

AMENDMENTS TO THE BMS DIRECTIVES IN RELATION TO LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS

AMENDMENTS TO THE DIRECTIVES OF BURSA MALAYSIA SECURITIES BERHAD (“BMS DIRECTIVES”) IN RELATION TO LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS

Directives on Trading in Leveraged and Inverse Exchange Traded Funds (No. 7.40-001)

PARA-GRAPH	EXISTING PROVISION	PARA-GRAPH	AMENDED PROVISION
1	<p>Rule 7.40(1)</p> <p>(1) Rule 7.40(1) provides that Leveraged ETFs or Inverse ETFs (referred to collectively in this Directive as “L&I ETFs”) are only intended for trading by investors who satisfy such qualifying criteria as may be prescribed by the Exchange.</p> <p>(2) This directive sets out the Exchange’s criteria which a Client must meet for trading in L&I ETFs units as follows:</p> <p>(a) the Client is a Sophisticated Investor;</p> <p>(b) the Client has a Margin Account;</p> <p>(c) the Client has executed at least 5 transactions in exchange traded derivatives, or structured warrants within the preceding 12 months; or</p> <p>(d) the Client has utilized a performance simulator which simulates trading in L&I ETFs units and undergone an e-learning tutorial developed by the Exchange for trading in L&I ETFs units</p> <p>(collectively referred to in this Directive as the “Qualified Client”).</p>	1	<p>Rule 7.40(1)</p> <p>(1) Rule 7.40(1) provides that Leveraged ETFs or Inverse ETFs (referred to collectively in this Directive as “L&I ETFs”) are only intended for trading by investors who satisfy such qualifying criteria <u>and requirements</u> as may be prescribed by the Exchange.</p> <p>(2) This directive sets out the Exchange’s criteria which Pursuant to Rule 7.40, a Client must meet <u>the following criteria</u> for trading in L&I ETFs units as follows:</p> <p>(a) the Client is a Sophisticated Investor;</p> <p>(b) the Client has a Margin Account;</p> <p>(c) the Client has executed at least 5 transactions in exchange traded derivatives, or structured warrants within the preceding 12 months; or</p> <p>(d) the Client has utilized a performance simulator which simulates trading in L&I ETFs units and undergone an e-learning tutorial developed by the Exchange for trading in L&I ETFs units.</p> <p>(collectively referred to in this Directive as the “Qualified Client”).</p> <p>(3) Pursuant to Rule 7.40, a Participating Organisation must ensure that a Client provides the following documents to the Participating Organisation before trading in L&I ETFs units:</p>

AMENDMENTS TO THE BMS DIRECTIVES IN RELATION TO LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS

PARA- GRAPH	EXISTING PROVISION	PARA- GRAPH	AMENDED PROVISION
			<p><u>(a) a written declaration confirming the Client's fulfilment of one or more of the qualifying criteria in paragraph 1(2) above; and</u></p> <p><u>(b) an executed a risk disclosure statement in the form prescribed in Appendix 1 of this Directive.</u></p> <p><u>(4) Notwithstanding paragraph 1(3) above, if a Participating Organisation subsequently receives information that the Client does not fulfil any of the qualifying criteria in paragraph 1(2), the Participating Organisation must not allow such Client to further trade in L&I ETFs units except to liquidate the current positions.</u></p> <p><u>(5) The requirement in paragraph 1(3) above does not apply in relation to a Client who falls within the list in Appendix 2 of this Directive.</u></p>
2	<p>Rule 7.40(2)</p> <p>(1) Rule 7.40(2) provides that a Participating Organisation must not allow a Client to undertake trading in L&I ETFs units unless the Client fulfils all such conditions as prescribed by the Exchange for trading in L&I ETFs units.</p> <p>(2) Pursuant to the above Rule, before allowing a Qualified Client to trade in L&I ETF units, a Participating Organisation must ensure that the Qualified Client has:</p>	2	<p>Rule 7.40(2)</p> <p>(1) Rule 7.40(2) provides that a Participating Organisation must not allow a Client to undertake trading in L&I ETFs units unless the Client fulfils all such conditions as prescribed by the Exchange for trading in L&I ETFs units.</p> <p>(2) Pursuant to the above Rule, before allowing a Qualified Client to trade in L&I ETF units, a Participating Organisation must ensure that the Qualified Client has:</p>

ANNEXURE 2

AMENDMENTS TO THE BMS DIRECTIVES IN RELATION TO LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS

PARA-GRAPH	EXISTING PROVISION	PARA-GRAPH	AMENDED PROVISION
	<p>(a) submitted a written declaration confirming the Qualified Client's fulfilment of one or more of the qualifying criteria in paragraph 1(2) above; and</p> <p>(b) executed a risk disclosure statement in the form prescribed in Appendix 1 of this Directive.</p> <p>(3) The conditions as stated in paragraph 2(2) do not apply to a Qualified Client who falls within the list in Appendix 2 of this Directive.</p>		<p>(a) submitted a written declaration confirming the Qualified Client's fulfilment of one or more of the qualifying criteria in paragraph 1(2) above; and</p> <p>(b) executed a risk disclosure statement in the form prescribed in Appendix 1 of this Directive.</p> <p>(3) The conditions as stated in paragraph 2(2) do not apply to a Qualified Client who falls within the list in Appendix 2 of this Directive. <u>[Deleted]</u></p>
APPENDIX 1	L&I ETF Risk Disclosure Statement	APPENDIX 1	L&I ETF Risk Disclosure Statement Please see the amendments at Appendix 1 below.

ANNEXURE 2
AMENDMENTS TO THE BMS DIRECTIVES IN RELATION TO LEVERAGED AND
INVERSE EXCHANGE TRADED FUNDS

APPENDIX 1

LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS RISK DISCLOSURE STATEMENT

- (1) This statement is provided to you in accordance with the directives of the Rules of Bursa Malaysia Securities Berhad.
- (2) The purpose of this statement is to inform you that the risk of loss in purchasing leveraged and inverse Exchange Traded Funds-("L&I ETFs") units can be substantial. You should assess if the purchase of L&I ETFs units is suitable for you in light of your financial position, risk tolerance and investment experience while taking into account the following risks before deciding whether to invest in L&I ETFs:
- (i) An investor of L&I ETFs is subject to the risk of losing the full purchase price of the L&I ETFs units;
 - (ii) The investor should keep in mind that L&I ETFs are intended to track and replicate up to a multiple of performance of an index or a multiple of the inverse performance of an index on a daily basis;
 - (iii) As such, L&I ETFs are more suitable for short term trading/ positioning. Holding L&I ETFs units for more than a day could result in investment returns that deviate greatly from the multiple of performance of an index or a multiple of the inverse performance of an index that the L&I ETFs are supposed to track;

For example, an Index 2x Leveraged ETF does not necessarily give the investor twice the return of the Underlying Index, to illustrate this, consider the following 3 scenarios:

Scenario 1:

5 days cumulative return comparison, index increases by 10% daily.

End of Day	Daily Index Movement	Investment Amount (RM)		
		Underlying Index	2X Underlying Index	Index 2x Leveraged ETF
0	NA	100.00	100.00	100.00
1	10%	110.00	120.00	120.00
2	10%	121.00	142.00	144.00
3	10%	133.10	166.20	172.80
4	10%	146.41	192.82	207.36
5	10%	161.05	222.10	248.83
Cumulative Return		61%	122%	149%

2X Underlying Index cumulative return is 122% while Index 2x Leveraged ETF cumulative return over the same period is 149%.

Scenario 2:

5 days cumulative return comparison, index decreases by 10% daily.

End of Day	Daily Index Movement	Investment Amount (RM)		
		Underlying Index	2X Underlying Index	Index 2x Leveraged ETF
0	NA	100.00	100.00	100.00
1	-10%	90.00	80.00	80.00
2	-10%	81.00	62.00	64.00
3	-10%	72.90	45.80	51.20
4	-10%	65.61	31.22	40.96
5	-10%	59.05	18.10	32.77
Cumulative Return		-41%	-82%	-67%

ANNEXURE 2
AMENDMENTS TO THE BMS DIRECTIVES IN RELATION TO LEVERAGED AND
INVERSE EXCHANGE TRADED FUNDS

2X Underlying Index cumulative return is -82% while Index 2x Leveraged ETF cumulative return over the same period is -67%.

Scenario 3:

5 days cumulative return comparison, index increases and decreases by 10% alternatingly.

<u>End of Day</u>	<u>Daily Index Movement</u>	<u>Investment Amount</u>		
		<u>Underlying Index</u>	<u>2X Underlying Index</u>	<u>Index 2x Leveraged ETF</u>
<u>0</u>	<u>NA</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
<u>1</u>	<u>10%</u>	<u>110.00</u>	<u>120.00</u>	<u>120.00</u>
<u>2</u>	<u>-10%</u>	<u>99.00</u>	<u>98.00</u>	<u>96.00</u>
<u>3</u>	<u>10%</u>	<u>108.90</u>	<u>117.80</u>	<u>115.20</u>
<u>4</u>	<u>-10%</u>	<u>98.01</u>	<u>96.02</u>	<u>92.16</u>
<u>5</u>	<u>10%</u>	<u>107.81</u>	<u>115.62</u>	<u>110.59</u>
<u>Cumulative Return</u>		<u>8%</u>	<u>16%</u>	<u>11%</u>

2X Underlying Index cumulative return is 16% while Index 2x Leveraged ETF cumulative return over the same period is 11%.

Similarly, an Index (-1x) Inverse ETF will not give the investor the opposite of the cumulative return of the Underlying Index over a longer period:

Scenario 1:

5 days cumulative return comparison, index increases by 10% daily.

<u>End of Day</u>	<u>Daily Index Movement</u>	<u>Investment Amount (RM)</u>		
		<u>Underlying Index</u>	<u>(-1)X Underlying Index</u>	<u>Index (-1x) Inverse ETF</u>
<u>0</u>	<u>NA</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
<u>1</u>	<u>10%</u>	<u>110.00</u>	<u>90.00</u>	<u>90.00</u>
<u>2</u>	<u>10%</u>	<u>121.00</u>	<u>79.00</u>	<u>81.00</u>
<u>3</u>	<u>10%</u>	<u>133.10</u>	<u>66.90</u>	<u>72.90</u>
<u>4</u>	<u>10%</u>	<u>146.41</u>	<u>53.59</u>	<u>65.61</u>
<u>5</u>	<u>10%</u>	<u>161.05</u>	<u>38.95</u>	<u>59.05</u>
<u>Cumulative Return</u>		<u>61%</u>	<u>-61%</u>	<u>-41%</u>

(-1)X Underlying Index cumulative return is -61% while Index (-1x) Inverse ETF cumulative return over the same period is -41%.

Scenario 2:

5 days cumulative return comparison, index decreases by 10% daily.

<u>End of Day</u>	<u>Daily Index Movement</u>	<u>Investment Amount (RM)</u>		
		<u>Underlying Index</u>	<u>(-1)X Underlying Index</u>	<u>Index (-1x) Inverse ETF</u>
<u>0</u>	<u>NA</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>
<u>1</u>	<u>-10%</u>	<u>90.00</u>	<u>110.00</u>	<u>110.00</u>
<u>2</u>	<u>-10%</u>	<u>81.00</u>	<u>119.00</u>	<u>121.00</u>
<u>3</u>	<u>-10%</u>	<u>72.90</u>	<u>127.10</u>	<u>133.10</u>
<u>4</u>	<u>-10%</u>	<u>65.61</u>	<u>134.39</u>	<u>146.41</u>

ANNEXURE 2
AMENDMENTS TO THE BMS DIRECTIVES IN RELATION TO LEVERAGED AND
INVERSE EXCHANGE TRADED FUNDS

5	-10%	59.05	140.95	161.05
<u>Cumulative Return</u>		<u>-41%</u>	<u>41%</u>	<u>61%</u>

(-1)X Underlying Index cumulative return is 41% while Index (-1x) Inverse ETF cumulative return over same period is 61%.

Scenario 3:

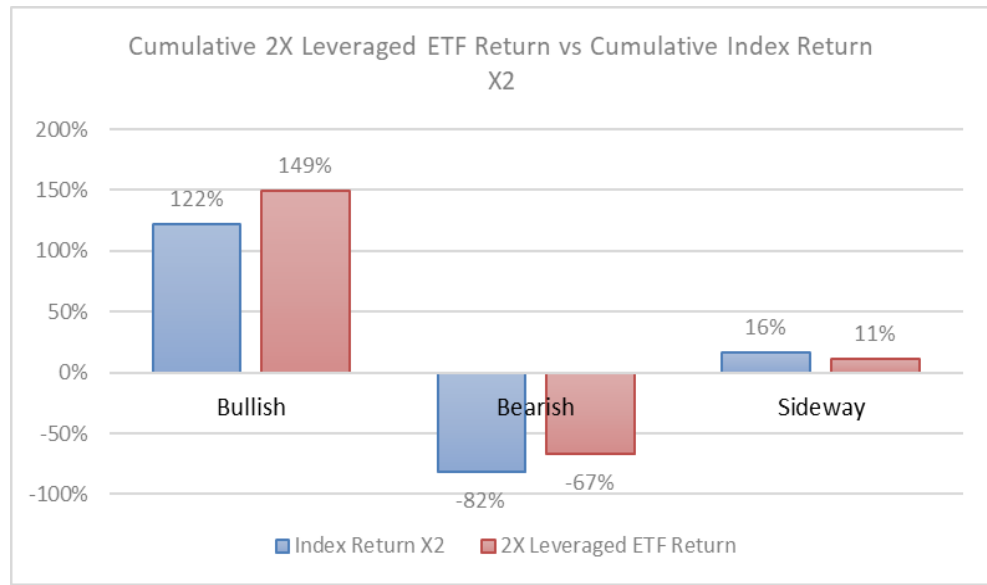
5 days cumulative return comparison, index increases and decreases by 10% alternatingly.

<u>End of Day</u>	<u>Daily Index Movement</u>	<u>Investment Amount (RM)</u>		
		<u>Underlying Index</u>	<u>(-1)X Underlying Index</u>	<u>Index (-1x) Inverse ETF</u>
0	NA	100.00	100.00	100.00
1	10%	110.00	90.00	90.00
2	-10%	99.00	101.00	99.00
3	10%	108.90	91.10	89.10
4	-10%	98.01	101.99	98.01
5	10%	107.81	92.19	88.21
<u>Cumulative Return</u>		<u>8%</u>	<u>-8%</u>	<u>-12%</u>

(-1)X Underlying Index cumulative return is -8% while Index (-1x) Inverse ETF cumulative return over the same period is -12%.

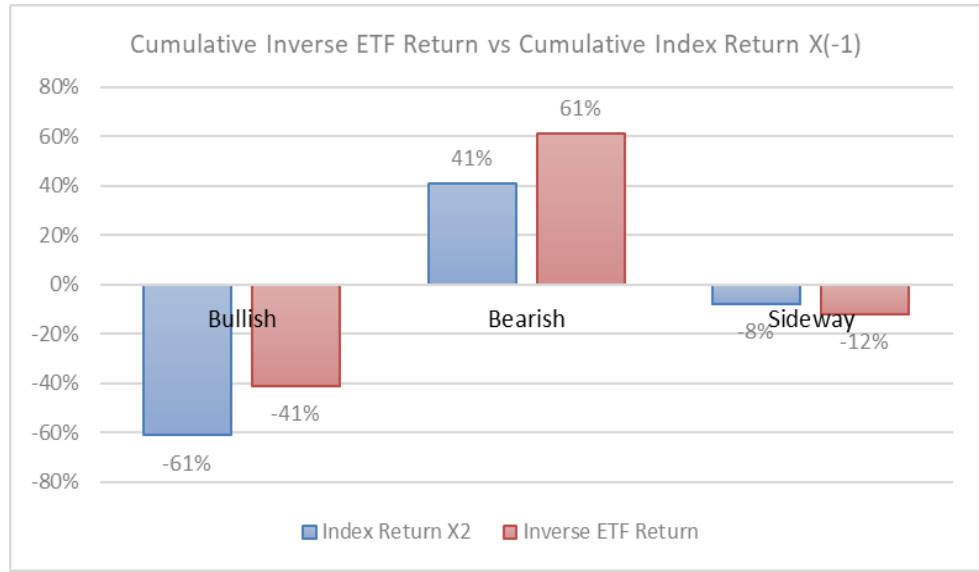
In summary, the compounding effect could potentially lead to deviations in cumulative returns between a leveraged ETF or inverse ETF with the corresponding multiples (2X for 2X leveraged ETF and -1X for Inverse ETF) of the underlying index's cumulative return.

Nonetheless, as the charts below indicate, such deviation could, at times benefit the investor. For example, in a trending market where market valuation is trending upwards or downwards, an investor tends to benefit from compounding effect either by gaining higher returns or suffering less losses. However, in a volatile sideways market, the compounding effect is likely to put the investor at a disadvantage, either causing the investor to earn less returns or inflicting greater losses as compared to a multiple of the underlying index's cumulative return.



ANNEXURE 2

**AMENDMENTS TO THE BMS DIRECTIVES IN RELATION TO LEVERAGED AND
INVERSE EXCHANGE TRADED FUNDS**



Disclaimer: the scenarios presented above are solely for illustration purposes only and does not take into account the impact of other factors (such as but not limited to management fees) on a fund's performances. Actual performances of L&I ETF units with respect to their Underlying Indices might differ under similar scenarios.

- (iv) Placing of contingent orders, such as “stop-loss” or “stop-limit” orders, will not necessarily limit your losses to the intended amount. Market conditions may not make it possible to execute such orders;
 - (v) The leverage obtained from a leveraged ETF can work against you as well as for you. It could lead to large losses as well as gains;
 - (vi) It is in the investor's best interests to take effort to study all risks as contained in the prospectus of the L&I ETFs-, including but not limited to interest rate risks, country risks, credit risks, foreign exchange risks, futures rollover risks, counterparty risks and liquidity risks; and
 - (vii) If an investor engages in purchase of L&I ETF units using margin financing or short sale of L&I ETF units, he or she may gain higher profits when the price movement conforms to expectations, or may otherwise suffer bigger losses. An investor may also face a margin call by the lender if the collateral maintenance ratio drops.
- (3) This brief statement cannot disclose all the risks and other aspects of purchasing L&I ETF units. You should carefully study the requirements pertaining to L&I ETFs and the content of the prospectus of L&I ETFs-before you decide to purchase. If you are in doubt in relation to any aspect of this statement or the terms of L&I ETFs, you should consult your Participating Organisation, i.e. broker.

ANNEXURE 2

**AMENDMENTS TO THE BMS DIRECTIVES IN RELATION TO LEVERAGED AND
INVERSE EXCHANGE TRADED FUNDS**

- (4) [To learn more about L&I ETFs, investors may visit the following website on Bursa Academy:
https://bursaacademy.bursamarketplace.com/en/article/equities/empower-your-etf-investment-journey](https://bursaacademy.bursamarketplace.com/en/article/equities/empower-your-etf-investment-journey)
-

**ACKNOWLEDGEMENT OF RECEIPT OF THIS
RISK DISCLOSURE STATEMENT**

I acknowledge that I have received a copy of the LEVERAGED AND INVERSE EXCHANGE TRADED FUNDS RISK DISCLOSURE STATEMENT and understand its contents which have been explained to me.

Signature:

Full Name:

Date:

[End of Appendix 1]

[End of Amendments to the BMS Directives]