

CHAPTER 4 MARKET MAKERS

PART A REGISTRATION OF A MARKET MAKER

4.01 Qualification Criteria

- (1) An applicant who intends to apply to be a Market Maker for a Specified Security must be an entity that fulfils any one of the following requirements:
- (a) a Participating Organisation;
 - (b) a licensed bank, or licensed investment bank, under the FSA, in which the licensed investment bank is not also a Participating Organisation;
 - (c) a Related Corporation of (a) or (b) above, incorporated under the Companies Act and has:
 - (i) a minimum shareholders' fund of RM2,000,000.00; and
 - (ii) at least 2 personnel with at least 5 years' experience in the following:
 - (aa) trading in securities as a Dealer's Representative or dealing in derivatives as a Registered Representative;
 - (bb) trading in treasury related instruments of a financial institution;
 - (cc) trading in securities as a dealer on a Recognised Stock Exchange; or
 - (dd) trading in derivatives as a dealer on a Specified Exchange as defined in the Derivatives Exchange Rules;
 - (d) a foreign securities broker or foreign derivatives broker in a jurisdiction where the broker is regulated by a regulator who is a signatory to the International Organisation of Securities Commissions Multilateral Memorandum of Understanding ("IOSCO MMOU") or the Declaration on Cooperation and Supervision of International Futures Markets and Clearing Organisations ("BOCA Declaration") respectively ("Foreign Broker") and fulfils the following:
 - (i) has a minimum paid up capital of equivalent RM2,000,000.00; and
 - (ii) has the following experience:
 - (aa) at least 3 years' Market Making experience; or
 - (bb) at least 2 personnel with at least 3 years' experience in Market Making and is related to a company who is also a Foreign Broker which has at least 3 years Market Making experience; or
 - (e) a Related Corporation of (d) above, incorporated under the Companies Act and fulfils the following:
 - (i) has a minimum paid up capital of RM2,000,000.00;
 - (ii) has at least 2 personnel with at least 3 years' experience in Market Making; and
 - (iii) the Foreign Broker which is its Related Corporation has at least 3 years' experience in Market Making.

- (2) In addition to the requirements in Rule 4.01(1) an applicant to be a Market Maker must also fulfil the following requirements:
- (a) has in place facilities and personnel adequate for the expeditious and orderly carrying out of its business of Market Making; and
 - (b) has in place a supervisory programme and system of internal controls in respect of:
 - (i) the business of Market Making;
 - (ii) undertaking of risk management;
 - (iii) management of conflict of interest; and
 - (iv) compliance with these Rules.

4.02 Application Procedure

- (1) An applicant who intends to apply to be a Market Maker for a Specified Security must apply to the Exchange in accordance with the Exchange's requirements and comply with any requirements as may be imposed by the Exchange.

[Refer to Directive No. 4-001]

- (2) Notwithstanding the applicant meeting the qualification criteria set out in Part A of this Chapter 4, the Exchange may reject an application to register as a Market Maker in circumstances the Exchange deems fit.

4.03 Continuing Obligations

Throughout the term of its registration as a Market Maker, it must:

- (a) continuously comply with the qualification criteria stated under Part A of this Chapter 4;
- (b) immediately notify the Exchange of:
 - (i) any change that will disqualify it as a Market Maker based on Part A of this Chapter 4;
 - (ii) any change in the place of business of the Market Maker; and
 - (iii) change in name of the Market Maker; and
- (c) comply with and give effect to these Rules and Directives whether or not the provisions are directed at the Market Maker specifically.

4.04 General

Where the Exchange issues directives to modify the application of these Rules, in so doing, the Exchange may impose terms and conditions for compliance by Market Makers of certain types of securities specified by the Exchange, where deemed necessary or appropriate.

PART B OBLIGATIONS OF A MARKET MAKER

4.05 Bid and Offer Prices

- (1) A Market Maker for a Specified Security must enter bid and offer prices into the order book in the ATS for the purpose of buying and selling of the Specified Security as follows:
 - (a) with a minimum presence as stipulated by the Exchange;
 - (b) within the maximum spread allowed by the Exchange; and
 - (c) in not less than the minimum quantity allowed by the Exchange.
- (2) A Market Maker may be exempted from entering bid and offer prices as required under Rule 4.05(1) in circumstances deemed fit or allowed by the Exchange.

[Refer to Directive No. 4-001]

4.06 Designated Trading Account and Designated Securities Account

A Market Maker must undertake all Market Making activities through trading accounts and Securities Accounts designated specifically for Market Making activities based on the terms stipulated by the Exchange.

[Refer to Directive No. 4-001]

4.07 Conduct by Market Maker

- (1) A Market Maker may only carry out its Market Making activities for its proprietary position and not for Clients or its Related Corporations.
- (2) A Market Maker may carry out Permitted Short Selling as stipulated under Part D of this Chapter 4 in the course of fulfilling its obligations under Rule 4.05(1).
- (3) If a Market Maker is not a Participating Organisation, the Market Maker must enter the bid and offer prices into the order book in the ATS through a Participating Organisation.
- (4) A Market Maker must notify the Exchange immediately if it is unable to fulfil its Market Making obligations for any reason whatsoever and later when it is able to resume its Market Making obligations under Rule 4.05(1).
- (5) A Market Maker must avoid any act or practice which is likely to:
 - (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 must not participate in any operation by others which might have the same result.

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PART C RESIGNATION

4.08 Resignation

- (1) If a Market Maker wishes to resign as a Market Maker of a Specified Security, it must give a written notice to the Exchange of its intention to resign not less than 30 days prior to the proposed date of resignation.
- (2) The Exchange may accept the Market Maker's resignation subject to any conditions.

4.09 Termination, Suspension or Restriction of Market Making Activity

The Exchange may summarily suspend or terminate a Market Maker or restrict its Market Making activities if:

- (a) the Market Maker has been wound up whether on a voluntary basis or otherwise;
- (b) a receiver and manager, provisional liquidator or liquidator has been appointed for the Market Maker;
- (c) the Market Maker fails to fulfil any of the requirements in Part A of this Chapter 4;
- (d) the Market Maker is convicted of any offence in or outside of Malaysia involving dishonesty or fraud or had disciplinary action taken against it for breaches involving dishonesty or fraud; or
- (e) the Market Maker continuously breaches its obligations under Rule 4.05(1) for a period determined by the Exchange.

4.10 Continuing Liability

- (1) A Market Maker who has resigned or whose registration is terminated by the Exchange, remains liable to disciplinary action for any breach of these Rules or Directives committed during the period while it was a Market Maker.
- (2) All provisions in these Rules will continue to apply in respect of the former Market Maker to the extent required to give effect to Rule 4.10(1).

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PART D PERMITTED SHORTSELLING

4.11 General

- (1) A Market Maker may execute short selling for an ETF for which it is registered as a Market Maker, in the manner set out in Part D of this Chapter 4.
- (2) Unless it is otherwise provided in Part D of this Chapter 4, all other provisions in these Rules apply to Permitted Short Selling, as if they were normal sales of securities.

4.12 Commencement of Permitted Short Selling

A Market Maker may commence Permitted Short Selling only if the Market Maker has:

- (a) established Internal Guidelines for Permitted Short Selling;
- (b) put in place systems and infrastructure that include front office and back office systems which are operative and have all the relevant functionalities, requirements and controls in place for the carrying out of Permitted Short Selling in accordance with Part D of this Chapter 4; and
- (c) notified the Exchange that it intends to carry out Permitted Short Selling and provided to the Exchange the form stipulated in Appendix 5, 2 Market Days prior to the commencement of Permitted Short Selling.

[Refer to Directive No. 4-001]

4.13 Execution

- (1) A Market Maker intending to shortsell ETF units pursuant to Permitted Short Selling must comply with either of the following prior to execution of the order to shortsell –
 - (a) it has borrowed through SBL or purchased through ISSBNT, the ETF units or the Constituent Securities needed for the creation of the ETF units to settle the sale; or
 - (b) it has obtained a confirmation from the Authorised SBL Participant or Authorised ISSBNT Participant, as the case may be, that the above ETF units or Constituent Securities, are available for the Market Maker to use to settle the sale.
- (2) A Market Maker intending to shortsell the Constituent Securities pursuant to Permitted Short Selling, must comply with either of the following prior to execution of the order to shortsell –
 - (a) it has borrowed through SBL or purchased through ISSBNT, the Constituent Securities or the ETF units needed to redeem the units of Constituent Securities to settle the sale; or
 - (b) it has obtained a confirmation from the Authorised SBL Participant or Authorised ISSBNT Participant, as the case may be, that the above Constituent Securities or ETF units, are available for the Market Maker to use to settle the sale.
- (3) All Permitted Short Selling must be executed in the designated trading accounts and Securities Accounts stipulated in Rule 4.06.
- (4) A Market Maker must not execute Permitted Short Selling by way of a Direct Business Transaction.

- (5) A Market Maker must execute the following purchases through the designated trading accounts and Securities Accounts as stipulated by the Exchange after a shortsale for ETF units or Constituent Securities is executed:
- (a) a purchase of any of the Constituent Securities or derivatives for the purposes of hedging of the short sale of ETF units within the same Market Day, if the short sale is in relation to ETF units; or
 - (b) a purchase of ETF units or derivatives for the purposes of hedging of the short sale of the Constituent Securities within the same Market Day, if the short sale is in relation to Constituent Securities.

[Refer to Directive No. 4-001]

- (6) A Market Maker must procure and retain proper documents for at least 7 years for the purpose of satisfying the Exchange when requested, that the Market Maker has complied with the requirements of Rule 4.13(1) and Rule 4.13(3). The documents must be either in writing, tape recording or electronic form.
- (7) A Market Maker must not execute Permitted Short Selling when expressly directed by the Exchange, during the period where the ETF or its Constituent Securities has been declared, and remains, as Designated Securities under Part C of Chapter 7.

4.14 Limits for Permitted Short Selling

A Market Maker must comply with the following limits in relation to Permitted Short Selling:

- (a) the total value of short positions of ETF units must not exceed the total value of the purchase positions for the Constituent Securities and derivatives purchased for purposes of hedging the shortsale of ETF units, by 10%, when calculated at the end of the Market Day;
- (b) the total value of short positions of Constituent Securities must not exceed the total value of the purchase positions for ETF units and the derivatives purchased for purposes of hedging the shortsale of Constituent Securities by 10%, when calculated at the end of the Market Day; and
- (c) the total quantity of short positions for each Constituent Securities must not exceed the quantity of each Constituent Securities required for the creation of the ETF units by 15%, when calculated at the end of the Market Day.

4.15 Disapplication of requirements on hedging and limits relating to Permitted Short Selling

Rules 4.13(5) and 4.14 do not apply to such types of ETFs as may be prescribed by the Exchange.

[Refer to Directive No. 4-001]

4.16 Delivery and Settlement

The Rules relating to delivery and settlement under Chapter 9 apply to Permitted Short Selling in the same manner as they apply to normal sales.

4.17 Action by the Exchange

- (1) The Exchange may take any of the actions enumerated under Rule 4.17(2) summarily against a Market Maker or its Registered Person in relation to Permitted Short Selling if:

- (a) there is a breach or likelihood of breach of any provisions in Part D of this Chapter 4; or
 - (b) the execution of Permitted Short Selling is likely to lead to the commission of any of the offences under the Capital Markets and Services Act.
- (2) Pursuant to Rule 4.17(1) the Exchange may take any one or more of the following actions:
- (a) suspend or direct the Market Maker or its Registered Person to cease further Permitted Short Selling whether in relation to all, some or a particular ETF or Constituent Securities for which the Market Maker is authorised to carry out Market Making activities;
 - (b) impose restrictions or conditions on Permitted Short Selling carried out by the Market Maker or its Registered Person; or
 - (c) any other action deemed fit by the Exchange.

[End of Chapter]