

## **PARTICIPATING ORGANISATIONS' CIRCULAR**

Date : 27 September 2007

No : R/R 17 OF 2007

### **AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES BHD ("RULES OF BURSA SECURITIES") CONSEQUENTIAL TO THE CAPITAL MARKETS AND SERVICES ACT 2007**

Please be advised that Bursa Malaysia Securities Bhd has made amendments to the Rules of Bursa Securities consequential to the Capital Markets and Services Act 2007, the Capital Markets and Services Regulations 2007 and the Licensing Handbook of the Securities Commission, all of which are coming into force on 28 September 2007.

A copy of the amendments are attached herewith and marked as Annexure 1 ("the said Amendments"). We have also attached a table setting out the list of rules which have been amended and the same is marked as Annexure 2 herewith. The said Amendments shall take effect from 28 September 2007 ("the said Effective Date").

The said Amendments are reflected either with a strike through to denote deletions or underlined to denote new insertions made to the Rules of Bursa Securities.

Kindly be advised that pursuant to the said Amendments, the existing Executive Director Dealing, Executive Director Operations and Executive Director Compliance shall from the Effective Date be automatically known and be deemed registered as Head of Dealing, Head of Operations and Head of Compliance respectively.

In relation to the application, registration and subscription fees for Head of Dealing and directors, kindly be advised of the following:

1. the application, registration and subscription fees for Head of Dealing shall follow the fee structure of the Executive Director Dealing in Participating Organisations' Circular No. R/R 12 of 1999 read together with R/R 19 of 2003;
2. where the Head of Dealing, Head of Operations or the Head of Compliance is also a director, in addition to being registered as such Head, the Head shall also be registered as a director. In relation to the application, registration and subscription fees payable in the above instance, only one category of fees and charges will be payable and that will be for the category with the highest aggregate fees and charges;
3. there will no longer be a differentiation in relation to the application, registration and subscription fees applicable to non-executive directors and executive directors. From the Effective Date, the above mentioned fees applicable to all directors be they non-executive or executive directors shall follow the fees applicable to a non-executive director as stipulated in the Participating Organisations' Circular No: R/R 12 of 1999 read together with R/R 19 of 2003; and
4. Participating Organisations' Circular No: R/R 12 of 1999 read together with R/R 19 of 2003 is hereby amended based on the foregoing and the amendments shall also take effect from the Effective Date.

All rules, directives, circulars in force which make reference or contain provisions relating to the above matters shall have effect from the date hereof as if such reference or provisions relate the amendments made herein.

This circular is available at

[http://www.bursamalaysia.com/website/bm/rules\\_and\\_regulations/bursa\\_rules/bm\\_securities.html](http://www.bursamalaysia.com/website/bm/rules_and_regulations/bursa_rules/bm_securities.html)

In the event of any queries in relation to this circular kindly contact the following persons:

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**LEGAL ADVISORY AND CORPORATE LEGAL AFFAIRS**

# **ANNEXURE 1**

CHAPTER 1 DEFINITION AND RELATED PROVISIONS

RULE 101 DEFINITION AND INTERPRETATION

RULE 101.1 DEFINITION

(1) In these Rules, unless the context otherwise requires or the contrary intention appears –

ABFMY1	means the ABF Malaysia Bond Index Fund which is an Exchange Traded Fund listed and quoted on the Exchange and bears the stock short name ABFMY1.
Annual Report	in relation to a Participating Organisation, means the annual report of the Participating Organisation prepared and submitted to the Exchange by an approved company auditor under the Companies Act 1965.
ATS	means the automated and computerised securities trading system established by the Exchange which includes SCORE, Participants' front end operations and back office systems.
authorised nominee	shall have the same meaning as is assigned to it in the Securities Industry (Central Depositories) Act and the Depository Rules.
BAFIA	means the Banking and Financial Institutions Act 1989.
beneficial owner	shall have the same meaning as is assigned to it in the Securities Industry (Central Depositories) Act and the Depository Rules.
board lot	in relation to any securities quoted on the Official List, means a parcel of securities comprising 100 units or any other number of securities permitted by the Exchange to be traded on the stock market.
branch office	means the branch office approved and/or recognised by the Commission as a branch office of a Participating Organisation or in the case of an Investment Bank, the branch office approved and/or recognised by the Central Bank as a branch office of an Investment Bank.
business rules	shall have the same meaning as is ascribed thereto in <a href="#">paragraphs (b) and (e) (in so far as the same relates to an approved clearing house providing clearing house facilities in relation to futures contracts and an exchange holding company of a futures exchange) and (d) of the definition of 'rules' contained in Section 2(1) of the Capital Markets and Services Act</a> <del>Section 2 of the Futures Industry Act.</del>
<a href="#">Capital Markets and Services Act</a>	<a href="#">means the Capital Markets and Services Act 2007.</a>
<a href="#">Capital Markets Services Representative's Licence</a>	<a href="#">shall have the meaning as is assigned to it in the Capital Markets and Services Act.</a>
CDS Account	means a securities account established by Depository or other central depository for an account holder.

Central Bank	means the Central Bank of Malaysia established under <a href="#">Section 3</a> of the Central Bank of Malaysia Act 1958.
central depository	means a central depository established in accordance with the Securities Industry (Central Depositories) Act and includes any foreign central depository determined by the Exchange from time to time after prior consultation with the Commission.
Clearing House	means the clearing house known as BURSA MALAYSIA SECURITIES CLEARING SDN BHD, <del>and is for the time being recognised by the Commission under Section 8A of the Securities Industry Act and is designated by the Exchange for the clearing and settlement of transactions in securities effected through its trading facilities,</del> and any other clearing house as may be designated by the Exchange from time to time in accordance with Rule <del>98</del> 01.2.
Chief Executive Officer	in relation to an Investment Bank, means 'Chief Executive Officer' referred to in the Guidelines on Investment Banks and who is responsible for all activities of the Investment Bank in the manner envisaged in the Guidelines on Investment Banks and these Rules.
Clearing House Rules	in relation to a Clearing House, means the rules of the Clearing House.
client	means a person for whom a trading account has been opened by a Participating Organisation in accordance with these Rules and shall be a beneficial owner or an authorised nominee or an exempt authorised nominee, as the case may be.
Commission	means the Securities Commission established under the Securities Commission Act.
Commissioned Dealer's Representative	Means a remisier or any other person who is engaged by a Participating Organisation as its dealer's representative on a non-salaried basis.
Committee	means a committee formed by the Exchange for general or specific tasks pursuant to these Rules.
Companies Act	means the Companies Act 1965.
Compliance Officer	in relation to a Participating Organisation, means the compliance officer appointed by the Participating Organisation pursuant to and in accordance with Rule 309.
contract	means a contract for the sale or purchase transactions of securities entered into on the stock market of the Exchange.
contract date	in relation to a sale or buy contract, means the date of execution of the sale or buy order, as the case may be.
conversion date	shall have the same meaning as is assigned to it in the Demutualisation Act.
<a href="#">corporate finance activities</a>	<a href="#">shall bear the same meaning as 'advising on corporate finance' as is ascribed thereto in the Capital Markets and Services Act.</a>

crossings	means a Direct Business transaction in securities between two clients of different Participating Organisations.
<a href="#">dealer's licence</a>	<a href="#">means a Capital Markets Services Licence to carry on the business of dealing in securities.</a>
Dealer's Representative	means a holder of a dealer's representative's licence who is either a Commissioned Dealer's Representative or a Salaried Dealer's Representative.
<a href="#">dealer's representative's licence</a>	<a href="#">means a Capital Markets Services Representative's Licence for the regulated activity of dealing in securities.</a>
delivery	in relation to securities, means the deposit or transfer of such securities into a CDS Account in accordance with Depository Rules.
Demutualisation Act	means the Demutualisation (Kuala Lumpur Stock Exchange) Act 2003.
Depository	means the BURSA MALAYSIA DEPOSITORY SDN BHD, a company which has been approved by the Minister to act as a central depository under Section 5(1) of the Securities Industry (Central Depositories) Act.
Depository Rules	means the rules of Depository.
Direct Business	means – <ul style="list-style-type: none"> <li>(a) crossings; or</li> <li>(b) married transactions; or</li> <li>(c) any other transaction in securities which shall be determined by the Exchange from time to time as being a Direct Business.</li> </ul>
directives	means directives issued from time to time by the Exchange pursuant to these Rules.
Document	shall have the meaning as is assigned to it in the <a href="#">Securities Industry Capital Markets and Services Act</a> .
Eligible Non-Universal Broker	means a Non-Universal Broker which has merged with or acquired, as the case may be, the assets or any interests and business of at least one (1) other Member Company(ies) and/or Participating Organisation(s).
Entity	shall bear the same meaning as is ascribed thereto in the Guidelines on Supervisory Functions.
Exchange	means BURSA MALAYSIA SECURITIES BERHAD.
exchange company	<a href="#">means any body corporate approved as a futures exchange under Section 8(2) of the Capital Markets and Services Act and which approval is in force</a> <del>shall have the same meaning as is ascribed thereto in Section 2 of the Futures Industry Act.</del>

Exchange holding company	means BURSA MALAYSIA BERHAD.
Exchange Traded Fund	shall have the same meaning as assigned to it in the Commission's Guidelines on Exchange Traded Funds.
<del>Executive Director</del>	means a person who is an executive director and employee of a Participating Organisation.
<del>Executive Director Compliance</del>	<del>in relation to a Universal Broker, means the executive director referred to in Rule 307 who is responsible for all compliance matters in the manner envisaged in these Rules.</del>
<del>Executive Director Dealing</del>	<del>means a person who— (a) holds a dealer's representative licence; and (b) is an executive director of a Participating Organisation responsible for the activities related to dealing in securities.</del>
<del>Executive Director Operations</del>	<del>means a person who— (a) does not hold a dealer's representative licence; and (b) is an executive director of a Participating Organisation responsible for operational activities.</del>
Exempt Authorised Nominee	shall have the same meaning as is assigned to that expression in the Depository Rules.
External Party	shall bear the same meaning as 'external party' as is ascribed thereto in the Guidelines on Supervisory Functions.
FDSS	means the Fixed Delivery and Settlement System established by the Exchange which fixes and regulates the day and time for the delivery and settlement of securities traded on the stock market maintained by the Exchange.
<u>fund manager's representative</u>	<u>means a holder of a fund manager's representative's licence.</u>
<u>fund manager's representative's licence</u>	<u>means a Capital Markets Services Representative's Licence for the regulated activity of fund management.</u>
<u>futures broker</u>	<u>means a holder of a futures broker's licence.</u>
<u>futures broker's licence</u>	<u>means a Capital Markets Services Licence to carry on the business of trading in futures contracts.</u>
<u>futures broker's representative</u>	<u>means a holder of a futures broker's representative's licence.</u>
<u>futures broker's representative's licence</u>	<u>means a Capital Markets Services Representative's Licence for the regulated activity of trading in futures contracts.</u>
<u>futures broking business</u>	<u>shall bear the same meaning as 'trading in futures contracts' as is ascribed thereto in the Capital Markets and Services Act.</u>
<del>Futures Industry Act</del>	<del>the Futures Industry Act, 1993.</del>
Group	shall bear the same meaning as is ascribed thereto in the

	Guidelines on Supervisory Functions.
Guidelines	means guidelines issued from time to time by the Exchange pursuant to these Rules.
Guidelines on Exchange Traded Funds	means the Guidelines on Exchange Traded Funds issued by the Commission, including all modifications, re-issuance or consolidations thereof and directives thereto.
Guidelines on Investment Banks	means the Guidelines on Investment Banks issued by the Central Bank and the Commission, including all amendments, modifications, re-issuance or consolidations thereof and directives thereto.
<a href="#">Guidelines on Permitted Activities for Stockbroking Companies</a>	<a href="#">means the Commission's policy on permitted activities for stockbroking companies set out in the Licensing Handbook and includes all amendments, modifications, variations, supplements or substitutes made thereto.</a>
Guidelines on Supervisory Functions	means the "Guidelines on Performance of Supervisory Functions at Group Level for Capital Market Intermediaries" issued by the Commission on 29 June 2005, including subsequent amendments, modifications, variations, supplements or substitutes thereto and any directives or guidelines as may be issued thereunder.
<a href="#">Heads</a>	<a href="#">means Head of Dealing, Head of Operations and Head of Compliance and a "Head" shall mean any one of the Heads.</a>
Head Group Compliance	means 'head of compliance' referred to in the Guidelines on Supervisory Functions.
Head of Compliance	<del>in relation to an Investment Bank,</del> means the <a href="#">person 'Head of Compliance' referred to in the Guidelines on Investment Banks</a> and who is responsible for all compliance matters of the Participating Organisation in the manner envisaged in <del>the Guidelines on Investment Banks</del> and these Rules <u>and includes a Head of Compliance of an Investment Bank.</u>
<a href="#">Head of Compliance of an Investment Bank</a>	<a href="#">means the 'Head of Compliance' referred to in the Guidelines on Investment Banks and who is responsible for all compliance matters of the Participating Organisation in the manner envisaged in the Guidelines on Investment Banks and these Rules.</a>
Head of Dealings	<del>in relation to an Investment Bank,</del> means <del>a person the 'Head of Dealings' referred to in the Guidelines on Investment Banks</del> and who –  (a) holds a dealer's representative's licence; and  (b) is responsible for the activities of the Participating Organisation related to dealing in securities in the manner envisaged in <del>the Guidelines on Investment Banks</del> and these Rules,  <a href="#">and includes a Head of Dealing of an Investment Bank.</a>
<a href="#">Head of Dealing of an Investment Bank</a>	<a href="#">means the 'Head of Dealing' referred to in the Guidelines on Investment Banks and who –  (a) holds a dealer's representative's licence; and</a>



	<u>(b) is responsible for the activities of the Participating Organisation related to dealing in securities in the manner envisaged in the Guidelines on Investment Banks and these Rules.</u>
Head of Operations	<del>in relation to an Investment Bank,</del> means a person who – <ul style="list-style-type: none"> <li>(a) does not hold a dealer's representative's licence; and</li> <li>(b) is responsible for operational activities of the Participating Organisation, in the manner envisaged in <del>the Guidelines on Investment Banks and</del> these Rules,</li> </ul> <u>and includes a Head of Operations of an Investment Bank.</u>
<u>Head of Operations of an Investment Bank</u>	means a person who – <ul style="list-style-type: none"> <li>(a) <u>does not hold a dealer's representative licence; and</u></li> <li>(b) <u>is responsible for operational activities of the Participating Organisation in the manner envisaged in the Guidelines on Investment Banks and these Rules.</u></li> </ul>
Immediate Basis Contract	means a contract where its Scheduled Delivery Time and Scheduled Settlement Time for buying and selling of securities are as stipulated at Schedule 2A.
interest in securities	shall have the same meaning as is assigned to it under Section 4 of the <u>Capital Markets and Services Securities Industry</u> Act.
Investment Bank	means an Investment Bank as referred to under the Guidelines on Investment Banks and which is registered as a Participating Organisation of the Exchange in accordance with Rule 302 unless the context otherwise permits.
Investment Bank Capital Adequacy Framework	means the Investment Bank Capital Adequacy Framework referred to in the Guidelines on Investment Banks.
Issuer	<del>S</del> shall have the same meaning as is assigned to it under Section 2(1) of the <u>Securities Commission Capital Markets and Services</u> Act.
<u>Licensing Handbook</u>	<u>means the licensing handbook issued by the Commission pursuant to Section 377 of the Capital Markets and Services Act including all modifications, re-issuance or consolidations thereof and directives thereto.</u>
Listing Requirements	means the rules governing the listing and regulation of securities on the main board, second board and MESDAQ Market, as amended or consolidated and published by the Exchange from time to time.
market day	means a day on which the stock market maintained by the Exchange is open for trading in securities.
married transaction	means a Direct Business transaction in securities where a Participating Organisation acts on behalf of both the buying and selling clients.

MESDAQ and/or MESDAQ Market	means the market for high growth and technology based companies as is presently known, or howsoever known, or by whatsoever named called from time to time.
Minimum Paid Up Capital	means the minimum paid up capital specified in Rule 1101.1.
Minister	means the Minister <a href="#">for the time being charged with the responsibility for finance of Finance, Malaysia.</a>
<del>Non-Executive Director</del>	means a non-executive director of a Participating Organisation and who is not an employee of a Participating Organisation.
Non-Universal Broker	means a Participating Organisation which is not a Universal Broker and includes Eligible Non-Universal Broker and Special Scheme Broker.
Off-Balance Sheet Transactions	include <a href="#">uncalled amounts on securities, options, other contingent liabilities and capital commitments (whether secured or not) all items specified in Item 1 of the prescribed notes to the balance sheet and profit and loss accounts in Form 22 of Regulations 15(1), Securities Industry Regulations 1987</a> and all assets pledged as security, forward purchase/sale contracts (other than in securities, which is prohibited), futures contracts and other commitments that contractually oblige a Participating Organisation to perform certain actions which are transacted outside the ATS, but shall not include underwriting or sub-underwriting which are required to be reported under Capital Adequacy Requirements.
Official List	means the official list of securities which – <ul style="list-style-type: none"> <li>(a) have been admitted by the Exchange and have not been removed from that list; and/or</li> <li>(b) are quoted and traded on the Exchange subject to the Listing Requirements and these Rules.</li> </ul>
Participating Dealer	for the purposes of these Rules, has the same meaning as is assigned to that expression in the Guidelines on Exchange Traded Funds.
Participating Organisation	means a company which carries on the business of dealing in securities and for the time being recognised as a Participating Organisation of the Exchange in accordance with the provisions of Rule 302 and “participantsip” shall be construed accordingly.
principal office	means the principal office approved and recognised by the Commission as a principal office of a Participating Organisation or in the case of an Investment Bank, the principal office approved and recognised by the Central Bank as the principal office of an Investment Bank.
proprietary accounts	means accounts which record transactions in securities by Participating Organisations trading as principals.
Ready Basis Contract	means a contract where its Scheduled Delivery Time and Scheduled Settlement Time for buying or selling of securities are as stipulated at Schedule 2A.

recognised stock exchange	means –
	(a) a body corporate which has been approved by the Minister under Section 8(2) of the <a href="#">Securities Industry Capital Markets and Services Act</a> ; or
	(b) a foreign stock exchange declared by the Exchange to be a recognised stock exchange.
Record of Depositors	shall have the meaning as is assigned to it in Depository Rules.
Register	means such list, register or roll of Participating Organisations and registered person(s) kept by the Exchange.
registered person(s)	means such person(s), other than a Participating Organisation, who are required to be registered by the Exchange pursuant to these Rules.
rulings	means rulings or decisions made from time to time by the Exchange in respect of any matters pursuant to these Rules.
Salaried Dealer's Representative	means a dealer's representative who is employed by a Participating Organisation on a salaried basis.
SCORE	means the System on Computerised Order Routing and Execution which includes WinSCORE, being part of the systems which form ATS.
Scheduled Delivery Time	in relation to delivery of securities by clients, Participating Organisations or the Clearing House, as the case may be, means such date and time on which contracts shall be due for delivery as prescribed by the Exchange from time to time in Schedule 2A.
Scheduled Settlement Time	in relation to any act or thing to be done by the Clearing House, a Participating Organisation or a client means the day and time as specified in Schedule 2A for such act or thing to be done by the client, the Clearing House or the Participating Organisation, as the case may be, prescribed by the Exchange from time to time.
Securities Commission Act	means the Securities Commission Act 1993.
<del>Securities Industry Act</del>	<del>means the Securities Industry Act 1983.</del>
Securities Industry (Central Depositories) Act	means the Securities Industry (Central Depositories) Act 1991.
Securities Laws	has the same meaning as is assigned to that expression in the Securities Commission Act.
special lot	in relation to any securities quoted on the Official List, means any number of such securities which is less than the number of securities prescribed by the Exchange as a board lot.
Special Scheme Broker	shall have the same meaning as is ascribed thereto in the <del>Commission's Guidelines on Permitted Activities For Stockbroking Companies</del> <a href="#">Licensing Handbook</a> .
supervisor(s)	means employee(s) of a Participating Organisation whose

duties and responsibilities *inter-alia* includes overseeing and having control of the day to day activities of person(s) whose job function entails or relates to –

- (a) the financial activities of a Participating Organisation;
- (b) credit control matters;
- (c) clients' money and assets;
- (d) execution of clients' buy and sell orders; or
- (e) maintenance of the integrity of the back office and front office system.

Supervisory Functions	shall bear the same meaning as is ascribed thereto in the Guidelines on Supervisory Functions.
these Rules	means these Rules of Bursa Malaysia Securities Berhad.
tradeable balance	means balances of securities in a CDS Account which are good for settlement of trade.
Universal Broker	means a Participating Organisation which has – <ul style="list-style-type: none"> <li>(a) merged with or acquired, as the case may be, three (3) or more other former Member Company(ies) and/or Participating Organisations;</li> <li>(b) fulfilled the necessary qualifying criteria from time to time stipulated by the Commission and/or the Exchange to the satisfaction of the Commission and/or the Exchange; and</li> <li>(c) been approved in writing by the Commission to be a Universal Broker.</li> </ul>

(2) In these Rules, unless the context otherwise requires, words and expressions defined in -

- (a) ~~Securities Industry~~ [Capital Markets and Services](#) Act;
- (b) Securities Industry (Central Depositories) Act;
- (c) Securities Commission Act; or
- (d) Companies Act,

shall, when used herein, bear the same meanings respectively.

(3) A reference to "employee" in these Rules shall include ~~E~~executive ~~D~~irectors of the Participating Organisation, unless such designation as to ~~E~~executive ~~D~~irectors is specifically stipulate~~d~~ otherwise.

#### **RULE 101.2 INTERPRETATION**

(1) In these Rules, unless the context otherwise requires -

- (a) words importing the singular number shall include the plural and vice versa;

- (b) words importing the masculine gender shall include the feminine and neuter genders and vice versa;
  - (c) words importing persons shall include firms, partnerships, companies and corporations;
  - (d) a reference to writing shall be deemed to include any mode of representing or reproducing letters, figures or marks in a visible form.
- (2) A reference in these Rules to –
- (a) a statute or a statutory provision shall be deemed to include all modifications, re-enactments or consolidation thereof and regulations, rules or other statutory instruments made pursuant thereto; and
  - (b) a rule, directive or guidelines of the Exchange, Exchange holding company, Depository, the Clearing House or such other relevant party shall be deemed to include all modifications, variations, amendments, supplements thereto or substitutions therefor.
- (3) In these Rules, the abbreviation "RM" or "Ringgit Malaysia" means the lawful currency of Malaysia.
- (4) Where a word or phrase is given a defined meaning in these Rules, any other grammatical form in respect of such word or phrase has a corresponding meaning.
- (5) Any reference in these Rules to a numbered Chapter shall be construed as a reference to the Chapter bearing that number in these Rules.
- (6) Any reference in these Rules to a numbered Schedule shall be construed as a reference to the Schedule bearing that number attached in Chapter 15.
- (7) The headings and sub-headings in these Rules are inserted for convenience of reference only and shall not affect the interpretation and construction of the provision therein.

**RULE 102 RELATED PROVISIONS**

**RULE 102.1 TRANSITIONAL PROVISIONS**

- (1) A Participating Organisation who has not been expelled from membership of Exchange holding company immediately prior to the conversion date shall be deemed to be a Participating Organisation until it ceases to be a Participating Organisation in accordance with these Rules and shall continue to be bound by these Rules and any rules, directives, guidelines and circulars made by the Exchange and the Exchange holding company for the time being in force and from time to time. All references to the Participating Organisation in its former capacity as a member of the Exchange holding company in any undertaking, declaration, indemnity or other document howsoever called, given or done by or to the Exchange holding company shall be construed as references to the Participating Organisation.
- (2) For the avoidance of doubt and without derogation to the generality of the Demutualisation Act:-
  - (a) these Rules;
  - (b) all privileges, obligations and liabilities accrued to or incurred by a person (including without limitation a Participating Organisation and/or Dealer's Representative) prior to the conversion date; and
  - (c) all registrations and approvals made or granted to a person (including without limitation a Participating Organisation and/or Dealer's Representative) which were valid immediately prior to the conversion date,shall continue to be valid and binding on that person subject to and upon these Rules.
- (3) Unless otherwise provided in these Rules or required by the Exchange, as the case may be:-
  - (a) the rules and procedures relating to disciplinary actions from time to time applicable and/or effective prior to the conversion date shall continue to apply to cases in which disciplinary action has been instituted against a Participating Organisation or registered person(s) in its/his capacity as a member of the Exchange holding company prior to the conversion date including that of the appeal and the appellate forum;
  - (b) breaches and/or defaults of the rules, directives, guidelines and circulars of the Exchange holding company from time to time applicable and/or effective, committed by a Participating Organisation or registered person(s) in its/his capacity as a member of the Exchange holding company prior to the conversion date for which disciplinary action has not been instituted prior to and as at the conversion date may be instituted, continued, enforced and adjudicated in accordance with the procedures made pursuant to these Rules.
- (4) Any act or thing done under or for the purposes of any provision of the rules, directives, guidelines and circulars of the Exchange holding company from time to time in force, applicable and/or effective in respect of a Participating Organisation or registered person(s) in its/his capacity as a member of the Exchange holding company prior to the conversion date shall have effect from the conversion date as if it had been done under or for the purposes of the corresponding provision of these Rules.
- (5) The reference to "any act or thing done" includes, but is not limited to, the making of a determination or the passing of a resolution, the granting or exercise of a power (including delegated power), the execution of a document or the appointment or removal of any person from any office or position.
- (6) Notwithstanding anything herein contained, all directives, regulations and guidelines issued by way of circulars by the Exchange holding company prior to the conversion date shall,

insofar as they are not inconsistent with these Rules, continue in force until expressly amended, revoked or replaced by these Rules, directives, rulings and guidelines issued by the Exchange on and after the conversion date.

**RULE 102.2 NOTICES**

- (1) All notices required to be sent under these Rules shall be in writing and sent to the address and/or facsimile number of the addressee as contained in the records of the Exchange.
- (2) The party giving any notice under these Rules shall regard such notice as having been received in the following circumstances-
  - (a) if sent by post within Peninsula Malaysia, on the 3<sup>rd</sup> market day after posting;
  - (b) if sent by air mail to Sabah, Sarawak or outside Malaysia, on the 5<sup>th</sup> market day after posting;
  - (c) if sent by courier, on the 2<sup>nd</sup> market day after despatch; and
  - (d) if sent by facsimile immediately upon generation of a report indicating that the transmission was successful.
- (3) The Exchange may at any time specify such other methods of giving notice as it deems fit, including electronic mail, other electronic means and advertisement in newspapers.

[End of Chapter]

**CHAPTER 3 PARTICIPATING ORGANISATIONS AND  
REGISTERED PERSONS**

**RULE 301 GENERAL PROVISIONS FOR  
PARTICIPATING ORGANISATIONS**

**RULE 301A.1 INVESTMENT BANK**

- (1) Where a provision in this Chapter is expressed to be inapplicable to an Investment Bank, it shall be substituted with the relevant provisions in the Guidelines on Investment Banks and/or any other requirements of the Central Bank pertaining to the same (“the Relevant Guidelines and Requirements”). The Relevant Guidelines and Requirements shall be deemed to be part of these Rules.
- (2) In relation to a Participating Organisation who obtained approval to operate as an Investment Bank, after its registration as a Participating Organisation under this Chapter, the Participating Organisation shall notify the Exchange in writing of the same at least seven (7) days prior to the commencement of its business as an Investment Bank or such other time frames as may be determined by the Exchange, which notification shall be accompanied by the documents stipulated under Rule 302.2(1)(a), Rule 302.2(1)(b), the relevant documents prescribed under the Companies Act to evidence the change of name of the Participating Organisation (if any) and such other documents as may be requested by the Exchange. For the purpose of this Rule 301A.1(2), the term “Investment Bank” when used herein shall mean an Investment Bank as referred to under the Guidelines on Investment Banks.

**RULE 301.1 CATEGORIES**

- (1) The categories of Participating Organisations may be as determined by the Exchange from time to time and shall include such persons as may from time to time be approved and licensed by the Commission and registered by the Exchange in accordance with these Rules.

**RULE 301.2 REGISTRATION OF PARTICIPATING ORGANISATIONS**

- (1) **Registration:**
  - (a) No person shall –
    - (i) have access to the markets or facilities organised and maintained by the Exchange; and/or
    - (ii) be entitled to describe himself as a participating organisation of the Exchange, unless it has been registered as a Participating Organisation in accordance with this Chapter and any description by a Participating Organisation of its participation shall expressly and at all times clearly indicate the type or class of its participation of the Exchange.
  - (b) No person, other than a Participating Organisation, shall be entitled to describe itself as a stock broker or stockbroking company.
- (2) **Privileges:** A Participating Organisation shall have access to the markets or facilities organised and maintained by the Exchange subject to and in accordance with the provisions of these Rules and all other rules, regulations, directives, guidelines and/or circulars issued by the Exchange from time to time.
- (3) **Compliance:** Every person who has been registered as a Participating Organisation pursuant to this Chapter shall be bound by and comply with –



- (a) these Rules; and
  - (b) all directives, rulings and guidelines (other than those guidelines which are expressed to be non-binding) issued by the Exchange from time to time under and in accordance with Chapter 2.
- (4) **No rights:** A Participating Organisation shall have no claims whatsoever to ownership, shareholding or capital of the Exchange nor have any right to participate in the assets or profits of the Exchange.
- (5) **Renewal of registration:**
- (a) The registration of a Participating Organisation with the Exchange shall be subject to ~~annual~~-renewal not later than fourteen (14) days from the date of the Commission's renewal of its dealer's licence ~~pursuant to the Securities Industry Act~~ as evidenced by the date of issuance of the dealer's licence, by submitting an application to the Exchange in such form as the Exchange may from time to time prescribe and which shall be accompanied by –
    - (i) confirmation or evidence in such form as may be issued by the Commission of the renewal of the dealer's licence issued by the Commission pursuant to the ~~Securities Industry Act~~ Securities Industry Capital Markets and Services Act; and
    - (ii) payment of a non-refundable subscription fee prescribed by the Exchange.
  - (b) The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.
- (6) **Additional conditions:** The Exchange may impose such other conditions or restrictions on a Participating Organisation as it thinks fit at any time during the term of its participation.

**RULE 301.3 NON-TRANSFERABILITY**

- (1) The privileges of a Participating Organisation shall be personal and shall not be transferable.

**RULE 301.4 RESIGNATION**

- (1) **Procedure:** If a Participating Organisation wishes to resign from participation of the Exchange, it shall –
  - (a) give not less than thirty (30) days' (or such period as may otherwise be prescribed by the Exchange) prior written notice to the Exchange of its intention to resign and the proposed date of resignation;
  - (b) satisfy the Exchange that it has taken or will have taken before the proposed date of resignation proper and adequate steps for the orderly winding down of its business of dealing in securities;
  - (c) not enter into any transactions in the period of thirty (30) days (or such period as may otherwise be prescribed by the Exchange) immediately preceding the proposed date of resignation except with the consent of the Exchange;
  - (d) comply with such direction as may be issued by the Exchange in relation to the orderly winding down of its business of dealing in securities; and
  - (e) enter into such agreement or arrangement or undertaking with the Exchange as the Exchange shall deem fit or expedient.

- (2) **Acceptance:**
- (a) The Exchange may accept the Participating Organisation's resignation provided that in consultation with the Clearing House, the Exchange is satisfied that the Participating Organisation has fulfilled or will be able to fulfil all its obligations to the Exchange, the Clearing House and its clients whereupon the Exchange shall notify all other Participating Organisations of its acceptance and the resigning Participating Organisation's effective date of resignation.
  - (b) Notwithstanding the Exchange's acceptance of a Participating Organisation's resignation, the resigning Participating Organisation shall remain liable for all outstanding liabilities as at the effective date of resignation incurred under these Rules and the Clearing House Rules.
  - (c) The resignation of a Participating Organisation shall not take effect until such resignation is officially accepted and approved by the Exchange and notwithstanding such acceptance and approval, the Exchange may impose any condition it deems fit on the resigning Participating Organisation.
- (3) **Obligations:** The resigning Participating Organisation is bound to comply with such restrictions on its participation as may be imposed by the Exchange and/or the Clearing House until its effective date of resignation as published by the Exchange.
- (4) **Removal:** The resigning Participating Organisation's name will be removed from the Register of Participating Organisations on the effective date of resignation.

#### **RULE 301.5 CESSATION**

- (1) In addition to the provisions in these Rules relating to termination of participation, a Participating Organisation shall cease to enjoy the privileges of participation upon the happening of all or any of the following events –
- (a) a resolution is passed by the shareholders or a court order is made for the winding up of the Participating Organisation;
  - (b) an arrangement or composition is made with the creditors of the Participating Organisation pursuant to any law;
  - (c) it is suspended;
  - (d) the dealer's licence of the Participating Organisation issued by the Commission is suspended or revoked by the Commission for whatsoever reason; and
  - (e) it is struck-off from the Register of Participating Organisations.

#### **RULE 301.6 REFUSAL TO REGISTER**

- (1) The Exchange may refuse an application made under this Chapter to register as a Participating Organisation if –
- (a) the application was not made in accordance with the requirements of this Chapter or the information required therein was not submitted or adequate;
  - (b) the applicant has failed to comply with any other requirement of these Rules and/or any regulations, directives or guidelines thereunder;
  - (c) the registration of the applicant is not in the interest of a fair and orderly market;

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- (d) the Exchange is satisfied that the qualifications or any of them prescribed in this Chapter has/have not been fulfilled by the applicant; or
- (e) if the Exchange is of the opinion that registration of the applicant may affect the optimum utilisation of its facilities, taking into account risk management and any other considerations.

#### **RULE 301.7 FEES ON REGISTRATION**

- (1) A Participating Organisation shall be liable to pay registration fee or other fees and charges as may be prescribed or imposed by the Exchange from time to time.
- (2) All fees and charges payable by the Participating Organisation hereunder shall be paid promptly within such period as may be stipulated by the Exchange.

#### **RULE 301.8 CONTINUING LIABILITY**

- (1) Notwithstanding that a Participating Organisation may cease to be registered or be struck off the Register by the Exchange for any reason whatsoever, the Participating Organisation shall be bound by these Rules which are now or may hereafter be in force and all directives, ruling and guidelines issued by the Exchange and/or Exchange holding company insofar as they relate to any antecedent breach committed by the Participating Organisation.
- (2) A Participating Organisation which has ceased to be registered or is struck off the Register shall retain all its records for at least six (6) years. Any such record shall be produced for inspection to the Exchange on demand and, where it is not retained in legible form, must be capable of being reproduced in that form.

#### **RULE 301.9 DECISIONS OF THE EXCHANGE**

- (1) Subject to Rule 201.3, any decision of the Exchange shall be final and binding on all Participating Organisations and registered person(s).

**RULE 302 PARTICIPATING ORGANISATION**

**RULE 302.1 QUALIFICATION**

- (1) **Qualifications:** A Participating Organisation shall at all times –
- (a) be a company or corporation that is carrying on or is incorporated or established in Malaysia with the primary object of carrying out the business of dealing in securities or in the case of an Investment Bank, having as one of its objects, the carrying out of the business of dealing in securities;
  - (b) be the holder of a valid dealer's licence ~~issued by the Commission pursuant to the Securities Industry Act~~ and has satisfied or will satisfy upon registration with the Exchange, the terms and conditions of, or imposed by the Commission related to, such licence;
  - (c) have satisfied or will satisfy upon registration with the Exchange, all the financial requirements prescribed in Chapter 11, as may be amended, varied, modified, supplemented or substituted therefor from time to time;
  - (d) unless otherwise permitted by the Commission, its principal business, or in the case of an Investment Bank, one of its businesses shall be that of dealing in securities and it shall not carry on any other business save those activities which are normally ancillary and closely related thereto as envisaged in these Rules and, in the case of an Investment Bank, such other businesses as may be permitted by the Commission;
  - (e) have or will maintain facilities and personnel adequate for the expeditious and orderly carrying out of its business of dealing in securities (including those activities which are normally ancillary and closely related thereto as envisaged in these Rules) and such other businesses as may be permitted by the Commission from time to time;
  - (f) have all directors registered with the Exchange in accordance with these Rules; and
  - (g) comply with such other requirements as prescribed in this Chapter and/or as may be prescribed by the Exchange from time to time.

**RULE 302.2 APPLICATION PROCEDURE**

- (1) **Application:** Any person desirous of being registered as a Participating Organisation shall complete and submit an application to the Exchange in the form prescribed in Appendix 1A and which shall be accompanied by –
- (a) certified true copies of its memorandum and articles of association, or other constituent documents of the applicant evidencing the following but without limitation thereto:
    - (i) its directors and shareholders; and
    - (ii) its authorised and paid-up capital;
  - (b) certified true copy of a valid dealer's licence ~~issued by the Commission pursuant to the Securities Industry Act~~ and, where the applicant is an Investment Bank, a valid merchant banking licence issued by the Central Bank pursuant to Section 5 of BAFIA;
  - (c) payment of a non-refundable application fee prescribed by the Exchange;
  - (d) a statutory declaration by the applicant's authorised signatory(ies) as to the veracity of all information provided in the form prescribed as Appendix 2A; and
  - (e) an undertaking to the Exchange in the form prescribed in Appendix 3A.

- (2) **Additional documents:** The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.
- (3) **Financial requirements:** The applicant shall provide such evidence as may be satisfactory to the Exchange that it is, at the time of making such application, able to comply with the financial requirements prescribed in Chapter 11, as may be amended, varied, modified, supplemented or substituted therefor from time to time.

**RULE 302.3 CONTINUING OBLIGATIONS**

- (1) Without prejudice to any provisions of these Rules from time to time in force, the following conditions shall apply to a Participating Organisation at all times throughout the term of its participation –
  - (a) the Participating Organisation shall prior to and after being registered with the Exchange comply with the qualifications prescribed above;
  - (b) the Participating Organisation's principal business, or in the case of an Investment Bank, one of its businesses shall be that of dealing in securities and the Participating Organisation shall only carry out such other activities specifically permitted by the Commission pursuant to the dealer's licence issued by the Commission and in the case of an Investment Bank, by the Commission and the Central Bank pursuant to the dealer's licence and merchant banking licence issued by the Commission and the Central Bank respectively; in the manner and subject to such terms and conditions as may be prescribed in these Rules and such guidelines, directives and/or circulars issued by the Commission, the Central Bank, any other relevant authority and/or where applicable, the Exchange from time to time.
  - (c) the Participating Organisation shall notify the Exchange in writing of any amendments to its memorandum and/or articles of association with a written confirmation to the Exchange that the amendments thereto are not inconsistent with any of the provisions of these Rules, directives, rulings or guidelines issued by the Exchange from time to time;
  - (d) the Participating Organisation shall promptly file with the Exchange and the Commission a copy of the annual return required to be filed by it pursuant to the Companies Act and such other documents as may be required by the Exchange from time to time;
  - (e) the Participating Organisation shall register with the Exchange the address(es) from which it carries on its business of dealing in securities and the floor area and location of the premises from which trading is conducted and no change in its aforesaid address(es) or trading area shall be made without the prior written approval of the Exchange;
  - (f) the Participating Organisation shall have a registered address in Malaysia and from time to time promptly notify the Exchange in writing of any change thereto, which new address shall be deemed to be its registered address in Malaysia;
  - (g) the Participating Organisation shall from time to time promptly notify the Exchange in writing of any change to its name as registered by the Exchange;
  - (h) the Participating Organisation shall not go into voluntary liquidation or apply for any order under Section 176 of the Companies Act without the prior written approval of the Exchange;
  - (i) the Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules;

- (j) [Deleted]
- (k) the Participating Organisation shall ensure the registration of all its Dealer's Representatives and registered person(s) with the Exchange pursuant to these Rules; and
- (l) the Participating Organisation shall comply, observe and perform all such other requirements or obligations as may be prescribed by the Exchange pursuant to these Rules.

**RULE 302.4 CIRCUMSTANCES APPLICABLE TO PARTICIPATING ORGANISATIONS**

- (1) Where, at any time after reviewing any financial or other reports or information submitted to the Exchange from time to time by a Participating Organisation pursuant to these Rules, and/or after examining or inspecting any books or other documents, accounts, transaction and other records of the Participating Organisation, and/or any reports or information obtained by the Exchange pursuant to any investigation carried out by it under any of the powers conferred upon it under these Rules, the Exchange is satisfied that the Participating Organisation -
  - (a) is insolvent;
  - (b) is unable or fails to maintain the capital adequacy requirements in accordance with Rule 1105;
  - (c) is likely to become unable to meet all or any of its financial obligations;
  - (d) is about to suspend making payments of the whole or any part of its debts; or
  - (e) conducts its business in a manner which is detrimental to, or could reasonably be considered as likely to be prejudicial to, the interests of its clients, the public or the Exchange,

the Exchange may, if in its opinion (after consultation with the Commission) that it is desirable to do so in order to protect the interests of the clients, the public or the Exchange or otherwise to ensure the existence of a fair and orderly stock market, resolve to take any one or more actions prescribed in Rule 302.5.

**RULE 302.5 ADDITIONAL POWERS OF THE EXCHANGE**

- (1) **Preliminary Actions:** In any of the circumstances set out under Rule 302.5 the Exchange may, upon written notice to the Participating Organisation, take any one or more of the following actions -
  - (a) As the Exchange considers necessary or expedient, direct the Participating Organisation and/or its directors and/or its employees or shareholders to take any steps or to do any act or thing relating to the business of dealing in securities as specified or particularised in the aforesaid notice and within such time as may be set out in the notice;
  - (b) As the Exchange thinks fit, prohibit or restrict the Participating Organisation from carrying out or transacting the business of dealing in securities or any class of such dealing in securities business, or from doing any other act or thing relating to its business as specified or particularised in the aforesaid notice, for such period and upon such terms and conditions set out in the notice;
  - (c) As the Exchange considers necessary or expedient, appoint one or more persons to perform any duties or functions with respect to the management or operation of the Participating Organisation's business (as specified in the instruments of appointment) and to require such persons to submit reports to the Exchange from time to time, and the Exchange may remove such persons and appoint others in such persons' place and

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may fix remuneration of any such persons. Such remuneration shall be paid by the Participating Organisation;

- (d) As the Exchange considers appropriate, appoint one or more persons for the purpose of advising the Participating Organisation on any matters relating to the business operation or management of the Participating Organisation as particularised in the aforesaid notice, and to require such persons to submit reports to the Exchange from time to time, and the Exchange may remove such persons and appoint others in such persons' place and may fix remuneration of any such persons. Such remuneration shall be paid by the Participating Organisation;
  - (e) In the case of a Participating Organisation which is also a clearing member of a Clearing House and an authorised depository agent of a central depository, direct 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 its clients who have not made good their transactions;
  - (f) As the Exchange considers appropriate, direct the Participating Organisation to increase its paid up capital or shareholders' funds up to the amount specified in the aforesaid notice or otherwise to implement a scheme for injection of new assets into the Participating Organisation of a type and value prescribed in the notice.
- (2) **Further Actions:** Where -
- (a) at any time after reviewing the actions taken by it under Rule 302.5(1), the Exchange is satisfied that further actions must be taken in order to sufficiently or adequately protect the interest of the clients of the Participating Organisation, the public or the Exchange and/or to ensure the existence of a fair and orderly stock market; or
  - (b) Prior to taking any of the actions set out in Rule 302.5(1) the Exchange is satisfied that such actions if taken by the Exchange would not be sufficient or adequate to protect the interest of the clients of the Participating Organisation, the public or the Exchange and/or to ensure the existence of a fair and orderly stock market,

then the Exchange may, upon written notice to the Participating Organisation, take any one or more of the following actions –

- (i) Upon notification to the Commission, to assume control of the whole of the property, business and affairs of the Participating Organisation, and carry on the whole of its business and affairs, or to assume control of such part of its property, business and affairs and carry on such part of its business and affairs as may be set out in the aforesaid notice or to appoint any person to do so on behalf of the Exchange and to order that the costs and expenses of the Exchange or the remuneration of the person so appointed, as the case may be, to be payable out of the funds and properties of the Participating Organisation;
- (ii) Upon consultation with the Commission, to appoint one or more receivers or receivers and managers –
  - (aa) to manage the whole of the business affairs and property of the Participating Organisation or such part thereof as may be set out in the aforesaid notice; and/or
  - (bb) to close down the operations of the whole of the business affairs and property of the Participating Organisation or such part thereof as may be set out in the aforesaid notice.

For the purposes hereof, the Exchange shall be entitled to grant to the receiver, or receiver and manager such powers as the Exchange may specify in its absolute discretion, which shall include but are not limited to, the power to assume all powers and duties of the directors and other officers of the Participating Organisation and to do

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such lawful acts and things as may be necessary for or incidental to the carrying out of its functions hereunder. The receiver or receiver and manager so appointed shall be deemed to be agents of the Participating Organisation and the Participating Organisation shall be solely responsible for his or their acts or defaults and for the payment of his or their remuneration. The Exchange may from time to time remove any receiver or receiver and manager so appointed and appoint another or others in his or their stead;

- (iii) Upon notification to the Commission, to present a petition to the High Court for the winding-up of the Participating Organisation;
  - (iv) Upon notification to the Commission, subject to the consent of the clients concerned, to require the Participating Organisation to effect transfers of monies or securities of its clients' for the time being standing to the credit of the client's accounts to new accounts with another Participating Organisation as determined by the Exchange, provided that prior consent of such other Participating Organisation has been obtained;
  - (v) For the purpose of regularising the Participating Organisation's financial position to an amount as determined by the Exchange, upon consultation with the Commission, to require the Participating Organisation to effect a corporate restructuring exercise, which may include merger with or acquisition of other Participating Organisation or other entities, as accepted by the relevant authorities.
- (3) **Effect of non-compliance:** Failure by a Participating Organisation to comply with any of the terms of notice referred to in Rule 302.5(1) and Rule 302.5(2), shall constitute a serious breach or violation of these Rules and the Exchange may take such actions as may be appropriate under these Rules to reprimand, fine, suspend and/or strike off the Participating Organisation.
- (4) **Amendment/replacement of notice:** Any notice issued by the Exchange pursuant to Rule 302.5(1) and 302.5(2) may from time to time be amended, replaced, supplemented or revoked by the Exchange as it considers appropriate after consultation with the Commission.



**RULE 303 GENERAL PROVISIONS FOR REGISTERED PERSON(S)**

**RULE 303.1 CATEGORIES**

- (1) Categories: The categories of registered person(s) are as follows –
- (aa) Chief Executive Officer;
  - (a) directors;
  - (bb) Head of Operations, Head of Dealing and Head of Compliance;
  - (b) Compliance Officer;
  - (c) Dealer’s Representatives;
  - (d) key appointments of branch office(s) envisaged in Rule 506;
  - (e) trading clerks; and
  - (f) [Deleted]
  - (g) Head Group Compliance
  - (h) such other persons as may be prescribed by the Exchange from time to time.

**RULE 303.2 OBLIGATIONS**

- (1) **Registration:** Every Participating Organisation shall ensure that such persons referred to in the preceding Rule who are employed, engaged or appointed by it are duly registered by the Exchange in the manner provided in this Chapter.
- (2) **Compliance:** Every registered person(s) pursuant to this Chapter shall be bound by and comply with –
- (a) these Rules; and
  - (b) all directives, rulings and guidelines (other than those guidelines which are expressed to be non-binding) issued by the Exchange from time to time under and in accordance with Chapter 2.

**RULE 303.3 REFUSAL TO REGISTER**

- (1) The Exchange may refuse an application made under the preceding Rule if –
- (a) the application was not made in accordance with the requirements of this Chapter or the information required therein was not submitted or adequate;
  - (b) the applicant has failed to comply with any other requirement of the Securities Laws, these Rules and/or any regulations, directives or guidelines thereunder;
  - (c) the registration of the applicant is not in the interest of a fair and orderly market;
  - (d) the Exchange is satisfied that the qualifications or any of them prescribed in this Chapter has/have not been fulfilled by the applicant; or

- (e) the Exchange is of the opinion that registration of the applicant may affect the optimum utilisation of its facilities, taking into account risk management or such other considerations.

#### RULE 303.4 RENEWAL OF REGISTRATION

- (1) The registration of a registered person(s) shall be subject to ~~annual~~ renewal not later than –
  - (a) in the case of a registered person(s) who is required to be licensed pursuant to the ~~Securities Industry Capital Markets and Services~~ Act, fourteen (14) days from the date of the Commission's renewal of his licence as evidenced by the date of issuance of the licence, by submitting an application to the Exchange in such form as may be prescribed by the Exchange and which shall be accompanied by –
    - (i) confirmation or evidence in such form as may be issued by the Commission of the renewal of the licence issued by the Commission pursuant to the ~~Securities Industry Capital Markets and Services~~ Act;
    - (ii) payment of a non-refundable subscription fee prescribed by the Exchange; and
  - (b) in the case of a registered person(s) being a non-licensed person, fourteen (14) days prior to each anniversary of his registration by the Exchange or within such other period as may be prescribed by the Exchange from time to time, by submitting an application to the Exchange in such form as may be prescribed by the Exchange and which shall be accompanied by payment of a non-refundable subscription fee prescribed by the Exchange.
- (2) **Additional documents:** The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.
- (3) **Additional conditions:** The Exchange may impose such other conditions or restrictions on a registered person(s) as it thinks fit at any time during the term of his registration.

#### RULE 303.5 FEES ON REGISTRATION

- (1) A registered person(s) shall be liable to pay a registration fee or other fees and charges prescribed by the Exchange from time to time.
- (2) All fees and charges payable by the registered person(s) hereunder shall be paid promptly within such period as may be stipulated by the Exchange.
- (3) The fees and charges payable by the registered person(s) shall be borne by the Participating Organisation with which the registered person(s) is employed, engaged or appointed. Without derogation of the foregoing, the Participating Organisation and the registered person(s) may mutually agree that the fees and charges payable hereunder shall be borne by the registered person(s).

#### RULE 303.6 CONTINUING LIABILITY

- (1) Notwithstanding that a registered person(s) may cease to be registered or be struck off the Register by the Exchange for any reason whatsoever, the registered person(s) shall be bound by these Rules which are now or may hereafter be in force and all directives, ruling and guidelines issued by the Exchange and/or Exchange holding company insofar as they relate to any antecedent breach committed by the registered person(s).

#### RULE 303.7 DECISIONS OF THE EXCHANGE

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- (1) Subject to Rule 201.3, any decision of the Exchange shall be final and binding on all Participating Organisations and registered person(s).

**RULE 303.8 EFFECTIVE DATE OF REGISTRATION**

- (1) The effective date of registration of a Chief Executive Officer or director required to be registered with the Exchange under these Rules shall be the date such person was appointed by the Participating Organisation to the relevant position at the Participating Organisation.

**RULE 304     DIRECTORS HEADS**

**RULE 304.1     MINIMUM NUMBER OF EXECUTIVE DIRECTORS HEADS**

- (1) A Participating Organisation shall -
- (a) in the case of a Non-Universal Broker, have at least two (2) ~~Executive Directors Heads~~, namely the ~~Executive Director Head of~~ Dealing and the ~~Executive Director Head of~~ Operations; and
  - (b) in the case of a Universal Broker and Investment Bank, have at least three (3) ~~Executive Directors Heads~~, namely the ~~Executive Director Head of~~ Dealing, the ~~Executive Director Head of~~ Operations and the ~~Executive Director Head of~~ Compliance, unless otherwise exempted under Rule 307.1(3),

albeit a Non-Universal Broker is not precluded from appointing an ~~Executive Director Head of~~ Compliance solely at its option, in which case, the provisions of these Rules in relation to an ~~Executive Director Head of~~ Compliance shall apply *mutatis mutandis* to a Non-Universal Broker.

- (2) In the event the number of ~~Executive Directors Heads~~ of a Participating Organisation shall, at any time, be reduced below the minimum number specified in the preceding Rule for any ~~whether by reason of any disqualification under the Companies Act or any other~~ reason beyond the control of the Participating Organisation, the Exchange may, at its discretion, allow the Participating Organisation to continue carrying on its business of dealing in securities for such period not exceeding three (3) months as the Exchange may determine and subject to such terms and upon such conditions as may be stipulated.

~~(3) No person shall be appointed by a Participating Organisation as its Executive Director unless he has been appointed in accordance with these Rules.~~

~~(4) No person shall be appointed by a Participating Organisation as its principal officer unless he has been appointed as Executive Director in accordance with these Rules.~~

**RULE 304.2     FULL-TIME ENGAGEMENT**

- (1) An ~~Executive Director Head~~ of a Participating Organisation shall be engaged full time in the office of the Participating Organisation and shall not, without the prior written approval of the Exchange –
- (a) engage himself in any business other than that of the business of the Participating Organisation; and/or
  - (b) subject always to the Rule hereinafter appearing, hold shares in, or be a director, of a company or corporation.

~~(2) An Executive Director of a Participating Organisation shall not hold more than fifteen (15) directorships in companies. For the purpose herein, “companies” means companies incorporated under or corporations registered as foreign companies under the Companies Act, regardless whether such companies are public or private companies, listed or otherwise.~~

**RULE 304.3     RESPONSIBILITY OF PARTICIPATING ORGANISATION**

- (1) Any violation of these Rules by a Head ~~n Executive Director~~ shall also be deemed the responsibility of the Participating Organisation which shall be liable and be dealt with in accordance with Chapter 13.

**RULE 304.4     ADDITIONAL CONDITIONS**

- (1) The Exchange may in its discretion impose additional conditions on the appointment of an ~~Executive Director-Head~~ of a Participating Organisation.
- (2) Such conditions imposed may, at the Exchange's discretion, be imposed retrospectively on such ~~Executive DirectorsHeads~~.

**RULE 304.5 RESIGNATION OF ~~DIRECTORS~~HEADS**

- (1) Unless expressly provided to the contrary in these Rules, a ~~director-Head~~ of a Participating Organisation who wishes to resign from his position as a Head of a Participating Organisation ~~directorship~~ shall notify the Exchange in writing not less than thirty (30) days prior to the proposed date of resignation.
- (2) The resignation of a ~~director-Head~~ of a Participating Organisation shall not take effect until such resignation is officially accepted and approved by the Exchange and subject to the Participating Organisation at all times maintaining the minimum number of ~~Executive Directors and~~ directorsHeads. ~~This Rule 304.5(2) does not apply to the directors of an Investment Bank.~~

**RULE 304.6 OTHER MATTERS**

- (1) Every Participating Organisation shall promptly notify the Exchange of the death of any of its ~~Heads directors~~ and of any person ceasing to be its ~~director-Head~~ for any other reason.
- (2) The Exchange upon the approval of the Commission shall have the power to issue directives, in connection with the duties and responsibilities of ~~directors-Heads~~ as the Exchange deems fit from time to time.
- (3) Notwithstanding the provisions in Rules 305, 306, 307 and 308, the board of directors shall at all times be ultimately responsible and accountable in relation to compliance of these Rules.

**~~RULE 304.7 DEEMING PROVISION~~**

- ~~(1) A director of a Participating Organisation who has not been expelled from membership of the Exchange holding company immediately prior to the conversion date shall be deemed to be a registered person(s) until he/she ceases to be a registered person(s) in accordance with these Rules and shall continue to be bound by these Rules and any rules, directives, guidelines and circulars made by the Exchange and the Exchange holding company for the time being in force and from time to time. All references to the director in his/her former capacity as member of the Exchange holding company in any undertaking, declaration, indemnity or other document howsoever called, given or done by or to the Exchange holding company shall be construed as references to the director in his capacity as a registered person under these Rules.~~

**~~RULE 304.8 INVESTMENT BANK~~**

- ~~(1) For the purposes of an Investment Bank, the provisions in this Rule 304 pertaining to an Executive Director and a director (save and except for Rule 304.1 on Minimum Number of Executive Directors) shall equally apply to and be read to include the Head of Dealing, Head of Operations and Head of Compliance of an Investment Bank.~~

**RULE 304A CHIEF EXECUTIVE OFFICER**

**RULE 304A.1 REGISTRATION**

- (1) **Obligation to Register:** A Chief Executive Officer appointed by an Investment Bank shall be registered with the Exchange in accordance with this Chapter.
- (2) **Application procedures:** In applying to register its Chief Executive Officer pursuant to the preceding Rule, the Investment Bank shall on the same day that notification is given to the Commission of the appointment of the chief executive officer as required under the Licensing Handbook ("Notification"), complete and submit an application to the Exchange in the form prescribed in Appendix 1B, accompanied by –
  - (a) a certified true copy of a valid dealer's representative's licence ~~issued by the Commission pursuant to the Securities Industry Act~~, in the event the Chief Executive Officer holds a dealer's representative's licence;
  - (b) a copy of the Notification;
  - (c) a certified true copy of the approval of the Central Bank to the Chief Executive Officer's appointment as a Chief Executive Officer of the Investment Bank;
  - (ed) payment of a non-refundable application fee prescribed by the Exchange;
  - (de) a statutory declaration by the Chief Executive Officer as to the veracity of all information provided in the form prescribed in Appendix 2B if he is a licensed person, or Appendix 2C (if he not a licensed person); and
  - (ef) an undertaking by the Chief Executive Officer to the Exchange in the form prescribed in Appendix 3B.
- (3) **Additional documents:** The Exchange may, as it thinks fit, require the Investment Bank and/or its Chief Executive Officer to provide such additional information and/or documents as it may determine.
- (4) **Payment of fees:** An Investment Bank shall promptly within such period as may be stipulated, pay all fees and charges imposed by the Exchange pursuant to these Rules.

**RULE 304A.2 CONTINUING OBLIGATIONS**

- (1) Without prejudice to any provisions of these Rules from time to time in force, the Chief Executive Officer shall at all times throughout the term of his registration be responsible for:-
  - (a) all the activities of the Investment Bank; and
  - (b) the compliance by the Investment Bank with these Rules, directives, rulings and guidelines issued by the Exchange.

**RULE 304A.3 APPLICABILITY OF THE RULES**

- (1) The provisions in Rules 304.2 to 304.6 pertaining to a ~~Head Executive Director and a director~~ shall equally apply to and be read to include the Chief Executive Officer of an Investment Bank unless expressly excluded or modified in this Chapter or in these Rules.

**RULE 304A.4 RE-DESIGNATION AS DEALER'S REPRESENTATIVE**

### Chapter 3 – Participating Organisations and Registered Persons

- (1) Where a Chief Executive Officer who holds a dealer's representative's licence intends, upon his resignation as envisaged in Rule 304, to apply to the Exchange to be re-designated as a Dealer's Representative, the Chief Executive Officer shall comply with the requirements for registration as a Dealer's Representative as envisaged in Rule 310 unless otherwise permitted by the Exchange in this Rule.

#### **RULE 304A.5 CESSATION**

- (1) An Investment Bank shall immediately notify the Exchange in writing in the event its Chief Executive Officer ceases to be registered with the Commission for any reason whatsoever, whereupon the Exchange shall be entitled to remove the Chief Executive Officer from its register with immediate effect.

RULE 305 ~~EXECUTIVE DIRECTOR DEALING~~/HEAD OF DEALING

RULE 305.1 REQUIREMENT

- (1) Every Participating Organisation shall appoint at least one (1) ~~Executive Director Dealing or Head of Dealing, in the case of an Investment Bank, who shall be responsible for the activities of the Participating Organisation related to dealing in securities.~~
- (2) A Participating Organisation which appoints more than one (1) ~~Executive Director Dealing or Head of Dealing~~ shall ensure the following is satisfied –
  - (a) the area and scope of responsibility of each ~~Executive Director Dealing or~~ Head of Dealing, ~~as the case may be,~~ is clearly delineated and documented at the time of appointment of each of the ~~Executive Directors Dealing or~~ Heads of Dealing, and in the event of any changes to the area and scope of responsibility, such changes to be updated accordingly; and
  - (b) that there is no area in these Rules related to dealing in securities which does not fall under the responsibility, supervision and purview of at least one (1) ~~Executive Director Dealing or~~ Head of Dealing, ~~as the case may be.~~

RULE 305.2 APPOINTMENT

- (1) **Qualification:** No person shall be appointed as an Head of ~~Executive Director Dealing of or Head of Dealing by~~ a Participating Organisation ~~and Investment Bank respectively~~ unless such person –
  - ~~(a) — has been nominated as an Executive Director of the Participating Organisation;~~
  - ~~(ba)~~ whose appointment as the Executive Director Head of Dealing of the Participating Organisation ~~or Head of Dealing of the Investment Bank, as the case may be,~~ is approved by the Commission;
  - ~~(e)(b)~~ holds a valid dealer's representative's licence ~~issued by the Commission pursuant to the Securities Industry Act~~ and has satisfied or will satisfy upon registration with the Exchange, the terms and conditions of, or imposed by the Commission related to, such licence; and
  - ~~(e)(c)~~ whose application for registration has been approved by the Exchange.
- ~~(1A) — Disapplication: — Rule 305.2(1)(a) above shall not apply to the Head of Dealing of an Investment Bank.~~
- (2) **Application procedures:** ~~A Participating Organisation, in respect of the registration of a Head of Dealing pursuant to this Rule 305, Any person desiring of being registered as an Executive Director Dealing of a Participating Organisation or Head of Dealing of an Investment Bank, as the case may be,~~ shall complete and submit an application to the Exchange in the form prescribed in Appendix 1B and which shall be accompanied by –
  - (a) a certified true copy of a valid dealer's representative's licence ~~issued by the Commission pursuant to the Securities Industry Act;~~
  - (b) certified true copy of the approval of the Commission to the applicant's Head of Dealing's appointment as an Executive Director Head of Dealing of the Participating Organisation ~~or Head of Dealing of the Investment Bank, as the case may be;~~
  - (c) payment of a non-refundable application fee prescribed by the Exchange;



- (d) a statutory declaration by the ~~applicant-Head of Dealing~~ as to the veracity of all information provided in the form prescribed in Appendix 2B;
  - (e) an undertaking to the Exchange in the form prescribed in Appendix 3B; and
  - (f) the respective area and scope of responsibility of each of the ~~Executive-Directors Dealing-or~~ Heads of Dealing, where more than one (1) ~~Executive-Director Dealing-or~~ Head of Dealing is appointed.
- (3) **Additional documents:** The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.
- (4) **Payment of fees:** A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.

### RULE 305.3 CONTINUING OBLIGATIONS

- (1) Without prejudice to any provisions of these Rules from time to time in force, the following conditions shall, at all times throughout the term of his registration, apply to an ~~Executive Director Dealing and~~ Head of Dealing, ~~as the case may be~~ –
- (a) the ~~Executive-Director Dealing and~~ Head of Dealing shall prior to and after being registered comply with the qualifications prescribed above; and
  - (b) be responsible for the activities of the Participating Organisation related to dealing in securities, and where more than one (1) ~~Executive-Director Dealing-or~~ Head of Dealing is appointed, the area scope of responsibility of each ~~Executive-Director Dealing-or~~ Head of Dealing shall be as documented pursuant to Rule 305.1(2)(a).
- (2) **Joint liability:** Further to Rule 305.1(2)(b), where the Exchange finds that there is an area in these Rules related to dealing in securities which does not fall under the responsibility, supervision and purview of any of the ~~Executive-Directors Dealing-or~~ Heads of Dealing, all the ~~Executive-Directors Dealing-or~~ Heads of Dealing, ~~as the case may be~~, shall be jointly liable for any breach that may occur in respect of that area.

### RULE 305.4 RE-DESIGNATION AS DEALER'S REPRESENTATIVE

- (1) An ~~Executive-Director Dealing-or~~ Head of Dealing, ~~as the case may be~~, who intends upon his resignation as envisaged in Rule 304 to apply to the Exchange to be re-designated as a Dealer's Representative shall comply with the requirements for registration as a Dealer's Representative as envisaged in Rule 310 unless otherwise permitted by the Exchange in this Rule.

### RULE 305.5 REPORTING

- (1) A Head of Dealing (except a Head of Dealing of an Investment Bank) shall report directly to the board of directors of the Participating Organisation.
- (2) The reporting line of the Head of Dealing of an Investment Bank shall be in accordance with the requirements in the Guidelines on Investment Banks and/or stipulated by the Commission or the Central Bank.

**RULE 306 EXECUTIVE DIRECTOR OPERATIONS/HEAD OF OPERATIONS**

**RULE 306.1 REQUIREMENT**

- (1) Every Participating Organisation shall appoint at least one (1) ~~Executive Director Operations, or Head of Operations, in the case of an Investment Bank, who shall be responsible for operational activities of the Participating Organisation.~~
- (2) A Participating Organisation which appoints more than one (1) ~~Executive Director Operations or Head of Operations~~ shall ensure the following is satisfied –
  - (a) the area and scope of responsibility of each ~~Executive Director Operations or Head of Operations, as the case may be,~~ is clearly delineated and documented at the time of appointment of each of the ~~Executive Directors Operations or Heads of Operations,~~ and in the event of any changes to the area and scope of responsibility, such changes to be updated accordingly; and
  - (b) that there is no area in these Rules related to the operational activities of the Participating Organisation which does not fall under the responsibility, supervision and purview of at least one (1) ~~Executive Director Operations or Head of Operations, as the case may be.~~

**RULE 306.2 APPOINTMENT**

- (1) **Qualification:** No person shall be appointed as an ~~Executive Director Head of Operations or Head of Operations by~~ a Participating Organisation ~~and Investment Bank respectively~~ unless such person –
  - ~~(a) has been nominated as an Executive Director of the Participating Organisation;~~
  - ~~(ba)~~ whose appointment as the ~~Executive Director Head of Operations~~ of the Participating Organisation ~~or Head of Operations of the Investment Bank, as the case may be,~~ is approved by the Commission and has satisfied or will satisfy upon registration with the Exchange, the terms and conditions of, or imposed by the Commission related to, such approval;
  - ~~(b)~~ does not hold a Capital Markets Services Representative's Licence ~~dealer's representative's licence issued by the Commission pursuant to the Securities Industry Act;~~ and
  - ~~(bc)~~ whose application for registration has been approved by the Exchange.
- ~~(1A) Disapplication: Rule 306.2(1)(a) above shall not apply to the Head of Operations of an Investment Bank.~~
- (2) **Application procedures:** A Participating Organisation, in respect of the registration of a Head of Operations pursuant to this Rule 306, Any person desiring of being registered as an Executive Director Operations of a Participating Organisation or Head of Operations of an Investment Bank, as the case may be, shall complete and submit an application to the Exchange in the form prescribed in Appendix 1B and which shall be accompanied by –
  - (a) certified true copy of the approval of the Commission to the applicant's Head of Operations' appointment as an ~~Executive Director Head of Operations~~ of the Participating Organisation ~~or Head of Operations of an Investment Bank, as the case may be;~~
  - (b) payment of a non-refundable application fee prescribed by the Exchange;

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- (c) a statutory declaration by the ~~applicant~~ Head of Operations as to the veracity of all information provided in the form prescribed in Appendix 2B;
  - (d) an undertaking to the Exchange in the form prescribed in Appendix 3B; and
  - (e) the respective area and scope of responsibility of each of the ~~Executive Directors Operations or~~ Heads of Operations, where more than one (1) ~~Executive Director Operations or~~ Head of Operations is appointed.
- (3) **Additional documents:** The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.
- (4) **Payment of fees:** A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.

#### RULE 306.3 CONTINUING OBLIGATIONS

- (1) Without prejudice to any provisions of these Rules from time to time in force, the following conditions shall, at all times throughout the term of his registration, apply to an ~~Executive Director Operations and~~ Head of Operations, ~~as the case may be~~ –
- (a) the ~~Executive Director Operations and~~ Head of Operations shall prior to and after being registered comply with the qualifications prescribed above;
  - (b) be responsible for operational activities of the Participating Organisation, and where more than one (1) ~~Executive Director Operations or~~ Head of Operations is appointed, the area and scope of responsibility of each ~~Executive Director Operations or~~ Head of Operations shall be as documented pursuant to Rule 306.1(2)(a); and
  - (c) the ~~Executive Director Operations and~~ Head of Operations shall not deal in securities on behalf of the Participating Organisation.
- (2) **Joint liability:** Further to Rule 306.1(2)(b), where the Exchange finds that there is an area in these Rules related to the operational activities of the Participating Organisation which does not fall under the responsibility, supervision and purview of any of the ~~Executive Directors Operations or~~ Heads of Operations, all the ~~Executive Directors Operations or~~ Heads of Operations, ~~as the case may be~~, shall be jointly liable for any breach that may occur in respect of that area.

#### RULE 306.4 REPORTING

- (1) A Head of Operations (except a Head of Operations of an Investment Bank) shall report directly to the board of directors of the Participating Organisation.
- (2) The reporting line of the Head of Operations of an Investment Bank shall be in accordance with the requirements in the Guidelines on Investment Banks and/or stipulated by the Commission or the Central Bank.

**RULE 307 EXECUTIVE DIRECTOR COMPLIANCE/HEAD OF COMPLIANCE**

**RULE 307.1 REQUIREMENT**

- (1) Unless otherwise exempted under Rule 307.1(3), every Universal Broker and Investment Bank shall appoint at least one (1) ~~Executive Director Compliance Head of Compliance~~or, in the case of an Investment Bank, at least one (1) Head of Compliance, who shall ~~be responsible for all compliance matters as envisaged in these Rules.~~
- (2) A Participating Organisation which appoints more than one (1) ~~Executive Director Compliance or~~ Head of Compliance shall ensure the following is satisfied –
  - (a) the area and scope of responsibility of each ~~Executive Director Compliance or~~ Head of Compliance, ~~as the case may be~~, is clearly delineated and documented at the time of appointment of each of the ~~Executive Directors Compliance or~~ Heads of Compliance, and in the event of any changes to the area and scope of responsibility, such changes to be updated accordingly; and
  - (b) that there is no area in these Rules related to compliance matters of the Participating Organisation which does not fall under the responsibility, supervision and purview of at least one (1) ~~Executive Director Compliance or~~ Head of Compliance, ~~as the case may be~~.
- (3) In the event the compliance functions of a Universal Broker are undertaken at Group level in accordance with Rule 511 the Universal Broker may elect not to appoint an ~~Executive Director Compliance Head of Compliance~~.

**RULE 307.2 APPOINTMENT**

- (1) **Qualification:** No person shall be appointed as an ~~Executive Director Head of Compliance or Head of Compliance of a Participating Organisation by a Universal Broker and Investment Bank respectively~~ unless such person –
  - ~~(a) has been nominated as an Executive Director of the Universal Broker;~~
  - (a) whose appointment as the Executive Director Head of Compliance of the Participating Organisation Universal Broker, or Head of Compliance of the Investment Bank, as the case may be, is approved by the Commission;
  - (b) does not hold a Capital Markets Services Representative's Licence valid dealer's representative's licence issued by the Commission pursuant to the Securities Industry Act; and
  - (c) whose application for registration has been approved by the Exchange.
- ~~(1A) Disapplication: For the avoidance of doubt, Rule 307.2(1)(a) above shall not apply to the Head of Compliance of an Investment Bank.~~
- (2) **Application procedures:** A Participating Organisation, in respect of the registration of a Head of Compliance pursuant to this Rule 307, Any person desiring of being registered as an Executive Director Compliance of a Universal Broker, or Head of Compliance of an Investment Bank, as the case may be, shall complete and submit an application to the Exchange in the form prescribed in Appendix 1B and which shall be accompanied by –
  - (a) certified true copy of the approval of the Commission to the applicant's Head of Compliance's appointment as an ~~Executive Director Head of Compliance of the Participating Organisation Universal Broker, or Head of Compliance of the Investment~~

- ~~Bank, as the case may be~~, and has satisfied or will satisfy upon registration, the terms and conditions of, or imposed by the Commission related to, such approval;
- (b) a statutory declaration by the ~~applicant~~ Head of Compliance as to the veracity of all information provided in the form prescribed in Appendix 2C;
  - (c) an undertaking to the Exchange in the form prescribed in Appendix 3B; and
  - (d) the respective area and scope of responsibility of each of the ~~Executive Directors Compliance or~~ Heads of Compliance, where more than one (1) ~~Executive Director Compliance or~~ Head of Compliance is appointed.
- (3) **Additional documents:** The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.
- (4) **Payment of fees:** A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.

### RULE 307.3 VACANCY

- (1) In the event of a vacancy at any time in the position of the ~~Executive Director Compliance or~~ Head of Compliance –
- (a) the functions, duties and responsibilities of the ~~Executive Director Compliance or~~ Head of Compliance, ~~as the case may be~~, shall be assumed by the next most senior Compliance Officer; and
  - (b) the Universal Broker and Investment Bank shall fill the vacancy of the ~~Executive Director Compliance and~~ Head of Compliance ~~respectively~~ within three (3) months from the vacancy arising.

### RULE 307.4 CONTINUING OBLIGATIONS

- (1) Without prejudice to any provisions of these Rules from time to time in force, the following conditions shall, at all times throughout the term of his registration, apply to an ~~Executive Director Compliance and~~ Head of Compliance, ~~as the case may be~~ –
- (a) the ~~Executive Director Compliance and~~ Head of Compliance shall prior to and after being registered comply with the qualifications prescribed above;
  - (b) the ~~Executive Director Compliance and~~ Head of Compliance shall be responsible for all compliance matters as envisaged in these Rules and carry out such duties of a Compliance Officer as stipulated in Rule 309 and as may be prescribed by the Exchange from time to time. Where more than one (1) ~~Executive Director Compliance or~~ Head of Compliance is appointed, the area and scope of responsibility of each ~~Executive Director Compliance or~~ Head of Compliance shall be as documented pursuant to Rule 307.1(2)(a);
  - (c) the ~~Executive Director Compliance and~~ Head of Compliance shall not solicit or execute orders on behalf of the Participating Organisation or a client and shall not act in a manner which may compromise his function and position; and
    - (i) [Deleted]
    - (ii) [Deleted]
      - (aa) [Deleted]
      - (bb) [Deleted]

- (d) the ~~Executive Director Compliance and~~ Head of Compliance may effect any personal dealing in securities *Provided Always* that any dealings permitted herein shall be subject to the requirements pertaining to transactions by directors as prescribed in these Rules.
- (2) **Joint responsibility:** Further to Rule 307.1(2)(b), where the Exchange finds that there is an area in these Rules related to compliance matters which does not fall under the responsibility, supervision and purview of any of the ~~Executive Directors Compliance or~~ Heads of Compliance, all the ~~Executive Directors Compliance or~~ Heads of Compliance, ~~as the case may be~~, shall be jointly responsible for any compliance matter in respect of that area.

**RULE 307.5 REPORTING OF BREACHES OR IRREGULARITIES**

- (1) In addition to the provisions of these Rules relating to Compliance Officer which shall be applicable in all respects to the ~~Executive Director Compliance and~~ Head of Compliance unless expressly provided to the contrary, the ~~Executive Director Compliance and~~ Head of Compliance shall be required to immediately report to the Universal Broker's ~~and or~~ Investment Bank's, as the case may be, board of directors ~~respectively~~ and the Exchange upon him becoming aware of any matter, which in his opinion, may –
- (a) constitute a breach of any provision of the Securities Laws.;
  - (b) involve the potential default of the Universal Broker or Investment Bank, as the case may be, against the Clearing House or other counterparty;
  - (c) have a material effect upon the minimum financial requirements prescribed pursuant to Section ~~67 20A~~ of the ~~Securities Industry Capital Markets and Services~~ Act and these Rules to be complied with by the Universal Broker and Investment Bank;
  - (d) jeopardise the monies, funds, collateral, property or assets of the clients held by the Universal Broker and Investment Bank; and/or
  - (e) significantly affect the risk position and financial integrity of the Universal Broker and Investment Bank.
- (2) In addition to the reporting requirement in the preceding Rule 307.5(1), the ~~Executive Director Compliance and~~ Head of Compliance shall immediately report to the Commission upon him becoming aware of any matter under Rule 307.5(1)(a).
- (3) The ~~Executive Director Compliance and~~ Head of Compliance, ~~as the case may be~~, shall inform the Commission in relation to all matters reported under Rule 307.5(2) and the Exchange in relation to all matters reported under Rule 307.5(1) of the decision of the Universal Broker's and Investment Bank's board of directors and particulars of any corrective measures and decided course of actions taken or to be taken, as the case may be, within thirty (30) days of his reporting thereof to the board of directors and thereafter, of the completion of the measures and actions taken, if any.

**RULE 307.6 INAPPLICABILITY OF RULES**

- (1) For the avoidance of doubt, the following provisions of these Rules shall not be applicable to a Universal Broker and Investment Bank –

Rule	Heading	Extent of Inapplicability
309.6	Breach or Irregularities	

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309.8	Reporting by Compliance Officer	To the extent that the Compliance Officer is to report to the board of directors.
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**RULE 307.7 REPORTING**

- (1) A Head of Compliance (except a Head of Compliance of an Investment Bank) shall report directly to the board of directors of the Participating Organisation.
- (2) The reporting line of the Head of Compliance of an Investment Bank shall be in accordance with the requirements in the Guidelines on Investment Banks and/or as stipulated by the Commission or the Central Bank.

**RULE 307A HEAD GROUP COMPLIANCE**

**RULE 307A.1 REQUIREMENT TO REGISTER**

- (1) Where the compliance functions of a Participating Organisation are undertaken at Group level in accordance with Rule 511, the Participating Organisation shall ensure that the Head Group Compliance is registered with the Exchange in accordance with Rule 307A.2.

**RULE 307A.2 APPLICATION FOR REGISTRATION**

- (1) **Procedures:** A Participating Organisation shall complete and submit an application to the Exchange to register the Head Group Compliance in the form prescribed in Appendix 1B and which shall be accompanied by –
  - (a) a statutory declaration by the Head Group Compliance as to the veracity of all information provided in the form prescribed in Appendix 2C; and
  - (b) an undertaking to the Exchange in the form prescribed in Appendix 3B.
- (2) **Additional documents:** The Exchange may, as it thinks fit, require the Participating Organisation and/or Head Group Compliance to provide such additional information and/or documents as it may determine.
- (3) **Payment of fees:** A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.

**RULE 307A.3 VACANCY**

- (1) **Notice:** A Participating Organisation shall give to the Exchange fourteen (14) days notice prior to the effective date of the cessation of employment or engagement of a Head Group Compliance with the Entity. The Head Group Compliance shall be removed from the Register on the said effective date.
- (2) **Vacancy:** Upon vacancy in the position of the Head Group Compliance
  - (a) the functions, duties and responsibilities of the Head Group Compliance as envisaged under Rule 307A.4 shall be assumed by any one of the Compliance Officers registered pursuant to Rule 309.1(2); and
  - (b) the Participating Organisation shall ensure that the vacancy of the Head Group Compliance is filled within three (3) months from the date of the vacancy arising.

**RULE 307A.4 CONTINUING OBLIGATIONS**

- (1) Without prejudice to any provisions of these Rules from time to time in force, the following conditions shall, at all times throughout the term of his registration, apply to a Head Group Compliance –
  - (a) the Head Group Compliance shall be responsible for all compliance matters as envisaged in these Rules; and
  - (b) the Head Group Compliance shall not solicit or execute orders on behalf of the Participating Organisation or a client and shall not act in a manner which may compromise his function and position.
- (2) All provisions in these Rules, directives, rulings and guidelines which are applicable and/or make reference to ~~an Executive Director Compliance~~ Head of Compliance except for provisions



in Rule 307 shall be also be applicable and shall be read to include Head Group Compliance unless expressly disapplied.

**RULE 307A.5 REPORTING**

- (1) In addition to the provisions of these Rules relating to Compliance Officer which shall be applicable in all respects to the Head Group Compliance unless expressly provided to the contrary, the Head Group Compliance shall be required to immediately report to the Participating Organisation's board of directors and the Exchange upon him becoming aware of any matter, which in his opinion, may –
  - (a) constitute a breach of any provision of the Securities Laws; and/or
  - (b) involve the potential default of the Participating Organisation against the Clearing House or other counterparty; and/or
  - (c) have a material effect upon the minimum financial requirements prescribed pursuant to Section ~~6720A~~ of the ~~Capital Markets and Services Securities Industry~~ Act and these Rules to be complied with by the Participating Organisation; and/or
  - (d) jeopardise the monies, funds, collateral, property or assets of the clients held by the Participating Organisation; and/or
  - (e) significantly affect the risk position and financial integrity of the Participating Organisation.
- (2) In addition to the reporting under Rule 307A.5(1), the Head Group Compliance shall also immediately report to the Commission upon him becoming aware of any matter under Rule 307A.5(1)(a).
- (3) The Head Group Compliance shall inform the Commission in relation to matters reported under Rule 307A.5(2) and the Exchange in relation to all matters reported under Rule 307A.5(1) of the decision of the Participating Organisation's board of directors and particulars of any corrective measures and decided course of actions taken or to be taken, as the case may be, within thirty (30) days or such other period as may be determined by the Exchange of his reporting thereof to the board of directors and thereafter of the completion of the measures and action taken (if any).

**RULE 308 NON-EXECUTIVE DIRECTORS**

**RULE 308.1 APPOINTMENT**

- (1) **Qualification Requirement for Registration:** A Participating Organisation shall register with the Exchange all persons appointed as directors of the Participating Organisation. No person shall be appointed as a Non-Executive Director by a Participating Organisation unless such person—
- (a) ~~has been nominated as a Non-Executive Director of the Participating Organisation;~~
- (b) ~~whose appointment as a Non-Executive Director of the Participating Organisation is approved by the Commission and has satisfied or will satisfy upon registration, the terms and conditions of, or imposed by the Commission related to, such approval; and~~
- (c) ~~whose application for registration has been approved by the Exchange.~~
- (2) **Application procedures:** A Participating Organisation, in respect of the registration of a director pursuant to this Rule 308, Any person desiring of being registered as a Non-Executive Director of a Participating Organisation shall on the same day that notification is given to the Commission of the appointment of the director as required under the Licensing Handbook (“Notification”), complete and submit an application to the Exchange in the form prescribed in Appendix 1C and which shall be accompanied by –
- (a) a copy of the Notification certified true copy of the approval of the Commission to the applicant’s appointment as a Non-Executive Director of the Participating Organisation;
- (b) payment of a non-refundable application fee prescribed by the Exchange;
- (c) a statutory declaration by the applicant-director as to the veracity of all information provided in the form prescribed in Appendix 2C; and
- (d) an undertaking to the Exchange in the form prescribed in Appendix 3B.
- (3) **Additional documents:** The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.
- (4) **Payment of fees:** A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.

**RULE 308.2 CONTINUING OBLIGATIONS**

- (1) Without prejudice to any provisions of these Rules from time to time in force, the following conditions shall, at all times throughout the term of his registration, apply to a **Non-Executive Director** –
- (a) ~~the Non-Executive Director~~ shall prior to and after being registered comply with the qualifications prescribed ~~by the Commission above~~ or, in the case of the **Non-Executive Director** of an Investment Bank, the qualifications prescribed by the Central Bank; and
- (b) ~~the Non-Executive Director~~ shall not deal in securities on behalf of the Participating Organisation.

**~~RULE 308.3 INVESTMENT BANK~~**

- (1) ~~**Disapplication:** The qualifications of a Non-Executive Director stipulated in Rule 308.1(1) above shall not apply to the non-executive directors of an Investment Bank.~~

**RULE 308.3 RESIGNATION OF DIRECTORS**

- (1) Unless expressly provided to the contrary in these Rules, a director of a Participating Organisation who wishes to resign from his directorship shall notify the Exchange in writing not less than thirty (30) days prior to the proposed date of resignation.
- (2) The resignation of a director of a Participating Organisation shall not take effect until such resignation is officially accepted and approved by the Exchange. This Rule 308.3(2) does not apply to the directors of an Investment Bank.

**RULE 308.4 OTHER MATTERS**

- (1) Every Participating Organisation shall promptly notify the Exchange of the death of any of its directors and of any person ceasing to be its director for any other reason.
- (2) The Exchange upon the approval of the Commission shall have the power to issue directives, in connection with the duties and responsibilities of directors as the Exchange deems fit from time to time.

**RULE 308.5 OTHER DIRECTORSHIPS**

- (1) An executive director of a Participating Organisation shall not hold more than fifteen (15) directorships in companies. For the purpose herein, "companies" means companies incorporated under or corporations registered as foreign companies under the Companies Act, regardless whether such companies are public or private companies, listed or otherwise.

**RULE 308.6 DEEMING PROVISION**

- (1) A director of a Participating Organisation who has not been expelled from membership of the Exchange holding company immediately prior to the conversion date shall be deemed to be a registered person(s) until he/she ceases to be a registered person(s) in accordance with these Rules and shall continue to be bound by these Rules and any rules, directives, guidelines and circulars made by the Exchange and the Exchange holding company for the time being in force and from time to time. All references to the director in his/her former capacity as member of the Exchange holding company in any undertaking, declaration, indemnity or other document howsoever called, given or done by or to the Exchange holding company shall be construed as references to the director in his capacity as a registered person under these Rules.

**RULE 309 COMPLIANCE OFFICER**

**RULE 309.1 REQUIREMENT**

- (1) Every Participating Organisation shall appoint and register with the Exchange one (1) or more Compliance Officer who shall be responsible to ensure that the compliance functions as set out in Rule 309.4(1) are carried out.
- (2) In the event the compliance functions of a Participating Organisation are undertaken at Group level in accordance with Rule 511, the Participating Organisation shall ensure that:-
  - (a) the Entity designates at least one (1) dedicated Compliance Officer who shall be responsible to ensure that the compliance functions of the Participating Organisation as stipulated in Rule 309.4(1) are carried out; and
  - (b) the dedicated Compliance Officer is registered with the Exchange in accordance with this Rule.

**RULE 309.2 APPOINTMENT**

- (1) **Qualification:** No person shall be appointed as a Compliance Officer of a Participating Organisation unless such person -
  - (a) is approved by the Commission to be appointed as a Compliance Officer and has satisfied or will satisfy upon registration with the Exchange, the terms and conditions of, or imposed by the Commission related to, such approval; ~~and~~
  - (b) does not hold a Capital Markets Services Representative's Licence; and
  - (c) is registered as a Compliance Officer with the Exchange.
- (2) **Application procedures:** A Participating Organisation, in respect of the registration of a Compliance Officer pursuant to this Rule 309, shall complete and submit an application to the Exchange for the registration of its Compliance Officer in the form prescribed in Appendix 1C accompanied by –
  - (a) certified true copy of the approval of the Commission to the appointment as a Compliance Officer of the Participating Organisation;
  - (b) a statutory declaration by the Compliance Officer as to the veracity of all information provided in the form prescribed in Appendix 2C; and
  - (c) an undertaking to the Exchange in the form prescribed in Appendix 3B.
- (3) **Additional documents:** The Exchange may, as it thinks fit, require an applicant to provide such other additional information and/or documents as it may determine.
- (4) **Position:** The Compliance Officer must be equipped with the authority and ability to effect decision so as to be able to carry out his responsibilities effectively. Therefore, the Compliance Officer must be a person holding a senior position in the organisation of the Participating Organisation, the Entity or the Group, as the case may be who can act independently and is able to fully effect decisions.
- (5) **Notice of cessation:** A Participating Organisation shall, give the Exchange not less than fourteen days (14) days notice prior to the effective date of the cessation of the employment or engagement of a Compliance Officer with the Participating Organisation. The Compliance Officer shall be removed from the Register of Compliance Officers on the said effective date.

- (6) **Payment of fees:** A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.

**RULE 309.3 CONTINUING OBLIGATIONS**

- (1) Without prejudice to any provisions of these Rules from time to time in force, the following conditions shall, at all times throughout the term of his registration, apply to a Compliance Officer –
- (a) the Compliance Officer shall prior to and after being registered comply with the qualifications prescribed above;
  - (b) the Compliance Officer shall carry out such duties as stipulated in Rule 309 and as may be prescribed by the Exchange from time to time;
  - (c) the Compliance Officer shall not solicit or execute orders on behalf of the Participating Organisation or a client and shall not act in a manner which may compromise his function and position; and
    - (i) [Deleted]
    - (ii) [Deleted]
      - (aa) [Deleted]
      - (bb) [Deleted]
  - (d) the Compliance Officer may effect any personal dealing in securities *Provided Always* that any dealings permitted herein shall be subject to the requirements pertaining to transactions by employees as prescribed in these Rules.

**RULE 309.4 COMPLIANCE FUNCTIONS**

- (1) A Compliance Officer shall be responsible to ensure that all compliance functions as stipulated in these Rules, the guidelines, directives and/or rulings issued by the Exchange are carried out, which functions shall include –
- (a) supervising compliance with the Securities Laws, these Rules, directives, rulings and guidelines issued by the Exchange;
  - (b) supervising compliance with the Participating Organisation's internal policies and guidelines;
  - (c) reviewing the handling of complaints and reporting his findings to the ~~executive director~~ Head of the Participating Organisation responsible for such matters ~~or in the case of an Investment Bank, the relevant head responsible for such matters;~~
  - (d) reviewing applications forms and documents of accounts opened by clients;
  - (e) regularly reviewing employee's securities transactions, dealings in securities in the Participating Organisation's own account, records of clients' accounts and dealings by Salaried Dealer's Representatives in respect of the Participating Organisation's proprietary trading;
  - (f) monitoring sales and educational literature and advertisements issued by the Participating Organisation; and
  - (g) such other functions as specified by the Exchange from time to time.

**RULE 309.5 VACANCY OF COMPLIANCE OFFICER**

### Chapter 3 – Participating Organisations and Registered Persons

- (1) Where, at any particular time, a total vacancy occurs in the office of –
- (a) the ~~Executive Director Compliance or~~ Head of Compliance, ~~as the case may be,~~ and the Compliance Officers in a Universal Broker or Investment Bank; or
  - (b) the Compliance Officers in a Non-Universal Broker,
- the responsibility for the carrying out of the compliance functions in the interim shall be assumed by any one of the officers who is carrying out the compliance functions for the Universal Broker, Investment Bank or Non-Universal Broker, as the case may be, or in the absence thereof, the Head of the Internal Audit.
- (2) Where, at any particular time, a vacancy occurs in the office of the Compliance Officers in a Universal Broker or Investment Bank, the functions of the Compliance Officers shall in the interim be assumed by the ~~Executive Director Compliance or~~ Head of Compliance, ~~as the case may be.~~
- (2A) Where the compliance functions of a Participating Organisation is undertaken at Group level in accordance with Rule 511 and a vacancy occurs in the office of the Head Group Compliance and/or Compliance Officer, the following shall apply:-
- (i) Where a vacancy occurs in the office of a Compliance Officer, the Head Group Compliance shall in the interim be responsible to ensure the continued discharge of the compliance functions as envisaged in these Rules in the manner deemed fit by the Head of Compliance; or
  - (ii) Where a total vacancy occurs in the office of both the Head Group Compliance and Compliance Officer, the functions of the Head Group Compliance and Compliance Officer shall in the interim be assumed by any one of the officers of the Entity with suitable experience and seniority in carrying out compliance functions for the Entity or the Head of the Internal Audit for the Participating Organisation.
- (3) Such temporary duties referred to in the preceding Rules 309.5(1), 309.5(2) and 309.5(2A) shall be for a period not exceeding three (3) months. The person assuming such temporary duties as envisaged in the above Rules, save and except for the ~~Executive Director Compliance,~~ Head of Compliance and Head Group Compliance, shall be registered with the Exchange in accordance with the procedures stipulated in Rule 309.5(4) below and shall be bound to comply with all the provisions in these Rules applicable and relating to the position that the person is assuming the temporary duties for save and except any provisions relating to registration and/or approval of the Commission of that position as contained in these Rules ~~other than Rule 309.5(2A).~~ The Participating Organisation shall, within such period, ensure that all steps are taken as may be necessary to employ and/or engage one or more persons to be the Compliance Officer, ~~Executive Director Compliance,~~ Head of Compliance or Head Group Compliance, as the case may be.
- (4) A Participating Organisation shall submit to the Exchange an application in the form prescribed in Appendix 1C to register the person assuming the temporary duties referred to in Rules 309.5(1), 309.5(2) and 309.5(2A) together with the statutory declaration and undertaking executed by the above person in the form prescribed in Appendix 2C and Appendix 3B respectively. The Exchange reserves the right to reject an application made herein in the event the Exchange is not satisfied with the experience and seniority of the person proposed to be registered herein.

#### **RULE 309.6 REPORTING OF BREACHES OR IRREGULARITIES**

- (1) A Compliance Officer shall immediately report to the board of directors of the Participating Organisation and the Exchange if he becomes aware of any matter which, in his opinion, may -
- (a) constitute a breach of any provision of the Securities Laws;

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- (b) involve the potential default of the Participating Organisation against the Clearing House or other counterparty;
  - (c) have a material effect upon the minimum financial requirements prescribed pursuant to Section ~~20A-67~~ of the ~~Securities Industry Capital Markets and Services~~ Act and these Rules to be complied with by the Participating Organisation;
  - (d) jeopardise the monies, funds, collateral, property or assets of the clients held by the Participating Organisation; and/or
  - (e) significantly affect the risk position and financial integrity of the Participating Organisation.
- (2) In addition to the reporting requirement in Rule 309.6(1), the Compliance Officer shall immediately report to the Commission upon him becoming aware of any matter under Rule 309.6(1)(a).
- (3) The Compliance Officer shall inform the Commission in relation to all matters reported under Rule 309.6(2) and the Exchange in relation to all matters reported under Rule 309.6(1) of the decision of the Participating Organisation's board of directors and particulars of any corrective measures and decided course of actions taken or to be taken, as the case may be, within thirty (30) days of his reporting thereof to the board of directors and thereafter, of the completion of the measures and actions taken, if any.

#### **RULE 309.7 ULTIMATE RESPONSIBILITY ON COMPLIANCE MATTERS**

- (1) Notwithstanding the duties of the Compliance Officers as referred to in these Rules, the ultimate responsibility for proper supervision and compliance of a Participating Organisation shall rest with the Participating Organisation and its board of directors.

#### **RULE 309.8 REPORTING ON COMPLIANCE MATTERS**

- (1) In the course of his duties, a Compliance Officer may bring to the attention of the ~~Executive Directors or Heads, in the case of an Investment Bank,~~ or other senior management of the Participating Organisation, matters pertaining to compliance of the Participating Organisation so as to enable appropriate actions to be taken.
- (2) ~~In the case of a Participating Organisation other than an Investment Bank, the~~ Head of Compliance Executive Director Compliance or, in relation to a Participating Organisation which does not have such appointment, the Compliance Officer who heads the compliance functions for that Participating Organisation, shall report directly to the board of directors and in this respect, must submit monthly written reports to the board of directors of the Participating Organisation on all matters pertaining to compliance of the Participating Organisation to the Securities Laws, these Rules, directives, rulings and guidelines issued by the Exchange, including matters which had been brought to the attention of the persons mentioned in Rule 309.8(1).
- (2A) In the case of an Investment Bank, the monthly written reports referred to in Rule 309.8(2) shall be submitted to the relevant person(s), body and/or committee to whom the Head of Compliance of an Investment Bank reports in accordance with the requirements of the Guidelines on Investment Banks.
- (3) The board of directors of the Participating Organisation, or in the case of an Investment Bank, the relevant person(s), body and/or committee to whom the Head of Compliance reports in accordance with the requirements of the Guidelines on Investment Banks must deliberate on the written reports referred to in the Rule 309.8(2) or Rule 309.8(2A), as the case may be, at its proper meeting so that appropriate actions or decisions can be taken. Proper records of such deliberations must be maintained.
- (4) The written reports referred to in Rule 309.8(2) or Rule 309.8(2A) in the case of an Investment Bank shall be submitted to the Exchange on a monthly basis, not later than the last day of the

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following month or such other period as may be prescribed by the Exchange from time to time, in regard to all matters pertaining to compliance of the Participating Organisation.

- (5) Where the compliance functions are undertaken at Group level, the reporting envisaged under Rule 309.8(2) shall be undertaken by the Head Group Compliance.

**RULE 309.9 PERFORMANCE OF COMPLIANCE OFFICER**

- (1) [Deleted]



**RULE 310 DEALER'S REPRESENTATIVES**

**RULE 310.1 DEFINITION**

(1) For the purposes of this Rule –

Dealer's Representative shall not include a Dealer's Representative who is an ~~Executive Director Dealing Head of Dealing~~ of a Participating Organisation or ~~Head of Dealing of an Investment Bank, as the case may be.~~

**RULE 310.2 EMPLOYMENT OR ENGAGEMENT OF DEALER'S REPRESENTATIVE**

- (1) **Registration:** No Participating Organisation shall employ or engage a Dealer's Representative unless his application for registration has been approved by the Exchange.
- (2) **Failure to register:** The employment or engagement by any Participating Organisation of a Dealer's Representative who has not been registered with the Exchange shall be considered as a serious offence and a violation of these Rules.
- (3) **Time for registration:** Any Dealer's Representative employed or engaged by a Participating Organisation shall be registered with the Exchange within fourteen (14) days from the date of issuance of his dealer's representative's licence by the Commission.
- (4) **Remuneration:** The remuneration of a Salaried Dealer's Representative who is employed by a Participating Organisation in whatever capacity shall be determined by the Participating Organisation.
- (5) **Commission:** The commission of a Commissioned Dealer's Representative shall not exceed forty per cent (40%) or such other percentage as the Exchange may determine from time to time, of the brokerage charged by the Participating Organisation to the clients introduced by him.
- (6) **No sharing of commission with others:** A Dealer's Representative who, in any circumstances either directly or indirectly, divides or shares his remuneration or commission, as the case may be, with any person other than his Participating Organisation and/or any other Dealer's Representative employed or engaged by the first-mentioned Dealer's Representative's Participating Organisation shall forthwith be struck off the Register by the Committee.
- (7) **Participating Organisation to report any breach:** A Participating Organisation which is aware or ought to be aware of a breach of the foregoing Rule shall report to the Exchange immediately and failure to do so shall render such Participating Organisation liable to an appropriate disciplinary action as envisaged in these Rules.
- (8) **Standard Remisier's Agreement:** All Participating Organisations and their Commissioned Dealer's Representatives shall enter into a Standard Remisier's Agreement, in such format and upon such terms and conditions, as approved or prescribed by the Exchange. The Standard Remisier's Agreement may be modified, varied and/or updated from time to time by the Exchange upon approval of the Commission.
- (9) **Notice of cessation:** A Participating Organisation shall, upon ceasing to employ or engage a Dealer's Representative, forthwith give notice of such cessation to the Exchange and extend a copy of the same to the Commission within fourteen (14) days after such cessation, whereupon the Dealer's Representative shall be removed from the Register of Dealer's Representatives.
- (10) **System to ensure compliance:** A Participating Organisation shall establish and maintain an adequate system to supervise the activities of all its Dealer's Representatives that is developed to achieve compliance with the relevant provisions of these Rules applicable to Dealer's Representatives.

- (11) **Payment of fees:** A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.
- (12) **Redesignation:** A Participating Organisation shall notify the Exchange of any redesignation of a Dealer's Representative from Commissioned to Salaried or vice versa within fourteen (14) days from the effective date of such redesignation.

**RULE 310.3 REGISTRATION OF DEALER'S REPRESENTATIVE**

- (1) **Qualification:** No person shall be registered as a Dealer's Representative by the Exchange unless such person holds a valid dealer's representative's licence ~~issued by the Commission pursuant to the Securities Industry Act~~ and has satisfied or will satisfy upon registration with the Exchange, the terms and conditions of, or imposed by the Commission related to, such approval.
- (2) **Application procedures:** Any person desiring of being registered as a Dealer's Representative of a Participating Organisation shall complete and submit an application to the Exchange in the prescribed in Appendix 1D and which shall be accompanied by –
- (a) certified true copy of a valid dealer's representative's licence ~~issued by the Commission pursuant to the Securities Industry Act~~;
  - (b) a statutory declaration by the applicant as to the veracity of all information provided in the form prescribed in Appendix 2B; and
  - (c) an undertaking to the Exchange in the form prescribed in Appendix 3B.
- (4) **Additional documents:** The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.
- (5) **Payment of fees:** A Participating Organisation shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.

**RULE 310.4 CONTINUING OBLIGATIONS OF A DEALER'S REPRESENTATIVE**

- (1) Without prejudice to any provisions of these Rules from time to time in force, the following conditions shall, at all times throughout the term of his registration, apply to a Dealer's Representative –
- (a) the Dealer's Representative shall prior to and after being registered with the Exchange comply with the qualifications prescribed above;
  - (b) no person shall be registered as a Dealer's Representative to more than one (1) Participating Organisation;
  - (c) a Dealer's Representative shall be employed or engaged on a full-time basis by a Participating Organisation;
  - (d) notwithstanding the foregoing Rule, a Dealer's Representative may act as a futures broker's representative in accordance with a futures broker's representative's licence issued to him ~~under the Futures Industry Act~~ provided that the Participating Organisation and the futures broker of which the Dealer's Representative is a representative have in place an arrangement satisfactory to the Exchange for the proper supervision of the Dealer's Representative's activities;
  - (e) a Dealer's Representative shall from time to time undertake activities or undergo programmes as shall be prescribed by the Exchange for the purpose of ensuring continuous improvement in the quality and standard of services rendered by Dealer's Representatives generally;

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- (f) a Dealer's Representative shall not -
- (i) be engaged or participate in any other business activity save and except for the business activities which:-
    - (aa) are permitted to be carried out by the Participating Organisation by or with whom he is employed or engaged under these Rules;
    - (bb) the Dealer's Representative has been duly authorised to carry out by such Participating Organisation on its behalf; and
    - (cc) are expressly permitted to be carried out pursuant to his dealer's representative's licence issued by the Commission;
  - (ii) be a director of or a shareholder or debenture holder in -
    - (aa) any company which is formed for the purpose of dealing in shares or other securities or is otherwise engaged in the business of dealing in securities;
    - (bb) any company which in the conduct of its business makes use of share hawking or other methods discountenanced by the Exchange for the sale, disposal, purchase, exchange or acquisition of securities, or which as a broker or share dealer in the opinion of the Exchange, advertises securities for sale or purchase;
  - (iii) have any interest in -
    - (aa) any company which is formed for the purpose of transacting shares or other securities or is otherwise engaged in dealing in securities other than the Participating Organisation which he is appointed to, engaged by or employed with;
    - (bb) any company which in the conduct of its business makes use of share hawking or other methods discountenanced by the Exchange for the sale, disposal, purchase, exchange or acquisition of securities, or which as a broker or share dealer, in the opinion of the Exchange, advertises securities for sale or purchase; and
  - (iv) transact any business or deal with any person, or company described in subparagraphs (ii)(bb) or (iii)(bb) of this Rule; and
  - (v) perform his duties as a Dealer's Representative or carry out the business activities of the Participating Organisation by or with whom he is employed or engaged in a particular premises or at a particular location on a continuous basis so as to be construed as carrying out a business of dealing in securities in that premises or at that location unless that premises or location has been approved by the Exchange to be a principal office, branch office or EAF under these Rules.

**RULE 310.5 TRANSFER OF DEALER'S REPRESENTATIVES**

- (1) **Application:** Any Participating Organisation desirous of employing or engaging a registered Dealer's Representative -
- (a) who is currently employed by another Participating Organisation;
  - (b) who currently has a binding agreement with another Participating Organisation; or

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- (a) who:
- (i) has resigned from or whose employment has been terminated by another Participating Organisation not more than six (6) months prior to the intended date of employment or engagement or such other period as determined by the Exchange; or
  - (ii) is being terminated by another Participating Organisation,

shall apply to the Exchange therefor and be required to comply with the requirements appearing hereinafter.

(2) **Requirements:**

- (a) A Participating Organisation shall submit to the Exchange a written application in such form as may be prescribed by the Exchange from time to time and which shall be accompanied by –
- (i) a letter of release from the Participating Organisation with whom the transferring Dealer's Representative is presently employed or engaged;
  - (ii) certified true copy of a valid dealer's representative's licence issued ~~by the Commission pursuant to the Securities Industry Act~~ to the transferring Dealer's Representative; and
  - (iii) payment of the transfer fee in the amount prescribed in Schedule 3 or such amount to be determined by the Exchange.

(3) **Processing:** Such application shall be processed by the Exchange and the procedures for such application and processing shall be determined by the Exchange from time to time.

(4) **Transfer fee:**

- (a) Any transfer of a Dealer's Representative pursuant to this Rule shall be registered subject to a payment to the Exchange of a transfer fee as prescribed in Schedule 3.
- (b) A Dealer's Representative intending to transfer to another Participating Organisation within six (6) months of the re-designation of his status from a Salaried Dealer's Representative to a Commissioned Dealer's Representative shall be subject to the transfer fee of a Salaried Dealer's Representative.
- (c) Unless otherwise agreed by the Dealer's Representative and the Participating Organisation desirous of employing or engaging the Dealer's Representative, the transfer fee shall be payable to the Exchange by the Participating Organisation to which the Dealer's Representative is applying for a transfer.

RULE 311 TRADING CLERK

RULE 311.1 APPOINTMENT OF TRADING CLERK

- (1) **Registration:**
- (a) No Participating Organisation or Commissioned Dealer's Representative (who for the purposes herein shall be referred to as the trading clerk's principal) shall appoint any person to perform the duties of a trading clerk as envisaged in this Rules unless his application for registration has been approved by the Exchange.
  - (b) For the purposes herein, a trading clerk is a person who is appointed by a Participating Organisation or Commissioned Dealer's Representative in the capacity of a clerk to carry out such functions to be ordinarily performed by clerks as envisaged within the ambit of permitted activities of a ~~Dealer's Representative~~ under the ~~Securities Industry Capital Markets and Services~~ Act. Trading clerks in the said context would include persons generally known as a Participating Organisation's central buyer or a Commissioned Dealer's Representative's assistant provided that such persons only carry out clerical functions for their principal.
- (2) **Notice of cessation:** The Participating Organisation or the Commissioned Dealer's Representative, where applicable, shall require the trading clerk to give advance notice to his principal of his intention to resign from his appointment. If his principal is a Commissioned Dealer's Representative, the trading clerk shall also give a copy of the said notice to the Participating Organisation where he is a trading clerk. A Participating Organisation shall, upon ceasing to employ a trading clerk, forthwith give notice of such cessation to the Exchange within fourteen (14) days after such cessation whereupon the trading clerk shall be removed from the Register of trading clerks.
- (3) **Payment of fees:** A Participating Organisation and where applicable, the Commissioned Dealer's Representatives shall promptly within such period as may be stipulated pay all fees and charges imposed by the Exchange pursuant to these Rules.

RULE 311.2 REGISTRATION OF TRADING CLERK

- (1) **Application procedures:** Any Participating Organisation or Commissioned Dealer's Representative desiring of appointing a trading clerk shall complete and submit an application to the Exchange in such form as the Exchange may from time to time prescribe and which shall be accompanied by –
- (a) certified true copy(ies) of the trading clerk's letter of appointment;
  - (b) payment of a non-refundable application fee prescribed by the Exchange; and
  - (c) an undertaking by the Participating Organisation to the Exchange in the form prescribed in Appendix 3C.
- (2) **Additional documents:** The Exchange may, as it thinks fit, require an applicant to provide such additional information and/or documents as it may determine.

RULE 311.3 CONTINUING OBLIGATIONS RELATING TO TRADING CLERK

- (1) Without prejudice to any provisions of these Rules from time to time in force, the following conditions shall, at all times throughout the term of the registration of a trading clerk, apply –
- (a) the Participating Organisation and/or the Commissioned Dealer's Representative has/have taken all adequate steps to ensure that the trading clerk is of good character and integrity and that he will carry out his duties efficiently, honestly and fairly;

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- (b) the Participating Organisation shall be liable to honour all actions, contracts and obligations entered into by a trading clerk appointed by it or a trading clerk appointed by a Commissioned Dealer's Representative engaged by it to whom the Participating Organisation is the principal;
  - (c) the Participating Organisation and/or Commissioned Dealer's Representative shall ensure that the trading clerk shall not in whatsoever form represent himself or carry out the functions of a Dealer's Representative, which shall include but not limited to:
    - (i) receiving and/or accepting orders from the clients or public whether by telephone, direct contact or in writing;
    - (ii) giving investment advice to clients or public whether by telephone, direct contact or in writing; and
    - (iii) persuading, inducing or attempting to induce clients or public to buy or sell securities or recommending securities to clients or public whether by telephone, direct contact or in writing; and
  - (d) the Participating Organisation and/or Commissioned Dealer's Representative shall ensure that the trading clerk is limited to carry out such activities as shall be prescribed by the Exchange hereunder or from time to time –
    - (i) recording of order(s) of clients or public for the purchase or sale of securities as instructed by the principal after such order(s) have been accepted by the principal Provided all order(s) shall be made through and accepted by the principal;
    - (ii) input order(s) into through SCORE on behalf of his principal;
    - (iii) preparing relevant documentation after execution of the order(s) as may be required by the Participating Organisation; and
    - (iv) clerical duties of his principal.
- (2) A Participating Organisation shall keep a record of each trading clerk, which shall include without limitation the following –
- (a) full personal particulars;
  - (b) letter of appointment; and
  - (c) copies of correspondence between the Participating Organisation or Commissioned Dealer's Representative and the trading clerk.

**RULE 311.4 RESPONSIBILITY OF PARTICIPATING ORGANISATION**

- (1) Any violation of these Rules by a trading clerk shall be deemed the responsibility of the Participating Organisation which shall be liable and be dealt with in accordance with Chapter 13.

**RULE 312      KEY APPOINTMENTS**

**RULE 312.1      [Deleted]**

- (1)      [Deleted]
- (2)      [Deleted]
- (3)      [Deleted]
- (4)      [Deleted]

**RULE 313 CORPORATE FINANCE EXECUTIVES**

[Deleted]

[End of Chapter]



**CHAPTER 4 CONDUCT OF BUSINESS BY PARTICIPATING ORGANISATIONS**

**RULE 401 PROHIBITED CONDUCT, ADVERTISING AND STAFF PINCHING AMONG PARTICIPATING ORGANISATIONS**

**RULE 401.1 PROHIBITED CONDUCT**

- (1) No Participating Organisation, ~~Executive Director Dealing or~~ Head of Dealings ~~or, in the case of an Investment Bank, and~~ Dealer's Representative shall, in the conduct of their business for the sale, disposal, purchase, acquisition or exchange of securities -
- (a) make use of share hawking or other methods which are not approved by the Exchange, or which, in the opinion of the Exchange, amounts to advertising securities for sale or purchase;
  - (b) knowingly transact business for or on behalf of any person, firm or company which conducts business in whole or in part in the manner as stated in paragraph (a) of this Rule 401.1(1);
  - (c) knowingly permit any other company or firm in which it has an interest to do any of the acts contained in paragraphs (a) or (b) of this Rule 401.1;
  - (d) deal with any stockbroking firm or company other than another Participating Organisation or a member of a recognised stock exchange, unless the prior written consent of the Exchange has been obtained;
  - (e) for the purpose of evading the same, act as principal or in any other manner in connection with any dealing prohibited under paragraph (d) of this Rule 401.1(1);
  - (f) engage themselves in, or be a party to, any unlawful practices; and
  - (g) without the prior written consent of the Exchange, knowingly employ in its business a person who has –
    - (i) committed a default under these Rules or a breach of any provision of the Securities Laws; or
    - (ii) has been expelled from membership or participantship of the Exchange for any reason whatsoever.
- (2) Participating Organisations, ~~Executive Director Dealing or~~ Heads of Dealings ~~, in the case of an Investment Bank,~~ and Dealer's Representatives shall, in the conduct of their business for the sale, disposal, purchase, acquisition or exchange of securities, refrain themselves from engaging in, or be a party to, any unethical practices that may damage the confidence of investors and hamper the sound development of the stock market.
- (3) Participating Organisations, ~~Executive Director Dealing or~~ Heads of Dealings ~~, in the case of an Investment Bank,~~ and Dealer's Representatives shall avoid any act or practice which might -
- (a) 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
  - (b) directly or indirectly be tantamount to stock market manipulations,
- and shall not participate in any operation by others which might have the same result.

**RULE 401.2 ADVERTISING**

- (1) **Advertising:** No Participating Organisation shall advertise its business of dealing in securities or any other services or matters in connection thereto other than in the manner determined by the Exchange from time to time.
- (2) **Literature:** Every Participating Organisation shall take reasonable steps to ensure that all sales and educational literature, bulletins, newsletters and similar publication issued by the Participating Organisation to its clients from time to time do not contain -
  - (a) any information which is untrue or inaccurate;
  - (b) claims that are unwarranted, exaggerated or incapable of substantiation;
  - (c) any material which would be likely to bring the Exchange or Participating Organisations into disrepute; or
  - (d) any unqualified statement on profit forecasts or projections with respect to any securities or their Issuers.

Participating Organisations shall take reasonable steps to ensure the accuracy and contents of their sales and educational literatures, bulletins, newsletters and similar public medium and may be required by the Exchange to justify the contents thereof. For the purposes of this Rule, every Participating Organisation shall establish and implement properly documented procedures for the review of all sales and educational literature, bulletins, newsletters and similar public medium.

**RULE 401.3 STAFF PINCHING AMONG PARTICIPATING ORGANISATIONS**

- (1) Participating Organisations shall at all times promote the continuous enhancement of business professionalism in the stockbroking industry. Participating Organisations shall ensure that the training system established and implemented by them pursuant to Rule 404.2 promotes such professionalism among their employees and Commissioned Dealer's Representatives.
- (2) A Participating Organisation shall recruit and train its own employees and Commissioned Dealer's Representatives and shall not employ an employee or engage a Commissioned Dealer's Representative of another Participating Organisation except in accordance with guidelines or directives as may be issued by the Exchange in respect thereof from time to time and in the case of an employee other than a Salaried Dealer's Representative of an Investment Bank, in accordance with the guidelines or directives issued by the Central Bank.
- (3) [Deleted]

**RULE 402 BUSINESS INTERESTS**

**RULE 402.1 INTERESTS IN OTHER COMPANY DEALING IN SECURITIES**

- (1) Unless otherwise approved in writing by the Commission, no Participating Organisation shall –
- (a) directly hold any shares, debentures or any other securities or interests in another Participating Organisation or any company which is incorporated for the purpose of, or is in fact engaged in the business of dealing in securities; or
  - (b) subject to Chapter 3, appoint as its director any person who -
    - (i) is a director of another Participating Organisation;
    - (ii) is a shareholder or debenture holder in another Participating Organisation; or
    - (iii) has any direct interest in another Participating Organisation or in any corporation which is formed for the purpose of carrying out, or is in fact engaged in, the business of dealings in securities.
- (2) Nothing contained in Rule 402.1(1) shall prevent a Participating Organisation from acquiring any shares, other securities or interests in another Participating Organisation in any of the following circumstances -
- (a) an acquisition of such shares, other securities or interests made pursuant to or in the exercise of -
    - (i) any of its underwriting obligations;
    - (ii) its rights in respect of any margin account established by it in favour of its clients or any collateral provided by the clients in respect thereof;
  - (b) an acquisition of such shares, other securities or interests in another Participating Organisation which is for the time being quoted on the Official List; or
  - (c) an acquisition of such shares, other securities or interests in another Participating Organisation pursuant to a corporate restructuring scheme approved by the Exchange and the Commission;

Provided that the acquisition or holding of such shares or other securities or interests shall be subject to such terms and conditions as determined by the Exchange from time to time.

**RULE 402.2 INTERESTS OTHER THAN DEALING IN SECURITIES**

- (1) [Deleted]
- (2) [Deleted]

**RULE 403 CLIENTS RELATION**

**RULE 403.1 CLIENTS' FAILURE TO MEET OBLIGATIONS**

- (1) Where a person ("alleged defaulter") fails to meet a financial obligation with a Participating Organisation of not less than Ringgit Malaysia Two Thousand (RM2,000) or any other obligation relating to or in respect of any transaction in securities or arising out of any matter regulated by these Rules, the Participating Organisation may report to the Exchange such failure by the person. However, a Participating Organisation may only report such a person to the Exchange if it has satisfied all requirements as stipulated in Schedule 5 of these Rules.
- (2) Upon receipt of a report under Rule 403.1(1), the Exchange will -
  - (a) enquire into the report, and may call upon the Participating Organisation to -
    - (i) furnish in writing full particulars of any open transaction with the alleged defaulter;
    - (ii) disclose any information of which the Participating Organisation may have cognisance in relation thereto;
    - (iii) provide or submit any evidence in its possession bearing on the transaction in question; and
  - (b) call upon the alleged defaulter to -
    - (i) furnish in writing full particulars of any open transaction with the Participating Organisation in respect of the transaction in question or request the alleged defaulter to be present before an authorised officer of the Exchange;
    - (ii) provide or submit any evidence in his possession bearing on the transaction in question.
- (3) Where the Exchange is satisfied that a default has been made or committed by the alleged defaulter ("defaulter"), the Exchange shall, unless a satisfactory arrangement has been made between the defaulter and the Participating Organisation and the same is reported to the Exchange promptly -
  - (a) cause him to be posted as a "defaulter" in the relevant defaulters list maintained by the Exchange; and
  - (b) cause such matter to be notified to all Participating Organisations accordingly.
- (4) A Participating Organisation shall not transact business for any person who has been notified to the Participating Organisation as a defaulter under Rule 403.1(3) save and except that a Participating Organisation may proceed to sell securities held by the defaulter in accounts held with the Participating Organisation solely for the purpose of reducing a financial obligation or any other obligation relating to or in respect of any transaction in securities arising out of any matter regulated by these Rules in relation to the defaulter and Provided That –
  - (a) there is no dispute by any party with respect to the outstanding obligation aforesaid;
  - (b) the Participating Organisation has the contractual right to sell the securities and the defaulter being given prior reasonable notice;
  - (c) the proceeds from the sale of the securities shall be fully utilised towards reducing the outstanding obligation aforesaid; and
  - (d) the mark to market value (as defined in Rule 1105) of the securities sold in the manner herein shall not exceed the outstanding obligation aforesaid.

- (4A) A Participating Organisation carrying out any sale of securities held by a defaulter in accounts held with the Participating Organisation pursuant to Rule 403.1(4) shall indemnify and keep the Exchange indemnified against all suits, actions, claims, demands, proceedings, losses, damages, charges and expenses of whatsoever nature and howsoever arising from, incidental to or in connection with the aforesaid sale.
- (5) A person's name will be removed by the Exchange from the defaulters list in any of the following circumstances -
- (a) upon the fulfilment by him of his obligation to the Participating Organisation concerned provided that the same shall have been notified to the Exchange by the Participating Organisation in writing;
  - (b) where the Exchange in its absolute discretion is of the view that such posting can no longer be justified.

**RULE 403.2 COMPLAINTS**

- (1) Where a person ("Complainant") lodges a written complaint to the Exchange against a Participating Organisation or its Dealer's Representative in respect of transactions in securities effected on the stock market of the Exchange, the Exchange shall look into the circumstances of the complaint with a view to assessing whether an investigation into the complaint is necessary.
- (2) If the Exchange decides that an investigation is necessary, the Exchange shall inform the complainant and the Exchange shall cause an investigation to be carried out in respect of the complaint and in cases where further action is appropriate or necessary, to submit the results of the investigation for purposes of disciplinary proceedings, and the Participating Organisation or its Dealer's Representative against whom the complaint is made shall be bound to submit to the jurisdiction of the Exchange, whose decision shall be final and binding on the Participating Organisation or its Dealer's Representative, as the case may be, and the Complainant.

**RULE 403.3 RECORD OF COMPLAINTS**

- (1) Every Participating Organisation shall establish and implement written procedures for the handling of complaints received by it, including the performance of reviews on clients' complaint files to ensure that all complaints have been duly investigated and dealt with within such time as shall be prescribed under such procedures. Every Participating Organisation shall designate an officer of the level of an assistant manager or above to handle all complaints lodged with it, and the name of such officer shall be displayed at a prominent place in the premises of the Participating Organisation.
- (2) Every Participating Organisation shall maintain a copy of all written complaints received by it, together with a copy of any reply thereto, in a file or register established for that purpose. All such complaints and replies shall be maintained in the file or register for a period of not less than seven (7) years from the date of the last correspondence in relation to the complaint.
- (3) The contents of the file or register kept under this Rule shall be made available by the Participating Organisation to the Exchange forthwith upon a request made by the Exchange.

**RULE 404 BEST BUSINESS PRACTICE**

**RULE 404.1 GENERAL CONDUCT**

- (1) Participating Organisations shall adhere to the principles of good business practice in the conduct of their respective business and shall take all such steps as may be reasonably necessary in order to ensure that the Securities Laws and the Companies Act, these Rules, any directives or rulings of the Exchange as may from time to time be imposed or issued upon them or otherwise applicable to them, the Depository Rules and Clearing House Rules are complied with, both in letter and in spirit.
- (2) All decisions, rulings and directives of the Exchange or Exchange holding company, as the case may be, and any other persons authorised by the Exchange in the lawful execution of its authority pursuant to these Rules shall be final and binding on Participating Organisations and where applicable, the registered person(s).
- (3) Participating Organisations shall not do or cause or permit to be done any act which -
  - (a) would adversely affect the goodwill or public image of the Exchange;
  - (b) would bring or is likely to bring the Exchange into disrepute;
  - (c) is injurious to the character and interest or prejudicial to the objects of the Exchange.
- (4) A Participating Organisation shall not allow any form of irregular and/or unhealthy practice to exist or prevail in its daily and professional business conduct.
- (5) A Participating Organisation shall ensure issues and problems which affect itself and other Participating Organisations be deliberated and resolved amicably without affecting or prejudicing the interests of their clients.
- (6) Every Participating Organisation shall at all times maintain adequate financial and operational resources and efficient procedures necessary for the proper conduct of its business.
- (7) Every Participating Organisation shall -
  - (a) ensure that its employees are fit and proper persons with regard to the position and responsibility they hold;
  - (b) at all times exercise strict supervision over the overall operation of its business activities and the activities of its registered person(s) and employees, and for this purpose shall maintain a proper and adequate supervisory and compliance system with a view to preventing any contravention of the Securities Laws and other applicable laws and regulations, these Rules, any directives or rulings issued by the Exchange from time to time, the Depository Rules, the Clearing House Rules and the Participating Organisation's own internal policies and procedures;
  - (c) at all times maintain a proper supervisory programme and a system of internal controls which must take into account the Participating Organisation's operations, financial soundness, proper conduct of its business and proper undertaking of its risk management. The final responsibility of the above rests with the Participating Organisation and its board of directors;
  - (d) ensure that it has in place internal guidelines for the purpose of reviewing unusual patterns of large trading, frequent margin calls or other signs of apparent increase of risk exposure pertaining to margin facilities;
  - (e) ensure that the internal disciplinary procedures be regularly reviewed;
  - (f) ensure and be satisfied with the good character, business repute, qualification and experience of a person before appointing him as a supervisor or head of department or delegating to him supervisory functions;

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- (g) maintain an internal record of all employees designated as supervisors and those delegated with supervisory functions, including the dates on which such designation or delegation take effect and ensure that all supervisors and heads of departments are registered with the Exchange; and
- (h) establish and maintain procedures for the review, by its Compliance Officer or other supervisory personnel, of transactions carried out and correspondences undertaken or received by its Dealer's Representatives pertaining to the solicitation or execution of transactions;

The Exchange may require at any time that the name, terms of employment, and actual duties of any person employed by a Participating Organisation be furnished to the Exchange together with such other information of such employee as it deems fit to enable it to enforce compliance with these Rules.

- (8) Every Participating Organisation shall formulate a code of conduct for its registered person(s) and employees which shall deal with matters including best sales practices, compliance and transactions by registered person(s) and employees. The code of conduct shall be reviewed by the Compliance Officer to ensure its adequacy and effectiveness.
- (9) Every Participating Organisation shall -
  - (a) ensure that its supervisory, compliance and internal control systems are properly documented and regularly updated to take into account any changes that may occur in the current regulatory requirements, and that such documented systems and any updates thereon are properly disseminated and effectively enforced within the Participating Organisation;
  - (b) conduct regular and periodic reviews over its supervisory, compliance and internal control systems and a written record of the dates of such reviews shall be maintained.
- (10) Where a Participating Organisation or registered person(s) becomes aware of any breach, infringement, or non-compliance of any Rule by another Participating Organisation, or has reason to believe that another Participating Organisation or registered person(s) has breached, infringed or failed to comply with any Rule, the Participating Organisation or registered person(s) shall report the matter in writing to the Exchange. Such report shall give particulars of such breach, infringement or non-compliance together with any other relevant documents and information, or the reasons for believing the same.
- (11) Every Participating Organisation shall have an appropriate internal risk management system which will be able to detect, monitor and control risks in relation to financial losses or legal suits arising from theft, fraud and other dishonest act and/or omissions.
- (12) Every Participating Organisation shall ensure there is a clear segregation of duties and reporting lines between those employees dealing in securities and those having duties administrative/operational in nature. For this purpose, such segregation of duties shall have the basis of protecting clients' interest and any form of abuse in such clients' interest resulting from the overlapping of job functions will be viewed seriously by the Exchange.
- (13) **Chinese Walls:**
  - (a) Every Participating Organisation which assumes more than one function, permitted by its dealer's licence or otherwise must maintain proper segregation of those functions within its organization to prevent -
    - (i) the flow of "information" between different parts of its organization which performs each function; and
    - (ii) any conflict of interest which may arise as a result.

- (b) For the purpose of this Rule 404.1(13), "information" means information as defined in Section ~~89183~~ of the ~~Capital Markets and Services~~~~Securities Industry~~ Act, relating to -
    - (i) one or more corporations admitted to the Official List; or
    - (ii) any securities of the corporations mentioned above; and
  - (c) such "information" if it were communicated would amount to an offence under Section ~~18889E~~(3) of the ~~Capital Markets and Services~~~~Securities Industry~~ Act.
- (14) Every Participating Organisation shall establish effective policies and procedures to minimise the existence of conflict of interests, potential or otherwise, between the Participating Organisation and its clients. In cases where conflict of interests and/or conflict of duty cannot be avoided, the conflict shall be fully disclosed to the client prior to the execution of the transaction.

#### **RULE 404.2 TRAINING SYSTEM**

- (1) Every Participating Organisation shall establish, implement and maintain a reasonably comprehensive system of training towards –
  - (a) ensuring the continuous improvement in critical areas of its principal activities and operations; and
  - (b) enhancing the technical knowledge of its employees to enable them to understand the operational and internal control policies and procedures of the Participating Organisation and all applicable legal and regulatory requirements.
- (2) Such system of training shall be properly documented in a manual form which shall -
  - (a) set out details of the training programmes which the Participating Organisation proposes to implement; and
  - (b) be regularly updated in line with the development in the securities industry.
- (3) The training programmes shall be -
  - (a) conducted regularly by Participating Organisations; and
  - (b) open to -
    - (i) their Commissioned Dealer's Representatives, employees and apprentices, in an equitable manner and without any form of discrimination whatsoever; and
    - (ii) students from tertiary institutions of learning involved in studies relating to the securities industry.
- (4) Every Participating Organisation shall -
  - (a) make available to the Exchange a copy of the manual referred to in Rule 404.2(2) forthwith upon request from the Exchange. The Exchange shall be promptly notified by the Participating Organisation in respect of any amendments or updating made from time to time to the contents of the manual;
  - (b) keep proper records of all training programmes carried out by it including particulars of the trainees, apprentices and students who have taken part in such programmes; and
  - (c) at the end of every year, submit to the Exchange a complete report in respect of the training programmes carried out by it during the preceding year period.



- (5) The Exchange may from time to time, if it considers appropriate, require any part of the manual kept by a Participating Organisation pursuant to Rule 404.2 (2) to be amended so as to ensure the maintenance of reasonably acceptable standard and quality of training carried out by the Participating Organisation.

**RULE 404.3 DOING BUSINESS WITH CLIENTS**

- (1) **Standard of conduct:** Every Participating Organisation and every Dealer's Representative employed or engaged by the Participating Organisation shall at all times -
- (a) observe professional standards of integrity and fair dealing;
  - (b) act honestly and in the best interest of their clients; and
  - (c) conduct their business in a manner which contributes to the maintenance of a fair and orderly market.
- (2) **Guidelines on regulated short selling:** Every Participating Organisation shall formulate guidelines on regulated short selling by its clients as required under Rule 704.3 and shall ensure that such guidelines are strictly complied with by all its Dealer's Representatives.
- (3) **Knowledge about client:** Every Participating Organisation shall implement and maintain appropriate guidelines for its Dealer's Representatives to assist them in learning essential facts about their clients' backgrounds, including the clients' investment objectives, knowledge and experience in dealing in securities, financial background and any other information as may be required by the Exchange from time to time.
- (4) **Information given to client:** Participating Organisations shall take reasonable steps to ensure that accurate information are given to their clients and shall not make any misleading or deceptive representation or statement to any of its clients.
- (5) **Recommendations to clients:** Where a Participating Organisation or its Dealer's Representative recommends to any client any transaction for the buying or selling of securities, the Participating Organisation or Dealer's Representative shall -
- (a) take into account and ensure the suitability for the client of such recommended transaction, on the basis of accurate information provided by the client concerning his investment objectives, knowledge and experience in dealing in securities, financial background and other relevant information. In assessing the client's suitability to any transaction, a Participating Organisation or its Dealer's Representative is entitled to rely on representations made by the client;
  - (b) disclose to the client the potential risk involved in such recommended transactions and ensure that the client has the knowledge and experience in financial matters that will enable him to evaluate such risks;
  - (c) satisfy itself that the client has the financial capability to bear any risk attached to such recommended transactions.

It is the responsibility of the Compliance Officer to ensure that the Dealer's Representative takes due consideration of information provided by the client as well as other available information in determining whether a client shall be approved in respect of a transaction or recommendation and the extent to which the client shall be so approved.

- (6) **Client's order:** Every Participating Organisation shall ensure that its Dealer's Representatives carry out client's instructions in a timely manner and with proper skill, care and diligence and give priority to execution of orders given by the clients in the sequence in which they are received, regardless of whether it is individual client or institutional client. No Participating Organisation shall, prior to obtaining written authorisation from a client, accept or act on any instruction received from any other person purporting to act on behalf of that client.

(7) **Disclosure by Clients:**

(a) Without derogation to the generality of Rule 404.4(1)(b), Participating Organisations shall, when requested by the Exchange, require a client to disclose and the client shall be bound to disclose, information and documents in relation to any dealing in securities in respect of the client's trading account(s), including but not limited to information on whether or not any dealing in the above account is carried out on another person's behalf and in such instance, the name of, and particulars sufficient to identify the person from whom, through whom or on whose behalf the securities are dealt with by the client. If that person is not the beneficial owner(s) of the securities, the client shall also be required to procure the particulars of the beneficial owner(s) of the securities.

(b) [Deleted]

(8) **Client's tradeable balance:** Upon receiving instructions from a client to execute a sell order, a Dealer's Representative shall require the client to disclose the availability of sufficient securities as tradeable balance for purposes of delivery in respect of that particular transaction.

(9) **Contract Note:**

(a) Every Participating Organisation shall ensure that all contract notes issued to its client shall comply with the Regulations issued by the Minister pursuant to Section 3890 of the Securities Industry Capital Markets and Services Act.

(b) The names of the buyer and seller in the contract notes issued in respect of trades done on the Exchange shall, unless otherwise permitted by the Exchange upon notification to the Commission, be the name of the client.

(10) **Conflict of interest:**

(a) No Participating Organisation nor any of its Dealer's Representatives shall knowingly enter into any transaction in which either of them has any interest which conflicts or which may possibly conflict with the interest of any of its client or otherwise conflict with its duty to such client.

(b) Notwithstanding Rule 404.3(10)(a) hereinabove, in cases where conflict of interest or conflict of duty cannot be avoided, the Dealer's Representative shall fully disclose such conflict to the Participating Organisation and the client prior to the execution of the transaction.

(11) **Clients' assets:** A Participating Organisation shall ensure that clients' assets which for the time being are in its custody are adequately safeguarded. It shall promptly and properly account for such assets and always ensure compliance with any laws, the provisions of these Rules and directives issued by the Exchange in respect thereof.

(12) **No unethical inducement:** No Participating Organisation shall practise nor provide any form of unethical inducement to any of its clients.

(13) **Action against a client:**

(a) Without prejudice to any of the powers granted to the Exchange in these Rules or under any written law, the Exchange may direct a Participating Organisation to refrain from trading and/or from effecting any dealings in securities for a client, whether that client is a client of the Participating Organisation or of another Participating Organisation, in any of the following circumstances:-

(i) In relation to a request made under Rule 404.3(7)(a), until the information and document requested therein is furnished by the client or where the client refuses to furnish the same; and/or

- (ii) where an act or omission by the client in relation to or arising from any transactions or dealings in securities reflected in the trading account(s) of the client and/or held in CDS Account(s) pursuant to Rule 404.4(1A), directly or indirectly causes, aids or facilitates a breach of these Rules.
- (b) The Exchange may impose any other terms and conditions it deems fit in relation to the directive issued herein. Where such a directive is issued, the Participating Organisation(s) shall be bound to comply with the same.
- (c) The Exchange shall notify the Securities Commission of any action taken under Rule 404.3(13).

**RULE 404.4 CLIENTS' ACCOUNTS**

**(1) Opening of Accounts by Participating Organisations:**

- (a) Every Participating Organisation shall open a trading account for each and every client and bring to the notice of every person who applies to open trading account with it the terms and conditions upon which such account shall be operated, which shall include an obligation on the part of the client to comply with these Rules, where the provisions therein apply to the client directly or indirectly and the consequence of a breach thereof. In this respect, the Participating Organisation shall ensure that the client executes the relevant agreement to be bound by the terms and conditions prescribed herein.
- (b) Participating Organisation shall take all reasonable steps to ensure that all essential particulars and information about their clients (including but not limited to the clients' financial standing or credit worthiness and clients investment objectives) are obtained and shall satisfy themselves that all such information are accurate before opening any trading account for them. For the purposes of this Rule, Participating Organisations shall establish written procedures on the opening of accounts for their clients and adequate internal control to ensure that all information obtained is properly verified.
- (c) All particulars of clients of every Participating Organisation shall be properly recorded and maintained up to date at the office of the Participating Organisation. Participating Organisations should, from time to time as and when material changes occur or otherwise as they deem fit, request their clients to update their particulars as previously provided by them.
- (d) In amplification of Rule 404.4(1)(a) and Rule 404.4(b) and without prejudice to Rule 404.3(7), a Participating Organisation shall enquire from its client as to whether the client is trading for himself as a beneficial owner or on behalf of another person. Where the client represents that he is trading on behalf of another person, the Participating Organisation shall only be allowed to open a trading account for that client in the event the following conditions are complied with:-
  - (i) that the client is an authorised nominee or exempt authorised nominee; and
  - (ii) brings to the notice of that client of its obligation as stipulated in Rule 404.3(7) and the consequence of a breach thereof.

**(1A) CDS Account:**

- (a) Where a trading account is opened for a client, the Participating Organisation shall clearly identify the CDS Account where the securities arising from all dealings in the trading account shall be credited into or debited from, as the case may be.
- (b) In relation to the CDS Account referred to in Rule 404.4(1A)(a), the Participating Organisation shall procure confirmation and undertaking in writing from the client that the beneficial owner in relation to the securities dealt with in the trading account and the CDS Account is the same in the circumstances stipulated below:-

## Chapter 4 – Conduct of Business By Participating Organisations

- (i) Where the client is an authorised nominee or exempt authorised nominee in relation to the securities held in the CDS account; or
  - (ii) Where the client is not the beneficial owner, authorised nominee or exempt authorised nominee in relation to the securities held in the CDS account.
- (c) In addition to the requirements stipulated under Rule 404.4(1A)(b), the client shall submit to the Participating Organisation a written authorisation and consent from the beneficial owner, authorised nominee or exempt authorised nominee, as the case may be:-
  - (i) to effect any entries in the CDS Account, in relation to or arising from any transactions executed in accordance with these Rules, the Clearing House Rules and Depository Rules in the trading account of the client; and
  - (ii) to the exercise of any rights over the securities held in the CDS Account therein in accordance with these Rules, the Clearing House Rules and Depository Rules, in relation to or arising from any transactions executed by the client as stipulated under Rule 404.4(1A)(c)(i).
- (d) For the avoidance of doubt and without prejudice to Rule 404.4(1):
  - (i) the particulars of the CDS Account given for the purpose stipulated under Rule 404.4(1A)(a) need not match the particulars of the trading account of the client, provided always the requirements of Rule 404.4(1A)(b) is complied with; and
  - (ii) notwithstanding that the client may be an authorised nominee or exempt authorised nominee, as the case may be, the particulars of the trading account need only stipulate the particulars of the client.
- (2) **Maintenance of Records:** Participating Organisation shall in respect of each client's account maintain records including the following -
  - (a) date of opening of the account;
  - (b) client's financial position;
  - (c) name of the officer which approved the opening of the account and the date of approval;
  - (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.
- (3) **Suitability of Requirements:** A Participating Organisation shall ensure that all necessary evaluations and assessments of its clients including those recommended by Commissioned Dealer's Representatives be undertaken. For this purpose the Participating Organisation shall maintain an internal guideline that shall be reviewed from time to time.

- (4) **Monthly Statement:** A Participating Organisation shall in respect of each client send monthly statements, in such form as may be prescribed by the Participating Organisation or the Exchange if deemed necessary or expedient, to such client on the movement of the client's assets (which shall include monies, other assets and collateral) by such date every month as determined by the Exchange. Such monthly statements shall also include interest and other charges imposed on the clients.
- (5) **Rule on Debtor - Client:**
- (a) Every Participating Organisation shall maintain accounts for each client and such account shall be maintained in such a way that the outstanding balance can be readily identified with specified transactions and with the dates on which those transactions occur;
  - (b) All clients' accounts having debit balances of Ringgit Malaysia Two Thousand (RM2,000) or more which have remained unpaid for two (2) months or more must be listed so far as they have not been compensated for by subsequent credits or are not secured by satisfactory collateral. Such debts may be excluded from the computation of net assets if they are considered bad or doubtful by the Inspector (as defined in Rule 1303.2).
- (6) **Authentication of clients' application for account opening by Dealer's Representatives:**
- (a) Where a client submits an application to open an account with the Participating Organisation through a Dealer's Representative, the Dealer's Representative shall authenticate his client's application for account opening by ensuring that the application form(s) for account opening is(are) –
    - (i) duly completed and all particulars and information of the client in the application form(s) are verified against relevant supporting documents in accordance with the requirements stipulated by the Exchange, the Depository and the written procedures established by the Participating Organisation; and
    - (ii) duly executed by his client in person before the Dealer's Representative.
  - (b) A Dealer's Representative shall be held liable for any losses arising from his breach of Rule 404.4(6)(a).
- (7) **Exception:** Notwithstanding Rule 404.4(6)(a), a Participating Organisation may at its discretion –
- (a) in the case of an application for the opening of an account made by an institution or corporation, approve such application without requiring the authorised representative of such institution or corporation to be present before the Participating Organisation or its Dealer's Representative; or
  - (b) in the case of an application by a client other than that specified in Rule 404.4(7)(a), allow the authentication of a client's application for account opening under Rule 404.4(6)(a) to be done by any of the following persons in place of a Dealer's Representative –
    - (i) officers authorised by the Participating Organisation;
    - (ii) authorised officers of a Malaysian Embassy or High Commission Consulate;
    - (iii) Notary Public, or in countries that do not have a Notary Public, advocates and solicitors or officers authorised by a licenced stockbroking company with a recognised stock exchange;

- (iv) officer of an ~~registered person~~~~exempt dealer~~, who is authorised by the ~~exempt dealer~~~~registered person~~ to perform pass through activities; or
- (v) such other person as may be approved by the Exchange from time to time.

PROVIDED THAT the Participating Organisation shall in such cases take all such steps as shall be necessary to ensure the genuineness or authenticity of the application.

- (c) Where reference is made to the following terms in Rule 404.4(7), it shall be construed respectively as follows –

- (i) “pass through activities” means the act of an ~~exempt dealer~~~~registered person~~, of soliciting and accepting orders from its clients to transact in securities and passing such orders to a participating organisation for execution; as referred to in the context of the Guidelines;
- (ii) “~~registered person~~~~exempt dealer~~” means: -
  - (aa) ~~Islamic banks licensed under the Islamic Banking Act 1983; and~~
  - (bb) ~~licensed institutions as defined under the BAFIA,~~

~~which have been specified to be registered persons under the Capital Markets and Services Act declared to be exempt dealers under the Securities Industry (Exempt Dealer) Order 1996, as may be revised from time to time; and~~
- (iii) “Guidelines” means Guidelines for Exempt Dealers on Pass Through Activities issued jointly by the Commission and Central Bank on 24 April 2003.

#### RULE 404.5 COMMUNICATION

- (1) **Exchange's notices, etc.:** A Participating Organisation shall (if not already disseminated on-line via the Exchange’s computer network) ensure that all relevant notices, bulletins and circulars issued by the Exchange and the Commission are promptly disseminated to all its registered person(s) and relevant employees. Procedures for the said prompt dissemination shall be established by Participating Organisations.
- (2) **Communication:**
  - (a) A Participating Organisation shall record and retain the names of persons who prepared materials in all sales and educational literature, and advertisements, the name of persons who approved the same and the source of any recommendation contained therein for a minimum period of seven (7) years.
  - (b) A Participating Organisation shall not forward any form of communication or duplicate copies thereof intended for a client to any other person unless the said client has instructed the Participating Organisation in writing to forward such communication to such other person.

#### RULE 404.6 BROKERS ACCOUNTS

- (1) Every Participating Organisation shall maintain accounts for each other Participating Organisation and each account shall be kept in such a way that the outstanding balance can be readily identified with specified transactions and the date on which these transactions occurred.

**RULE 404.7 BASIC REQUIREMENTS**

- (1) All Participating Organisations shall have accounting systems and controls designed in such a way that -
  - (a) Outstanding contracts can be readily identified with date sequence within counter;
  - (b) Outstanding debtor balances can be readily identified with specific transactions and with the dates on which these transactions occur;
  - (c) General ledger trial balances can and shall be, extracted and squared at least once a month by not later than the tenth (10th) day of the following month;
  - (d) Where client and broker balances are represented by control accounts in the general ledger, the individual client and broker balance can and shall be extracted and reconciled with the control account at least once a month by not later than tenth (10th) day of the following month; and
  - (e) Bank reconciliations shall be prepared at least once a month by not later than the tenth (10th) day of the following month.
- (2) All Participating Organisations shall submit to the Exchange a monthly declaration in the format set out in Appendix 4 or such other format as may be determined by the Exchange, not later than the fifteenth (15<sup>th</sup>) day of the following calendar month or as may be prescribed by the Exchange from time to time.

**RULE 405 PARTICIPATING ORGANISATION'S TRUST ACCOUNT**

**RULE 405.1 PARTICIPATING ORGANISATION'S TRUST ACCOUNT**

- (1) Every Participating Organisation shall open or maintain at least one (1) trust account with a licensed institution as defined in the Banking and Financial Institutions Act 1989 ("Trust Account").
- (2) A Participating Organisation shall pay into its Trust Account -
  - (a) all monies, less any brokerage and other proper charges, received by the Participating Organisation from or on account of a client for the purchase of securities, not later than the next bank business day or such other day as may be specified by the Commission on which they were received by the Participating Organisation;
  - (b) all monies, less any brokerage and other proper charges, received by the Participating Organisation for or on account of a client for the sale of securities by a client, not later than the next bank business day or such other day as may be specified by the Commission on which they were received by the Participating Organisation.
- (3) Any cheques issued to a client in respect of sale of securities by the client shall be issued out of the Trust Account.
- (4) Participating Organisations shall establish clear written guidelines on the treatment of client's monies under this Rule 405.
- (5) A Participating Organisation shall not, by way of an agreement or by any other way, obtain the consent of the client which would result in a variation or avoidance of the obligation imposed on the Participating Organisation under this Rule 405.



**RULE 406      OUTSOURCING**

**RULE 406.1      DEFINITION**

(1) For the purposes of this Rule 406 –

Back Office Functions means the back office functions as envisaged under clause 4 of the Guiding Principles.

Guiding Principles means the “Guiding Principles For Outsourcing of Back Office Functions For Capital Market Intermediaries” issued by the Securities Commission on 29 June 2005, including subsequent amendments, modifications, variations, supplements or substitutes thereto and any directives or guidelines as may be issued thereunder.

**RULE 406.2      OUTSOURCING OF BACK OFFICE FUNCTIONS**

- (1) A Participating Organisation may be permitted to outsource its Back Office Functions subject to the prior approval of the Exchange and compliance with the Guiding Principles.
- (2) The Guiding Principles shall be regarded as part of these Rules and consequently, any breach by the Participating Organisations of the Guiding Principles shall be deemed to be a breach of these Rules.
- (3) The Exchange may issue any directives, rulings and guidelines in relation to the outsourcing of the Back Office Functions of a Participating Organisation, in consultation with the Commission, from time to time.

**RULE 406.3      INVESTMENT BANK**

- (1) This Rule 406 does not apply to an Investment Bank and is substituted with the provisions in the Guidelines on Investment Bank and such other requirements of the Central Bank relating to the outsourcing of back-office functions (“the Relevant Guidelines and Requirements”), if any. The Relevant Guidelines and Requirements are deemed to be part of these Rules.

**RULE 407 INSURANCE REQUIREMENTS**

**RULE 407.1 OBLIGATION TO HAVE INSURANCE**

- (1) Every Participating Organisation must either, on its own or at Group level, take out and maintain at all times an insurance policy in connection with its business as permitted in Rule 503 (“Permitted Activities”).
- (2) The Participating Organisation must ensure that the insurance policy taken out and maintained in accordance with Rule 407.1 (1) above complies with the relevant laws, rules and guidelines.

**RULE 407.2 AMOUNT AND NATURE OF COVER**

- (1) The Participating Organisation must ensure that the insurance policy taken out and maintained in accordance with Rule 407.1 (1) above is adequate having regard to the nature and extent of its Permitted Activities and the responsibilities and risks assumed or which may be assumed by the Participating Organisation in connection with those activities.
- (2) Without restricting the generality of Rule 407.2 (1) above, the Participating Organisation must ensure that the insurance policy taken out and maintained by it :-
  - (a) has a minimum limit of indemnity of RM5 million ; and
  - (b) includes the areas of coverage set out in Schedule 11.
- (3) The Participating Organisation must within 2 weeks following the issuance of a new insurance policy or the renewal of an existing insurance policy :-
  - (a) notify the Exchange in writing of the following :-
    - (i) the name of the insurer ;
    - (ii) the amount and nature of cover;
    - (iii) the date on which the cover becomes effective ; and
    - (iv) the date on which the cover will expire.
  - (b) submit to the Exchange a written confirmation that the amount and nature of cover complies with Rules 407.2(1) and 407.2(2).

**RULE 407.3 NOTIFICATION OF CLAIMS**

- (1) The Participating Organisation must notify the Exchange of any claim or potential claim against the insurance policy taken out and maintained in accordance with Rule 407.1 (1) above within 2 market days from when it becomes aware of the claim or potential claim.
- (2) The Participating Organisation must ensure that the notification includes the relevant details of the claim or potential claim.

[End of Chapter]

**CHAPTER 5 ORGANISATION AND STRUCTURE OF  
PARTICIPATING ORGANISATIONS**

**RULE 501 GENERAL**

**RULE 501.1 GENERAL PROVISIONS**

- (1) This Chapter is applicable in all respects to Participating Organisations –
- (a) which qualify, and intend to apply to the Commission for the status of a Universal Broker and to the Exchange for approvals related to the commencement of operations as a Universal Broker in accordance with the provisions herein contained;
  - (b) which are Universal Brokers, Investment Banks and Non-Universal Brokers respectively in respect of the following:
    - (i) scope of permitted businesses;
    - (ii) establishment and operation of branch office(s);
    - (iii) permitted businesses of principal office and branch office(s);
    - (iv) basic organisational and reporting structure of a branch office;
    - (v) proprietary trading;
    - (vi) corporate finance activities; and
    - (vii) risk management; and
  - (c) which are Universal Brokers and Investment Banks in respect of the following:
    - (i) compliance function.
    - (ii) [Deleted]
    - (iii) [Deleted]
    - (iv) [Deleted]
    - (v) [Deleted]

**RULE 501.1A INVESTMENT BANK**

- (1) Where a provision in the Chapter is expressed to be inapplicable to Investment Banks, it shall be substituted with the relevant provisions in the Guidelines on Investment Banks and/or any other requirements of the Central Bank pertaining to the same (“the Relevant Guidelines and Requirements”). The Relevant Guidelines and Requirements shall be deemed to be part of these Rules.

**RULE 501.2 DEFINITIONS AND INTERPRETATION**

(1) For the purposes of this Chapter, unless the context otherwise requires –

Acquired Participating Organisation(s)	means the Participating Organisation(s) for which a proposal for the acquisition, merger, take-over or amalgamation of its/their assets or any interests and business thereof has been made by an Applicant Participating Organisation, and where the context so permits, the expression “Acquired Participating Organisation” shall mean any of them.
Applicant Participating Organisation	means a Participating Organisation which intends to make, or is making an application to the Exchange and/or the Commission pursuant to, and in accordance with, this Chapter.
clearing house	<u>means the clearing house known as BURSA MALAYSIA DERIVATIVES CLEARING SDN. BHD. and any other clearing house approved by the Commission under Section 38 of the Capital Markets and Services Act to, inter alia, provide clearing house facilities for futures contracts traded on a futures market shall have the same meaning as is ascribed thereto in Section 2 of the Futures Industry Act.</u>
clients’ monies	means all amounts, less any brokerage and other proper charges, received by a Participating Organisation from, on behalf of or on account of a client for the purchase or sale, as the case may be, of securities.
Consolidation Policy Framework	means the Commission’s Policy Framework on the Consolidation of the Stockbroking Industry, as may be amended from time to time.
corporate finance activities	means all activities as envisaged in the Guidelines on Permitted Activities for Stockbroking Companies to be corporate finance activities and all primary market activities in relation to unlisted debt securities undertaken by advisers as stipulated in the Guidelines on Permitted Activities for Stockbroking Companies.
dual licensed Dealer’s Representative	means a Dealer’s Representative who has been issued with a valid <u>licence under the Futures Industry Act</u> <u>futures broker’s representative’s licence.</u>
EAF Guidelines	means the Commission’s Guidelines on the Establishment of Electronic Access Facilities by a Universal Broker and Eligible Non-Universal Broker, as may be amended from time to time.
ECOS Code	means any code, directives or guidelines as may be issued by the Exchange from time to time in relation to electronic order routing system for clients.
electronic access facility	means any physical site, location or premise at which is situated or installed physical hardware or equipment –  (a) that does, or as the case may be, is able to, house or accommodate electronic systems, devices or platforms; and  (b) which hardware or equipment when used in conjunction with the electronic systems therein does, or as the case may be, is able to, provide broker-client linkages or electronic client ordering systems.

Guidelines on Permitted Activities for Stockbroking Companies	means the <u>Commission's policy Guidelines</u> on <u>Permitted Activities for <del>S</del>stockbroking <del>C</del>companies set out issued by the Commission in the Licensing Handbook</u> and includes <u>all</u> amendments, modifications, variations, supplements or substitutes made thereto.
Local Member	shall have the same meaning as prescribed thereto in the business rules.
Nominating Member	shall have the same meaning as prescribed thereto in the business rules.
Operative Date	means 1 January 2002 or such other date as may from time to time be prescribed by the Commission in its absolute discretion.
paid-up capital	in relation to a Participating Organisation, means its issued capital which has been fully paid-up by the shareholders.
Proposed Consolidation	in relation to a Participating Organisation, means the proposed acquisition, merger, take-over or amalgamation of the assets or any interests and business of other Participating Organisation(s) pursuant to the Consolidation Policy Framework.
Supervisory branch office	means a branch office of a Participating Organisation which undertakes and performs the compliance functions of another branch office of the Participating Organisation, as envisaged in this Chapter.

(2) For the purposes of this Chapter:-

- (a) words and expressions defined in the business rules of the exchange company or the clearing house, as the case may be, shall save as otherwise defined herein or unless the context otherwise requires, bear the same meaning in these Rules; and
- (b) where a word or expression used herein has not been defined in these Rules, then that word or expression shall bear the same meaning as is ascribed thereto in the Securities Industry Act or the Futures Industry ActCapital Markets and Services Act, as the case may be.

### **RULE 501.3 RIGHT TO REVIEW**

The provisions in this Chapter shall remain in full force and effect unless and until amended, varied, modified, supplemented or substituted therefor as the Exchange may deem to be necessary and expedient by way of any circulars, directives or guidelines issued by the Exchange from time to time.

**RULE 502      QUALIFICATION AS UNIVERSAL BROKER**

**RULE 502.1      PRE-REQUISITE CRITERIA**

Pursuant to the process of consolidation under the Consolidation Policy Framework, an Applicant Participating Organisation intending to make, or is making, an application for the recognition as a Universal Broker shall fulfil, to the satisfaction of the Exchange and the Commission, such qualifying criteria or conditions prescribed by the Commission by way of directives or guidelines (and all subsequent amendments, variations, modifications or supplement thereto) issued by the Commission from time to time.

**RULE 502.2      APPLICATION PROCEDURES**

An Applicant Participating Organisation intending to make, or is making, an application pursuant to Rule 502.1 shall comply with the procedures prescribed by the Exchange and/or the Commission by way of directives, circulars or guidelines as may be issued from time to time.

**RULE 503 PERMITTED BUSINESS OF  
PARTICIPATING ORGANISATIONS**

**RULE 503.1 UNIVERSAL BROKER AND INVESTMENT BANK**

(1) Subject always to such terms, conditions, restrictions and/or limitations as may be imposed by the Exchange and/or the Commission from time to time and without derogation to any provisions of these Rules (including without limitation all directives, guidelines and circulars issued by the Exchange from time to time) and the Securities Laws, a Participating Organisation upon achieving the status of Universal Broker and Investment Bank –

(a) shall be permitted to carry out the businesses for which a licence under Part ~~IIIV~~ of the ~~Securities Industry Act~~ Capital Markets and Services Act is required, including:

(i) dealings in securities for its own account and/or as agent on account of its clients pursuant to Rule 601.3 and margin financing;

(ii) futures broking business;

~~(iii)~~ (iii) corporate finance activities pursuant to Rule 508; and

~~(iii)(iv)~~ (iv) provision of custodial services and fund management ~~services~~;

Provided Always the Universal Broker and Investment Bank shall at all times fully comply with these Rules; and

~~(b) shall be permitted to carry out the businesses for which a licence under Part III of the Futures Industry Act is required. Provided Always the Universal Broker and Investment Bank shall at all times fully comply with the rules (including without limitation regulations, directives, circulars and guidelines) of the relevant exchange company;~~

~~(eb)~~ shall be permitted to carry out the business of dealings in debt securities, such as any government and corporate debentures, at such time as may be appropriate. Provided Always that the relevant framework, rules and regulations in respect thereof have been developed and implemented by the Exchange, in consultation with the Commission;

~~(dc)~~ in the event of any other capital market products being introduced at any time in the future by the Commission, the Exchange or the exchange company, as the case may be, would be permitted to trade in such products. Provided Always that the relevant framework, rules and regulations in respect thereof have been developed and implemented by the Exchange, the exchange company or such other relevant authority, as the case may be;

~~(e)(d)~~ in the event that the Universal Broker or Investment Bank is a Participating Dealer, shall be permitted to carry out the activities of a Participating Dealer as stipulated in the Guidelines on Exchange Traded Funds. Provided Always that the Universal Broker and Investment Bank comply with the relevant rules, regulations, directives, guidelines or other instruments in respect of and relating to Exchange Traded Funds; and

~~(f)(e)~~ shall be permitted to carry out all activities allowed to be undertaken by a Universal Broker and Investment Bank pursuant to the Guidelines on Permitted Activities of Stockbroking Companies or such other relevant guidelines, regulations or directives or other instruments issued by the Commission. Provided Always that the Universal Broker and Investment Bank comply with the relevant rules, regulations, directives, guidelines or other instruments issued in respect thereof by the Commission and/or the Exchange.

- (2) Subject to the Securities Laws, a Universal Broker and an Investment Bank intending to carry out the businesses referred to in Rule 503.1(1)(ba)(ii) shall be required to make the requisite application(s) to –
- (a) the Commission to be licensed to carry on the business of trading in futures contracts under Part III of the Futures Industry Act Capital Markets and Services Act;
  - (b) to the exchange company to be admitted as a participant; and
  - (c) to the clearing house to be admitted as a clearing participant,

whereupon the Universal Broker and Investment Bank shall comply with, and be subject to, all rules, regulations, circulars, directives and guidelines as may from time to time be issued by the exchange company, or the clearing house, as the case may be.

- (3) For the avoidance of doubt, the following provisions of these Rules shall not be applicable to a Universal Broker and an Investment Bank –

Rule	Heading	Extent of Inapplicability
601.4	New Issue of Securities	To the extent of – (a) its corporate finance activities; and (b) the business permitted pursuant to Rule 503.1(1)(ba)(ii).
1001.5	Flotation	To the extent of its corporate finance activities.

- (4) A Universal Broker and Investment Bank intending to carry out any of the businesses referred to in Rule 503.1(1) shall notify the Exchange in writing prior to the commencement of each of these businesses. The Exchange shall be entitled to impose any terms, conditions, restrictions and/or limitations on any of these businesses as the Exchange deems fit.
- (5) An Investment Bank may, in addition to the businesses referred to in this Rule 503.1(1), carry out the businesses for which a merchant banking licence under BAFIA is required, subject to compliance with the Guidelines on Investment Banks and/or such other guidelines, regulations, circulars and directives and guidelines as may from time to time be issued by the Central Bank. An Investment Bank intending to carry out any of the businesses referred to herein shall notify the Exchange in writing prior to the commencement of each of these businesses. The Exchange shall be entitled to impose any terms and conditions on any of these businesses as the Exchange deems fit to ensure that the Investment Bank's business of dealing in securities is not affected by –
- (a) the inherent risks in carrying out these businesses; and/or
  - (b) potential conflicts of interest arising from carrying out these businesses and the business of dealing in securities on the stock market of the Exchange.

**RULE 503.2 NON-UNIVERSAL BROKER**

- (1) Subject always to such terms, conditions, restrictions and/or limitations as may be imposed by the Exchange and/or the Commission from time to time and without derogation to any provisions of these Rules and the Securities Laws, a Non-Universal Broker shall be permitted to carry out only the following types of business and/or activities *Provided Always* these Rules are at all times complied with –
- (a) dealings in securities for its own account and/or as agent on account of its clients;



- (b) margin financing;
  - (c) corporate finance activities pursuant to Rule 508;
  - (d) in the event that the Non-Universal Broker is a Participating Dealer, carrying out the activities of a Participating Dealer as stipulated in the Guidelines on Exchange Traded Funds Provided Always that the Non-Universal Broker complies with the relevant rules, regulations, directives, guidelines or other instruments in respect of and relating to Exchange Traded Funds; and
  - (e) all activities allowed to be undertaken by a Non-Universal Broker pursuant to the Guidelines on Permitted Activities for Stockbroking Companies or such other relevant guidelines, regulations or directives or other instruments issued by the Commission Provided Always that the Non-Universal Broker complies with the relevant rules, regulations, directives, guidelines or other instruments issued in respect thereof by the Commission and/or Exchange.
- (2) In addition to the permitted businesses under Rule 503.2(1), an Eligible Non-Universal Broker and Special Scheme Broker shall be permitted to undertake or carry ~~out-on~~ the business of trading in futures contracts for which a licence under Part III of the Capital Markets and Services Act ~~Futures Industry Act~~ is required Provided Always the Eligible Non-Universal Broker and Special Scheme Broker shall at all times fully comply with the requirements prescribed in Rule 503.2(3), which shall equally apply to the Eligible Non-Universal Broker and Special Scheme Broker.
- (3) Subject to the Securities Laws, an Eligible Non-Universal Broker and Special Scheme Broker intending to carry ~~out-on~~ the businesses referred to in Rule 503.2(2) shall be required to make the requisite application(s) to –
- (a) the Commission to be licensed to carry on the business of trading in futures contracts under Part III of the ~~Futures Industry Act~~ Capital Markets and Services Act;
  - (b) to the exchange company to be admitted as a trading participant; and
  - (c) to the clearing house to be admitted as a clearing participant,
- whereupon the Eligible Non-Universal Broker and Special Scheme Broker shall comply with, and be subject to, all rules, regulations, circulars, directives and guidelines as may from time to time be issued by the exchange company, or the clearing house, as the case may be.
- (4) An Eligible Non-Universal Broker, Special Scheme Broker and Non-Universal Broker intending to carry out any of the businesses referred to in paragraphs (1) and (2) of this Rule 503.2 shall notify the Exchange in writing prior to the commencement of each of these businesses. The Exchange shall be entitled to impose any terms, conditions, restrictions and/or limitations on any of these businesses as the Exchange deems fit.

**RULE 503.3 FUTURES BROKING BUSINESS BY UNIVERSAL BROKER, INVESTMENT BANK, ELIGIBLE NON-UNIVERSAL BROKER AND SPECIAL SCHEME BROKER**

- (1) **Structure:** A Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker may at its discretion determine the structure of its futures broking activities permitted under Rule 503.1(1)(~~ba~~)(ii) and Rule 503.2(2), subject to the requirements prescribed in Rule 503.1(2) and Rule 503.2(3) and the conditions hereinafter appearing being fulfilled to the satisfaction of the Exchange.
- (2) **Subsidiary:** In relation to a Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker which conducts futures broking business through its subsidiary or related company ~~as~~ licensed to carry on the business of trading in futures contracts under the ~~Futures Industry~~ Capital Markets and Services Act (“licensed futures

company”), the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker shall be permitted to station the following persons at its principal office and/or any of its branch office(s):-

- (a) futures broker’s representatives engaged or employed by the licensed futures company; and
- (b) Local Participants for whom the licensed futures company is a Nominating Participant,

*Subject Always* to the requirements prescribed hereinafter appearing.

(3) **Specific requirements:** Further to the preceding Rule, the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker shall ensure the following:-

- (a) the licences of the futures broker’s representatives engaged or employed by the licensed futures company who are stationed in the Universal Broker’s, Investment Bank’s, Eligible Non-Universal Broker’s and Special Scheme Broker’s principal office or any of its branch office(s) are varied or cause to be varied, as the case may be, by the Commission accordingly;
- (b) the futures broking business permitted to be conducted at the Universal Broker’s, Investment Bank’s, Eligible Non-Universal Broker’s and Special Scheme Broker’s principal office and/or any of its branch office(s) shall be segregated from the other activities of the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker, which measures shall include without limitation the following –
  - (i) there shall be no sharing of employees who are common to the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker and the licensed futures company for any purpose whatsoever except for the purpose of carrying out the back office system and operations in relation to the conduct of futures broking business at the Universal Broker’s, Investment Bank’s, Eligible Non-Universal Broker’s and Special Scheme Broker’s principal office and/or any of its branch;
  - (ii) the back office system and operations in relation to the conduct of futures broking business at the Universal Broker’s, Investment Bank’s, Eligible Non-Universal Broker’s and Special Scheme Broker’s principal office and/or any of its branch office(s) shall at all times remain under the auspices and purview of the licensed futures company;
  - (iii) maintenance of Chinese Walls and firewalls to prevent the flow of information between the licensed futures company’s Local Participants and futures broker’s representatives and the Universal Broker’s, Investment Bank’s, Eligible Non-Universal Broker’s and Special Scheme Broker’s Dealer’s Representatives and in respect hereof, include without limitation:
    - (aa) the trading facilities pertaining to futures broking business shall be physically segregated from the ATS of the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker; and
    - (bb) the establishment and implementation of policies and procedures governing restricted access to the trading facilities pertaining to futures broking business and the ATS;
- (c) in relation to compliance functions –

- (i) the licensed futures company shall designate one or more of its compliance officers to carry out the supervisory responsibilities in relation to compliance with the business rules in respect of the futures broking business being conducted at the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's principal offices and/or any of its branch office(s), albeit the compliance officer need not be physically present thereat unless otherwise required by the Exchange and/or the exchange company;
- (ii) notwithstanding the preceding paragraph and unless otherwise required by the Exchange, the exchange company and/or the Commission, the licensed futures company may elect to have the Compliance Officers of the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker undertake the compliance functions envisaged in the business rules *Provided Always:*
  - (aa) the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's Compliance Officers' roles and responsibilities are not in any way whatsoever compromised or affected; and
  - (bb) the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's Compliance Officer so acting shall have passed the relevant examination approved by the exchange company pursuant to the business rules,

whereupon the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker shall submit all compliance reports pertaining to futures broking business to the licensed futures company's compliance officer but without derogation to the responsibility for supervisory activities of the futures broking business pursuant to the business rules being at all times vested in the licensed futures company and its compliance officer;

- (d) the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker respectively furnishes a written declaration to the Exchange and shall cause the licensed futures company to furnish a written declaration to the exchange company, in form and substance acceptable to the Exchange or the exchange company, of –
    - (i) the particulars of the futures broker's representative stationed at the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's principal office and/or any of its branch office(s) and any changes thereto from time to time; and
    - (ii) the respective activities of such futures broker's representatives, whether proprietary or agency trading; and
  - (e) the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker respectively gives the Exchange and the Commission, and shall cause the licensed futures company to give to the exchange company and the Commission, prior notification in writing of the respective locations of its Local Participants who are stationed at the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's principal office and/or any of its branch office(s) and such notice shall not be less than fourteen (14) market days from the commencement date of the Local Participant concerned at the Universal Broker's, Investment Bank's, Eligible Non-Universal Broker's and Special Scheme Broker's premises.
- (4) **Integrated business:** In relation to a Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker which intends to merge or amalgamate the

futures broking business being carried out by a licensed futures company with its other businesses as a Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker, the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker shall at all times comply with:-

- (a) the relevant business rules of the exchange company and the clearing house, including but not limited to the transfer of participants from the licensed futures company to the Universal Broker, Investment Bank, Eligible Non-Universal Broker or Special Scheme Broker, as the case may be, and contribution by the Universal Broker, Investment Bank, Eligible Non-Universal Broker and Special Scheme Broker to the Fidelity Fund; and
- (b) such terms and conditions as may be prescribed by the Exchange, the exchange company, the clearing house and/or the Commission from time to time.

**RULE 503.4 FUND MANAGEMENT ~~SERVICES~~ BY UNIVERSAL BROKER AND INVESTMENT BANK**

(1) **Specific requirements for fund management~~fund manager activities~~:** In amplification of Rule 503.1(1)(a)(~~iv~~), a Universal Broker and Investment Bank shall be permitted to carry ~~out~~ on the business of fund management ~~the activities of a fund manager~~ pursuant to Section 58 of the Capital Markets and Services Act 15A(2)(a) of the Securities Industry Act subject to the following conditions:-

(a) the Universal Broker or Investment Bank, as the case may be, holding a valid licence to carry on the business of fund management under Part III of the Capital Markets and Services Act;

(b) the Universal Broker and Investment Bank respectively employs or engages or has employed or engaged, as the case may be, person(s) on a full-time basis to carry out the activities of a fund manager's representative ("dedicated fund manager's representative(s)");

(c) a dedicated fund manager's representative(s) shall be a person who has passed the examination(s) prescribed by the Commission from time to time in respect of fund manager's representatives, unless otherwise exempted in the cases set out in the Licensing Handbook where the person:

(i) ~~has been the holder of a fund manager's representative's licence previously; and~~

(ii) ~~is the holder of a dealer's representative's licence;~~

(d) a Dealer's Representative qualifies to be employed or engaged as a dedicated fund manager's representative(s) upon his fulfilment of the criteria prescribed in the preceding Rule;

(e) the dedicated fund manager's representative(s) shall not be permitted to effect any personal dealings in securities except for -

(i) securities which he had been holding prior to his employment or engagement as a dedicated fund manager's representative(s); or

(ii) securities which he had been holding or hold by virtue of an Employee Share Option Scheme,

*Provided Always* that any dealings permitted herein shall be subject to the requirements pertaining to transactions by employees as prescribed in these Rules.

~~(2) — **Specific requirements for futures fund management business:**— In amplification of Rule 503.1(1)(b), a Universal Broker and Investment Bank shall be permitted to carry out futures fund management business pursuant to Section 16A(1) of the Futures Industry Act subject to the following conditions:-~~

~~(a) — the Universal Broker and Investment Bank respectively is the holder of a futures broker's licence under Part III of the Futures Industry Act;~~

~~(b) — the Universal Broker and Investment Bank respectively employs or engages or has employed or engaged, as the case may be, person(s) on a full-time basis to conduct the futures fund management business ("dedicated futures fund manager's representative(s)");~~

~~(c) — a dedicated futures fund manager's representative(s) shall be a person who has passed the examination(s) prescribed by the Commission from time to time in respect of futures fund manager's representatives, unless otherwise exempted in cases where the person:~~

~~(i) — has been the holder of a futures fund manager's representative's licence previously; and~~

~~(ii) — is the holder of a dealer's representative's licence;~~

~~(d) — a Dealer's Representative qualifies to be employed or engaged as a dedicated futures fund manager's representative(s) upon his fulfilment of the criteria prescribed in the preceding Rule;~~

~~(e) — the dedicated futures fund manager's representative(s) shall not be permitted to effect any personal dealings in securities except for—~~

~~(i) — securities which he had been holding prior to his employment or engagement as a dedicated futures fund manager's representative; or~~

~~(ii) — securities which he had been holding or hold by virtue of an Employee Share Option Scheme;~~

~~*Provided Always* that any dealings permitted herein shall be subject to the requirements pertaining to transactions by employees as prescribed in these Rules.~~

~~(3) — **Concurrent fund management services:**— A Universal Broker and Investment Bank shall be permitted to carry out the following concurrently:-~~

~~(a) — the activities of a fund manager; and~~

~~(b) — a futures fund management business;~~

~~*Provided Always* the conditions prescribed in Rules 503.4(1) and 503.4(2) are at all times fulfilled.~~

~~(42) **Unit trust:** In amplification of Rule 503.1(1)(a)(iiiv), a Universal Broker and Investment Bank shall be permitted to act as a management company (as defined in the Securities Commission (Unit Trust Scheme) Regulations 1996, as may be amended or re-enacted from time to time) in relation to a unit trust scheme *Subject Always* to the Universal Broker and Investment Bank being at all times in compliance with the relevant rules, regulations, directives, guidelines or other instruments made pursuant thereto from time to time by the Commission and/or any other relevant regulatory authority.~~

**RULE 503.5 DEALINGS IN DEBT SECURITIES BY UNIVERSAL BROKER, INVESTMENT BANK AND NON-UNIVERSAL BROKER**

- (1) **Dealings in unquoted private debt securities of listed Issuer by Non-Universal Broker:** Further to Rules 503.2 and 601.3, a Non-Universal Broker is permitted to deal in unquoted private debt securities issued by a company which has its shares listed and quoted on the Official List of the Exchange (“listed Issuer”), whether as principal or agent subject to the following conditions –
- (a) the Non-Universal Broker shall have:
    - (i) adequate capital at all times and in any event, Effective Shareholders’ Funds (as defined in Rule 1105) of not less than Ringgit Malaysia One Hundred Million (RM100,000,000) or such other amount as may from time to time be prescribed by the Exchange or directed by the Commission; and
    - (ii) adequate experienced personnel and resources, as well as sufficient internal controls, to undertake and manage these activities, and
  - (b) a Non-Universal Broker is not permitted to participate in the primary market of such unquoted private debt securities issued by listed Issuers (whether as principal dealers, advisers, lead managers, lead agents or main underwriters), save and except for acting as:
    - (i) sub-underwriter; and/or
    - (ii) agent for placement,in connection with such issue.

For the purposes herein, the expression “private debt securities” shall bear the same meaning as is ascribed thereto in the Commission’s Guidelines On the Offering Of Private Debt Securities” (as may be amended from time to time), which provides that the expression “private debt securities” bears the same meaning and is used synonymously as the term “debenture” as defined in Section 2(1) of the Securities Commission Act ([currently defined in Section 2\(1\) of the Capital Markets and Services Act](#)).

- (2) **Dealings in unquoted private debt securities of non-listed Issuer by Non-Universal Broker:** Notwithstanding the aforesaid and further to Rules 503.2 and 601.3, a Non-Universal Broker is permitted to deal in private debt securities other than that envisaged in the preceding Rule subject to the following conditions –
- (a) the Non-Universal Broker shall have:
    - (i) adequate capital at all times and in any event, Effective Shareholders’ Funds of not less than Ringgit Malaysia One Hundred Million (RM100,000,000) or such other amount as may from time to time be prescribed by the Exchange or directed by the Commission; and
    - (ii) adequate experienced personnel and resources, as well as sufficient internal controls, to undertake and manage these activities;
  - (b) a Non-Universal Broker is not permitted to participate in the primary market of such private debt securities (whether as principal dealers, advisers, lead managers, lead agents or main underwriters), save and except for acting as:
    - (i) sub-underwriter; and/or
    - (ii) agent for placement,in connection with such issue; and

- (c) a Non-Universal Broker which has not completed an acquisition, merger, take-over or amalgamation of the assets or any interests and business of at least one (1) Member Company/Participating Organisation pursuant to the Consolidation Policy Framework and desirous of dealing in private debt securities shall be required to procure the prior written consent of the Exchange pursuant to Rule 601.3(1)(f) and Rule 601.3(2) on a case to case basis;
  - (d) a Non-Universal Broker which has completed an acquisition, merger, take-over or amalgamation of the assets or any interests and business of at least one (1) Member Company/Participating Organisation pursuant to the Consolidation Policy Framework is exempted from having to procure the Exchange's prior consent and/or approval pursuant to Rule 601.3(1)(f), Rule 601.3(2) and Rule 602.2 subject to the conditions appearing hereinafter; and
  - (e) such other considerations, terms and/or conditions as the Exchange may at any time deem necessary or expedient.
- (3) **Conditions to exemption:** The Non-Universal Broker which qualifies for the exemption as envisaged in the preceding Rule shall comply with the following requirements –
- (a) the Non-Universal Broker shall notify the Exchange in writing no later than the next market day (or such other period as may be prescribed by the Exchange from time to time) following the date of execution of the relevant document(s) or order, as the case may be, in respect of any dealing in private debt securities, which notification shall include the following:
    - (i) in relation to activities as a sub-underwriter and/or agent for placement, information on –
      - (aa) type of private debt securities;
      - (bb) background of the Issuer;
      - (cc) identity of lead underwriter(s) or primary subscriber(s);
      - (dd) indicative rating of the private debt securities;
      - (ee) principal amount of the private debt securities required to be sub-underwritten or placed out;
      - (ff) transaction price of the private debt securities required to be sub-underwritten or placed out;
      - (gg) date of the relevant document(s) relating to the sub-underwriting or placement;
      - (hh) indicative issue date of the private debt securities; and
    - (ii) in the case of activities as a placement agent, the basis on which the placement is to be taken, that is, whether there is an obligation by the Non-Universal Broker to take up the securities not placed out or otherwise;
  - (ii) in relation to secondary market activities, information on –
    - (aa) stock code of the private debt securities;
    - (bb) type and credit rating of the private debt securities;
    - (cc) remaining maturity of the private debt securities;

- (dd) transaction price and amount of private debt securities transacted;
  - (ee) deal date of the transaction;
  - (ff) in the case of an agency trade, settlement date(s), counterparty(ies) and commission to be charged on the transaction; and
- (b) the Non-Universal Broker shall submit to the Exchange on a once-off basis prior to undertaking any dealings in private debt securities as permitted hereunder, a written declaration and confirmation, in such format as may be acceptable to the Exchange, made by its ~~Head of Operations Executive Director Operations~~ and Compliance Officer to the following:
- (i) that all information and statements contained or made in any document(s) submitted to the Exchange in connection with the dealing in private debt securities issued by non-listed Issuers are correct and true;
  - (ii) that the Non-Universal Broker has adequate experienced personnel and resources, as well as sufficient internal controls, to undertake and manage the dealing in private debt securities;
- (c) in the case of activities as a sub-underwriter and agent for placement, the Non-Universal Broker shall submit to the Exchange the prevailing market price of the private debt securities sub-underwritten or to be placed out, on a weekly basis until the date the private debt securities are issued;
- (d) there shall be adequate supervision, review and monitoring by the Compliance Officer of all activities of the Non-Universal Broker in relation to its dealing in private debt securities; and
- (e) the Non-Universal Broker shall develop and implement adequate risk assessment, monitoring and management measures with the objective of ensuring that the risks assumed by the Non-Universal Broker in relation to dealings in private debt securities will be managed and monitored accordingly.
- (4) **Universal Broker/Investment Bank:** For the avoidance of doubt, a Universal Broker and Investment Bank shall pursuant to Rule 503.1(1)(~~eb~~) be permitted to conduct dealings in all private debt securities, including without limitation:-
- (a) all activities in the primary market of such private debt securities (whether as principal dealers, advisers, lead managers, lead agents, main underwriters, sub-underwriters, agent for the placement of the private debt securities in connection with such issue); and
  - (b) all activities in the secondary market.
- (5) **Compliance with relevant guidelines:** A Participating Organisation permitted to conduct dealings in private debt securities as envisaged in this Rule shall at all times –
- (a) comply with the relevant Securities Laws, rules, regulations, directives, codes and guidelines; and
  - (b) be subject to such restrictions or prohibitions,
- for the time being in force and effect in relation to dealings in private debt securities, as may be issued by the Commission and any other relevant authority from time to time.
- (6) **Readiness audit:** Participating Organisations which intend to carry out dealings in private debt securities as envisaged in this Rule 503.5 shall be subject to a readiness audit to the satisfaction of the Exchange.



**RULE 504 ESTABLISHMENT OF BRANCH OFFICE**

**RULE 504.1 PRIOR TO OPERATIVE DATE**

- (1) Subject to the provisions hereinafter appearing and pursuant to the process of consolidation under the Consolidation Policy Framework, a Participating Organisation shall be permitted by the Commission to establish and maintain branch office(s) on the occurrence of the following events prior to the Operative Date –
- (a) the Participating Organisation achieving the status of Universal Broker, in which event the Participating Organisation shall be granted the right to establish and maintain an additional branch office for each of the licences of other Member Companies/Participating Organisations acquired by the first Participating Organisation surrendered to the Commission; and
  - (b) where the Participating Organisation is a Universal Broker, it has and is able to maintain a Core Capital of not less than Ringgit Malaysia Five Hundred Million (RM500,000,000.00), in which event it shall be granted the right to establish and maintain a branch office in addition to the branch office(s) established pursuant to the preceding Rule; or
  - (c) where the Participating Organisation is a Non-Universal Broker, the Participating Organisation shall be granted the right to establish and maintain one (1) branch office for each of the licence(s) of the other Participating Organisation(s) acquired and surrendered to the Commission.

**RULE 504.2 POST OPERATIVE DATE**

- (1) With effect from the Operative Date, a Universal Broker may be permitted by the Commission at its absolute discretion to establish and maintain branch office(s) Subject Always to the Commission's criteria and guidelines in respect thereof.

**RULE 504.2A BRANCH OFFICES BY A ELIGIBLE NON-UNIVERSAL BROKER**

- (1) With effect from 3 January 2006, an Eligible Non-Universal Broker shall be permitted to establish and maintain branch office(s) Subject Always to the Commission's criteria and guidelines in respect thereof.

**RULE 504.2B BRANCH OFFICES BY AN INVESTMENT BANK**

- (1) An Investment Bank may, upon approval of the Central Bank, establish and maintain branch office(s) subject to compliance with the requirements in these Rules pertaining to branch offices.
- (2) Rule 504 shall not be applicable to an Investment Bank in respect of its branch office in the event only the business(es) for which a merchant banking licence under BAFIA is required is(are) carried out at that branch office.

**RULE 504.3 ESTABLISHMENT OF BRANCH OFFICE**

- (1) **Application:** No Participating Organisation which is eligible to establish a branch office pursuant to this Rule 504 shall establish any branch office without an initial application being made to the Exchange. This Rule 504.3(1) shall not be applicable to an Investment Bank.

(2) **Approval:**

- (a) The Exchange may, on application by a Participating Organisation to establish a branch office in the manner prescribed in these Rules, undertake an initial evaluation of such application and henceforth forward its recommendation of such application to the Commission.
- (b) In determining whether or not to recommend an approval of such application to the Commission, the Exchange may consider all matters relevant including but not limited to the following in respect of the applicant Participating Organisation -
  - (i) area which the Participating Organisation is applying to establish a branch office;
  - (ii) business integrity;
  - (iii) financial standing;
  - (iv) experience of dealing in securities.
- (c) A Participating Organisation approved by the Exchange to establish a branch office, shall make a contribution for purpose of development of the securities industry, to the Exchange of a sum to be determined by the Exchange and such sum may be varied from time to time at the Exchange's discretion.
- (d) Where an approval is being granted by the Commission in respect of the applicant Participating Organisation to operate a branch office, the Exchange may, in addition to any conditions imposed by the Commission, attach its own conditions which may be varied from time to time.

(2A) Rule 504.3(2) above, save and except for Rule 504.3(2)(c) in relation to the contribution, shall not be applicable to an Investment Bank.

(3) **Approval of Operations:**

- (a) Upon the fulfilment of conditions and/or restrictions imposed by the Commission, or in the case of an Investment Bank, by the Central Bank, the Exchange may allow a Participating Organisation approved to establish a branch office, to operate such a branch office upon adherence to all of the following -
  - (i) the key appointments envisaged in Rule 506.2 being filled, unless otherwise permitted as provided therein;
  - (ii) satisfactory completion of the branch readiness audit;
  - (iii) must have adequate human resources with the necessary qualification, expertise and experience to manage and administer the branch office;
  - (iv) must have adequate and appropriate systems, procedures and processes to manage and administer the branch office in a proper and efficient manner; and
  - (v) such other conditions as prescribed by the Exchange from time to time.
- (b) Before a Participating Organisation may operate a branch office, it shall be subjected to a branch readiness audit, which scope and criteria shall be prescribed by the Exchange from time to time. The Exchange may require the Participating Organisation to bear the cost of the branch readiness audit.
- (c) The Exchange may appoint the Exchange holding company and/or any firm of auditors to conduct the branch readiness audit on behalf of the Exchange, the cost of which shall be borne by the Participating Organisation.

(4) **Rules of Operation:**

- (a) The Participating Organisation shall be responsible for all business activities of its branch office including but not limited to any breach of the rules and/or directives of the Exchange. Any breach by the branch office is deemed to be a breach or act of non-compliance by the Participating Organisation and the Exchange may subject the Participating Organisation to the relevant disciplinary action(s).
- (b) A Participating Organisation shall notify and provide the Exchange with the identity and relevant particulars of the person heading the branch office and any changes or replacement therefrom.
- (c) The branch office shall carry the name of the Participating Organisation and not any other name.
- (d) A Participating Organisation operating a branch office shall ensure -
  - (i) its financial statement is on a consolidated basis supplemented by separate information and financial statements for purposes of distinguishing its branch office from the principal office;
  - (ii) computations of all matters relating to Capital Adequacy Requirements, gearing ratio, margin facilities, exposures to single client and exposures to single security be on an aggregated basis. For this purpose, such computations of the branch office and the principal office shall be aggregated as a single entity; and
  - (iii) all transactions undertaken by its branch office are duly accounted.
- (e) A Participating Organisation operating a branch office shall in addition to the normal requirements to operate a branch office, put in place and enforce internal guidelines on -
  - (i) credit policies, capital allocations, trading limits, and designated approving authorities at the branch office;
  - (ii) adequate monitoring of the branch office activities with sufficient systems and controls to ensure compliance with these Rules;
  - (iii) reporting requirements by the branch office to the principal office to ensure sufficient supervision and control;
  - (iv) internal controls and policies on the operations of proprietary accounts and client accounts by the branch office;
  - (v) risk management; and
  - (vi) daily reporting to the principal office of its back-office activities.
- (f) The Participating Organisation shall furnish to the Exchange, any variation in respect of the office of trading of its Dealer's Representatives.
- (g) The Exchange may from time to time prescribe other terms and conditions governing the branch operations of a Participating Organisation.

**RULE 504.4 PERMITTED ACTIVITIES AT THE BRANCH OFFICE**

- (1) In amplification of and subject always to Rules 503 and 504, a Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall, in respect of its branch office(s), be permitted to carry out all types of business permitted to be carried out by the principal office Subject Always to such terms, conditions, restrictions and/or limitations as may

be imposed by the Exchange and/or the Commission from time to time *Provided Always* the Universal Broker, Investment Bank and Eligible Non-Universal Broker has –

- (a) established and maintains effective and sufficient policies, practices and procedures on risk management and has in place a system of monitoring risk daily;
- (b) obtained its board of directors' approval in respect of all activities carried out, and intended to be carried out, by the branch office(s); and
- (c) implemented and complied with the relevant rules, circulars, directives or guidelines issued from time to time by the Exchange in respect of or in connection with the segregation of the various businesses permitted to be carried out by the Universal Broker, Investment Bank and Eligible Non-Universal Broker and/or its group of related or associated companies.

**RULE 504.5 CONVERSION OF ELECTRONIC ACCESS FACILITY TO BRANCH OFFICE**

- (1) In the event a Universal Broker, Investment Bank or Eligible Non-Universal Broker, as the case may be, elects to convert an electronic access facility to a branch office, the Universal Broker, Investment Bank or Eligible Non-Universal Broker shall submit to both the Commission and the Exchange, at least three (3) months prior to the date of the proposed conversion, a written application in accordance with Rule 504.3.
- (2) The provisions of Rule 504.3 to Rule 504.4 shall apply in relation to an application made under this Rule 504.5.

## RULE 504A ESTABLISHMENT OF ELECTRONIC ACCESS FACILITY

### RULE 504A.1 SCOPE

- (1) This Rule 504A shall only apply to any electronic access facilities located outside a principal office and/or branch office.

### RULE 504A.2 ESTABLISHMENT

- (1) A Universal Broker, Investment Bank and Eligible Non-Universal Broker may establish, maintain and operate electronic access facility(ies) Subject Always to the approval of both the Commission and the Exchange and compliance with the provisions of the ECOS Code, EAF Guidelines and other directives and guidelines as may be issued by the Exchange and the Commission from time to time in relation to the electronic access facility(ies).
- (2) **Application:** No Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall establish any electronic access facility(ies) without making an application to both the Exchange and the Commission.
- (3) **Application Procedures:** A Universal Broker, Investment Bank and Eligible Non-Universal Broker shall submit to both the Commission and the Exchange a written application, in such form and substance as may from time to time be prescribed by or acceptable to the Commission and/or the Exchange, together with a written notification of the intended commencement date of the operations of the electronic access facility, not later than thirty (30) market days prior to the intended commencement date of the operations of the electronic access facility.

### RULE 504A.3 APPROVAL

- (1) The Exchange, on receipt of the application made by a Universal Broker, Investment Bank or an Eligible Non-Universal Broker, as the case may be, to establish an electronic access facility(ies) under Rule 504A.2, shall undertake a readiness audit, the scope, criteria and manner of which shall be as prescribed by the Exchange. After completion of the readiness audit by the Exchange, the Exchange shall submit its recommendation to the Commission. The Exchange may require the Universal Broker, Investment Bank and Eligible Non-Universal Broker to bear the cost of the electronic access facility readiness audit.
- (2) The Exchange may appoint the Exchange holding company and/or any firm of auditors to conduct the electronic access facility readiness audit on behalf of the Exchange, the cost of which shall be borne by the Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be.
- (3) The Commission may, upon receipt of the recommendation from the Exchange, approve the application to establish an electronic access facility(ies).

### RULE 504A.4 COMMENCEMENT OF OPERATIONS

- (1) Upon the approval of the application referred to in Rule 504A.3 by the Commission and the Exchange and the fulfilment of conditions imposed by the Commission and the Exchange, if any, the Exchange may allow the Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, to commence with the operations of the electronic access facility.
- (2) The Commission and/or the Exchange may, from time to time after commencement of the operations of the electronic access facility, amend, vary, add or modify any conditions imposed on the Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, in relation to the operations of the electronic access facility.

- (3) A Universal Broker's, Investment Bank's and Eligible Non-Universal Broker's electronic access facility(ies) shall form part of the Universal Broker's, Investment Bank's and Eligible Non-Universal Broker's business as a single entity recognised by law.
- (4) An electronic access facility which is established, maintained and operated by a Universal Broker, Investment Bank and Eligible Non-Universal Broker shall not be considered to be a branch office of the Universal Broker, Investment Bank and Eligible Non-Universal Broker and as such, the relevant rules, circulars, directives and guidelines in respect of branch office shall not be applicable.

#### **RULE 504A.5 PERMITTED ACTIVITIES**

- (1) A Universal Broker, Investment Bank and Eligible Non-Universal Broker shall, in respect of its electronic access facility(ies), be permitted to carry out the following activities –
  - (a) the deposit and collection of relevant forms duly executed by the clients (save and except where such forms are required to be witnessed in accordance with these Rules and the relevant Depository Rules) for onward transmission to the Universal Broker's, Investment Bank's and Eligible Non-Universal Broker's principal office or branch office(s); and
  - (b) the publication or dissemination of written analyses or reports or any similar communications (or part or parts thereof) promulgated by the Universal Broker, Investment Bank and Eligible Non-Universal Broker in the course of ~~its activities~~ carrying on the regulated activity of investment advice as an investment adviser incidental to its business of dealing in securities.
- (2) A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, which establishes, maintains or operates an electronic access facility is permitted to position or station at its electronic access facility such number, as it may in its discretion deem expedient, of its employee(s), or as may be permitted by the Exchange, such third party(ies) as may be engaged or appointed by the Universal Broker, Investment Bank and Eligible Non-Universal Broker solely and exclusively for the following purposes only -
  - (a) providing technical assistance to clients utilising the electronic access facility;
  - (b) providing maintenance services to the electronic access facility;
  - (c) providing security to the electronic access facility and its site(s); and
  - (d) such other activities as may be approved by the Commission and/or Exchange from time to time.

#### **RULE 504A.6 PROHIBITED ACTIVITIES**

- (1) A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, which establishes, maintains and operates an electronic access facility in the manner envisaged in these Rules shall ensure that the following activities related to its business of dealing in securities shall not be carried out or undertaken at the electronic access facility -
  - (a) any type of front office and back office operations and activities, including without limitation the following –
    - (i) the opening and closing of trading accounts and/or securities accounts (as defined in the Securities Industry (Central Depositories) Act);
    - (ii) dealings in securities, but excluding such orders entered into the electronic access facility by the clients in the manner envisaged in these Rules;

- (iii) the processing, production of printing of contract notes;
  - (iv) the acceptance of payment of moneys from clients for any reason whatsoever;
  - (v) [the regulated activities of advising on corporate finance, investment advice and/or financial planning](#)~~the activities of an investment adviser~~; and
- (b) such other activities as may be stipulated by the Commission and/or the Exchange from time to time by way of any circulars, directives or guidelines.

#### **RULE 504A.7 ADDITIONAL PROHIBITION**

- (1) A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall be prohibited from positioning or stationing any Dealer's Representatives at the site(s) of the electronic access facility(ies).

#### **RULE 504A.8 OBLIGATIONS**

- (1) A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall be responsible for all business activities of its electronic access facility(ies), including but not limited to any breach of the rules and/or directives of the Exchange. Any breach by the electronic access facility is deemed to be a breach or act of non-compliance by the Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, and the Exchange may subject the Universal Broker, Investment Bank and Eligible Non-Universal Broker to the relevant disciplinary action(s).
- (2) A Universal Broker, Investment Bank and Eligible Non-Universal Broker shall notify and provide the Exchange with the identity and relevant particulars of the person(s) responsible for the management of the electronic access facility(ies) and any changes or replacement therefrom.
- (3) The electronic access facility shall carry the name of the Universal Broker, Investment Bank or Eligible Non-Universal Broker, as the case may be, and not any other name.
- (4) A Universal Broker, Investment Bank and Eligible Non-Universal Broker operating an electronic access facility shall, in addition to the normal requirements to operate an electronic access facility, put in place and enforce internal guidelines on –
- (a) adequate monitoring of the electronic access facility activities with sufficient systems and controls to ensure compliance with these Rules; and
  - (b) reporting requirements by the electronic access facility to the principal office and/or branch office to ensure sufficient supervision and control.
- (5) A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall be responsible for the commissioning of the electronic access facility, notwithstanding that a third-party vendor(s) may be engaged or appointed to undertake the commissioning of the electronic access facility.
- (6) A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall be responsible for the quality, reliability and integrity of the electronic access facility.
- (7) A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall be accountable and liable for all orders entered into through the electronic access facility that is accepted by the SCORE.
- (8) A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall obtain the prior approval of the Commission and the Exchange in respect of any material change(s) to the electronic access facility implemented pursuant to these Rules.

- (9) A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall comply with all terms and conditions as may be prescribed by the Commission and/or the Exchange from time to time in relation to the electronic access facility.

**RULE 504A.9 SPECIFIC SECURITY AND SYSTEM REQUIREMENTS**

- (1) A Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall ensure that the electronic access facility established, maintained or operated or, as the case may be, intended to be established, maintained or operated shall contain adequate and effective specifications and capabilities to ensure the electronic access facility is reasonably and adequately secure such that the security of transactions and confidentiality of clients are at all times preserved.
- (2) Without limitation to the generality of the foregoing paragraph, the Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, shall ensure the following -
- (a) the electronic access facility is, in terms of the applications or software, the physical site location and the hardware, reasonably secure from unauthorised tampering and intrusion and in this respect, the Universal Broker, Investment Bank and Eligible Non-Universal Broker shall at the minimum strictly comply with all relevant rules, circulars, directives, guidelines and codes relating to security issued by the Commission and/or the Exchange from time to time; and
  - (b) the applications at the electronic access facility conform in all material respects with –
    - (i) all relevant rules, circulars, directives, guidelines, codes and standards issued by the Commission and/or the Exchange with respect to the use of information technology, including but not limited to the ECOS Code; and
    - (ii) all relevant rules, circulars, directives and guidelines issued by the Commission and/or the Exchange from time to time with respect to trading of securities on the stock market.

**RULE 504A.10 CONVERSION OF BRANCH OFFICE TO ELECTRONIC ACCESS FACILITY**

- (1) In the event a Universal Broker, Investment Bank and Eligible Non-Universal Broker, as the case may be, elects to convert a branch office to an electronic access facility, the Universal Broker, Investment Bank and Eligible Non-Universal Broker shall -
- (a) submit to both the Commission and the Exchange, at least three (3) months prior to the date of the proposed conversion, a written application in accordance with Rule 504A.2; and
  - (b) give prior written notification to its clients who may be affected by the proposed conversion, which notification shall not be less than two (2) months before the proposed date of conversion.
- (2) The provisions of Rule 504A.2 to Rule 504A.9 shall apply in relation to an application made under Rule 504A.10.



**RULE 505 PERMITTED BUSINESS OF  
PRINCIPAL OFFICE AND BRANCH OFFICE**

**RULE 505.1 UNIVERSAL BROKERS AND INVESTMENT BANKS**

- (1) In amplification of and subject always to Rule 503, a Universal Broker and Investment Bank shall be permitted to carry out all types of business permitted to be carried out by a Universal Broker and Investment Bank respectively under Rule 503 at its principal office.
- (a) [Deleted]
    - (i) [Deleted]
    - (ii) [Deleted]
    - (iii) [Deleted]
  - (b) [Deleted]
- (2) In amplification of, and subject always to, Rule 503, a Non-Universal Broker shall be permitted to carry out all types of business permitted to be carried out by a Non-Universal Broker under Rule 503 in respect of its principal office.
- (a) [Deleted]
  - (b) [Deleted]
  - (c) [Deleted]

**RULE 505.2 SEGREGATION FOR SAFE CUSTODY**

- (1) For purposes of protection of clients' assets in relation to securities which are held in safe custody under custodial services rendered, a Participating Organisation shall ensure that these securities are held by its nominee company which is a wholly-owned subsidiary and an authorised nominee pursuant to Depository Rules.

**RULE 506 BASIC ORGANISATION AND REPORTING STRUCTURE  
OF A BRANCH OFFICE**

**RULE 506A INVESTMENT BANK**

- (1) Without derogation to the obligation of an Investment Bank to centralise at its principal office, the back office system and operations of its principal office and branch office(s) under Rule 506.7, the other provisions in Rule 506 shall not be applicable to an Investment Bank in respect of its branch office in the event only the business(es) for which a merchant banking licence under BAFIA is required is(are) being carried out at that branch office.

**RULE 506.1 STATUS OF PRINCIPAL AND BRANCH OFFICE**

- (1) A Participating Organisation's principal office and branch office(s) shall form part of the Participating Organisation's business as a single entity as recognised by law.

**RULE 506.2 KEY APPOINTMENTS AT BRANCH OFFICE**

- (1) Requisite appointments: Subject to Rule 506.5 and unless otherwise prescribed by the Exchange upon notification to the Commission, a Participating Organisation shall in relation to every branch office appoint the following –

- (a) one (1) person to head and supervise the branch office (“Head of Branch Office”) who must:
- (i) be engaged in full time employment with the Participating Organisation at the branch office; and
  - (ii) be registered with the Exchange in such manner as may be prescribed by the Exchange from time to time.

*Provided Always* he shall not hold the position of Head of Branch Office in the event he is removed from such register maintained by the Exchange for any reason whatsoever and the Participating Organisation shall notify the Exchange of his resignation or termination, as the case may be; and

- (b) one (1) person to head and supervise the activities of dealing in securities of the branch office (“Branch Head of Dealing”) who must:
- (i) hold a dealer's representative's licence; and
  - (ii) not have been suspended from his right to trade in the Exchange; and
- (c) one (1) person who is responsible for and supervises the back office functions of a branch office (“Branch Head of Operations”); and
- (d) unless exempted under Rule 506.2(2) or Rule 506.3, at least one (1) Compliance Officer (“Branch Compliance Officer”) who must:
- (i) be ~~approved by the Commission and~~ registered with the Exchange in such manner as may be prescribed by the Exchange from time to time in these Rules;
  - (ii) have passed such other examinations as may be prescribed by the Exchange and the Commission; and

- (iii) be engaged in full time employment with the Participating Organisation at the branch office.
  - (e) [Deleted]
- (2) In the event the compliance functions of a Participating Organisation are undertaken at Group level in accordance with Rule 511, no Branch Compliance Officer is required for each of the Participating Organisation's branch offices, unless determined otherwise by the Participating Organisation.

### **RULE 506.3 FLEXIBILITIES**

- (1) In amplification of Rule 506.2, the requirement for the following in respect of a branch office(s) may be waived by the Exchange, upon notification to the Commission, subject always to such terms and conditions as may be at any time be imposed by the Exchange and/or the Commission in respect thereof:-
- (a) a Branch Head of Dealing if the conditions below are fulfilled to the satisfaction of the Exchange –
    - (i) the operations of the branch office(s) are solely limited to back office activities; and
    - (ii) the branch office(s) does not directly or indirectly carry out activities of dealing in securities in any manner whatsoever; and/or
    - (iii) in the case of a Universal Broker, Investment Bank and Non-Universal Broker and without derogation to the Universal Broker's, Investment Bank's and Non-Universal Broker's compliance at all times with the requirements relating to corporate finance activities prescribed in Rule 508 where:
      - (aa) the sole activities of the branch office(s) are limited to corporate finance activities; and
      - (bb) the branch office(s) does not directly or indirectly carry out activities of dealing in securities in any manner whatsoever;
  - (b) a Branch Head of Operations if the conditions below are fulfilled to the satisfaction of the Exchange –
    - (i) the operations of the branch office(s) are solely limited to activities of dealing in securities and the branch office(s) does not directly or indirectly carry out back office activities in any manner whatsoever;
    - (ii) the back office system and operations of the branch office(s) are integrated with the back office system and operations of the Participating Organisation which is centralised in accordance with Rule 506.7;
    - (iii) further to Rule 513.1, the Participating Organisation is at all times able to comply with the statutory obligations regarding accounts to be kept by dealers in respect of the whole entity; and
    - (iv) in the event the branch office(s) carries out the activities of account opening and/or credit control, the Participating Organisation has appointed a person or persons to be responsible therefor and such person(s) shall report directly to the relevant appointment at the principal office in accordance with the requisite reporting structure prescribed in Rule 506; and/or

- (v) in the case of a Universal Broker, Investment Bank and Non-Universal Broker and without derogation to the Universal Broker's, Investment Bank's and Non-Universal Broker's compliance at all times with the requirements relating to corporate finance activities prescribed in Rule 508 where:
  - (aa) the sole activities of the branch office(s) are limited to corporate finance activities; and
  - (bb) the branch office(s) does not directly or indirectly carry out activities of dealing in securities in any manner whatsoever;
- (c) a Branch Compliance Officer if the conditions below are fulfilled or are able to be fulfilled, as the case may be, to the satisfaction of the Exchange –
  - (i) the compliance function in respect of the branch office(s) shall be capable of being undertaken and performed effectively by the Compliance Department at the principal office or Supervisory branch office, as the case may be, in the same manner and degree as if a full-time Compliance Officer has been appointed to the branch office(s);
  - (ii) the compliance function of the Participating Organisation shall not in any way whatsoever be compromised or affected as a result of such waiver;
  - (iii) the Compliance Officer at the principal office or Supervisory branch office, as the case may be, responsible for the branch office(s) is at all times able to satisfy his obligations in relation to branch office(s) as stipulated in guidelines, directives and/or circulars relating to compliance functions issued by the Exchange and/or the Commission from time to time;
  - (iv) the internal audit department of the Participating Organisation shall conduct regular internal audits in respect of the branch office(s) in accordance with the scope prescribed in Rule 510 and the internal audit report shall be submitted to the Exchange and the Commission in separate copies as soon as reasonably practicable after the completion of the internal audits envisaged; and
  - (v) the frequency of visits by the Compliance Officer(s) of the principal office or the Supervisory branch office, as the case may be, to the branch office(s), to be clearly determined and stipulated at the outset in the internal policies and procedures of the Participating Organisation,

***Provided Always*** the waiver granted by the Exchange may at any time be revoked in the event of the Exchange not being satisfied that the relevant controls and monitoring policies and procedures of the Participating Organisation as required herein is/are adequate and/or effective.

#### **RULE 506.4 OPTIONAL APPOINTMENT**

- (1) In the event of a Participating Organisation intending to appoint or having appointed, as the case may be, a Chief Executive Officer or Managing Director or similar positions by whatsoever name called, the Participating Organisation's board of directors shall ensure the following –
  - (a) the reporting structures prescribed in this Part are not in any way compromised and are at all times complied with; and
  - (b) such appointments comply with such rules, circulars, directives or guidelines as may from time to time be issued by the Exchange in respect of or in connection with

segregation of the various businesses permitted to be carried out by the Participating Organisation and/or its group of related or associated companies,

but in the event the position of the Chief Executive Officer or Managing Director or such similar positions by whatsoever name called is at its principal office, these appointments shall at all times be required to report directly to its board of directors.

- (2) Rule 506.4(1) above shall not be applicable to an Investment Bank.

#### **RULE 506.5 ORGANISATIONAL AND REPORTING STRUCTURE**

- (1) A Participating Organisation shall establish and maintain organisational and reporting structures that ensure the segregation between its activities of dealing in securities, middle office and back office operations is at all times maintained, and that there are no situations of conflicts of interest, potential or actual.

- (2) Unless otherwise prescribed by the Exchange in consultation with the Commission, the reporting structure of a Participating Organisation is as envisaged hereunder –

- (a) in the event the Head of Branch Office holds a dealer's representative's licence:
- (i) the Branch Head of Dealing (when he does not also hold the position of Head of Branch Office) shall report directly to the Head of Branch Office;
  - (ii) the Head of Branch Office (who may also hold the position of Branch Head of Dealing) shall report directly to the ~~Executive Director Dealing or the~~ Head of Dealing, ~~in the case of an Investment Bank~~; and
  - (iii) the Branch Head of Operations shall report directly to the ~~Executive Director Operations or the~~ Head of Operations, ~~in the case of an Investment Bank~~, and report administratively to the Head of Branch Office;
- (b) in the event the Head of Branch Office does not hold a dealer's representative's licence:
- (i) the Branch Head of Operations (when he does not also hold the position of Head of Branch Office) shall report directly to the Head of Branch Office;
  - (ii) the Head of Branch Office (who may also hold the position of Branch Head of Operations) shall report directly to the ~~Executive Director Operations or the~~ Head of Operations, ~~in the case of an Investment Bank~~; and
  - (iii) the Branch Head of Dealing shall report directly to the ~~Executive Director Dealing or the~~ Head of Dealing, ~~in the case of an Investment Bank~~, and report administratively to the Head of Branch Office;
- (c) the Branch Compliance Officer shall:
- (i) in the case of a Universal Broker, report directly to the ~~Executive Director Compliance or in the case of an Investment Bank, to the~~ Head of Compliance, and report administratively to the Head of Branch Office; and
  - (ii) in the case of a Non-Universal Broker with branch office(s), report directly to the Compliance Officer at its principal office;
- (d) the Secondary Head of Corporate Finance as defined in Rule 508.4(1)(d) shall report directly to the Head of Corporate Finance as defined in Rule 508.4(1)(c);
- (e) [Deleted]

(f) ~~[Deleted]the Executive Director Compliance shall report directly to the Participating Organisation's board of directors. This Rule 506.5(2)(f) shall not apply to the Head of Compliance of an Investment Bank;~~

(g) in the event the Participating Organisation has appointed a Chief Executive Officer or Managing Director or similar positions by whatsoever name called, the following persons shall report directly to the Participating Organisation's board of directors and report administratively to the said Chief Executive Officer or Managing Director or similar positions by whatsoever name called:

(i) ~~Executive Director Dealing~~Head of Dealing; and

(ii) ~~Executive Director Operations~~Head of Operations,

**Provided Always** the reporting in such manner to the said Chief Executive Officer or Managing Director or similar positions by whatsoever name called does not result in or give rise to situation(s) of potential conflict of interest and the various businesses permitted to be carried out and the functions of the relevant personnel thereof are and continue to be properly segregated at all times. This Rule 506.5(2)(g) shall not apply to the Chief Executive Officer or Managing Director or similar positions by whatsoever name called of an Investment Bank.

(3) For the purposes of this Chapter, to "report administratively" shall be construed to mean the reporting of all matters which do not require any decision on the part of the person being reported to, administrative matters and other matters in connection therewith.

#### **RULE 506.6 COMPLIANCE FUNCTION AT PRINCIPAL OFFICE AND BRANCH OFFICE**

(1) [Deleted]

(2) The Participating Organisation must ensure that it has established and maintains effective and sufficient policies, practices, mechanisms and procedures to oversee all matters relating to and in connection with compliance by its principal office and branch office(s).

#### **RULE 506.7 BACK OFFICE SYSTEM AND OPERATIONS**

(1) The back office system and operations of a Participating Organisation's principal office and branch office(s) must be centralised at its principal office and if this is not the case, the location of the back office system and operations must be notified to the Exchange and the Commission subject always to such terms and conditions as may at any time be imposed by the Exchange and/or the Commission in respect thereof.

(2) The back office system and operations of a Participating Organisation's principal office and branch office(s) must include an effective monitoring system, which enables timely reporting and transmission of data from a branch office to the principal office, to facilitate supervision of the activities of the principal office and the branch office(s).

(3) The back office system and operations of a Participating Organisation's principal office and branch office(s) must ensure that daily reconciliation of all records of the principal office and the branch office(s) will be conducted.

(4) A Participating Organisation shall ensure that all trading and transactions undertaken by its branch office(s) are reconciled and duly accounted for.

**RULE 506.8 APPRAISAL**

[Deleted]

(1) [Deleted]

**RULE 507      COMPLIANCE FUNCTION AT  
PARTICIPATING ORGANISATION**

**RULE 507.1      COMPLIANCE FUNCTION**

- (1) Every Participating Organisation shall ensure that it carries out the compliance functions as envisaged under Rule 309.4(1). The responsibility to ensure that such compliance functions are properly carried out lies with the ~~Executive Director Compliance~~, Head of Compliance, in the case of a Universal Broker and Investment Bank and Compliance Officers, in the case of a ~~Universal Broker, Investment Bank and Non-Universal Broker respectively~~. Where the compliance functions of a Participating Organisation are undertaken at Group level in accordance with Rule 511, the responsibility prescribed herein to ensure that the compliance functions are properly carried out lies with the Head Group Compliance.
- (2) A Participating Organisation shall be responsible to ensure that its ~~Executive Director Compliance~~, Head of Compliance, in the case of a Universal Broker and Investment Bank ~~and~~ Compliance Officers, in the case of a ~~Universal Broker, Investment Bank and Non-Universal Broker respectively~~, fully discharge their duties as envisaged under these Rules. The same responsibility herein applies to the Participating Organisation in respect of the Head Group Compliance, notwithstanding that the compliance functions are undertaken at Group level in accordance with Rule 511.
- (3) Notwithstanding the duties of the ~~Executive Director Compliance~~, Head of Compliance, Head Group Compliance and Compliance Officers as referred to in these Rules, the ultimate responsibility for the proper supervision and compliance of a Participating Organisation shall rest with the Participating Organisation and its board of directors.



**RULE 508 CORPORATE FINANCE ACTIVITIES BY  
PARTICIPATING ORGANISATION**

**Rule 508.1 DEFINITION**

- (1) For the purposes of this Rule 508 –
- (a) [Deleted]
  - (b) “Persons connected with the Participating Organisation”, in relation to corporate finance activities shall mean -
    - (i) a director or substantial shareholder of the Participating Organisation;
    - (ii) a person in his capacity as trustee of a private or family trust (other than a pension scheme), the beneficiaries of which include any person in (1) above;
    - (iii) a body corporate which is associated with the individual in (1) above by virtue of the said individual being a director of or having a substantial shareholding in the body corporate; or
    - (iv) a company which is a member of the same group of companies as the Participating Organisation.
  - (c) “insiders” means employees, directors, Dealer’s Representatives or any other agents engaged or employed by the Participating Organisations who are –
    - (i) in possession of information that is not generally available which on becoming generally available a reasonable person would expect it to have a material effect on the price or the value of securities; and
    - (ii) know or ought reasonably to know that the information is not generally available.
  - (d) The words and phrases “information”, “information generally available”, “information that on becoming generally available would or would tend to have a material effect on the price or value of securities”, “trading in securities” and “procure” or “procuring” shall have the same meanings as are assigned to them in Sections [18389](#), [18489A](#), [18589B](#), [18689C](#) and [18789D](#) respectively of the [Securities Industry Act/Capital Markets and Services Act](#).

**RULE 508.2 SCOPE OF CORPORATE FINANCE ACTIVITIES**

- (1) All Participating Organisations are permitted to carry out corporate finance activities, the scope and extent thereof shall be subject to the Guidelines on Permitted Activities for Stockbroking Companies or such other relevant guidelines, regulations or directives or other instruments issued by the Commission from time to time pertaining thereto (and includes amendments, modifications, variations, supplements or substitutes thereto), *Subject Always* that in the case of Participating Organisations which are allowed to carry out the activities of principal adviser pursuant to the Guidelines on Permitted Activities for Stockbroking Companies, the Participating Organisations shall have and maintain its Effective Shareholders’ Fund (as defined in Rule 1105) of at least Ringgit Malaysia One Hundred Million (RM100,000,000.00) at all times or such other amount as may from time to time be prescribed by the Exchange or directed by the Commission.

**RULE 508.3 GENERAL REQUIREMENTS**

- (1) The Participating Organisation shall be responsible for all its business activities in relation to corporate finance, including but not limited to, any breach of the rules and/or directives of the Exchange.
- (2) The Participating Organisation undertaking the corporate finance activities shall at all times comply and adhere to the Guidelines on Permitted Activities for Stockbroking Companies and such other guidelines and policies on the same, as issued from time to time. A failure to comply or a breach of such policies and guidelines shall render the Participating Organisation liable to the relevant disciplinary action as stipulated in these Rules.
- (3) Where the Participating Organisation is desirous of providing services in relation to corporate finance activities to persons connected with the Participating Organisation, it shall thereupon inform the Commission and the Exchange in writing of the same.
- (4) Where such Participating Organisation's services in relation to corporate finance activities referred to in the foregoing paragraph is undertaken, the Participating Organisation shall incorporate additional measures to avoid any conflict of interest.

**RULE 508.4 ORGANISATIONAL AND REPORTING REQUIREMENTS**

- (1) **Organisational requirements:** In relation to a Participating Organisation permitted to conduct corporate finance activities pursuant to, and in accordance with this Chapter, the Participating Organisation must –
  - (a) [Deleted]
  - (b) establish and maintain a separate department(s) ("Corporate Finance Department(s)") to undertake the activities of corporate finance at its principal office and branch office(s) Subject Always to the following:
    - (i) all corporate finance activities shall preferably be conducted at its principal office;
    - (ii) in the event that corporate finance activities are to be conducted at any of its branch office(s), it shall notify, and identify such branch office(s) to, the Exchange and the Commission;
  - (c) appoint at least one (1) person, ~~approved and~~ recognised by the Commission, to head the Corporate Finance Department(s) and to be responsible for all matters relating to or in connection with the Participating Organisation's corporate finance activities ("Head of Corporate Finance");
  - (d) appoint at least one (1) person, ~~approved and~~ recognised by the Commission to be responsible for all matters relating to or in connection with the Participating Organisation's corporate finance activities ("Secondary Head of Corporate Finance") at each of the other office(s) of the Participating Organisation carrying out corporate finance activities; and
  - (e) maintain at all times of professional standards and sufficient resources in, and for, the carrying out of its corporate finance activities.
- (2) **Approvals for submissions:** The Participating Organisation shall ensure that all submissions to the Commission in respect of or in connection with corporate finance activities are approved by –
  - (a) the Head of Corporate Finance; or

- (b) any other person who holds a senior position in the organisation of the Participating Organisation,

who is authorised by the board of directors of the Participating Organisation to approve the submissions to the Commission.

- (3) **Risk Management:** Notwithstanding Rule 508.4(2) above, the Participating Organisation shall be ultimately responsible for the corporate finance activities of the Participating Organisation and the proper management of risks inherent in these activities. In this respect, the Participating Organisation shall ensure that –
  - (a) the lines of authority and reporting structure for the Corporate Finance Department(s) are clearly delineated so that confidentiality of information pertaining to all corporate finance activities is maintained at all times;
  - (b) there are sufficient risk management measures to address any concerns on risks that are inherent in corporate finance activities.

#### **RULE 508.5 CONFIDENTIALITY**

- (1) Every Participating Organisation shall, for the prevention of insider trading, misuse of confidential information and/or the commission of other offences relating to the abuse of confidential information, ensure that there is strict and full confidentiality of all relevant information, including without limitation, information that on becoming generally available would or would tend to have a material effect on the price or value of securities.
- (2) **Physical segregation:** In amplification of Rule 508.5(1) above, every Participating Organisation shall ensure that the Corporate Finance Department(s) at its principal office and where applicable, branch office(s) respectively are physically separated from the other activities of the Participating Organisation **Subject Always** to such rules, circulars, directives or guidelines as may from time to time be issued by the Exchange in respect of or in connection with segregation of the various businesses permitted to be carried out by the Participating Organisation and/or its group of related or associated companies, as the case may be.

For the purposes herein, “physically separated” means –

- (a) that the Corporate Finance Department(s) shall be located on different floor(s) of the building wherein the other activities of the Participating Organisation are situated; or
  - (b) that the Corporate Finance Department(s) shall be located at an area that is physically separated by wall(s) from the areas where the other activities of the Participating Organisation are carried out or situated. The wall(s) shall be constructed from the floor to the ceiling and made of solid and non-transparent material.
- (3) **Chinese Walls and firewalls:** In addition to Rule 508.5(2), a Participating Organisation shall formulate and enforce adequate and effective internal policies, procedures and/or guidelines on the maintenance of “Chinese Wall” and firewalls to ensure that persons involved in other activities of the Participating Organisation have no direct or indirect access to the corporate finance activities and shall take all steps and actions necessary to implement and comply with the relevant rules, circulars, directives or guidelines issued from time to time by the Exchange in respect of or in connection with the segregation of the various businesses permitted to be carried out by the Participating Organisation and/or its group of related or associated companies, as the case may be, and in respect thereof, include without limitation the following–
    - (a) measures to avoid the flow of material non-public information known by the Corporate Finance Department(s) to persons involved in other activities of the Participating Organisation;

- (b) procedures for communications between the personnel of the Corporate Finance Department(s) and persons involved in other activities of the Participating Organisation;
- (c) policies, procedures and internal controls and mechanisms to prevent the misuse of confidential information, including without limitation, information that on becoming generally available would or would tend to have a material effect on the price or value of securities; and
- (d) policies and procedures on permissible crossing of such barriers as may be erected.

**RULE 508.6 MANAGEMENT OF CONFLICTS OF INTEREST**

- (1) A Participating Organisation shall ensure that there is, at all times, a proper management of conflicts of interest, whether actual, potential or perceived, which arise or may arise from the carrying out of corporate finance activities and the other activities of the Participating Organisation. In this respect, the Participating Organisation shall develop and maintain –
  - (a) in relation to the corporate finance activities undertaken by the Corporate Finance Department which involve information that is not generally available which on becoming generally available would or would tend to have a material effect on the price or value of the securities of the clients, a list of securities of such clients (“Watch List”);
  - (b) internal policies, controls and mechanisms to monitor trading activities of insiders in relation to the securities contained in the Watch List to ensure compliance with Rule 508.6(2);
  - (c) internal policies and controls for avoidance of insider trading; and
  - (d) measures and procedures to ensure the Participating Organisation does not conduct or undertake any activities tantamount, or likely to be tantamount or similar, to front-running.
- (2) **Prohibition in Trading/Publication of Research:**
  - (a) In amplification of and without prejudice to the generality of Rule 508.6(1) above, there shall be a prohibition imposed against an insider from
    - (i) trading, procuring trades and instructing any person to trade or procure trade (whether for themselves or for the Participating Organisation in relation to its proprietary or agency trades or indirectly through any form of discretionary trading) in the securities of the clients of the Corporate Finance Department(s) to which information as mentioned in the definition of ‘insiders’ relates, including restrictions on the trading in futures, options and other instruments derived from such securities; and
    - (ii) publication of research or other materials with comments, recommendations or otherwise in respect of the securities which are the subject of corporate finance exercise(s) to which information as mentioned in the definition of ‘insiders’ relates.
  - (b) The prohibitions stipulated herein on the insider shall remain in effect for as long as the insider remains an insider.
- (3) **Restricted List:** In giving effect to Rule 508.6(2) above, a Participating Organisation shall, distribute to an insider a list of securities to which the prohibition in Rule 508.6(2) is applicable to that insider (“Restricted List”).

- (4) **Register of Conflicts:** Without prejudice to the generality of Rule 508.6(1), a Participating Organisation shall maintain a register of conflicts to record all cases of conflicts of interest whenever they arise and the manner these cases of conflicts of interest have been addressed.

#### **RULE 508.7 REVIEW OF CORPORATE FINANCE ACTIVITIES**

- (1) The corporate finance activities shall be subject to regular reviews by Compliance Officers.
- (2) The Compliance Officers shall ensure the following –
- (a) the adequacy of all internal controls and information barriers developed and implemented by the Participating Organisation pursuant to Rule 508.5;
  - (b) the internal controls and information barriers referred to in the preceding paragraph are effectively implemented and complied with by the Participating Organisation;
  - (c) that there is adequate supervision and monitoring of all the activities of the Corporate Finance Department(s); and
  - (d) the Participating Organisation shall not effect, take part in, engage in, be concerned in, or carry out, either directly or indirectly, any activities which are tantamount, or likely to be considered tantamount, or similar, to front-running, insider dealing and other offences related to the abuse of confidential information, including without limitation, information that on becoming generally available would or would tend to have a material effect on the price or value of securities.

#### **RULE 508.8 STRUCTURE OF CORPORATE FINANCE ACTIVITIES**

- (1) **Structure:** A Participating Organisation may at its discretion determine the structure of its corporate finance activities permitted under Rule 503.1(1)(a)(iii) and Rule 503.2(1)(c) subject to the relevant requirements prescribed in these Rules.
- (2) **Subsidiary:** In relation to a Participating Organisation which conducts corporate finance activities through a subsidiary, the Participating Organisation shall at all times comply with the following conditions –
- (a) the Participating Organisation has controlling shareholding in the subsidiary (for the purposes herein “controlling shareholding” of a subsidiary shall mean not less than fifty per cent (50%) of the issued and paid-up capital of the subsidiary plus one (1) share);
  - (b) the subsidiary is licensed [to carry on the business of advising on corporate finance as an investment adviser](#) pursuant to the [Capital Markets and Services Act](#)~~Securities Industry Act~~;
  - (c) the activities of the subsidiary is, subject always to the terms, conditions and restrictions of the licence issued thereto, at all times limited to the following –
    - (i) submission to the Commission of all applications for proposals requiring the approval of the Commission pursuant to any law, rules and regulations as may be applicable; and
    - (ii) acting in a strictly advisory capacity only to the Participating Organisation in relation to, *inter alia*, underwriting and placement of securities;

- (d) the Participating Organisation ensures that the subsidiary deals with and addresses issues of conflict of interest adequately in the same manner and degree as required of the Participating Organisation pursuant to the relevant provisions of these Rules;
- (e) the Participating Organisation procures an agreement with the subsidiary in such form and substance as may be stipulated by the Exchange from time to time, and which agreement shall contain, *inter alia*, the following terms –
  - (i) that the Exchange shall be permitted to conduct such inspections as may from time to time be deemed necessary by the Exchange in accordance with its powers pursuant to these Rules;
  - (ii) that the subsidiary shall comply with the relevant provisions of these Rules, including without limitation:
    - (aa) the provisions relating to Chinese Walls and firewalls;
    - (bb) the provisions relating to the authority and duties of the Compliance Officer in the supervision and monitoring of the activities of the subsidiary; and
    - (cc) the provisions relating to the reporting structure of the Corporate Finance Department(s) of the Participating Organisation.

**RULE 509 RISK MANAGEMENT FUNCTIONS AND RISK MANAGEMENT COMMITTEE  
OF PARTICIPATING ORGANISATION**

**RULE 509.1 SPECIFIC REQUIREMENTS**

- (1) **Establishment:** Every Participating Organisation, upon commencement of any of the activities stipulated under Rule 503.1 and Rule 503.2 other than dealing in securities and margin financing, shall ensure the following –
  - (a) the proper carrying out of risk management functions by the relevant department and the reporting of the same to the Risk Management Committee; and
  - (b) the establishment and maintenance of a Risk Management Committee which shall report to its board of directors periodically as the board of directors may determine or where the Rule 509.1(4) applies, which shall submit a report to board of directors of the Participating Organisation in relation to any matters relating to risk management of the Participating Organisation .
- (2) **Implementation:** The Participating Organisation shall develop and implement relevant terms of reference, policies and procedures to govern the conduct and activities of the risk Management Committee.
- (3) **Reporting:** The Risk Management Committee shall report directly to the Participating Organisation's board of directors.
- (4) **Group Level:** In the event the functions of risk management and the Risk Management Committee are undertaken or established at Group level in accordance with Rule 511, all provisions in these Rules relating to risk management functions and Risk Management Committee except Rule 509.3(1)(b) and Rule 509.3(3) shall equally apply unless expressly provided to the contrary.

**RULE 509.2 FUNCTIONS**

- (1) The function of the Risk Management Committee shall include but not be limited to the following –
  - (a) to develop and implement adequate risk assessment, monitoring and management policies and procedures with the objective of ensuring that the risks assumed by the Participating Organisation in relation to the permitted businesses pursuant to Rule 503 will be managed and monitored accordingly and any requisite steps and action in mitigating such risks are effective; and
  - (b) to ensure that the Participating Organisation is at all times in compliance with the following –
    - (i) Capital Adequacy Requirements promulgated in Rule 1105;
    - (ii) all requirements from time to time of the exchange company and clearing house in respect of risks and exposures in relation to the permitted business pursuant to Rule 503.1(1)(~~ba~~)(ii) and Rule 503.2(2); and
    - (iii) all such other requirements from time to time in respect of risks and exposures in relation to such other businesses as may be permitted pursuant to Rule 503.1(1)(a)(iii), Rule 503.1(1)(~~eb~~), Rule 503.1(1)(~~ec~~), Rule 503.1(1)(~~ed~~), Rule 503.1(1)(~~fe~~), Rule 503.2(1)(c), Rule 503.2(1)(d) and 503.2(1)(e), as the case may be.

- (2) The department carrying out the risk management functions shall ensure that the policies and procedures established and formulated by the Risk Management Committee are efficaciously and effectively implemented at each branch office(s).

### **RULE 509.3 COMPOSITION OF RISK MANAGEMENT COMMITTEE**

- (1) Unless otherwise determined by the Exchange upon notification to the Commission, the Risk Management Committee shall be comprised of such number and such persons as may be determined by the Participating Organisation **Provided Always** –
- (a) the person does not hold a dealer's representative's licence; and
  - (b) the following persons shall be members –
    - (i) ~~Executive Director Operations~~ Head of Operations; and
    - (ii) ~~Executive Director Compliance~~ Head of Compliance or in the case of Non-Universal Broker, Compliance Officer.
- (2) Without being in derogation to the foregoing paragraph, the ~~Executive Director Dealing~~ Head of Dealing may be invited to attend at meetings or proceedings of the Risk Management Committee when there are issues concerning risk management that affect or may affect the activities of dealing in securities of the Participating Organisation.
- (3) The provisions in Rule 509.3(1)(b)(ii) would not apply where the Participating Organisation does not have an ~~Executive Director Compliance~~ Head of Compliance for reason stipulated in Rule 307.1(3).

### **RULE 509.4 INVESTMENT BANK**

- (1) All provisions in this Rule 509 relating to Risk Management Committee shall not be applicable to an Investment Bank and shall be substituted with the relevant provisions in the Guidelines on Investment Banks and/or requirements of the Central Bank pertaining to the same ("the Relevant Guidelines and Requirements"). The Relevant Guidelines and Requirements shall be deemed to be part of these Rules.

### **RULE 509.5 DUTIES OF A PARTICIPATING ORGANISATION**

- (1) Every Participating Organisation shall -
- (a) establish, maintain and exercise effective policies and procedures on risk management; and
  - (b) have its own system of monitoring risk on a daily basis.
- The policies and procedures on risk management shall be put in written form. The Participating Organisation should be able to describe and demonstrate the objectives and operation of the system to the Exchange.
- (2) Every Participating Organisation shall determine and record in its financial records appropriate credit limits for all counterparties to which it has a credit exposure.
- (3) The credit limits established shall be appropriate to the type, nature and volume of business undertaken and the financial status of the counterparty and shall be reviewed on a regular basis.



- (4) A Participating Organisation's financial records shall be capable of being summarised in such a way as to permit actual exposures to be measured regularly against the established credit limits.
- (5) A Participating Organisation shall maintain its records in a manner such that they disclose, or are capable of disclosing, in a prompt and appropriate manner, the financial and business information which will enable its 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.

**RULE 509.6 INTERNAL CONTROL**

- (1) Every Participating Organisation shall establish and maintain at all times written policies and procedures on internal control and should be able to describe and demonstrate the objectives and operation of such policies and procedures to the Exchange.
- (2) In determining the scope and nature of effective internal control, a Participating Organisation shall consider all relevant factors including the size of the business, the diversity of operations, the volume, size and frequency of transactions, the degree of risk associated with each area of operation and the amount of control by its senior management over day to day operations.
- (3) The systems of internal control shall be designed in such a way as to ensure that –
  - (a) 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 entering into such transactions or commitments;
  - (b) there are procedures to safeguard assets and control liabilities, including assets belonging to other persons for which the Participating Organisation is accountable;
  - (c) there are measures, so far as is reasonably practicable, 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; and
  - (d) there is clear delineation of responsibilities and proper segregation of tasks among the departments and the personnel of the Participating Organisation.

**RULE 510 INTERNAL AUDIT**

**RULE 510.1 INTERNAL AUDIT FUNCTIONS AND AUDIT COMMITTEE**

- (1) **Internal Audit Functions:** A Participating Organisation shall ensure that it carries out internal audit functions whether on its own or in accordance with Rule 511. The department carrying out internal audit functions for the Participating Organisation shall have adequate audit policies and resources for the purposes of examining, evaluating and reporting on the adequacy and efficiency of the Participating Organisation's management, operations and internal controls. The discharge of the internal audit functions shall be reported to the audit committee ("Audit Committee") for the Participating Organisation, established in accordance with Rule 510.1(2).
- (2) **Audit Committee:** A Participating Organisation shall ensure that it establishes an Audit Committee whether on its own or at Group level in accordance with Rule 511, whose functions shall include the following -
- (a) to ensure that the financial and accounting system of the Participating Organisation represents a true and fair view of its current financial position;
  - (b) to oversee the Participating Organisation's internal control structure and its financial reporting process;
  - (c) to review the findings of the internal and annual statutory audit and to recommend as well as implement appropriate remedial and corrective measures relating to the same;
  - (d) to discuss any matters arising from the previous year's audit, to review the scope of the current year's audit, the plans for carrying out the audit, the extent of planned reliance on the work of the statutory auditor and the Participating Organisation's internal auditors;
  - (e) to ensure proper implementation and recommend appropriate remedial and corrective measures in respect of such findings arising from inspections conducted by the Exchange;
  - (f) to review the changes in statutory requirements and any rules issued thereunder, 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) to ensure the independence and objectivity of both the internal as well as the statutory auditor and that the audits are conducted in a thorough and effective manner; and
  - (h) to monitor the Participating Organisation's compliance with applicable laws and regulations.
- (3) (a) **Composition of Audit Committee at Participating Organisation:** The Audit Committee established whether at the Participating Organisation or Group level shall comprise of at least three (3) members, two (2) of whom shall be non-executive directors of the Participating Organisation or of the Entity where the Audit Committee is established at Group level. The chairman of the audit committee shall be appointed from amongst the non-executive directors of the Participating Organisation or the Entity where the Audit Committee is established at Group level.
- In the event that the composition of the audit committee exceeds the prescribed minimum stipulated herein, ~~Non-Executive Directors~~ shall form the majority of such audit committee.
- (b) **Meeting:** A Participating Organisation shall ensure that ~~Non-Executive Directors~~ shall form the majority of the Audit Committee members present at any meetings of the Audit Committee referred to in Rule 510.1(1).

- (4) [Deleted]
- (5) [Deleted]
- (6) **Minutes of Audit Committee:** A copy of the minutes of each meeting of the audit committee referred to in Rule 510.1(2) shall be submitted to the Exchange within thirty (30) days from the date the minutes were adopted by board of directors of the Participating Organisation, or such period specified by the Exchange.
- (7) **Audit Committee Meeting:** The audit committee referred to in Rule 510.1(1) shall meet at least every quarter in a calendar year.
- (8) **Reporting of Audit Committee:** The Audit Committee for the Participating Organisation shall report to the board of directors of the Participating Organisation or in the case where the audit committee is established at the Group level, such audit committee shall report to the board of directors of the Participating Organisation on any matters set out under Rule 510.1(2) relating to the Participating Organisation (if any).

#### **RULE 510.2 SCOPE OF INTERNAL AUDIT**

- (1) Every Participating Organisation shall cause its internal audit department to conduct internal audit(s) on itself and its branch office(s) at such times as it deems necessary, subject always to a minimum of one (1) internal audit in each calendar year.
- (2) The audit shall include the following areas -
  - (a) to appraise the performance of the management of the Participating Organisation;
  - (b) to appraise the efficiency and effectiveness of communication between personnel and supervisors;
  - (c) to ensure maintenance of clearly presented and comprehensive written policies and procedures that appropriately allocate responsibilities and duties and clear lines of reporting;
  - (d) to ensure the adequacy of employee training policies and procedures;
  - (e) to ensure the efficiency and effectiveness of policies and procedures in relation to credit control and risk management;
  - (f) to review the relevance, reliability and integrity of financial and operational information generated and the means used to identify, measure, classify and report such information;
  - (g) to ensure the adequacy of its internal controls and procedures that are specifically designed to detect and/or prevent violations;
  - (h) to ensure the adequacy of its information system and other information technology-related matters;
  - (i) to ensure compliance by the Participating Organisation of the Securities Laws, any other applicable laws and regulations, these Rules, its internal policies and procedures, and disciplinary actions imposed by any relevant authorities;
  - (j) to appraise and evaluate all operational aspects of the Participating Organisation's business;
  - (k) to ensure and ascertain that the financial and accounting records and reports of the Participating Organisation contain accurate, reliable, timely, complete and relevant information and are prepared in compliance with approved accounting standards; and

- (l) to ensure that any major findings and/or frauds uncovered in the course of the internal audit that may affect the Participating Organisation's financial position or its operations, are reported to the board of directors and management immediately, so as to ensure prompt corrective actions are taken.
- (3) Every Participating Organisation shall also cause its internal audit department to submit its annual audit plan to the Exchange within thirty (30) days from the date the audit plan was approved by the audit committee or board of directors of the Participating Organisation, whichever is earlier, or such other period prescribed by the Exchange from time to time.

**RULE 510.3 REPORTING**

- (1) The relevant department carrying out the internal audit functions for the Participating Organisation shall table all its audit reports to the Audit Committee referred to in Rule 510.1(2) irrespective of significance of issues raised as soon as reasonably practicable after the completion of the internal audit referred to in Rule 510.2(1).
- (2) The audit committee shall thereafter present to the board of directors of the Participating Organisation the audit report, its course action and/or any corrective measures taken, to address any non compliance or irregularities stated in the audit report, and submit a copy each of the aforesaid to the Exchange within thirty (30) days from the date the audit report was presented to the board of directors of the Participating Organisation or such other period as prescribed by the Exchange from time to time.
- (3) The board of directors of Participating Organisation shall be responsible for the submission of all documents referred to in Rule 510.3(2).

**RULE 510.4 INVESTMENT BANKS**

- (1) All provisions in this Rule 510 relating to Audit Committee shall not be applicable to an Investment Bank and shall be substituted with the relevant provisions in the Guidelines on Investment Banks and/or requirements of the Central Bank pertaining to the same ("the Relevant Guidelines and Requirements"). The Relevant Guidelines and Requirements shall be deemed to be part of these Rules.

**RULE 511 PERFORMANCE OF SUPERVISORY FUNCTIONS, RISK MANAGEMENT  
COMMITTEE AND AUDIT COMMITTEE AT GROUP LEVEL**

**RULE 511.1**

- (1) A Participating Organisation may be permitted to have its Supervisory Functions undertaken at its Group level and in relation to its internal audit functions by an External Party provided it obtains the prior written approval of the Exchange pursuant to the Guidelines on Supervisory Functions and provided further that it is in compliance with, on a continuing basis, the Guidelines on Supervisory Functions and all rules, directives, rulings and guidelines issued by the Exchange pertaining to the same.
- (2) The Guidelines on Supervisory Functions shall be regarded as part of these Rules and consequently any breach by the Participating Organisations of the Guidelines on Supervisory Functions shall be deemed to be a breach of these Rules.
- (3) The Exchange may issue any rules, directives, rulings and guidelines in relation to the performance of Supervisory Functions at a Participating Organisation's Group level, as it deems fit, from time to time.

**RULE 511.2**

- (1) A Participating Organisation may have its risk management committee and/or its audit committee functions established or undertaken at Group Level provided it obtains the prior written approval of the Exchange and provided further that it is in compliance with, on a continuing basis, with the provisions of this Rule 511.2.
- (2) Where the Exchange approves for the risk management committee and/or the audit committee functions of a Participating Organisation to be established or undertaken at Group Level, the provisions set out in paragraph 3 of the Guidelines on Supervisory Functions shall equally apply to and be binding on the Participating Organisation with the following modifications:
  - (a) all reference to 'supervisory functions' in paragraph 3 of the Guidelines on Supervisory Functions shall for the purposes of this Rule be read to include the risk management committee functions and the audit committee functions; and
  - (b) all reference to 'market intermediary' and 'dealer' in paragraph 3 of the Guidelines on Supervisory Functions shall be read to include the Participating Organisation herein.
- (3) A Participating Organisation in making an application for the approval of the Exchange to establish or undertake its risk management committee and/or its audit committee functions at Group Level shall comply with the application procedures set out in paragraph 7 of the Guidelines on Supervisory Functions which shall equally apply to and be binding on the Participating Organisation with the following modifications:
  - (a) all reference to 'dealers', 'market intermediary' in paragraph 7 of the Guidelines on Supervisory Functions shall for the purposes of this Rule be read to include a Participating Organisation stipulated herein; and
  - (b) all reference to 'supervisory functions' in paragraph 7 of the Guidelines on Supervisory Functions shall for the purposes of this Rule be read to include the risk management committee functions and the audit committee functions.

**RULE 511.3**

- (1) The provisions in Rule 511.1 and 511.2 are not applicable to an Investment Bank and are substituted with the provisions in the Guidelines on Investment Bank and the requirements of Central Bank relating to the performance of the Supervisory Functions of an Investment Bank

## Chapter 5 – Organisation and Structure of Participating Organisations

by an entity other than the Investment Bank (“the Relevant Guidelines and Requirements”). The Relevant Guidelines and Requirements are deemed to be part of these Rules.

**RULE 512 PROPRIETARY TRADING**

**RULE 512.1 LOCATION**

- (1) Without derogation to the provisions of these Rules in respect of proprietary trading, all proprietary trading in respect of securities on the stock market maintained by the Exchange of a Participating Organisation with branch office(s), as the case may be, shall preferably be conducted at its principal office.
- (2) In the event that the proprietary trading in respect of securities on the stock market maintained by the Exchange of the Participating Organisation with branch office(s), as the case may be, is to be conducted at any of its branch office(s), it shall identify such branch office(s) to the Exchange in writing.

**RULE 513      ACCOUNTS**

**RULE 513.1      CONSOLIDATED BASIS**

- (1) For purposes of reporting and submissions by a Participating Organisation with branch office(s), as the case may be, in accordance with the Securities Laws, rules, guidelines, directives and/or regulations of the Exchange and/or the Commission, the financial statements and accounts (including but not limited to reports and submissions relating to gearing ratio, margin accounts, exposure to single client and exposure to single security) of such Participating Organisation must be drawn up on a consolidated basis, with detailed breakdowns for the principal office and the branch office(s).



**RULE 514      INSPECTION**

**RULE 514.1      POWER TO INSPECT**

- (1) In amplification of, but not derogation of, the provisions contained in Rule 1203 regarding the Exchange's powers of inspection, a Universal Broker and Investment Bank shall be subject to such inspections as may from time to time and at any time deemed necessary or expedient by the Exchange, the scope and criteria of which shall be as prescribed by the Exchange, upon notification to the Commission, from time to time.

[End of Chapter]

## CHAPTER 6 DEALINGS

## RULE 601 DEALINGS IN SECURITIES

## RULE 601.1 GENERAL

- (1) Participating Organisations shall, in respect of all transactions (whether on their own account or for the accounts of their clients) cleared or settled through the Clearing House, be deemed as between themselves to contract as principals, whether the contract notes state expressly that they are acting only as brokers or not.
- (2) A Participating Organisation, its officers, employees or representatives shall not deal in securities as a principal with a client without so informing the client. The requirement under this Rule shall also apply in situations where the Participating Organisation deals as principal on account of its associates. For the purposes of this Rule, "associate" shall be construed in accordance with Section 3(1)(ad) of the ~~Securities Industry Capital Markets and Services~~ Act.
- (3) No ~~Executive Director Operations Head of Operations~~ of a Participating Organisation ~~and Head of Operations of an Investment Bank~~ shall undertake dealings on behalf of the Participating Organisation or the Participating Organisation's clients in whatsoever form.
- (4) No Commissioned Dealer's Representative shall undertake proprietary trading on behalf of the Participating Organisation.
- (5) No Salaried Dealer's Representative undertaking proprietary trading on behalf of the Participating Organisation shall deal on behalf of the Participating Organisation's clients.
- (6) All proprietary trading of the Participating Organisation undertaken by a Salaried Dealer's Representative shall be subject to review by the Compliance Officer.
- (7) Participating Organisations shall maintain a list of all its Dealers Representatives conducting clients' trading and proprietary trading respectively.
- (8) Participating Organisations shall maintain a proper and adequate system of internal control. Such system of internal control shall include the maintenance of adequate and comprehensive records and taping of conversations of Dealer's Representatives conducting proprietary trading.
- (9) Unless otherwise permitted by the Securities Laws and Depository Rules, a Participating Organisation shall only allow dealings in securities by clients who are trading as the beneficial owners of such securities or as authorised nominees, as the case may be.
- (10) A Participating Organisation dealing in securities whether as principal or agent may, subject to appropriate approvals from the Exchange in consultation with other relevant authorities -
  - (a) utilise accounts within the Participating Organisation for purposes as authorised nominees;
  - (b) utilise accounts within the Participating Organisation for purposes of proprietary trading;
  - (c) utilise accounts within the Participating Organisation for purposes of facilitating client's trading.

The Exchange, upon notification to the Commission, may prescribe the treatment of such accounts.

## RULE 601.2 INVIOABILITY OF CONTRACTS

- (1) **Annulment:** Failure to deliver or to accept and pay on delivery shall not annul a contract.

- (2) **Cancellation:**
- (a) Subject to Rule 601.2(2)(b), no contract executed through SCORE shall be subject to any cancellation.
  - (b) The Exchange may, subsequent to the contract being executed through SCORE and upon an application being made to it in its absolute discretion cancel such a contract where -
    - (i) both the delivery and settlement relating to such contract have not been effected; and
    - (ii) such cancellation is agreed to by buying and selling Participating Organisations and their respective clients.
- (3) **Amendments generally:**
- (a) No amendments to any contract shall be made except in accordance with this Rule 601.2.
  - (b) A Participating Organisation shall ensure that any request made by its Dealer's Representative shall first be approved by an authorized officer or ~~executive director~~ Head of the Participating Organisation concerned.
  - (c) A Participating Organisation shall establish written guidelines and procedures on the method of supervision, monitoring and approval of requests for and, amendments to contracts.
  - (d) A Participating Organisation shall maintain proper records on all requests for and amendments made, and such records shall be subject to inspection by the Exchange.
  - (e) A Participating Organisation shall take all reasonable steps to ensure that all requests for amendments to contracts are genuine.
  - (f) Any abuse relating to request for amendments and a failure of the written guidelines and procedures established pursuant to Rule 601.2(3)(c) to prevent such abuse, shall be deemed to be a violation of these Rules.
- (4) **Amendments to Ready Basis Contracts:**
- (a) For Ready Basis Contracts, only amendments in respect of securities account number which do not result in a change of the original party to the contract (who is the party placing the order and for whom the contract was, but for the error, executed) may be permitted.
  - (b) Amendments to Ready Basis Contracts may only be effected if made not later than 8.00 p.m. on the contract date.
- (5) **Amendments to Immediate Basis Contracts:**
- (a) For Immediate Basis Contracts, only amendments in respect of securities account number which do not result in a change of the original party to the contract (who is the party placing the order and for whom the contract was, but for the error, executed) may be permitted.
  - (b) Amendments to Immediate Basis Contracts may only be effected if made not later than 8.00 p.m. on the contract date.
- (6) **Mistake:** Where a mistake has been made in respect of contracts executed through SCORE and such mistake was not due to any fault of the relevant client, the Participating Organisation concerned shall be responsible to make good any loss suffered by its client in consequence of such mistake.

**RULE 601.3 PERMITTED DEALINGS**

- (1) Dealings may be made in the following securities -
  - (a) securities which are quoted on the Official List of the Exchange;
  - (b) treasury bills, loans, short term securities and other obligations issued by the Government of Malaysia or any other governments;
  - (c) securities which have been granted quotation on a recognised stock exchange or by such other market places approved by the Exchange;
  - (d) units of unit trusts managed in Malaysia;
  - (e) subject to Rule 601.5, securities borrowing and lending;
  - (f) any other securities, dealing in which is specifically permitted by the Exchange.
- (2) Except as provided in Rule 601.3(1), Participating Organisations are prohibited from transacting in any other securities unless the Exchange has officially given its consent thereto.

**RULE 601.4 NEW ISSUE OF SECURITIES**

- (1) No Participating Organisations nor their Dealer's Representatives shall deal in, or otherwise make quotations in respect of -
  - (a) any securities of a new company being formed;
  - (b) any new issue or placement of securities made in respect of an unlisted company for the purpose of qualifying the company for official listing on the Exchange,unless the Exchange has given its approval.

**RULE 601.5 SECURITIES BORROWING AND LENDING**

- (1) [Deleted]
- (2) [Deleted]
- (3) [Deleted]
- (4) [Deleted]
- (5) [Deleted]
- (6) [Deleted]
- (7) [Deleted]
- (8) [Deleted]

**RULE 601.6 LIEN ON SECURITIES**

- (1) A Participating Organisation may, in respect of any purchase of securities by a client, have a lien on all securities for the time being standing to the credit of accounts (including trading accounts, CDS accounts and any other account, as the case may be) opened and maintained with the Participating Organisation by the client upon such terms and conditions as may be

agreed pursuant to the written agreement between the client and the Participating Organisation.

- (2) In the event any monies shall be owing to the Participating Organisation by a client in respect of a purchase of any securities, the client shall be deemed to have given his consent to the Participating Organisation borrowing on such securities and for such purpose pledging the securities or any of them to the extent of the amount outstanding on the client's account and without obligation to retain in its possession or control securities of like character or amount for such period until the monies owing are fully paid by the client.
- (3) Where the terms and conditions of an agreement between a client and a Participating Organisation do stipulate and the client being given prior reasonable notice, a Participating Organisation may sell such securities of the client as are agreed pursuant to the terms of the aforesaid agreement and henceforth claim from the client such other amount still outstanding.
- (4) Until such time the buying client's cheque has been cleared by his bank and the proceeds fully in the possession of a buying Participating Organisation, the Participating Organisation shall, in relation to any securities purchased by the client, have a lien over the securities so purchased and accordingly, the Participating Organisation shall have the right at all times to prohibit the buying client from dealing in such securities in the event the securities have been credited into the buying client's CDS account.

#### **RULE 601.7 DISPUTES**

- (1) **Definition:** For purposes of this Rule 601.7, the following words will bear these meanings unless otherwise defined -
  - (a) "disputes" means disputes arising out of any matter governed by these Rules between or involving -
    - (i) Market Participants;
    - (ii) Market Participants and the Exchange;
  - (b) "Market Participants" means Participating Organisations and Dealer's Representatives.
- (2) **Notice of Dispute:** Any disputes between parties referred to in Rule 601.7(1)(a) relating to -
  - (a) any securities transaction; and/or
  - (b) any matter arising from these Rules,

may be brought to the notice of the Exchange, by notice in writing by either party to the dispute ("Notice of Dispute").
- (3) **Referral to court of law:** Unless the Exchange, for any reason whatsoever, fails to respond in writing, within thirty (30) days of receipt of the Notice of Dispute, confirming that the Exchange is not willing to act on the matter in dispute, parties referred to in Rule 601.7(1)(a) shall not resort to any outside tribunal or a court of law for determination of any such dispute.
- (4) **Exchange to inform parties:** Where the Exchange decides to act in any such dispute, it shall without delay so inform the party or parties to the dispute.
- (5) **Appointment of arbitrators:** If the Exchange decides to act as aforesaid and gives notice thereof, the Exchange shall, if the parties to the dispute are unable to reach an agreement for settlement of the matter in dispute, appoint in its sole discretion either one (1) or three (3) arbitrators for the purpose of adjudicating in the dispute.
- (6) **Award to be binding:** Any arbitrator or arbitrators appointed by the Exchange pursuant to Rule 601.7 (5) shall arbitrate in the matter in dispute in accordance with the provisions of, and with all the powers of an arbitrator appointed pursuant to the Arbitration Act 1952 and the

award of such arbitrator or arbitrators shall be final and binding upon the parties to such dispute.

**RULE 601.8 REPORTING OF TRADE DISPUTE**

- (1) Participating Organisations shall immediately report to the Exchange all trade disputes arising from time to time in respect of any securities transactions or other transaction relating to dealings in securities entered into by them including inter-broker transactions, which singularly or when aggregated involve an amount, value or liability of Ringgit Malaysia One Million (RM1,000,000) or more during the period so reported.
- (2) The report to the Exchange pursuant to Rule 601.8(1) shall be signed by an ~~Executive Director~~ Head of Dealing or Head of Operations of the Participating Organisation ~~or the Head of Operations in the case of an Investment Bank~~.
- (3) Every report under this Rule 601.8 shall be made in such form as may be determined by the Participating Organisation and acceptable to the Exchange or as may be prescribed by the Exchange if deemed necessary or expedient. All reports envisaged herein shall provide details of the trade dispute, the amount in question and the parties thereto.
- (4) The Exchange may, upon the trade dispute being reported by a Participating Organisation, take whatsoever action deemed appropriate within these Rules.

## RULE 602      OFF-BALANCE SHEET TRANSACTIONS

### RULE 602A.1    INVESTMENT BANKS

- (1) All provisions in this Rule 602 on Off-Balance Sheet Transactions shall not be applicable to an Investment Bank. These disapplied provisions shall be substituted with the relevant provisions in the Guidelines on Investment Banks and/or any other requirements of the Central Bank pertaining to it ("the Relevant Guidelines and Requirements"). The Relevant Guidelines and Requirements shall be deemed to be part of these Rules.

### RULE 602.1    DEFINITION

- (1) For the purposes of this Rule 602 -

Adverse Event(s)	for the purposes herein, Adverse Event(s) shall mean any one or more of the events as may be provided in the Off-Balance Sheet Transaction(s) agreement which have or, as the case may be, may have the effect of the Participating Organisation being obliged to perform and discharge its obligations under or pursuant to the Off-Balance Sheet Transaction(s).
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Off-Balance Sheet Transactions	include <u>uncalled amounts on securities, options, other contingent liabilities and capital commitments (whether secured or not) all items specified in Item 1 of the prescribed notes to the balance sheet and profit and loss accounts in Form 22 of Regulations 15(1), Securities Industry Regulations 1987</u> and all assets pledged as security, forward purchase/sale contracts, (other than in securities, which is prohibited) futures contracts and other commitments that contractually oblige a Participating Organisation to perform certain actions which are transacted outside the ATS, but shall not include underwriting or sub-underwriting which are required to be reported under Capital Adequacy Requirements.
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Worst Case scenario	in relation to Off-Balance Sheet Transaction(s), the assessment and determination of Worst Case scenario shall include, without limitation, consideration of the following –
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- |     |  |
|-----|--|
| (a) | the assumption that the Off-Balance Sheet Transaction(s) will be fully exercised;  |
| (b) | any corresponding obligation with, or by, a third party to buy, or as the case may be, sell the same underlying securities may be taken into account only to the extent that there is collateral provided by such third party; and |
| (c) | such other considerations or assumptions as the Exchange may from time to time stipulate.  |

### RULE 602.2    MAINTENANCE OF A REGISTER ON OFF-BALANCE SHEET TRANSACTIONS

- (1) Every Participating Organisation shall maintain a register to record all Off-Balance Sheet Transaction(s) entered by it and shall maintain records and documents as prescribed below relating to such Off-Balance Sheet Transaction(s):

- (a) the duly executed agreement(s) relating to the Participating Organisation's entry into Off-Balance Sheet Transaction(s);
- (b) specific reasons for entering into the Off-Balance Sheet Transaction(s);
- (c) description of the counterparty(ies) to the Off-Balance Sheet Transaction(s), including without limitation, their identities, corporate profile(s) and background, in sufficient detail to apprise of the Participating Organisation's potential risks related or incidental to the Off-Balance Sheet Transaction(s);
- (d) description of the collateral intended to be provided in relation to the Off-Balance Sheet Transaction(s), if applicable;
- (e) the resolution of the Participating Organisation's board of directors at a meeting approving the entry into, the Off-Balance Sheet Transaction(s) by the Participating Organisation; and
- (f) such other documents and information as may be required by the Exchange.

**RULE 602.3 REQUIREMENT FOR CONTROL MECHANISM**

**(1) Internal policies and procedures:**

- (a) A Participating Organisation which intends to enter into, Off-Balance Sheet Transaction(s) shall establish and implement adequate and effective written internal policies and procedures to govern, monitor and control the carrying out of these activities by the Participating Organisation in ensuring compliance with these Rules, relevant Securities Laws and the relevant circulars, directives or guidelines issued from time to time by the Exchange.
- (b) The Participating Organisation's written internal policies and procedures aforesaid shall be duly approved and endorsed by its board of directors by way of a resolution passed in a meeting of the board of directors.

**(2) Minimum requirements:** The Participating Organisation's requisite written internal policies and procedures shall include without limitation the following –

- (a) policy statement(s) pertaining to circumstances under which the Participating Organisation is permitted to enter into, Off-Balance Sheet Transaction(s);
- (b) 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 it will be managed and monitored accordingly and any requisite steps and action in mitigating such risks are effective;
- (c) establishment of procedures and requirements for adequate reporting of information to be made to the Participating Organisation's board of directors to enable them to make informed decisions where necessary in a timely manner;
- (d) establishment and maintenance of organisational and reporting structures in relation to the Participating Organisation's activities in the entry into Off-Balance Sheet Transaction(s) that ensures regular reporting to its board of directors;
- (e) maintenance of a proforma computation of the Capital Adequacy Ratio, in the form of Schedule 8A of these Rules, incorporating the contingent liabilities arising from the Off-Balance Sheet Transaction(s) on the basis of Worst Case scenario, accompanied by a detailed comparison thereof 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);



- (f) a detailed action plan describing the Participating Organisation's decided course of action or measures taken or to be taken, as the case may be, to fully perform and discharge its obligations under Off-Balance Sheet Transaction(s); and
  - (g) such other requirements as may from time to time be stipulated by the Exchange, upon notification to the Commission.
- (2) A Participating Organisation shall produce to the Exchange, upon its request, a copy of the policies and procedures and/or documents required to be maintained under Rule 602.3.

#### **RULE 602.4 REPORTING OF OFF-BALANCE SHEET TRANSACTION(S)**

- (1) **Duty to Report:** Participating Organisations shall report and declare to the Exchange on a monthly basis not later than the fifth (5<sup>th</sup>) market day of every month the following:-
- (a) whether or not, as at the last day of the preceding month, any Off-Balance Sheet Transaction(s) has been entered into by a Participating Organisation during the preceding month;
  - (b) in the event that Off-Balance Sheet Transaction(s) has been entered into by a Participating Organisation during the preceding month as reported pursuant to Rule 602.4(1)(a); all Off-Balance Sheet Transaction(s) entered into during that preceding month, as at the last day of the preceding month (including Off-Balance Sheet Transaction(s) entered into by the Participating Organisation in that preceding month and performed and/or discharged by the Participating Organisation in the same month);
  - (c) all Off-Balance Sheet Transactions entered into (excluding those reported under Rule 602.4(1)(b)) which remain to be performed and/or discharged as at the last day of the preceding month;
  - (d) the occurrence of any Adverse Event(s) in relation to a Participating Organisation's entry into the Off-Balance Sheet Transaction(s) specified in Rule 602.4(1)(b) and (c); and
  - (e) any changes, amendments, variations or supplements to the terms and conditions of the Off-Balance Sheet Transaction(s) specified in:
    - (i) the Participating Organisation's report for the preceding month, pursuant to Rule 602.4(1)(b) within the preceding month; and/or
    - (ii) the Participating Organisation's last report prior to the preceding month, which continue to be reported as unperformed and/or undischarged in the report for the preceding month pursuant to Rule 602.4(1)(c).
- (2) **Form of report:** The report and the declaration pursuant to Rule 602.4(1) shall be in the form prescribed in Appendix 6 and shall be signed by: -
- (a)            in the case of a Universal Broker, the Head of Compliance;
  - (b)            in the case of any other Participating Organisation:
    - (i)            the ~~Executive Director Operations-Head of Operations~~; and
    - (ii)            the Compliance Officer, ~~or~~
- ~~the Executive Director Compliance, in the case of a Universal Broker.~~

**RULE 603 OFFICIAL LIST AND OTHER MARKET**

**RULE 603.1 THE OFFICIAL LIST**

- (1) **Admission for listing:** Admission of companies for quotation and trading on the Official List shall be upon application in such form and on such terms and conditions as the Exchange shall from time to time determine.
- (2) **Exchange's rights:** The Exchange may, after approval(s) from the Commission and other regulatory authorities (where applicable) are obtained, admit or refuse to admit any company to quotation on the Official List or suspend for any period or withdraw any company from quotation and/or trading on the Official List at any time without assigning any reason therefor and the decision of the Exchange shall be final and conclusive.

**RULE 603.2 DEALING WITH OR CREATION OF OTHER MARKET**

- (1) No Participating Organisation shall in any manner deal with or create any other market for transactions in securities or interests in securities other than the stock market of the Exchange.
- (2) Notwithstanding Rule 603.1(1), the Exchange may, upon approval of the Commission, approve any form of market place other than the stock market of the Exchange in which Participating Organisations may deal with upon such terms and conditions as it shall determine.
- (3) A Participating Organisation shall not permit dealings in securities by a client if that Participating Organisation has reason to believe that the purchase by that client is intended to facilitate the dealing in securities or interest in securities outside the stock market of the Exchange or outside such other market place approved by the Exchange.

**RULE 604 DESIGNATED SECURITIES****RULE 604.1 DECLARATION**

- (1) Notwithstanding any Rules to the contrary, the Exchange –
- (a) may, upon notification to the Commission, declare any listed securities as “Designated Securities” if in its opinion there has been manipulation or excessive speculation on such listed securities; or
  - (b) shall, as directed by the Commission, declare any listed securities as “Designated Securities”; and
  - (c) impose the declaration for such period as the Exchange may or, as the case may be, if in the case of a direction by the Commission, as the Commission may, deem fit,
- and shall make that declaration known to the public in such manner as the Exchange may decide.
- (2) For so long as the declaration remains in force, the Exchange may impose all or any of the following conditions -
- (a) a margin of cover on all dealings relating to such Designated Securities;
  - (b) a restriction on all such dealings to delivery before sale bargains;
  - (c) a restriction on all trading in the Designated Securities by a Participating Organisation to the extent that the outstanding contracts of that Participating Organisation in respect of the Designated Securities at any one time do not exceed five per cent (5%) of the paid-up capital of the Issuer whose securities have been so designated or such other percentage as the Exchange may from time to time direct;
  - (d) a prohibition on any sale of the Designated Securities unless the seller delivers the Designated Securities to the Participating Organisation at the time of entering into the contract sale;
  - (e) prohibition of the use of margin financing for purchase transactions of Designated Securities; and/or
  - (f) any other conditions as the Exchange thinks fit.
- (3) Any condition or conditions imposed by the Exchange under this Rule 604 shall apply, whenever applicable, to all outstanding contracts entered into before or after the date when such securities were declared as "Designated Securities" as from the date of such declaration.
- (4) The Exchange may withdraw the declaration at its absolute discretion if the Exchange is of the opinion that the Designated Securities are free from manipulation or excessive speculation.

**RULE 604.2 PARTICULARS OF TRANSACTION**

- (1) The Exchange may by notice in writing require all Participating Organisations to furnish the Exchange within twenty-four (24) hours with full particulars of all outstanding contracts, dealings and transactions in any Designated Securities.
- (2) Any Participating Organisation failing or neglecting without reasonable excuse to furnish the particulars required under Rule 604.2(1) or failing to comply with the conditions laid down by the Exchange shall be deemed to have committed a breach of these Rules.

**RULE 605 CORNER****RULE 605.1 DECLARATION**

- (1) Notwithstanding any Rules to the contrary, the Exchange –
- (a) Whenever it is of the opinion that a corner situation has been created or arisen in any securities (“Affected Securities”), or a single interest or group has acquired such control of the Affected Securities that the same cannot be obtained for delivery on existing contracts except at prices and on terms dictated by such interest or group, the Exchange may, upon notification to the Commission, by a resolution declare that a corner situation exists in such Affected Securities; or
  - (b) shall, as directed by the Commission, declare that a corner situation exists in respect of any securities (also known as “Affected Securities”).
- (2) Upon such declaration, the Exchange shall have the power to do any one or more of the following -
- (a) to postpone the time for deliveries of the Affected Securities to such time as may be fixed by the Exchange or until further action by the Exchange;
  - (b) from time to time to extend further the time of deliveries;
  - (c) to declare that if the Affected Securities is not delivered on any contract at or before the time which has been fixed by the Exchange for such delivery such contract shall be settled not by delivery but by payment -
    - (i) in the case of a seller who contracted to sell to the buyer at the price lower than the fair settlement price, by the seller to the buyer, of the difference between the fair settlement price and the contract price;
    - (ii) in the case of a seller who contracted to sell at a higher price than the fair settlement price, by the buyer to the seller, of the difference between the contract price and the fair settlement price;
    - (iii) in the case of a buyer who contracted to buy from the seller at a price higher than the fair settlement price, by the buyer to the seller, of the difference between the contract price and the fair settlement price;
    - (iv) in the case of a buyer who contracted to buy from the seller at a price lower than the fair settlement price, by the seller to the buyer, of the difference between the fair settlement price and the contract price.
- (3) The fair settlement price shall be determined in accordance with Rule 605.2 and shall be binding and conclusive on all parties to any outstanding contract dealings in the Affected Securities.

**RULE 605.2 FAIR SETTLEMENT PRICE**

- (1) For the purposes of this Rule 605, the fair settlement price shall be determined by the Exchange or Committee appointed by the Exchange.
- (2) The Exchange or such Committee shall, before fixing the fair settlement price, hear evidence from such persons as it shall in its absolute discretion deem necessary and proper.

**RULE 606 ISLAMIC STOCKBROKING ACTIVITIES**

**RULE 606.1 APPROVAL OF THE EXCHANGE**

- (1) The Exchange, in consultation with the Commission and/or other relevant authorities, may grant approval for a Participating Organisation to carry out stockbroking activities and/or provide facilities based on the Islamic Shariah principles.

**RULE 607      CONDITIONS ON TRADING IMPOSED  
ON AFFECTED LISTED ISSUERS**

**RULE 607.1    DEFINITIONS**

- (1) In this Rule 607, unless the context otherwise requires –
- |                        |   |
|------------------------|---|
| affected listed issuer | means a listed Issuer which fulfils the criteria prescribed under paragraph 8.14 of the Listing Requirements, or as may be amended, modified, varied, supplemented or substituted therefor from time to time. |
|------------------------|---|

**RULE 607.2    IMPOSITION OF CONDITIONS ON TRADING**

- (1) Pursuant to the Listing Requirements, the Exchange may impose such conditions as it deems fit on:-

- (a) transactions made through the ATS; and
- (b) Direct Business transactions,

in relation to the securities of any affected listed issuer and for such period as the Exchange deems fit.

- (2) The conditions envisaged in the preceding Rule may include without limitation, the requirement for full payment to be made for all purchases of the securities of the affected listed issuer prior to the purchase contract being executed.

For the avoidance of doubt, full payment prior to purchase as envisaged herein shall mean the buying Participating Organisation being in receipt of cash or, as the case may be, upon clearance of or good value being given to demand drafts, bankers cheques and cheques of the buying client delivered to the buying Participating Organisation.

- (3) The condition or conditions imposed by the Exchange in relation to the securities of the affected listed issuer must be complied with by Participating Organisations and is applicable to all contracts entered into in relation to the securities of the affected listed issuer from the effective date to be specified by the Exchange until notification otherwise.
- (4) The condition or conditions aforesaid, the effective date and the date of cessation of the condition or conditions may be notified by way of directives, circulars or such other manner as may be determined by the Exchange from time to time.

**RULE 607.3    SUBMISSION OF PARTICULARS**

- (1) The Exchange may, by notice in writing, require all Participating Organisations to furnish the Exchange within such time as may be prescribed in the notice full particulars of all outstanding contracts, dealings and transactions in the securities of any affected listed issuer.
- (2) Any Participating Organisation which –
- (a) fails or neglects without reasonable cause to furnish the particulars required pursuant to the preceding Rule; or
  - (b) fails to comply with the conditions prescribed by the Exchange as envisaged under this Rule shall be deemed to have committed a breach of these Rules.

**RULE 608      SECURITIES BORROWING AND LENDING**

**RULE 608.1 DEFINITIONS**

(1) For the purposes of this Rule 608:-

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;
Effective Shareholders' Funds	shall have the same meaning assigned to that expression under Rule 1105;
Eligible Securities	means such securities as may be prescribed by the Clearing House from time to time as being eligible for securities borrowing and/or lending in accordance with the Clearing House Requirements;
haircut	means the deduction of certain amount of value of the collateral referred to in Rule 608.7;
income	means any interest, dividends or other distribution of any kind whatsoever with respect to any Eligible Securities;
Internal Guidelines for Securities Borrowing and Lending	means written guidelines formulated by Participating Organisations setting out the Participating Organisations' internal policies, procedures, controls and requirements in relation to securities borrowing and/or lending activities referred to in Rule 608.2(1) and for the supervision and monitoring of their securities borrowing and/or lending activities to ensure strict compliance with the laws, these Rules and the Clearing House Requirements including any regulations and requirements issued thereunder;
SBL Conditions	has the same meaning assigned to that expression in the Clearing House Rules; and
securities borrowing and/or lending	means the borrowing and/or lending of Eligible Securities as described in Rule 608.2(1).

**RULE 608.2 GENERAL**

(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 Clearing House Requirements and this Rule 608:

- (a) A Participating Organisation may borrow Eligible Securities from:-
  - (i) the Clearing House whether for itself or its client, or
  - (ii) its client provided that such borrowing is for the sole purpose of lending the Eligible Securities borrowed to the Clearing House.
- (b) A Participating Organisation may lend Eligible Securities to:-
  - (i) the Clearing House whether for itself or its client; or
  - (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.

(2) Subject always to the Clearing House Requirements, the borrowing of any Eligible Securities whether for itself or its client is only permitted in the following circumstances:

- (a) for the execution of a regulated short sale in accordance with Rule 704;
  - (b) where there are no or insufficient securities as will enable a seller pursuant to a sale trade executed by the seller on the Exchange, to meet its delivery obligations to the purchaser in accordance with the Rules relating to delivery and settlement in chapter 8, as a result of a mistake howsoever made when executing the sale trade provided always that the mistake was made in good faith and discovered only after the sale trade has been executed; or
  - (c) for such other purposes as may be determined by the Clearing House.
- (3) Any settlement of sale trade executed by a Participating Organisation arising from a borrowing made in breach of Rule 608.2(2), such sale shall be deemed to be a sale in breach of Rule 704 and section ~~4198~~(1) of the ~~Securities Industry Capital Markets and Services~~ Act and the matter shall be referred to the Commission. The referral of the matter to the Commission shall not preclude the right of the Exchange to exercise any of its powers in relation to a breach of Rule 608.2 and Rule 704.
- (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:
- (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;
  - (b) that collateral is lodged in accordance with Rule 608.7;
  - (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;
  - (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
  - (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 608.3 INTERNAL GUIDELINES AND SYSTEMS**

#### **(1) Internal Guidelines**

- (a) A Participating Organisation desirous of engaging in securities borrowing and/or lending activities shall formulate a set of its Internal Guidelines for Securities Borrowing and Lending, the contents of which shall include the areas set out under Schedule 9.
- (b) The Internal Guidelines for Securities Borrowing and Lending shall be approved by the board of directors of the Participating Organisation and the Participating Organisation shall ensure that the Internal Guidelines for Securities Borrowing and Lending is brought to the notice of, read and understood by, all relevant employees and registered persons of the Participating Organisation.

#### **(2) Every Participating Organisation shall establish, implement and maintain the following:**

- (a) systems and infrastructure including but not limited to back office systems and infrastructure, which are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of securities borrowing and/or lending in accordance with Rule 608; and



- (b) all the policies, procedures, controls and all other requirements set out in the Internal Guidelines for Securities Borrowing and Lending.

**RULE 608.4 COMMENCEMENT OF SECURITIES BORROWING AND/OR LENDING ACTIVITIES**

- (1) Subject always to the Clearing House Requirements, a Participating Organisation shall only be permitted to commence with its securities borrowing and/or lending activities when the following requirements are complied with:
  - (a) the Participating Organisation shall have Effective Shareholders' Funds of not less than Ringgit Malaysia Fifty Million (RM50,000,000) (or such other amount as shall be determined by the Exchange from time to time) as at the date of the declaration in Rule 608.4(1)(d) and shall continue to maintain the same for as long as it is carrying out securities borrowing and/or lending activities;
  - (b) the Participating Organisation has established Internal Guidelines for Securities Borrowing and Lending stipulated in Rule 608.3;
  - (c) the Participating Organisation has in place systems and infrastructure including but not limited to back office systems and infrastructure, which are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of securities borrowing and/or lending activities in accordance with Rule 608 and the Clearing House Requirements; and
  - (d) subject to Rule 608.5, the Participating Organisation has submitted a written declaration in the form prescribed in Appendix 10 to the Exchange of its compliance with Rules 608.4(1)(a), 608.4(1)(b) and 608.4(1)(c) at least two (2) market days prior to the commencement of its securities borrowing and/or lending activities.

**RULE 608.5 INSPECTION AND/OR AUDIT BY THE EXCHANGE :**

- (1) Without prejudice to any other powers conferred on the Exchange in these Rules pertaining to the conduct of inspection and/or audit on a Participating Organisation, the Exchange may at any time and/or from time to time prior to or after the receipt of the declaration in Rule 608.4(1)(d) undertake an inspection and/or audit on the Participating Organisation's compliance with the requirements stipulated under Rules 608.4(1)(a), 608.4(1)(b) and 608.4(1)(c), in the manner determined by the Exchange.
- (2) In determining compliance with Rule 608.4(1)(c), the following shall apply:
  - (a) the Exchange shall be entitled to require the Participating Organisation to provide a confirmation as and in the manner determined by the Exchange, that adequate verification and assessment has been carried out to ensure that its systems and infrastructure including but not limited to back office systems and infrastructure, are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of securities borrowing and/or lending in accordance with Rule 608 and the Clearing House Requirements; and
  - (b) the Exchange shall be entitled to rely on the confirmation provided herein.
- (3) The Participating Organisation shall be given notice in writing by the Exchange prior to the commencement of any inspection and/or audit referred to under Rule 608.5(1).
- (4) Where a notice under Rule 608.5(3) has been issued to a Participating Organisation which has yet to submit the declaration under Rule 608.4(1)(d) or has submitted the declaration

under Rule 608.4(1)(d) but has yet to commence with its securities borrowing and/or lending activities, the Participating Organisation shall not commence with its securities borrowing and/or lending activities until the following has been complied with:

- (a) the inspection and/or audit referred to in Rule 608.5(1) has been completed;
  - (b) the corrective and/or preventive measures and actions referred to in Rules 608.5(5) and 608.5(6) (if any) have been duly carried out and completed by the Participating Organisation; and
  - (c) the submission of the confirmation (if applicable) and the declaration referred to in Rule 608.5(6).
- (5) Upon completion of the inspection and/or audit, the Exchange shall notify the Participating Organisation in writing of the findings of the inspection and/or audit which shall include but not limited to findings of any non compliances with Rules 608.4(1)(a), 608.4(1)(b) and 608.4(1)(c) and the corrective and/or preventive measures and actions (if any) to be taken by the Participating Organisation for the purpose of complying with above Rules. The Exchange may pending the carrying out and completion of the corrective and/or preventive measures and actions (if any) by a Participating Organisation other than the Participating Organisation referred to in Rule 608.5(4), suspend the carrying out of any further securities borrowing and/or lending by the Participating Organisation until the corrective and/or preventive measures and actions (if any) are carried out and completed by the Participating Organisation.
- (6) Where the corrective and/or preventive measures and actions referred to in Rule 608.5(5) have been duly carried out and completed, the Participating Organisation shall confirm in writing to the Exchange of the same. In relation to a Participating Organisation referred to in Rule 608.5(4) which has yet to submit the declaration under Rule 608.4(1)(d) the Participating Organisation shall together with the confirmation mentioned herein submit the declaration stipulated under Rule 608.4(1)(d).
- (7) The Exchange is not precluded from exercising any of its powers under these Rules for any non compliances of these Rules found pursuant to the inspection and/or audit referred to under Rule 608.5(1), notwithstanding that a Participating Organisation may have duly carried out and completed the corrective and/or preventive measures and actions referred to in Rule 608.5(5) and 608.5(6).

**RULE 608.6 WRITTEN AGREEMENT**

- (1) A Participating Organisation shall ensure that the written agreement referred to in Rule 608.2(4)(a) for the securities borrowing and/or lending of Eligible Securities entered into with its client is executed prior to the borrowing and/or lending of the Eligible Securities.
- (2) 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/or lending of the Eligible Securities shall be 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/or lending of the Eligible Securities and shall include but not limited to 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 Rule 608.7, requirement for deposit of collateral (if any) including the management and utilisation of the collateral deposited thereof;
  - (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 and/or lent;
- (e) the fees, to be paid for the borrowing and/or lending of the Eligible Securities;
- (f) the circumstances under which the Participating Organisation and its client is entitled to terminate the agreement entered into for the borrowing and/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.

**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.
- (2) The Participating Organisation shall comply with the following requirements in relation to the collateral required to be deposited by a client pursuant to Rule 608.7(1):
  - (a) the collateral shall only be the types of collateral provided in Schedule 8J and shall be subject to a haircut. The rate of the haircut for a particular type of collateral shall at least be the same as the rate prescribed by the Clearing House for that collateral in relation its securities borrowing and/or lending activities. In the absence of any haircut thereof prescribed by the Clearing House, the haircut for that collateral shall at least be same as the 'discounting' rate provided in Schedule 8J for that type of collateral. For the purposes of this Rule 608.7, any reference made to the value of collateral shall be taken to mean the value of the collateral based on the valuation prescribed in Rule 608.7(2)(d) after applying the prescribed hair cut herein;
  - (b) the client shall deposit the collateral prior to the borrowing envisaged in Rule 608.7(1);
  - (c) the value of collateral obtained from the client, shall be at least one hundred and five per centum (105%) or such other percentum as may be determined by the Exchange from time to time, 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 shall be marked to market on a daily basis based on the valuation stipulated in Rule 703.7. 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 active market for the securities; or
    - (iii) no possibility of immediate liquidation for the securities.
- (3) Where the value of the collateral falls below one hundred and five per centum (105%) or such other per centum as may be determined by the Exchange from time to time, of the market value of the Borrowed Securities, a Participating Organisation shall comply with the following :
  - (a) where the collateral falls below one hundred and five per centum (105%) the Participating Organisation shall issue a notice to the client to lodge additional collateral in order to top up the short fall. Pending such topping up, the client shall not be permitted to borrow any additional securities; and

- (b) Where the value of the collateral falls below one hundred and two per centum (102%), the Participating Organisation shall issue a notice to the client for the return of the securities borrowed within three (3) market days from the date of the notice. In the event the client fails to return the securities borrowed, the Participating Organisation shall liquidate the collateral. The proceeds from the liquidation shall be utilised to purchase the relevant securities for the purpose of returning the securities borrowed 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 herein is at least one hundred and five per centum (105%) or such other percentum as may be determined by the Exchange, of the market value of the Borrowed Securities on the withdrawal date.
- (5) Subject to Rule 608.7(6), a Participating Organisation shall ensure that all collateral deposited by a client is kept 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 Participating Organisation shall ensure that the cash deposited can be clearly identified from its records as that of the client; and
  - (c) where the collateral is in respect of securities deposited with the Depository, the collateral is held in a separate CDS 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 shall ensure that the provisions in Rule 608.7 except Rule 608.7(8) is incorporated into the written agreement referred to in Rule 608.6.
- (8) A Participating Organisation shall submit a report to the Exchange on a weekly basis, in respect of all of its clients whose collateral has fallen below one hundred and two per centum (102%) of the market value of the Borrowed Securities for the week, in the format as may be prescribed by the Exchange from time to time, on the first market day (1<sup>st</sup>) day of the following week.
- (9) No Participating Organisation shall be permitted to onward pledge to any party or utilise any of the collateral lodged by its clients pursuant to this Rule 608.7 for whatsoever reason save and except as permitted in Rule 608.7(6).

**RULE 608.8 SECURITIES IN MARGIN ACCOUNT**

- (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:-
  - (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).
  - (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 :

- (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
  - (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.
- (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 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.
  - (d) 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.
  - (e) Notwithstanding that the Margin Securities are utilised for securities borrowing and/or lending as envisaged in Rule 608.2(1)(a)(ii), the Participating Organisation shall comply strictly with all the requirements of Rule 703.
  - (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).
  - (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 utilised and the fees earned thereon.
- (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.

**RULE 608.9 SECURITIES HELD 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 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.
- (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 borrowing and / or lending is fair, equitable and transparent.

**RULE 608.10 DESIGNATED CDS ACCOUNTS**

- (1) A Participating Organisation shall ensure that all Eligible Securities borrowed and/or lent pursuant to securities borrowing and/or lending are held in the CDS Account(s) prescribed in the Clearing House Requirements and in no other CDS Account(s).

**RULE 608.11 REPORTING BY COMPLIANCE OFFICER**

- (1) The ~~Executive Director Compliance or 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:
- (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;
  - (b) non compliances with any requirements stipulated in the Internal Guidelines for Securities Borrowing and Lending; and
  - (c) any other breaches in relation to Rule 608.
- (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 (1<sup>st</sup>) market day of the following week. In the event there is no report submitted to the Exchange on the first (1<sup>st</sup>) market day of the week, the Exchange shall assume that there were no borrowings of Eligible Securities in the preceding week unless proven otherwise.

**RULE 608.12 ACTION BY THE EXCHANGE**

- (1) Without prejudice to any other powers of the Exchange contained in the ~~Securities Industry Capital Markets and Services~~ Act, this Rule 608, these Rules and/or any other directives, ruling or guidelines issued by the Exchange from time to time, the Exchange may in the following circumstances take any of the actions enumerated under Rule 608.12(2) in the manner stipulated therein against any or all Participating Organisations, registered persons and clients and/or in relation to any or all Eligible Securities:
- (a) where there is a breach or likelihood of breach of any provisions in Rule 608 and/or Rule 704; or
  - (b) where the securities borrowing and/or lending activities may lead or likely to lead to the commission of any of the offences under the ~~Securities Industry Capital Markets and Services~~ Act.
- (2) Pursuant to Rule 608.12(1), the following actions may be taken by the Exchange in relation to any or all Eligible Securities and/or against any or all Participating Organisations, registered persons and clients in the manner and for the period determined by the Exchange:
- (a) suspension and/ cessation of further securities borrowing and/or lending of Eligible Securities by the Participating Organisation and/or registered persons whether for itself or any or all of its clients;
  - (b) imposition of limits on the total number or the type of Eligible Securities that may be borrowed or lent by the Participating Organisation and/or registered persons whether for itself or any or all of its clients or by any or all of its clients; or
  - (c) imposition of restriction or conditions on the securities borrowing and/or lending activities carried out by the Participating Organisation and/or registered persons whether for itself or any or all of its clients or by any or all of its clients.
- (3) In the event that the Exchange undertakes any of the actions under Rule 608.12(2) against a Participating Organisation, a registered person or a client of the Participating Organisation, such actions shall also be applicable to any person who is the proxy, agent, nominee or

acting in concert with that Participating Organisation, registered person or that particular client of the Participating Organisation as the case may be.

- (4) Where an action has been taken under Rule 608.12(2), a Participating Organisation and/or registered person, may make representations to the Exchange for the discontinuance of the action taken. The Exchange may after the representations were made, discontinue with the action taken. However such discontinuance shall not be construed as an omission or error of any kind on the part of the Exchange in undertaking the action under Rule 608.12(2) in the first place.
- (5) The provisions in Rule 1303 shall not apply to any action taken under Rule 608.12(2).

[End of Chapter]

## CHAPTER 7 TRADING

## RULE 701 AUTOMATED TRADING SYSTEM

## RULE 701.1 DEFINITION

(1) For the purposes of this Rule 701 –

ATS Operators		in relation to a Participating Organisation, means Dealer's Representatives who are duly authorised by the Participating Organisation <i>inter alia</i> to make entry of orders into SCORE and for that purpose, has been given a unique personal identification number by the Exchange pursuant to Rule 701.6, and includes such other persons who are authorised by the Participating Organisation to operate any other facilities or any part of the systems which form ATS.
Best Buy Price		means the highest non-matchable buy order price after the last match.
Best Sale Price		means the lowest non-matchable sell order price after the last match.
Closing Price		means - <ul style="list-style-type: none"> <li>(a) for the purpose of determining the Reference Price, the previous trading session's Last Done Price; and</li> <li>(b) for the purpose of MASA display, the previous market day's Last Done Price.</li> </ul>
Display Price		means the price that shall be displayed through MASA which consists of - <ul style="list-style-type: none"> <li>(a) the Last Done Price after the completion of a series of matching for each securities;</li> <li>(b) the Best Buy Price;</li> <li>(c) the Best Sale Price;</li> </ul> and any other price as determined by the Exchange.
Equity-based Traded Fund	Exchange	means Exchange Traded Fund which: <ul style="list-style-type: none"> <li>(a) tracks the performance of a market index where constituent securities of that market index are wholly shares ("the constituent shares"); and</li> <li>(b) invests in the constituent shares of that market index.</li> </ul>
Last Done Price		means the last traded price.
Limit Order		means an order which is to be executed at the entered price or better.
Lower Limit Price		means:



- (a) except for ABFMY1 for securities being traded for a trading session with Reference Price of below RM1.00, the lowest price such securities can be traded shall be thirty (30) sen below the Reference Price; rounded to the higher bid;
- (b) except for ABFMY1, for securities being traded for a trading session with Reference Price of equal to or above RM1.00, the lowest price such securities can be traded shall be 30% lower than the Reference Price rounded to the higher bid; and
- (c) for ABFMY1 being traded for a trading session at any Reference Price, the lowest price such securities can be traded shall be three hundred (300) bids equivalent to thirty (30) sen below the Reference Price.

Market Order	in relation to board lots, means an order which is to be executed at the Matching Price.
matching interval	means the elapse time between two matches.
Matching Price	means the price used to execute the next trade.
MASA	means MAKLUMAT SAHAM, which is a computerised display of real-time price and other information relating to securities traded on the Exchange.
Minimum Bid	in relation to a particular securities at any specified time during a trading session, means the minimum permissible change in the price of that securities on an offer to buy over its previous done or quoted price, as stipulated in Schedule 4.
Opening Price	means the first traded price for each trading session of the day.
public holiday	means a day which is declared as a public holiday in the Federal Territory of Kuala Lumpur.
Reference Price	means - <ul style="list-style-type: none"> <li>(a) the Closing Price; or</li> <li>(b) if for two (2) consecutive trading sessions of one (1) market day no trading has been done for a particular securities -                 <ul style="list-style-type: none"> <li>(i) the limit buy price at market close, if it is greater than the last Reference Price;</li> <li>(ii) the limit sell price market close, if it is less than the last Reference Price; or</li> </ul> </li> <li>(c) for ex-entitlement securities, as shall be determined by the Exchange.</li> </ul>
Upper Limit Price	means – <ul style="list-style-type: none"> <li>(a) except for ABFMY1 for securities being traded for a trading session with Reference Price of below RM1.00, the highest price such securities can be</li> </ul>

traded shall be thirty (30) sen above the Reference Price rounded to the lower bid;

- (b) except for ABFMY1, for securities being traded for a trading session with Reference Price of equal to or above RM1.00, the highest price such securities can be traded shall be 30% higher than the Reference Price rounded to the lower bid; and
- (c) for ABFMY1 being traded for a trading session at any Reference Price the highest price such securities can be traded shall be three hundred (300) bids equivalent to thirty (30) sen above the Reference Price.

#### **RULE 701.2 GENERAL**

- (1) Unless otherwise specified by the Exchange, all trading of securities on the stock market maintained by the Exchange shall be effected through ATS.
- (2) Except as otherwise expressly provided for in these Rules or excepted or exempted by any directives issued by the Exchange, the provisions of these Rules shall apply to all dealings effected through ATS.

#### **RULE 701.3 QUOTATION AND TRADING**

- (1) **Ex-entitlement:** For the purposes of quotation and trading all securities shall be quoted by the Exchange and traded on "ex entitlement" basis (ex dividend, ex bonus, ex interest, ex rights issue, ex all, ex offer) one (1) clear market day before the last date for lodgement or such other period determined by the Exchange.
- (2) **Special lots:** Less than board lots: The buying and/or selling quotations of securities of less than board lots shall be put on the Special Lots Board, stating -
  - (a) the quantity of securities and name of the Issuer; and
  - (b) the price per securities for the whole parcel sought or on offer.
- (3) **Minimum Bid:** The Minimum Bid in respect of securities of a certain market price shall be as specified in Schedule 4.
- (4) **Securities with multiple quotations:** Securities may, at the request of the Issuer, be quoted separately according to different categories or classes determined by the Issuer, and for each category or class, there shall be assigned a separate code. Similarly, securities with limitation on foreign ownership which have two separate quotations, namely "foreign" and "local", shall carry a separate code for each quotation.

#### **RULE 701.4 TYPES OF ORDERS**

- (1) The following types of orders may be entered through SCORE -
  - (a) Limit order;
  - (b) Market order.

#### **RULE 701.5 TRADING SESSION**

- (1) Trading under ATS shall be done from Monday to Friday (subject to public and other holidays as declared by the Exchange) in two (2) trading sessions as follows -

- (a) Morning session : 9.00 a.m. to 12.30 p.m.
  - (b) Afternoon session : 2.30 p.m. to 5.00 p.m.
- (2) Notwithstanding Rule 701.5(1), the Exchange may at any time, as it deems fit, change the time prescribed for a trading session.

**RULE 701.6 ATS OPERATORS**

- (1) No person other than ATS Operators shall make any order entry into ATS.
- (2) The Exchange shall issue to every ATS Operator a unique personal identification number which shall be used to sign-on to, and sign-off from, ATS.
- (3) Participating Organisations shall solely be responsible for the accuracy of details of orders entered into SCORE by their ATS Operators.
- (4) ATS Operators shall at all times when carrying out their duties at their Participating Organisation's office wear their identification tags.
- (5) ATS Operators shall at all times strictly comply with all guidelines, manuals and instructions issued from time to time by the Exchange relating to the operational procedures of ATS.

**RULE 701.7 ENTRY OF ORDERS**

- (1) Entry of orders into SCORE by ATS Operators shall be made in accordance with the instruction or procedures determined by the Exchange from time to time.
- (2) Subject to Rule 701.7(2A), orders entered into SCORE for each trading session shall be valid for that trading session only.
- (2A) Orders entered into SCORE for a special lot shall be valid for the entire trading day unless otherwise cancelled or withdrawn.
- (3) Subject to Rule 701.5(2), orders may be entered into SCORE between 8.30 a.m. and 12.30 p.m. for the morning session and between 2.00 p.m. and 5.00 p.m. for the afternoon session.
- (4) Orders entered into SCORE between -
  - (a) 8.30 a.m. to 9.00 a.m.; and
  - (b) 2.00 p.m. to 2.30 p.m.,shall be randomised for purposes of matching.
- (5) Orders entered into SCORE between -
  - (a) 9.00 a.m. to 12.30 p.m.; and
  - (b) 2.30 p.m. to 5.00 p.m.,shall be matched according to price and time priority.
- (6) Order inquires via a terminal shall only display orders entered through that particular terminal.
- (7) An ATS Operator may -
  - (a) cancel or withdraw an order which remains unexecuted or unmatched;

- (b) in respect of a partially executed or matched order, cancel the unexecuted or unmatched quantity;
- (c) reduce a quantity of order, subject to the quantity reduced remains not fully executed or matched:

PROVIDED THAT where any such cancellation or withdrawal of order is intended to create a misleading impression of market activity, the Exchange may impose a fine or take any other disciplinary action deemed appropriate against the Participating Organisation and/or the ATS Operator concerned.

- (8) The quantity for a single order of securities entered through SCORE shall not exceed Five Thousand (5000) board lots or such other quantity of board lots as determined by the Exchange from time to time.
- (9) Orders entered at a price above the Upper Limit Price or below the Lower Limit Price shall not be accepted by SCORE.
- (10) Where an Upper or Lower Limit Price as determined by the Exchange is reached in a trading session of a market day and is followed by another Upper or Lower Limit Price in another trading session, the Exchange shall freeze the trading price for the following trading session or sessions for such period as specified by the Exchange.

#### **RULE 701.8 AUTOMATIC MATCHING**

- (1) **Eligibility:** Unless otherwise determined by the Exchange, all orders for securities listed on the Official Lists are eligible for automatic matching.
- (2) **Conditions applicable:** In addition to the terms and conditions applicable to trading in securities under ATS, the following provisions shall also apply to automatic matching -
  - (a) automatic matching shall be effected by the Exchange's computer system;
  - (b) automatic matching of orders by the system shall be effected through a call market mechanism on a periodic matching basis;
  - (c) orders for each counter shall be independently matched by the system;
  - (d) the matching interval for orders relating to each counter shall be at the discretion of the Exchange.
- (3) **Matching priority:**
  - (a) All orders shall be prioritised by reference to price and time.
  - (b) Market orders shall have priority over Limit Orders.
  - (c) In the case of Limit Orders, preference shall be given to the highest buy orders and the lowest sell orders.
  - (d) When buy or sell orders are quoted at the same buy or sell price, preference shall be given to the earliest buy or sell order on a "first-in-first-out" basis.

#### **RULE 701.9 CONNECTIONS TO ATS**

- (1) **Prohibition:** No Participating Organisation shall, without the prior written approval of the Exchange-
  - (a) establish or permit the establishment of any form of electronic system capable of routing orders directly from its clients into SCORE or any other part of ATS;

- (b) connect or cause to be connected to -
  - (i) ATS or any part thereof (whether directly or indirectly) any device, equipment or facilities for any purpose whatsoever; or
  - (ii) any device, equipment or facilities which have been approved by the Exchange to be connected to ATS or any part thereof, any additional device, equipment or facilities.
- (2) **Conditions of approval:** In giving its approval under Rule 701.9(1), the Exchange may impose such terms and conditions and or issue such directives as it considers appropriate. Any breach of the terms and conditions imposed by the Exchange or the directives issued under this Rule shall be treated as a violation of these Rules.
- (3) **System audit:**
  - (a) The Participating Organisation shall undergo an annual system audit which shall be conducted by its internal audit department or a firm of public accountants and a report in respect thereof shall be submitted to the Exchange.
  - (b) Notwithstanding Rule 701.9(3)(a), the Exchange may, as it deems fit, at any time and from time to time conduct or cause to be conducted a surprise system audit of any approved electronic system, device, equipment or facilities belonging to or used by any Participating Organisation. All costs or expenses incurred by the Exchange in conducting the surprise audit shall be borne equally between the Exchange and the Participating Organisation.
  - (c) In the event the report submitted to the Exchange pursuant to a system audit conducted under Rule 701.9(3)(a) or Rule 701.9(3)(b) contains any adverse findings, the Participating Organisation concerned shall immediately upon receipt of such report take such remedial measures as may be necessary to remedy or overcome such adverse findings within such period as may be specified or allowed by the Exchange. Failure of the Participating Organisation to take such remedial measures within the period specified or allowed by the Exchange shall be treated as a serious violation of these Rules.
- (4) **Supervision:** Every Participating Organisation which has been given approval by the Exchange under this Rule 701.9 shall at all times exercise strict supervision over the usage and operation of the electronic system, device, equipment or facilities so as to ensure that their usage and operation do not contravene any Securities Laws, these Rules or any licence or permit issued to it by the relevant authorities.
- (5) **Revocation/suspension of approval:** Notwithstanding any approval given by it under this Rule 701.9, the Exchange may at any time revoke or suspend such approval if, in its sole opinion, the usage and operation of any approved electronic system, device, equipment or facilities by any Participating Organisation affects or is likely to affect the performance, security or integrity of ATS.
- (6) **Trained personnel:** A Participating Organisation shall at all times ensure that no person other than a trained personnel is authorised to operate any approved electronic system, device, equipment or facilities.

#### **RULE 701.10 CONTRACT NOTES BETWEEN PARTICIPATING ORGANISATION**

- (1) It shall not be necessary for a Participating Organisation to issue contract notes to a counterparty Participating Organisation for all contracts executed through ATS.

**RULE 702      TRANSACTIONS BY EMPLOYEES,  
COMMISSIONED DEALER'S REPRESENTATIVES  
AND DIRECTORS**

**RULE 702.1**

[Deleted]

**RULE 702.2      TRANSACTIONS BY EMPLOYEES AND COMMISSIONED DEALER'S  
REPRESENTATIVES**

- (1) **Restrictions:** No employee or Commissioned Dealer's Representative may open a trading account other than with the Participating Organisation by whom he is employed or engaged.
- (2) **Authorisation:** A Dealer's Representative shall not place an order on behalf of an employee or Commissioned Dealer's Representative of the Participating Organisation to whom the Dealer's Representative is attached, unless for each transaction the order is first authorised in writing by a director of the Participating Organisation.
- (3) **Director's Consent:**
  - (a) No business shall be transacted by a Participating Organisation on account of its employees or Commissioned Dealer's Representatives except with the prior and separate written consent for each transaction from a director of the Participating Organisation, provided always that no such consent shall be given unless the director is satisfied that the said transaction does not in any way conflict with the interests of the clients of his Participating Organisation. All transactions executed on account of its employees and Commissioned Dealer's Representatives shall be subject to strict supervision and control by the Participating Organisation.
  - (b) Notwithstanding the foregoing Rule, the board of directors of the Participating Organisation may resolve to authorise the Head of Branch Office or any other employee(s) to grant consent for and on behalf of the designated director abovestated in respect of the business transacted on account of the employees and Commissioned Dealer's Representatives of the branch office concerned or the principal office, as the case may be, on the same grounds therein **Provided Always:**
    - (i) the board of directors has developed and maintains internal controls and mechanisms to monitor the business transacted for and on behalf of the Participating Organisation's employees and Commissioned Dealer's Representatives, including without limitation:
      - (aa) ratification by the board of directors or designated director aforesaid, as the case may be, of the employees' and Commissioned Dealer's Representatives' trades approved by the Head of Branch Office and any other employee(s); and
      - (bb) the restrictions and prohibitions envisaged in Rule 508; and
    - (ii) internal policies and controls for avoidance of insider dealing, which ensure that there are no situations of conflict of interest, actual or potential.
  - (c) In the circumstance of the foregoing Rule where the board of directors of the Participating Organisation has resolved to authorise the Head of Branch or any other employee(s) as provided above to consent to employees' and Commissioned Dealer's Representatives' transactions, the transactions of the Head of Branch Office or the said employee(s), as the case may be, shall nevertheless be subject to the prior and separate written consent of the director designated pursuant to Rule 702.2(3)(a) as envisaged therein.

- (4) **Designated Dealer's Representative:** Every Participating Organisation shall identify and designate a Dealer's Representative to undertake transactions by all its employees and its Commissioned Dealer's Representatives.
- (5) **Brokerage:** Brokerage payable by employees and Commissioned Dealer's Representatives shall be as provided in Rule 1001.1(8)(b).
- (6) **Monitoring:** Every Participating Organisation shall maintain proper records on all its employees' accounts and ensure that all such accounts are subject to active monitoring by its Compliance Officer.

#### **RULE 702.3 TRANSACTIONS BY DIRECTORS**

- (1) **Restriction:** No director of a Participating Organisation shall undertake any trading in securities for his own account and/or an account in which such a director has an interest either direct or indirect except with the prior written consent from the board of directors of the Participating Organisation provided always that no such consent shall be given unless the board of directors is satisfied that the said transaction does not in any way conflict with the interests of the clients of that Participating Organisation. All transactions executed on account of its directors shall be subject to strict supervision and control by the Participating Organisation.
- (2) **Board of Director's Resolution:** For the purpose of consent, the board of directors may resolve to authorise any of its director(s) or any other employee(s) to grant consent for and on its behalf. Notwithstanding such resolution the board of directors shall still be responsible and liable for all actions of the director(s) and any other employee(s) so authorised.
- (3) **Records:** The Participating Organisation shall keep proper records of all written consents from the board of directors referred to in Rule 702.3(1) in respect of each transaction executed on account of its directors, to be made available to the Exchange for inspection forthwith upon request from the Exchange.

#### **RULE 702.4 DISCLOSURE**

- (1) All transactions undertaken by an employee, a Commissioned Dealer's Representative and a director shall be disclosed to the Participating Organisation and the onus of such disclosure is on the employee, Commissioned Dealer's Representative or the director concerned.

#### **RULE 702.5 SANCTIONS**

- (1) Violation of any of the provisions under this Rule 702 may result in suspension and/or fine or expulsion of the Dealer's Representative, or the director of the Participating Organisation concerned, or both of them. Where the employee concerned has violated provisions under this Rule 702, the Exchange may after due investigation recommend appropriate action to be taken by the Participating Organisation or refer such violation to an appropriate authority.

#### **RULE 702.6 DEFINITION**

- (1) For the purposes of this Rule 702, the words "transaction" or "trade" whenever appearing shall mean –
  - (a) any of the permitted dealings under Rule 601.3; and
  - (b) trades executed on the futures market maintained by the exchange company.

**RULE 703 FINANCING****RULE 703.1 DEFINITIONS**

- (1) For the purposes of this Rule 703 -
- |                               |  |
|-------------------------------|--|
| equity                        | means the sum of margin and securities purchased and carried in client's margin account.   |
| Effective Shareholders' Funds | means effective shareholders funds as defined under Rule 1105.1.   |
| Last Done Price               | means in relation to securities, the last traded price of the securities on the preceding market day, and if there was no trading on that day, the last traded price of the securities on the last trading day for that securities, prior to the preceding market day. |
| margin                        | means the aggregate amount of cash and collateral deposited into a client's margin account but excludes securities which are purchased and carried in his margin account.  |
| outstanding balance           | means the amount owed by a client in his margin account arising from his transactions in securities, including all commission charges, interest, expenses and all other related expenses before deducting any cash deposited by him as margin.                         |

**RULE 703.2 TYPES OF FINANCING ALLOWED AND PRE-REQUISITE**

- (1) Subject to Rule 703.2(2) below, Participating Organisations may provide the following types of financing to its clients as an approved business activity –
- (a) margin financing, subject to adherence to this Rule 703; and
  - (b) any other type of financing for the purpose of subscription and purchase of securities, other than margin financing, as determined by the Exchange in consultation with the Commission, subject to any terms and conditions as may be prescribed by the Exchange. For the avoidance of doubt, the securities referred to herein refer to –
    - (i) the new issue of securities in respect of an unlisted company for the purpose of qualifying the company for official listing on the Exchange; and
    - (ii) the securities issued or to be issued by a company that is listed on the Exchange.
- (2) Without prejudice to Rule 503.1(5) in respect of an Investment Bank, no Participating Organisation may provide any other types of financing other than that stipulated in Rule 703.2(1) above.

**RULE 703.3 PURPOSE AND PERIOD**

- (1) Subject to the provisions of this Rule 703, a Participating Organisation may extend margin financing to its clients for the following purpose –
- (a) subscription and purchase of any new issue of securities in respect of an unlisted company for the purpose of qualifying the company for official listing on the Exchange;



- (b) subscription and purchase of any securities issued or to be issued by a company that is listed on the Exchange; and/or
  - (c) redemption of all or any outstanding balance in margin accounts of clients held with other Participating Organisations and/or persons or entities approved or licensed to provide margin financing under any written law in Malaysia and the subsequent transfers of the margin accounts to the Participating Organisation.
- (2) [Deleted]
- (3) A Participating Organisation may extend margin financing to its clients for the purpose stipulated under Rule 703.3(1) for a period of three (3) months only, with rollover, if necessary.

#### **RULE 703.4 LIMIT OF OUTSTANDING BALANCES**

- (1) The aggregate outstanding balances in the margin accounts maintained by all clients of a Participating Organisation shall not exceed two hundred percent (200%) of the Effective Shareholders' Funds of the Participating Organisation.

#### **RULE 703.5 SINGLE CLIENT RULE**

- (1) **Limit of credit:** The amount of margin financing that a Participating Organisation may extend to any single client shall not be more than twenty per cent (20%) of its Effective Shareholders' Funds.
- (2) **Single client:** For the purposes of this Rule 703.5, in computing the total amount of margin financing given to any single client the term "single client" is defined as follows -
- (a) Where such single client is an individual, any margin financing given to the individual, spouse of the individual, the partnership of which he is a partner, any partner of the individual, the spouse of the partner and all the companies or corporations over which the individual exercises control, shall be deemed to be margin financing extended to a single client. For the purpose of this paragraph (a), an individual is deemed to exercise "control" over a company or corporation if the individual or the individual's spouse, severally or jointly -
    - (i) holds, directly or indirectly, more than fifty per cent (50%) of the shares of the company or corporation;
    - (ii) has the power to appoint, or cause to be appointed, a majority of the directors of the company or corporation; or
    - (iii) has the power to make, or cause to be made, decisions in respect of the business or administration of the company or corporation, and to give effect to such decisions, or cause them to be given effect to.
  - (b) Where such single client is a company or corporation, any margin financing extended to the company or corporation, its related company or corporation and its associated companies shall be deemed to be margin financing extended to a single client. For the purpose of this paragraph (b), a "related company or corporation" shall have the meaning as defined by section 6 of the Companies Act.
- (3) **Associated company:** A company is deemed to be an associated company of a corporation where the corporation holds, directly or indirectly, not less than twenty per cent (20%) and not more than fifty per cent (50%) of the issued share capital of such company.

**RULE 703.6 RESTRICTIONS**

- (1) No Participating Organisation shall extend margin financing to the following persons -
- (a) any of its directors, employees or Commissioned Dealer's Representatives;
  - (b) any firm in which any of its directors, employees or Commissioned Dealer's Representative is interested as a partner, manager, guarantor or agent other than as a stockbroking agent;
  - (c) any corporation in which any of its directors, employees or Commissioned Dealer's Representatives is interested as a director, manager, guarantor or agent other than as a stockbroking agent;
  - (d) any corporation in which any of its directors, employees or Commissioned Dealer's Representatives holds shares save and except -
    - (i) where none of its executive directors, employees or Commissioned Dealer's Representatives holds five per cent (5%) or more of the issued share capital of that corporation;
    - (ii) in respect of any corporation, whether listed or not listed on the Exchange where no non-executive director of the Participating Organisation holds, directly or indirectly five per cent (5%) or more of the issued share capital of that corporation;
    - (iii) in respect of a corporation not listed on the Exchange, where no non-executive director of a Participating Organisations holds shares in his personal capacity;
  - (e) any individual to whom any of its directors, employees or Commissioned Dealer's Representatives has provided a guarantee;
  - (f) any person who is prohibited under Section ~~943~~(2) of the [Capital Markets and Services Securities Industry Act](#); and
  - (g) any other person as may be determined by the Minister with prior written notice given to all the Participating Organisations.

For the purposes of this Rule 703.6, the term "director" and "employee" shall include the spouse, parent and child thereof.

**RULE 703.7 VALUATION OF COLLATERALS**

- (1) **Valuation of collateral:** The collateral that a client may deposit into his margin account and the method of valuation thereof shall be limited to the following -
- (a) For securities quoted on the Exchange and other recognised stock exchanges, the value shall be based on the Last Done Price of the securities on the preceding market day;
  - (b) For cash or fixed deposit certificates, the value shall be -
    - (i) in the case of cash or fixed deposit certificates denominated in Ringgit Malaysia, their face value thereof;
    - (ii) in the case of cash or fixed deposit certificates denominated in currencies other than in Ringgit Malaysia, the prevailing market exchange rate;

- (c) For Malaysian Government securities, Cagamas bonds, Government investment issues and Malaysian Treasury Bills, the value shall be calculated at the Last Done Price as reported to the Central Bank of Malaysia;
  - (d) [Deleted];
  - (e) For negotiable certificates of deposit and bankers' acceptances issued in Malaysia, the value shall be at the price determined by the issuing banks;
  - (f) [Deleted];
  - (g) [Deleted]; and
  - (h) For guarantees issued by banks, merchant banks or finance companies or standby letters of credit issued by commercial banks or merchant banks, the value shall be their face value thereof.
- (2) **Valuation of securities purchased:** In respect of securities purchased and carried in the margin account, the method of valuation thereof shall be as follows –
- (a) For securities purchased through an initial public offering, the value shall be the issue price and for securities purchased through a rights issue, the value shall be the subscription price of the securities.
  - (b) For the types of securities stipulated under Rule 703.7(1), the value shall be as stipulated therein.
  - (c) For all other types of securities other than that stipulated in Rule 703.7(1), the value shall be zero.

**RULE 703.8 CONTROL AND MAINTENANCE OF RECORDS BY PARTICIPATING ORGANISATIONS**

- (1) Every Participating Organisation shall establish and implement internal guidelines and procedures for the granting of credit facilities in relation to any margin account. Such guidelines and procedures shall include –
  - (a) detailed procedures on the processing of applications for credit facilities by a client, including but not limited to, procedures to ensure compliance with Rule 703.6(1) by the Participating Organisation;
  - (b) the criteria to assess the creditworthiness of a client;
  - (c) the documentation in respect of credit facilities extended to a client; and
  - (d) an effective monitoring system.
- (2) Without derogation to the generality of the foregoing provision, when granting credit facilities to a client, every Participating Organisation shall require its client to disclose as to whether the client is a spouse, parent or child of any of its Commissioned Dealer's Representatives in order for the Participating Organisation to, and which it shall, maintain proper records of all margin accounts opened in the name of the Commissioned Dealer's Representatives' spouse, parent and child.

**RULE 703.9 WRITTEN AGREEMENT**

- (1) **Requirement :** There shall be a written agreement executed between the Participating Organisation and its client for any margin account.
- (2) **Special clauses :** The written agreement referred to in Rule 703.9(1) shall contain, inter alia, provisions which authorise the Participating Organisation to:

- (a) subject to Rule 703.9(3), mortgage, pledge or hypothecate the client's securities for a sum not exceeding the outstanding balance in the margin account and without any obligation to retain in its possession or control securities of like characters;
  - (b) use its discretion to sell or dispose of any or all the collateral, in any manner in order to meet the prescribed margin requirements as are specified in Rule 701.10(3)'
- (3) A Participating Organisation shall not mortgage, pledge, charge, hypothecate or grant security arrangements over a client's securities and collateral unless the aggregate mark to market (as defined in Rule 1105) value of the securities and collateral of that client which are mortgaged, pledged, charged, hypothecated or security arrangements granted shall not at any time exceed the outstanding balance of that client's margin account.
- (4) A Participating Organisation may, subject to requirements stipulated in Rule 608, utilise any Eligible Securities (as defined in Rule 608.1) deposited or purchased or carried in a client's margin account for the purpose of securities borrowing and/or lending as envisaged in Rule 608.

#### **RULE 703.10 MAINTENANCE OF MARGINS**

- (1) **Initial margin:** An initial margin must be placed by the client with the Participating Organisation not later than three (3) market days following the contract date of the purchases of securities and the amount of margin shall be such that his equity is not less than one hundred fifty per cent (150%) of the outstanding balance in the margin account.
- (2) **Topping-up:**
- (a) Whenever the equity in a client's margin account falls below one hundred fifty per cent (150%) of the outstanding balance, a Participating Organisation shall immediately request its client to top-up the shortfall so as to bring the equity to not less than one hundred fifty per cent (150%) of the outstanding balance.
  - (b) The topping-up of the margin by such client shall be effected within three (3) market days following the date of written notice given by the Participating Organisation. The Participating Organisation shall not permit any new purchases in the margin account unless the resulting equity in the account would be not less than one hundred fifty per cent (150%) of the outstanding balance.
- (3) **Equity margin:** No Participating Organisation shall permit the equity in any client's margin account to fall below one hundred thirty per cent (130%) of the outstanding balance.
- (4) **Liquidation of margin account:** In the event that the equity in any client's margin account falls below one hundred thirty per cent (130%) of the outstanding balance, the Participating Organisation concerned shall, with or without notice to such client, liquidate his margin account, including the securities purchased and carried in such account, so that the equity is not less than one hundred fifty per cent (150%) of the outstanding balance, unless the Participating Organisation consents to the following –
- (a) a request made in writing by the client not to liquidate his margin account; and
  - (b) a proposal made by the client in writing to settle the outstanding balance upon terms and conditions agreed to by the Participating Organisation,
- in which case, no further margin financing shall be extended to that client.
- (4A) A Participating Organisation may impose a higher equity amount than that prescribed in Rules 703.10(1), 703.10(2), 703.10(3) and 703.10(4) provided that due notice is given to the client.
- (5) **Not to exceed credit limit:**

- (a) No Participating Organisation shall extend credit facilities to a client beyond the approved limit that is set out in the written agreement between the Participating Organisation and its client.
- (b) In assessing whether the credit facilities exceed the approved limit, the Participating Organisation shall include all charges, rollover fees, interest and other charges incurred by the client for which no actual payment has been made by the client and the charges are debited towards the outstanding balance of the client and financed by the Participating Organisation, until actual payment by the client.
- (6) **Daily review:** Participating Organisations shall review all margin accounts daily to ensure that the margin requirements of this Rule are complied with at all times.
- (7) **Value of equity:** For the purpose of computing the value of equity in a margin account, the securities and other collaterals in such account shall be valued based on the valuation set out in Rule 703.7. All transactions done on the same day shall be combined on a transaction date basis and the total cost of purchase or the net proceeds of sale, including any commission charges, interest expenses and all other related expenses, shall be taken into account for computing margin requirements.
- (8) **Additional margin requirement and haircuts:**
- (a) Subject to Rule 703.10(8)(b), a Participating Organisation shall ensure that the internal guidelines and procedures of the Participating Organisation provide for the requirement of additional margin and imposition of haircuts, the amount of which shall be as determined by the Participating Organisation, on any collateral and securities purchased and carried in margin accounts in the event of the occurrence of any of the following -
- (i) unusually rapid or volatile changes in value of the securities;
  - (ii) non-existence of active market for the securities;
  - (iii) subject to Rule 703.10(8)(b), suspension of the securities from trading on a market; or
  - (iv) no possibility of immediate liquidation for the securities.
- (b) The following haircuts shall be imposed on securities which have been suspended from trading on the relevant market and the haircuts shall be calculated based on the value of the securities at the Last Done Price:

Length of suspension	Haircut Percentage
1 to 3 market days	50%
More than 3 market days	100%

- (9) **Withdrawal:** A client may only withdraw from his margin account sales proceeds or any part thereof in cash and any collateral for the time being deposited into his margin account provided that the value of the equity in the said margin account does not fall below one hundred fifty per cent (150%) of the outstanding balance.
- (10) **Variation of margin:** The Exchange shall have the discretion to vary the margin requirements stipulated under Rules 703.10 (1), 703.10 (2) and 703.10 (3).

#### **RULE 703.11 BASIS OF TRANSACTION**

- (1) All securities transactions in a margin account shall be carried out as Ready or Immediate Basis Contract.

**RULE 703.12 MONTHLY RETURNS**

- (1) Every Participating Organisation shall submit returns on margin financing extended in relation to margin account –
- (a) to the Balance of Payments Department, [Central BankBank Negara Malaysia](#), on a monthly basis in accordance with the format prescribed in the Appendix 7 within ten (10) days from the last day of the reporting month;
  - (b) to the Exchange at such time and in accordance with such format as prescribed by the Exchange from time to time.

## RULE 704      REGULATED SHORT SELLING

### RULE 704.1      DEFINITION

(1) For the purposes of this Rule 704 -

approved class of securities	means a class of approved securities.
approved securities	<p>means any of the securities from the class of securities set out below, of an Issuer, which is declared by the Exchange from time to time (“declaration date”) to be included in a class of securities to which Section <a href="#">9844</a>(4)(c) of the <a href="#">Securities Industry Capital Markets and Services Act</a> applies:</p> <p>(a) the securities is for the time being admitted to the Official List (“the Securities”);</p> <p>(b) the Securities has a daily market capitalisation of Ringgit Malaysia five hundred (500) million for at least three months prior to the declaration date. Market capitalisation means the market value of all the ordinary shares issued by the Issuer and admitted to the Official List;</p> <p>(c) the Securities has at least fifty million (50) million in public float prior to the declaration date. ‘Public float’ means securities held in the hands of the public shareholders. ‘Public’ has the same meaning assigned to that expression in the Listing Requirements; and</p> <p>(d) the volume of trading for the Securities on a monthly basis on average is at least one (1) million units for twelve (12) months prior to the declaration date.</p>
Authorised Participant	<p>SBL</p> <p>means the Clearing House or an entity approved by the Clearing House, for, the purpose of undertaking securities borrowing and/or lending activities as defined in Rule 608.</p>
Client SBL Agreement	<p>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.</p>
Clearing Account	<p>has the same meaning assigned to it in R/R 18 of 2005.</p>
Eligible Securities	<p>shall have the same meaning assigned to it under Participating Organisations’ Circular R/R 17 of 2006 issued by the Exchange pertaining to ‘Directives on the Use of Day Trading Activities Account’ including any amendments thereto.</p>
Internal Guidelines for Short Selling	<p>means written guidelines formulated by Participating Organisations setting out the Participating Organisations’ internal policies, procedures, controls and requirements in relation to regulated short selling whether for itself or its clients and for the supervision and monitoring of its regulated short selling activities to ensure strict compliance with the laws and these Rules including any regulations, directives, guidelines and rulings issued thereunder in relation to regulated short selling.</p>
net short position	

	in relation to an approved securities means the quantity of an approved securities short sold on a market day in accordance with Rule 704 but which have yet to be closed off by subsequent purchases of securities falling within the same class of securities as the approved securities short sold and executed on the same market day that the approved securities was short sold.
regulated short selling	means the selling of approved securities where the seller does not, at the time of the execution of the sale, have an exercisable and unconditional right to vest such securities in the purchaser but has, prior to the execution of the sale, borrowed the approved securities or obtained confirmation from an Authorised SBL Participant that the Authorised SBL Participant has the approved securities available to lend, pursuant to a SBL Agreement as will enable delivery of the same to be made to the purchaser under the said sale, in accordance with the Rules relating to delivery and settlement in Chapter 8, and "regulated short sale" means the sale relating to the same.
R/R 18 of 2005	means the Participating Organisations' Circular dated 7 October 2005 issued by the Exchange and numbered as R/R 18 Of 2005, pertaining to 'Directives For Participating Organisations On the Use of Clearing Account, Error or Mistake Account and Investment Account'.
SBL Agreement	means an agreement executed between two (2) Authorised SBL Participants in accordance with the Clearing House Requirements, for the purpose of securities borrowing and/or lending as defined in Rule 608.
total short position	in relation to an approved securities means the total quantity of an approved securities short sold in accordance with Rule 704.

#### **RULE 704.2 PERMITTED SHORT SELLING**

- (1) A Participating Organisation shall be permitted to execute regulated short selling provided that the same is carried out in accordance with the provisions in Rule 704 and section [4198\(4\)\(c\)](#) of the [Securities Industry Capital Markets and Services Act](#).
- (2) No Participating Organisation shall be permitted to execute regulated short selling where the client of the Participating Organisation or the person on whose behalf the client of the Participating Organisation is executing the regulated selling for, is associated with the body corporate that issued or made available the approved securities. For purposes of Rule 704 the following interpretation shall apply to the words used herein :-
  - (a) 'client' includes the Participating Organisation where it is executing regulated short selling for itself; and
  - (b) 'associated' has the same meaning assigned to it under section 3 of the [Securities Industry Capital Markets and Services Act](#).
- (3) Insofar as it is not otherwise provided in this Rule 704, all other provisions in these Rules shall apply to regulated short sales as if they were normal sales of securities.
- (4) For the avoidance of doubt, the following shall apply
  - (a) regulated short selling shall only be permitted for approved securities;



- (b) the Exchange shall have the discretion to declare from time to time any of the securities that meets the criteria as set out in the definition of approved securities in Rule 704.1(1) as approved securities and may thereafter declare otherwise, where the approved securities no longer meets the criteria as set out in the definition of approved securities in Rule 704.1(1) or in any other circumstances it deems fit;
  - (c) the Exchange may not declare a securities as approved securities notwithstanding that it fulfils the criteria as set out in the definition of approved securities in Rule 704.1(1);and
  - (d) the Exchange may with the prior approval of the Commission vary the criteria of approved securities as set out in the definition of approved securities in Rule 704.1(1).
- (5) All provisions in this Rule 704 relating to a Participating Organisation except for Rules 704.3, 704.10 and 704.11 shall equally apply to a Dealer's Representative unless the context otherwise permits

#### **RULE 704.3 INTERNAL GUIDELINES AND SYSTEMS**

- (1) **Internal Guidelines:**
- (a) A Participating Organisation desirous of executing regulated short selling shall formulate a set of its Internal Guidelines for Short Selling the contents of which shall include the areas set out under Schedule 10.
  - (b) The Internal Guidelines for Short Selling shall be approved by the board of directors of the Participating Organisation and the Participating Organisation shall ensure that the Internal Guidelines for Short Selling is brought to the notice of, read and understood by, all relevant employees and registered persons of the Participating Organisation.
- (2) **Implementation:** Every Participating Organisation shall establish, implement and maintain the following:
- (a) systems and infrastructure including but not limited to front office and/or back office systems and infrastructure which are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of the regulated short selling in accordance with Rule 704; and
  - (b) all the policies, procedures, controls and all other requirements set out in the Internal Guidelines for Short Selling.

#### **RULE 704.4 COMMENCEMENT OF REGULATED SHORT SELLING**

- (1) Participating Organisation shall only be permitted to commence with its regulated short selling activities when the following requirements are complied with:
- (a) the Participating Organisation has established Internal Guidelines for Short Selling as stipulated in Rule 704.3(1);
  - (b) the Participating Organisation has in place systems and infrastructure including but not limited to front office and/or back office systems which are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of regulated short selling in accordance with Rule 704;and
  - (c) subject to Rule 704.4(2)(c), the Participating Organisation has submitted a written declaration in the form prescribed in Appendix 10 to the Exchange of its compliance with Rules 704.4(1)(a) and 704.4(1)(b) at least two (2) market days prior to the commencement of its regulated short selling activities.

(2) **Inspection and/ or Audit by the Exchange**

- (a) Without prejudice to any other powers conferred on the Exchange in these Rules pertaining to the conduct of inspection and/or audit on a Participating Organisation, the Exchange may at any time and/or from time to time prior to or after the receipt of the declaration in Rule 704.4(1)(c) undertake an inspection and/or audit on a Participating Organisation's compliance with the requirements stipulated under Rules 704.4(1)(a) and 704.4(1)(b) in the manner determined by the Exchange.
- (b) In determining compliance with Rule 704.4(1)(b), the following shall apply:
  - (i) the Exchange shall be entitled to require the Participating Organisation to provide a confirmation as and in the manner determined by the Exchange, that adequate verification and assessment has been carried out to ensure that its systems and infrastructure including but not limited to front office and/or back office systems and infrastructure are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of regulated short selling in accordance with Rule 704; and
  - (ii) the Exchange shall be entitled to rely on the confirmation provided herein.
- (c) The Participating Organisation shall be given notice in writing by the Exchange prior to the commencement of any inspection and/or audit referred to under Rule 704.4(2)(a).
- (d) Where a notice under Rule 704.4(2)(c) has been issued to a Participating Organisation which has yet to submit the declaration under Rule 704.4(1)(c) or has submitted the declaration under Rule 704.4(1)(c) but has yet to commence with its regulated short selling activities, the Participating Organisation shall not commence with its regulated short selling activities until the following have been complied with:
  - (i) the inspection and/or audit referred to in Rule 704.4(2)(a) has been completed;
  - (ii) the corrective and/or preventive measures and actions referred to in Rules 704.4(2)(e) and 704.4(2)(f) (if any) have been duly carried out and completed by the Participating Organisation; and
  - (iii) the submission of the confirmation (if applicable) and the declaration referred to in Rule 704.4(2)(f).
- (e) Upon completion of the inspection and/or audit, the Exchange shall notify the Participating Organisation in writing of the findings of the inspection and/or audit which shall include but not limited to findings of any non compliances with Rules 704.4(1)(a) and 704.4(1)(b) and the corrective and/or preventive measures and actions (if any) to be taken by the Participating Organisation for the purpose of complying with Rules 704.4(1)(a) and 704.4(1)(b). The Exchange may pending the carrying out and completion of the corrective and/or preventive measures and actions (if any) by a Participating Organisation other than the Participating Organisation referred to in Rule 704.4(2)(d), suspend the carrying out of any further regulated short selling by the Participating Organisation until the corrective and/or preventive measures and actions (if any) are carried out and completed by the Participating Organisation.
- (f) Where the corrective and/or preventive measures and actions referred to in Rule 704.4(2)(e) have been duly carried out and completed, the Participating Organisation shall confirm in writing to the Exchange of the same. In relation to a Participating Organisation referred to in Rule 704.4(2)(d) which has yet to submit the declaration under Rule 704.4(1)(c), the Participating Organisation shall together with the confirmation mentioned herein submit the declaration stipulated under Rule 704.4(1)(c).

- (g) The Exchange is not precluded from exercising any of its powers under these Rules for any non compliances of these Rules found pursuant to the inspection and/or audit referred to under Rule 704.4(2)(a), notwithstanding that a Participating Organisation may have duly carried out and completed the corrective and/or preventive measures and actions referred to in Rule 704.4(2)(e) and 704.4(2)(f).

#### **RULE 704.5 DESIGNATED TRADING ACCOUNT AND CDS ACCOUNT**

- (1) A Participating Organisation shall open a separate trading account designated as 'RSS', in the name of the Participating Organisation where it is executing regulated short selling for itself or in the name of each client where it is executing regulated short selling for its clients ("RSS Account").
- (2) A Participating Organisation shall ensure that all regulated short selling whether for itself or its clients are executed through the RSS Account and that the RSS Account is utilised only for regulated short selling and transactions permitted under Rule 704.5(5).
- (3) Where the Participating Organisation intends to execute regulated short selling in a Clearing Account, the Participating Organisation shall also ensure that a separate Clearing Account is opened for that purpose and shall designate that account in accordance with the provisions prescribed in R/R 18 of 2005 followed by 'RSS' in brackets. Any reference in these Rules to 'RSS Account' shall be read to include a Clearing Account opened for the purpose stipulated herein. All other provisions in R/R 18 of 2005 shall apply to a Clearing Account opened herein subject to the provisions contained herein in Rule 704.5(3) and the following:-
- (a) provisions contained in Rule 704.6(4); and
  - (b) the provisions in paragraph 3.12 of R/R 18 of 2005 pertaining to transfer of securities shall not be applicable to purchases of securities made in the Clearing Account in accordance with Rule 704.5(5) and held in the CDS Account opened by the Participating Organisation in accordance with Rule 704.5(6).
- (4) A Participating Organisation shall ensure the following prior to opening a RSS Account:
- (a) where the RSS Account is to 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
  - (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.
- (5) A Participating Organisation shall be permitted to execute purchase of securities in the RSS Account but only for the following purposes:
- (a) to contra in full or partially any regulated short sale of an approved securities executed in the RSS account subject to the following conditions:
    - (i) that the purchase is of securities falling within the same class of securities as the approved securities in relation to which the regulated short sale was executed;
    - (ii) that the purchase of securities is executed at any time after the execution of any regulated short sale of an approved securities and on the same market day that the regulated short sale of that approved securities was executed;
    - (iii) that the quantity of securities to be purchased at any one time on a market day shall not be more than the total quantity of the net short position of the approved securities, prior to the execution of the purchase, on that same market day;

- (iv) that in relation to the quantity of regulated short sale of an approved securities to be executed on a market day subsequent to any purchase executed to contra whether in full or partially any regulated short sale of an approved securities executed in the RSS Account on that same market day, the Participating Organisation shall ensure that the total quantity of the net short position of that approved securities and the regulated short sale to be executed on that market day shall not be more than the quantity of that approved securities borrowed in the RSS account on that market day. The expression 'approved securities borrowed in the RSS Account' for purposes of this Rule 704.5(5)(a) means the quantity of approved securities which has been borrowed for execution of any regulated short sale in the RSS Account including the quantity of approved securities stipulated in the confirmation given by the Authorised SBL Participant to be made available for borrowing to enable settlement of any regulated short sale in the RSS Account;
  - (v) the net short position in the RSS Account on a market day in relation to an approved securities shall not be more than the quantity of that approved securities borrowed in the RSS Account; and
  - (vi) that any quantity of an approved securities borrowed in the RSS Account for the purpose of settlement of any regulated short sale executed on a market day in the RSS Account but not utilised as a result of contra executed in accordance with provisions herein, may be utilised for execution of any regulated short sale on subsequent market day(s) provided that the approved securities borrowed in the RSS Account is still available to enable settlement of the subsequent regulated short sale, or
- (b) for redelivery of securities arising from any borrowing of approved securities under an SBL Agreement or Client SBL Agreement.
- (6) A Participating Organisation shall open 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:
- (a) settlement of regulated short selling;
  - (b) settlement of purchases as permitted under Rule 704. 5(5); or
  - (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.
- (7) Where a Participating Organisation executes a purchase of securities in the RSS Account other than for the purposes stipulated in Rule 704.5(5) by reason of mistake, the Participating Organisation shall be permitted to subsequently sell the securities so purchased subject to the following conditions:
- (a) the ~~Executive Director Dealing~~ Head of Dealing shall report to the Exchange of the sale made herein not later than the end of the next market day from the date of the sale; and
  - (b) the ~~Executive Director Dealing~~ Head of Dealing shall together with the report provide an explanation as to the cause of the mistake.
- (8) Where the Exchange is not satisfied that the purchase of securities as stipulated in Rule 704.5(7), arose from a mistake made by the Participating Organisation or where the mistake was caused by reason of a breach of Rule 704.3(2,) the Exchange reserves its rights to take action against the Participating Organisation for a breach of Rule 704.5(5).

**RULE 704.6 EXECUTION**

- (1) A Participating Organisation upon receiving any request from a client to effect a sell order/transaction shall enquire from the same client whether the intended sale is a regulated short sale. Where the client confirms that the sale is a regulated short sale, the Participating Organisation shall comply with the provisions in Rule 704.6(2) for the execution of the sell order.
- (2) A Participating Organisation shall ensure that the following conditions are complied with prior to executing an order for a regulated short sale whether for itself or a client:
  - (a) where the order is executed for the Participating Organisation itself, the Participating Organisation has borrowed the approved securities to be short sold from an Authorised SBL Participant or has obtained a confirmation from the Authorised SBL Participant that the approved securities to be short sold are available for borrowing to settle the sale;
  - (b) where the order is for a client, confirmation from the client, that the client has borrowed the approved securities to be short sold from an Authorised SBL Participant or that the client has obtained a confirmation from an Authorised SBL Participant that the approved securities to be short sold are available for borrowing to settle the sale;
  - (c) confirmation from the client, that the client or if the client is acting on behalf of another person, the person for whom the client is acting for, is not associated with the body corporate that issued or made available the approved securities in relation to which the order for short sale is to be executed. Where the order is executed for the Participating Organisation itself, the Participating Organisation shall ensure that it is not associated with the body corporate mentioned herein. "Associated" shall have the same meaning as is assigned to it under Rule 704.2(2)(b);
  - (d) the order price of the approved securities to be entered into the ATS is higher than the Last Done Price of the approved securities prior to the intended entry of the above order. Last Done Price has the meaning assigned to that expression under Rule 701.1; and
  - (e) the order shall be entered into ATS through the screen designated in the ATS for regulated short sale.
- (3) No Participating Organisation shall execute any regulated short sale by way of Direct Business in any situation whatsoever.
- (4) All orders for regulated short sale in a Clearing Account shall be executed on the same market day that the client has instructed for the order to be executed. No Participating Organisation shall be permitted to carry forward any execution of an order for a regulated short sale in a Clearing Account to the next market day from the date of the above instruction notwithstanding that the order remains unexecuted whether fully or partially.
- (5) A Participating Organisation shall ensure that proper documents are procured and retained by it for at least seven(7) years for the purpose of satisfying the Exchange when requested, that the requirements of Rules 704.6 (2)(a), (b) and (c) are complied with. The documents shall be either in writing, tape recording or electronic form.
- (6) ~~Executive Director of Dealing or t~~The Head of Dealing shall be responsible to ensure that the relevant reports are reviewed for the purpose of ensuring that no regulated short sale are executed in ATS through a screen other than the screen designated in the ATS for regulated short sale. Where upon the above review it is found that any regulated short sale has been executed not through the screen designated in the ATS for regulated short sale, the ~~Executive Director Dealing or the~~ Head of Dealing shall report the same by the next market day to the Exchange.
- (7) A Compliance Officer shall also ensure that the relevant reports as stipulated under Rule 704.6 (6) are reviewed for the purpose mentioned therein. Where the Compliance Officer

detects of any regulated short sale executed not through the screen designated in the ATS for regulated short sale, the Compliance Officer shall ensure that same is reported to the Exchange pursuant to Rule 309.8(4).

- (8) No regulated short sale shall be executed by a Participating Organisation in any of the following circumstances -
- (a) during the period of twenty-one (21) days immediately following a takeover announcement involving the Issuer of an approved securities; or
  - (b) when expressly directed by the Exchange, during the period where the approved securities has been declared, and remains, as Designated Securities under Rule 604

#### **RULE 704.7 CONTRACT NOTE FOR REGULATED SHORT SALE**

A Participating Organisation shall upon execution of a regulated short sale stipulate on the contract note issued by the Participating Organisation to the client, that the sale is a regulated short sale.

#### **RULE 704.8 PROHIBITION ON AMENDMENTS OF CONTRACTS**

- (1) Notwithstanding Rules 601.2(3), 601.2(4) and 601.2(5), no Participating Organisation shall be permitted to effect any amendments of contract from a trading account and/or a CDS account opened not under Rule 704.5 to a trading account and/or CDS Account opened under Rule 704.5.
- (2) ~~An Executive Director Dealing or the~~ The Head of Dealing shall be responsible to ensure that proper systems and procedures for review and monitoring are in place to ensure that all amendments of contracts made in accordance with Rules 601.2(3), 601.2(4) and 601.2(5) are not in breach of Rule 704.8(1). In the event of a breach thereof the ~~Executive Director Dealing or the~~ Head of Dealing shall report the breach to the Exchange by the next market day after the amendments were made

#### **RULE 704.9 DELIVERY AND SETTLEMENT**

- (1) The Rules relating to delivery and settlement under Chapter 8 shall apply to regulated short sales in the same manner as they apply to normal sales.
- (2) Failure by the seller in a regulated short sale to deliver the securities in accordance with Chapter 8 shall be deemed as a failure by the respective Participating Organisation to make available in its CDS Account the securities as "tradeable balance" and in such event, the Exchange upon instructions of the Clearing House shall automatically institute a buying-in against the Participating Organisation concerned without giving a buying-in notice.

#### **RULE 704.10 REPORTING BY PARTICIPATING ORGANISATION**

- (1) Participating Organisations shall 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/or any other information in relation to the net short position as may be required by the Exchange from time to time.

#### **RULE 704.11 REPORTING BY COMPLIANCE OFFICER**

- (1) The ~~Executive Director Compliance or 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 regulated short selling:

- (a) inaccuracies and errors in relation to any reports submitted by the Participating Organisation pursuant to this Rule or any directives, rulings and guidelines issued by the Exchange;
- (b) non compliances with any requirements stipulated in the Internal Guidelines for Short Selling;
- (c) execution of any regulated short sale through a screen in the ATS other than the screen designated for regulated short sale;
- (d) the CDS Account utilised for the settlement of any regulated short sales other than the CDS Account stipulated in Rule 704.5;
- (e) sale of securities executed pursuant to Rule 704.5(7);
- (f) amendments to contracts in breach of Rule 704.8; and
- (g) any other breaches in relation to Rule 704.

#### **RULE 704.12 LIMIT FOR REGULATED SHORT SELLING**

- (1) Without prejudice to Rule 704.13, the Exchange shall commence suspension of any order entry into the ATS for any further regulated short selling of an approved securities, in the following circumstances:
  - (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
  - (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.
- (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.
- (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:
  - (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
  - (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.
- (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:
  - (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
  - (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.

**RULE 704.13 ACTION BY THE EXCHANGE**

- (1) Without prejudice to any other powers of the Exchange contained in the [Securities Industry Capital Markets and Services Act](#), this Rule 704, these Rules and/or any other directives, ruling or guidelines issued by the Exchange from time to time, the Exchange may in the following circumstances take any of the actions enumerated under Rule 704.13(2) in the manner stipulated therein against a Participating Organisation, its registered persons and clients and/or in relation to any or all approved securities:
- (a) where there is a breach or likelihood of breach of any provisions in Rule 704; or
  - (b) where the execution of a regulated short sale may lead or likely to lead to the commission of any of the offences under the [Securities Industry Capital Markets and Services Act](#).
- (2) Pursuant to Rule 704.13(1) the following actions may be taken by the Exchange in relation to any or all approved securities and/or against any or all Participating Organisations, registered persons and clients in the manner and for the period determined by the Exchange:
- (a) suspension and/or cessation of further regulated short selling by the Participating Organisation and/or registered persons whether for itself or any or all of its clients;
  - (b) imposition of limits on the net short positions or total short positions that may be held by the Participating Organisation and/or registered persons whether for itself or any or all of its clients; or
  - (c) imposition of restrictions or conditions on regulated short selling carried out by the Participating Organisation and/or registered persons whether for itself or any or all of its clients.

**RULE 704.14 EFFECT OF ACTION TAKEN**

- (1) In the event that the Exchange undertakes any of the actions under 704.13 against a Participating Organisation, registered persons or the client of the Participating Organisation, such actions shall also be applicable to any person who is the proxy, agent, nominee or acting in concert with that Participating Organisation, registered persons or that particular client of the Participating Organisation as the case may be.
- (2) Where an action has been taken under Rule 704.13, a Participating Organisation and / or registered person, may make representations to the Exchange for the discontinuance of the action taken. The Exchange may after the representations were made, discontinue with the action taken. However such discontinuance shall not be construed as an omission or error of any kind on the part of the Exchange in undertaking the action under Rule 704.13 in the first place.
- (3) The provisions in Rule 1303 shall not apply to any action taken under Rule 704. 13.



**RULE 705      SUSPENSION ON CONVERSION EXERCISE****RULE 705.1      DEFINITION**

(1) For the purposes of this Rule 705 –

Conversion exercise	means the conversion of singly quoted restricted securities of an Issuer to enable two or more separate quotations on the Official List.
effective date	means the date fixed by the Issuer for the determination of rights and obligations to foreign or other class of depositors.
singly quoted restricted securities	shall have the same meaning ascribed to it in the Listing Requirements.
Suspended Securities	means the singly quoted restricted securities which has been suspended from trading by the Exchange pursuant to Rule 705.2.

**RULE 705.2      SUSPENSION OF TRADING**

- (1) Where, in relation to any singly quoted restricted securities, an application is made to the Exchange by its Issuer for suspension of trading thereof in order to facilitate a conversion exercise, the Exchange may suspend the trading of the securities.
- (2) The date of the suspension of singly quoted restricted securities under Rule 705.2(1) shall be four (4) clear market days before the effective date.
- (3) Where in its opinion the situation warrants, the Exchange may in its absolute discretion allow an extension of the period of suspension.

**RULE 705.3      SETTLEMENT OF SUSPENDED SECURITIES**

- (1) Notwithstanding the suspension of the securities under Rule 705.2, any outstanding transactions involving such securities may be settled in accordance with FDSS until the market day before the effective date.

**RULE 705.4      BUYING-IN OF SUSPENDED SECURITIES**

- (1) Notwithstanding the suspension of the trading of securities under Rule 705.2, buying-in shall be instituted against any failure to deliver and the last market day of such buying-in shall be on the effective date.
- (2) Where failure to buy-in occurs on the effective date being the last market day of buying-in referred to in Rule 705.4(1), such buying-in shall only be resumed upon the uplifting of the Suspended Securities in accordance to Rule 705.6.
- (3) The resumption of buying-in of the said securities upon and after the cessation of their suspension shall only be instituted against such securities with "local" quotation.

**RULE 705.5      REVOCATION OF SUSPENSION**

- (1) The Exchange may, at any time and in its absolute discretion, revoke the suspension of trading of the Suspended Securities.

**RULE 705.6 LIFTING OF SUSPENSION**

- (1) The Exchange shall obtain a confirmation from the Issuer, which confirmation shall be further affirmed by Depository, when the conversion exercise is completed.
- (2) Upon receipt of the confirmation referred to in Rule 705.6(1), the Exchange may, at any time thereafter and in its absolute discretion, lift the suspension of the trading of the Suspended Securities.

**RULE 706 STOCK MARKET TRADING HALTS**

**RULE 706.1 TRADING HALT**

- (1) Pursuant to Section ~~9B11~~ of the ~~Securities Industry Capital Markets and Services~~ Act, the Exchange may halt or suspend trading in all securities traded on the stock market of the Exchange in the event of significant changes to its benchmark Composite Index (as is presently known or howsoever known or by whatsoever name called from time to time).
- (2) A halt or suspension on trading of securities as envisaged in the preceding paragraph shall be effective for such period or periods and upon such terms and conditions as the Exchange may, upon notification to the Commission, deem fit.
- (3) Nothing herein contained shall be construed so as to limit the ability of the Minister, the Commission and/or the Exchange pursuant to the Securities Laws, these Rules and/or any other rules or policy to prohibit, constrain or impose any trading practice in connection with the trading of securities on the stock market of the Exchange.

**RULE 706.2 PRESCRIPTION OF CIRCUIT BREAKER LEVELS AND OTHER RULES, DIRECTIVES, ETC.**

- (1) The Exchange may issue such rules, regulations, directives, guidelines and circulars in respect of Rule 706.1 as may at any time and from time to time be deemed necessary or expedient in relation to, or in connection with, the prescription of circuit breaker levels based on the changes to its benchmark Composite Index which represent the thresholds at which the trading in all securities on the stock market of the Exchange shall halt or be suspended in the manner envisaged in this Rule.

[End of Chapter]

**CHAPTER 10                      FEES AND CHARGES**

**RULE 1001                      BROKERAGE**

**RULE 1001.1 RATES**

- (1) Brokerage for buying and selling transactions in securities shall be charged in the manner prescribed in this Rule 1001.
- (2) Where a Participating Organisation acts for both the seller and the buyer in any bona fide transaction, brokerage as prescribed in this Rule 1001 shall be paid by each of the seller and the buyer.
- (3) For the purposes of this Chapter, the expression "contract value" in relation to securities means the total value of the securities purchased or sold, as the case may be, by a Participating Organisation on behalf of a client in any market day pursuant to any contract arising from any order or orders placed by the client for that market day determined by reference to the price at which the securities were purchased or sold, as the case may be PROVIDED THAT -
  - (i) where a Participating Organisation is instructed by a client to appropriate various transactions executed on a particular market day to different contracts, each of such contracts thereby arising shall be deemed to be a separate order for the purposes of determining the brokerage payable to the Participating Organisation;
  - (ii) where a Participating Organisation is instructed by a client to purchase or sell, as the case may be, different quantities of securities of the same counter at different prices on a particular market day, all such transactions shall be deemed to be one (1) contract for the purpose herein contained.
- (4) Brokerage rates chargeable shall be as follows -
  - (a) **Stocks, ordinary shares, preference shares and other listed securities**  

For all trades (excluding Direct Business transactions) in stocks, ordinary shares, preference shares and other securities listed and traded on the stock market of the Exchange, but excluding the instruments described in Rule 1001.1(4)(b) and Rule 1001.1(7), the brokerage payable shall be the minimum brokerage as prescribed in Rule 1001.1(6) or such brokerage on a fully negotiated basis between the Participating Organisation and its client subject to a maximum of 0.70% of the contract value, whichever is the higher.
  - (b) **Other instruments**  

For all trades in the instruments described hereinbelow regardless of the contract value or the nominal value, as the case may be, the brokerage payable shall be on a fully negotiated basis between the Participating Organisation and its client –

    - (i) Government bonds, Municipal debentures, and Asian Dollar bonds;
    - (ii) other non-convertible debentures;
    - (iii) overseas options; and
    - (iv) such other instruments as the Exchange may prescribe by way of any circulars, directives or guidelines issued by the Exchange from time to time.

(5) **Direct Business:** The brokerage payable in respect of any Direct Business transactions except for ABFMY1 trades shall be on a fully negotiated basis between the Participating Organisations and its clients but shall not be less than the Minimum Fixed Brokerage prescribed in Rule 1001.1(6)(a) **Provided Always** for all Direct Business transactions in respect of retail trades (as hereinafter defined), the brokerage payable shall not be less than the Minimum Fixed Brokerage prescribed in Rule 1001.1(6)(a), or less than half of the Minimum Retail Brokerage prescribed in Rule 1001.1(6)(b), whichever is the higher.

(6) **Minimum brokerage:**

(a) Subject to Rule 1001.1(4)(a) and unless otherwise provided, Participating Organisations are entitled to, and shall at all times ensure that, a minimum fixed brokerage ("Minimum Fixed Brokerage") is payable by both the buyer and the seller as follows –

- |      |                                     |         |
|------|-------------------------------------|---------|
| (i)  | on transactions of loan instruments | RM2.00; |
| (ii) | on any other transaction            | RM12.00 |

(b) Notwithstanding the foregoing rule, Participating Organisations are entitled to, and shall at all times ensure that, a minimum brokerage ("Minimum Retail Brokerage") calculated as follows is payable by both the buyer and seller for retail trades –

- (i) where the contract value is RM100,000 or below, the minimum brokerage payable shall be calculated at 0.6% of the contract value or the Minimum Fixed Brokerage, whichever is the higher;
- (ii) where the contract value exceeds RM100,000, the minimum brokerage payable shall be calculated at 0.3% of the contract value or the Minimum Fixed Brokerage, whichever is the higher;
- (iii) for trades of a particular securities where the outstanding purchase positions are settled against sale positions of the same securities when the purchase and sale transactions are transacted on the same contract date, the minimum brokerage payable shall be calculated at 0.15% of the contract value or the Minimum Fixed Brokerage, whichever is the higher.

(7) **Brokerage rates chargeable for ABFMY1 trades:**

Participating Organisations shall at all times ensure that the following brokerage is payable by both the buyer and the seller as follows –

- (a) For all retail trades or otherwise (excluding Direct Business transactions), the brokerage payable shall be calculated at a rate of up to a maximum of 0.3% of the contract value or RM 12.00, whichever is the higher ("Brokerage Payable");
- (b) For the avoidance of doubt, the Brokerage Payable shall also apply to all retail trades or otherwise (excluding Direct Business transactions), where the outstanding purchase positions for ABFMY1 are settled against sale positions of ABFMY1 when the purchase and sale transactions are transacted on the same contract date; and
- (c) Direct Business: The brokerage payable in respect of any Direct Business transactions in respect of retail trades or otherwise, shall be on a fully negotiated basis between the Participating Organisations and its clients, but shall not be less than RM 12.00.

(8) **Discounts:**

(a) **Online trades**

Participating Organisations shall be permitted to give discounts on retail trades [excluding trades under Rule 1001.1(6)(b)(iii) and Rule 1001.1(7)(b)] of an amount up

to the equivalent of thirty per cent (30%) of the brokerage prescribed under Rule 1001.1(4)(a) or Rule 1001.1(7)(a) where such retail trades are online routed trades, subject to the following –

- (i) that the amount of brokerage after the abovementioned discount shall not be less than the Minimum Fixed Brokerage or in the case of ABFMY1, RM12; and
- (ii) that the Participating Organisations formulate and implement adequate internal policies with regard to the manner in which the discount can be accorded to their clients as long as risk exposures in relation to online routed trades are addressed.

(b) **Transactions by employees:**

Without derogation to Rule 1001.1(8)(a), Participating Organisations shall be permitted to give discounts of an amount up to the equivalent to fifty percent (50%) of the brokerage payable in this Rule 1001.1 to their employees, provided that, the amount of brokerage after the abovementioned discount shall not be less than the Minimum Fixed Brokerage or in the case of ABFMY1, RM12.

(9) **Definitions:** For the purposes herein, unless the context otherwise requires –

online routed trades	means trades arising from orders routed by clients through the Member Company's Electronic Client-Ordering System as envisaged in the Exchange's Members' Circular No. R/R 27 of 1995, as may be amended, varied, supplemented, substituted therefor or revoked by the Exchange from time to time or any code, directives or guidelines as may be issued by the Exchange from time to time in relation to electronic client ordering systems.
retail trades	means trades or transactions other than trades or transactions by or on behalf of the following:- <ul style="list-style-type: none"> <li>(a) life insurance companies;</li> <li>(b) general insurance companies;</li> <li>(c) superannuation or employees provident funds;</li> <li>(d) banks, including merchant banks and co-operative banks established and/or licensed to operate in Malaysia under the laws of Malaysia or elsewhere under the laws of the jurisdiction concerned;</li> <li>(e) a wholly-owned subsidiary of the institutions under paragraph (d) above;</li> <li>(f) finance companies;</li> <li>(g) asset management companies and unit trust management companies;</li> <li>(h) trust companies or institutions;</li> <li>(i) co-operatives established under statute;</li> <li>(j) central, state or local government-owned or -linked funds;</li> <li>(k) members or member companies of other recognised stock exchanges;</li> </ul>

- (l) securities dealers who are not members of such recognised stock exchanges but who are authorised to carry out the business of dealing in securities by the relevant authorities in jurisdictions of the recognised stock exchanges; and
- (m) any other institutions or types of companies as determined from time to time by the Committee.

#### **RULE 1001.2 AMOUNT OF BROKERAGE TO BE SHOWN**

- (1) The brokerage charged in respect of transactions in securities in relation to any contract shall be evidenced in the contract notes required to be given by Participating Organisations to its clients as prescribed in the Regulations issued by the Minister pursuant to Section ~~3890~~ of the ~~Securities Industry Capital Markets and Services~~ Act.

#### **RULE 1001.3 NET CONTRACTS PROHIBITED**

- (1) In amplification of Rule 1001.2, net contracts are prohibited and no Participating Organisation shall make such contract with any client.

#### **RULE 1001.4 BANK CHARGES**

- (1) All bank charges or expenses incurred by a Participating Organisation on behalf of its clients or in respect of any contracts entered into on behalf of its clients, as the case may be, shall be paid or apportioned in such manner as may be mutually agreed between the Participating Organisation and its client. Any other expenses incurred by a Participating Organisation on behalf of its clients or in respect of any contracts entered into on behalf of its clients, as the case may be, shall be borne by the clients.
- (2) Bank charges or other expenses incurred by a Participating Organisation on behalf of its clients or in respect of any contracts entered into on behalf of its clients, as the case may be, in relation to transactions entered into with brokers of other recognised stock exchanges shall be paid or apportioned in such manner and by such amounts as may be mutually agreed pursuant to the terms of any agreement or contract made between the Participating Organisation and the parties thereto.

#### **RULE 1001.5 FLOTATION**

- (1) Where a company makes a flotation, whether by public issue, offer for sale, placing or tender and no brokerage is payable to Participating Organisations, then and in such cases Participating Organisations are prohibited from handling such public issue, offer, placing or tender unless a prior approval has been given by the Exchange.

#### **RULE 1001.6 REBATES ON BROKERAGE**

- (1) Sharing or rebate of the minimum brokerage prescribed in Rule 1001.1(6) shall be prohibited.

#### **RULE 1001.7 OVERSEAS SECURITIES**

- (1) Brokerage in respect of dealings in overseas securities which are not quoted on the Official List shall be charged at the rates pursuant to this Chapter or the rates applied by the recognised stock exchanges through which such securities are transacted, whichever is higher.

**RULE 1002 LEVY BY SECURITIES COMMISSION****RULE 1002.1 TRANSACTION ON THE STOCK MARKET**

- (1) Pursuant to the Securities Commission (Levy on Securities Transactions) (Amendment) Order 2001, the rate of levy to be paid by a purchaser or seller in respect of the purchase or sale of securities recorded on the Exchange or securities notified to the Exchange in accordance with these Rules shall be 0.015% of the purchase price of such purchase or sale.

**RULE 1002.2 RATES**

- (1) For all purchases and sales of securities recorded on the Exchange or securities notified to the Exchange in accordance with these Rules, including contracts effected through SCORE and on a Direct Business, Participating Organisations shall remit to the Exchange, for account of the Commission, from the amount payable by each purchaser and seller, a sum equivalent to 0.015% of the contract value on all bought and sold contracts.
- (2) In the event that only brokerage is payable on such purchase or sale of securities, the said levy of 0.015% shall form part of the brokerage payable by purchasers and sellers to Participating Organisations.
- (3) In the event that only clearing fee is payable on such purchase or sale of securities, the said levy shall be derived as follows -
- (a) 0.0075%, being half of the said levy, from the clearing fee payable by the purchaser and seller to the Clearing House; and
  - (b) 0.0075%, being half of the said levy, from the Participating Organisations acting for the purchaser or seller.
- (4) In the event that both clearing fees and brokerage are payable on such purchase or sale of securities, the said levy shall be derived as follows -
- (a) 0.0075%, being half of the said levy, from the clearing fees payable by the purchaser and seller to the Clearing House; and
  - (b) 0.0075%, being half of the said levy, from the brokerage payable by the purchaser and seller to the Participating Organisations.
- (5) In the event that neither brokerage nor clearing fee is payable on such purchase or sale of securities, the said levy of 0.015% shall be borne by the Participating Organisations acting for the purchaser or seller.
- (6) Notwithstanding the foregoing provisions, where the said levy of 0.015% is derived in part from the clearing fee as envisaged in Rule 1002.2(3) and Rule 1002.2(4) hereof, such part equivalent to 0.0075% from the clearing fee payable by the purchaser or seller to the Clearing House shall be subject to the maximum of Ringgit Malaysia Thirty Seven and Sen Fifty (RM37.50) in respect of all bought and sold contracts where the contract values exceed Ringgit Malaysia Five Hundred Thousand (RM500,000).
- For the avoidance of doubt, in the circumstances provided in the preceding paragraph, the part of the said levy derived from the brokerage payable by the purchaser or seller shall remain at 0.0075% of the contract value on all bought and sold contracts, being half of the said levy.
- (7) The Participating Organisations and the Clearing House shall remit the said levy to the Exchange, who shall be authorised to collect the said levy of 0.015% on behalf of the Commission, within one (1) week of the Exchange's billing date.



**RULE 1003 CLEARING FEES**

**RULE 1003.1 CLEARING FEES**

Clearing fees payable by both buyers and sellers of services provided by a Clearing House designated by the Exchange shall be as determined by the Clearing House from time to time.

**RULE 1004    SYSTEM MAINTENANCE FEE**

**RULE 1004.1    SYSTEM MAINTENANCE FEE**

The Exchange shall maintain and manage the system. For this purpose the Exchange shall levy on Participating Organisations a fee as determined by the Exchange from time to time. Such fee shall be a percentage of the contract value on all bought and sold contracts. All Participating Organisations shall remit such fee to the Exchange within one (1) week from the Exchange's billing date.

**RULE 1005 SUBSCRIPTION AND CALLS**

**RULE 1005.1 SUBSCRIPTION AND CALLS**

The Exchange may from time to time require Participating Organisations to pay such monthly or other subscriptions, calls and levies for the privileges of trading on the Exchange and the use of the Exchange's trading facilities as the Exchange from time to time determine. Any Participating Organisation which omits to pay any such subscription call or levy within one (1) calendar month after the same shall have been due, made or levied shall be sent a further written demand for payment thereof and if the amount due is not paid within one (1) further calendar month from the date of such written demand for payment the Exchange may summarily delete the name of the Participating Organisation from the register of Participating Organisations kept by the Exchange and shall so notify the Participating Organisation concerned by notice in writing.

**RULE 1006    RIGHT TO REVIEW**

**RULE 1006.1    REVIEW OF RATES**

Notwithstanding any of the foregoing provisions, the Exchange may at any time and from time to time, or at the direction of the Commission, prescribe such other rate or rates as the Exchange and/or the Commission may determine by way of any circulars, directives or guidelines issued by the Exchange

[End of Chapter]

CHAPTER 11

FINANCIAL RESOURCES RULES,  
CAPITAL ADEQUACY REQUIREMENTS  
AND ACCOUNTING REQUIREMENTS

RULE 1101 PAID UP CAPITAL AND RESERVE FUND

**RULE 1101.1 PAID UP CAPITAL AND MINIMUM SHAREHOLDERS' FUNDS UNIMPAIRED BY LOSSES OF PARTICIPATING ORGANISATIONS**

- (1) The paid-up capital and minimum shareholders' funds unimpaired by losses of every Participating Organisation shall not be less than Ringgit Twenty Million (RM20,000,000.00) each or such other amount as the Minister may from time to time determine. The Minister may exempt any Participating Organisation from the provisions of this Rule 1101.1 for such period and on such terms and conditions as he deems fit.
- (2) Notwithstanding the provisions in Rule 1101.1(1), an Investment Bank shall all times comply with the provisions in the Guidelines on Investment Bank or any other requirements of the Central Bank pertaining to its minimum paid up capital requirements and other requirements pertaining to its capital ("the Relevant Guidelines and Requirements") and the Relevant Guidelines and Requirements shall be deemed to be part of these Rules.

**RULE 1101.2 RESERVE FUND**

- (1) Every Participating Organisation shall annually set aside a certain minimum percentage of its audited profit after tax to a reserve fund in accordance with the following -

<b><i>Shareholders' fund of Participating Organisation (including Reserve Fund)</i></b>	<b><i>Minimum percentage or profit after tax to be placed in the Reserve Fund</i></b>
<i>RM (million)</i>	
<i>Less than 10</i>	<i>20%</i>
<i>Between 10-30</i>	<i>10%</i>
<i>More than 30</i>	<i>0%</i>

- (2) The Reserve Fund shall not be available for payment of dividends.
- (3) Where in any financial year the retained earnings of a Participating Organisation shall be in a deficit, the Participating Organisation may transfer out an amount equal to the deficit from the Reserve Fund to the retained earnings and any such amount so transferred out shall not be available for payment of dividend.

**RULE 1102 FINANCIAL RECORDS AND REPORTING**

**RULE 1102.1 MAINTENANCE OF FINANCIAL RECORDS**

- (1) Every Participating Organisation shall maintain or cause to be maintained on a continual basis accounting and other books and records in a form and manner which -
  - (a) will enable its statutory auditor to supply the information required under Rule 1201.1;
  - (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) which are up-to-date and continually updated.
- (2) A Participating Organisation shall also keep or cause to be kept in Bahasa Malaysia or English all accounting and other records in accordance with Division 44 of Part VIII of the [Securities Industry Capital Markets and Services Act](#) and any other legislation relating to the securities industry, and in compliance with the accounting directives set out in Schedule 6A.
- (3) A Participating Organisation may keep a record in a form other than a document provided that such record can be reproduced in hard printed form.
- (4) A Participating Organisation shall keep and preserve its accounting and other records for a period of no less than seven (7) years after the date on which they are first made or prepared.
- (5) A Participating Organisation shall maintain adequate procedures and system to ensure reasonable safeguard against loss, unauthorised access, alteration or destruction of its accounting and other records.
- (6) The provisions of this Rule 1102.1 shall apply not only to the records of the principal office of every Participating Organisation but shall also apply mutatis mutandis to the records of any other offices from time to time established by the Participating Organisation with the approval of the Exchange.

**RULE 1102.2 FINANCIAL REPORTING**

- (1) A Participating Organisation shall prepare and submit to the Exchange such reports within such time as the Exchange may from time to time stipulate.
- (2) A Participating Organisation other than an Investment Bank shall observe the directives set out in Schedule 6B and an Investment Bank shall observe the requirements stipulated in the Guidelines on Investment Banks in the preparation of its reporting statements and -
  - (a) any reporting statements submitted by the Participating Organisation or the Investment Bank shall be signed by the [Executive Director Operations or the Head of Operations in the case of an Investment Bank and](#) who has been duly authorised by its board of directors to do so;
  - (b) any capital adequacy returns pursuant to Rule 1105 and required under this Chapter must be signed by the [Executive Director Operations or the Head of Operations and/or any duly authorised person in the case of Investment Bank and any other director or its Compliance Officer;](#)
  - (c) all statements and returns required to be submitted by the Participating Organisation and the Investment Bank under this Rule shall be addressed to the Head Intermediary Supervision Group and shall be submitted either by electronic transmission or in paper form in the manner determined by the Exchange. All such submissions by electronic transmission shall be deemed to be a declaration by the [Executive Director Operations Head of Operations or and any other director or Compliance Officer of the Participating Organisation and in the case of an Investment](#)

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~~Bank, the Head of Operations and/or~~ any duly authorised person and Compliance Officer, that the information and records contained therein are true and accurate in all material aspects; and

- (d) submit on a daily basis, the cash flow position and/or projection returns in the form and frequency that may be prescribed by the Exchange.
- (3) The Exchange shall at all times be entitled to inspect Participating Organisations' financial and other records in order to verify their compliance with this Chapter.

**RULE 1103 RISK MANAGEMENT AND INTERNAL CONTROL**

**RULE 1103.1 RISK MANAGEMENT**

- (1) Every Participating Organisation shall -
- (a) establish, maintain and exercise effective policies and procedures on risk management; and
  - (b) have its own system of monitoring risk on a daily basis.

The policies and procedures on risk management shall be put in written form. The Participating Organisation should be able to describe and demonstrate the objectives and operation of the system to the Exchange.

- (2) Every Participating Organisation shall determine and record in its financial records appropriate credit limits for all counterparties to which it has a credit exposure.
- (3) The credit limits established shall be appropriate to the type, nature and volume of business undertaken and the financial status of the counterparty and shall be reviewed on a regular basis.
- (4) A Participating Organisation's financial records shall be capable of being summarised in such a way as to permit actual exposures to be measured regularly against the established credit limits.
- (5) A Participating Organisation shall maintain its records in a manner such that they disclose, or are capable of disclosing, in a prompt and appropriate manner, the financial and business information which will enable its 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.

**RULE 1103.2 INTERNAL CONTROL**

- (1) Every Participating Organisation shall establish and maintain at all times written policies and procedures on internal control and should be able to describe and demonstrate the objectives and operation of such policies and procedures to the Exchange.
- (2) In determining the scope and nature of effective internal control, a Participating Organisation shall consider all relevant factors including the size of the business, the diversity of operations, the volume, size and frequency of transactions, the degree of risk associated with each area of operation and the amount of control by its senior management over day to day operations.
- (3) The systems of internal control shall be designed in such a way as to ensure that -
- (a) 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 entering into such transactions or commitments;



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- (b) there are procedures to safeguard assets and control liabilities, including assets belonging to other persons for which the Participating Organisation is accountable;
- (c) there are measures, so far as is reasonably practicable, 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; and
- (d) there is clear delineation of responsibilities and proper segregation of tasks among the departments and the personnel of the Participating Organisation.

**RULE 1104    SUSPENSION OF INTEREST AND  
PROVISIONS FOR BAD AND DOUBTFUL DEBTS**

**RULE 1104.1    OBLIGATION TO COMPLY WITH GUIDELINES**

- (1) A Participating Organisation shall comply with the guidelines set out in Schedule 7 for the treatment of interest charged and the provision for bad and doubtful debts on contra losses, overdue purchase contracts and margin accounts irrespective of whether such debts have been assigned, unless otherwise approved by the Exchange.
- (2) In making the provisions, a Participating Organisation may adopt standards which are more stringent than those envisaged in the guidelines provided the Participating Organisation establishes, implements and maintains effective systems of controls and procedures to ensure compliance with the stricter standards.

**RULE 1104.2    REPORTING ON SUSPENSION OF INTEREST AND PROVISIONS**

- (1) [Deleted]

**RULE 1104.3    DUTY TO DISCLOSE**

- (1) A Participating Organisation shall ensure disclosure of the following in its audited financial statements -
  - (a) confirmation of its compliance with the guidelines;
  - (b) total outstanding amount of non-performing accounts;
  - (c) total outstanding amount of non-performing accounts classified as doubtful;
  - (d) total amount of non-performing accounts classified as bad;
  - (e) movements of interest-in-suspense and provision for bad and doubtful debts; and
  - (f) information about its accounting policies and methods adopted in accounting for non-performing accounts.

**RULE 1104.4    RIGHT OF REVIEW**

- (1) This Rule 1104 together with the applicable Schedules and any other tables, appendices or annexures thereto shall be subject to such variations, amendments, modifications or substitutions as the Exchange may deem to be necessary and expedient by way of any circulars or directives issued by the Exchange from time to time.

**RULE 1105 CAPITAL ADEQUACY REQUIREMENTS**

This Rule sets out the capital adequacy requirements which are principally designed to ensure that Participating Organisations are entities of substance so as to foster confidence in the stock market and to create an environment in which Participating Organisations are able to wind down their stockbroking businesses without loss to their clients and without disruption to the stock market.

**RULE 1105A INVESTMENT BANKS**

- (1) The capital adequacy requirements in relation to an Investment Bank shall be the Investment Bank Capital Adequacy Framework as prescribed in the Guidelines on Investment Banks and the same shall be deemed to be part of these Rules. The capital adequacy requirements prescribed in the provisions contained in Rules 1105.4, 1105.5, 1105.6, 1105.7, 1105.8, 1105.9 and 1105.10 shall not be applicable to an Investment Bank. All other provisions in Rule 1105 shall be applicable to the extent the provisions therein are expressed to be applicable to an Investment Bank.

**RULE 1105.1 DEFINITIONS**

- (1) In this Rule 1105, unless the context otherwise requires -

Capital Adequacy Ratio	in relation to a Participating Organisation, means the ratio linking the liquid capital of the Participating Organisation to risks faced, calculated as the Participating Organisation's Liquid Capital divided by its Total Risk Requirement.
call option(s)	means an instrument(s) which give(s) its holder the right, but not the obligation, to buy a specified quantity of the underlying securities from the writer of the option at a specified exercise price within a set period.
Capital Base	shall have same meaning as assigned to that expression in the Guidelines on Investment Banks.
Collateral	in relation to securities borrowing and lending referred to in 1105.7(5)(d) means the 'collateral' mentioned in Rule 608.7 and where the collateral consist 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, the expression Collateral shall have the following meaning: <ul style="list-style-type: none"><li>(a) in the case of subdivision or consolidation, the securities into which the Collateral have been subdivided or consolidated;</li><li>(b) in the case of a bonus issue, the Collateral together with the securities allotted by way of bonus issue thereon; and</li><li>(c) in the case of any event similar to any of the foregoing events, the Collateral, together with or replaced by a sum of money and/or securities equivalent to that received in respect of such Collateral resulting from such event.</li></ul>
Core Capital	in relation to a Participating Organisation, means the level of financial resources or capital maintained in a readily realisable form to meet its Operational Risk Requirement, as computed in accordance with Schedule 8A.

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Counterparty	means any person with or for whom a Participating Organisation carries on, or intends to carry on, any dealings in securities.
Counterparty Risk	means the risk of a counterparty defaulting on its financial obligation to a Participating Organisation.
Counterparty Risk Requirement	in relation to a Participating Organisation, means the amount necessary to accommodate a given level of its Counterparty Risk, as calculated in accordance with Rule 1105.7 and, where applicable, Rule 1105.10.
Debt	means borrowed funds represented by a security or instrument that must be repaid by the issuer.
DF Account	shall have the same meaning as “DF Account” stipulated in the Directives Allowing For the Provision of Discretionary Financing By Participating Organisations To Their Clients Pursuant to Rule 703.2(3) of the Rules of Bursa Malaysia Securities Bhd.
Effective Shareholders' Funds	in relation to a Participating Organisation, means its last audited shareholders' funds less unaudited losses.
equity derivative	means an instrument evidencing rights, futures or options in or to securities which derive an existence from exchange traded equity securities and the value of which is dependent on the underlying investment.
equity securities	means securities other than debt securities.
exchange traded	means traded or listed on an exchange.
exercise price	means the price at which the holder of an option(s) can buy or, as the case may be, sell the underlying securities of the option(s).
hybrid securities	hybrid securities means such securities which are a combination of a conventional securities and an embedded derivative and which may consist of virtually any combination of two or more financial instrument building blocks e.g. bond or note, swap, forward or future, or option.
income	has the same meaning assigned to that expression under Rule 608.1
in the money	means that –  (a) in relation to call options and warrants –  (i) where the Participating Organisation as the buyer is the holder of the right to exercise, the exercise price is less than the current market price of the underlying instrument;  (ii) where the Participating Organisation as the writer is the holder of the obligation, the exercise price is greater than the current market price of the underlying instrument;  (b) in relation to put options and warrants –  (i) where the Participating Organisation as the

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buyer is the holder of the right to exercise, the exercise price is greater than the current market price of the underlying instrument;

- (ii) where the Participating Organisation as the writer is the holder of the obligation, the exercise price is less than the current market price of the underlying instrument.

Intermediary Supervision	means Intermediary Supervision of the Exchange, as is presently known, or howsoever known or by whatsoever name called from time to time.
Large Exposure Risk	means risks to which a Participating Organisation is exposed arising from the following – <ul style="list-style-type: none"><li>(a) a proportionally large amount of exposure to a particular counterparty;</li><li>(b) a proportionally large exposure to a single issuer of debt;</li><li>(c) a proportionally large exposure to a single security.</li></ul>
Large Exposure Risk Requirement	in relation to a Participating Organisation, means the amount necessary to accommodate a given level of its Large Exposure Risk, as calculated in accordance with Rule 1105.8.
Liquid Capital	in relation to a Participating Organisation, represents its financial resources or liquid capital maintained in a readily realisable form to meet its Total Risk Requirement, as calculated in accordance with Rule 1105.4.
Liquid Margin	in relation to a Participating Organisation, means the amount in excess of Liquid Capital after deducting the Total Risk Requirement.
margin account	means the account which a Participating Organisation allows to be opened and maintained by a client for the purpose of dealing in securities pursuant to margin financing facility made available by the Participating Organisation to that client.
margin financing facility	in relation to a Participating Organisation, means a facility made available by the Participating Organisation to a client for trading exclusively in securities that are listed on the Official List, in accordance with the provisions of Rule 703.
Margin Financing Onward Lent Risk	means the risks to which a Participating Organisation is exposed from Margin Securities which have been onward lent pursuant to securities borrowing and/or lending by the Participating Organisation to such third party, as may be permitted from time to time pursuant to the Clearing House Requirements.
Margin Financing On-Pledged Risk	means the risks to which a Participating Organisation is exposed from securities held by it as collateral pursuant to margin financing facilities but which have been onward pledged by the Participating Organisation to such third party, as may from time to time be permitted pursuant to these Rules and/or Depository Rules, to which the Participating Organisation has a balance owing which is secured against onward pledged collateral.
Margin Securities	has the same meaning assigned to that expression under Rule

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mark to market	in relation to securities, means to value the securities at its closing price on a market day.
mark to market difference	in relation to securities, means its contract value less its mark to market value.
marketable securities	means all securities held by a Participating Organisation as principal, including its investments, holdings in clearing accounts and/or such other accounts and/or securities as may be permitted or prescribed by the Exchange from time to time.
Minimum Operational Risk Requirement	means the absolute minimum amount necessary to accommodate the Operational Risk of a Participating Organisation ascertained by reference to the types of business activities carried out by that Participating Organisation, and determined in accordance with Rule 1105.5(3).
Operational Risk	means the risks to which a Participating Organisation is exposed arising from inadequate management of operational risk and includes risk of fraud, operational or settlement failure and shortage of liquid resources.
Operational Risk Requirement	in relation to a Participating Organisation, means the amount necessary to accommodate a given level of its Operational Risk, as stipulated under Rule 1105.5.
option(s)	means the put option(s) and the call option(s), and where the context so permits, shall be construed to mean any of them.
out of the money	means those options and warrants which are not in the money.
OTC derivatives	means those derivatives not traded or listed on an exchange.
permitted business	in relation to a Participating Organisation, means such business as expressly permitted in the <a href="#">dealer's licence granted under Section 12 of the Securities Industry Act</a> and shall include any other business as may be permitted by the Commission and the Exchange from time to time.
Position Risk	means the risks to which a Participating Organisation is exposed arising from securities held by it as principal and where applicable, shall include Margin Financing On-Pledged Risk.
Position Risk Requirement	in relation to a Participating Organisation, means the amount necessary to accommodate a given level of Position Risk, as calculated in accordance with Rule 1105.6 and where applicable Rule 1105.10.
put option(s)	means 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.
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.
Recognised Market Indices	means the market indices of the recognised stock exchanges which are acceptable to the Exchange from time to time, as set

	out in Schedule 8C.
Risk Weighted Capital Ratio	shall have the same meaning that is assigned to that expression in the Guidelines on Investment Banks.
securities borrowing and/or lending	has the same meaning assigned to that expression as referred to in Rule 608.
Securities Borrowed or Securities Lent	means any securities borrowed or securities lent pursuant to securities borrowing and/or lending and to the extent that the securities borrowed or securities lent consist of securities that have been subdivided or consolidated, made the subject of a bonus issue or event similar to any of the foregoing , the expression Securities Borrowed or Securities Lent shall have the following meaning:  (a) in the case of subdivision or consolidation, the securities into which the Securities Borrowed or Securities Lent have been subdivided or consolidated;  (b) in the case of a bonus issue, the Securities Borrowed or Securities Lent together with the securities allotted by way of bonus issue thereon; and  (c) in the case of any event similar to any of the foregoing events, the Securities Borrowed or Securities Lent, together with or replaced by a sum of money and/or securities equivalent to that received in respect of such Securities Borrowed or Securities Lent resulting from such event.
Total Risk Requirement	in relation to a Participating Organisation, means the sum of Operational Risk Requirement, Position Risk Requirement, Counterparty Risk Requirement, Large Exposure Risk Requirement and Underwriting Risk Requirement Subject Always to the Rule 1105.10.
Underwriting Risk	means any risks to which a Participating Organisation is exposed arising from a contingent binding commitment by a Participating Organisation to acquire securities at a certain price and time.
Underwriting Risk Requirement	in relation to a Participating Organisation, means the amount necessary to accommodate a given level of its Underwriting Risk, as calculated in accordance with Rule 1105.9.

## **RULE 1105.2 INTERPRETATION**

In this Rule 1105, references to "related or associated person" shall include -

- (a) a related corporation, which in relation to a corporation, means a corporation that is related to the first-mentioned corporation by virtue of Section 6 of the Companies Act, 1965;
- (b) an associated corporation, which in relation to a corporation, means a corporation that is deemed to be associated with the first-mentioned corporation by virtue of the first-mentioned corporation holding, directly or indirectly, not less than twenty per cent (20%) and not more than fifty per cent (50%) of the issued and paid-up capital of such corporation;
- (c) a shareholder or a person connected with a shareholder as construed in accordance with Section 132G(4) of the Companies Act, 1965;

- (d) a director or person connected with a director as construed in accordance with Section 122A of the Companies Act, 1965.

**RULE 1105.3 OBLIGATIONS**

- (1) **Primary Obligation:** Every Participating Organisation shall ensure that -
- (a) its Liquid Capital is at all times greater than its Total Risk Requirement;
  - (b) its Core Capital is at all times greater than its Operational Risk Requirement.
- (2) **Requirement to Notify Exchange:** Where at any one time -
- (a) its Liquid Capital is equal to or less than its Total Risk Requirement; or
  - (b) its Core Capital is equal to or less than its Operational Risk Requirement,

a Participating Organisation shall immediately notify the Exchange and take all necessary steps to increase its Liquid Capital or reduce its risk exposures. The Exchange may at its discretion, after receipt of the notice, give such directions to the Participating Organisation as it deems fit and/or impose such conditions within or upon which the business operations of the Participating Organisation may be carried on.

- (3) **Capital Adequacy and Risk Weighted Capital Ratios:** A Participating Organisation shall -
- (a) in the case of a Participating Organisation other than an Investment Bank, calculate and monitor its Capital Adequacy Ratio for purposes of complying with Rule 1105.3(1) on a daily basis and in the case of an Investment Bank, the Risk Weighted Capital Ratio as prescribed in the Investment Bank Capital Adequacy Framework; and
  - (b) submit to the Exchange through electronic transmission the information and records which are relevant in calculating its Capital Adequacy Ratio in the manner and at the times prescribed below; and -

	<b>Capital Adequacy Ratio</b>	<b>Frequency</b>	<b>Positions as at</b>	<b>Time for reporting being not later than</b>
(i)	More than or equal to four point zero (4.0)	Monthly	Last market day of the month	4.00 p.m on following market day
(ii)	Less than four point zero (4.0) but more than or equal to two point zero (2.0)	Fortnightly	<ul style="list-style-type: none"> <li>• 15<sup>th</sup> calendar day of the month if market day, or the market day immediately preceding the 15<sup>th</sup> calendar day</li> <li>• last market day of the month</li> </ul>	4.00 p.m on following market day
(iii)	Less than two point zero (2.0)	Daily	Each market day	4.00 p.m on following market day

**Change in Capital Adequacy Ratio:**

In the event there is change in Capital Adequacy Ratio for which a change in the reporting frequency is required, a Participating Organisation shall report to the



Exchange no later than 4.00 p.m. of the market day immediately following the market day on which such change occurred for the position thereat.

All such submissions by electronic transmission shall be deemed to be a declaration by the ~~Executive Director Operations~~ Head of Operations and any ~~other~~ director or Compliance Officer of the Participating Organisation that the information and records contained therein are true and accurate in all material aspects.

- (4) **Reporting:** A Participating Organisation shall submit to the Exchange a return, in the form prescribed in Schedule 8A, pertaining to its Liquid Capital, Total Risk Requirement, Liquid Margin and Capital Adequacy Ratio -
- (a) on a monthly basis, not later than 4.00 p.m. on the tenth (10th) calendar day after the end of the month;
  - (b) on a weekly basis, not later than 4.00 p.m. on the first (1st) market day of the following week, if its Capital Adequacy Ratio is between (but not including) one point one zero (1.10) and one point two zero (1.20);
  - (c) on a daily basis, not later than 4.00 p.m. the following market day, if its Capital Adequacy Ratio is one point one zero (1.10) or less.

Notwithstanding the times and manner provided above, the Exchange may at any time prescribe such other manner for monitoring the Capital Adequacy Ratio or require ad-hoc or more frequent submissions of the abovementioned return by the Participating Organisation by the Participating Organisation as it may determine in consultation with the Commission.

- (4A) In the case of an Investment Bank, the Exchange may at any time, in addition to the requirements prescribed under Investment Bank Capital Adequacy Framework, prescribe such other manner for monitoring the Risk Weighted Capital Ratio and/or require ad-hoc or more frequent submission of returns and/or prescribe additional submissions of returns.
- (5) **Declaration:** In the event the Capital Adequacy Ratio of the Participating Organisation shall at any time be one point two zero (1.20) or less, or in the case of an Investment Bank, in the event the Risk Weighted Capital Ratio shall at any time be at the minimum level or less than that which has been prescribed in the Guidelines on Investment Banks, the Participating Organisation shall as soon as reasonably practicable or immediately upon a request from the Exchange submit in writing to Intermediary Supervision its decided course of action or corrective measures taken (if any) accompanied by a written declaration, in form and substance acceptable to the Exchange, by the ~~Executive Director Operations or~~ Head of Operations ~~in the case of an Investment Bank~~ and any ~~other~~ director or Compliance Officer of the Participating Organisation that the decided course of action or corrective measures are being carried out or as the case may be, have been duly carried out and completed.
- (6) **Inspection:** A Participating Organisation shall -
- (a) provide any documents or other information required by the Exchange for purposes of monitoring compliance of this Rule 1105 and the Investment Bank Capital Adequacy Framework, as the case may be;
  - (b) prepare and keep available for inspection by the Exchange details of its Liquid Capital, Total Risk Requirement and Liquid Margin computations and in the case of an Investment Bank, the Risk Weighted Capital Ratio computations.

**RULE 1105.4 LIQUID CAPITAL**

- (1) **General Principle:** Every Participating Organisation shall, in computing its Liquid Capital deduct all fixed or non-liquid assets. For the purposes of these Rules -
- (a) "liquid assets" means securities or other current assets which have a ready market, or which are capable of realisation within thirty (30) days;
  - (b) in relation to an asset, "ready market" means a market where the asset can be realised without materially and adversely affecting its value.
- (2) **Computation of Liquid Capital:**
- (a) Subject to Rules 1105.4(3) to (6), the Liquid Capital of a Participating Organisation shall be determined in accordance with the computation as set out in Schedule 8A.
  - (b) For the avoidance of doubt –
    - (i) unaudited profits shall be included in the computation of Liquid Capital;
    - (ii) unaudited losses (which must include all unrealised losses except unrealised losses from principal positions which are provided for hereinafter) shall be deducted from Liquid Capital;
    - (iii) unrealised gains from principal positions shall be included in the computation of Liquid Capital; and
    - (iv) unrealised losses from principal positions shall be deducted from Liquid Capital.
  - (c) Participating Organisations shall mark to market all its marketable securities reported in Schedule 8A on a daily basis.
- (3) **Sources of Capital:** In the computation of its Liquid Capital, a Participating Organisation may, to the extent that they meet the criteria as prescribed in respect thereof, include the following sources of capital -
- (a) **Preference Shares**

Non-cumulative and non-redeemable preference share capital shall be included in the Core Capital.
  - (b) **Approved Subordinated Debts**

Approved subordinated debts, being debts which are legally subordinated for a period of at least two (2) years in the manner approved or determined by the Exchange and are only repayable with the prior written approval of the Exchange. Approved subordinated debts shall also be subject to the following -

    - (i) The aggregate amount of the debts shall be restricted to one hundred percent (100%) of the Participating Organisation's Effective Shareholders' Funds. Unless expressly permitted by the Exchange, there shall be no recognition by the Exchange of any subordinated debts in the event the Participating Organisation's Effective Shareholders' Funds is in negative and the Participating Organisation's subordinated debts (whether previously approved or otherwise) shall not be included in the computation of Liquid Capital.
    - (ii) The lender or creditor ("subordinated creditor") shall have expressly and irrevocably agreed that -

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- (aa) its right to receive principal and interest in respect of the debts shall at all times be subordinated to all other lenders or creditors of the Participating Organisation ("senior creditors"); and
- (bb) it shall not be entitled to claim or receive payment from the Participating Organisation, by way of set-off or in any other manner, of the subordinated debts unless and until all other debts of the Participating Organisation not being debts subordinated hereunder ("senior debts") has been paid or except where the Exchange has given its written approval in respect thereof pursuant to Rule 1105.4(3)(b)(v).
- (iii) The debts shall not be subject to any cross default and negative pledge.
- (iv) Subject to such terms and conditions as may be imposed by the Exchange, the debts shall be converted into equity if the Participating Organisation fails -
  - (aa) to comply with the Capital Adequacy Requirements under this Rule 1105; and
  - (bb) to undertake or effect an appropriate capital reconstruction of the Participating Organisation which has been approved by the Exchange.
- (v) Repayment of the whole or part of the debts shall be made only with the prior written approval of the Exchange provided always that the Exchange may withhold its consent if it is not satisfied that the Participating Organisation is able to continuously comply with the Capital Adequacy Requirements under this Rule 1105.
- (vi) In the event of dissolution, winding-up, liquidation or reorganisation of the Participating Organisation, the senior creditors of the Participating Organisation shall have the prior right to receive payment in full of their debts before the subordinated creditor receives any payment in respect of the subordinated debt.
- (vii) If, notwithstanding the provisions set out in the preceding paragraphs of this Rule 1105.4(3)(b), any distribution is received by the subordinated creditors in respect of the subordinated debts such distribution shall be paid over to the senior creditors for application rateably against their senior debts until they have been paid in full.

**(c) Revaluation Reserves**

Revaluation reserves of fixed assets on an "as is" basis subject to the following -

- (i) The revaluation reserves of the fixed asset included in the computation of Liquid Capital being the lower of -
  - (aa) any excess between the force sale value and the net book value; or
  - (bb) fifty per cent (50%) of any excess between the fair market value and the net book value; and
- (ii) The revaluation exercise from which the revaluation reserves is calculated was conducted -
  - (aa) not earlier than the expiry of ten (10) years from the date the fixed asset was purchased or the date of the last revaluation on the fixed asset, unless otherwise determined by the Exchange from time to time upon consultation with the Commission; and

(bb) by a professional valuer acceptable to the Exchange and who is licensed under the Valuers, Appraisers and Estate Agents Act, 1981 and all regulations and re-enactments thereto.

(4) **Specific Excluded Assets:** Notwithstanding anything contained in this Rule 1105, the following assets shall be excluded from the computation of Liquid Capital in the following manner -

(a) **Fixed Assets and Intangible Assets**

The total net book value of fixed assets and intangible assets as 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 authorities indicating that payment will be made within three (3) months therefrom.

The Exchange may, from time to time as it considers appropriate, include any other types of assets under this Rule 1105.4(4).

(5) **Excluded Asset Types:** In addition to the assets specified in Rule 1105.4(4), the following assets shall also be fully excluded from the computation of Liquid Capital -

(a) **Other Non-current Assets**

All other non-current assets including (but not limited to) investments in the form of equity holding of more than twenty percent (20%) in a company. Investment in excess of twenty percent (20%) in a company shall be regarded as an investment in an associated company.

(b) **Charged Asset**

Liquid assets charged to third parties except where 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 provided that the Participating Organisation has duly notified the Exchange of the details of the charged assets.

(c) **Deposits With Non-approved Institution**

Deposits other than those with approved financial institutions, to the extent that they are not adequately secured. For the purpose of this paragraph (c), "approved financial institutions" means banking and financial institutions licensed under Malaysian laws and includes international banking or financial institutions approved or prescribed by the Exchange from time to time.

(d) **Related/Associated Persons Balances**

Balances with a related or associated person regardless of whether such balances are secured or otherwise.

(e) **Other Debtors**

Balances with other debtors which are due for payment for more than thirty (30) days, to the extent that they are not adequately secured. Such balances shall not include those with related or associated persons.

(f) **Prepayments**

Prepayments not capable of being cancelled and realised into cash within thirty (30) days.

(g) **Other Assets**

Assets not realisable within thirty (30) days except to the extent that they are secured by securities or some other form of collateral acceptable to the Exchange, including loans to affiliated companies or corporations which are regulated under any law or regulation and which are, for the purposes of such law or regulation, treated as part of the regulatory or statutory capital of the affiliates.

For the purposes of this Rule 1105.4(5), a Participating Organisation may use collateral or security in reduction of the exclusion of the above assets, where applicable, provided that the conditions set out in Rule 1105.7(6)(b) are complied with and the value of the collateral envisaged shall be determined by applying the applicable discounts as prescribed in Schedule 8J.

(6) **Contingent Liabilities:**

(a) **General**

A Participating Organisation intending to enter into a position in relation to an instrument, financial or otherwise which gives rise to a contingent liability, shall at all times throughout the period of maintaining the aforementioned position, be able to maintain-

- (i) Liquid Margin which is adequate to enable the Participating Organisation to fully perform and/or discharge its obligations under the contingent liability; and
- (ii) minimum Capital Adequacy Ratio of not less than 1.20 times or such other minimum as may be from time to time prescribed by the Exchange.

(b) **Guarantees**

- (i) Guarantees issued by Participating Organisations shall be excluded from the computation of Liquid Capital, subject to Rule 1105.4(6)(b)(ii) below.
- (ii) Notwithstanding Rule 1105.4(6)(b)(i), a Participating Organisation may apply to the Exchange for partial inclusion or full inclusion of a guarantee issued by the Participating Organisation, into the computation of Liquid Capital. Approval for such partial inclusion or full inclusion of a guarantee issued by a Participating Organisation into the computation for Liquid Capital shall be at the discretion of the Exchange.
- (iii) Notwithstanding Rule 1105.4(6)(b)(i), where a guarantee is given to a company within the Participating Organisation's group of companies, that company's assets and liabilities (to the extent that they are covered by the guarantee) shall be taken into account as being part of the Participating Organisation's assets and liabilities for purposes of the computation, and in such case, the guarantee shall not be deducted from the capital computations (except where the Exchange agrees otherwise).
- (iv) The Exchange shall be immediately informed in writing of any intra-group and related party guarantees.

(c) **Option(s)**

- (i) A Participating Organisation's liability arising from put option(s) written, or entered into by it, shall be-

- (aa) treated as contingent liabilities of the Participating Organisation as from the date of its unequivocal acceptance of the commitment of the put option(s) or the date on which the agreement(s) for the put option(s) is signed, whichever is earlier; and
- (bb) deducted from the computation of Liquid Capital.
- (ii) A Participating Organisation shall calculate all contingent liabilities arising from put option(s) written by it in the manner prescribed in Schedule 8N.
- (iii) In calculating contingent liabilities arising from put option(s), the Participating Organisation may reduce its contingent liabilities in respect thereof to the extent that it holds collateral in accordance with the conditions set out in Rule 1105.7(6).
- (iv) For the purposes herein, the value of collateral shall be determined by applying the applicable discounts prescribed in Schedule 8J of Rule 1105.

### **RULE 1105.5 OPERATIONAL RISK**

- (1) **General Principle:** Every Participating Organisation shall ensure that its Operational Risk Requirement is, at all times, less than its Core Capital.
- (2) **Computation of Operational Risk Requirement:**
  - (a) The Operational Risk Requirement of a Participating Organisation shall be the greater of-
    - (i) the applicable Minimum Operational Risk Amount as determined under Rule 1105.5(3); or
    - (ii) twenty five percent (25%) of the Participating Organisation's annual expenditure requirement based on the last auditor's report lodged with the Exchange for the preceding twelve (12) months.
  - (b) Notwithstanding Rule 1105.5(2)(a), the Exchange may, at its absolute discretion, require a Participating Organisation to increase its Operational Risk Requirement if the Exchange is not satisfied that the internal controls of the Participating Organisation are adequate.
- (3) **Minimum Operational Risk Requirement:**
  - (a) The Minimum Operational Risk Requirement applicable to a Participating Organisation shall be determined by whether a Participating Organisation is a Universal Broker or Non-Universal Broker.
  - (b) A Participating Organisation which is a Universal Broker shall apply a Minimum Operational Risk Amount stipulated under category A of Schedule 8B.
  - (c) A Participating Organisation which is a Non-Universal Broker shall apply a Minimum Operational Risk Amount stipulated under category B of Schedule 8B.
- (4) **Annual Expenditure Requirement:** The annual expenditure requirement of a Participating Organisation shall be calculated with reference to its most recent auditor's report lodged with the Exchange as follows -
  - (a) its total revenue less profit before taxation; or
  - (b) the aggregate of its 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 which shall be made payable even if the company makes a loss for that year;
  - (iii) paid commissions which are 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 company's investment business and associated business carried on in connection therewith;
  - (vii) exceptional items (including but not limited to those items which arise from events or transactions within the ordinary activities of the business of a Participating Organisation and which are both material and not expected to recur frequently or regularly), with the prior written approval of the Exchange;
  - (viii) losses arising on the translation of foreign currency balances; and
  - (ix) any other costs and expenses that the Exchange may from time to time stipulate.
- (5) **Exemption:** If a Participating Organisation does not have an auditor's report -
- (a) in the case where it has just commenced business or it has not carried on business long enough to have submitted its auditor's report to the Exchange, it shall base its annual expenditure requirement on budgeted or other accounts which it submitted to the Exchange as part of its application to become a Participating Organisation;
  - (b) in the case where its accounts represent a period in excess of twelve (12) months, it shall calculate its annual expenditure requirement on a proportionate basis approved by the Exchange.
- (6) **Adjustment:** 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) the Participating Organisation has a material proportion of its expenditure incurred on its behalf by third parties and such expenditure is not fully recharged to the Participating Organisation.

#### **RULE 1105.6 POSITION RISK**

- (1) **General Principle:** Subject Always to Rule 1105.10, every Participating Organisation shall calculate its Position Risk Requirement -
- (a) in respect of all securities held by it as principal, including those held pursuant to its intra-day activities;
  - (b) on an intra-day basis to ensure that its Total Risk Requirement does not exceed its Liquid Capital;

- (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
  - (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).
- (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 -
- (a) in accordance with Rule 1105.6(1), a Participating Organisation shall calculate all principal positions held by it;
  - (b) a Participating Organisation shall, on a daily basis, mark to market all its principal positions;
  - (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;
  - (d) where applicable, a Participating Organisation shall calculate its Position Risk Requirement on a country by country basis;
  - (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
  - (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.
- (3) **Position Risk Requirement for other instruments:** Where a Participating Organisation has a position in an instrument for which no treatment is specified under this Rule 1105, the Participating Organisation shall immediately, in writing, seek guidance from Intermediary Supervision on the treatment to apply to such position, and until an appropriate treatment has been determined by the Exchange, the Position Risk Requirement shall be one hundred per cent (100%) of the mark to market value of the instrument.
- (4) **Methods of Computation of Equity Position Risk Requirement:** A Participating Organisation shall calculate its Position Risk Requirement in respect of its equity and equity equivalent positions based on either of the following approaches -
- (a) the Standard Approach (Rule 1105.6(9));
  - (b) the Building Block Approach (Rule 1105.6(10));
- which, in the case of equity derivatives, may be supplemented by the following methods -
- (i) the Margin Method (Rule 1105.6(11));
  - (ii) the Hedging Method (Rule 1105.6(12));
  - (iii) the Basic Method (Rule 1105.6(13)).
- (5) **Types of Positions to be Included:**
- (a) A Participating Organisation shall apply either the Standard Approach or the Building Block Approach in calculating the equity Position Risk Requirement in respect of equity shares.



- (b) Subject to Rule 1105.6(6)(b), a Participating Organisation may, in the calculation of its equity Position Risk Requirement, include positions in the following equity derivatives as equity equivalent positions by applying with the Standard Approach or the Building Block Approach -
- (i) equity swaps;
  - (ii) exchange traded options and stock options;
  - (iii) individual share futures;
  - (iv) over-the-counter share options;
  - (v) warrants over single share;
  - (vi) index and basket equity derivatives;
  - (vii) depository receipts; and
  - (viii) convertible notes.

Provided that where the relevant provisions of Rule 1105.6(6)(b) are not satisfied, a Position Risk Requirement shall be calculated by the Participating Organisation applying either the Margin Method, the Hedging Method or the Basic Method as may be appropriate.

- (c) Where the conversion of a convertible note or any equity derivative into an equity equivalent position gives rise to a notional loss, such loss shall be treated as an additional capital charge. A Participating Organisation shall 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.

**(6) Qualifying criteria for application of the Standard Approach or Building Block Approach to equity derivatives:**

- (a) Convertible notes shall be treated as equity instruments where -
- (i) there remain less than one (1) year to the conversion date; and
  - (ii) they are traded at a "premium" of less than ten per cent (10%).

If the abovesaid criteria are not fulfilled, the Participating Organisation may treat the convertible notes as either an equity instrument (as described above) or as a debt instrument under Rule 1105.6(15). The expression "premium" means the current mark to market value of the convertible 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.

- (b) The conversion of the instruments referred to in Rule 1105.6(5)(b) into equity equivalent positions shall be subject to the following rules -
- (i) Equity swaps shall be treated as two notional positions;
  - (ii) An option position may only qualify for an inclusion in the Standard Approach or Building Block Approach if it is in the money by at least the Position Risk Factor used in the Standard Approach as prescribed in Schedule 8C. In any other case, the Position Risk Requirement shall be calculated by the Participating Organisation by applying either the Basic, Hedging or Margin Methods, as may be appropriate, and not as an equity equivalent position;
  - (iii) Purchased call options and written put options shall be treated as long positions;

- (iv) Purchased put options and written call options shall be treated as short positions;
  - (v) Individual share futures may be included as single equity equivalent positions at their current mark to market value;
  - (vi) A warrant position may only qualify for an inclusion in the Standard Approach or Building Block Approach if it is in the money by at least the Position Risk Factor used in the Standard Approach as prescribed in Schedule 8C. In any other case, the Position Risk Requirement shall be calculated by the Participating Organisation by applying either the Basic, Hedging or Margin Methods, as may be appropriate, and not as an equity equivalent position;
  - (vii) 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;
  - (viii) Conversion of any other instruments shall be as determined by the Exchange on a case by case basis.
- (7) **Calculation of Equity Equivalent Positions:** Subject to Rule 1105.6(5) and Rule 1105.6(6), a Participating Organisation must calculate the equity equivalent position of equity derivatives or such other instruments for which no treatment is specified under this Rule 1105 in accordance with such rules, guidelines, directives or circulars as may be prescribed by the Exchange from time to time.
- (8) **Position Netting:** A Participating Organisation may, in respect of -
- (a) an equity, net a long position against a short position where the positions are in the same type of equity;
  - (b) an equity equivalent positions resulting from the equity derivative identified in Rule 1105.6(5)(b), net a long position against a short position where the positions are in the same type of instrument provided that the instrument has been converted into an equity equivalent position in accordance with Rule 1105.6(6)(b); and
  - (c) securities borrowing and/or lending, net a position of Securities Lent against Securities Borrowed where the positions are of the same type.
- (9) **Standard Approach:**
- (a) **Net position:** Any positions to which this approach is applied must be converted into a net position.
  - (b) **Methodology:** The total Position Risk Requirement based on the Standard Approach shall be calculated on a country by country basis as follows -

Step 1

Calculate the Position Risk Requirement for each net equity position. Net long and net short positions must both generate positive Position Risk Requirements.

$$\text{PRR}_{\text{equity position}} = \frac{\text{Mark to market value of net position}}{\text{PRF}}$$

Where,

PRR = Position Risk Requirement

PRF = Applicable Position Risk Factor, as prescribed in Schedule 8C

Step 2

Calculate the Position Risk Requirement based on the Standard Approach for each country portfolio as follows -

$PRR_{\text{country portfolio}} = \text{Aggregate of PRR applicable to the net long and net short position within the country portfolio}$

Step 3

Calculate the total Position Risk Requirement based on the Standard Approach as follows -

$\text{Total PRR}_{\text{Standard Approach}} = \text{Aggregate of the PRRs of all country portfolios}$

**(10) Building Block Approach:**

(a) **Additional qualifying criteria:** The Building Block Approach may be used on equity and equity equivalent positions only if the following conditions are satisfied -

- (i) where, within a country's portfolio, there are at least five (5) net long or five (5) net short positions held from market indices maintained or recognised by the Exchange; and
- (ii) where a particular net long or short position exceeds twenty per cent (20%) of the gross value of the country's portfolio, only the amount up to twenty per cent (20%) may be treated under the Building Block Approach. The excess amount shall be treated under the Standard Approach.

(b) **Methodology:**

The total Position Risk Requirement based on the Building Block Approach shall be calculated on a country by country basis as the sum of the specific risk and general market risk.

$PRR_{\text{country portfolio}} = \text{General Market Risk} + \text{Specific Market Risk}$

The specific risk and general market risk shall be calculated as follows -

**Specific Risk**

The specific risk shall be calculated on a country by country basis as follows -

Step 1

Calculate the specific risk for an individual equity position. Net long and net short positions shall both generate positive Position Risk Requirement.

$SR_{\text{each equity position}} = \frac{\text{Mark to market value of the individual net position}}{\text{Mark to market value of the individual net position}} \times PRF$

Where,

SR = Specific Risk

PRF = Applicable Position Risk Factor, as prescribed in Schedule 8D

Step 2

Calculate the specific risk for each country portfolio as specified below. Netting of long and short specific risk is prohibited.

$SR_{\text{each country portfolio}}$  = 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 shall be calculated on a country by country basis as follows -

#### Step 1

Calculate the general market risk for an individual equity position as follows -

$GMR_{\text{individual equity position}}$  =  $\frac{\text{Mark to market value of the individual net position}}{\text{PRF}}$

Where,

GMR = General Market Risk

PRF = Position Risk Factor, as prescribed in Schedule 8D

#### Step 2

Calculate the general market risk for a country portfolio. Netting of long and short general market risk is allowed.

$GMR_{\text{specific country portfolio}}$  = 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.

### Total PRR

Upon determining the Position Risk Requirement for each country portfolio in the manner aforesaid, the total Position Risk Requirement based on the Building Block Approach shall be the sum of the Position Risk Requirements of all country portfolios.

$\text{Total PRR}_{\text{Building Block Approach}}$  = Aggregate of the PRRs of all country portfolios

#### (11) **Margin Method:**

##### (a) **Criteria:**

- (i) A Participating Organisation may apply the Margin Method to all exchange traded equity derivative positions which have a positive initial margin requirement.
- (ii) A Participating Organisation may use the Margin Method where it chooses not to utilise any of the other available methods, but shall use it when it has not satisfied the criteria for those other methods.

##### (b) **Methodology**

- (i) The Position Risk Requirement is determined by multiplying one hundred percent (100%) of the initial margin requirement of the relevant exchange by four (4).
- (ii) 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.

#### (12) **Hedging Method:**

- (a) A Participating Organisation may apply the Hedging Method for calculating the Position Risk Requirement of an equity position hedged by an option or a warrant.
  - (b) 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.
  - (c) The Position Risk Requirement for positions using Hedging Method shall be determined in accordance with Schedule 8E.
- (13) **Basic Method:**
- (a) A Participating Organisation may apply the Basic Method for calculating Position Risk Requirement for equity derivatives.
  - (b) The Position Risk Requirement positions using the Basic Method shall be determined in accordance with Schedule 8E.
- (14) **Foreign Exchange:** The Position Risk Requirement for foreign exchange exposure shall be calculated by applying the applicable discount prescribed in Schedule 8J to the sum of the net long positions in foreign currencies.
- (15) **Debt Instruments:** The Position Risk Requirement for debt instruments shall be calculated as follows -
- PRR = Market Value *multiply by 8%***
- Where,  
PRR = Position Risk Requirement
- (16) **Suspended Securities:**
- (a) **Methodology:** The Position Risk Requirement for suspended securities shall be calculated by applying the applicable Position Risk Factor prescribed in Schedule 8C to the Last Done Price (as defined in Rule 701.1(1)) of the securities unless the security has been suspended for a continuous period of more than 3 market days, in which case the applicable Position Risk Factor shall be 100%, unless otherwise permitted or notified by the Exchange.
- (17) **Exchange Traded Funds:**
- (a) Proprietary positions in equities and debt securities held solely for the purpose of creation of an ETF shall have its exposure reduced in proportion to the amount of Exchange Traded Funds actually sold.
  - (b) Proprietary positions in equities and debt securities arising from reverse repo transactions shall have its 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.

#### **RULE 1105.7 COUNTERPARTY RISK**

- (1) **General Principle:** Subject Always to Rule 1105.10, a Participating Organisation shall calculate its Counterparty Risk Requirement for all counterparty exposures arising from –
- (i) unsettled agency (including those under DF Accounts) and principal trades;
  - (ii) debt, contra losses and other amounts due;
  - (iii) free deliveries;

- (iv) securities borrowing and lending transactions;
- (v) derivatives transactions;
- (vi) sub-underwriting arrangements; and
- (vii) other exposures as determined by the Exchange from time to time.

(2) **Principles applicable in calculating CRR:** In calculating Counterparty Risk Requirement, a Participating Organisation shall observe the following -

- (a) It is only required to calculate a Counterparty Risk Requirement if it has a positive exposure to a counterparty;
- (b) It shall not include any Counterparty Risk Requirement if it is a negative amount;
- (c) Counterparty Risk Requirement shall be calculated at least once each market day;
- (d) It shall mark to market all counterparty exposures;
- (e) It may reduce its Counterparty Risk Requirement to the extent that it holds collateral in accordance with the conditions set out in Rule 1105.7(6);
- (f) It may offset positive and negative counterparty exposures prior to the calculation of Counterparty Risk Requirement provided that it complies with Rule 1105.7(7);
- (g) It may reduce the counterparty exposure on which its Counterparty Risk Requirement is calculated to the extent of any provisions made;
- (h) It shall calculate a Counterparty Risk Requirement for all counterparty exposures irrespective of any connection with the counterparty;
- (i) It is not required to calculate a Counterparty Risk Requirement for an option over shares of a company if it is the writer of the option.

(3) **Exceptional instruments:** Where an instrument -

- (a) cannot be classified under any of the items specified in Rule 1105.7(1) or it is in doubt as to the classification of an item specified in the said Rule 1105.7(1); or
- (b) is not of a standard form,

the Participating Organisation shall immediately, in writing, seek guidance from Intermediary Supervision on the treatment to apply to such instrument and until such time as the Participating Organisation shall be advised on the treatment applicable to such instrument, the Counterparty Risk Requirement of that instrument shall be its full mark to market value net of any collateral held, which satisfies the conditions prescribed in Rule 1105.7(6)(b), after deducting the applicable discounts prescribed in Schedule 8J.

(4) **Computation:** Unless otherwise provided for under this Rule 1105.7, the Counterparty Risk Requirement shall be calculated in accordance with the following formula -

$$\text{CRR} = \text{CE multiply by CW multiply by } 8\%$$

Where,

- CRR = Counterparty Risk Requirement
- CE = Counterparty Exposure, as determined in accordance with Rule 1105.7(5).
- CW = Counterparty Weighting, as specified in Schedule 8F.

(5) **General rules in calculating CE and CRR:** A Participating Organisation shall calculate its counterparty exposures and Counterparty Risk Requirement in accordance with the following-

- (a) **Unsettled Agency (including those under DF Accounts) and Principal Trades:**
- (i) **Counterparty exposures:** A Participating Organisation's counterparty exposures on -
    - (aa) an agency purchase or a principal sale shall be equal to the mark to market value of the contract; and
    - (bb) an agency sale or a principal purchase shall be equal to the mark to market value of the contract.
  - (ii) **CRR for unsettled "delivery vs. payment" trades:** A Participating Organisation shall determine or calculate its Counterparty Risk Requirement on its unsettled agency and principal "delivery versus payment" trades in accordance with Schedule 8G.
- (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 its agreed due date save that in the case of a contra loss, the due date shall be the date of contra.
  - (ii) **Calculation of CRR:** A Participating Organisation shall calculate its Counterparty Risk Requirement in respect of such an exposure in the manner prescribed in Schedule 8H.
- (c) **Free Deliveries:**
- (i) Where a Participating Organisation delivers securities without receiving payment, or pays for securities without receiving the securities, its counterparty exposure shall be the full contract value of the transaction and its Counterparty Risk Requirement shall be calculated in accordance with Rule 1105.7(4).
  - (ii) Notwithstanding Rule 1105.7(5)(c)(i), where delivery or settlement remains outstanding for more than two (2) market days after the due date, the Counterparty Risk Requirement of the Participating Organisation shall be the full contract value of the transaction.
  - (iii) For the purposes herein, the due date shall be -
    - (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:**
- (i) **Counterparty exposures:** A Participating Organisation shall calculate its counterparty exposures for securities borrowing and lending as follows -
    - (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

- (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 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.
  - (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.
- (e) **Derivatives Transactions:**
- (i) **Exchange traded derivatives**
    - (aa) **Counterparty exposure:**
      - (i) A Participating Organisation's counterparty exposure on an exchange traded derivative contracts shall be the uncovered margin or the margin call due for the contract and/or any additional margin requirements, whichever is higher, as may be required by the Participating Organisation or by the recognised clearing house approved by the Minister.
      - (ii) Options (bought)

A Participating Organisation has a counterparty exposure on the uncovered premium in respect of the options bought (in the case of the buyer of an option) where the transaction is unsettled and the uncovered premium shall be the unpaid premium due from the buyer of the options.
      - (iii) 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) where the transaction is unsettled and the uncovered margin shall be the margin due less any premium received.
    - (bb) **Calculation of CRR:** A Participating Organisation shall calculate its Counterparty Risk Requirement on exchange traded derivatives as follows:

CRR = CE multiply by CW multiply by CRR charge (%)

Where,

CRR charge = CRR charge as prescribed in Schedule 8G  
CE = Counterparty Exposure, as determined in accordance with Rule 1105.7(5)(e)  
CW = Counterparty Weighting, as prescribed in Schedule 8F
  - (ii) **OTC Derivative Contracts:**



- (aa) **Counterparty exposure:** A Participating Organisation's counterparty exposure on an OTC derivative contract shall be the credit equivalent amount as specified in Schedule 8I.
  - (bb) **Calculation of CRR:** A Participating Organisation shall calculate its Counterparty Risk Requirement on OTC derivative in accordance with Rule 1105.7(4).
- (f) **Sub-underwriting:**
  - (i) **Counterparty exposure:** Where a Participating Organisation, acting as lead underwriter, enters into a sub-underwriting agreement with a counterparty, the Participating Organisation's counterparty exposure shall be equal to thirty percent (30%) of the sub-underwritten amount.
  - (ii) **Calculation of CRR:** A Participating Organisation shall calculate its sub-underwriting Counterparty Risk Requirement in accordance with Rule 1105.7(4).
- (g) **Reverse Repo Transactions:**
  - (i) Where a Participating Organisation purchases instruments through a reverse repo transaction, its counterparty exposure shall be the full pre-determined re-sale value of the instruments as agreed between the Participating Organisation and the repo seller and its Counterparty Risk Requirement shall be calculated in accordance with Rule 1105.7(4).
- (6) **Collateral:**
  - (a) **General rule:** A Participating Organisation may reduce the counterparty exposure on which its Counterparty Risk Requirement is calculated or determined to the extent that it holds collateral or security to cover the exposure provided that the conditions set forth in this Rule 1105.7(6) are complied with.
  - (b) **Conditions to be complied:** A Participating Organisation may use collateral or security including collateral placed by its Commissioned Dealer's Representative to reduce its counterparty exposure only if the following conditions are satisfied -
    - (i) the Participating Organisation has an unconditional right to apply or realise the collateral or security in the event of default by the counterparty;
    - (ii) the collateral or security is liquid in nature, which includes but is not limited to-
      - (aa) cash deposit in Ringgit;
      - (bb) cash deposit in foreign currency acceptable to the Exchange, as prescribed in Schedule 8J;
      - (cc) securities listed on the Exchange or other recognised stock exchanges;
      - (dd) government bonds or other debt instruments which have a ready market; and
      - (ee) any other collaterals which may be specified by the Exchange from time to time.
  - (c) **Discounting:** Subject to any directives or guidelines issued from time to time by the Commission or the Exchange relating to collaterals, where a collateral held by a Participating Organisation is in a form other than cash deposit in Ringgit, the value of

the collateral shall be discounted by applying the applicable discounts as prescribed in Schedule 8J.

- (d) **Reconciliation:** Every collateral held by a Participating Organisation shall be reconciled at least once a month.
  - (e) **Deposits and commission:** Deposits placed by Commissioned Dealer's Representatives with, and commissions held by, a Participating Organisation may be applied against the clients of its Commissioned Dealer's Representatives, who have outstanding contract, debts or other outstanding amounts. No deposit of one Commissioned Dealer's Representative may be used as collateral for another Commissioned Dealer's Representative who has insufficient funds.
- (7) **Counterparty Netting Agreements:** A Participating Organisation may net positive and negative counterparty exposures provided that -
- (a) they are with the same counterparty;
  - (b) they are similar in nature in that they fall within the same class as set out in Rule 1105.7(1); and
  - (c) the Participating Organisation has a valid and binding netting agreement with the counterparty.
- (8) **Additional Counterparty Risk Requirement:**
- (a) **Potential material loss:** Where, in the opinion of the Exchange, a Participating Organisation is exposed to a potential material loss in relation to any unsettled transaction, the Exchange may require a Participating Organisation to provide acceptable evidence of the client's commitment to meet its obligations on due date.
  - (b) **Acceptable evidence:** Acceptable evidence of a client's commitment to meet its obligations on due date may take the form of a documentary confirmation of the transactions concerned supported by any of the following –
    - (i) acceptable evidence of financial standing;
    - (ii) the provision of adequate security; or
    - (iii) the provision of acceptable guarantees.
  - (c) **Absence of acceptable evidence:** In the absence of acceptable evidence as required under Rule 1105.7(8)(b), the Exchange may at its discretion, inter alia, require a Participating Organisation to increase its Counterparty Risk Requirement by an amount not exceeding its exposure to loss. Such exposure to loss will be determined as the difference between the amount of the client's obligations and the amount of any assets available to meet such obligations.

#### **RULE 1105.8 LARGE EXPOSURE RISK**

- (1) **Principles applicable in calculating LERR:**
- (a) **General principle:** Participating Organisation shall compute its Large Exposure Risk Requirement in relation to -
    - (i) its exposure to a single client or counterparty;
    - (ii) its direct exposure to debt; and
    - (iii) its direct exposure to a single equity;

for all amounts arising in the normal course of trading in equity securities, debts or equity derivatives in accordance with the provisions set out under this Rule 1105.8.

- (b) **Hybrid securities:** A Participating Organisation must calculate its Large Exposure Risk to a hybrid securities or such other instrument for which no treatment is specified under this Rule 1105 in accordance with such rules, guidelines, directives or circulars as may be prescribed by the Exchange from time to time.

(2) **Variation to LERR:**

- (a) **Waiver for Participating Organisation:** The Exchange may, upon a written application from a Participating Organisation, reduce or waive the Large Exposure Risk Requirement for the Participating Organisation subject to terms and conditions as the Exchange deems fit upon notification to the Commission.
- (b) **Variation of maximum LER:** The Exchange may reduce, increase, vary or waive the maximum Large Exposure Risk prescribed in this Rule 1105 as the Exchange deems fit upon notification to the Commission.

(3) **Exposure to a single client/counterparty:**

- (a) **Large Exposure Risk:** A Participating Organisation has a Large Exposure Risk in relation to a single client or counterparty if the sum of its counterparty exposure to that client or counterparty as calculated in accordance with Rule 1105.7(5) exceeds ten percent (10%) of the Participating Organisation's Effective Shareholders' Funds.
- (b) **Connected persons:** In determining a Participating Organisation's Large Exposure Risk in relation to a single client or counterparty, the Participating Organisation shall include its exposure to persons connected to that client or counterparty.
- (c) **Large Exposure Risk Requirement:** The Large Exposure Risk Requirement of a Participating Organisation to a single client or counterparty shall be equal to the amount calculated to be the Counterparty Risk Requirement for that particular client or counterparty as calculated in accordance with 1105.7(4).
- (d) **Meaning of single client/counterparty:** For the purposes of this Rule 1105.8, the expression "single client or counterparty" includes -
  - (i) where such single client or counterparty is an individual, the individual, spouse of the individual, the partnership of which he is a partner, any partner of the individual, the spouse of the partner and all the companies or corporations over which the individual exercises control. For the purpose of this Rule 1105.8, an individual is deemed to exercise "control" over a company or corporation if the individual or the individual's spouse, severally or jointly -
    - (aa) holds, directly or indirectly, more than fifty per cent (50%) of the shares of the corporation,
    - (bb) has the power to appoint, or cause to be appointed, a majority of the directors of the company or corporation, or
    - (cc) has the power to make, cause to be made, decisions in respect of the business or administration of the company or corporation, and to give effect to such decisions, or cause them to be given effect to.
  - (ii) where such single client or counterparty is a company or corporation, the company or corporation, its related company or corporation and its associated companies. For the purpose of this Rule 1105.8 -
    - (aa) a related corporation shall have the meaning as defined by section 6 of the Companies Act, 1965, and

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- (bb) a company is deemed to be an associated company of the company or corporation where the company or corporation holds, directly or indirectly, not less than twenty per cent (20%) and not more than fifty per cent (50%) of the issued share capital of such company.
- (e) **Maximum LER:** The maximum Large Exposure Risk that a Participating Organisation is allowed to bear in relation to any one particular client or counterparty is thirty percent (30%) of its Effective Shareholders' Funds.
- (f) **Reporting:** A Participating Organisation shall report to the Exchange promptly all its Large Exposure Risk relating to a counterparty.

(4) **Direct Exposure to Debt:**

- (a) **Large Exposure Risk:** A Participating Organisation has a Large Exposure Risk in relation to an issuer of debt if the total amount of debt held against the issuer exceeds fifteen percent (15%) of the Participating Organisation's Effective Shareholders' Funds.
- (b) **Large Exposure Risk Requirement:** The Large Exposure Risk Requirement for the exposure to debt under Rule 1105.8(4)(a) shall be equal to the Position Risk Requirement as calculated in accordance with Rule 1105.6(15).
- (c) **Maximum LER:** The maximum Large Exposure Risk in relation to a debt that a Participating Organisation is allowed to undertake is thirty percent (30%) of its Effective Shareholders' Funds unless otherwise prescribed by the Exchange from time to time.
- (d) **Reporting:** A Participating Organisation shall report to the Exchange promptly all its Large Exposure Risk relating to debt.

(5) **Exposure to a Single Equity:**

- (a) **Large Exposure Risk:** A Participating Organisation has a large exposure to a single equity if -
  - (i) it has a net position or exposure (either long or short) that exceeds ten percent (10%) of the total issue of the equity; or
  - (ii) it has a net position or exposure that exceeds fifteen percent (15%) of its Effective Shareholders' Funds.
- (b) **Net position or exposure:** In calculating its net position or exposure in relation to a single equity, a Participating Organisation -
  - (i) need not include its underwriting or sub-underwriting commitment, unless that commitment has become a principal position;
  - (ii) shall include an equity OTC options or an equity warrant that is in the money at its full underlying value;
  - (iii) shall not treat an out of the money equity OTC options or an equity warrant as an exposure; and
  - (iv) shall not treat an Exchange Traded Fund, where the underlying instruments are government and/or government-related agency bonds, as an exposure.
- (c) **Meaning of "single equity":** For the purposes of this Rule 1105.8, the expression "single equity" includes -
  - (i) 30% of the value of the collateral underlying debtors or margin accounts (including interest) to the extent that it is used to secure the exposure;
  - (ii) 30% of the value of the collateral underlying loans and advances to the extent that it is used to secure the exposure;
  - (iii) investment in the stock accounts;
  - (iv) the net purchase contract value of single equity underlying clients' accounts arising from transactions either under a Ready or Immediate Basis Contract, to the extent that it has not been paid for on and subsequent to the FDSS due settlement date; and

- (v) the net purchase contract value of single equity underlying clients' accounts arising from transactions under a DF Account to the extent that it has not been paid for subsequent to the FDSS due settlement date.
- (d) **LERR for Exposure to Equity Relative to Instrument on Issue:**
  - (i) Where a Participating Organisation has a Large Exposure to a single equity relative to its total issue as specified in Rule 1105.8(5)(a)(i), the Participating Organisation shall calculate its Large Exposure Risk Requirement by multiplying the value of the exposure which is in excess of ten percent (10%) of the total issue by the Position Risk Factor used in the Standard Approach in the manner prescribed in Schedule 8K.
  - (ii) Where a Participating Organisation has an exposure in excess of twenty percent (20%) of the issuer's capital arising from its investment in the stock accounts as stipulated in Rule 1105.8(5)(c)(iii), the Participating Organisation shall be deemed to be an associate of the issuer.
- (e) **LERR for Exposure to an Equity relative to Effective Shareholders' Funds:** Where a Participating Organisation has a Large Exposure to a single equity relative to the Participating Organisation's Effective Shareholders' Funds as specified in Rule 1105.8(5)(a)(ii), the Participating Organisation shall calculate its Large Exposure Risk Requirement by multiplying the value of the exposure which is in excess of ten percent (10%) of its Effective Shareholders' Funds by the Position Risk Factor used in the Standard Approach, in the manner prescribed in Schedule 8K.
- (f) **Large Exposure relative to an instrument and Effective Shareholders' Funds:** Where 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 Large Exposure Risk Requirement for the Participating Organisation shall be the higher of the two requirements.
- (g) **Maximum LER:** Notwithstanding anything herein contained, unless otherwise approved by the Exchange in writing, every Participating Organisation, shall at all times limit its Large Exposure Risk to a single equity, to a gross exposure of two hundred fifty per cent (250%) of the Participating Organisation's Effective Shareholders' Funds.
- (h) **Reporting:** A Participating Organisation shall report to the Exchange promptly all its Large Exposure Risk relating to a single equity.

#### **RULE 1105.9 UNDERWRITING RISK**

- (1) **General Principle:** A Participating Organisation has an Underwriting Risk if it has entered into a binding commitment to take up securities at a predetermined price and time.
- (2) **Computation:** The Underwriting Risk Requirement of a Participating Organisation shall be thirty percent (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 8C.

$$\text{URR} = \text{UE multiply by PRF multiply by 30\%}$$

URR	=	Underwriting Risk Requirement
UE	=	Underwriting Exposures as defined in Rule 1105.9(3)(a)
PRF	=	Applicable Position Risk Factor, as prescribed in Schedule 8C

- (3) **Methodology:** In assessing its underwriting and sub-underwriting commitment, a Participating Organisation shall observe the following -

- (a) An Underwriting Exposure is an underwriting commitment which shall be computed based on the quantity and price as stated in the underwriting agreement or document or any amendments or supplements thereto from time to time.
  - (b) An Underwriting Risk exists as from the date of its unequivocal acceptance of the underwriting commitment or the date on which the underwriting agreement or document is signed, whichever is the earlier.
  - (c) Where 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 provided that proper documentation or an agreement for the sub-underwriting has been executed.
  - (d) The sub-underwriting amount under paragraph (c) above shall be treated by the Participating Organisation as a Counterparty Risk.
  - (e) Where a Participating Organisation undertakes a sub-underwriting commitment, the sub-underwriting commitment shall be treated as an underwriting commitment as from the later of the following events:
    - (i) the date of its unequivocal acceptance of the sub-underwriting commitment or the date on which the sub-underwriting agreement or document is signed, whichever comes first; or
    - (ii) the date of the unequivocal acceptance of the underwriting commitment or the date on which the underwriting agreement or document is signed, by the lead underwriter(s), whichever comes first.
  - (f) An underwriting commitment shall continue as an Underwriting Risk until the date the application closes, in which event such Underwriting Risk either -
    - (i) ceases; or
    - (ii) becomes a Position Risk.
- (4) **Register of Underwriting Commitments:** Every Participating Organisation shall maintain a register of all its underwriting commitments which shall contain the following information -
- (a) The description of the securities
  - (b) The quantity and price of its underwriting commitment
  - (c) The quantity and price of its underwriting commitment that has been sub-underwritten
  - (d) The date the underwritten commitment is discharged.

#### **RULE 1105.10 MARGIN FINANCING FACILITIES**

(1) **Margin Financing Facilities:**

- (a) Every Participating Organisation which provides margin financing facilities has:-
  - (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;
  - (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

- (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 onward lent as principal for the purpose of securities borrowing and lending as envisaged in Rules 608.2(1)(a)(ii) and 608.8.
- (b) For the purposes herein:-
  - (i) the expression “equity”, “margin” and “outstanding balance” of a margin account shall bear the same meaning as is respectively ascribed thereto in Rule 703, unless otherwise provided for under this Rule 1105.10;
  - (ii) for the avoidance of doubt, the Participating Organisation must ensure that the aggregate mark to market value of any client’s securities held by it as collateral which are onward pledged by the Participating Organisation to such third party, as may from time to time be permitted pursuant to these Rules and/or Depository Rules, shall not at any time exceed the outstanding balance of the client’s margin account.
- (2) **General principles:** Every Participating Organisation which provides margin financing facilities shall calculate the following:-
  - (a) its Counterparty Risk Requirement in respect of counterparty exposures arising from margin financing facilities, to the extent as provided in Rule 1105.10(3)(b);
  - (b) its Position Risk Requirement in respect of Margin Financing On-Pledged Risk for all securities held by it as collateral pursuant to margin financing facilities but which have been onward pledged, to the extent as provided in Rule 1105.10(4)(a); and
  - (c) its Position Risk Requirement in respect of Margin Financing Onward Lent Risk for all Margin Securities which have been onward lent as principal for the purpose of securities borrowing and lending as envisaged in Rule 608.2(1)(a)(ii), to the extent as provided in Rule 1105.10(5) .
- (3) **Counterparty Risk Requirement for margin financing facilities:**
  - (a) **Counterparty exposure:** A Participating Organisation’s counterparty exposure in respect of a margin financing facility shall be the outstanding balance of the margin account.
  - (b) **Principles Applicable to Margin Financing Counterparty Risk Requirement:**
    - (i) In calculating Counterparty Risk Requirement in relation to margin financing facilities, a Participating Organisation shall, in addition to the principles applicable in calculating Counterparty Risk Requirement provided in Rule 1105.7(2), observe the following:
      - (aa) it is not required to calculate a Counterparty Risk Requirement in respect of any margin account with credit balance;
      - (bb) it is not required to calculate a Counterparty Risk Requirement in respect of any margin account where at any time specific provisions equivalent to one hundred per cent (100%) of the amount outstanding (as defined in Schedule 7) have been made in accordance with the provisions of Rule 1104 and Schedule 7;
      - (cc) it shall calculate a Counterparty Risk Requirement in respect of any margin account where the equity, after applying the applicable discounts prescribed in Rule 1105.7(6)(c) and Schedule 8J, is below one hundred fifty per cent (150%) of the outstanding balance.
    - (ii) **Calculation of CRR:**



- (aa) A Participating Organisation shall calculate its Counterparty Risk Requirement in respect of margin financing facilities in the manner prescribed in Schedule 8L.
- (bb) The sum of such Counterparty Risk Requirements calculated in accordance with Rule 1105.10(3)(b)(ii) shall represent the total Counterparty Risk Requirement of a Participating Organisation in relation to margin financing facilities.

(4) **Position Risk Requirement for Margin Financing On-Pledged Risk:**

- (a) **Principles Applicable to Position Risk Requirement for Margin Financing On-Pledged Risk:** In calculating the Position Risk Requirement in respect of Margin Financing On-Pledged Risk in relation to securities held by it as collateral pursuant to margin financing facilities and which have been onward pledged by a Participating Organisation, the Participating Organisation shall observe the following principles:
  - (i) the Participating Organisation shall calculate all positions where the securities held by it as collateral pursuant to margin financing facilities have been onward pledged by the Participating Organisation to such third party, as may from time to time be permitted pursuant to these Rules and/or Depository Rules, to which the Participating Organisation has a balance owing which is secured against onward pledged collateral;
  - (ii) the sum of such positions shall represent the total Position Risk Requirement in respect of its Margin Financing On-Pledged Risk in relation to all securities held by it as collateral pursuant to margin financing facilities which have been onward pledged in the manner aforesaid;
  - (iii) the Participating Organisation shall, on a daily basis, mark to market all its collateral, and where required, the value of the collateral shall be discounted in the manner prescribed in Rule 1105.7(6)(c) and Schedule 8J.
- (b) **Methodology:** The Position Risk Requirement in respect of securities held by a Participating Organisation as collateral pursuant to margin financing facilities and which have been onward pledged to such third party as may from time to time be permitted pursuant to these Rules and/or Depository Rules shall be calculated in the manner prescribed in Schedule 8M.

(5) **Position Risk Requirement for Margin Financing Onward Lent Risk:**

In calculating the Position Risk Requirement in respect of Margin Financing Onward Lent Risk in relation to Margin Securities which have been onward lent by a Participating Organisation as principal, the Participating Organisation shall observe the principles prescribed in Rule 1105.6.

**RULE 1105.11 RIGHT TO REVIEW**

The Schedules applicable and referred to this Rule 1105 shall be subject to such variations, amendments, modifications or substitutions as the Exchange may deem to be necessary and expedient by way of any circulars or directives issued by the Exchange from time to time.

**RULE 1106 GEARING RATIO**

**RULE 1106.1 DEFINITION**

(1) For the purposes of this Rule -

Core Capital	has the same meaning assigned to that expression in Rule 1105.1(1).
Effective Shareholders' Funds	has the same meaning assigned to that expression in Rule 1105.1(1).
Gearing Ratio	means the ratio linking a Participating Organisation's Utilised Level and its Effective Shareholders' Funds, calculated as the Utilised Level divided by Effective Shareholders' Funds.
proprietary accounts	means accounts operated by a Participating Organisation for the purpose of trading as principal.
subordinated debt	means the approved subordinated debt that fulfils the requirements stipulated in Rule 1106.4(3)(b).
Utilised Level	means the aggregate amount of borrowings already utilised by a Participating Organisation.

**RULE 1106.2 GEARING RATIO**

(1) Unless otherwise permitted under this Rule 1106, a Participating Organisation shall at all times ensure that its borrowing exposure is in accordance with the following:

$$\frac{\text{Utilised Level}}{\text{Effective Shareholders' Funds}} \leq 2.5 \text{ times}$$

(2) For the purpose of compliance with Rule 1106.2(1), a Participating Organisation's subordinated debt will be excluded from the Gearing Ratio provided the amount of such subordinated debt does not exceed fifty per cent (50%) of the Participating Organisation's paid up capital unimpaired by losses.

(3) The Exchange with the consent of the Commission may determine a schedule for the gradual reduction in a Participating Organisation's exposure to all borrowings obtained.

(4) For the purposes of the provisions of this Rule 1106, the Exchange may at any time prescribe by way of any directives or circulars issued by the Exchange from time to time:-

(a) that references to "Effective Shareholders' Funds" be substituted by "Liquid Capital" (as is defined in the rules relating to capital adequacy requirements contained in Rule 1105) or such other term, expression or concept as the Exchange may deem to be necessary or expedient; and

(b) the date when the provisions of Rule 1106.2(4)(a) shall take effect.

(5) The Gearing Ratio prescribed above shall not apply to –

(a) a Universal Broker provided the Universal Broker shall at all times maintain a Core Capital of not less than Ringgit Malaysia Five Hundred Million (RM500,000,000.00); and

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- (b) an Investment Bank provided the Investment Bank shall at all times maintain minimum capital funds unimpaired by losses of not less than Ringgit Malaysia Two Billion (RM2,000,000,000.00) on a banking group basis or, for an Investment Bank which does not form part of a banking group, minimum capital funds of Ringgit Malaysia Five Hundred Million (RM500,000,000.00), as referred to in the Guidelines on Investment Banks.

Notwithstanding the aforesaid, the Exchange may from time to time prescribe other requirements to be applicable to a Universal Broker or an Investment Bank as it deems necessary or expedient.

[End Of Chapter]

## CHAPTER 12 AUDITS, INSPECTION AND INVESTIGATION

### RULE 1201 STATUTORY AUDIT ON CORPORATE PARTICIPANTS

#### RULE 1201.1 ANNUAL STATUTORY AUDIT AND ANNUAL REPORT

- (1) Every Participating Organisation shall cause accounts relating to its business to be audited by a company auditor ("statutory auditor") for each financial year of the Participating Organisation in accordance with the Companies Act and ~~Securities Industries Capital Markets and Services~~ Act.
- (2) Every Participating Organisation shall furnish to the Exchange and all relevant statutory authority within three (3) months after the close of the financial year, or such other period as permitted by the relevant statutory authority, an audited financial statement, any other documents deemed necessary or expedient and an Annual Report stating -
  - (a) whether the Minimum Paid-Up Capital and the capital adequacy requirements have been maintained and complied with as required by these Rules;
  - (b) whether, in the opinion of the statutory auditor, the financial position of the Participating Organisation is such as to enable it to conduct its business on sound lines, having regard to the nature and volume of the business transacted during its past financial year as shown in its books of accounts and records;
  - (c) whether, in the opinion of the statutory auditor, the provisions of Sections ~~111 to 11444 to 46~~ of the ~~Securities Industry Capital Markets and Services~~ Act and these Rules, have been complied with;
  - (d) whether in the opinion of the statutory auditor, the provisions relating to the treatment of clients' assets under these Rules have been complied with;
  - (e) whether, in the opinion of the statutory auditor, the books of accounts and records of the Participating Organisation are those usual in a business of this nature and appear to have been kept in a proper manner and in accordance with the relevant laws; and
  - (f) whether the statutory auditor has obtained all the necessary information and explanations for the proper conduct of the audit and to enable the auditor to furnish his Annual Report.
- (3) Each Participating Organisation shall notify the Exchange, in writing, of any change to -
  - (a) the date of its financial year end; and
  - (b) the name of the statutory auditor who will furnish the Annual Report.
- (4) A Participating Organisation commencing or resuming business after the coming into effect of these Rules shall within two (2) months after such commencement or resumption comply with the foregoing requirements of Rule 1201.1(3).

#### RULE 1201.2 PARTICIPATING ORGANISATIONS' DECLARATION

- (1) Each Participating Organisation shall, annually within one (1) month after the close of the financial year of the Participating Organisation, furnish to the Exchange a statutory declaration in the form specified in Appendix 9 and signed by all its directors stating that no securities received by it from or on behalf of a client for safe custody or sale have been dealt with otherwise than in accordance with the client's instructions or in the absence of specified instructions from the client, that such securities are held by it or lodged with its bank for safe custody only.

- (2) A Participating Organisation commencing or resuming business after the coming into effect of these Rules shall, within two (2) months after such commencement or resumption comply with the foregoing requirements of Rule 1201.2(1).

**RULE 1202 INTERNAL AUDIT**

**RULE 1202.1 INTERNAL AUDIT FUNCTIONS AND AUDIT COMMITTEE**

- (1) [Deleted]
- (2) [Deleted]
- (3) [Deleted]
- (4) [Deleted]
- (5) [Deleted]
- (6) [Deleted]
- (7) [Deleted]
- (8) [Deleted]

**RULE 1202.2 SCOPE OF INTERNAL AUDIT**

- (1) [Deleted]
- (2) [Deleted]
- (3) [Deleted]

**RULE 1202.3 REPORTING**

- (1) [Deleted]
- (2) [Deleted]
- (3) [Deleted]

**RULE 1202.4 INVESTMENT BANKS**

- (1) [Deleted]

## RULE 1203 INSPECTION

### RULE 1203.1 EXCHANGE'S RIGHT TO INSPECTION

- (1) Every Participating Organisation shall from time to time, with or without notice, be subject to inspections and/or audits by the Exchange to ensure and appraise the Participating Organisation's compliance with provisions of the Depository Rules, Clearing House Rules, these Rules, Participating Organisation's internal policies and procedures and/or on other rules and regulations related to its business in dealing in securities.
- (2) Without prejudice to Rule 1203.1, a Participating Organisation shall afford, and shall procure its registered person(s) and/or its employees to produce to the Inspector (as hereinafter defined) such documents, books or records for purposes of inspection and this may include to make copies of, and/or take extracts from such documents, books or records to enable the Exchange to properly perform its inspection and its other duties under the Securities Laws and these Rules.
- (3) No Participating Organisation, its registered person(s) and its employees shall hinder or obstruct the Inspector from discharging his duties and shall without reasonable excuse give the Inspector such assistance that he may reasonably require to discharge his duties.

### RULE 1203.2 APPOINTMENT

- (1) Without prejudice to Rule 201.2, the Exchange shall have the authority to appoint –
  - (a) an officer of the Exchange;
  - (b) an officer of the Exchange holding company; and/or
  - (c) a qualified accountant or an advocate and solicitor,as the Exchange's inspector ("Inspector"), for the purposes of exercising all or any of the inspection powers vested in it under Rule 1203.

### RULE 1203.3 INSPECTION COST

- (1) The Exchange may, at its absolute discretion, charge a fee proportionate for the work performed by the Inspector, which shall be payable by the Participating Organisation on which the inspection and/or audit was conducted, and there shall be no dispute as to the fee payable to the Exchange.

### RULE 1203.4 REPORTING

- (1) The Exchange, may forward to the Participating Organisation the whole, parts or a summary of any report issued by the Exchange as a result of an inspection under Rule 1203.
- (2) The Participating Organisation shall table the findings of the Exchange's inspection to the Participating Organisation's board of directors as soon as practicable.
- (3) The decided course of action and corrective measures taken (if any) by the Participating Organisation 's board of directors to address any non-compliance or irregularities in respect of the inspection report shall be submitted to the Exchange together with a written declaration, by the Participating Organisation's chairman or ~~Executive Director~~Head, in such form acceptable to the Exchange stating that the decided course of action and corrective measures (if any) have been duly carried out or completed, within one (1) month or such other period determined by the Exchange at any time from the date of the relevant meeting of the board of directors.

**RULE 1204 INVESTIGATION**

**RULE 1204.1 POWER OF INVESTIGATION**

- (1) The Exchange may, at any time and from time to time as it thinks expedient or if requested by the Commission or other relevant authorities, conduct investigations on the accounts and affairs of any Participating Organisation, and on any matter regarding Participating Organisations, their registered person(s) and employees which may involve a breach of the Depository Rules, the Clearing House Rules and/or these Rules.
- (2) Without prejudice to generality of the foregoing, the Exchange shall be particularly empowered-
  - (a) to require Participating Organisations, their registered person(s) and/or employees to attend at the premises of the Exchange at any time and to give such information as may be in their possession relevant to any matter brought before or under investigation by the Exchange;
  - (b) to require a Participating Organisation to procure the attendance of any agent, consultant, its registered person(s) and/or employees before any authorized officer of the Exchange and to give such information as may be in the possession of such person relevant to any matter brought before or under investigation by the Exchange;
  - (c) to require any Participating Organisation, its registered person(s) and/or employees to furnish any particulars required and to produce to any authorized officer of the Exchange, all books, letters, telexes or copies thereof, and any other document in its possession relevant to any matter brought before or under investigation by the Exchange. The production of document, books, letters, and telexes may also include requiring the Participating Organisation to make copies and/or taking extracts of the same;
  - (d) through its Investigation Officers (as hereinafter defined), to seize, detain or take possession of any property, books or other document or article found, upon the premise of the Participating Organisation, in direct or indirect possession of registered person(s) and/or employees for the purpose of the investigation being carried out;
  - (a) to investigate the accounts and affairs of any Participating Organisation, its Dealers' Representatives, registered person(s) and/or employees whenever in its opinion there is sufficient reason to do so; and/or
  - (f) in addition to any action taken by the Exchange, to require a Participating Organisation to discipline its registered person(s) and/or employees in an appropriate manner if such person shall have caused the Participating Organisation to violate the Securities Laws, the Depository Rules, the Clearing House Rules and/or these Rules.
- (3) The powers conferred by this Rule is in addition to and not in derogation of any powers conferred upon the Exchange under any written law.

**RULE 1204.2 APPOINTMENT**

- (1) Without prejudice to Rule 201.2, the Exchange shall have the authority to appoint -
  - (a) an officer of the Exchange
  - (b) an officer of the Exchange holding company; and/or
  - (c) a qualified accountant or an advocate and solicitor,

as the Exchange's investigation officer ("Investigation Officer"), for the purposes of exercising all or any of the investigative powers vested in it under Rule 1204.1.



- (2) An investigation may be carried out by a team of personnel headed by a senior officer of the Exchange or otherwise by any person appointed by the Exchange pursuant to the foregoing Rule.

**RULE 1204.3 RECORDING OF STATEMENTS**

- (1) Where the Investigation Officer is of the opinion that registered person(s) and/or employees are acquainted with the facts and circumstances of a case, the Investigation Officer may record statements from such persons.
- (2) Where such statements recorded from registered person(s) and/or employees may be used in disciplinary proceedings against such person(s) whose statement is recorded, the Investigation Officer shall inform such person(s) of such fact before the recording of the statement.

**RULE 1204.4 INVESTIGATION COST**

Where the report submitted to the Exchange pursuant to any investigation carried out under Rule 1204 discloses or reveals any breach of the Securities Laws, the Depository Rules, the Clearing House Rules and/or these Rules, the Exchange may, at its absolute discretion, require the Participating Organisation and/or registered person(s) concerned to pay or reimburse the Exchange all cost incurred by it in connection with such investigation.

**RULE 1205 SUPPLY OF INFORMATION**

**RULE 1205.1 SUPPLY OF INFORMATION**

- (1) The Exchange may, for purpose of obtaining information about any matter which it considers may relate to these Rules or the integrity of the Exchange's market –
  - (a) require the provision forthwith by a Participating Organisation, its registered person(s) and/or employees of accurate information about its business and transactions in a format, electronic or otherwise, specified by the Exchange;
  - (b) require the production forthwith by a Participating Organisation, its registered person(s) and/or employees of documents (which, for the purpose of this Chapter, shall include anything in which information of any description if recorded) in his possession, custody, power or control and if, any such documents cannot be produced, require the Participating Organisation, its registered person(s) and/or employees to state to the best of his knowledge and belief where and in whose possession, custody, power or control they are and require the Participating Organisation, its registered person(s) and/or employees to use his best endeavours to secure the documents;
  - (c) interview any registered person(s), employee or agent (or any employee of such registered person(s) or agent of a Participating Organisation and require him to answer questions and provide explanations and/or require answers and explanations from the Participating Organisation and record such answers and explanations electronically or otherwise;
  - (d) require the attendance, upon reasonable notice, of any registered person(s), employee or agent (or any employee of such registered person(s) or agent) of a Participating Organisation at a specified date, time and place, to answer questions, provide explanations and/or give evidence and require the Participating Organisation to procure such attendance;
  - (e) require the provision of information relating to any person who is to be, is or has been a registered person(s) or employee of the Participating Organisation or engaged in its business);
  - (f) send any officer of the Exchange or Exchange holding company, as the case may be, to a Participating Organisation's premises at any time, for the purpose of investigations and to ensure compliance with these Rules; and
  - (g) make copies or require copies to be made of documents or information for retention by it or otherwise to take extracts from such documents or information and/or require any person who was a party to the compilation or preparation of such documents or information to provide an explanation for any of them.
- (2) A Participating Organisation shall comply or as the case may be shall procure compliance with any requirement of the Exchange made pursuant to this Rule.
- (3) A Participating Organisation is responsible to the Exchange for the conduct of its registered person(s), employees and agents. Such conduct shall be treated for the purpose of these Rules as conduct of the Participating Organisation.
- (4) A Participating Organisation shall not provide the Exchange any information which is false, misleading or inaccurate in a material particular and shall comply or as the case may be procure compliance with a request by the Exchange for explanation or verification of information provided to the Exchange.
- (5) For the purpose herein, "information" includes without limitation information in writing or in any other means of electronic, magnetic, mechanical or other recording whatsoever or on any medium, substance, material, thing or article.

**RULE 1206 CONFIDENTIALITY**

**RULE 1206.1 CONFIDENTIALITY OF FINDINGS**

- (1) The findings and results of all investigations under Rule 1204 shall be deemed to be confidential and shall not be revealed other than to the Exchange, the Committee concerned with such information or any authorised officer of the Exchange or Exchange holding company, as the case may be, the Commission or any authorised officer of the Commission or any investigating governmental authorities or agencies. No findings or results of such investigations shall be used, except in connection with a hearing (whether conducted by the Exchange, Exchange holding company, the Commission or a court of law), resulting from the investigations or except when permitted under these Rules or required by law.

[End Of Chapter]

CHAPTER 14 COMPENSATION FUND

RULE 1401 ESTABLISHMENT AND MANAGEMENT

RULE 1401.1 ESTABLISHMENT OF COMPENSATION FUND

- (1) The Exchange shall, pursuant to the requirement under Section ~~6141~~ of the ~~Securities Industry Capital Markets and Services~~ Act, establish and maintain a Compensation Fund in accordance with Part ~~IVVIII~~ of the ~~Securities Industry Capital Markets and Services~~ Act.

RULE 1401.2 MANAGEMENT OF COMPENSATION FUND

- (1) The Exchange shall administer and manage the Compensation Fund in accordance with Part ~~IVVIII~~ of the ~~Securities Industry Capital Markets and Services~~ Act and the ~~Capital Markets and Services Securities Industry (Compensation Fund)~~ Regulations ~~1997-2007~~ (in this Chapter 14 referred to as "the said Regulations").
- (2) Subject to such extent permissible by law, the Exchange may appoint such Committee to which the Exchange may, as it deems expedient, delegate any of its powers, authorities or discretions insofar as it relates to the Compensation Fund.

RULE 1401.3 CONTRIBUTION BY PARTICIPATING ORGANISATIONS

- (1) Every Participating Organisation shall -
  - (i) upon being registered as a Participating Organisation and issued a dealer's licence under Section ~~4258(1)~~ of the ~~Capital Markets and Services Securities Industry~~ Act contribute a sum in the amount as stipulated in the ~~Capital Markets and Services Securities Industry~~ Act to the Compensation Fund; and
  - (ii) thereafter, on or before the 31<sup>st</sup> day of December every year, contribute a sum in the amount as stipulated in the manner envisaged in the ~~Securities Industry Capital Markets and Services~~ Act to the Compensation Fund.
- (2) Contributions made to Participating Organisations shall not be refundable.
- (3) Notwithstanding the foregoing provisions, the Exchange may, from time to time, with the approval of the Commission, vary the amount and manner of the contributions payable by Participating Organisations to the Compensation Fund.

**RULE 1402 CLAIMS OUT OF COMPENSATION FUND****RULE 1402.1 DEFINITION**

In this Rule 1402, "books" shall include any register or other record of information and any accounts or accounting records, howsoever compiled, recorded or stored, and shall also include any document.

**RULE 1402.2 ENTITLEMENT TO CLAIM**

Any person ("the Claimant") suffering a loss in the manner as referred to in Section ~~15272~~ of the ~~Capital Markets and Services Securities Industry~~ Act ("Claimable Loss") shall be entitled to claim from the Compensation Fund.

**RULE 1402.3 PROCEDURE FOR CLAIM**

- (1) Where a claim is made for compensation pursuant to Rule 1402.2 and in accordance with the said Regulations, the Exchange ~~shall~~ may cause to be published, in two (2) daily newspapers, one in the National Language and the other in the English Language, published and circulated generally in Malaysia, a notice ~~in the form as prescribed in the said Regulations~~ specifying a date, not being earlier than three (3) months or such other longer period as may be specified in the notice after the date of the said publication, on or before which claims for compensation in relation to the person specified in the notice may be made.
- (2) A claim for compensation from the Compensation Fund in respect of any Claimable Loss shall be made by notice in writing to the Exchange ("Notice of Claim") -
  - (a) where a notice under Rule 1402.3(1) has been published, on or before the period stated in the notice; or
  - (b) where no notice pursuant to Rule 1402.3(1) has been published, within six (6) months after the Claimant becomes aware of the circumstances referred to in Section ~~15272~~ of the ~~Securities Industry Capital Markets and Services~~ Act.
- (3) Unless otherwise determined by the Exchange, a claim not made in accordance with Rule 1402.3(2) shall be barred.
- (4) ~~An action for damages shall not lie against the Exchange or any of its employees in respect of a publication of a notice under Rule 1402.3(1) in good faith. [Deleted]~~

**RULE 1402.4 ~~INQUIRY OR INVESTIGATION OVER CLAIM [DELETED]~~**

- ~~(1) The Exchange shall in accordance with regulation 7 of the said Regulations establish a panel consisting of three (3) members, of which one (1) shall be the chairman, (in this Chapter 14 referred to as "the Panel") for the purpose of inquiring into a claim.~~
- ~~(2) The Panel shall in carrying out its functions hereunder, comply with and have the powers accorded to it under, the said Regulations.~~
- ~~(3) Upon receipt of a Notice of Claim in accordance with Rule 1402.3(2), the Exchange shall refer the same to the Panel, who shall as soon as practicable inquire and investigate into the claim, and make appropriate recommendation in respect thereof to the Exchange for its determination. Without prejudice to the generality of the foregoing, the Exchange may by notice in writing -~~
  - ~~(a) require any person acquainted with the facts and circumstances of the claim to appear before the Panel or any authorised officers of the Exchange to be examined;~~

- ~~(b) — give direction to any person requiring the production of any books relating to any matter pertinent to the claim that are in the custody or under the control of that person; or~~
- ~~(c) — require a Participating Organisation or its registered person(s) or employees to disclose to members of the Panel, or any authorised officers of the Exchange in relation to any acquisition or disposal of securities, any information including the name of the person from or through whom or on whose behalf the securities were acquired or to or through whom or on whose behalf the securities were disposed of and the nature of the instructions given to the Participating Organisation, registered person(s) or employee, as the case may be, in respect of the acquisition or disposal.~~
- ~~(3) — The Panel shall, after due inquiry into a claim, make its recommendation to the Exchange on the following matters -~~
  - ~~(a) — whether the claim should be allowed, partially allowed or disallowed;~~
  - ~~(b) — if the claim is disallowed or partially allowed, to specify -~~
    - ~~(i) — the total amount of compensation determined to be payable;~~
    - ~~(ii) — the amount of costs payable thereon; and~~
    - ~~(iii) — the time of payment of the amounts referred to in subparagraph (i) and (ii); and~~
  - ~~(c) — if the claim is disallowed or partially allowed, the reasons for such recommendation.~~

**RULE 1402.5 POWERS OF THE EXCHANGE IN RESPECT OF CLAIMS**

- (1) The Exchange shall, ~~upon receiving the recommendation from the Panel,~~ make a determination in respect of a claim under this Chapter within six (6) months from the date of the Notice of Claim, or such longer period as the Exchange decides.
- (2) Subject to this Chapter, Part ~~IV VIII~~ of the ~~Securities Industry Capital Markets and Services Act~~ and the said Regulations, the Exchange shall after due inquiry make a determination on the following matters :- allow a proper claim for compensation from the Compensation Fund.
  - (a) whether the claim should be allowed, partially allowed, disallowed or impose such conditions as it thinks fit ;
  - (b) if the claim is allowed or partially allowed, to specify :-
    - (i) the total amount of compensation determined to be payable ;
    - (ii) the amount of reasonable costs and disbursements payable thereon ; and
    - (iii) the time of payment of the amounts referred to in sub-paragraphs (i) and (ii); and
  - (c) if the claim is disallowed or partially allowed, the reasons for the disallowance or partial allowance, as the case may be.
- ~~(3) [Deleted]~~
- ~~(3) — If the Exchange is not satisfied that a claim is a proper claim, it shall -~~
  - ~~(a) disallow the claim; or~~
  - ~~(b) — allow only part of the claim which is proper if it is satisfied that only that part of the claim is a proper claim.~~
- (4) The Exchange shall notify the Claimant of its determination on a claim by notice in writing ("Notice of Determination") by registered post ~~stating whether the claim has been allowed or disallowed.~~

- (5) The Exchange may at any time require a Claimant or any other person to provide information or to produce any books ~~or securities~~, documents or statement of evidence or summon and examine witness which it considers material to for the purpose of -
- (a) supporting a claim for compensation from the Compensation Fund;
  - (b) exercising its powers against a Participating Organisation; or
  - (c) enabling civil or criminal proceedings to be taken against the Participating Organisation or a person in respect of a defalcation or fraudulent misuse of money or other property.
- (6) The Exchange may disallow the claim of the Claimant who in person fails, within one (1) month ~~thirty (30) days~~ or such longer period as the Exchange may allow, to provide information or to produce any books ~~or securities~~, documents or statement of evidence as required under Rule 1402.5(5) if it is satisfied that the information, securities, documents or statements of evidence are in the possession of or are available to the Claimant.
- (7) A Participating Organisation or its registered person(s) or employee who refuses or fails to comply with a requirement made under ~~Rule 1402.4(3) or~~ Rule 1402.5(5) shall be deemed to have violated the provisions of these Rules and shall be liable to any disciplinary action as the Exchange deems necessary.

**RULE 1403 RIGHT OF APPEAL**

**RULE 1403.1 RIGHT TO APPEAL**

A person aggrieved by a determination of the Exchange made under Rule 1402.5 may, within one (1) month, ~~thirty (30)~~ days of receipt of a Notice of Determination, appeal against such determination to the Commission whose decision shall be final.

[End Of Chapter]



**APPENDIX 1B - FORM OF APPLICATION – CHIEF EXECUTIVE OFFICER/EXECUTIVE DIRECTORS AND HEADS**

Name of Participating Organisation:

Company Registration No.:

Address:

Date:

To: Bursa Malaysia Securities Berhad (“the Exchange”)

Dear Sirs,

**Application for the Appointment and Registration of a Chief Executive Officer ~~an Executive Director~~/a Head**

We, ....., are desirous of appointing and registering the following person as an ~~Executive Director Dealing\*/Operations\*/Compliance\*/~~Chief Executive Director/Officer/Head of Dealing\*/Operations\*/Compliance\* of [Participating Organisation] upon the terms and subject in all respects to the Rules of the Exchange which are now or hereafter in force, as may be amended from time to time and all directives, rulings and guidelines issued by the Exchange. In support of my application, we enclose herewith:

Name of Applicant:

NRIC:

Address:

- (1) a duly completed application form together with the required supporting documents;
- (2) the non-refundable application fee of RM[ ];
- \*(3) a certified true copy<sup>1</sup> of a valid ~~D~~dealer's ~~R~~representative's ~~L~~licence issued by the Securities Commission\*\*;
- \*~~(4)~~ a certified true copy<sup>1</sup> of the approval of the Securities Commission for the applicant's appointment as an ~~Executive Director Head of Dealing\*/Operations\*/Compliance\*/Head of Dealing\*/Operations\*/Compliance\*~~ / a certified true copy<sup>1</sup> of the notification given to the Securities Commission of the applicant's appointment as a Chief Executive Officer as required under the Licensing Handbook\*;
- (5) a statutory declaration by the applicant in the prescribed form; and
- (6) an undertaking by the applicant in the prescribed form.

Yours faithfully,

Signed by Authorised Signatory(ies) )  
For and on behalf of [Participating Organisation] )  
In the presence of: )

\* Delete whichever is not applicable  
\*\* Only applicable to ~~Executive Director Dealing and~~ Head of Dealing Applicants

<sup>1</sup> For purposes of this application, copy(ies) must be certified true by a Commissioner for Oaths or Advocate & Solicitor.

**APPENDIX 1C - FORM OF APPLICATION – REGISTERED PERSONS (OTHER THAN DEALER’S REPRESENTATIVE, CHIEF EXECUTIVE OFFICER AND HEADS)**

Name of Participating Organisation:

Company Registration No.:

Address:

Date:

To: Bursa Malaysia Securities Berhad (“the Exchange”)

Dear Sirs,

**Application to Employ and Register [Registered Person\*]**

We, ....., are desirous of employing and registering the following person as a [Registered Person\*] upon the terms of and subject in all respects to the Rules of the Exchange which are now or hereafter may be in force, as may be amended from time to time, and all directives rulings and guidelines issued by the Exchange:

Name of Applicant:

NRIC:

Address:

In support of our application, we enclose herewith the following documents: -

- (1) a duly completed application form together with the required supporting documents;
- (2) a certified true copy<sup>1</sup> of the approval of the Securities Commission on the appointment of the Applicant as a [Registered Person\*]\*\* / a certified true copy<sup>1</sup> of the notification given to the Securities Commission of the Applicant’s appointment as a [Registered Person\*] as required under the Licensing Handbook\*\*;
- (3) the non-refundable application fee of RM[ ] and registration fee of RM[ ]; and
- (4) an undertaking in the prescribed form.

Yours faithfully,

Signed by Authorised Signatory(ies) )  
 for and on behalf of [Participating Organisation] )  
 )  
 in the presence of: )

\* Please specify the category of Registered Person other than a Dealer’s Representative, Chief Executive Officer or Head.  
 \*\* Delete whichever is not applicable

<sup>1</sup> For purposes of this application, copy(ies) must be certified true by a Commissioner for Oaths or Advocate & Solicitor.

**APPENDIX 4 - PARTICIPATING ORGANISATION'S MONTHLY DECLARATION**  
**[Rule 404.7]**

**PARTICIPATING ORGANISATION:** \_\_\_\_\_

We hereby declare that the Participating Organisation's accounting books and records, and the accounting system and controls in relation to Rule 404.7 of the Rules of Bursa Malaysia Securities Berhad for the month of \_\_\_\_\_ are as follows:-

- (i) Outstanding contracts *can/cannot*\* be readily identified with the date sequence within counter;
- (ii) Outstanding debtors *can/cannot*\* be readily identified with the specific transactions and with the dates on which these transactions occur;
- (iii) General ledger trial balances *can/cannot*\* and *shall/shall not*\* be extracted and squared at least once a month by not later than the tenth (10<sup>th</sup>) day of the following month;
- (iv) Where the client and broker balances are represented by control accounts in the general ledger, the individual client and broker balance *can/cannot*\* and *shall/shall not*\* be extracted and reconciled with the control account at least once a month by not later than the tenth (10<sup>th</sup>) day of the following month;
- (v) Bank reconciliations *have/have not*\* been prepared at least once a month by not later than the tenth (10<sup>th</sup>) day of the following month.

Dated this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_

Signature: \_\_\_\_\_  
| (~~Executive Director Operations~~Head of Operations)  
Name of signatory: \_\_\_\_\_

Signature: \_\_\_\_\_  
| (~~Executive Director Compliance~~Head of Compliance/Compliance Officer\*)  
Name of signatory: \_\_\_\_\_

\* Please delete whichever is not applicable

**APPENDIX 6 - PARTICIPATING ORGANISATION - DECLARATION ON OFF-BALANCE SHEET TRANSACTIONS [RULE 602.4]**

PARTICIPATING ORGANISATION: \_\_\_\_\_

We, for and on behalf of the Participating Organisation, to the best of our knowledge and belief, and having made appropriate enquiries on other directors and officers of \_\_\_\_\_ (name of the Participating Organisation), hereby make the following representations:-

- (i) The Participating Organisation \*has in the month of \_\_\_\_\_, entered into Off-Balance Sheet Transaction(s) as specified in the attachment(s) / \*has not undertaken any Off-Balance Sheet Transaction in the month of \_\_\_\_\_;
- (ii) that the Off-Balance Sheet Transaction(s) entered into by the Participating Organisation prior to the month of \_\_\_\_\_, which remain to be performed or discharged are as specified in the attachment(s) / \*does not have Off-Balance Sheet Transaction(s) entered into previous to the month of \_\_\_\_\_ which remain to be performed or discharged;
- (iii) that all Adverse Event(s) in relation to the Participating Organisation's entry into the Off-Balance Sheet Transaction(s) specified in (i) and (ii) above is(are) appended to the attachment herein; and
- (iv) that all changes, amendments, variations or supplements to the terms and conditions of the Off-Balance Sheet Transaction(s) are reported herein as required under Rule 602.4(1)(e) and is (are) appended to the attachment herein.

\_\_\_\_\_  
~~(Executive Director Operations)~~ Head of Operations

\_\_\_\_\_  
(Compliance Officer)

*[OR, in the case of a Universal Broker: -*

\_\_\_\_\_  
*(Head of Compliance)*

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

\* Delete if not applicable

**APPENDIX 6**  
**[Rule 602.4]**

**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.

**APPENDIX 10 – DECLARATION ON COMPLIANCE**  
**[RULE 608.4(1)(d) and 704.4(1)(c)]**

To: Bursa Malaysia Securities Berhad

**DECLARATION ON COMPLIANCE**

Pursuant to the requirements of Rule 608.4(1)(d) and Rule 704.4(1)(c), we [name of Participating Organisation ] hereby declare as follows:

1. that we have formulated a set of Internal Guidelines for Securities Borrowing and Lending and the Internal Guidelines for Short Selling which have been approved by the board of directors;
2. the Internal Guidelines for Securities Borrowing and Lending and the Internal Guidelines for Short Selling have been brought to the notice of the relevant employees and registered persons who have read and understood the contents therein;
3. that the Internal Guidelines for Securities Borrowing and Lending and the Internal Guidelines for Short Selling comply with the requirements set out in Rule 608.3 and Rule 704.3 respectively;
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 activities and regulated short selling activities in accordance with these Rules; and
5. that the Effective Shareholders' Funds is not less than Ringgit Malaysia Fifty (50) Million as at the date of the declaration herein for the purpose of undertaking securities borrowing and/or lending activities pursuant to Rule 608.

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

| Signed : [~~Executive Director Operations~~ or Head of Operations]  
Date :

| Signed : [~~Executive Director Compliance~~ or Head of Compliance/Compliance Officer]  
Date :

**SCHEDULE 8A [CHAPTER 11]**

**SCHEDULE 8A (CHAPTER 11)**  
**[Rule 1105.3(4)]**

**CAPITAL ADEQUACY RETURN**

**To:** Bursa Malaysia Securities Berhad (“the Exchange”)

**Return Prescribed in terms of Rule 1105 of the Rules of the Exchange**

Participating Organisation .....

Capital Adequacy Requirements as at .....

**DECLARATION**

We the undersigned, confirm that:-

- (a) This statement has been drawn up in accordance with Rule 1105 of the Rules of the Exchange which is relevant to the company in calculating the company's capital adequacy requirements. It has been prepared from, and is in agreement with the books and records of the company.
- (b) The company's accounting records, system and controls are maintained in accordance with Rule 1105 and the relevant guidelines issued by the Exchange.
- (c) We are not aware of any matters which could have a material effect upon the financial position of the company before the due date of the next statement, which are not declared herein, or have not been notified to, and acknowledged by the Exchange.
- (d) Since the date of the last reporting statement, the company has been in compliance with Rule 1105 except as been notified to the Exchange.
- (e) We are aware that a false declaration may result in disciplinary action being taken against the company.

Signed \_\_\_\_\_ ~~Executive Director Operations~~ Head of Operations  
Date \_\_\_\_\_

Signed \_\_\_\_\_ Director/Compliance Officer  
Date \_\_\_\_\_

	RM Total	RM Ranking For Liquid Capital	RM Not Ranking For Liquid Capital
<b>RETURN PRESCRIBED IN TERMS OF RULE 1105</b>			
Member company _____			
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>	<b>_____</b>	<b>_____</b>	
Preference Share Capital – Others	_____	_____	
Share Premium Account - Others	_____	_____	
Approved Subordinated Loan	_____	_____	
Revaluation Reserves	_____	_____	(_____)
Unaudited Profits/Unaudited Losses	____/____(____)	____/____(____)	
Unrealised Gains/Unrealised Losses 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>	



	RM Total	RM Not Ranking For Liquid Capital	RM 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	_____	_____	
Marketable Securities	_____		_____
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+4	_____		_____
Directors Account	_____		_____
Loans & Advances	_____	_____	
Amount due from Holding Company	_____	_____	
Amount due from Subsidiary/Related Companies	_____	_____	
Prepayment	_____	_____	
Other Debtors	_____	_____	
Others/Charged Assets	_____	_____	
<b>Total Current Assets</b>	_____	_____	_____

	RM Total	RM Not Ranking For Liquid Capital	RM Ranking For Liquid Capital
<b>Current Liabilities</b>			
Bank Overdraft/Revolving Credits	_____		_____
Short Term Loans/Borrowings	_____		_____
Trust Accounts - Dealers and clients	_____		_____
- others	_____		_____
Trade Creditors			
- Dealers	_____		_____
- Clients	_____		_____
Outstanding Contracts < T+ 4	_____		_____
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>Net Assets</b>	_____		
	_____		
Add: Collateral used to secure Deposit with Non-Approved Institution		_____	
Add: Collateral used to secure Other Debtors		_____	
Add: Collateral used to secure Other Assets		_____	
Less Contingent Liabilities		(_____)	
<b>LIQUID CAPITAL</b>		_____	
Total Risk Requirement		_____	
<b>LIQUID MARGIN</b>		_____	
<b>CAPITAL ADEQUACY RATIO</b>		_____	

**RETURN PRESCRIBED IN TERMS OF RULE 1105****Risk Components that form the Total Risk Requirement:**

<b>Ref</b>	<b>Position Risk Requirement (PRR):</b>	
	<i>Total PRR</i>	
	<b>Counterparty Risk Requirement (CRR):</b>	
	Total clients contra loss CRR	
	Total counterparties trade settlement CRR	
	Total free deliveries CRR	
	Total netting losses CRR	
	Total Sub underwriting given CRR	
	<i>Total CRR</i>	
	<b>Large Exposure Risk Requirement (LERR):</b>	
	Total LERR to Single Client/Counterparty (relative to Effective Shareholders' Funds)	
	Total LERR to Single Equity (relative to issuer's paid up capital)	
	Total LERR to Single Equity (relative to Effective Shareholders' Funds)	
	Total LERR to Single Issuer of debt (relative to Effective Shareholders' Funds)	
	<i>Total LERR</i>	
	<b>Underwriting Risk Requirement (URR):</b>	
	<i>Total URR</i>	
	URR = exposure x PRF of equity x 30%	
	<b>Operational Risk Requirement (ORR):</b>	
	For Category A, 25% of Annual Expenditure Requirement of RM10m, whichever is higher	
	For Category B, 25% of Annual Expenditure Requirement of RM5m, whichever is higher	
	<b>Total Risk Requirement</b>	
	<b>Effective Shareholders' Funds</b>	

[End of Schedule]

## SCHEDULE 8F [CHAPTER 11]

### SCHEDULE 8F (Chapter 11)      COUNTERPARTY WEIGHTING [Rule 1105.7(4)]

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/local Government</b> <ul style="list-style-type: none"> <li>▪ State/local government</li> </ul>	20%
<b>Financial Institutions</b> <ul style="list-style-type: none"> <li>▪ Banks and financial institutions licensed under the Banking and Financial Institutions Act, 1989</li> <li>▪ Banks licensed under the Islamic Banking Act, 1983</li> </ul>	20%
<b>Clearing Houses and Exchanges</b> <ul style="list-style-type: none"> <li>▪ Clearing houses</li> <li>▪ recognised 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 <u>Capital Markets Services Licence to carry on the business of fund management under the Capital Markets and Services Act</u><del>fund manager's licence under Section 15A of the Securities Industry Act, 1983</del></li> <li>▪ A <u>registered person under item 4 of Part 1 of Schedule 4 of the Capital Markets and Services Act</u><del>person who is declared to be an exempt fund manager under Section 15A(2)(d) of the Securities Industry Act, 1983</del> in relation to unit trust schemes</li> </ul>	50%
<b>Participating Organisation</b> <ul style="list-style-type: none"> <li>▪ Participating Organisation under trading restrictions as announced by the Exchange</li> <li>▪ Participating Organisation not under trading restrictions</li> </ul>	100%  50%
Other counterparties (not being those categorised above)	100%

**SCHEDULE 8J [CHAPTER 11]**

**SCHEDULE 8J (Chapter 11) DISCOUNTING FOR COLLATERAL  
[Rule 1105.7(6)(c)]**

<b>Type of Collateral</b>	<b>Applicable Discount</b>
<p align="center"><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>▪ Currencies from European Economic Community (EEC) countries</li> <li>▪ Japanese Yen</li> <li>▪ Hong Kong Dollar</li> <li>▪ New Zealand Dollar</li> <li>▪ Singapore Dollar</li> </ul> </li> <li>▪ Other foreign currency not acceptable to the Exchange</li> </ul>	<p>8% after conversion into Ringgit by applying prevailing <del>Bank Negara Malaysia's</del> <u>Central Bank's</u> best available exchange rate quoted by commercial banks of Kuala Lumpur or by applying any other rate as may be determined by the Exchange</p> <p>100% after conversion into Ringgit by applying prevailing <del>Bank Negara Malaysia's</del> <u>Central Bank's</u> best available exchange rate quoted by commercial banks of Kuala Lumpur or by applying any other rate as may be determined by the Exchange</p>
<p align="center"><b>Quoted Securities</b></p> <p>Securities listed on the Exchange or other recognised stock exchange (mark to market on daily basis)</p>	<p>Position Risk Factor used in the Standard Approach, as prescribed in Schedule 8C</p>
<p align="center"><b>Suspended Securities</b></p>	<p>Position Risk Factor used in the Standard Approach, as prescribed in Schedule 8C</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 one (1) year maturity</li> <li>▪ More than one (1) year maturity</li> </ul>	<p align="right">2.5%</p> <p align="right">5.0%</p>

Type of Collateral	Applicable Discount
<p><b>Cagamas Bonds</b></p> <ul style="list-style-type: none"> <li>▪ Up to one (1) year maturity</li> <li>▪ More than one (1) year maturity</li> </ul>	<p style="text-align: right;">12.5%</p> <p style="text-align: right;">15.0%</p>
<p><b>Letters of Credit/Bank Guarantee</b></p> <p>Letters of credit/ Bank Guarantee guaranteed by financial institutions licensed under the Banking and Financial Institutions Act, 1989 or the Islamic Banking Act, 1983</p>	<p style="text-align: right;">20%</p>
<p><b>Negotiable Instruments of Deposit</b></p> <p>Negotiable instruments of deposit guaranteed by financial institutions licensed under the Banking and Financial Institutions Act, 1989 or the Islamic Banking Act, 1983</p>	<p style="text-align: right;">20%</p>
<p><b>Other collateral or security</b></p> <p>Any other collateral or security (not being those categorised above)</p>	<p style="text-align: right;">100%</p>

[End of Schedule]

# **ANNEXURE 2**

**Amendments to the Rules of Bursa Malaysia Securities Bhd Consequential to the Capital Markets and Services Act 2007**

No.	Rule	Relevant section(s)/division(s)/part(s) of the Capital Markets and Services Act 2007 ("CMSA") to which the amendment(s) are consequential / Rationale for amendment
1.	101.1(1) (amendment to definition of "business rules")	Consequential to section 2(1) (definition of "rules")
2.	101.1(1) (new definition of "Capital Markets and Services Act")	Consequential to the repeal of the Securities Industry Act 1983 ("SIA") and the enactment of the CMSA
3.	101.1(1) (new definition of "Capital Markets Services Representative's Licence")	Consequential to the amendments to Rules 306.2(1), 307.2(1) and 309.2(1)
4.	101.1(1) (amendment to definition of "Central Bank")	Consequential to section 2(1) (definition of "Bank Negara")
5.	101.1(1) (amendment to definition of "Clearing House")	Consequential to section 2(1) (definition of "approved clearing house")
6.	101.1(1) (new definition of "corporate finance activities")	Consequential to section 2(1) (definition of "advising on corporate finance")
7.	101.1(1) (new definitions of "dealer's licence" and "dealer's representative's licence")	Consequential to section 2(1) (definitions of "Capital Markets Services Licence", "Capital Markets Services Representative's Licence" and "dealing in securities")
8.	101.1(1) (amendment to definition of "Document")	Consequential to section 2(1) (definition of "document")
9.	101.1(1) (amendment to definition of "exchange company")	Consequential to section 2(1) (definition of "futures exchange")
10.	101.1(1) (amendment to definition of "Executive Director")	For consistency in the usage of this term throughout the Rules
11.	101.1(1) (deletion of definitions of "Executive Director Compliance", "Executive Director Dealing" and "Executive Director Operations")	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook to be issued by the Securities Commission ("SC") pursuant to section 377 of the CMSA (Version 4, 26/7/2007) ("Licensing Handbook")
12.	101.1(1) (new definitions of "fund manager's representative", "fund manager's representative's licence", "futures broker", "futures broker's licence", "futures broker's representative", "futures broker's representative's licence")	Consequential to section 2(1) (definitions of "Capital Markets Services Licence", "Capital Markets Services Representative's Licence", "trading in futures contracts" and "fund management")
13.	101.1(1) (new definition of "futures broking business")	Consequential to section 2(1) (definition of "trading in futures contracts")
14.	101.1(1) (deletion of definition of "Futures Industry Act")	Consequential to the repeal of the Futures Industry Act 1993 ("FIA") and the enactment of the CMSA.
15.	101.1(1) (new definition of "Guidelines on Permitted Activities for Stockbroking")	Consequential to the requirements of the Guidelines on Permitted Activities for Stockbroking Companies ("said Guidelines") being included in the Licensing Handbook and the



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	Companies")	repeal of the said Guidelines.
16.	101.1(1) (new definitions of "Heads", "Head of Compliance of an Investment Bank", "Head of Dealing of an Investment Bank", "Head of Operations of an Investment Bank" and amendments to the definitions of "Head of Compliance", "Head of Dealings" and "Head of Operations")	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
17.	101.1(1) (amendment to definition of "interest in securities")	Consequential to section 4
18.	101.1(1) (amendment to definition of "Issuer")	Consequential to section 2(1) (definition of "issuer")
19.	101.1(1) (new definition of "Licensing Handbook")	Consequential to the amendments in Rules 304A.1(2), 305.2(2), 306.2(2), 307.2(2), 308.1(2) and 309.2(2)
20.	101.1(1) (amendment to definition of "Minister")	Consequential to section 2(1) (definition of "Minister")
21.	101.1(1) (amendment to definition of "Non-Executive Director")	For consistency in the usage of this term throughout the Rules
22.	101.1(1) (amendment to definition of "Off-Balance Sheet Transactions")	Consequential to there not being an equivalent Regulation 15(1) and Form 22 of the Securities Industry Regulations 1987 in the Capital Markets and Services Regulations ("CMSR")
23.	101.1(1) (amendment to definition of "recognised stock exchange")	Consequential to section 8(2)
24.	101.1(1) (deletion of definition of "Securities Industry Act")	Consequential to the repeal of the SIA and the enactment of the CMSA.
25.	101.1(1) (amendment to definition of "Special Scheme Broker")	Consequential to this term being defined in the Licensing Handbook instead of the Guidelines on Permitted Activities for Stockbroking Companies.
26.	101.1(2)	Consequential to the repeal of the SIA and the enactment of the CMSA.
27.	101.1(3)	For consistency in the usage of this term throughout the Rules
28.	301.2(5)(a)	<ul style="list-style-type: none"> <li>▪ Deletion of "annual" is in line with Chapter 3 of the Licensing Handbook which provides the possibility of the SC extending the relevant licence tenure for a period of more than 12 months.</li> <li>▪ The rest of the amendments are consequential to the repeal of SIA and enactment of the CMSA.</li> </ul>
29.	302.1(1)(b) and 302.2(1)(b)	Consequential to the new definition of "dealer's licence" in Rule 101.1(1).
30.	302.1(1)(c)	For consistency with the amendment in Rule 302.1(1)(b) to include the words "with the Exchange".
31.	303.4(1)(a)	<ul style="list-style-type: none"> <li>▪ Deletion of "annual" is in line with Chapter 3 of the Licensing Handbook which provides the possibility of the SC extending the relevant licence tenure for a period of more than 12</li> </ul>

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		<p>months.</p> <ul style="list-style-type: none"> <li data-bbox="662 338 1444 405">▪ The rest of the amendments are consequential to the repeal of SIA and enactment of the CMSA.</li> </ul>
32.	303.8	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
33.	304.1, 304.2(1), 304.3, 304.4, 304.5, 304.6 and 304.8	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
34.	304.2(2)	Consequential amendment to move this rule to Rule 308 on directors
35.	304.7	Consequential amendment to move this rule to Rule 308 on directors
36.	304A.1(2) and 304A.3	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
37.	304A.1(2)(a)	Consequential to the new definition of “dealer’s representative’s licence” in Rule 101.1(1).
38.	305.1, 305.2, 305.3 and 305.4	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
39.	305.2(1) and 305.2(2)(a)	Consequential to the new definition of “dealer’s representative’s licence” in Rule 101.1(1).
40.	305.5(1), 306.4(1) and 307.7(1)	For the avoidance of any doubt as to whether the Heads (except the Heads of an Investment Bank) would need to report directly to the board of directors of the Participating Organisation.
41.	306.1, 306.2 and 306.3	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
42.	307.1, 307.2, 307.3, 307.4 and 307.5	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
43.	307.5(1)(c)	Consequential to section 67
44.	307A.4(2)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
45.	307A.5(1)(c)	Consequential to section 67
46.	308.1, 308.2, 308.3, 308.4, 308.5 and 308.6	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
47.	309.2, 309.4 and 309.5	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
48.	309.6(1)(c)	Consequential to section 67
49.	309.8	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
50.	310.1(1)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
51.	310.3	Consequential to the new definition of “dealer’s representative’s licence” in Rule 101.1(1).
52.	310.4(1)(d)	Consequential to the new definition of “futures broker’s representative’s licence” in Rule 101.1(1).
53.	310.4(1)(f)(i)(cc)	Consequential to the new definition of “dealer’s representative’s licence” in Rule 101.1(1).
54.	310.5(2)(a)(ii)	Consequential to the new definition of “dealer’s representative’s licence” in Rule 101.1(1).

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55.	311.1(1)(b)	Consequential to the repeal of the SIA and the enactment of the CMSA.
56.	401.1	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
57.	404.1(13)(b)	Consequential to sections 183 and 188(3)
58.	404.3(9)(a)	Consequential to section 90
59.	404.4(7)(b)(iv) and 404.4(7)(c)(ii)	Consequential to the repeal of the SIA and the enactment of the CMSA.
60.	405.1(2)	Consequential to section 111(1)
61.	501.2(1) (definition of "clearing house")	Consequential to section 2(1) (definition of "approved clearing house")
62.	501.2(1) (definition of "dual licensed Dealer's Representative")	Consequential to the new definition of "futures broker's representative's licence" in Rule 101.1(1).
63.	501.2(1) (amendment to definition of "Guidelines on Permitted Activities for Stockbroking Companies")	Consequential to the requirements of the Guidelines on Permitted Activities for Stockbroking Companies ("said Guidelines") being included in the Licensing Handbook and the repeal of the said Guidelines.
64.	501.2(2)(b)	Consequential to the repeal of the SIA and FIA and the enactment of the CMSA.
65.	503.1(1)(a)	Consequential to the repeal of the SIA and the enactment of the CMSA.
66.	503.1(1)(a)(ii), 503.1(1)(a)(iv), 503.1(1)(b) and 503.1(2)(a)	Consequential to the repeal of the SIA and FIA and the enactment of the CMSA.
67.	503.1(2) and 503.1(3)	Consequential to the amendment to Rule 503.1(1)(a)
68.	503.2(2) and 503.2(3)(a)	Consequential to the repeal of the FIA and the enactment of the CMSA.
69.	503.3(1)	Consequential to the amendment to Rule 503.1(1)(a)
70.	503.3(2)	Consequential to the repeal of the FIA and the enactment of the CMSA.
71.	503.4(1)(a)	Consequential to the exclusion of Section 15A(2)(a) of the SIA from the CMSA.
72.	503.4(1), 503.4(2) and 503.4(3)	Consequential to the repeal of the SIA and the enactment of the CMSA.
73.	503.4(4)	Consequential to section 2(1) (definition of "management company")
74.	503.5(1)	Consequential to the deletion of the definition of "debenture" proposed in the Securities Commission (Amendment) Bill (DR. 12/2007).
75.	503.5(3)(b)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
76.	503.5(4)	Consequential to the deletion of the previous Rule 503.1(1)(b)
77.	504A.5(1)(b)	Consequential to section 2(1) (definition of "investment advice")
78.	504A.6(1)(a)(v)	Consequential to section 2(1) (definitions of "advising on corporate finance", "investment advice" and "financial planning")
79.	506.2(1)(b)(i)	Consequential to the new definition of "dealer's representative's licence" in Rule 101.1(1).

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80.	506.2(1)(d)(i)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
81.	506.5(2)(a) and 506.5(2)(b)	Consequential to the new definition of "dealer's representative's licence" in Rule 101.1(1).
82.	506.5(2)(f)	Consequential to the insertion of the new Rule 307.7(1).
83.	506.5(2)(a)(ii), 506.5(2)(a)(iii), 506.5(2)(b)(ii), 506.5(2)(b)(iii), 506.5(2)(c)(i) and 506.5(2)(g)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
84.	507.1	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
85.	508.1(1)(d)	Consequential to sections 183, 184, 185, 186 and 187.
86.	508.4(1)(c) and 508.4(1)(d)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
87.	508.8(1)	Consequential to amendment to Rule 503.1(1)(a)
88.	508.8(2)(b)	Consequential to section 2(1) (definition of "advising of corporate finance").
89.	509.2(1)(b)(ii) and 509.2(1)(b)(iii)	Consequential to amendment to Rule 503.1(1)
90.	509.3(1)(a)	Consequential to the new definition of "dealer's representative's licence" in Rule 101.1(1).
91.	509.3(1)(b), 509.3(2), 509.3(3)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
92.	510.1(3)(a) and 510.1(3)(b)	Consequential to the amendment to the definition of "Non-Executive Directors" in Rule 101.1(1)
93.	601.1(2)	Consequential to section 3(1)(d)
94.	601.1(3)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
95.	601.2(3)(b)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
96.	601.8(2)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
97.	602.1(1) (definition of "Off-Balance Sheet Transactions")	Consequential to there not being an equivalent Regulation 15(1) and Form 22 of the Securities Industry Regulations 1987 in the CMSR.
98.	602.4(2)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
99.	608.2(3)	Consequential to section 98(1)
100.	608.11(1)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
101.	608.12(1)	Consequential to the repeal of the SIA and the enactment of the CMSA.
102.	703.6(1)	Consequential to section 94(2)
103.	703.7(1)(c), 703.12(1)(a)	2(1) (definition of "Bank Negara"), consequential to the amendment of the definition of "Central Bank" in Rule 101.1(1).
104.	704.1(1) (definition of "approved securities") and 704.2(1)	Consequential to section 98(4)(c).

<b>No.</b>	<b>Rule</b>	<b>Relevant section(s)/division(s)/part(s) of the Capital Markets and Services Act 2007 ("CMSA") to which the amendment(s) are consequential / Rationale for amendment</b>
105.	704.2(2)(b)	Consequential to section 3
106.	704.5(7), 704.6(6), 704.8(2) and 704.11(1)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
107.	704.13(1)	Consequential to the repeal of the SIA and the enactment of the CMSA.
108.	706.1(1)	Consequential to section 11
109.	1001.2(1)	Consequential to section 90
110.	1102.1(2)	Consequential to section Division 4 of Part III
111.	1102.2(2)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
112.	1105.1(1) (definition of "permitted business")	Consequential to the new definition of "dealer's licence" in Rule 101.1(1).
113.	1105.3(3) and 1105.3(5)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
114.	1201.1(1)	Consequential to the repeal of the SIA and the enactment of the CMSA.
115.	1201.1(2)(c)	Consequential to sections 111 to 114
116.	1203.4(3)	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
117.	1401.1(1), 1401.2(1) and (2), 1401.3 (1)(i) and (ii), 1402.2, 1402.3 (2)	Consequential to the repeal of the SIA and the enactment of the CMSA.
118.	1402.3(1) and (4), 1402.5 (1), (2), (4), (5)(c), (6) and (7) and 1403.1	Consequential to the repeal of the SIR and the enactment of the CMSR.
119.	Deletion of 1402.4 (1), (2), (3) and (4) and 1402.5 (3)	Consequential to the repeal of the SIR and the enactment of the CMSR.
120.	Schedule 8A	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.
121.	Schedule 8F (first bullet point)	Consequential to section 58(1) read together with the definition of "fund management" in Section 2(1).
122.	Schedule 8F (second bullet point)	Consequential to section 76 read together with item 4 of Part 1 of Schedule 4 of the CMSA
123.	Schedule 8J	Consequential to section 2(1) (definition of "Bank Negara"), consequential to the amendment of the definition of "Central Bank" in Rule 101.1(1).
124.	Appendices 1B, 1C, 4, 6 and 10	Consequential to the minimum requirements on adequate and competent personnel contained in the Licensing Handbook.

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