

MEMORANDUM
FOR FEEDBACK



Ref No : 0039 of 2020/PO

Date : 2 November 2020

To : Executive Director/ Head of Dealing
Executive Director/ Head of Operations

From : The Secretariat, ASCM

By Email

No. of pages : As per attachment

RE : **BRIDGE Higher Daily Online Settlement Initiative – Consultation on Revised
FPX Operating Procedures**

Dear Members,

The Brokerage Industry Digitisation Group (BRIDGE) was jointly established by BNM and SC on 15th March 2017 to accelerate the digitisation of the stockbroking industry by fully digitising customer on-boarding to enhance user experience, providing seamless and efficient post trade and settlement experience and automating/digitising corporate actions to enhance transparency and efficiency.

To facilitate seamless post-trade and settlement for the brokerage industry, the BRIDGE Working Group has recommended for a higher daily online settlement limit of up to RM 100,000 to reduce the dependency on cheque payments for large value securities transactions.

The following steps have been taken to-date, to implement the recommendation:

- The SC has issued a consultation paper in July 2019 on proposed additional settlement control requirements for brokers that intend to offer their clients with higher online settlement limit. Most responded positively to the proposed controls.
- PayNet has completed the necessary enhancements for **FPX's Merchant Specific Higher Transaction Limit solution** in March 2020 to facilitate for higher online settlement limit. The pilot for this has completed successfully in September 2020.
- PayNet has also completed its consultation with banks, via Association of Banks in Malaysia (ABM), on facilitating higher online settlement limit for the brokerage [and fund management] industry.

MEMORANDUM
FOR FEEDBACK

Subsequent to the consultation with banks, PayNet will be amending their FPX Operating Procedures, to better manage the risk of potential fraud that comes with higher online settlement limit. The amended operating procedures, outlined below, will require Acquirers (a participating FI or non-FI that acquires a Seller to provide or subscribe to FPX services) to stipulate specific requirements, in their contractual agreement with Sellers (i.e. stockbroker) dealing with Quasi-Cash ("Quasi-Cash" means e-fixed deposit, securities including unit trusts, bonds, shares and non-equity securities, crypto currency, remittances, foreign currency and any other services that are easily convertible into cash which are under the purview of at least a regulator).

Revised FPX Operating Procedures:

1. Acquirers shall ensure that their Sellers* who are in the business of dealing with Quasi-Cash related services shall take the necessary measures to prevent unauthorised and/or fraudulent activities as specified or required by the Seller's regulator, which include:
 - 1.1 Conduct the necessary Customer Due Diligence (CDD) during admission of the Customers;
 - 1.2 Implement controls including source of fund validation and/or payer's identity verification, to ensure Customers payments using FPX are not from unauthorised third parties in order to prevent fraud risks such as mule account / account take over;
 - 1.3 Comply with the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) laws and any other fraud prevention regulations issued by relevant authorities; and
 - 1.4 In the event of any disputes between the Sellers* and their Customers arising from actions described in this Clause 1, Sellers shall manage the disputes in accordance with the dispute resolution framework of their regulators.
2. The Acquirer is responsible to ensure that the necessary measures and safeguards specified in sub-clauses 1.1 to 1.4 are reflected in the agreement with their Sellers* in order to ensure that FPX transactions are not diverted from its intended Seller for the benefit of parties that are not entitled to the payment.
3. The agreement should specify, among others, that the Seller* shall be held liable for any potential losses arising from the Seller's failure to implement the necessary controls as described in Clause 1 if it is determined that the Seller* could have reasonably prevented the unauthorised or fraudulent transactions.

(*Note: Seller(s) here refers to Brokers)

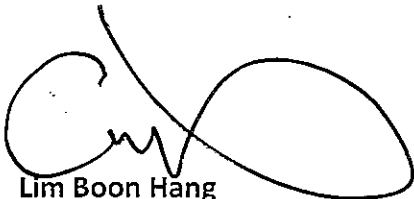
MEMORANDUM
FOR FEEDBACK

In this regard, SC would like to seek feedback from the members on the requirements stipulated in PayNet's revised FPX operating procedures.

We believe your input is crucial and invaluable for the best interest of the stockbroking community. Please provide your comments by using the attached reply form and submit to us at saifulazmi@ascm.org.my by 2.00PM, Friday, 6 November 2020.

Thank you

Yours sincerely,



Lim Boon Hang

Executive Director, ASCM Secretariat