FREQUENTLY ASKED QUESTIONS IN RELATION TO PHYSICAL DELIVERY SETTLEMENT OF 5-YEAR MALAYSIAN GOVERNMENT SECURITIES FUTURES CONTRACT ("FMG5 CONTRACT")

(1) Question : What will happen if either the Seller fails to deliver the Malaysian Government Securities ("**MGS**") or Buyer fails to make payment in respect of FMG5 Contract in RENTAS?

Answer : Clause 68.7 of Payments Network Malaysia Sdn Bhd's (PayNet) Operational Procedures for Securities Services provides that the management of failed settlement of FMG5 Contract will be referred to Bursa Malaysia Derivatives Clearing Berhad ("**BMDC**"). Hence, in the event of failed settlement on RENTAS, BMDC will apply the default framework under the Rules of BMDC to address the liability of the failing party via its Clearing Participant.

Under the Rules of BMDC, BMDC may liquidate the FMG5 Contract by cash settlement, at a price determined by Bursa Malaysia Derivatives Berhad or BMDC. The Clearing Participant of the failed client will be liable to make good the differential compensation to be paid to BMDC for onward payment to the Clearing Participant of the non-failing client based on the market price difference of the selected eligible MGS and the settlement price of its spot contract. Differential compensation will be calculated by end of day of the failed settlement day and is payable on the next business day. If computation of differential compensation leads to a surplus to the failed client, no compensation shall be required to be paid to the non-failing client. The failed client shall also receive no compensation due to the act of failed settlement.

(https://paynet.my/references/2020/OP-SS-V3.6-KNet.pdf and https://www.bursamalaysia.com/regulation/derivatives/rules_of_bursa_malaysia_derivatives_clearing*)*

(2) Question : Are there any other means of failed settlement?

Answer : Yes, if the Seller fails to notify BMDC on its intent to tender for delivery by 6.00 p.m. on the final trading day of an expiring spot contract, BMDC shall deem this as failed settlement immediately. Differential compensation shall be calculated in a similar manner to Question (1) above.

[*End of Frequently Asked Questions*]