

Our Ref: RPA/ISS/YYT/TAC(kar)/019/18 [ETF]

7 December 2018

Industry Associations

Via email

Dear Sir/Madam,

AMENDMENTS IN RELATION TO EXCHANGE-TRADED FUNDS:

1. **BURSA MALAYSIA SECURITIES BERHAD MAIN MARKET LISTING REQUIREMENTS**
 2. **RULES AND DIRECTIVES OF BURSA MALAYSIA SECURITIES BERHAD**
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(A) INTRODUCTION

1. Pursuant to section 9 of the Capital Markets and Services Act 2007 (“**CMSA**”), Bursa Malaysia Securities Berhad (“**the Exchange**”) has amended the following rules to enhance the framework for ETFs:
 - (a) Main Market Listing Requirements to enhance the post listing framework for ETFs (“**Main LR ETF Amendments**”); and
 - (b) Rules and Directives of the Exchange to facilitate the trading of the new types of ETFs and improve the ecosystem for ETFs (“**BMS Rules and Directives Amendments**”).

The Main LR ETF Amendments and the BMS Rules and Directives Amendments are collectively referred to as the “**ETF Amendments**”.

(B) BACKGROUND

2. As part of the efforts to boost the ETF industry, the Securities Commission Malaysia (“**SC**”) has, through its revised ETF Guidelines issued on 26 November 2018 (“**revised ETF Guidelines**”), allowed the issuances of a more diversified range of ETFs in the market. These include futures-based ETFs (such as the leveraged and inverse ETFs (“**L&I ETFs**”)), synthetic ETFs, physical commodity ETFs and smart beta ETFs. The introduction of an array of ETFs aims to promote competitive growth and facilitate product innovation in the market, providing new investment opportunities and exposure for investors with varying risk appetites. The revised ETF Guidelines will come into effect on 2 January 2019.

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3. On the part of the Exchange, we had, on 9 July 2018, issued a public consultation paper (“**Consultation Paper**”) to seek views from stakeholders and the public on the ETF Amendments.
4. In finalising the ETF Amendments, the Exchange has considered various feedback and comments received from the industry, including that received in response to the Consultation Paper. In addition, we have also taken into consideration the revised ETF Guidelines.

(C) OBJECTIVES OF ETF AMENDMENTS

5. The ETF Amendments, among others, seek to achieve the following:
 - (a) promote greater business efficacy and reduce cost of compliance by ETF by liberalising the interim reporting framework from quarterly to semi-annual basis;
 - (b) facilitate growth of ETF industry whilst enhancing investor protection and transparency through enhanced disclosures in immediate announcements and periodic reports, as well as imposition of qualifying criteria for investors trading in L&I ETFs;
 - (c) facilitate market making activities for all ETFs through the enhanced Permitted Short Selling framework; and
 - (d) streamline the ETF framework under the Main LR with the revised ETF Guidelines, where necessary for consistency.

(D) KEY ETF AMENDMENTS

The key ETF Amendments are as follows:

6. MAIN LR ETF AMENDMENTS

- 6.1 **Liberalising the Interim Reporting Frequency of ETFs From Quarterly to Semi-Annual Basis**
 - (a) Instead of quarterly financial reporting, requiring an ETF management company (“**ETF Manager**”) to announce half-yearly financial report (“**ETF Semi-Annual Report**”) within 2 months after the first-half of the ETF’s financial year.

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6.2 Enhancing the Contents of Semi-Annual Report and Annual Report of ETF to Promote Meaningful and Value-Add Information to Unit Holders

- (a) Requiring the following disclosures in both the ETF Semi-Annual Report and annual report:
 - (i) information on over-the-counter (“OTC”) derivatives entered into by a synthetic ETF such as details of the underlying assets of the OTC derivatives and identity of the counterparty;
 - (ii) description of collateral received by an ETF which invests in OTC derivatives such as the nature of the collateral, identity of the counterparty providing the collateral and value of the collateral; and
 - (iii) information on Securities Transactions¹ entered into by an ETF such as the amount of securities involved in the Securities Transactions as a proportion of the total net asset value, nature and value of collateral, revenue earned by the ETF and ETF Manager, as well as the fees paid or payable to the lending agent, lending representative or supplier representative.
- (b) If cross trade transactions have been carried out, requiring a statement in the ETF Semi-Annual Report that the person undertaking the oversight function has reviewed that such transactions are in the best interest of the ETF and transacted on arm’s length and fair value basis.
- (c) Requiring disclosure of the following in an ETF’s annual report:
 - (i) the size of the tracking error;
 - (ii) the difference between the annual return of the ETF and the performance of the benchmark or index together with an explanation for the difference; and
 - (iii) the details and functions of the fund manager or trustee’s delegate, if any.

¹ This is defined in a new paragraph 9.01(5)(c), Main LR to mean the following transactions conducted pursuant to the Rules of Bursa Malaysia Securities Clearing Sdn. Bhd.:

- (i) securities lending under the SBL Negotiated Transaction or Bursa SBL Transaction; or
- (ii) securities selling under the ISSBNT Negotiated Transaction.

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6.3 Enhancing the Immediate Announcement Requirements by ETFs to Promote Greater Transparency on Specific Key Matters

Requiring an ETF Manager to immediately announce the following:

- (a) any change in the methodology **or rules for constructing** the benchmark or index (in addition to the existing announcement of any change in the methodology for compiling or calculating the benchmark or index);
- (b) any change in the objective or characteristics of the benchmark or index; and
- (c) any matter or change that will result in the issuance of a supplementary or replacement prospectus by an ETF.

6.4 Other Amendments for Consistency and Enhanced Efficiency

Making the following miscellaneous amendments to facilitate compliance by ETFs as well as removing duplication from the Main LR and ensuring consistency with the revised ETF Guidelines:

- (a) streamlining the definition “**exchange-traded fund**” and the terms “**indicative optimized portfolio value**” as well as “**fund manager**” used in the Main LR to be consistent with the terminologies used in the revised ETF Guidelines;
- (b) removing the prescription of the contents of an ETF’s deed from the Main LR;
- (c) generalising the manner in which the indicative optimised portfolio value is disseminated by an ETF;
- (d) including the **effective date** of the change in an immediate announcement of change in the rate of management fee or trustee fee;
- (e) removing the immediate announcement of any variation of the duration of an ETF and change to the constituents and weightings of the benchmark;
- (f) amending the terminology used in the statement of income distribution from current or corresponding quarter to current or corresponding **period** and removing the current year-to-date and corresponding year-to-date columns; and
- (g) deleting the following disclosures in the ETF annual report:
 - (h) details of investment committee member;
 - (ii) details of significant changes in the state of affairs of the ETF; and

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- (iii) statement of the ETF Manager's responsibility for preparing the annual audited financial statement.

7. BMS RULES AND DIRECTIVES AMENDMENTS**7.1 Safeguarding Investor Protection for Trading in L&I ETFs**

- (a) Introducing specific conditions for trading in L&I ETFs including the fulfillment of qualifying criteria for investors and the execution of a risk disclosure statement prior to trading. In this regard, an investor trading in L&I ETFs must fulfil at least one of the following criteria i.e. the person or institution -
 - (i) is a Sophisticated Investor (as defined under Part 1, Schedule 6 or 7 of the Capital Markets and Services Act 2007);
 - (ii) has a Margin Account;
 - (iii) has executed at least 5 transactions in exchange traded derivatives or structured warrants within the preceding 12 months; or
 - (iv) has utilized a performance simulator which simulates trading in L&I ETFs and undergone an e-learning tutorial developed by the Exchange for trading in L&I ETFs.
- (b) Exempting institutional clients who fall within the exempted institution list prescribed by the Exchange from having to execute a risk disclosure statement and written declaration.

7.2 Facilitating Market Making of ETFs through an Enhanced Permitted Short Selling Framework

Enhancing the Permitted Short Selling framework by, among others -

- (a) broadening the Permitted Short Selling framework beyond Equity-based ETFs to allow Market Makers to carry out short selling for all types of ETFs; and
- (b) disapplying the requirements on hedging and the short selling limits under the Permitted Short Selling framework, in respect of futures-based ETFs, synthetic ETFs, commodity ETFs and feeder ETFs, as these provisions are inapplicable to such ETFs.

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(E) FULL TEXT OF THE ETF AMENDMENTS AND OTHER INFORMATION**8. Main LR ETF Amendments & Questions and Answers**

- (a) The full text of the Main LR ETF Amendments is attached as **Appendix 1**.
- (b) In addition, we have also provided “Questions and Answers” as set out in **Appendix 2** to facilitate an ETF Manager’s better understanding of, and compliance with the Main LR ETF Amendments.
- (c) If you have any queries on the Main LR ETF Amendments above, please contact the following persons from Listing Advisory & Development, Listing Division at 03-2034 7766:
 - (i) Ms. Tiffany Yan Wei Mee;
 - (ii) Pn. Razalina Suriati Abdullah; or
 - (iii) Mr. Ding Kien Yue.

9. BMS Rules and Directives Amendments

- (a) The full text of the BMS Rules and Directives Amendments above are set out in **Appendices 3 and 4**.
- (b) The circular issued to Participating Organisations is attached as **Appendix 5**.
- (c) If you have any queries on the BMS Rules and Directives Amendments above, please contact the following persons:
 - (i) Mr. Mark Chan Kok Theng (03-2034 7183);
 - (ii) Mr. Ng G-Ming (03-2034 7364); or
 - (iii) Ms. Annie Cheng (03-2034 7585).

(F) IMPLEMENTATION

10. All ETF Amendments take effect from **2 January 2019** onwards. This includes the enhancements to the contents of periodic reports as set out in paragraph 6.2 above which are applicable for ETF Semi-Annual Reports and annual reports issued on or after 2 January 2019.

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(G) ADDITIONAL INFORMATION

11. This letter and all the above documents are also available at Bursa Malaysia Berhad's website at www.bursamalaysia.com.

The above is for your information only.

Thank you.

Yours faithfully,



YEW YEE TEE
Chief Regulatory Officer

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