Organisation or Dealer's Representative and the Client and in particular in the area of insider dealing and front running; and
 - (b) to ensure a clear delineation of responsibilities and proper segregation of tasks among the departments and the personnel of the Participating Organisation.

5. Rule 5.04(1)

Rule 5.04(1) requires a Participating Organisation to keep proper records to evidence compliance with the requirements in these Rules. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

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5.1. Record keeping

- (1) A Participating Organisation must:
- (a) not make, or cause to be made, a false or misleading entry in any books, records, slips, documents, statements relating to the business, affairs, transactions, conditions, assets or accounts (“the Documents”) of a Participating Organisation;
 - (b) make all material entries in any of the Documents;
 - (c) not alter or destroy any of the Documents without a valid reason; and
 - (d) ensure the integrity and security in the transmission and storage of the Documents.
- (2) A Participating Organisation may keep records in either hard copy form or electronic form. If a Participating Organisation keeps records in electronic form, the Participating Organisation must be able to reproduce such records in a hard copy form.

6. Rule 5.13

Rule 5.13 requires a Participating Organisation to employ or engage Registered Persons, employees and agents who are fit and proper with suitable skill and experience with regard to the position and responsibility they hold. In discharging the obligations under the said Rule, a Participating Organisation must comply with the requirements set out below:

6.1. Training

- (1) A Participating Organisation must establish and maintain an adequate system of training for the Participating Organisation’s Registered Person, employees and agents.
- (2) The training for the Participating Organisation’s Registered Person, employees and agents must include awareness of:
- (a) all applicable legal and regulatory requirements;
 - (b) the Exchange’s trading system; and
 - (c) internal controls, policies and procedures and operational aspects of the Participating Organisation’s business.

7. Rule 5.14(2)(a)

Rule 5.14(2)(a) requires a Participating Organisation or a Dealer’s Representative to ensure, among others, that a Trading Clerk does not carry out the functions of a Dealer’s Representative.

7.1 Functions of a Dealer’s Representative

A Trading Clerk will be considered to have carried out the functions of a Dealer’s Representative if:

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- (a) the Trading Clerk inputs orders through ATS without any prior instructions from a Dealer's Representative; or
- (b) the Trading Clerk takes instructions or solicits orders directly from a Dealer's Representative's Client or any other person for the purpose of trading in securities.

8. Rule 5.15(1)(a)

Rule 5.15(1)(a) requires a Participating Organisation to obtain all essential information about the Client relevant to the services to be provided before a Participating Organisation opens a trading account for the Client. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

8.1. Essential information

The essential information referred to in Rule 5.15(1)(a) includes essential facts about the Client's background including:

- (a) the Client's investment objectives,
- (b) the Client's knowledge and experience in dealing in securities;
- (c) the Client's financial position;
- (d) whether the Client is associated, within the meaning in section 3 of the Capital Markets and Services Act, to an employee, a director or a Dealer's Representative of the Participating Organisation; and
- (e) whether the Client is trading for himself as a Beneficial Owner or as an Authorised Nominee.

9. Rule 5.15(1)(b)

Rule 5.15(1)(b) requires a Participating Organisation to verify ~~the genuineness and authenticity of the Client and~~ the Client's identity and the authenticity of the application to open a trading account with the Participating Organisation. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

9.1 Authentication of account opening application ~~form~~

(1) Participating Organisation must take all reasonable steps to verify, by reliable means, the Client's identity and the ~~information in the Client's account opening~~ authenticity of the application ~~form~~ before a Participating Organisation opens a trading account for the Client.

(2) ~~The steps a~~ Participating Organisation must ~~take to verify~~ comply with the following in verifying the Client's identity of the Client and the information in the Client's account opening the authenticity of the application ~~form referred to in paragraph 9.1 include:~~

- (a) ~~requiring the Client to appear in person before the persons referred to in paragraph 9.1(3) of this Directive to sign the account opening application form~~ where the Client appears in person before the Participating Organisation to submit the application, the

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- Participating Organisation must ensure the Client signs the account opening application form in the presence of an officer, a Dealer's Representative or a Registered Representative authorised by the Participating Organisation, and the officer, Dealer's Representative or Registered Representative verifies the Client's identity and the authenticity of the application; and
- (b) having the persons referred to in paragraph 9.1(3) of this Directive verify the identity of the Client and the information in the Client's account opening application form. where the Client does not appear in person before the Participating Organisation to submit the application, the Participating Organisation must, as the case may be:
- (i) ensure that the account opening application form is signed in the presence of an Acceptable Witness as referred to in paragraph 9.1(3) of this Directive and the Acceptable Witness has verified the Client's identity and the authenticity of the application; or
- (ii) where such form is not signed in the presence of an Acceptable Witness, take any of the steps set out in paragraph 9.1(4) to verify the Client's identity and the authenticity of the application ("**Non Face-to-face Verification**").
- (3) Pursuant to paragraph 9.1(2)(b)(i), The identity of the Client's identity and form the authenticity of the application must be verified by any of the following persons ("**Acceptable Witnesses**"):
- (a) — an officer authorised by the Participating Organisation; (a) an officer, a Dealer's Representative or a Registered Representative authorised by the Participating Organisation;
- (b) an authorised officer of a Malaysian Embassy or High Commission Consulate;
- (c) a lawyer in any jurisdiction who has a valid license to practice law in that jurisdiction;
- (d) a commissioner for oaths in any jurisdiction;
- (e) a Justice of the Peace in any jurisdiction;
- (f) a notary public in any jurisdiction;
- (g) an officer of a registered person referred to under the third column of Item 1(b) of Part 1 of Schedule 4 to the Capital Markets and Services Act, who is authorised by such registered person to perform the activities referred to under the second column of the said Item 1(b);
- (h) an authorised officer of:
- (i) a licensed bank as defined under BAFIA; or
- (ii) an Islamic bank as licensed under the Islamic Banking Act 1983,
- and with which the Client holds an account;
- (i) in relation to a stockbroking company licensed or approved to trade on a recognised stock exchange, the following persons;

**ANNEXURE 2
AMENDED DIRECTIVE
in relation to Non Face-to-face Verification**

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- (i) any person who holds a ~~licensed licence~~ equivalent to a ~~license licence~~ held by a Dealer's Representative; or
 - (ii) any other person authorised by such licensed stockbroking company, or
 - (j) 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 3 Market Days from the date of such approval.
- (4) ~~The Participating Organisation must in all the above cases take all such steps as are necessary to ensure the genuineness or authenticity of the application. In conducting a Non Face-to-face Verification, a Participating Organisation must verify the Client's identity and the authenticity of the application through 1 or more of the following methods:~~
- ~~(a) obtain confirmation of the Client's identity from an independent source, for example, by contacting the human resources department of the Client's employer on a listed business number to confirm his employment;~~
 - ~~(b) receive and encash a personal cheque of the Client for an amount of not less than RM100, where the name appearing on the cheque and the signature of the Client on the cheque must match the name and signature of the Client in the account opening application form;~~
 - ~~(c) initiate face-to-face contact with the Client through an electronic mode including a video conference facility; or~~
 - ~~(d) obtain confirmation of the Client's identity and relevant details of the Client from another entity within the Participating Organisation's Group which has previously verified the Client's identity in accordance with such entity's standard operating procedures and ensure that the details of the Client obtained from such other entity match the information in the Client's account opening application form.~~
- (5) ~~Paragraphs 9.1(2) and 9.1(3) of this Directive do not apply to a Client that is not an individual. In relation to paragraph 9.1(4), a Participating Organisation must be satisfied that it is reasonable for the Participating Organisation to rely on the methods for Non Face-to-face Verification.~~
- ~~(6) A Participating Organisation must require a Client to be present in person before the Participating Organisation in relation to the opening of an account or for the Client's account opening application form to be signed in the presence of an Acceptable Witness if:~~
- ~~(a) the Participating Organisation is not satisfied that it is reasonable for the Participating Organisation to rely on the methods for Non Face-to-face Verification, or it is unable to conduct Non Face-to-face Verification through any of the methods stated in paragraph 9.1(4) to its satisfaction;~~
 - ~~(b) the Participating Organisation is of the view that the Client's identity and the authenticity of the application cannot be reasonably established through Non Face-to-face Verification conducted or intended to be conducted on the Client; or~~
 - ~~(c) the Client is an individual from a high risk country or a country with anti-money laundering or counter financing of terrorism deficiencies as referred to in the Commission's Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries.~~

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10. Rule 5.15(4)

Rule 5.15(4) requires a Participating Organisation to record and maintain up-to-date relevant information on the Participating Organisation's Clients, their trading accounts and trades executed in the Client's trading account. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

10.1 Information required to be maintained

In relation to Rule 5.15(4), a Participating Organisation must, in respect of each Client's account maintain records that include:

- (a) the date of opening of the account;
- (b) the name of the officer who approved the opening of the account and the date of approval;
- (c) the types of transactions, products and investments for which the account is approved;
- (d) 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 transaction;
 - (ii) current position of the account including compliance with any margin set by the Participating Organisation; and
- (e) the Dealer's Representative handling the account.

11. Rule 5.16(1)

(1) Rule 5.16(1) requires a Participating Organisation and Registered Person to act:

- (a) with due skill, care and diligence;
- (b) honestly and fairly; and
- (c) in the best interests of the Participating Organisation's Clients.

(2) In discharging the obligations under the said Rule, a Participating Organisation and Registered Person must, amongst others, comply with the requirements set out below.

11.1 Arrangement with Clients

A Participating Organisation, Head of Dealing and Dealer's Representative must not:

- (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; or

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- (c) lead a Client to believe that the Client will not suffer loss as a result of opening an account or dealing in securities.

11.2 Unauthorised trading through Client's account

A Participating Organisation, Head of Dealing and Dealer's Representative must not:

- (a) execute the personal trades of the Participating Organisation's Head of Dealing or Dealer's Representative (as applicable) in the Client's account; or
- (b) use a Client's account to trade for a third party.

11.3 Client's order

(1) A Participating Organisation, Head of Dealing and Dealer's Representative must:

- (a) carry out Client's instructions in a timely manner;
- (b) give priority to execution of orders given by the Clients over execution of their own orders or orders of persons associated with or connected to them in relation to the securities of the same class;
- (c) execute Client's orders in the sequence in which the orders are received from each Client;
- (d) not front-run a Client; and
- (e) not transfer or re-allocate a trade that has been executed on behalf of one Client to another Client except in accordance with Rule 8.09.

(2) A Participating Organisation, Head of Dealing or Dealer's Representative may only accept or act on an instruction from a third party in relation to trading in a Client's trading account upon receipt of a written authorisation from the Client empowering the third party to trade for the Client's account.

11.4 Recommendations to Clients

A Participating Organisation or a Dealer's Representative that recommends any transaction for the buying or selling of securities to a Client must:

- (a) take into account and ensure the suitability for the Client of such recommended transaction based on the Client's:
 - (i) investment objectives;
 - (ii) knowledge and experience in trading in securities;
 - (iii) knowledge and experience in financial matters;
 - (iv) financial background; and
 - (v) other relevant information;

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- (b) disclose to the Client the potential risk involved in such recommended transactions so as to enable the Client to evaluate such risks; and
- (c) satisfy itself that the Client has the financial capability to bear any risk attached to such recommended transactions.

11.5 Notice of changes

- (1) A Participating Organisation must give sufficient notice to the Participating Organisation's Clients before imposing new business policies or practices.
- (2) What constitutes "sufficient notice" depends on the circumstances surrounding the imposition of the new business policies or practices.

12. Rule 5.16(2)

Rule 5.16(2) requires a Participating Organisation and a Registered Person to make adequate and accurate disclosure of the risks, benefits and conflicts of interests to the Clients in the Participating Organisation's and Registered Person's dealings with the Clients. In discharging the obligations under the said Rule, a Participating Organisation and Registered Person must, amongst others, comply with the requirements set out below.

12.1 Monthly statements

- (1) A Participating Organisation must send each Client a statement of account on a monthly basis on all transactions in the Client's account, unless there is no change from the last statement. In relation to the corporate Clients described in paragraph 1.1(4) of Directive No. 5.15-001 (Directives on Opening Client Account), such Clients may opt in writing not to receive a monthly statement of account.
- (2) The statement of account must contain relevant details of the Client's transactions including all charges imposed, payments made and assets the Participating Organisation holds for the Client.
- (3) A Participating Organisation may determine the mode and manner the statement of account is to be sent to the Client.
- (4) The Participating Organisation must comply with any requirement the Exchange or the Commission imposes in relation to the requirement for consent to issue and deliver electronic contract notes in relation to the consent required under this Directive.

12.2 Contract Note

- (1) Issuance of Contract Notes
 - (a) A Participating Organisation must issue Contract Notes to the Participating Organisation's Clients and the Contract Notes must comply with the regulations issued under the Capital Markets and Services Act on Contract Notes. The currency values reflected in the Contract Note must be the currency in which the securities are traded.
 - (b) The names of the buyer and seller in the Contract Notes issued in respect of trades done on the Exchange must be the name of the Client.

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- (2) Exchange rate for conversion from foreign currency
 - (a) A Participating Organisations must indicate the exchange rate used for conversion from foreign currency to RM on each contract note for transactions involving securities denominated in foreign currency irrespective of whether the settlement between the Client and the Participating Organisation is in foreign currency or otherwise.
 - (b) The exchange rate in paragraph (a) above must be an exchange rate which is quoted by a licensed on-shore bank to the Participating Organisation.
- (3) Computer generated contract note
 - (a) Participating Organisations are advised that no signature is required on the Participating Organisation's computer generated contract notes if the contract notes carry the following statement:

“THIS IS A COMPUTER GENERATED CONTRACT NOTE AND IS DEEMED TO HAVE BEEN SIGNED”
 - (b) A copy of the relevant letter dated 1 April 1993 from the Department of Inland Revenue to the Exchange is attached to this Directive as **Appendix 4** of this Directive.

13. Rule 5.16(4)

Rule 5.16(4) requires a Participating Organisation to promptly and properly account for and adequately safeguard Client's assets. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

13.1 Client's assets

- (1) A Participating Organisation must open or maintain at least 1 trust account with a licensed institution as defined in the BAFIA.
- (2) A Participating Organisation must pay into the trust account:
 - (a) all amounts, less any brokerage and other proper charges, received from or on account of a Client for the purchase of securities and that are not attributable to securities delivered to a Participating Organisation not later than the next bank business day or such other day as may be specified by the Commission on which the amounts were received by the Participating Organisation;
 - (b) all amounts, less any brokerage and other proper charges, received for or on account of a Client from the sale of securities and that are not paid to that Client or as that Client directs not later than the next bank business day or such other day as may be specified by the Commission on which the amounts were received by the Participating Organisation.
- (3) Subject to paragraph 13.1(2)(b), any payments issued by a Participating Organisation to a Client in respect of sale of securities by the Client must be issued by the Participating Organisation out of the trust account.

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- (4) A Participating Organisation must:
- (a) not co-mingle the monies in the trust account with monies for other purposes;
 - (b) not allow the trust account to at any time be in deficit and if the trust account is in deficit, the Participating Organisation must take immediate and urgent steps to deposit monies in the trust account to ensure that the monies in the trust account commensurate with amounts due to Clients; and
 - (c) at all times have funds available in the trust account to make the relevant payments out of the trust account.
- (5) The withdrawal of monies out of the trust account must fall within the circumstances permitted under the Capital Markets and Services Act.
- (6) A Participating Organisation must ensure that Client's assets in the form of securities that the Participating Organisation holds in safe custody under custodial services rendered are held by the Participating Organisation's nominee company. The Participating Organisation's nominee company must be a wholly-owned subsidiary of the Participating Organisation and an Authorised Nominee.
- (7) The trust account maintained with licensed institutions must be formally designated as "Clients' Trust Account" and duly approved by way of a Board of Director's resolution.
- (8) A Participating Organisation may place Client's monies in fixed deposits or other interest bearing accounts provided that:
- (a) such placement is made in the name of the Clients' trust account;
 - (b) withdrawal of such placement, including interest, is directly credited back into the Clients' trust account; and
 - (c) such placement will not affect the obligation to duly pay the Clients.

14. Rule 5.16(5)

Rule 5.16(5) requires a Participating Organisation to, 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.

In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

14.1 Handling complaints

A Participating Organisation must designate an appropriate officer to handle all complaints lodged with the Participating Organisation. The name of such officer must be displayed at a prominent place in the premises of the Participating Organisation.

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15. Rules 5.19(1) and 5.19(2)

- (1) Rule 5.19(1) requires a Participating Organisation to take up and maintain at all times an insurance policy that is adequate having regard to:
- (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) Rule 5.19(2) further provides that a Participating Organisation may maintain the above insurance policy at Group level.
- (3) In discharging the obligations under the above Rules, a Participating Organisation must, amongst others, comply with the requirements set out below.

15.1 Scope of insurance policy

The insurance policy referred to in Rule 5.19(1) must:

- (a) have a minimum limit of indemnity of RM5 million; and
- (b) include the areas of coverage set out in **Appendix 5** of this Directive.

16. Rule 5.19(3)

Rule 5.19(3) requires a Participating Organisation to notify the Exchange that the insurance policy is in place. In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

16.1 Notification of insurance policy

The Participating Organisation must notify the Exchange in writing of the following, within 2 weeks following the issuance of a new insurance policy or the renewal of an existing insurance policy:

- (a) the name of the insurer;
- (b) the amount and nature of cover;
- (c) the date on which the cover becomes effective; and
- (d) the date on which the cover will expire.

[End of Directive]

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**APPENDIX 1
[Paragraph 4.1(2)(d)]**

**Off-Balance Sheet Transactions:
Minimum requirements for written policies and procedures and internal controls**

- (1) Policy statement(s) on circumstances under which the Participating Organisation is permitted to enter into Off-Balance Sheet Transactions;
- (2) 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 the Participating Organisation will be managed and monitored accordingly and any requisite steps and action in mitigating such risks are effective;
- (3) Establishment of procedures and requirements for adequate reporting of information to be made to the Participating Organisation's Board of Directors to enable the Board of Directors to make informed decisions in a timely manner;
- (4) Establishment and maintenance of organisational and reporting structures in relation to the Participating Organisation's activities in the entry into Off-Balance Sheet Transactions that ensure regular reporting to the Participating Organisation's Board of Directors;
- (5) Maintenance of a proforma computation of the Capital Adequacy Ratio, in the form of Appendix 1 to the Directives on Capital Adequacy Requirements, incorporating the contingent liabilities arising from the Off-Balance Sheet Transaction(s) on the basis of Worst Case scenario (as defined in Rule 1.01(1)), accompanied by a detailed comparison 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);and
- (6) A detailed action plan describing the Participating Organisation's decided course of action or measures taken or to be taken to fully perform and discharge the Participating Organisation's obligations under Off-Balance Sheet Transaction(s).

[End of Appendix 1]

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**APPENDIX 2
[Paragraph 4.1(2)(j)]**

**Securities Borrowing and Lending:
Minimum requirements for written policies and procedures and internal controls**

- (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 limits in terms of volume and value of borrowing and lending permitted for each Client and the Participating Organisation itself;
- (3) The authority matrix in relation to the approval process within the Participating Organisation for the borrowing and lending of Eligible Securities whether by the Participating Organisation's Clients or the Participating Organisation;
- (4) The list of Eligible Securities where the Participating Organisation will not be borrowing and lending (if any);
- (5) Relevant documentation in relation to the borrowing or lending of Eligible Securities which includes the written agreement in Rule 7.18(4)(a) and the risk disclosure statement;
- (6) The handling and distribution of fees and 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 guidelines for Securities Borrowing and Lending and compliance with these Rules and the Clearing House Requirements pertaining to Securities Borrowing and Lending activities.

[End of Appendix 2]

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**APPENDIX 3
[Paragraph 4.1(2)(k)]**

**Regulated Short Selling:
Minimum requirements for written policies and procedures and internal controls**

- (1) Criteria to assess the suitability of Client in carrying out Regulated Short Selling prior to the opening of RSS Account (as defined in Rule 8.25(1)) 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 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 the account opening form and documentation required pursuant to Rule 8.25;
- (6) Risk management policies and procedures which address the market risk, operational risk, credit risk and regulatory risk in relation to the conduct of Regulated Short Selling including limits in terms of volume and value prescribed for the carrying out of Regulated Short selling by each Client and the Participating Organisation; and
- (7) The carrying out of review in relation to the requirements and controls set out in the internal guidelines for Regulated Short Selling and compliance with the laws and rules relating to Regulated Short Selling.

[End of Appendix 3]

**ANNEXURE 2
AMENDED DIRECTIVE
in relation to Non Face-to-face Verification**

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APPENDIX 4 (Paragraph 12.2(3)(b))

ANNEXURE 2
AMENDED DIRECTIVE
in relation to Non Face-to-face Verification

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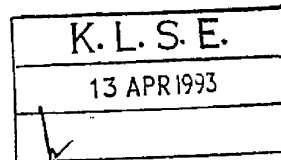
KETUA PENGARAH HASIL DALAM NEGERI,
(DIRECTOR-GENERAL OF INLAND REVENUE)
JABATAN HASIL DALAM NEGERI,
(DEPARTMENT OF INLAND REVENUE)
UNIT 34, BAHAGIAN DUTI SETEM,
TINGKAT 20/21, WISMA KWSG,
JALAN KAMPUNG ATTAP, 50460 KUALA LUMPUR,
MALAYSIA

Telefon: 2740066
2749440
2749448
Fax: 2743356

Ruj. Tuan: KLSE/INST/13. (286)
Ruj. Kami: JHDN.01/34/42/68-031(G)

Tarikh: 1 April 1993
8 Syawal 1413

 Fenolong Pengurus Besar Kanan,
Hal-Ehwal Korporat dan Undang-Undang,
Bursa Saham Kuala Lumpur,
Tingkat 3, 4 dan 5, Exchange Square,
Off Jalan Semantan,
Damansara Heights,
50430 KUALA LUMPUR.



Tuan,

Nota kontrak yang dikeluarkan oleh komputer

Saya merujuk kepada surat tuan bertarikh 11 Mac 1993 mengenai perkara di atas dan ingin memaklumkan bahawa cadangan tuan adalah dipersetujui.

Sekian, terima kasih.

▪ BERKHIDMAT UNTUK NEGARA ▪

▪ CINTAILAH BAHASA KITA ▪

Saya yang menurut perintah,

(PUAN MARIDAH BT LUDIN)
Unit 34,
Bahagian Duti Setem,
b.p. Ketua Pengarah Hasil Dalam Negeri,
Malaysia.

(Sila rujuk fail kami apabila meninjau)

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[End of Appendix 4]
APPENDIX 5
[Paragraph 15.1(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 Appendix 5]

**ANNEXURE 2
AMENDED DIRECTIVE
in relation to Non Face-to-face Verification**

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