

“ANNEXURE 3”

**PROPOSED AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES BERHAD
IN RELATION TO SECURITIES BORROWING AND LENDING NEGOTIATED TRANSACTIONS (“SBL NEGOTIATED TRANSACTIONS”)**

EXISTING PROVISIONS		PROPOSED PROVISIONS		RATIONALE
SECURITIES BORROWING AND LENDING				
	RULE 608.1 DEFINITIONS		RULE 608.1 DEFINITIONS	
Rule 608.1(1)	Clearing House Requirements means the Clearing House Rules, the SBL Conditions and any other document(s) by whatever name called issued by the Clearing House in relation to securities borrowing and/or lending;		Clearing House Requirements means the Clearing House Rules, and any other document(s) by whatever name called issued by the Clearing House in relation to securities borrowing and/or lending;	The definition has been tweaked to be more general in nature to cover both the CLA Model and the SBL Negotiated Transaction model.
	New		SBL Negotiated Transaction has the same meaning assigned to that expression in the Clearing House Rules	A new definition inserted.
	SBL Conditions has the same meaning assigned to that expression in the Clearing House Rules			This definition is deleted as this is specific to the CLA Model. With the introduction of the SBL Negotiated Transaction model, the rules have been amended to remove terms centric to CLA model.
	RULE 608.2 GENERAL			
Rule 608.2(1)	(1) A Participating Organisation shall only be permitted to carry out the activities of borrowing and/or lending of Eligible Securities as described below, subject to the provisions in the		(1) A Participating Organisation shall only be permitted to carry out the activities of borrowing and/or lending of Eligible Securities in accordance with the Clearing House Requirements and this Rule 608:	This rule has been amended to remove reference to CLA model. With the amendments proposed to the Rules of the Clearing House to also allow for SBL Negotiated Transaction, the Rules of Bursa Securities will be more general in

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EXISTING PROVISIONS		PROPOSED PROVISIONS		RATIONALE
	<p>Clearing House Requirements and this Rule 608:</p> <p>(a) A Participating Organisation may borrow Eligible Securities from:-</p> <p>(i) the Clearing House whether for itself or its client, or</p> <p>(ii) its client provided that such borrowing is for the sole purpose of lending the Eligible Securities borrowed to the Clearing House.</p> <p>(b) A Participating Organisation may lend Eligible Securities to:-</p> <p>(i) the Clearing House whether for itself or its client; or</p> <p>(ii) its client provided that the Eligible Securities being lent are the Eligible Securities that have been borrowed from the Clearing House for the sole purpose of lending to such client.</p>			<p>nature in order to cater for all types of borrowing and lending arrangements permitted by the clearing house.</p>

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Rule 608.2(4)	<p>(4) Every Participating Organisation shall ensure where it borrows or lends Eligible Securities, on behalf of its client or where it onward lends to or borrows from its client as envisaged in Rule 608.2(1) that the following are complied with:</p> <p>(a) that a written agreement is duly executed between the Participating Organisation and its client in respect of the borrowing or lending mentioned herein and the terms of the written agreement complies with Rule 608.6;</p> <p>(b) that collateral is lodged in accordance with Rule 608.7;</p> <p>(c) that where Margin Securities of Margin Account Client as defined in Rule 608.8 is utilised for lending, the utilisation thereof shall be subject to Rule 608.8;</p> <p>(d) that where Custodial Securities of Custodial Client as defined in Rule 608.9 is utilised for lending, the utilisation thereof shall be subject to Rule 608.9; and</p>		<p>(4) Every Participating Organisation shall ensure where the securities borrowing and/or lending involves a client that the following are complied with:</p> <p>(a) that a written agreement is duly executed between the Participating Organisation and its client in respect of the borrowing or lending mentioned herein and the terms of the written agreement complies with Rule 608.6. This provision is not applicable where the securities borrowing and/or lending is a SBL Negotiated Transaction</p> <p>(b) that collateral is lodged in accordance with Rule 608.7. This provision is not applicable where the securities borrowing and/or lending is a SBL Negotiated Transaction;</p> <p>(c) that where Margin Securities of Margin Account Client as defined in Rule 608.8 is utilised for lending, the utilisation thereof shall be subject to Rule 608.8;</p> <p>(d) that where Custodial Securities of Custodial Client</p>	<p>As the Rules of the Bursa Securities no longer make specific reference to CLA we have amended the rule to be more general in nature.</p> <p>We will not impose this requirement in a SBL Negotiated Transaction as this transaction is negotiated by the end clients directly without the use of an intermediary.</p> <p>We will not impose this requirement in a SBL Negotiated Transaction as this transaction is negotiated by the end clients directly without the use of an intermediary</p>

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	(e) that a copy of the Risk Disclosure Statement prescribed under Appendix 5 is given to and acknowledged by its client prior to the execution of any written agreement for borrowing by the client of Eligible Securities.		as defined in Rule 608.9 is utilised for lending, the utilisation thereof shall be subject to Rule 608.9; and (e) that a copy of the Risk Disclosure Statement prescribed under Appendix 5 is given to and acknowledged by its client prior to the execution of any written agreement for borrowing by the client of Eligible Securities.	
Rule 608.7	RULE 608.7 COLLATERAL (1) A Participating Organisation shall ensure that where it borrows Eligible Securities on behalf of a client as envisaged in Rule 608.2(1)(a)(i) or where it onward lends Eligible Securities as envisaged in Rule 608.2(1)(b)(ii) to its client (“the Borrowed Securities”) that it obtains collateral from the client in relation to the borrowing in accordance with this Rule 608.7.		RULE 608.7 COLLATERAL (1) A Participating Organisation shall in relation to any borrowing of Eligible Securities by a client (“the Borrowed Securities”) obtain collateral from the client in accordance with this Rule 608.7.	This Rule has been amended arising from changes made to Rule 608.2 whereby specific reference to the CLA model has been removed

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Rule 608.8	<p>RULE 608.8 SECURITIES IN MARGIN ACCOUNT</p> <p>(1) A Participating Organisation may borrow any Eligible Securities carried in the margin account of a client, whether such securities are purchased or deposited as collateral (“Margin Securities”), for the purpose of lending the Margin Securities as envisaged in Rule 608.2(1)(a)(ii), subject to the following requirements:-</p> <p>(a) A written agreement referred to in Rule 608.6 shall be executed between the Participating Organisation and the client (in this Rule, “Margin Account Client”) to borrow the Margin Securities from the Margin Account Client for purpose of lending the Margin Securities as envisaged in Rule 608.2(1)(a)(ii).</p> <p>(b) A Margin Account Client shall 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 him</p>		<p>RULE 608.8 SECURITIES IN MARGIN ACCOUNT</p> <p>(1) A Participating Organisation may borrow any Eligible Securities carried in the margin account of a client (“Margin Securities”), for the purpose of carrying out lending activities permitted under the Clearing House Requirements subject to the following requirements:-</p> <p>(a) A written agreement referred to in Rule 608.6 shall be executed between the Participating Organisation and the client (in this Rule, “Margin Account Client”) to borrow the Margin Securities from the Margin Account Client.</p> <p>(b) A Margin Account Client shall 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 him and the Participating Organisation, notwithstanding:</p> <p>(i) that Margin Securities carried in the margin account is used for purposes of securities</p>	<p>This rule has been amended to provide for a Participating Organisation to borrow securities from a margin account client not only for purposes of onward lending under a CLA model but also arising from the SBL Negotiated Transaction or any other types of securities borrowing and lending transactions that may be permitted by the Clearing House in the future.</p>

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	<p>and the Participating Organisation, notwithstanding:</p> <p>(i) that Margin Securities carried in the margin account is used for purposes of securities borrowing and/or lending as envisaged in Rule 608.2(1)(a)(ii); and</p> <p>(ii) any shortfall or gains arising from securities borrowing and/or lending transactions as envisaged in Rule 608.2(1)(a)(ii) involving the Margin Securities of the Margin Account Client.</p> <p>(c) A Margin Account Client whose Margin Securities are utilised for purposes of securities borrowing and/or lending as envisaged in Rule 608.2(1)(a)(ii) shall be entitled to a portion of the fees earned by the Participating Organisation on</p>		<p>borrowing and/or lending; and</p> <p>(ii) any shortfall or gains arising from securities borrowing and/or lending transactions involving the Margin Securities of the Margin Account Client.</p> <p>(c) A Margin Account Client shall 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/or lending on such terms as to be mutually agreed between the Participating Organisation and that client, notwithstanding that the securities borrowing and/or lending for which his Margin Securities have been utilised has resulted in any shortfall or gain.</p> <p>(d) A Margin Account Client, shall give reasonable notice to the Participating Organisation for any withdrawal or sale of the Margin Securities borrowed,</p>	

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	<p>that client’s Margin Securities from the above securities borrowing and/or lending on such terms as to be mutually agreed between the Participating Organisation and that client, notwithstanding that the securities borrowing and/or lending for which his Margin Securities have been utilised has resulted in any shortfall or gain.</p>		<p>such notice to be given within a specified time as mutually agreed between the Participating Organisation and the Margin Account Client.</p>	
(d)	<p>A Margin Account Client, shall give reasonable notice to the Participating Organisation for any withdrawal or sale of the Margin Securities utilised for the purpose of securities borrowing and/or lending as envisaged in Rule 608.2(1)(a)(ii), such notice to be given within a specified time as mutually agreed between the Participating Organisation and the Margin Account Client.</p>	(e)	<p>Notwithstanding that the Margin Securities are borrowed by the Participating Organisation the Participating Organisation shall comply strictly with all the requirements of Rule 703.</p>	
		(f)	<p>The Participating Organisation shall not utilise more than fifty per cent (50%) of the value, at the time of lending, of the Margin Securities in any client’s margin account).</p>	
		(g)	<p>The Participating Organisation shall issue a monthly statement to Margin Account Client containing all necessary details in relation to the borrowing including the quantity of Margin Securities utilised and the fees earned thereon.</p>	
(e)	<p>Notwithstanding that the Margin Securities are utilised for securities borrowing and/or lending as envisaged</p>	(2)	<p>A Participating Organisation shall ensure that the requirements stipulated in Rule 608.8(1)(b) are</p>	

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	<p>in Rule 608.2(1)(a)(ii), the Participating Organisation shall comply strictly with all the requirements of Rule 703.</p> <p>(f) The Participating Organisation shall not utilise more than fifty per cent (50%) of the value, at the time of lending, of the Margin Securities in any client’s margin account for the purposes of securities borrowing and/or lending as envisaged in Rule 608.2(1)(a)(ii).</p> <p>(g) The Participating Organisation shall issue a monthly statement to Margin Account Client whose Margin Securities are used for the purposes of securities borrowing and/or lending as envisaged in Rule 608.2(1)(a)(ii), and such statement shall contain all necessary details in relation to the securities borrowing and/or lending transactions envisaged in Rule 608.2(1)(a)(ii) including the quantity of Margin Securities</p>		<p>incorporated into the written agreement referred to in Rule 608.6.</p>	

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	<p>utilised and the fees earned thereon.</p> <p>(2) A Participating Organisation shall ensure that the requirements stipulated in Rule 608.8(1)(b) are incorporated into the written agreement referred to in Rule 608.6.</p>			
Rule 608.9	<p>RULE 608.9 SECURITIES HELD IN CUSTODY</p> <p>(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 purposes of lending the Custodial Securities as envisaged in Rule 608.2(1)(a)(ii), provided that a written agreement as referred to in Rule 608.6 is executed between the Participating Organisation and the Custodial Client to borrow the Custodial Securities from the Custodial Client.</p> <p>(2) A Participating Organisation shall at all times ensure that the process of selecting the custodial accounts to be utilised for the</p>		<p>RULE 608.9 SECURITIES HELD IN CUSTODY</p> <p>(2) 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 purposes of carrying out lending activities as permitted under the Clearing House Requirements, provided that a written agreement as referred to in Rule 608.6 is executed between the Participating Organisation and the Custodial Client to borrow the Custodial Securities from the Custodial Client.</p> <p>(2) A Participating Organisation shall at all times ensure that the process of selecting the custodial accounts to be utilised for the purposes of securities</p>	<p>This rule has been amended to provide for a Participating Organisation to borrow securities from a custodial account of a client not only for purposes of onward lending under a CLA model but also arising from the SBL Negotiated Transaction or any other types of securities borrowing and lending transactions that may be permitted by the Clearing House in the future.</p>

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	purposes of securities borrowing and / or lending is fair, equitable and transparent		borrowing and / or lending is fair, equitable and transparent.	
Rule 608.11	<p>RULE 608.11 REPORTING BY COMPLIANCE OFFICER</p> <p>(1) The Head of Compliance or in the case of Non Universal Brokers the Compliance Officer or where there is more than one Compliance Officer, the Compliance Officer that is heading the compliance functions, shall ensure that the report submitted pursuant to Rule 309.8(4) shall address the following areas in relation to securities borrowing and/or lending:</p> <p>(a) inaccuracies and errors in relation to any reports submitted by the Participating Organisations pursuant to this Rule or any directives, rulings and guidelines issued by the Exchange;</p> <p>(b) non compliances with any requirements stipulated in the Internal Guidelines for Securities Borrowing and</p>		<p>RULE 608.11 REPORTING BY COMPLIANCE OFFICER</p> <p>(1) The Head of Compliance or in the case of Non Universal Brokers the Compliance Officer or where there is more than one Compliance Officer, the Compliance Officer that is heading the compliance functions, shall ensure that the report submitted pursuant to Rule 309.8(4) shall address the following areas in relation to securities borrowing and/or lending:</p> <p>(a) inaccuracies and errors in relation to any reports submitted by the Participating Organisations pursuant to this Rule or any directives, rulings and guidelines issued by the Exchange;</p> <p>(b) non compliances with any requirements stipulated in the Internal Guidelines for Securities Borrowing and Lending; and</p>	The reporting is not applicable in a SBL Negotiated Transaction as the PO who is borrowing and the PO who is executing the sale in SBL Negotiated Transaction maybe two different parties. As such the PO who is borrowing may not have information required for purposes of the reporting.

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	<p>Lending; and</p> <p>(c) any other breaches in relation to Rule 608.</p> <p>(2) A Participating Organisation shall submit to the Exchange a report of all Eligible Securities borrowed for the purpose stipulated in Rule 608.2(2)(b) on a weekly basis, in the format and manner as may be prescribed by the Exchange from time to time, on the first (1st) market day of the following week. In the event there is no report submitted to the Exchange on the first (1st) market day of the week, the Exchange shall assume that there were no borrowings of Eligible Securities in the preceding week unless proven otherwise.</p>		<p>(c) any other breaches in relation to Rule 608.</p> <p>(2) A Participating Organisation shall submit to the Exchange a report of all Eligible Securities borrowed for the purpose stipulated in Rule 608.2(2)(b) on a weekly basis, in the format and manner as may be prescribed by the Exchange from time to time, on the first (1st) market day of the following week. In the event there is no report submitted to the Exchange on the first (1st) market day of the week, the Exchange shall assume that there were no borrowings of Eligible Securities in the preceding week unless proven otherwise. This provision will not be applicable where the borrowing is made pursuant to SBL Negotiated Transaction.</p>	
REGULATED SHORT SELLING				
Rule 704.1(1)	Client SBL Agreement means a written agreement executed between a client and an Authorised SBL Participant in accordance with Rule 608 for the purpose of securities borrowing and/or lending as defined in Rule 608.			This definition is deleted as the definition of SBL Agreement has been expanded to provide for any types of agreement executed for the purpose of securities borrowing and

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				<p>lending irrespective of the parties involved in the borrowing. At present the definition of Client SBL Agreement is an agreement between the client and the Participating Organisation and the definition of SBL Agreement is an agreement between the Participating Organisation and the Clearing House.</p> <p>In the SBL Negotiated Transaction model the agreement is executed between the end Borrower and the end Lender. As such we are of the opinion that the rules should only provide for one definition of SBL agreement in order to cater for all types of SBL agreement that can be executed between different types of parties.</p>
Rule 704.1(1)	SBL Agreement		means an agreement for the purpose of securities borrowing and/or lending as defined in Rule 608.	As explained above.
Rule 704.5(4)	<p>(4) A Participating Organisation shall ensure the following prior to opening a RSS Account:</p> <p>(a) where the RSS Account is to</p>		<p>(4) A Participating Organisation shall ensure the following prior to opening a RSS Account:</p>	In the SBL Negotiated transaction there is no requirement for parties to execute a written agreement. Moreover parties may not want to

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	<p>be opened in the name of a client, a copy of the Client SBL Agreement executed in the name of the client and certified by the authorised officer(s) of the Authorised SBL Participant is lodged with the Participating Organisation by the client; or</p> <p>(b) where the RSS Account is to be opened in the name of Participating Organisation, that the Participating Organisation has executed a SBL Agreement or a Client SBL Agreement as the case may be, in its name.</p>		<p>(a) where the RSS Account is to be opened in the name of a client, a confirmation in writing from the client that the client has a SBL Agreement in place ; or</p> <p>(b) where the RSS Account is to be opened in the name of Participating Organisation, that the Participating Organisation has . executed a SBL Agreement ;and</p> <p>(c) bring to the notice of the client that a copy of the SBL Agreement must be furnished when requested by the Exchange and that where there is a failure to do so, the Exchange may take appropriate action including directing the Participating Organisation to suspend trading for the client.</p>	<p>reveal the terms of the SBL Agreement to the Participating Organisation. The RSS requirement has to take into account of both the CLA and the SBL Negotiated Transaction model.</p> <p>In view of this instead of requiring the client to submit a written agreement, we are now requiring the client to confirm that it has a borrowing arrangement in place. However the Participating Organisation will be required to bring to the notice of its client that the client will be required to furnish a copy of such agreement to the exchange when required and the consequences of failure to do so.</p> <p>This provision would ensure that the agreement will be furnished to the exchange when required.</p>
Rule 704.5(5)(b)	(b) for redelivery of securities arising from any borrowing of approved securities under an SBL Agreement or Client SBL Agreement		(b) for redelivery of securities arising from any borrowing of approved securities under a SBL Agreement.	This is consequential to the deletion of the definition of Client SBL Agreement.
Rule	(6) A Participating Organisation shall open a separate CDS Account for		(6) A Participating Organisation shall open	This is consequential to the deletion of the definition of Client SBL

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704.5(6)	<p>each trading account opened pursuant to Rule 704. 5(1) and Rule 704. 5(3). The CDS Account shall be designated in accordance with the Depository Rules and/or any directives issued by the Depository. A Participating Organisation shall only utilise the CDS Account opened herein for the following purposes only:</p> <p>(a) settlement of regulated short selling;</p> <p>(b) settlement of purchases as permitted under Rule 704. 5(5); or</p> <p>(c) to hold securities for purposes of subsequent redelivery of the securities arising from the borrowing of approved securities under a SBL Agreement or Client SBL Agreement.</p>		<p>a separate CDS Account for each trading account opened pursuant to Rule 704. 5(1) and Rule 704. 5(3). The CDS Account shall be designated in accordance with the Depository Rules and/or any directives issued by the Depository. A Participating Organisation shall only utilise the CDS Account opened herein for the following purposes only:</p> <p>(a) settlement of regulated short selling;</p> <p>(b) settlement of purchases as permitted under Rule 704. 5(5); or</p> <p>(c) to hold securities for purposes of subsequent redelivery of the securities arising from the borrowing of approved securities under a SBL Agreement.</p>	Agreement.
Rule 704.12	<p>RULE 704.12 LIMIT FOR REGULATED SHORT SELLING</p> <p>(1) Without prejudice to Rule 704.13, the Exchange shall commence suspension of any order entry into</p>		<p>RULE 704.12 LIMIT FOR REGULATED SHORT SELLING</p> <p>(1) Without prejudice to Rule 704.13, the Exchange shall commence suspension of any order entry into the ATS for any</p>	It is proposed that the limit for regulated short selling is imposed at two tiers. One is daily limit and the other is the aggregated limit. This is to provide for better controls on the

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	<p>the ATS for any further regulated short selling of an approved securities, in the following circumstances:</p> <p>(a) where the total short position of the shares of an Issuer, on a particular market day is at ten percentum (10%) of the outstanding shares of the Issuer on that market day. Outstanding shares means the total quantity of shares held by the shareholders of the Issuer including shares held by the Issuer pursuant to a share buy back scheme as provided for in the Listing Requirements; and/or</p> <p>(b) where the quantity of the total short position of a class of securities other than shares of an Issuer (“securities”) on a particular market day is at ten percentum (10%) of the quantity of the outstanding securities on that market day. Outstanding securities means the total quantity of securities held by the holders of the securities.</p>		<p>further regulated short selling of an approved securities, in the following circumstances:</p> <p>(a) where the quantity of the total short position of an approved securities on a particular market day is as follows:</p> <p>(i) where the quantity of the total short position of the shares of an Issuer, on a particular market day is at three percentum (3%) of the outstanding shares of the Issuer on that market day. Outstanding shares means the total quantity of shares held by the shareholders of the Issuer including shares held by the Issuer pursuant to a share buy back scheme as provided for in the Listing Requirements; or</p> <p>(ii) where the quantity of the total short position of a class of securities other than shares of an Issuer (“securities”) on a particular market day is at three percentum (3%) of the quantity of the outstanding securities on that market day. Outstanding securities means the total quantity of securities held by the holders of the securities;or</p>	<p>limits for regulated short selling in view of allowing for SBL Negotiated Transaction.</p>

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	<p>(2) The suspension referred to in Rule 704.12(1) shall be for a period of four (4) market days from the date of suspension.</p> <p>(3) Where a suspension on regulated short selling is imposed on the shares of an Issuer pursuant to Rule 704.12(1)(a), the suspension thereof shall also apply to the following:</p> <p>(a) all securities referred to in Rule 704.12(1)(b) notwithstanding the total short position of the securities is not in breach of the limit referred to Rule 704.12(1)(b); and</p> <p>(b) all securities issued by any Issuer where the underlying instrument of the securities issued, comprise solely the shares of an Issuer in relation to which suspension under Rule 704.12(1)(a) has been imposed.</p> <p>(4) Where the shares or securities referred to under Rule 704.12(1)(a) and Rule 704.12(1)(b) respectively</p>		<p>(b) where the quantity of the total short position of an approved securities referred to in Rule 704.12(1)(a)(i) and 704.12(1)(a)(ii) aggregated over a period of time is ten percentum (10%) of the quantity of outstanding shares or securities.</p> <p>(2) The suspension referred to in Rule 704.12(1) shall be for the following period:</p> <p>(a) In relation to the circumstance described in Rule 704.12(1)(a), the suspension shall be for the remaining market day from the time the suspension was instituted on that market day;and</p> <p>(b)In relation to the circumstance described in Rule 704.12(1)(b), the suspension shall be in place until the aggregated quantity falls below ten percentum (10%) of the quantity of outstanding shares or securities. The fall in the ‘aggregated quantity’ referred to herein would occur when there is a return of the securities borrowed to the Authorised SBL Participant.</p> <p>(3) Where a suspension on regulated</p>	

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	<p>falls within the class of Eligible Securities, the following shall apply:</p> <p>(a) the suspension referred to in Rule 704.12(1)(a), Rule 704.12(1)(b) and Rule 704.12(2) shall include suspension on the short selling of the Eligible Securities; and</p> <p>(b) the ‘securities’ referred to in Rule 704.12(3) shall be read to include Eligible Securities and the suspension referred to therein shall be applicable to the short selling of that Eligible Securities.</p>		<p>short selling is imposed on the shares of an Issuer pursuant to Rule 704.12(1)(a) or Rule 704.12(1)(b), the suspension thereof shall also apply to the following:</p> <p>(a) all securities referred to in Rule 704.12(1)(a)(ii) notwithstanding the total short position of the securities is not in breach of the limit referred to Rule 704.12(1)(a) or Rule 704.12(1)(b); and</p> <p>(b) all securities issued by any Issuer where the underlying instrument of the securities issued, comprise solely the shares of an Issuer in relation to which suspension under Rule 704.12(1)(a) or 704.12(1)(b) has been imposed.</p> <p>(4) Where the shares or securities referred to under Rule 704.12(1)(a) and Rule 704.12(1)(b) respectively falls within the class of Eligible Securities, the following shall apply:</p> <p>(a) the suspension referred to in Rule 704.12(1)(a), Rule 704.12(1)(b) and Rule 704.12(2) shall include</p>	

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EXISTING PROVISIONS		PROPOSED PROVISIONS		RATIONALE
			suspension on the short selling of the Eligible Securities; and (b) the ‘securities’ referred to in Rule 704.12(3) shall be read to include Eligible Securities and the suspension referred to therein shall be applicable to the short selling of that Eligible Securities.	
CAPITAL ADEQUACY REQUIREMENTS				
	RULE 1105		RULE 1105	
1105.1(1)	Recall means redelivery of Securities Borrowed to the lender and/or redelivery of the Collateral to the borrower, whether partial or in full pursuant to the terms of the Client SBL Agreement or SBL Agreement as defined in Rule 704.	1105.1(1)	Recall means redelivery of Securities Borrowed to the lender and/or redelivery of the Collateral to the borrower, whether partial or in full pursuant to the terms of the SBL defined in Rule 704.	The amendment is consequential to deletion of the definition of ‘Client SBL Agreement’.

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EXISTING PROVISIONS		PROPOSED PROVISIONS		RATIONALE
Rule 1105.6(1) &(2)	<p>(1) General Principle: Subject Always to Rule 1105.10, every Participating Organisation shall calculate its Position Risk Requirement -</p> <p>(a) in respect of all securities held by it as principal, including those held pursuant to its intra-day activities;</p> <p>(b) on an intra-day basis to ensure that its Total Risk Requirement does not exceed its Liquid Capital;</p> <p>(c) in respect of all Securities Borrowed and/or Securities Onward Lent for itself as principal as envisaged in Rules 608.2(1)(a)(i) and/or 608.2(1)(b)(ii); and</p> <p>(d) in respect of all securities other than Margin Securities held by it which has been onward lent by it as principal for the purpose of securities borrowing and lending as envisaged in Rule 608.2(1)(a)(ii).</p>		<p>(1) General Principle: Subject Always to Rule 1105.10, every Participating Organisation shall calculate its Position Risk Requirement -</p> <p>(a) in respect of all securities held by it as principal, including those held pursuant to its intra-day activities;</p> <p>(b) on an intra-day basis to ensure that its Total Risk Requirement does not exceed its Liquid Capital;</p> <p>(c) in respect of all Securities Borrowed and/or Securities Onward Lent for itself as principal and</p> <p>(di) in respect of all securities other than Margin Securities held by it which has been onward lent by it as principal for the purpose of securities borrowing and lending.</p>	<p>The amendments are made to remove specific references to CLA model. With the amendments the calculation of Position Risk Requirement has to be done for all types of securities borrowing and lending activities.</p>

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EXISTING PROVISIONS		PROPOSED PROVISIONS		RATIONALE

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EXISTING PROVISIONS		PROPOSED PROVISIONS		RATIONALE
	<p>(2) Principles Applicable to Equity Position Risk Requirement: In calculating the Position Risk Requirement in respect of its equity and equity derivative positions, a Participating Organisation shall observe the following principles -</p> <p>(a) in accordance with Rule 1105.6(1), a Participating Organisation shall calculate all principal positions held by it;</p> <p>(b) a Participating Organisation shall, on a daily basis, mark to market all its principal positions;</p> <p>(c) a Participating Organisation may, in the case of securities held by it pursuant to intra-day activities, reduce its risk exposure to the extent of the mark to market value of any collateral held after deducting the applicable discounts prescribed in Schedule 8J;</p> <p>(d) where applicable, a Participating Organisation shall calculate its Position Risk Requirement on a country by country basis;</p>		<p>(2) Principles Applicable to Equity Position Risk Requirement: In calculating the Position Risk Requirement in respect of its equity and equity derivative positions, a Participating Organisation shall observe the following principles -</p> <p>(a) in accordance with Rule 1105.6(1), a Participating Organisation shall calculate all principal positions held by it;</p> <p>(b) a Participating Organisation shall, on a daily basis, mark to market all its principal positions;</p> <p>(c) a Participating Organisation may, in the case of securities held by it pursuant to intra-day activities, reduce its risk exposure to the extent of the mark to market value of any collateral held after deducting the applicable discounts prescribed in Schedule 8J;</p> <p>(g) where applicable, a Participating Organisation shall calculate its Position Risk Requirement on a country by country basis;</p> <p>(h) in the case of depository</p>	

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EXISTING PROVISIONS		PROPOSED PROVISIONS		RATIONALE
	<p>(e) in the case of depository receipts, a Participating Organisation shall allocate a share represented by that depository receipt to the same country as the underlying share; and</p> <p>(f) a Participating Organisation shall add any income accrued on any Securities Borrowed, Securities Lent or Collateral and shall deduct any fees and charges imposed on the borrowing, lending or the Collateral pursuant to the SBL Conditions or the written agreement referred to in Rule 608.2.</p>		<p>receipts, a Participating Organisation shall allocate a share represented by that depository receipt to the same country as the underlying share; and</p> <p>(i) a Participating Organisation shall add any income accrued on any Securities Borrowed, Securities Lent or Collateral and shall deduct any fees and charges imposed on the borrowing, lending or the Collateral.</p>	

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EXISTING PROVISIONS		PROPOSED PROVISIONS	RATIONALE
Rule 1105.7(5) (d)	<p>(d) Securities Borrowing and Lending:</p> <p>(i)Counterparty exposures: A Participating Organisation shall calculate its counterparty exposures for securities borrowing and lending as follows -</p> <p>(aa) for borrowing transactions in relation to its clients as envisaged in Rule 608.2(1)(a)(i) Participating Organisation’s counterparty exposures shall be computed based on the difference between the mark to market value of the Securities Borrowed and the mark to market value of the Collateral deposited subject to the provisions of Rule 1105.7(6). In computing the mark to market value of the Securities Borrowed or the Collateral, a Participating Organisation shall add any income accrued on the same and shall deduct any fees and charges imposed on the borrowing or the Collateral pursuant to the SBL Conditions or the written agreement referred to in Rule 608.6; and</p> <p>(bb) for lending transactions in relation to its clients as envisaged in Rule 608.2(1)(b)(i) and Rule 608.2(1)(b)(ii) for onward lending transactions, a Participating Organisation’s counterparty exposures shall be computed based on the difference between the mark to market value of the Securities Lent and the</p>	<p>(d) Securities Borrowing and Lending:</p> <p>(i)Counterparty exposures: A Participating Organisation shall calculate its counterparty exposures for securities borrowing and lending as follows -</p> <p>(aa) for borrowing transactions entered into on behalf of its client Participating Organisation’s counterparty exposures shall be computed based on the difference between the mark to market value of the Securities Borrowed and the mark to market value of the Collateral deposited subject to the provisions of Rule 1105.7(6). In computing the mark to market value of the Securities Borrowed or the Collateral, a Participating Organisation shall add any income accrued on the same and shall deduct any fees and charges imposed on the borrowing or the Collateral; and</p> <p>(bb) for lending transactions entered into on behalf of its clients, a Participating Organisation’s counterparty exposures shall be computed based on the difference between the mark to market value of the Securities Lent and the mark to market value of the Collateral deposited, if any subject to the provisions of Rule 1105.7(6). In computing the mark to market value of the Securities Lent or the Collateral, a Participating</p>	<p>The amendments are made to remove specific references to CLA model. With the amendments the calculation of Counterparty exposures has to be done for all types of securities borrowing and lending activities.</p>

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EXISTING PROVISIONS		PROPOSED PROVISIONS		RATIONALE
	<p>mark to market value of the Collateral deposited, if any subject to the provisions of Rule 1105.7(6). In computing the mark to market value of the Securities Lent or the Collateral, a Participating Organisation shall add any income accrued on the same and shall deduct any fees and charges imposed on the lending or the Collateral pursuant to the SBL Conditions or the written agreement referred to in Rule 608.6.</p> <p>(ii) Calculation of CRR: Pursuant to the above-mentioned a Participating Organisation shall calculate its Counterparty Risk Requirement for securities borrowing and lending in accordance with Schedule 8G.</p>		<p>Organisation shall add any income accrued on the same and shall deduct any fees and charges imposed on the lending or the Collateral.</p> <p>(ii) Calculation of CRR: Pursuant to the above-mentioned a Participating Organisation shall calculate its Counterparty Risk Requirement for securities borrowing and lending in accordance with Schedule 8G.</p>	

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EXISTING PROVISIONS		PROPOSED PROVISIONS		RATIONALE
Rule 1105.10(1)(a)(iii)	<p>(1) Margin Financing Facilities:</p> <p>(a) Every Participating Organisation which provides margin financing facilities has:-</p> <p>(i) a Counterparty Risk in relation to margin financing facilities which is dependent on the quality and value of collateral pledged and the quality of the counterparty;</p> <p>(ii) a Position Risk in the form of market risk relating to Margin Financing On-Pledged Risk in respect of securities held by it as collateral but which have been onward pledged; and</p> <p>(iii) a Position Risk in the form of market risk relating to Margin Financing Onward Lent Risk in respect of Margin Securities which have been</p>		<p>(1) Margin Financing Facilities:</p> <p>(a) Every Participating Organisation which provides margin financing facilities has:-</p> <p>(i) a Counterparty Risk in relation to margin financing facilities which is dependent on the quality and value of collateral pledged and the quality of the counterparty;</p> <p>(iv) a Position Risk in the form of market risk relating to Margin Financing On-Pledged Risk in respect of securities held by it as collateral but which have been onward pledged; and</p> <p>(v) a Position Risk in the form of market risk relating to Margin Financing Onward Lent Risk in respect of Margin Securities which have been onward lent as principal for the</p>	<p>The amendments are made to remove specific references to CLA model. With the amendments the calculation of position risk in relation to margin financing facilities has to be done for all types of securities borrowing and lending activities.</p>

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EXISTING PROVISIONS		PROPOSED PROVISIONS		RATIONALE
	onward lent as principal for the purpose of securities borrowing and lending as envisaged in Rules 608.2(1)(a)(ii) and 608.8.		purpose of securities borrowing and lending	

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SCHEDULE 8G [CHAPTER 11]

**SCHEDULE 8G (Chapter 11) COUNTERPARTY RISK REQUIREMENT
[Rule 1105.7(5)(d)] FOR SECURITIES BORROWING / LENDING TRANSACTIONS**

Securities Borrowing and Lending Transaction		Time period for application of Percentage	Counterparty Risk Requirement
1. Borrowing	On borrowing	Pre-Recall	CE x CW x 0%
	On Recall	From Recall to Recall + 3 days	CE x CW x 8%
	On Recall	Beyond Recall + 3 days	CE x CW x 100%
2. Lending	On Lending	Pre-Recall	CE x CW x 0%
	On Recall	From Recall to Recall + 3 days	CE x CW x 8%
	On Recall	Beyond Recall + 3 days	CE x CW x 100%

Where:

CE = Counterparty Exposure, as determined in accordance with Rule 1105.7(5)(d).

CW = Counterparty Weighting, as specified in Schedule 8F.

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‘On Borrowing’ means upon crediting of the securities borrowed into the Borrower’s CDS account,

‘On Lending’ means upon debiting of the securities lent from the Lender’s CDS account.

[End of
Schedule]