

Summary of issues raised at the SMOC Meeting on 24th November 2017

No	Operational Issues	Comments & Suggestions	Response from Bursa
<i>Trade and market</i>			
1.	<u>Revolution of Fintech</u> With influx of fintech disruption and opportunity, regulatory revolution is required to capitalize on the opportunities handed	i) Minimum brokerage Rules applicable to new entrants i.e. through standalone trading license are not subjected to the above rule set by Bursa. ii) Relaxation of guidelines With slew of fintech development, relaxation of guidelines should be considered i.e. third party payment - With secured payment method like Blockchain, JomPay and other offerings from MyClear, tracking of payment to and from is made simple for detecting unlawful activities. Moreover payment through JomPay for instance is only to registered biller	i) This new entrant is issued with the restricted license to deal in securities by the SC and is not subjected to Bursa's minimum brokerage Rules, similar to that of the Commercial Banks. ii) Pursuant to Market Conduct Guidelines issued by the SC on 20 th November 2014, third party payment/receipts are strictly prohibited to curb abuses of clients' accounts by third party and to prevent breaches to AMLA provisions. iii) Secured payment method has always been allowed as long as POs are satisfied that the payments originated from the clients and not third party.
2.	<u>Alternative Trading System ("ÄTS")</u> Establishment of ATS was conveyed during the Malaysia Budget 2018	Topic covering ATS is very wide and it was subjected to establishment of new regulatory framework to govern the aforesaid activities. Not to mention ATS also comes in many forms although underneath it all it based on similar principal which trades outside of exchange. We would like to be shared with the direction on ATS.	Bursa to obtain industry consolidated view.

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3.	Definition of Institutional Trades	Review the definition of institutional trades as defined under Chapter 11 – “Commission & other fees and charges” of the Rules of Bursa Malaysia Securities. Currently, trades by wholly-owned subsidiary Nominees companies of banks are considered as institutional trades while those transacted by wholly-owned subsidiary Nominees companies of Investment banks are not.	Bursa will consult SC on whether to consider the nominees companies of Investment Banks and POs as institutional clients under the rule on commission rates.
4.	RR3/2016: Currencies Denomination of Margin Account: In relation to margin financing provided by a PO to a client for subscription and purchase of securities on a recognised stock exchange, the currency denomination for a margin account must be in ASEAN countries, USD, EURO, HKD or RMB currencies only. Based on the above circular, Australia Dollar (A\$) is not an approved currency denomination. When we offer margin financing of Australia counters to our client, we have to convert A\$ financed to the approved currency denomination. As a result of this conversion, client is suffering exchange loss.	Allow A\$ as an approved currency denomination.	Bursa to write to SC on the inclusion of A\$ as an approved of currency of denomination.

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5.	Implementation of new accounting standard MFRS9	Is there any guideline/ template for stock broking Company on how to assess the impact of MFRS9 and applied the Expected Credit Loss (ECL) model for common financial assets in broker's book such as "Clients' and brokers' balances" (includes margin interest receivable)?	MFRS9 is a standard for financial instruments and it requires companies to make provisions for expected losses in the future (i.e. impairment of assets). POs should be guided by the MFRS9 and their external auditors when assessing the impact of the Expected Credit Loss (ECL) of their financial assets. Accounting standards are not within Bursa's purview.
6.	Proposals for the Review of the Rules of Bursa Malaysia Securities Berhad	Share the update and implementation timelines for the 39 recommendations proposed by Bursa that have been approved by the SC.	Pending SC's feedback before the submission of Rules for final approval.
7.	POs to be outlet for IPO subscription	Allow POs being the designated outlet for IPO subscription for improvement of business opportunity and mitigating compliance requirements.	Currently, investors are able to subscribe for IPO via the POs. POs who wanted to provide service to facilitate IPO subscriptions for their customers, may enter into agreement with the issuing houses to provide such IPO service.
8.	Absence of Defaulter's List	Industry should relook to offer the defaulters list service.	Bursa is not be able to reinstate the Defaulters List due to requirements of the PDPA 2010 which requires written consent from the clients to be procured.
9.	Flexibility on On-Market Block Crossing	Allow POs to cross stocks on-market, matched partially or in full quantity using the OMMT facility. This means that allowing OMMT to be	Bursa will explore the suggestion on OMMT between 2 brokers and will discuss with SC.

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		done between 2 brokers. This is in addition to the earlier proposal of widening the price band for OMMT.	
10.	Data Breach	On the news headlines of massive customer data breach of over 46 million mobile subscribers in Malaysia, Bursa to update on stockbroking industry IT security on client's data, CDS, trading data, sensitive market information. Based on the latest development, whether there is any new guideline to help the industry to reduce the risk of data breach.	Bursa has strict guidelines on data protection to protect the investors. So far, there has not been reported case of data breaches of CDS services. The steps the Exchange has put in place since DDoS incident and shared that the Exchange is looking at several initiatives on cyber resiliency of which data protection will be covered.
11.	MIFID II (regulation that increases the transparency across the European Union's financial markets) will eventually come to Malaysia.	The full impact of MiFID II will be seen in 1Q of 2018. Local funds and local POs will be impacted.	Industry education on MiFID II is important.
<i>Clearing and Settlement</i>			
12.	Currently, pre-matching cut off timing for FDSS and SBL for potential fail cover cut off are at 4pm but the cut off time for ISS (under CMF system) is at 6.45pm.	The cut off time for SBL, FDSS and ISS to be synchronized at 6.45pm.	Unlike ISS instructions, transfer / SBL transactions will result in movement of shares in depositors CDS account at real time and as such the cut off time for ADAs to input transfer details to CDS system has been fixed at 4pm to be in line with company announcement with regards to entitlement of corporate action. Any request to extend the cut off time for transfer will have a major impact on Bursa to produce Record of Depositors (ROD) to

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			determine the entitled shareholders as at 5pm on the book closure date as specified in the company's announcement. Furthermore, with plans to roll out T+2 in our market, the POs will need to start preparing early by streamlining their internal processes to be able to meet the cut-off time prescribed by Bursa for its services as to be able to meet its obligation under a shorter settlement cycle environment.
<i>CDS</i>			
13.	Section 4.1 on Opening of Account Applications which stated all complete account opening applications lodged by an applicant before 12 pm on any market day must be keyed in to the CDS on the same market day.	• Removal of the time line of submission for CDS account opening and other related documents. • To improve the efficiency of account opening process, suggest to embark on digitising the account opening documents and minimise data input.	Bursa is currently undertaking a business process improvement exercise to review CDS processes and procedures. This is in tandem with CDS eServices Project to be undertaken in 2018.
14.	Single copy of related CDS forms	• Consider a one piece form instead of carbonized forms. • Propose that brokers send the original forms to Bursa and retain scanned copy or alternatively Brokers retain the original copy and Bursa receive scanned copy.	Bursa is currently undertaking a business process improvement exercise to review CDS processes and procedures. This is in tandem with CDS eServices Project to be undertaken in 2018.

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15.	CDS Balance Fee	Waive or reduce CDS balance fee as charges are imposed on inactive accounts as well.	It is a common practice among all Central Securities Depositories to collect a custody fee for safekeeping the shares for depositors. The Depository has the same fiduciary duty to all CDS accounts regardless of status. It renders same service level of care and diligence for all accounts. Thus, there should not be a distinction of fee. The fee to remain.
16.	Efficiency of CDS Operations	Propose for efficiency improvements on CDS Operations i. CDS System – to set default date ii. CDS Transfer Forms iii. Procedure Manual	Bursa is currently undertaking a business process improvement exercise to review CSD processes and procedures. This is in tandem with CDS eServices Project to be undertaken in 2018.
17.	Calculation of CDS fees inclusive of active and delisted counters	Exclude delisted counters from the calculation and to discontinue charging CDS fees.	CDS fee imposed on ADA/ADMs for shares held in their principal and wholly owned nominee accounts does not distinguish between listed or unlisted securities. Bursa Depository continues to provide the same level of service and record maintenance to all securities held in its custody i.e. issuance of statement and notices, and generation of transactions/balances files to ADA/ADMs for back office reconciliation.

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			To remove delisted securities immediately from CDS upon removal of a PLCs from official listing on Bursa Securities, the relevant clauses in SICDA have to be reviewed which is being looked into by SC.								
18.	CDS Fees – Sharing portion	To share the CDS account opening and transfer fees equally between Bursa and PO. <i>Current sharing portion:</i> <table><tr><td>Bursa</td><td>75%</td></tr><tr><td>PO</td><td>25%</td></tr></table> <i>Proposed sharing portion:</i> <table><tr><td>Bursa</td><td>50%</td></tr><tr><td>PO</td><td>50%</td></tr></table>	Bursa	75%	PO	25%	Bursa	50%	PO	50%	Bursa will continue to maintain the 75% share of the fees obtained from Transfer and CDS account opening activity as its acts as the principal in all the transactions that are performed by depositors in CDS. Bursa Depository serves more than 2.5 million CDS accountholders by providing statements / notices and other stationery for CDS transactions. Additionally, Bursa Depository continues to invest in development of CDS using its own resources by introducing new services and features for the benefits of users of CDS that includes the ADAs.
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PO	25%										
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