

Summary of issues raised at the SMOC Meeting on 6 July 2020

No	Operational Issues	Comments & Suggestions	Response from Bursa
1.	Reintroduction of Defaulter List	<ul style="list-style-type: none"> • The Digital On -Boarding Working Group of the Brokerage Industry Digitization Group (“BRIDGE”) is considering to re-introduce defaulters’ list service for the industry. POs requested for some updates on this initiative. • POs viewed that the main concern was the commitment of each PO to the defaulters list. There should not be voluntary participation in providing defaulters information for the database, and it must be the obligation on the POs to participate. • POs also viewed the reintroduction of defaulter list as a good initiative and the industry should undertake this initiative. If commitment from POs to report is the concern, those POs that have declined to contribute their defaulters’ information shall be prohibited from consuming or accessing the industry’s defaulter list database. POs highlighted that previously Bursa removed the defaulters’ list requirement as it was not a regulatory matter. Benchmarking exercise revealed that many exchanges do not make it a regulatory requirement to have the defaulters list. 	<ul style="list-style-type: none"> • Bursa updated that at the BRIDGE committee meeting on 4 June 2020, the forum was not able to come to a consensus on the way forward for the defaulters list, therefore there would be a need for a separate discussion on how to proceed on this initiative. The BRIDGE committee had earlier proposed that the Digital On-Boarding Working Group to reassess the industry’s need for a defaulters list, and if yes, to explore the appropriate operating model/ structure, including identifying possible service provider.

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2.	Securities Borrowing and Lending ("SBL")	<ul style="list-style-type: none"> • POs had earlier proposed to Bursa: - <ul style="list-style-type: none"> i. To allow cash closeout of normal SBLNT Borrow based on the agreement between lender and borrower. Currently, Bursa only allows cash closeout under the "Event of Default". ii. To allow SBL loan termination in the Bursa SBL System due to Cash Settlement of a Corporate Action event. 	<ul style="list-style-type: none"> • Bursa presented the results from the market consultation/ study arising from the POs' proposals. • Bursa clarified that the aforesaid SBL facility is intended for special purposes only, for example RSS, PSS, failed trades etc. • For proposal (i), currently Bursa Malaysia Securities Clearing Rule only allow cash closeout of in the "Event of Default". Bursa has done the study on other market practices like Taiwan, Hong Kong, United Kingdom and Singapore and they only allow for cash closeout in "Events of Default". As such, Bursa will maintain the rule to only allow cash closeout under the "Event of Default". • For proposal (ii), currently in the market practice in the SBL agreement, a corporate action may be specified under the "Event of Default" the event of default is agreed upon between the lender and borrower. In the event the participant wants to terminate the loan which triggering the event of default, the participant may submit it to Bursa and Bursa will review it on a case by case basis. The current way of which Bursa is practicing will remain unchanged.

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		<ul style="list-style-type: none"> • POs asked whether Bursa would maintain a list of “Events of Default”. • In relation to proposal (ii), POs stated that if due to cash settlement, the shares are no longer available but it will still show in the SBL system and the SBL participant needs to cancel/ delete it from the system. POs enquired whether the SBL participant needs to request Bursa to manually cancel or the borrower and lender cancel it in the SBL system. 	<ul style="list-style-type: none"> • Bursa informed that it does not maintain the list of “Events of Default”, the scope of the default event is between the borrower and lender. Bursa highlighted that the standard “Events of Default” are listed in the Global Master Securities Lending Agreement (GMSLA). • Bursa explained that that SBL participant is required to approach Bursa Clearing House, and it will evaluate the issue on a case by case basis.
3.	Securities Commission’s Levy (SC Levy)	<ul style="list-style-type: none"> • POs requested Bursa to look into the Securities Commission Act 1993 (“SCA”) (Section 24), and Rules of Bursa Malaysia Securities Berhad (“BMSB”) (Rule 11.04) on the interpretation and/or application of SC Levy. • POs highlighted that under the SCA, SC levy is imposed on the buyer and seller. However, Rules BMSB states:- “every selling Participating Organisation and buying Participating Organisation must pay to the Exchange, for the account of the 	<ul style="list-style-type: none"> • Bursa informed the meeting that it has taken note on the aforesaid issues highlighted by POs and that a discussion was held between the SC and Bursa on this matter. Once SC reverts on the matter, it will be shared with the POs.

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		Commission, a levy on a Transaction as stipulated in Schedule 7".	
4.	Task Force Represented by Securities Commission, Bursa And Industry	<ul style="list-style-type: none"> POs informed that during the SC Dialogue, they had proposed to SC to set up a task force which is represented by SC, Bursa and the industry. SC has agreed with the proposal. 	<ul style="list-style-type: none"> Bursa updated that SC via its letter dated 19 May 2020 notified on the establishment of the Brokerage Industry Consultative Committee ("BICC") together with the Terms of Reference of the BICC. The SC will advise/schedule the first BICC meeting.
5.	Thinly Traded Company / Inactive Company	<ul style="list-style-type: none"> POs updated that that the Stockbroking community is looking for more vibrancy on all the thinly traded companies. Due to Covid-19 situation, even Singapore Stock Exchange that have implemented minimum price setting earlier, has also reversed the implementation. POs has not decided on the approach as there were many factors to be considered, such as looking at more opportunity for merger and acquisition, business structure, business change, business direction and shareholding structure. 	<ul style="list-style-type: none"> Bursa welcomed the initiative to resolve the thinly traded company/ inactive company issue.
6.	Trading Halt	<ul style="list-style-type: none"> POs sought clarification from Bursa on the trading halt occurred on 19 December 2019. 	<ul style="list-style-type: none"> Bursa clarified that currently POs have the option to choose what are the order types that they want to make available in their Order Matching System ("OMS"). At the moment, Bursa is doing the sanitization

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			<p>checking on all the order types to make sure it will not cause or repeat the same trading disruption incident in December 2019.</p>
7.	<p>Difference Between the Bank Negara Malaysia's (BNM) eKYC Exposure Draft and Bursa "Non-Face-to-Face Verification" methods</p>	<ul style="list-style-type: none"> • POs sought an update on the issue regarding the difference between the BNM's eKYC Exposure Draft and Bursa "Non-Face-to-Face Verification" methods. • POs commented that there were different interpretations to item 7.6 of BNM's eKYC Guidelines. • POs asked whether the BNM eKYC Guidelines is applicable to all type of brokers. 	<ul style="list-style-type: none"> • BNM updated that BNM has issued its eKYC Guidelines on 30 June 2020. Under paragraph 7.6 of the Guidelines, option is given to the financial institutions (which include Investment Banks) to utilize those measures stated in paragraph 7.6, i.e. (i) biometric technology; (ii) fraud detection mechanisms; and/or (iii) live subject. • Alternatively, Banks and IBs can also utilize the method under paragraph 7.10 where the IB may perform e-KYC with the assistance of electronic means such as video calls conducted by a human representative. • Bursa added that all the above methods are in line with Bursa's frameworks. • Bursa suggested for POs (Investment Banks) to clarify with BNM. • Bursa clarified that the BNM eKYC Guidelines are only applicable to Banks and Investment Banks.

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		<ul style="list-style-type: none"> • POs commented that the discussion on BNM eKYC requirements should also involve the SC, because the SC has its own eKYC requirements which allow Rakuten to have more relaxed eKYC compared to BNM eKYC. POs added that arising from these differences, Rakuten can open CDS accounts faster than the local brokers and Investment Banks. • POs acknowledged that the KYC guidelines are the same level for both the SC and BNM. However, the reason PO prefers to open direct CDS accounts for its clients instead of nominee accounts is because of the cost issue. 	<ul style="list-style-type: none"> • Bursa explained that the KYC requirements are the same for local brokers and Rakuten. Rakuten can open CDS account faster is because Rakuten is using nominee account structure as compared to brokers using direct account structure. If the broker wants to use the nominee account structure, they can open CDS account as fast as Rakuten.
8.	Facilitating Online Submission	<p>POs proposed the authorities and the industry to review the reporting / processes to increase the efficiency arising from COVID-19 Work from Home (“WFH”) environment and requested Bursa to: -</p> <ol style="list-style-type: none"> i. Allow all Bursa Depository reports to be signed off via softcopy (e-format) instead of manual printing and sign off in hardcopies; ii. Remove the requirement of hardcopy CDS forms submission to Bursa; and iii. Allow all correspondences to Bursa/SC to be prepared in softcopy & signed off with e-signature. 	<ul style="list-style-type: none"> • Bursa shared that Bursa Depository is currently looking at digitalizing the existing prescribed forms, specifically CDS Account Opening Form and various reporting. Bursa Depository plans to roll out the digitalization in stages and will certainly keep the members involved in this exercise. • Bursa added during the MCO, it has provided some procedural relief to ADAs in their submission of physical forms to Bursa. Bursa has been encouraging POs and TPs to submit their reports and correspondences in softcopy electronically, and signed with

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		<p>iv. To allow Manual Buy-in request by brokers to Bursa Malaysia via e-format where no signature is required.</p> <p>v. Assist in liaising with the following authorities:</p> <ul style="list-style-type: none"> ➤ Stamp office: to accept online payment for stamp duty instead of only banker's cheque over the counter. ➤ Bursa to assist in liaising with the Company Registrars, to issue e-tax vouchers for dividend payment. <ul style="list-style-type: none"> • POs suggested Bursa to accept their request for manual buying-in in e-format and to submit it via email, instead of fax copy together with authorized signature. 	<p>e-signature. Some POs/TPs have already been doing this.</p> <ul style="list-style-type: none"> • Bursa explained that authorized signature required for manual buying-in is a form of control and to protect the interest of the brokers, to make sure no unauthorized or violation of internal policy while requesting for manual buying-in. • In relation to the suggestion that Stamp Office should also accept online payment for stamp duty instead of only banker's cheque over the counter, Bursa explained that it has contacted the Stamp Office and was verbally informed that it is currently looking into the feasibility of online payment. Barring any unforeseen circumstances, this facility will be rolled out either this or next year. Bursa will inform the industry once Bursa has further information from Stamp Office.

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9.	Ceasing of Trading Blocks During A Share Consolidation	<ul style="list-style-type: none"> • POs raised concern on the issues arising from ceasing of trading blocks during a share consolidation exercise. • POs asked on the anticipated shareholdings balance in Bursa Anywhere (“BA”). 	<ul style="list-style-type: none"> • Bursa informed that following SC’s Directive on brokers trading block upliftment, Bursa had on 27 April 2020 introduced Speeds Indicative Shareholding File (“SISF”) – Phase 1 which provides POs/ADAs with the anticipated/indicative shareholdings of their customers (depositors) arising from SPEEDS corporate actions with inward and outward share transfer but without trade balances of Ex-Date-1 and Ex-Date-2 for PO’s reconciliation or use it in their OMS for balance checking. • Bursa added that effective 6 July 2020, the enhanced indicative shareholdings balance (Phase 2) that includes trade balance for Ex-Date-1 and Ex-Date-2 will be available to the POs/ADAs. • Bursa informed that the anticipated shareholdings balances are also available in BA.
10.	Impact on Covid-19	<ul style="list-style-type: none"> • POs sought Bursa’s view on the impact of the Covid-19 on trading at Bursa. 	<ul style="list-style-type: none"> • Bursa informed that it has on 12 June 2020 solicited information from all POs on their trading related systems. Bursa thanked all the POs for taking effort to response the survey. • Bursa then presented on the Survey Results on POs’ Trading Related System. The

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			<p>purpose of the survey was to solicit information on the POs' trading related system. The following are the results from the survey: -</p> <p>a. Vendor Related</p> <ul style="list-style-type: none"> i. 76% of the POs (22 out of 29 POs) have at least one of their trading related system being provided/maintained by Service Providers N2N and/or ExcelForce. ii. 62% of the POs (18 out of 29 POs) maintained their trading related system with one vendor only. <p>b. System Slowness / Intermittent Outages</p> <p>69% of the POs (20 out of 29 POs) experienced slowness and/or intermittent outages in their trading related system from 1st April 2020 to 12th June 2020 (e.g. clients'/remisiers inability to key in orders, view price feed, lagging/delayed in trade confirmation/status update), but only 4 POs have reported such incidents to Bursa.</p> <p>c. Complaints Received From Clients /Remisier</p> <p>59% of the POs (17 out of 29 POs) have</p>

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			<p>received complaints from their clients and/or remisier on slowness and/or intermittent outages in their trading related systems.</p> <p>d. Remedial Plan / Action 86% of the POs (25 out of 29 POs) have remedial plan to ensure their trading related systems are running at optimal level.</p> <p>e. Root Cause</p> <ul style="list-style-type: none"> i. Bandwidth Issue between POs and Bursa, and between POs to remisiers/clients. ii. Application / Hardware Related iii. Network Disconnection iv. Congestion at OMS, capacity could not cope with sudden load surge, too many orders and trade messages during market opening. v. OMS not able to restart on time due to connection timeout to database vi. Advanced Threat Prevention reached maximum threshold. <ul style="list-style-type: none"> • Bursa highlighted that during the recent frequent intermittent outages/slowness in the POs' Online Trading related system, there were delays in POs'

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			<p>escalation/reporting to Bursa Customer Service. Bursa advised POs to review and improve such reporting. With the prompt escalation of Trading related issues from POs to Bursa, and where applicable, Bursa could share, raise awareness or early alert amongst the industry and/or providing the necessary guidance/assistant to the PO(s). POs to also update Bursa if there is any change to their IT contact person.</p> <ul style="list-style-type: none"> • Bursa added that the Bursa Regulation had on 3 July 2020 sent out email reminder to all POs' and TPs' Compliance Officers on their obligations under the Rules of Bursa Securities and Derivatives to immediately notify the Exchange of any system-related issues that they encountered. • Bursa highlighted that in May and June 2020, Bursa-2U-Customer Care has also received several complaints from the investors and remisiers on POs' online trading systems (e.g. unable to log in, slowness/lagging in orders confirmation/updates).

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11.	Trading of Malaysian Government Securities (“MGS”) and Government Investment Issues (“GII”) on Bursa Malaysia Securities	<ul style="list-style-type: none"> ASCM requested Bursa to inform the industry when the MGS and GII initiatives will be implemented and if there is any impact to the brokers’ systems and operations. 	<ul style="list-style-type: none"> Bursa informed that the regulatory issues are still under deliberation between the three(3) parties (Bursa, SC and BNM). The issues in hand may involve changes to the existing Laws / Acts which may take a longer period as it may need to go through Attorney General Chamber, MOF and Parliament.
12.	Securities Financing Transaction	<ul style="list-style-type: none"> POs requested for some updates on Bursa’s Securities Financing initiative for institutional trades/ prime brokerage linked to SBL. 	<ul style="list-style-type: none"> Bursa informed that the review study on SFT will be undertaken by 2020 and Bursa will reach out to the industry when in need of further information or feedback.
13.	eCorporate Exercises	<ul style="list-style-type: none"> POs requested Bursa to update on eCorporate Exercises initiative. 	<ul style="list-style-type: none"> Bursa said it has issued the Rules on “Amendment to Main and ACE Market Listing Requirements to facilitate “eCorporate Exercises” on 24 April 2020. Bursa is giving the Listed Issuers and Share Registrars sufficient grace period to comply with the new requirements, the eCorporate Exercises Amendments will only take effect for any rights issue, issuance of convertible securities and DRS announces on or after 2 February 2021. The eCorporate Exercises Amendments require listed issuers to offer an option to its securities holders to perform the following electronically (in addition to the existing manual method): -

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			<ul style="list-style-type: none">i. Subscription and payment for rights issue;ii. Conversion and payment for convertible securities; andiii. Election to participate in DRS.