

PARTICIPATING ORGANISATIONS' CIRCULAR

Date : 14 February 2018

No : R/R 3 of 2018

REVIEW OF THE RULES OF BURSA MALAYSIA SECURITIES BERHAD ("RULES OF BURSA SECURITIES")

1.0 INTRODUCTION

- 1.1 Bursa Malaysia Securities Berhad ("**the Exchange**") has amended the Rules of Bursa Securities and Directives to allow for further flexibilities, promote ease of doing business and reduce the administrative burden and costs of doing business for Participating Organisations ("**POs**") and Dealer's Representatives ("**DRs**").
- 1.2 The amendments, which took into account the proposals received from the industry participants in 2017 are made with the following objectives:
- (a) allowing further flexibilities in relation to DRs and Registered Persons ("**RPs**");
 - (b) enhancing operating efficiencies and flexibility of doing business;
 - (c) reducing and streamlining reporting requirements; and
 - (d) removing overlaps and redundancies.
- 1.3 The amendments are detailed in paragraphs 2, 3 and 4 below.
- 1.4 The amendments to the Rules of Bursa Securities and Directives have been approved by the Securities Commission Malaysia.

2.0 AMENDMENTS TO THE RULES

- 2.1 The key amendments to the Rules are as follows:

Allowing further flexibilities in relation to DR and other Registered Persons

- (a) clarifying that a DR may carry on the business of dealing in securities outside the Principal Office or a Branch Office of his PO, at any location on a continuous basis provided that the DR has obtained his PO's prior approval to be mobile and complies with the Exchange's directives on mobility ("**DR's full mobility**");
- (b) removing the requirement for a letter of release for the transfer of a DR who has resigned and left the previous PO within 6 months prior to the new employment;
- (c) extending the notification period on the cessation of office of a Registered Person, from at least 7 days prior to the effective date to within 14 days of the effective date;
- (d) replacing the registration requirement of an interim person assuming responsibility for a Registered Person's function with merely a notification to the Exchange;

Enhancing operating efficiencies and flexibility of doing business

- (e) removing the requirement for a PO to obtain the Exchange's approval to set up Branch Offices and Electronic Access Facilities ("**EAfs**") provided that the PO complies with all the requirements for setting up Branch Offices, which includes having proper segregation of duties at the Branch Office, carrying of signage indicating the name of the PO and maintaining an up-to-date record of the address of all its Branch Offices;

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- (f) removing the requirement for a PO to maintain Effective Shareholders' Funds ("**ESF**") of at least RM50 Million for carrying out Securities Borrowing and Lending and Islamic Securities Selling and Buying – Negotiated Transaction activities;
- (g) removing the prescription for the frequency of a PO's Audit Committee meetings i.e. at least once every quarter in a calendar year. POs are instead encouraged to comply with the recommendations in the Exchange's Industry Communication on Governance Standards & Best Practices for POs issued by the Exchange on 15 June 2017;
- (h) removing the requirement for a PO to have audio recording of the conversation of its DRs conducting proprietary trades for the POs;
- (i) removing the requirement that the aggregate Outstanding Balance maintained by all Clients in relation to Margin Financing must not exceed 200% of the PO's ESF;
- (j) allowing the commission rates for Direct Business Transactions to be fully negotiable;

Reducing and streamlining reporting requirements

- (k) streamlining the reporting deadline for Off-Balance Sheet Transactions to be on the 10th Market day of the immediately following month, similar to the monthly compliance reporting by the Head of Compliance, as opposed to the 5th Market day previously;
- (l) removing the requirement that any breach to the requirements for contract amendments in relation to the execution of a Regulated Short Sale must be reported to the Exchange by the next Market day. Any such breach must still be reported under the monthly compliance reporting;

Removing overlaps and redundancies

- (m) removing the requirement for POs to submit an Annual Report. Moving forward, only the Annual Statutory Audit Report (now renamed "**Annual Audited Accounts**") is to be submitted to the Exchange;
- (n) removing the requirement that a Statutory Auditor provides an opinion on a PO's compliance with the requirements on capital adequacy and client's monies in the Annual Audited Accounts; and
- (o) removing the requirement in respect of disclosure on the suspension of interest and impairment provision for bad and doubtful debts. Disclosure is nevertheless required under the Companies Act 2016 and the relevant standards in the Malaysian Financial Reporting Standards ("**MFRS**").

2.2 The detailed amendments to the Rules of Bursa Malaysia Securities are as set out in **Annexure 1**.

3.0 AMENDMENTS TO THE DIRECTIVES

3.1 The key amendments to the Directives are as follows:

(a) Directive No. 2.01(2)-004 (Directives on Submission of Periodic Reports)

Amendments to remove the reporting for Outstanding Balance maintained by all Clients, consequential to the removal of the requirement that the aggregate Outstanding Balance maintained by all Clients in relation to Margin Financing must not exceed 200% of the PO's ESF.

(b) Directive No. 2.01(2)-006 (Directives on Readiness Audit-Self Assessment Approach, Declaratory Approach and Green Lane)

Amendments to remove the setting up of Branch Offices and EAFs from the readiness audit requirements, consequential to the removal of the requirement for the Exchange's approval to set up Branch Offices and EAFs.

(c) Directive No. 3-001 (Directives on Applications to the Exchange and Fees Pursuant to Chapter 3 of the Rules)

Amendments to clarify that moving forward, the subscription fees charged under paragraph 4.1 of the Directive are payable on an annual basis instead of a monthly basis.

(d) Directive No. 3.47(1)-002 (Directives on Mobility of Dealer's Representatives)

Amendments to set out the conditions that must be complied with by POs and DRs in relation to DR's full mobility, which includes requiring a PO to maintain records of the location where the DR normally carries on the business of dealing in securities, and that the DR remains contactable during trading hours and not put up any signage or description in any form indicating that the location where he is operating as a DR is the Principal Office or a Branch Office of a PO.

(e) Directive No. 4-001 (Directives on Market Making and Specified Securities)

Amendments to clarify that an applicant who intends to apply to be a Market Maker for a Specified Security may apply to become a Market Maker without having to identify the Specified Security that it intends to perform Market Making for. Further, an Applicant approved to be a Market Maker is only required to notify the Securities Trading Operations department of the Exchange of each Specified Security for which the Market Maker will be undertaking Market Making activities instead of seeking the Exchange's approval on the same.

(f) Directive No. 5-001 (Directives on Conduct of Business)

Amendments to remove the prescription for the frequency of a PO's Board meetings i.e. once every 2 months. POs are instead encouraged to comply with the recommendation in the Exchange's Industry Communication on Governance Standards & Best Practices for POs issued on 15 June 2017.

(g) Directive No. 6-001 (Directives on the Establishment of Branch Office and Electronic Access Facilities)

Directive No. 6-001 is deleted consequential to the removal of the requirement for the Exchange's approval to set up Branch Offices and EAFs.

(h) Directive No. 7-001 (Directives on Securities Borrowing and Lending and ISSBNT)

Amendments to remove the references to the ESF requirement in paragraphs 2 and 4 of the Directive, consequential to the removal of the ESF requirement for SBL and ISSBNT.

(i) Directive No 8-001 (Directives on Direct Market Access)

Amendments to remove the prescription for the types of minimum mandatory risk filters which must be maintained by POs when providing Direct Market Access to Clients. Instead, POs may implement risk filters in accordance with their risk appetite.

(j) Directive No. 12-001 (Directives on Suspension of Interest and Provisions for Bad and Doubtful Debts)

Amendments to remove the list of information on the suspension of interest and impairment provision for bad and doubtful debts to be included in the audited financial statements, consequential to the removal of the requirement in respect of disclosure on the suspension of interest and impairment provision for bad and doubtful debts.

(k) Directive No. 12-002 (Directives on Accounting and Financial Reporting Requirements)

Amendments to remove requirements on accounting and financial reporting which duplicate the existing requirements under the MFRS.

(l) Directive No. 12.03(2)-001 (Directives on Annual Statutory Audit Report)

This Directive is deleted consequential to the removal of the requirement that a Statutory Auditor provides an opinion on a PO's compliance with the requirements on capital adequacy and client's monies in the Annual Audited Accounts.

(m) Directive No. 13-001 (Directives on Capital Adequacy Requirements) and Directive No. 13.04(4)-001 (Directives on Manual Workaround Computation for Capital Adequacy Requirements)

The letter titled "Electronic transmission of information on Capital Adequacy Ratio" issued by the Exchange on 5 March 2008 is revoked, and the Capital Adequacy Ratio ("CAR") reporting frequency as stated in Directive No. 13-001 applies. Furthermore, amendments are made to insert a requirement for the PO to report to the Exchange by 4.00 pm on the next Market Day if there is a drop in a PO's CAR by 10% or more in a day.

The Exchange is also clarifying in Directives No. 13-001 and 13.04(4)-001 that the Head of Compliance ("HOC") and Head of Operations ("HOO") will be held responsible for the truthfulness and accuracy of all the information and records contained in the submissions to the Exchange. The sign-off for the manual computation forms/ workaround submission is deleted.

(n) Directive No. 13.32-001 (Directives on Liquidity Risk Management Framework)

Amendments to clarify that the HOC and HOO will be held responsible for the truthfulness and accuracy of all the information and records contained in the submissions to the Exchange.

Amendments are also made to delete the requirement for Self-Assessment Questionnaires attached as Appendix 2 of this Directive, as it has been 3 years since the introduction of the Best Practice Guidelines in Managing Liquidity Risk.

3.2 The amendments to the Directives are set out in detail in **Annexure 2**.

4.0 AMENDMENTS TO THE BEST PRACTICES

4.1 The key amendments to the Best Practices are as follows:

(a) Best Practice No. 8.16-001 (Direct Market Access Handbook)

Amendments are made to remove references to minimum mandatory risk filters consequential to the amendments made to Directive 8-001 to remove minimum mandatory risk filters.

(b) Best Practice No. 13.32-001 (Best Practice Guidelines for POs in relation to Liquidity Risk Management)

The Guidelines in Appendix 1 are moved to Directive No. 13.32-001 as Appendix 3. Best Practice No. 13.32-001 is revoked.

4.2 The amendments to the Best Practices are as set out in **Annexure 3**.

5.0 EFFECTIVE DATE

5.1 The amendments to the Rules of Bursa Securities, the Directives and the Best Practices above will take effect from **1 March 2018**.

6.0 CONTACT PERSON

6.1 In the event of any queries in relation to the above matter, kindly contact the following persons:

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