

BURSA'S RESPONSES TO ASCM'S FEEDBACK ON THE PROPOSED AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES BERHAD IN RELATION TO THE INTRODUCTION OF INTRADAY SHORT SELLING ("IDSS")

NO.	ISSUES	ASCM'S FEEDBACK	BURSA'S RESPONSES
1.	<p>Rationale of Item 4, Table 1 of the Consultation Paper states that "....</p> <p><i>Apart from the prescribed eligibility criteria set, Bursa is imposing requirement that PO must conduct and document KYC and suitability assessment during its onboarding process."</i></p>	<ul style="list-style-type: none"> Will Bursa provide POs with the "suitability assessment"? (Standard suitability assessment similar to Appendix C of SC Guidelines on Sales Practices of Unlisted Capital Market Products). 	<ul style="list-style-type: none"> No. The suitability assessment to be adopted by each Participating Organisations ("POs") will depend on their internal policies and procedures. This is consistent with the stance of the Exchange on KYC requirements for all products of the Exchange.
2.	<p>Consultation Paper, Table 1, Item 4 - Investor eligibility</p>	<ul style="list-style-type: none"> Eligibility of investor to participate in IDSS shall not be gauged by number of months their securities trading account has been opened with a PO numbers of trades that have been executed over the last 6 months. Investors trading experience and knowledge can be from many aspects including, among others, their trading in foreign market with foreign brokers or their extensive trading within a short span of times together with stock seminars they have attended. The rules should allow investors to participate in IDSS as long as they declare that they have sufficient knowledge about IDSS and aware of the risks involved. 	<ul style="list-style-type: none"> We take note of your comment and will remove the proposed Intraday Short Selling ("IDSS") eligibility criteria on trading experience, i.e. the requirement for the client to have opened a securities trading account with a PO for at least 6 months and have conducted at least 20 trades in the last 6 months.
3.	<p>Consultation Paper, Table 1, Item 4 - Investor eligibility</p>	<ul style="list-style-type: none"> Suggest to remove the condition that client needs to sign the agreement to borrow Eligible Securities or purchase ISSBNT Eligible Securities to settle all potential failed trades, which may occur in the event of any Intraday Short Selling in view that Bursa allows 2 alternative approaches to facilitate the settlement of uncovered position i.e. borrow securities via SBLCLA or SBLNT and buying-in. 	<ul style="list-style-type: none"> Currently for both SBLNT and SBLCLA, the Exchange expects a client and an Approved Borrower to have a written agreement before the Approved Borrower borrows securities on behalf of the client for the settlement of the client's potential failed trade. For IDSS, the requirement remains the same, but the Exchange requires that a written agreement between client and Approved Borrower in respect of any IDSS potential failed trade by the client, be executed prior to

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			<p>the onboarding of the client for IDSS.</p> <ul style="list-style-type: none"> This is an additional safeguard that the Exchange put in place to reduce the likelihood of instituting the buying-in process for any IDSS position that is not closed off within the T day.
4.	Consultation Paper, Table 1, Item 4 - Investor eligibility	<ul style="list-style-type: none"> Besides that, the current rules which applied to PDT and clients who short sell shares do not require them to sign agreement to borrow Eligible Securities or purchase ISSBNT Eligible Securities to settle all potential failed trades. The rules for IDSS should be in line with the current rules applied to PDT and clients i.e. buying-in will be initiated. On sub-item 4(c), it is not <u>practical</u> for each IDSS client to sign the Potential Fail Cover (PTF) Agreement. On sub-item 4(c), even if the Client has entered into an agreement to borrow Eligible Securities with the lending agency, there is no guarantee at all time that the lending agency has adequate securities to deliver to settle all potential failed trades. We are of the view that sub-item 4(c) be removed or further revised to address the delivery of securities arising from failed trades. 	<ul style="list-style-type: none"> Currently under the Day Trading framework, only Proprietary Day Traders ("PDTs") who are licensed persons can do short selling without prior borrowing or agreement to borrow. We propose to make IDSS available to a wider group of eligible investors who may not necessarily be licensed persons. Hence the need for additional safeguards for IDSS, including requiring the execution of the written agreement between client and Approved Borrower in respect of any potential failed trade by the client, prior to the onboarding of the client. This is an additional safeguard that the Exchange put in place to reduce the likelihood of instituting the buying-in process for any IDSS position that is not closed off within the T day. If there are no adequate securities available, the buying-in process will take place.

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5.	<p>Consultation Paper, Table 1, Item 5.</p> <p>Eligible Securities: It was mentioned that if a specific stock is being suspended under IDSS proposal, the short selling under Day Trading will be prohibited.</p>	<ul style="list-style-type: none"> Under what scenario that a stock is being suspended for IDSS while it merely adopts the list of Approved RSS Securities? 	<ul style="list-style-type: none"> The possible scenarios are as follows: <ol style="list-style-type: none"> <u>Refer to item 7 of Table 1 of the IDSS Consultation Paper</u> <ul style="list-style-type: none"> Gross short selling volume (Regulated Short Selling ("RSS") + IDSS + short selling under Day Trading) exceeds the daily maximum limit of 3% of outstanding shares per security. In this case, RSS + IDSS + short selling under Day Trading will be suspended / prohibited for the rest of the day. RSS + IDSS + short selling under Day Trading to resume the following day. <u>Refer to item 8 of Table 1 of the IDSS Consultation Paper</u> <ul style="list-style-type: none"> Stocks will be suspended / prohibited from IDSS for the rest of the day if stock price falls more than 15% / RM0.15 from the previous day closing price. In this case, the short selling under Day Trading will also be suspended. <u>BMS Rule 8.31(1)(b) / Directive on Regulated Short Selling</u> <ul style="list-style-type: none"> Net short selling volume (RSS) aggregated over a period of time is 10% of the quantity of outstanding shares. In this case, RSS + IDSS + short selling under Day Trading will be suspended / prohibited when it exceeds 10%. RSS+ IDSS + short selling under Day Trading will resume when the net short selling volume falls below 10%.

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6.	<p>Consultation Paper, Table 1, Item 5.</p> <p>Eligible Securities: It was mentioned that if a specific stock is being suspended under IDSS proposal, the short selling under Day Trading will be prohibited.</p>	<ul style="list-style-type: none"> For RSS stocks, there is an indicator in trading system. Will there be any indicator for IDSS stock since its suspension has no impact on RSS trading? 	<ul style="list-style-type: none"> Yes, there will be an indicator for IDSS in the trading system similar to current RSS and short selling under Day Trading.
7.	<p>Consultation Paper, Table 1, Item 6</p> <p>Gross Short Selling Volume Limit</p>	<ul style="list-style-type: none"> We would like to seek clarification why only 3% of the outstanding shares are the maximum allowable volumes to be traded for IDSS per day for the particular stocks (in view of price control-circuit breaker at 15% or 15 sen for <RM1.00 stock price). 	<ul style="list-style-type: none"> Both controls serve to avoid possible excessive speculation on a particular stock.
8.	<p>Consultation Paper, Table 1, Item 6 – Trading Restriction</p>	<ul style="list-style-type: none"> Please clarify whether “at tick rule” applies to “IDSS”. As per sub item (e) - Trading restriction, it was stated that No IDSS trading is permitted and No At-tick rule. 	<ul style="list-style-type: none"> The “at-tick” rule will not apply to IDSS.
9.	<p>Consultation Paper, Table 1, Item 6 – Trading Restriction</p>	<ul style="list-style-type: none"> On sub-item (d) Margin financing, we suggest to have no IDSS restriction for Margin account as PO's interest has been protected by the collateral pledged by Client. Margin account should be permitted to perform IDSS similarly to other account type. 	<ul style="list-style-type: none"> We will maintain the restriction on Margin Account but will take your comment into consideration when we conduct a post-implementation review of IDSS.

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10.	<p>Consultation Paper, Table 1, Item 9.</p> <p>Account Structure: No designated account is required Sell order must be tagged</p>	<ul style="list-style-type: none"> • Some members opined that ideally for monitoring purpose, there should be a designated trading account for IDSS like RSS. However, other members prefer not to have separate designated account for IDSS as it is easier for the business to promote IDSS, so that clients or IVT account traders do not have to remember and switch their trading account when they want to short. • Some members are in the view that tagging of IDSS is an issue especially for omnibus clearing account. Whereas, other members viewed that there should be special tagging by Bursa to identify IDSS trades at the trading level due to the followings: <ul style="list-style-type: none"> • So that PO can tag the same in BTS <ul style="list-style-type: none"> ▪ This tagging is to control only eligible clients are allowed to trade IDSS ▪ The control to trade IDSS should be done at BTS level ▪ The special tagging can allow PO to come out with relevant reports – IDSS trades, exceptions, etc. • Other comments from the members are: <ul style="list-style-type: none"> • Will there be any specific order code / number prescribed by Bursa for IDSS order to ensure standardization across the industry? To have the sell order tagged as IDSS in the respective broker's order management system with prescription by Bursa will be quite 	<ul style="list-style-type: none"> • The proposed rules do not restrict the POs from using designated accounts for IDSS at PO's level for the PO's internal segregation. • IDSS framework does not prescribe requirements on omnibus account. However, the framework does prescribe that all IDSS activities should be tagged in the BTS. • The requirements for tagging of IDSS order will be provided in the PO's Trading Manual and BTS2 FIX Specification documents. • IDSS sell order will have a specific order code, similar to RSS. • The tag for IDSS is updated in the BTS2 Fix Specification documents. • The BTS2 will disseminate real time IDSS volume, PDT volume and RSS volume.

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		<p>challenging.</p> <ul style="list-style-type: none"> To clarify whether the IDSS order done will be reflected under the RSS volume done in the market or volume done under the open market in view that the IDSS orders are to be tagged for Exchange's Surveillance team monitoring. 	
11.	<p>Consultation Paper, Table 1, Item 11. Settlement of Uncovered Position: Bursa allows SBL to cover short position.</p>	<ul style="list-style-type: none"> Some members commented that: <ul style="list-style-type: none"> The current SBL framework requires pledging of collateral before borrowing any securities. Hence, SBL may not be an effective option to be used to cover short position unless exception is allowed for post pledging of collateral after borrowing within certain number of days from date of borrowing and subject to PO's internal policy in allowing such upfront lending to uncovered position. Whereas, other members commented that: <ul style="list-style-type: none"> Under the SBLCLA framework, only PO can borrow ("Authorised Borrower"); while for SBLNT framework, only institutional corporates (including PO) can borrow ("Approved Borrower"). For borrowing to cover potential fail trade, it is the Authorised Borrower/Approved Borrower who needs to come out with the collateral to borrow the shares on behalf of their clients. After securities are borrowed by PO under 	<ul style="list-style-type: none"> For SBLNT, the collateral requirements are not prescribed under the Rules of BMS or Rules of BMSC. In respect of SBLCLA, the collateral requirements are prescribed under the Rules of BMS, where the PO is required to deposit the collateral with the Exchange prior to borrowing. There is currently no change proposed for this requirement. For the SBLCLA framework, a person who is a Trading Clearing Participant or who falls within such other categories of persons prescribed by the Clearing House to be eligible to become a Borrower; For the SBLNT framework, a person who falls within one of the categories of persons prescribed by the Clearing House to be eligible to become an Approved SBLNT Borrower. Please refer to our clarification above on collateral requirements under the Rules. In respect of SBLCLA, a PO may withhold and use the pending sale proceeds payable to client (from that

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		<p>Potential Fail Trade account, the PO will then transfer the shares to the clients who are unable to deliver the sale obligation.</p> <ul style="list-style-type: none"> The collateral requirement between PO and clients is governed by Rules of Bursa Securities. Based on our understanding from Bursa, PO can withhold and use the pending sale proceeds payable to client (from that short sale contract) as the collateral from the client to the PO. 	<p>short sale contract), depending on the PO's agreement with its clients.</p>
12.	<p>Consultation Paper, Table 1, Item 12</p> <p>Reporting Requirement: Under the Proposed Requirements column, it was stated that: <i>"A PO must report to the Exchange: b) any positions which are carried for securities which are not Approved Securities and the reasons."</i></p>	<ul style="list-style-type: none"> Bursa to clarify whether there is any system control at Bursa trading system to restrict IDSS on Approved Securities only, and whether any IDSS order on securities other than Approved Securities will be rejected by Bursa trading system automatically. 	<ul style="list-style-type: none"> Orders with IDSS tagging will be rejected if submitted for stocks without the IDSS tag. POs must ensure that they tag their orders accordingly. This is a similar process to the process for PDT and RSS. The technical specification of order and stock tagging for IDSS are highlighted in the BTS2 FIX Specification. Yes, the system will be able to restrict IDSS to Approved Securities only. Nevertheless, POs are required to report to the Exchange in case of any positions which are carried for any positions which are carried for securities which are not Approved Securities (e.g. could be due to system malfunction), in such frequency and manner as may be prescribed by the Exchange.
13.	<p>8.33(3) read with the following proposed eligibility criteria:</p>	<ul style="list-style-type: none"> If a client opened a trading account with PO A for a duration of less than 6 months but the client is able to prove that he has an account 	<ul style="list-style-type: none"> Please note that we will remove the proposed IDSS eligibility criteria on trading experience, i.e. the requirement for the client to have opened a securities

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	<p>(a) has opened a securities trading account with a PO at least 6 months;</p> <p>(b) has conducted at least 20 trades in the last 6 months;</p>	<p>with PO B for more than 6 months and traded more than 20 trades in the last 6 months with PO B, can PO A take into the consideration of the client's trading activity in PO B for the eligibility criteria (i.e. item 3(a) and (b)) for the client to perform IDSS with PO A?</p>	<p>trading account with a PO for at least 6 months and have conducted at least 20 trades in the last 6 months.</p>
14.	<p>8.33(3) read with the following proposed eligibility criteria:</p> <p>(a) has opened a securities trading account with a PO at least 6 months;</p> <p>(b) has conducted at least 20 trades in the last 6 months;</p>	<ul style="list-style-type: none"> Are the 20 trades inclusive of DBT, OMMT, etc.? If the client has 4 matched trades on the same counter on the same day and the broker issued one contract on this. For the eligibility purpose, will this be counted as 4 trades? 	<ul style="list-style-type: none"> Please note that we will remove the proposed IDSS eligibility criteria on trading experience, i.e. the requirement for the client to have opened a securities trading account with a PO for at least 6 months and have conducted at least 20 trades in the last 6 months.
15.	<p>8.33(3) read with the following proposed eligibility criteria:</p> <p>(a) has opened a securities trading account with a PO at least 6 months;</p> <p>(b) has conducted at least 20 trades in the last 6 months;</p>	<ul style="list-style-type: none"> If the client has 2 trading accounts (with different CDS account no.) with the PO, will the 20 trades include all transactions from all other account or the calculation of 20 trades only will be based from one account) Our view is the 20 trades should be based on client basis instead of per account basis. 	<ul style="list-style-type: none"> Please note that we will remove the proposed IDSS eligibility criteria on trading experience, i.e. the requirement for the client to have opened a securities trading account with a PO for at least 6 months and have conducted at least 20 trades in the last 6 months.
16.	<p>8.33(3) read with the following proposed eligibility criteria:</p> <p>(a) has opened a securities trading account with a PO at least 6 months;</p> <p>(b) has conducted at least 20 trades in the last 6 months;</p>	<ul style="list-style-type: none"> For the client that obtain Margin Financing facilities from external financier, are they eligible to participate in IDSS? 	<ul style="list-style-type: none"> Yes, the client would be eligible if the client is able to comply with all conditions for IDSS.

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17.	<p>8.33(3)(e)</p> <p>(3) The proposed eligibility criteria for client to execute IDSS:</p> <p>(e) submitted a written declaration of the Client's compliance with the eligibility criteria in paras (a), (b) and (c) that the Client fully understood the IDSS requirements and that the Client is not associated with the body corporate that issued or made available the Approved Securities to which the IDSS is to be entered.</p>	<ul style="list-style-type: none"> Will Bursa provides POs the standard/sample written declaration? Suggest that declaration form for IDSS and SBL should be a standard (and set by Bursa) for all the investors who intend to participate in IDSS/SBL. 	<ul style="list-style-type: none"> No, Bursa will not prescribe the template written declaration of the Client's compliance as required in Rule 8.34(2) as we allow flexibility to the POs to determine the form of written declaration that works best for the POs. Currently there is no requirement for clients to submit written declaration for SBL under the Rules of BMS. However similar to SBL, Bursa will prescribe the template written declaration of compliance with the requirements for commencement of IDSS by the POs.
18.	8.33(3)	<ul style="list-style-type: none"> Suggest for client to have minimum 10% of the fund size on the total amount that he/she plan to short (it can be cash or paid shares). Rationale is to cover for the losses if the price goes up instead of goes down and broker does not need to chase for the losses from client. 	<ul style="list-style-type: none"> This will not be prescribed by the Exchange as we adopt a principle-based approach with no more rules than necessary. This could be addressed by the PO's internal credit policies.
19.	<p>8.33(3)</p> <p>The criteria stated in paragraphs (a), (b), (d) and (e) above do not apply to certain institutional clients.</p>	<ul style="list-style-type: none"> Is this applicable if the institutional client open sub account and the transactions are not in the omnibus account? For example, if a foreign stockbroking company (who is a member of recognized stock exchange) wishes to open a sub-account for their client (each sub-account has a separate CDS account no.), are the eligibility criteria stated in (a), (b), (d) and (e) not applicable to the client of the foreign stockbroking company? 	<ul style="list-style-type: none"> We agree to remove the proposed IDSS eligibility criteria on the trading experience, i.e. the requirement for a client to have opened a securities trading account with a PO for at least 6 months (para (a)) and have conducted at least 20 trades in the last 6 months (para (b)). The exemption from the IDSS eligibility criteria as stated in para (d) (executed the IDSS risk disclosure statement) and para (e) (submitted a written declaration of the Client's compliance with the eligibility criteria in para (c), (that the Client fully understood the IDSS requirements and that the Client

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			<p>is not associated with the body corporate that issued or made available the Approved Securities to which the IDSS is to be entered), only applies to the institutional clients who fall within the exempted list set out in Annexure 1 of the Consultation Paper. The list will be prescribed in a new Directive.</p>
20.	<p>8.33(3)</p> <p>The criteria stated in paragraphs (a), (b), (d) and (e) above do not apply to certain institutional clients.</p>	<ul style="list-style-type: none"> • The proposed criteria will hinder experienced investors (local or foreign), who may not have account with the POs that offer IDSS. To facilitate growing of IDSS business, we propose to replace the criteria (a) and (b) with a one-off declaration by client i.e.: <ul style="list-style-type: none"> (i) The client has maintained a securities trading account or have trading experience of more than 6 months (whether within the same PO or with other local or oversea broking firm). (ii) The client has conducted at least 20 trades in the last 6 months within the same PO or with other local or oversea broking firm. 	<ul style="list-style-type: none"> • We take note of your comment and will remove the proposed IDSS eligibility criteria on trading experience, i.e. the requirement for the client to have opened a securities trading account with a PO for at least 6 months and have conducted at least 20 trades in the last 6 months.
21.	8.33 (4)	<ul style="list-style-type: none"> • Restriction to perform IDSS for Approved Securities only will not attract client to trade because the approved securities are not active counters for most of the trading days. Should allow client to execute IDSS orders on any securities like a PDT. 	<ul style="list-style-type: none"> • The Approved Securities are proposed for IDSS to align with Regulated Short Selling which can be carried out for Approved Securities only. • The Approved Securities are applicable to securities which fulfil the criteria prescribed by the Exchange which includes the level of market capitalisation and which can be extended to both Main and ACE markets, as compared to a PDT who can only trade on the Main market securities.

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22.	8.33 (5)	<ul style="list-style-type: none"> Is client allowed to transfer the shares from his other CDS accounts (Margin or Nominees) in the same broking firm or other broking firm or family members on T day when he execute IDSS orders since Bursa states that all IDSS positions must be covered or squared off at the end of the day. 	<ul style="list-style-type: none"> Please note that Rule 8.34(4) requires that the short selling of Approved Securities carried out under this Part D must be closed off with a buy position on the same day as the selling, hence a transfer of shares from other CDS accounts would not enable the client to fulfil that requirement.
23.	8.33(6)	<ul style="list-style-type: none"> Under Bursa Malaysia Securities Rule 8.26, it is stated that PO must obtain a written confirmation from clients to confirm the client is not associated with the body corporate that issued or made available the Approved Securities prior to execution of an RSS order. Does such requirement apply to IDSS? 	<ul style="list-style-type: none"> For IDSS, the Client is required to provide the written confirmation to the PO that the Client is not associated with the body corporate that issued or made available the Approved Securities in relation to which an order for IDSS is to be entered, prior to the onboarding of the Client for IDSS. It would be a 'one-off' confirmation. However, the PO is expected to implement its own policies and procedures to ensure compliance with new Rule 8.34(5).
24.	8.33(6)	<ul style="list-style-type: none"> Under Bursa Malaysia Securities Rule 8.26, it states that PO must obtain a written confirmation from clients to confirm the client is not associated with the body corporate that issued or made available the Approved Securities prior to execution of an RSS order. Does such requirement apply to IDSS? There will be an operational issue if Rule 8.26 is applicable to IDSS as every order requires client's declaration. We shall propose that Rule 8.26 is not applicable to IDSS because the proposed Rule 8.33(3) of providing one-off declaration by client is sufficient for clients to understand their obligation and restriction. 	<ul style="list-style-type: none"> For IDSS, the Client is required to provide the written confirmation to the PO that the Client is not associated with the body corporate that issued or made available the Approved Securities in relation to which an order for IDSS is to be entered, prior to the onboarding of the Client for IDSS. It would be a 'one-off' confirmation. However, the PO is expected to implement its own policies and procedures to ensure compliance with new Rule 8.34(5).

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25.	<p>8.35</p> <p>Execution</p> <p>(1) A Participating Organisation must not execute Intraday Short Selling by way of a Direct Business Transaction.</p>	<ul style="list-style-type: none"> Does the eligible investor allowed to close-off the IDSS position by way of DBT/OMMT? 	<ul style="list-style-type: none"> No, an IDSS cannot be closed off by way of Direct Business Transaction ("DBT") or On-Market Married Transaction ("OMMT"). We will provide a clarification in the rule.
26.	<p>8.35(3)(a)</p> <p>No IDSS can be executed by a PO during the period of 21 days immediately following a takeover announcement involving the issuer of an Approved Securities.</p>	<ul style="list-style-type: none"> Will Bursa look into possible IDSS suspension in Bursa Trading System during the 21 days? It is tedious for PO to track any announcements which subject to this trading restriction. Abolish the 'no intraday short selling' 21 days rule. As the takeover announcement already goes public, regulator should relax the guidance. 	<ul style="list-style-type: none"> We will maintain the restriction on IDSS being carried out following a takeover announcement but will take your comment into consideration when we conduct a post-implementation review of IDSS.
27.	<p>The project in general</p>	<ul style="list-style-type: none"> Is this IDSS also an approved activity by SACSC which Islamic PO is allowed to undertake IDSS? 	<ul style="list-style-type: none"> No, it is not.