

**PARTICIPATING ORGANISATIONS' CIRCULAR**

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**REVIEW OF THE RULES AND DIRECTIVES OF BURSA MALAYSIA SECURITIES BERHAD (“BMS RULES AND DIRECTIVES”) IN RELATION TO EXCHANGE-TRADED FUNDS (“ETFs”)**

**1. INTRODUCTION**

- 1.1 Pursuant to the revised Guidelines on Exchange Traded Funds (“**ETF Guidelines**”) issued on 26 November 2018, the Securities Commission Malaysia (“**SC**”) has allowed the issuances of a more diversified range of ETFs in the market. These include a futures-based ETFs (such as the leveraged and inverse ETFs (“**L&I ETFs**”)), synthetic ETFs, physical commodity ETFs and smart beta ETFs. The introduction of an array of ETFs aims to promote competitive growth and facilitate product innovation in the market, providing new investment opportunities and exposure for investors with varying risk appetites. The ETF Guidelines will come into effect on 2 January 2019.
- 1.2 In order to facilitate the trading of the new types of ETFs and improve the ecosystem for ETFs, Bursa Malaysia Securities Berhad (the “**Exchange**”) has reviewed the Permitted Short Selling framework for Market Makers, and introduced new provisions to regulate trading in L&I ETFs.
- 1.3 The key amendments are detailed in paragraph 2 below.
- 1.4 The amendments to the BMS Rules and Directives have been approved by the SC.

**2. AMENDMENTS TO THE BMS RULES AND DIRECTIVES**

- 2.1 The key amendments are as follows:
- (a) broadening the Permitted Short Selling framework beyond Equity-based ETFs to allow Market Makers to carry out short selling for all types of ETFs;
  - (b) disapplying the requirements on hedging and the short selling limits under the Permitted Short Selling framework, in respect of futures-based ETFs, synthetic ETFs, commodity ETFs and feeder ETFs, as these provisions are irrelevant to such ETFs; and
  - (c) prescribing conditions that a Client must fulfil in order to trade in L&I ETFs, including the qualifying criteria for trading in L&I ETFs and the execution of a risk disclosure statement. The prescribed qualifying criteria - a Client must fulfil at least one of them, are as follows:

- (i) is a Sophisticated Investor (as defined under Part 1, Schedule 6 or 7 of the Capital Markets and Services Act 2007);
- (ii) has a Margin Account;
- (iii) has executed at least 5 transactions in exchange traded derivatives or structured warrants within the preceding 12 months; or
- (iv) has utilized a performance simulator which simulates trading in L&I ETFs and undergone an e-learning tutorial developed by the Exchange for trading in L&I ETFs.

2.2 The detailed amendments are set out in **Annexures 1 and 2**.

### 3. EFFECTIVE DATE

The amendments to the BMS Rules and Directives as set out in paragraph 2 take effect on **2 January 2019**.

### 4. CONTACT PERSON

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## Regulation