

BURSA MALAYSIA SECURITIES CLEARING SDN BHD
Registration No.: 198301014323 (109716-D)

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No: G21/2020

AMENDMENTS TO THE RULES OF BURSA MALAYSIA SECURITIES CLEARING SDN BHD (“BMSC RULES”) IN RELATION TO SECURITIES BORROWING AND LENDING (“SBL”) AND ISLAMIC SECURITIES SELLING AND BUYING (“ISSBNT”) AND FREQUENTLY ASKED QUESTIONS (“FAQ”) IN RELATION TO TERMINATION OF PARTICIPATION.

1.0 INTRODUCTION

- 1.1 Bursa Malaysia Securities Berhad (“**Exchange**”) has made amendments to the Rules of Bursa Malaysia Securities Berhad (“**BMS Rules**”) in relation to the expansion of the market making framework.
- 1.2 The amendments to the BMS Rules seek to ensure efficiency in market making, by according market makers with greater flexibility to quote prices and respond to market demands. It is also crucial for market makers to manage risk by hedging their exposure to price volatility in the underlying securities.
- 1.3 In this connection, Bursa Malaysia Securities Clearing Sdn Bhd has also made amendments to the BMSC Rules in relation to the purpose of SBL and ISSBNT to facilitate the expansion of securities for the Permitted Short Selling¹ framework.
- 1.4 The amendments to the BMSC Rules have been approved by the Securities Commission Malaysia.

2.0 AMENDMENTS TO THE BMSC RULES IN RELATION TO SBL AND ISSBNT

- 2.1 The key amendments to the BMSC Rules are to simplify and streamline the purpose of SBL and ISSBNT in relation to Permitted Short Selling with the SBL purpose in relation to Regulated Short Selling (“**RSS**”)², whereby SBL or ISSBNT may be used to facilitate the settlement of the sale of Permitted Short Selling securities undertaken in accordance with the BMS Rules.
- 2.2 The amendments to the BMSC Rules are set out in detail in **Annexure 1**.

3.0 Frequently Asked Questions (“FAQ”)

- 3.1 An FAQ in relation to Rule 2.12 (Termination of Participation) is attached as **Annexure 2** to provide clarification in relation to the exercise of BMSC’s discretion on acceptance of a clearing participant’s termination of participation.

4.0 EFFECTIVE DATE

- 4.1 The amendments to the BMSC Rules above will take effect from 7 December 2020.

¹ Pursuant to Rule 1.01 of the BMS Rules, “Permitted Short Selling” means the short selling of an Exchange Traded Fund (ETF) or constituent securities carried out in accordance with Part D of Chapter 4 of the BMS Rules.

² Pursuant to Rule 7.6(b)(v), Rule 8.5(c)(v) and Rule 9.5(c)(v) of the BMSC Rules, “Regulated Short Selling” means the short selling of Approved Securities carried out in accordance with Part C of Chapter 8, and “Regulated Short Sale” means the sale relating to the same.

5.0 CONTACT PERSON

- 5.1 In the event of any queries in relation to the above matter, kindly contact the following persons:

Name	Contact
Regulatory Policy & Advisory (Rules and Directives)	rpa@bursamalaysia.com 03-2034 7585 (for Expansion of Market Making framework and Approved Securities list)

- 5.2 In any enquiry, please cite the circular reference number or provision the BMSC Rules.

Please be informed that the amendments to the BMSC Rules that are referred to in this circular are available on Bursa Malaysia Berhad's website at: <http://www.bursamalaysia.com>.

Regulation

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RULES OF BURSA MALAYSIA SECURITIES CLEARING SDN BHD

**RULE AMENDMENTS IN RELATION TO SECURITIES BORROWING AND LENDING
 (“SBL”) AND ISLAMIC SECURITIES SELLING AND BUYING (“ISSBNT”)**

RULE	EXISTING PROVISIONS	RULE	AMENDED PROVISIONS
Rule 7.6	PURPOSE OF SECURITIES BORROWING	Rule 7.6	No change
	(a) Any Borrower may borrow Eligible Securities only for any one of the following purposes subject to such requirements as may be prescribed by the Clearing House:		(a) No change
	(i) to facilitate the settlement of a regulated short sale in Eligible Securities executed in accordance with the Exchange Rules;		(i) to facilitate the settlement of a Regulated s Short s Sale in Eligible Securities executed in accordance with the Exchange Rules;
	(ii) to facilitate the settlement of a sale of Eligible Securities where there are no Securities or insufficient Securities in the securities account of the seller as will enable the seller to meet its delivery obligations to the purchaser (in accordance with the Exchange Rules relating to delivery and settlement) as a result of a mistake howsoever made when executing the sale provided always that the mistake was made in good faith and discovered only after the sale has been executed;		(ii) No change

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	<p>(iii) in relation to Eligible Securities that are ETF units or the Constituent Securities (the ETF Units, the Constituent Securities or any one of the Constituent Securities shall hereinafter be collectively referred to as “the ETF Related Securities”), to facilitate the settlement of a sale in the ETF Related Securities where the following requirements are complied with:-</p> <p>(aa) the sale was executed by the Borrower in its capacity as a Market Maker for that particular ETF Related Securities or executed by the Borrower for its client who is a Market Maker for that particular ETF Related Securities; and</p> <p>(bb) the Borrower executed the sale as part of its Permitted Short Selling activities or as part of the Permitted Short Selling activities of the Borrower’s client in accordance with the rules on Permitted Short Selling as contained in the Exchange Rules; or</p>		<p>(iii) in relation to Eligible Securities that are ETF units or the Constituent Securities (the ETF Units, the Constituent Securities or any one of the Constituent Securities shall hereinafter be collectively referred to as “the ETF Related Securities”), to facilitate the settlement of a sale in the ETF Related Securities where the following requirements are complied with:-</p> <p>(aa) the sale was executed by the Borrower in its capacity as a Market Maker for that particular ETF Related Securities or executed by the Borrower for its client who is a Market Maker for that particular ETF Related Securities; and</p> <p>(bb) the Borrower executed the sale as part of its Permitted Short Selling activities or as part of the Permitted Short Selling activities of the Borrower’s client in accordance with the rules on Permitted Short Selling as contained in the Exchange Rules; or</p> <p><u>to facilitate the settlement of a Permitted Short Sale in Eligible Securities executed in accordance with the Exchange Rules; or</u></p>
	<p>(iv) for such other purposes as may be determined by the Clearing House in consultation with the Commission.</p>		<p>(iv) No change</p>

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	<p>(b) For the purpose of this sub-rule (a), unless the context otherwise requires -</p> <p>(i) “Constituent Securities” shall have the meaning as is assigned to that expression in the Exchange Rules;</p> <p>(ii) “ETF” means exchange traded fund as defined in the Commission’s Guidelines on Exchange Traded Funds;</p> <p>(iii) “Market Maker” shall have the meaning as is assigned to that expression in the Exchange Rules;</p>		<p>(b) For the purpose of this sub-rule (a), unless the context otherwise requires -</p> <p>(i) “Constituent Securities” shall have the meaning as is assigned to that expression in the Exchange Rules;</p> <p>(ii) “ETF” means exchange traded fund as defined in the Commission’s Guidelines on Exchange Traded Funds;</p> <p>(iii) “Market Maker” shall have the meaning as is assigned to that expression in the Exchange Rules;</p>
	<p>(iv) “Permitted Short Selling” shall have the meaning as is assigned to that expression in the Exchange Rules; and</p> <p>(v) “regulated short sale” shall have the same meaning as is assigned to that expression in the Exchange Rules.</p>		<p>(iv) “Permitted Short Sale” refers to a short selling of Eligible Securities executed as “Permitted Short Selling” in accordance with shall have the meaning as is assigned to that expression in the Exchange Rules; and</p> <p>(v) “Regulated Short Sale” shall have the same meaning as is assigned to that expression in the Exchange Rules.</p>
Rule 8.5	PURPOSE OF SECURITIES BORROWING	Rule 8.5	No change
	<p>(a) An Approved SBLNT Borrower may borrow Eligible Securities only for any one of the following purposes subject to such requirements as may be prescribed by the Clearing House:</p>		<p>(a) No change</p>
	<p>(i) to facilitate the settlement of a regulated short sale in Eligible Securities executed in accordance with the Exchange Rules;</p>		<p>(i) to facilitate the settlement of a Regulated Short Sale in Eligible Securities executed in accordance with the Exchange Rules;</p>
	<p>(ii) to facilitate the settlement of a sale of Eligible Securities where there are no Securities or insufficient Securities in the securities account of the seller as will enable the seller to meet its delivery obligations to the purchaser (in</p>		<p>(ii) No change</p>

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	accordance with the Exchange Rules relating to delivery and settlement) (“potential failed trade”) as a result of a mistake howsoever made when executing the sale provided always that the mistake was made in good faith and discovered only after the sale has been executed;		
	(iii) in relation to Eligible Securities that are ETF units or the Constituent Securities (the ETF Units, the Constituent Securities or any one of the Constituent Securities shall hereinafter be collectively referred to as “the ETF Related Securities”), to facilitate the settlement of a sale in the ETF Related Securities where the following requirements are complied with:		(iii) in relation to Eligible Securities that are ETF units or the Constituent Securities (the ETF Units, the Constituent Securities or any one of the Constituent Securities shall hereinafter be collectively referred to as “the ETF Related Securities”), to facilitate the settlement of a sale in the ETF Related Securities where the following requirements are complied with:
	<p>(aa) the sale was executed by the Approved SBLNT Borrower in its capacity as a Market Maker for that particular ETF Related Securities or executed by the Approved SBLNT Borrower for its client who is a Market Maker for that particular ETF Related Securities; and</p> <p>(bb) the Approved SBLNT Borrower executed the sale as part of its Permitted Short Selling activities or as part of the Permitted Short Selling activities of the Approved SBLNT Borrower’s client in accordance with the rules on Permitted Short Selling as contained in the Exchange Rules;</p>		<p>(aa) the sale was executed by the Approved SBLNT Borrower in its capacity as a Market Maker for that particular ETF Related Securities or executed by the Approved SBLNT Borrower for its client who is a Market Maker for that particular ETF Related Securities; and</p> <p>(bb) the Approved SBLNT Borrower executed the sale as part of its Permitted Short Selling activities or as part of the Permitted Short Selling activities of the Approved SBLNT Borrower’s client in accordance with the rules on Permitted Short Selling as contained in the Exchange Rules;</p> <p><u>to facilitate the settlement of a Permitted Short Sale in Eligible Securities executed in accordance with the Exchange Rules; or</u></p>
	(iv) to onward lend the Loaned Securities provided that the participants in the onward lending transaction comply with these Rules and the Clearing House’s requirements		(iv) No change

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	in relation to Bursa SBL Transaction or SBL Negotiated Transactions (as applicable), including being approved as a Lender or Lending Participant or an Approved SBLNT Lender (as applicable); or		
	(v) for such other purposes as may be determined by the Clearing House in consultation with the Commission.		(v) No change
	(b) Where the Loaned Securities are borrowed to facilitate the settlement of a potential failed trade as provided in Rule 8.5(a)(ii) above, the Approved SBLNT Borrower must return such Loaned Securities within the time prescribed by the Clearing House.		(b) No change
	(c) For the purpose of this sub-rule (a), unless the context otherwise requires - (i) “Constituent Securities” shall have the meaning as is assigned to that expression in the Exchange Rules; (ii) “ETF” means exchange traded fund as defined in the Commission’s Guidelines on Exchange Traded Funds;		(c) For the purpose of this sub-rule (a), unless the context otherwise requires - (i) “Constituent Securities” shall have the meaning as is assigned to that expression in the Exchange Rules; (ii) “ETF” means exchange traded fund as defined in the Commission’s Guidelines on Exchange Traded Funds;
	(iii) “Market Maker” shall have the meaning as is assigned to that expression in the Exchange Rules; (iv) “Permitted Short Selling” shall have the meaning as is assigned to that expression in the Exchange Rules; and (v) “regulated short sale” shall have the same meaning as is assigned to that expression in the Exchange Rules.		(iii) “Market Maker” shall have the meaning as is assigned to that expression in the Exchange Rules; (iv) <u>“Permitted Short Sale” refers to a short selling of Eligible Securities executed as “Permitted Short Selling” in accordance with</u> shall have the meaning as is assigned to that expression in the Exchange Rules; and (vii) “Regulated sShort sSale” shall have the same meaning as is assigned to that expression in the Exchange Rules.

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Rule 9.5	PURPOSES OF ISLAMIC SECURITIES SELLING AND BUYING	Rule 9.5	No change
	(a) An Approved User may buy ISSBNT Eligible Securities only for any one of the following purposes:		(a) No change
	(i) to settle a Regulated Short Sale in ISSBNT Eligible Securities;		(i) No change
	(ii) to settle a sale of ISSBNT Eligible Securities where there are no Securities or insufficient Securities in the securities account of the seller as will enable the seller to meet its delivery obligations to the purchaser (“potential failed trade”) as a result of a mistake howsoever made when executing the sale provided always that the mistake was made in good faith and discovered only after the sale has been executed;		(ii) No change
	(iii) in relation to ISSBNT Eligible Securities that are ETF units or the Constituent Securities (the ETF Units, the Constituent Securities or any one of the Constituent Securities shall hereinafter be collectively referred to as “the ETF Related Securities”), to settle a sale in the ETF Related Securities where the following requirements are complied with: (aa) the sale was executed by the Approved User in its capacity as Market Maker for that particular ETF Related Securities or executed by the Approved User for its client who is a Market Maker for that particular ETF Related Securities; and		(iii) in relation to ISSBNT Eligible Securities that are ETF units or the Constituent Securities (the ETF Units, the Constituent Securities or any one of the Constituent Securities shall hereinafter be collectively referred to as “the ETF Related Securities”), to settle a sale in the ETF Related Securities where the following requirements are complied with: (aa) the sale was executed by the Approved User in its capacity as Market Maker for that particular ETF Related Securities or executed by the Approved User for its client who is a Market Maker for that particular ETF Related Securities; and
	(bb) the Approved User executed the sale as part of its Permitted Short Selling activities or as part of the Permitted Short Selling activities of the Approved User’s client;		(bb) the Approved User executed the sale as part of its Permitted Short Selling activities or as part of the Permitted Short Selling activities of the Approved User’s client;

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			<u>to settle a Permitted Short Sale in Eligible Securities executed in accordance with the Exchange Rules; or</u>
	(iii) to perform an SBLNT or another ISSBNT, provided that the participants in such transactions comply with these Rules; or		(iii) No change
	(iv) for such other purposes as may be determined by the Clearing House in consultation with the Commission.		(iv) No change
	(b) Where the ISSBNT Securities are bought to settle a potential failed trade as provided in Rule 9.5(a)(ii), the Approved User must execute Leg 2 of the ISSBNT within the time prescribed by the Clearing House.		(b) No change
	(c) For the purpose of sub-rule (a), unless the context otherwise requires - (i) “Constituent Securities” shall have the meaning as is assigned to that expression in the Exchange Rules;		(c) For the purpose of sub-rule (a), unless the context otherwise requires - (i) “Constituent Securities” shall have the meaning as is assigned to that expression in the Exchange Rules;
	(ii) “ETF” means exchange traded fund as defined in the Commission’s Guidelines on Exchange Traded Funds; (iii) “Market Maker” shall have the meaning as is assigned to that expression in the Exchange Rules; (iv) “Permitted Short Selling” shall have the meaning as is assigned to that expression in the Exchange Rules; and		(ii) “ETF” means exchange traded fund as defined in the Commission’s Guidelines on Exchange Traded Funds; (iii) “Market Maker” shall have the meaning as is assigned to that expression in the Exchange Rules; (iv) “Permitted Short Sale” refers to a short selling of Eligible Securities executed as “Permitted Short Selling” in accordance with shall have the meaning as is assigned to that expression in the Exchange Rules; and

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	(v) “Regulated Short Sale” shall have the same meaning as is assigned to that expression in the Exchange Rules.		(vii) “Regulated Short Sale” shall have the same meaning as is assigned to that expression in the Exchange Rules.
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[End of Rule Amendments]

FREQUENTLY ASKED QUESTION IN RELATION TO THE RESIGNATION OF A CLEARING PARTICIPANT

1. Issue : Grounds for refusing to accept a notice of termination

Relevant Rule : Rule 2.12(c)

Question : Rule 2.12(c) of the Rules of Bursa Malaysia Securities Clearing Sdn Bhd (“BMSC”) provides that BMSC. may, at its absolute discretion, refuse to accept the notice of termination of a Clearing Participant. What would be the possible grounds for refusal to accept the resignation?

Answer : BMSC may exercise its discretion to not accept the notice of termination of a Clearing Participant based on, amongst others, the following circumstances:

 - (i) where investigation and enforcement proceedings have been commenced against the Clearing Participant;
 - (ii) where there has been non-compliance with the BMSC rules, or the operational/procedures manual;
 - (iii) if there are still pending transactions that have not been settled;
 - (iv) if there are outstanding obligations due from the Clearing Participant to BMSC, Bursa Malaysia Securities Bhd (“BMS”) or the Clearing Participants’ clients;
 - (v) if the Clearing Participant fails to adhere to the conditions imposed by BMSC or BMS to ensure an orderly exit by the Clearing Participant; and
 - (vi) as directed by the Securities Commission Malaysia or any other regulatory authorities.

In such circumstances, BMSC will determine the effective date of termination of participation of a Clearing Participant, taking into consideration the time needed by such Clearing Participant to resolve the above circumstances.
2. Issue : Effect of BMSC refusing to accept notice of termination within the 30 market days’ notice period

Relevant Rule : Rule 2.12(b), 2.12(c), 6.15(3)

Question : What is the extent of a Clearing Participant’s liability to any claim made against the Clearing Guarantee Fund where BMSC has yet to accept the notice of termination after the minimum notice period of 30 market days mentioned in Rule 2.12(b)?

Answer : Provided the Clearing Participant has served the notice of termination before any claim is made against the Clearing Guarantee Fund and that the Clearing Participant is taking action to ensure an orderly exit, the aggregate liability of the Clearing Participant to BMSC to replenish its contribution to the Clearing Guarantee Fund in respect of application of contributions by BMSC pursuant to the BMSC Rules shall be as set out in Rule 6.15(3) of the BMSC Rules.