

**BURSA MALAYSIA DERIVATIVES BERHAD**

Date: 28 June 2019

Trading Participant Circular: 12/2019

**REVAMP OF THE RULES AND DIRECTIVES OF BURSA MALAYSIA DERIVATIVES BERHAD (“BMD RULES AND DIRECTIVES”)**

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**1. INTRODUCTION**

1.1 Bursa Malaysia Derivatives Berhad (the “**Exchange**”) has undertaken a revamp of the BMD Rules and Directives with the following key objectives:

- (a) simplifying regulatory framework towards enhancing business efficiency and flexibility of doing business;
- (b) strengthening governance framework for Participants<sup>1</sup> and Registered Persons<sup>2</sup> (“**RPs**”) to promote self-regulation;
- (c) promoting clearer, simpler and streamlined rules to ease compliance; and
- (d) enhancing efficiency in the admission and registration procedures, and simplifying the reporting requirements.

1.2 The revamp of the BMD Rules and Directives is in respect of the following main areas:

- (a) Participants, RPs and market makers;
- (b) Conduct of Business;
- (c) Organisation and Structure of Trading Participants (“**TPs**”);
- (d) Powers of the Exchange;
- (e) Trading;
- (f) Accounting and Audit;
- (g) Financial requirements;
- (h) Administrative provisions and housekeeping; and
- (i) Directives and Best Practices.

1.3 The amendments were made after industry consultation and we have taken on board the feedback received, where applicable.

1.4 The amendments have been approved by the Securities Commission Malaysia (“**SC**”), key details of which are summarized in paragraph 2 below.

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<sup>1</sup> “Participants” means the Trading Participant, Associate Participant and Local Participant as specified in Rule 3.01.

<sup>2</sup> “Registered Person” means the Head of Dealing, Compliance Officer and Registered Representatives as specified under Rule 3.20 who is registered with the Exchange.

## 2. KEY AMENDMENTS

2.1 The key amendments are as follows:

### I. **Simplifying Regulatory Framework Towards Enhancing Business Efficiency and Flexibility of Doing Business**

- (a) clarifying that a Registered Representatives (“RR”) has full mobility, i.e. a RR can operate outside the Principal Office and Branch Office if approved by his TP;
- (b) removing the requirement for a TP to obtain the Exchange’s approval to set up Branch Offices and Trading Kiosks provided that the TP complies with the conditions for setting up Branch Offices, which includes having proper segregation of duties at the Branch Office, carrying of signage indicating the TP’s name and maintaining up-to-date records of the Branch Offices;
- (c) removing the prohibition against a Dual Licensee from becoming a Proprietary Day Trader and clarifying and ensuring consistency in the scope of agency and proprietary trades under the BMD Rules and the Rules of the Bursa Malaysia Securities Berhad (“**BMS Rules**”);
- (d) liberalising onboarding and trading requirements as follows:
  - (i) introducing various nonface-to-face methods for a TP to verify an individual Client’s identity for the opening of the Client’s account
  - (ii) removing the restrictions and procedures on the appointment of a designated representative and introducing requirement that a TP, Head of Dealing (“**HOD**”) or RR may only accept instruction from a third party for a Client’s trading account upon receipt of a written authorisation from the Client which is consistent with the BMS Rules;
  - (iii) removing the TPs’ obligation to maintain a voice logger for orders relayed through the phone and introducing requirement for the TPs to record and maintain up-to-date relevant information on the Clients, their trading accounts and trades executed in their trading accounts which is consistent with the BMS Rules;
  - (iv) removing the prescriptive requirements on the contents of Contract Notes and monthly statements which the TP must provide to Clients;
  - (v) replacing the detailed requirements on maintaining internal records with general requirement for TP to keep proper records to evidence compliance with the BMD Rules;
- (e) removing the template for sub-loan agreement (“**Sub-loan Agreement**”), including the requirement that the Exchange be made a party to the Sub-loan Agreement. Instead, the minimum criteria for a Sub-loan Agreement to be used in the computation of the Adjusted Net Capital (“**ANC**”) is set out in a new Directive on ANC;

### II. **Strengthening Governance Framework for Participants and RPs to Promote Self-Regulation**

- (f) imposing a requirement for the registration of the HOD of a TP and enhancing the obligations of a RR by adopting the obligations of a Dealer’s Representative under the BMS Rules including not accepting payment from clients or hold any Client’s assets in the RR’s name to avoid potential abuse of the Clients’ monies or assets;

- (g) strengthening the governance framework for Participants and RPs by clarifying the expectations of the Exchange in relation to the conduct of the Participants and RPs as follows:
- (i) elevating the standard of conduct of Participants and RPs through issuance of a new directive (“**Directive on Conduct**”) which, amongst others, prohibits the Participants and RPs from engaging in any unlawful, irregular or unhealthy practice, or acts that may damage the confidence of investors or hamper the sound development of the Malaysian derivatives market;
  - (ii) clarifying the obligation of a TP to manage conflict of interest in the Directive on Conduct such as requiring a TP to segregate its front office, middle office and back office operations and to establish separate reporting structures, and a prohibition against transactions which conflict with the interests of a Client;
  - (iii) clarifying in the Directive on Conduct the specific written policies and procedures which the TP must have, including in relation to account opening, review of trading, governance, management of risk and conflict of interest, and compliance with the rules and applicable laws;
  - (iv) clarifying the requirements in relation to the opening of Client accounts by inserting requirement for the TP to verify the Client’s identity before opening an account for the Client;
  - (v) imposing a specific obligation on a TP and RP to act in the best interest of the TP’s Clients;
  - (vi) clarifying that a TP must adequately safeguard and segregate the assets of its Client and RR and not disclose the Client’s information;
- (h) imposing an obligation on the TP to carry out risk management function and codifying the existing industry practice on appointment of a committee to oversee risk management;
- (i) codifying the existing industry practice for a TP to establish an Audit Committee to oversee their internal audit function;
- (j) imposing an obligation on the TP to maintain a record of off-balance sheet transactions and to report periodically on the same to the Exchange;
- (k) prescribing that certain breaches of conduct by an RR would be treated as violations including false authentication of an account opening, improper use of another person’s particulars, falsification of the signature of a Client or other forms of authorisation by the Client, and the unlawful delegation of powers and duties;

### **III. Promoting Clearer, Simpler and Streamlined Rules to Facilitate Ease of Compliance**

- (l) clarifying the scope of certain powers of the Exchange such as the power to order the liquidation or transfer of a Participant’s Open Position, and removing duplication across several rules;
- (m) clarifying the procedures and circumstances for summary actions including the disapplication of disciplinary proceedings;
- (n) allowing the Exchange to take action summarily against a Participant or RP in order to protect the interests of the Clients, the public or the Exchange in specific

circumstances, including when a Participant has failed to meet its financial obligations or is being wound up;

- (o) clarifying the interpretation of 'control' of Open Positions where a person will not be deemed to be 'in control' of another person's Open Positions if there is no 'operational' control;
- (p) removing provisions in relation to the futures fund management activities on the basis that fund management is a regulated activity under the Capital Market and Services Act 2007 which is subject to licensing from the SC and should not be regulated by the Exchange;

#### **IV. Enhancing Efficiency in the Admission and Registration Procedures, and simplifying the Reporting Requirements**

- (q) changes to the application and registration procedures for Participants and RPs as follows:
  - (i) streamlining and consolidating the various application procedure for all Participants into 1 procedure;
  - (ii) streamlining the procedures for resignation and appeals on registration for Participants;
  - (iii) clarifying the continuing obligations of a Participant once registered with the Exchange;
  - (iv) streamlining and simplifying the registration procedure of RPs with the BMS Rules;
  - (v) introducing procedures or actions to be taken if there is a vacancy of a HOD and Compliance Officer;
  - (vi) introducing the duty of a RP to identify and manage any potential or actual conflict of interest;
- (r) consolidating the requirements to submit annual audited accounts and financial statements and imposing obligation on the TPs to maintain up-to-date accounting and other books and records;
- (s) consolidating provisions relating to minimum financial requirement and moving the rules on the computation of the ANC and the minimum criteria for a Sub-loan Agreement to the new Directive on ANC.

2.2 We have also consolidated all directives and best practices in the TPs' Directives and Guidance.

2.3 The detailed amendments to the BMD Rules and the TPs' Directives and Guidance are as set out in **Annexure 1A** and **Annexure 1B** respectively.

### **3. AMENDMENTS TO THE TRADING PARTICIPANTS' TRADING MANUAL ("TRADING MANUAL")**

The Trading Manual have been amended consequential to the Revamp of the BMD Rules and Directives. The updated version of the Trading Manual is attached as **Annexure 2**.

#### 4. FREQUENTLY ASKED QUESTIONS (“FAQS”)

A set of FAQs in relation to the Revamp of the BMD Rules and Directives may be accessed at the following link:

<http://www.bursamalaysia.com/market/regulation/rules/bursa-malaysia-rules/faqs/>

#### 5. EFFECTIVE DATE

The amendments to the BMD Rules, the TPs’ Directives and Guidance and the Trading Manual will take effect on **15 August 2019**.

#### 6. CONTACT PERSONS

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

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**This Circular is available at**

<http://www.bursamalaysia.com/market/regulation/rules/bursa-malaysia-rules/derivatives/rules-of-bursa-malaysia-derivatives/>

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**Regulation**