RESTRICTED

T+2 Settlement Cycle Proposed Model Business Requirement

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1. Introduction

1.1 Changing regulatory environment globally is driving markets to review their operations and comply with new regulations. The focus area from a post trade perspective is to strengthen our core, build regional and global connectivity. Regional market integration via harmonization and standardization as well as ensuring our services are best-in-class and at par with developed exchanges is crucial to achieve long term value creation.

1.2 Complying with best practices and recommendations by the Committee on Payment and Market Infrastructure of the Bank for International Settlements and the Technical Committee of the International Organization of Securities Commissions (CPMI-IOSCO) is of utmost importance. One of these recommendations is using internationally accepted communication standard messaging formats. The adoption of ISO 20022 standard is part of a long-term post trade strategy. The other recommendation is for a settlement cycle shorter than T+3 to be evaluated.

1.3 Over the last couple of years, global securities industry has been moving to a shorter settlement cycle of T+2. The migration to a shorter settlement cycle will increase efficiency, reduce settlement risk and market exposure and align Bursa Malaysia with international best practices of the leading global exchanges.

1.4 In 2017, Bursa Malaysia had initiated industry engagements with the Clearing Participants which include Trading Clearing Participants (TCPs) and Non-Trading Clearing Participants (NTCPs), Association of Stockbroking Companies Malaysia (ASCM) and Malaysian Investment Banking Association (MIBA) on the proposed migration to a T+2 settlement cycle. Survey questionnaire were subsequently sent to all Clearing Participants.

1.5 Following the feedback and responses from the Clearing Participants, a briefing was scheduled on the 29 January 2018 to share the proposed model for the migration to a T+2 settlement cycle. In addition, a Technical Working Group was held on the 12 February 2018 with Clearing Participants to finalise the scope and requirements of the proposed T+2 settlement cycle.

1.6 The proposed T+2 settlement cycle framework was developed in consultation with the industry participants and include both TCPs and NTCPs. This document outlines the systems and process changes required to move to a T+2 settlement cycle. These changes cover processes relating to On Market Transactions, Direct Business Transactions, ISS Transactions, Equity Margining and Securities Borrowing and Lending.

1.7 Industry testing is targeted from February 2019. The proposed implementation timeline (industry migration) is tentatively by 1H 2019.

2. Proposed Enhancements

The existing Clearing House systems that will be affected by the migration from a T+3 to T+2 settlement cycle include the following:

- Clearing House System;
- Central Matching Facility (CMF);
- Central Depository System (CDS);
- Securities Borrowing and Lending for Central Lending Agency (CLA), Negotiated Transaction (NT) and Islamic Securities Selling and Buying - Negotiated Transaction (ISSBNT); and
- Equity Margin System (EMS).

2.1 Clearing House System

2.1.1 Direct Business Transaction - Batch Processing

T+3 Cycle (Current)	T+2 Cycle (Proposed)
• Single overnight batch processing. • Securities movement – T+3 mid-day processing at 11:00 am.	Proposed 2 batch runs; i) 1st batch is an overnight batch processing on T+1. • Securities movement for crediting to buyer's account – T+2 processing at 11:00 am. ii) 2nd batch processing is on T+2 at 11.30 am • Securities movement for crediting to buyer's account – T+2 processing at 4:00 pm.

The DBT batch processing is similar to the current process, where the securities are debited from the Selling Clearing Participant Account and credited into the Clearing House account pending payment from the Buying Clearing Participant.

Buying Clearing Participant are required to pay the Clearing House by the prescribed cut off time which is at 10:00 am on T+2 for the 1st batch processing or 3.00 pm on T+2 for the 2nd batch processing. Upon receipt of payment, the securities movement for the crediting to the buyer's account as indicated above will be activated where the securities are debited from the Clearing House Account and credited to the Buying Clearing Participant Account.

DBT processing is subject to the following conditions:

- The DBT settlement is subject to the condition that a Selling Clearing Participant and a Buying Clearing Participant to a DBT must ensure that delivery and payment is effected during the same batch processing run.
- DBT transactions which remains unsettled will be dropped from the Clearing House system.

  Note: Please refer to section 2.1.6 on the timing of settlement files that is downloaded to the Clearing Participants under the 2 batch runs.

2.1.2 On-Market Transaction – Batch Processing

It is proposed that there is multiple batch processing for On-Market Transaction in which 2 runs are proposed as shown below: -

T+3 Cycle (Current)	T+2 Cycle (Proposed)
• Single, T+2 overnight batch processing run.	Multiple batch processing, proposed 2 runs: - i) 1st batch run is overnight batch processing on T+1. ii) 2nd batch processing is on T+2 at 11:30 am.

Under the proposed T+2 settlement environment, the number of processing cycle for On-Market Transaction will be increased to 2 as compared to the existing single overnight batch processing run.

i) 1st batch is an Overnight Batch Processing on T+1

The 1st processing cycle is similar to the current end of day batch processing with the exception that the outstanding contracts from the defaulting seller will not be subjected to Buying-in during the morning session on settlement date (SD).

The contracts that had been settled during the T+1 overnight batch processing is downloaded to the Clearing Participant via eFIX files transfer facility on T+2 morning. (Please refer to the details of the Settlement Files under 2.1.6 below)

ii) 2nd batch processing is on T+2 at 11:30 am

The 2nd batch processing run at 11:30 am, T+2 will process the outstanding contracts that have not been processed during T+1 overnight batch processing.

The 2nd batch processing eFIX files is downloaded to the Clearing Participant at 2:00 pm on T+2. (Please refer to the details of the Settlement Files under 2.1.6 below)

Any outstanding contract that is not settled after the 2nd batch processing run will then be subjected to Automatic Buying-in.

2.1.3 Earmarking of Securities Pending Payment

All On-Market Transaction (OMT) purchases will be ear-marked during the 1st and 2nd batch run pending receipt of payment.

2.1.4 Buying-in

There are currently 2 sessions for buying-in as shown below. The buying-in sessions for the proposed T+2 settlement cycle will be the same. However, automated buying-in is imposed on T+2 from 2:00 pm to 5:00 pm. In the event the buying-in is unsuccessful on T+2, the outstanding contract will be cash settled on T+3. (Please refer to Cash Settlement details under 2.1.4 below)

The buying-in period for board lot failed trade under the proposed T+2 settlement cycle is on T+2 from 2:00 pm to 5:00 pm, failing which it will be cash settled on T+3. (Please refer to Cash Settlement details under 2.1.4 below)

T+3 Cycle (Current)	T+2 Cycle (Proposed)
Buying-in • 1st session 8:30 am – 12:30 pm. • 2nd session 2:00 pm – 5:00 pm.	Buying-in • 1st session 8:30 am – 12:30 pm. • 2nd session 2:00 pm – 5:00 pm.
Board Lot Failed Trade Automatic buying-in from T+3 to T+8.	Board Lot Failed Trade Automatic buying-in on T+2 from 2:00 pm to 5:00 pm.
Odd Lot Failed Trade No buying-in.	Odd Lot Failed Trade No buying-in.

i) Automatic Buying-in

a) On-Market Transaction

All failed On-Market Transactions from the overnight batch processing run will not be subjected to buying-in the morning session on T+2. Any failed On-Market Transactions from 2nd processing run will be subjected to the buying-in in the afternoon session on T+2.

The buying price is based on current Trading Procedures.

Automatic Buying-in is available from 2:00 p.m. to 5:00 p.m. on T+2. Any unsettled automatic buying-in after 5:00 on T+2 will be withdrawn from the system for cash settlement. Trading Clearing Participants are to ensure that there is no further onward selling as the contract will be cash settled in lieu of delivery of securities.

b) Direct Business Transaction

Similar to the T+3 settlement process, there is no automatic buying-in on Direct Business Transaction.

ii) Manual Buying-in

There is no change in the cut-off time for the request of manual buying in.

As currently practiced, Trading Operations must receive the form by 5:00 p.m.one day earlier to enable the buying-in to be reflected in the buying-in board the next morning.

In the event buying-in is not successful in the morning session, it will be carry forward to the afternoon session. Trading Clearing Participants can request the manual buying-in to be withdrawn anytime during the day by contacting the Trading Operations Team.

2.1.5 Cash Settlement for On-Market Transaction

The cash settlement for Board and Odd Lot for T+2 settlement cycle is as below: -

T+3 Cycle (Current)	T+2 Cycle (Proposed)
Board Lot Failed Trade Cash settlement from T+9 onwards.	Board Lot Failed Trade Cash settlement from T+3 onwards.
Odd Lot Failed Trade Cash settlement on T+3.	Odd Lot Failed Trade Cash settlement on T+2.

i) Odd lot

Under the current T+3 environment, if a Trading Clearing Participant fails to deliver securities traded in Odd Lots in accordance with the Clearing House Rules, the Contract will be settled by payment of cash based on the cash settlement amount as prescribed by the Clearing House Operational Procedure on T+3.

With the proposed migration to T+2 settlement cycle, the failed Odd Lots contract will be settled by cash on T+2 similar to the current process as mentioned above.

ii) Board Lot

As for the outstanding board lot contract under the T+3 environment, if buying-in is not successful by T+8 or within such period as may be stipulated by the Clearing House, the buying-in will be withdrawn if instructed by the Clearing House. The Contract will then be settled by payment of cash for the quantity not done through the buying-in, in accordance with the Clearing House Rules.

With the proposed migration to T+2 settlement cycle, the failed Board Lots contract will be bought in on T+2 from 2:00 pm to 5:00 pm, failing which it will be withdrawn and cash settled on T+3 in accordance to the Clearing House Rules.

2.1.6 Settlement Files

In view of the multiple processing runs for On-Market Transaction, eFIX files will be available twice a day, the 1st run by 6:00 am on T+2 and the 2nd run by 2:00 pm on T+2.

T+3 Cycle (Current)	T+2 Cycle (Proposed)
Single Run (OMT and DBT) eFIX files – by 6:00 am T+3.	1st Batch Processing Run (OMT and DBT pending payment) eFIX files – by 6:00 am T+2.
Mid-day Run (DBT) T+3, 11:00am – 12:00 pm.	1st batch processing (DBT) after receipt of payment / reversal T+2, Between 11.00 am to 12:00 pm.
	2nd Batch Processing Run (OMT and DBT pending payment) eFIX files – by 2:00 pm T+2.
	2nd batch processing (DBT) after receipt of payment / reversal T+2, Between 4.00 pm to 5:00 pm.

The settlement data are downloaded to the respective Clearing Participants via eFIX file transfer facility. The eFIX files are as indicated below: -

i. **eFIX files available after the 1st Settlement Run by 6:00am.**

eFIX File	Descriptions
DSSONP	Outstanding position for ready and immediate trades (OMT & DBT)
DSSSCRPS	Scrips debited / credited to CDS
DSSBUYIN	Pending buying-in and/or withdrawn data
AUTODEDN	Automatic deduction
CONSETAC	Consolidated daily settlement of accounts with BMSC
DSSAMBI	Scrips debited from CDS account under buying-in (auto and manual)
DSSNERMV	Removal of outstanding non-equity Exchange trades from daily settlement
DSSADF	Automatic deduction for non-equity Exchange trades

eFIX File	Descriptions
DSSNEPBI	Non-equity trades pending buying-in and withdrawn by Central Depository
DSSDDSET	Direct business pending payment
CFT002	CDS - Shareholding Consolidated Transaction File
CFT003	CDS - Account Stock Balance File
CFT003P	CDS - Account Stock Balance File (Securities Earmarked Pending Payment)
ISSSET01	ISS Settlement detail file
ISSSET02 ISSSET02-CONV ISSSET02-SP	ISS Consolidated Settlement Account with BMSC
ISSSET02-DETAIL ISSSET02-DETAIL-CONV ISSSET02-DETAIL-SP	ISS Consolidated Settlement Account with BMSC
ISSSET03	ISS Failed Payment
ISSSET04	Daily ISS Transaction File
ISSSET05	ISS-DBT Settlement Detail File
ISSSET06 ISSSET06-CONV ISSST06-SP	ISS-DBT Consolidated Settlement Account with BMSC File

ii. **eFIX files (1st batch processing (DBT) after receipt of payment / reversal) available between 11:00 am to 12:00 pm**

eFIX File	Descriptions
DSSDDFNL	Direct business final settlement
ISSSET07	ISS-DBT Final Settled File

iii. **eFIX files available after the 2nd Settlement Run by 2:00p.m.**

eFIX File	Descriptions
DSSSCRPS-FINAL	Scrips debited / credited to CDS
DSSBUYIN-FINAL	Pending buying-in and/or withdrawn data
CONSETAC-FINAL	Consolidated daily settlement of accounts with BMSC

eFIX File	Descriptions
DSSNEPBI-FINAL	Non-equity trades pending buying-in and withdrawn by Central Depository
DSSDDSET-FINAL	Direct business pending payment
CFT003-MIDDAY	CDS - Account Stock Balance File
CFT003P-MIDDAY	CDS - Account Stock Balance File (Securities Earmarked Pending Payment)
ISSSET01-FINAL	ISS Settlement detail file
ISSSET02-FINAL ISSSET02-CONV-FINAL ISSSET02-SP-FINAL	ISS Consolidated Settlement Account with BMSC
ISSSET02-DETAIL-FINAL ISSSET02-DETAIL-CONV-FINAL ISSSET02-DETAIL-SP-FINAL	ISS Consolidated Settlement Account with BMSC
ISSSET03-FINAL	ISS Failed Payment
ISSSET04-FINAL	Daily ISS Transaction File

iv. **eFIX files (2nd batch processing (DBT) after receipt of payment / reversal) available between 4:00 pm to 5:00 pm**

eFIX File	Descriptions
DSSDDFNL-FINAL	Direct business final settlement
ISSSET07-FINAL	ISS-DBT Final Settled File

2.1.7 Timing for Funds Settlement – OMT Trades

In view of the multiple processing runs for On-Market Transaction (OMT), the fund settlement process for OMT is segregated into 2 sessions, 10:00 am and 3:00 pm on T+2. The ISS-OMT commission payment time is at 11:00 am and 4:00 pm.

T+3 Cycle (Current)	T+2 Cycle (Proposed)
• Buying CP to CH – T+3, 10:00 am. • CH to Selling CP – T+3, 10.00 am. • ISS OMT Commission – T+3, 11:00 am.	<u>1st Batch processing</u> • Buying CP to CH – T+2, 10:00 am. • CH to Selling CP – T+2, 10:00 am. • ISS OMT Commission – T+2, 11:00 am.
	<u>2nd Batch processing</u> • Buying CP to CH – T+2, 3:00 pm. • CH to Selling CP – T+2, 3:00 pm. • ISS OMT Commission – T+2, 4:00 pm.

Note: -
CH - Clearing House
CP - Clearing Participant

i) <u>1st Batch Processing Run for T+2 Cycle</u>

For payment on trades settled under the 1st batch processing run, the Net Buying Clearing Participant are required to make payment to the Clearing House, not later than 10:00 am on T+2.

Similar to the above, payment by the Clearing House to the Net Selling Clearing Participant is not later than 10:00 am on T+2.

ISS OMT Commissions will be paid by 11:00 am on T+2.

ii) <u>2nd Batch Processing Run for T+2 Cycle</u>

Payment for trades settled under the 2nd batch processing run, the Net Buying Clearing Participant are required to make payment to the Clearing House, not later than 3:00 pm on T+2.

Similar to the above, payment by the Clearing House to the Net Selling Clearing Participant is not later than 3:00 pm on T+2.

ISS OMT Commissions will be paid by 4:00 pm on T+2.

2.1.8 Timing for Funds Settlement – DBT Trades

The proposed DBT fund settlement process is shown below: -

T+3 Cycle (Current)	T+2 Cycle (Proposed)
• Buying CP to CH – T+3, 10:00 am. • CH to Selling CP – T+3, 11:00 am. • ISS DBT Commission – T+3, 11:00 am.	<u>1st batch processing</u> • Buying CP to CH – T+2, 10:00 am. • CH to Selling CP – T+2, 11:00 am. • ISS DBT Commission – T+2, 11:00 am. <u>2nd batch processing</u> • Buying CP to CH – T+2, 3:00 pm. • CH to Selling CP – T+2, 4:00 pm. • ISS DBT Commission – T+2, 4:00 pm.

Note: -
CH - Clearing House
CP - Clearing Participant

i) <u>1st Batch Processing Run for T+2 Cycle</u>

For DBT trades under 1st batch processing, the Net Buying Clearing Participant are required to make payment to the Clearing House, not later than 10:00 am on T+2.

Upon receipt of payment, Clearing House to make payment to the Net Selling Clearing Participant, not later than 11:00 am on T+2.

ISS DBT Commissions will be paid by 11:00 am on T+2.

ii) <u>2nd Batch Processing Run for T+2 Cycle</u>

For DBT trades under 2nd batch processing, the Net Buying Clearing Participant are required to make payment to the Clearing House, not later than 3:00 pm on T+2.

Upon receipt of payment, Clearing House to make payment to the Net Selling Clearing Participant, not later than 4:00 pm on T+2.

ISS DBT Commissions will be paid by 4:00 pm on T+2.

2.1.9 Fund Settlement for Buying-in Trades

Currently fund settlement for buying-in trade is on the next Market Day following the date of the buying-in contract.

Similar to the current process, as buying-in under the T+2 proposed model is from 2:00 pm to 5:00 pm, the fund settlement for the buying-in trade will be on the next Market Day following the date of the buying-in contract which is on T+3.

T+3 Cycle (Current)	T+2 Cycle (Proposed)
Buying-in is from T+3 to T+8.	Buying-in is on T+2.
Fund settlement for buying-in trades are not later than 10:00 am on the next Market Day following the date of the buying-in contract.	Fund settlement for buying-in trades are not later than 10:00 am on the next Market Day following the date of the buying-in contract, which is on T+3.

2.1.10 Payment Cut-off Time for Buying and Selling Clients

The proposed payment cut-off time for buying and selling client is subject to feedback from Public Consultation, if required to be determined at a later date.

T+3 Cycle (Current)	T+2 Cycle (Proposed)
Payment by buying client T+3, not later than 12:30 pm.	Note: Proposed change subject to feedback from Public Consultation, if required.
Payment to selling client T+3, not later than 12:30 pm.	
Closing of purchase position T+3, from 12:30 pm until T+4.	

2.2 Central Matching Facility (CMF)

2.2.1 CMF for ISS

The online and file uploading for Central Matching Facility which is available to Clearing Participants up to 7:30 pm on T+1 will be extended up to 11:30 am on T+2.

Currently there are 7 matching cycles under the existing T+3 settlement cycle. Moving forward, under the proposed T+2 settlement cycle it will be increased to 15 matching cycles as shown below. All the 15 matching cycles accept records by way of files through eFIX or online web application. The system will download the CMF eFIX Files during the predefined cut-off time of the 15 matching cycles and commence the matching process.

The Clearing Participants can download the CMF response files after the matching has been completed.

Matching Cycle	T+3 Cycle (Current)	T+2 Cycle (Proposed)	Remark
1st	11:00 am	8:30 am	
2nd	12:30 pm	9:00 am	
3rd	2:30 pm	9:30 am	
4th	4:00 pm	10:00 am	
5th	5:30 pm	10:30 am	
6th	6:15 pm	11:00 am	
7th	6:45 pm	11:30 am	All CMF/ISS matching is up to 11:30 am on T+2 (cut off time) to enable these transactions to be processed during the 2nd settlement run.
8th		2:00 pm	
9th		3:00 pm	
10th		4:00 pm	
11th		5:00 pm	
12th		6:00 pm	
13th		6:30 pm	
14th		7:00 pm	
15th		7:30 pm	

2.2.2 CMF Transfer Level 1 Creation Time

Cycle	Sell Transaction	Buy Transaction
1	9:30 am (T+1 & T+2 Trades)	
2	10:00 am (T+1 & T+2 Trades)	
3	10:30 am (T+1 & T+2 Trades)	10:30 am (T+2 Trades)
4	11:00 am (T+1 & T+2 Trades)	11:00 am (T+2 Trades)
5	11:30 am (T+1 & T+2 Trades)	11:30 am (T+2 Trades)
6	2:00 pm (T+1 Trades)	2:00 pm (T+2 Trades)
7	3:00 pm (T+1 Trades)	3:00 pm (T+2 Trades)
8	4:00 pm (T+1 Trades)	4:00 pm (T+2 Trades)

Note: The creation of Transfer Level 1 instruction will be after the matching cycle

2.3 Central Depository System (CDS)

2.3.1 The CDS Insufficient Balance File (T+2) will be revised to T+1 under the proposed T+2 settlement cycle.

2.3.2 In view of the 2nd batch processing for DBT at 4.00 pm, it is proposed that the Depository Transfer Cut off Time of 4:00 pm will be revised to 4.30 pm for Level 1 and from 4:30 pm to 5:00 pm for Level 2.

2.3.3 As the 2nd batch processing is now revised to 11:30 am, there will be restriction of movement of securities between 12:00 pm to 12:30 pm.

2.4 Securities Borrowing and Lending (SBL)

2.4.1 Securities Borrowing and Lending (SBL) - Borrowing for Potential Trade Failure (PTF)

Under the Bursa's SBL framework, there are currently 3 systems, namely:

i) SBL – Central Lending Agency (SBLCLA);
ii) SBL- Negotiated Transaction (SBLNT); and
iii) Islamic Securities Selling and Buying – Negotiated Transaction (ISSBNT).

All the three systems facilitate borrowing for PTF.

The changes required under the borrowing/buying module of the SBLNT & ISSBNT system will be the shortening of the choice of the Trade Date declaration from 3 days (T, T1 and T2) to 2 days (T and T1).

The revised SBL related cut-off time is as shown below: -

T+3 Cycle (Current)	T+2 Cycle (Proposed)
SBLCLA T+2, not later than 11:45 am.	SBLCLA T+1, not later than 11:45 am.
SBLNT T+2, not later than 4:00 pm.	SBLNT T+2, not later than 10:45 am.
ISSBNT T+2, not later than 4:00 pm.	ISSBNT T+2, not later than 10:45 am.

2.4.2 Keying-in of Withholding from Buying-in Request

This facility is provided to a Lender to facilitate the withholding of their sell trade from buying-in due to the mismatch in settlement time when the loan is sold and recalled on the same day. The manner in which the Lender (seller) is required to notify Bursa Clearing (S) of the relevant details in connection with the sale and the recalled securities is through the Lending Representative initiating the withholding from buying-in process and confirming the same. The withholding from buying-in will only be effective for one (1) business day only.

All the three systems facilitate the Withholding From Buying-in process.

The changes required under the Withholding From Buying-in module of all the 3 systems will be the shortening of the choice of the Trade Date declaration from 3 days (T, T1 and T2) to 2 days only (T and T1).

The revised withholding from buying-in request cut-off time is as shown below: -

T+3 Cycle (Current)	T+2 Cycle (Proposed)
SBLCLA, SBLNT and ISSBNT T+1 and T+2, not later than 4:00 pm.	SBLCLA, SBLNT and ISSBNT T+1, not later than 4:30 pm.

2.4.3 SBLCLA Recall

The Recall module applies to only the SBLCLA system. This module facilitates the recall process by a lender.

Currently when a Recall is made, the SBLCLA system defaults the maximum effective date of the recall (Recall+3). This need to be reduced to Recall+2.

With this date change, the Borrowers will be restricted to update the recall effective to either Recall Date or Recall + 1 only (currently Borrower can update until Recall + 2).

The revised SBLCLA Recall cut-off time is as shown below: -

T+3 Cycle (Current)	T+2 Cycle (Proposed)
Recalled shares must be made available by borrower latest by Recall+3.	Recalled shares must be made available by borrower latest by Recall+2.

2.5 Equity Margin

Similar to the current process, the equity margin cut-off time is twice a day as shown below. However, there is a change in the margin computation from 3 market days trade to 2 market days trade.

T+3 Cycle (Current)	T+2 Cycle (Proposed)
1st margin call by 10:00 am.	1st margin call by 10:00 am.
Intra-day margin call by 2:00 pm.	Intra-day margin call by 2:00 pm.
Margin computation is based on 3 market days trade.	Margin computation is based on 2 market days trade.

3. Industry Testing and Readiness

Bursa Malaysia Securities Clearing Sdn Bhd, the Clearing House will be coordinating industry testing by February 2019. Clearing Participants are required to participate in the industry testing and provide the signed off for the migration to T+2 settlement cycle.

In addition to the above, Clearing Participants would have to assess and consider the impact of the implementation changes to its own internal process and back office system, and make the necessary enhancements in readiness for the migration to T+2.

During the transition of the migration period, Clearing Participants are required to prepare for two contract dates that would be settled on the same settlement day.