



KEY MARKET FEEDBACK AND RESPONSES
FROM BURSA MALAYSIA BERHAD

CONSULTATION PAPER NO. 5/2018 ON
PROPOSED AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES BERHAD AND THE
RULES OF BURSA MALAYSIA SECURITIES CLEARING SDN BHD IN RELATION TO THE
PROPOSED T+2 SETTLEMENT CYCLE

A. BACKGROUND

1. On 3 December 2018, Bursa Malaysia Berhad (“**Bursa Malaysia**”) published a consultation paper seeking feedback on the proposed migration to a T+2 settlement cycle and the proposed rule amendments to the Rules of Bursa Malaysia Securities Berhad (“**BMS**”) and the Rules of Bursa Malaysia Securities Clearing Sdn Bhd (“**BMSC**”) to reflect this change, where relevant (“**Consultation Paper**”).
2. Under the T+2 framework, Bursa Malaysia will introduce 2 settlement runs for both On-Market Transactions (“**OMT**”) and Direct Business Transactions (“**DBT**”) and changes to the cut-off times relating to delivery and settlement.
3. Bursa Malaysia views that the migration to a shortened settlement cycle from T+3 to T+2 will increase operational efficiency, reduce settlement risk and market exposure, align BMSC with international best practices of the leading global exchanges and thus, strengthen the attractiveness and competitiveness of the Malaysian market in the region.
4. The key proposals that Bursa Malaysia consulted on are summarized as follows:

(a) Proposed amendments to the Rules of BMS

- (i) change in cut-off times relating to:
 - tradeable balance in the securities account and delivery of securities; and
 - settlement of payments between a Participating Organisation (“**PO**”) and its clients;
- (ii) change of applicable timing in respect of:
 - buying-in;
 - cash settlement;
 - selling-out; and
 - discretionary financing; and
- (iii) removing provisions relating to ‘Immediate Basis Contract’.

(b) Proposed amendments to the Rules of BMSC

- (i) reflecting the change in automatic buying-in period for board lots failed trade;
 - (ii) removing the provision on the daily increase in the bidding price for buying-in for board lots failed trade;
 - (iii) removing BMSC’s power to suspend the daily increase in the bidding price or revised the bid price;
 - (iv) amending the scheduled financial settlement time; and
 - (v) removing references to ‘Immediate Basis Contract’ as it is no longer feasible.
5. At the end of the consultation period which closed on 28 December 2018, we received a total of 13 written responses. The responses can be broadly grouped as follows:

CATEGORY	NUMBER	%
Participating Organisations/ Clearing Participant (“CP”)	4	31
Industry associations	1	8
Others ¹	8	61
TOTAL	13	100

6. Bursa Malaysia would like to take this opportunity to thank all the industry participants and stakeholders for their valuable feedback and comments on the Consultation Paper.
7. A summary of the respondents’ key feedback and comments with regard to the proposals made in the Consultation Paper, as well as our responses and conclusions are set out in Section B below.
8. Bursa Malaysia has amended the Rules and Directives of BMS and the Rules of BMSC accordingly after taking into account the market feedback. The amended Rules and Directives of BMS and the Rules of BMSC will come into effect on 29 April 2019 and are available on Bursa Malaysia’s website at www.bursamalaysia.com.

¹ Under the category of ‘Others’, Bursa Malaysia received 7 written responses from individual investors and 1 written response from a regional industry association.

KEY MARKET FEEDBACK & BURSA'S RESPONSE
Consultation Paper 5/2018
Proposed amendments to the Rules of BMS and the Rules of BMSC
In relation to the proposed T+2 settlement cycle

B. KEY MARKET FEEDBACK AND BURSA MALAYSIA'S RESPONSE

1. Bursa Malaysia received mixed reviews on the proposed migration to a T+2 settlement cycle.
2. All industry respondents were supportive of the migration to a T+2 settlement cycle, while 6 out of 7 of the individual investors who responded to the Consultation Paper had reservations on the proposed shortened settlement cycle. The feedback from industry respondents were mostly to seek clarification or to provide suggestions on the proposals.
3. Bursa Malaysia took cognizance of all the comments received from the respondents, but upon consideration of the comments (including the reservations) vis a vis the objectives and benefits of the migration to a shorter settlement cycle as summarised in (A)(3) above, we remain committed with the migration. Further, we believe that some of the issues raised by the respondents can be addressed.
4. The key Issues raised by the respondents to the Consultation Paper and Bursa Malaysia's response to the same are set out below.

ISSUE 1: CHANGE IN PAYMENT CUT-OFF TIMES

5. In the Consultation Paper, Bursa Malaysia proposed to revise the cut-off times relating to, amongst others, settlement of payments between a PO and its client as follows:

(a) OMT

Payment	Cut-off Time	
	T+3 settlement cycle	T+2 settlement cycle (Proposed)
Payment to selling Client	T+3, not later than 12.30pm	T+2, not later than 3.00pm
Payment by buying Client	T+3, not later than 12.30pm	T+2, not later than 3.00pm

**Proposed amendments to the Rules of BMS and the Rules of BMSC
In relation to the proposed T+2 settlement cycle**
(b) DBT

Payment	Cut-off Time	
	T+3 settlement cycle	T+2 settlement cycle (Proposed)
Payment to selling Client	T+3, not later than 12.30pm	T+2, not later than 4.00pm
Payment by buying Client	T+3, not later than 12.30pm	T+2, not later than 3.00pm

Summary of Key Feedback by Respondents

6. The industry respondents raised their concern with meeting the cut-off time for payment to selling client in a DBT by 4.00pm, as the Real-time Electronic Transfer of Funds and Securities System ("RENTAS") used for interbank fund transfers has a cut-off time at 4.00pm, with instructions for payment to be made by 3.30pm.
7. In this connection, the industry respondents requested for Bursa Malaysia to discuss with Bank Negara Malaysia and the commercial banks to extend the RENTAS cut-off time up till 5.00pm or 6.00pm in order to meet the proposed payment cut-off time under the T+2 settlement cycle.

Bursa Malaysia's Response and Conclusion

8. Taking into consideration the comments received from the Consultation Paper and following further engagements with the industry, Bursa Malaysia decided to revise the timing for payments between a PO and its client, as set out in the tables below. The changes made are mainly to facilitate the industry meeting the interbank fund transfer cut-off time at 4.00 pm that is applicable to all RENTAS participants.

(a) OMT

Payment	Cut-off Time	
	T+2 settlement cycle (Consultation Paper)	T+2 settlement cycle (Revised)
Payment to selling Client	T+2, not later than 3.00pm	T+2, not later than 2.00pm
Payment by buying Client	T+2, not later than 3.00pm	T+2, not later than 2.00pm

KEY MARKET FEEDBACK & BURSA'S RESPONSE
Consultation Paper 5/2018
Proposed amendments to the Rules of BMS and the Rules of BMSC
In relation to the proposed T+2 settlement cycle

(b) DBT

Payment	Cut-off Time	
	T+2 settlement cycle (Consultation Paper)	T+2 settlement cycle (Revised)
Payment to selling Client	T+2, not later than 4.00pm	T+2, not later than 2.30pm
Payment by buying Client	T+2, not later than 3.00pm	T+2, not later than 2.00pm

9. Additionally, to manage the shift to an earlier timing, the payment process will be expedited vide issuance of pdf statement by Bursa Malaysia to the CP which is available for download from the CDS terminal.

ISSUE 2: FREE BALANCE STATUS FOR SECURITIES CREDITED INTO THE BUYER'S ACCOUNT

10. One of the proposals under the T+2 settlement cycle framework which was conveyed to the industry during Bursa Malaysia's engagements with them was that all OMT purchases would be ear-marked during the 1st and 2nd batch run pending receipt of payment.

Summary of Key Feedback by Respondents

11. The industry informed of their preference for the securities credited into the buyer's account for:

(a) OMT:

- (i) 1st batch processing run to have "free balance"² status by T+2 8.30am.
- (ii) 2nd batch processing run to have "free balance" status by T+2 11.30am

- (b) DBT, to have "free balance" status by T+2 3.00pm.

² "Free balance" status means that the securities can be traded or transacted on.

**Proposed amendments to the Rules of BMS and the Rules of BMSC
In relation to the proposed T+2 settlement cycle**Bursa Malaysia's Response and Conclusion

12. The securities for OMT will be credited as free balance upon settlement of the transaction, i.e. after payment has been made. Under the T+2 framework, fund settlement will only take place on T+2 at 10.00am (for first batch) and 2.00pm (for second batch) while the securities would have been credited into the buyer's account beforehand and hence, the securities will not be credited as free balance until such time that the payment for those securities has been made.
13. A DBT settlement is dissimilar to an OMT settlement. Unlike the settlement of an OMT which is guaranteed by BMSC, settlement of a DBT is not guaranteed by BMSC. For DBT settlement, BMSC's role is to facilitate the settlement of the DBT and as such, Bursa Malaysia must receive the payment from the buying CP first before making payment to the selling CP and transferring the purchased securities to the buyer's account.

ISSUE 3: APPLICATION FOR BUYING-IN EXEMPTIONSummary of Key Feedback by Respondents

14. In respect of the deferred timing for the delivery and settlement of recalled securities from a securities borrowing and lending transaction ("SBL") which meets the conditions prescribed under Directive No. 9-001 of the BMS Rules, a respondent requested to extend the exemption for buy-in from 4.30 pm on T+1 to 10.00 am on T+2. Under the proposed rules, the respondent viewed that the seller would only know with certainty nearer to the settlement deadline at 4.30 pm that their purchases could not be settled on T+1. The respondent raised his concern that there would not be sufficient time to apply for a buy-in exemption by T+1 at 4.30 pm, especially if there is a high volume of trading activity. By extending the buy-in exemption deadline to 10.00 am on T+2, it would provide additional time for the seller to arrange for the timely return of securities or to apply for a buy-in exemption in a timely manner.

Bursa Malaysia's Response and Conclusion

15. Under the T+3 settlement cycle, the facility to apply for the buying-in exemption is permitted latest by T+2 4.00 pm where the transaction is being settled with recalled securities from a SBL transaction. Under the T+2 settlement cycle, this has been brought forward to T+1 4.30 pm. As such, there is no change in process in the facility provided.
16. Following from the comment in paragraph 14 above, Bursa Malaysia amended Directive No. 9-001 to clarify that if the tradeable balance in the seller's account is unavailable on T+2 by 4.30pm, buying-in against the seller and delivery of the recalled securities will take place on T+3.

KEY MARKET FEEDBACK & BURSA'S RESPONSE
Consultation Paper 5/2018
Proposed amendments to the Rules of BMS and the Rules of BMSC
In relation to the proposed T+2 settlement cycle

OTHER ISSUES RAISED ON THE MIGRATION TO THE T+2 SETTLEMENT CYCLE

17. We received 6 responses from individual respondents who had expressed their reservations with the proposed migration to a T+2 settlement cycle as below:
- (a) the T+2 settlement will impede the attractiveness of the Malaysian capital market, resulting in tightening market liquidity and reduced participation by investors (“**Issue 4**”);
 - (b) the reduced settlement cycle from T+3 to T+2 will increase investment cost (“**Issue 5**”);
 - (c) the shortened settlement cycle would mean that there would be less time for investors to leverage and transfer funds (“**Issue 6**”); and
 - (d) this is not the right time to migrate to the T+2 settlement cycle (“**Issue 7**”).

Bursa Malaysia's Response and Conclusion

Issue 4

18. We agree that liquidity is very important for the capital market, but we view that the duration of the settlement cycle is not the only factor driving the liquidity of the Malaysian capital market.
19. In the long run, the migration to a shorter settlement cycle is expected to increase efficiency, reduce settlement risk and market exposure, which will in turn drive the liquidity of the market.
20. Additionally, Bursa Malaysia continuously undertakes various initiatives to promote market liquidity and attract investor participation in our market, such as the introduction of intra-day short selling, a nationwide investment awareness campaign and the launching of retail securities borrowing and lending to attract retail investors.

Issue 5

21. On the concern regarding increased investment costs, we note that there are facilities available in the market, including those offered by the POs to assist the investors in managing investment costs.
22. A shorter settlement cycle from T+3 to T+2 means the investors will have quicker access to their money after selling their securities, and also earlier delivery of securities after purchasing.

**Proposed amendments to the Rules of BMS and the Rules of BMSC
In relation to the proposed T+2 settlement cycle**Issue 6

23. Whilst the current framework is conducive for trading by investors, Bursa Malaysia is committed to further enhancing its infrastructure and services to the market including shortening the settlement cycle to T+2 in order to improve the time to market.
24. With the advent of modern technology applied in the banking systems today, transfer of funds can be made almost immediately. In this connection, Bursa Malaysia believes that the timeliness of the transfer of funds should not be a concern especially online banking services are aplenty and inexpensive these days.

Issue 7

25. Bursa Malaysia had engaged with the industry on the proposed migration to a T+2 settlement cycle through multiple briefing sessions and a Technical Working Group, which comprised of all CPs, the Securities Commission Malaysia, BMS, BMSC and Bursa Malaysia Depository Sdn Bhd. From these engagements, we note that generally, the industry welcomed the proposed migration to a T+2 settlement cycle.
26. The proposed change to a T+2 settlement cycle is also in line with global trends. Other markets such as US, Europe, Australia, Hong Kong, Singapore and Thailand have moved to a T+2 settlement cycle.
27. As such, it is imperative for Bursa Malaysia to align our settlement cycle with global practice in order to remain attractive and competitive.

[End]