

**Frequently Asked Questions for the Rules of Bursa Malaysia Securities Berhad (“the BMS Rules”) in relation to the introduction of the LEAP Market**

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**1.0 Non-Sophisticated Investors (Refer to Rule 16.02 of the BMS Rules)**

1.1 Q: Are non-Sophisticated Investors allowed to trade on the LEAP Market?

A: No, with the exception of a current securities holder of a corporation listed on the LEAP Market.

Such person is allowed to sell the existing securities held in that corporation but is not allowed to trade in other listed securities on the LEAP Market (kindly refer to Rule 16.02(2) of the BMS Rules).

A current securities holder of a corporation listed on the LEAP Market includes:

- (a) an existing shareholder at the time the corporation was admitted to the LEAP Market, but is not qualified as a Sophisticated Investor; or
- (b) a securities holder who was qualified as a Sophisticated Investor at the time of the purchase of securities in the corporation admitted to the LEAP Market, but no longer qualifies as a Sophisticated Investor.

1.2 Q: In relation to Rule 16.02(3) of the BMS Rules, what are the circumstances in which a Participating Organisation (“PO”) may undertake proprietary trading in securities listed on the LEAP Market?

A: A PO may carry out proprietary trading in securities listed on the LEAP Market 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.

These circumstances are set out in the Directive on proprietary trading by a Participating Organisation on the LEAP Market (Directive No. 16.02(3)-001) of the BMS Rules.

In addition, Proprietary Day Traders are not allowed to trade in securities listed on the LEAP Market (kindly refer to Directives on the use of Day Trading activities account (Directive No. 7.05(1)-001) of the BMS Rules).

1.3 Q: Apart from the restrictions on proprietary trading imposed on the POs as set out in paragraph 1.2 above, are there any other restrictions imposed on dealings in LEAP Market securities by POs?

A: No, the restrictions imposed are only in respect of proprietary trading by POs and in respect of Day Trading. POs are free to deal in LEAP Market securities in other ways such as trading on behalf of their clients or acting as an underwriter for the LEAP Market listed corporation.

#### **Account Tagging**

1.4 Q: How do POs exercise control in restricting non-Sophisticated Investors from trading in the LEAP Market?

A: To avoid other clients from trading on the LEAP Market, POs are required to make the necessary arrangements with their respective IT vendors to differentiate Sophisticated Investors against non-Sophisticated Investors e.g. through account tagging and have the front/ back-office system restrict non-Sophisticated Investors from buying/selling in the LEAP Market.

#### **Know Your Client (“KYC”)**

1.5 Q: How should POs conduct the Know Your Client assessments on the Sophisticated Investors?

A: Pursuant to Rule 16.02(2), before a PO opens a trading account for the Sophisticated Investor, it must obtain all relevant essential information about the Sophisticated Investor in relation to his intention to trade in the LEAP Market. It must verify the Sophisticated Investor’s identity and the authenticity of his application.

Rule 16.02(2) also requires POs to take reasonable steps and exercise due diligence in learning the essential facts as to the Sophisticated Investor’s investment objective and financial position prior to opening of the trading account to trade in the LEAP Market.

After an account is opened, POs should review the Sophisticated Investor’s KYC if there are clear circumstances which warrant a review of their clients’ financial status by conducting the following:

- (a) Where the existing Sophisticated Investors’ trading accounts have been suspended by the POs e.g. due to a default in payment, POs should reassess the financial standing of their clients, to ensure that they continue to qualify as Sophisticated Investors, before allowing them to reactivate their trading accounts and trade on the LEAP Market.
- (b) Where the POs become aware that their clients no longer qualify as Sophisticated Investors e.g. through news, bankruptcy notice, notification from the relevant parties etc., POs should reassess the financial standing of such investors, before allowing them to resume trading on the LEAP Market.

In addition, POs should also require the Sophisticated Investors to immediately inform them if the Sophisticated Investors no longer qualify to trade on the LEAP Market.

## **2.0 Risk Disclosure Statement (Refer to Rule 16.03 of the BMS Rules)**

2.1 Q: Rule 16.03 provides that a PO may only execute a client’s first instruction to trade on the LEAP Market after receipt of a duly executed risk disclosure statement in the form provided by the PO. What is the purpose of the risk disclosure statement?

A: The purpose of the risk disclosure statement is to inform LEAP Market investors about the additional risks of trading in securities on the LEAP Market apart from the normal risks involved in trading in securities. Since the LEAP Market is a market designed to accommodate small or medium sized enterprises (“**SME**”) to which a higher investment risk may be attached, the risk of loss may be higher.

2.2 Q: Who will be responsible to provide a copy of the risk disclosure statement to the investors?

A: The risk disclosure statement will be provided by the Participating Organisations (“**POs**”) to their clients for signing.

2.3 Q: Is there a prescribed risk disclosure statement provided by the Exchange that POs are required to give to the clients?

A: The Exchange does not require POs to use a prescribed template. POs are free to provide their clients with a risk disclosure statement that suits their needs. However, for reference purposes, POs may refer to the sample risk disclosure statement provided in **Appendix A** of these FAQs.

[End of FAQs]

## APPENDIX A

### SAMPLE

#### LEAP MARKET RISK DISCLOSURE STATEMENT

- (1) The LEAP Market is aimed at facilitating access to the capital market by small or medium sized enterprises (“SMEs”) to which a higher investment risk may be attached. This market is a qualified market meant for sophisticated investors only, i.e. those who are specified as sophisticated investors under the Guidelines on Categories of Sophisticated Investors issued by the Securities Commission Malaysia. The issue or offer of securities on the LEAP Market is based on an information memorandum, and not a full prospectus registered with the Securities Commission Malaysia under section 233 of the CMSA. In the LEAP Market, sophisticated investors will have the full responsibility for evaluating the disclosed information, as well as the merits and risks of investing.
- (2) The purpose of this statement is to inform you that apart from the normal risks involved in trading in securities, trading securities in the LEAP Market comes with other additional risks. You should NOT invest in the securities offered unless you are a sophisticated investor and you fully understand and are prepared to take the risks. You should assess whether the purchase of the securities is suitable for you in light of your knowledge, financial means, investment objectives and the risks you are prepared to take. The risks of investing in such securities include but are not limited to the following:
- (i) **Small Companies**

Generally, the listed companies on the LEAP Market are smaller than the listed companies on the ACE Market or Main Market and may not have a proven track record in terms of operating history or profit track record. Hence, you should be aware that there is a higher risk of business failures which may adversely impact your investments should you choose to invest.
  - (ii) **Minimum Requirements on Disclosure and Governance**

The LEAP Market has a regulatory framework on disclosure and post-listing requirements appropriate for sophisticated investors only. This framework may be less prescriptive than that in the ACE Market or Main Market. The listed companies on the LEAP Market are required to provide only key information about its business plan, operations and financial information. This may affect your ability to make fully informed investment decisions.
  - (iii) **Liquidity Risks**

As a market limited to sophisticated investors only, the LEAP Market may not have the trading activities or liquidity of the ACE Market or Main Market. You may not be able to exit your investment as easily as in the ACE Market or Main Market. Limited trading activities or illiquidity in the LEAP Market may increase the risk of loss by making it difficult to effect transactions or sell the LEAP Market securities.
- (3) This brief statement cannot disclose all the risks and other significant aspects of trading securities in the LEAP Market. You should understand the key characteristics, business plan and financial information of the companies listed on the LEAP Market thoroughly and carefully

study all the risks associated with securities in the LEAP Market and/or seek independent professional advice before you decide to invest.

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

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

Signature: .....

Full Name: .....

Date: .....

[End of Appendix A]