

PART III**RULES RELATING TO
AUTHORISED DIRECT MEMBERS****Chapter 14.0****Appointment of Authorised
Direct Member****Rule 14.01 Depository to appoint authorised
direct members:**

The Depository may appoint any of the persons eligible under Rule 14.02 to be an authorised direct member who may upon appointment, be authorised to maintain such securities accounts as stated under Rule 33.01(3).

Rule 14.02 Eligibility as an authorised direct member:

The following persons shall be eligible to apply to the Depository to be an authorised direct member -

Persons

- (a) a body corporate that is incorporated within Malaysia and is by notice published in the Gazette declared to be a public authority or an instrumentality or agency of the Government of Malaysia or of any State;
- (b) statutory bodies (other than banks under category (d) established under an Act of Parliament;
- (c) a bank licensed under the Islamic Banking Act 1983, or a bank, merchant bank or finance company licensed under subsection 6(4) of the Banking and Financial Institutions Act 1989;
- (d) a bank established under an Act of Parliament;
- (e) an issuer within the meaning of section 2(1)(c) of the Insurance Act 1963, which has obtained prior approval from the Director General of Insurance to be an authorised direct member;
- (f) a management company for a unit trust fund which has been approved by the Commission (or any other relevant authority);

- (g) an asset management company in possession of a valid licence under the Capital Markets and Services Act 2007;
- (h) a body corporate which is, primarily or, in the ordinary course of its business, engaged in the making of investments in marketable securities, with an aggregate investment fund for trading on the stock market of the Stock Exchange in excess of one hundred million ringgit;
- (i) a body corporate (other than any of the above) which has been approved by the Depository upon consultation with the Commission.

Rule 14.03 Application to be an authorised direct member:

- (1) **Conditions** : Unless expressly stipulated to the contrary by the Depository, an application by a person eligible under Rule 14.02 to be an authorised direct member shall be made in writing to the Depository who shall consider such application in the following manner -
 - (a) where there are numerous applications from different categories, in descending order of priority as listed under Rule 14.02 (a) to (i); and
 - (b) where there are numerous applications within the same category, on a “first come first serve basis”.
- (2) **Branch Office** : Where there is an application for a branch office, the application shall be made separately in writing.

Rule 14.04 Accompanying information:

An application under this chapter shall be accompanied with such information as may be necessary in order to assist the Depository in determining the application and the suitability of the applicant as an authorised direct member.

Rule 14.05 Additional information:

At any time after receiving an application the Depository may, in writing, require the applicant to furnish additional information or documents.

Rule 14.06 Fees and other charges:

- (1) **Processing fee:** Upon making an application for appointment as an authorised direct member or a branch office, each applicant shall pay a processing fee as prescribed by the Depository.
- (2) **Deleted**
- (3) **Deleted**

Rule 14.07 Availability:

Notwithstanding anything in the Rules, the Depository may limit the number of persons to be appointed as its authorised direct member if the computer system or any of its related network is unavailable for the time being to accommodate such person. Any person who is unsuccessful in their application by reasons whereof shall however be placed on the waiting list of the Depository.

Rule 14.08 No obligation to appoint:

Notwithstanding and without prejudice to any other provision in this chapter, the Depository shall be under no obligation to appoint every person who is eligible under Rule 14.02 to be an authorised direct member. Any person so aggrieved by virtue of not being appointed as an authorised direct member may appeal to the Depository. Upon presentation of the appeal, such person shall submit to the decision of the Depository whose decision shall be final and binding upon the Depository and that person.

Rule 14.09 Deleted

Rule 14.10 Conditions of appointment:

- (1) **Authorised direct members bound by the instructions, guidelines and procedures:** The Depository may, from time to time, issue instructions, guidelines or prescribe operating procedures whether in the form of circulars, letters or Procedures Manual to or for authorised direct members in order to ensure the orderly handling of securities deposited or lodged with such members and to facilitate all other services and functions incidental thereto. Every authorised direct member shall, as a continuous condition of appointment be bound by such instructions, guidelines and procedures and any amendment thereto in the same manner as it is bound by the provisions of these Rules.
- (2) **Rules to prevail:** Notwithstanding the provisions in Rule 14.10(1), where there is a conflict between any provision in these Rules and anything in the Procedures Manual, the Rules shall prevail.

Rule 14.11 Statement of Accounts and Notices:

The provisions stated in Rule 2.11 shall apply, *mutatis mutandis*, to every authorised direct member as if it were an authorised depository agent mentioned therein.

Rule 14.12 Identity codes :

- (1) **Allocation of codes:** The Depository shall allocate to every authorised direct member an identity code.
- (2) **Branch identity codes:** An authorised direct member may, from time to time with the prior approval of the Depository, authorise any of its branch offices to perform any of its approved functions. Every branch office of an authorised direct member which has been approved by the Depository shall be allocated a branch identity code.
- (3) **Single entity:** Notwithstanding the allocation of different identity codes for an authorised direct member and its branch offices by the Depository, the authorised

direct member and its branch offices shall, for the purposes of these Rules, be treated as a single entity.

Rule 14.13 Outsourcing by Authorised Direct Members:

- (1) **Compliance with conditions:** An authorised direct member which outsources its Depository Functions to a Service Provider must comply with the conditions set out in this Rule 14.13.
- (2) **Compliance by Service Provider:** The authorised direct member must ensure compliance by the Service Provider(s) of all relevant requirements stipulated in any provision in these Rules, agreement between the authorised direct member and the Depository and direction issued by the Depository.
- (3) **Accountability:** An authorised direct member remains accountable for all outsourced Depository Functions and will be held liable for any act or omission on the part of the Service Provider which results in a breach of these Rules.
- (4) **Insurance:** The authorised direct member must have in place an insurance policy to protect it against any liability, loss or damage arising from any action or omission of the Service Provider in performing the said Depository Functions.
- (5) **Access to books:** The authorised direct member must ensure that the Depository or its agent shall at all times have access to and be allowed to make copies of the books of the authorised direct member or the Service Provider. The authorised direct member shall procure a written consent through a letter of undertaking from the Service Provider to allow the Depository or its agent to exercise its powers as stated above.
- (6) **Amendments to conditions:** The Depository reserves the right to add, delete or amend any of the conditions set out in Rule 14.13.
- (7) **Notification of outsourcing:** An authorised direct member must notify the Depository within 2 weeks

from the signing of the relevant agreement(s) setting out the terms and conditions of the outsourcing arrangement, including where applicable, the agreement setting out the terms and conditions for sub-contracting the Depository Functions to another Service Provider (“relevant service level agreement(s)”).

- (8) **Termination or variation of services of Service Provider:** An authorised direct member must, in respect of the outsourcing of the Depository Functions, notify the Depository of:
- (i) the termination or variation of the relevant service level agreement(s); or
 - (ii) any adverse development arising from or in connection with the outsourcing arrangement that could significantly affect the authorised direct member,

within 2 weeks from the occurrence of such event.

- (9) **Non-application:** The above provisions shall not apply to an authorised direct member who is also a CMSL holder as mentioned in the Commission’s Licensing Handbook. Such authorised direct member may outsource its Depository Functions subject to compliance with the Commission’s Licensing Handbook and the provisions in Rule 2.12 which shall apply, mutatis mutandis, to such authorised direct member as if it were an authorised depository agent mentioned therein.

Chapter 15.0 Securities Account**Rule 15.01 Opening of an authorised direct member's securities accounts:**

The Central Depository shall open the first principal account for an authorised direct member. Thereafter, the authorised direct member shall be allowed to open all subsequent principal accounts and any nominee accounts for its nominee company subject to the conditions and in the manner prescribed by the Central Depository.

Rule 15.02 Allocation of account numbers:

The Depository shall allocate to every authorised direct member a securities account number for each account maintained by such authorised direct member.

Rule 15.03 Single entity:

Notwithstanding the allocation of different securities account numbers for an authorised direct member and/or its branches by the Depository, the authorised direct member and its branches, if any, shall for the purposes of these Rules, be treated as a single entity.

Chapter 16.0 Miscellaneous**Rule 16.01 Application of other rules:**

- (1) **General rule:** Unless expressed otherwise to the contrary, the following Rules shall apply, *mutatis mutandis*, to an authorised direct member as if it were an authorised depository agent mentioned therein -
- (a) all Rules under chapter 6.0;
 - (b) all Rules under chapter 7.0; and
 - (c) deleted
 - (d) all Rules under chapter 9.0.
- (2) **Construction:** Where a reference is made to a depositor in any of the Rules mentioned under Rule 16.01(1), it shall be construed as a reference-
- (a) where the securities account of the depositor is a principal account, to the authorised direct member; and
 - (b) where the securities account of the depositor is a nominee account, to the authorised nominee of the authorised direct member.

Rule 16.02 Agreements:

The Depository shall, in approving an application pursuant to this chapter, require the applicant to enter into such written agreement or agreements as may be deemed necessary by the Depository for the provision of terms relating to, *inter alia* -

- (a) the appointment and suspension / termination as an authorised direct member;
- (b) the maintenance of any direct account facility together with any of its related functions;

- (c) the provision of any computer hardware or software;
- (d) training services, if any, related to the proper establishment of any securities account or accounts maintained by an authorised direct member; and
- (e) any other term or condition which should be kept confidential between the parties thereto.

All costs, including legal and stamping fees, involved in the preparation of such agreements shall be borne by the applicant.

Rule 16.03 Clearance on security measures and controls:

Where an authorised direct member has been allocated a terminal for direct linkage with the computer system such direct member shall not be allowed to commence operations through the terminal without obtaining prior clearance in writing from the authorised person of the Depository in charge for the time being of security measures and control. For the purposes of this rule, an authorised direct member shall be deemed to have commenced operations if it has opened any securities account for itself.

Rule 16.04 Responsibility for entries in securities accounts:

Every authorised direct member shall be responsible for all entries made by itself, its employees or servants relating to any securities accounts maintained by itself and shall, in respect of any such entries, be liable to fully indemnify the Depository, an authorised depository agent, any other direct member or an issuer for any loss, damage or liability suffered by them arising from any wilful act, omission, neglect, fraud or error on the part of such direct member its employees or servants in respect thereof.

Rule 16.05 Authorised direct member shall not perform certain transactions:

An authorised direct member shall not perform and discharge any of the transactions specified under Rule 25.04(2) relating to any deposited securities held in its principal or nominee accounts where -

- (a) the transactions are intended to facilitate the dealing in securities or interest in securities outside a stock market of the Stock Exchange, or
- (b) where the transactions are in breach of any provisions of the Act, these Rules, the Procedures Manual or any securities laws.

Rule 16.06 Authorisation:

- (1) The Depository shall be authorised by an authorised direct member to perform and discharge all Depositor's Transactions specified under Rule 25.04(2) in respect of its principal and nominee accounts-
 - (a) upon the written instructions of the authorised direct member in such manner as may be prescribed under these Rules; or
 - (b) in accordance with the Rules of the Stock Exchange and the Rules of the Clearing House, where the authorised direct member is a receiving depositor or a delivering depositor.

Rule 16.07 Rules of the Clearing House:

In addition to these Rules, every authorised direct member which is a clearing participant shall in such capacity comply with the Rules of the Clearing House. Nothing in these Rules shall operate to relieve an authorised direct member from any obligation imposed on it by the Rules of the Clearing House in its capacity as a clearing participant.

Rule 16.08 Compliance with Rules, etc:

Every authorised direct member shall comply with the provisions of the Act, the Regulations and these Rules, whether in this part or otherwise, where they purport to apply to him, directly or indirectly.

Rule 16.09 Authorised Direct Member to include other persons

An authorised direct member is responsible to the Depository for all acts or omissions of its owners, principals, directors, officers, employees, trainees, agents, service providers and sub-contractors.