



**Bursa Malaysia Securities Berhad**

**PARTICIPATING ORGANISATIONS'  
DIRECTIVES AND GUIDANCE**

## **INTRODUCTION**

- (1) This Participating Organisations' ("POs") Directives and Guidance consolidates all the Directives and Best Practices issued by the Exchange to Participating Organisations in connection with or pursuant to the Rules of Bursa Malaysia Securities Berhad ("Bursa Securities" or "the Exchange") and that are in force as at **2 May 2013**.
- (2) All Directives not reproduced in this POs' Directives and Guidance are superseded and no longer effective from 2 May 2013. This, however, does not apply to the POs' Trading Manual or any other operational documents issued by the Exchange, which are still in force.
- (3) Any new Directive issued by the Exchange after 2 May 2013 that is of general application will be incorporated into this POs' Directives and Guidance.
- (4) For the avoidance of doubt, the Exchange can take action against a Participating Organisation or a Registered Person for any antecedent breaches of any Directive that is no longer effective.

### **Effect of POs' Directives and Guidance**

- (5) The Directives in this POs' Directives and Guidance that impose an obligation on a Participating Organisation or Registered Person are binding on the Participating Organisation or Registered Person.
- (6) Best Practices act as guidance to the Participating Organisation or Registered Person and are not binding.

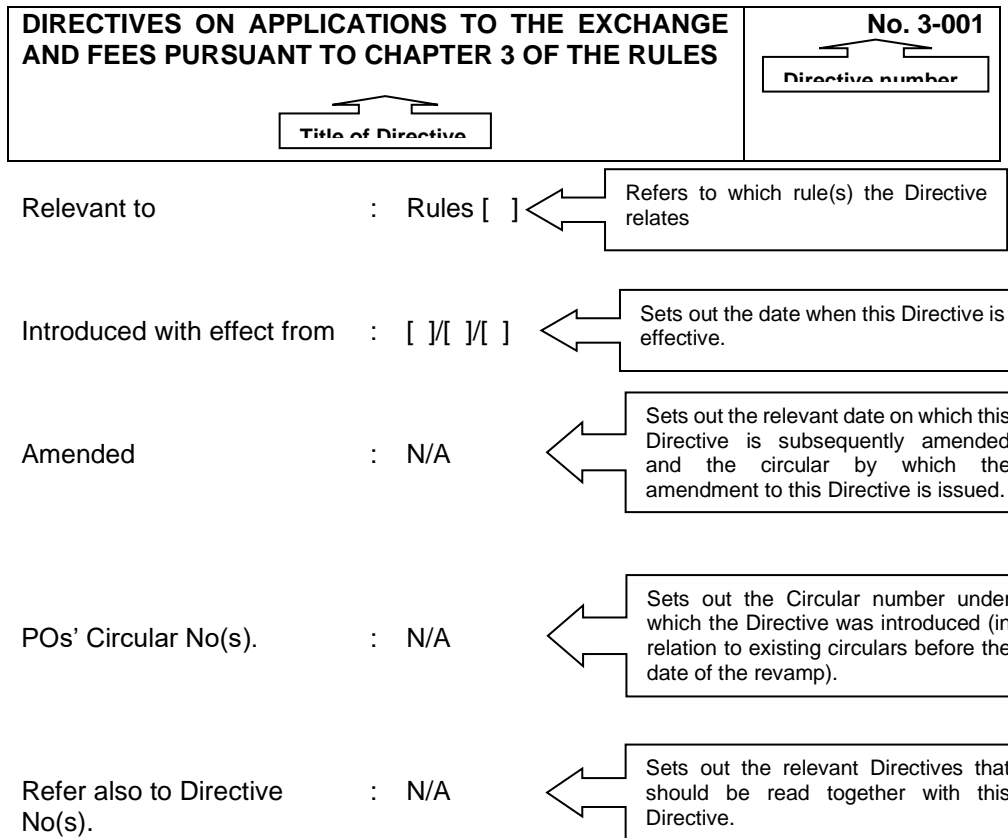
### **Interpretation**

- (7) To the extent of any inconsistency between the Rules and the Directives and Best Practices, the Rules will prevail.
- (8) The requirements in any of these Directives and Best Practices do not affect the generality of any of the principles or requirements in the Rules.
- (9) A reference to a rule, chapter, schedule or appendix is to the relevant rule, chapter, schedule and appendix to the Rules unless the context requires otherwise.
- (10) Words and expressions used in the Directives and Best Practices shall, unless otherwise defined in the Directives or unless the context otherwise requires, bear the same meaning as defined in the Rules.

### **Guide for users**

- (11) To assist users of this POs' Directives and Guidance to identify the relevant Rule applicable to the Directive and Best Practice, the relevant Rule(s) is set out at the beginning of each Directive or Best Practice.
- (12) The numbering of the Directives and Best Practices in this POs' Directives and Guidance follows the corresponding Rules to which the Directive or Best Practice relates. For example, Rule 3.39(5) requires a Head of Compliance to submit written reports to the Exchange on a monthly basis. The Directive that sets out this requirement on reporting is numbered as Directive No. 3.39(5)-001. In the event that there is another directive on the same subject matter, that directive will be numbered 3.39(5)-002.
- (13) There are also Directives in this POs' Directives and Guidance that consolidate various requirements of the various rules in a particular Chapter of the Rules into one directive. For example, Directive No. 3-001 contains the application procedures and fees relevant to applications made under the relevant rules in Chapter 3 of the Rules.
- (14) We have also set out the source of these Directives e.g. R/R 4 of 2006 for easy reference.

(15) The heading of each Directive contains the following information:



(16) The list of Directives is on page 3 to page 5.

[End of Introduction]

## LIST OF DIRECTIVES

No.	Directive No.	Source	Title of Directive
1.	2.01(2)-002	New	Directives on Exercise of Powers of the Exchange to Require Supply of Reports, Information, Documents, Books and Records
2.	2.01(2)-003	G 1021 of 2004	Directives on Submission of Statistical Reports of Investor Trading on the Exchange
3.	2.01(2)-004	R/R 10 of 2011	Directives on Submission of Periodic Reports
4.	2.01(2)-005	Exchange's Letter dated 3 October 1997 (Ref: KLSE/MSD/MC/GE N.51)	Directives on Submission of the Reports on the Central Permanent File
5.	2.01(2)-006	R/R 4 of 2013, R/R 2 of 2009	Directives on Readiness Audit – Self Assessment Approach, Declaratory Approach and Green Lane
6.	2.07-001	New	Directives on the Powers of the Exchange and the Circumstances when the Exchange may Take Action under Rule 2.07
7.	2.12(2)-001	R/R 4 of 2006	Directives on Disclosure of Information on Volume and Value of Securities Traded (including Direct Business Transactions) by Participating Organisations or Market Makers
8.	3-001	R/R 12 of 2012 and partially new	Directives on Applications to the Exchange and Fees Pursuant to Chapter 3 of the Rules
9.	3.36-001	R/R 4 of 2012	Directives for Head of Compliance
10.	3.36-002	R/R 5 of 2009, R/R 2 of 2016, R/R 7 of 2017	Directives on Compliance Report
11.	3.47(1)-001	Exchange's Letter dated 16 July 2007 (Ref: IS/CD/PO/GEN/04/07)	Directives on Measures Needed to Curb Clients Making Payments Directly to Dealer's Representatives to Settle Amounts Owing to Participating Organisations
12.	3.47(1)-002	R/R 3 of 2007	Directives on Mobility of Dealer's Representatives
13.	4-001	R/R 3 of 2009 and R/R 10 of 2012	Directives in relation to Market Makers and Derivatives Specialists
14.	4-002	R/R 2 of 2021	Directive on Pilot Market Making Programme for Eligible Stocks
15.	5-001	New	Directives on Conduct of Business
16.	5-002	R/R 11 of 1995, R/R 14 of 2009 and R/R 20 of 2007	Directives on Minimum Standards and Conduct of Participating Organisations for Trading in Structured Warrants
17.	5.03-001	R/R 10 of 2003	Directives on Procedures for Disclosing Non-compliance to the Exchange
18.	5.05-001	R/R 9 of 1997 and G 240 of 1999	Directives on the Participating IT Security Standards and Disaster Recovery Site Standards
19.	5.13(1)-001	R/R 5 of 2012	Directives on Referral Agents <i>[Deleted]</i>
20.	5.15-001	G 1001 of 1990 and G 552 of 1991	Directives on Opening Client Account

No.	Directive No.	Source	Title of Directive
21.	5.17-001	R/R 7 of 2011	Directives on Material Outsourcing Arrangements by Market Intermediaries <i>[Deleted]</i>
22.	6-001	New	Directives on the Establishment of Branch Office and Electronic Access Facilities <i>[Deleted]</i>
23.	6.07(1)-001	New	Directives on Compliance Functions of Participating Organisation
24.	6.08-001	R/R 18 of 1999	Directives on the Responsibility of the Participating Organisation and Board of Directors for Compliance Function
25.	6.10(2)-001	New	Directives on Risk Management of Participating Organisation
26.	6.12(2)-001	New	Directives on Functions of Audit Committee
27.	7-001	R/R 3 of 2018	Directives on Securities Borrowing and Lending and ISSBNT
28.	7.02(1)-001	R/R 10 of 2017	Directives in relation to the Purchase of Islamic Exchange-Traded Fund ("Islamic ETF") Based on Gold and Silver
29.	7.05(1)-001	R/R 17 of 2006	Directives on the Use of Day Trading Activities Account <i>[Deleted]</i>
30.	7.05(1)-002	R/R 18 of 2005, R/R 16 of 2006, R/R 7 of 2007 and R/R 8 of 2008	Directives on the Use of Clearing Account, Error or Mistake Account and Investment Account
31.	7.05(2)-001	R/R 5 of 2001	Directives on Maintenance of Multiple Trading Accounts by One Client at a Participating Organisation and Tagging of Multiple Trading Accounts to a Securities Account
32.	7.05(2)-002	R/R 4 of 2009	Directives on Trading Accounts for the Trading of Securities Denominated in Foreign Currency
33.	7.06-001	R/R 15 of 2003	Directives on Notification of Systems Malfunction or Error
34.	7.09-001	R/R 15 of 2005, R/R 16 of 2005 and R/R 6 of 2012	Directive on Recognised Stock Exchanges
35.	7.30-001	New	Directives on Valuation of Collateral and Equity Margin
36.	7.30-002	R/R 3 of 2016	Directives on Margin Financing
37.	7.31-001	R/R 22 of 2005	Directives on the Provision of Discretionary Financing
38.	7.40-001	R/R 15 of 2018	Directives on Trading in Leveraged and Inverse Exchange Traded Funds
39.	8-001	R/R 8 of 2011 and R/R 9 of 2012	Directives on Direct Market Access ("DMA")
40.	8-002	R/R 16 of 2006	Directives on Regulated Short Selling
41.	8-003	R/R 5 of 2018	Directive on Intraday Short Selling
42.	8.14-001	R/R 15 of 2009	Directive in relation to On-Market Married Transaction
43.	8.22(5)-001	New	Directives on Regulated Short Selling – Approved Securities
44.	8.22(5)-002	R/R 1 of 2013	Directives on List of Approved Securities <i>[Deleted]</i>
45.	9-001	R/R 2 of 2012	Directives to Prescribe the Scheduled Delivery Time and Scheduled Settlement Time for Recalled Securities

No.	Directive No.	Source	Title of Directive
46.	9.09(1)-001	R/R 4 of 2010	Directives on Scheduled Settlement Time of Securities in relation to the Electronic Share Payment ("e-share payment")
47.	10.01-001	R/R 10 of 2008	Directives on Direct Business Transactions
48.	12-001	New	Directives on Suspension of Interest and Provisions for Bad and Doubtful Debts
49.	12-002	New	Directives on Accounting and Financial Reporting Requirements
50.	12-003	New	Directive on Off-Balance Sheet Transactions
51.	12.03(2)-001	New	Directives on Annual Statutory Audit Report <i>[Deleted]</i>
52.	13-001	New	Directives on Capital Adequacy Requirements
53.	13.04(4)-001	R/R 14 of 2006	Directives on Manual Workaround Computation for Capital Adequacy Requirements
54.	13.32-001	R/R 3 of 2011	Directives on Liquidity Risk Management Framework ("LRM Framework")
55.	16.02(3)-001	R/R 7 of 2017	Directive on Proprietary Trading by a Participating Organisation on the Leap Market
56.	Schedule 6-001	R/R 4 of 2018	Directive on Commission Rates for Transactions in Securities Denominated in Foreign Currency

**Note:**

Directives marked "New" are new directives issued under the revamp in 2013.

[End of List of Directives]

**LIST OF BEST PRACTICES**

No.	Best Practice No.	Source	Title of Best Practice
1.	3.36-001	New	Recommendations on Compliance Reporting
2.	7.16-001	R/R 16 of 2007	Best Practices in the Islamic Stockbroking Services Undertaken by Participating Organisations
3.	8.16-001	R/R 9 of 2012, R/R 8 of 2011	Direct Market Access Handbook
4.	11.02(3B)-001	New	Guidance in relation to Rebate on Commission
5.	12.04-001	R/R 11 of 1999	Best Practices on Suspension of Interest and Provision for Bad and Doubtful Debts, and Collateral Value
6.	12.04-002	R/R 8 of 2010	Guidance in relation to the Financial Reporting Requirements
7.	13.32-001	R/R 3 of 2011	Best Practice Guidelines For Participating Organisations in relation to Liquidity Risk Management

[End of List of Best Practices]

Relevant to : Rule 2.01(2)(k)  
Introduced with effect from : 2 May 2013  
Amended : 21 August 2020 vide R/R 11 of 2020  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

## **1. Rule 2.01(2)(k)**

Rule 2.01(2)(k) empowers the Exchange to require the Participating Organisations or Registered Persons to maintain and provide reports, information, Documents, Books and Records to the Exchange in relation to any matter under these Rules or Directives. The Directives set out below, amongst others, detail the manner in which the Exchange may exercise these powers.

### **1.1 Reports, Information, Documents, Books and Records**

(1) The Exchange may:

- (a) require a Participating Organisation or any Registered Person to provide the Exchange with accurate information about its business and transactions in such format or mode whether electronic or otherwise, specified by the Exchange;
- (b) require a Participating Organisation or any Registered Person to provide the Exchange with the reports, information, Documents, Books and Records which are in their possession, custody, power or control;
- (c) if any report, information, Document, Book or Record requested by the Exchange cannot be produced, require the Participating Organisation or Registered Person to:
  - (i) inform the Exchange of the details of the location of the report, information, Document, Book or Record and person having possession of such report, information, Document, Book or Record; and
  - (ii) use best effort to secure the report, information, Documents, Book or Record;
- (d) interview the Participating Organisation or Registered Person and require the Registered Person or the Participating Organisation to answer questions, provide explanations, give evidence and statements and to record such answers, explanations, evidence and statements electronically or otherwise;
- (e) require the attendance of any Registered Person or employee or agent (or any employee of such Registered Person or agent) of a Participating Organisation or require that a Registered Person or a Participating Organisation to procure the attendance of such relevant persons and consultant, before the Exchange to answer questions, provide explanations or give or procure information;
- (f) require the provision of information on the following persons:

- (i) any person who is to be, is or has been a Registered Person or employee or agent of the Participating Organisation; and
  - (ii) engaged in the Participating Organisation's business; or
  - (iii) any person who is to be, is or has been an employee or agent of a Registered Person or engaged in its business;
- (g) send any officer of the Exchange or Exchange Holding Company to a Participating Organisation's or Registered Person's premises at any time for the purpose of inspections or investigations and to ensure compliance with these Rules; and
- (h) obtain copies of or extracts from the reports, information, Documents, Books or Records and require any person who has knowledge about such reports, information, Documents, Books or Records to provide an explanation on the same.
- (2) Any statement, report, information, Document, Book or Record submitted by the Participating Organisation or the Registered Person to the Exchange pursuant to Rule 2.01(2)(k) is deemed to be authorised by the Participating Organisation and the Exchange may rely on such statement, report, information, Document, Book or Record.
- (3) Any statement, report, information, Document, Book or Record submitted by the Participating Organisation or Registered Person to the Exchange must not be false or misleading.
- (4) A recorded statement under paragraph 1.1(1)(d) may be used in disciplinary proceedings against a Participating Organisation or Relevant Person (including the person making such statement).

[End of Directive]



Relevant to : Rule 2.01(2)(k)  
Introduced with effect from : 2 May 2013  
Amended : 21 August 2020 vide R/R 11 of 2020, and 2 October 2023 vide R/R 6 of 2023  
POs' Circular No(s). : G 1021 of 2004  
Refer also to Directive No(s). : N/A

## **1. Rule 2.01(2)(k)**

- (1) Rule 2.01(2)(k) empowers the Exchange to require the Participating Organisations or Registered Persons to provide reports, information, Documents, Books and Records to the Exchange in relation to any matter under these Rules or Directives.
- (2) Pursuant to the above Rule, the Exchange requires the Participating Organisations to submit to the Exchange statistics of investors trading on the Exchange ("**Statistical Reports**"), the details of which are set out below.

### **1.1 Reporting Requirements**

- (1) The Participating Organisation must submit to the Exchange the statistical reports in the report format prescribed in **Appendices 1(a), 1(b) and 1(c)** of this Directive ("Statistical Reports").
- (2) The Statistical Reports must be submitted on a monthly basis to the Exchange no later than 5.00 p.m. on or before the 2<sup>nd</sup> Market Day of the month.
- (3) The Participating Organisation must ensure that the information contained in the Statistical Reports is true and accurate and that the Exchange is entitled to rely on the same for any purpose.
- (4) If any information in the Statistical Reports is inaccurate, the Participating Organisation must make a resubmission within 1 Market Day from the date the inaccuracy is discovered.

### **1.2 Mode of Submission**

- (1) The Participating Organisation must submit the Statistical Reports by way of electronic transmission to the Exchange via the Exchange's File Information System ("FIX System") in accordance with the time prescribed in paragraph 1.1(2) above.
- (2) In the event a Participating Organisation is unable to transmit the Statistical Reports via the FIX System due to system malfunction or any other reasons which to the satisfaction of the Exchange would render the submission of the Statistical Reports via the FIX System not reasonably possible, the Participating Organisation must instead submit the duly completed Statistical Reports via email, facsimile or courier or by hand in accordance with the time prescribed in paragraph 1.1(2) above.
- (3) The Statistical Reports submitted by the Participating Organisation pursuant to paragraph 1.2(2) above must be executed by a person(s) duly authorised by the Participating Organisation to execute the same. In this respect, the Participating Organisation must ensure that the name and the designation of the authorised signatory are stipulated and the company's rubber stamp is duly affixed on the printed hardcopies.

- (4) For the purpose of submitting the Statistical Reports via facsimile pursuant to paragraph 1.2(2) above, Participating Organisations must fax the Statistical Reports to the Market Surveillance Division of the Exchange.

**1.3 Guidelines on Investor Categories and List of Country Codes**

- (1) For the purpose of completing the Statistical Reports, the Participating Organisation must comply with the guidelines set out in **Schedule 1** of this Directive (“the Guidelines”). The Guidelines define the various categories of investors referred to in the Statistical Reports.
- (2) In completing the report on the total volume and value of foreign transactions by country of origin as prescribed in **Appendix 1(c)**, the Participating Organisation must apply the relevant country codes set out in **Schedule 2** of this Directive.

[End of Directive]

**Appendix 1a**

**SECURITIES TURNOVER BY INVESTOR CATEGORY FOR THE MONTH OF:** \_\_\_\_\_

**NAME OF PARTICIPATING ORGANISATION (PO):** \_\_\_\_\_

**PO CODE:** \_\_\_\_\_

**ON - MARKET TRANSACTIONS**

**TRADING VOLUME**

	Individual <sup>1</sup> (shares)				Interbroker (shares)		Institution (shares)		Participating Org (shares)		Others (shares)		Grand Total (shares)	
	Bumi	Non-Bumi	Total <sup>2</sup>	YTD <sup>3</sup>	Total	YTD	Total	YTD	Total	YTD	Total	YTD	Total	YTD
Local Purchase														
Local Sale														
Foreign Purchase														
Foreign Sale														
Total														

**TRADING VALUE**

	Individual <sup>1</sup> (RM)				Interbroker (RM)		Institution (RM)		Participating Org (RM)		Others (RM)		Grand Total (RM)	
	Bumi	Non-Bumi	Total <sup>2</sup>	YTD <sup>3</sup>	Total	YTD	Total	YTD	Total	YTD	Total	YTD	Total	YTD
Local Purchase														
Local Sale														
Foreign Purchase														
Foreign Sale														
Total														

 **Not applicable**

<sup>1</sup> Refer to Schedule 1 for Classification of Investors

<sup>2</sup> Total: Board Lot + Odd Lot (DBT only)

<sup>3</sup> YTD: Cumulative total from January to current month of the year

**Appendix 1b**

**SECURITIES TURNOVER BY INVESTOR CATEGORY FOR THE MONTH OF:** \_\_\_\_\_

**NAME OF PARTICIPATING ORGANISATION (PO):** \_\_\_\_\_

**PO CODE:** \_\_\_\_\_

**DIRECT BUSINESS TRANSACTIONS**

**TRADING VOLUME**

	Individual <sup>1</sup> (shares)				Inter-broker (shares)		Institution (shares)		Participating Org (shares)		Others (shares)		Grand Total (shares)	
	Bumi	Non-Bumi	Total <sup>2</sup>	YTD <sup>3</sup>	Total	YTD	Total	YTD	Total	YTD	Total	YTD	Total	YTD
Local Purchase														
Local Sale														
Foreign Purchase														
Foreign Sale														
Total														

**TRADING VALUE**

	Individual <sup>1</sup> (RM)				Inter-broker (RM)		Institution (RM)		Participating Org (RM)		Others (RM)		Grand Total (RM)	
	Bumi	Non-Bumi	Total <sup>2</sup>	YTD <sup>3</sup>	Total	YTD	Total	YTD	Total	YTD	Total	YTD	Total	YTD
Local Purchase														
Local Sale														
Foreign Purchase														
Foreign Sale														
Total														

 **Not applicable**

<sup>1</sup> Refer to Schedule 1 for Classification of Investors

<sup>2</sup> Total: Board Lot + Odd Lot (DBT only)

<sup>3</sup> YTD: Cumulative total from January to current month of the year

**Appendix 1c**

**SECURITIES TURNOVER BY INVESTOR CATEGORY FOR THE MONTH OF:** \_\_\_\_\_

**NAME OF PARTICIPATING ORGANISATION (PO):** \_\_\_\_\_

**PO CODE:** \_\_\_\_\_

**TOTAL VOLUME AND VALUE OF FOREIGN TRANSACTIONS BY COUNTRY OF ORIGIN**

Country of Origin <sup>1</sup>		Individual <sup>2</sup>		Inter-broker		Institution		Participating Org		Others		Total	
Code	Country	Volume <sup>3</sup> (shares)	Value (RM)	Volume (shares)	Value (RM)	Volume (shares)	Value (RM)	Volume (shares)	Value (RM)	Volume (shares)	Value (RM)	Volume (shares)	Value (RM)
<b>Total</b>													

<sup>1</sup> Refer to Schedule 2 for CODE of country

<sup>2</sup> Refer to Schedule 1 for Classification of Investors

<sup>3</sup> Board Lot + Odd Lot (On-Market + DBT)

## Schedule 1

### Guidelines on Categories of Investors Trading on Bursa Malaysia Securities Berhad

No.	Investor Categories	Description
1	Individual	refers to trades conducted for an account belonging to a person who is acting as the principal who is also the beneficiary.
2	Inter-broker	refers to trades conducted for an account belonging to a foreign broker acting as an intermediary, where the beneficiary is not known.
3	Institution	<p>refers to trades conducted for an account belonging to a legal entity as listed below:</p> <ol style="list-style-type: none"> <li>1. Bank</li> <li>2. Investment Trust/Foundation</li> <li>3. Investment Banks</li> <li>4. Insurance Companies</li> <li>5. Venture Capital Companies</li> <li>6. Corporate Advisory/Investment Advisory</li> <li>7. Clubs/Associations/Societies</li> <li>8. Cooperatives</li> <li>9. Private Limited Company (Sdn. Bhd./Pte. Ltd.)</li> <li>10. Limited Company (Bhd./Ltd.)               <ol style="list-style-type: none"> <li>a) Trading</li> <li>b) Share Buy Back</li> </ol> </li> <li>11. Asset/Fund Management Companies</li> <li>12. Discount Houses               <ol style="list-style-type: none"> <li>a) Sdn. Bhd. or Pte. Ltd.</li> <li>b) Bhd. or Ltd.</li> </ol> </li> <li>13. Clearing Houses               <ol style="list-style-type: none"> <li>a) Sdn. Bhd. or Pte. Ltd.</li> <li>b) Bhd. or Ltd.</li> </ol> </li> <li>14. Foreign Broking house as the principal account owner with a Local Broking House</li> <li>15. Government Agencies</li> </ol>
4	Participating Organisation	<p>refers to trades conducted for an account belonging to the Participating Organisation acting as principal, which includes the following:</p> <ol style="list-style-type: none"> <li>1. Principal Account</li> <li>2. <i>[Deleted]</i></li> <li>3. Intraday Activities Account</li> <li>4. Investment Account</li> <li>5. Error Account</li> </ol>
5	Others	refers to trades conducted for accounts not belonging to any of the above investor categories

## Schedule 2

### List of Country Codes

AFG	Afghanistan
ALB	Albania
DZA	Algeria
ASM	American Samoa
AND	Andorra
AGO	Angola
AIA	Anguilla
ATA	Antartica
ATG	Antigua & Barbuda
ARG	Argentina
ARM	Armenia
ABW	Aruba
AUS	Australia
AUT	Austria
AZE	Azerbaijan
BHS	Bahamas
BHR	Bahrain
BGD	Bangladesh
BRB	Barbados
BLR	Belarus
BEL	Belgium
BLZ	Belize
BEN	Benin
BER	Bermuda Island
BTB	Bhutan
BOL	Bolivia
BOS	Bosnia-Herzegovina
BWA	Botswana
BVT	Bouvet Island
BRA	Brazil
IOT	British Indian Ocean Territory
VGB	British Virgin Island
BRN	Brunei Darussalam
BGR	Bulgaria
BFA	Burkina Faso
BDI	Burundi
BYS	Byelorussian SSR
KHM	Cambodia
CMR	Cameroon
CAN	Canada
CPV	Cape Verde
CYM	Cayman Island
CAF	Central African Republic
TCD	Chad
CHL	Chile
CHN	China
CXR	Christmas Island
CCK	Cocos (Keeling) Island
COL	Colombia
COM	Comoros
COG	Congo
COK	Cook Island
CRI	Costa Rica
CIV	Cote D'Ivoire
CRO	Croatia
CUB	Cuba
CYP	Cyprus
CZH	Czech Republic
CSK	Czechoslovakia
DNK	Denmark
DJI	Djibouti
DMA	Dominica

DOM	Dominica Republic
TMP	East Timor
ECU	Equador
ECY	Egypt
SLV	El Salvador
GNQ	Equatorial Guinea
ERI	Eritrea
EST	Estonia
ETH	Ethopia
FLK	Falkland Islands
FRO	Faroe Island
FSM	Fed. States of Micronesia
FIJ	Fiji
FIN	Findland
FRA	France
FXX	France, Metropolitan
GUF	French Guiana
PYF	French Polynesia
ATF	French Southern Territories
GAB	Gabon
GMB	Gambia
GEO	Georgia
DUE	Germany
GHA	Ghana
GIB	Gibraltar
GRC	Greece
GRL	Greenland
GRD	Grenada
GLP	Guadeloupe
GUM	Guam
GTM	Guatemala
GRN	Guernsey
GIN	Guinea
GNB	Guinea Bissau
GUY	Guyana
HTI	Haiti
HMD	Heard & Mc Donald Islands
HND	Honduras
HKG	Hong Kong
HUN	Hungary
ISL	Iceland
IND	India
IDN	Indonesia
IRN	Iran
IRQ	Iraq
IRL	Ireland
IOG	Island Of Guernsey
ISR	Israel
ITA	Italy
JAM	Jamaica
JPN	Japan
JOR	Jordan
KAZ	Kazakhstan
KEN	Kenya
KIR	Kiribati
KOR	Korea
KWT	Kuwait
KGZ	Kyrgyzstan
LAO	Lao People's Democratic Republic
LVA	Latvia
LBN	Lebanon
LSO	Lesotho
LBR	Liberia
LBY	Libya
LIE	Liechtenstein
LTU	Lithuania
LUX	Luxembourg



MAC	Macau
MDG	Madagascar
MWI	Malawi
MYS	Malaysia
MDV	Maldives
MLI	Mali
MLT	Malta
MHL	Marshall Islands
MTQ	Martinique
MRT	Mauritania
MUS	Mauritius
MYT	Mayotte
MEX	Mexico
MCO	Monaco
MNG	Mongolia
MSR	Montserrat
MAR	Morocco
MOZ	Mozambique
BUR	Myanmar
NAM	Namibia
NRU	Nauru
NPL	Nepal
ANT	Netherlands Antilles
NLD	Netherlands
NTZ	Neutral Zone
NCL	New Caledonia
NZL	New Zealand
NIC	Nicaragua
NER	Niger
NGA	Nigeria
NIU	Niue
NFK	Norfolk Islands
NRL	Northern Ireland
MNP	Northern Mariana Islands
NOR	Norway
OMN	Oman
PR	P.R. of Malaysia
PAK	Pakistan
PLW	Palau
PLS	Palestine
PAN	Panama
PNG	Papua New Guinea
PRY	Paraguay
PER	Peru
PHL	Philippines
PCN	Pitcairn Islands
POL	Poland
PRT	Portugal
PRI	Puerto Rico
QAT	Qatar
MDA	Republic Of Moldova
MKD	Republica Makedonija
SLD	Republika Slovenija
REU	Reunion
ROM	Romania
SUN	Russia
RWA	Rwanda
SGS	S. Georgia And S. Sandwich Islands
KNA	Saint Kitts And Nevis
WSM	Samoa
SMR	San Marino
STP	Sao Tome And Principe
SAU	Saudi Arabia
SCT	Scotland
SEN	Senegal
YUG	Serbia
SYC	Seychelles

SLE	Sierra Leone
SGP	Singapore
SVK	Slovakia (Slovak Republic)
SVN	Slovenia
SLB	Solomon Islands
SOM	Somalia
ZAF	South Africa
ESP	Spain
LKA	Sri Lanka
SHN	St Helena
LCA	St Lucia
SPM	St Pierre & Miquelon
VCT	St Vincent
STL	Stateless
SDN	Sudan
SUR	Surinam
SJM	Svalbard & Jan Mayen Islands
SWZ	Swaziland
SWE	Sweden
CHE	Switzerland
SYR	Syria
TWN	Taiwan
TJK	Tajikistan
TZA	Tanzania
THA	Thailand
COD	The Dem. Rep. Of Congo
TGO	Togo
TKL	Tokelau
TDN	Tonga
TTO	Trinidad And Tobago
TUN	Tunisia
TUR	Turkey
TKM	Turkmenistan
TCA	Turk & Caicos Islands
TUV	Tuvalu
VIR	U.S. Virgin Islands
UGA	Uganda
UKR	Ukraine
ARE	United Arab Emirates
GBR	United Kingdom
UMI	United States Minor Outlying Islands
USA	United States of America
URY	Uruguay
UZB	Uzbekistan
VUT	Vanuatu
VAT	Vatican City
VEN	Venezuela
VNM	Vietnam
WLF	Wallis & Futuna Islands
ESH	Western Sahara
YEM	Yemen
YMD	Yemen, Democratic
ZAR	Zaire
ZMB	Zambia
ZWE	Zimbabwe

<b>DIRECTIVES ON SUBMISSION OF PERIODIC REPORTS</b>	<b>No. 2.01(2)-004</b>
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Relevant to : Rule 2.01(2)(k)  
 Introduced with effect from : 2 May 2013  
 Amended : 27 February 2017 vide R/R 3 of 2017, R/R 4 of 2017, 12 December 2017 vide R/R 11 of 2017, 1 March 2018 vide R/R 3 of 2018, 2 January 2019 vide R/R 14 of 2018, 29 April 2019 vide R/R 1 of 2019, 21 August 2020 vide R/R 11 of 2020, and 2 October 2023 vide R/R 6 of 2023  
 POs' Circular No(s). : R/R 10 of 2011  
 Refer also to Directive No(s). : N/A

**1. Rule 2.01(2)(k)**

- (1) Rule 2.01(2)(k) empowers the Exchange to require the Participating Organisations or Registered Persons to provide reports, information, Documents, Books and Records to the Exchange in relation to any matter under these Rules or Directives.
- (2) Pursuant to the above Rule, the Exchange requires the Participating Organisations to submit periodic reports to the Exchange ("**Periodic Reports**"), the details of which are set out below.

**1.1 Reporting Requirements**

- (1) The Participating Organisation must submit the Periodic Reports prescribed in the schedule of this Directive ("**Schedule**") to the Exchange:
  - (a) in the format prescribed in the appendices to the Schedule;
  - (b) by way of electronic transmission as notified by the Exchange; and
  - (c) not later than the times and days stipulated for submission of the Periodic Reports in the Schedule.
- (2) If a Participating Organisation subsequently amends any of the Periodic Reports submitted electronically to the Exchange, the Participating Organisation must re-submit the duly amended Periodic Reports no later than the timeframe stipulated for re-submission of Periodic Reports in the Schedule, in the same format and mode as set out in paragraphs 1.1(1)(a) and (b).
- (3) If a Participating Organisation is, for any reason whatsoever, unable to submit by electronic transmission all or any of the Periodic Reports by the stipulated times, the Participating Organisation must submit the duly completed and printed hard copy of such Periodic Report by way of facsimile, courier or by hand no later than the times and days set out in the Schedule.
- (4) The Head of Compliance and the Head of Operations of the Participating Organisation will be held responsible for ensuring compliance with Rule 5.09(1) in relation to all the information and records contained in the submissions to the Exchange.
- (5) The Exchange may at any time prescribe any other periodic reports to be submitted in accordance with such mode of communication and/or vary the times, frequency and manner for submission of any Periodic Report as notified by the Exchange.

[End of Directive]

## Schedule

No.	Name of Report	Appendix	Frequency	Timing of submission of periodic reports [paragraph 1.1(1)]	Timing of re-submission of periodic reports [paragraphs 1.1(2) and 1.1(3)]
1.	Market Positions of Participating Organisations	Appendix 1a	Weekly	By 5.30 p.m., of the first Market Day of the week following the date of the report	By 8.30 p.m., of the first Market Day of the week following the date of the report
2.	Margin Account Positions of Participating Organisations	Appendix 1b			
3.	Clients' Trust Monies, Commissioned Dealer's Representatives'/ Salaried Dealer's Representatives' Deposits and Overpledging of Shares	Appendix 1c			
4.	Investment & Error or Mistake Accounts of Participating Organisations	Appendix 1d			
5.	Securities Borrowing & Lending/ ISSBNT – List of Clients with collateral below 102%	Appendix 1e			
6.	<i>[Deleted]</i>	<i>[Deleted]</i>			
7.	Additional Explanatory Notes ( <i>for report item no. 1 to 5</i> )	Appendix 1f			
8.	Gearing Ratio and Shareholders' Funds	Appendix 2a	Monthly	By 5.30 p.m., not later than 10 Market Days from the last day of the reporting month	By 8.30 p.m., not later than 10 Market Days from the last day of the reporting month
9.	Maintenance of Margin Accounts – Equity Value <130% of the Outstanding Balance	Appendix 2b			
10.	Interest In Suspense and Provision for Bad & Doubtful Debts	Appendix 2c			
11.	Additional Explanatory Notes ( <i>for report item no. 8 to 10</i> )	Appendix 2d			

**DIRECTIVES ON SUBMISSION OF PERIODIC REPORTS**

**No. 2.01(2)-004**

<b>No.</b>	<b>Name of Report</b>	<b>Appendix</b>	<b>Frequency</b>	<b>Timing of submission of periodic reports [paragraph 1.1(1)]</b>	<b>Timing of re-submission of periodic reports [paragraphs 1.1(2) and 1.1(3)]</b>
12.	Profit & Loss Statement of Participating Organisations	Appendix 3a	Quarterly	By 5.30 p.m., on the last Market Day of the fifth week, following the reporting quarter	By 8.30 p.m., on the last Market Day of the fifth week, following the reporting quarter
13.	Additional Explanatory Notes ( <i>for report item no. 12</i> )	Appendix 3b			
14.	Failure to Deliver (Buying-in without notice)	Appendix 4	As and when there is a buying-in without notice	By 5.30 p.m. on the buying-in day (T+2)	By 8.30 p.m. on the buying-in day (T+2)
15.	Failure to Deliver (Manual Buying-in)	Appendix 5	As and when there is a manual buying-in	By 5.30 p.m. on the buying-in day	By 8.30 p.m. on the buying-in day
16.	Securities Borrowing & Lending/ ISSBNT for potential failed trades	Appendix 6	As and when SBL/ISSBNT is utilised for potential failed trades	By 5.30 p.m. on the next Market Day	By 5.30 p.m. on the next Market Day

[End of Schedule]

## Appendix 1a

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
MARKET POSITIONS OF PARTICIPATING ORGANISATIONS  
(Weekly Submission)**

Participating Organisation : <<insert name of Participating Organisation>> Position As At : month/date/year (last market day of the week)

i) **Clients' accounts (excluding Discretionary Financing & Margin Accounts)**

Transaction	Days Outstanding			Total at cost RM	Total at marked to market value RM
	T to T+2 RM	T+3 to T+7 RM	T+8 and beyond RM		
Outstanding Purchases	0.00	0.00	0.00	0.00	0.00
Contra Losses	0.00	0.00	0.00	0.00	Not applicable
Outstanding Sales	0.00	Not applicable	Not applicable	0.00	Not applicable
Contra Gains	0.00	0.00	0.00	0.00	Not applicable
<b>Net Balance</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>Not applicable</b>

For the purpose of reporting, the above should include "Clearing Accounts" and "Short-Selling Position" for clients.

ii) **Clients' accounts classified under Discretionary Financing (excluding Margin Accounts)**

Transaction	Days Outstanding				Total at cost RM	Total at marked to market value RM
	T to T+2 RM	T+3 to T+7 RM	T+8 to T+12 RM	T+13 and beyond RM		
Outstanding Purchases	0.00	0.00	0.00	0.00	0.00	0.00
Contra Losses	0.00	0.00	0.00	0.00	0.00	Not applicable
Outstanding Sales	0.00	0.00	0.00	0.00	0.00	Not applicable
Contra Gains	0.00	0.00	0.00	0.00	0.00	Not applicable
<b>Net Balance</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>Not applicable</b>

iii) **Margin Accounts, Clearing Accounts And Short-Selling Positions**

Transaction	Days Outstanding			Total at cost RM
	T RM	T+1 RM	T+2 and beyond RM	
Outstanding Purchases In Clearing Accounts	0.00	0.00	0.00	0.00
Outstanding Sales In Clearing Accounts	0.00	0.00	0.00	0.00
Outstanding Net Short-Selling Position	0.00	0.00	0.00	0.00
Outstanding Purchases In Margin Accounts	0.00	Not applicable	Not applicable	0.00
Outstanding Sales In Margin Accounts	0.00	Not applicable	Not applicable	0.00

[End of Appendix 1a]

## Appendix 1b

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
MARGIN ACCOUNT POSITIONS OF PARTICIPATING ORGANISATIONS  
(Weekly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>

**Position As** month/date/year  
**At :** (last market day of the week)

Percentage of Equity Value Over Outstanding Balance	No. of Accounts	Approved Limit RM	Outstanding Balance RM	Value of Equity RM
<130%	0	0.00	0.00	0.00
130%-150%	0	0.00	0.00	0.00
>150%	0	0.00	0.00	0.00
<b>TOTAL</b>	0	0.00	0.00	0.00

[End of Appendix 1b]

<b>DIRECTIVES ON SUBMISSION OF PERIODIC REPORTS</b>	<b>No. 2.01(2)-004</b>
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**Appendix 1c**

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
CLIENTS' TRUST MONIES, COMMISSIONED DEALER'S REPRESENTATIVES'/SALARIED DEALER'S  
REPRESENTATIVES'  
DEPOSITS AND OVERPLEDGING OF SHARES  
(Weekly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Position As At :** month/date/year  
(last market day of the week)

<b>1. CLIENTS' TRUST ACCOUNT</b>	<b>No. of Clients</b>	<b>Total amount</b>	<b>Remarks</b>
		RM	
Clients' monies not banked into trust account		0	

<b>2. COMMISSIONED DEALER'S REPRESENTATIVES' / SALARIED DEALER'S REPRESENTATIVES' NET DEPOSITS</b>	<b>No. of Commissioned dealer's representatives / Salaried dealer's representatives</b>	<b>Total amount</b>	<b>Remarks</b>
		RM	
Amount or commissioned dealer's representatives / salaried dealer's representatives' net deposits (note 1) not deposited into trust account (to compute on the basis of each commissioned dealer's representatives /dealer's representative)  (note 1 :- cash deposits less contra losses and other relevant charges)		0	

<b>3. OVERPLEDGING OF SHARES</b>	<b>No. of Clients</b>	<b>Total amount</b>	<b>Remarks</b>
		RM	
Amount of margin clients' securities (at market value) mortgaged, pledged or hypothecated by Participating Organisation to Participating Organisation's financiers in excess of the corresponding client's outstanding balance in the client's margin account (to compute on the basis of client by client)		0	

[End of Appendix 1c]



## Appendix 1d

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
INVESTMENT AND ERROR OR MISTAKE ACCOUNTS OF PARTICIPATING ORGANISATIONS  
(Weekly Submission)**

Participating Organisation : <<insert name of Participating Organisation>>  
 Position As At : month/date/year  
 (last market day of the week)

**Company's Investment In Quoted Shares (Shares Listed on Bursa Malaysia and Recognised Stock Exchanges)**

COST				Marked To Market Value As At End Of The Week RM
Position As At Beginning Of The Week RM	Acquisition During The Week RM	Disposal During The Week RM	Position As At End Of The Week RM	
0.00	0.00	0.00	0.00	0.00

**Company's Other Investments (eg. Money market instruments, Unit Trust & Private Debt Securities)**

COST				Marked To Market Value As At End Of The Week RM
Position As At Beginning Of The Week RM	Acquisition During The Week RM	Disposal During The Week RM	Position As At End Of The Week RM	
0.00	0.00	0.00	0.00	0.00

**Company's Error or Mistake Account**

COST				Marked To Market Value As At End Of The Week RM
Position As At Beginning Of The Week RM	Addition During The Week RM	Disposal During The Week RM	Position As At End Of The Week RM	
0.00	0.00	0.00	0.00	0.00

[End of Appendix 1d]

<b>DIRECTIVES ON SUBMISSION OF PERIODIC REPORTS</b>	<b>No. 2.01(2)-004</b>
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**Appendix 1e**

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
SECURITIES BORROWING & LENDING - (CLA and SBLNT where the PO is the Approved Borrower)/ ISSBNT  
(where the PO is the Approved User)  
(LIST OF CLIENTS WITH COLLATERAL BELOW 102%)  
(Weekly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Position as at :** month/date/year  
*(last market day of the week)*

No	Name of Client	Value of borrowing/ purchase pursuant to ISSBNT	Value of collateral (after haircut)	Ratio	Actions Taken
1				#DIV/0!	
2				#DIV/0!	
3				#DIV/0!	
4				#DIV/0!	
5				#DIV/0!	
6				#DIV/0!	
7				#DIV/0!	
8				#DIV/0!	
9				#DIV/0!	
10				#DIV/0!	

[End of Appendix 1e]

## Appendix 1f

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD  
(Weekly Submission)**

Participating Organisation : <<insert name of Participating Organisation>>  
For the reporting week ending : month/date/year

Additional Explanatory Notes (if any)

	ISSUES	ADDITIONAL EXPLANATORY NOTES
1	Clients' accounts (excluding discretionary financing & margin accounts)	
2	Clients' accounts classified under discretionary financing	
3	Margin Accounts, Clearing Accounts And Short-Selling Positions	
4	Margin Account Positions	
5	Clients' Trust Monies	
6	Commissioned Dealer's Representatives'/ Salaried Dealer's Representatives' Net Deposits	
7	Overpledging Of Shares	
8	Company's Investment and Error Or Mistake Accounts	
9	Securities Borrowing & Lending / ISSBNT - List of clients with collateral below 102%	
10	Others	

[End of Appendix 1f]

## Appendix 2a

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
GEARING RATIO AND SHAREHOLDERS' FUNDS  
(Monthly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Position as at :** month/date/year  
*(as at last reporting date of the month)*

1. **GEARING RATIO**

Utilised Level (a) RM	Effective Shareholders' Funds (b) RM	Gearing Ratio (c=a/b) times
0.00	0.00	#DIV/0!

2. [Deleted]

3. **SHAREHOLDERS' FUNDS - Investment Banks Only**

Shareholders' Funds (note 1)  RM
0.00 (note 2)

**Note 1 -**

*Pursuant to paragraph 5.1 of the Guidelines on Investment Banks, investment banks that are part of banking groups will be required to comply with the minimum capital funds unimpaired by losses requirement of RM2 billion on a banking group basis, while investment banks that are not part of banking groups will be required to comply with a minimum capital funds requirement of RM500 million.*

**Note 2 -** *The requirement is to report the shareholders' funds for the previous month. For example for monthly submission for the month of November 2011, the information of the shareholders' funds should be as at 31 October 2011.*

[End of Appendix 2a]

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
MAINTENANCE OF MARGIN ACCOUNTS OF PARTICIPATING ORGANISATIONS  
(Monthly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Position As At :** month/date/year  
*(last market day of the month)*

**List of Margin Accounts with Equity Value < 130% of Outstanding Balance**

No	Name of Clients	Approved Limit RM	Outstanding Balance RM	Value of Equity RM	Percentage (%) of Equity Value over Outstanding Balance
1		0.00	0.00	0.00	#DIV/0!
2		0.00	0.00	0.00	#DIV/0!
3		0.00	0.00	0.00	#DIV/0!
4		0.00	0.00	0.00	#DIV/0!
5		0.00	0.00	0.00	#DIV/0!
6		0.00	0.00	0.00	#DIV/0!
7		0.00	0.00	0.00	#DIV/0!
8		0.00	0.00	0.00	#DIV/0!
9		0.00	0.00	0.00	#DIV/0!
10		0.00	0.00	0.00	#DIV/0!
11		0.00	0.00	0.00	#DIV/0!
12		0.00	0.00	0.00	#DIV/0!
13		0.00	0.00	0.00	#DIV/0!
14		0.00	0.00	0.00	#DIV/0!
15		0.00	0.00	0.00	#DIV/0!
16		0.00	0.00	0.00	#DIV/0!
17		0.00	0.00	0.00	#DIV/0!
18		0.00	0.00	0.00	#DIV/0!
19		0.00	0.00	0.00	#DIV/0!
20		0.00	0.00	0.00	#DIV/0!
21		0.00	0.00	0.00	#DIV/0!
22		0.00	0.00	0.00	#DIV/0!
	Total	0.00	0.00	0.00	#DIV/0!

[End of Appendix 2b]

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
INTEREST-IN-SUSPENSE AND PROVISION FOR BAD & DOUBTFUL DEBTS  
(Monthly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Position as at :** month/date/year  
*(As at last reporting date of the month)*

<b>INTEREST-IN-SUSPENSE</b>	<b>Opening balance</b>	<b>Addition</b>	<b>Reversal</b>	<b>Written-off</b>	<b>Closing balance</b>
<b>ITEM</b>	<b>(RM)</b>	<b>(RM)</b>	<b>(RM)</b>	<b>(RM)</b>	<b>(RM)</b>
Contra Losses	0.00	0.00	0.00	0.00	0.00
Overdue Purchase Contracts	0.00	0.00	0.00	0.00	0.00
Margin Accounts	0.00	0.00	0.00	0.00	0.00
Others <i>(if any)</i>	0.00	0.00	0.00	0.00	0.00
<b>TOTAL</b>	0.00	0.00	0.00	0.00	0.00

<b>IMPAIRMENT PROVISION</b>	<b>Opening balance</b>	<b>Addition</b>	<b>Reversal</b>	<b>Written-off</b>	<b>Closing balance</b>
<b>ITEM</b>	<b>(RM)</b>	<b>(RM)</b>	<b>(RM)</b>	<b>(RM)</b>	<b>(RM)</b>
Contra Losses	0.00	0.00	0.00	0.00	0.00
Overdue Purchase Contracts	0.00	0.00	0.00	0.00	0.00
Margin Accounts	0.00	0.00	0.00	0.00	0.00
Others <i>(if any for e.g. collective impairment etc)</i>	0.00	0.00	0.00	0.00	0.00
<b>TOTAL</b>	0.00	0.00	0.00	0.00	0.00

[End of Appendix 2c]

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD  
(Monthly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Position As At :** month/date/year  
*(As at last reporting date of the month)*

**Additional Explanatory Notes (if any)**

	<b>ISSUES</b>	<b>ADDITIONAL EXPLANATORY NOTES</b>
1	<b>Gearing Ratio</b>	
2	<b>Shareholders' Funds - Investment Banks Only</b>	
3	<b>Margin Accounts with Equity Value &lt;130% of Outstanding Balance</b>	
4	<b>Interest in Suspense / Provision</b>	
5	<b>Others</b>	

[End of Appendix 2d]

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
PROFIT & LOSS STATEMENT OF PARTICIPATING ORGANISATIONS  
(Quarterly Submission)**

Participating Organisation: <<insert name of Participating Organisation>>  
For the quarter ending on: month/date/year

Item	Retail A RM	Institutional B RM	Inter-broker C RM	Others D RM	Total E = A + B + C + D RM
<b>VALUE OF TRADES DONE</b>					
1. Online routed trades	0.00	0.00	0.00	0.00	0.00
2. Other trades	0.00	0.00	0.00	0.00	0.00
3. Trades in Recognised Stock Exchanges	0.00	0.00	0.00	0.00	0.00
<b>TOTAL VALUE OF SECURITIES TRADES DONE (1+2+3)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>NUMBER OF DERIVATIVES CONTRACTS</b>					
4. Online routed trades	0.00	0.00	0.00	0.00	0.00
5. Other trades	0.00	0.00	0.00	0.00	0.00
6. Trades in Specified Exchanges	0.00	0.00	0.00	0.00	0.00
<b>TOTAL NO. OF DERIVATIVES CONTRACTS DONE (4+5+6)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>REVENUE</b>					
Gross commission for equities:					
1. Online routed trades	0.00	0.00	0.00	0.00	0.00
2. Offline	0.00	0.00	0.00	0.00	0.00
<b>Total Gross Commission for equities</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Less : Commission/incentives/salary/bonus to dealer's representatives:					
1. Online routed trades	0.00	0.00	0.00	0.00	0.00
2. Offline	0.00	0.00	0.00	0.00	0.00



<b>Total</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Net commission for equities:					
1. Online routed trades	0.00	0.00	0.00	0.00	0.00
2. Offline	0.00	0.00	0.00	0.00	0.00
<b>Total Net Commission for equities</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Gross commission for derivatives	0.00	0.00	0.00	0.00	0.00
Less : Commission/ incentives/ salary/ bonus to Registered Representatives	0.00	0.00	0.00	0.00	0.00
<b>Net commission for derivatives</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Total Net Commission</b>					<b>0.00</b>
Interest Income:					
Placement & Deposit				0.00	
Share margin financing (SMF)				0.00	
Loans & advance (excluding SMF)				0.00	
Financial instruments				0.00	
Interest on amount due from holding / related company				0.00	
Other interest income				0.00	
<b>Sub Total</b>				<b>0.00</b>	
Interest expense:					
Interbank borrowing & deposit				0.00	
Loans & advances				0.00	
Other interest expense				0.00	
<b>Sub Total</b>				<b>0.00</b>	
<b>Net interest income</b>					<b>0.00</b>
<b>Fee Income:</b>					
Advisory & arranger (Corporate Finance related)				0.00	
Underwriting & Placement				0.00	
Other (specify if more than 5% of total operating income)				0.00	
<b>Total Fee Income</b>					<b>0.00</b>
<b>Proprietary:</b>					
Net gain/(loss) from quoted shares				0.00	
Net gain/(loss) from other financial instruments / diminution in value of investment				0.00	
<b>Total Proprietary</b>					<b>0.00</b>
<b>Net income from Islamic Banking Operations</b>					<b>0.00</b>
<b>Other Income:</b>					
Dividend				0.00	
Bad debts recovered				0.00	
Provision for bad & doubtful debts written back				0.00	
Others (to specify if more than 5% of total revenue) - please provide in the attached worksheet in Page 2				0.00	



Less: Taxation & zakat		<b>0.00</b>
<b>PROFIT AFTER TAX</b>		<b>0.00</b>

[End of Appendix 3a]

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
PROFIT & LOSS STATEMENT OF PARTICIPATING ORGANISATIONS  
(Quarterly Submission)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**For the quarter ending on :** month/date/year

**Additional Explanatory Notes - Other Revenue & Expenses**

	<b>Name of Other Revenue</b> (if more than 5% of total revenue)	RM	
1			0.00
2			0.00
3			0.00
4			0.00
5			0.00
6			0.00
7			0.00
8			0.00
9			0.00
10			0.00
11			0.00
12			0.00
	<b>Total</b>		<b>0.00</b>

	<b>Name of Other Expenses</b> (if more than 5% of total expenses)	RM	
1			0.00
2			0.00
3			0.00
4			0.00
5			0.00
6			0.00
7			0.00
8			0.00
9			0.00
10			0.00
11			0.00
12			0.00
	<b>Total</b>		<b>0.00</b>

[End of Appendix 3b]

**Appendix 4**

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
FAILURE TO DELIVER (BUYING-IN WITHOUT NOTICE)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Reporting date :** month/date/year

<b>CONTRACT DATE</b>	<b>BUYING-IN DATE</b>	<b>COUNTER</b>	<b>NAME OF DEFAULTING CLIENT</b>	<b>CDS A/C NO.</b>	<b>DEALER'S REPRESENTATIVE'S NAME</b>	<b>TOTAL NO. THAT FAILED TO DELIVER</b>	<b>CONTRACT PRICE</b>	<b>REASONS FOR FAILING TO DELIVER</b>

[End of Appendix 4]

**Appendix 5**

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
FAILURE TO DELIVER (MANUAL BUYING-IN)**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**Reporting date :** month/date/year

CONTRACT DATE	BUYING-IN DATE	COUNTER	NAME OF DEFAULTING CLIENT	CDS A/C NO.	DEALER'S REPRESENTATIVE'S NAME	TOTAL NO. THAT FAILED TO DELIVER	CONTRACT PRICE	REASONS FOR FAILING TO DELIVER

[End of Appendix 5]

**Appendix 6**

**SUBMISSION TO BURSA MALAYSIA SECURITIES BERHAD ON  
SECURITIES BORROWING & LENDING / ISSBNT FOR POTENTIAL FAILED TRADES**

**Participating Organisation :** <<insert name of Participating Organisation>>  
**For the reporting day ending on :** month/date/year

<b>Date of Borrowing / Date of Purchase pursuant to ISSBNT</b>	<b>Contract Date</b>	<b>Counter / (Stock Code)</b>	<b>Quantity</b>	<b>Contract Price</b>	<b>Name of Client / (CDS A/C No)</b>	<b>Dealer's Representative's Name</b>	<b>Remarks</b>

[End of Appendix 6]

Relevant to : Rule 2.01(2)(k)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 2.01(2)(k)**

- (1) Rule 2.01(2)(k) empowers the Exchange to require the Participating Organisations or Registered Persons to provide reports, information, Documents, Books and Records to the Exchange in relation to any matter under these Rules or Directives.
- (2) Pursuant to the above Rule, the Exchange requires the Participating Organisation to undertake the actions set out below.

**1.1 CPF reporting requirement**

- (1) A Participating Organisation must submit the report on Central Permanent File ("**CPF**") on a yearly basis. The position as at 31 December must be submitted by 31 January of the following year.
- (2) The report mentioned in paragraph (1) above must be prepared in the formats prescribed by the Exchange.

**1.2 Shareholding reporting requirement**

A Participating Organisation must inform the Exchange as and when there is a change in its major shareholders.

[End of Directive]



Relevant to : Rule 2.01(2)(o)  
Introduced with effect from : 2 May 2013  
Amended : 5 April 2013 vide R/R 5 of 2013, 12 December 2017 vide R/R 11 of 2017, 1 March 2018 vide R/R 3 of 2018, 16 April 2018 vide R/R 5 of 2018, 21 August 2020 vide R/R 11 of 2020, and 30 June 2021 vide R/R 4 of 2021  
POs' Circular No(s). : R/R 4 of 2013, R/R 2 of 2009  
Refer also to Directive No(s). : N/A

**1. Rule 2.01(2)(o)**

- (1) Rule 2.01(2)(o) provides that in exercising its powers the Exchange may undertake a readiness audit on a Participating Organisation or require a Participating Organisation to carry out its own readiness audit, with the scope, criteria and manner to be determined by the Exchange.
- (2) Pursuant to the above Rule, a Participating Organisation must undertake a readiness audit in the circumstances prescribed below and in the manner set out below.

**2. Circumstances in which a readiness audit is required to be undertaken by a Participating Organisation**

- (1) An applicant wishing to commence new activities requiring the approval of the Commission and the Exchange must first undertake a readiness audit in accordance with these Directives. These activities are:
  - (a) the commencement of operations as a new Participating Organisation (Principal Office); and
  - (b) the commencement of operations as a Universal Broker.
- (2) An applicant wishing to commence new activities requiring the Exchange's approval only must also first undertake a readiness audit in accordance with these Directives. These activities are:
  - (a) *[Deleted]*
  - (b) the relocation or change of business address of its Principal Office)<sup>1</sup>;
  - (c) *[Deleted]*
  - (d) *[Deleted]*
  - (e) *[Deleted]*
  - (f) the offering of Margin Financing facilities;
  - (g) the commencement of proprietary trading; and
  - (h) the offering of Discretionary Account trading facilities to Clients.

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<sup>1</sup> For the avoidance of doubt, the relocation of business address includes a redesignation between a Principal Office and a Branch Office i.e. where the Principal Office is redesignated as a Branch Office or the Branch Office is redesignated as the Principal Office.

- (3) Except where paragraph 4 applies, the Exchange will, upon receiving an application for approval from a Participating Organisation to commence a new activity and upon due consideration, give an approval-in-principle setting out the relevant conditions that need to be complied with by the Participating Organisation prior to commencement of the activity. The Exchange will indicate whether the Participating Organisation is required, in relation to the readiness audit, to follow the self assessment approach (“**SAA**”) or the declaratory approach (“**DA**”).
- (4) The requirement to follow either the SAA or DA is assessed based on the following principles:
- (a) Operating as a new Participating Organisation or Universal Broker
- The SAA will apply to readiness audits required for approval to commence operations as a new Participating Organisation or a Universal Broker.
- (b) *[Deleted]*
- (c) All other activities of Participating Organisation
- (i) The SAA will apply to readiness audits required for approval to commence an activity for the first time.
- (ii) The DA will apply to readiness audits required for approval of subsequent applications of the same nature.
- (5) Notwithstanding items (a) and (c) in paragraph 2(4) above, the Exchange may at any time or under any circumstance it deems fit, require the Participating Organisation to adhere to the SAA in place of the DA.

### **3. Requirements for SAA or DA**

In following the SAA or DA in respect of its readiness audit, a Participating Organisation must comply with the requirements set out below.

#### **3.1 Self Assessment Approach (SAA)**

- (1) A Participating Organisation must comply with the requirements set out in the following appendices to this Directive, in relation to the SAA:

<b>No.</b>	<b>Type of Document</b>	<b>Appendix</b>
1.	Procedures for submission and approval in respect of SAA	1
2.	Declaration of readiness for SAA	2

#### **3.2 Declaratory Approach (DA)**

- (1) A Participating Organisation must comply with the requirements set out in the following appendices to this Directive, in relation to the DA:

No.	Type of Document	Appendix
1.	Procedures for submission and approval in respect of DA	3
2.	Declaration of readiness for DA	4

### **3.3 Non-application of directives**

This directive is not applicable to readiness audits or inspection by the Exchange in respect of Securities Borrowing & Lending, ISSBNT, Regulated Short Selling and Intraday Short Selling activities, for which the relevant provisions of the Rules continue to apply.

## **4. Green Lane Policy**

- (1) The Exchange will allow a Participating Organisation to commence certain activities without waiting for the Exchange to issue its approval-in-principle under paragraph 2(3) above ("**Green Lane Policy**") if:
  - (a) the Participating Organisation is assessed as being eligible under paragraph 4.1 below ("**Eligible Participating Organisation**");
  - (b) the activity falls within the types of activities prescribed under paragraph 4.2 below and meets the criteria prescribed under paragraph 4.3 below; and
  - (c) the Eligible Participating Organisation completes the readiness audit in accordance with the requirements stipulated in paragraph 1(4) of Appendix 1 and paragraph 4 of Appendix 3, and notifies the Exchange in the form attached as Appendix 5 before the commencement of the relevant activity.
- (2) The Eligible Participating Organisation that complies with the requirements of subparagraph 4(1)(c) above is deemed to have been given the Exchange's approval to carry out the said activity pursuant to these Rules.
- (3) Notwithstanding paragraph 4(1) above, the Exchange may, at any time or under any circumstance it deems fit, in respect of a Participating Organisation proceeding under paragraph 4(1) above, require the Participating Organisation to adhere to the SAA or DA, instead of providing the notification to the Exchange that is referred to under paragraph 4(1)(c).

### **4.1 Eligibility of a Participating Organisation**

- (1) The Exchange will assess a Participating Organisation to determine whether it may be considered as an Eligible Participating Organisation for a particular activity. In making this assessment, the Exchange may take into consideration, among others, whether:
  - (a) the Participating Organisation is familiar with the requirements applicable to the proposed activity, having undertaken the said activity previously;
  - (b) the Exchange has noted any unsatisfactory supervisory controls or governance or compliance culture issues in the Participating Organisation's front, middle or back office activities whether as part of its off-site or on-site supervision activities or otherwise;

- (c) the Exchange or the Commission has any serious regulatory concern about the Participating Organisation; and
  - (d) where the Participating Organisation is also a participant of another subsidiary of Bursa Malaysia Berhad (“**other participantship**”), the Exchange has noted any unsatisfactory supervisory controls or governance or compliance culture issues in the Participating Organisation’s activities vis-à-vis such other participantship(s).
- (2) The Exchange will notify a Participating Organisation upon determination that it is an Eligible Participating Organisation for a particular activity and where there is any subsequent change to its status. The Exchange’s assessment is final and binding on the Participating Organisation concerned.
- (3) A Participating Organisation that has not fulfilled the criterion under paragraph 4.1(1)(b) or (c) may still be considered as an Eligible Participating Organisation if it addresses the weaknesses and breaches or serious regulatory concerns, to the satisfaction of the Exchange.

#### **4.2 Activities**

Subject to paragraph 4.3, the Exchange may apply the Green Lane Policy to the following types of activities:

- (a) *[Deleted]*
- (b) the relocation or change of business address of its Principal Office<sup>2</sup>;
- (c) *[Deleted]*
- (d) *[Deleted]*
- (e) *[Deleted]*
- (f) the offering of Margin Financing facilities;
- (g) the commencement of proprietary trading; and
- (h) the offering of Discretionary Account trading facilities to Clients.

#### **4.3 Criteria for activities falling within Green Lane Policy**

The Exchange may apply the Green Lane Policy to the activities in paragraph 4.2 in relation to readiness audits required for approval to commence an activity of the same nature for which approval had previously been granted by the Exchange.

[End of Directive]

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<sup>2</sup> For avoidance of doubt, the relocation of business address includes a redesignation between a Principal Office and a Branch Office i.e. the Principal Office is redesignated as a Branch Office and the Branch Office is redesignated as the Principal Office.

## **Appendix 1**

### **SAA PROCEDURES ON SUBMISSION AND REVIEW OF APPLICATIONS FROM PARTICIPATING ORGANISATIONS ON NEW ACTIVITIES**

#### **1. Procedures For Submission and Approval in respect of SAA**

- (1) The Participating Organisation intending to commence an activity is required to formally inform the Exchange setting out the type of activity for which the approval is required.
- (2) The Exchange will upon due consideration give its Approval-In-Principle ("AIP") to the Participating Organisation.
- (3) Upon receipt of the AIP from the Exchange, the Participating Organisation shall commence to demonstrate its readiness to the Exchange. This will include making the necessary arrangements and commissioning of the relevant infrastructure that are needed to commence the proposed activity.
- (4) The Participating Organisation would then be required to carry out an independent readiness audit and complete the relevant checklists as prescribed by the Exchange or the Commission. The review shall be carried out by a party that is independent of trading and operations of the Participating Organisation, for example, internal audit or external audit.
- (5) A formal application will then be made by the Participating Organisation to the Exchange setting out the level of readiness, the intended commencement date together with all relevant supporting documents and the report produced from the independent readiness audit. The Exchange may seek additional clarification or documents where necessary to ensure the completeness of the readiness audit process.
- (6) If the proposed activity only requires the approval of the Exchange, it will then review the application made together with the supporting documents and communicate the outcome of the review and issue its approval directly to the Participating Organisation.
- (7) Where the proposed activity also requires the approval of the Commission, the Exchange will review the submission made by the Participating Organisation and forward the same together with the Exchange's recommendation to the Commission for its further consideration and approval.

#### **2. Documentation Requirements for New Activities**

The following documents are required:

- Relevant checklist in the prescribed form for each type of new activity.
- Final report of the independent readiness audit carried out by the Participating Organisation.
- Extract of board resolutions / minutes of meeting where applicable.
- Extract of relevant sections of operations manual.

- Copies of relevant agreements entered into by Participating Organisation in connection with the proposed activity.
- Diagrams of new office layout where applicable.
- Results of infrastructure testing where required by the Exchange.
- Any other documents in support of the application or expressly required to be submitted by the Exchange.

Note:-

*The Participating Organisation is required to submit complete documentation and checklist together with the required declaration to the Exchange at least 4 weeks prior to the intended commencement date of the proposed activity. The Participating Organisation should also ensure that all the relevant requirements of the checklist(s) wherein applicable has been complied with prior to the submission to the Exchange.*

[End of Appendix 1]

<b>DIRECTIVES ON READINESS AUDIT - SELF ASSESSMENT APPROACH, DECLARATORY APPROACH AND GREEN LANE</b>	<b>No. 2.01(2)-006</b>
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## Appendix 2

### DECLARATION OF READINESS FOR THE SELF ASSESSMENT APPROACH

To: Head  
 Participants Supervision Division  
 Regulation  
 BURSA MALAYSIA BERHAD  
 12<sup>th</sup> Floor, Exchange Square  
 Bukit Kewangan  
 50200 Kuala Lumpur

*[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]*

### DECLARATION ON COMPLIANCE FOR PURPOSES OF READINESS TO COMMENCE OPERATIONS

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We refer to our application to commence the operation of our *[insert the particulars of the activity concerned]* referenced *[insert reference]* dated *[insert date]*, full details of which are contained in the proposal accompanying our said application.

We, *[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]*, hereby declare and confirm as follows:

1. we shall comply at all times with the relevant rules, directives, circulars and guidelines issued from time to time by Bursa Malaysia Berhad and/or other subsidiaries of Bursa Malaysia Berhad (collectively referred to hereinafter as the Bursa Group) in relation to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* by the Participating Organisation/Authorised Depository Agent/Trading Clearing Participant;
2. that to the best of our knowledge, the *[insert the particulars of the activity concerned]* to be established, maintained or operated by us complies fully with all requirements prescribed by the Bursa Group in relation to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* by the Participating Organisation/Authorised Depository Agent/Trading Clearing Participant;
3. that the *[insert the particulars of the activity concerned]* that is established, maintained or operated, or as the case may be, intended to be established, maintained or operated, outside our Principal Office and/or Branch Office(s) contains adequate and effective specifications and capabilities to ensure that the security of transactions and confidentiality of clients are at all times reasonably and adequately preserved;
4. that the *[insert the particulars of the activity concerned]* 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 we have at the minimum strictly complied with all relevant directives, guidelines, circulars and codes relating to security issue by the Bursa Group for the time being in force, including but not limited to the Participating Organisations' IT Security Standards or the use of information technology (as may be amended from time to time);
5. the *[insert the particulars of the activity concerned]* conforms in all material respects with all relevant rules, directives, circulars and guidelines issued by the Bursa Group with respect to trading of securities on the Exchange by Participating Organisations generally;

<b>DIRECTIVES ON READINESS AUDIT - SELF ASSESSMENT APPROACH, DECLARATORY APPROACH AND GREEN LANE</b>	<b>No. 2.01(2)-006</b>
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6. we are satisfied that the relevant controls and monitoring policies and procedures pertaining to the establishment, maintenance or operation of the [*insert the particulars of the activity concerned*] is/are adequate and effective; and
7. we shall indemnify the Bursa Group and not hold the Bursa Group liable to any claims made by any party as a result of the establishment, maintenance or operations of the [*insert the particulars of the activity concerned*] and its activities.

Signed \_\_\_\_\_  
Authorised signatory

Date \_\_\_\_\_

[End of Appendix 2]



<b>DIRECTIVES ON READINESS AUDIT - SELF ASSESSMENT APPROACH, DECLARATORY APPROACH AND GREEN LANE</b>	<b>No. 2.01(2)-006</b>
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**Appendix 3****DA PROCEDURES ON SUBMISSION AND REVIEW OF APPLICATIONS FROM PARTICIPATING ORGANISATIONS ON NEW ACTIVITIES**

1. The Participating Organisation intending to commence an activity is required to formally inform the Exchange setting out the type of activity for which the approval is required.
2. The Exchange will upon due consideration give its Approval-In-Principle (“AIP”) to the Participating Organisation.
3. Upon receipt of the AIP from the Exchange, the Participating Organisation shall commence to demonstrate its readiness to the Exchange. This will include making the necessary arrangements and commissioning of the relevant infrastructure that are needed to commence the proposed activity.
4. The Participating Organisation would then be required to carry out an independent readiness audit and complete the relevant checklists as prescribed by the Exchange. The review shall be carried out by a party that is independent of trading and operations of the Participating Organisation, for example, internal audit or external audit.
5. The Participating Organisation must then submit the DA Declaration Form in the format prescribed in Appendix 4 to this Directive at least 2 clear weeks before the above intended commencement date.
6. The Exchange will process the application based on the declaration provided by the Participating Organisation and issue its approval directly to the Participating Organisation.

[End of Appendix 3]

<b>DIRECTIVES ON READINESS AUDIT - SELF ASSESSMENT APPROACH, DECLARATORY APPROACH AND GREEN LANE</b>	<b>No. 2.01(2)-006</b>
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#### Appendix 4

### DECLARATION OF READINESS FOR THE DECLARATORY APPROACH

To: Head  
Participants Supervision  
Regulation  
BURSA MALAYSIA BERHAD  
12<sup>th</sup> Floor, Exchange Square  
Bukit Kewangan  
50200 Kuala Lumpur

*[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]*

### DECLARATION ON COMPLIANCE FOR PURPOSES OF READINESS TO COMMENCE OPERATIONS

#### PART I

We refer to our application to commence the operation of our *[insert particulars of the activity concerned]* referenced *[insert reference]* date *[insert date]*.

We, *[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]*, hereby declare and confirm as follows:

1. that *[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]* has carried out an independent readiness audit in regard of *[insert the particulars of the activity concerned]*, and we have reasonable assurance that all the relevant systems, policies and procedures and relevant front office and back office systems IT systems that are required for the effective establishment, maintenance or operation of *[insert the particulars of the activity concerned]* are readily available, operative and functional and are adequate and effective in achieving the intended purpose;
2. we are satisfied that the relevant controls and monitoring policies and procedures pertaining to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* is/are adequate and effective;
3. we shall comply at all times with the relevant rules, directives, circulars and guidelines issued from time to time by Bursa Malaysia Berhad and/or other subsidiaries of Bursa Malaysia Berhad (collectively referred to as the Bursa Group) in relation to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* by the Participating Organisation/Authorised Depository Agent/Trading Clearing Participant;
4. that to the best of our knowledge, the *[insert the particulars of the activity concerned]* to be established, maintained or operated by us complies fully with all requirements prescribed by the Bursa Group in relation to the establishment, maintenance or operation of the *[insert the particulars of the activity concerned]* by *[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]*;
5. that the *[insert the particulars of the activity concerned]* that is established, maintained or operated, or as the case may be, intended to be established, maintained or operated, outside our Principal Office and/or Branch Office(s) contains adequate and effective specifications and

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capabilities to ensure that the security of transactions and confidentiality of clients are at all times reasonable and adequately preserved.

6. that the *[insert the particulars of the activity concerned]* is, in terms of the applications or software, the physical site location and the hardware, reasonably secured from unauthorized tampering and intrusion and in this respect we have at the minimum strictly complied with all relevant directives, guidelines, circulars and codes relating to security issued by the Bursa Group for the time being in force, including but not limited to the Participating Organisations' IT Security Standards or the use of information technology (as may be amended from time to time);
7. the *[insert the particulars of the activity concerned]* conforms in all material respects with all relevant rules, directives, circulars and guidelines issued by the Bursa Group with respect to trading of securities on the Exchange by the Participating Organisations generally; and
8. we shall indemnify the Bursa Group and not hold the Bursa Group liable to any claims made by any party as a result of the establishment, maintenance or operations of the *[insert the particulars of the activity concerned]* and its activities.

## **PART II: NOTIFICATION**

The following are the details of the activities that will be undertaken:\*

\_\_\_\_\_  
**Authorised signatory**

\_\_\_\_\_  
**Date**

\* To provide the details of the activities, including the systems employed and key personnel involved.

[End of Appendix 4]

<b>DIRECTIVES ON READINESS AUDIT - SELF ASSESSMENT APPROACH, DECLARATORY APPROACH AND GREEN LANE</b>	<b>No. 2.01(2)-006</b>
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**Appendix 5****NOTIFICATION OF COMMENCEMENT OF OPERATIONS UNDER THE GREEN LANE POLICY**

To: Head  
 Participants Supervision  
 Regulation  
 BURSA MALAYSIA BERHAD  
 12<sup>th</sup> Floor, Exchange Square  
 Bukit Kewangan  
 50200 Kuala Lumpur

*[insert name of Participating Organisation/Authorised Depository Agent/Trading Clearing Participant]*

**NOTIFICATION OF COMMENCEMENT OF OPERATIONS UNDER THE GREEN LANE POLICY**

The following are the details of the activities that will be undertaken:\*

\_\_\_\_\_  
**Authorised signatory**

\_\_\_\_\_  
**Date**

\* To provide the details of the activities, including the systems employed and key personnel involved..

[End of Appendix 5]

Relevant to : Rule 2.07  
Introduced with effect from : 2 May 2013  
Amended : 21 August 2020 vide R/R 11 of 2020  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Definition**

The term "Participant" means a Participating Organisation or Registered Person or both, unless the context requires otherwise.

**2. Rule 2.07**

This Rule empowers the Exchange to take such action summarily as 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 or is likely to be detrimental to Clients, the public or the Exchange;
- (b) the Participating Organisation or Registered Person has committed an act or omission that is or is likely to be detrimental to Clients, the public or the Exchange;
- (c) the financial position or reputation of the Participating Organisation or Registered Person(s) has a detrimental effect or is likely to be detrimental to Clients, the public or the Exchange.

The circumstances when the Exchange may take action against a Participant under Rule 2.07 include what have been set out below.

**2.1 Circumstances and actions**

(1) The circumstances when the Exchange may take action against a Participant under Rule 2.07 include the following:

- (a) a resolution is passed by the shareholders of a Participating Organisation or a court order is made for the winding-up of a Participating Organisation;
- (b) an arrangement or composition is made with the creditors of the Participating Organisation pursuant to any law;
- (c) the Participating Organisation is unable or fails to maintain the Capital Adequacy Requirements;
- (d) the Participating Organisation is likely to become unable to meet all or any of its financial obligations; or
- (e) the Participating Organisation is about to suspend making payments of the whole or any part of its debts.

(2) The actions referred to in Paragraph 2.1(1) are:

- (a) directing the Participating Organisation or the Participating Organisation's Directors, and Registered Person to take any step relating to the Participating Organisation's business;

- (b) prohibiting or restricting the Participating Organisation from trading in securities on the Exchange's stock market or from doing any other act or thing relating to the Participating Organisation's business;
  - (c) appointing one or more persons to:
    - (i) perform any function with respect to the management or operation of the Participating Organisation's business; or
    - (ii) advise the Participating Organisation on any matter relating to the business operation or management of the Participating Organisation,and requiring such persons to submit reports to the Exchange. The Exchange may remove such persons and appoint others in such persons' place and may fix remuneration of any such persons. The Participating Organisation must pay the remuneration of such persons;
  - (d) in the case of a Participating Organisation that is also a clearing participant of a Clearing House and an authorised depository agent of a Central Depository, directing 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 the Participating Organisation's Clients who have not made good their transactions;
  - (e) directing the Participating Organisation to increase its paid-up capital or shareholders' funds or to implement a scheme for injection of new assets into the Participating Organisation;
  - (f) suspending the Participant up to 4 weeks; or
  - (g) taking any other action to increase or regularise the Participating Organisation's Capital Adequacy Ratio.
- (3) A Participant against whom proceedings are instituted in any Court alleging the commission of any offence arising out of the conduct of business of dealing in securities may be suspended summarily by the Exchange.
- (4) The suspension under Paragraph 2.1(3) will cease upon:
- (a) the acquittal of the Participant (provided that no appeal is lodged against such acquittal); or
  - (b) withdrawal of the prosecution against the Participant;
- and upon notice in writing by the Exchange to the Participant.
- (5) In an action taken by the Exchange against a Participant under this Paragraph 2.1, the Exchange will serve the Participant a written notice setting out:
- (a) the event which forms the basis of the action;
  - (b) the powers that the Exchange will be exercising or have exercised in relation to such action; and
  - (c) where deemed applicable by the Exchange, the date by which the Participant must make representations to the Exchange to discontinue the action taken should the Participant wish to make such representations.

**2.2 Further action against a Participating Organisation**

(1) If at any time after reviewing the actions taken by the Exchange under Paragraph 2.1 the Exchange is of the view that further action is required to adequately protect the interest of the Participating Organisation's Clients, the public or the Exchange, or to ensure an orderly and fair stock market, the Exchange may, upon written notice to the Participating Organisation, take any one or more of the following actions:

(a) upon notifying the Commission:

- (i) assume control of the whole or part of the Participating Organisation's property, business and affairs and carry on the whole or part of the Participating Organisation's business and affairs; or
- (ii) appoint any person to do so on behalf of the Exchange; and
- (iii) order that the Exchange's costs and expenses or the remuneration of the person appointed be payable out of the Participating Organisation's funds and properties;

(b) upon consulting the Commission, appoint one or more receivers or receivers and managers to:

- (i) manage the whole or part of the Participating Organisation's business affairs and property; or
- (ii) close down the operations of the whole or part of the Participating Organisation's business affairs and property.

The Exchange may grant the receiver or receiver and manager such powers the Exchange specifies. The powers includes the power to assume all powers and duties of the Participating Organisation's Directors and other officers and to do such lawful acts and things as may be necessary for or incidental to the carrying out of the receiver's or receiver and manager's functions. The receiver or receiver and manager is deemed to be an agent of the Participating Organisation. The Participating Organisation is solely responsible for the receiver's or receiver and manager's acts or defaults and for the payment of the receiver's or receiver and manager's remuneration. The Exchange may remove any receiver or receiver and manager and appoint another in the receiver's or receiver and manager's place;

(c) upon notifying the Commission, present a petition to the High Court for the winding-up of the Participating Organisation;

(d) upon notifying the Commission, require the Participating Organisation to effect a transfer of the Participating Organisation's Client's monies or securities to a new account with another Participating Organisation. The Client concerned and the other Participating Organisation must first consent to the transfer;

(e) upon consulting the Commission, require the Participating Organisation to effect a corporate restructuring exercise to regularise the Participating Organisation's financial position to an amount the Exchange determines. The corporate restructuring exercise may include a merger with or an acquisition of other Participating Organisation or other entities.

(2) The Exchange may also take any of the actions specified in paragraph 2.2(1) if it is satisfied that the actions in Paragraph 2.1(2), if taken by the Exchange, would not be sufficient or adequate to protect the interest of the Participating Organisation's Clients, the public or the Exchange or to ensure the existence of an orderly and fair stock market.

[End of Directive]

**DIRECTIVES ON DISCLOSURE OF INFORMATION ON VOLUME AND VALUE OF SECURITIES TRADED (INCLUDING DIRECT BUSINESS TRANSACTIONS) BY PARTICIPATING ORGANISATIONS OR MARKET MAKERS**

**No. 2.12(2)-001**

Relevant to : Rule 2.12(2)  
Introduced with effect from : 2 May 2013  
Amended : 21 August 2020 vide R/R 11 of 2020  
POs' Circular No(s). : R/R 4 of 2006  
Refer also to Directive No(s). : N/A

**1. Rule 2.12(2)**

- (1) Rule 2.12(2) empowers the Exchange to disclose the following information to the Participating Organisations or any other persons as the Exchange considers fit:
- (i) without identifying the Client of the Participating Organisation to whom the information relates, the volume or value of On-Market Transactions and Direct Business Transactions transacted by all or any or each of the Participating Organisations or Market Maker(s); and
  - (ii) any action taken against a Participating Organisation or Registered Person by the Exchange under these Rules.
- (2) The directives below set out the manner in which the Exchange may disclose the information on the volume or value of securities traded (including Direct Business Transactions) by the Participating Organisations or Market Makers.

**1.1 Disclosure of Information Pertaining to Volume and Value of Securities Traded (including Direct Business Transactions) by Participating Organisations or Market Makers**

The Exchange will disclose information on volume and value of securities traded (including Direct Business Transactions) by Participating Organisations or Market Makers in the manner detailed below:-

- (a) Disclosure of the names of the 15 Participating Organisations having the highest value of securities traded (including Direct Business Transactions) for each month ("the Month Reported") with the attendant volume and value of securities traded by each of the 15 Participating Organisations, disclosed. The monthly volume and value of securities traded by the remaining Participating Organisations will be aggregated and disclosed as a consolidated figure without a breakdown as to the volume and value of securities traded by each of the remaining Participating Organisations.
- (b) Disclosure of the names of the 15 Participating Organisations having the highest value of securities traded (including Direct Business Transactions), cumulatively from January 2006 until the Month Reported ("**year-to-date**"), with the attendant volume and value of securities traded by each of the 15 Participating Organisations, disclosed. The year-to-date volume and value of securities traded by the remaining Participating Organisations will be aggregated and disclosed as a consolidated figure without a breakdown as to the volume and value of securities traded by each of the remaining Participating Organisations.
- (c) The disclosure in (i) and (ii) above will be made via Bursa Malaysia's website on a monthly basis not later than the 5th Market Day after each preceding month.

The frequency, mode and format of disclosure as well as the extent of disclosure in terms of the names of Participating Organisations with the attendant volume and value of securities traded by each Participating Organisation, may be varied at any time.

[End of Directive]



Relevant to	: Rules 1.11, 3.02(1)(a), 3.04, 3.08, 3.11, 3.18(3), 3.20, 3.51, 3.52 and 3.53
Introduced with effect from	: 2 May 2013
Amended	: 2 December 2013 vide R/R 14 of 2013, 1 December 2014 vide R/R 8 of 2014, 1 April 2015 vide R/R 3 of 2015, 29 May 2017 vide R/R 5 of 2017, 1 March 2018 vide R/R 3 of 2018, 1 June 2018 vide R/R 8 of 2018, 21 August 2020 vide R/R 11 of 2020, and 2 October 2023 vide R/R 6 of 2023
POs' Circular No(s).	: R/R 12 of 2012
Refer also to Directive No(s).	: N/A

## **Introduction**

This Directive sets out the requirements for making applications to the Exchange under Chapter 3 of the Rules. Detailed requirements are set out in the Admission Guidelines.

### **1. Rule 3.02(1)(a)**

- (1) To become a Participating Organisation, Rule 3.02(1)(a) requires an applicant to apply to the Exchange in accordance with the requirements the Exchange prescribes.
- (2) The following sets out the Exchange's requirements, amongst others, in relation to the application.

#### **1.1 Participating Organisation**

An applicant must complete and submit an application to the Exchange accompanied by payment of the relevant fees and a duly executed undertaking to comply with these Rules and Directives, in accordance with the requirements relating to admission of a Participating Organisation as set out in the Admission Guidelines.

### **2. Rule 3.11**

- (1) Rule 3.11(1) sets out the registration procedures for the persons enumerated under Rule 3.10.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

#### **2.1 Registered Persons**

A Participating Organisation must complete and submit an application to the Exchange to register a person as a Registered Person, accompanied by payment of the relevant fees and an undertaking by such person to comply with these Rules and Directives. The Participating Organisation must make the application in accordance with the requirements relating to registration of a Registered Person as set out in the Admission Guidelines.

#### **2.2 Registration of a person falling within 2 or more categories of Registered Person**

- (1) A Participating Organisation must register the Participating Organisation's proposed Registered Person under all categories applicable to that proposed Registered Person.
- (2) The Participating Organisation must pay the fees the Exchange prescribes (if any) for the category with the highest total fees charged, instead of fees prescribed for each applicable category.

For example, a Head of Dealing must be registered as both a Head of Dealing and a Dealer's Representative.

**3. Rule 3.53**

- (1) Rule 3.53(1) requires a Participating Organisation to apply to the Exchange for approval to transfer the registration of a Dealer's Representative:
- (a) who is employed or engaged by another Participating Organisation; or
  - (b) who, not more than 6 months prior to the intended date of employment or engagement with the Participating Organisation, was employed or engaged by another Participating Organisation.
- (2) Rule 3.53(2) provides that to obtain approval to transfer the registration of a Dealer's Representative, a Participating Organisation must:
- (a) apply to the Exchange in the manner the Exchange prescribes;
  - (b) pay the transfer fee the Exchange prescribes; and
  - (c) in the circumstances stated in Rule 3.53(1)(a), submit a letter of release from the Participating Organisation that the Dealer's Representative is employed or engaged with.
- (3) The following requirements apply in respect of an application for approval to transfer the registration of a Dealer's Representative under this Rule, after the third transfer of the Dealer's Representative.

**3.1 Transfer of Dealer's Representative after the third transfer**

If an application for approval to transfer the registration of a Dealer's Representative is made after the third transfer of the Dealer's Representative, the Exchange may:

- (i) refuse any further application for transfer in respect of the Dealer's Representative; or
- (ii) approve the same subject to payment of a fee at twice the rate applicable on the third transfer.

**3.2 Transfer of Dealer's Representative after re-designation**

- (1) A Commissioned Dealer's Representative intending to transfer to another Participating Organisation within 6 months of the re-designation of that Commissioned Dealer's Representative's status from a Salaried Dealer's Representative to a Commissioned Dealer's Representative is subject to the transfer fee of a Salaried Dealer's Representative.
- (2) *[Deleted]*

[End of Directive]

Relevant to : Rules 3.36, 6.07 and 6.08  
Introduced with effect from : 05 May 2013  
Amended : 17 July 2013 vide R/R 10 of 2013, 22 February 2016 vide R/R 2 of 2016, 21 August 2020 vide R/R 11 of 2020, and 30 November 2021 vide R/R 6 of 2021  
POs' Circular No(s). : R/R 4 of 2012  
Refer also to Directive No(s). : Directive 6.08-001

## **1. Introduction**

- (1) Rule 3.36(b) provides that throughout the term of the Head of Compliance's registration, the Head of Compliance must supervise and carry out proper checks and reviews to monitor and ensure overall compliance by the Participating Organisation and the Participating Organisation's Registered Person, employees and agents with the Securities Laws, these Rules and the Directives.
- (2) Rule 6.07 states that every Participating Organisation must carry out the compliance function 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.
- (3) In addition, Rule 6.08 provides that 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 Persons, employees and agents.
- (4) In discharging the obligations under the said Rules, the Head of Compliance, Board of Directors and Participating Organisation must, amongst other requirements, comply with the following guidelines.

### **1.1 GUIDELINES FOR COMPLIANCE FUNCTION FOR PARTICIPATING ORGANISATIONS**

- (1) A Head of Compliance, Board of Directors and Participating Organisation must comply with the Guidelines for Compliance Function for Participating Organisations ("**Compliance Guidelines**") and a Head of Compliance must supervise and direct all compliance officers of its Participating Organisation to comply with the Compliance Guidelines.
- (2) The Compliance Guidelines are formulated to cater for all possible business and operational activities of a Participating Organisation. A Head of Compliance, Board of Directors and Participating Organisation must apply and comply with the requirements that are relevant to its business and operational activities. A Head of Compliance and Participating Organisation may omit to report those requirements which the Participating Organisation deems as inapplicable if it does not undertake the stated business and operational activities. For example, a Participating Organisation which is not carrying out discretionary trading need not comply with obligations on discretionary trading.
- (3) The Compliance Guidelines are set out in **Appendix 1** of this Directive.

[End of Directive]

APPENDIX 1

**GUIDELINES  
FOR  
COMPLIANCE  
FUNCTION  
FOR  
PARTICIPATING  
ORGANISATIONS  
("COMPLIANCE  
GUIDELINES")**

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## **1. INTRODUCTION**

- (1) Past financial crises have shown that vast sums of money have been wiped out by bad behaviour such as unethical trading, excessive risk-taking, market manipulations, money laundering-related penalties and weaknesses in internal controls. Due to this, regulation has taken on renewed importance and international regulatory standards are being reviewed and tightened.
- (2) The three lines of defence model consisting of the business line managers as the first line of defence, risk control and compliance as the second line of defence while the third line of defence being the internal audit as risk assurance, are vital controls within a Participating Organisation.
- (3) A corporate culture with high ethical standard is a reflection of a strong compliance culture that is instilled by the Board of Directors and senior management, and practised by all levels of employees within a Participating Organisation.
- (4) It is imperative that sound compliance is practised to embrace the letter and spirit of the applicable laws, these Rules and Directives to ensure high standard of business conduct and ethics within a Participating Organisation that will safeguard investors' interests and integrity of the market place.
- (5) In light of the above, it is pertinent that the conduct of a Participating Organisation's business activities be subjected to the Compliance Guidelines.

## **2. OBJECTIVES OF COMPLIANCE GUIDELINES**

The objectives of the Compliance Guidelines are to:-

- (a) provide a general guide on compliance which will serve as a basis for the formulation of the compliance manual and the measurement for the performance of the compliance function;
- (b) emphasise the role, duty and responsibility of the compliance function to the Head of Compliance, Board of Directors and Participating Organisation;
- (c) enhance the quality and effectiveness of the compliance function;
- (d) set the minimum supervisory and monitoring standard for all Participating Organisations; and
- (e) provide an in-depth understanding of the duties and responsibilities of the compliance function in relation to other employees of a Participating Organisation.

## **3. PRINCIPLES AND CONCEPT OF COMPLIANCE FUNCTION**

### **3.1 Control function**

Also termed as the middle-office function, a compliance officer (which includes the Head of Compliance and is referred to as "CO"), must be independent of both back and front office and ensure that the activities of both the front and back office function are carried out without any conflict of interest. A CO must have no sales and/or operational function and must not be involved in trading (e.g. he must not be allowed to solicit or execute any orders on behalf of Client), settlement, funding, processing or reconciliation activities of a Participating Organisation. In this respect, the CO must only engage in full time compliance work.

### **3.2 Second Line of Defence**

- (1) The compliance function acts as the second line of defence in overseeing the various policies and control procedures that are adhered to by the first line of defence, i.e. the business lines, through its day-to-day activities.
- (2) Together with the internal audit, the third line of defence, the compliance function provides assurance to the Board of Directors and senior management on the effectiveness of the Participating Organisation's overall internal controls, risk management and governance systems and processes in complying with regulatory requirements and internal policies and procedures. The internal audit department and the compliance function should strive to complement each other and work towards achieving a high standard of compliance.

### **3.3 Advocate Compliance Culture**

A CO is responsible for creating, promoting and cultivating compliance culture and making a high standard of compliance part of the day-to-day management of the Participating Organisation. A CO and heads of departments must maintain compliance by ensuring that all systems and procedures as identified by or agreed with the heads of departments that would enable heads of departments to perform their responsibilities effectively are in place.

### **3.4 Advisory and Supervisory Role**

A CO must advise the management and Board of Directors in relation to conformity to all the Securities Laws and these Rules and the Directives ("**Regulatory Framework**"), as well as internal policies and procedures. The CO also has a supervisory and monitoring function over all employees to ensure they carry out their duties and obligations in compliance with the Regulatory Framework and internal policies and procedures. The CO's supervisory and monitoring function does not relieve the heads of departments of their responsibilities.

### **3.5 Independence of Function**

- (1) The compliance function must be a function without any potential conflict of interest in its responsibilities and is not hindered from highlighting non-compliances of any business lines to the Board of Directors or senior management as to achieve unflawed check and balance within a Participating Organisation.
- (2) In instances where the CO also assumes the duties of other control or administrative functions, the CO must ensure that the independence and ability to provide sufficient resources and commitment to the responsibilities in respect of the compliance function is not compromised and is carried out without conflict of interest, perceived or otherwise.

### **3.6 Overseeing Compliance and Maintenance of High Standards of Business Conduct**

The CO is responsible for overseeing compliance within the organisation on a day-to-day basis and ensuring compliance with the Regulatory Framework, as well as internal policies and procedures.

### **3.7 Promote Proper Conduct and Segregation Of Duties**

The CO must oversee the Participating Organisation's policies and procedures to ensure that all back-office and front-office employees of the Participating Organisation exercise proper business conduct, do not undertake any unethical practice and that their functions do not cause conflicts of interest. These policies and procedures must outline the necessary standards of personal and professional integrity expected of employees and that the Regulatory Framework is strictly adhered to by all employees of the Participating Organisation.



### **3.8 Access to documents**

A CO must have unlimited and unfettered access to all information and records in relation to the Participating Organisation's business activities and must be authorised to question any employee regarding any conduct, business practice, ethical matter or any other issue which is relevant to the discharge of duties.

### **3.9 Liaison between the Exchange / Regulators and the Participating Organisation**

The CO must act as the point of reference between the Exchange, Clearing House, Commission or other regulators, where relevant, and the business lines on all compliance related matters. The CO is also to ensure that the Exchange, Clearing House, Commission or other regulators, where relevant, are supplied with documents and information as and when requested.

## **4. COMPLIANCE AND GOVERNANCE**

### **4.1 Tone from the top**

- (1) A Participating Organisation, as a whole, must be committed to the creation and maintenance of a compliance culture within its organisation. Key decisions and actions taken in regard to daily operations must be based on such a commitment, ensuring compliance with the Regulatory Framework at all times.
- (2) The setting of a compliance culture within the Participating Organisation is the responsibility of the Participating Organisation through its Board of Directors and senior management. They must provide necessary support to the compliance function and their actions must be indicative of this. They must ensure that employees comprehend and understand their responsibilities in respect of compliance risk and promote an environment where employees feel safe and comfortable in reporting incidents and promoting transparency throughout the organisation through self-reporting.

### **4.2 Board Oversight**

- (1) The compliance function of a Participating Organisation is ultimately the responsibility of the Participating Organisation and its Board of Directors. A strong and pro-active Board of Directors will foster an environment of strong internal controls and compliant procedures and practices. It will also help to inculcate compliance culture within the Participating Organisation.
- (2) The Board of Directors is responsible for the compliance function of a Participating Organisation in a holistic manner, including taking actions to:
  - (a) approve the organisation's compliance framework and policy and to oversee its effective implementation;
  - (b) approve significant policies and procedures throughout the organisation and ensure that a sound system of internal controls is maintained to safeguard shareholders' interest, company's assets and clients' interests. This covers not only financial control but also operational and compliance controls, as well as risk management;
  - (c) perform on-going evaluation on the effectiveness of the organisation's overall compliance risk management;
  - (d) appoint or ensure the appointment of a qualified person to perform the duties of the Head of Compliance;
  - (e) appraise and deliberate on the performance of the Head of Compliance; and
  - (f) approve the termination or acknowledge the resignation of a Head of Compliance, or when the approval or acknowledgment is delegated, to ensure that the termination or

resignation is for a proper reason. The Board of Directors must be informed of the outcome of the exit interviews held with a Head of Compliance and ensure that actions are taken to address deficiencies, if any, that resulted in the resignation or termination of the Head of Compliance.

#### **4.3 Management Oversight**

- (1) The Participating Organisation through its senior management in all business lines within the Participating Organisation must effectively manage the compliance risk, as well as other inherent risks by developing and owning clear, comprehensive and up-to-date policies and procedures.
- (2) It is essential that the Participating Organisation, through its senior management ensures that the organisational structure, reporting lines and functional responsibilities of its employees are clear, adequate and up-to-date in writing. There should be a clear segregation of duties within each department as to avoid any potential conflict of interest situation.

#### **4.4. Qualification and Competence**

Based on the above, the Board of Directors must appoint a Head of Compliance with good character, business repute, qualification, experience and sufficiently broad knowledge and high level of expertise. In addition to the qualifications laid down in these Rules, the Board of Directors must ensure that the Head of Compliance is equipped with the authority and ability to effect decision so as to be able to carry out his responsibilities effectively. Therefore, the Head of Compliance must be a person holding a **senior position** in the organisation of the Participating Organisation, who can act independently and is able to fully affect decisions.

#### **4.5 Resources**

The Participating Organisation must support the compliance function by employing sufficient personnel with the necessary qualifications and authority. The role and function of CO can be best performed and executed with proper tools and mechanism as well as the support of a compliance unit to ensure the efficacy of the compliance function and programmes. The size of the compliance unit of a given Participating Organisation would very much depend on the size and complexity of the business activities and operations.

#### **4.6 Reporting to the Board of Directors or the Board Committee**

The Head of Compliance must report directly to the Board of Directors or such committee appointed by the Board of Directors, as the case may be. In the course of his duties, the Head of Compliance may bring to the attention of the executive directors or other senior management of the Participating Organisation matters pertaining to compliance of the Participating Organisation so as to enable appropriate action to be taken.

#### **4.7 Ultimate Responsibility of Ensuring Compliance Within the Participating Organisation**

- (1) The ultimate responsibility to ensure compliance with the regulatory requirements and internal control framework lies with the Participating Organisation and its Board of Directors. The CO facilitates the attainment of these objectives and does not relieve the Participating Organisation or its Board of Directors of any of its responsibilities. The Participating Organisation and its Board of Directors must undertake effective oversight of the formulation, coordination and implementation of any supervisory or compliance programme.
- (2) Therefore, when the Board of Directors fails to effectively supervise the overall business undertaking of the Participating Organisation or the activities of its employees, including commissioned dealers, or fails to act upon a notification from the Head of Compliance, the Exchange deems it a failure to act, on the part of the Board of Directors. In such an event, the Head of Compliance must submit a copy of the reports and recommendation pertaining to the breach of compliance and failure to act on the recommendation directly to the Exchange.

- (3) Nevertheless, compliance is the responsibility of all staff within an organisation. All levels of business functions must carry out their responsibilities to ensure compliance with the Regulatory Framework as well as all internal control policies and procedures set up by the Participating Organisation.

## **5. DUTIES AND RESPONSIBILITIES OF A CO**

### **5.1 The Role of the CO in relation to the Board of Directors**

The CO reports directly to the Board of Directors or such committee appointed by the Board of Directors, as the case may be, and has access (when necessary) to report, update, inform and make recommendations to the Board of Directors or such committee appointed by the Board of Directors, as the case may be on all matters pertaining to compliance and breach (or likely breach). With the Board of Director's commitment and support in adopting the compliance principles and governance framework, a CO would be able to implement and maintain an effective compliance function that can act as a deterrent against any wrongdoing by market participants and provide the necessary foundation for the protection of investors' interests in the market.

### **5.2 The Role of the CO in relation to other Departments or Functions within the Participating Organisation**

The CO plays a supervisory role over every management level who is a supervisory head within the Participating Organisation to ensure that the Participating Organisation complies with all the relevant Regulatory Framework. In this respect, the CO keeps in constant communication and works closely with all supervisory heads within the Participating Organisation, with a view to supplementing reviews of the supervisory heads and ensuring that the necessary policies and procedures are in place to effect proper supervision of the respective departments of the supervisory heads. In practice, this can involve the direct participation of the CO in providing legal and regulatory input to business processes or decisions. For the purposes of the Compliance Guidelines, a supervisory head means a senior officer holding a managerial position and designated to direct or supervise a particular function in a Participating Organisation, who is generally a head of department but may include a manager reporting to the head of department.

### **5.3 Managing Compliance Risk**

A CO must identify all compliance risks and implement controls into the Participating Organisation's day-to-day operations to manage these risks effectively.

### **5.4 Managing Conflict of Interest**

Conflicts of interest management is one element of a CO's day-to-day role as part of maintaining proper conduct of the Participating Organisation including by reviewing policies and procedures to effect proper corporate governance and policy on "Chinese Walls".

### **5.5 Identify Impact of Change in Regulation and Policies**

The CO must analyse the impact of any regulatory and policy changes in its business operations and communicate and disseminate such impact (if any), effectively and in a timely manner throughout the Participating Organisation.

### **5.6 Assist in Situations of Non-Compliance or Potential Non-Compliance**

Upon being notified of or identifying:

- (a) an event of non-compliance; or

- (b) a potential non-compliance event, including a risk of breach of rules and regulations

the CO must inform the relevant supervisor and to work with the appropriate person to rectify the matter in an efficient and practical manner, recommend remedial action to the Participating Organisation and see to its successful implementation. A CO must review the course of action in the event of non-compliance, examine the extent of non-compliance and report to the Board of Directors or such committee appointed by the Board of Directors, as the case may be, and the Exchange with proposed remedies. The CO must also address audit findings raised by internal, external and regulatory auditors.

## **6. SUPERVISION OF THE PARTICIPATING ORGANISATION**

- (1) The duty of the CO is to do everything within its powers to ensure that the Participating Organisation achieves compliance with the Regulatory Framework by ensuring that there is adequate system or a set of written policies and procedures that provides for the system of monitoring in the front and back office functions. Areas of compliance in the business of a Participating Organisation generally relate to Clients, operational and financial compliance. Where the Participating Organisation is also an adviser or a sponsor as defined in the Listing Requirements, the CO is required to monitor and supervise compliance with the relevant provisions of the Securities Laws and Listing Requirements.
- (2) The CO undertakes an overall supervisory responsibility over the trading and operational functions of a Participating Organisation. A CO monitors ongoing business activity on a proactive basis and oversees that compliance is met by ensuring that all systems and procedures are in place and maintained by all supervisory personnel.
- (3) A CO must ensure the establishment, maintenance and enforcement of an adequate supervisory and compliance system to generally supervise the overall proper running of its business activities and particularly, to supervise the activities of each Dealer's Representative, agent and other personnel. Such a system must be reasonably designed to achieve compliance with the applicable Regulatory Framework.

### **6.1 Supervisory Programme**

- (1) A prudent supervisory programme refers to a competent system of internal controls within a Participating Organisation. Proper management controls and diligent management enhances the credibility and reputation of a Participating Organisation and provides the necessary investor protection. Indeed, the supervisory and control responsibilities of a Participating Organisation are crucial to the maintenance of the integrity of the marketplace.
- (2) A CO must ensure the elements of a competent supervisory programme must at least consist of:

#### **(a) Written Policies and Procedures**

- (i) A comprehensive documentation and written policies and procedures on the business operations are maintained and regularly updated to take into account any changes that may occur in the current Regulatory Framework. These procedures must be effectively disseminated and enforced throughout the Participating Organisation. The CO must ensure that the written policies and procedures established are adequate, meet industry standards, the regulatory requirements, and the internal requirements of the Participating Organisation by conducting reviews to ensure such policies and procedures meet regulatory and internal requirements and business lines have reviewed for adequacy against industry standards.
- (ii) Maintenance of an internal record of all persons designated as supervisory personnel and those delegated with supervisory functions, including the dates for which such designation was effective.

- (iii) Establishment of written policies and procedures of all transactions and correspondence of its Dealer's Representatives pertaining to the solicitation or execution of any transaction. Examples of written policies and procedures include policies and procedures on maintaining records of trading activities and trade orders from clients.

**(b) Internal Review**

The CO must ensure that, pursuant to the above, the relevant supervisory heads/heads of departments perform their supervisory responsibilities effectively. Regular and periodic reviews of the Participating Organisation's business activities and the departments' functions must be carried out to assist in detecting and preventing violations of the Regulatory Framework. A complete written record of the details of such reviews conducted is to be maintained.

**(c) Automation of Monitoring**

As the complexity of a Participating Organisation's business operations grow, it is recommended that automation of monitoring is employed whenever possible and practical, particularly in areas of reporting and generating exception reports.

## **7. SUPERVISION OF COMPLIANCE FUNCTION**

- (1) To be effective, the compliance function requires the formulation and implementation of tools such as compliance manual, compliance programme and checklist (collectively referred to as the "**Compliance Programme**"). These tools are to be tailored in accordance with the business operations of each Participating Organisation.
- (2) The overall objectives of a Compliance Programme are to ensure:
  - (a) the business activities are regularly monitored;
  - (b) the level of compliance of a business unit within the Participating Organisation are evaluated;
  - (c) compliance risk and any other inherent risks are mitigated; and
  - (d) areas of non-compliance are rectified.

### **7.1 Compliance Manual**

- (1) A comprehensive compliance manual must be established and tailored to a Participating Organisation's respective needs and reviewed for adequacy by the CO. It must elaborate on the practical applications and detailed operations of the compliance function. The manual must specify among others, the monitoring, supervisory and review procedures in relation to the compliance function.
- (2) The manual must amongst others:
  - (a) include the outline for the compliance policies, procedures and controls of the Participating Organisation, to safeguard the Participating Organisation and its Clients from serious risks of loss and defalcation;
  - (b) contain adequate procedures designated to enable the Participating Organisation's business activities and the departments' functions to meet industry standards, regulatory requirements and the circumstances of the Participating Organisation;
  - (c) contain compliance policies and procedures designed to anticipate, as far as possible, the activities most likely to result in misconduct by the Participating Organisation;

- (d) contain compliance policies and procedures that are monitored, enforced and effectively communicated within the Participating Organisation;
- (e) be subject to regular periodic review or whenever there are major changes to the Regulatory Framework; and
- (f) be approved by the Board of Directors, or such committee appointed by the Board of Directors, as the case may be.

## **7.2 Compliance Programme**

A Compliance Programme documents how compliance monitoring will be performed, and will contain detailed areas of checking and state the frequency of checks that should be conducted. This is to ensure that a business process is checked to identify, assess and respond to errors and other variances that would otherwise thwart compliance with an activity's procedures. Compliance Programmes must commensurate with the size and nature of the Participating Organisation and include monitoring programme over its branch offices. Compliance checks should produce accurate and timely data to measure the compliance level of a Participating Organisation.

## **8. MONITORING BY COMPLIANCE FUNCTION**

A CO must review that all areas of the Participating Organisation's business and operations comply with the Regulatory Framework. The compliance monitoring programme must at least consist of the areas stated below (dependent upon the business and operational activity of the Participating Organisation):

### **8.1 Management of Conflict of Interest**

Effective management of conflict of interest involves, among others, a segregation of function, as follows:

- (a) Effective handling of the Clients' trading accounts and the organisation's proprietary accounts to ensure the Participating Organisation acts in the best interest of its Clients. Where such a conflict of interest does arise, to always give preference to the Client's interest. The Clients' and proprietary accounts are to be reviewed regularly within the prescribed parameters. All employees of the Participating Organisation should exercise proper business conduct and do not undertake any unfair or unethical practices.
- (b) There is proper segregation between functions where there are conflict of interest, including between the back-office (administration and record-keeping), the front-office trading, and the risk management functions. This is to provide a necessary system of check and balances and to produce efficacy in a Participating Organisation's system of internal controls.
- (c) There is no concentration of authority within the supervisory ambit of one person, (e.g. the Head of Operations in charge of the back office must not also be supervising the dealing/trading operations) and that there is proper segregation of functions (proper corporate governance). This would prevent the abuse of position/authority and would ensure that no one person is responsible for the supervision of a large number of department/employees without any corresponding check or control.
- (d) Where the Participating Organisation assumes more than one role in the market place, there would inevitably be potential conflicts of interests. Hence, barriers to communication must be erected between the relevant departments of a Participating Organisation to prevent the transfer and misuse of non-public information. The CO must ensure there must be adequate internal procedures pertaining to information barriers (Chinese Walls) and the strict adherence to the same, to prevent misuse of non-public information or the occurrence of other trading abuses.

## **8.2 Client Account Opening**

That the trading accounts are approved within the provisions of the Regulatory Framework and the relevant business conduct requirements and are supported with relevant written agreement and risk disclosure statement before trading is allowed to commence. For non-face-to-face verification, ensure adequate controls are in place before accounts are accepted for approval. Adequate controls include the following:

- (a) The information essential to the opening of a Client's account has been obtained, including the essential facts about the Client's financial background, investment objectives and investment experience. Any approval for the opening of the Client's account will then be based on such information as obtained.
- (b) The Client's written agreement and the written approval necessary for the opening of the account has been obtained.
- (c) The Participating Organisation maintains at all times proper records of its Clients' accounts and to review the Participating Organisation's written procedures pertaining to the opening of Client accounts.
- (d) All requirements have been met prior to the approval of new Client amounts and all necessary documentation are in place, including checking that the Client's background and financial information verification is carried out.

## **8.3 Client Account Review**

The following areas must be complied with:

- (a) The procedures for account opening as well as the suitability rules have been strictly adhered to. In addition, such reviews will enable the detection of unusual patterns in trading or signs of apparent increase in the risk exposure in an account.
- (b) The Client and proprietary accounts are reviewed regularly by the relevant supervisor/authorised person and to supervise such reviews.
- (c) Maintain regular and periodic review of high exposure accounts or accounts of high-risk Clients.
- (d) Any issues arising from any Client's account must be addressed promptly and resolved as soon as possible and where necessary, to be reported to the Exchange.

## **8.4 Segregation of Assets**

There is a complete segregation between Clients', Dealer Representatives' and Participating Organisation's funds and assets.

## **8.5 Discretionary Accounts**

Review Discretionary Accounts to ensure the following:

- (a) compliance with these Rules and Directives;
- (b) that prior written authorisation from the Client has been obtained;
- (c) that the Participating Organisation has entered into a written agreement with the Client which sets out the terms and conditions for the operation of the Client's Discretionary Account, including adequate and accurate disclosure of the risks involved;

- (d) each discretionary order must be identified as a discretionary order at the time of the entry;
- (e) the trades done in a Discretionary Account are reviewed regularly;
- (f) that in operating a Discretionary Account, the Participating Organisation must at all times act in the best interest of the Client. In this regard, the review must include the assurance that there is a mechanism in place to prevent the churning of such accounts purely to generate commission;
- (g) that all discretionary trades are executed within the proper discretionary authority granted to the Participating Organisation and that such trades are properly recorded;
- (h) that the maintenance of complete and accurate documentation of every transaction undertaken under any Discretionary Account; and
- (i) in relation to Discretionary Account transactions, that there is no conflict of interest in the execution of Client trades and proprietary trades.

## **8.6 Client Complaints**

The CO must:

- (a) Ensure that Clients' complaints are recorded and maintained in accordance with these Rules and Directive and internal policies and procedures. The CO must ensure that the handling of disputes are carried out in the best interest of the Clients and that a proper register is maintained to document all Clients' complaints. The register must record the following information:
  - (i) the identity of the complainant;
  - (ii) the date the complaint was received;
  - (iii) the Dealer's Representative servicing the account (where applicable);
  - (iv) a general description of the complaint; and
  - (v) the action(s) taken in respect of the complaint.
- (b) Ensure that the requirements for reporting, investigating and documenting Client complaints are in place and are adhered to.
- (c) Review and follow-up on the Client's Complaints Log/Register and ensure that all complaints made are duly noted and documented by a senior staff of the Participating Organisation and addressed promptly.
- (d) Monitor the handling of disputes with Clients' arbitrations and awards.
- (e) Give immediate attention where a high number of Client complaints are received and implement mitigating strategies.

## **8.7 Transactions by Directors, Employees, Dealers' Representatives, Trading Representatives**

The CO must ensure that an employee, Dealer's Representative, Trading Representative or Director of the Participating Organisation who trades in securities for his own account is subject to compliance with the provisions on conflicts of interests as set out in the Regulatory Framework and must notify the Participating Organisation of such trades. The compliance function must actively monitor to ensure that proper records of all employee accounts and any transactions undertaken are maintained and that controls are in place to prevent insider trading.



## **8.8 Dealer's Representatives**

The CO must ensure:

- (a) Dealer's Representatives are properly registered with the relevant Exchange.
- (b) Dealer's Representatives conduct trading based on the "Know Your Customer"/Know Your Client Product" rules and do not make recommendations that are unsuitable to Clients. Such recommendations must be based on the relevant information produced by or obtained on a Client, including the Client's investment objectives and experience and his ability to evaluate the risks involved in the said recommendation.
- (c) There is no conflict of interest when trading is being conducted and where such a conflict of interest does arise, to always give preference to the Client's interest.
- (d) Client's instructions are always adhered to unless prohibited by the Regulatory Framework.
- (e) All transactions are properly recorded and processed.
- (f) Dealer's Representatives do not give unpermitted incentives to Clients or prospective Clients.
- (g) The record of mobility of Dealer's Representatives is maintained.

## **8.9 Marketing Representative ("MR")**

- (a) All MRs are properly registered with the Participating Organisation.
- (b) MR can only perform permitted activities as outlined in the Guidelines for Marketing Representatives.
- (c) MR do not provide recommendation or advise on securities and derivatives or any other capital market products to Clients.
- (d) The MR fulfils the minimum qualification and requirements as set out in the relevant guidelines.

## **8.10 Trading Representative ("TR")**

- (a) All TRs are properly registered with the Commission.
- (b) TR only performed permitted activities as outlined in the relevant guidelines.
- (c) TR do not provide advice, persuade, induce or make specific recommendations on capital market products.

## **8.11 Record-Keeping and the Supervision of Accounts**

All transactions and activities must be properly recorded and documented in order to establish an audit trail. Comprehensive records of all Client accounts and transactions done must be maintained. Such records must be made readily available to persons performing supervisory functions and must facilitate the review of, among other things, the size and frequency of purchase transactions, the amount of commission generated, the profit and loss status, any undue concentration in any type of transaction, compliance with rules on margin (where applicable).

### **8.12 Maintenance of Paid-up Capital and Clients' Trust Account**

- (1) The requirements on the maintenance of the minimum paid-up capital and minimum shareholders' funds unimpaired by losses of the Participating Organisation as well as the submission of regulatory reporting in an accurate and timely manner as prescribed in the Regulatory Framework. Also, there are adequate procedures in ensuring reconciliation for all balances on the accounts and the operations of trust account by the Account/Finance Department and controls in place to ensure no co-mingling of Clients' and Participating Organisation's monies. There must be proper classification and disclosure of Clients' trust account in accordance with the Regulatory Framework.
- (2) For any deficiencies in the trust account, action must be taken to address the deficiencies and reporting must be conducted in a timely manner. Controls must be in place to ensure monies deposited with or received by the Participating Organisation as well as withdrawal from Clients' trust account is in accordance with the Regulatory Framework.

### **8.13 Capital Adequacy Ratio ("CAR")**

The requirements on the maintenance of minimum CAR of the Participating Organisation at all times and the capital adequacy reports are reviewed prior to transmitting the CAR report in accordance with the provisions prescribed in these Rules and Directives.

### **8.14 Margin Accounts**

- (1) The margin policies of the Participating Organisation comply with these Rules and Directives on margin trading and to establish procedures for the purpose of ensuring that the same are complied with.
- (2) All margin trading is in accordance with these Rules and Directives and the margin agreement signed with the Client. For example, in regards to the topping up of the margin equity ratio, the making of margin calls, the rollover of margin positions, the limits on a Participating Organisation's exposure to margin financing. No margin Client should be given undue flexibility in relation to all these matters.

### **8.15 Credit Control**

- (1) Any credit limit imposed on any given Client has been duly approved by the authorised person in charge and that such limit commensurate with the relevant information produced by or obtained on such Client, i.e. such limit must be appropriate in light of factors such as income and financial status, investment experience, credit record, etc.
- (2) Any increase in credit limit granted to Clients has been approved by the Credit Committee or the relevant authorised personnel and that the relevant information necessary to approve such increase has been considered.
- (3) The credit control policy pertaining to debt recovery is not abused, i.e. there must be prompt recovery of outstanding amounts from Clients and that no preference should be given to any Client to roll over a position without undergoing the proper process and without valid reason.
- (4) The provisions pertaining to exposure to a single Client and a single security is strictly adhered to, and that there is proper mechanism to monitor these matters.

### **8.16 Clearing and Error Accounts**

All transactions in the clearing and error accounts, are properly recorded and processed and error trades are transferred and closed in the error account, in accordance with these Rules and Directives. High frequency of error trades should warrant a review of the Participating Organisation's policy.

#### **8.17 Clients Trading on LEAP Market**

There are adequate procedures to ensure that the Clients remain qualified as Sophisticated Investors for purpose of trading on the LEAP Market. All transactions in the LEAP Market are properly tagged and comply with the provision of these Rules and Directives in respect of Clients trading on the LEAP Market.

#### **8.18 Regulated Short Selling (“RSS”)/Securities Borrowing and Lending (“SBL”)**

- (1) All RSS trading are in accordance with the Regulatory Framework and the SBL Agreement or the Islamic Securities Selling and Buying – Negotiated Transaction (“ISSBNT”) Agreement is signed with the Client.
- (2) The established RSS/SBL policies and procedures comply with the Exchange’s requirements.

#### **8.19 Market Maker**

There are adequate system of internal controls and risk management and that the market making activities (including PSS), are done through the Securities Accounts designated specifically for market making based on the terms prescribed by the Exchange and the Depository respectively.

#### **8.20 Accounting / Financial Review**

The CO must ensure there are adequate policies and procedures to ensure accounting information are complete, accurate and processed on a timely basis where accounting related reconciliation must be performed by an independent officer and on a periodic basis. Reconciliation differences must be investigated and promptly resolved.

A proper accounting system must be implemented to ensure existence of an audit trail and provide accountability to the accounting data captured in the system. Accurate and prompt recording of cash receipt/disbursement must be put in place to monitor cash balances maintained at adequate levels.

Proper classification and disclosure must be implemented in accordance with the reporting guide of the Regulatory Framework and submission of regulatory reporting must be made in an accurate and timely manner as prescribed in the Regulatory Framework.

#### **8.21 Market Surveillance Monitoring**

There must be adequate policies and procedures in place to monitor the strict adherence to provisions on market surveillance monitoring as contained in the Regulatory Framework, including the parameters used that would enable detection of possible market manipulation. The CO must ensure adequate records are being retained for the monitoring, escalation and reporting of alerts.

#### **8.22 New Product/Activity**

For any new activity/product undertaken by the Participating Organisation, adequate assessments have been undertaken by the Participating Organisation prior to the commencement of the new product/activity to be in compliance with the Regulatory Framework.

#### **8.23 Advertisements, Sales Literature and Other Forms of Communications to Client / Public**

Promotional materials or other forms of communication issued by a Participating Organisation must be in line with the Regulatory Framework, including the Commission’s Guidelines on Advertising for Capital Market Products and Related Services. It must be factual, accurate, avoid misrepresentation, not misleading, make no promise in respect of profits and must always indicate the possibility of loss if profit is mentioned. Special care must be taken where forecasts

or projections are included. Such information must be clearly identified as such and all underlying assumptions, risks and cost must be clearly stated.

#### **8.24 Cybersecurity**

Adequate measures must be put in place to protect the Participating Organisation from possible cyber-attacks.

### **9. EFFECTIVE COMMUNICATION**

Effective communication channel must exist between the CO, Board of Directors and employees. This is vital in ensuring information in relation to the Regulatory Framework and internal policies and procedures are relayed and implemented efficiently and effectively.

#### **9.1 Dissemination of information**

Information or notification pertaining to the Regulatory Framework and internal policies and procedures to the Board of Directors, senior management and employees, must be relayed via effective means of communication. The CO is to ensure that all notifications from the Exchange and the Commission are properly disseminated to the relevant employees within the Participating Organisation.

#### **9.2 Access to CO**

The CO is to keep constant communication with all business lines' stakeholders within the organisation with the aim of both the CO and employees having direct access to each other. It would also complement proper supervision of the existing policies and procedures and to tackle any identified gaps.

#### **9.3 Communication on Outcome of Monitoring**

Clear policies and procedure on communication between the CO and the employees and vice versa on matters of non-compliance must be established. All employees should be made aware that non-compliances are to be communicated and acted upon immediately.

### **10. ESCALATION, REPORTING & CONSEQUENCE MANAGEMENT**

#### **10.1 Documented Process**

In ensuring compliance with the obligation to notify the Exchange of non-compliance matters, the Head of Compliance must ensure that there is a clear, well-understood and documented process for:

- (a) identifying indicators of reportable matters;
- (b) ensuring that employees escalate potentially reportable matters to the CO, who are made aware of the indicators identified;
- (c) determining whether indicators of reportable matters give rise to an obligation to report; and
- (d) notifying the Exchange in writing of reportable matters.

#### **10.2 Escalation**

- (1) Escalation is the process of alerting or notifying the higher level of management of a non-compliance issue or a potential non-compliance issue by an employee when he or she becomes aware of the same. A formalised escalation procedure sets a clear reporting flow in the case of

a non-compliance issue or a potential non-compliance issue and would facilitate in managing and resolving such issues in an efficient and practical manner.

- (2) It is important that the relevant employees of a Participating Organisation are made aware of compliance matters that are required to be escalated. A clear escalation procedure would enable employees of a Participating Organisation to direct non-compliances to the correct personnel for an expedited resolution.



### 10.3 Reporting on Compliance Matters

A CO must bring matters pertaining to compliance to the attention of any of the Board of Directors, heads or other senior management of the Participating Organisation for appropriate and timely action to be taken.

### 10.4 Consequence Management on Breaches

- (1) Consequence management refers to action taken to address non-compliances by a Participating Organisation to comply with the obligations under the Regulatory Framework.
- (2) Participating Organisations must have well-formulated consequence management procedures with a clear, well-understood and documented process for identifying and dealing with breaches such as:
- measures on how to identify a breach;
  - ensuring that the breach is escalated to the relevant supervisor;
  - determining the degree of the breach, e.g., minor or significant;
  - taking immediate rectification measures to the breach;
  - reporting of the breach to the Exchange, together with rectification measures / plan;
  - ensuring that arrangements are in place to prevent the recurrence of the breach;
  - dealing with the consequences of breaches, particularly to Clients, comprehensively (e.g. by communication and / or compensation); and
  - communicating breaches to the relevant employees of the Participating Organisation to deter recurrence (“Lesson Sharing”).
- (3) Consequence management will allow employees to further identify the possible non-compliance issues and take proactive measures in ensuring compliance.

## **11. CONTINUOUS TRAINING AND UPDATES ON REGULATORY DEVELOPMENTS**

### **11.1 Training for Compliance Function**

Apart from programmes and training, the compliance function must keep up with the developments in the regulatory requirements by undertaking constant review of relevant updates of the Regulatory Framework.

### **11.2 Training and Education Programmes for Employees of Participating Organisation**

- (1) The CO must ensure that adequate and timely training is provided to employees of a Participating Organisation on relevant regulatory requirements governing its activities and to be able to provide guidance on the implementation of internal controls to manage compliance risk.
- (2) Training and other support should focus particularly, but not exclusively on:
  - (a) These Regulatory Framework and any other supervisory and regulatory requirements that may be relevant; and
  - (b) The internal policies and procedures of the Participating Organisation and its organisational reporting structure in the area of the regulated activity.

## **12. CONCLUSION**

A constructive and cooperative working relationship between the compliance function and business lines can improve the overall identification and management of compliance risk. The adoption of the approaches set out above will result in a high level of confidence amongst all stakeholders that regulatory objectives are being met. These positive regulatory outcomes would lead to a stable and sustainable business operations for a Participating Organisation.

[End of Appendix]

Relevant to : Rules 3.36 and 6.07  
Introduced with effect from : 2 May 2013  
Amended : 22 February 2016 vide R/R 2 of 2016, 16 June 2017 vide R/R 7 of 2017, 21 August 2020 vide R/R 11 of 2020, 30 November 2021 vide R/R 6 of 2021, and 2 October 2023 vide R/R 6 of 2023  
POs' Circular No(s). : R/R 5 of 2009  
Refer also to Directive No(s). : N/A

### **1. Rule 3.36(c)**

- (1) Rule 3.36(c) provides that a Head of Compliance must ensure matters pertaining to compliance by the Participating Organisation, the Participating Organisation's Registered Persons, employees and agents with the Securities Laws, these Rules and the Directives are highlighted to the Participating Organisation's Board of Directors or in the case of an Investment Bank, to the Board of Directors or committee to whom the Head of Compliance is required to report under the Guidelines on Investment Banks.
- (2) In discharging the obligations under the said Rule, a Head of Compliance must, amongst others, comply with the requirements set out below.

#### **1.1 Reporting on compliance matters**

- (1) A Head of Compliance may bring matters pertaining to compliance to the attention of any of the Heads or other senior management of the Participating Organisation for appropriate action to be taken.
- (2) A Head of Compliance must report directly and submit written compliance reports to the Participating Organisation's Board of Directors or such committee appointed by the Board of Directors, as the case may be, on a monthly basis on all matters pertaining to compliance with the Securities Laws, these Rules and the Directives ("**Regulatory Framework**").
- (3) *[deleted]*
- (4) The Participating Organisation's Board of Directors or such committee appointed by the Board of Directors, as the case may be, must deliberate on the written reports at its duly constituted meetings and decide on the appropriate action to be taken.
- (5) A Head of Compliance must submit the written reports referred to in paragraph 1.1(2) above 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.
- (6) When submitting the compliance reports referred to in paragraph 1.1(2) above, all Heads of Compliance must use the format appended to this Directive as Appendix 1 ("**Standard Compliance Report**") and make the submission in such manner as may be prescribed by the Exchange.
- (7) The Standard Compliance Report is not intended and must not be construed to limit the scope of reporting or the scope of duties and responsibilities of a Head of Compliance as prescribed in these Rules. The Standard Compliance Report serves to streamline and standardise the form and manner in which breaches of the Regulatory

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Framework and any other matters pertaining to compliance or otherwise are to be reported to the Exchange or the Board of Directors or such committee appointed by the Board of Directors, as the case may be.

- (8) All items stated in the respective sections of the Standard Compliance Report must be completed in accordance with the Directives prescribed in the table below:

<b>Section No.</b>	<b>Item</b>	<b>Directives</b>
1.0	Summary of Non-Compliances	This section provides for a brief description of the non-compliances noted in the month reported and the remedial action(s) taken, if any.
2.0	Status of Non-Compliances Reported Earlier	This section provides for the status of the remedial action(s) on the non-compliances reported in the previous Standard Compliance Report.
3.0	Status of Compliance with the conditions imposed by the Exchange and the Commission	This section provides for the status of compliance with the terms and conditions imposed by the Exchange and/or the Commission on the Participating Organisation arising from its operations as a Participating Organisation and where the compliance is required on a continuing basis. For example, the status of compliance with the terms and conditions imposed pursuant to the readiness audit conducted for establishment of its office(s) and applications made under these Rules for approvals or waivers.
4.0	Matters to be highlighted to the Exchange	This section is optional. Participating Organisation may wish to highlight to the Exchange general matters in relation to compliance other than breaches of the Rules and Directives or otherwise with a view of improving the standard of compliance and regulations. For example, areas in these Rules or Directives that lack clarity or require enhancements.
5.0	Report on general compliance level of Participating Organisation	This section is for the Head of Compliance to provide his opinion or make an assessment of the general compliance level of the Participating Organisation for the month.
6.0 to 17.0	Detailed Report	<p>These sections prescribe the 'mandatory areas' where Participating Organisation has to expressly state whether the requirements stated have been complied with or not.</p> <p>This is to ensure that the Participating Organisation's level of compliance with the Regulatory Framework in relation to the</p>



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		"mandatory areas" are fully disclosed to its Board of Directors and the Exchange.
18.0		<p>Reporting in relation to non-compliance by the Participating Organisation with the areas in the Regulatory Framework other than the areas itemised in sections 5.0 to 17.0 is only required if there is a non-compliance with the same.</p> <p>Participating Organisation is to include section 18.0 to the Standard Compliance Report for the purpose of reporting the above non-compliances. Where the areas involved in the said report are varied and many, Participating Organisation may add more section numbers after section 18.0 for ease of reporting.</p>

## **1.2 Ad-hoc Reporting of breaches or irregularities**

- (1) A Head of Compliance must immediately report to the Participating Organisation's Board of Directors or such committee appointed by the Board of Directors, as the case may be, and the Exchange if the Head of Compliance becomes aware of any matter with reasonable diligence or assessment that:
- (a) constitutes a breach of any provision of the Securities Laws;
  - (b) involves the potential default of the Participating Organisation against the Clearing House or other counterparty;
  - (c) results in a significant drop to the financial position of the Participating Organisation;
  - (d) has significant adverse effect on the Client's assets the Participating Organisation holds;
  - (e) has significant adverse effect on the risk position and financial integrity of the Participating Organisation;
  - (f) has resulted in a regulatory or disciplinary action being taken against the Participating Organisation or any of the Participating Organisation's Registered Persons, employees or agents by any other regulatory authority;
  - (g) involves fraudulent conduct by the Participating Organisation's Registered Person, employee or agent; or
  - (h) adversely affects the Participating Organisation's ability to comply with the Regulatory Framework.
- (2) In addition to the reporting requirement in paragraph 1.2(1) above, the Head of Compliance must immediately report to the Commission upon becoming aware of any matter under paragraph 1.2(1)(a).

- (3) In relation to matters reported under paragraphs 1.2(1) and (2) above, the Head of Compliance must inform the Exchange and the Commission, respectively, of:
- (a) the decision of the Board of Directors or such committee appointed by the Board of Directors, as the case may be, together with the corrective measures and decided course of actions that will be or have been taken by the Board of Directors or board committee, within 30 days of such reporting; and
  - (b) the completion of the measures and actions taken, if any.
- (4) *[deleted]*

[End of Directive]

**Appendix 1**

**(NAME OF PARTICIPATING ORGANISATION)**

**COMPLIANCE REPORT  
FOR THE MONTH OF  
xx 20xx**

DATE:

**EXECUTIVE SUMMARY****1. SUMMARY OF NON-COMPLIANCE**

No	Ref	Relevant Rule / Guidelines / Acts	Description of non-compliance	Action(s) taken

**2. STATUS OF NON-COMPLIANCES REPORTED EARLIER**

*(to the extent that the issue has not been rectified and reported)*

No	Reported in Compliance Report of the month of	Description of non-compliance	Status of rectification

**3. STATUS OF COMPLIANCE WITH THE CONDITIONS IMPOSED BY THE EXCHANGE AND THE COMMISSION**

No	Readiness or applications (include the date of approval)	Condition	Status of compliance

*Note: The Participating Organisation is to report all conditions that the Participating Organisation has yet to comply. Those conditions that have been complied with and reported need not be included in the reports of subsequent months.*

**4. MATTERS TO BE HIGHLIGHTED TO THE EXCHANGE**

- (a) Comments on these Rules and Directives.
- (b) Regulatory burden encountered.

**5. REPORT ON GENERAL COMPLIANCE LEVEL OF PARTICIPATING ORGANISATION**

The Head of Compliance to express opinion/ assessment on the general compliance level of the Participating Organisation for the month.

**DETAILED REPORT**

**6. On trading accounts and trust accounts, the Head of Compliance must report whether:**

- (a) The internal policies and procedures on “Know Your Client” and opening of accounts have been complied with; and
- (b) The Rules and the Securities Laws on clients’ trust account have been complied with.

**7. On complaints, the Head of Compliance must report whether:**

All complaints received have been resolved. To indicate the number and nature of complaints received and resolved in the following table:

No	Nature of complaint	Date of complaint	Date complaint is resolved / Action taken

**8. On transaction by employees (includes Salaried and Commissioned Dealer’s Representatives) and directors, the Head of Compliance must report whether upon receipt of notifications of transactions under Rule 7.26(1), the necessary steps to ensure compliance with the Participating Organisation’s obligations to manage conflict of interests and risks under Rule 5.02 have been taken by the Participating Organisation.**

Total number of employees involved	Total number of shares	Total value of shares	Total number of securities involved

Total number of directors involved	Total number of shares	Total value of shares	Total number of securities involved

**9. On Capital Adequacy Requirement, the Head of Compliance must report whether:**

*[This Section 9 not applicable to Investment Banks]*

- (a) There is any exception noted in respect of the Participating Organisation’s Capital Adequacy reports and daily reports generated, paying particular attention to the accuracy and timeliness of the reports and also the integrity of the data; and
- (b) There is any item/transaction not recorded/reported that may affect the Participating Organisation’s liquid capital and total risk requirement.

- 10. On Dealer's Representatives (covers Salaried and Commissioned Dealer's Representatives), the Head of Compliance must report:**
- (a) Exceptions on Dealer's Representatives who are involved in back office operations;
  - (b) Exceptions on registration, renewal and cessation of Dealer's Representatives' licences;
  - (c) Exceptions on unlicensed trading; and
  - (d) Exceptions on instances of sharing of user-ids and passwords and leaving broker front end terminals unattended without temporarily logging off.
- 11. On segregation of duties and policies and procedures, the Head of Compliance must report:**
- (a) Irregularities noted on the segregation of duties especially between the back and front office; and
  - (b) Exceptions noted on the inadequacies of policies and procedures of the Participating Organisation (e.g. margin, Discretionary Financing Account, etc).
- 12. On Regulated Short Selling ("RSS") and Securities Borrowing and Lending ("SBL"), the Head of Compliance must report:**
- (a) Exceptions noted on compliance with the requirements on RSS
  - (b) Exceptions noted on compliance with the requirements on SBL
- 13. On clearing and error account, the HOC must report:**
- Exceptions noted on compliance with the requirements on clearing and error accounts.
- 14. On discretionary trading, the Head of Compliance must report:**
- Exceptions noted on compliance with the requirement on discretionary trading activities.
- 15. On market surveillance monitoring, the Head of Compliance must report:**
- Any exceptions or irregular trading activities noted on compliance with the requirements of the Exchange.
- 16. On trading on the LEAP Market, the Head of Compliance must report** all non-compliances with the Regulatory Framework. Notwithstanding paragraph 1.1 of Directive No. 3.36-002, this item must be submitted every quarter of a calendar year.
- 17. On cybersecurity, the Head of Compliance must report:**
- (a) Adequacy of cyber risk policies and procedures; and
  - (b) Exceptions noted in cybersecurity.

- 18. On non-compliances other than in the areas itemised in sections 6 to 17 above.**

[End of Appendix]

<b>DIRECTIVES ON MEASURES TO CURB CLIENTS MAKING PAYMENTS DIRECTLY TO DEALER'S REPRESENTATIVES TO SETTLE AMOUNTS OWING TO PARTICIPATING ORGANISATIONS</b>	<b>No. 3.47(1)-001</b>
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Relevant to : Rule 3.47(1)(f)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 3.47(1)(f)**

- (1) Rule 3.47(1)(f) provides that throughout the term of a Dealer's Representative's registration with the Exchange, the Dealer's Representative 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.
- (2) Rule 5.03(1)(a) further states that a Participating Organisation must have in place structures, internal controls and written policies and procedures designed to facilitate the supervision of the Participating Organisation's business activities and the conduct of the Participating Organisation's Registered Persons, employees and agents.
- (3) In discharging the obligations under Rule 3.47(1)(f), a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Measures to be taken**

A Participating Organisation must:

- (a) place proper notices to clients in the public gallery prohibiting the practice of making payments directly to Dealer's Representatives;
- (b) remind clients (for example through monthly statements, letters) not to make payments directly to Dealer's Representatives;
- (c) issue internal circulars to all Dealer's Representatives highlighting the requirements contained in Rule 3.47(1)(f); and
- (d) sanction Dealer's Representatives who are known to accept such payments from clients.

[End of Directive]



Relevant to : Rule 3.47(1)(h)  
Introduced with effect from : 2 May 2013  
Amended : 1 March 2018 vide R/R 3 of 2018  
POs' Circular No(s). : R/R 3 of 2007  
Refer also to Directive No(s). : N/A

## **1. Rule 3.47(1)(h)**

- (1) Rule 3.47(1)(h) provides that throughout the term of a Dealer's Representative's registration with the Exchange, the Dealer's Representative must not carry on the business of dealing in securities outside the Principal Office or a Branch Office of the Participating Organisation unless the Dealer's Representative has obtained the Participating Organisation's prior approval.
- (2) In discharging the obligations under the said Rule, a Participating Organisation and a Dealer's Representative must, amongst others, comply with the requirements set out below.

### **1.1 Requirements**

- (1) A Participating Organisation must ensure that the following are satisfied in allowing a Dealer's Representative to carry on the business of dealing in securities outside the Principal Office or a Branch Office of the Participating Organisation ("**mobility privileges**"):
  - (a) A Participating Organisation must develop appropriate written internal policies, procedures and controls to govern mobility privileges granted to a Dealer's Representative to ensure that the Dealer's Representative does not abuse his mobility privileges, including criteria which a Dealer's Representative has to fulfill to be allowed mobility privileges. A Participating Organisation must ensure that the Dealer's Representative complies with, amongst others, the Securities Laws and other applicable laws, these Rules and all Directives issued by the Exchange from time to time, in relation to the following areas:
    - (i) account opening;
    - (ii) receipt of payments and collection of funds from clients with a view to ensuring that clients' assets are safeguarded;
    - (iii) upholding the high standards of conduct of Dealer's Representatives when dealing with clients as set out in these Rules, in particular, the requirement of carrying out client's instructions in a timely manner; and
    - (iv) *[Deleted]*
    - (v) such other areas as the Participating Organisation deems necessary in upholding the principles of sound investor protection.
  - (b) *[Deleted]*
  - (c) A Participating Organisation must develop appropriate supervisory and compliance programme to ensure compliance with these internal policies, procedures and controls referred to in paragraph 1.1(1)(a).
  - (d) The discretion whether or not to grant mobility privileges to a Dealer's Representative lies with the Participating Organisation. The discretion must be exercised based on the criteria set out in the internal policies, procedures and controls referred to in paragraph 1.1(1)(a) above. The Participating Organisation must carry out periodic

reviews to determine whether a Dealer's Representative may continue to be granted mobility privileges.

- (e) A Participating Organisation must maintain records of the location where each Dealer's Representative normally carries on the business of dealing in securities.
- (f) A Participating Organisation has the right to revoke at any time mobility privileges granted to any Dealer's Representative in the following circumstances:
  - (i) the Dealer's Representative no longer satisfies or is no longer capable of satisfying the criteria referred to paragraph 1.1(1)(a) above; or
  - (ii) the Dealer's Representative has committed breach(es) of any of the Participating Organisation's internal policies, procedures and controls referred to in paragraphs 1.1(1)(a) imposed on the Dealer's Representative.
- (f) *[Deleted]*
- (2) *[Deleted]*
- (3) A Dealer's Representative who is granted mobility privileges by a Participating Organisation must comply with the following requirements:
  - (a) remain contactable during trading hours; and
  - (b) not put up or place any signage, banner or description in any form which indicates or has the effect of indicating that such premises or location where he is operating as a Dealer's Representative is the Principal Office or a Branch Office of a Participating Organisation.

[End of Directive]

Relevant to	:	Rules 1.01, 4.02, 4.05, 4.06, 4.12(c), 4.13(5), and 5.16(1)
Introduced with effect from	:	2 May 2013
Amended	:	29 May 2017 vide R/R 5 of 2017, 1 March 2018 vide R/R 3 of 2018, 19 December 2018 vide R/R 16 of 2018, 2 January 2019 vide R/R 15 of 2018, 21 August 2020 vide R/R 11 of 2020, 7 December 2020 vide R/R 13 of 2020, 16 December 2021 vide R/R 9 of 2021 and 4 March 2024 vide R/R 1 of 2024
POs' Circular No(s).	:	R/R 3 of 2009 and R/R 10 of 2012
Refer also to Directive No(s).	:	CDS Circular ADA/DOD/033/2012, CDS Circular ADM/DOD/032/2012 and Bursa Malaysia Clearing Circular G1/2013

## **MARKET MAKER**

### **1. Introduction**

Chapter 4 of the Rules sets out the provisions relating to a Market Maker. This Directive sets out the minimum requirements in relation to those requirements.

### **2. Rule 1.01**

- (1) Rule 1.01 sets out the definition of Specified Securities as securities specified by the Exchange as available for Market Making.
- (2) Pursuant to the above Rule, the Exchange prescribes the list of Specified Securities as set out in **Appendix 1** of this Directive.

### **3. Rule 4.02(1)**

- (1) Rule 4.02(1) provides that an applicant who intends to apply to be a Market Maker for a Specified Security must apply to the Exchange in accordance with the Exchange's requirements and comply with any requirements as may be imposed by the Exchange.
- (2) Pursuant to the above Rule, an applicant must comply with the following requirements.

#### **3.1 Application Form and Undertaking**

An applicant for Market Maker must complete and submit to the Exchange, an application form together with a duly executed undertaking to comply with these Rules and Directives, in accordance with the requirements relating to admission of a Market Maker as set out in the Admission Guidelines.

#### **3.2 Notification of Specified Security**

An applicant approved to be a Market Maker must notify the Securities Trading Operations department of the Exchange of each Specified Security for which it will be undertaking Market Making activities prior to commencement of such activities.

### **4. Rule 4.04**

- (1) Rule 4.04(1) requires a Market Maker for a Specified Security to 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:
  - (a) with a minimum presence as stipulated by the Exchange;

- (b) within the maximum spread allowed by the Exchange; and
- (c) not be less than the minimum quantity allowed by the Exchange.

- (2) Rule 4.04(2) goes on to state that a Market Maker is exempted from entering bid and offer prices as required under Rule 4.04(1) in circumstances deemed fit or allowed by the Exchange.
- (3) Pursuant to these Rules, the Market Maker must, amongst others, comply with the requirements set out below.

#### **4.1 Market Making Obligations**

The Market Making obligations imposed on Market Makers pursuant to Rule 4.04(1) and the circumstances in which a Market Maker is exempted from fulfilling the same pursuant to Rule 4.04(2) are as detailed in **Appendix 3** to this Directive.

#### **5. Rule 4.05**

- (1) Rule 4.05 requires a Market Maker to undertake all Market Making activities through trading accounts and Securities Accounts designated specifically for Market Making activities based on the terms prescribed by the Exchange and the Depository respectively.
- (2) Pursuant to the above Rule, a Market Maker must, amongst others, comply with the requirements set out below.

#### **5.1 Notification of Designated Accounts**

Market Makers for ETFs, structured warrants and ETB must submit to the Exchange information as required under Part A of Appendix 4 of this Directive, setting out the particulars of the trading and Securities Accounts opened for the purposes of Market Making for a particular ETF, structured warrant or ETB, 2 days before the commencement of Market Making.

#### **6. Rule 5.16(1)**

- (1) Rule 5.16(1) requires a Participating Organisation and Registered Person to act with due skill, care and diligence, honestly and fairly, and in the best interests of the Participating Organisation's Clients.
- (2) Pursuant to the above Rule, a Market Maker must comply with, amongst others, the requirements set out below.

#### **6.1 POs to Pass Incentives on to Market Maker Clients**

Where incentives are attributable to a Market Maker which is not a Participating Organisation, the Participating Organisation must pass those incentives on to its client who is the Market Maker.

### **DERIVATIVES SPECIALIST**

#### **7. Rule 4.08(1)**

- (1) Rule 4.08(1) provides that an applicant who intends to apply to be a Derivatives Specialist, must apply to the Exchange in accordance with the Exchange's requirements and comply with any requirements as may be imposed by the Exchange.
- (2) Pursuant to the above Rule, an applicant must comply with the following requirements.

**7.1 Application Form and Undertaking**

An applicant for Derivatives Specialist must complete and submit to the Exchange, an application form together with a duly executed undertaking to comply with these Rules and Directives, in accordance with the requirements relating to admission of a Derivatives Specialist as set out in the Admission Guidelines.

**7.2 Notification of PSS Securities**

An applicant approved to be a Derivatives Specialist must notify the Securities Trading Operations department of the Exchange of each PSS Securities for which it will be carrying out Permitted Short Selling prior to commencement of such activities.

**8. Rule 4.10**

- (1) Rule 4.10 requires a Derivatives Specialist to open a designated trading account and Securities Account based on the terms prescribed by the Exchange and the Depository respectively.
- (2) Pursuant to the above Rule, a Derivatives Specialist must, amongst others, comply with the requirements set out below.

**8.1 Notification of Designated Accounts**

Derivatives Specialists must submit to the Exchange information on the designated accounts as required under Part B of **Appendix 4** of this Directive, 2 days before the commencement of Permitted Short Selling.

**PERMITTED SHORT SELLING****9. Rule 4.16(c)**

- (1) Rule 4.16(c) provides that a Market Maker or a Derivatives Specialist may commence Permitted Short Selling only if the Market Maker or the Derivatives Specialist has notified the Exchange that it intends to carry out Permitted Short Selling and has submitted a written declaration in the form as prescribed by the Exchange, 2 Market Days prior to the commencement of Permitted Short Selling.
- (2) Pursuant to the above Rule, a Market Maker or Derivatives Specialist must comply with, amongst others, the requirements set out below.

**9.1 Notification for Permitted Short Selling**

- (1) Market Makers or Derivatives Specialists which intend to commence Permitted Short Selling must submit to the Exchange a declaration of compliance with the requirements in the format as set out in Part C of **Appendix 4** of this Directive.
- (2) This declaration must be submitted to the Exchange 2 days before commencement of Permitted Short Selling.

[End of Directive]

**Appendix 1**

**LIST OF SPECIFIED SECURITIES**

- 1. All Structured Warrants**
- 2. All Exchange Traded Funds**
- 3. All Exchange Traded Bonds**

**Appendix 2**

*[Deleted]*

[End of Appendix 2]

**Appendix 3**

**1. MARKET MAKING OBLIGATIONS IN RELATION TO STRUCTURED WARRANTS (SW), EXCHANGE TRADED FUNDS (ETF) AND EXCHANGE TRADED BONDS (ETB) PURSUANT TO RULE 4.04(1)**

No.	Market Making Obligations	Market Maker for SW	Market Maker for ETF	Market Maker for ETB								
1.	The minimum presence of a Market Maker in providing 2-way quotes during the 'main trading phase' as referred to in the Trading Manual on each day that Bursa Securities is open for trading in a SW/ETF/ETB issue	80%	70%*	70%*								
2.	The maximum spread of two-sided market making quotes entered by a Market Maker into the ATS.	10 bids	25 bids	<table border="1"> <thead> <tr> <th>Tenure of ETB</th> <th>Maximum Spread*</th> </tr> </thead> <tbody> <tr> <td>5 years and below</td> <td>up to RM0.50</td> </tr> <tr> <td>5 years and up to 10 years</td> <td>up to RM1.00</td> </tr> <tr> <td>More than 10 years</td> <td>up to RM2.00</td> </tr> </tbody> </table>	Tenure of ETB	Maximum Spread*	5 years and below	up to RM0.50	5 years and up to 10 years	up to RM1.00	More than 10 years	up to RM2.00
Tenure of ETB	Maximum Spread*											
5 years and below	up to RM0.50											
5 years and up to 10 years	up to RM1.00											
More than 10 years	up to RM2.00											
3.	The minimum quantity on each of the two-sided market making quotes that a Market Maker enters into the ATS	50 board lots (5,000 units of SW)	10 board lots (1,000 units of ETF)*	10 board lots (100 units of ETB)*								

\* Notes:

- (1) The market making obligations which are to be fulfilled by a Market Maker for ETF and ETB may vary from one Market Maker to another as allowed by Bursa Securities.
- (2) The Exchange may vary the market making obligations in relation to ETB under market conditions as determined by the Exchange. This could include providing the Market Maker with the discretion to widen the maximum spread under distressed market conditions (eg. if the Issuer is put under negative outlook and rating watch (ie. for possible downgrade by credit rating agency)).

**2. CIRCUMSTANCES IN WHICH MARKET MAKERS ARE EXEMPTED FROM PERFORMING THEIR OBLIGATIONS IN RELATION TO STRUCTURED WARRANTS (SW), EXCHANGE TRADED FUNDS (ETF) AND EXCHANGE TRADED BONDS (ETB) PURSUANT TO RULE 4.04(2)**

<b>Market Makers for SW, ETF and ETB</b>	<ul style="list-style-type: none"> <li>(i) if trading in the Specified Security is suspended;</li> <li>(ii) if the market is suspended or closed;</li> <li>(iii) if there is a malfunction of the system of the Participating Organisation through which the Market Maker undertakes its market making; or</li> </ul>
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	(iv) if market is not feasible based on the market condition as determined by the Exchange.
<b>Market Makers for SW (in addition to the above circumstances)</b>	Circumstances stated in the prospectus of the issuer for whom the Market Maker provides liquidity for the issuance of SWs, as being circumstances in which the Market Maker is exempted from performing its market making obligations under the Rules of Bursa Securities unless decided otherwise by the Exchange.

[End of Appendix 3]

**Appendix 4****NOTIFICATION OF DESIGNATED ACCOUNTS BY MARKET MAKER AND DERIVATIVES SPECIALIST AND DECLARATION REQUIRED FOR PERMITTED SHORT SELLING****[RULE 4.05, RULE 4.10 AND RULE 4.16]****To: Bursa Malaysia Securities Berhad****PART A****NOTIFICATION OF DESIGNATED ACCOUNTS BY MARKET MAKER**

Pursuant to the requirements of Rule 4.05, we [name of Market Maker] provide notification as follows:

Name of Market Maker	
Designated trading account/s	
Designated Securities Account numbers:	
The date of opening of accounts:	

Dated this [ ] day of [ ] [year].

Signed : [Authorised Signatory]

Date :

**PART B****NOTIFICATION OF DESIGNATED ACCOUNTS BY DERIVATIVES SPECIALIST**

Pursuant to the requirements of Rule 4.10, we [name of Derivatives Specialist] provide notification as follows:

Name of Derivatives Market Maker	
Designated trading account/s	
Designated Securities Account numbers:	
The date of opening of accounts:	

Dated this [ ] day of [ ] [year].

Signed : [Authorised Signatory]

Date :

**Notes:***Any changes to the particulars submitted in Part A or Part B of Appendix 4 must be notified to the Exchange promptly.*

**PART C**

**DECLARATION ON COMPLIANCE WITH THE REQUIREMENTS ON PERMITTED SHORT SELLING**

Pursuant to the requirements of Rule 4.16, we [name of Market Maker / Derivatives Specialist] 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; and
2. 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 and Directives.

Signed : \_\_\_\_\_  
          [Authorised Signatory]

Date : \_\_\_\_\_

[End of Appendix 4]

Relevant to	:	Chapter 4
Introduced with effect from	:	1 June 2021
Amended	:	4 March 2024 vide R/R 1 of 2024
POs' Circular No(s).	:	R/R 2 of 2021
Refer also to Directive No(s).	:	4-001

## 1. Introduction

- (1) Rule 2.01(2)(d) of these Rules provides that the powers of the Exchange include issuing Directives for the purposes of or in connection with any of these Rules.
- (2) Pursuant to this rule, the Exchange is prescribing the details and requirements in relation to the pilot programme for qualified applicants to be registered with the Exchange as a stock market maker of eligible stocks ("**Pilot Market Making Programme**" or "**PMMP**").
- (3) The following terms have the following meanings in this Directive unless the context requires otherwise.

<b>Term</b>	<b>Meaning</b>
Eligible PMMP Stocks	Any of the stocks traded on the stock market of the Exchange that is prescribed by the Exchange for the purposes of PMMP.
Stock Market Maker	An entity which fulfils the requirement in Rule 4.01 of these Rules and is registered with the Exchange under the PMMP in accordance with this Directive.

## 2. Application of relevant Rules and Directives

- (1) A reference made to the following terms in these Rules and Directives will be construed as follows:
  - (a) "Market Maker" will be construed as including a reference to "Stock Market Maker"; and
  - (b) "Specified Security" and "PSS securities" will be construed as including a reference to "Eligible PMMP Stocks".
- (2) Parts A, B, D and E of Chapter 4 under these Rules and Participating Organisations' Directive in relation to Market Makers and Derivatives Specialists (No. 4-001) ("**Directive No. 4-001**") are applicable to Stock Market Makers under the PMMP (with the necessary modifications), unless stated otherwise in this Directive. The following provisions do not apply to Stock Market Makers under the PMMP:
  - (a) Rules 4.04, 4.06(2) and (4), 4.13(1)(b) and 4.17(1) under Chapter 4; and
  - (b) Paragraphs 2, 3.2, 4, 7 and 8, Appendix 1 and Appendix 3 of Directive No. 4-001.

**3. Eligible PMMP Stocks**

- (1) The criteria for an Eligible PMMP Stock are as follows:
  - (a) the stock is admitted to the Official List;
  - (b) the stock has a daily market capitalisation of RM500,000,000.00 and above and stock velocity of 35% and below; and
  - (c) the stock has at least 15% free float<sup>1</sup>.
- (2) The Exchange may remove any stock from the list of Eligible PMMP Stocks at any time if:
  - (a) the stock no longer meets the criteria for Eligible PMMP Stocks; or
  - (b) in any other circumstance it deems fit.
- (3) The Exchange may, in its absolute discretion choose not to include any stock as an Eligible PMMP Stock even though the stock fulfils the criteria for Eligible PMMP Stocks.
- (4) The Exchange may vary the criteria for Eligible PMMP Stocks, with the prior approval of the Commission.

**4. Notification of designated accounts**

A Stock Market Maker must submit to the Exchange information in relation to Market Making for a particular Eligible PMMP Stock as required under Part A of Appendix 4 of Directive No. 4-001.

**5. Permitted Short Selling**

- (1) A Stock Market Maker may carry out Permitted Short Selling on an Eligible PMMP Stock in the manner prescribed in Part E of Chapter 4 under these Rules, as part of its market making activities under the PMMP.
- (2) In relation to a Stock Market Maker intending to short sell Eligible PMMP Stocks by using Permitted Short Selling, the Stock Market Maker must first enter into an agreement to borrow the Eligible PMMP Stocks for the settlement of Permitted Short Selling.
- (3) *[Deleted]*

[End of Directive]

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<sup>1</sup> The criterion of “free float” is as determined by the Exchange using international benchmarks such as the Bloomberg Terminal.

Relevant to	: Rules 5.01, 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), 5.19(3), 7.19(2)(b), 7.36(2)(b) and 8.23(a).
Introduced with effect from	: 2 May 2013
Amended	: 15 January 2015 vide R/R 9 of 2014, 15 November 2016 vide R/R 8 of 2016, 16 June 2017 vide R/R 7 of 2017, 23 June 2017 vide R/R 8 of 2017, 12 December 2017 vide R/R 11 of 2017, 1 March 2018 vide R/R 3 of 2018, 16 April 2018 vide R/R 5 of 2018, 17 September 2019 vide R/R 5 of 2019, 21 August 2020 vide R/R 11 of 2020, 30 June 2021 vide R/R 4 of 2021, and 2 October 2023 vide R/R 6 of 2023
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) Rule 5.01 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;
  - (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:
  - (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.



**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 and the authenticity of the application;
    - (ii) evaluating and assessing applicants; and
    - (iii) assisting the Participating Organisation's Dealer's Representatives, Marketing Representatives and Trading 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;
  - (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 or ISSBNT, if the Participating Organisation is desirous of engaging in Securities Borrowing and Lending or ISSBNT under these Rules, that must include the items listed in **Appendix 2(a) or Appendix 2(b)** 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;
  - (l) on Intraday Short Selling, if the Participating Organisation is desirous of executing Intraday Short Selling under these Rules, that must include the items listed in **Appendix 3A** 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:

- (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) *[Deleted]*

### **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.

### **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:

- (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;
- (e) whether the Client is trading for himself as a Beneficial Owner or as an Authorised Nominee;
- (f) in respect of Clients who intend to trade on the LEAP Market, the Client's qualification as a Sophisticated Investor as defined in Chapter 16 or as a current securities holder as specified in Rule 16.02(2)(b); and
- (g) in respect of Clients who intend to execute Intraday Short Selling, the Client's compliance with the conditions prescribed by the Exchange for executing Intraday Short Selling pursuant to Rule 8.34(2).

**9. Rule 5.15(1)(b)**

Rule 5.15(1)(b) requires a Participating Organisation to verify 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 for individual Client**

- (1) Participating Organisation must take all reasonable steps to verify, by reliable means, the individual Client's identity and the authenticity of the application before a Participating Organisation opens a trading account for the Client.
- (2) A Participating Organisation must comply with the following in verifying the Client's identity and the authenticity of the application:
  - (a) where the Client appears in person before the Participating Organisation to submit the application, the Participating Organisation must ensure the Client signs the account opening application form in the presence of an officer, a Dealer's Representative, a Marketing Representative or a Trading Representative authorised by the Participating

Organisation, and the officer, Dealer's Representative, Marketing Representative or Trading Representative verifies the Client's identity and the authenticity of the application;

- (b) 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 Client's identity and the authenticity of the application must be verified by any of the following persons ("**Acceptable Witnesses**"):
  - (a) an officer, a Dealer's Representative, a Marketing Representative or a Trading 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 under the FSA; or
    - (ii) a licensed Islamic bank under the Islamic Financial Services Act 2013,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;
    - (i) any person who holds a licence equivalent to a 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) 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 contact with the Client through video conference or a video recording of the Client;
  - (d) obtain confirmation of the Client's identity and relevant details of the Client from another entity within the Participating Organisation's Group which is a reporting institution under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 and 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;
  - (e) request the Client to make a nominal payment to the Participating Organisation from his own account with a licensed bank under the FSA or licensed Islamic bank under the Islamic Financial Services Act 2013 or the Participating Organisation transfers a nominal sum into the Client's account; or
  - (f) use any other technology solution to verify the identity of a Client including, but not limited to, biometric technologies, which is able to verify the Client's identity effectively.
- (5) 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.

**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 unless it is in accordance with the provisions on operating a Discretionary Account under Rule 5.16A;
- (b) have any arrangement with a third party to allocate profits or losses in a Client's account; or



- (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;
- (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.
- (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 bank or licensed investment bank under the FSA.
- (2) A Participating Organisation must pay into the trust account:
  - (a) all amounts, less any commission 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 commission 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.
- (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 the licensed bank or licensed investment bank under the FSA 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.

#### **14A Rule 5.16A**

- (1) Rule 5.16A provides that in operating a Discretionary Account, a Participating Organisation or a Dealer's Representative must comply with the Guidelines on Market Conduct and Business Practices for Stockbroking Companies and Licensed Representatives and the requirements the Exchange prescribes in respect of Discretionary Accounts.
- (2) In discharging the obligations under the said Rule, a Participating Organisation or a Dealer's Representative must, amongst others, comply with the requirements set out below.

**14A.1 Eligibility criteria for Dealer's Representative**

A Participating Organisation must ensure that a Dealer's Representative is able to fulfil the following criteria before the Dealer's Representative begins operating a Discretionary Account:

- (a) a minimum of 5 years' experience in dealing in securities; or
- (b) a minimum of 5 years' direct experience in fund management; and
- (c) no adverse findings or enforcement proceedings or actions commenced or taken against the Dealer's Representative under the Rules and Directives or the Securities Laws.

**14A.2 Obligations of a Participating Organisation with respect to Discretionary Accounts**

In order for a Participating Organisation to exercise discretionary authority in a Client's Discretionary Account, the Participating Organisation must ensure compliance with the following requirements:

- (a) before any discretionary authority can be exercised, prior written authorisation from the Client must be obtained. Comprehensive records of such authorisation must be maintained;
- (b) the Participating Organisation must enter into a written agreement with the Client which sets out the terms and conditions for the operation of the Client's Discretionary Account, including adequate and accurate disclosure of the risks involved;
- (c) complete and accurate records of every transaction undertaken under any Discretionary Account must be documented and maintained, including the details of the transaction, the date and time the transaction is effected and the name of the Dealer's Representative who executed the transaction;
- (d) in operating a Discretionary Account, the Participating Organisation must at all times act in the best interest of the Client. In this regard, there must be a mechanism in place to prevent the churning of Discretionary Accounts purely to generate commission; and
- (e) there must be no conflict of interest arising from such transactions.

**14A.3 Requirements pertaining to trading in a Discretionary Account**

- (1) A Participating Organisation and a Dealer's Representative must ensure the following:
  - (a) operate a Discretionary Account by opening for each of its Client, a new trading account, and ensuring that a new Securities Account is opened for the client in accordance with the requirements in the Depository Rules; and
  - (b) ensure that the trading account and Securities Account are designated as a Discretionary Account, which is subject to an account qualifier beginning with the word "DISC", followed by the Dealer's Representative code in brackets and the full name of the Client. An example is set out below:

Illustration:  
ABC Securities Sdn. Bhd.

A/C Qualifier: DISC (123-456) Tan Chong Wei

- (2) A Participating Organisation and a Dealer's Representative must comply with the following requirements in operating a Discretionary Account:
- (a) trading must be carried out in the designated Discretionary Account;
  - (b) trading in a Discretionary Account must be confined to securities quoted on the Official List;
  - (c) trading in a Discretionary Account must commence with a cash transfer from a Client instead of a transfer of securities or other types of collateral in lieu of cash, and must be carried out on a cash upfront basis; and
  - (d) funds in a Client's Discretionary Account must be identifiable from the funds in the Client's non-Discretionary Account, if the funds are maintained in the same trust account

#### **14A.4 Profit-sharing or fee arrangement**

- (1) A Participating Organisation or a Dealer's Representative may charge a Client in the following manner for the service of operating a Discretionary Account:
- (a) have an arrangement with a Client to accept a share in the profits from the Client's Discretionary Account; or
  - (b) charge a fee calculated based on a percentage of the total value of assets or portfolio managed under a Client's Discretionary Account.
- (2) A Participating Organisation or a Dealer's Representative must not share in the profits under paragraph 14A.4(1)(a) and concurrently charge a fee under paragraph 14A.4(1)(b).

#### **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 of the insurance policy being in place on an annual basis, no later than 31 January of each calendar year.

[End of Directive]

**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]



**APPENDIX 2(a)**  
**[Paragraph 4.1(2)(j) and Rule 7.19(2)(b)]**

**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.

**APPENDIX 2(b)**  
**[Paragraph 4.1(2)(j) and Rule 7.36(2)(b)]**

**ISSBNT:**  
**Minimum requirements for written policies and procedures and internal controls**

- (1) Criteria to assess the suitability of Clients in buying or selling of ISSBNT Eligible Securities prior to the purchase or sale and on an ongoing basis;
- (2) Risk management policies and procedures including limits in terms of volume and value of purchase and sale permitted for ISSBNT for each Client and the Participating Organisation itself;
- (3) The authority matrix in relation to the approval process within the Participating Organisation for the purchase and sale of ISSBNT Eligible Securities whether by the Participating Organisation's Clients or the Participating Organisation;
- (4) The list of ISSBNT Eligible Securities where the Participating Organisation will not be buying and selling (if any);
- (5) Relevant documentation in relation to the purchase or sale of ISSBNT Eligible Securities which includes the risk disclosure statement;
- (6) The handling and distribution of fees and income in relation to ISSBNT Eligible Securities sold pursuant to ISSBNT and the collateral deposited;
- (7) The handling of corporate actions in respect of ISSBNT Eligible Securities sold pursuant to ISSBNT and the collateral deposited; and
- (8) The carrying out of review in relation to compliance with these Rules and the Clearing House Requirements pertaining to ISSBNT activities.

[End of Appendix 2]

**APPENDIX 3**  
**[Paragraph 4.1(2)(k) and Rule 8.23(a)]**

**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]

**APPENDIX 3A**  
**[Paragraph 4.1(2)(l) and Rule 8.35(a)]**

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

- (1) Criteria to assess the suitability of a Client in carrying out Intraday Short Selling and on an ongoing basis;
- (2) The authority matrix in relation to the approval process within the Participating Organisation for carrying out of Intraday Short Selling by the Client and the Participating Organisation respectively;
- (3) The list of Approved Securities for which the Participating Organisation will not allow Intraday Short Selling (if any);
- (4) Procedures on amendments of orders and amendments of Contracts for Intraday Short Selling, including the supervision, monitoring and approval request for the amendments;
- (5) Relevant documentation in relation to the carrying out of Intraday Short Selling;
- (6) Risk management policies and procedures which address the market risk, operational risk, counterparty risk, settlement risks, credit risk and regulatory risk in relation to the conduct of Intraday Short Selling including limits in terms of volume and value prescribed for the carrying out of Intraday Short Selling by each eligible 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 Intraday Short Selling and compliance with the laws and rules relating to Intraday Short Selling.

[End of Appendix 3A]

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



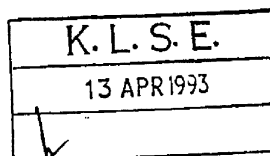
KETUA PENGARAH HASIL DALAM NEGERI,  
(DIRECTOR-GENERAL OF INLAND REVENUE)  
JABATAN HASIL DALAM NEGERI,  
(DEPARTMENT OF INLAND REVENUE)  
UNIT 34, BAHAGIAN DUTI SETEM,  
TINGKAT 20/21, WISMA KWSG,  
JALAN KAMPUNG ATTAP, 50460 KUALA LUMPUR,  
MALAYSIA

Telefon: 2740066  
2749440  
2749448  
Fax: 2743556

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,  
50490 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)

[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]

Relevant to : Rules 5.03 and 5.16(2)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 11 of 1995, R/R 14 of 2009 and R/R 20 of 2007  
Refer also to Directive No(s). : N/A

## **1. Introduction**

- (1) This Directive sets out the minimum standards and conduct of Participating Organisations for trading in structured warrants.
- (2) "Structured Warrant" means individually or collectively as the context may require, call warrants, put warrants, basket warrants, bull equity-linked structures or such other structures that may be specified by the Exchange from time to time.

## **2. Rule 5.03**

- (1) Rule 5.03 requires a Participating Organisation to have in place structures, internal controls and written policies and procedures 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 risks 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 said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **2.1 Procedures for ensuring compliance**

A Participating Organisation must organise and manage its affairs in a responsible manner and have in place procedures and controls that will facilitate compliance with policies and guidelines relating to the conduct of Dealer's Representatives. There should also be a system of monitoring the activities of Dealer's Representatives to ensure compliance with these policies and guidelines and procedures to deal with breaches.

### **2.2 Continuing assessment of clients**

A Participating Organisation must have in place procedures to assess and monitor the financial capacity of clients to meet their obligations to the Participating Organisation with respect to trading in Structured Warrants. In making such an assessment, a Participating Organisation must take into account the financial circumstances of the client and the Participating Organisation's total financial exposure to the client. A Participating Organisation must have in place the procedures for all trades by clients in Structured Warrants.

### **2.3 Policies on Structured Warrants**

A Participating Organisation must have clear policies concerning its own dealings in Structured Warrants. These policies should deal with matters including investment objectives, as well as the identification, measurement and management of risks such as credit risks, legal risks, market risks and liquidity risks.

### **3. Rule 5.16(2)**

- (1) Rule 5.16(2) requires a Participating Organisation and 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.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **3.1 Documents and Information**

A Participating Organisation must provide a risk disclosure statement (in the prescribed form, as attached in **Appendix 1** of this Directive) to each Client prior to executing the Client's first instruction to trade in Structured Warrants, which must be signed by the Client. A Participating Organisation must not under any circumstances whatsoever permit any Client who fails to execute the risk disclosure statement to trade in the instrument.

### **3.2 Training and Education**

A Participating Organisation must have adequate arrangements to ensure that all staff employed by and persons acting by arrangement with, the firm who deal in Structured Warrants are suitable, adequately trained and properly supervised. The training should cover areas including an explanation of the product, the risks of trading Structured Warrants, guidelines issued by Commission and the Exchange on Structured Warrants, as well as terms relating to adjustments, exercise and settlement of Structured Warrants.

### **3.3 Sales Practices**

A Participating Organisation must ensure that any marketing or advertising with respect to Structured Warrants, conveyed through materials or by conduct of its employees or agents is not biased or misleading. A balanced view of the benefits and risks involved in the trading of Structured Warrants must be presented by the Participating Organisation and its employees or agents.

### **3.4 Other documents and information**

A Participating Organisation must also provide to its Clients who trade in Structured Warrants such other materials or documents relating to Structured Warrants directed by the Commission or the Exchange to be given to those Clients. A Participating Organisation must take reasonable steps to give a Client, in a clear and timely manner, any information needed to enable such Clients to make a balanced and informed decision.



**Appendix 1**

**STRUCTURED WARRANTS RISK DISCLOSURE STATEMENT**

- (1) This statement is provided to you in accordance with the directives of the Rules of Bursa Malaysia Securities Berhad (“Rules of Bursa Securities”).
- (2) The purpose of this statement is to inform you that the risk of loss in purchasing structured warrants can be substantial. You should therefore assess if the purchase of structured warrants is suitable for you in light of your financial circumstances. In deciding whether to purchase structured warrants you should be aware of the following:
- (i) The purchaser of a structured warrant is subject to the risk of losing the full purchase price of the structured warrant and all transaction costs;
  - (ii) In order to realise any value from a structured warrant, it is necessary to sell the structured warrants or exercise the structured warrants on or before their expiry date;
  - (iii) Under certain conditions, it may become difficult to sell the structured warrants;
  - (iv) Upon exercise of the structured warrants, the issuer may settle its obligations via actual delivery of the underlying assets, in cash or a combination of both depending on the terms of the issue of the structured warrants;
  - (v) 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; and
  - (vi) The high degree of leverage that is obtainable from structured warrants because of the small initial outlay can work against you as well as for you. The use of leverage can lead to large losses as well as gain.
- (3) This brief statement cannot disclose all the risks and other aspects of purchasing structured warrants. You should therefore carefully study the terms and conditions of any structured warrant before you decide to purchase. If you are in doubt in relation to any aspect of this statement or the terms of a structured warrant, you should consult your broker.

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

I acknowledge that I have received a copy of the STRUCTURED WARRANTS RISK DISCLOSURE STATEMENT and understand its contents which have been explained to me.

Signature: .....

Full Name: .....

Date: .....

[End of Appendix]

Relevant to : Rule 5.03  
Introduced with effect from : 2 May 2013  
Amended : 1 March 2018 vide R/R 3 of 2018  
POs' Circular No(s). : R/R 10 of 2003  
Refer also to Directive No(s). : N/A

**1. Rule 5.03**

- (1) Rule 5.03 provides that a Participating Organisation must have in place, internal controls and written policies and procedures 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 risks 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 in the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 REPORTING DISCLOSURES OF NON-COMPLIANCE**

- (1) This Directive establishes a procedure for reporting disclosures to the Exchange of any breaches, non-compliance or violations by a Participating Organisation of Rule 11.02 of the Rules of Bursa Securities on requirements relating to commission.
- (2) A Participating Organisation must ensure that the procedures outlined below are disseminated, or made known, to their Clients and are positioned at their Principal Office and Branch Office(s) so as to be clearly visible to all Clients or visitors.
- (3) Disclosures to the Exchange may be made by employees of the Participating Organisation or by members of the public ("whistleblower") in good faith, of information which, in the reasonable belief of the whistleblower, tends to show any or all of the following:
- (a) breach of any of the provisions of Rule 11.02 of the Rules of Bursa Securities committed by a Participating Organisation; and
  - (b) failure by a Participating Organisation to comply with any of the provisions of Rule 11.02 of the Rules of Bursa Securities.
- (4) A disclosure to the Exchange may be made orally or in writing and as far as possible, supported by all such documentary evidence as may be relevant or necessary to support the disclosure or as may be deemed expedient by the Exchange from time to time. The Exchange may require a whistleblower to provide such additional information and documents as it may determine. A disclosure must be made or addressed to:

Head, Participant Supervision Department  
Regulation  
2<sup>nd</sup> Floor, Exchange Square

Bukit Kewangan  
50200 Kuala Lumpur  
Tel : (03) 2034 7141

- (5) The Exchange will endeavour to protect the identity of the whistleblower, unless the whistleblower has agreed in writing to waive confidentiality.
- (6) The Exchange will assess each disclosure received to determine whether further action is necessary, including taking disciplinary action in accordance with the Rules of Bursa Securities against the Participating Organisation or its Registered Person against whom the disclosure is made.
- (7) Where a disclosure by a whistleblower results in the imposition of a fine against the errant party and upon the fine being duly paid, the Exchange may at its absolute discretion reward the whistleblower with an amount not exceeding 50% of the fine paid. Where the whistleblower is implicated in connection with the disclosure made by him pursuant to these directives, the reward (if any) will be forfeited. A decision by the Exchange will be final and no appeals or reviews will be entertained in any circumstances.
- (8) The management and employees of the Exchange and other relevant regulatory authorities and members of their respective family will not be entitled to the reward in paragraph 1.1(7) above. "A member of the family" for the purposes of these directives, includes the person's spouse, parent, child (including adopted child and step-child), brother, sister and spouse of his child, brother or sister.

[End of Directive]

**DIRECTIVE ON THE PARTICIPATING ORGANISATIONS' IT SECURITY STANDARDS AND DISASTER RECOVERY SITE STANDARDS**

**No. 5.05-001**

Relevant to : Rule 5.05  
Introduced with effect from : 2 May 2013  
Amended : 3 January 2017 vide R/R 7 of 2016  
POs' Circular No(s). : R/R 9 of 1997 and G 240 of 1999  
Refer also to Directive No(s). : N/A

**1. Rule 5.05**

- (1) Rule 5.05 requires a Participating Organisation to have:
- (a) business premises that are adequately and properly equipped for the conduct of the Participating Organisation's business; and
  - (b) adequate security and emergency arrangements to provide continuous business operations with minimal disruptions.
- (2) In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.
- (a) the Participating Organisations' IT Security Standards ("PO IT Security Standards") in **Appendix 1** of this Directive; and
  - (b) the Participating Organisations' Disaster Recovery Site Standards in **Appendix 2** of this Directive.

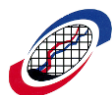
[End of Directive]



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## **GOVERNANCE OF TECHNOLOGY RISKS**

### **1.0 GOVERNANCE OF TECHNOLOGY RISKS**

#### **OBJECTIVE**

The objective of the requirements under Governance of Technology Risks is to ensure that the board of directors and senior management have oversight of technology risks as part of the Participating Organisation ("PO")'s overall framework of managing risk.

#### **1.1 Roles and Responsibilities of Board of Directors**

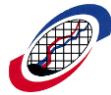
- 1.1.1 Ensure that the policies and procedures in relation to information technology are established, implemented and communicated to all employees.
- 1.1.2 Ensure sufficient allocation of resources and security measures to manage cyber security risks, computer systems, networks, data centre, operations and backup facilities.
- 1.1.3 Ensure that a robust and effective risk management framework to manage technology risk including risk assessment, monitoring and reporting is established.
- 1.1.4 Ensure sufficient and continuous awareness and education programmes are provided to all employees.

#### **1.2 Technology Risk Management**

- 1.2.1 A robust technology risk management framework should be established and be reviewed on a periodical basis. It may include the risk identification, risk assessment, risk mitigation, risk monitoring and reporting.
- 1.2.2 Sufficient and proper risk identification policies, procedures and processes to determine relevant security threats and vulnerabilities should be established and may include scenarios such as denial of service attack, internal sabotage and malware infestation which can harm and disrupt the organisation's operations.
- 1.2.3 Relevant and sufficient risk mitigation measures should be in place to mitigate the identified risk to minimise the risk exposure to the organisation.

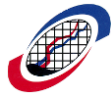
#### **1.3 Information Security Policies**

- 1.3.1 Policies for information security including cybersecurity must be defined and set out the organisation approach to achieving its information security objectives.



## **GOVERNANCE OF TECHNOLOGY RISKS**

- 1.3.2 The information security policy must be approved by the Board of Directors and communicated to all employees.
- 1.3.3 Information security policies should contain the following statements:
  - a) definition, objectives and principles to guide all activities relating to the information security of all relevant activities;
  - b) defined roles, responsibilities and accountabilities of key personnel to manage information security risks, including that of a chief information security officer, chief technology officer, head of business unit and risk management; and
  - c) processes for handling deviation and exceptions.
- 1.3.4 Information security policies must be regularly reviewed for continuing suitability, adequacy and effectiveness.
- 1.3.5 The information security policies should be assessed in response to changes to the organizational environment, business circumstances and regulatory requirements.



## **ORGANISATION OF INFORMATION SECURITY**

### **2.0 ORGANISATION OF INFORMATION SECURITY**

#### **OBJECTIVE**

The objective of the requirements under Organisation of Information Security is to ensure that a management framework is established to initiate and control the implementation and operation of information security within the PO.

#### **2.1 Internal Organisation**

2.1.1 Responsibilities for the management and administration of information technology security must be defined and assigned to the relevant personnel.

2.1.2 For each application system, the following must be identified:

a) **Data Owners**

Responsible for business data captured, stored and processed by information systems.

b) **System Owners**

Responsible for business systems and approving changes to the applications. Owners of the system software must be similarly responsible for approving change in their area.

c) **System Users**

Any persons using the information processing facilities in the course of their normal duties and responsible to ensure that the information processing facilities are used only for authorised purposes.

d) **System Providers**

Functional groups who are responsible for providing information systems to System Owners and System Users.

e) **Procedure Owners**

Managers who are responsible for ensuring that the procedures supporting the business process are up-to-date.





## **ORGANISATION OF INFORMATION SECURITY**

### **2.2 Information Security Responsibilities**

2.2.1 All information security responsibilities must be defined, allocated and approved by the IT Management.

#### **a) Security Administration Responsibilities**

- i. The assignment of the Security Administration roles and responsibilities must be clearly set out and documented.
- ii. Persons responsible for Security Administration must be appointed with responsibility for:
  - (1) administration of access controls software;
  - (2) reviewing access rights on a regular basis to ensure compliance with these Standards; and
  - (3) monitoring and investigating security violation attempts.

#### **b) Data Owner Responsibilities**

Data Owners must:

- i. in conjunction with Security Administration, ensure that the controls over user access have been defined and documented;
- ii. authorise users' access and their required access rights to the data;
- iii. authorise amendments made to sensitive data; and
- iv. review access profiles at least once a year.

#### **c) System Owner Responsibilities**

- i. System Owners must:
  - (1) specify the processes for each business function. Where a process uses information processing facilities, the functional requirements of an application and the manual procedures should be defined and agreed;
  - (2) verify that the systems meet with users' requirements;



## **ORGANISATION OF INFORMATION SECURITY**

- (3) ensure that the controls required within the process are defined and agreed; and
- (4) authorise users to use system functions. When authorising access, the System Owner must consider the following to ensure the allocation of appropriate access rights:
  - compatibility with other responsibilities and existing access rights of the user
  - the classification of the information
  - whether the requested level of access is required in order to allow the user to carry out in accordance to his/her job function

- ii. The System Owner and Data Owner may be the same individual.
- iii. The System Owner and Data Owner must ensure that regular checks which include penetration testing for compliance with security requirements for all information processing facilities are carried out.

### **d) System User Responsibilities**

System Users must:

- i. ensure the confidentiality of their user IDs and passwords; and
- ii. ensure that the information processing facilities are used only for authorised purposes to protect the information processing equipment placed in their care.

### **e) System Provider Responsibilities**

System Providers must:

- i. provide defined and agreed levels of security for computing facilities;
- ii. ensure that application systems are free from interference by other systems; and
- iii. administer any specified controls that have been defined and agreed.



## **ORGANISATION OF INFORMATION SECURITY**

### **f) Procedure Owner Responsibilities**

Procedure Owners must:

- i. provide documented procedures to the users of the system;
- ii. ensure that the procedures for all the systems are up-to-date; and
- iii. ensure that the procedures conform to the PO IT Security Standards.

### **2.3 Segregation of Duties**

2.3.1 Where the performance of the duties and areas of responsibility by the same person could give rise to conflicts of interests, such duties and areas of responsibility must be segregated. Hence, the following duties should be segregated based on the size and complexity of the business:

- a) application development;
- b) technical support;
- c) computer operations;
- d) quality assurance;
- e) internal audit;
- f) security administration; and
- g) user departments.



## **HUMAN RESOURCE SECURITY**

### **3.0 HUMAN RESOURCE SECURITY**

#### **OBJECTIVE**

The objective of the requirements under Human Resource Security is to ensure that employees understand their roles and responsibilities and are suitable for the roles to which they have been assigned, to minimize the risks of theft, fraud or misuse of POs' information processing facilities.

#### **3.1 Prior to Employment**

##### **3.1.1 Pre-Employment - Screening**

- a) Background verification checks on all candidates for employment must be carried out and should include an investigation into a candidate's career history and the verification of academic and professional qualifications.
- b) New employees must be placed on probationary status for IT functions and their progress be reviewed to ensure that they are performing their duties adequately.

##### **3.1.2 Terms and Conditions of Employment**

- a) All employees must sign a contract of employment that establishes their duties with respect to information technology security.
- b) The contract of employment or other relevant documents must include the following arrangements for all employees:
  - i. a confidentiality undertaking relating to disclosure of information;
  - ii. the requirement to report any observed or suspected security weaknesses;
  - iii. the intellectual property rights over any designs, procedures or inventions made, created or designed by the employee; and
  - iv. the disciplinary procedures that will apply for employees found to have violated the PO IT Security Standards.



## **HUMAN RESOURCE SECURITY**

### **3.2 During Employment**

#### **3.2.1 Management Responsibilities**

- a) All employees must be briefed on their information security roles and responsibilities prior to being granted access to confidential information or information systems.
- b) The Management must ensure all employees conform to the terms and conditions of employment, which include the PO IT Security Standards.

#### **3.2.2 Roles and Responsibilities**

- a) Detailed employee's roles and responsibilities (including IT security responsibilities) must be documented and communicated to the individual employee.
- b) Roles and responsibilities must be acknowledged by the employee.

#### **3.2.3 Training On Information Security Awareness**

- a) Information security training must be provided to all new employees and reinforced on an on-going basis to create and maintain awareness among the employees.
- b) An information security awareness programme should be established in line with the organisation's information security policies and relevant procedures and updated regularly.
- c) Reinforcement of information security training should be given to all employees on periodic basis.

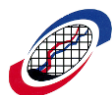
#### **3.2.4 Disciplinary Procedures**

- a) A formal disciplinary process must be established to take action against employees who have committed the information security breach.

### **3.3 Termination and Change of Employment**

#### **3.3.1 Termination or Change of Employment Responsibilities**

- a) There must be a policy established to ensure that prompt notification of all employees' resignations/movements is made by relevant departments to Security Administration and prompt action is taken to revoke or amend access rights.



## **ASSET MANAGEMENT**

### **4.0 ASSET MANAGEMENT**

#### **OBJECTIVE**

The objective of the requirements under Asset Management is to ensure a PO's assets are appropriately defined and are adequately protected from unauthorised access.

#### **4.1 Inventory of Assets**

- 4.1.1 POs must maintain an inventory of assets associated with information and information processing facilities.
- 4.1.2 The inventory listings must be accurate, up to date, consistent and aligned with other inventories.
- 4.1.3 POs must identify the owner for all assets.
- 4.1.4 The owner of the assets should be responsible for the following:-
  - a) Define the classification of the information and the assets associated with information processing;
  - b) Review the classification level and keep it up to date; and
  - c) Ensure proper handling of the asset when the asset is deleted or destroyed.

#### **4.2 Information Classification**

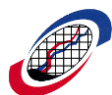
- 4.2.1 POs may classify the assets based on legal requirements, value, criticality and sensitivity to unauthorised disclosure or modification.
- 4.2.2 POs may consider the business needs and impacts when defining the classification and protective controls for the information and such classification and protective controls should include the confidentiality, integrity and availability of the information.
- 4.2.3 POs may establish an Information Classification Policy for the entire organisation.
- 4.2.4 POs may classify the assets as follows:-
  - a) Restricted
  - b) Confidential



## **ASSET MANAGEMENT**

c) Public

- 4.2.5 POs may establish procedures for information labelling in accordance to the Information Classification Policy adopted by the POs.
- 4.2.6 POs may use other means of classification of information if labelling is not feasible and such other means of classification must be approved by the owner.



## **ACCESS CONTROL**

### **5.0 ACCESS CONTROL**

#### **OBJECTIVE**

The objective of the requirements under Access Control is to restrict access to information and information processing facilities to authorised users.

#### **5.1 Logical Access Policy**

5.1.1 Logical Access Policy must be established, documented and approved by the Data Owner based on the following:

- a) business and information security requirements;
- b) the organization and departmental policies for information dissemination and entitlement; and
- c) contractual obligations and legal requirements regarding the limitation of access to data or services.

5.1.2 The Logical Access Policy must include the access to the critical application system, operating system and network services.

5.1.3 The Logical Access Policy must be used to enforce the segregation of duties between incompatible job functions.

#### **5.2 User Access Administration**

5.2.1 The Logical Access Policy for the creation, amendment and maintenance of user ID and user profiles must be defined, agreed and documented.

5.2.2 The Logical Access Policy must take into account the following:

- a) controlling what data can be accessed by a particular user; and
- b) controlling the access rights of users, e.g. read, write, delete and execute.

5.2.3 The requests for user access to the application function, operating system and network resources must be granted on the basis of written requests authorised by the Data Owner.

5.2.4 Remote access to third party service providers/vendors may only be granted upon approval by the Data Owner. All remote access must be under the control of Security Administration





## **ACCESS CONTROL**

and the remote users' activities must be logged and monitored by the Security Administration.

5.2.5 POs must establish a policy on revoking access rights granted to user, taking into the consideration the following:-

- a) Users who have changed roles or jobs;
- b) Users who have left the organisation; and
- c) Termination of contract for external third party users.

### **5.3 User Authentication Management**

5.3.1 Each user must be required to identify himself or herself to the system with a recognised approved user ID and a secret authentication (password) to authenticate his/her identity.

5.3.2 Procedures must be established to verify the identity of a user prior to providing new, replacement or temporary secret authentication information.

5.3.3 Secret authentication must be unique to an individual and must not be easily guessable.

5.3.4 Users must change their secret authentication at first log on.

5.3.5 Users must not divulge their secret authentication.

5.3.6 Users must not share their user ID.

5.3.7 POs must establish a policy for the usage of shared user ID where sharing is necessary for business or operational reasons.

5.3.8 All default user ID must be disabled.

5.3.9 POs must establish a policy on secret authentication when passwords are used as secret authentication. The password management system must include the following minimum requirements:

- a) The system must allow case sensitive password;
- b) The system must allow Administrator to change and set expiry of the password;
- c) The system must force users to change their passwords at the first log-on;



## **ACCESS CONTROL**

- d) The system must maintain a history of user passwords and prevent reuse of recent or similar passwords; and
- e) Cryptography techniques must be used to authenticate the authorised access if access is done through public network for all critical transactions such as fund transfers, securities transfer or high value trading transactions.

### **5.4 Management of Privileged IDs**

- 5.4.1 The privileged IDs must be restricted, controlled and granted upon the approval by the Data Owner in accordance to the Logical Access Policy.
- 5.4.2 The privileged access rights associated with each system i.e. operating system, database management system and each application must be identified.
- 5.4.3 The privileged IDs assigned to a user must be different from those used for normal operation functions.

### **5.5 Review of User Access Rights**

- 5.5.1 POs must establish a policy to ensure the access to all information system be reviewed to ensure all access granted is restricted to authorised personnel only. The policy must include review of the following areas:
  - a) unauthorised access attempts;
  - b) maintenance to security profiles or security tables;
  - c) use of sensitive commands;
  - d) privileged user's activity;
  - e) access by third party vendors / engineers; and
  - f) identifying redundant user IDs.
- 5.5.2 The User Access Profile must be reviewed on a regular basis by the relevant authorised personnel. At a minimum, the review must be undertaken at least once a year.



## **ACCESS CONTROL**

### **5.6 Secure Log on Procedures**

5.6.1 The access to operating systems and applications must be controlled by a secure log-on procedure.

5.6.2 A good log on procedure should have the following features:-

- a) does not display system or applicant identifiers until the log-on process has been successfully completed;
- b) validates the log-on information only on completion of all input data. If an error condition arises, the system should not indicate which part of the data is correct or incorrect;
- c) displays previous successful log-on upon completion of successful log-on; and
- d) provides details of any unsuccessful log-on attempts since the last successful log-on.



## **PHYSICAL AND ENVIRONMENTAL SECURITY**

### **6.0 PHYSICAL AND ENVIRONMENTAL SECURITY**

#### **OBJECTIVE**

The objective of the requirements under Physical and Environmental Controls is to prevent unauthorised physical access, damage and interference to the PO's information and information processing facilities.

#### **6.1 Secure Area**

- 6.1.1 Secure locations of sensitive areas must be identified and documented as part of the physical access control procedures.
- 6.1.2 Security perimeters must be defined and used to protect areas that contain sensitive and critical information. A manned reception area or other means of physical access control must be in place to ensure access is restricted to authorised personnel only.
- 6.1.3 Appropriate physical entry controls to offices, rooms and facilities should be established and access by visitors and non-authorised personnel to secure locations must be authorised, logged and supervised by an authorised personnel.
- 6.1.4 The access rights to secure locations and sensitive areas must be regularly reviewed and updated.
- 6.1.5 Physical protection against natural disaster, malicious attack or accidents should be designed and applied.

#### **6.2 Equipment**

- 6.2.1 Equipment should be sited and protected to reduce the risks from environmental threats and hazards, and opportunities for unauthorised access.
- 6.2.2 Critical computer related equipment and information system must be protected by an automatic fire detection and alarm system. Installation of fire suppression systems must comply with local regulations.
- 6.2.3 Equipment must be protected from power failures and other disruptions caused by failures in supporting utilities. Power supplies to critical system must be protected and backup sources must be available to ensure continuity of processing.



## **PHYSICAL AND ENVIRONMENTAL SECURITY**

6.2.4 Supporting utilities must conform to equipment manufacturer's specification and be subject to regular inspection.

6.2.5 Equipment should not be taken off-site without prior authorisation. Movement of the assets should be recorded accordingly.

### **6.3 Storage Media**

6.3.1 Access to computerised storage media must be restricted only to authorised personnel and adequately protected from physical and environmental damage.

6.3.2 All movement of computerised storage media to and from storage must be logged accordingly.

6.3.3 All items of equipment containing storage media must be verified to ensure that any sensitive data and licensed software has been removed or securely overwritten prior to disposal or re-use.

### **6.4 Secure disposal or re-use of equipment**

6.4.1 Authority to dispose the equipment containing storage media must be granted to authorised personnel.

6.4.2 The equipment containing storage must be destroyed, deleted or overwritten using techniques that ensure the original information is non-retrievable before disposal.

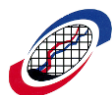
6.4.3 Records for the disposed equipment should be maintained.

### **6.5 Emergency Procedures**

6.5.1 Emergency and evacuation procedures must be documented and made available to all personnel.

6.5.2 The emergency procedures must be tested at least once a year.

6.5.3 Personnel must be adequately trained to handle emergencies.



## **OPERATIONS SECURITY**

### **7.0 OPERATIONS SECURITY**

#### **OBJECTIVE**

The objective of the requirements under Operations Security is to ensure the correct and secure operation of the information processing facilities.

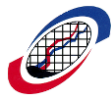
#### **7.1 Documented Operational Procedures**

7.1.1 POs must establish and document procedures for operational activities associated with information processing and communication facilities such as computer start-up and close-down, backups, media handling, equipment maintenance, and computer room.

7.1.2 The operating procedures should specify the operational instructions, including:

- a) the installation and configuration of systems;
- b) processing and handling of information both automated and manual;
- c) backup;
- d) scheduling requirements such as job starts and day end job;
- e) instructions for handling errors or other exceptional conditions, which might arise during job execution;
- f) support and escalation contacts including third party support;
- g) media handling instructions;
- h) system restart and recovery procedures; and
- i) management of audit-trail and system log information.

7.1.3 All documentation in relation to Operations Security must be maintained and regularly updated to ensure information is up-to-date, complete and accurate. The changes must be reviewed and approved by the Management.



## **OPERATIONS SECURITY**

### **7.2 Change Management**

7.2.1 All changes to the systems and information processing must be documented, assessed on the potential impacts, approved and tested prior to its implementation.

7.2.2 In particular, the following items should be considered:

- a) identification and recording of significant changes;
- b) planning and testing of changes;
- c) assessment of the potential impacts, including security impacts;
- d) formal approval procedure for proposed changes;
- e) verification that information security requirements have been met;
- f) communication of change details to all relevant parties;
- g) fall-back procedures including procedures for recovering from unsuccessful changes and unforeseen events; and
- h) provision of an emergency change process.

7.2.3 All changes made must be logged and the audit log containing all relevant information must be retained.

### **7.3 Capacity Management**

7.3.1 POs must monitor and plan future capacity requirements for hardware, software and network to ensure the required performance is retained.

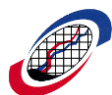
7.3.2 The business criticality of the concerned system should be taken into account in any capacity planning.

7.3.3 Capacity management plan should be established for mission critical systems.

7.3.4 Capacity planning must be performed and reviewed on a regular basis, at least once a year.

### **7.4 Segregation of Logical System Environments**

7.4.1 The following logical system environments should be established to mitigate the risks of accidental change and



## **OPERATIONS SECURITY**

unauthorised access to operational software and business data:

- a) Development;
- b) Test; and
- c) Production.

7.4.2 POs must segregate the following duties within the IT activities:

- a) Computer Operations;
- b) Technical Support; and
- c) Application Development.

7.4.3 End users must be restricted to business application functions and must not have access to systems software and utilities.

7.4.4 The testing environment should be consistent with the production environment to ensure adequate levels of confidence in the testing.

### **7.5 Handling of Information Backup**

7.5.1 All backup media must be recorded, uniquely identified, stored securely and subjected to secure disposal procedures.

7.5.2 Backups should be protected by means of encryption where confidentiality is of importance.

7.5.3 All storage media must be uniquely labelled to identify the contents.

7.5.4 Centralised inventory listings of all storage media must be maintained for both on-site and off-site locations.

7.5.5 The retention period of backups must be defined and agreed by System Owners and Data Owners in accordance with relevant regulatory requirements, taking into account any requirement for archive copies to be permanently retained.

7.5.6 If a third party has been authorised to store backup media, a Supplier Agreement must be defined and documented, and in compliance with the PO IT Security Standards.





## **OPERATIONS SECURITY**

### **7.6 Security over Computer Reports**

7.6.1 Access to confidential output and printers generating confidential information must be restricted only to authorised personnel.

7.6.2 Documents containing confidential information must be rendered unreadable prior to disposal.

### **7.7 Logging and Monitoring**

7.7.1 Event logs, including the operator console activity, where applicable, must be maintained as an audit trail and reviewed.

7.7.2 Details of event logs should include the following, where relevant but which is not exhaustive:

- a) User IDs;
- b) System activities;
- c) Dates, times and details of key events;
- d) Device identity or location and system identifier;
- e) Records of successful and rejected system access attempts;
- f) Changes to system configuration;
- g) Use of privileges;
- h) Use of system utilities and applications;
- i) Files accessed and the details of access;
- j) Network addresses and protocols;
- k) Alarm raised by the access control system;
- l) Activation and de-activation of protection systems e.g. anti-virus systems and intrusion detection systems; and
- m) Records of transaction executed by users in applications.

7.7.3 The event log:

- a) must be archived until all outstanding problems which require reference to it have been resolved, after which it



## **OPERATIONS SECURITY**

may be purged;

- b) must be archived for a minimum period of at least one year; and
- c) must be audited.

7.7.4 System exceptions must be identified, highlighted and monitored by Computer Operations personnel or other personnel designated to respond to such exception conditions.

7.7.5 Controls must be in place to ensure the following:

- a) No alterations are made to the recorded message types;
- b) Log files are not edited or deleted; and
- c) No failure in recording the events or over-writing past recorded events in the event the storage of the log file media has exceeded its storage capacity.

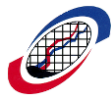
7.7.6 System administrators must not have permission to erase or de-activate logs of their own activities.

7.7.7 Computer operations personnel must not be able to bypass the logging process and update or delete entries from the system log.

7.7.8 The correct setting of computer clock is important to ensure accuracy of audit logs. A network time protocol can be used to keep all servers in synchronisation with master clock.

7.7.9 Powerful utility programs capable of bypassing logical access controls must be:

- a) Stored in secured libraries;
- b) Restricted to a minimum number of authorised users; and
- c) Protected from being copied or renamed.

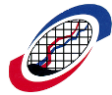


## **OPERATIONS SECURITY**

- 7.7.10 Access to powerful utilities must be authorised. The use of powerful utilities must be monitored and logged by Security Administration.
- 7.7.11 All unauthorised access attempts and other security related events must be logged and should be subjected to review by Security Administration.
- 7.7.12 Where systems permit, violation report must be produced for review by Security Administration on a daily basis.
- 7.7.13 All unauthorised access attempts and other security violations reported must be investigated by Security Administration.

### **7.8 Protection from Malware**

- 7.8.1 Controls should be in place to ensure information and processing facilities are protected against malware.
- 7.8.2 POs must put in place the following controls:
  - a) Establishing a formal policy prohibiting the use of unauthorised software;
  - b) Implementing controls that prevent or detect the use of unauthorised software;
  - c) Implementing controls that prevent or detect the use of known or suspicious malicious websites;
  - d) Establishing a formal policy to protect against risks associated with obtaining files and software either from or via external networks or on any other medium;
  - e) Defining procedures to deal with malware protection on systems, training in their use, reporting and recovering from malware attacks;
  - f) Implementing procedures to verify information relating to malware to ensure warning bulletins are accurate and informative, and all users should be made aware of the problem of hoaxes;
  - g) Regular reviews of the software and data content of systems supporting critical business processes must be conducted and the presence of any unapproved files or unauthorised amendments must be formally investigated;
  - h) Installing and regularly updating of malware detection software ; and



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- i) Business continuity plans must include recovering from malware attacks and any other cyber threats covering all necessary data and software backup and recovery arrangements, and isolating environments when there is catastrophic impacts.



## **NETWORK AND COMMUNICATION SECURITY**

### **8.0 NETWORK AND COMMUNICATION SECURITY**

#### **OBJECTIVE**

The objective of the requirements under Network and Communication Security is to ensure information in networks and its supporting information processing facilities are adequately protected from unauthorised access.

#### **8.1 Network Controls**

- 8.1.1 POs must establish the responsibilities and procedures for the management of networking equipment.
- 8.1.2 POs must establish controls to safeguard the confidentiality and integrity of data that are transmitting over public networks or wireless networks.
- 8.1.3 POs must establish controls to ensure the availability of the networks and services connected.
- 8.1.4 POs must ensure appropriate logging and monitoring controls are established to enable recording and detection of actions that may affect the information security.
- 8.1.5 POs should ensure controls are in place to identify equipment or systems that can be connected to the POs' private network.
- 8.1.6 POs must establish adequate controls if the use of dial-back are allowed. POs are advised to test the dial back procedures to prevent unauthorised and unwanted connection to POs' private network.
- 8.1.7 POs must ensure all changes to the network configuration require authorisation.
- 8.1.8 POs must maintain a list of network users and systems communicating via the network.
- 8.1.9 POs should disable all network services and facilities when not in use.



## **NETWORK AND COMMUNICATION SECURITY**

### **8.2 Segregation of Networks**

- 8.2.1 POs must segregate the group of information services, users and information based on different network domain in accordance to the POs' access control policy.
- 8.2.2 POs may consider segregation based on the following domain:
  - a) Internal network domains;
  - b) External network domains; and
  - c) Wireless network domains.
- 8.2.3 The network segregation should be based on the value and classification of the information stored or processed in the network.

### **8.3 Network Security**

- 8.3.1 Procedures to control the flow of information and access control between the internal and external network should be established.
- 8.3.2 POs must define the perimeter and firewalls must be used to protect and segregate the internal network, external networks and wireless network.
- 8.3.3 Cryptographic method and strong authentication should be considered for wireless network implementation.
- 8.3.4 Network diagrams must be maintained and any changes must be updated.
- 8.3.5 Access to network port for remote diagnostic activity and configuration must be approved by the System Owner.
- 8.3.6 POs should use cryptographic techniques to protect the confidentiality, integrity and authenticity of information transmitted through mobile or removable media, devices or across communication lines.
- 8.3.7 POs must establish policies to perform vulnerability assessment and penetration testing on its network or internet based application system.
- 8.3.8 All network management software should at least include the following features:
  - a) Monitoring of users' activity and attempted security violations; and



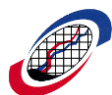
## **NETWORK AND COMMUNICATION SECURITY**

b) Monitoring capabilities to track and report network status or network error.

8.3.9 Procedures must be developed to minimize the risk of viruses causing damage to data and program.

8.3.10 All critical servers and workstations must be installed with anti-virus software.

8.3.11 All anti-virus software must be auto-executed upon login to the local area network and upon PC start-up.



## **SYSTEM ACQUISITION, DEVELOPMENT AND MAINTENANCE**

### **9.0 SYSTEM ACQUISITION, DEVELOPMENT AND MAINTENANCE**

#### **OBJECTIVE**

The objective of the requirements under System Acquisition, Development and Maintenance is to ensure that information security is an integral part of information systems across the entire systems life cycle.

#### **9.1 Security Requirements of Information Systems**

9.1.1 POs must ensure that the following information security related requirements be included for new information system or enhancements to the existing system:

- a) access provisioning and authorisation processes, for business users as well as for privileged or technical users;
- b) the required protection needs of the assets involved, in particular regarding availability, confidentiality and integrity;
- c) requirements derived from business processes, such as transaction logging and monitoring; and
- d) requirements on other security controls, e.g. interfaces to logging and monitoring or data.

9.1.2 POs must ensure that security requirements and controls reflect the business value of the information assets and the potential business impact resulting from lack of adequate security.

9.1.3 POs must integrate security requirements and the processes for implementing security in the early stages of information system projects.

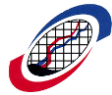
9.1.4 POs must ensure that a formal testing process is completed for any product before an acquisition or procurement.

9.1.5 Any contracts with the vendor should address the security requirements.

#### **9.2 Access Control to Source Code**

9.2.1 POs must ensure that access control to program source code be restricted and controlled, in order to prevent unauthorised





## **SYSTEM ACQUISITION, DEVELOPMENT AND MAINTENANCE**

functionality and to avoid unintentional changes as well as to maintain the confidentiality of valuable intellectual property.

9.2.2 For program source code, this can be achieved by having a controlled central storage of such code, preferably in program source libraries. The following guidelines may be considered to control access to such program source libraries:

- a) program source libraries should not be held in production environment;
- b) the program source code and the program source libraries should be managed according to established procedures;
- c) the updating of program source libraries associated items and the issuing of program sources to programmers should only be performed after appropriate authorisation has been received;
- d) an audit log must be maintained of all accesses to program source libraries; and
- e) maintenance and copying of program source libraries must be subject to strict change control procedures.

### **9.3 Security in Development and Support Process**

#### **9.3.1 Secure Development Policy**

- a) POs must ensure the policy on the development of software and systems be established and the following should be considered:-
  - i. security of the development environment;
  - ii. guidance on the security in the software development lifecycle;
  - iii. security in the software development methodology;
  - iv. secure coding guidelines for each programming language used;
  - v. security requirements in the design phase;



## **SYSTEM ACQUISITION, DEVELOPMENT AND MAINTENANCE**

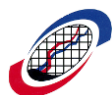
- vi. security checkpoints within the project milestones; and
- vii. security in the version control.

### **9.4 System Change Control Procedures**

9.4.1 POs must ensure the changes for new systems and major changes to the existing system within the development lifecycle are subjected to formal change control procedures.

9.4.2 The change control procedures must include the following:

- a) changes must be via formal written instructions by authorised users;
- b) controls and integrity procedures must be subject to review to ensure that they will not be compromised by the changes;
- c) all software, information, database entities and hardware that require amendment must be identified;
- d) formal approval for detailed proposals must be obtained before work commences;
- e) changes are subject to acceptance by the users prior to implementation;
- f) the system documentation is updated on the completion of each change and that old documentation is archived or disposed of;
- g) a version control for all software updates is maintained;
- h) an audit trail of all change requests is required;
- i) that operating documentation and user procedures are approved prior to any changes; and
- j) the implementation of changes takes place at the appropriate time and does not disturb the business processes involved.



## **SYSTEM ACQUISITION, DEVELOPMENT AND MAINTENANCE**

### **9.5 Restrictions on changes to software packages**

9.5.1 When a vendor supplied software package needs to be modified, POs must ensure that the processes comply with the established change or modification policies and procedures.

9.5.2 POs must ensure that if changes are necessary, the original software is retained and the changes applied to a designated copy.

9.5.3 POs must ensure that the software update management process is implemented with the most up-to-date approved patches and application updates are installed for all authorised software.

9.5.4 POs must ensure that all changes and modification are fully tested, validated by an independent party and documented, so that they can be reapplied, if necessary, to future software upgrades.

### **9.6 System Security Testing Control**

9.6.1 POs must ensure the testing of security functionality is carried out during the development phase.

9.6.2 POs must require thorough testing and verification during the development processes.

9.6.3 For in-house developments, tests must initially be performed by the development team. Independent acceptance testing must be undertaken to ensure that the system works as expected.

### **9.7 System Acceptance Testing Control**

9.7.1 POs must establish acceptance testing programs and related criteria for new information systems, upgrades and new versions of software.

9.7.2 System acceptance testing must also include testing of information security requirements.

9.7.3 Testing should be performed thoroughly to ensure that the system will not introduce vulnerabilities to the PO's environment and that the tests are reliable.



## **SYSTEM ACQUISITION, DEVELOPMENT AND MAINTENANCE**

### **9.8 Test data**

9.8.1 POs must ensure the following guidelines are applied to protect operational data, when used for testing purposes:

- a) authorisation is required each time when operational information is copied to a test environment;
- b) data masking and massaging must be carried out for sensitive information;
- c) operational information should be erased from a test environment immediately after the testing is complete; and
- d) copying and use of operational information should be logged to provide an audit trail.



## **SUPPLIER MANAGEMENT**

### **10.0 SUPPLIER MANAGEMENT**

#### **OBJECTIVE**

The objective of the requirements under Supplier Management is to ensure that the information access granted to a supplier is adequately protected.

#### **10.1 Information Security in Supplier Management**

10.1.1 POs must establish a policy to address the information security risks for its outsourcing activities such as data centre operations, network administration, disaster recovery site, application hosting and cloud computing. POs may consider the following areas:

- a) Identify the types of suppliers whom a PO will allow to access its information;
- b) Define types of allowable information access for different types of suppliers and procedures on monitoring and controlling the access;
- c) Put controls in place to ensure the integrity of the information processing provided by the suppliers; and
- d) Put in place recovery and contingency arrangements to ensure the availability of information processing by the suppliers within the required recovery time objective ("RTO").

#### **10.2 Engagement of Suppliers**

10.2.1 Background verification checks on all suppliers must be carried out and suppliers engaged to handle sensitive information must be subjected to adequate investigation and review before being engaged.

10.2.2 Work undertaken by supplier's service providers must be subject to compliance with the PO IT Security Standards.

10.2.3 Suppliers must sign a statement of confidentiality.



## **SUPPLIER MANAGEMENT**

### **10.3 Suppliers Agreements**

10.3.1 POs must establish the suppliers' agreement to document both parties' obligations in fulfilling relevant security requirements.

10.3.2 POs may include the following terms in the suppliers' agreements:

- a) legal and regulatory obligations, including data protection and intellectual property rights;
- b) an agreed set of controls of each contractual party to be implemented including access control, performance review, monitoring, reporting and auditing;
- c) incident management requirements and procedures;
- d) contractual rights to audit the supplier's process;
- e) escrow arrangement for outsourced software development;
- f) provisions of evidence that sufficient testing has been applied to guard against the malicious content upon delivery known vulnerabilities; and
- g) suppliers' obligations to comply with the PO's security requirements.

### **10.4 Management of Suppliers Service Delivery**

10.4.1 POs must regularly monitor service performance levels of the supplier to verify adherence to the terms defined in the suppliers' agreements.

10.4.2 POs must review service reports produced by the supplier.

10.4.3 POs must ensure that the supplier maintains sufficient service capability together with workable plans designed to ensure that agreed service continuity levels are maintained following major service failures or disaster.



## **INFORMATION SECURITY INCIDENT MANAGEMENT**

### **11.0 INFORMATION SECURITY INCIDENT MANAGEMENT**

#### **OBJECTIVE**

The objective of the requirements under the Information Security Incident Management is to ensure that the information security incidents and communication on security events are managed effectively.

#### **11.1 Responsibilities and Procedures**

11.1.1 POs must establish the following procedures to ensure effective and orderly response to information security incidents:

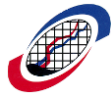
- a) Procedures for monitoring, detecting, analysing and reporting of information security events and incidents;
- b) Procedures for logging incidents;
- c) Procedures for incident response planning and preparation; and
- d) Procedures for escalation and recovery from an incident and communication to internal and external parties.

11.1.2 POs should integrate the information security incident response plan with the Business Continuity Plan.

#### **11.2 Reporting Information Security Events**

11.2.1 POs must ensure that all its employees and contractors are made aware of their responsibility to report any information security events. Information security events may include the following:

- a) Ineffective security controls;
- b) Breach of information integrity, confidentiality or availability expectations i.e. denial of service;
- c) Human errors;
- d) Non-compliances with policies and procedures or guidelines;
- e) Breaches of physical security arrangements;



## **INFORMATION SECURITY INCIDENT MANAGEMENT**

- f) Malfunctions of software or hardware;
- g) Access violations; and
- h) Misuse or abuse of facilities.

### **11.3 Incident Logging**

11.3.1 All incidents reported must be formally logged in a consistent format in a central location.

11.3.2 POs must ensure that access to the incident log is restricted to authorised personnel.

11.3.3 POs must include the following details in the incident log:

- a) the date and time the incident was logged;
- b) a summary description of the nature of the incident ;
- c) how the incident was identified;
- d) who reported the incident (i.e. name / department / designation);
- e) the extent of the incident and its implications on other components of the system;
- f) the priority of the incident ; and
- g) details of all diagnostic or attempted recovery actions taken.

11.3.4 The priority of the incident must be determined with consideration given to the nature of the incident, its impact on data confidentiality, integrity and availability, and the business functions to which the incident relates.

### **11.4 Incident Investigation and Diagnosis**

11.4.1 All logged incidents must be promptly assigned to the appropriate personnel for investigation, diagnosis and correction.

11.4.2 The incident assignee should conduct an impact analysis and diagnosis of the potential cause of the problem before taking action to resolve the incident. A summary of the analysis,





## **INFORMATION SECURITY INCIDENT MANAGEMENT**

diagnosis, and proposed action to be taken to resolve the incident should be documented.

11.4.3 The incident assignee must ensure that each logged incident has been correctly classified in respect of priority before workaround or taking any action.

11.4.4 If the incident assignee cannot diagnose the cause or find a suitable solution, the incident should be escalated to the Management.

### **11.5 Incident Resolving and Recovery**

11.5.1 All incidents must be resolved and recovered on a timely basis according to their priority and agreed dates and time of resolution.

11.5.2 An investigation should be conducted on the root cause of all logged incidents to determine the recognised incident solving techniques that can be used to help in resolving and recovery.

11.5.3 The action taken to resolve the logged incident must be documented with appropriate details to enable an independent person to analyse the actions taken without recourse to the incident assignee.

### **11.6 Incident Closure and Evaluation**

11.6.1 All logged incidents that have been completely resolved must be formally closed and signed-off by the incident assignee and the user.

11.6.2 All logged incidents and their status must be reviewed by the Management on a regular basis.

11.6.3 All logged incidents must be subjected to periodic reporting to ensure that the incidents have been resolved in a timely manner and the correct solutions applied.

11.6.4 Senior Management should be provided with the following information on a periodic basis at least once a month:

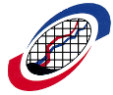
- a) a summary analysis of all logged incidents and causes distinguishing all incident by priority;
- b) a summary report of the times taken to respond to the logged incident;
- c) an ageing analysis of all outstanding logged incidents by priority;



**BURSA MALAYSIA SECURITIES BERHAD  
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**INFORMATION SECURITY INCIDENT MANAGEMENT**

- d) a detailed analysis of all logged incidents exceeding their agreed resolution dates;
- e) a detailed report of all incidents where the agreed resolution may affect service levels; and
- f) any outstanding or unresolved incident.



## **BUSINESS CONTINUITY MANAGEMENT**

### **12.0 BUSINESS CONTINUITY MANAGEMENT**

#### **OBJECTIVE**

The objective of the requirements under Business Continuity Management is to minimize disruptions to the trading activities and operations of the POs from the effects of major failures of the critical systems or disaster.

#### **12.1 Business Continuity Plan (BCP)**

- 12.1.1 A BCP must be established to formalize the procedures and controls to ensure the required level of continuity of the business during adverse situation.
- 12.1.2 A BCP should be undertaken with business impact analysis to ensure that all key business activities, business support systems and operational functions are identified.
- 12.1.3 The responsibility for the development, documentation and implementation of the BCP must be defined, agreed and documented. The BCP must at least include the roles and responsibilities of the Plan Co-ordinator(s) and the respective team members.
- 12.1.4 Any services provided by third parties and their responsibilities must be formally defined and documented in a Supplier Agreement.
- 12.1.5 Personnel must be trained in the implementation of BCP procedures. Backup personnel must also be identified and trained.
- 12.1.6 Backup copies of the BCP must be kept securely off-site and there must be a policy established for access procedures.
- 12.1.7 All BCP must be kept up-to-date and reviewed at least on an annual basis. The review process must be documented and signed-off by management.
- 12.1.8 Any amendments to the BCP must be issued to all plan holders.

#### **12.2 Testing of BCP**

- 12.2.1 The BCP must be comprehensively tested to ensure that they are workable. Test plans must be developed and must at least include test objectives, scope, sequence of activities and timing/schedule. Problems arising during the testing and the actions taken to resolve these problems must be documented and reviewed.
- 12.2.2 Training should also be provided to all employee for any updates to the BCP and as refresher courses.

[End of Appendix 1]

**APPENDIX 2**

**PARTICIPATING ORGANISATIONS' DISASTER RECOVERY SITE STANDARDS  
(PODRS STANDARDS)**

**1.1 Disaster Recovery Site Standards and PO IT Security Standards**

The objective of the establishment of a disaster recovery site is to facilitate the resumption of critical business operations within an acceptable timeframe in the event a disaster disables the computer and office facilities at the main business premise.

The following sections address the specific guidelines for the establishment of the disaster recovery site by Participating Organisations ("POs") to ensure that the above objective is met. However, POs are required to comply with the PO IT Security Standards for their full implementation, i.e. the PODRS Standards must be complied with in conjunction with the PO IT Security Standards.

POs are required to abide by these guidelines to achieve a minimum standard for the establishment of a disaster recovery site. However, POs may introduce more stringent and sophisticated measures to provide for higher levels of disaster recovery capability within their own organizations.

**(1) LOCATION OF DISASTER RECOVERY SITE**

- (a) POs should ensure that the disaster recovery site is located at least 10km from the main business premise to ensure that when the main business premise cannot be accessed for any reason, the disaster recovery site is still accessible.
- (b) POs must ensure that the main business premise and the disaster recovery site do NOT share the same power sub-station.
- (c) POs must ensure that the main business premise and the disaster recovery site do NOT share the same telecommunication exchange.
- (d) POs must ensure that the disaster recovery site is secured and accessible 24 hours if the need arises.

**(2) BACKUP OF COMPUTER OPERATIONS**

- (a) POs must have in place a backup system to cater for clearing and settlement operations during a disaster.
- (b) POs must ensure that the data is backed up as follows:
  - (i) Latest copy of system and application programs are secured at the disaster recovery site. Whenever there are changes or enhancement to the system or application programs, a backup copy is kept or the necessary update to the disaster recovery site is done accordingly; and
  - (ii) Inventory records of all backup data, application programs, vital business records, backup media and operations manuals are maintained at the disaster recovery site.

- (d) POs must maintain at least 1 CDS terminal setup at the disaster recovery site so that the CDS function can be carried out during the disaster.
- (e) POs must maintain sufficient trading terminals to cater for trading during the disaster.
- (f) All the trading facilities must be maintained offline at all times other than during the disaster period.
- (g) POs should maintain the network configuration setup to provide a fault-tolerant network with redundancy. This setup must be able to provide continuous connection availability from the Exchange to the PO.

**(3) DISASTER RECOVERY PLAN**

The disaster recovery plan must consist of business impact assessment, roles and responsibilities, framework for decision making, detailed recovery procedures and regular maintenance, testing and training. The minimum level of standards must include the following:-

- (a) POs must clearly identify and document computing resources and office facilities needed to support critical business functions.
- (b) POs must assign specific personnel for the disaster recovery roles and responsibilities.
- (c) A disaster recovery plan and documentation must contain the following information:
  - decision making for declaration of disaster;
  - contact list of key recovery personnel (during and after office hours);
  - information on permanent personnel working at the disaster recovery site;
  - procedures for declaring disaster;
  - procedures for activating disaster recovery site;
  - procedures for resumption of computing facilities at the disaster recovery site;
  - procedures for retrieval of vital records (data, programs, documentation); and
  - procedures for resumption of normal computing facilities and business operation at main site procedures on plan maintenance, testing and training.
- (d) POs must conduct training and testing to familiarize recovery teams with the disaster recovery plan at least once a year.
- (e) The disaster recovery plan must be kept up-to-date and reviewed at least once a year.
- (f) The disaster recovery plan must be integrated with the business continuity plan.

Relevant to : Rule 5.13(1)  
Introduced with effect from : 2 May 2013  
Amended : 23 June 2017 vide R/R 8 of 2017 (revoked)  
POs' Circular No(s). : R/R 5 of 2012  
Refer also to Directive No(s). : N/A

*[Deleted]*

[End of Directive]

Relevant to	:	Rules 5.15(1) and 5.15(2)
Introduced with effect from	:	2 May 2013
Amended	:	15 January 2015 vide R/R 9 of 2014, and 21 August 2020 vide R/R 11 of 2020
POs' Circular No(s).	:	G 1001 of 1990 and G552 of 1991
Refer also to Directive No(s).	:	5-001

## **1. Rule 5.15(1)**

Rule 5.15(1) requires a Participating Organisation and Registered Person 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 above Rule, a Participating Organisation and Registered Person must comply, amongst others, with the requirements set out below.

### **1.1 Requirements in opening a Client account**

#### **(1) Opening And Registration of an Individual Client Account**

In relation to the opening of an individual client account, a Participating Organisation must:

- (a) use due diligence to learn the essential facts relative to every Client and every person holding power of attorney over any account;
- (b) diligently supervise all accounts handled by its Dealer's Representatives;
- (c) in respect of the application for opening of account:
  - (i) specifically designate a Director or officer to approve the opening of an account;
  - (ii) the designated Director or officer approving the opening of the account must, prior to giving his approval, be personally informed as to the essential facts relative to the Client and to the nature of the proposed account and must indicate his approval in writing on the application form;
  - (iii) ensure a copy of the Client's identity card or passport is attached together with the application form; and
  - (iv) ensure that the application form contains at least the following particulars:
    - full name of Client
    - full residence and correspondence address
    - contact details
    - spouse name (where applicable)
    - employment details for the applicant and spouse (where applicable)
    - income and its source
    - approved credit limit

#### **(2) Opening and Registration of a Joint Holders Client Account**

In relation to the opening of a joint holders Client account, a Participating Organisation must:

- (a) use due diligence to learn the essential facts relative to the joint holder Clients, and every person holding power of attorney over any account;
- (b) diligently supervise all accounts handled by its Dealer's Representative;

- (c) in respect of the application for opening of account
- (i) specifically designate a Director or officer to approve the opening of a joint holders Client account;
  - (ii) the designated Director or officer approving the opening of the joint holders Client account must, prior to giving his approval, be personally informed as to the essential facts relative to the joint holder Clients and to the nature of the proposed joint holders Client account and must indicate his approval in writing on an appropriate form;
  - (iii) ensure a copy of the joint holder Clients' identity cards or passports is attached together with the application form; and
  - (iv) ensure that the application form contain at least the following particulars:
    - full name of joint holder Clients;
    - full residence and correspondence address
    - contact details
    - spouse name (where applicable)
    - employment details for the applicant and spouse (where applicable)
    - income and its source
    - approved credit limit

(3) Opening And Registration of a Corporate Client Account

In relation to the opening of a corporate Client account, a Participating Organisation must:

- (a) use due diligence to learn the essential facts relative to every Client and every person holding power of attorney over any account;
- (b) subject to the exception stated in paragraph 1.1(4), require from the corporation an application form for opening account with Participating Organisation and such form shall contain at least the following information:
  - Name of corporation and all its directors
  - Full registered and correspondence address of the corporation
  - 
  - Name of authorised person for trading
  - Contact details
  - Approved credit limit
- (c) prior to entering into transactions for a corporate Client account, have on file a resolution of the directors of the corporation authorising the said corporation to open an account with the Participating Organisation.

(4) A Participating Organisation need not require from the corporation, an application form for opening account with the Participating Organisation, in relation to the following categories of corporate Clients:

- (a) a public-listed company or corporation listed on the Exchange or a majority-owned subsidiary of such public listed companies;
- (b) a foreign public-listed company that is:
  - (i) listed on a Recognised Stock Exchange; and



- (ii) not listed in a high risk country or a country with anti-money laundering or counter financing of terrorism deficiencies;
  - (c) a government linked company in Malaysia;
  - (d) a state owned corporation or company in Malaysia;
  - (e) a person authorized as an operator of a designated payment system, a registered person or a licensed bank, licensed investment bank or an approved money-broker under the FSA or a licensed Islamic bank under the Islamic Financial Services Act 2013;
  - (f) an entity licensed under the Labuan Financial Services and Securities Act 2010 or the Labuan Islamic Financial Services and Securities Act 2010;
  - (g) a person licensed or registered under the Capital Markets and Services Act 2007;
  - (h) a prescribed institution under the Development Financial Institutions Act 2002; and
  - (i) an entity that is licensed and regulated in the same jurisdiction as a Recognised Stock Exchange and not domiciled in a high risk country or a country with anti-money laundering or counter financing of terrorism deficiencies.
- (5) “A high risk country or a country with anti-money laundering or counter financing of terrorism deficiencies” in paragraph 1.1(4) is as referred to in the Commission’s Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries.
- (6) However, a Participating Organisation must require a corporate Client listed in paragraph 1.1(4) to provide the following:
- (a) the directors’ resolution stated in paragraph 1.1(3)(c); and
  - (b) the names of authorised persons for trading.

## 1.2 Other general matters pertaining to the opening of a Client account

- (1) All Client accounts must be identified and designated by the full name of the Client and no Participating Organisation shall carry a Client account designated only by a number or symbol.
- (2) Paragraph 1.1(1) also applies to trading accounts of Dealer’s Representatives.
- (3) A Participating Organisation must record and maintain up-to-date at its office, all essential particulars relative to every Client.

## 2. Rule 5.15(2)

Rule 5.15(2) provides that if the Client represents that the Client is trading on behalf of another person, the Participating Organisation may open a trading account for the Client only if the Client is an Authorised Nominee or Exempt Authorised Nominee and that the Participating Organisation brings to the notice of the Client, the Client’s obligation under Rule 5.15(8). In discharging the obligations under the said Rule, a Participating Organisation must comply with the requirements set out below.

**2.1 Opening of nominee accounts**

- (1) Where an agency account is carried by a Participating Organisation its files must contain the name of the principal for whom the agent is acting and written evidence of the agent's authority to trade.
- (2) Where estate and trustee accounts are involved or where a husband is acting as agent for his wife, or a wife is acting for her husband, a Participating Organisation should obtain advice from legal counsel as to the documents that should be obtained before opening the account.

[End of Directive]

<b>DIRECTIVES ON MATERIAL OUTSOURCING ARRANGEMENTS BY MARKET INTERMEDIARIES</b>	<b>No. 5.17-001</b>
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Relevant to : Rules 5.17(2) and 5.17(3)  
Introduced with effect from : 2 May 2013  
Amended : 30 June 2014 vide R/R 4 of 2014  
POs' Circular No(s). : R/R 7 of 2011  
Refer also to Directive No(s). : N/A

[Deleted]

[End of Directive]

<b>DIRECTIVES ON THE ESTABLISHMENT OF BRANCH OFFICE AND ELECTRONIC ACCESS FACILITIES</b>	<b>No. 6-001</b>
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Relevant to : Rules 6.03(1), 6.03(2), 6.04(2) and 6.05  
Introduced with effect from : 2 May 2013  
Amended : 1 March 2018 vide R/R 3 of 2018  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

*[Deleted]*

[End of Directive]

Relevant to : Rule 6.07  
Introduced with effect from : 2 May 2013  
Amended : 21 August 2020 vide R/R 11 of 2020 and 30 November 2021  
vide R/R 6 of 2021  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 6.07**

- (1) Rule 6.07 requires a Participating Organisation to carry out the compliance function 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) In discharging the obligations in the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Compliance Functions for Dealing in Derivatives**

- (1) If a Participating Organisation wants to undertake compliance functions for dealing in derivatives conducted at the Participating Organisation's Principal Office or Branch Office by its Related Corporation, the Participating Organisation must ensure that:
  - (a) the carrying out of the compliance functions for the Participating Organisation's business in dealing in securities is not compromised or affected; and
  - (b) all compliance reports pertaining to dealing in derivatives is submitted to the compliance officer of the Trading Participant.
- (2) The compliance officer of the Trading Participant and the Trading Participant are ultimately responsible for the compliance functions in relation to dealing in derivatives.

[End of Directive]

<b>DIRECTIVES ON THE RESPONSIBILITY OF THE PARTICIPATING ORGANISATION AND BOARD OF DIRECTORS FOR COMPLIANCE FUNCTION</b>	<b>No. 6.08-001</b>
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Relevant to : Rule 6.08  
Introduced with effect from : 2 May 2013  
Amended : 21 August 2020 vide R/R 11 of 2020 and 30 November 2021 vide R/R 6 of 2021  
POs' Circular No(s). : R/R 18 of 1999  
Refer also to Directive No(s). : N/A

**1. Rule 6.08**

- (1) Rule 6.08 provides amongst others that a Participating Organisation and the Participating Organisation's Board of Directors are responsible and accountable for compliance with the Rules, the Directives and Securities Laws by the Participating Organisation, the Participating Organisation's Registered Persons, employees and agents, and that if there is a breach, the Participating Organisation and the Participating Organisation's Board of Directors are liable for such breach.
- (2) Pursuant to the above rules, in discharging these obligations, a Participating Organisation and its Board of Directors must, amongst others, comply with the requirements set out in the Directives on the Responsibility of the Participating Organisation and Board of Directors for Compliance Function contained in **Appendix 1** of this Directive.

[End of Directive]

## APPENDIX 1

### DIRECTIVES ON RESPONSIBILITY OF THE PARTICIPATING ORGANISATION AND BOARD OF DIRECTORS FOR COMPLIANCE FUNCTION

The directives below are issued as part of the Exchange's on-going efforts to address compliance issues and to enhance compliance through guidance that will encourage self-regulation and sound risk management of the securities industry.

#### 1. Tone from the top

- 1.1 A Participating Organisation, as a whole, must be committed to the creation and maintenance of a compliance culture within its organisation. Key decisions and actions taken in regard to daily operations must be based on such a commitment, ensuring compliance with the relevant Securities Laws and these Rules and Directives ("**Regulatory Framework**") at all times.
- 1.2 The setting of a compliance culture within the Participating Organisation is the responsibility of the Participating Organisation through its Board of Directors and senior management. They must provide necessary support to the compliance function and their actions must be indicative of this. They must ensure that employees comprehend and understand their responsibilities in respect of compliance risk and promote an environment where employees feel safe and comfortable in reporting incidents and promoting transparency throughout the organisation through self-reporting.

#### 2. Board Oversight

- 2.1 The compliance function of a Participating Organisation is ultimately the responsibility of the Participating Organisation and its Board of Directors. A strong and pro-active Board of Directors will foster an environment of strong internal controls and compliant procedures and practices. It will also help to inculcate compliance culture within the Participating Organisation.
- 2.2 The Board of Directors is responsible for the compliance function of a Participating Organisation in a holistic manner, including taking actions to:
  - (a) approve the organisation's compliance framework and policy and to oversee its effective implementation;
  - (b) approve significant policies and procedures throughout the organisation and ensure that a sound system of internal controls is maintained to safeguard shareholders' interest, company's assets and clients' interests. This covers not only financial control but also operational and compliance controls, as well as risk management;
  - (c) perform on-going evaluation on the effectiveness of the organisation's overall compliance risk management;
  - (d) appoint or ensure the appointment of a qualified person to perform the duties of the Head of Compliance;
  - (e) appraise and deliberate on the performance of the Head of Compliance; and
  - (f) approve the termination or acknowledge the resignation of a Head of Compliance, or when the approval or acknowledgment is delegated, to ensure that the termination or resignation is

for a proper reason. The Board of Directors must be informed of the outcome of the exit interviews held with a Head of Compliance and ensure that actions are taken to address deficiencies, if any, that resulted in the termination or resignation of the Head of Compliance.

### **3. Management Oversight**

- 3.1 The Participating Organisation through its senior management in all business lines within the Participating Organisation must effectively manage the compliance risk, as well as other inherent risks by developing and owning clear, comprehensive and up-to-date policies and procedures.
- 3.2 It is essential that the Participating Organisation, through its senior management ensures that the organisational structure, reporting lines and functional responsibilities of its employees are clear, adequate and up-to-date in writing. There should be a clear segregation of duties within each department as to avoid any potential conflict of interest situation.

### **4. Qualification and Competence**

- 4.1 Based on the above, the Board of Directors must appoint a Head of Compliance with good character, business repute, qualification, experience and sufficiently broad knowledge and high level of expertise. In addition to the qualifications laid down in these Rules, the Board of Directors must ensure that the Head of Compliance is equipped with the authority and ability to effect decision so as to be able to carry out his responsibilities effectively. Therefore, the Head of Compliance must be a person holding a **senior position** in the organisation of the Participating Organisation, who can act independently and is able to fully affect decisions.

### **5. Resources**

- 5.1 The Participating Organisation must support the compliance function by employing sufficient personnel with the necessary qualifications and authority. The role and function of compliance officer can be best performed and executed with proper tools and mechanism as well as the support of a compliance unit to ensure the efficacy of the compliance function and programmes. The size of the compliance unit of a given Participating Organisation would very much depend on the size and complexity of the business activities and operations.

### **6. Reporting to the Board of Directors or the Board Committee**

The Head of Compliance must report directly to the Board of Directors or such committee appointed by the Board of Directors, as the case may be. In the course of his duties, the Head of Compliance may bring to the attention of the executive directors or other senior management of the Participating Organisation matters pertaining to compliance of the Participating Organisation so as to enable appropriate action to be taken.

### **7. Ultimate Responsibility of Ensuring Compliance Within the Participating Organisation**

- 7.1 The ultimate responsibility to ensure compliance with the regulatory requirements and internal control framework lies with the Participating Organisation and its Board of Directors. The compliance officer facilitates the attainment of these objectives and does not relieve the Participating Organisation or its Board of Directors of any of its responsibilities. The Participating Organisation and its Board of Directors must undertake effective oversight of the formulation, coordination and implementation of any supervisory or compliance programme.



- 7.2 Therefore, when the Board of Directors fails to effectively supervise the overall business undertaking of the Participating Organisation or the activities of its employees or fails to act upon a notification from the Head of Compliance, the Exchange deems it a failure to act, on the part of the Board of Directors. In such an event, the Head of Compliance must submit a copy of the reports and recommendation pertaining to the breach of compliance and failure to act on the recommendation directly to the Exchange.
- 7.3 Nevertheless, compliance is the responsibility of all staff within an organisation. All levels of business functions must carry out their responsibilities to ensure compliance with the Regulatory Framework as well as all internal control policies and procedures set up by the Participating Organisation.

[End of Appendix]

Relevant to : Rule 6.10(2)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 6.10(2)**

- (1) Rule 6.10(2) requires a Participating Organisation to establish a risk management committee whose function is to manage and monitor the discharge of the risk management functions of the Participating Organisation ("Risk Management Committee").
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1. Risk Management Functions of the Risk Management Committee**

The functions of the Risk Management Committee must include the following:

- (a) to develop and implement adequate risk assessment that commensurates with the scope, size and complexity of the Participating Organisation's activities and the level of risks that the Participating Organisation is prepared to assume;
- (b) to manage and monitor the risks identified under 1.1(1) (a) above; and
- (c) to manage and review the policies and procedures in relation to risk management.

[End of Directive]

**DIRECTIVES ON FUNCTIONS OF AUDIT COMMITTEE****No. 6.12(2)-001**

Relevant to : Rule 6.12(2)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 6.12(2)**

- (1) This rule provides that a Participating Organisation ("PO") must establish and maintain an audit committee, whether on its own, or at the Group Level, in accordance with Part G of Chapter 6 ("Audit Committee"), and whose functions must include such functions as may be specified by the Exchange. The Audit Committee is responsible for monitoring and overseeing all matters relating to the discharge of the internal audit functions of the Participating Organisation.
- (2) Pursuant to the above Rule, in establishing an Audit Committee, a Participating Organisation must comply, amongst others, with the requirements set out below.

**1.1 Functions of Audit Committee**

- (1) The functions of an Audit Committee must include the following:
- (a) ensure that the financial and accounting system of the Participating Organisation represents a true and fair view of its current financial position;
  - (b) oversee the Participating Organisation's internal control structure and its financial reporting process;
  - (c) review the findings of the internal and annual statutory audit and recommend as well as implement appropriate remedial and corrective measures relating to the same;
  - (d) discuss any matters arising from the previous year's audit, review the scope of the current year's audit, the plans for carrying out the audit, the extent of reliance on the work of the statutory auditor and the Participating Organisation's internal auditors;
  - (e) ensure proper implementation and recommend appropriate remedial and corrective measures in respect of such findings arising from inspections conducted by the Exchange;
  - (f) review the changes in statutory requirements and any rules issued, 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) ensure the independence and objectivity of the internal and the external auditor and that the audits are conducted in a thorough and effective manner; and
  - (h) monitor the Participating Organisation's compliance with applicable laws and regulations.

[End of Directive]

Relevant to	:	Rules 7.18(4)(a), 7.18(4)(b), 7.18(4)(c) 7.18(4)(d), 7.20, 7.35(4)(a), 7.35(4)(b) and 7.37
Introduced with effect from	:	2 May 2013
Amended	:	12 December 2017 vide R/R 11 of 2017, 1 March 2018 vide R/R 3 of 2018, and 29 April 2019 vide R/R 1 of 2019
POs' Circular No(s).	:	N/A
Refer also to Directive No(s).	:	7.30-001, 13.04-001

## **Securities Borrowing and Lending**

### **1. Rules 7.18(4)(a), 7.18(4)(b), 7.18(4)(c) and 7.18(4)(d)**

(1) These rules require a Participating Organisation to ensure that where the Securities Borrowing and Lending involves a Client, the following are complied with:

- (a) that the Participating Organisation executes a written agreement with its Client in respect of the Securities Borrowing and Lending and the terms of the written agreement comply with the requirements as stipulated by the Exchange. This provision is not applicable where the Securities Borrowing and Lending is a SBL Negotiated Transaction;
- (b) that collateral is lodged in accordance with the requirements as stipulated by the Exchange. This provision is not applicable where the Securities Borrowing and Lending is a SBL Negotiated Transaction;
- (c) that the lending of Margin Securities of a Margin Account Client complies with the requirements as stipulated by the Exchange;
- (d) that the lending of Eligible Securities held in its custody for its Client complies with the requirements as stipulated by the Exchange; and
- (e) that a copy of the risk disclosure statement as prescribed by the Exchange is given to and acknowledged by its Client prior to the execution of any written agreement for borrowing by the Client of Eligible Securities.

These Directives set out the Exchange's requirements in relation to the written agreement, the collateral, the lending of Margin Securities of a Margin Account Client, the lending of Eligible Securities held in a Participating Organisation's custody for its Client and the risk disclosure statement.

(2) In discharging the obligations under the said Rules, a Participating Organisation must, amongst others, comply with the following Directives.

#### **1.1 Written Agreement**

(1) A Participating Organisation must execute a written agreement referred to in Rule 7.18(4)(a)(i) for the Securities Borrowing and Lending of Eligible Securities with its Client prior to the borrowing or lending of the Eligible Securities.

(2) The Participating Organisation must ensure that the terms and conditions stipulated in the written agreement between the Participating Organisation and its Client, with the exception of the fees chargeable or payable in relation to the Securities Borrowing and Lending are at least on equal terms and conditions as the written agreement executed between the Participating Organisation and the Clearing House in relation to the Securities Borrowing and Lending and include matters specified below:

- (a) the party that lends is absolutely entitled to pass full legal and beneficial ownership of the securities lent free from all liens, charges and encumbrances;
  - (b) subject to paragraph 1.2, the requirement for deposit of collateral, if any including the management and utilisation of the collateral deposited by the Client;
  - (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 Client in relation to the Eligible Securities borrowed or lent;
  - (e) the fees, to be paid for the borrowing or lending or both of the Eligible Securities;
  - (f) the circumstances where the Participating Organisation or its Client are entitled to terminate the agreement entered into for the borrowing or lending of the Eligible Securities; and
  - (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 paragraph 1.1 is not applicable where the Securities Borrowing and Lending is a SBL Negotiated Transaction.

**1.2 Collateral**

- (1) A Participating Organisation must, in relation to any borrowing of Eligible Securities by a Client ("the Borrowed Securities"), obtain collateral from the Client.
- (2) The Participating Organisation must comply with the following requirements in relation to the collateral required to be deposited by a Client pursuant to paragraph 1.2(1):
  - (a) the collateral must only be the types of collateral provided in Directive 13-001 issued by the Exchange and is subject to a Haircut. The rate of the Haircut for a particular type of collateral must at least be the same as the rate prescribed by the Clearing House for that collateral in relation to its Securities Borrowing and Lending activities. In the absence of any Haircut prescribed by the Clearing House, the Haircut for that collateral must at least be the same as the 'discounting' rate provided in Directive 13.04-001 issued by the Exchange for discounting on collateral pursuant to Capital Adequacy Requirements. For the purposes of this paragraph 1.2, any reference made to the value of collateral is taken to mean the value of the collateral based on the valuation prescribed in paragraph 1.2(2)(d) after applying the prescribed Haircut under this rule;
  - (b) the Client must deposit the collateral prior to the borrowing envisaged in paragraph 1.2(1);
  - (c) the value of collateral obtained from the Client, must be at least 105% or such other percentum as may be determined by the Exchange, of the market value of the Borrowed Securities throughout the period the Borrowed Securities are borrowed by the Client; and
  - (d) the value of the Borrowed Securities and the collateral deposited by the Client for the Borrowed Securities must be marked to market on a daily basis based on the manner of valuation stipulated in Rule 7.30(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 securities;

- (ii) non-existence of an active market for the securities; or
  - (iii) no possibility of immediate liquidation for the securities.
- (3) If the value of the collateral falls below 105% of the market value of the Borrowed Securities, a Participating Organisation must comply with the following:
  - (a) if the collateral falls below 105%, the Participating Organisation must issue a notice to the Client to lodge additional collateral in order to top up the short fall. Pending such topping up, the Client must not be permitted to borrow any additional securities; and
  - (b) if the value of the collateral falls below 102%, the Participating Organisation must issue a notice to the Client for the return of the Borrowed Securities within 2 Market Days from the date of the notice. If the Client fails to return the Borrowed Securities, the Participating Organisation must liquidate the collateral. The proceeds from the liquidation must be utilised to purchase the relevant securities for the purpose of returning the Borrowed Securities to the Clearing House.
- (4) A Participating Organisation may allow a Client to withdraw any collateral deposited in relation to the Borrowed Securities provided that the value of any collateral remaining after the withdrawal is at least 105% of the market value of the Borrowed Securities on the withdrawal date.
- (5) Subject to paragraph 1.2(6), a Participating Organisation must keep all collateral deposited by a Client with it 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 Clients and can be clearly identified as that of the Client;
  - (b) in respect of cash collateral, the cash deposited can be clearly identified from its records as that of the Client; and
  - (c) if the collateral is in respect of securities deposited with the Depository, the collateral is held in a separate Securities Account specifically for the Client.
- (6) A Participating Organisation may only utilise the collateral deposited by its Client for the purpose of providing the collateral required by the Clearing House for the borrowing made or to be made for the Client.
- (7) A Participating Organisation must incorporate the provisions of paragraph 1.2 except for paragraph 1.2(8) into the written agreement referred to in paragraph 1.1.
- (8) A Participating Organisation must submit a report to the Exchange on a weekly basis, in respect of all of its Clients whose collateral has fallen below 102% of the market value of the Borrowed Securities for the week, in the format as may be prescribed by the Exchange, on the 1<sup>st</sup> Market Day of the following week.
- (9) A Participating Organisation must not onward pledge to any party or utilise any of the collateral lodged by its Clients pursuant to this paragraph 1.2 for any reason except as permitted in paragraph 1.2(6).
- (10) This paragraph 1.2 is not applicable where the Securities Borrowing and Lending is a SBL Negotiated Transaction.

**1.3 Securities in Margin Account**

- (1) A Participating Organisation may borrow any Eligible Securities in the Margin Account of a Client, for the purpose of carrying out lending activities permitted under the Clearing House Requirements if it complies with the following requirements:
- (a) A written agreement referred to in paragraph 1.1 is executed between the Participating Organisation and the Client ("Margin Account Client") to borrow the Margin Securities from the Margin Account Client.
  - (b) A Margin Account Client must at all times be entitled to deal with his Margin Account in the ordinary manner as provided for under the terms of the margin agreement entered into between the Client and the Participating Organisation even though:
    - (i) the Margin Securities in the Margin Account are used for purposes of Securities Borrowing and Lending; and
    - (ii) there is a shortfall or gain arising from a Securities Borrowing and Lending transaction involving the Margin Securities of the Margin Account Client.
  - (c) A Margin Account Client must be entitled to a portion of the fees earned by the Participating Organisation on that Client's Margin Securities from the above Securities Borrowing and Lending on such terms as may be mutually agreed between the Participating Organisation and that Client even though the Securities Borrowing and Lending for which 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 to withdraw or sell the Margin Securities borrowed if reasonable notice is given to the Participating Organisation for such withdrawal or sale and such notice to 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 must comply with all the requirements of Part H of Chapter 7.
  - (f) The Participating Organisation must not utilise more than 50% of the value, at the time of lending, of the Margin Securities in any Client's Margin Account.
  - (g) The Participating Organisation must issue a monthly statement to the Margin Account Client containing all necessary details in relation to the borrowing including the quantity of Margin Securities utilised and the fees earned.
- (2) A Participating Organisation must incorporate the requirements stipulated in paragraph 1.3(1)(b) into the written agreement referred to in paragraph 1.1.

**1.4 Securities In Custody**

- (1) A Participating Organisation may borrow Eligible Securities which are held in its custody ("Custodial Securities") for its Clients ("Custodial Clients" and singly, "Custodial Client") for the purposes of carrying out lending activities as permitted under the Clearing House Requirements provided that the Participating Organisation executes a written agreement between the Participating Organisation and the Custodial Client to borrow the Custodial Securities from the Custodial Client.

- (2) A Participating Organisation must be, at all times, fair, equitable and transparent in the process of selecting the custodial accounts to be utilised for the purposes of Securities Borrowing and Lending.

### **1.5 Risk disclosure statement**

- (1) A Participating Organisation must ensure that where the Securities Borrowing and Lending involves a Client, a copy of the risk disclosure statement as prescribed in **Appendix 1** is given to and acknowledged by its Client prior to the execution of any written agreement for borrowing by the Client of Eligible Securities.

## **2. Rule 7.20**

- (1) Rule 7.20 provides that a Participating Organisation may only commence its Securities Borrowing and Lending activities if it has submitted a written declaration in the form as prescribed by the Exchange of its compliance with Rule 7.19 at least 2 Market Days before commencing its Securities Borrowing and Lending activities.
- (2) The declaration must be made in the form set out in **Appendix 2**.

## **ISSBNT**

### **3. Rules 7.35(4)(a) and 7.35(4)(b)**

- (1) These rules require a Participating Organisation to ensure that where the ISSBNT involves a Client, the following are complied with:
- (a) that the sale of ISSBNT Eligible Securities held in its custody for its Clients, pursuant to a ISSBNT, complies with the requirements as stipulated by the Exchange; and
  - (b) a copy of the risk disclosure statement as prescribed by the Exchange is given to and acknowledged by its Client prior to the execution of any written agreement for a purchase under ISSBNT.
- (2) In discharging the obligations under the said Rules, a Participating Organisation must, amongst others, comply with the following Directives.

#### **3.1 Securities In Custody**

- (1) A Participating Organisation may enter into an arrangement to utilise the ISSBNT Eligible Securities ("Custodial Securities") which are held in its custody for its Clients ("Custodial Clients") for the purposes of carrying out ISSBNT activities as permitted under the Clearing House Requirements provided that the Participating Organisation executes a written agreement between the Participating Organisation and the Custodial Client to utilise the Custodial Securities.
- (2) A Participating Organisation must be, at all times, fair, equitable and transparent in the process of selecting the custodial accounts to be utilised for the purposes of ISSBNT.

#### **3.2 Risk disclosure statement**

- (1) A Participating Organisation must ensure that where the ISSBNT involves a Client, a copy of the risk disclosure statement as prescribed in **Appendix 1** is given to and acknowledged by its Client prior to the execution of any written agreement for a purchase under ISSBNT by the Client of ISSBNT Eligible Securities.



**4. Rule 7.37**

- (1) Rule 7.37 provides that a Participating Organisation may only commence its ISSBNT activities if it has submitted a written declaration in the form as prescribed by the Exchange of its compliance with Rule 7.36 at least 2 Market Days before commencing its ISSBNT activities.
- (2) The declaration must be made in the form set out in **Appendix 2**.

[End of Directives]

**APPENDIX 1**

**RISK DISCLOSURE STATEMENT ON [SECURITIES BORROWING / PURCHASING SECURITIES  
PURSUANT TO ISSBNT]\***

*\* This is a template document where the relevant parts marked with an asterisk are to be deleted accordingly if the same is not applicable. In the event this risk disclosure statement is to be executed by a Client for both securities borrowing and securities purchase pursuant to ISSBNT, no deletion is required and a single document may be submitted.*

1. This statement is provided to you in accordance with Rule [7.18(4)(d) / 7.35(4)(b)]\* of these Rules.
2. The purpose of this statement is to inform you that the risk of loss in [borrowing securities / purchasing securities under ISSBNT]\* for the purposes permitted under these Rules can be substantial. You should assess if [borrowing / purchasing under ISSBNT]\* securities is suitable for you in light of your financial circumstances. In deciding whether to [borrow securities / purchase securities under ISSBNT]\* you should be aware of the following:
  - (a) where the redelivery of securities to the [ lender / supplier]\*, which securities is equivalent to the [securities borrowed / securities purchased under ISSBNT]\*, 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 / purchase under ISSBNT]\*;
  - (b) under certain conditions, it may be difficult to buy back securities equivalent to the [securities borrowed / securities purchased under ISSBNT]\*;
  - (c) the [lender may recall the securities borrowed / supplier may exercise its rights to recall the securities from the user or, upon occurrence of certain trigger events]\* at any time which necessitates the buying back of securities equivalent to the [securities borrowed / securities purchased under ISSBNT]\*; and
  - (d) the [securities borrowed may no longer be eligible for borrowing / securities purchased under ISSBNT may no longer be eligible for purchase]\* in the future and as such the [lender / supplier]\* may recall on all of that [securities borrowed by all borrowers / securities purchased under ISSBNT by all users]\* which may necessitate the buying back of the securities equivalent to that [securities borrowed, by all borrowers / securities purchased under ISSBNT, by all users]\*. This 'buying back' may result in the buy price of those securities going up significantly.
3. This brief statement cannot disclose all the risks and other aspects of [borrowing of securities / purchase of securities under ISSBNT]\*. You should therefore carefully study the terms, conditions, the rules and regulations pertaining to [borrowing of securities / purchase of securities under ISSBNT]\* 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 / PURCHASING SECURITIES UNDER ISSBNT]\* and understand its contents which have been explained to me by the Participating Organisation.

Signature : \_\_\_\_\_  
Full name : \_\_\_\_\_  
Date : \_\_\_\_\_

**APPENDIX 2****DECLARATION ON COMPLIANCE FOR SECURITIES BORROWING AND LENDING/ ISLAMIC  
SECURITIES SELLING AND BUYING-NEGOTIATED TRANSACTION (“ISSBNT”)  
[Rules 7.20 and 7.37]**

*\* This is a template document where the relevant parts marked with an asterisk are to be deleted accordingly if the same is not applicable. In the event this risk disclosure statement is to be executed by a Client for both securities borrowing and securities purchase pursuant to ISSBNT, no deletion is required and a single document may be submitted.*

To: Bursa Malaysia Securities Berhad

**DECLARATION ON COMPLIANCE**

Pursuant to the requirements of [Rule 7.20/ 7.37]\*, we [name of Participating Organisation] declare as follows:

1. that we have formulated a set of the internal guidelines for [Securities Borrowing and Lending / ISSBNT]\* which have been approved by the board of Directors;
2. the internal guidelines for [Securities Borrowing and Lending / ISSBNT]\* have been brought to the notice of the relevant employees and registered persons who have read and understood the contents;
3. that the internal guidelines for [Securities Borrowing and Lending / ISSBNT]\* comply with the requirements set out in [Rule 7.19/ 7.36] \*; and
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/ ISSBNT]\* activities in accordance with these Rules.

Signed : \_\_\_\_\_  
          [Authorised signatory]

Date : \_\_\_\_\_

Relevant to : Rule 7.02(1)(d), Rule 9.09(2) and Rule 10.03(5)  
Introduced with effect from : 30 November 2017  
Amended : 6 March 2020 vide R/R 3 of 2020, and 21 August 2020 vide R/R 11 of 2020  
POs’ Circular No(s). : R/R 10 of 2017  
Refer also to Directive No(s). : N/A

## **1. Introduction**

- (1) Paragraphs 4.05 and 4.06 of the Shariah Parameters on Islamic Exchange-Traded Fund Based on Gold and Silver issued by the Commission on 7 October 2014 (“**the Shariah Parameters**”), state that –
  - (a) the trading of the Islamic ETF units between the buyer and the seller must be carried out in cash and on spot basis; and
  - (b) the Islamic ETF units can only be traded if the buyers have cash accounts or margin facility (via third-party financing).
- (2) In line with the requirements stated above, this Directive sets out the timing for a buyer of Islamic ETF based on gold or silver to make payment.
- (3) The Shariah Parameters is available on the Commission’s website at: <https://www.sc.com.my/api/documentms/download.ashx?id=bce82dea-3e29-400f-a33a-fecbb0c37f3d>

## **2. Rule 7.02(1)(d), Rule 9.09(2) and Rule 10.03(5)**

- (1) Rule 7.02(1)(d) states that all securities admitted for quotation on the stock market of the Exchange will be traded on the basis of the clearing and settlement of the securities being carried in accordance with FDSS as stipulated under Schedules 2 and 3 of the Rules.
- (2) Rule 9.09(2) further states that if a Participating Organisation is a buyer in a Contract, the buying Client must pay the Participating Organisation by the day and time as stipulated in Schedule 2 of the Rules.
- (3) In relation to Direct Business Transactions, Rule 10.03(5) states that 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 3, if securities are delivered in accordance with Rule 10.03(2).
- (4) In discharging the obligations in the above Rules in relation to a purchase of Islamic ETF based on gold or silver, instead of the day and time stipulated in Schedules 2 and 3 respectively for payment by the buying Client, a Participating Organisation must ensure that either –
  - (a) the buying Client makes payment via cash upfront; or
  - (b) the buying Client relies on margin financing to purchase the Islamic ETF based on gold or silver where the margin facility is provided by:
    - (i) the Participating Organisation;
    - (ii) licensed bank or licensed investment bank under the FSA; or
    - (iii) licensed Islamic bank under the Islamic Financial Services Act 2013.

- (5) For the purpose of this provision, cash upfront means 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. The full payment 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.

[End of Directive]

Relevant to : Rule 7.05(1)  
Introduced with effect from : 2 May 2013  
Amended : 16 June 2017 vide R/R 7 of 2017, 16 April 2018 vide R/R 5 of  
2018 and R/R 6 of 2018, 29 April 2019 vide R/R 1 of 2019, 7  
December 2020 vide R/R 13 of 2020, and 2 October 2023 vide  
R/R 6 of 2023  
POs' Circular No(s). : R/R 17 of 2006  
Refer also to Directive No(s). : 3-001, 7.05(1)-002

*[Deleted]*

[End of Directive]

Relevant to : Rule 7.05(1)  
Introduced with effect from : 2 May 2013  
Amended : 29 April 2019 vide R/R 1 of 2019  
POs' Circular No(s). : R/R 18 of 2005, R/R 16 of 2006, R/R 7 of 2007 and R/R 8 of 2008, and 2 October 2023 vide R/R 6 of 2023  
Refer also to Directive No(s). : N/A

**1. Rule 7.05**

(1) Rule 7.05(1) states that a Participating Organisation may only open and operate the following types of trading accounts:

- (a) Proprietary Account in the name of the Participating Organisation;
- (b) Client's account in the name of the respective Client; and
- (c) Authorised Nominees account in the name of the Participating Organisation or its wholly owned nominee company.

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

(3) For the purposes of this directive, the following applies:

"Average price of the securities transacted" is the price computed based on 'the volume weighted average price' ("VWAP") of the securities transacted for a client as set out below:

***the total value of securities transacted for a client  
over the accumulation period ("the period")***

***the total quantity of securities transacted during the period***

"Error or Mistake Account" means a trading account opened in the name of a Participating Organisation and used by the Participating Organisation for recording errors or mistakes committed by the Dealer's Representatives or as the case may be, central buyers or such other authorised persons when executing orders in the event such errors or mistakes are not rectified in the manner envisaged by the Rules of Bursa Securities, the directives, rulings and/or guidelines issued pursuant to it.

"Investment Account" means a trading account opened in the name of a Participating Organisation and used by the Participating Organisation for taking positions in securities with respect to its own investment for a period determined by the Participating Organisation.

**1.1 Clearing Account**

(1) A Participating Organisation may provide such Client as it deems fit with a Clearing Account.

(2) A Participating Organisation must ensure that:

- (a) there is no sharing of Clearing Accounts among the Clients and no co-mingling of Clients' accounts;

- (b) the “account qualifier” of a Clearing Account provided must contain the word “CLR”; and
- (c) the Clearing Account must bear full particulars of the name of the Client.

Illustration:

ABC Securities Sdn Bhd  
A/C Qualifier: CLR for AA Bank Berhad

- (3) A Participating Organisation may allow for more than one Clearing Account to be maintained for the same Client subject to:
  - (a) the Rules of Bursa Securities and these directives being observed at all material times; and
  - (b) adequate records being maintained in respect of each of the Clearing Accounts.
- (4) Where the Participating Organisation is not able to fulfil the order given by a Client on T day itself, the order may be carried forward to not more than T+1. Such carrying forward must be properly reflected in the Clearing Account.
- (5) A Participating Organisation must book out an order that has been fulfilled by the Participating Organisation, at the end of T day itself or in relation to an order that has been carried forward, at the end of the day on which the order was carried forward. Subject to paragraph 1.1(6), such order must be booked out based on the average price of the securities transacted. The contract note(s) arising from the booking out process must be issued in the name of the Client in accordance with Directive 5-001.
- (6) The order referred to in paragraph 1.1(5) may be booked out at a price other than the average price of the securities transacted provided that:
  - (a) the nature of the instruction or order given by the Client is such that it allows for or necessitates that the order be booked out at a price other than the average price of the securities transacted;
  - (b) the above instruction or order is evidenced through proper records and documents; and
  - (c) any difference between the booking out price mentioned in this Directive and the average price of the securities transacted is dealt with in accordance with the policies and procedures approved by the board of Directors of the Participating Organisation.
- (7) A Participating Organisation must maintain proper records in respect of Clients to whom contracts are booked out in accordance with paragraph 1.1(5).
- (8) A Participating Organisation may open a Securities Account for its Clearing Account following paragraph 1.1(1). Where the Participating Organisation decides to open a Securities Account, the Participating Organisation must ensure a separate Securities Account is opened for each Clearing Account.
- (9) Where a Participating Organisation opens the above Securities Account, the Securities Account must contain the particulars as specified in paragraph 1.1(2), the Depository Rules and any directives issued by the Depository.
- (10) A Participating Organisation must not permit the above Securities Account to be shared among its Clients and no co-mingling of Securities Accounts is allowed.



- (11) In relation to an order to buy, a Participating Organisation may for the purpose of settlement, allow a Client, to credit the securities into any one of the following Securities Accounts:
- (a) A Securities Account maintained in the name of the Participating Organisation as provided in paragraph 1.1(8); or
  - (b) A Securities Account maintained with the Participating Organisation in the name of a Beneficial Owner, an Authorised Nominee or exempt Authorised Nominee.
- (12) Where pursuant to the requirement of paragraph 1.1(11)(a), the securities are credited into a Securities Account in the name of the Participating Organisation, all such securities must by the end of the settlement date be transferred into a Securities Account of a Beneficial Owner, an Authorised Nominee or exempt Authorised Nominee as instructed by the Client except where the Client has defaulted in its payment obligations as provided in the Rules of Bursa Securities to the Participating Organisation or where the Client has not given the Participating Organisation the particulars of the Securities Account into which the transfer envisaged is to be effected. In the case where an order has been carried forward in accordance with paragraph 1.1(4), the settlement date mentioned in this Directive must be the settlement date of the last trade executed in relation to the order placed by the Client.
- (13) Where pursuant to paragraph 1.1(11)(b), the securities are credited into a Securities Account in the name of a Beneficial Owner, an Authorised Nominee or exempt Authorised Nominee, the Participating Organisation must ensure that the provisions in Rules 5.15(5), (6) and (7) are complied with.
- (14) Paragraphs 1.1(11), 1.1(12) and 1.1(13) apply in respect of an order to sell with the necessary modifications made and in particular to the following words used:
- (a) the words 'credited into' or 'credited' must be read as 'debited from' or 'debited' respectively.
  - (b) the words 'by the end of the settlement date' must be read as 'prior to the settlement date'.
  - (c) the words 'settlement date of the last trade' must be read as 'settlement date of the first trade executed'.
  - (d) the words 'transferred into' must be read as 'transferred from'.
- (15) Where a Participating Organisation intends to execute Regulated Short Selling in a Clearing Account, the Participating Organisation must be subjected to the provisions in Rule 8.25 of the Rules of Bursa Securities.

## **1.2 Error or Mistake Account**

- (1) A Participating Organisation must maintain only one Error or Mistake Account at the principal office and at each branch office of the Participating Organisation respectively and each account must carry the word "ERROR" in its account qualifier.
- (2) A Participating Organisation must use all reasonable endeavours to have the error or mistake rectified as soon as possible.
- (3) A Participating Organisation must open a separate Securities Account for each Error or Mistake Account and designate that account as "Error".

**1.3 Investment Account**

(1) A Participating Organisation may provide to each of its Directors, Salaried Dealer's Representatives or teams of Salaried Dealer's Representatives, as the case may be, an Investment Account. A Participating Organisation must ensure that the Directors carefully monitor the Investment Account(s) of Salaried Dealer's Representatives and teams of Salaried Dealer's Representatives.

(2) Where an Investment Account is handled by more than 1 Salaried Dealer's Representative, the account qualifier of the Investment Account must carry the word "IVT", followed by an account name assigned to the Investment Account, as set out below:

Illustration:

ABC Securities Sdn Bhd

A/C Qualifier: IVT SW Team 1

(2A) Where an Investment Account is handled by a single Salaried Dealer's Representative, the account qualifier of the Investment Account must carry the word "IVT", followed by the full name of the Salaried Dealer's Representative, as set out below:

Illustration:

ABC Securities Sdn Bhd

A/C Qualifier: IVT Tan Chong Wei

(3) A Participating Organisation must ensure that the names of the Directors, Salaried Dealer's Representatives or teams of Salaried Dealer's Representatives assigned with the Investment Account(s) and all transactions executed by the above persons in relation to the Investment Account(s) are properly recorded.

(4) Investment Accounts must not be used for and on behalf of Clients of a Participating Organisation.

(5) A Participating Organisation must open a separate Securities Account for each Investment Account and designate that account in accordance with the requirements prescribed in paragraphs 2 or 2A, as the case may be.

**1.4 Opening and maintenance of accounts**

All trading accounts referred to in this Directive must be opened and maintained by a Participating Organisation in the name of the Participating Organisation itself.

**1.5 Regular review of compliance of Directives**

Without derogation to Rule 3.39, the Head of Compliance must report any non compliance with these Directives in relation to the Investment Account(s) provided to the Directors pursuant to paragraph 1.3(1), to the Audit Committee of the Participating Organisation.

[End of Directive]

**DIRECTIVES ON MAINTENANCE OF MULTIPLE TRADING ACCOUNTS BY ONE CLIENT AT A PARTICIPATING ORGANISATION AND TAGGING OF MULTIPLE TRADING ACCOUNTS TO A SECURITIES ACCOUNT**

**No. 7.05(2)-001**

Relevant to : Rule 7.05(2)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 5 of 2001  
Refer also to Directive No(s). : N/A

**1. Rule 7.05(2)**

- (1) Rule 7.05(2) requires a Participating Organisation to comply with such requirements as the Exchange may stipulate with regard to trading accounts it operates.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.
- (3) For the purposes of these Directives, unless the context otherwise requires:

corporate/institutional clients means the persons referred to in Rule 25.02(1)(b), (c), (d), (e), (f) and (g) of the Rules of Bursa Malaysia Depository Sdn Bhd ("Rules of Bursa Depository") who have opened and are maintaining one or more Securities Accounts with a Participating Organisation as an authorised depository agent, and where the context so permits, the expression "corporate/institutional client" means any of them.

individual clients means the persons referred to in Rule 25.02(1)(a) of the Rules of Bursa Depository who have opened and are maintaining one or more Securities Accounts with a Participating Organisation as an authorised depository agent, and where the context so permits, the expression "individual client" means any of them.

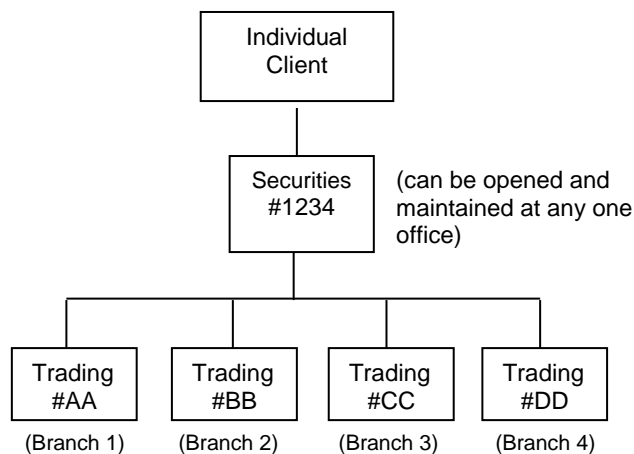
**1.1 Maintenance Of Multiple Trading Accounts**

- (1) A Participating Organisation may allow its Clients to open and maintain more than 1 trading account at the principal office or any of the branch office(s) (where applicable) of the Participating Organisation subject to the following conditions:
  - (a) an individual client must maintain only 1 Securities Account with the Participating Organisation in compliance with Rule 26.02 of the Rules of Bursa Depository and the trading account(s) maintained by the individual client at the principal office or branch office (where applicable) of the Participating Organisation must be tagged to the Securities Account in the manner set out in paragraph 1.2 below;
  - (b) a corporate/institutional client may have the option of tagging any trading account(s) at the principal office or branch office(s) (where applicable) of the Participating Organisation to any Securities Account(s) of its choice opened and maintained at either the principal office or branch office(s) (where applicable) of the Participating Organisation in the manner set out in paragraph 1.2 below;

- (c) the back-office system of the Participating Organisation must be able to effectively monitor, track and sort the various transactions related to its Clients according to each trading account and the corresponding Securities Account; and
- (d) the Participating Organisation must have the necessary resources in place to effectively monitor all such trading accounts and Securities Accounts which are maintained in the manner envisaged in these Directives.

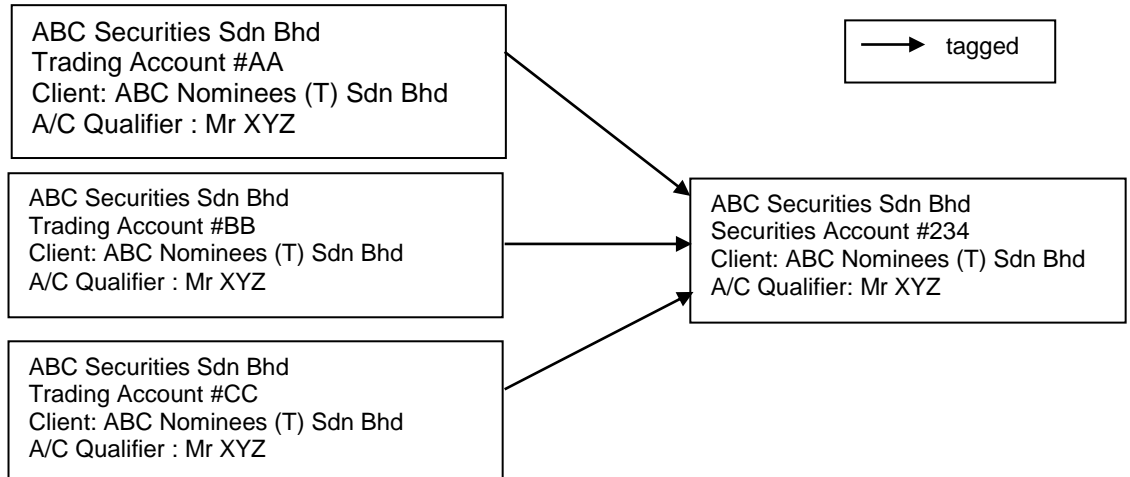
**1.2 Tagging Of Multiple Trading Accounts to a Securities Account**

- (1) The trading accounts of a Client who maintains more than 1 trading account with a Participating Organisation at its principal office or branch office (where applicable) must be tagged to his Securities Account, wherever maintained at the principal office or branch office of the Participating Organisation.
- (2) The diagram below illustrates the position of an individual client with multiple trading accounts and the mandatory single Securities Account with a Participating Organisation:

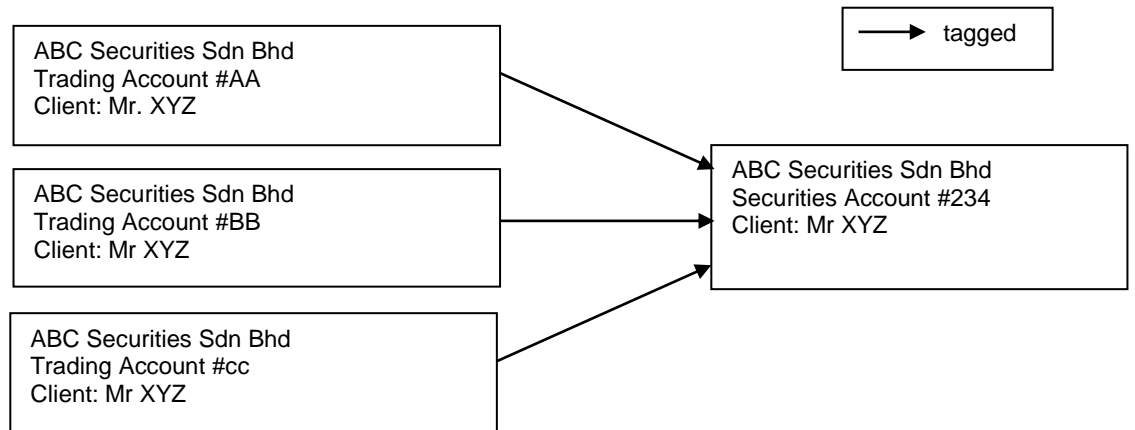


- (3) The account structure of the trading accounts must correspond to the account structure of the Securities Account to which the trading accounts are to be tagged in the manner set out below:
  - (a) trading accounts held by an Authorised Nominee for and on behalf of a Client as Beneficial Owner must be tagged to the Securities Account held by that Authorised Nominee for the same Client; and
  - (b) trading accounts held by a Client as Beneficial Owner must be tagged to the Securities Account held by that Client as Beneficial Owner.

**Illustration 1**



**Illustration 2**



[End of Directive]

<b>DIRECTIVES ON TRADING ACCOUNTS FOR THE TRADING OF SECURITIES DENOMINATED IN FOREIGN CURRENCY</b>	<b>No. 7.05(2)-002</b>
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Relevant to : Rule 7.05(2)  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 4 of 2009  
Refer also to Directive No(s). : N/A

**1. Rule 7.05(2)**

- (1) Rule 7.05(2) requires a Participating Organisation to comply with such requirements as the Exchange may stipulate with regard to trading accounts it operates.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Trading Accounts for trades in securities denominated in foreign currency**

- (1) Before a trading account (whether an existing or a new account) is utilised for trading in securities denominated in foreign currency, a Participating Organisation must indicate in the Participating Organisation's order management system, that the trading account is to be used for the trading of securities denominated in foreign currency.
- (2) If the above indication is not made, the Participating Organisation must not execute any trade in securities denominated in foreign currency through the trading account.
- (3) The Participating Organisation is required to refer to the Frequently Asked Questions ("FAQs") in relation to trading in securities denominated in foreign currency on Bursa Malaysia Securities Bhd and the clearing and settlement of such trades on Bursa Malaysia Securities Clearing Sdn Bhd. The FAQs are available on Bursa Malaysia's website.

[End of Directive]

Relevant to : Rule 7.06  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 15 of 2003  
Refer also to Directive No(s). : N/A

## **1. Rule 7.06**

(1) Rule 7.06 requires that:

- (a) a Participating Organisation and its Dealer's Representatives must not 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 system, service or facility of the Exchange ("Systems Malfunction or Error");
- (b) a Participating Organisation who encounters a Systems Malfunction or Error must immediately notify the Exchange; and
- (c) a Participating Organisation must take all necessary and appropriate actions to mitigate any potential losses arising from the Systems Malfunction or Error immediately after the Participating Organisation becomes aware or should have known that there is a Systems Malfunction or Error.

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

### **1.1 Notification of Systems Malfunction or Error**

(1) Where a Participating Organisation becomes aware of any Systems Malfunction or Error, the following procedures must apply:

- (a) The Participating Organisation must make a report to the Exchange immediately upon becoming aware of the Systems Malfunction or Error or in any event not later than the end of the Market Day in which the Participating Organisation becomes aware. Such report may be made orally, through electronic mail or facsimile transmission and must include the following information:
  - (i) details of the Systems Malfunction or Error;
  - (ii) circumstances in which the Systems Malfunction or Error was discovered by the Participating Organisation;
  - (iii) effect of the Systems Malfunction or Error on any transaction carried out by the Participating Organisation; and
  - (iv) steps taken or to be taken by the Participating Organisation to mitigate any adverse effect of the Systems Malfunction or Error on the Participating Organisation.
- (b) The report in the preceding paragraph must be followed by a written report made by the Head of Operations of the Participating Organisation (or such alternate as he may appoint) on the Systems Malfunction or Error containing the information required under paragraph (a) above to the officer(s) of the Exchange in charge of trading or such other person(s) as may be notified by the Exchange from time to time ("relevant officer(s)"), which must be submitted before the commencement of the morning

trading session of the Market Day immediately following the Market Day in which the report envisaged in paragraph (a) above was submitted.

- (c) A Participating Organisation making the report will be liable to the Exchange for all costs and expenses incurred by the Exchange in relation to the report if in the opinion of the Exchange the purported Systems Malfunction or Error reported by the Participating Organisation was caused directly or indirectly by the Participating Organisation.

## **1.2 Mitigation by Participating Organisations**

- (1) A Participating Organisation is required to take all reasonable and necessary steps to alleviate any adverse effect of the Systems Malfunction or Error on the Participating Organisation and/or contracts effected by or through the Participating Organisation. Such steps must be taken by the Participating Organisation immediately upon the discovery of the Systems Malfunction or Error and/or the consequences of it and in any event not later than the end of the Market Day in which the Systems Malfunction or Error was discovered.
- (2) If for any reason beyond its reasonable control the Participating Organisation is unable to take the steps described in paragraph 1.2(1) above, the Participating Organisation concerned is to immediately report its inability to the relevant officer(s). The report must be made in the same manner as prescribed in paragraphs 1.1(1)(a) and 1.1(1)(b) above.
- (3) A Participating Organisation must ensure that each of its Dealer's Representatives:
- (a) complies with the guidelines, instructions and directions issued by the Exchange pertaining to the systems; and
- (b) does not intentionally take advantage of a situation arising as a result of any Systems Malfunction or Error.

[End of Directive]



Relevant to : Rule 7.09  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 6 of 2012, R/R 16 of 2005, R/R 15 of 2005  
Refer also to Directive No(s). : N/A

**1. Rule 7.09**

Rule 7.09 provides that a Participating Organisation may trade on a Recognised Stock Exchange whether for the Participating Organisation's proprietary position or the Clients' accounts. The Recognised Stock Exchanges as mentioned in the said Rule are set out in the Directive below.

**1.1 List of Recognised Stock Exchanges**

Unless otherwise declared by the Exchange, Recognised Stock Exchanges include all member exchanges of the World Federation of Exchanges (WFE). The list of WFE member exchanges is available on WFE's website at:  
<http://www.world-exchanges.org/member-exchanges/key-information>

[End of Directive]

Relevant to : Rules 7.30(7) and 7.30(11)  
Introduced with effect from : 2 May 2013  
Amended : 21 August 2020 vide R/R 11 of 2020  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 7.30(7)**

- (1) Rule 7.30(7) requires a Participating Organisation to value any collateral that a Client deposits into the Client's Margin Account and any securities purchased and carried in the Margin Account in the manner determined by the Exchange.
- (2) The valuation of collateral as determined by the Exchange is as set out below.

**1.1 Collateral**

- (1) For securities quoted on the Exchange and Recognised Stock Exchanges, the value must be based on the last traded price of the securities on the preceding market day.
- (2) For cash or fixed deposit certificates, the value must be:
  - (a) in the case of cash or fixed deposit certificates denominated in Ringgit Malaysia, their face value; or
  - (b) in the case of cash or fixed deposit certificates denominated in currencies other than in Ringgit Malaysia, the prevailing market exchange rate.
- (3) For Malaysian government securities, cagamas bonds, government investment issues and Malaysian treasury bills, the value must be calculated at the last traded price as reported to the Central Bank.
- (4) For negotiable certificates of deposit and bankers' acceptances issued in Malaysia, the value must be at the price determined by the issuing banks.
- (5) For guarantees or standby letters of credit issued by licensed banks, or licensed investment banks under the FSA, the value must be their face value.
- (6) For securities arising from corporate actions but pending to be credited into a Client's Securities Account, the value must be the Last Done Price of the securities on the preceding Market Day; and
- (7) For all other types of collateral, the value is zero.

**1.2 Valuation of securities purchased**

- (1) In respect of securities purchased and carried in the Margin Account, the method of valuation of such securities is as follows:
  - (a) For securities subscribed through an initial public offering, the value is the issue price and for securities purchased through a rights issue, the value is the subscription price of the securities.
  - (b) For the types of securities stipulated under paragraph 1.1, the value is as stipulated in paragraph 1.1.

(c) For all other types of securities other than that stipulated in 1.1, the value is zero.

## **2. Rule 7.30(11)**

This Rule requires that a Participating Organisation must not allow the Equity in any Client's Margin Account to fall below 130% of the Outstanding Balance.

In computing the Equity in any Client's Margin Account for the purpose of Rule 7.30(11), the Participating Organisation must comply with the following.

### **2.1 Equity Margin**

When a Participating Organisation receives cash collateral as part of the Equity in any Client's Margin account, the Participating Organisation must not deduct the cash collateral from the Outstanding Balance.

[End of Directive]

Relevant to : Rules 7.30(1)(a) and 7.30(21)  
Introduced with effect from : 13 May 2016  
Amended : 21 August 2020 vide R/R 11 of 2020  
POs' Circular No(s). : R/R 3 of 2016  
Refer also to Directive No(s). : N/A

**1. Rule 7.30(1)(a)**

- (1) Rule 7.30(1)(a) provides that a Participating Organisation may extend Margin Financing to its Clients for the subscription and purchase of securities, including securities on a Recognised Stock Exchange.
- (2) In extending Margin Financing for the subscription or purchase of securities on a Recognised Stock Exchange, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Requirements for extending Margin Financing to Clients for subscription and purchase of securities on a Recognised Stock Exchange**

- (1) In relation to Margin Financing extended by a Participating Organisation to a Client for subscription and purchase of securities on a Recognised Stock Exchange, the currency denomination for a Margin Account must be in ASEAN, USD, EURO, GBP, HKD or RMB currencies only.
- (2) Please note that a Margin Account in Ringgit Malaysia can be used for trading on the Exchange and on a Recognised Stock Exchange. Payment can be made by a Participating Organisation for purchase of securities on the Recognised Stock Exchange by converting the Ringgit Malaysia funds in the Margin Account into the relevant currency denomination for securities traded on the Recognised Stock Exchange.

**2. Rule 7.30(21)**

- (1) Rule 7.30(21) provides that a Participating Organisation must notify the Exchange of the Margin Financing extended to the Clients on a monthly basis in accordance with the form as prescribed by the Exchange not later than the 10<sup>th</sup> day of each month.
- (2) The notification must be made in the format set out in **Appendix 1** of this Directive.

[End of Directive]

**APPENDIX 1**

**MONTHLY RETURNS ON CREDIT FACILITIES EXTENDED IN RELATION TO MARGIN ACCOUNT  
[RULE 7.30(21)]**

To: Bursa Malaysia Securities Berhad  
Participants Supervision Division  
Level 12, Exchange Square  
Bukit Kewangan  
50200Kuala 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 .....
- (h) Paid-up capital .....
- (i) Published reserves .....
- (j)  $\frac{\text{Total of (c)}}{(g)}$  = ..... times

Signed: \_\_\_\_\_  
[Authorised signatory]

\_\_\_\_\_  
[Full 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 1.01 of the Rules.
- 3\* "Equity" is as defined under Rule 1.01 of the Rules.

[End of Appendix 1]

Relevant to	: Rule 7.31
Introduced with effect from	: 2 May 2013
Amended	: 16 April 2018 vide R/R 5 of 2018 and 29 April 2019 vide R/R 1 of 2019
POs' Circular No(s).	: R/R 22 of 2005
Refer also to Directive No(s).	: N/A

## 1. Rule 7.31

- (1) Rule 7.31 sets out the provisions on discretionary financing which state that despite Part E of Chapter 9, a Participating Organisation may allow a buying Client to effect payment of its outstanding purchase position for an On-Market Transaction between T+3 and T+7 ("Discretionary Financing") if:
  - (a) a Participating Organisation has allowed the Client to open and operate a DF Account after evaluating the suitability of the Client to be provided the Discretionary Financing facility;
  - (b) the Client is a Retail Client (with or without a Margin Account);
  - (c) the terms and conditions for the opening and operation of a DF Account are in writing and consented to by the Client; and
  - (d) the Client has notified the Participating Organisation not later than T+2 that Discretionary Financing is required in relation to the particular On-Market Transaction and the Participating Organisation accepts the utilisation of the Discretionary Financing for that transaction.
- (2) If a Participating Organisation does not receive any notification in accordance with Rule 7.31(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 Part E of Chapter 9.
- (3) A DF Account Holder who utilises 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 as required under Rule 7.31(3), the Participating Organisation must institute a selling-out at any time after 12.30 p.m. 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 p.m. 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 Rule 9.10 on contra (except 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. The Participating Organisation can share DF Fees with the 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.

- (8) The Exchange may prescribe such other conditions for Discretionary Financing as the Exchange sees fit.

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

### 1.1 Conditions

- (1) The contract must be transacted as a Ready Basis Contract.
- (2) In opening a DF Account for a Client, the Participating Organisation must comply with the following:
- (a) in evaluating the suitability of a Client to open a DF Account, a Participating Organisation must have in place clear criteria to assess the suitability of a Client to open a DF Account; and
  - (b) a Participating Organisation may allow for the opening of a DF Account even though the Client of the Participating Organisation has applied for the opening of a Margin Account or has opened a Margin Account under Part H of Chapter 7 of the Rules.
- (3) The Participating Organisation may upon notice received pursuant to Rule 7.31(1)(d), either reject or approve the utilisation of Discretionary Financing in accordance with the internal guidelines and procedures of the Participating Organisation stipulated under paragraph 1.4.

### 1.2 Settlement

- (1) Where a Participating Organisation permits settlement by way of “contra” pursuant to Rule 7.31(5), the Participating Organisation must comply with the requirements set out below:
- (a) Settlement between Participating Organisations and their Clients for outstanding purchase positions against outstanding sale positions of the same securities on a “contra” basis is at the discretion of the Participating Organisations concerned, subject however to the terms and conditions set out below:
    - (i) **Charges:** Participating Organisations may impose charges on the Client 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; and
    - (ii) **Payments:** Any difference resulting from a “contra” between an outstanding purchase position and outstanding sale position must be settled between the Participating Organisation and their Clients not later than the 5<sup>th</sup> Market Day following the date of such “contra”.
  - (b) Participating Organisations must 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;
  - (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 in relation to Rule 7.31(5); and
  - (d) Settlement by way of “contra” in respect of any purchase contract may only be effected not later than 12.30 p.m. on T+7. This paragraph does not apply to subsequent sales of securities made in pursuance of a selling-out under Rule 7.31(4).

- (2) Where a Participating Organisation institutes selling-out pursuant to Rule 7.31(4), the Participating Organisation must comply with the requirements set out below:
- (a) 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 must not be impaired and the executors or administrators, as the case may be, of the deceased purchaser is liable to pay for all losses and expenses incurred by the Participating Organisation as a result of the selling-out; and
  - (b) Participating Organisations may, at any time after the institution of a selling-out, sue their Clients who fail to pay for their purchases by 12.30 p.m. on the 7<sup>th</sup> Market Day following the Contract Date 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 must be recoverable from the Defaulting Client as liquidated damages.

### **1.3 Fees**

A Participating Organisation may share Discretionary Financing fees with its Commissioned Dealer's Representative at a mutually agreed rate.

### **1.4 Control by Participating Organisation**

- (1) A Participating Organisation must establish and implement guidelines and procedures for the opening of a DF Account and granting of Discretionary Financing. Such guidelines and procedures must include:
- (a) detailed procedures to process applications for the opening of DF Accounts;
  - (b) the criteria for approving a request for Discretionary Financing;
  - (c) the documentation in respect of opening of DF Accounts;
  - (d) the documentation in respect of the approval to provide the Discretionary Financing;
  - (e) the procedures for monitoring and management of DF Account and risks associated with granting of Discretionary Financing, including its impact on the Participating Organisation's ability to comply with the capital adequacy requirements in Chapter 13; and
  - (f) an effective monitoring system to ensure that the above internal guidelines and procedures are complied with.
- (2) 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.
- (3) The Head of Compliance and the internal audit department of a Participating Organisation must be responsible in reviewing the requirements stipulated in these Directives and the internal policies and procedures of the Participating Organisation in relation to the opening of DF Accounts and the provision of the Discretionary Financing, for the purpose of monitoring compliance with the same.



**1.5 Reporting**

- (1) A Participating Organisation's Head of Compliance must ensure that monthly reports submitted to the Exchange pursuant to Rule 3.39(5) of the Rules include reports on the Participating Organisation's compliance with the requirements stipulated in these Directives and the internal policies and procedures of the Participating Organisation in relation to the opening of DF Accounts and provision of Discretionary Financing.

[End of Directives]

Relevant to : Rules 7.40(1) and 7.40(2)  
Introduced with effect from : 2 January 2019  
Amended : 21 August 2020 vide R/R 11 of 2020  
POs' Circular No(s). : R/R 15 of 2018  
Refer also to Directive No(s). : N/A

**1. Rule 7.40**

- (1) Rule 7.40 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 and requirements as may be prescribed by the Exchange.
- (2) Pursuant to Rule 7.40, a Client must meet the following criteria for trading in L&I ETFs units:
  - (a) the Client is a Sophisticated Investor;
  - (b) the Client has a Margin Account;
  - (c) the Client has executed at least 5 transactions in exchange traded derivatives, or structured warrants within the preceding 12 months; or
  - (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.
- (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:
  - (a) a written declaration confirming the Client's fulfilment of one or more of the qualifying criteria in paragraph 1(2) above; and
  - (b) an executed risk disclosure statement in the form prescribed in Appendix 1 of this Directive.
- (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.
- (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.

[End of Directives]

**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%

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.

End of Day	Daily Index Movement	Investment Amount		
		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%	99.00	98.00	96.00
3	10%	108.90	117.80	115.20
4	-10%	98.01	96.02	92.16
5	10%	107.81	115.62	110.59
Cumulative Return		8%	16%	11%

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.

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

(-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.

End of Day	Daily Index Movement	Investment Amount (RM)		
		Underlying Index	(-1)X Underlying Index	Index (-1x) Inverse ETF
0	NA	100.00	100.00	100.00
1	-10%	90.00	110.00	110.00
2	-10%	81.00	119.00	121.00
3	-10%	72.90	127.10	133.10
4	-10%	65.61	134.39	146.41
5	-10%	59.05	140.95	161.05

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

Scenario 3:

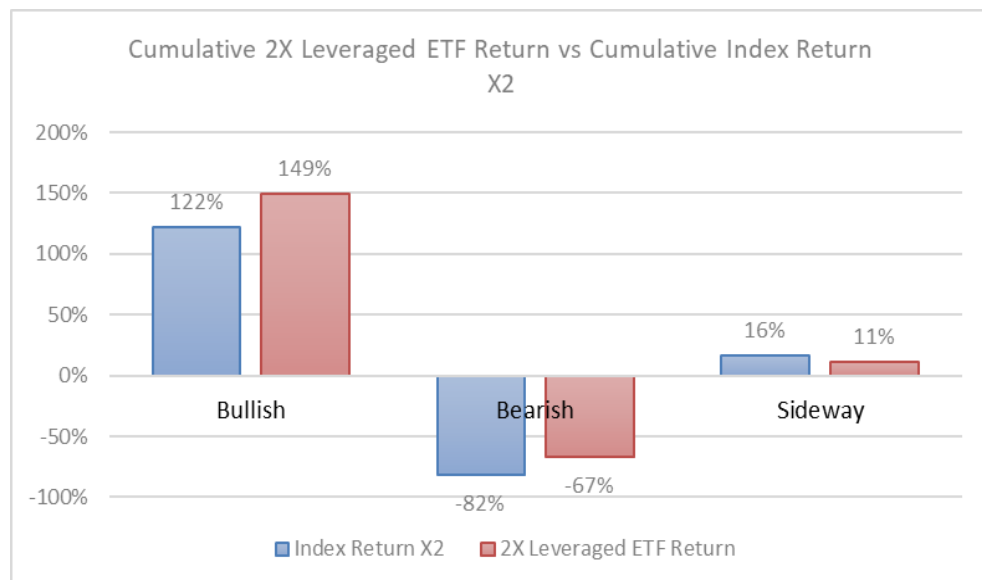
5 days cumulative return comparison, index increases and decreases by 10% alternatingly.

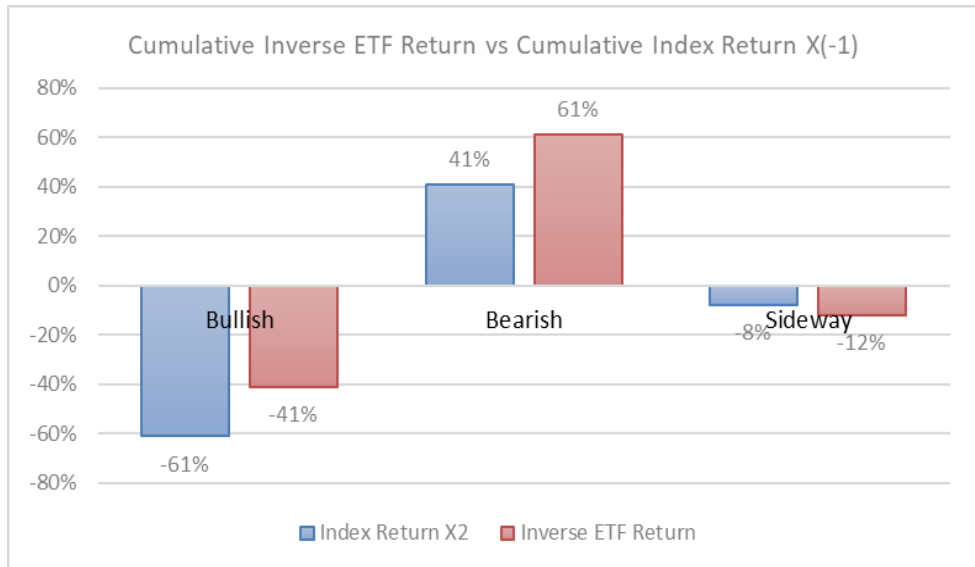
End of Day	Daily Index Movement	Investment Amount (RM)		
		Underlying Index	(-1)X Underlying Index	Index (-1x) Inverse ETF
0	NA	100.00	100.00	100.00
1	10%	110.00	90.00	90.00
2	-10%	99.00	101.00	99.00
3	10%	108.90	91.10	89.10
4	-10%	98.01	101.99	98.01
5	10%	107.81	92.19	88.21
Cumulative Return		8%	-8%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

(-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.





*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.
- (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>

.....

**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]

**APPENDIX 2**

**LIST OF CLIENTS WHO ARE EXEMPTED FROM THE CONDITIONS AS STATED  
IN PARAGRAPH 2(2)**

1. A licensed bank, licensed investment bank or approved money-broker under the FSA and its wholly-owned subsidiary that is a nominee company.
2. A financial institution established under any Act of Parliament and its wholly-owned subsidiary that is a nominee company.
3. A licensed Islamic bank as defined in the Islamic Financial Services Act 2013 and its wholly-owned subsidiary that is a nominee company.
4. A prescribed institution as defined in the Development Financial Institutions Act 2002 and its wholly-owned subsidiary that is a nominee company.
5. A bank licensee as defined under the Labuan Financial Services and Securities Act 2010 and its wholly-owned subsidiary that is a nominee company.
6. A holder of a Capital Markets Services Licence for the purpose of carrying on the business of fund management, its wholly-owned subsidiary that is a nominee company and its custodian appointed pursuant to section 121 of the Capital Markets and Services Act 2007.
7. A closed-end fund that is approved by the Commission under section 212 of the Capital Markets and Services Act 2007 and its custodian in relation to closed-end fund's investments.
8. A foreign fund manager.
9. A stockbroking company who is a member of other recognised stock exchanges defined in the Rules of the Stock Exchange.
10. A securities dealer who is not a member of other recognised stock exchanges but is authorised to carry out the business of dealing in securities by the relevant authorities in jurisdictions of the recognised stock exchanges defined in the Rules of the Stock Exchange.
11. A foreign financial institution.
12. A person appointed by the Depository to be an authorised depository agent and its wholly-owned subsidiary that is a nominee company.
13. A person appointed by the Depository to be an authorised direct member and its wholly-owned subsidiary that is a nominee company.
14. A clearing house approved under section 38 of the Capital Markets and Services Act 2007.
15. A holder of a Capital Markets Services Licence for the purpose of carrying on the business of dealing in securities and its wholly-owned subsidiary that is a nominee company.

[End of Appendix 2]



Relevant to	:	Rules 8.16(1)(a), 8.17 and 8.19(2)
Introduced with effect from	:	2 May 2013
Amended	:	1 March 2018 vide R/R 3 of 2018
POs’ Circular No(s).	:	R/R 8 of 2011 and R/R 9 of 2012
Refer also to Directive No(s).	:	N/A

## **Introduction**

Part B of Chapter 8 sets out the general requirements relating to Direct Market Access. This Directive sets out the minimum requirements in relation to those principles.

### **1. Rule 8.16(1)(a)**

Rule 8.16(1)(a) provides that a Participating Organisation may provide Direct Market Access (“DMA”) if the DMA complies with the requirements stipulated by the Exchange. In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

#### **1.1 Internal Policies and Procedures**

- (1) A Participating Organisation must establish internal policies and procedures in relation to the setting of appropriate values for the risk filters.
- (2) A Participating Organisation must take into consideration the risk profile and conduct of each Client in accordance with its Know-Your-Client (“KYC”) obligations under Rule 5.15 of the Rules of Bursa Securities.

#### **1.2 Error and/or exception handling**

- (1) A Participating Organisation must clearly establish a set of procedures on handling all errors and exceptions. In handling the same, the procedures must include, at least, the following:
  - (a) A list of errors and exceptions that have been identified with recommended solutions (if any) including of records of past actions taken;
  - (b) The risks associated with and the handling priority for each of the identified errors or exceptions; and
  - (c) The escalation procedures for each error or exception.
- (2) In addition, a Participating Organisation must establish sufficient procedures to monitor and review (including the frequency) all activities in relation to DMA errors or exceptions.

#### **1.3 Logging of DMA activities**

- (1) A Participating Organisation must ensure that the following details in relation to a DMA Order are logged immediately:
  - (a) References to the DMA client/Dealer’s Representative responsible for the DMA Order;
  - (b) Date and time-stamp;
  - (c) DMA client sign-on;

- (d) DMA client sign-off and the manner in which the sign-off was carried out i.e. manual or automated;
  - (e) Order identification/sequence number;
  - (f) The outcome/status of the risk filter screening inclusive of events subsequent to DMA Order disqualification;
  - (g) The outcome/status of the DMA Order entering the Exchange order book;
  - (h) Modifications made by DMA client to DMA Order; and
  - (i) Order match confirmation received from the ATS and the notification of the same when it was made to the DMA client.
- (2) The retention of the logging details must form part of the Participating Organisation’s record keeping requirements.
- (3) A Participating Organisation must ensure that regular reviews of each DMA client’s trading activities are carried out in order for the Participating Organisation to review the assignment and setting of risk filters for the DMA client, where necessary.

#### **1.4 Notification**

The Participating Organisation must notify the Exchange’s Participants Supervision Division of the commencement of DMA service to clients no less than 2 days prior to the commencement.

## **2. Rule 8.17**

- (1) Rule 8.17 requires the Participating Organisation to have appropriate automated risk filters to check or screen a DMA Order before the DMA Order is executed in the ATS, for the purpose of ensuring that the DMA Order does not affect the orderliness and fair functioning of the stock market of the Exchange.
- (2) In discharging the above obligations, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **2.1 Pre-trade risk filters**

- (1) A Participating Organisation must ensure that DMA Orders are entered into the Exchange’s order book with due skill, care and diligence and with due regard for the integrity of the market.
- (2) A Participating Organisation must install risk filters that will enable the screening of DMA Orders before they are entered into the Exchange’s order book. The risk filters must verify all DMA Orders and check for trade exceptions that may affect the orderliness of the market in the event that these DMA Orders are matched.
- (3) A Participating Organisation may determine the type of risks filters according to the risks that are being managed by the Participating Organisation.
- (4) [Deleted]
- (5) [Deleted]

**3. Rule 8.19(2)**

Rule 8.19(2) provides that all DMA Orders are deemed as orders submitted for execution in the ATS by a Dealer’s Representative on behalf of a Client. In discharging the obligations under the said rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**3.1 Assignment of DMA client to a Dealer’s Representative**

Each DMA client must be permanently assigned to at least one Dealer’s Representative. Where a DMA client is not assigned to a Dealer’s Representative, the Head of Dealing must be responsible for the DMA Order(s).

[End of Directive]

Relevant to	:	Rules 4.18, 8.23(c), 8.25(5), 8.30 and 8.31
Introduced with effect from	:	2 May 2013
Amended	:	12 December 2017 vide R/R 11 of 2017, 16 April 2018 vide R/R 5 of 2018, 29 April 2019 vide R/R 1 of 2019, 7 December 2020 vide R/R 13 of 2020, 29 August 2022 vide R/R 3 of 2022, and 2 October 2023 vide R/R 6 of 2023
POs' Circular No(s).	:	R/R 16 of 2006
Refer also to Directive No(s).	:	N/A

## **1. Introduction**

Part C of Chapter 8 requires a Participating Organisation to comply with the requirements in relation to Regulated Short Selling. This Directive clarifies the obligations to be complied with in relation to those requirements.

## **2. Rule 8.23(c)**

- (1) Rule 8.23(c) provides that a Participating Organisation may only commence its Regulated Short Selling activities if it submits a written declaration in the form as prescribed by the Exchange of its compliance with Rules 8.23(a) and 8.23(b) at least 2 Market Days before commencing its Regulated Short Selling activities.
- (2) The declaration must be made in the form set out in **Appendix 1**.

## **3. Rule 8.25(5)**

- (1) Rule 8.25(5) provides that a Participating Organisation may execute purchases or make use of the purchases of securities in the RSS Account only for the following purposes:
  - (a) to contra in full or in part any Regulated Short Sale of an Approved Securities executed in the RSS Account;
  - (b) for redelivery under a SBL Agreement or an ISSBNT Agreement ("Approved Securities for Redelivery"); or
  - (c) to use the Approved Securities for Redelivery:
    - (i) to execute another Regulated Short Sale; or
    - (ii) for lending under a SBL Agreement or sale under an ISSBNT Agreement.
- (2) The application of Rule 8.25(5) in relation to the purchase of securities permitted to be executed in the RSS Account is illustrated in Examples 1 and 2 in **Appendix 2**.

## **4. Rule 8.30**

- (1) Rule 8.30 requires a Participating Organisation to 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 Net Short Position and any other information in relation to the Net Short Position as may be required by the Exchange from time to time.
- (2) The application of Rule 8.30 in relation to the reporting requirement on the Net Short Position is illustrated in Example 3 in **Appendix 2**.

## 5. Rules 4.18 and 8.31

- (1) Rule 4.18 provides that without affecting Rule 4.20, the Exchange may suspend any order entry into the order book in the ATS for any further Permitted Short Selling of PSS Securities, if the quantity of the total short position of a PSS Securities triggers such thresholds as may be prescribed by the Exchange.
- (2) Rule 8.31 provides that without affecting Rule 8.32, the Exchange may suspend any order entry into the order book in the ATS for any further Regulated Short Selling of Approved Securities, if the quantity of the total short position of an Approved Securities triggers such thresholds as may be prescribed by the Exchange.

### 5.1 Thresholds for suspension

- (1) The thresholds for suspension prescribed by the Exchange pursuant to Rule 4.18, Rule 8.31 and both Rules 4.18 and 8.31 are as follows:

#### Total Gross Short Position threshold

(a) the daily threshold for suspension prescribed by the Exchange pursuant to Rule 8.31 is triggered when the quantity of the total gross short position of an Approved Securities on a particular Market Day is 3% of the outstanding securities of the Approved Securities on that Market Day;

#### Total Net Short Position threshold

(b) with the exception of paragraph 5.1(1)(c) below, the aggregate threshold for suspension prescribed by the Exchange pursuant to Rule 4.18 and Rule 8.31 is triggered when the aggregated quantity of the total net short position of an Approved Securities, PSS Securities or Dual List Securities, as the case may be, is at 10% of the quantity of the outstanding securities of such Approved Securities, PSS Securities or Dual List Securities, as the case may be; and

#### Net Short Position threshold for Permitted Short Selling of ETF units by an ETF Market Maker

(c) in respect of a Permitted Short Selling of ETF units by an ETF Market Maker, the aggregate threshold for suspension prescribed by the Exchange pursuant to Rule 4.18 is triggered when the aggregated quantity of the total net short position of ETF units under Permitted Short Selling and Regulated Short Selling is at 100% of the quantity of the outstanding units of such ETF units.

### 5.2 Suspension

- (1) The suspension in relation to the circumstances described in paragraph 5.1(1)(a), may be for the remaining Market Day from the time the suspension was instituted on that Market Day.
- (2) The suspension in relation to the circumstance described in paragraphs 5.1(1)(b) and 5.1(1)(c) respectively, may be for the period until the aggregated quantity falls below the threshold as set out in paragraphs 5.1(1)(b) and 5.1(1)(c) respectively.
- (3) If a suspension for short selling is imposed under paragraph 5.1(1)(a) on the shares of an Issuer or securities of a listed Collective Investment Scheme, which are Approved Securities ("**Principal Securities of the total gross short position**"), such suspension would also apply to:
  - (a) such other Approved Securities where its underlying instrument comprises the Principal Securities of the total gross short position, notwithstanding such securities has not triggered the threshold as set out in paragraph 5.1(1)(a).

- (b) *[deleted]*
- (4) If a suspension for short selling is imposed under paragraph 5.1(1)(b) or 5.1(1)(c) on the shares of an Issuer or securities of a listed Collective Investment Scheme, which are Approved Securities, PSS Securities or Dual List Securities, as the case may be (“**Principal Securities of the total net short position**”), such suspension would also apply to:
- (a) such other Approved Securities, PSS Securities or Dual List Securities, as the case may be, where its underlying instrument comprises the Principal Securities of the total net short position, notwithstanding such securities has not triggered the threshold as set out in paragraph 5.1(1)(b) or 5.1(1)(c)
- (b) *[deleted]*
- (5) For the purposes of paragraphs 5.1 and 5.2 above, the following applies:
- (a) “Collective Investment Scheme” has the same meaning assigned to that expression in the Main Market Listing Requirements;
- (b) *[Deleted]*
- (c) “Dual List Securities” means a PSS Securities which is also an Approved Securities;
- (d) “outstanding securities” means:
- (i) in respect of shares, the total number of issued shares of the Issuer including the treasury shares, and
- (ii) in respect of securities other than shares, the total quantity of securities held by the holders of the securities;
- (e) “the aggregated quantity of the total net short position of an Approved Securities” in paragraph 5.1(1)(b) means the total net short position pursuant to Regulated Short Selling only;
- (f) “the aggregated quantity of the total net short position of a Dual List Securities” in paragraph 5.1(1)(b) means the total net short position pursuant to Regulated Short Selling and Permitted Short Selling; and
- (g) “total gross short position” in paragraph 5.1(1)(a) means the total gross short position pursuant to Regulated Short Selling and Intraday Short Selling.

[End of Directive]

**APPENDIX 1**

**DECLARATION ON COMPLIANCE FOR REGULATED SHORT SELLING  
[Rules 8.23(c)]**

To: Bursa Malaysia Securities Berhad

**DECLARATION ON COMPLIANCE**

Pursuant to the requirements of Rule 8.23(c), we [name of Participating Organisation] declare as follows:

1. that we have formulated a set of the internal guidelines for Regulated Short Selling which have been approved by the board of Directors;
2. the internal 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;
3. that the internal guidelines for Regulated Short Selling comply with the requirements set out in Rule 8.23; and
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 Regulated Short Selling activities in accordance with these Rules.

Signed : \_\_\_\_\_  
          [Authorised signatory]

Date : \_\_\_\_\_

[End of Appendix 1]

APPENDIX 2

**Example 1**

Clarification in relation to application and operation of condition set out in Rule 8.25(5)

Transaction Date	Transaction Sequence	SBL/ISSBNT	100		Remarks	
			Quantity (unit) (2)	Transaction Positions		
				Net Short (units) (S-B) (3)		Long (units) (4)
T	1	S	100	100	0	
	2	B	100	0	0	PO is permitted to execute a purchase of securities in the RSS account at any time after the execution of any RSS of an approved securities on the same market day
	3	S	100	100	0	Subsequent RSS of 100 is permitted because the net short position prior to the RSS transaction is 0 and there is a borrowing / purchase pursuant to ISSBNT of 100.
	4	B	80	20	0	This purchase is permitted because it is within the net short position of 100.
	5	S	80	100	0	PO must ensure that the total RSS executed at any one time shall not exceed the amount of borrowing / amount of purchase pursuant to ISSBNT, i.e. PO cannot do an RSS of 100 notwithstanding a borrowing / purchase pursuant to ISSBNT of 100 at this point because the net short position plus the subsequent RSS cannot be greater than the borrowing / purchase pursuant to ISSBNT of 100.
	6	B	140	0	40	The purchase of 40 is an over-purchase. PO must limit purchases to not more than the total quantity of net short position.
T+1	7	S	100	100	40	1. T+1 short is permitted provided the SBL / ISSBNT of 100 on T is still valid 2. The RSS of 100 must be reported as a net short of 100 and not a net short of 60 because the 40 is an over-purchase which should be reported under the long position.

**S = Sell B = Buy**

**Example 2**



**DIRECTIVES ON REGULATED SHORT SELLING**

**No. 8-002**

**Options for Squaring-Off Over-Purchase Positions**

						Remarks
			100			
Transaction Date	Transaction Sequence	SBL/ ISSBNT	Quantity (unit) (2)	Transaction Positions		
		Type of Trade (1)		Net Short (units) (S-B) (3)	Long (units) (4)	
T	1	S	100	100	0	
	2	B	100	0	0	
	3	S	100	100	0	
	4	B	80	20	0	
	5	S	80	100	0	
	6	B	140	0	40	
	7	S	60	60	40	The purchase of 40 is an over-purchase and PO must limit purchases to not more than the total quantity of net short position. <b>Option 1</b> Amend to normal a/c; or if PO forgot to amend, go to Option 2;
T+2	7(a)	S Or	40	40	40	<b>Option 2</b> The total securities balance on T+2 will be 80 (i.e. 40 long + balance of 40 from borrowing / purchase pursuant to ISSBNT)  Client can do an RSS trade for 40, leaving a long position of 40 for partial return of the borrowing / purchase pursuant to ISSBNT (i.e. 80-40); or
	7(b)	S	40	40	40	<b>Option 3</b> Sell the over-purchase of 40 which is reportable by the PO as part of the sell is to square-off the over-purchase of 40.

**S = Sell B = Buy**

Example 3

## Computation of Net Short (by Broker) of stock 1818 for reporting purposes

## Trades:

Record No.	Stock No.	Matched Qty	Transaction type	Buyer CDS	Seller CDS
1	1818	1000	RSS	1111	2222
2	2323	2000	RSS	3333	4444
3	1818	3000	RSS	5555	6666
4	1818	4000	Normal buy	2222	7777
5	1818	5000	RSS	6666	9999
6	1818	6000	RSS	8888	0000

## Net Short for RSS stock 1818:

Seller CDS	Short Sell	Buy Back	Net Short	Value
2222	1000	4000	0	xxx
6666	3000	5000	0	xxx
9999	5000	0	5000	xxx
0000	6000	0	6000	xxx
		<b>Total</b>	<b>11,000</b>	xxx

[End of Appendix 2]

Relevant to	:	Rules 8.34, 8.35 and 8.40
Introduced with effect from	:	16 April 2018 vide R/R 5 of 2018
Amended	:	16 April 2018 vide R/R 6 of 2018, 21 August 2020 vide R/R 11 of 2020 and 1 January 2022 vide R/R 8 of 2021
POs' Circular No(s).	:	R/R 5 of 2018
Refer also to Directive No(s).	:	N/A

## **1. Rule 8.34(2)**

Rule 8.34(2) provides that a Participating Organisation must not allow a Client to execute Intraday Short Selling unless it is satisfied that the Client fulfils all such conditions prescribed by the Exchange for executing Intraday Short Selling.

### **1.1 Conditions for executing Intraday Short Selling**

- (1) A Participating Organisation must not allow a Client to execute Intraday Short Selling unless it is satisfied that the Client has complied with the following conditions:
  - (a) the Client has entered into an agreement to borrow Eligible Securities or purchase ISSBNT Eligible Securities to settle all potential failed trades which may occur in the event any Intraday Short Selling executed for the Client are not closed off by the end of the day;
  - (b) the Client has executed a risk disclosure statement in the form prescribed by the Exchange in **Appendix 1** of this Directive; and
  - (c) the Client has submitted a written declaration that the Client fully understands the requirements in these Rules in relation to Intraday Short Selling.
- (2) The conditions as stated in paragraphs 1.1(1)(b) and 1.1(1)(c) do not apply to a Client who falls within the list in **Appendix 2** of this Directive.

## **2. Rule 8.35(c)**

- (1) Rule 8.35(c) provides that a Participating Organisation may only commence its Intraday Short Selling activities if it submits a written declaration in the form as prescribed by the Exchange of its compliance with Rules 8.35(a) and 8.35(b) at least 2 Market Days before commencing its Intraday Short Selling activities.
- (2) The declaration must be made in the form set out in **Appendix 3**.

## **3. Rule 8.40**

- (1) Rule 8.40 provides that with reference to Rules 8.34(3) and 8.34(4), a Participating Organisation must report to the Exchange the net sell positions which have not been closed off on T day and any positions which are carried for securities which are not Approved Securities, in such frequency and manner as may be prescribed by the Exchange.
- (2) In discharging the obligations in the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **3.1 Reporting to the Exchange**

- (1) A Participating Organisation must report to the Exchange the following:

- (1) A Participating Organisation must report to the Exchange the following:
- (a) the net sell positions which have not been closed off in accordance with the requirements of Rule 8.34(4) and the reasons by 9.00 am on T+1; and
  - (b) any positions which are carried for securities which are not Approved Securities and the reasons by 9.00 am on T+1.
- (2) A Participating Organisation must submit the report in the format attached to this Directive as **Appendix 4(a) and 4(b)** (“**Exceptional Reporting**”) and in the following manner:
- (a) all reporting on the net sell positions which have not been closed off in accordance with the requirements of Rule 8.34(4) of these Directives must be in **Appendix 4(a)**;
  - (b) all reporting on any positions which are carried for securities which are not Approved Securities must be in **Appendix 4(b)**;
  - (c) a Participating Organisation must submit the Exceptional Reporting to the Exchange vide email address of ***msdreporting@bursamalaysia.com*** within the time prescribed under paragraph 3.1(1). The contents of the Exceptional Reporting must be verified by both the Head of Operations and the Head of Compliance and the submission is taken as a declaration by the above persons that the contents are true and accurate;
  - (d) if a Participating Organisation is unable to transmit the Exceptional Reporting by way of email due to system malfunction, the Participating Organisation must instead submit the duly completed and printed hardcopies of the Exceptional Reporting by way of facsimile, courier or by hand within the time prescribed in paragraph 3.1(1) of these Directives and ensure that once the malfunction has been rectified, to transmit the Exceptional Reporting in the mode prescribed in paragraph 3.1(2)(c);
  - (e) the Exceptional Reporting submitted by the Participating Organisation pursuant to paragraph 3.1(2)(d), must be executed by the Head of Operations and the Head of Compliance. In this respect, the Participating Organisations must ensure that the name and the designation of the authorised signatories are stipulated and the company’s rubber stamp duly affixed on the printed hardcopies; and
  - (f) for the purpose of submitting the Exceptional Reporting by way of facsimile pursuant to paragraph 3.1(2)(d), a Participating Organisation must fax the Exceptional Reporting addressed to ‘Head Market Surveillance Division’ to the facsimile number 03-2732 0764.

[End of Directive]

**APPENDIX 1****INTRADAY SHORT SELLING RISK DISCLOSURE STATEMENT**

1. This statement is provided to you in accordance with the directives of the Rules of Bursa Malaysia Securities Berhad ("**Rules of Bursa Securities**").
2. Intraday Short Selling refers to the short selling of Approved Securities with a view to closing off the short position within the same day, if the same is carried out in accordance with Part D of Chapter 8 of the Rules of Bursa Securities.
3. You should have full understanding of the requirements pertaining to Intraday Short Selling before engaging in the same. You should evaluate your own financial position, risk tolerance and investment experience while taking into account the following risk factors before engaging in Intraday Short Selling:
4. Types of risk:
  - A. Investment risk: You should assess the investment risks arising from price fluctuation if you choose to engage in Intraday Short Selling. In the event the securities price increases instead of decreases, Intraday Short Selling may lead to extraordinary losses, because you may have to purchase the securities at a very high price in order to cover a short position.
  - B. Trading costs: You should understand the trading costs resulting from frequent trading activities.
  - C. Risks of failure to close off with a buy position on the same day as the short selling:
    - (i) You should assess the securities you will need to purchase to close off the short position before the end of day, and may need to prepare sufficient funds for settlement in the event of failure of opposite offsetting. The funds include but not limited to the cost of borrowing and the cost to purchase securities above the market price in the event of a buying-in for the settlement of an uncovered position.
    - (ii) It may become difficult for you to buy back the securities to close off a sell position at the end of a trading day. Failure to close off the sell position will be deemed as non-compliance with the Rules and appropriate enforcement action may be taken against you.
5. This brief statement cannot disclose all the risks and other significant aspects of executing Intraday Short Selling. You should carefully study the requirements pertaining to Intraday Short Selling, gain an understanding of other possible affecting factors, and perform a well-thought financial planning and risk evaluation 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 INTRADAY SHORT SELLING RISK DISCLOSURE STATEMENT and understand its contents which have been explained to me.

Signature: .....  
Full Name: .....  
Date: .....

[End of Appendix 1]

**APPENDIX 2****LIST OF CLIENTS WHO ARE EXEMPTED FROM THE CONDITIONS AS STATED IN  
PARAGRAPHS 1.1(1)(b) AND 1.1(1)(c)**

1. A licensed bank, licensed investment bank or approved money-broker under the FSA and its wholly-owned subsidiary that is a nominee company.
2. A financial institution established under any Act of Parliament and its wholly-owned subsidiary that is a nominee company.
3. A licensed Islamic bank as defined in the Islamic Financial Services Act 2013 and its wholly-owned subsidiary that is a nominee company.
4. A prescribed institution as defined in the Development Financial Institutions Act 2002 and its wholly-owned subsidiary that is a nominee company.
5. A bank licensee as defined under the Labuan Financial Services and Securities Act 2010 and its wholly-owned subsidiary that is a nominee company.
6. A holder of a Capital Markets Services Licence for the purpose of carrying on the business of fund management, its wholly-owned subsidiary that is a nominee company and its custodian appointed pursuant to section 121 of the Capital Markets and Services Act 2007.
7. A closed-end fund that is approved by the Commission under section 212 of the Capital Markets and Services Act 2007 and its custodian in relation to closed-end fund's investments.
8. A foreign fund manager.
9. A stockbroking company who is a member of other recognised stock exchanges defined in the Rules of the Stock Exchange.
10. A securities dealer who is not a member of other recognised stock exchanges but is authorised to carry out the business of dealing in securities by the relevant authorities in jurisdictions of the recognised stock exchanges defined in the Rules of the Stock Exchange.
11. A foreign financial institution.
12. A person appointed by the Depository to be an authorised depository agent and its wholly-owned subsidiary that is a nominee company.
13. A person appointed by the Depository to be an authorised direct member and its wholly-owned subsidiary that is a nominee company.
14. A clearing house approved under section 38 of the Capital Markets and Services Act 2007.
15. A holder of a Capital Markets Services Licence for the purpose of carrying on the business of dealing in securities and its wholly-owned subsidiary that is a nominee company.

[End of Appendix 2]

**APPENDIX 3**

**DECLARATION ON COMPLIANCE FOR INTRADAY SHORT SELLING  
[Rules 8.35(c)]**

To: Bursa Malaysia Securities Berhad

**DECLARATION ON COMPLIANCE**

Pursuant to the requirements of Rule 8.35(c) of the Rules of Bursa Malaysia Securities Berhad, we [name of Participating Organisation] declare as follows:

1. that we have formulated internal guidelines for Intraday Short Selling which have been approved by the board of Directors;
2. the internal guidelines for Intraday Short Selling have been brought to the notice of the relevant employees and registered persons who have read and understood the contents;
3. that the internal guidelines for Intraday Short Selling comply with the requirements set out in Rule 8.35 of the Rules of Bursa Malaysia Securities Berhad; and
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 Intraday Short Selling activities in accordance with the Rules of Bursa Malaysia Securities Berhad.

Signed : \_\_\_\_\_  
[Authorised signatory]

Date : \_\_\_\_\_

[End of Appendix 3]

**Exceptional Reporting template**

Form MSD/IDSS  
 Report Name IDSS Position Reporting  
**PART A EXCEPTIONAL REPORTING – SHORT SALE CARRIED FORWARD (>T)**

Submission By: \_\_\_\_\_  
 Dealer-in-charge : \_\_\_\_\_ (Dealer ID – XYZ123)  
 Dealer Name : \_\_\_\_\_  
 CDS A/C No. : \_\_\_\_\_ (e.g. xxx-xxx-xxxxxxxxxx)  
 Client Name : \_\_\_\_\_

#	Stock Code	Stock Name	Date (dd/mm/yy)	Quantity (in shares)			Reasons	Mitigation/Action Plan
				Shorted	Bought Back	Carry Forward		
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

*(Kindly attach in extra sheet if the above is insufficient)*

We hereby acknowledge that the above has been verified and accurately reported as stipulated in accordance with **paragraph 3.1(2)(a)**.

**Reported by:**  
 Signature \_\_\_\_\_  
 Name \_\_\_\_\_  
 Position \_\_\_\_\_  
 Dated \_\_\_\_\_  
 Contact No. \_\_\_\_\_  
 Email address \_\_\_\_\_

**Verified and Reviewed By:**  
 Signature \_\_\_\_\_  
 Name \_\_\_\_\_  
 Position \_\_\_\_\_  
 Dated \_\_\_\_\_  
 Contact No. \_\_\_\_\_  
 Email address \_\_\_\_\_

[End of Appendix 4(a)]



<b>DIRECTIVE ON INTRADAY SHORT SELLING</b>	<b>No. 8-003</b>
--	------------------

**APPENDIX 4(b)**

**Exceptional Reporting template**

Form MSD/IDSS  
 Report Name IDSS Reporting  
**PART B EXCEPTIONAL REPORTING – INTRA-DAY SHORT SALE CARRIED IN NON-IDSS PERMISSIBLE STOCK**

Submission By:  
 Dealer-in-charge : \_\_\_\_\_ (Dealer ID – XYZ123)  
 Dealer Name : \_\_\_\_\_  
 CDS A/C No. : \_\_\_\_\_ (e.g. xxx-xxx-xxxxxxxx)  
 Client Name : \_\_\_\_\_

#	Stock Code	Stock Name	Date (dd/mm/yy)	Quantity (in shares)			Reasons	Mitigation/Action Plan
				Shorted	Bought Back	Carry Forward		
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

*(Kindly attach in extra sheet if the above is insufficient)*

We hereby acknowledge that the above has been verified and accurately reported as stipulated in accordance with **paragraph 3.1(2)(b)**.

**Reported by:**  
 Signature \_\_\_\_\_  
 Name \_\_\_\_\_  
 Position \_\_\_\_\_  
 Dated \_\_\_\_\_  
 Contact No. \_\_\_\_\_  
 Email address \_\_\_\_\_

**Verified and Reviewed By:**  
 Signature \_\_\_\_\_  
 Name \_\_\_\_\_  
 Position \_\_\_\_\_  
 Dated \_\_\_\_\_  
 Contact No. \_\_\_\_\_  
 Email address \_\_\_\_\_

[End of Appendix 4(b)]

Relevant to : Rule 8.14  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 15 of 2009  
Refer also to Directive No(s). : N/A

**1. Rule 8.14**

- (1) Rule 8.14 provides that a Participating Organisation wishing to execute an On-Market Married Transaction must comply with the requirements stipulated in the Rule.
- (2) In addition, when executing an On-Market Married Transaction, a Participating Organisation must take particular care that it is not a transaction that does not involve any change in the beneficial ownership of the securities or a trade between Associated Persons, both of which breach section 175(3)(b) and (c) of the Capital Markets and Services Act.

[End of Directive]

**DIRECTIVES ON REGULATED SHORT SELLING - APPROVED SECURITIES****No. 8.22(5)-001**

Relevant to : Rule 8.22(5)  
Introduced with effect from : 2 May 2013  
Amended : 17 June 2013 vide R/R 7 of 2013, 12 June 2023 vide R/R 3 of 2023  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 8.22(5)**

Rule 8.22(5) states that the Exchange may declare any securities that meet with such criteria as prescribed by the Exchange as Approved Securities. This directive sets out the Exchange's criteria in relation to Approved Securities.

**1.1 Criteria for Approved Securities**

- (1) Subject to paragraphs 1.1(2) and 1.2 below, the criteria for Approved Securities is as follows:
- (a) the securities are for the time being admitted to the Official List;
  - (b) the securities have a daily market capitalisation of RM200,000,000.00 for at least 3 months prior to the declaration date;
  - (c) the securities have at least 50,000,000 units in public float prior to the declaration date; and
  - (d) the volume of trading for the securities on a monthly basis on average is at least 1,000,000 units for 12 months prior to the declaration date.
- (2) Subject to paragraph 1.2 below, securities which are newly admitted to the Official List may be declared by the Exchange as Approved Securities if the securities:
- (a) have a full market capitalisation amounting to 2% or more of the full capitalisation of the FTSE Bursa Malaysia EMAS Index prior to the declaration date; and
  - (b) are included as a constituent of the FTSE Bursa Malaysia Kuala Lumpur Composite Index prior to the declaration date.

Such securities are not subject to the criteria in paragraph 1.1(1) for a period of a year from the date such securities are admitted to the Official List.

- (3) For the purpose of this Directive:
- (a) "market capitalisation" means the market value of the securities;
  - (b) "public" has the same meaning assigned to that expression in the Listing Requirements; and
  - (c) "public float" means securities held in the hands of the public shareholders.

**1.2 Exchange Traded Fund (ETF)**

*[Effective date to be announced by the Exchange in due course]*

- (1) All ETFs admitted to the Official List are declared as Approved Securities except for Inverse ETFs.
- (2) The ETFs referred to in paragraph 1.2(1) are not subjected to the criteria set out in paragraphs 1.1(1) and 1.1(2) above.

As at 12 June 2023

- (3) All provisions in these Rules and Directives which are applicable to the trading of Leveraged ETFs also apply to the Regulated Short Selling and Intraday Short Selling of the Leveraged ETFs, including the criteria for a Client to trade in Leveraged ETFs.

[End of Directive]

**DIRECTIVE ON THE LIST OF APPROVED SECURITIES****No. 8.22(5)-002**

Relevant to : Rule 8.22(5)  
Introduced with effect from : 2 May 2013  
Amended : 20 June 2013 vide R/R 8 of 2013 and 21 August 2020 vide R/R  
11 of 2020  
POs' Circular No(s). : R/R 1 of 2013  
Refer also to Directive No(s). : N/A

*[Deleted]*

[End of Directive]

Relevant to : Rules 9.03 and 9.09(1)  
Introduced with effect from : 2 May 2013  
Amended : 12 December 2017 vide R/R 11 of 2017 and 29 April 2019 vide R/R 1 of 2019  
POs' Circular No(s). : R/R 2 of 2012  
Refer also to Directive No(s). : N/A

## **1. Introduction**

- (1) Chapter 9 of the Rules sets out the general requirements relating to a Participating Organisation's settlement and delivery obligations. This Directive sets out the minimum requirements in relation to those principles.
- (2) In general, a person must not sell securities unless he has reasonable grounds to believe he has a right to vest the securities in a purchaser. An exception was made under the Capital Markets and Services (Securities Borrowing and Lending) Regulations 2012, which came into effect on 9 January 2012 ("CMSA Regulations").
- (3) The Regulations provide that for the purposes of subsection 98(1) of the Capital Markets and Services Act 2007, a lender who sells loaned securities under a Securities Borrowing and Lending transaction before recalling the loaned securities shall be deemed as having a right to vest the securities in a purchaser of the securities if certain conditions are met.
- (4) One of the conditions is that the sale of the loaned securities is settled on the settlement date as may be prescribed by the stock exchange or the clearing house. A copy of the Regulations is enclosed as **Appendix 1**.

### **1.1 Conditions**

- (1) For the purposes of this Directive, "Recalled Securities" means such portion of the Ready Basis Contract arising from a sale that satisfies the following conditions:
  - (a) the seller intends to use securities returned from a Securities Borrowing and Lending transaction to settle, in part or in full, the sale;
  - (b) the seller has made the recall on the same market day as the day the sale was entered into;
  - (c) the seller has notified the Clearing House of the relevant details in connection with the sale and the recalled securities in the manner and within the time prescribed by the Clearing House;
  - (d) the delivery of the portion of the sale that fulfills the conditions in items (a) to (c) is still outstanding after the Scheduled Delivery Time; and
  - (e) the seller fulfills such other conditions as may be prescribed by the Clearing House.
- (2) The term "seller" means the selling Participating Organisation or selling client or both, whichever is applicable.
- (3) For the avoidance of doubt, the Scheduled Delivery Time and Scheduled Settlement Time for Recalled Securities also apply if a lender sells the securities after recalling the same from the borrower.

**2. Rule 9.03**

(1) Rule 9.03 provides that:

- (a) 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 not later than the day and time stipulated in Schedule 2 of the Rules of Bursa Securities.
- (b) if a Participating Organisation is a buyer in a Contract, the securities in the Contract will be delivered by the Clearing House on the day and at time stipulated in Schedule 2 of the Rules of Bursa Securities but only 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.

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

**2.1 Scheduled Delivery Time**

A Participating Organisation must comply with the Scheduled Delivery Time for Recalled Securities set out in **Appendix 2**.

**3. Rule 9.09(1)**

(1) Rule 9.09(1) provides that if a Participating Organisation is a seller in a Contract, the Participating Organisation must pay the selling Client for the securities sold on the day and not later than the time stipulated in Schedule 2 of the Rules of Bursa Securities.

(2) In discharging the obligations in the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below:

**3.1 Scheduled Settlement Time**

A Participating Organisation must comply with the Scheduled Settlement Time for Recalled Securities set out in **Appendix 2** to this Directive.

**4. ISSBNT**

(1) The directives in paragraphs 1.1(1), 1.1(2), 2.1 and 3.1 also apply to ISSBNT with the following modifications:

- (a) the words "Securities Borrowing and Lending" are to be read as "ISSBNT";
- (b) the word "lender" is to be read as "supplier";
- (c) the word "borrower" is to be read as "user"; and
- (d) the supplier must have recalled the securities sold pursuant to ISSBNT before going on to sell the securities.

(2) The directives in paragraphs 2.1 and 3.1 will not apply under the circumstances set out in Regulation 3(2) of the CMSA Regulations.

[End of Directives]

**APPENDIX 1**

**CAPITAL MARKETS AND SERVICES ACT 2007**

**CAPITAL MARKETS AND SERVICES (SECURITIES BORROWING AND LENDING)  
REGULATIONS 2012**

IN exercise of the powers conferred by subsection 378(1) and paragraph 98(4)(e) of the Capital Markets and Services Act 2007 [Act 671], the Commission, with the approval of the Minister, makes the following regulations:

**Citation and commencement**

1. (1) These regulations may be cited as the **Capital Markets and Services (Securities Borrowing and Lending) Regulations 2012**.
- (2) These Regulations come into operation on 9 January 2012.

**Interpretation**

2. In these Regulations, unless the context otherwise requires—
  - “Act” means the Capital Markets and Services Act 2007;
  - “borrower” means a person who borrows securities from a lender under a securities borrowing and lending transaction;
  - “lender” means a person who lends securities to a borrower under a securities borrowing and lending transaction;
  - “loaned securities” means any eligible securities which has been delivered by a lender to a borrower under a securities borrowing and lending transaction;
  - “eligible securities” has the same meaning assigned to it in the rules of the clearing house;
  - “securities borrowing and lending transaction” means any securities borrowing and lending transaction entered into under the rules of the stock exchange and the clearing house.

**Sale before recall of loaned securities**

3. (1) For the purposes of subsection 98(1) of the Act, a lender who sells loaned securities under a securities borrowing and lending transaction before recalling the loaned securities shall be deemed to have a presently exercisable and unconditional right to vest the securities in a purchaser of the securities, subject to the following conditions:
  - (a) the sale is a bona fide sale transaction;



- (b) at the time of sale, the lender is entitled to recall from the borrower, at least the number of loaned securities which are the subject of the sale;
  - (c) the lender recalls the loaned securities as soon as practicable within the same market day the loaned securities were sold; and
  - (d) the sale of the loaned securities is settled on the settlement date as may be prescribed by the stock exchange or the clearing house.
- (2) Notwithstanding anything contained in this regulation, paragraph 3(1)(d) shall not apply to a lender if the borrower fails to deliver the loaned securities to the lender in circumstances where:
- (a) the securities has been suspended;
  - (b) the borrower is only able to make partial delivery of the recalled loaned securities;  
or
  - (c) the borrower is unable to make delivery of the recalled loaned securities.

Made 21 December 2011  
[RS(A&R)/SBL-Crpdn.13/11(060)-1D; PN(PU2)662/VI]

TAN SRI ZARINAH ANWAR  
*Chairman Securities Commission*

Approved 4 January 2012  
[KK/BPKA/K1/(S)/483/128/1/1 Jld.4; PN(PU2) 662/V]

DATO' SERI AHMAD HUSNI MOHAMAD HANADZLAH  
*Second Minister of Finance*

[End of Appendix 1]

**APPENDIX 2****DELIVERY AND SETTLEMENT TIME FOR RECALLED SECURITIES**

<b>Type of Contract</b>	<b>Tradeable Balance in seller's account</b>	<b>Payment to selling Client</b>	<b>Delivery to buyer</b>	<b>Payment by buying Client</b>	<b>Selling-out</b>
Ready Basis	T+2 by 4.30 p.m.	T+3, not later than 2.00 p.m.	By T+2 *	T+2, not later than 2.00 p.m.	T+2 from 2.00 p.m. until T+3

\* If the Tradeable Balance in the seller's account is unavailable on T+2 by 4.30 p.m., the Exchange will commence buying-in against the seller without giving any notice and the delivery of the Recalled Securities will take place by T +3 instead.

[End of Appendix 2]

**DIRECTIVE ON SCHEDULED SETTLEMENT TIME OF SECURITIES IN  
RELATION TO THE ELECTRONIC SHARE PAYMENT (“e-SHARE  
PAYMENT”)**

**No. 9.09(1)-001**

Relevant to : Rule 9.09(1)  
Introduced with effect from : 2 May 2013  
Amended : 29 April 2019 vide R/R 1 of 2019 and 21 August 2020 vide R/R  
11 of 2020  
POs’ Circular No(s). : R/R 4 of 2010  
Refer also to Directive No(s). : N/A

**1. Rule 9.09(1)**

- (1) Rule 9.09(1) provides that if a Participating Organisation is a seller in a Contract, the Participating Organisation must pay the selling Client for the securities sold on the day and not later than the time stipulated in Schedule 2 of the Rules of Bursa Securities.
- (2) In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Payment Made via e-Share Payment Facility**

For the purposes of payment made via e-Share Payment facility, a Participating Organisation and its client must make arrangements with the relevant licensed bank or licensed investment bank under the FSA who offers e-Share Payment facility to ensure that the payment is credited into the bank account of the client (where payment is made by the Participating Organisation to the client) or the bank account of the Participating Organisation (where payment is made by the client) as follows:

- (a) For a Ready Basis Contract not later than the end of T+2; and
- (b) *[Deleted]*
- (c) For a buying-in contract not later than the end of the next market day following the date of the buying-in contract.

[End of Directive]

Relevant to : Rules 10.01(1)(d) and 10.09(2)(b)  
Introduced with effect from : 2 May 2013  
Amended : 21 August 2020 vide R/R 11 of 2020  
POs' Circular No(s). : R/R 10 of 2008  
Refer also to Directive No(s). : N/A

**1. Rule 10.01(1)(d)**

- (1) Rule 10.01(1)(d) requires a Participating Organisation to obtain the prior approval of the Exchange for a Direct Business Transaction that falls within the circumstances stated in the Rule.
- (2) Pursuant to the above Rule, a Participating Organisation must complete and submit an application to the Exchange in the format set out in **Appendix 1** of this Directive.

**2. Rule 10.09(2)(b)**

- (1) Rule 10.09(2)(b) provides that if the price of a Direct Business Transaction reported to the Exchange falls within the prices stipulated in Schedule 4, a Participating Organisation must ensure that the Client executes the declaration in the form as prescribed by the Exchange.
- (2) The declaration must be made in the form set out in **Appendix 2** of this Directive.

[End of Directive]

**Appendix 1**

**FORM OF APPLICATION FOR APPROVAL FOR DIRECT BUSINESS TRANSACTIONS UNDER  
RULE 10.01(1)(d)**

***[TO BE ADOPTED ON THE PARTICIPATING ORGANISATION'S LETTERHEAD]***

[Please insert date]

Private and Confidential

To:

Head, Participants Supervision  
**BURSA MALAYSIA SECURITIES BERHAD**  
12th Floor, Exchange Square  
Bukit Kewangan  
50200 Kuala Lumpur

Dear Sir / Madam

**PROPOSED DIRECT BUSINESS TRANSACTION ("DBT")**

Stock Name:

Stock Code:

Proposed DBT Price Per Unit:

Quantity:

Volume-Weighted Average Price (VWAP):

Variance From VWAP:

Proposed DBT Date:

Married / Crossing:

Buying Participating Organisation:

- *[ Contact Person ]:*
- *[ Designation ]:*
- *[ Contact Number ]:*

Buying Client:

Selling Participating Organisation:

- *[ Contact Person ]:*
- *[ Designation ]:*
- *[ Contact Number ]:*

Selling Client:

Reason for the Transaction:  
(*other than "Willing Buyer, Willing Seller"*)

Basis on which DBT price was agreed upon:

**Declaration for the proposed DBT is enclosed herewith.**

**Confirmation by the Participating Organisation Making The Submission**

We confirm that:

1. the information stated herein together with the supporting document and information given to Bursa Malaysia Securities Berhad in relation to the proposed DBT(s) herein duly complies with the requirements of the Rules of Bursa Malaysia Securities Berhad; and
2. the delivery and settlement of the proposed DBT(s), is to be made *\*in accordance / \*not in accordance* with the Fixed Delivery & Settlement System ("**FDSS**") established by Bursa Malaysia Securities Berhad through Bursa Malaysia Securities Clearing Sdn Bhd.

Dated this day of 20\_\_

.....  
(Name of signatory)  
Head of Dealing  
Authorised Signatory<sup>1</sup> (*Please specify designation*)

Date :

.....  
(Name of signatory)  
\* Head of Operations/Head of Compliance

Date :

\* *please delete where not applicable*

<sup>1</sup> *signatory has been duly authorised by the Board of Directors of the Participating Organisation concerned*

[End of Appendix 1]

**APPENDIX 2  
DECLARATION ON DIRECT BUSINESS TRANSACTION  
[RULE 10.09(2)(b)]**

**DECLARATION**

I/We\*, named below, do declare that:

- (a) I/We\* am/are\* the authorised signatory(ies) of [insert name of corporation]\*\*;
- (b) I/We\*/[insert name of corporation]\*\* intend(s) to buy/sell\* the following securities by way of a Direct Business Transaction as defined in these Rules:

**PARTICULARS**

- (i) Counter (short name & stock code)
  - (ii) No. of securities involved
  - (iii) Price per unit of securities
  - (iv) Name of Participating Organisation (for buyer)  
(for seller)
- (c) the information, in particular the basis on which the price was agreed and the specific reason for the transaction, and documents furnished to the Participating Organisation to evidence the information submitted to the Participating Organisation are true and accurate; and
- (d) the transaction is genuine and all other written law, directives or guidelines relevant to such transaction, if any, have been duly complied with.

Signed: \_\_\_\_\_  
[Authorised signatory]

Date: \_\_\_\_\_

*\*Please delete whichever is not applicable*

*\*\*Only applicable if the DBT is by a corporation*

[End of Appendix 2]

Relevant to	:	Rule 12.04
Introduced with effect from	:	2 May 2013
Amended	:	1 March 2018 vide R/R 3 of 2018
POs' Circular No(s).	:	N/A
Refer also to Directive No(s).	:	N/A

## **1. Introduction**

Part C of Chapter 12 requires a Participating Organisation to comply with the requirements in relation to suspension of interest and provisions for bad and doubtful debts. This Directive clarifies the obligations to be complied with in relation to those requirements.

## **2. Rule 12.04**

- (1) Rule 12.04 requires a Participating Organisation to comply with the Exchange's Directives which set out the minimum requirements on the treatment of interest charged by the Participating Organisation to a Client and the impairment provisions for bad and doubtful debts irrespective of whether such debts have been assigned.
- (2) Pursuant to Rule 12.04, with a Participating Organisation must, amongst others, comply with the requirements set out below.

### **2.1 Treatment of interest on impaired accounts**

- (1) A Participating Organisation must have in place and comply with the Participating Organisation's internal policies and procedures on the following:
  - (a) the classification of an impaired account and interest-in-suspense; and
  - (b) the circumstances for the reversal of the interest-in-suspense.

### **2.2 Impairment provision for bad and doubtful debts**

- (1) A Participating Organisation must have in place and comply with the Participating Organisation's internal policies and procedures on the following:
  - (a) the classification of debts as 'doubtful' or 'bad' for impaired accounts;
  - (b) the making of individual impairment provisions for debts classified as 'doubtful' and 'bad';
  - (c) the circumstances for the reclassification of debts or from an impaired account to a non-impaired account; and
  - (d) the circumstances for the reversal of the individual impairment provision.
- (2) 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.

### **2.3 Write-Off of Bad Debts**

- (1) A Participating Organisation must establish written policies for the writing-off of bad debts.



<b>DIRECTIVES ON SUSPENSION OF INTEREST AND PROVISIONS FOR BAD AND DOUBTFUL DEBTS</b>	<b>No. 12-001</b>
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3. *[Deleted]*

[End of Directive]

Relevant to : Rule 12.01 and Rule 12.02  
Introduced with effect from : 2 May 2013  
Amended : 1 March 2018 vide R/R 3 of 2018  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

**1. Rule 12.01**

- (1) Rule 12.01 requires a Participating Organisation to keep 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.
- (2) In discharging the obligations in the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Accounting and other books and records**

- (1) A Participating Organisation must prepare the Participating Organisation's accounting and other books and records to:
- (a) *[Deleted]*
  - (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) comply with the requirements set out in **Appendix 1** of this Directive;
  - (d) enable outstanding Contracts to be readily identified with date sequence within counter;
  - (e) enable outstanding Client and debtor balances to be readily identified with specific transactions and with the dates on which these transactions occur;
  - (f) ensure that the information in the general ledger trial balances can and is, extracted and squared at least once a month by not later than the 10th day of the following month; and
  - (g) ensure that if Client balances are represented by control accounts in the general ledger, the individual Client balance can and is extracted and reconciled with the control account at least once a month by not later than 10th day of the following month.
- (2) A Participating Organisation must ensure that bank reconciliations are prepared at least once a month by not later than the 10th day of the following month.
- (3) A Participating Organisation with branch office(s) must prepare the Participating Organisation's financial statements and accounts in the following manner:
- (a) on a consolidated basis reflecting detailed breakdowns for the Principal Office and the Branch Office(s); and
  - (b) computations of all matters prescribed in these Rules or directed by the Exchange for the Participating Organisation's Principal Office and Branch Offices must be on an aggregated basis as matters relating to a single entity.

**2. Rule 12.02**

- (1) Rule 12.02 requires the Participating Organisation to submit to the Exchange all financial statements the Exchange specifies within the period stipulated. The financial statements must comply with the Exchange's requirements.
- (2) Pursuant to Rule 12.02, a Participating Organisation must comply with the accounting and financial reporting requirements in **Appendix 1** of this Directive in preparing its financial statements.

[End of Directive]

**APPENDIX 1  
ACCOUNTING AND FINANCIAL REPORTING REQUIREMENTS****(1) Definitions**

*[Deleted]*

**(2) Requirements not applicable to Investment Banks**

The requirements in paragraphs (10) to (20) below are not applicable to a Participating Organisation which is an Investment Bank.

**(3) Date of record**

All financial transactions must be recorded at the date on which the Participating Organisation enters into an irrevocable commitment to carry out the transaction.

**(4) Reconciliation of balances**

A Participating Organisation must reconcile all balances as frequently as is appropriate for the volume of transactions on the accounts. Any differences, other than differences in timing, must be immediately corrected.

**(5) Trade date accounting**

A Participating Organisation must use trade date accounting.

**(6) Securities lending**

A Participating Organisation that is a lender of securities must record and value the securities lent as part of the Participating Organisation's own positions.

**(7) Repurchase and reverse repurchase agreements, securities borrowing and lending and sale and buy back agreements**

*[Deleted]*

**(8) Valuation of positions**

*[Deleted]*

**(9) Instruments of non-standard form**

*[Deleted]*

**(10) Agreement with records**

A Participating Organisation must prepare the financial reporting statements from its books and records, and ensure that the financial reporting statements are in agreement with these books and records.

**(11) 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.

**(12) Offsetting or netting**

A Participating Organisation may not offset amounts on the balance sheet and profit and loss account in the Participating Organisation's financial reporting statements for items representing assets or income against amounts for 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.

**(13) Consolidation**

*[Deleted]*

**(14) Greater detail**

*[Deleted]*

**(15) Items not otherwise covered**

*[Deleted]*

**(16) Reporting currency**

A Participating Organisation must use the Malaysian Ringgit as the Participating Organisation's reporting currency in the Participating Organisation's financial reporting statements.

**(17) General rule**

A Participating Organisation must prepare the Participating Organisation's financial reporting statements in a form that is appropriate for the Participating Organisation's business and in a manner that complies with the Companies Act and generally accepted accounting principles.

**(18) Substance over legal form**

A Participating Organisation must include each item in the Participating Organisation's financial reporting statements in such a way as to reflect the substance and not merely the legal form of the underlying transactions and balances.

**(19) Debts and liabilities**

*[Deleted]*

**(20) Provision for taxation**

A Participating Organisation must make adequate provision for both current and deferred taxation.

**(21) Foreign currency**

*[Deleted]*

**(22) Guidance**

*[Deleted]*

[End of Appendix]

Relevant to : Rules 12.07 and 12.08  
Introduced with effect from : 2 May 2013  
Amended : 2 January 2019 vide R/R 14 of 2018  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

## **1. Rule 12.07**

- (1) Rule 12.07 requires a Participating Organisation to maintain a Record that sufficiently explains Off-Balance Sheet transactions entered by it.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **1.1 Records on Off-Balance Sheet transactions**

A Participating Organisation must keep the following Records on Off-Balance Sheet transactions:

- (a) the duly executed agreements relating to the Participating Organisation's entry into Off-Balance Sheet transactions;
- (b) specific reasons for entering into the Off-Balance Sheet transactions;
- (c) description of the counterparties to the Off-Balance Sheet transactions, their identities, corporate profiles and background, in sufficient detail to apprise of the Participating Organisation's potential risks related or incidental to the Off-Balance Sheet transactions;
- (d) description of the collateral intended to be provided in relation to the Off-Balance Sheet transactions, if applicable;
- (e) the resolution of the Participating Organisation's board of directors at a meeting approving the entry into the Off-Balance Sheet transactions by the Participating Organisation; and
- (f) such other documents and information as may be required by the Exchange.

## **2. Rule 12.08**

- (1) Rule 12.08 requires a Participating Organisation to lodge with the Exchange a monthly report on Off-Balance Sheet transactions in the form as prescribed by the Exchange.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

### **2.1 Reporting on Off-Balance Sheet transactions**

- (1) A Participating Organisation must submit a monthly report to the Exchange in the form prescribed in **Appendix 1**.
- (2) A Participating Organisation must submit the monthly report referred to in paragraph 2.1(1) by the 10<sup>th</sup> Market Day of the immediately following month in respect of the following matters:

- (a) any Off-Balance Sheet transaction entered into by a Participating Organisation during the preceding month;
  - (b) any Off-Balance Sheet transaction performed or discharged by the Participating Organisation during the preceding month;
  - (c) any Off-Balance Sheet transaction which remains to be performed or discharged during the preceding month;
  - (d) any occurrence of an Adverse Event; and
  - (e) any change to the original terms and conditions of the Off-Balance Sheet transactions specified in paragraph 2.1(2)(a), (b) and (c).
- (3) For purposes of the reporting requirement under this Directive, “Adverse Event” refers to any one or more of the events specified in the Off-Balance Sheet Transaction(s) agreement that obliges a Participating Organisation to perform and discharge the Participating Organisation’s obligations under the Off-Balance Sheet transaction(s).
- (4) The monthly report must be submitted by way of electronic transmission as notified by the Exchange.

[End of Directive]

**APPENDIX 1**

**OFF-BALANCE SHEET TRANSACTIONS**  
**MONTH OF: \_\_\_\_\_**

**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.



<b>DIRECTIVES ON ANNUAL STATUTORY AUDIT REPORT</b>	<b>No. 12.03(2-001)</b>
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Relevant to : Rule 12.03(2)  
Introduced with effect from : 2 May 2013  
Amended : 1 March 2018 vide R/R 3 of 2018  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

*[Deleted]*

[End of Directive]

Relevant to	:	Rules 13.04(4), 13.04(5), 13.07, 13.09(1), 13.11, 13.12, 13.13, 13.14, 13.15, 13.16, 13.17, 13.18, 13.20, 13.23, 13.25(3), 13.26, 13.27 and 13.28
Introduced with effect from	:	2 May 2013
Amended	:	12 December 2017 vide R/R 11 of 2017, 1 March 2018 vide R/R 3 of 2018, 2 January 2019 vide R/R 14 of 2018, 29 April 2019 vide R/R 1 of 2019, and 21 August 2020 vide R/R 11 of 2020
POs' Circular No(s).	:	N/A
Refer also to Directive No(s).	:	N/A
Refer also to Best Practice No	:	12.04-001

**Introduction**

- (1) These Directives set out the requirements on the calculation of the various components making up the Capital Adequacy Ratio.
- (2) The following terms have the following meanings in these Directives unless the context requires otherwise.

<b>Term</b>	<b>Meaning</b>
Basic Method	The method for calculating Position Risk Requirement as set out in paragraph 5.10(2).
Building Block Approach	The approach for calculating Position Risk Requirement set out in paragraph 5.7(1) and 5.7(2).
Call Option(s)	A financial instrument giving the instrument holder the right, but not the obligation, to buy a specified quantity of the underlying securities at a specified Exercise Price within a set period.
Call Warrant	A warrant giving the warrant holder the right, but not the obligation to buy a specified quantity of the underlying securities at a specified Exercise Price within a set period.
Exercise Price	The price at which the holder of an Option(s) or Warrant can buy or as the case may be, sell the underlying securities of the Option or Warrant.
Hedging Method	The method for calculating the Position Risk Requirement set out in paragraph 5.9(3).
In the Money	<ul style="list-style-type: none"> <li>(a) In relation to a Call Option or a Call Warrant:                             <ul style="list-style-type: none"> <li>(i) where the Exercise Price is less than the current market price of the underlying instrument if the Participating Organisation is the Option or Warrant holder;</li> <li>(ii) where the Exercise Price is greater than the current market price of the underlying instrument if the Participating Organisation is the Option or Warrant grantor;</li> </ul> </li> <li>(b) In relation to a Put Option or a Put Warrant:</li> </ul>

- (i) where the Exercise Price is greater than the current market price of the underlying instrument if the Participating Organisation is the Option or Warrant holder;
- (ii) where the Exercise Price is less than the current market price of the underlying instrument if the Participating Organisation is the Option or Warrant grantor.

ISSBNT Collateral	In relation to ISSBNT referred to in paragraph 6.3(d), the 'collateral' obtained by a Participating Organisations for ISSBNT. If the collateral consists 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, ISSBNT Collateral means: <ul style="list-style-type: none"> <li>(a) in the case of subdivision or consolidation, the securities into which the ISSBNT Collateral have been subdivided or consolidated;</li> <li>(b) in the case of a bonus issue, the ISSBNT Collateral together with the securities allotted by way of the bonus issue; and</li> <li>(c) in the case of any event similar to any of the above events, the ISSBNT Collateral, together with or replaced by a sum of money or securities or both equivalent to that received for the ISSBNT Collateral resulting from that event.</li> </ul>
Margin Financing Onward Lent Risk	The risks a Participating Organisation is exposed to from Onward Lent Margin Securities.
Margin Method	The method for calculating Position Risk Requirement set out in paragraph 5.8.
Mark to Market Difference	In relation to securities, the Contract value of the securities on the Contract Date less the Mark to Market value of the securities.
Marketable Securities	All securities a Participating Organisation holds as principal.
Option(s)	the Put Option(s) and the Call Option(s), and where the context permits, any of them.
Out of the Money	Those Options and Warrants that are not In the Money.
Position Risk	The risks that a Participating Organisation is exposed to from securities held by the Participating Organisation as principal and includes Margin Financing On-Pledged Risk.
Position Risk Requirement or PRR	The amount necessary to accommodate a given level of the Participating Organisation's Position Risk, calculated in the manner the Exchange determines.

Put Option	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.
Put Warrant	A warrant that gives the holder the right, but not the obligation to sell the underlying securities at a specified Exercise Price within a set period.
Recall	<p>(a) In relation to Securities Borrowing and Lending means redelivery of Securities Borrowed to the lender and/or redelivery of the SBL Collateral to the borrower, whether partial or in full pursuant to the terms of the SBL Agreement defined in Rule 1.01.</p> <p>(b) In relation to ISSBNT means the redelivery of ISSBNT Securities Purchased to the supplier and/or redelivery of the ISSBNT Collateral to the user, whether partial or in full pursuant to the terms of the ISSBNT Agreement defined in Rule 1.01.</p>
Recognised Market Indices	means the market indices of the Recognised Stock Exchanges that are acceptable to the Exchange, as set out in <b>Schedule 4</b> of this Directive.
SBL Collateral	<p>In relation to Securities Borrowing and Lending referred to in paragraph 6.3(d), the 'collateral' obtained by a Participating Organisation for Securities Borrowing and Lending. If the collateral consists 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, SBL Collateral means:</p> <p>(a) in the case of subdivision or consolidation, the securities into which the SBL Collateral have been subdivided or consolidated;</p> <p>(b) in the case of a bonus issue, the SBL Collateral together with the securities allotted by way of the bonus issue; and</p> <p>(c) in the case of any event similar to any of the above events, the SBL Collateral, together with or replaced by a sum of money or securities or both equivalent to that received for the SBL Collateral resulting from that event.</p>
Standard Approach	The approach for calculating Position Risk Requirement set out in paragraph 5.6.
Warrant	The Put Warrant(s) and the Call Warrant(s), and where the context permits, any of them.

**1. Rule 13.04(4)**

- (1) Rule 13.04(4) provides that the Participating Organisation must:
- (a) calculate and monitor the Participating Organisation’s Capital Adequacy Ratio on a daily basis; and
  - (b) submit to the Exchange the relevant information and records relating to the Participating Organisation’s Capital Adequacy Ratio in accordance with the requirements of the Exchange.
- (2) In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Information to be submitted and manner of submission**

- (1) A Participating Organisation must submit the relevant information and records through electronic transmission in the manner and at the times set out below:

	<b>Capital Adequacy Ratio</b>	<b>Frequency</b>	<b>Positions as at:</b>	<b>Time for reporting being not later than:</b>
(i)	4.0 or more	Monthly	Last Market Day of the month	4:00 p.m. on following Market Day
(ii)	2.0 or more but less than 4.0	Fortnightly	(a) 15 <sup>th</sup> calendar day of the month if that day is a Market Day. If not, the Market Day immediately before the 15 <sup>th</sup> calendar day; and  (b) last Market Day of the month	4:00 p.m. on following Market Day
(iii)	Less than 2.0	Daily	Each Market Day	4:00 p.m. on following Market Day

- (3) In the event a Participating Organisation’s Capital Adequacy Ratio drops by 10% or more, the Participating Organisation must submit to the Exchange a return in the form stipulated in Schedule 1 of this Directive not later than 4:00pm of the next Market Day following the Market Day on which the drop occurred.
- (4) The Head of Compliance and the Head of Operations of the Participating Organisation will be held responsible for ensuring compliance with Rule 5.09(1) in relation to all the information and records contained in the submissions to the Exchange.

**2. Rule 13.04(5)**

- (1) Rule 13.04(5) provides that a Participating Organisation must submit to the Exchange a return on the Participating Organisation’s Liquid Capital, Total Risk Requirement, Liquid Margin and Capital Adequacy Ratio in the form the Exchange requires.

- (2) Pursuant to the above Rule, the Participating Organisation must submit the return in the form stipulated in **Schedule 1** of this Directive and in the manner and at the times set out in paragraph 1.1(1).
- (3) If there are any subsequent changes to the month end reporting made under paragraph 2(2), the Participating Organisation must submit the amended return, not later than 4 p.m. on the 10<sup>th</sup> calendar day of the following month.

### 3. Part D of Chapter 13

- (1) Part D of Chapter 13 provides the requirements on Liquid Capital.
- (2) Rule 13.07 states that a Participating Organisation must calculate the Participating Organisation's Liquid Capital in the manner the Exchange determines.
- (3) In discharging the obligations under the above Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

#### 3.1 Computation of Liquid Capital

- (1) A Participating Organisation must calculate the Participating Organisation's Liquid Capital in accordance with the computation in **Schedule 1** of this Directive.
- (2) For the avoidance of doubt:
  - (a) unaudited profits must be included in the computation of Liquid Capital;
  - (b) unaudited losses (including all unrealised losses except unrealised losses from principal positions that are mentioned in paragraph 3.1(2)(d)) must be deducted from Liquid Capital;
  - (c) unrealised gains from principal positions must be included in the computation of Liquid Capital; and
  - (d) unrealised losses from principal positions must be deducted from Liquid Capital.
- (3) A Participating Organisation must Mark to Market all the Participating Organisation's Marketable Securities reported in **Schedule 1** of this Directive on a daily basis.

#### 3.2 Sources of capital

##### Preference shares

- (1) In the computation of the Participating Organisation's Core Capital, a Participating Organisation:
  - (a) must include non-cumulative and non-redeemable preference share capital; and
  - (b) may include preference shares other than non-cumulative and non-redeemable preference shares if the Participating Organisation satisfies the requirements in the Exchange's Directives on when such preference shares may be included.

##### Approved subordinate debts

- (2) An approved subordinated debt is a debt that is:

- (a) legally subordinated for an initial term of at least 2 years and at least 1 year remaining period in the manner the Exchange approves or determines; and
  - (b) only repayable with the Exchange's prior written approval.
- (3) A Participating Organisation may include an approved subordinated debt in the computation of the Participating Organisation's Liquid Capital if:
- (a) the aggregate amount of the debt is less than 100% of the Participating Organisation's Effective Shareholders' Funds. The Exchange will not recognise any subordinated debts if the Participating Organisation's Effective Shareholders' Funds is in the negative;
  - (b) the creditor of the subordinated debt has irrevocably agreed that:
    - (i) the creditor's right to receive principal and interest for the debts is subordinated to all other creditors of the Participating Organisation; and
    - (ii) the creditor is not entitled to claim or receive payment from the Participating Organisation, by way of set-off or in any other manner, of the subordinated debts until all other debts of the Participating Organisation not being the debts subordinated has been paid or where the Exchange has given the Exchange's written approval under paragraph 3.2(3)(e) below.
  - (c) the debts are not subject to any cross default and negative pledge;
  - (d) the Exchange in its discretion, requires the Participating Organisation's debts to be converted into equity pursuant to the Participating Organisation's failure to:
    - (i) comply with the Capital Adequacy Requirements; and
    - (ii) effect an appropriate capital reconstruction of the Participating Organisation approved by the Exchange.
  - (e) the repayment of the whole or part of the debts has been made with the Exchange's prior written approval;
  - (f) in the event of a dissolution, winding-up, liquidation or reorganisation of the Participating Organisation, the creditors of the Participating Organisation other than the creditor of the subordinated debt has the prior right to receive payment in full of the other creditors' debts before the creditor of the subordinated debt receives any payment in respect of the subordinated debts; and
  - (g) despite this paragraph 3.2(2) and (3), the creditor of the subordinated debt receives any distribution in respect of the subordinated debts, the creditor will pay over such distribution to the other creditors of the Participating Organisation. This payment will be made rateably against the other creditors' debts until the other creditors' debts are paid in full.

**Revaluation reserve**

- (4) A Participating Organisation may include a revaluation reserve of a fixed asset on an "as is" basis in the computation of the Participating Organisation's Liquid Capital if the Participating Organisation:

- (a) includes the lower of the following figure of:
  - (i) the excess between the force sale value and the net book value of the fixed asset; or
  - (ii) 50% of the excess between the fair market value and the net book value of the fixed asset; and
- (b) conducts the revaluation exercise from which the revaluation reserve is calculated:
  - (i) after the expiry of 10 years from the date the fixed asset was purchased or the date of the last revaluation on the fixed asset; and
  - (ii) through a professional valuer acceptable to the Exchange and licensed under the Valuers, Appraisers and Estate Agents Act 1981.

### 3.3 Specific excluded assets and excluded asset types

- (1) A Participating Organisation must exclude fully the following assets from the computation of Liquid Capital:

(a) **Fixed assets and intangible assets**

The total net book value of fixed assets and intangible assets 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 authority indicating that payment will be made within 3 months from the date of the written statement.

(c) **Other non-current assets**

All other non-current assets including investments in the form of equity holding of 20% or more in a corporation. Investment in excess of 20% in a company is regarded as an investment in an associated company.

(d) **Charged asset**

Liquid assets charged to third parties unless:

- (i) 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
- (ii) the Participating Organisation has duly notified the Exchange of the details of the charged assets.

(e) **Deposits with non-approved institutions**

Deposits other than deposits deposited at approved financial institutions. In this paragraph, "approved financial institution" means a banking and financial institution licensed under Malaysian laws and any other financial institution the Exchange specifies.



(f) **Related or Associated Person balances**

Balances with a Related or Associated Person regardless whether these balances are secured.

(g) **Other debtors**

Balances with other debtors that are outstanding for more than 30 days. These balances exclude balances with Related or Associated Persons.

(h) **Prepayments**

Prepayments incapable of being cancelled and realised into cash within 30 days.

(i) **Other assets**

Assets not realisable within 30 days except to the extent the assets are secured by securities or some other form of collateral the Exchange may accept. Assets secured by securities or some other form of collateral acceptable to the Exchange may include a loan to an affiliated corporation regulated under any law or regulation that treats such loan as part of the regulatory or statutory capital of the affiliate.

- (2) A Participating Organisation may use collateral or security to reduce the exclusion of the assets set out in paragraphs 3.3(1)(c) to (i) if the collateral satisfies the principles in paragraph 6.4(1). A Participating Organisation must take into account the applicable discounts in **Schedule 18** of this Directive when determining the value of the collateral.

### 3.4 **Contingent liabilities**

#### **General**

- (1) A Participating Organisation entering into a position as to an instrument, financial or otherwise that gives rise to a contingent liability must throughout the period of maintaining the position, maintain:
- (a) a Liquid Margin that is adequate to enable the Participating Organisation to fully perform the Participating Organisation's obligations under the contingent liability; and
  - (b) a Capital Adequacy Ratio of more than 1.2.

#### **Guarantees**

- (2) A Participating Organisation must exclude guarantees issued by the Participating Organisation from the computation of Liquid Capital.
- (3) The Exchange may, on the written application of a Participating Organisation, allow a guarantee the Participating Organisation issues to be partially or fully included into the Participating Organisation's computation of Liquid Capital.
- (4) If a guarantee is given by a Participating Organisation to a company within the Participating Organisation's group of companies, the receiving company's liabilities (to the extent that they are covered by the guarantee) must be taken into account as being part of the Participating Organisation's assets and liabilities for the computation, and in such case, the guarantee must not be deducted from the capital computations.
- (5) A Participating Organisation must immediately inform the Exchange in writing of any intra-group and related party guarantees.

**Option(s)**

- (6) A Participating Organisation's liability arising from a Put Option written by it must be:
- (a) treated as the Participating Organisation's contingent liability from the date of the Participating Organisation's unequivocal acceptance of the commitment of the Put Option or the date the agreement for the Put Option is signed, whichever occurs earlier; and
  - (b) deducted or excluded from the computation of Liquid Capital.
- (7) A Participating Organisation must calculate all contingent liabilities arising from Put Option(s) written by the Participating Organisation in the manner stipulated in **Schedule 2** of this Directive.
- (8) A Participating Organisation may reduce the Participating Organisation's contingent liabilities arising from Put Option(s) to the extent the Participating Organisation holds collateral under the conditions set out in paragraph 6.4(1).
- (9) A Participating Organisation must take into account the applicable discounts stipulated in **Schedule 18** of this Directive when determining the value of the collateral.

**4. Part E of Chapter 13**

- (1) Part E of Chapter 13 provides the requirements on Operational Risk.
- (2) Rule 13.09(1) states that a Participating Organisation's Operational Risk Requirement must be the greater of:
- (a) the applicable Minimum Operational Risk Requirement; or
  - (b) 25% of the Participating Organisation's annual expenditure requirement based on the last auditor's report lodged with the Exchange for the preceding 12 months.
- (3) Rule 13.11 states that a Participating Organisation must calculate the Participating Organisation's annual expenditure requirement in the manner the Exchange determines. Rule 13.12 further states that 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) a material proportion of an expenditure was incurred or accrued by third parties where such expenditure is known by the Participating Organisation but was not fully charged to the Participating Organisation.
- (4) In discharging the obligations under the above Rules, a Participating Organisation must comply with the requirements set out below.

**4.1 Calculation of Annual Expenditure Requirement**

- (1) A Participating Organisation must calculate the Participating Organisation's annual expenditure requirement with reference to the Participating Organisation's most recent auditor's report lodged with the Exchange in the following manner:

- (a) the Participating Organisation's total revenue less profit before taxation; or
- (b) the aggregate of the Participating Organisation's 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 payable even if the company makes a loss for that year;
  - (iii) paid commissions 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 Participating Organisation's investment business and associated business carried on in connection with the investment business;
  - (vii) exceptional items (including those items that arise from events or transactions within the ordinary activities of the business of a Participating Organisation and that are both material and not expected to recur frequently or regularly), with the Exchange's prior written approval;
  - (viii) losses arising on the translation of foreign currency balances; and
  - (ix) any other cost and expense the Exchange stipulates.

#### **4.2 Exemption**

- (1) A Participating Organisation must base the Participating Organisation's annual expenditure requirement on budgeted or other accounts that the Participating Organisation submitted to the Exchange as part of the Participating Organisation's application to become a Participating Organisation if the Participating Organisation does not have an auditor's report due to:
  - (a) the Participating Organisation having just commenced business; or
  - (b) the Participating Organisation having not carried on business long enough to have submitted the Participating Organisation's auditor's report to the Exchange.
- (2) A Participating Organisation must calculate the Participating Organisation's annual expenditure requirement on a proportionate basis that is approved by the Exchange if the Participating Organisation does not have an auditor's report because the Participating Organisation's accounts represent a period in excess of 12 months.

#### **5. Part F of Chapter 13**

- (1) Part F of Chapter 13 provides the requirements on Position Risk.

- (2) Rule 13.13 states that a Participating Organisation must calculate its Position Risk Requirement for the securities listed below:
- (a) securities held by the Participating Organisation as principal, including those held pursuant to its intra-day activities;
  - (b) Securities Borrowed or Securities Lent and ISSBNT Securities Sold or ISSBNT Securities Purchased for the Participating Organisation as principal;
  - (c) securities other than Margin Securities held by the Participating Organisation that have been onward lent by it as principal for the purpose of Securities Borrowing or Lending or onward sold by it as principal for the purpose of ISSBNT;
  - (d) Onward Pledged MFF Collateral; and
  - (e) Onward Lent Margin Securities.
- (3) Rule 13.14 states that a Participating Organisation must calculate the Position Risk Requirement for its equity and Exchange Traded Derivative positions in the manner the Exchange determines.
- (4) Rule 13.15 provides that a Participating Organisation must calculate the Position Risk Requirement for Debt Securities for Debt Securities in the manner the Exchange determines.
- (5) Rule 13.16 states that a Participating Organisation intending to take a position in an instrument for which no treatment is specified under this Chapter must, seek the Exchange's direction on the calculation applicable to the instrument at least 15 Market Days before the implementation or effective date of the instrument. 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.
- (6) In discharging the obligations under the above Rules, a Participating Organisation must, amongst others, comply with the requirements set out below.

#### 5.1 Principles applicable to equity Position Risk Requirement:

- (1) A Participating Organisation, in calculating the Position Risk Requirement for the Participating Organisation's equity and equity equivalent positions must:
- (a) Mark to Market all the Participating Organisation's principal positions on a daily basis;
  - (b) calculate the Participating Organisation's Position Risk Requirement on a country by country basis (if applicable);
  - (d) in the case of depository receipts, allocate a share represented by that depository receipt to the same country as the underlying share; and
  - (e) add any Income accrued on any Securities Borrowed, Securities Lent, SBL Collateral, ISSBNT Collateral, ISSBNT Securities Sold, or ISSBNT Securities Purchased and deduct any fees and charges imposed on the borrowing, lending, sale, purchase, ISSBNT Collateral or the SBL Collateral.
- (2) A Participating Organisation may, in the case of securities the Participating Organisation holds following intra-day activities, reduce the Participating Organisation's risk exposure to the extent of the Mark to Market value of any collateral held after deducting the applicable discounts stipulated in **Schedule 18** of this Directive.

**5.2 Methods of computation of Position Risk Requirement for equity and equity equivalent positions**

- (1) A Participating Organisation must apply either the Standard Approach or the Building Block Approach in calculating the equity Position Risk Requirement for equity shares.
- (2) A Participating Organisation may, in the calculation of the Participating Organisation's equity Position Risk Requirement, include positions listed below as equity equivalent positions by applying the Standard Approach or the Building Block Approach. In doing so, the Participating Organisation must comply with the requirements in paragraph 5.3(2).
  - (a) Equity swaps;
  - (b) Exchange Traded Options and stock Options;
  - (c) Individual share futures;
  - (d) Over-the-counter share Options;
  - (e) Warrants over single share;
  - (f) Index and basket Exchange Traded Derivatives;
  - (g) Depository receipts; and
  - (h) Convertible notes.

If a Participating Organisation is unable to comply with the rules in paragraph 5.3(2), the Participating Organisation must calculate the Position Risk Requirement by applying either the Margin Method, the Hedging Method or the Basic Method, as appropriate.

- (3) If the conversion of a convertible note or any Exchange Traded Derivative into an equity equivalent position gives rise to a notional loss, the Participating Organisation must treat this loss as an additional capital charge. A Participating Organisation must 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.

**5.3 Qualifying criteria for application of the Standard Approach or Building Block Approach to Exchange Traded Derivatives:**

- (1) A Participating Organisation must treat convertible notes as equity instruments if:
  - (a) less than 1 year remains to the conversion date of the convertible note; and
  - (b) the convertible notes are traded at a "premium" of less than 10%.

If the above criteria is not met, the Participating Organisation may treat the convertible notes as either an equity instrument (as described above) or Debt Securities under paragraph 5.12. In this paragraph, "premium" means the current Mark to Market value of the convertible note 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.

- (2) A Participating Organisation intending to convert the equity instruments referred to in paragraph 5.2(2) into equity equivalent positions must comply with the rules set out below.
  - (a) Equity swaps must be treated as 2 notional positions.

- (b) The Standard Approach or Building Block Approach may be applied in calculating the Position Risk Requirement for an Option position or a Warrant position. However, the Option position or Warrant position (as applicable) must be In the Money by at least the Position Risk Factor used in the Standard Approach stipulated in **Schedule 3** in this Directive. If the Option position or Warrant position does not satisfy this requirement, a Participating Organisation must:
- (i) calculate the Position Risk Requirement of that Option position or Warrant position by applying either the Basic, Hedging or Margin Methods, as appropriate; and
  - (ii) not treat the Option position or Warrant position as an equity equivalent position.
- (c) Purchased Call Options and written Put Options must be treated as long positions.
- (d) Purchased Put Options and written Call Options must be treated as short positions.
- (e) Individual share futures may be included as single equity equivalent positions at the individual share futures' current Mark to Market value.
- (f) 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.
- (g) The Exchange will decide on the requirements for the conversion of any other instrument on a case by case basis.

#### **5.4 Calculation of equity equivalent positions of instruments for which no treatment is specified**

A Participating Organisation must calculate the equity equivalent position of Exchange Traded Derivatives or such other instrument for which no treatment is specified under this paragraph 5.1, 5.2 and 5.3 based on requirements the Exchange specifies.

#### **5.5 Position netting**

- (1) A Participating Organisation may net a long position against a short position if:
- (a) in respect of an equity, the positions are in the same type of equity; or
  - (b) in respect of an equity equivalent position identified in paragraph 5.2(2), the positions are in the same type of instrument.

However, in the case of paragraph 5.5(1)(b), the instrument must have been converted into an equity equivalent position in accordance with paragraph 5.3(2).

- (2) A Participating Organisation may:
- (a) in respect of Securities Borrowing and Lending, net a position of Securities Lent against Securities Borrowed if the positions are of the same type; or
  - (b) in respect of ISSBNT, net a position of ISSBNT Securities Purchased against ISSBNT Securities Sold if the positions are of the same type.

## 5.6 Standard Approach

### Net position

- (1) A Participating Organisation must convert a position that applies the Standard Approach into a net position.

### Methodology

- (2) A Participating Organisation must calculate the total Position Risk Requirement based on the Standard Approach on a country by country basis in the following manner:

#### Step 1

Calculate the Position Risk Requirement for each net equity position using the formula below. Net long and net short positions must both generate positive Position Risk Requirements.

$$\text{PRR}_{\text{equity position}} = \frac{\text{Mark To Market value of net position}}{\text{position}} \times \text{PRF}$$

Where,

$$\text{PRF} = \text{Applicable Position Risk factor, as stipulated in Schedule 3 of this Directive}$$

#### Step 2

Calculate the Position Risk Requirement based on the Standard Approach for each country portfolio as follows:

$$\text{PRR}_{\text{country portfolio}} = \text{Aggregate of PRR applicable to the net long and net short position within the country portfolio}$$

#### Step 3

Calculate the total Position Risk Requirement based on the Standard Approach as follows:

$$\text{Total PRR}_{\text{Standard Approach}} = \text{Aggregate of the PRRs of all country portfolios}$$

## 5.7 Building Block Approach

### Additional qualifying criteria

- (1) A Participating Organisation may use the Building Block Approach on equity and equity equivalent positions if:
- within a country's portfolio, there are at least 5 net long or 5 net short positions held in listed and quoted securities that form part of the component stock of any market index maintained or acceptable to the Exchange. **Schedule 4** of this Directive sets out the Recognised Market Indices; and
  - a particular net long or short position exceeds 20% of the gross value of the country's portfolio. Here, only the amount up to 20% may be treated under the Building Block Approach. The excess amount must be treated under the Standard Approach.

**Methodology**

- (2) A Participating Organisation must calculate the total Position Risk Requirement based on the Building Block Approach on a country by country basis as the sum of the specific risk and general market risk. This is illustrated below.

$$\text{PRR}_{\text{country portfolio}} = \text{General Market Risk} + \text{Specific Market Risk}$$

The specific risk and general market risk must be calculated as follows:

**Specific Risk**

The specific risk must be calculated on a country by country basis.

Step 1

Calculate the specific risk for an individual equity position using the formula below. Net long and net short positions must both generate positive Position Risk Requirement.

$$\text{SR}_{\text{each equity position}} = \frac{\text{Mark to market value of the individual net position}}{\text{Mark to market value of the individual net position}} \times \text{PRF}$$

Where,

- SR = Specific risk
- PRF = Applicable Position Risk factor, as stipulated in **Schedule 5** of this Directive

Step 2

Calculate the specific risk for each country portfolio as specified below. Netting of long and short specific risk is prohibited.

$$\text{SR}_{\text{each country portfolio}} = \text{Aggregate of the Position Risk Requirements applicable to the net long and net short positions within the country portfolio}$$

**General market risk**

The general market risk must be calculated on a country by country basis.

Step 1

Calculate the general market risk for an individual equity position using the formula below:

$$\text{GMR}_{\text{individual equity position}} = \frac{\text{Mark to market value of the individual net position}}{\text{Mark to market value of the individual net position}} \times \text{PRF}$$

Where,

- GMR = General market risk



PRF = Position Risk factor, as stipulated in **Schedule 5** of this Directive  
Step 2

Calculate the general market risk for a country portfolio using the formula below. Netting of long and short general market risk is allowed.

$$\text{GMR}_{\text{specific country portfolio}} = \text{Net value of PRRs applicable to the net long and short positions within the country portfolio}$$

If the net amount is in the negative, the sign must be reversed to a positive value.

Where,  
 GMR = General market risk

### Total PRR

The total Position Risk Requirement based on the Building Block Approach is the sum of the Position Risk Requirements of all country portfolios.

$$\text{Total PRR}_{\text{Building Block Approach}} = \text{Aggregate of the PRRs of all country portfolios}$$

## 5.8 Margin Method

### Criteria

- (1) A Participating Organisation may apply the Margin Method for calculating the Position Risk Requirement for all Exchange Traded Derivative positions that have a positive initial margin requirement.
- (2) A Participating Organisation may use the Margin Method if the Participating Organisation chooses not to utilise any of the other available methods. However, a Participating Organisation must use the Margin Method if it does not satisfy the criteria for those other methods.

### Methodology

- (3) A Participating Organisation must determine the Position Risk Requirement using the Margin Method by multiplying 100% of the initial margin requirement of the relevant exchange by 4.
- (4) 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.

## 5.9 Hedging Method

- (1) A Participating Organisation may apply the Hedging Method for calculating the Position Risk Requirement for an equity position hedged by an Option or a Warrant.
- (2) 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.
- (3) A Participating Organisation must determine the Position Risk Requirement for positions using the Hedging Method in accordance with **Schedule 6** of this Directive.

**5.10 Basic Method**

- (1) A Participating Organisation may apply the Basic Method for calculating the Position Risk Requirement for Exchange Traded Derivatives.
- (2) A Participating Organisation must determine the Position Risk Requirement positions using the Basic Method in accordance with **Schedule 6** of this Directive.

**5.11 Foreign exchange**

A Participating Organisation must calculate the Position Risk Requirement for foreign exchange exposure by applying the applicable discount stipulated in **Schedule 18** of this Directive to the sum of the net long positions in foreign currencies.

**5.12 Debt Securities**

- (1) The Position Risk Requirement for convertible notes other than Debt Securities must be calculated as follows:

$$\text{PRR} = \text{Market Value multiply by 8\%}$$

- (2) If for any reason, a Participating Organisation is unable to calculate the Position Risk Requirement for FI Securities through electronic system, the Participating Organisation must manually calculate the Position Risk Requirement for FI Securities in accordance with the formula set out below.

$$\text{FI PRR} = \text{Market value of positions in FI Securities} \times \text{PRFs}$$

Where,

FI PRR = Position Risk Requirement for FI Securities

Market value of positions = The netted value of long and short positions in the FI Security of the same type, tenure and rating; and

PRFs = The applicable specific risk Position Risk factor + the applicable general market risk Position Risk factor. The Position Risk factors for FI Securities are set out in **Schedule 7** of this Directive

- (3) A Participating Organisation must calculate the Position Risk Requirement for FI Securities on a weekly basis in the manner stipulated in **Schedule 8** of this Directive.

**5.13 Suspended securities**

A Participating Organisation must calculate the Position Risk Requirement for suspended securities by applying the applicable Position Risk factor stipulated in **Schedule 3** of this Directive to the Last Done Price. If the security has been suspended for a continuous period of more than 2 Market Days, the applicable Position Risk factor is 100%.

**5.14 Exchange Traded Funds**

- (1) A Participating Organisation must reduce the Participating Organisation's exposure to proprietary positions in equities and Debt Securities held solely for the purpose of creation of an Exchange Traded Fund in proportion to the amount of Exchange Traded Funds actually sold.

- (2) A Participating Organisation must ensure that proprietary positions in equities and Debt Securities arising from reverse repo transactions has a position 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.

#### 5.15 Unit trusts

If for any reason, a Participating Organisation is unable to calculate the Position Risk Requirement for the Participating Organisation's investments in unit trusts through electronic system, the Participating Organisation must manually calculate it by applying the applicable Position Risk factor stipulated in **Schedule 9** of this Directive to the market value of the unit trust.

#### 5.16 Margin Financing On-Pledged Risk

- (1) A Participating Organisation must observe the principles below in calculating the Position Risk Requirement for Margin Financing On-Pledged Risk as to Onward Pledged MFF Collateral.
- (a) The Participating Organisation must calculate the Position Risk Requirement for all the Participating Organisation's Onward Pledged MFF Collateral positions;
  - (b) The sum of the Position Risk Requirement for all the Participating Organisation's Onward Pledged MFF Collateral positions represents the total Position Risk Requirement for the Participating Organisation's Margin Financing On-Pledged Risk as to Onward Pledged MFF Collateral;
  - (c) the Participating Organisation must, on a daily basis, Mark to Market all the Participating Organisation's collateral, and if required, the value of the collateral must be discounted in the manner stipulated in paragraph 6.4(2) and **Schedule 18** of this Directive.
- (2) A Participating Organisation must calculate the Participating Organisation's Position Risk Requirement as to Onward Pledged MFF Collateral in the manner stipulated in **Schedule 10** of this Directive.

#### 5.17 Position Risk Requirement for Margin Financing Onward Lent Risk:

A Participating Organisation must observe the principles stipulated in Part F of Chapter 13 and paragraph 5 in calculating the Position Risk Requirement for Margin Financing Onward Lent Risk as to Onward Lent Margin Securities.

### 6. Part G of Chapter 13

- (1) Part G of Chapter 13 provides the requirements on Counterparty Risk.
- (2) Rule 13.17 states that a Participating Organisation must calculate its Counterparty Risk Requirement for all Counterparty exposures arising from:
- (a) unsettled agency (including those under DF Accounts);
  - (b) debt, contra losses and other amounts due;
  - (c) free deliveries;

- (d) Securities Borrowing and Lending or ISSBNT transactions;
  - (e) derivatives transactions;
  - (f) sub-underwriting arrangements;
  - (g) Margin Financing Facilities; and
  - (h) other exposures the Exchange determines.
- (3) Rule 13.18 states that a Participating Organisation must calculate its Counterparty Risk Requirement in the manner the Exchange determines.
- (4) Rule 13.20 states that a Participating Organisation may use collateral or security including collateral placed by the Participating Organisation's Commissioned Dealer's Representative to reduce the Participating Organisation's Counterparty exposure in the manner the Exchange determines.
- (5) In discharging the obligations under the above Rules, a Participating Organisation must comply with the requirements set out below.

#### **6.1 General Requirements on Counter Party Risk**

- (1) A Participating Organisation, in calculating the Participating Organisation's Counterparty Risk Requirement must:
- (a) calculate a Counterparty Risk Requirement only if the Participating Organisation has a positive exposure to a Counterparty;
  - (b) on a daily basis, Mark to Market all Counterparty exposures; and
  - (c) calculate a Counterparty Risk Requirement for all Counterparty exposures irrespective of any connection with the Counterparty.
- (2) A Participating Organisation, in calculating the Participating Organisation's Counterparty Risk Requirement may:
- (a) reduce the Participating Organisation's Counterparty exposures to the extent the Participating Organisation holds collateral in accordance with the conditions set out in paragraph 6.4(1);
  - (b) net positive and negative Counterparty exposures prior to the calculation of Counterparty Risk Requirement if the exposures are with the same counterparty and they are similar in nature in that they fall within the same class or type as set out in Rule 13.17; and
  - (c) reduce the Counterparty exposure on which the Participating Organisation's Counterparty Risk Requirement is calculated to the extent of any provisions made.
- (3) A Participating Organisation, in calculating the Participating Organisation's Counterparty Risk Requirement must not include any Counterparty Risk Requirement if there is no Counterparty exposure. It is also not required to calculate a Counterparty Risk Requirement for an Option over shares of a company if the Participating Organisation is the writer of the Option.

## 6.2 Computation

A Participating Organisation must, unless these Rules specify otherwise, calculate the Participating Organisation's Counterparty Risk Requirement using formula below.

$$\text{CRR} = \text{CE} \times \text{CW} \times \text{CRR charge (\%)}$$

Where,

- CE = Counterparty exposure, as determined under this paragraph 6.3.
- CW = Counterparty weighting, as specified in **Schedule 11** of this Directive.
- CRR = CRR charge as stipulated in **Schedule 12** of this Directive

## 6.3 General rules in calculating Counterparty exposure and CRR

A Participating Organisation must calculate the Participating Organisation's Counterparty exposures and Counterparty Risk Requirement as follows:

### (a) Unsettled agency (including those under DF Accounts)

#### (i) Counterparty exposures

Subject to paragraph 6.3(a)(iii), a Participating Organisation's Counterparty exposures on:

- (aa) an agency purchase is equal to the Mark to Market Difference; and
- (bb) an agency sale is equal to the Mark to Market Difference.

#### (ii) CRR for unsettled agency trades

A Participating Organisation must calculate the Participating Organisation's Counterparty Risk Requirement on the Participating Organisation's unsettled agency trades in accordance with **Schedule 12** of this Directive.

- (iii) If the Mark to Market value is not available for whatsoever reason for the purpose of computing the Mark to Market Difference as stipulated under paragraph 6.3(a)(i)(aa) and paragraph 6.3(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 the agreed due date. In the case of a contra loss, the due date is the date of contra.

#### (ii) Calculation of CRR:

A Participating Organisation must calculate the Participating Organisation's Counterparty Risk Requirement in respect of the above exposure in the manner stipulated in **Schedule 13** of this Directive.

(c) **Free deliveries**

- (i) If a Participating Organisation delivers securities without receiving payment, or pays for securities without receiving the securities, the Participating Organisation's Counterparty exposure is the full contract value of the transaction.
- (ii) Despite the above paragraph 6.3(c)(i), if delivery or settlement remains outstanding for more than 2 Market Days after the due date, the Participating Organisation's Counterparty Risk Requirement must be the full contract value of the transaction.
- (iii) In this paragraph, the due date is:
  - (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/ ISSBNT**

(i) **Counterparty exposures**

A Participating Organisation must calculate the Participating Organisation's Counterparty exposures for Securities Borrowing and Lending and/or ISSBNT in the following manner:

Securities Borrowing and Lending

- (aa) for borrowing transactions entered into on behalf of the Participating Organisation's Client:
  - (A) the Participating Organisation's Counterparty exposures must be computed based on the difference between the Mark to Market value of the Securities Borrowed and the Mark to Market value of the SBL Collateral deposited; and
  - (B) in computing the Mark to Market value of the Securities Borrowed or the SBL Collateral, the Participating Organisation must add any Income accrued on the Securities Borrowed or the SBL Collateral and deduct any fees and charges imposed on the borrowing or the SBL Collateral; and
- (bb) for lending transactions entered into on behalf of the Participating Organisation's Client:
  - (A) the Participating Organisation's Counterparty exposures must be computed based on the difference between the Mark to Market value of the Securities Lent and the Mark to Market value of the SBL Collateral deposited; and
  - (B) in computing the Mark to Market value of the Securities Lent or the SBL Collateral, the Participating Organisation must add any Income accrued on the Securities Lent or the SBL

Collateral and deduct any fees and charges imposed on the lending or the SBL Collateral.

ISSBNT

(cc) for purchase under ISSBNT transactions entered into on behalf of the Participating Organisation's Client:

(A) the Participating Organisation's Counterparty exposures must be computed based on the difference between the Mark to Market value of the ISSBNT Securities Purchased and the Mark to Market value of the ISSBNT Collateral deposited; and

(B) in computing the Mark to Market value of the ISSBNT Securities Purchased or the ISSBNT Collateral, the Participating Organisation must add any Income accrued on the ISSBNT Securities Purchased or the ISSBNT Collateral and deduct any fees and charges imposed on the purchase pursuant to ISSBNT or the ISSBNT Collateral; and

(dd) for sale transactions under ISSBNT entered into on behalf of the Participating Organisation's Client:

(A) the Participating Organisation's Counterparty exposures must be computed based on the difference between the Mark to Market value of the ISSBNT Securities Sold and the Mark to Market value of the ISSBNT Collateral deposited; and

(B) in computing the Mark to Market value of the ISSBNT Securities Sold or the ISSBNT Collateral, the Participating Organisation must add any Income accrued on the ISSBNT Securities Sold or the ISSBNT Collateral and deduct any fees and charges imposed on the sale pursuant to ISSBNT or the ISSBNT Collateral.

(ii) **Calculation of CRR**

A Participating Organisation must calculate the Participating Organisation's Counterparty Risk Requirement for Securities Borrowing and Lending and/or ISSBNT in accordance with **Schedule 14** of this Directive.

(e) **Derivatives Transactions:**

(i) **Exchange Traded Derivatives**

(aa) **Counterparty exposure**

(A) A Participating Organisation's Counterparty exposure on an Exchange Traded Derivative Contract is the uncovered margin or the margin call due for the Contract and/or any additional margin requirements, whichever is higher, as the Participating Organisation or Clearing House may require.

## (B) Options (bought)

A Participating Organisation has a Counterparty exposure on the uncovered premium for options bought (in the case of the buyer of an Option) if the transaction is unsettled. The uncovered premium is the unpaid premium due from the buyer of the options.

## (C) 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) if the transaction is unsettled. The uncovered margin is the margin due less any premium received.

(bb) **Calculation of CRR**

A Participating Organisation must calculate the Participating Organisation's Counterparty Risk Requirement on Exchange Traded Derivatives as follows:

$$\text{CRR} = \text{CE} \times \text{CW} \times \text{CRR charge (\%)}$$

Where,

CE = Counterparty exposure, as determined in accordance with paragraph 6.3(e)

CW = Counterparty weighting, as stipulated in **Schedule 11** of this Directive

CRR charge = CRR charge as stipulated in **Schedule 12** of this Directive

(ii) **Over-the-Counter derivative Contracts**(aa) **Counterparty exposure**

A Participating Organisation's Counterparty exposure on an over-the-counter derivative contract is the credit equivalent amount as specified in **Schedule 15** of this Directive.

(f) **Sub-underwriting:**(i) **Counterparty exposure:**

If a Participating Organisation, acting as lead underwriter, enters into a sub-underwriting agreement with a Counterparty, the Participating Organisation's Counterparty exposure is equal to 30% of the sub-underwritten amount.

(g) **Reverse repo transactions**

If a Participating Organisation purchases instruments through a reverse repo transaction, the Participating Organisation's Counterparty exposure is the full pre-determined re-sale value of the instruments as agreed between the Participating Organisation and the repo seller.



(h) **Margin Financing Facilities:**(i) **Counterparty exposure**

A Participating Organisation's Counterparty exposure to a Margin Financing Facility is the Outstanding Balance.

(ii) **Principles applicable to Margin Financing Counterparty Risk Requirement:**

A Participating Organisation, in calculating the Participating Organisation's Counterparty Risk Requirement as to Margin Financing Facilities, must observe the requirements below in addition to the principles applicable in calculating Counterparty Risk Requirement in paragraph 6.1(1), (2) and (3).

(aa) A Participating Organisation is not required to calculate a Counterparty Risk Requirement for a Margin Account if specific provisions equivalent to 100% of the amount outstanding have been made in accordance with the provisions of Part C of Chapter 12;

(bb) A Participating Organisation must calculate a Counterparty Risk Requirement for a Margin Account if the Equity, after applying the applicable discounts stipulated in paragraph 6.4(2) and **Schedule 18** of this Directive, is below 150% of the Outstanding Balance.

(iii) **Calculation of CRR**

(aa) A Participating Organisation must calculate a Participating Organisation's Counterparty Risk Requirement for Margin Financing Facilities in the manner stipulated in **Schedule 16** of this Directive.

(bb) A Participating Organisation's total Counterparty Risk Requirement for Margin Financing Facilities is the sum of the Counterparty Risk Requirements calculated in accordance with this paragraph 6.3(h)(iii).

(i) **Debt Securities**

A Participating Organisation must calculate the Participating Organisation's Counterparty Risk Requirement for Counterparty exposures arising from Debt Securities in accordance with the formula set out below if the Client or Counterparty does not pay the Participating Organisation on the Settlement Date.

## (i) Settlement Date to 15 Market Days:

$$\text{CRR} = \text{CE} \times \text{CW} \times 8\%$$

Where,

$$\begin{aligned} \text{CE} &= \text{(i) Positive Mark to Market Difference of the Debt Securities;} \\ &\text{or} \\ &\text{(ii) Any losses incurred from closing-out the position;} \text{ or} \\ &\text{(iii) The penalty including other amounts due incurred from the} \\ &\text{cancellation of the contract (as applicable)} \\ \text{CW} &= \text{Counterparty weighing, as stipulated in } \mathbf{Schedule\ 11} \text{ of this} \\ &\text{Directive} \end{aligned}$$

- (ii) 16 Market Days to 30 Market Days from the Settlement Date:

$$\text{CRR} = 50\% \text{ of CE}$$

- (iii) More than 30 Market Days from the Settlement Date:

$$\text{CRR} = 100\% \text{ of CE}$$

Where for both Paragraphs (i) and (ii) above,

- CE = (i) The full contract value if the PO has not closed-out the position; or  
(ii) Any losses incurred from closing-out the position; or  
(iii) The penalty including other amounts due incurred from the cancellation of the contract (as applicable)

- (iv) The applicable aging for the calculation of the Counterparty Risk Requirement for Counterparty exposures arising from Debt Securities is determined by comparing the current market date against the Settlement Date irrespective of the nature of the Counterparty exposure. For example, if a Participating Organisation closes off a position that is 14 Market Days old resulting in a loss, the Counterparty Risk Requirement for the loss amount due from the Client must be computed from the 14<sup>th</sup> Market Day onwards (i.e. CE x CW x 8% for the 14<sup>th</sup> and 15<sup>th</sup> Market Day, 50% of the Counterparty exposure for the 16<sup>th</sup> to 30<sup>th</sup> Market Day and thereafter, 100%).
- (v) If for any reason, a Participating Organisation is unable to calculate the Counterparty Risk Requirement for Counterparty exposures arising from FI Securities through electronic system, the Participating Organisation must manually calculate it in the manner stipulated in **Schedule 17** of this Directive.
- (vi) In this Rule, "Settlement Date" means:
- (aa) in the case of a Universal Broker trading as a RENTAS member, one Market Day after the settlement date stipulated by the relevant requirements of the Commission, the Central Bank or any other relevant body on the RENTAS system;
- (bb) in the case of a Participating Organisation trading via a RENTAS member, one Market Day after the settlement date as mutually agreed between the Participating Organisation and the RENTAS member.

#### 6.4 Collateral

##### Conditions

- (1) A Participating Organisation may use collateral or security including collateral placed by the Participating Organisation's Dealer's Representative appointed on a commission basis to reduce the Participating Organisation's Counterparty exposure if:
- (a) the Participating Organisation has an unconditional right to realise the collateral or security in the event of default by the Counterparty;
- (b) the collateral or security is liquid in nature and this includes:
- (i) cash deposit in RM;

- (ii) cash deposit in foreign currency acceptable to the Exchange, as stipulated in **Schedule 18** of this Directive;
- (iii) securities listed on the Exchange or other Recognised Stock Exchanges; and
- (iv) government bonds or other Debt Securities that have a ready market.

#### **Discounting**

- (2) A Participating Organisation must discount the value of collateral held:
  - (a) in a form other than a RM cash deposit by applying the applicable discounts stipulated in **Schedule 18** of this Directive; and
  - (b) in a form of FI Securities by the amount equivalent to the sum of the applicable specific risk Position Risk factor and the applicable general market risk Position Risk factor stipulated in **Schedule 7** of this Directive.

#### **Deposits and commission**

- (3) A Participating Organisation may apply the DR Security Deposit and commission the Participating Organisation holds for a Dealer's Representative against that Dealer's Representative's Client if the Client owes the Participating Organisation any money. A Participating Organisation must not use the DR Security Deposit of one Dealer's Representative as collateral for another Dealer's Representative who has insufficient funds.

#### **Hedging**

- (4) A Participating Organisation must calculate the Counterparty Risk Requirement for hedging positions in the manner stipulated in **Schedule 6** of this Directive.

### **7. Part H of Chapter 13**

- (1) Part H of Chapter 13 provides the requirements on Large Exposure Risk.
- (2) Rule 13.23 provides that a Participating Organisation must calculate its Large Exposure Risk Requirement for the Participating Organisation's:
  - (a) exposure to a single Client or Counterparty;
  - (b) direct exposure to Debt Securities; and
  - (c) direct exposure to a single equity,

for all amounts arising in the normal course of trading in Equity Securities, Debt Securities or Exchange Traded Derivatives in accordance with the provisions set out under this Rule 13.23.

- (3) In discharging the obligations under the above Rule, a Participating Organisation must comply with the requirements set out below.

#### **7.1 Exposure to single client or counterparty – Debt Securities**

If for any reason, a Participating Organisation is unable to calculate the Participating Organisation's Large Exposure Risk Requirement to a single Client in relation to the Participating Organisation's activities in Debt Securities through electronic system, the

Participating Organisation must manually calculate it in the manner stipulated in **Schedule 19** of this Directive. This requirement does not apply if the Counterparty exposure has already incurred 100% charge under the Counterparty Risk Requirement.

## 7.2 Direct exposure to debt – FI Securities

If for any reason, a Participating Organisation is unable to calculate the Participating Organisation's Large Exposure Risk Requirement for its exposure position to debt for FI Securities through electronic system, the Participating Organisation must manually calculate it in the manner stipulated in **Schedule 20** of this Directive.

## 7.3 Maximum Large Exposure Risk to FI Security issued by the central government or government related agencies that are fully guaranteed by the central government

- (1) A Participating Organisation is not subject to Rule 13.25(3) if the Debt Securities is an FI Security issued by the central government or government related agencies that are fully guaranteed by the central government.
- (2) A Participating Organisation may bear a Large Exposure Risk to FI Securities issued by the central government or government related agencies that are fully guaranteed by the central government, of up to 500% of the Participating Organisation's Effective Shareholders' Funds.
- (3) In this paragraph, the central government and government related agencies may include (not exhaustive):
  - (a) the Government of Malaysia;
  - (b) Khazanah Nasional Berhad;
  - (c) the Central Bank;
  - (d) Pengurusan Danaharta Nasional Berhad, such as Danaharta Bonds;
  - (e) Danamodal Nasional Berhad, such as Danamodal Bonds;
  - (f) Cagamas Berhad;
  - (g) Syarikat Prasarana Negara Berhad; and
  - (h) KL International Airport Berhad,

where the issuance of the FI Securities are fully guaranteed by the central government.

- (4) A Participating Organisation may bear a Large Exposure Risk to FI Securities that are rated AA or AAA by a credit rating agency recognised by the Commission, of up to 250% of the Participating Organisation's funds.

## 7.4 Exposure to a single equity – net position or exposure

- (1) A Participating Organisation, in calculating the Participating Organisation's net position or exposure to a single equity must include an equity over-the-counter Options or an equity Warrant that is In the Money at its full underlying value.
- (2) A Participating Organisation, in calculating the Participating Organisation's net position or exposure to a single equity need not include the Participating Organisation's underwriting or sub-underwriting commitment, unless that commitment has become a principal position.

- (3) A Participating Organisation, in calculating the Participating Organisation's net position or exposure to a single equity must not:
- (a) treat an Out of the Money equity over-the-counter Options or an equity Warrant as an exposure; and
  - (b) treat an Exchange Traded Fund, where the underlying instruments are government or government-related agency bonds, as an exposure.

**7.5 Exposure in relation to a net purchase contract value of single equity underlying clients' accounts:**

- (1) A Participating Organisation must calculate the Participating Organisation's Large Exposure Risk Requirement in relation to the net purchase contract value of single equity underlying clients' accounts arising from transactions either under a Ready Basis Contract starting from the date that it has not been paid for on and subsequent to the FDSS due settlement date; and
- (2) A Participating Organisation must calculate the Participating Organisation's Large Exposure Risk Requirement in relation to the net purchase contract value of single equity underlying clients' accounts arising from transactions under a DF Account starting from the date that it has not been paid for on and subsequent to the FDSS due settlement date.

**7.6 Exposure to a single equity relative to instrument on issue**

- (1) If a Participating Organisation has a Large Exposure to a single equity relative to the Participating Organisation's total issue as specified in Rule 13.26(1)(a), the Participating Organisation must calculate the Participating Organisation's Large Exposure Risk Requirement by multiplying the value of the exposure that is in excess of 10% of the total issue by the Position Risk Factor used in the Standard Approach in the manner stipulated in **Schedule 21** of this Directive.
- (2) If a Participating Organisation has an exposure in excess of 20% of the issuer's capital arising from the Participating Organisation's investment in the stock accounts as stipulated in Rule 13.26(5)(c), the Participating Organisation is considered an associate of the issuer.

**7.7 Exposure to a single equity relative to Effective Shareholders' Funds**

If a Participating Organisation has a Large Exposure to a single equity relative to the Participating Organisation's Effective Shareholders' Funds as specified in Rule 13.26(1)(b), the Participating Organisation must calculate the Participating Organisation's Large Exposure Risk Requirement by multiplying the value of the exposure that is in excess of 10% of the Participating Organisation's Effective Shareholders' Funds by the Position Risk Factor used in the Standard Approach, in the manner stipulated in **Schedule 21** of this Directive.

**7.8 Exposure to a single equity relative to both an instrument on issue and Effective Shareholders' Funds**

If 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 Participating Organisation's Large Exposure Risk Requirement is the higher of the 2 requirements.

**8. Part I of Chapter 13**

- (1) Part I of Chapter 13 provides the requirements on Underwriting Risk.
- (2) Rule 13.27 states that a Participating Organisation has an Underwriting Risk if the Participating Organisation enters into a binding commitment to take up securities at a predetermined price and time.
- (3) Rule 13.28 states that a Participating Organisation must calculate its Underwriting Risk Requirement in the manner the Exchange determines.
- (4) In discharging the obligations under the above Rules, a Participating Organisation must comply with the requirements set out below.

**8.1 Computation**

A Participating Organisation's Underwriting Risk Requirement is 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 3** of this Directive.

$$\text{URR} = \text{UE} \times \text{PRF} \times 30\%$$

Where,

UE = Underwriting exposure as defined in paragraph 8.2(a)

PRF = Applicable Position Risk factor, as stipulated in **Schedule 3** of this Directive

**8.2 Methodology**

A Participating Organisation in assessing the Participating Organisation's underwriting and sub-underwriting commitment must comply with the principles set out below.

- (a) An Underwriting exposure is an underwriting commitment that is computed based on the quantity and price in the underwriting agreement or document as amended or supplemented.
- (b) An Underwriting Risk exists from:
  - (i) the date of the Participating Organisation's unequivocal acceptance of the underwriting commitment; or
  - (ii) the date on which the underwriting agreement or document is signed,
 whichever occurs earlier.
- (c) If 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 if proper documentation or an agreement for the sub-underwriting is executed.
- (d) A Participating Organisation must treat the third party's sub-underwriting amount as a Counterparty Risk.
- (e) If a Participating Organisation undertakes a sub-underwriting commitment, the Participating Organisation must treat the sub-underwriting commitment as an underwriting commitment from the later of the following events:

- (i) the date of the Participating Organisation's unequivocal acceptance of the sub-underwriting commitment or the date on which the sub-underwriting agreement or document is signed, whichever occurs earlier; or
  - (ii) the date of the lead underwriter's unequivocal acceptance of the underwriting commitment or the date on which the underwriting agreement or document is signed, whichever occurs earlier.
- (f) A Participating Organisation's underwriting commitment continues as an Underwriting Risk until the date the application closes. After that, the Underwriting Risk either:
- (i) ceases; or
  - (ii) becomes a Position Risk.

### 8.3 Underwriting Risk for Debt Securities

A Participating Organisation must calculate the Participating Organisation's Underwriting Risk Requirement for FI Securities in accordance with the formula set out below.

$$\text{FI URR} = \text{UE} \times \text{PRFs} \times 30\%$$

Where,

- FI URR = Underwriting Risk Requirement for FI Securities
- UE = Underwriting exposure calculated in the manner stipulated in paragraph 8.2(a).
- PRFs = The applicable specific risk Position Risk factor + the applicable general market risk Position Risk factor. The Position Risk factors for FI Securities are set out in **Schedule 7** of this Directive

[End of Directive]

**Schedule 1  
[Paragraphs 2(2), 3.1(1) and 3.1(3)]**

	<i>RM</i> Total	<i>RM</i> Ranking For Liquid Capital	<i>RM</i> Not Ranking For Liquid Capital
<b>RETURN PRESCRIBED IN PARAGRAPH 2.1(1) OF THE EXCHANGE'S DIRECTIVES ON CAPITAL ADEQUACY REQUIREMENTS</b>			
<b>Participating Organisation</b> _____			
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>			
Share Premium Account - Others	_____	_____	
Preference Share Capital – Others	_____	_____	
Approved Subordinated Loan	_____	_____	
Revaluation Reserves	_____	_____	(_____)
Unaudited Profits/Unaudited Losses	_____/_____(_____)	_____/_____(_____)	
<b>Unrealised Gains/Unrealised Losses</b> from principal positions	_____/_____(_____)	_____/_____(_____)	
Loans secured against Fixed Assets	_____		_____
Term Loan	_____		_____
Unsecured Loans	_____		_____
Deferred Taxation	_____		_____
Provision for Taxation	_____		_____
Hire Purchase Creditors	_____		_____
<b>Total</b>	<b>_____</b>	<b>_____</b>	<b>_____</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>	<b>_____</b>	<b>_____</b>	



	<i>RM</i> Total	<i>RM</i> Not Ranking For Liquid Capital	<i>RM</i> 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	_____	_____	
<b>Marketable Securities -Listed Equities</b>	_____		_____
<b>Marketable Securities – FI Securities (corporate)</b>	_____		_____
<b>Marketable Securities – FI Securities (government)</b>	_____		_____
<b>Marketable Securities – Unit Trusts</b>	_____		_____
<b>Marketable Securities – Others</b>	_____		_____
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+3	_____		_____
Directors Account	_____	_____	
Loans & Advances	_____	_____	
Amount due from Holding Company	_____	_____	
Amount due from Subsidiary/Related Companies	_____	_____	
Prepayment	_____	_____	
Other Debtors	_____	_____	
Others/Charged Assets	_____	_____	
Other Assets	_____		_____
<b>Total Current Assets</b>	_____	_____	_____

	<b>RM Total</b>	<b>RM Not Ranking For Liquid Capital</b>	<b>RM Ranking For Liquid Capital</b>
<b>Current Liabilities</b>			
Bank Overdraft/Revolving Credits	_____		_____
Short Term Loans/Borrowings	_____		_____
Trust Accounts - Clients	_____		_____
- Others	_____		_____
Trade Creditors			
- Dealers	_____		_____
- Clients	_____		_____
Outstanding Contracts < T+3	_____		_____
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>TOTAL EMPLOYMENT OF CAPITAL</b>	_____		
Less Contingent Liabilities		_____	
Add: Collateral used to secure Deposit with Non-Approved Institution		_____	
Add: Collateral used to secure Other Debtors		_____	
Add: Collateral used to secure Other Assets		_____	
<b>LIQUID CAPITAL</b>		_____	
Total Risk Requirement		_____	
<b>LIQUID MARGIN</b>		_____	
<b>CAPITAL ADEQUACY RATIO</b>		_____	

**RETURN PRESCRIBED IN PARAGRAPH 2(2) OF THE EXCHANGE'S DIRECTIVES ON CAPITAL ADEQUACY RATIO**

**Risk Components that form the Total Risk Requirement:**

<b>Ref</b>	<b>Position Risk Requirement (PRR)</b>	
	<i>Total PRR – Standard Approach</i>	
	<i>Total PRR – Foreign Exchange Method</i>	
	<i>Total PRR – MFOPRR</i>	
	<i>Total PRR – Building Block Approach</i>	
	<i>Total PRR – Equity Index Arbitrage Difference</i>	
	<i>Total PRR – Debt Instrument quoted on the KLSE</i>	
	<i>Total PRR – FI Securities-not quoted on the KLSE</i>	
	<i>Total PRR – Loss on conversion</i>	
	<i>Total PRR – Basic Method</i>	
	<i>Total PRR – Margin Method</i>	
	<i>Total PRR – Hedging Method</i>	
	<i>Total PRR – Equity Index Arbitrage</i>	
	<i>Total PRR – Manual Derivatives</i>	
	<i>Total PRR – Manual Others</i>	
	<b>Position Risk Requirement</b>	
	<b>Counterparty Risk Requirement (CRR)</b>	
	<i>Total CRR – Debt, Contra Losses and Other Amounts Due</i>	
	<i>Total CRR – Unsettled Agency and Principal Trades</i>	
	<i>Total CRR – Free Deliveries</i>	
	<i>Total CRR – Securities Borrowing and Lending/ ISSBNT</i>	
	<i>Total CRR – Exchange Traded Derivatives</i>	
	<i>Total CRR – OTC Derivative Contracts</i>	
	<i>Total CRR – Sub-Underwriting</i>	
	<i>Total CRR – Margin Financing</i>	
	<i>Total CRR – Fixed Income Securities</i>	
	<i>Total CRR – Potential Material Loss</i>	
	<i>Total CRR – Exceptional Instruments</i>	
	<i>Total CRR – Manual SBL/ ISSBNT</i>	
	<i>Total CRR – Manual Derivatives</i>	
	<b>Counterparty Risk Requirement</b>	
	<b>Large Exposure Risk Requirement (LERR)</b>	
	<i>Total LERR to Single Client</i>	
	<i>Total LERR to Issuer of Debt</i>	
	<i>Total LERR to Single Equity</i>	
	<i>Total LERR – Manual Single Equity Others</i>	
	<i>Total LERR – Manual Single Client Others</i>	
	<b>Large Exposure Risk Requirement</b>	
	<b>Underwriting Risk Requirement (URR)</b>	
	<i>Total Underwriting Risk Requirement</i>	
	<b>Underwriting Risk Requirement</b>	
	<b>Operational Risk Requirement</b>	
	<i>Operational Risk Requirement</i>	
	<b>Operational Risk Requirement</b>	
	<b>Total Risk Requirement</b>	
	<b>Effective Shareholders' Funds</b>	

[End of Schedule 1]

**Schedule 2**  
**[Paragraph 3.4(7)]**

**METHODS OF COMPUTATION OF CONTINGENT LIABILITIES ARISING  
FROM PUT OPTION(S)**

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	<b>European Option(s):</b> [Q x (EP - Price <sub>MTM</sub> ) x ISDM Fraction] - Collateral	Nil
To support security arrangements for credit facilities	<b>European Option(s):</b> [Q x (EP - Price <sub>MTM</sub> ) x ISDM Fraction] - Collateral  <b>American Option(s):</b> [Q x (EP - Price <sub>MTM</sub> )] - Collateral	Nil
<i>Notes:</i>		
American Option(s)	An Option that may be exercised any time between the Option's 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 1 year	
European Option(s)	An Option that is only exercisable on the expiration date of the Option	
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	

[End of Schedule 2]

**Schedule 3**  
**[Paragraph 5.3(2), 5.6(2), 5.13 and 8.1]**

**POSITION RISK FACTOR FOR STANDARD APPROACH**

INSTRUMENT	POSITION RISK FACTOR
<b><i>Bursa Malaysia Equities</i></b>	
<ul style="list-style-type: none"> <li>▪ FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX stocks</li> </ul>	15%
<ul style="list-style-type: none"> <li>▪ Other stocks, including ACE Market</li> </ul>	21%
<ul style="list-style-type: none"> <li>▪ FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX futures</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ Suspended securities (more than 2 Market Days)</li> </ul>	100%
<b><i>Bursa Malaysia Derivatives</i></b>	
<ul style="list-style-type: none"> <li>▪ FKLI Options</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ KLIBOR futures</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ Crude Palm Oil futures</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ Kernel Palm Oil futures</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ Any other futures contract</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ Any other option contract</li> </ul>	5%
<b>Unit trust or Exchange Traded Fund</b>	
<ul style="list-style-type: none"> <li>▪ Equity fund</li> </ul>	15%
<ul style="list-style-type: none"> <li>▪ Debt securities fund</li> </ul>	5%
<ul style="list-style-type: none"> <li>▪ Commodities/Metals</li> </ul>	20%
<ul style="list-style-type: none"> <li>▪ Any other underlying fund</li> </ul>	25%
<b>Non-Exchange Traded Product</b>	
<ul style="list-style-type: none"> <li>▪ Single share contracts for difference               <ul style="list-style-type: none"> <li>- Index shares</li> </ul> </li> </ul>	15%
<ul style="list-style-type: none"> <li>- Non-index shares</li> </ul>	21%
<ul style="list-style-type: none"> <li>▪ Index contracts for difference</li> </ul>	5%

**DIRECTIVES ON CAPITAL ADEQUACY REQUIREMENTS****No. 13-001**

<b>INSTRUMENT</b>	<b>POSITION RISK FACTOR</b>
<b><i>International Equities</i></b> <ul style="list-style-type: none"><li>▪ Single stocks in Recognised Market Indices</li><li>▪ Other single international stocks of Recognised Stock Exchanges</li></ul>	12% 16%
<b><i>Other Securities/Instruments</i></b> Not being those categorised above	100%

[End of Schedule 3]

**Schedule 4**  
**[Paragraph 5.7(1) and Schedules 3, 5 and 21]**

**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

*[End of Schedule 4]*

**Schedule 5**  
**[Paragraph 5.7(2)]**

**POSITION RISK FACTOR FOR BUILDING  
BLOCK APPROACH**

INSTRUMENT	POSITION RISK FACTOR
<b><i>Bursa Malaysia Equities</i></b>	
<b>Specific Risk</b>	
▪ FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX stocks	10%
▪ Other stocks, including ACE Market	16%
▪ FTSE BURSA MALAYSIA KUALA LUMPUR COMPOSITE INDEX futures	2%
<b>General Risk</b>	
▪ All single stocks and market indices	5%
<b><i>Bursa Malaysia Derivatives</i></b>	
<b>Specific Risk</b>	
▪ FKLIOptions	2%
▪ KLIBOR futures	2%
▪ Crude Palm Oil futures	2%
▪ <b>Kernel Palm Oil futures</b>	2%
▪ Any other futures contract	2%
▪ Any other options contract	2%
<b>General Risk</b>	
▪ FKLIOptions	5%
▪ KLIBOR futures	5%
▪ Crude Palm Oil futures	5%
▪ <b>Kernel Palm Oil futures</b>	5%
▪ Any other futures contract	5%
▪ Any other options contract	5%
<b><i>Unit trust or Exchange Traded Fund</i></b>	
<b>Specific Risk</b>	
▪ Equity fund	2%
▪ Debt securities fund	2%
▪ Commodities/Metals	2%
▪ Any other underlying fund	2%



<b>General Risk</b> <ul style="list-style-type: none"> <li>▪ Equity fund</li> <li>▪ Debt securities fund</li> <li>▪ Commodities/Metals</li> <li>▪ Any other underlying fund</li> </ul>	15%  5%  20%  25%
<b>International Equities</b>  <b>Specific Risk</b> <ul style="list-style-type: none"> <li>▪ Single stocks in Recognised Market Indices</li> <li>▪ Other single international stocks of Recognised Stock Exchanges</li> </ul> <b>General Risk</b> <ul style="list-style-type: none"> <li>▪ All single stocks and market indices</li> </ul>	4%  8%  8%
<b>Other Securities/Instruments</b> <ul style="list-style-type: none"> <li>▪ Not being those categorised above</li> </ul>	100%

*[End of Schedule 5]*

**Schedule 6**  
**[Paragraphs 5.9(3) and 5.10(2)]**

**POSITION RISK REQUIREMENT USING HEDGING  
METHOD OR BASIC METHOD**

	<b>Equity Position</b>	<b>Option Position</b>	<b>In the Money <math>\geq</math> PRF %</b>	<b>In the Money <math>&lt;</math> PRF %</b>	<b>Out of the Money</b>
<b>Basic Method</b>	Naked	Long call	NL	NL	NL
		Long put	NL	NL	NL
		Short call	NSO	NSO	NSI
		Short put	NSO	NSO	NSI
<b>Hedging Method</b>	Long in security	Long put Short call	0% SHI	LPI SHI	HO HO
	Short in security	Long call Short put	0% SHI	LCI SHI	HO HO
<b>Key</b>					
PRF	Position Risk Factor				
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 the Exercise Price				
HO	The market value of the underlying position times PRF%				
SHI	The market value of the underlying position times PRF% minus Mark to Market value of Option, subject to a maximum reduction to zero				
LCI	(1+PRF%) times the underlying position at the Exercise Price minus the market value of the underlying position, subject to a maximum reduction to zero				

*[End of Schedule 6]*

**Schedule 7  
[Paragraphs 5.12(2), 6.4(2)(b) and 8.3]**

**POSITION RISK FACTOR FOR FIXED INCOME SECURITIES**

**Fixed Income Securities  
Specific Risk**

▪ Government – bonds issued and guaranteed by the Malaysian Government, Bank Negara Malaysia, Danaharta, Danamodal and OECD central government and central banks	0%		
▪ State Government / Financial institutions - including bonds issued and guarantees by local/state government, statutory authorities, licensed banking institutions, licensed development financial institutions, discount houses and Cagamas	<u>Remaining Maturities</u>		
	<= 1 year	> 1-5 years	> 5 years
	1.0%	1.6%	1.6%
▪ Corporate	<u>Remaining Maturities</u>		
	Ratings	<= 1 years	>1-5 years >5
	years		
	P1	1.0%	
	P2	1.0%	
	P3	2.0%	
	AAA	1.0%	3.0% 3.5%
	AA	1.0%	3.5% 4.5%
	A	1.0%	4.5% 5.5%
	BBB	2.0%	6.0% 7.0%
	Unrated Instruments/ Below investment grade	8.0%	8.0%
		8.0%	

**Fixed Income Securities  
General Risk**

All types of Fixed Income Securities

Remaining Maturities

▪ Up to 1 month	0.00%
▪ > 1 to 3 month	0.20%
▪ > 3 to 6 months	0.50%
▪ > 6 to 12 months	0.80%
▪ > 1 to 2 years	1.40%
▪ > 2 to 3 years	2.00%
▪ > 3 to 4 years	2.70%
▪ > 4 to 5 years	3.40%
▪ > 5 to 7 years	4.30%
▪ > 7 to 10 years	4.90%
▪ > 10 to 15 years	6.50%
▪ > 15 to 20 years	7.70%
▪ Over 20 years	9.10%

[End of Schedule 7]

**Schedule 8  
[Paragraph 5.12(3)]**

**TEMPLATES FOR MANUAL COMPUTATION OF POSITION RISK REQUIREMENT (PRR) FOR FIXED INCOME SECURITIES**

Name of Participating Organisation :  
Position as at :

No.	Type of FI Securities	Ratings (RAM and MARC short and long term ratings)	Time to Maturity [(The different between reporting date and the Maturity Date of FI Securities (months/years)]	Quantity	Market Value of the FI Securities (RM)  (a)	Position Risk Factors (PRFs)			PRR (RM)
						PRFsp (b)	PRFg (c)	Total PRFs (d) [d=b+c]	(e) [e=axd]
<b>Total PRR</b>									

*[End of Schedule 8]*

**Schedule 9  
[Paragraph 5.15]**

**TEMPLATES FOR MANUAL COMPUTATION OF POSITION RISK REQUIREMENT (PRR) FOR UNIT TRUST**

**Name of Participating Organisation :**  
**Position as at :**

No.	Name of Unit Trust	Quantity of Limit Trust	Market Value of Unit Trust (RM)	Position Risk Factor (PRF)	PRR (RM)
			(a)	(b)	(c) [c=axb]
<b>Category 1 : Equity Fund</b>					
1				<b>15%</b>	
2					
3					
<b>Category 2 : Bond Fund</b>					
1				<b>5%</b>	
2					
3					
<b>Total PRR</b>					

*[End of Schedule 9]*

**Schedule 10**  
**[Paragraph 5.16(2)]**

**POSITION RISK REQUIREMENT FOR  
ONWARD PLEDGED MFF COLLATERAL**

Position Risk Requirement	Calculation
PRR <sub>onward pledged collateral</sub>	$BO \times (OPMM - OPM)$ Where, $OPM = \frac{\text{Discounted MTM of Onward Pledged MFF Collateral}}{\text{Balance owing to third party}} \times 100\%$
<b>Key:</b>	
BO	The balance owing to the third party secured by Onward Pledged MFF Collateral
OPMM	The Onward Pledge Minimum Margin of Onward Pledged MFF Collateral, after applying the applicable discounts stipulated in Schedule 18, being 150% of BO
OPM	The Onward Pledge Margin
Discounted MTM	The Mark to Market value of the Onward Pledged MFF Collateral after applying the applicable discounts stipulated in Schedule 18

*[End of Schedule 10]*

**Schedule 11**  
**[Paragraphs 6.2, 6.3(e)(i)(bb) and 6.3(i)(i)]**

**COUNTERPARTY WEIGHTING**

Counterparty Exposure	Weight
<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 or local Government</b>	20%
<b>Financial Institutions</b> <ul style="list-style-type: none"> <li>▪ Licensed banks, licensed investment banks and approved money-brokers under the FSA, in which the licensed investment bank is not also a Participating Organisation</li> <li>▪ Licensed Islamic banks under the Islamic Financial Services Act 2013</li> </ul>	20%
<b>Clearing Houses and Exchanges</b> <ul style="list-style-type: none"> <li>▪ Clearing HousesRecognised 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 as to unit trust schemes</li> </ul>	50%
<b>Participating Organisation</b> <ul style="list-style-type: none"> <li>▪ A Participating Organisation under trading restrictions as announced by the Exchange</li> <li>▪ A Participating Organisation not under trading restrictions</li> </ul>	100% 50%
Other counterparties (not being those categorised above)	100%

*[End of Schedule 11]*

**SCHEDULE 12**  
**[Paragraphs 6.3(a)(ii) and 6.3(e)(i)(bb)]**

**COUNTERPARTY RISK REQUIREMENT**  
**FOR UNSETTLED AGENCY TRADES**

<b>Agency Transaction</b>	<b>Time period for application of Percentage</b>	<b>Counterparty Risk Requirement</b>
1. Sales contract	T to T+1 of clients	0.5%
	From T+2 to T+30 of clients	<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>
	Beyond T+30 of clients	<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>
2. Purchase contracts (cash payments)	T to T+2 of clients	0.5%
	From T+3 to T+30 of clients	<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>
	Beyond T+30 of clients	<ul style="list-style-type: none"> <li>▪ The Mark to Market Difference 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 the Mark to Market value of the stock is zero or negative</li> </ul>

*[End of Schedule 12]*



**SCHEDULE 13  
[Paragraph 6.3(b)(ii)]****COUNTERPARTY RISK REQUIREMENT FOR  
DEBT, CONTRA LOSSES AND OTHER AMOUNTS DUE**

<b>Contract default Aging Period</b>	<b>Counterparty Risk Requirement</b>
Less than T+16 days	Zero
T+16 to T+30 days	50% of the amount due
Over T+30 days	100% of the amount due

*[End of Schedule 13]*

**Schedule 14**  
**[Paragraph 6.3(d)(ii)]**

**COUNTERPARTY RISK REQUIREMENT**  
**FOR SECURITIES BORROWING AND LENDING / ISSBNT TRANSACTIONS**

<b>Securities Borrowing and Lending / ISSBNT Transaction</b>		<b>Time period for application of Percentage</b>	<b>Counterparty Risk Requirement</b>
1. Borrowing / Purchase pursuant to ISSBNT	On borrowing / purchase pursuant to ISSBNT	Pre-Recall	CE x CW x 0%
	On Recall	From Recall to Recall + 2 days	CE x CW x 8%
	On Recall	Beyond Recall + 2 days	CE x CW x 100%
2. Lending / Sale pursuant to ISSBNT	On Lending / Sale pursuant to ISSBNT	Pre-Recall	CE x CW x 0%
	On Recall	From Recall to Recall + 2 days	CE x CW x 8%
	On Recall	Beyond Recall + 2 days	CE x CW x 100%

**Where:**

CE = Counterparty exposure, as determined under Paragraph 6.3(d).

CW = Counterparty weighing, as specified in Schedule 11.

'On Borrowing' means upon crediting of the securities borrowed into the borrower's CDS Account.

‘On Purchase pursuant to ISSBNT’ means upon crediting of the securities purchased pursuant to ISSBNT into the user’s CDS Account.

‘On Lending’ means upon debiting of the securities lent from the lender’s CDS Account.

‘On Sale pursuant to ISSBNT’ means upon debiting of the securities sold pursuant to ISSBNT from the supplier’s CDS Account.

*[End of Schedule 14]*

**Schedule 15**  
**[Paragraph 6.3(e)(ii)]**

**METHODOLOGY FOR CALCULATING COUNTERPARTY EXPOSURES**  
**(CREDIT EQUIVALENT AMOUNTS) FOR**  
**OVER-THE-COUNTER DERIVATIVE TRANSACTIONS**

Type of Over-the-Counter Derivative Transaction	Credit Equivalent Amount	
	If A is positive	If A is negative
Written Options	0 (no risk)	0 (no risk)
Individual share futures, over-the-counter Options, Warrants and equity swaps:		
▪ less than 1 year to maturity	A + 1% of N	1% of N
▪ over 1 year to maturity	A + 5% of N	5% of N
Notes: A = the Mark to Market value of the over-the-counter derivative N = the notional or actual principal amount or value underlying the Contract		

*[End of Schedule 15]*

**Schedule 16**  
**[Paragraph 6.3(h)(iii)(aa)]**

**METHODOLOGY FOR CALCULATING  
 COUNTERPARTY RISK REQUIREMENT FOR MARGIN FINANCING TRANSACTIONS**

Category of Margin Accounts	Counterparty Risk Requirement
Margin Accounts where Equity is above 130% of the Outstanding Balance	$CRR_{\text{margin financing}} = CE \times CW \times CS \times 8\%$ <p>Where,  <math>CS = MEM - EM</math>  <math>EM = \frac{\text{Discounted MTM}}{CE} \times 100\%</math></p>
Margin Accounts where Equity is below 130% of Outstanding Balance	$CRR_{\text{margin financing}} = (CE - \text{Discounted MTM}) \times SP\%$
<b>Key</b>	
CE	Counterparty exposure, being the Outstanding Balance in the Margin Account
CW	Counterparty weighting, as stipulated in Schedule 11
CS	Collateral Shortfall
MEM	The minimum equity of 150% of the Outstanding Balance, as determined in the manner stipulated in Rule 101.1(1)
EM	Equity Margin
Discounted MTM	The Mark to Market value of the collateral after applying the applicable discounts stipulated in Schedule 18
SP%	The applicable percentage (%) of specific provision required to be made for amounts outstanding in Margin Accounts as may from time to time be classified as doubtful and bad following Rule 1203 and directives issued pursuant to that Rule.

*[End of Schedule 16]*

**Schedule 17**  
**[Paragraph 6.3(i)(v)]**

**TEMPLATES FOR MANUAL COMPUTATION OF COUNTERPARTY RISK REQUIREMENT (CRR) FOR FIXED INCOME SECURITIES**

Name of Participating Organisation :

Position as at :

No.	Counterparty Name	Type of FI Securities	Debt Ageing Period (no. of market days overdue)	Counterparty Exposure (RM)	Discounted Collaterals and/or value of provisions made (RM)	Net Counterparty Exposure (RM)	Counterparty Weight (%)	CRR%	CRR (RM)	Total CRR (RM)
				(a)	(b)	(c) [c=a-b]	(d)	(e)	(f) [f=cxdxe]	
<b>Grand Total of CRR</b>										

*[End of Schedule 17]*

## SCHEDULE 18

[Paragraphs 3.3(2), 3.4(9), 5.1(2), 5.11, 5.16, 6.3(h)(ii)(bb), 6.4(1)(b) and 6.4(2)]

## DISCOUNTING FOR COLLATERAL

Type of Collateral	Applicable Discount
<p><b>Foreign Currency Cash Deposit</b></p> <ul style="list-style-type: none"> <li>▪ Foreign currency acceptable to the Exchange:               <ul style="list-style-type: none"> <li>▪ US Dollar</li> <li>▪ Euro and the currency of countries of the European Union that do not use the Euro</li> <li>▪ Japanese Yen</li> <li>▪ Hong Kong Dollar</li> <li>▪ New Zealand Dollar</li> <li>▪ Singapore Dollar</li> <li>▪ Australian Dollar</li> </ul> </li> <li>▪ Cash deposits of any other currency that the Exchange specifies</li> <li>▪ <i>Other foreign currency not acceptable to the Exchange</i></li> </ul>	<p>8% after conversion into Ringgit by applying the Central Bank's best available exchange rate quoted by commercial banks of Kuala Lumpur or by applying any other rate as the Exchange decides.</p> <p>100% after conversion into Ringgit by applying the Central Bank's best available exchange rate quoted by commercial banks of Kuala Lumpur or by applying any other rate as the Exchange decides.</p>
<p><b>Quoted Securities</b> Securities listed on the Exchange or other Recognised Stock Exchange (Mark to Market on a daily basis)</p>	<p>Position Risk Factor used in the Standard Approach, as stipulated in Schedule 3.</p>
<p><b>Suspended Securities</b></p>	<p>Position Risk Factor used in the Standard Approach, as stipulated in Schedule 3.</p>
<p><b>Malaysian Government Securities, Khazanah Bonds, Malaysian Treasury Bills, Malaysian Government Investment Certificates</b></p> <ul style="list-style-type: none"> <li>▪ Up to 1 year maturity</li> </ul>	<p>2.5%</p>

Type of Collateral	Applicable Discount
<ul style="list-style-type: none"> <li>▪ More than 1 year maturity</li> </ul>	5.0%
<p><b>Cagamas Bonds</b></p> <ul style="list-style-type: none"> <li>▪ Up to 1 year maturity</li> <li>▪ More than 1 year maturity</li> </ul>	<p>12.5%</p> <p>15.0%</p>
<p><b>Letters of Credit/Bank Guarantee</b></p> <p>Letters of credit or bank guarantees guaranteed by licensed banks and licensed investment banks under the FSA or licensed Islamic banks under the Islamic Financial Services Act 2013</p>	20%
<p><b>Negotiable Instruments of Deposit</b></p> <p>Negotiable instruments of deposit guaranteed by licensed banks and licensed investment banks under the FSA or licensed Islamic banks under the Islamic Financial Services Act 2013</p>	20%
<p><b>Other collateral or security</b></p> <p>Any other collateral or security (not being those categorised above)</p>	100%

[End of Schedule 18]



**Schedule 19  
[Paragraph 7.1]**

**TEMPLATES FOR MANUAL COMPUTATION OF LARGE EXPOSURE RISK REQUIREMENT (LERR) TO SINGLE CLIENT**

Name of Participating Organisation :  
Position as at :

No.	Counterparty Name [only report if (e) >10% of ESF]	Type of FI Securities	Net Counterparty Exposure (CE) for FI Securities  (RM)	CRR for FI Securities  (RM) (a)	Net CE for the client as extracted from LER_0001 report  (RM) (b)	CRR for the client as extracted from LER_0001 report  (RM) (c)	Total Net CE  (RM) (d)	LERR = Total CRR  (RM) (e) [e=a+c]	30% of ESF  (RM) (f) [f=b+d]	Breach maximum LER limit if Total CE exceeds 30% of ESF (yes/no)
<b>Grand Total of LERR</b>										

[End of Schedule 19]

Schedule 20  
[Paragraph 7.2]

TEMPLATES FOR MANUAL COMPUTATION OF POSITION RISK REQUIREMENT (PRR) FOR FIXED INCOME SECURITIES

Name of Participating Organisation :

Position as at :

No.	Type of FI Securities (only report if (a) > 15% of ESF)	Ratings (RAM and MARC short and long term ratings)	Time to Maturity (The different reporting date and the Maturity Date of FI Securities (months/years))	Quantity	Market Value of the FI Securities (a)	Position Risk Factors			LERR (RM) (e) [e=axd]	30%, 250% or 500% of ESF whichever is applicable (RM)	Breach maximum LER limit if (a) exceeds 30%, 250% or 500% of ESF, whichever is applicable (yes/no)
						PRFsp (b)	PRFg (c)	Total PRFs (d) [d=b+c]			
Category 1: FI Securities issued by the central government or government related agencies											
1											
2											
3											
Category 2: FI Securities issued by company with AA or AAA rating											
1											
2											
3											
Category 3: FI Securities issued by other than the above											
1											
2											
3											
<b>TOTAL LERR</b>											

[End of Schedule 20]

**Schedule 21**  
**[Paragraph 7.6(1) and 7.7]**

**LARGE EXPOSURE RISK REQUIREMENT**  
**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 ACE Market	21% of the amount in excess of the net exposure or position
<b><i>Bursa Malaysia Derivatives</i></b>	
<ul style="list-style-type: none"> <li>▪ KLCI futures</li> </ul>	5% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ KLIBOR futures</li> </ul>	4.5% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ Crude Palm Oil futures</li> </ul>	5% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ Kernel Palm Oil futures</li> </ul>	5% of the amount in excess of the net exposure or position
Unit trust or Exchange Traded Fund:	
<ul style="list-style-type: none"> <li>▪ Equity fund</li> </ul>	15% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ Debt securities fund</li> </ul>	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 ACE Market	21% of the amount in excess
<b><i>Bursa Malaysia Derivatives</i></b>	
<ul style="list-style-type: none"> <li>▪ KLCI futures</li> </ul>	5% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ KLIBOR futures</li> </ul>	4.5% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ Crude Palm Oil futures</li> </ul>	5% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ <i>Kernel Palm Oil futures</i></li> </ul>	5% of the amount in excess of the net exposure or position
Unit trust or Exchange Traded Fund:	
<ul style="list-style-type: none"> <li>▪ Equity fund</li> </ul>	15% of the amount in excess of the net exposure or position
<ul style="list-style-type: none"> <li>▪ Debt securities fund</li> </ul>	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

*[End of Schedule 21]*

Relevant to : Rule 13.04(4)  
Introduced with effect from : 2 May 2013  
Amended : 1 March 2018 vide R/R 3 of 2018 and 2 January 2019 vide R/R  
14 of 2018  
POs' Circular No(s). : R/R 14 of 2006  
Refer also to Directive No(s). : 13-001

**1. Rule 13.04(4)**

- (1) Rule 13.04(4) provides that the Participating Organisation must:
- (a) calculate and monitor the Participating Organisation's Capital Adequacy Ratio on a daily basis; and
  - (b) submit to the Exchange the relevant information and records relating to the Participating Organisation's Capital Adequacy Ratio in accordance with the requirements of the Exchange.
- (2) In discharging the obligations under the said Rule, a Participating Organisation must, amongst others, comply with the requirements set out below.

**1.1 Submission of Capital Adequacy Ratio**

- (1) Participating Organisation must submit the information and records stated in Rule 13.04(4)(b) to the Exchange through electronic transmission in the manner as prescribed by the Exchange.
- (2) If for any reason, a Participating Organisation is unable to submit the information and records through electronic transmission, the Participating Organisation must manually compute its Capital Adequacy Ratio following the manual workaround template in **Appendix 1** of this Directive and submit to the Exchange the manual computation in the manner and at the times prescribed by the Exchange.
- (3) The Head of Compliance and the Head of Operations of the Participating Organisation will be held responsible for ensuring compliance with Rule 5.09(1) in relation to all the information and records contained in the submissions to the Exchange.

[End of Directive]

**APPENDIX 1**
**MANUAL WORKAROUND COMPUTATION FOR CAPITAL ADEQUACY REQUIREMENTS  
(CAR)**

NAME OF PARTICIPATING ORGANISATION: \_\_\_\_\_

CAR ratio as at: \_\_\_\_\_

CAR COMPUTATION SUMMARY :-

		RM	RM
LIQUID CAPITAL (A)			
1. Position Risk Requirement			
2. Counterparty Risk Requirement			
3. Large Exposure Risk Requirement	(i) to single client		
	(ii) to single debt issuer		
	(iii) to single equity		
4. Underwriting Risk Requirement			
5. Operational Risk Requirement			
TOTAL RISK REQUIREMENT (B)=1+2+3+4+5			
CAR RATIO (A)/(B)			

[End of Appendix]

**DIRECTIVES ON LIQUIDITY RISK MANAGEMENT FRAMEWORK  
("LRM FRAMEWORK")****No. 13.32-001**

Relevant to : Rules 13.32 and 13.33  
Introduced with effect from : 2 May 2013  
Amended : 1 March 2018 vide R/R 3 of 2018, 26 July 2018 vide R/R 10 of 2018, 2 January 2019 vide R/R 14 of 2018, and 29 April 2019 vide R/R 1 of 2019  
POs' Circular No(s). : R/R 3 of 2011  
Refer also to Directive No(s). : N/A  
Refer also to Best Practice No(s). : N/A

**1. Rule 13.32 and Rule 13.33**

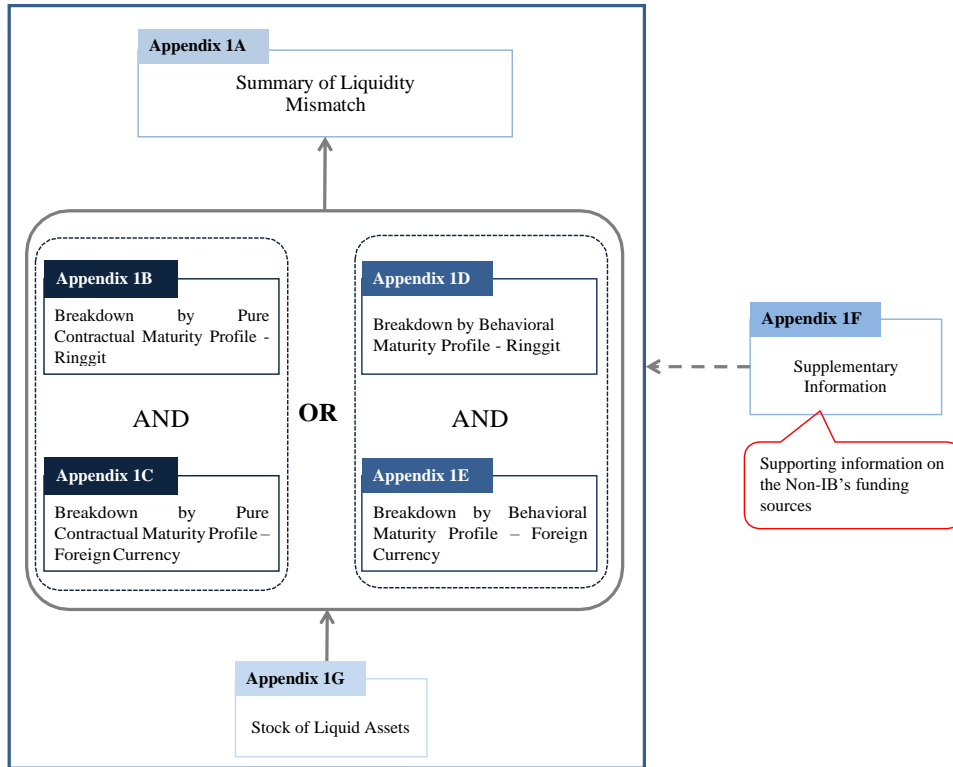
- (1) A Participating Organisation which is not an Investment Bank must at all times maintain a cumulative net liquid asset surplus at least at the minimum level(s) as prescribed by the Exchange ("Net Surplus Requirements").
- (2) In discharging the obligations under the said Rule, such Participating Organisation must, amongst others, comply with the requirements set out below.
- (3) For the purpose of this directive, "liquid assets" has the same meaning assigned to that expression in Rule 13.06(a).

**1.1 Liquidity Reporting Requirements**

- (1) The Participating Organisation must submit the duly completed Liquidity Reporting Forms to the Exchange in the templates prescribed below. The templates and a user guide in completing the templates ("the User Guide") are set out in **Appendix 1** of this Directive.
- (2) The Liquidity Reporting Forms templates are as set out below:

<b>Liquidity Reporting Forms</b>	<b>Details</b>
Appendix 1A	Summary of Maturity Mismatch Reporting
Appendix 1B	Breakdown by Pure Contractual Maturity Profile – RM
Appendix 1C	Breakdown by Pure Contractual Maturity Profile – Foreign Currency
Appendix 1D	Breakdown by Behavioural Maturity Profile – RM
Appendix 1E	Breakdown by Behavioural Maturity Profile – Foreign Currency
Appendix 1F	Supplementary Information
Appendix 1G	Stock of Liquid Assets

- (3) The Liquidity Reporting Forms must be completed in the manner described in the User Guide. The map below provides the user with an overview of the relationships between the Liquidity Reporting Forms.



## 1.2 Approach to Completing the Liquidity Reporting Forms

- (1) The Participating Organisation must classify the components that make up their Liquid Capital according to the maturity buckets as stated in the table in paragraph 1.3(1). The Participating Organisation may begin by using Form Appendix 1G to report its proprietary positions and available credit line.
- (2) Following from the above, the Participating Organisation must choose, in accordance with established internal policies, one of the following approaches:
  - (a) Forms Appendix 1B and 1C for the breakdown of the maturity profiles based on a contractual basis; or
  - (b) Forms Appendix 1D and 1E for the breakdown of the maturity profiles based on a behavioral basis.
- (3) When choosing to complete either Forms Appendix 1B and 1C, or Forms Appendix 1D and 1E, the Participating Organisation is to be guided by the Guidelines on Managing Liquidity Risks for Participating Organisations.
- (4) For the initial stage, the Participating Organisation must rely on categorizing maturity profiles based on contractual basis. When the Participating Organisation becomes proficient in understanding the behaviour of the maturity profile of the assets and liabilities, it may embark on the more sophisticated and refined approach to categorization. The Exchange has not prescribed any specific approaches to be chosen by a Participating Organisation.
- (5) The Participating Organisation must complete Form Appendix 1F. The Participating Organisation must provide information that would enable the Exchange to assess the impact to the Participating



Organisation's overall funding structure and liquidity risk in the scenario of a market disruption, including the following information:

- (a) Large customer cash funding;
  - (b) Interbank market (if any); and
  - (c) Offshore market (if any).
- (6) If a Participating Organisation does not have any relevant information, the Participating Organisation must submit the report as 'NIL'.
- (7) The Participating Organisation must submit the forms to the Exchange before the end of every Wednesday based on the previous Market Day's closing position or in any other reporting frequency as determined by the Exchange.
- (8) If the reporting day falls on a day which is not a Market Day ("non-Market Day"), the Participating Organisation must submit the said forms to the Exchange on the next Market Day. For example, if the submission day falls on a non-Market Day (Wednesday), the Participating Organisation must submit the said forms to the Exchange on the next Market Day (Thursday).
- (9) If the day in which the reporting of the closing position is required, (for example, Tuesday) falls on a non-Market Day, the Participating Organisation must report based on the previous Market Day's (Monday) closing position.

### 1.3 Net Surplus Requirements Compliance

- (1) The table below stipulates the Net Surplus Requirements ("NSR") minimum levels that the Participating Organisation must comply with according to the maturity buckets:

BUCKET	MATURITY BUCKETS	NET SURPLUS REQUIREMENTS ("NSR") MINIMUM LEVELS
A	Up to 2 market days	3%
B	3 market days to 7 calendar days	5%
C	8 calendar days to 14 calendar days	7%
D	15 calendar days to 30 calendar days	9%

- (2) The NSR level for Bucket A has been prescribed at 3%. As the maturity progresses from Bucket A to D, the difference of NSR levels between buckets has been prescribed at +2% per bucket on cumulative basis. In this regard, the result for the cumulative NSR level for final Bucket D has been prescribed at 9% as stated in the table above.
- (3) The Exchange may adjust the NSR levels as it deems fit, according to prevailing market conditions.
- (4) The Participating Organisation must determine whether it is able to comply and maintain a minimum cumulative net liquid asset surplus according to the prescribed NSR levels. The cumulative net liquid asset surplus will be calculated automatically and will be reflected in Appendix 1A once the Participating Organisation has completed Appendix 1B (or 1D), Appendix 1C (or 1E) and Appendix 1G.
- (5) The Exchange requires the Participating Organisation's compliance with the NSR based on the average cumulative net liquid asset surplus reported to the Exchange over a period of 1 month. In this regard, the Participating Organisation is considered to have complied with the NSR if on a daily

basis the reported cumulative net liquid asset surplus does not fall more than 5% below the required NSR minimum level prescribed for each maturity bucket on any given day.

#### 1.4 Guidelines on managing liquidity risk

- (1) The Exchange has set out 15 key principles that form the Exchange’s guidelines on managing liquidity risks (“the Guidelines”). POs must comply with the Guidelines, as set out in **Appendix 3** of this Directive.
- (2) *[Deleted]*

#### 1.5 Stress Testing and Scenario Analysis

- (1) As required under paragraphs 1.2.4 and 2.4.1 of the Guidelines, a Participating Organisation must conduct regular stress testing and scenario analysis as a part of managing its liquidity. In conducting the stress testing, the Participating Organisation must, at the minimum, conduct the stress testing:
  - (a) in accordance with the scenarios prescribed in subparagraph (2) below; and
  - (b) on a quarterly basis (as at end March, June, September and December), using the NSR data as at the end of each quarter.
- (2) The scenarios for stress testing that the Participating Organisation must, at the minimum, carry out are as shown in Figure 1 below:

**Figure 1**

Plausible Situations to Participants	Stress Testing Impact Factors
<b><u>Scenario 1: Volatile Stock Markets / Illiquid Instruments</u></b>	
i) Increase in contra loss / potential loss from liquidating non-margin clients’ outstanding positions; ii) Potential loss from liquidation of clients’ margin accounts / default in payment by clients; and iii) Potential loss from liquidation of proprietary investments.	To incorporate: i) Increase in clients’ default by 10%; and ii) Decline in proprietary investments by 10%.
<b><u>Scenario 2: Local Financial Crisis / Money Market Crunch</u></b>	
i) Increase in contra loss / potential loss from liquidating non-margin clients’ outstanding positions; ii) Potential loss from liquidation of clients’ margin accounts / default in payment by clients;	To incorporate: i) Increase in clients’ default by 30%; ii) Decline in proprietary investments by 30%; and

Plausible Situations to Participants	Stress Testing Impact Factors
iii) Potential loss from liquidation of proprietary investments; iv) A Participating Organisation's credit / banking facility be partly withdrawn or halted altogether; and v) Lack of adequate funding capacity / decrease in intra-group liquidity, (e.g., inability to drawdown on subordinated loan facility).	iii) Reduction of banking facilities by 30%.
<b>Scenario 3: Global Financial Crisis</b>	
i) Increase in contra loss / potential loss from liquidating non-margin clients' outstanding positions; ii) Potential loss from liquidation of clients' margin accounts / default in payment by clients; iii) Losses from liquidation of proprietary investments; iv) A Participating Organisation's credit / banking facility be partly withdrawn or halted altogether; and v) Lack of adequate funding capacity / decrease in intra-group liquidity (e.g. inability to drawdown on subordinated loan facility).	To incorporate: i) Increase in clients' default by 50%; ii) Decline in proprietary investments by 50%; and iii) Reduction of banking facilities by 50%.

- (3) In addition to conducting the stress testing in accordance with subparagraph (1) above, the Participating Organisation is encouraged to conduct other stress testing beyond the scenarios prescribed above, and as often as may be necessary, in line with the magnitude and circumstances, as well as the significance of its business and the risks involved.

### **Stress Test Reporting Requirements**

- (4) The results from the stress testing under the scenarios prescribed in subparagraph (2) above must not be less than the prescribed NSR minimum levels.
- (5) If the NSR levels for any of the 3 scenarios prescribed in subparagraph (2) above falls below the minimum levels that the Participating Organisation is required to comply with, the Participating Organisation must formulate appropriate action plans based on the following:

Falling below the minimum NSR requirement	Action required
Scenario 1	Participants to formulate an immediate plan
Scenario 2	Participants to formulate a medium-term plan
Scenario 3	Participants to formulate a long - term plan.

- (6) The Participating Organisation must submit a report on the stress testing to the Exchange:
- (a) in the templates prescribed in **Appendix 4** of this Directive, together with the action plan, if any; and
  - (b) by the 20<sup>th</sup> calendar day of the following month, unless it is a non-Market Day, in which case the submission must be made on the next Market Day.
- (7) In addition, the Participating Organisation must report the results from the stress testing to its Risk Management Committee or Audit Committee.

#### **1.6 Verification and mode of submissions to the Exchange**

- (1) The Participating Organisation must ensure that the forms and report submitted to the Exchange under paragraphs 1.1 and 1.5 above are accurate and true. The forms and report must be submitted by way of electronic transmission as notified by the Exchange.
- (2) The Head of Compliance and the Head of Operations of the Participating Organisation will be held responsible for ensuring compliance with Rule 5.09(1) in relation to all the information and records contained in the submissions to the Exchange.

[End of Directive]

# **APPENDIX 1**

## **User Guide and Reporting Forms**

## **Appendix 2**

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## Appendix 3

### GUIDELINES ON MANAGING LIQUIDITY RISKS

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## 1.0 Introduction and Summary

### 1.1 Introduction

An important step in managing liquidity risk effectively is to be able to identify manners in which a firm's activities and external influences can affect its liquidity risk profile. It is also essential to establish a common definition of "liquidity" and "liquidity risk."

Liquidity is the ability of an institution to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. Liquidity risk is inherent in the financial intermediation process that transforms short-term liabilities into long-term assets. Liquidity risk appears in two forms, namely:

- I. Funding liquidity risk - the risk in which an institution will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or the financial condition; and
- II. Market liquidity risk - the risk that an institution cannot easily offset or eliminate a position without significantly affecting the market price due to inadequate market depth or market disruption.

As the interaction between funding and market liquidity is more critical during stressed market conditions as they are intertwined, Non-IBs should manage both funding and market liquidity in a holistic way, through established and well-thought liquidity risk measurements that prompt Non-IBs of any impending liquidity crunch.

### 1.2 Summary of Key Principles

There are 15 key principles contained in the Guidelines, which will serve as guidance to Non-IBs. Those key principles were developed based on Bursa's regulatory principles which are aimed at achieving their regulatory goals and ensuring a consistent and cohesive approach to their actions and decisions. The relevant Bursa's regulatory principles are:

- Value-based approach
- Risk-based approach
- Outcome focused; and
- Transparency.

In implementing sound liquidity risk management practices, all Non-IBs should adopt the key principles which are grouped into seven (7) categories as below:

- Strategy and Policy
- Organisation and Structure
- Risk Tolerance, Ratios and Limits
- Stress Testing and Scenario Analysis
- Measurement
- Monitoring and Reporting
- Contingency Planning

#### 1.2.1 Strategy and Policy

**Principle 1** - Non-IBs shall develop strategies, policies and practices to manage liquidity risk in accordance with the risk tolerance and maintain sufficient liquidity. <sup>1</sup>

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<sup>1</sup> Sufficient Liquidity means "adequate to meet current and planned business requirements (including known contingencies) while complying with Bursa's requirements".



**Principle 2** - Non-IBs shall establish and document liquidity risk management strategies and ensure that it is consistent with their funding strategy.

**Principle 3** - Non-IBs shall establish and document funding strategy that contains the overall goals and objectives for short and long term funding.

#### **1.2.2 Organisation and Structure**

**Principle 4** - Non-IBs shall establish an appropriate organisational and management structure for liquidity risk. Both Non-IBs' Board of Directors ("Board") and Senior Management shall be responsible to ensure a robust and coherent oversight structure for liquidity risk management is established and communicated throughout the organisation.

**Principle 5** - Non-IBs' Board shall have the ultimate responsibility for the risks and exposures incurred and for establishing a level of tolerance for risk, including liquidity risk, though it may delegate that task to certain committees.

**Principle 6** - Non-IBs' Senior Management shall have primary responsibility to develop, establish and maintain policies and procedures that translate the goals, objectives and risk tolerances of Non-IBs into operating standards which are consistent with the liquidity risk strategy approved by the Board.

#### **1.2.3 Risk tolerance, ratios, and limits**

**Principle 7** - Non-IBs shall clearly articulate liquidity risk tolerance that is suitable for the business strategy of the organisation and its role in the securities market.

**Principle 8** - Non-IBs shall establish liquidity ratios and set limits to control the nature and level of liquidity risk that the entity is capable to undertake.

#### **1.2.4 Stress Testing and Scenario Analysis**

**Principle 9** - Non-IBs shall conduct regular stress testing and scenario analysis to test the liquidity risk that they may be exposed to and also to ensure that they have adequate liquidity to cope with stressed conditions.

#### **1.2.5 Measurement**

**Principle 10** - Non-IBs shall establish processes for measuring liquidity risk to which they are exposed to using a robust and consistent methodology.

#### **1.2.6 Monitoring and Reporting**

**Principle 11** - Non-IBs shall establish and maintain appropriate monitoring systems to examine and manage the amount of liquidity risk to which they are exposed to, based on established strategies, policies and procedures defined by the entity.

**Principle 12** - Non-IBs shall establish a proper management information system and reporting frequency in accordance with the business and the risks undertaken.

#### **1.2.7 Contingency Planning**

**Principle 13** - Non-IBs shall have in place a contingency plan that will address the strategy for handling unexpected events that will severely impact the entity's liquidity, including specific procedures for raising cash in emergency

situations. These “Funding Action Plans” or “Contingency Financing Plans” shall detail “key tasks” that need to be performed within certain timelines. The tasks may be dependent upon the severity of the crisis at hand as outlined in a variety of scenarios.

**Principle 14** - Non-IBs shall identify and quantify funding sources and rank them by preference in its contingency funding strategies.

**Principle 15** - Non-IBs' contingency plan shall contain the procedures which will enable the plan to be executed once a contingency arises.

## 2.0 Scope

### 2.1 Strategy and Policy

#### 2.1.1 Principle 1 - Non-IBs shall develop strategies, policies and practices to manage liquidity risk in accordance with the risk tolerance and maintain sufficient liquidity.

The Board and Senior Management of the Non-IB are responsible for developing and implementing a liquidity risk management strategy in accordance with the Non-IB's risk tolerance. The strategy should include specific policies on liquidity management, for example:

- The composition of assets and liabilities;
- The diversity and stability of funding sources;
- The approach to manage liquidity in different currencies, across borders, and across business lines and legal entities;
- The approach to intraday liquidity management; and
- The assumptions on the liquidity and marketability of assets.

The strategy should take into account liquidity needs under normal conditions as well as under periods of liquidity stress, the nature of which may be institution-specific or market-wide or a combination of the two. The strategy may include various high-level quantitative and qualitative targets. The targets that may be considered are as follows:

- Guidelines or limits on the composition of assets and liabilities;
- The relative reliance on certain funding sources, both on an ongoing basis and under contingent liquidity scenarios; and
- The marketability of assets to be used as contingent sources of liquidity.

As appropriate to the nature, scale and complexity of the Non-IB's activities, the strategy shall also:

- Set the objectives for the management of both short-term and long-term funding risk;
- Set the objectives for the management of contingent liquidity risk;
- Define the basis for managing liquidity (e.g. whether the liquidity is being managed on regional or central basis);
- Set the identification of appropriate or inappropriate risk management tools;
- Set the degree of concentrations that could potentially affecting liquidity risk, that are acceptable to the firm; and
- Define ways of managing its aggregate foreign currency liquidity needs and its needs in each individual currency.

The Board should approve the strategy and critical policies and practices and review them at least annually. The Board shall ensure that Senior Management translates the strategy into clear guidance and operating standards (e.g. in the form of operational policies, controls or procedures).

The liquidity strategy, key policies for implementing the strategy, and the liquidity risk management structure shall be communicated throughout the organisation by Senior Management. All business units conducting activities that have an impact on liquidity shall be fully aware of the liquidity strategy and operate under the approved policies, procedures, limits and controls. The Non-IB's personnel responsible for liquidity risk management shall maintain close links with those monitoring market conditions, as well as with other personnel with access to critical information.

**2.1.2 Principle 2 - Non-IBs shall establish and document liquidity risk management strategies and ensure that it is consistent with the funding strategy.**

The liquidity risk management strategies shall cover the overall appetite for liquidity risk, such as tolerance that is within compliance parameter of capital adequacy frameworks for concentration and the use of approved funding instruments and markets.

The liquidity risk management strategies must complement Non-IBs' business strategies and goals and should be appropriate to the nature, scale and complexity of the institutions' activities. Other than the liquidity strategy, their liquidity risk management policy statement should include the following areas:

- Governance and organisational structure for liquidity risk;
- Risk tolerance and limits;
- Liquidity risk measurement methodology;
- Stress testing and scenario analysis;
- Reporting and monitoring policies; and
- Liquidity risk contingency plan

Details on the above areas are given in the following subsections.

**2.1.3 Principle 3 - Non-IBs shall establish and document funding strategy that contains the overall goals and objectives for short and long term funding.**

The funding strategy shall describe how funding should be maintained under various financial conditions, covering the use of liability diversification and asset realisation. Taking into consideration correlations between sources of funds and market conditions, it should contain the strategy for maintaining funding under adverse conditions, which is where contingency planning comes in. The funding strategy shall appropriately consider different currencies, sources, geographies and inter-company funding that may exist in the Non-IBs' operation.

Non-IBs must demonstrate that these strategies and policies have been established and represented in the form of operational procedures which is ready to promptly mitigate the identified risks. Hence it is not sufficient to just establish a strategy; it also has to be fortified with according policies and guidelines as well as procedure manuals where applicable.

**2.2 Organisation and Structure**

**2.2.1 Principle 4 - Non-IBs shall establish an appropriate organisational and management structure for liquidity risk. Both Non-IBs' Board of Directors ("Board") and Senior Management shall be responsible to ensure a robust and coherent oversight structure for liquidity risk management is established and communicated throughout the organisation.**

The organisational and management structure shall at least cover the following areas:

- Have clear lines of authority and proper delegation of responsibilities;
- Have adequate resources skilled for liquidity risk decisions either via Finance unit of the Non-IBs, or some other suitable function depending on size and nature of the Non-IBs which other units could also be responsible;
- Should include function which responsible for the identification, measurement and monitoring of liquidity risk;

- Support communication network between the Non-IB's personnel responsible for the identification, measurement and monitoring of liquidity risk;
- Prompt and flexible decision making and actions; and
- Clear segregation of functions in the management of liquidity risk.

**2.2.2 Principle 5 - Non-IBs' Board shall have the ultimate responsibility for the risks and exposures incurred and for establishing a level of tolerance for risk, including liquidity risk, though it may delegate that task to certain committees.**

The Board's role shall include approving Non-IB's liquidity risk strategy in line with the expressed risk tolerance. The Board should establish a structure for the management of liquidity risk including the allocation of appropriate senior managers who have both the authority and responsibility to undertake the firm's day-to-day liquidity management.

The Board shall be ultimately responsible for:

- Approving the liquidity risk strategy, liquidity risk policy (including procedures) and risk appetite concerning liquidity risk;
- Implementing an appropriate organisation and management structure for liquidity risk;
- Monitoring the liquidity risk profile on a regular basis and at an appropriate frequency;
- Ensuring that liquidity risks are identified, measured, monitored and controlled;
- Ensuring that responsibilities are clearly and comprehensively defined;
- Ensuring that liquidity risk is managed and controlled by Senior Management within the established risk management framework;
- Reviewing contingency plans; and
- Reviewing liquidity decisions.

**2.2.3 Principle 6 - Non-IBs' Senior Management shall have primary responsibility to develop, establish and maintain policies and procedures that translate the goals, objectives and risk tolerances of Non-IBs into operating standards which are consistent with the liquidity risk strategy approved by the Board.**

The Senior Management of Non-IBs shall develop, establish and maintain policies and procedures to manage the liquidity risk. Their responsibilities shall include:

- Adhering to the lines of authority and responsibility defined by the Board;
- Implementing and maintaining appropriate policies and procedures that translate the Board's approved objectives and risk tolerances into operating standards;
- Directing the identification, measurement and monitoring of liquidity risk through the implementation of management information and other systems;
- Ensuring effective internal controls over the liquidity risk management processes are implemented; in doing so, the managers should request regular standardised reports concerning liquidity risk and conduct regular reviews of the methods and processes used; and
- Providing guidance on managing and aligning the whole organisation to be risk aware and etc. (or risk management in general), as usually liquidity risk is an after-effect of other risk, i.e. market, credit or reputation risk.

## 2.3 Risk tolerance, ratios, and limits

### 2.3.1 Principle 7 - Non-IBs shall clearly articulate liquidity risk tolerance that is suitable for the business strategy of the organisation and its role in the securities market.

The liquidity risk tolerance shall be in line with its business objectives, strategic direction and overall risk appetite. In the earlier part of this document states the applicable definition of liquidity risk.

The Board is ultimately responsible for the risks and exposures incurred by a Non-IB and for establishing a level of tolerance for risk, including liquidity risk. The tolerance shall be appropriate with the Non-IB's financial condition and funding capacity which defines the level of liquidity risk that the Non-IB is willing to assume. The tolerance shall ensure that the firm manages its liquidity appropriately at all times according to the stress levels imposed by the conditions of the overall financial environment. At the same time, it is essential that the approved risk tolerance must continue to ensure that compliance to the minimum financial requirements remains uncompromised. This is in addition to complying with the current Capital Adequacy Framework prescribed under the Rules of Bursa Securities. A Non-IB, may for example, expresses its risk tolerance by quantifying its liquidity risk tolerance in terms of the level of unmitigated funding liquidity risk the Non-IB decides to take under normal and stressed business conditions. It is the Board's responsibility to approve the Non-IB's liquidity risk strategy in line with the firm's expressed risk tolerance.

### 2.3.2 Principle 8 - Non-IBs shall establish liquidity ratios and set limits to control the nature and level of liquidity risk that they are capable to undertake.

The minimum limits shall be prescribed, but Non-IBs may set higher standards based on their own business strategies and activities, past performance, level of earnings and capital available to absorb potential losses, as well as its tolerance for risk. It should match the nature, scale and complexity of the Non-IB itself. Suggested funding liquidity ratios and limits used by Non-IBs for liquidity risk management include<sup>2</sup>:

- Target liquidity ratio;
- Maturity mismatch limits for local and foreign currencies; and
- Concentration limits and diversification.

Limits will vary depending on the nature of Non-IBs operations and circumstances. Limits can also be tied to balance sheet ratios. For example:

- Maximum projected cash flow shortfall tolerated for specified time period (for example, one week ahead, one month ahead, one quarter ahead);
- Minimum ratio of liquid assets to total assets;
- Maximum overnight borrowings to total assets; and
- Maximum ratio of total wholesale borrowings to total assets.

Non-IBs shall also consider additional ratios or indicators to measure their ability to meet their liquidity needs, in particularly under stressful market conditions. These other indicators include amongst others, for example:

- A "barometer" that measures the number of days that the firm could survive with no new sources of funding;
- The "liquidation potential," measuring how a firm could meet its funding needs in the first 14 days of a stress scenario; and

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<sup>2</sup> Further clarifications in Appendix 1

- A “maximum cumulative outflow” (“MCO”) standard that establishes the amount of short term unsecured funds required to fund cash outflows in a stress event.

As for market liquidity, Non-IBs should determine the level of liquidity of the market, based on certain instruments held within their portfolio. Traditional measures of market liquidity or high quality liquid assets may include trade volume (or the number of trades), market turnover, bid-ask spreads and trading velocity. Additionally, liquidity is also highly dependable on various macroeconomic and market fundamentals namely, fiscal policy, market sentiment, investor’s confidence etc. would be key factors in determining liquidity conditions or liquidity cost which in term translates into ‘Force Sale’ discount factor.

The Non-IBs shall leverage on the Volume Weighted Average Price (“VWAP”) in measuring the liquidity of the securities as it measures the cost of executing a single trade of limited size as well as the price impact of a trade. Furthermore, this approach is simple to calculate with data that are widely available on a real-time basis.

## **2.4 Stress Testing and Scenario Analysis**

### **2.4.1 Principle 9 - Non-IBs shall conduct regular stress testing and scenario analysis to test the liquidity risk that they may be exposed to and also to ensure that they have adequate liquidity to cope with stressed conditions.**

Non-IBs shall simulate distress market / financial conditions and introduce hypothetical scenarios to their positions when conducting stress testing and scenario analysis, i.e., by applying various “what-ifs” scenarios on their liquidity position, in order to consider the effects both on and off balance sheet and on both assets and liabilities.

Non-IBs should construct appropriate adverse scenarios and examine the results on the liquidity needs, varying degrees of stress based on among others firm-specific elements and market wide crisis. Historical market events may provide a basis for choosing appropriate scenarios but it is unlikely that such historical event will repeat itself. Hence, Non-IBs are encouraged to break away from historical trends, spreads and normal market conditions when deciding on the appropriate scenarios.

Non-IBs should also consider possible changes such as effect of market’s perception of the firm on its access to the markets and also market turbulence which may trigger substantial increase in the drawdown of contingent commitments.

Non-IBs should perform the following, at the minimum, to ensure that stress testing technique applied is reflective of its risk appetite and possible risk exposures:

- Verify all relevant assumptions and model parameters periodically taking into considerations their experience in any crisis;
- Review and modify existing stress scenarios and parameters periodically, if necessary reflecting the current market conditions or new experiences; and
- Review entire business profile periodically to assess the need of additional stress scenarios.

Non-IBs should be guided by a clear set of internal principles in determining whether remedial actions should be taken in response to stress-testing results.

The level of authority for determining remedial actions to be taken should also be clearly designated. Remedial actions recommended should be properly documented and implemented.

## 2.5 Measurement

### 2.5.1 Principle 10 - Non-IBs shall establish processes for measuring liquidity risk to which they are exposed to using a robust and consistent methodology.

In terms of funding liquidity, Non-IBs shall have in place a methodology for the comparison of cash inflows and outflows over future timeframes to calculate the cumulative net excess or deficit of funds at selected maturity dates (referred to as a maturity ladder or cash flow gap analysis). This should:

- Robustly measure the extent of liquidity risk;
- Be forward looking;
- Be responsive to the dynamic nature of the institution's liquidity profile, economic and market conditions;
- Appropriate level of sophistication for the nature, size and complexity according to the Non-IB's activities;
- Be able to accommodate stress and scenario analysis; and
- Be applied consistently and based on accurate data.

The maturity time bands prescribed should be reflective of the short-term nature of the equity business, where the maturity time bucket is categorised as stipulated by Bursa's NSR.

The bucketing days are made up of market / trading days and calendar days.

The basis for determining the appropriate time bands for both assets and liabilities is to reference it against the contractual cash and security flows of their residual contractual maturity or when the cash flow materialises. However, adjustments are permitted for those assets and liabilities that have distinct characteristics such as roll-in and roll-out, embedded options etc. in the contracts in order to indicate those said contracts as 'behavioural maturity' instead of contractual maturity. Non-IBs shall then adjust the cash flows on a behavioural basis, as the contractual maturities pertaining to some assets and liabilities do not bear close relation to their actual behavioural characteristics.

The assumptions to design the behavioural maturity profile should be reflective of the equity business and demonstrate consistency and reasonableness for each scenario / portfolio. The assumptions selected should be verified and supported by sufficient evidence, experience and performance rather than arbitrarily selected. As such, it is encouraged that the Non-IBs utilise at least one (1) year historical observation period to be used as the basis of the assumptions.

Non-IBs liquidity measurement methods shall consider:

- Assessing Cash Inflows against Cash Outflows;
- Determining the Liquid Value of its assets (securities or other current assets which have a ready market, or which are capable of realisation within one (1) week in relation to the Non-IBs' portfolio);
- Measuring and forecasting cash flows for:
  - Assets;
  - Liabilities;
  - Off-balance sheet commitments; and
  - Derivatives; and



In terms of market liquidity, among the factors considered to measure<sup>3</sup> liquidity include:

- Bid / ask spread;
- Quote size;
- Volume of trade in an instrument / number of trades in that instrument;
- Days of no price quotation, particularly bid price; and
- Days of no transaction.

## **2.6 Monitoring and Reporting**

### **2.6.1 Principle 11 - Non-IBs shall establish and maintain appropriate monitoring systems to examine and manage the amount of liquidity risk to which they are exposed to, based on established strategies, policies and procedures defined by the entity.**

Non-IBs shall have a framework of policies containing specific and detailed guidelines for day-to-day monitoring of their liquidity risk, with proper communication processes in place throughout the organisation.

Non-IBs shall use appropriate reporting measures that would include documentations, approvals, internal transfer pricing and compliance. Non-IBs should document the assumptions following the maturity buckets in measuring liquidity risk and the plan in place to mitigate any identified gaps (if any) in the internally generated behavioural maturity mismatches in the relevant policy such as liquidity management policy. This is to ensure its relevancy and applicability to the Non-IBs and their business activities. All of these should be approved by Senior Management and should be reviewed regularly.

Consistent with Rule 510.3 of the Rules of Bursa Securities, Non-IBs' internal audit should present any audit findings in this regards to the Board, including any course action and/or with any corrective measures taken in order to address any non-compliance or irregularities stated in the audit report. The Board shall be responsible for the submission of all documents referred to in Rule 510.3(2).

### **2.6.2 Principle 12 - Non-IBs shall establish a proper management information system and reporting frequency in accordance with the business and the risks undertaken.**

Non-IBs shall have reporting lines and responsibilities that are clearly established and followed. Weekly reports are provided to key personnel and monthly reports are provided to the Board. Non-IBs should assign relevant personnel to hold the responsibility of compiling the relevant reports.

Non-IBs shall have a comprehensive review process including daily monitoring of funding capacity and capacity utilisation, weekly reports of the firm's balance sheet usage, and a formal quarterly review of the system conducted by an appropriate committee.

Non-IBs shall monitor their liquidity positions daily, using for example, ledger balances (supplemented with spread sheet analysis), loans and placement systems, trading systems, Cash Capital models, daily liquidity positions, and reconciliation of data and aggregate balances to the firm's financial accounting and / or regulatory reports. These are done while taking into account of the ratios being set as mentioned in the strategy section earlier.

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<sup>3</sup> More explanation in Appendix 1

## 2.7 Contingency Planning

**2.7.1 Principle 13 - Non-IBs shall have in place a contingency plan that will address the strategy for handling unexpected events that will severely impact the entity's liquidity, including specific procedures for raising cash in emergency situations. These "Funding Action Plans" or "Contingency Financing Plans" shall detail "key tasks" that need to be performed within certain timelines. The tasks may be dependent upon the severity of the crisis at hand as outlined in a variety of scenarios.**

The plans should generally focus on conserving or creating liquidity, by specifying the order in which liquidity reserves are to be accessed and any limitation or modification of trading activity. Key components of these plans include:

- Estimating the funding requirements or potential fund erosion for material legal entities;
- Determining the pledge value of firm collaterals; and
- Preparing cash projections for the company's funding chain.

Non-IBs should also include estimates of additional needs for liquidity in a crisis, such as limited repurchase of long-term debt to demonstrate that the Non-IB has sufficient liquidity sources.

The contingency plan should be documented, approved and reviewed regularly. Considerations in formulating the contingency plan include:

- Early warning indicators;
- Contingency scenarios;
- Triggers;
- Contingency funding strategies; and
- Contingency procedures.

Examples of key considerations to be used as a guideline when formulating contingency plans or identifying opportunities are:

- Revisit business strategy;
- Allocate and plan capital and liquid assets, including re-allocation and sourcing of alternative funding;
- Review of trading limits or introduction of new limits (i.e. stop-loss limits, sensitivity limits);
- Conduct supplementary stress testing;
- Closely monitor exposures in negative outlook / vulnerable risk areas;
- Source additional liquid assets to cope with potential negative impact arising from stressed conditions; and
- Conduct portfolio re-balancing to avoid concentration and diversifying exposures, while also looking identifying opportunities.

### ***Internal indicators and market indicators as warning signs***

Internal indicators are Non-IB specific, such as its assets, funding costs, concentration, and cash flows. Non-IBs should identify internal indicators that can be used to warn of a potential liquidity crisis which may be driven by internal actions. Market indicators refer to warning signals picked out from the Non-IBs interaction with the market such as the clients, credit providers or counterparties.

In either case, whether through its internal indicators or market indicators, Non-IBs should establish a system for identifying and tracking such indicators to spot potential problems even at an early stage.

### ***Observable and measurable characteristics trigger***

The contingency plan should define the circumstances and specific triggers will lead the institution to put any part of its contingency plan into action. Breaches of limits for the cumulative cash flow gaps are an example of a possible trigger.

#### **2.7.2 Principle 14 - A Non-IB shall identify and quantify funding sources and rank them by preference in its contingency funding strategies**

The contingency plan should consider funding strategies and action plans relating to the Non-IB's assets as well as liabilities.

Non-IB's shall consider the following:

- In times of liquidity crisis, even committed lines of credit may not be honoured;
- Although "excess" capital may be available to the Non-IB, the amount of the cushion may diminish substantially in a time of crisis, as the firm may have higher liquidity needs and little ability to secure new funds;
- "Downsizing the balance sheet" through the selling of assets to raise money could accelerate a Non-IB's financial deterioration by forcing sales in a weak market, thus substantially reducing proceeds; and
- The potential impacts of the scenarios arising from the institution's secondary market credit activities such as providing underwriting facilities for the issuance of bonds.

The established contingency plans should be reviewed periodically, at least yearly, in light of market events and their impact on the firm's liquidity.

#### **2.7.3 Principle 15 – A Non-IB's contingency plan shall contain the procedures which will enable the plan to be executed once a contingency arises.**

The corrective action plans shall include the following:

- Allocation of responsibilities during a funding crisis – reporting paths and responsibilities not only by function but also for each of Non-IBs' personnel needs to be defined;
- Procedures for internal reporting and communication to enable timely decision making and monitoring;
- Timeframes within which each action should be taken;
- Procedures for communication with external stakeholders such as customers, analysts, shareholders and regulators;
- Dealing with the press and the wider public – public disclosure is a crucial part of liquidity management, as market perceptions need to be managed especially during crisis situations; and
- Before implementing any of the contingency funding procedures, the Non-IB should assess the likely impact of particular courses of action on the market's perception of the Non-IB.

Once established, the contingency plan should also be subjected to regular review and revision to ensure it remains robust over time and continues to reflect the Non-IB's changing operating circumstances.

[End of Appendix 3]

## APPENDIX A

Further Clarification on Funding Liquidity Ratios, Limits, and Measurements.

**Target liquidity ratio** – Based on various liquidity ratios that have been established as a liquidity monitoring tool, Non-IBs should set a target for these ratios. The actual position of liquidity ratios should be compared with the targets and any breaches and follow-up action taken by management to restore the ratios should be properly documented.

**Maturity mismatch limits** – Will control the size of the cumulative net mismatch position (i.e. cumulative cash outflows exceeding cumulative cash inflows), and are usually set for short term time bands up to one month, i.e. next day, 7 days and 1 month.

**Concentration limits and diversification** – Diversification is a tool to spread risk such that the impact of the materialisation of the risk factor in one area is contained within reasonable limits or the damage in one area is offset by a positive effect in another area. Similarly, concentration in one area would normally be subjected to limits and controls to ensure the materialisation of the risk are contained. Among the diversification that can undertaken by Non-IBs include:

- Creditor diversification - such as limiting the amount or percentage of holding of commercial paper by one investor / issuer.
- Spreading debt maturities.
- Diversify debt instruments – secured and unsecured.
- Diversify markets or country of issuance.

**Bid / ask spread** – The difference between the bid price and the asking price of the instrument. The measurement can be based on the width of the bid / ask spread, which will indicate the likelihood of a successful transaction in the market. In addition, if this factor is monitored together with the Days of no transaction, it will provide a better definitive of the illiquidity status of the instrument.

**Quote size** – In the eyes of the public, quote size of the best bid and ask prices are visible, leaving the rest of the order book invisible to market participants. However, Bursa should be able to observe the quote size, not only at the best bid and ask prices. The quantity that can be traded at the bid and ask prices helps account for the depth of the market and complements the bid / ask spread as a measure of market liquidity

**Volume of trade in an instrument / number of trades in an instrument** – These two factors may seem similar but further analysis would demonstrate that one factor highlights a better liquidity position as compared to the other. Number of trades in an instrument demonstrates better liquidity as there is more demand in comparison to a single large transaction performed on an instrument.

**Days of no price quotation** – Measures the number of days in which a certain instrument has no demand or supply, but for the purpose of measuring illiquidity, the focus would be on bid price as it constitutes the demand for the instrument.

[End of Appendix A]

<b>DIRECTIVE ON PROPRIETARY TRADING BY A PARTICIPATING ORGANISATION ON THE LEAP MARKET</b>	<b>No. 16.02(3)-001</b>
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Relevant to : Rule 16.02(3)  
Introduced with effect from : 16 June 2017  
Amended : 29 April 2019 vide R/R 1 of 2019  
POs' Circular No(s). : R/R 7 of 2017  
Refer also to Directive No(s). : N/A

**1. Rule 16.02(3)**

- (1) Rule 16.02(3) states that a Participating Organisation may only undertake proprietary trading in securities listed on the LEAP Market, in such circumstances as may be prescribed by the Exchange.
- (2) Pursuant to the above Rule, the Exchange prescribes that a Participating Organisation's proprietary trading in securities listed on the LEAP Market may only be carried out in the following circumstances:
  - (a) trading of securities arising from underwriting;
  - (b) Market Making;
  - (c) price stabilization in accordance with the Capital Markets and Services Act and the Listing Requirements;
  - (d) investments which are not closed out within T+2;
  - (e) hedging; and
  - (f) rectification of error.

[End of Directive]

**DIRECTIVE ON COMMISSION RATES FOR TRANSACTIONS IN SECURITIES DENOMINATED IN FOREIGN CURRENCY****No. Schedule 6-001**

Relevant to : Note (1) of Schedule 6  
Introduced with effect from : 28 February 2018  
Amended : N/A  
POs' Circular No(s). : R/R 4 of 2018 and R/R 4 of 2022  
Refer also to Directive No(s). : No. 7.05(2)-002

**1. Note (1) of Schedule 6**

- (1) Note (1) of Schedule 6 states that for transactions in securities denominated in foreign currency, the commission rate will be stipulated by the Exchange in the Directives.

**1.1 Commission rate**

- (1) Pursuant to Note (1) of Schedule 6, the commission rate for a transaction in securities denominated in foreign currency is as follows:

Type of trades	Basis for determining commission	Minimum commission	Maximum commission
Online Routed Trades	Fully negotiable	Not applicable	Not applicable
Trades paid for by Cash Upfront	Fully negotiable	Not applicable	Not applicable
Direct Business Transactions	Negotiable subject to the minimum commission	Minimum Fixed Commission	Not applicable
All trades in securities executed in Board Lots except for trades specifically mentioned in the other items of this table	Negotiable subject to the minimum and maximum commission, whichever is higher	Minimum Fixed Commission	0.7% of the Contract Value
All trades in securities executed in less than a Board Lot	Fully negotiable	Not applicable	Not applicable

- (2) In relation to any transactions (except transactions in loan instruments) for trade other than Retail Trade, the Minimum Fixed Commission in the above table is USD 9.00 for trades settled in USD.
- (3) For Retail Trade, the Minimum Fixed Commission is as prescribed in Note 4(b) and (c) of Schedule 6.
- (4) In calculating the commission for a transaction in securities denominated in foreign currency, a Participating Organisation must use the exchange rate which is quoted to the Participating Organisation daily by licensed onshore banks.

[End of Directive]

Relevant to	: Rule 3.36(c)
Introduced with effect from	: 2 May 2013
Amended	: 29 May 2017 vide R/R 5 of 2017, 21 August 2020 vide R/R 11 of 2020, and 2 October 2023 vide R/R 6 of 2023
POs' Circular No(s).	: N/A
Refer also to Directive No(s).	: N/A

## 1. Rule 3.36(c)

- (1) Rule 3.36(c) requires a Head of Compliance to ensure matters pertaining to compliance by the Participating Organisation, the Participating Organisation's Registered Persons, employees and agents with the Securities Laws, these Rules and the Directives are highlighted to the Participating Organisation's Board of Directors or in the case of an Investment Bank, to the Board of Directors or committee to whom the Head of Compliance is required to report under the Guidelines on Investment Banks.
- (2) In discharging the obligations under the said Rule, a Participating Organisation and Head of Compliance are encouraged to adopt the best practices set out below.

### 1.1 Recommendations on compliance reporting

- (1) The items recommended below for inclusion in the compliance monitoring are only intended to be taken as additional review items and does not in any manner imply that these are the only items that requires compliance monitoring. Compliance officers are advised to continue the monitoring of other essential items that is perceived to be of importance / critical to their organization and as directed by the board of directors of their respective companies. Only items that require the attention of the Board and/or the Exchange and exceptions noted (based on the compliance reviews carried out) are to be reported in the monthly compliance reports. Items recommended to be included in the compliance officers' monthly review (for Participating Organisations of Bursa Securities):

#### (a) Trading Accounts

Areas to be reported include opening of accounts, maintenance of accounts and updating of account particulars including:-

- *Number of new accounts opened and number of accounts updated for the period.*
- *Remarks on whether the accounts opened and updated were duly authorised and complied with the company's policies and procedures.*
- *Exceptions in respect of accounts that were granted large limits which is not in compliance with the authority limits set by the Board.*

#### (b) Dealer's Representatives

The areas to be reported under this section should include:-

- *Information on Dealer's Representative who is not engaged in the office on a full time basis.*
- *Exceptions on inactive Dealer's Representatives.*
- *Exceptions on Dealer's Representatives who are involved in back office operations.*
- *Ratio computations on the extent of Bumiputra participation and level of compliance with the relevant requirements.*
- *Exceptions noted in respect of sharing of commission and standard remisier's agreement. To state period of coverage and the samples taken.*

- *Exceptions on registration, renewal and cessation of Dealer's Representatives' licences.*
- *Exceptions on unlicensed trading.*
- *Instances of sharing of User-IDs and passwords and leaving BFE terminals unattended without temporarily logging off. To state the date and time of each visit to the trading floor.*

**(c) Segregation of duties and policies and procedures**

The areas to be reported under this section should include:-

- *Irregularities noted on the segregation of duties especially between the back and front office.*
- *Remarks on the adequacy of policies and procedures and the code of conduct of the company.*
- *Computation on the extent of Bumiputra participation at all levels.*

**(d) Complaints**

The areas to be reported under this section should include:-

- *Remarks on the adequacy of the procedures for handling complaints.*
- *Number of complaints received and resolved during the coverage period.*
- *Remarks on whether the complaints were handled satisfactorily.*

**(e) Business policies and practices by a Participating Organisation**

The areas to be reported under this section should include:-

- *Number and subject matter of the internal policy(s) issued during the coverage period.*
- *Exceptions noted on sufficiency of the notice period and application of policies in a fair and consistent manner.*

**(f) Commission**

The areas to be reported under this section should include:-

- *Exceptions noted on the commission charged and reflected in the contract notes. To state the period of coverage.*

**(g) Advertising**

The areas to be reported under this section should include:-

- *Exceptions noted on the compliance with the requirements on advertising.*

**(h) Training**

The areas to be reported under this section should include:-

- *Remarks on the sufficiency and comprehensiveness of the training system and program.*
- *Remarks on whether appropriate and sufficient record has been maintained.*

**(i) Dissemination of information**

The areas to be reported under this section should include:-

- *Remarks on the promptness of dissemination of information in the company especially in regard to new Rules and guidelines issued by the authorities.*
- *Remarks on the adequacy of policies and procedures on dissemination of information.*

**(k) Stamp duty**

The areas to be reported under this section should include:-

- *Exceptions noted on imposition and remittance of stamp duty to the authorities.*

**(l) Research office**

The areas to be reported under this section should include:-



<b>RECOMMENDATIONS ON COMPLIANCE REPORTING</b>	<b>No. 3.36-001</b>
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- *Remarks on the research activities. State the date and time of visit to the research office.*
- (2) A copy of the self assessment questionnaire that has been formulated for the purposes of the compliance reporting requirements is set out in **Appendix 1** below.

[End of Best Practices]



**COMPLIANCE PROGRAM  
FOR  
PARTICIPATING ORGANISATIONS**

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 1.0 Trading Accounts

#### 1.1 Opening Of Trading Accounts

##### *Objectives*

- To ensure that the policies and procedures for opening of trading accounts are established
- To ensure compliance with the established policies and procedures

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Do the internal policies and procedures for opening of trading accounts include the following?:- <ul style="list-style-type: none"> <li>• Approving authorities (e.g. EDO, EDD, Credit Control Committee, BOD, etc) to approve the opening of trading accounts.</li> <li>• Clear policy of assignment of trading limits.</li> <li>• Clear policy on acceptable collateral.</li> <li>• The requirement to submit appropriate supporting documents.</li> <li>• Measures to ensure that all essential particulars and information about a client are obtained (including but not limited to the client's financing standing or creditworthiness and clients' investment objectives). POs shall also satisfy themselves that all such information is accurate before proceeding to open trading accounts for clients.</li> </ul>				
2. Has the approving authorities schedule (for principal and branch offices) been approved by the Board of Directors prior to implementation?				
3. Ensure that all clients have properly disclose the information as required in the manner according to Rules 5.15(8) and 5.15(9).				
4. Is the daily report on trading account opening or similar documents reviewed by an authorised person and does such report bear evidence of checking?				
5. Tagging of Securities account to Trading account Verify the clients' data in back office system against CDS; all clients' trading account opened shall be tagged to a Securities account.				

**COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS**

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
<p>6. Check the accounts opened against the respective application forms to ensure that all accounts opened are duly supported. Peruse application forms and ensure that:</p> <ul style="list-style-type: none"> <li>• Application forms are duly completed by the applicant and signed by the approving authorities as evidence of approval.</li> <li>• Approval on the application is granted before the client's first transaction.</li> <li>• Application forms are supported by at least the following documents:</li> </ul> <p><u>Individual</u></p> <ul style="list-style-type: none"> <li>• Clear and legible photocopy identity card attached to the application form.</li> </ul> <p><u>Corporate</u></p> <ul style="list-style-type: none"> <li>• Board Resolution to open trading account, trade in securities, appointment of signatories to open trading account and deal in securities.</li> <li>• Copy of constitution (if any). The constitution must include a clause which allows the client to deal in securities.</li> <li>• Certified copies of Notice of registration, Return of allotment of shares and Notification for change in the registered address/ Particulars of change or alteration relating to foreign company.</li> </ul> <p><u>Nominee</u></p> <ul style="list-style-type: none"> <li>• In addition to the requirements spelt out for corporate clients, the following is also applicable: <ul style="list-style-type: none"> <li>- name of the principal (ie. beneficial owner) for whom the agent is acting for and written evidence on the agent's authority to trade.</li> </ul> </li> <li>• Ensure that all clients' accounts under the nominees (in CDS) are identifiable and designated with the full name of the clients and not designated with a symbol or number.</li> </ul>				

**COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS**

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
<p><u>DMA Clients</u></p> <ul style="list-style-type: none"> <li>• Ensure DMA clients have executed an agreement.</li> </ul> <p><b><u>MULTIPLE TRADING ACCOUNTS</u></b></p> <ol style="list-style-type: none"> <li>1. POs shall maintain one trading account for every client. If the PO allows clients to open more than 1 trading account at either the principal office or branches, or both, PO must meet the minimum requirements:-               <ol style="list-style-type: none"> <li>a) only 1 Securities account is allowed to be maintained for each individual client with the PO irrespective of how many trading account he has opened; and</li> <li>b) for corporate/institutional client, the client has the option to tag any trading account with any Securities account at its discretion;</li> </ol> </li>   <li>2. Ensure that individual clients are limited to maintaining not more than:-               <ol style="list-style-type: none"> <li>a) 5 trading accounts, if the PO has no branch offices;</li> <li>b) 10 trading accounts, if the PO has branch offices.</li> </ol> </li>   <li>3. Review the policies and procedures on maintenance of multiple trading accounts, ensure that procedures on Chinese wall and firewalls have been incorporated.</li> </ol>				

**Conclusion**

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 1.2 Maintenance of Trading Accounts

#### *Objectives*

- To ensure that proper records of trading accounts are maintained.
- To ensure that monthly statements are sent to account holders for their records/reference purposes.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the PO maintain records in respect of the following information (either in account opening form, back office system or report) for all accounts opened: <ul style="list-style-type: none"> <li>• Date of account opened;</li> <li>• Client's financial position;</li> <li>• Name of the officer who approved the account opening and date of such approval;</li> <li>• Types of transactions for which the account is approved;</li> <li>• Information in relation to transactions effected:               <ul style="list-style-type: none"> <li>a) Particulars of all transactions;</li> <li>b) Current position of the account.</li> </ul> </li> <li>• The Dealer's Representative handling the account.</li> </ul>				
2. The outstanding balance in each account should be readily identifiable with specified transactions and with the date the transactions occurred.				
3. Ensure that monthly statements are sent to clients. The statements shall contain the following: <ul style="list-style-type: none"> <li>(i) Movement of clients' assets (e.g. monies, collateral, etc.); and</li> <li>(ii) Interest and other charges imposed.</li> </ul>				

#### **Conclusion**

### 1.3 Updating Of Trading Account Particulars

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### Objectives

- To ensure that internal controls are adequate to prevent unauthorised update of client's particulars.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Review the internal policies and procedures for updating of account particulars and ensure that it is adequate.  2. Ensure that there is proper segregation of duties between staff who:- a. Initiates the update; b. Approve the update; and c. Confirm/check the updated information.  3. Ensure that the report generated by back office system upon completion of every update is checked by authorised personnel.				

### Conclusion

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 2.0 Dealer's Representatives ("DR")

#### Objective

- To ensure that PO comply with the Rules on the conducts of DR.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Note licensed DRs who were not dealing in securities for more than 3 consecutive months. Note DRs who were attached to back office. Inform SC on this.  2. Ensure that DRs do not share their commission directly/ indirectly with any person.  3. Ensure that the PO has notified the Exchange and the SC in writing on cessation of employment of DR and deleted/disabled the BFE user-ID immediately.  4. Ensure that a trainee DR is not in whatsoever form carrying out the functions of a DR i.e. dealing in securities.  5. Review the Remisier's Agreement (RA) and ensure that: <ul style="list-style-type: none"> <li>The required clauses have been incorporated accordingly;</li> <li>No contradicting terms and conditions are incorporated in the agreement of which may deviate from the Exchange's requirements.</li> </ul> 6. Ensure that the PO and all of its remisiers have complied with the Rules by executing the agreement.  7. Ensure that the security deposit placed by remisiers for trading purpose are segregated from clients' deposit and are safeguarded. Record must be maintained for security deposit of each remisier:- <ol style="list-style-type: none"> <li>collateral in the form of cash shall be maintained in a Remisiers' Trust Account;</li> <li>collateral in the form of quoted securities shall be maintained in a pledged securities account.</li> </ol>				



**COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS**

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Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
8. Ensure that DRs are being assigned with the correct trading limits daily based on the policies and procedures.				
9. For increase in limit during trading hours, ensure that it is done in accordance with the policies and procedures.				
10. Ensure that there are no sharing of passwords and User-IDs among DRs. The "Re-assignment" and "Associate" functions should be used. Ensure that the use of these functions comply with the company's policies and procedures.				
11. Ensure that the DRs temporarily log-off when they are away from their workstation. This will prevent unauthorised usage of the terminal.				

**Conclusion**

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 3.0 Segregation of Duties and Policies and Procedures

#### Objective

- To ensure adequate segregation of duties between operations and dealing.
- To ensure that there are adequate policies and procedures being established for all areas of the company's operations.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that there is segregation of duties between employees dealing in securities and those having duties administrative or operational in nature in Principal office and branches.				
2. Ensure that the PO has established a code of conduct for its employees and Dealer's Representatives which shall address, among others, conflict of interest situations.				
3. Ensure that there are adequate policies and procedures in respect of all areas of the company's operations including at the branches. Adequate policies and procedures must also be in place to monitor and supervise Dealer's Representatives. All operations manuals must be approved by the Board before implementation and must be regularly updated.				
4. Ensure that the branch offices adopt the same policies and procedures as the Principal Office.				

#### Conclusion

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 4.0 Complaints

#### Objective

- To ensure that the PO comply with the Rules on handling of complaints.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the PO has established written procedures for handling of complaints.				
2. Ensure that the PO has appointed staff at the Principal office and branch offices to handle clients' complaints as required. The name of these staff must be prominently displayed at the premises.				
3. Ensure that a register of complaints is maintained, including copies of written complaints received and copies of PO's replies.				
4. Review the complaints lodged. Ensure that the complaints are handled properly and in accordance with the established policies and procedures.				

#### Conclusion

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 5.0 Business Policies and Practices by PO

#### Objectives

- To ensure that the PO comply with the Rules and directives on imposition of new business policies or practices.
- To ensure that clients and Dealer's Representatives are treated fairly and consistently.

Compliance Procedures	Completed by		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the following are followed for new internal policy issued: <ul style="list-style-type: none"> <li>a. a sufficient notice on the impending change has been issued to clients;</li> <li>b. the changes shall only be implemented after a lapse of one trading session, not including the trading session during which the notice was issued.</li> </ul> 2. For policies relating to Dealer's Representatives, ensure that the policies are applied fairly and consistently among all the Dealer's Representatives. These include policies on suspension of remisiers, trading limits assigned, trading multiples, deposits requirement, etc.				

#### Conclusion

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 6.0 Commission

#### Objectives

- To ensure that commission charge on each transaction complied with Exchange's directives.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the commission charged by the PO are in accordance with prescribed rates stipulated. 2. Ensure that the commission charged is shown on every contract note. No net contracts are allowed.				

#### Conclusion

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 7.0 Advertising

*Objective*

- To ensure that the PO complies with the Rules on advertising.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Peruse through publications for the purpose of soliciting or attracting business e.g. catalogue, pamphlet, etc. and also the following publications: <ol style="list-style-type: none"> <li>a) Recruitment/vacancies;</li> <li>b) Tombstone;</li> <li>c) Change of address;</li> <li>d) Resignation of staff;</li> <li>e) Change in telephone numbers;</li> <li>f) Listing of telephone numbers;</li> <li>g) Congratulatory messages;</li> <li>h) Condolence messages;</li> <li>i) Communication in yellow pages;</li> <li>j) Communication in financial magazine;</li> <li>k) Communication in World Directory;</li> <li>l) Notice of book closure; and</li> <li>m) Notice of Annual General Meeting.</li> </ol>				
2. Ensure that the publications are in compliance with the Rules.				
3. Ensure that the publication materials are vetted and reviewed before they are issued.				

### Conclusion

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 8.0 Training

#### Objective

- To ensure that adequate training system and program is established.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the PO has established a comprehensive training system and program. The training system and program should: <ul style="list-style-type: none"> <li>a) Ensure continuous improvements in critical areas of principal activities and operations; and</li> <li>b) Enhance the technical knowledge and knowledge of applicable legal and regulatory requirements.</li> </ul>				
2. Ensure that the training system and program are documented and the program should: <ul style="list-style-type: none"> <li>• set out the details of the training program that the PO proposes to implement;</li> <li>• be regularly updated in line with the development of the industry.</li> </ul>				
3. Ensure that the PO maintains proper records for training provided.				

#### Conclusion

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 9.0 Dissemination of Information

#### *Objective*

- To ensure that the PO complies with the Rules by promptly disseminating the relevant notices issued by the Exchange and the SC to Dealer's Representatives and employees.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the PO disseminates notices, bulletins and circulars issued by the Exchange and the SC to its Dealer's Representatives and employees promptly.				
2. Ensure that policies and procedures on dissemination of information are established. The procedures should include: <ol style="list-style-type: none"> <li>a. Predetermined timeframe for information received to be disseminated to all staff (including branch) under normal circumstances.</li> <li>b. Ways to ensure that all relevant staff is aware/ have received such information.</li> <li>c. The need to conduct briefing for all staff concerned to ensure no misinterpretation and no conflict in opinion.</li> <li>d. Appointing an officer to act as co-ordinator in assisting others to resolve/overcome difficulties arising with the implementation of new requirements/ guidelines.</li> </ol>				

#### **Conclusion**



## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 10.0 Stamp Duty

#### Objective

- To ensure that stamp duty is appropriately charged and remitted.

Compliance Procedures	Completed By		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the stamp duty on contract notes are appropriately imposed and remitted.				

#### Conclusion

## COMPLIANCE PROGRAM FOR PARTICIPATING ORGANISATIONS

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### 11.0 Research Office

#### Objectives

- To ensure that research office is properly maintained.
- To ensure that research office is strictly used for research purposes only.

Compliance Procedures	Completed by		W/P Ref.	Remarks
	Initial	Date		
1. Ensure that the research department/office is engaging solely in research activities and does not conduct any dealing activities.				
2. Ensure that the research department/office is physically segregated from other operational activities.				
3. Ensure that the PO has a valid publishing licence issued by Kementerian Dalam Negeri.				

#### Conclusion:

[End of Best Practice]

**BEST PRACTICES IN THE ISLAMIC STOCKBROKING SERVICES  
UNDERTAKEN BY PARTICIPATING ORGANISATIONS**

**No. 7.16-001**

Relevant to : Rule 7.16  
Introduced with effect from : 2 May 2013  
Amended : 1 September 2016 vide R/R 6 of 2016, 29 May 2017 vide R/R 5  
of 2017 and 16 May 2022 vide R/R 1 of 2022  
POs' Circular No(s). : R/R 16 of 2007  
Refer also to Directive No(s). : N/A

**1. Rule 7.16**

- (1) This Rule provides that a Participating Organisation must obtain the Exchange's prior approval before carrying out any trading activities based on Islamic Shariah principles.
- (2) A Participating Organisation approved to carry out trading activities based on Islamic Shariah principles should adopt the best practices set out below in providing Islamic stockbroking services.

**1.1 Best practices**

The best practices are set out in Appendix 1 below.

**Appendix 1**

**BEST PRACTICES IN ISLAMIC STOCKBROKING SERVICES**

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**A. BACKGROUND**

1. In pursuit of developing a comprehensive Islamic capital market, the Securities Commission Malaysia has established an effective Shariah regulatory framework to govern the Islamic capital market products and services. The framework is aimed amongst others to ensure uniformity and consistency of the Shariah-compliant industry practices undertaken by industry participants, in particular, Islamic Participating Organisations, which would allow them to operate on a common Shariah-compliant platform and will ultimately contribute and facilitate the orderly development of a strong and competitive environment of intermediation services.
2. An Islamic Participating Organisation is required to adhere to the same regulatory framework and requirements as that of a conventional Participating Organisation.
3. In this regard, Bursa Securities is issuing a set of industry best practices with the objective of providing guidance and assistance to the Islamic Participating Organisation in observing the desired practices when carrying out its stockbroking business in accordance with Shariah whether on a full-fledged basis or 'window' basis ("Best Practices"). Islamic Participating Organisations should adopt these Best Practices in carrying out the Islamic stockbroking services.
4. When implementing these Best Practices, the Islamic Participating Organisations should implement them flexibly and sensibly to suit their respective needs and circumstances. Therefore, the Best Practices enumerated should not be read as prescriptive nor construed in a rigid or literal manner. Nevertheless, the application of Shariah in the operations of the Islamic Participating Organisations must not be compromised in any circumstances. In this respect, the flexibility lies in the ingenuity of the respective Islamic Participating Organisations to apply the relevant Shariah concepts and rulings by the SAC of the SC or the SAC of the BNM in carrying out their business or services.

**B. KEY OBJECTIVES**

The key objectives of these Best Practices include among others:

- (i) to provide guidance to the Islamic Participating Organisations in respect of practices recommended to be observed in the carrying out of Shariah-compliant stockbroking services undertaken by the Islamic Participating Organisations whether on a full-fledged basis or 'window' basis; and
- (ii) to further strengthen Malaysia's position as an international Islamic financial centre by strengthening the role of Islamic market intermediaries in the domestic intermediation process.

**C. DEFINITION:**

1. In these Best Practices:

**"bai"** means sale.

**"BNM"** means Bank Negara Malaysia or the "Central Bank of Malaysia" which was established under Central Bank of Malaysia Act 1958

**"Bursa Securities"** means Bursa Malaysia Securities Berhad.

**"Clearing House"** shall have the same meaning as in the Rules of Bursa Securities.

**"CMSA"** means the Capital Markets and Services Act 2007.

**"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 by the FDSS.

**"Dealer's Representatives"** shall have the same meaning as in the Rules of Bursa Securities.

“**FDSS**” shall have the same meaning as in the Rules of Bursa Securities.

“**Head of Compliance**” shall have the same meaning as in the Rules of Bursa Securities.

“**Head of Dealing**” shall have the same meaning as in the Rules of Bursa Securities.

“**Head of Operations**” shall have the same meaning as in the Rules of Bursa Securities.

“**ibra**” means an act of releasing absolutely or conditionally one’s rights and claims on any obligation against another party which would result in the latter being discharged of his or its obligations or liabilities towards the former. The release may be either partially or in full.

“**Islamic Participating Organisation**” means a Participating Organisation which conducts its stockbroking business in accordance with Shariah whether on a full-fledged basis or ‘window’ basis.

“**Islamic stockbroking services**” means the business of trading in securities carried out by an Islamic Participating Organisation on the stock market of Bursa Securities whether on full-fledged basis or via an Islamic window services.

“**Islamic window services**” means Islamic stockbroking services provided by a Participating Organisation, other than on a full-fledged basis.

“**ISSBNT**” means Islamic Securities Selling and Buying - Negotiated Transaction.

“**khiyar al-sharat**” means conditional option.

“**List of Shariah Advisers**” means a list of registered Shariah Advisers published by the SC on its website, as may be amended from time to time.

“**mudarabah**” means a contract between a capital provider (rabbul mal) and an entrepreneur (mudarib) under which the rabbul mal provides capital to be managed by the mudarib and any profit generated from the capital is shared between the rabbul mal and the mudarib according to a mutually agreed profit sharing ratio whilst financial losses are borne by the rabbul mal provided that such losses are not due to the mudarib’s misconduct (ta`addi), negligence (taqsir) or breach of specified terms (mukhalafah al-shurut).

**“mudarib”** means entrepreneur.

**“mukhalafah al-shurut”** means breach of specified terms.

**“musharakah”** means a partnership between 2 or more parties, whereby all parties will share the profit and bear the loss from the partnership.

**“muwakkil”** means principal.

**“Participating Organisation”** shall have the same meaning as in the Rules of Bursa Securities.

**“rabbul mal”** means capital provider.

**“recognised stock exchange”** means the stock exchanges listed as the recognised stock exchanges in Directive No. 7.09-001 (Directive on Recognised Stock Exchanges).

**“riba”** means an increase, which in a loan transaction or in exchange of a specified commodities (*ribawai* commodities or *ammal ribawiyyah*), accrues to the owner (lender) or the other counter-party in exchange of specified commodity without giving or receiving an equivalent counter value or recompense in return to the other party. It covers interest both on commercial and consumer loans, and is prohibited according to Shariah. For the purpose of these Best Practices, the term *“riba”* will be used together with the term “interest” for ease of reference.

**“Rules of Bursa Securities”** means the Rules of Bursa Malaysia Securities Berhad.

**“SAC of the BNM”** means the Shariah Advisory Council of the BNM established under Section 51 of the Central Banking Act 2009.

**“SAC of the SC”** means the Shariah Advisory Council of the SC established under section 31ZI of Part IIIC of the Securities Commission Malaysia Act 1993.

**“SBL-NT”** means Securities Borrowing and Lending - Negotiated Transaction.



“**SC**” means the Securities Commission Malaysia established under the Securities Commission Malaysia Act 1993.

“**Shariah**” means Shariah resolutions issued by the SAC of the SC and/ or the SAC of the BNM and/or any recognised Shariah standard setting bodies and/or Islamic Participating Organisations’ respective Shariah Advisers.

“**Shariah Adviser**” means an individual, corporation or a foreign Shariah adviser who is registered with the SC under the Registration of Shariah Advisers Guidelines.

“**Shariah Discretionary Account**” means an account for trades executed by an Islamic Participating Organisation on behalf of a Client pursuant to an arrangement where the Client authorises the Islamic Participating Organisation to trade on the Client’s behalf on a discretionary basis.

“**shirkah al-aqd**” means contractual partnership.

“**ta’addi**” means misconduct.

“**taqsir**” means negligence.

“**ta’widh**” means an amount of charges agreed upon by the contracting parties as compensation that can rightfully be claimed by the creditor arising from actual loss suffered when the debtor fails or is late in meeting his obligation to pay back the debt. For the purpose of these Best Practices, the term “**ta’widh**” will be used together with the term “compensation” for ease of reference.

“**Trading Clearing Participant**” for the purpose of these Best Practices means an Islamic Participating Organisation which has been admitted by the Clearing House as a Clearing Participant to participate in one or more of the services provided by the Clearing House.

“**uqud muawadhat**” means contracts of exchange.

“**wa’dan**” means 2 unilateral promises or undertakings.

“*wakalah*” means a contract where a party, as principal (*muwakkil*) authorizes another party as his agent (*wakil*) to perform a particular task on matters that may be delegated, with or without imposition of a fee.

“*wakil*” means agent.

**D. INTERPRETATION**

1. Unless the context otherwise requires-

- (i) words denoting the singular shall also include the plural where applicable and vice versa;
- (ii) word importing the masculine gender shall include the feminine and neuter genders and vice versa.

**E. BEST PRACTICES IN ISLAMIC STOCKBROKING SERVICES**

**1. Qualification, Expertise and Experience of Human Resources to Manage and Administer the Provision of Islamic Stockbroking Services**

1.1 An Islamic Participating Organisation should, at all times, have adequate human resources with the necessary qualification, expertise and experience to manage and administer its provision and affairs in respect of its Islamic stockbroking services.

1.2 An Islamic Participating Organisation should provide adequate and proper training whether internal or otherwise for all of its employees, not only to equip and familiarise its employees with the necessary knowledge in conducting the Islamic stockbroking services, but also to enhance the technical knowledge of its employees in respect of all the applicable legal and regulatory requirements, as the case may be, in conducting Islamic stockbroking services, as well as the operational and the internal control and policies of the Participating Organisation in its conduct of Islamic stockbroking services. Training should also be conducted for its employees involved in its front office activities such as Dealer’s Representatives in order to

enhance their skills and professionalism and apprise them of the developments of the Islamic capital market to enable them to give accurate, adequate and updated information and/ or advice to the Clients.

- 1.3 Particular attention should be given to the training of the Head of Dealing, Head of Operations and Head of Compliance, who should be responsible to monitor the activities carried out and services provided, in relation to the Islamic stockbroking services, to ensure that they comply with the Shariah. In this regard, the Islamic Participating Organisation is encouraged to ensure the Head of Dealing, Head of Operations and Head of Compliance have sufficient Shariah knowledge in relation to the Islamic stockbroking services.

**2. Compliance with Shariah Concepts and Rulings issued by the SAC of the SC or the SAC of the BNM**

- 2.1 An Islamic Participating Organisation should ensure that its Islamic stockbroking services adhere to and comply with the Shariah concepts and rulings issued by the SAC of the SC or the SAC of the BNM, as may be amended from time to time.
- 2.2 Dealings in securities traded on the Bursa Securities by an Islamic Participating Organisation should be limited to the Shariah-compliant securities, as determined and endorsed as such by the SAC of the SC. The list of the Shariah-compliant securities is available for viewing on SC and Bursa Malaysia Berhad's website.
- 2.3 The Islamic Participating Organisation is allowed to facilitate the disposal of Shariah non-compliant securities either upon their reclassification from Shariah-compliant to Shariah non-compliant following the review by the SAC of the SC or they are securities currently classified as Shariah non-compliant securities which the Client holds and wishes to dispose of for the purpose of purification.
- 2.4 Dealings in securities traded on the stock exchanges other than Bursa Securities should be allowed to be undertaken by the Islamic Participating Organisation only in respect of securities traded on any of the recognised stock exchanges, which are endorsed to be Shariah-compliant securities by the recognised stock exchange or by a Shariah standard setting body or a Shariah Adviser, either in Malaysia or elsewhere.

2.5 An Islamic Participating Organisation should, in respect of dealings under paragraph 2.4 above, maintain or retain all records relating to the dealings, including the relevant advice or confirmation or publication given or made by the recognised stock exchange or the Shariah standard setting bodies or a Shariah Adviser, either in Malaysia or elsewhere that the securities are Shariah-compliant securities.

### **3. Shariah Adviser**

#### **3.1 Appointment**

3.1.1 It is recommended that the Islamic Participating Organisation appoints a Shariah Adviser who is registered under the List of Shariah Advisers either from within the Islamic Participating Organisation or its group of companies or from outside for the purpose of advising the Islamic Participating Organisation in ensuring compliance with Shariah as set out in paragraph 2 above.

#### **3.2 Conflict of Interest**

3.2.1 The Participating Organisation should take reasonable steps to ensure that the Shariah Adviser is independent and not subject to any conflict of interest with the Participating Organisation's business or operations, whether in respect of the Islamic stockbroking services or otherwise.

#### **3.3 Roles and Responsibilities of a Shariah Adviser**

3.3.1 The role of a Shariah Adviser is to advise the Islamic Participating Organisation on adherence to Shariah in relation to the Islamic stockbroking services offered by the Islamic Participating Organisation.

3.3.2 The Shariah Adviser is expected to provide an effective oversight on the compliance of the Islamic Participating Organisation with Shariah rules and principles including, but not limited to, endorsing and approving the relevant policies, systems, operational procedures and internal controls in relation to the Islamic Participating Organisation's day-to-day business operations in respect of the Islamic stockbroking services.

- 3.3.3 The Shariah Adviser should also provide interpretation and clarification, as and when requested by the Islamic Participating Organisation, in relation to Shariah concepts and rulings issued by the SAC of the SC or the SAC of the BNM or any other Shariah standard setting bodies from time to time , either in Malaysia or elsewhere.
- 3.3.4 In this respect, the Shariah Adviser is encouraged to be consistent and objective in performing its duties, especially in the areas involving interpretation or clarification of the Shariah concepts and rulings issued by the SAC of the SC, the SAC of the BNM or any other Shariah standard setting bodies from time to time.
- 3.3.5 In the event that there is ambiguity or uncertainty as to the Shariah concepts and rulings issued by the SAC of the SC or the SAC of the BNM applicable in relation to the Islamic stockbroking services, the Islamic Participating Organisation is advised to refer the matter to and consult the Shariah Adviser for advice and resolution. The Shariah Adviser may also refer any ambiguity or uncertainty in relation to any matters pertaining to the Islamic stockbroking services to the SAC of the SC, the SAC of the BNM or any other Shariah standard setting bodies for consultation.
- 3.3.6 In order to ensure that the Shariah Adviser of the Islamic Participating Organisation discharges its duties or functions effectively, the Islamic Participating Organisation is encouraged to take the following steps:
- (i) appoint a dedicated Shariah officer to provide assistance to the Shariah Adviser as it reasonably requires;
  - (ii) give right of access to the Shariah Adviser in respect of all relevant documents and information, as may be requested by the Shariah Adviser from time to time;
  - (iii) ensure that it does not interfere with the Shariah Adviser in its ability to discharge or in the course of discharging its duties; and
  - (iv) ensure that the information provided to the Shariah Adviser is accurate and not misleading at all times.

3.3.7 The Shariah Adviser should be able to decide on the administrative, operational and policy matters within the Shariah governance framework of the Islamic Participating Organisation to ensure Shariah compliance at all times.

**3.4 Records of Advice Given or Issued by the Shariah Adviser to the Islamic Participating Organisation**

3.4.1 Records of all advice given by the Shariah Adviser, whether adopted or implemented by the Islamic Participating Organisation or not, should be maintained or caused to be maintained by the Islamic Participating Organisation.

3.4.2 Such records stipulated under paragraph 3.4.1 should be maintained or caused to be maintained in such a form that is readily accessible and convertible to writing.

3.4.3 There should be regular meetings with the Shariah Adviser to resolve any in-house Shariah matter arising from day-to-day operations.

3.4.4 The Shariah Adviser should periodically and at least annually review, endorse and approve the Shariah compliance of the operations of the Islamic Participating Organisation.

**4. Supervision of Islamic Participating Organisation at Pre-approval and Post-approval Stage**

**4.1 Pre-approval Stage**

Prior to approval, an Islamic Participating Organisation should ensure that the activities to be carried out by the Islamic Participating Organisation upon approval will be Shariah-compliant as guided by the Shariah Adviser.

**4.2 Post-approval Stage**

The activities of the Islamic Participating Organisations and their Dealer's Representatives, which include, among others, dealing and operational activities, compliance-related functions, and on-site and off-site supervision, should be supervised by the Shariah Adviser as set out in paragraph 3.3.2.

**5. Compliance in relation to Operations, Systems and Procedures**

5.1 An Islamic Participating Organisation should establish and implement adequate policies, systems, operational procedures and internal controls in relation to its day-to-day business operations in respect of the Islamic stockbroking services to ensure that it complies with Shariah. This is also to ensure that the Shariah risks associated with such affairs relating to the Islamic stockbroking services are properly managed.

5.2 In respect of a Participating Organisation which operates an Islamic window services, systems and controls should be in place to ensure the Islamic stockbroking services are properly identified to differentiate them from the conventional stockbroking services and other conventional business of the Participating Organisation.

5.3 An Islamic Participating Organisation should adhere to Shariah in carrying out its Islamic stockbroking services at all times, including the following principles:

**5.3.1 Prohibition of *Riba***

(i) ***Riba* on accounts opened, operated or maintained by the Islamic Participating Organisation:** Under no circumstances, unless otherwise expressly allowed by the SAC of the SC, the SAC of the BNM or any other Shariah standard setting bodies, should any accounts opened, operated or maintained by the Islamic Participating Organisation, either for its clients or for the Islamic Participating Organisation itself, accrue or be attributed with interest. The accounts maintained by the Islamic Participating Organisation pursuant to section 111 of the CMSA should be Shariah-compliant accounts.

(i) **Financing:** All financing undertaken for the Islamic Participating Organisation itself or offered by the Islamic Participating Organisation to its Clients e.g. margin financing and discretionary financing, in relation to the Islamic stockbroking services provided by the Islamic Participating Organisation, should be confined to Shariah-compliant financing only.

(ii) **No interest on settlement of trade:** Interest or any other charges which operates as an interest or penalty in relation to any amount outstanding pursuant to settlement of

trade is prohibited. In the event that there are losses arising from settlement of trade on contra transactions i.e. contra losses, no interest should be charged against the client for the amount due to the Islamic Participating Organisation pursuant to the contra losses. The Islamic Participating Organisation is only entitled to recover the principal amount in connection to the contra trade and *ta'widh*, if applicable.

**5.3.2 Segregation of funds:**

- (i) All funds maintained by the Participating Organisation providing Islamic window services, whether for itself or its Clients in respect of the Islamic stockbroking services should be segregated from those funds maintained in respect of its conventional stockbroking services.
- (ii) For Islamic window services, the Islamic Participating Organisation should ensure that the trading account of the Clients within the Islamic window services is clearly tagged and used as trading account for the purpose of Islamic window services only.
- (iii) For Islamic window services, the Islamic Participating Organisation should put in place sufficient controls to ensure the Islamic trading account can only deal with Shariah-compliant securities.

**5.3.3 *Ta'widh* or compensation on late and default payment:** For Clients who defaulted in its payment or delay in making payment to the Islamic Participating Organisation in respect of trades executed by the Islamic Participating Organisation, the Islamic Participating Organisation may impose a *ta'widh* on the late payment. *Ta'widh* or compensation can be imposed in the case of delay in payment by the Clients to settle the unpaid contra losses for a normal trading and the payment of the principal or profit for Islamic margin financing at the rate and in the manner prescribed by the SAC of the SC, the SAC of the BNM or any other Shariah standard setting bodies. The rate cannot be compounded.

**5.3.4 *Ibra'*:** In the case of early settlement elected by the Client in relation to financing obtained from an Islamic Participating Organisation based on exchange contracts (*'uqud mu'awadhat*), the Islamic Participating Organisation should grant a rebate



(*ibra'*). The requirements provided in the Guidelines on *Ibra'* for Sale-Based Financing issued by BNM should be observed by the Islamic Participating Organisation.

- 5.3.5 **Other compensation:** Any anomaly from a normal trade that requires alternative arrangement, the affected Islamic Participating Organisation and/ or its Clients should be compensated for actual loss and should not benefit or obtain any material gain.
- 5.3.6 **Investments:** The proprietary investments, either short-term or long-term investments of an Islamic Participating Organisation should be confined only to Shariah-compliant investments, as endorsed by the SAC of the SC or the securities endorsed to be Shariah-compliant securities by a recognised stock exchange, any other Shariah standard setting body or a Shariah Adviser, either in Malaysia or elsewhere.
- 5.3.7 **System:** The system that is being applied and operated by the Islamic Participating Organisation should, where possible, facilitate and support the conduct of the activities and operations of the Islamic Participating Organisation in a Shariah-compliant manner. For example, the trading system applied and operated by the Islamic Participating Organisation should be able to identify or tag Shariah compliant securities from the available list of tradeable securities on Bursa Securities. The finance module applied and operated in the back-office system, should facilitate the keeping of the Islamic Participating Organisation's financial matters in accordance with Shariah.
- 5.3.8 **Permissible collaterals or contributions:** In the event that the Trading Clearing Participant needs to provide collaterals or contributions to the Clearing House, the Trading Clearing Participant should ensure that such collaterals or contributions are Shariah-compliant in nature.
- 5.3.9 **Settlement via Islamic financial institution:** For the process of clearing and settlement of the trades for the Clients, the Trading Clearing Participant should clear and settle the trades via Islamic financial institutions. Trading Clearing Participants therefore should open Islamic bank account(s) with any Islamic banks from the list approved by the BNM, for such purpose.

5.3.10 **Contract Note:** The transfer of securities ownership is confirmed via issuance of Contract Note by Participating Organisation to its Clients. In this instance, the Islamic Participating Organisation must issue Contract Notes to the Clients and the Contract Notes must comply with the regulations issued under the CMSA on Contract Notes and to ensure that the terms used in the Contract Notes should comply with the Shariah.

5.3.11 **Zakat obligation:** *Zakat* is a means prescribed in Islam for spreading and distributing wealth to the needy throughout the community. The payment of *zakat*, as such, would invite blessings from Allah to one's wealth. An Islamic Participating Organisation may seek guidance from its Shariah Adviser and/ or the appropriate authority such as Pusat Pungutan Zakat, Majlis Agama Islam Wilayah Persekutuan ("PPZ-MAIWP"), Lembaga Zakat Selangor, Majlis Agama Islam Selangor ("LZS-MAIS"), and Jabatan Wakaf, Zakat dan Haji, Jabatan Perdana Menteri ("JAWHAR") on *zakat* matters.

## **6. Audit**

6.1 The department that carries out the internal audit functions for the Islamic Participating Organisation should conduct audit in relation to the Islamic stockbroking services of the Islamic Participating Organisation for the purposes of examining, reporting and evaluating on the adequacy and efficiency of the Islamic Participating Organisation's management, operations and internal controls to ensure the quality and integrity of the Islamic stockbroking services provided to its Clients and its adherence to the Best Practices, and the Shariah concepts and rulings issued by the SAC of the SC, the SAC of the BNM or any Shariah standard setting bodies, as reviewed from time to time.

6.2 For the purpose stipulated in paragraph 6.1, the Islamic Participating Organisation should ensure that there are adequate audit policies, procedures and resources for the carrying out of the functions stipulated in paragraph 6.1.

6.3 The internal audit personnel are encouraged to equip themselves with the required knowledge in connection with the activities pertaining to the Islamic stockbroking services, the Best Practices, and Shariah concept and rulings issued by the SAC of the SC, the SAC of the BNM or any Shariah standard setting bodies, as reviewed from time to time, in order to perform their duty effectively.

**7. Compliance Functions**

- 7.1 The Head of Compliance of the Islamic Participating Organisation should monitor compliance of the Islamic Participating Organisation with these Best Practices, and the Shariah concepts and rulings issued by the SAC of the SC, the SAC of the BNM or any Shariah standard setting bodies, as reviewed from time to time, and should report any Shariah non-compliance of the Islamic Participating Organisation with the Best Practices, and the Shariah concepts and rulings issued by the SAC of the SC, the SAC of the BNM or any Shariah standard setting bodies (“compliance findings”) directly to its board of directors after consulting the Shariah Adviser.
- 7.2 The reporting of the compliance findings as stated in paragraph 7.1 need not be reflected in the monthly compliance report required to be submitted by a Participating Organisation under the Rules of Bursa Securities.

**8. Shariah Confirmation**

- 8.1 A Shariah confirmation should be obtained by the Islamic Participating Organisation from the Shariah Adviser on an annual basis stating that it is providing Islamic stockbroking services and that its management, operations and internal controls comply with the Best Practices, and the Shariah concepts and rulings issued by the SAC of the SC or the SAC of the BNM, as reviewed from time to time. The Shariah confirmation should at least adopt the format as provided in **Appendix 1**.
- 8.2 In the absence of the annual Shariah confirmation under paragraph 8.1 above, an Islamic Participating Organisation should not describe itself as an Islamic Participating Organisation or advertise its Shariah-compliant stockbroking services.

**9. Board of Directors**

- 9.1 The responsibility for ensuring that the Islamic Participating Organisation complies with the Shariah concepts and rulings issued by the SAC of the SC, the SAC of the BNM or any Shariah standard setting bodies, in the provision of the Islamic stockbroking services should ultimately rest with the board of directors of the Islamic Participating Organisation.

**10. Transparency**

10.1 An Islamic Participating Organisation should in relation to its Islamic stockbroking services indicate very clearly to all its Clients whether it offers a full-fledged Islamic stockbroking services or Islamic window services.

**11. [Deleted]**

**12. Advertisement**

12.1 An Islamic Participating Organisation may advertise its Islamic stockbroking services provided that it complies with the requirements prescribed by Bursa Securities pertaining to advertisement at all times and it should ensure that such advertisement or any marketing collaterals issued by the Islamic Participating Organisation has no element contradicting the Shariah.

**13. *Takaful*/Insurance**

13.1 An Islamic Participating Organisation should endeavor to use *takaful* under all situations. Any exceptions should be tabled to the Shariah Adviser for concurrence.

**14. Others**

14.1 Any other issues or transactions which are not stated above, the Islamic Participating Organisation should consult its Shariah Adviser for resolution.

**F. SHARIAH DISCRETIONARY TRADING**

**1. Shariah Discretionary Account**

1.1 Creation of a separate Shariah Discretionary Account from new or existing trading account where an Islamic Participating Organisation should ensure that the Shariah Discretionary Account of its clients within the Islamic window services is clearly tagged and used as a Shariah Discretionary Account for the purpose of Islamic window services only.

**2. Compliance with the Shariah Concepts and Rulings issued by the SAC of the SC or the SAC of the BNM**

2.1 Refer to Section E - Item 5.3 above.

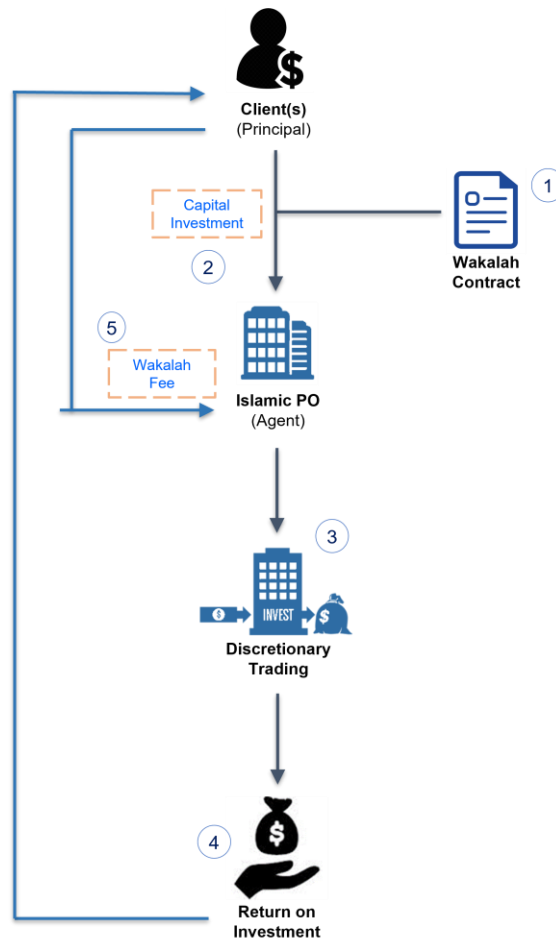
**3. Applicable Shariah Contracts**

**3.1 *Wakalah***

3.1.1 *Wakalah* refers to a contract where a party, as principal (*muwakkil*) authorises another party as his agent (*wakil*) to perform a particular task on matters that may be delegated, with or without imposition of a fee.

3.1.2 Under the *wakalah* principle, Islamic Participating Organisation may impose a *wakalah* fee to its client. The *wakalah* fee may be mutually agreed by the Islamic Participating Organisation and its Client as a fixed amount or as a percentage on the value of assets or portfolio under management.

3.1.3 The *wakalah* structure is designed based on Shariah discretionary trading with customisation, as illustrated below:

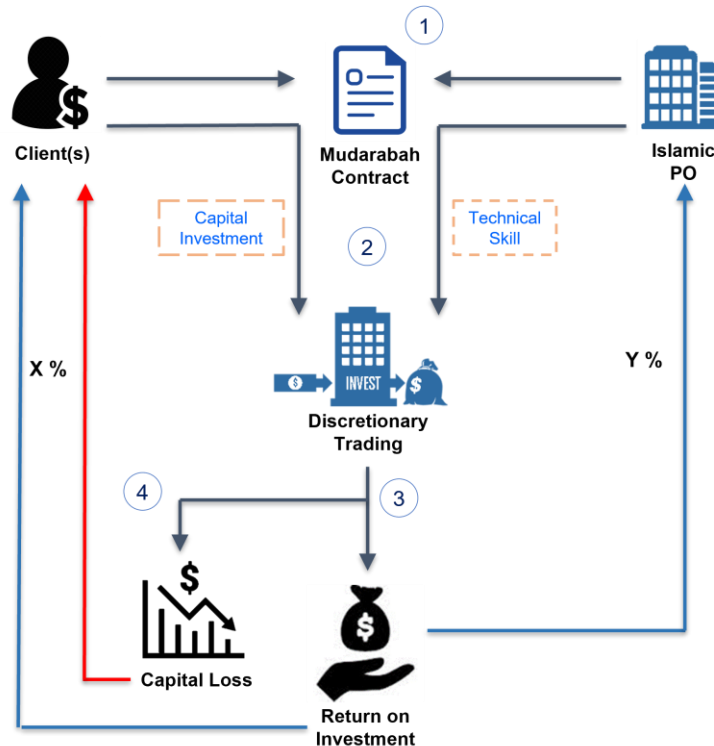


- (1) The Client as a principal may enter into *Wakalah* agreement to appoint Islamic Participating Organisation as an investment agent to manage the investment on behalf of the Client under the discretionary trading framework based on agreed terms and conditions.
- (2) The Client will provide capital investment to the Islamic Participating Organisation to be invested in Shariah-compliant securities.
- (3) The Islamic Participating Organisation will invest the capital on behalf of the Client.
- (4) The Client will receive the return from the investment after stipulated time agreed upon in the *wakalah* contract.
- (5) The Islamic Participating Organisation may impose a *wakalah* fee to the Client.
- (6) In the event of failure to achieve expected returns or if incurring loss, the agent (*wakil*) will not be liable unless in the occurrence of the misconduct (*ta'addi*), negligence (*taqsir*) and breach of specified terms (*mukhalafah al-shurut*).

**3.2 Mudarabah**

3.2.1 Under the *mudarabah* principle, Islamic Participating Organisation may have an arrangement with the Client to accept a share in the profits from the Client’s Shariah Discretionary Account. 3.2.2 The profit should not be fixed in the form of a certain percentage of the capital.

3.2.3 The *mudarabah* structure is designed based on Shariah discretionary trading with customisation, as illustrated below:



- (1) The Client (*rabbul mal*) will enter into a *mudarabah* agreement with Islamic Participating Organisation (*mudarib*).
- (2) The Client will provide the capital investment, whereas the Islamic Participating Organisation will act as a manager who will contribute skills and know-how to the venture.

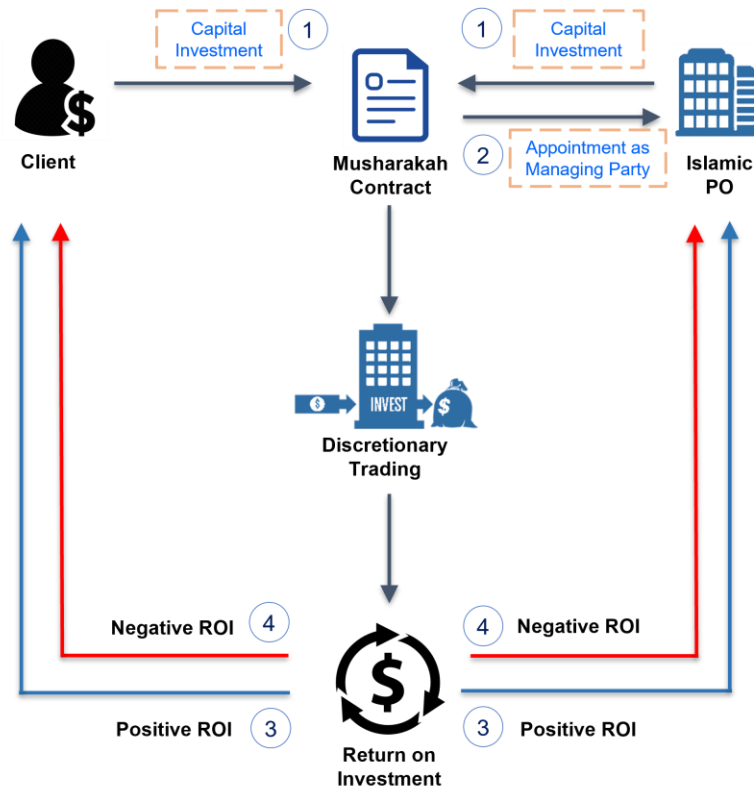
- (3) Any outcome (profit) derived from the venture will be shared on a ratio that is mutually agreed by the Islamic Participating Organisation and its Client.
- (4) Any losses will be borne solely by the Client provided that such losses are not due to the *mudarib's* misconduct (*ta`addi*), negligence (*taqsir*) or breach of specified terms (*mukhalafah al-shurut*).

### **3.3 *Musharakah***

- 3.3.1 Under the *musharakah* model, the Islamic Participating Organisation and its Client(s) are to enter into a contractual partnership (*shirkah al-aqd*) agreement, whereby both parties are to invest a sum of money as capital and share its profit according to the agreement.
- 3.3.2 The parties in a *musharakah* contract may agree to appoint only 1 party who will be acting as the managing party, which in this case will be the Islamic Participating Organisation. The managing party may be entitled to an agreed remuneration on top of his share in profit as a party in the *musharakah* contract.
- 3.3.3 The profit-sharing ratio between the parties in a *musharakah* contract could either be proportionate to the capital contribution of each party or as mutually agreed at its inception.
- 3.3.4 Upon the mutual agreement of all parties in the *musharakah* contract, the profit-sharing ratio may be revised during its tenure.
- 3.3.5 The parties in a *musharakah* contract may agree that the profit-sharing ratio is to be based on a specified profit threshold. Should the actual profit be either below/ equivalent or exceed the threshold, different profit-sharing ratios could be in effect.
- 3.3.6 Losses are borne by all parties proportionate to their respective capital contribution to the *musharakah* contract.
- 3.3.7 Losses incurred through mismanagement, negligence or misconduct will render the Islamic Participating Organisation liable.



3.3.8 The *musharakah* structure based on Shariah discretionary trading is as illustrated below:



- (1) The Client(s) and the Islamic Participating Organisation enter into a *musharakah* contract, providing their respective capital investments.
- (2) The Client(s) in the *musharakah* contract agree to appoint the Islamic Participating Organisation as the sole managing party of the collected funds.
- (3) The distribution of positive return on investment is in accordance with the above-mentioned paragraphs 3.3.2 to 3.3.5.
- (4) Negative return on investment will be borne by all parties in the *musharakah* contract as mentioned in paragraphs 3.3.6 and 3.3.7. Losses incurred through misconduct (*ta`addi*), negligence (*taqsir*) or breach of specified terms (*mukhalafah al-shurut*) will deem the managing party liable.

3.4 The above contracts are not exhaustive and Islamic Participating Organisations may refer to their respective Shariah Adviser or Shariah Committee for any other suitable contract for their Shariah discretionary trading structure.

3.5 Any other Shariah contract from the above used for the Shariah discretionary trading structure should be presented to Shariah Committee of Bursa Malaysia for notification.

#### **4. Audit**

4.1 Refer to Section E - Item 6.3 above.

#### **5. Compliance Functions**

5.1 Refer to Section E - Items 7.1 and 7.2 above.

#### **6. Shariah Confirmation**

6.1 A Shariah confirmation should be obtained by the Islamic Participating Organisation from its Shariah Adviser on an annual basis stating that it is providing Shariah discretionary trading services and that it complies with these Best Practices, and the Shariah, concepts and rulings issued by the SAC of the SC, the SAC of the BNM or any Shariah standard setting bodies, as reviewed from time to time.

6.2 In the absence of the annual Shariah confirmation under paragraph 6.1 above, an Islamic Participating Organisation should not describe itself as an Islamic Participating Organisation or advertise its Shariah discretionary trading services.

#### **7. Reference on Discretionary Trading**

For the relevant rules in relation to discretionary trading, please refer to:

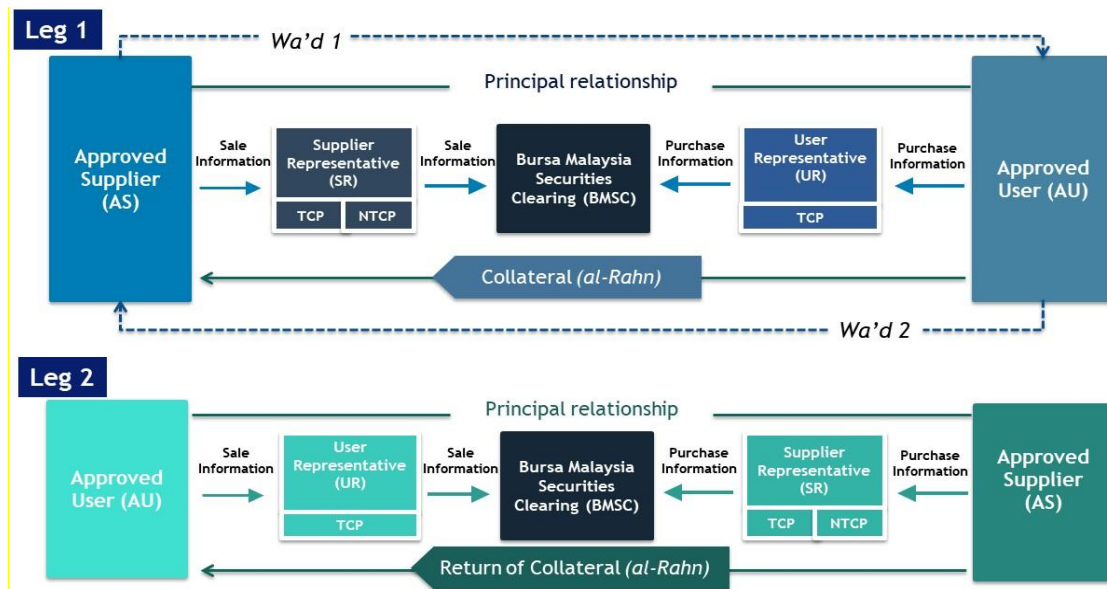
- (i) Rules of Bursa Malaysia Securities in Chapter 5, Rule 5.16A:  
[https://www.bursamalaysia.com/sites/5d809dcf39fba22790cad230/assets/60dbf77a5b711a7bcd033a5/CHAPTER\\_5\\_30.6.2021\\_.pdf](https://www.bursamalaysia.com/sites/5d809dcf39fba22790cad230/assets/60dbf77a5b711a7bcd033a5/CHAPTER_5_30.6.2021_.pdf)

- (ii) Participating Organisations' Directives and Guidance, Directives No. 2.01(2)-006, 3.36-001 and 5-001:

[https://www.bursamalaysia.com/sites/5d809dcf39fba22790cad230/assets/60dbf88f39fba2389a5d0bea/POs\\_Directives\\_and\\_Guidance\\_30\\_June\\_2021\\_.pdf](https://www.bursamalaysia.com/sites/5d809dcf39fba22790cad230/assets/60dbf88f39fba2389a5d0bea/POs_Directives_and_Guidance_30_June_2021_.pdf)

**G. ISLAMIC SECURITIES BUYING AND SELLING – NEGOTIATED TRANSACTION (ISSBNT)**

1. ISSBNT Model is a Shariah compliant alternative to the conventional Securities Borrowing and Lending - Negotiated Transaction (SBLNT) Model. The ISSBNT Model is structured based on two outright sale (*bai'*) transactions that includes the feature of two unilateral promises/undertakings (*wa'dan*), conditional option (*khiyar al-sharat*) and the provision of collateral as security for the indebtedness.
2. The ISSBNT structure is designed based on SBLNT with customisation, as illustrated below:



3. For the relevant rules in relation to ISSBNT, please refer to Rules of Bursa Malaysia Securities Clearing in Chapter 9:

[https://www.bursamalaysia.com/sites/5d809dcf39fba22790cad230/assets/5fcd926339fba27f5fe6cd3d/Chapter\\_9\\_-\\_201207\\_Expansion\\_of\\_MM.pdf](https://www.bursamalaysia.com/sites/5d809dcf39fba22790cad230/assets/5fcd926339fba27f5fe6cd3d/Chapter_9_-_201207_Expansion_of_MM.pdf)

4. For more information on ISSBNT, please refer to the frequently asked questions on ISSBNT in the following link:

[https://www.bursamalaysia.com/reference/faqs/islamic\\_market/faqs\\_on\\_issbnt](https://www.bursamalaysia.com/reference/faqs/islamic_market/faqs_on_issbnt)

**APPENDIX 1: ANNUAL SHARIAH CONFIRMATION STATEMENT**

**ANNUAL SHARIAH CONFIRMATION**

In the name of Allah, the Most Beneficent, the Most Merciful

In compliance with the Best Practices in Islamic Stockbroking Services Undertaken by Participating Organisation, I/we submit the following confirmation:

I/We have reviewed the principles and the contracts relating to the transactions and applications introduced by *[name of Islamic Participating Organisation]* during the financial period ended *[date month year]*. I/We have also conducted our review to form an opinion as to whether *[name of Islamic Participating Organisation]* has complied with Shariah resolutions issued by the Shariah Advisory Council of Securities Commission Malaysia and the Shariah Advisory Council of Bank Negara Malaysia, as well as Shariah advice made by us.

The management of *[name of Islamic Participating Organisation]* is responsible for ensuring that the organisation conducts its Islamic stockbroking services in accordance with Shariah. It is our responsibility to form an independent opinion, based on our review of the operations of *[name of Islamic Participating Organisation]*, and to report to you.

I/We have periodically assessed the Shariah compliance review reports carried out by the compliance officer and Shariah audit reports carried out by the internal auditor as presented to us and have examined, on a test basis, the transactions, the relevant documentations and procedures adopted by *[name of Islamic Participating Organisation]*. The said Shariah compliance reviews and audits have been planned and performed to ensure that all the necessary information and explanations have been obtained to provide sufficient evidence that would give us reasonable assurance that *[name of Islamic Participating Organisation]* has not violated any Shariah.

I/We also confirm that every incident of Shariah non-compliance that has been brought to our attention has been properly noted and that the corrective as well as preventive measures have been taken by the Management of *[name of Islamic Participating Organisation]* to avoid the same from occurring in the future. Any Shariah non-compliant income has also been disposed of to charitable causes upon approval by us.

In relation to the above, based on the information provided and disclosed to us, I/We, the Shariah Advisers of *[name of Islamic Participating Organisation]*, do hereby confirm that the Islamic stockbroking services and operations of *[name of Islamic Participating Organisation]* for the financial year ended *[date month year]* have been conducted in conformity with the Shariah.

Shariah .....Adviser:  
.....  
(Name: )

Relevant to	:	Rule 8.16
Introduced with effect from	:	2 May 2013
Amended	:	29 May 2017 vide R/R 5 of 2017, 1 March 2018 vide R/R 3 of 2018, 21 August 2020 vide R/R 11 of 2020, and 2 October 2023 vide R/R 6 of 2023
POs' Circular No(s).	:	R/R 9 of 2012, R/R 8 of 2011
Refer also to Directive No(s).	:	Directive 8-001

**1. Rule 8.16**

- (1) This Rule provides that a Participating Organisation may provide Direct Market Access if the Direct Market Access complies with the requirements stipulated by the Exchange.
- (2) In discharging the obligations under the said Rule, a Participating Organisation is encouraged to adopt the best practices set out below.

**1.1 DMA Handbook**

The best practices in providing Direct Market Access is set out in the DMA Handbook attached as **Appendix 1**.

[End of Best Practice]



**BURSA MALAYSIA SECURITIES BERHAD**  
**DIRECT MARKET ACCESS HANDBOOK**

## Document Revision

Version	Author	Description of Change	Effective Date
1.00	Infrastructure Planning	<ul style="list-style-type: none"><li>Published to the Industry on 6<sup>th</sup> Nov. 2009</li></ul>	9 <sup>th</sup> November 2009
1.01	Infrastructure Planning	<ul style="list-style-type: none"><li>Explanation on Section C – 4.7, 4.8 and 4.9</li><li>Incorporate Section B – 3, 3.1 and 3.2</li></ul>	17 <sup>th</sup> December 2009
2.0	Exchanges Operations	<ul style="list-style-type: none"><li>Deleted Section A, B, D and E.</li><li>Revised Section C.</li></ul>	5 <sup>th</sup> September 2011
3.0	Regulatory Policy & Advisory, Participants <sup>™</sup> Supervision, Technology & Systems	<ul style="list-style-type: none"><li>Updated sections on Definitions and on DMA Client – Criteria and Requirements</li></ul>	18 <sup>th</sup> September 2012



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**DIRECT MARKET ACCESS HANDBOOK**

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**BACKGROUND**

The introduction of Direct Market Access (“DMA”) by Bursa Malaysia Securities Bhd (“Bursa Securities”) will enable direct electronic access by clients to Bursa Trade, which is the Bursa Securities’ Automated Trading System. Connectivity to Bursa Trade via Open Application Programming Interface (“API”) will provide users with flexibility and choice of front-end systems and interface solutions.

The DMA regulatory framework encompasses the Rules of Bursa Securities, directives on pre-trade risk filters and the Bursa Malaysia Information Technology Security Code version 2.0 1998.

**KEY OBJECTIVES**

Bursa Securities is issuing herein the “Direct Market Access Handbook” (“DMA Handbook”) with the following objectives:

1. To highlight key obligations of Participating Organisations (“POs”) under the Rules and the directives on pre-trade risk filters in relation to DMA.
2. To provide guidance to POs in respect of practices recommended to be observed in relation to the discharge of their obligations under some of the Rules and the directives on pre-trade risk filters. Whilst not mandatory, these recommended practices are instructive of the minimum standards required to be observed by POs, which may adopt additional controls as deemed fit in relation to their DMA business.

**DEFINITIONS**

Unless otherwise stated, words or expressions defined in the Rules of Bursa Securities shall when used in the DMA Handbook, carry the same definition.

“Direct Market Access” or “DMA”	Rule 1.01 defines DMA as the process by which orders to buy or sell securities, or modifications or cancellations of the orders, are submitted for execution in the ATS by a Client without any intervention or keying-in by a Dealer’s Representative.
“DMA Participant”	POs offering DMA.
“DMA Client”	Rule 1.01 defines DMA Client as a person who is allowed to key-in DMA orders under Rule 8.18.
“ASEAN Link”	An electronic trading link among Bursa Securities and other participating ASEAN exchanges.

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**GUIDELINE ON RISK MANAGEMENT REQUIREMENTS**

**1. Conditions for Connectivity of DMA Clients**

**1.1. Clients' knowledge of the process for the submission of DMA orders into the Exchange's order book including Laws and Rules in relation to Trading on the Malaysian Securities Market**

- 1.1.1 Rule 8.18(1) provides that DMA Participants shall take reasonable steps to ensure that a DMA Client and persons authorised by the DMA Client have :
- knowledge of the process of entering DMA orders into the Exchange's order book;
  - knowledge of the requirements in the Rules in relation to trading on the market; and
  - knowledge of the relevant laws pertaining to trading on the Market

- 1.1.2 For the purpose of discharging its obligations under Rule 8.18(1), we recommend DMA Participants to have procedures in place to ensure that the DMA Client demonstrates that it has knowledge of the matters set out in Rule 8.18(1) (refer to paragraph 1.1.1 above). For example, the level of knowledge of DMA Clients can be assessed by asking relevant questions on the matters set out in Rule 8.18(1). The DMA Participant should also implement review procedures, such as discussions with DMA Clients and updates, to ensure that the DMA Client's required level of knowledge remains satisfactory.

In this respect, we recommend that the DMA Participant should provide its DMA Clients with information, guidance and training<sup>1</sup> on the following areas:

- Bursa Trade features and functionalities i.e. trading phases, market timing, matching mechanism, order types, execution conditions and instrument state<sup>2</sup>;
- Contract specifications of products listed on Bursa Securities; and
  - Prohibited trading practices and trading offences.

- 1.1.3 In relation to DMA Clients accessing Bursa Trade via Internet (refer to paragraph 1.2.2 below), a DMA Participant may rely on a confirmation from the DMA Client that the Client and the persons authorised by the Client have knowledge of the matters set out in Rule 8.18(1).

**1.2. DMA Client – Criteria and Requirements**

The DMA regulatory framework encompasses the Rules of Bursa Securities and the directives on pre-trade risk filters, and regulates all forms of access to Bursa Trade where there is no manual intervention by a PO. This includes direct connectivity to the DMA Participant's Order Management System ("OMS") server or access to Bursa Trade through the ASEAN Link to facilitate order routing and algorithmic trading by buy-side institutions (sometimes referred to as "direct access"), and

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<sup>1</sup> The requirements for the DMA Participant to train the DMA Client in the requirements of the Exchange Rules in relation to the entry of orders and trading and other applicable requirements, and to ensure that revisions and updates to the Laws, Exchange Rules are promptly communicated to the DMA Client should be incorporated in the Agreement between DMA Participant and DMA Client. Refer paragraph 1.3.1 on Recommended Terms of Agreement.

<sup>2</sup> Refer to the "Participating Organisation's Trading Manual" in Bursa Malaysia's website at [http://www.bursamalaysia.com/website/bm/regulation/rules/bursa\\_rules/downloads/bm\\_cir\\_rr2\\_110411.pdf](http://www.bursamalaysia.com/website/bm/regulation/rules/bursa_rules/downloads/bm_cir_rr2_110411.pdf) under R/R 2 of 2011.

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internet trading to facilitate retail participation in the equities market of Bursa Securities.

**1.2.1 DMA Clients Accessing Bursa Trade via an Access Device connected to a DMA Participant’s OMS server or through the ASEAN Link**

The DMA Participant should limit such access to Bursa Trade to DMA Clients which are subjected to Client Due Diligence (“CDD”).

There are 2 types of CDD – simplified and enhanced. Clients of regulated nature of business may be subjected to simplified CDD whilst Clients of unregulated nature of business may be allowed to connect “directly” to the DMA Participant’s OMS server or to access to Bursa Trade through the ASEAN Link only if enhanced CDD measures (refer paragraph 1.2.3 below) and careful consideration of the client risk profile have been carried out.

**1.2.2 DMA Clients Accessing Bursa Trade via Internet**

Bursa Securities envisages that Clients that access the market via internet (“Internet Clients”) will comprise primarily retail clients and should be subject to enhanced CDD measures (refer paragraph 1.2.3 below), unless there are special mitigating circumstances e.g. where reliable information on the Client can be obtained publicly, or where the Client has a good track record.

Internet Clients must be connected via an additional Web server, which is connected to an OMS server. The Web server may contain enhanced security features and added risk management controls/filters.

**1.2.3 DMA Client Due Diligence – Know Your Client (“KYC”) Requirements**

Rule 5.15 requires a PO to exercise due diligence in learning the essential facts as to the Client and its or his investment objectives and financial situation prior to the commencement of trading. The requirements to monitor and report suspicious transactions are also set out under the AntiMoney Laundering Act 2001<sup>3</sup> and the Guidelines on Prevention of Money Laundering and Terrorism Financing for Capital Market Intermediaries<sup>4</sup> issued by the Commission. In this respect, the DMA Participant must ensure that all reasonable steps are taken to ensure adherence to these KYC requirements.

We recommend that all reasonable steps should be taken to accurately establish the DMA Client’s business and financial background, and its” investment objectives. The DMA Participant should be assured of the financial probity of the DMA Client and that it has sufficient financial resources to meet its obligations.

Enhanced CDD should be undertaken for clients with higher risk profiles, whilst simplified CDD may be conducted for clients with lower risk profiles e.g. regulated entities. The KYC measures undertaken in relation to eligibility requirements for DMA Clients should be reviewed regularly, at least on an annual basis. Suggested and recommended data to be obtained for simplified or enhanced CDD are as follows:

<b>Client Type</b>	<b>Simplified CDD</b>	<b>Enhanced CDD</b>
Individual	<ul style="list-style-type: none"> <li>• IC or passport</li> </ul>	<ul style="list-style-type: none"> <li>• IC or passport</li> </ul>

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	<ul style="list-style-type: none"> <li>• Address – residential and permanent address, if different</li> </ul>	<ul style="list-style-type: none"> <li>• Address – residential and permanent address, if different</li> <li>• Occupation</li> <li>• Latest 3 months’ payslip or latest income tax statement or bank statement</li> </ul>
Corporation	<ul style="list-style-type: none"> <li>• Notice of registration</li> <li>• Constitution (if any)</li> <li>• Board Resolution on opening of account</li> <li>• Specimen signature of authorised signatories</li> </ul>	<ul style="list-style-type: none"> <li>• Notice of registration</li> <li>• Constitution (if any)</li> <li>• Board Resolution on opening of account</li> <li>• Specimen signature of authorised signatories</li> <li>• Information on the nature of business and its corporate structure</li> <li>• Latest audited financial statement and/or management financial statements</li> <li>• Latest 3 month bank statement</li> <li>• Power of Attorney (if applicable)</li> </ul>

In carrying out the above, the PO should exercise due diligence and be aware of any suspicious client behaviour(s) that warrant further enquiry or probe (herein referred to as “Red Flag”). Some of the situations of Red Flag are as follows:

- a series of transactions or activities which are senseless or irrational in nature (e.g. constantly buying and selling securities at a loss)
- the client requests to pay third parties or receives funding from third parties
- the client is reluctant to co-operate in verifying his/her identity
- the client frequently makes last minute changes to payment instructions
- orders are received from persons other than the account holder.

POs should properly monitor other doubtful circumstances where clients’ accounts may be subjected to abuse, including but not limited to cases where a few clients’ accounts carry identical correspondence addresses.

Any unexplained information should always be investigated.

Assessments of the expected pattern of the activity of the client on a continuous basis throughout the business relationship with the client should also be considered.

**1.2.4 Record of DMA Clients**

The Participating Organisations should maintain the following records in respect of each client's account:

- date of opening of the account;
- client’s financial position;
- name of the officer which approved the opening of the account and the date of approval;

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- (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.

### 1.3. Agreement between DMA Participant and DMA Client

Rule 8.19 stipulates that DMA Participants is deemed to be the principal in relation to all trades effected through DMA and the Exchange will not recognise the interest of any third party and that all DMA Orders are deemed as orders submitted for execution in the ATS by a Dealer's Representative on behalf of a client.

Rule 8.18(2) requires the DMA Participant to execute a written agreement with DMA Clients to address the following areas:

- The duties, obligations and rights of the DMA Participant and its Clients in relation to DMA; and
- The Clients' compliance with the Rules.

#### 1.3.1 Recommended Terms of Agreement

The following terms are recommended to be incorporated in the written agreement between the DMA Participant and the DMA Client to ensure that crucial provisions are agreed to prior to trading, to mitigate disputes, and to empower DMA Participants to take immediate preventive and corrective measures with respect to fair and orderly trading.

- The DMA Client shall enter orders and trade in compliance with the Rules of the Exchange and other applicable regulatory requirements;
- Specific parameters defining the orders that may be entered by the DMA Client are stated, including restriction to specific instruments or size of orders, and the DMA Participant shall have the right to reject orders that do not fall within the designated parameters of authorised orders;
- The DMA Participant has the right to reject an order for any reason;
- The DMA Participant has the right to change or remove an order in the Order Book and has the right to cancel any trade by the DMA Client for any reason;
- The DMA Participant has the right to discontinue accepting orders from the DMA Client at any time without notice;
- The DMA Participant agrees to train the DMA Client in the requirements of the Exchange Rules in relation to the entry and trading of orders and other applicable requirements;
- The DMA Participant agrees to ensure that revisions and updates to Laws and Rules are promptly communicated to the DMA Client.

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### 2. DMA Participant Internal Control Requirements

The DMA Participant shall have written policies and procedures and comply with the following internal control requirements in relation to the provision of connectivity of its OMS server to DMA Clients.

#### 2.1 Internal Controls: Areas of Focus for DMA Participants

Whilst the fundamental requirements of effective internal control as set out in the Bursa Malaysia Guidelines for Compliance Officers (“Compliance Guidelines”) remain relevant for all POs regardless of the medium of communication or delivery, there are a few critical internal control areas in relation to DMA trading that the DMA Participant should focus on:

##### 2.1.1 Segregation of Duties

It is stated in the Compliance Guidelines that there must be strict separation between the credit control function, and the trading, dealing and marketing functions to ensure independence, and mitigate the risk and consequences of conflicts of interests.

It is recommended for DMA Participants to segregate the DMA direct execution desk from other Agency desks to ensure confidentiality of DMA Client Orders. Anonymity, along with increased control and speed of execution are the key benefits of trading via DMA, and the DMA Participant should endeavour to maximise these features.

##### 2.1.2 Credit Controls

It is stated in the Compliance Guidelines that POs must ensure that suitable credit limits are set for their clients. It is recommended that the CDD assessment of DMA Client’s financial probity must be decided independently of the trading, dealing or marketing functions.

We recommend for DMA Participants to consider enforcing stricter credit control for clients requiring enhanced CDD requirements, especially in relation to overseas accounts. These may include the collection of deposits and/or collateral as guarantee of performance, restriction on total open positions.

It is recommended that credit limits and any subsequent variation of credit limits are authorised by a senior management officer of the DMA Participant who is independent of trading, dealing and marketing functions, and is not associated with the DMA Client in question.

It is stated in the Compliance Guidelines that POs must ensure that proper systems and control procedures are implemented to ensure that their clients do not trade beyond the credit limits imposed. Further, the directives on pretrade risk filters states that risk filters (automated pre-execution checks) must be undertaken for all DMA Clients’ orders. The risk filters are covered in greater detail under paragraph 2.2 below.

##### 2.1.3 Post-Trade Review

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DMA Participants should also ensure that proper and adequate post trade risk management monitoring systems and procedures are set in place to monitor risk exposure of DMA Clients' trades with respect to daily net cash position, daily maximum total capital engaged, etc. DMA Participants should ensure that account activity is monitored at least on a daily basis.

In addition, we also recommend that regular analysis of trading behaviours ought to be carried out to complement CDD measures and also to detect any possibilities of market offences that may potentially arise.

### 2.2 Risk Filters

DMA Participants, in providing DMA services, must ensure the following principles are adhered to at all times:

- a) Fair and orderly trading;
- b) Prevention of trade error; and
- c) Manage trade exposures / credit / counterparty risks.

DMA Participants need to install appropriate automated risk filters to help them comply with the above principles.

Each DMA Participant must determine what constitutes "appropriate filters" for their business. The nature and scope of the filters adopted is a matter for each DMA Participant to determine based upon its regulatory risk profile and what the DMA Participant is comfortable with. They have the discretion to decide and implement the type of pre-trade risk filters, including the types set out below in paragraph 2.2.1.

These risk filters, with pre-defined criteria and values, will check and screen all DMA orders before these DMA orders are executed in the ATS, for the purpose of ensuring that these DMA orders do not pose any risk to the DMA Participants and to the market.

Risk filters are intended to establish points at which DMA orders are tested and passed to the market only when pre-set conditions are met.

The DMA Participants must regularly review the risk filters set for each DMA client as the DMA Participants will be the responsible parties bearing their clients' risk exposure.

#### 2.2.1 Types of Pre-Trade Risk Filters

DMA Participants have the discretion to decide and implement the following types of pre-trade risk filters to screen through every DMA order prior to entry into the Exchange's order book as set out in the directives on pre-trade risk filters:

- i) Trade exposure risk filter  
This type of filter manages the maximum exposure in which a client may trade. It may be set on the basis of gross or net or both.
- ii) Order size risk filter  
This type of filter manages the maximum DMA order size which a client may enter into the Exchange order book at any single time. It may be set on the basis of value in RM or in quantity (units) or both.



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iii) Price limit risk filter

This type of filter manages the maximum price of DMA order which a client may enter into the Exchange order book at any single time. It may be set on the basis of percentage or tick (bid/offer) away from the last traded price or reference price or in any combination.

DMA Participants must ensure regular review is carried out to refine and adjust the pretrade risk filters and the screening process. Examples of various risk filters and how they may be implemented are set out in paragraph 3 below.

### 2.2.2 Filter Parameters

Filter parameters are variables set at the respective pre-trade risk filters in terms of pre-defined criteria and values responsible for the checking and screening of DMA orders. The directives on pre-trade risk filters require DMA Participants to establish policies and procedures on which to provide internal guidance on the setting of the filter parameters for the risk filters. These parameters can be changed to modify the effectiveness of the filters without changing the nature of the rule to which the filter applies. Any changes, including intra-day changes to filter parameters must be controlled, monitored, authorized and recorded properly.

DMA Participants should not give its DMA clients the same rights or capacity as granted to Dealer's Representative ("DR") in setting the filters parameters because they are not licensed as a DR.

**2.2.3** It is recommended that the tracking and utilisation of the filters established for the purpose of checking and screening the DMA orders to be updated on real-time on-line basis.

In the event that an order is rejected by a risk filter, it is recommended that both the DMA Client and the DR should each receive a rejection notice. The DR will normally contact the DMA Client to assess how to handle the rejection. Any actions taken to manage an exception must be in accordance with the DMA Participant's internal control policies and procedures, and logged and appropriately documented.

## 2.3 Maintenance of DMA Infrastructure Activity Log

DMA Participants must establish and maintain a DMA activity log ("Log") to record all the events/activities/processes of all Users and Administrators, encompassing the full order flow.

Access to the Log shall be restricted to Administrators and any other authorised person/(s) as may be designated by the DMA Participant. Any work carried out on this Log shall be recorded with full details. The date and time references in the Log shall be that of the ATS. In relation to the above directive, the following applies:

### 2.3.1 Details to be Recorded in the Log

- (i) References to the DMA client/Dealer's Representative responsible for the DMA Order;
- (ii) Date and time-stamp;

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- 
- (iii) Client sign-on;
  - (iv) Client sign-off and the manner in which the sign-off was carried out i.e. manual or automated;
  - (v) Order identification/sequence number;
  - (vi) The outcome/status of the risk filter screening;
  - (vii) The outcome/status of the DMA Order entering the Exchange order book;
  - (viii) Modifications made by DMA client to DMA Order; and
  - (ix) Order match confirmation received from the ATS and the notification of the same when it was made to the DMA client.

**2.3.2 Recommended Practices in Storage of DMA Log and Records**

The DMA Participant should ensure that DMA records can be easily retrievable by authorised personnel, stored securely and that proper back-up controls are kept. The DMA Participant must be able to produce a complete audit trail of transactions, from receipt of an order to its settlement upon request by the Exchange.

The DMA Participant should also ensure that appropriate backup of DMA records are kept with reference to recommendations of PO IT Security Code – Baseline Procedures for ITSS 6: Computer Operations, Section 6.4 “Backup Storage Media Protection”.

**2.4 Error and/or Exception Handling**

Refer to Item 4 of the directives on pre-trade risk filters for the requirements on risk filters” error and/or exception handling. We recommend that any errors, rejections and exceptions be monitored and investigated/resolved on a daily basis, and a review of the actions taken in relation to errors and/or exceptions should be undertaken by the Head of Compliance on a regular basis.

**3. Examples of Pre-Trade Risk Filters That May Be Implemented**

**3.1 Daily Net Cash Position**

The DMA Participant ABC initializes the DNCP for the Client XYZ before the start of Trading Day [Tues, Dec 16, 2008]

**Order Entry & Execution**

Order	Price	Qt	Side	New DNCP	Event
				RM 1,000.000	
1	RM 10.000	10	Buy	RM 900.000	Order Entry
1	RM 10.000	10	Buy	unchanged	Order Execution

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2	RM 12.000	5	Sell	unchanged	Order Entry
3	RM 14.000	5	Sell	unchanged	Order Entry
2	RM 12.000	5	Sell	RM 960.000	Order Execution
3	RM 14.000	3	Sell	RM 1,002.000	Order Execution
4	USD 2.00	10	Buy	RM 930.751	Order Entry

**Order Modification & Matching @ book price**

5	RM 10.000	10	Buy	RM 830.751	Order Entry
5	RM 11.000	10	Buy	RM 820.751	Order Modification
5	RM 10.500	10	Buy	RM 825.751	Order Execution

**Partial Matching & Order Cancellation**

6	RM 5.000	20	Buy	RM 725.751	Order Entry
6	RM 5.000	5	Buy	RM 725.751	Part Execution
6	RM 5.000	15	Buy	RM 800.751	Order Cancel

**3.2 Daily MAX Total Capital Engaged**

The DMA Participant ABC initializes the DMTCE for the Client XYZ before the start of Trading Day [Tues, Dec 16, 2008] based on his RM 1,000 Cash + 30% of his collaterals (RM 1,500 Equities marked to market).

Equities: RM 1,500 / Warrant: RM 900

Instrument	Order	Price	Qt	Side	Client Pos/DMTCE	Event	Instr. Type
					RM 0 / RM 1,500		
Bursa	1	RM 10.000	10	Buy	RM 100.000	Order Entry	Share
TM	2	RM 15.000	20	Buy	RM 400.000	Order Entry	Share
Bursa Warrant	3	RM 1.000	1000	Buy	<b>REJECTED</b>	Order Entry	Warrant
Bursa Warrant	4	RM 1.000	500	Buy	RM 500.000	Order Entry	Warrant
Tenaga	5	RM 6.500	150	Buy	RM 1,375.000	Order Entry	Share
Bursa	6	RM 14.000	10	Sell	unchanged	Order Entry	Share
Bursa	6	RM 14.000	10	Sell	RM 1,235.000	Order Exec	Share

**3.3 Max Capital Engaged per Order**

The DMA Participant ABC initializes the MCEO for his client

Instrument	Order	Price	Qt	Side	Order Value	Event
Example 1					<b>MCEO = RM 200</b>	
Bursa	1	RM 10.000	10	Buy	RM 100.000	Order Entry
TM	2	RM 15.000	20	Buy	RM 300.000	<b>REJECTED</b>
Bursa	3	RM 20.000	11	Sell	RM 220.000	<b>REJECTED</b>

DIRECT MARKET ACCESS HANDBOOK

Example 2					<b>MCEO = 0.001% with RM 100,000,000</b>	
Genting	3	RM 27.000	5000	Buy	RM 135,000.000	<b>REJECTED</b>

3.4 % Far from Market Spread

The DMA Participant ABC set the FMS for the Client XYZ to 15% for the groups 01, 02 and 03. All the other groups are set to 20%.

Bursa	<b>Bid</b>	5.35	Genting	<b>Bid</b>	20
	<b>Ask</b>	5.45		<b>Ask</b>	21

Instrument	Grp	Order	Price	Qt	Side	FMS Check	Accepted?
Bursa	01	1	RM 5.400	10	Buy	Price ?>Ask+15%	OK
Bursa	01	2	RM 5.450	10	Buy	Price ?>Ask+15%	OK
Bursa	01	3	RM 5.700	10	Buy	Price ?>Ask+15%	OK
Bursa	01	4	RM 6.300	5	Buy	Price ?>Ask+15%	6.30 > 6.267
Bursa	01	5	RM 5.000	5	Sell	Price ?<Bid-15%	OK
Bursa	01	6	RM 4.540	3	Sell	Price ?<Bid-15%	4.54 < 4.548
Genting	05	7	RM 16.500	8	Sell	Price ?<Bid-20%	OK
Genting	05	8	RM 15.800	3	Sell	Price ?<Bid-20%	15.80 < 16

3.5 % Far from Last Traded Price

The DMA Participant ABC set the FLTP for the Client XYZ to 15%

<b>LTP=</b>	<b>5.5</b>	<b>Bid</b>	<b>Ask</b>
		5.35	5.45

Order	Price	Qt	Side	Check	Accepted?
1	RM 5.400	10	Buy	Price ?>LTP+15%	OK
2	RM 5.450	10	Buy	Price ?>LTP+15%	OK
3	RM 5.700	10	Buy	Price ?>LTP+15%	OK
4	RM 6.300	5	Buy	Price ?>LTP+15%	OK
5	RM 6.350	5	Buy	Price ?<LTP+15%	6.35 > 6.325
6	RM 4.540	3	Sell	Price ?<LTP-15%	4.54 < 4.675

3.6 Small Order Quantity far from Last Traded Price

The DMA Participant ABC set the FLTP for the Client XYZ to 20% and 80 shares.

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LTP=	5.5	Bid	Ask	Qt=80
		5.35	5.45	20%

Order	Price	Qt	Side	Qt triggered	Accepted?
1	RM 7.000	100	Buy	No (100 > 80)	Not checked
2	RM 3.000	100	Buy	No (100 > 80)	Not checked
3	RM 7.000	80	Sell	Yes (80 = 80)	Yes
4	RM 3.000	80	Sell	Yes (80 = 80)	No (3 < 5.5 - 20%)
5	RM 5.900	50	Buy	Yes (50 < 80)	Yes
6	RM 5.000	50	Sell	Yes (50 < 80)	Yes
7	RM 7.000	10	Buy	Yes (10 < 80)	No (7 > 5.5 + 20%)
8	RM 3.000	10	Buy	Yes (10 < 80)	Yes
9	RM 6.100	10	Sell	Yes (10 < 80)	Yes
10	RM 9.000	10	Sell	Yes (10 < 80)	Yes

### 3.7 Market Type Authorization

By default, all the market types are authorized for all “sponsored access” clients. If the DMA Participant wants to restrict the access for a given client, all the authorized market types have to be listed using this risk filter.

The market codes are the following:

N : Normal Market  
B : Buying-in Market  
O : Odd-lot Market

They should be listed separated by comma.

Examples:

DMA Participant ABC authorizes the Client XYZ trade on “N,B”. In this case the client is not authorized to trade on Odd-lot.

- The DMA Participant DEF authorizes the Client TUV trade on Normal Market only "N"

	ISIN Code	Name	Market	Status
Order on	MYO1818OR---	Bursa	Odd lot	Rejected
Order on		Bursa		Rejected
Order on	MYI1818----	Bursa	Buying in	Rejected
	MYN1818----		Normal	Accepted

### 3.8 Instrument Type Authorization

By default, all the instrument types are authorized for all “sponsored access” clients. If the DMA Participant wants to restrict the access for a given client, all the authorized instrument types have to be listed using this risk filter.

DIRECT MARKET ACCESS HANDBOOK

The instrument codes are the following:

O	:	Ordinary share
P	:	Preference
T	:	Property Trust
F	:	Close End Fund
W	:	Warrants/TSR
C	:	Call Warrants
L	:	Loan Stocks
N	:	Loan Notes
D	:	Debentures
B	:	Bonds
E	:	ETF

They should be listed separated by comma.

Examples:

1. The DMA Participant ABC authorizes the Client XYZ to trade on: O,P,T,F,L,N,D,B,E  
This client is not authorized to trade on Warrants and Call Warrants.
2. The DMA Participant DEF authorizes the Client TUV to trade on: N, D, B, E, O, P, T, F

ISIN Code	Name	Market	Status
MYN2003WB---	Kulim (M)	Odd lot	Rejected

Order on

### 3.9 Order Technical Origin Authorization

This risk filter is set by the DMA Participant according to the agreement it has with its client. If this risk filter is not set, all the activities are authorized for a client. This risk filter must be set correctly before authorizing a client to trade via DMA.

The activities are listed below:

A	:	Broker Front-end
R	:	RSS sell order
P	:	<i>[Deleted]</i>
I	:	Internet Trading
J	:	Internet Trading RSS sell order
K	:	<i>[Deleted]</i>
T	:	Algorithmic Trading
V	:	Algorithmic Trading RSS sell order
W	:	<i>[Deleted]</i>
D	:	Direct Market Access – Sponsored Access
E	:	Direct Market Access – Sponsored Access – RSS sell order
F	:	<i>[Deleted]</i>

Notes:

*[Deleted]*

Relevant to : Rule 11.02(3B)  
Introduced with effect from : 9 September 2015  
Amended : N/A  
POs' Circular No(s). : N/A  
Refer also to Directive No(s). : N/A

### **1. Rule 11.02(3B)**

Rule 11.02(3B) of the Rules of Bursa Malaysia Securities Berhad (“**Rules of Bursa Securities**”) provides that a Participating Organisation and its Dealer’s Representatives must not give any rebate on the commission that results in the Client paying less than the minimum commission set out in Schedule 6.

### **2. Non-cash rewards or incentives**

- (1) The obligation stated in Rule 11.02(3B) refers to an obligation not to give any cash rebate on the commission that results in the Client paying less than the minimum commission set out in Schedule 6. Non-cash rewards or incentives do not form part of the obligation under Rule 11.02(3B) and may be offered to Clients without being subjected to the minimum commission set out in Schedule 6.
- (2) Such non-cash rewards or incentives may take the following forms:
  - (a) Educational training and research materials - a Participating Organisation and its Dealer’s Representatives may offer its Clients free investment seminars or talks, or a free subscription to financial journals or magazines;
  - (b) Accumulation and redemption of points or free gifts - a Participating Organisation and its Dealer’s Representatives may offer its Clients electronic products such as computers or telephones based on the accumulation and redemption of points, or free gifts; or
  - (c) Lucky draws - a Participating Organisation and its Dealer’s Representatives may invite its Clients to participate in a lucky draw based on the reward points accumulated by the Clients.
- (3) The list of non-cash rewards or incentives above are merely examples and are non-exhaustive.

### **3. Reminder**

When offering non-cash rewards or incentives as stated in paragraph 2 above, Participating Organisations must not breach any of the provisions in the Rules of Bursa Securities and directives issued by the Exchange, in particular:

- (a) Rule 5.01 of the Rules of Bursa Securities in relation to the standard of conduct;
- (b) Rule 5.03 of the Rules of Bursa Securities in relation to structures, internal controls, policies and procedures;
- (c) Rule 5.06 of the Rules of Bursa Securities in relation to advertising;

<b>GUIDANCE IN RELATION TO REBATE ON COMMISSION</b>	<b>No. 11.02(3B)-001</b>
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- (d) Paragraph 1.1(e) of Directive No. 5-001 in relation to the prohibition of unlawful or unhealthy practice; and
- (e) Paragraph 11.4 of Directive No. 5-001 in relation to Know-Your-Client requirements.

[End of Best Practices]



Relevant to : Rule 12.04  
Introduced with effect from : 2 May 2013  
Amended : N/A  
POs' Circular No(s). : R/R 11 of 1999  
Refer also to Directive No(s). : Directive 12-001

**1. Rule 12.04**

- (1) Rule 12.04 requires a Participating Organisation to comply with the Exchange's Directives in relation to the minimum requirements on the treatment of interest charged by the Participating Organisation to a Client and the impairment provisions for bad and doubtful debts irrespective of whether such debts have been assigned.
- (2) In discharging the obligations under the said Rule, a Participating Organisation is encouraged to adopt the best practices set out below.

**2. Best Practices**

This document sets out the best practices for the suspension of interest and provision of bad and doubtful debts and valuation of immovable property.

**Definition**

For the purposes of these best practices, unless the context requires otherwise:

"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" means the reversal of interest out of income described in item 4.2 below.

"Contra Losses" means all or any losses suffered by Clients in the course of dealings in Contra Transactions and includes all charges, costs and expenses.

"Contra Transaction" means a transaction where a Participating Organisation allows the Participating Organisation's Client to settle outstanding purchase positions against outstanding sale positions of the same securities if the orders for the purchase and sale transactions are transacted with the period stipulated in Rule 9.09(3) or in Rule 7.31(5).

"Immovable Property" shall mean any land (including any parcel of sub-divided building) with or without registered title and whether existing in perpetuity or for a term of years.

"Interest" includes all charges and fees payable to a Participating Organisation by a Client under any agreement between the Participating Organisation and the Client.

"Interest-in-Suspense" means the interest that has been suspended and credited to the Interest-in-Suspense account under this Best Practice.

"Interest-in-Suspense Account" means the account that has been so designated for purposes of this Best Practice.

"Overdue Purchase Contract" means an On Market Transaction for the purchase of securities where payment for that transaction by the Client is outstanding but for which no selling-out has been instituted due to the following circumstances:

- (a) the securities have been suspended from trading; or
- (b) there is no ready market,

and includes an outstanding Contract remaining in the error or mistake account and an outstanding Contract due to trade disputes.

**3. Accrual basis of accounting**

- (1) A Participating Organisation may prepare the Participating Organisation’s accounting records for all transactions, including interest charged on Contra Losses, Overdue Purchase Contracts and Margin Accounts, following the accrual basis of accounting.
- (2) According to the accrual basis, revenues and costs are accrued and recognised as they are earned or incurred (despite the revenues or costs having not in fact been received or paid) and recorded in the financial statements of the periods to which they relate.

**4. Treatment of interest on impaired accounts**

- (1) All interest accrued but not collected from the date an account is classified as impaired may be suspended and credited to the Interest-in-Suspense Account. This Interest-in-Suspense may be reflected in the Participating Organisation’s books of accounts.
- (2) Interest that has accrued and the Participating Organisation recognises as income prior to the date the account is classified as impaired but not collected, may be reversed out of income.
- (3) The guidelines on the classification of impaired accounts and the suspension of interest are as follows:

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	When an account remains outstanding from T+5 Market Days onwards;  When a DF Account remains outstanding from T+9 Market Days onwards	On T+5 Market Days  On T+9 Market Days	From T+5 Market Days  From T+9 Market Days
3.	Margin Accounts	When the Equity has fallen below 130% of the Outstanding Balance	On the last day of each calendar month	From the last day of each calendar month
<b>Key</b>				
T Contract date				

- (4) Interest-in-Suspense may be reversed under the following circumstances:

<b>No.</b>	<b>Types of Accounts</b>	<b>Circumstances</b>
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 Equity exceeds 130% of the Outstanding Balance at the end of the calendar month of that occurring.

**5. Impairment provision for bad and doubtful debts**

- (1) Basis for Individual Impairment Provision

The provision for impaired accounts may be applied on the basis of individual accounts.

- (2) DR Security Deposit

To determine the individual impairment provision to be made, the DR Security Deposit the Participating Organisation holds may be taken into account and applied on such basis as the Participating Organisation may determine if the Participating Organisation establishes, implements and maintains adequate internal criteria and procedures for such application of the DR Security Deposit. The internal criteria and procedures must:

- (a) be clear and applied in a consistent manner; and
- (b) result in the fair treatment of the Participating Organisation's Clients.

**6. Write off of bad debts**

- (1) A Participating Organisation may write-off any amount that cannot be collected as evidenced by:

- (a) the Participating Organisation having exhausted all proceedings or actions for recovery of the amount; or
- (b) should judgment be obtained against the debtor and there is no prospect of recovery from execution proceedings instituted on that judgment.

- (2) A Participating Organisation may obtain the approval of the Participating Organisation's Board of Directors or person or committee authorised by the Board of Directors to write-off any amount.

- (3) A Participating Organisation may ensure that the Participating Organisation keeps proper records of all bad debts written-off.

**7. Collateral Value**

**Immovable Property**

- (1) The value of Immovable Property the Participating Organisation holds as collateral may be determined by the following guidelines on valuation of Immovable Property.
- (2) Without derogation to any other provisions of the Rules of Bursa Securities, the value of Immovable Property which is properly charged in favour of a Participating Organisation as collateral shall be the lower of either its force sale value or the reserve price in the event of foreclosure proceedings having been instituted, subject always to the following conditions:
  - (a) the valuation exercise in determining the force sale value of the Immovable Property shall be conducted by a professional valuer acceptable to the Exchange and who is licensed under the Valuers, Appraisers and Estate Agents Act, 1981 and all related regulations and re-enactments;
  - (b) the valuation exercise shall be conducted on an “as is” basis and for the purpose of the creation of a registered or equitable charge as security;
  - (c) no value whatsoever shall be attributed to any building or structure affixed to the Immovable Property (if applicable) which may be under construction or if completed, has not been issued with the temporary certificate of fitness for occupation (if required) by the relevant authorities;
  - (d) the relevant valuation report shall be addressed to the Participating Organisation; and
  - (e) the valuation exercise was conducted and completed not earlier than 5 years prior to the Participating Organisation’s financial year end for purposes of preparation of its audited financial statements or such other time frame specified in the approved accounting standards, whichever earlier.

**(3) Immovable Property Properly Charged**

The Immovable Property shall be regarded as properly charged in favour of a Participating Organisation subject to the following conditions:

- (a) in respect of Immovable Property to which a registered title (whether qualified or final) has been issued by the relevant authorities:
  - (i) the charge over the Immovable Property must be registered under the provisions of the National Land Code, 1965;
  - (ii) the whole, but not a part only or any undivided share, of the Immovable Property must be charged in favour of the Participating Organisation;
  - (iii) in the event the Immovable Property intended to be charged to Participating Organisation is held under leasehold, there must be at least 1/3 of the leasehold’s term remaining unexpired as at the date the charge is presented for registration at the relevant land authority provided always such unexpired term of the leasehold as permitted must exceed the repayment period under the charge; and

- (iv) the Participating Organisation may take a subsequent registered charge (not being the first legal charge) over Immovable Property provided always the following stipulations are observed –
  - (aa) the right of the Participating Organisation to exercise its statutory remedy of sale pursuant to the subsequent charge must not be subject to the consent of the registered chargees having a priority over the subsequent charge; and
  - (bb) the force sale value of the Immovable Property over which the Participating Organisation intends to take the subsequent charge must not at any time be less than the aggregate of all amounts outstanding under the registered charges and the Participating Organisation's subsequent charge or the aggregate of all principal amounts secured by the registered charges and the Participating Organisation's subsequent charge, whichever is the higher;
- (b) in respect of Immovable Property to which a registered title has yet to be issued by the relevant authorities:
  - (i) the charge over the Immovable Property must be by way of an assignment of all the benefits, rights, title and interest in and to the Immovable Property (together with a power of attorney in favour of the Participating Organisation empowering it, but not limited thereto, to sell, assign or dispose of the immovable property and to sign, execute and do all documents, agreements, acts and things in relation thereto) duly executed, attested, stamped and registered with the High Court of Malaya; and
  - (ii) the acknowledgement and consent of the developer to the assignment in favour of the Participating Organisation and any sale, assignment or disposal thereof by the Participating Organisation to any third party arising from the said assignment must be first be had and obtained as an annexure to the assignment;
- (c) the registered charge or the assignment may be created by the Participating Organisation's client whose liabilities are to be secured as a first party security or may be by way of a third party security;
- (d) the Participating Organisation and its client, or in the case of third party security, and the chargor/assignor must have entered into a written agreement setting out, but not limited to the following:
  - (i) the events of default which entitle the Participating Organisation to exercise its rights to transfer, sell, dispose or foreclose on the Immovable Property;
  - (ii) that the Participating Organisation shall be entitled at any time and from time to time for the purposes of conducting a valuation on the immovable property –
    - (aa) to engage such professional valuers as it may think fit at the costs and expense of the client, or the chargor/assignor in the case of third party security; or
    - (bb) require the client or the chargor/assignor in the case of third party security, to engage such professional valuers referred to in paragraph 7.1(a) above; and

- (e) the document evidencing the security over the immovable property must be created in favour of the Participating Organisation.

**Collateral other than collateral that is Immovable Property**

- (4) The value of collateral other than collateral that is an Immovable Property may be determined by applying the applicable discounts stipulated in Schedule 18 of Directive 13.04.

[End of Best Practices]

Relevant to : Rule 12.04  
 Introduced with effect from : 2 May 2013  
 Amended : N/A  
 POs' Circular No(s). : R/R 8 of 2010  
 Refer also to Directive No(s). : Directive 12-001

**1. Rule 12.04**

- (1) Rule 12.04 requires a Participating Organisation to comply with the Exchange's Directives which set out the minimum requirements on the treatment of interest charged by the Participating Organisation to a Client and the impairment provisions for bad and doubtful debts irrespective of whether such debts have been assigned.
- (2) In discharging the obligations under the said Rule, a Participating Organisation is encouraged to adopt the best practices set out below.

**2. Recommendation**

- (1) **Classification of accounts and specific provisions:** A Participating Organisation may consider the following recommended guidelines (not exhaustive) to classify its accounts and make specific provisions:

<b>Types of Accounts</b>	<b>Default Period</b>	<b>Classification</b>	<b>Specific Provision</b>
1. Contra Losses	<ul style="list-style-type: none"> <li>• 16 to 30 calendar days</li> <li>• &gt; 30 calendar days</li> </ul>	<ul style="list-style-type: none"> <li>• Doubtful</li> <li>• Bad</li> </ul>	<ul style="list-style-type: none"> <li>• Note a.</li> <li>• Note b.</li> </ul>
2. Overdue Purchase Contracts	<p>Where securities are purchased in accordance with FDSS:</p> <ul style="list-style-type: none"> <li>• T+5 Market Days to 30 calendar days</li> <li>• &gt; 30 calendar days</li> </ul> <p>Where securities are purchased under a DF Account:</p> <ul style="list-style-type: none"> <li>• T+9 Market Days to 30 calendar days</li> <li>• &gt; 30 calendar days</li> </ul>	<ul style="list-style-type: none"> <li>• Doubtful</li> <li>• Bad</li> <li>• Doubtful</li> <li>• Bad</li> </ul>	<ul style="list-style-type: none"> <li>• Note a.</li> <li>• Note b.</li> <li>• Note a.</li> <li>• Note b.</li> </ul>
3. Margin Accounts	When the equity has fallen below 130% of the Outstanding Balance,	<ul style="list-style-type: none"> <li>• Bad</li> </ul>	<ul style="list-style-type: none"> <li>• Note b.</li> </ul>

**Key:**

T Contract Date

**Note:**

- a. **Specific provision for Accounts classified as Doubtful:** A Participating Organisation may make specific provision in respect of each doubtful account of an amount equal to fifty per cent (50%) of the amount outstanding after deducting the amount of interest-in-suspense, the value of collateral held and the deposit of and all amounts due to the Dealer's Representative having charge of or assigned to the said account.
- b. **Specific provision for Accounts classified as Bad:** A Participating Organisation may make specific provision in respect of each bad account of an amount equal to one hundred per cent (100%) of the aggregate amount outstanding after deducting the amount of interest-in-suspense, the value of collateral held and the deposit of and all amounts due to the Dealer's Representative having charge of or assigned to the said account.

- (2) **Circumstances of reversal:** A Participating Organisation may consider the following guidelines (not exhaustive) to re-classify its accounts and to reverse specific provisions:

<b>Types of Accounts</b>	<b>Circumstances</b>
1. Contra Losses	<ol style="list-style-type: none"> <li>a. When full or partial payment in settlement is received, to the extent of the amount of cash received in settlement</li> <li>b. When there is an increase in the DR Security Deposit or the value of the collateral the Participating Organisation holds that will reduce the exposure of the Contra Losses and the provision required, to the extent of the increase.</li> </ol>
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 equity exceeds 130% of the Outstanding Balance, at the end of the calendar month of that occurring.

- (3) **Treatment of interest on impaired accounts:** A Participating Organisation may consider the following guidelines on the classification of impaired accounts and the suspension of interest:

<b>No.</b>	<b>Types of Accounts</b>	<b>Criteria For Classification of Accounts As Impaired</b>	<b>Date For Classification</b>	<b>Date For Suspension Of Interest</b>
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



**GUIDANCE IN RELATION TO THE FINANCIAL REPORTING REQUIREMENTS**

**No. 12.04-002**

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	On the last day of each calendar month	From the last day of each calendar month
<p><b>Key</b> T Contract date</p>				

- (4) A Participating Organisation may consider the following guidelines to reverse the Interest-in- Suspense under the following circumstances:

	<b>Types of Accounts</b>	<b>Circumstances</b>
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 Equity exceeds 130% of the Outstanding Balance at the end of the calendar month of that occurring.

[End of Best Practices]

**BEST PRACTICE GUIDELINES FOR PARTICIPATING ORGANISATIONS IN RELATION TO LIQUIDITY RISK MANAGEMENT**

**No. 13.32-001**

Relevant to : Rule 13.32  
Introduced with effect from : 2 May 2013  
Amended : 1 March 2018 vide R/R 3 of 2018  
POs' Circular No(s). : R/R 3 of 2011  
Refer also to Directive No(s). : 13.32-001

*[Deleted]*